

HOUSTON OFFICE

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Houston Employment	3.00 mil	3.05 mil	▲
Houston Unemployment	5.2%	5.7%	▼
U.S. Unemployment	4.9%	4.4%	■

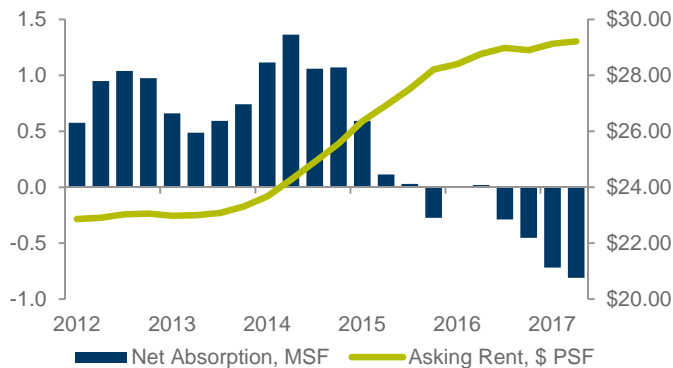
Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Availability Rate	26.0%	28.3%	▲
YTD Net Absorption (SF)	-135,593	-1,565,381	▼
Under Construction (SF)	2,171,742	1,588,908	▼
Average Asking Rent*	\$29.17	\$29.52	▼

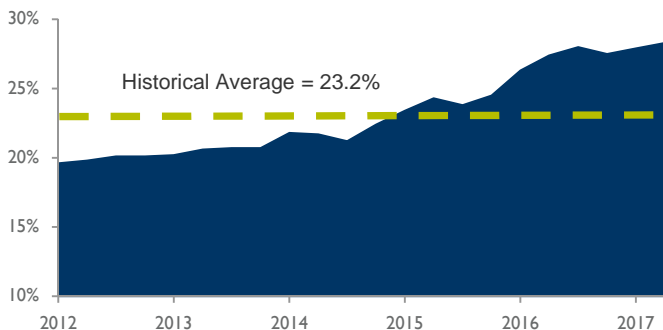
\*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Availability



Economy

2017 has seen Houston's economy start to recover from the impact of the energy downturn that began in late 2014, but the outlook continued to be a decidedly mixed picture at mid-year. In a positive vein, the metro area added jobs at a rate of 1.4% year-over-year through May 2017, including gains in manufacturing and professional/business services which directly benefit the industrial and office markets, respectively. Houston's PMI remained in positive territory for April at 54.1, indicating continued growth in the near-term. The single-family home market remained strong through May, up by 7.4% on year-to-date volume compared to 2016. Port activity remained robust and Houston remains one of the largest and most active ports in the U.S. Rig counts, which fell to 404 at their lowest level in 2016, rose to above 900 at the end of May. In a less positive vein, the largest job gains year-over-year were in government, leisure and hospitality, and education and health services. None of these sectors produces the kind of jobs that generally create more economic expansion like the oil services and exploration sector, which has been slow to recover. While rig counts have increased, oil prices have not been able to break out of the low-to mid-\$40's for several months, and shale plays in the U.S. have continued to add new oil supply to the saturated market. With a general sense that Houston has seen the worst of the downturn, a long road remains ahead to reach the growth levels seen just a few years ago.

Market Overview

Sublease space continued to hound the office market in 2017 and will likely be a long-term issue for several years. Available sublease space citywide was at 5.8%, and 6.8% in the CBD. Total availability increased to 28.3% citywide and 26.4% in the CBD. While new construction activity slowed considerably, the surplus of new space on the market could take several years to completely absorb, despite improving economic conditions. Most projects under construction were 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 1.4 msf completed year-to-date. 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 recovery.

# MARKETBEAT

# Houston, Texas

Office Q2 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>	37,158,073	2,544,345	7,255,911	26.4%	-318,496	-530,813	1,028,784	750,000	\$40.32	\$45.30
South Main	2,515,187	2,484	662,511	26.4%	15,595	-25,282	54,727	0	\$27.70	\$40.27
Richmond/Buffalo Speedway	10,236,403	208,463	1,940,537	21.0%	-60,291	-87,940	207,855	0	\$34.41	\$40.04
Montrose	3,209,533	142,526	422,184	17.6%	81,884	66,513	50,656	0	\$33.38	\$33.92
West Loop/Galleria	25,074,161	1,229,858	4,747,234	23.8%	130,117	-132,173	485,616	0	\$34.26	\$39.08
SW Houston/Fort Bend County	10,197,001	264,729	1,584,406	18.1%	20,910	-14,335	179,079	0	\$22.50	\$30.12
Gulf Freeway/Pasadena	1,538,293	0	182,326	11.9%	-19,486	65	33,060	0	\$21.86	\$34.50
NASA/Clear Lake	5,132,260	90,436	1,338,262	27.8%	-10,171	-58,289	50,053	0	\$18.70	\$24.62
Katy Freeway	30,066,501	2,887,007	6,740,592	32.0%	-248,060	-293,724	729,610	86,255	\$31.79	\$36.32
Westheimer/Gessner	15,507,234	1467,996	3,483,897	31.9%	37,044	-97,044	263,387	0	\$27.85	\$35.54
San Felipe/Voss	5,090,941	103,672	1,123,724	24.1%	-32,040	-47,491	78,613	0	\$29.84	\$37.34
Richmond/Fountainview	1,237,207	0	268,753	21.7%	36,331	19,176	26,964	0	\$17.89	N/A
SW Freeway/Hillcroft	3,015,914	22,059	795,376	27.1%	-27,574	-31,342	71,972	0	\$16.63	N/A
Northwest	8,947,326	187,300	2,123,752	25.8%	41,320	-41,259	180,631	0	\$22.16	\$27.79
North Belt	11,174,355	898,219	5,925,682	61.1%	-214,673	-187,150	203,670	0	\$20.92	\$26.40
F.M. 1960	6,685,718	380,227	1,587,877	29.4%	-272,312	-264,092	149,624	0	\$22.28	\$33.35
Woodlands/Conroe	7,602,713	261,415	1,469,973	22.8%	91,411	155,382	586,020	681,630	\$33.31	\$37.91
East/Northeast	1,073,170	10,429	217,742	21.3%	10,561	4,417	19,924	71,023	\$16.07	\$20.00
<b>SUBURBAN</b>	<b>148,303,917</b>	<b>8,156,820</b>	<b>34,614,828</b>	<b>28.8%</b>	<b>-419,434</b>	<b>-1,034,568</b>	<b>3,371,461</b>	<b>838,908</b>	<b>\$27.01</b>	<b>\$34.33</b>
<b>HOUSTON TOTALS</b>	<b>185,461,990</b>	<b>10,701,165</b>	<b>41,870,739</b>	<b>28.3%</b>	<b>-737,930</b>	<b>-1,565,381</b>	<b>4,400,245</b>	<b>1,588,908</b>	<b>\$29.52</b>	<b>\$37.56</b>

\*Rental rates reflect gross asking \$psf/year

## Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
800 Capitol Street	210,000	Bank of America	Direct	Central Business District
9807 Katy Freeway	73,128	Archrock	Sublease	Katy Freeway
1311 Broadfield	54,426	Saipem	Direct	Katy Freeway

## Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1002 Noble Energy Way	466,000	Trammell Crow / CalSTRS	\$155,000,000 / \$333	F.M. 1960
201 Helios Way	400,000	BP America / Woodbranch Investments Corporation	Undisclosed	Katy Freeway
BLVD Place	216,944	Boulevard Place / Whitestone REIT	\$158,000,000 / \$728	West Loop/Galleria

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