

# Houston



## Quick Stats

**79,800**

Jobs created during the 12 months ending May 2019

**3.2%**

May unemployment rate in metro Houston, down from 4.1% in May 2018

**6.8**

Million square feet of available sublease space, down from a high of 11 msf in 2016

**16.4%**

Direct vacancy in Houston's office market

**1.9**

Msf under construction

The Houston economy improved with record-level employment while the city's office market experienced a brief setback as negative absorption returned and vacancy rates increased during the second quarter. This diminished activity follows three quarters of positive activity generating more than 565,000 square feet (sf) of positive absorption during the last 12 months. Class A properties account for almost 1.2 million square feet (msf) of the absorption during that time, while class B properties countered with more than 673,000 sf of negative absorption.

Local employment growth is a bright economic point as May's unemployment rate plunged to 3.2% – the second lowest in history – from 4.1% year-over-year. Data from the Bureau of Labor Statistics reported this 0.9% drop is among the largest decreases in unemployment rates for large metros. For the 12 months ending May 2019, the Houston metro area added 79,800 jobs, a 2.6% increase year-over-year, according to Texas Workforce Commission statistics. The leading job growth sectors were professional, scientific and technical services (18,000); durable goods manufacturing (13,300); health care (9,100); and other services (6,800).

The healthy economy is the likely cause behind the growing list of proposed buildings in the market. However, except for the Central Business District (CBD), most recent construction involved build-to-suits for specific firms wishing to upgrade their space and image. To remain competitive, owners of older class A properties are investing in major upgrades with amenities to attract and retain quality tenants. One and Two Riverway and Marathon Oil Tower in the West Loop submarket are the latest to join downtown's Houston Center, Allen Center and Total Plaza with significant improvements. The flight-to-quality factor – firms opting for office efficiency in newer properties – is keeping availability high as firms leave larger, vacant office spaces behind.

## Absorption and Demand

Direct negative net absorption returned to the office market after three consecutive quarters of gains. The overall market registered a total negative 806,124 sf during the second quarter while class A properties reported direct net gains of 45,594 sf. Combined with the first quarter, the overall for mid-year totals is a

negative 616,015 sf. Class A properties gained 515,723 sf, while class B recorded more than 1.1 msf of negative absorption at midyear. When sublease absorption of 409,160 sf is added to the direct total, class A properties gained 924,873 sf during the first half of the year.

CBD's class A properties were the winners during second quarter, recording 312,843 square feet of direct net absorption, resulting in a mid-year gain of 263,090 sf. Suburban properties recorded negative absorption in all classes for both the quarter and the year.

Broken down by submarkets, CBD recorded the highest positive net absorption during the second quarter followed by the Woodlands submarket. At midyear, three submarkets recorded more than 100,000 sf of absorption: the Woodlands (510,950 sf), CBD (341,283 sf) and the West Belt (125,164 sf).

**313k sf**

CBD CLASS A  
ABSORPTION

Occupancies during the second quarter include Bank of America (209,674 sf) in its new tower in the CBD; Stewart Title (156,151 sf), GenOn (19,000 sf) and U.S. Well Services (19,865 sf), all in BHP's former space at 1360 Post Oak in the West Loop; Exterran Energy Solutions (58,857 sf) in 11000 Equity in the West Belt; and Olin Corporation (54,080 sf) in 16290 Katy Freeway in the Katy Freeway West/ Energy Corridor.

## Vacancy & Availability

The direct vacancy rate increased 30 basis points to 16.4% during the second quarter from 16.1% last quarter, although the rate is a drop from year-over-year's 17.1%. Class A vacancy rates declined to 15.7% from last quarter's 17.4%. Both class B and class C rates increased this quarter; class B rose to 18.7% from 17.9% while class C dropped slightly to 7.4% from 7.7% vacant. Overall vacancy including sublease space is now at 17.7%,

a slight increase from last quarter but a major drop from year-over-year's 19%.

Direct availability citywide increased from 20.7% last quarter to 21.1% this quarter. Total availability, including sublease space, is now at a record-level 23.9%, marginally higher than the 23.8% recorded one year prior. Leasing activity slowed this year compared to 2018 but increased to 3.5 msf in second quarter from 2.8 msf last quarter.

