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Editors/Reporters

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Houston office and industrial markets holding up amidst energy downturn

Avison Young releases third-quarter 2016 Houston office and industrial reports

Houston, TX — While Houston's office and industrial markets were significantly impacted in 2016 by a volatile economy linked to the city's position as a global center for the energy industry, there is optimism that the worst has passed.

Additional office space continued to hit the Houston market in the third quarter of 2016, resulting in the highest availability rate (22.7%) in the past two decades. Leasing activity picked up slightly in the third quarter, contributing to a total of more than 8 million square feet (msf) in new deals recorded year-to-date. However, the substantial amount of available space indicates that the Houston market will need years to recover from the current energy downturn.

Throughout the downturn over the past two-plus years, the local industrial market has maintained steady growth. While select industrial pockets will take some time to recover, the majority of the market is experiencing positive fundamentals. The industrial market will continue to be driven by strong population growth, the rise in online retail, the downstream energy market and a relatively healthy U.S. economy.

These are some of the key trends noted in **Avison Young's Third Quarter 2016 Houston Office Research Report** and **Third Quarter 2016 Houston Industrial Research Report**, released today.

"Houston has weathered what is likely the worst of the downturn in energy markets and is expected to end the year with slightly positive job growth," comments **Jeannie Tobin**, Avison

Young's Houston regional Research Director. "Though certain areas, such as the Energy Corridor and Greenspoint, will take years to fully recover, the Houston market as a whole has held up relatively well considering the severity of the downturn."

The reports cover third-quarter and year-to-date 2016 statistics, including asking rates, vacancy rates, net absorption and construction data.

According to the office report, class A space, the Energy Corridor and the west side of Houston have the most availabilities. However, other submarkets have held up, and landlords have been able to maintain base asking rates while offering significant tenant abatements in the form of free rent, increased tenant improvement allowances and free parking. Asking rates will likely hold steady through year-end 2016. Direct absorption remained in positive territory in the third quarter of 2016 due to tenants taking occupancy of large projects that were delivered to the market.

Houston's construction boom has added more than 2.5 msf to the market year-to-date in 2016, and the amount of available sublease space continues to rise. However, absorption will likely remain positive into 2017 as sales and leasing activity remains healthy.

"It appears that the decline in Houston's economy related to the energy industry has bottomed, so we expect positive job growth for 2017 to 2019," notes **Rand Stephens**, Avison Young Principal and Managing Director of the firm's Houston office. "As a result, we may see the beginning of a positive trend next year in the office market."

Although the energy downturn has lasted longer than expected, the Houston industrial market maintains steady growth. While the second quarter of 2016 marked the end of 21 consecutive quarters of net positive absorption, many significant preleased projects were delivered in the third quarter and boosted absorption levels to historic norms. In addition, the industrial market is extremely tight with vacancy registering 5% in the third quarter of 2016. As a result, asking rents have remained relatively unchanged for the past year, averaging \$6.45 per square foot (triple net) in the third quarter.

"New industrial construction starts everywhere, except in the Southeast submarket, will likely taper off throughout the rest of the year," adds Stephens. "As a result, tight industrial market conditions are expected to continue into 2017."

Avison Young's Houston market research reports and heat maps are available at www.avisonyoung.com and are published on a quarterly basis.

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