



Q3
2017

MARKET
REPORT

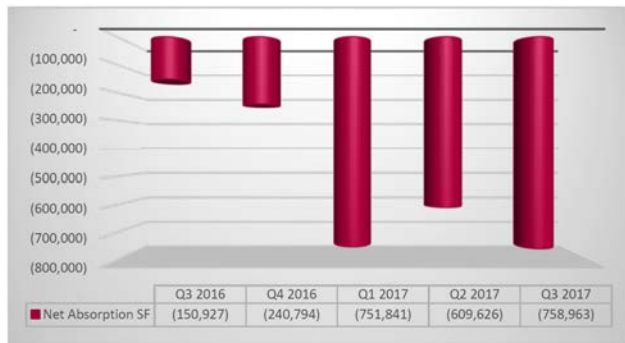
HOUSTON
OFFICE



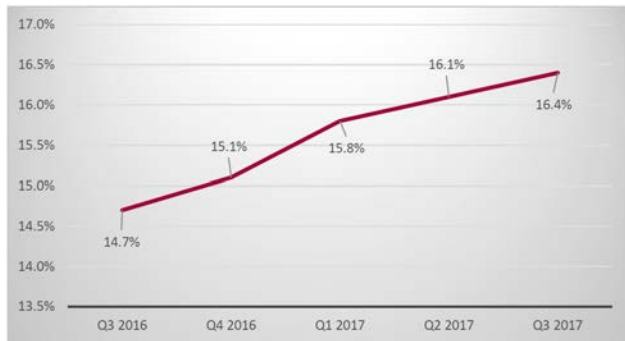
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Net SF Absorption



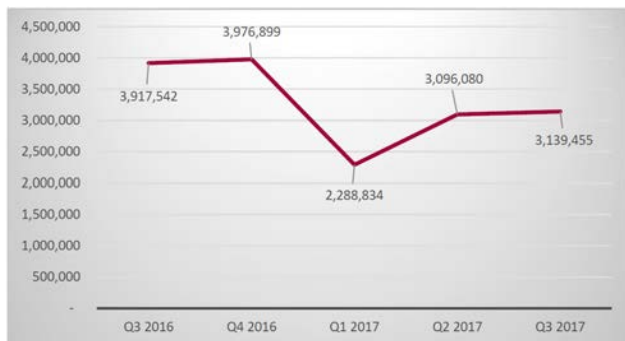
Direct Vacancy Rate



Average SF Rental Rates



SF Under Construction



Trending Now

Written by Travis Taylor, November 20, 2017

Hurricane Harvey made a name for itself in Q3 by impacting approximately 2.5 million square feet of office property with water penetration. The damage was less than severe in most cases, with most businesses back up and running within a two-week period. For a handful of more dramatic cases, particularly with offices in close proximity to Buffalo and Braes Bayou, companies shuttered by the storm are still scrambling to find fully furnished temporary space. Harvey poured almost 50 inches of water onto the Houston area and diluted attention to the current economic weather pattern. Office space during Q3 suffered a negative net absorption of 758,963 square feet, bringing year-to-date absorption to a staggering negative 3.3 million square feet. This marks the sixth consecutive quarter of negative net absorption.

Landlords are getting aggressive as expiring sublease space converts to direct space, resulting in average rental rates across the greater Houston area to drop an average of \$0.10 per square foot per quarter. Without a major disruption in the current business cycle, the office forecast remains challenging for the foreseeable future. Overall vacancy approached the 20% mark during Q2 and has continued to climb. As several more large blocks of sublease space return to the direct market, we expect the increase economic vacancy to impede long term recovery.

A couple of notable transactions that upset the average deal size of 4,700 square feet during the quarter: Motiva Enterprises LLC, a U.S. subsidiary of Saudi Aramco, expanded its lease to over 200,000 square feet to accommodate Saudi Aramco's operations after its local headquarters on the West Loop and Braeswood was inundated by Harvey. This expansion earned Motiva naming rights to One Allen Center following a \$48.5 million renovation to the long-established downtown development. NRG Energy signed the largest lease in Q3, subleasing 431,307 square feet at One Shell Plaza. This lease accounts for approximately 35% of the total square footage in the property.

Despite the negative context surrounding the office market, the investment market has been red hot during Q3 with a handful of significant assets trading hands. The 4.4 million square foot Greenway Plaza sold to Canadian Pension Plan for \$1.2 billion, representing one of the largest transactions ever in Houston. Additionally, the downtown Houston Center Complex sold to Canadian based Brookfield Properties for \$875 million. The 42 million square foot complex includes 1301 McKinney, 1221 McKinney, 909 Fannin and 1221 Lamar.

A Look Ahead

- Harvey's full effects will not be realized until the Q1 of 2018. Despite severe residential damage, only 0.8% of the office market's net rentable area was impacted.
- Sparks in leasing activity suggests that tenants are becoming more confident with economic conditions and business drivers.
- Direct vacant space will be on the rise as long-term subleases will convert to direct vacancy. Market-wide sublease listings dropped 560,000 square feet.
- You will see tenant's flight to quality or newer Class A assets vs. renovated, older Class A. Additionally, the Class B market will remain healthy.
- Concessions will remain elevated throughout the market in all classes, with generous concession packages, tenant improvement allowance and abated parking.

