

HOUSTON OFFICE

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Houston Employment	3.00 mil	3.02 mil	▲
Houston Unemployment	4.9%	5.6%	▼
U.S. Unemployment	4.9%	4.8%	■

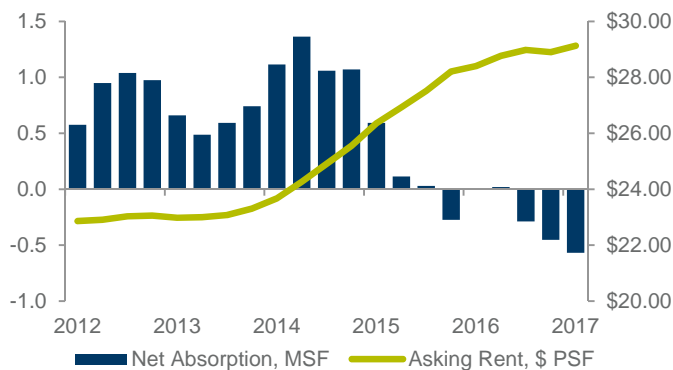
Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Availability Rate	25.6%	27.9%	▲
Net Absorption (SF)	237,041	-227,946	▼
Under Construction (SF)	3,367,302	696,908	▼
Average Asking Rent*	\$28.37	\$29.29	▼

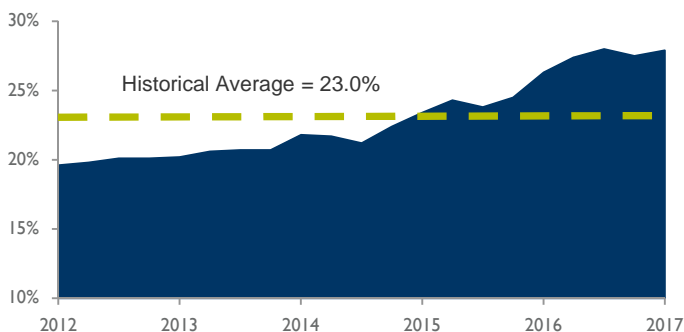
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Availability



Economy

The end of 2016 and first quarter of 2017 have seen Houston's economy start to recover slightly from the impact of the energy downturn that began in late 2014. It's estimated that energy-related sectors lost slightly more than 81,000 jobs during the two-year period starting in December 2014, an impact strongly felt across the entire metro area. While recovery from such a loss will not happen quickly, certain key indicators were pointing to a brighter transitional year in 2017. Employment forecasts for 2017 by the Greater Houston Partnership predict Houston will add almost 30,000 jobs in 2017, about a 1.0% growth rate. Rig counts, which fell to 404 at their lowest level in 2016, rose to above 800 at the end of March. Houston's PMI was 54.2 in February, the fifth straight month of positive readings after 21 months in negative territory. Oil prices have stabilized around the \$50/bbl mark for several months and domestic producers have responded with increased output. Houston's single-family housing market saw increases in both total sales and median home prices in February, and the Port of Houston reported increased activity as well to start 2017. While a long road remains ahead to reach optimal growth levels of a few years ago, there is a general sense that Houston has turned a corner.

Market Overview

Excessive amounts of sublease space continued to hound the office market as 2017 began. Available sublease space citywide was at 5.8%, and 6.1% in the CBD. Total availability increased to 27.9% citywide and 23.6% in the CBD. While new construction activity slowed considerably, the surplus of space on the market could take several years to completely recover, despite improving economic conditions. Projects currently under construction were either entirely build-to-suit, or substantially pre-leased before breaking ground.

Outlook

The office market added more than 17.1 million square feet (MSF) of new office space from 2013 to 2016, with an additional 1.0-MSF project delivering in the CBD in first quarter 2017. While Houston overall may be turning a corner economically, when coupled with the backlog of sublease space on the market it will take several quarters at least for the office market to catch up and start absorbing space at a substantial rate. Little new construction is on the horizon until 2018 or 2019, while companies continue to position themselves for a slow recovery during 2017.

MARKETBEAT

Houston, Texas

Office Q1 2017



SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
<i>Central Business District</i>	37,342,720	2,291,069	6,508,141	23.6%	154,202	154,202	248,084	0	\$41.07	\$45.36
South Main	2,515,187	2,938	629,831	25.2%	-16,346	-16,346	33,564	0	\$27.35	\$39.00
Richmond/Buffalo Speedway	10,236,403	182,298	1,947,413	20.8%	-22,691	-22,691	33,247	0	\$34.59	\$40.98
Montrose	3,209,533	169,026	434,485	18.8%	7,508	7,508	11,346	0	\$32.91	\$33.59
West Loop/Galleria	25,074,161	1,301,789	4,625,046	23.6%	-290,682	-290,682	208,149	0	\$33.50	\$39.24
SW Houston/Fort Bend County	10,275,001	230,599	1,613,735	17.9%	-9,680	-9,680	62,786	0	\$21.98	\$29.18
Gulf Freeway/Pasadena	1,538,293	0	190,418	12.4%	18,724	18,724	2,063	0	\$19.73	\$35.00
NASA/Clear Lake	5,132,260	105,043	1,289,030	27.2%	-47,096	-47,096	18,865	0	\$18.58	\$24.54
Katy Freeway	29,616,501	2,950,583	6,994,456	33.6%	175,219	175,219	280,299	136,255	\$31.39	\$35.50
Westheimer/Gessner	15,321,234	1,439,890	3,326,404	31.1%	-119,635	-119,635	75,140	186,000	\$28.40	\$35.77
San Felipe/Voss	5,090,941	112,438	1,014,827	22.1%	-33,040	-33,040	17,321	0	\$29.87	\$36.73
Richmond/Fountainview	1,237,207	0	339,876	27.5%	1,992	1,992	4,803	0	\$17.69	N/A
SW Freeway/Hillcroft	3,015,914	22,070	772,200	26.3%	-16,639	-16,639	35,778	0	\$15.63	N/A
Northwest	8,947,326	176,512	2,043,380	24.8%	-84,682	-84,682	58,872	0	\$22.48	\$27.69
North Belt	11,174,355	1,144,919	5,719,603	61.4%	-9,423	-9,423	34,794	0	\$21.32	\$26.62
F.M. 1960	6,685,718	377,278	1,619,628	29.9%	17,063	17,063	42,387	0	\$20.31	\$30.10
Woodlands/Conroe	7,602,713	282,877	1,527,349	23.8%	55,787	55,787	21,368	303,630	\$31.71	\$37.06
East/Northeast	1,073,170	10,429	236,797	23.0%	-8,527	-8,527	2,599	71,023	\$16.86	\$20.00
SUBURBAN	147,745,917	8,508,689	34,324,478	29.0%	-382,148	-382,148	943,381	696,908	\$26.77	\$33.95
HOUSTON TOTALS	185,088,637	10,799,758	40,832,619	27.9%	-227,946	-227,946	1,191,465	696,908	\$29.29	\$37.32

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
City Plaza Dr. / City Place Dr.	378,000	Hewlett Packard	Direct	Woodlands/Conroe
811 Louisiana	127,734	Targa Resources Corp.	Direct	Central Business District
1401 Enclave Parkway	89,692	IHS, Inc.	Direct	Katy Freeway

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Multiple Properties	1,187,458	Colombia Property Trust / Spear Street Capital	\$272,000,000 / \$229	Various
Multiple Properties	382,726	Gemini Rosemont / KRM Properties	\$13,500,000 / \$35	Northwest
2425 West Loop South	281,590	2425 West Loop Inv Lp / 2426 LI Llc	Undisclosed	West Loop/Galleria

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