**16.4%**

DIRECT VACANCY  
RATE

Total available sublease space increased slightly from first quarter to 6.8 msf during second quarter; this is a 23% drop from 12 months prior and a 34% drop from second quarter 2017. Total sublease space represents about 12% of the 55.7 msf available, and five submarkets account for 77% of all available sublease space.

## Construction

The construction pipeline remains limited, with nine buildings totaling 1.9 msf under construction, of which 37% is preleased. The CBD represents about 60.5% of the total square footage with the largest building, Texas Tower at 845 Texas Avenue. Hines' 1.1-msf property is currently 33.9% preleased and is scheduled for completion in October 2021. Chasewood Crossing Three, a 156,000-sf building in the FM 1960 submarket, is scheduled to be completed in August, while the only other larger suburban property underway, Park Place Tower River Oaks in the West Loop submarket, will deliver its 207,202 sf in March 2020.

The largest building to break ground during second quarter is a 180,000-sf, build-to-suit project at 8770 New Trails in the Woodlands submarket and fully leased by Alight Solutions. Heavy Construction Systems Specialists (HCSS) also broke ground on its third campus

building totaling 56,000 sf in the East Fort Bend/Sugar Land submarket.

The long-awaited Bank of America Tower at 800 Capitol came on line during second quarter, and the namesake company started moving in. Skanska's class A, platinum LEED building was called Capitol Tower throughout its construction phase and is the first new CBD building since 609 Main at Texas opened in 2017. Skanska will join the bank as a tenant in August while the largest tenant, Waste Management, has scheduled its move into 284,331 sf in January 2020. Three other suburban buildings were completed during the second quarter.

## Asking Rates

Overall average asking rates have decreased slightly to \$30.63 per square foot (psf) gross from the previous quarter's \$30.73 psf but increased 3.3% from the \$29.65 recorded year-over-year. Quoted asking rates have been stable and reported in the \$29-\$30 psf range during the last five years. Throughout the downturn, landlords have offered various concessions, including year-long rent abatements and allowances covering the full cost of tenant improvement construction.

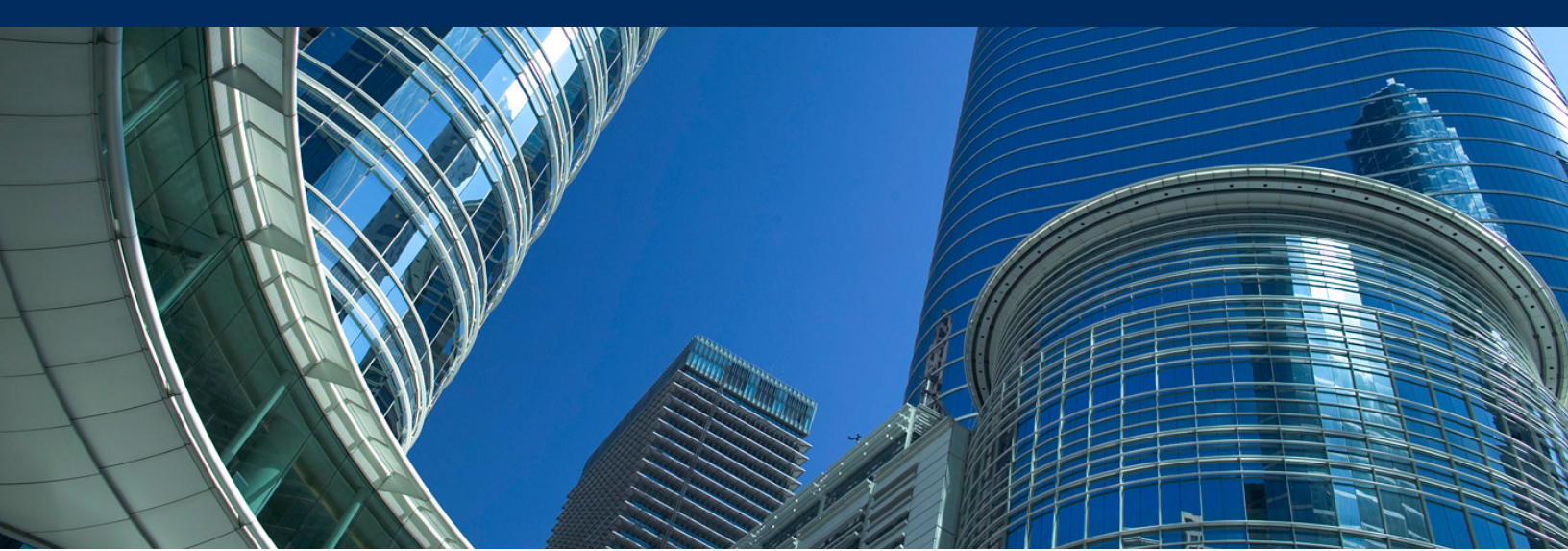
Average asking rates for the different submarkets range from a low of \$16.37 psf in the Southwest to \$43.49 in the CBD. The suburban submarkets with the highest rates include the West Loop, Greenway Plaza and The Woodlands.