Q3 2017 Office Market Statistics

16.4%
Vacancy

\$27.60
Avg. SF Rental Rates

(758,963)
Net SF Absorption

306,029,1367
SF Inventory

3,139,455
SF Under Construction

Q3 2017 Houston Office Market Report

Market	Existing Inventory		Vacancy			"YTD Net Absorption"	"YTD Deliveries"	"Under Const SF"	"Quoted Rates"
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	35	235,928	4,918	4,918	2.1%	(4,288)	0	0	\$19.39
Bellaire	80	4,936,284	469,946	478,675	9.7%	5,233	0	0	\$24.42
CBD	159	50,076,049	7,776,632	9,043,519	18.1%	(1,091,087)		778,344	\$39.32
E Fort Bend Co/Sugar.	383	9,749,676	750,145	851,496	8.7%	87,024	56,681	423,558	\$27.10
FM 1960/Champions	253	4,264,801	718,881	724,455	17.0%	(45,148)	36,435	43,600	\$14.92
FM 1960/Hwy 249	387	8,253,939	770,875	856,959	10.4%	(32,810)	54,063	35,396	\$24.11
FM 1960/I-45 North	103	2,472,137	532,056	538,377	21.8%	(32,905)	0	0	\$18.94
Galleria/Uptown	65	16,810,166	2,431,206	2,974,006	17.7%	(324,419)	0	104,579	\$36.01
Greenspoint/IAH	53	3,104,119	811,570	817,559	26.3%	(223,028)	0	0	\$18.97
Greenspoint/N Belt W.	117	10,869,619	4,410,062	4,764,615	43.8%	(74,044)	0	0	\$19.92
Greenway Plaza	273	12,813,238	1,555,303	1,609,249	12.6%	(90,759)	4,346	188,547	\$33.63
Gulf Freeway/Pasadena	597	7,717,885	950,731	951,731	12.3%	(61,399)	102,800	28,314	\$20.78
I-10 East	125	1,292,464	150,139	150,139	11.6%	17,190	0	0	\$17.64
Katy Freeway East	258	11,743,331	1,230,832	1,364,252	11.6%	(200,770)	288,173	0	\$26.39
Katy Freeway West	253	28,189,705	4,765,670	6,375,781	22.6%	(438,708)	0	90,575	\$28.30
Katy/Grand Parkway W	369	5,665,265	708,925	725,957	12.8%	86,078	57,386	142,545	\$27.15
Kingwood/Humble	212	3,364,080	234,653	234,653	7.0%	154,139	144,450	100,000	\$23.40
Midtown	523	9,495,658	912,742	1,064,837	11.2%	(99,792)	0	13,000	\$28.32
NASA/Clear Lake	509	10,430,951	1,731,903	1,780,349	17.1%	(184,592)	16,010	10,000	\$20.33
North Loop West	325	6,139,109	921,422	931,823	15.2%	(102,126)	0	15,000	\$23.68
Northeast Near	141	2,250,439	170,790	170,790	7.6%	40,999	85,000	0	\$19.08
Northwest Far	130	4,390,779	809,606	816,076	18.6%	18,072	0	0	\$17.33
Northwest Near	55	1,921,020	90,611	93,311	4.9%	2,827	0	0	\$15.81
Post Oak Park	43	4,775,644	1,036,627	1,101,901	23.1%	110,010	380,000	0	\$32.06
Richmond/Fountainview	115	2,157,383	175,239	175,239	8.1%	68,101	0	0	\$17.35
Riverway	23	3,084,567	623,831	660,869	21.4%	(256,490)	0	0	\$30.42
San Felipe/Voss	49	5,340,230	924,597	932,089	17.5%	(73,804)	0	0	\$28.88
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	236	2,778,234	270,600	270,600	9.7%	6,880	20,394	348,455	\$24.68
South Hwy 35	143	782,903	35,551	35,551	4.5%	9,779	0	0	\$19.09
South Main/Medical C.	231	12,237,522	812,511	824,432	6.7%	(8,328)	0	0	\$27.33
Southwest Beltway 8	189	7,562,062	931,891	938,393	12.4%	70,234	5,000	74,000	\$17.94
Southwest/Hillcroft	107	5,347,292	656,627	688,320	12.9%	(10,988)	0	0	\$16.67
West Belt	103	6,737,945	983,914	1,171,235	17.4%	145,653	0	6,000	\$25.85
Westchase	135	18,520,949	3,112,227	3,833,720	20.7%	(152,997)	0	187,011	\$28.74
Totals	7,362	306,029,167	44,593,881	50,245,995	16.4%	(2,768,180)	2,504,893	3,139,455	\$27.60

Q3 2017 Top Office Transactions

Building Name	Submarket	SF Signed	Tenant	Transaction Type
600 Travis Street	CBD	21,791 SF	Wilkie, Farr & Gallagher	Move-In
600 Travis Street	CBD	60,000 SF	EDF Trading	Move-In
2 Riverway	Galleria	30,061 SF	Chubb Group of Insurance Co.	Renewal
10344 Sam Houston Parkway Drive	West Belt	14,861 SF	T.F. Hudgins	Move-In
3250 Briarpark Drive	Westchase	25,000 SF	Meritage Homes	Move-In
8401 New Trails Drive	Woodlands	26,000 SF	Axiom Medical Consulting	Renewal
910 Louisiana Street	CBD	431,080 SF	NRG	Move-In
126 Northpoint Drive	Greenspoint/N Belt W	101,118 SF	US Citizenship & Immigration	Renewal

About This Report

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The Houston Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties in the Houston Area.

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