**\$30.63**

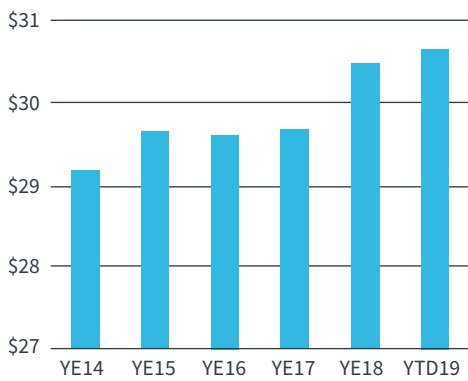
AVERAGE  
QUOTED RATE

Class A rates overall are also marginally down to \$36.45 psf from the previous quarter but 4.5% higher than second quarter 2018's \$35.05 psf. CBD properties are currently quoting class A rates at \$46.01 psf, 4.1% higher than the \$44.18 recorded a year ago. Average suburban class A rates are currently \$32.18 psf.

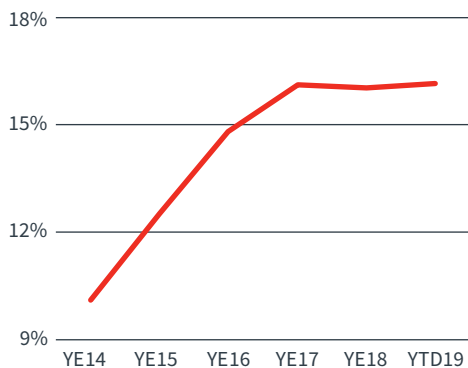




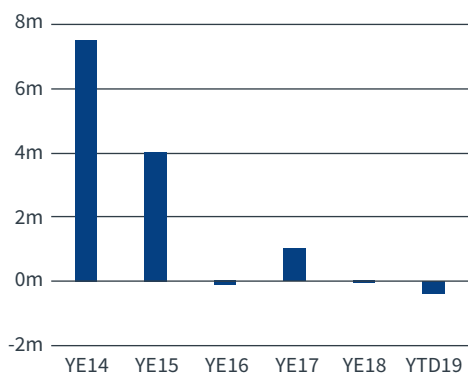
## Asking Rates



## Vacancy Rate



## Net Absorption



## Second-Quarter Highlights

- The newest class A, LEED-certified platinum office building at 800 Capitol in downtown Houston is now complete with namesake tenant **Bank of America** relocating into 209,674 sf from 700 Louisiana. **Bank of America Tower**, known throughout its multi-year construction as Capitol Tower, is 85.5% preleased.
- **CityPlace 1**, a 149,500-sf building in Springwoods Village, along with two smaller buildings in the Northwest submarket joined Bank of America Tower as the only other completions during the second quarter.
- Properties breaking ground during second quarter included **Heavy**

**Construction Systems Specialists'** 56,000-sf Building 3 on its campus in Sugar Land and **Alight Solutions'** new 180,000-sf, build-to-suit lease deal at 8770 New Trails Drive in The Woodlands.

- Renovation announcements continue as older Class A buildings seek to compete with newer, amenity-filled properties. **Total Plaza** at 1201 Louisiana downtown and **Marathon Oil Tower** in the West Loop are the latest reported projects following other 1980's buildings including Houston Center, Allen Center and Riverway One and Three.

## Trends to Watch

With its central location within the U.S. and the Americas, Houston is an important office base. The following are regional updates for key economic indicators.



### Employment

Employment grew 2.6% year-over-year, creating 79,800 jobs for the 12 months ending May 2019.



### Oil

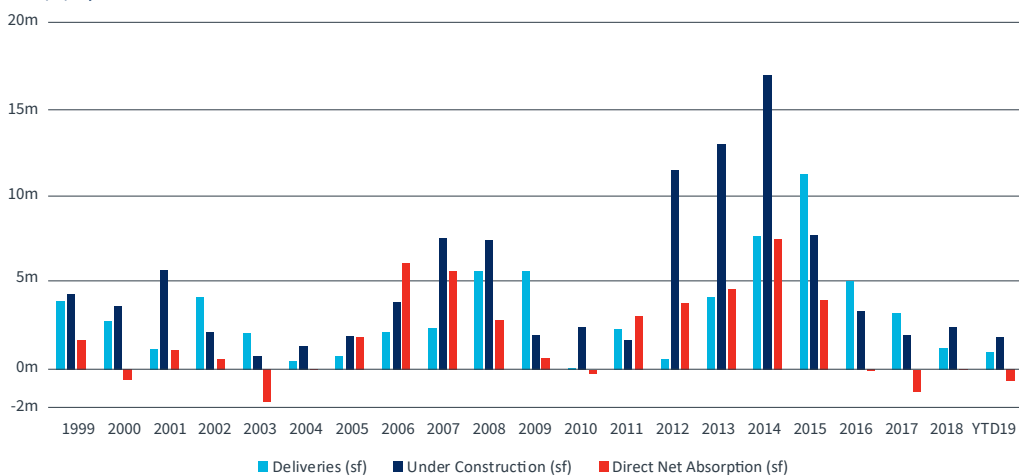
The price of oil has fluctuated between \$50 to \$65 recently after a high in the \$70s in October 2018.



### Purchasing

The Purchasing Manager's Index (PMI) registered 51.2 in June 2019, down from 52.7 in May, indicating short-term economic expansion in Houston.

## Supply and Demand



## Select Second-Quarter Under Construction

Building Name	Building Address	Rentable Building Area (SF)	% Preleased	Projected Delivery	Submarket
Texas Tower	845 Texas Avenue	1,123,699	3.9%	October 2021	Central Business District
Park Place Tower River Oaks	4200 Westheimer Road	207,202	13.8%	March 2020	West Loop
Alight Solutions	8770 New Trails Drive	180,000	100.0%	February 2020	Woodlands
Chasewood Crossing Three	19350 State Highway 249	156,000	3.8%	August 2019	FM 1960
HCSS Building 3	13151 W Airport Boulevard	56,000	100.0%	January 2020	East Fort Bend/Sugar Land
City Place	1401 Lake Plaza Drive	48,840	45.2%	July 2019	Woodlands
Buffalo Heights	3663 Washington Avenue	35,363	0.0%	September 2019	Midtown

## Select Second-Quarter Lease Transactions

Tenant	Building Name	Building Address	Size (sf)	Submarket
Alight Solutions	8770 New Trails Dr	8770 New Trails Drive	180,000	The Woodlands
Noble Drilling Services*	Sugar Creek I	13135 Dairy Ashford	115,661	East Fort Bend/Sugar Land
Honeywell	CityWestPlace Bldg 1	2101 CityWest Boulevard	114,068	Westchase
Empyrean Benefit Solutions, Inc.*	Pinnacle Westchase	3010 Briarpark Drive	106,490	Westchase
King & Spalding LLP*	1100 Louisiana Street	1100 Louisiana Street	91,264	Central Business District
Marsh Wortham	America Tower	2929 Allen Parkway	90,166	Midtown
Life Time Work	GreenStreet Tower	1201 Fannin Street	67,232	Central Business District
Winston and Strawn	Bank of America Tower	800 Capitol Street	62,515	Central Business District
White & Case LLP	609 Main at Texas	609 Main Street	57,315	Central Business District
Harris County**	Northwest Crossing III	13105 Northwest Freeway	48,511	Northwest

\*Renewals

\*\*Three HC departments, Avison Young transactions

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Properties