

## HOUSTON OFFICE

### Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Houston Employment	3.0M	3.0M	▲
Houston Unemployment	5.5%	4.8%	▼
U.S. Unemployment	4.9%	4.4%	■

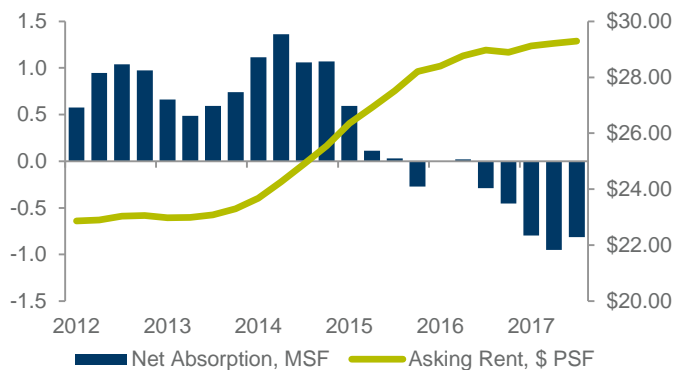
### Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Availability Rate	21.6%	28.1%	▲
YTD Net Absorption (SF)	-1.2M	-2.7M	▼
Under Construction (SF)	2.2M	1.5M	▼
Average Asking Rent*	\$29.20	\$29.51	▼

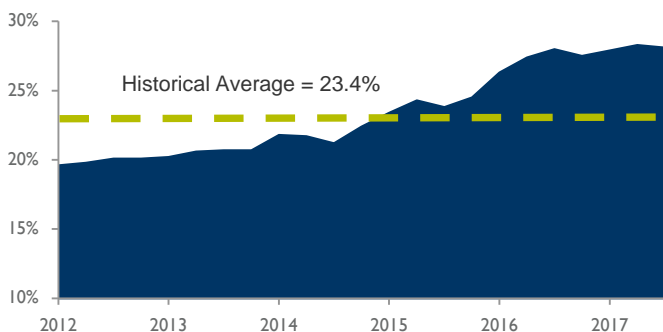
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Availability



## Economy

The third quarter in Houston was dominated by one event: Hurricane Harvey. First, all condolences and sympathies should be extended to those who lost family and friends as a result of the storm, and a note of thanks given that the numbers were not higher. Secondly, with estimates of damage sometimes wildly disparate depending on the source, the aim of this review is to cover those things that are most likely as a result of Harvey. To begin, primary damage from Harvey impacted the housing market, not commercial properties (although there was damage in all areas). In the short term, the city will likely see a removal of excess, vacant multi-family units due to displaced homeowners. On the retail front, increased sales of household goods such as appliances, clothing, furniture, and even cars will follow as homeowners begin to replace lost items. A shortage of building materials and increased costs are expected, not only as a result of Harvey but the simultaneous impact of Maria across Florida. There could be a temporary drop in employment gains in September; however, there could be an uptick in construction employment at the same time if contractors can overcome a labor shortage in the construction trades. Short-term fuel cost spikes have already been seen, but reports of its severity have been exaggerated since much of the petrochemical and refining capacity is expected to return to normal very quickly. Home sales fell dramatically due to the storm, unsurprisingly, but any long-term impacts to the housing market remain to be seen. Some possible long-term effects may be buyouts of flood-prone properties and a major reassessment of flood risk in certain areas; however, these are in many ways political questions and likely to take months if not years to resolve.

## Market Overview

The basic fundamentals in the office market remain unchanged as a result of Harvey. While naturally there was some damage, most of this damage (although not all) was not a threat to the continuing operation of the properties. Short-term solutions and repairs have been the norm. The primary impact on office space could be a short-lived reduction of sublease space as tenants seek temporary solutions. Sublease space continued to hound the office market in 2017 and will likely be a long-term issue for several years. This hasn't changed, and is a result of the fundamental changes in the energy sector.

## Outlook

For the office market, little changed due to Harvey. Substantial new construction is not likely on the horizon until late 2018 or 2019 due to a plethora of space options on the market. Some tightening of the sublease market is likely over the coming quarters, but this will be a slow process.

# MARKETBEAT

# Houston, Texas

Office Q3 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>	37,225,456	2,174,597	7,006,300	24.7%	146,966	-462,156	1,821,761	750,000	\$41.24	\$46.05
South Main	2,515,187	3,442	666,506	26.6%	-10,014	-30,678	70,849	0	\$27.62	\$39.00
Richmond/Buffalo Speedway	10,236,403	137,497	1,902,902	19.9%	31,312	-91,722	370,619	0	\$34.43	\$40.14
Montrose	3,209,533	49,347	440,759	15.3%	-175,327	-103,325	177,226	0	\$33.38	\$34.57
West Loop/Galleria	25,074,161	1,109,361	4,940,860	24.1%	-355,337	-935,927	717,179	0	\$34.28	\$39.74
SW Houston/Fort Bend County	10,197,001	283,050	1,531,504	17.8%	9,087	53,901	256,207	0	\$22.93	\$30.03
Gulf Freeway/Pasadena	1,538,293	0	172,443	11.2%	8,870	8,935	35,753	0	\$20.80	\$34.50
NASA/Clear Lake	5,132,260	89,595	1,273,233	26.6%	-49,084	-80,390	148,169	0	\$18.96	\$24.67
Katy Freeway	30,066,501	2,653,364	7,095,477	32.4%	-92,276	-438,055	1,018,729	86,255	\$30.62	\$35.41
Westheimer/Gessner	15,507,234	1,554,021	3,598,338	33.2%	-125,239	-335,475	513,058	0	\$27.36	\$34.20
San Felipe/Voss	5,090,941	113,233	1,105,863	23.9%	-7,227	-23,108	116,812	0	\$29.83	\$37.36
Richmond/Fountainview	1,237,207	1,017	157,397	12.8%	10,040	28,574	58,981	0	\$18.31	N/A
SW Freeway/Hillcroft	3,015,914	53,752	788,105	27.9%	-13,798	-16,981	83,828	0	\$16.41	N/A
Northwest	8,947,326	176,674	2,181,601	26.4%	16,703	-26,531	271,731	0	\$22.41	\$28.23
North Belt	11,174,355	868,198	6,156,482	62.9%	-48,385	-242,887	346,303	0	\$20.74	\$26.43
F.M. 1960	6,685,718	379,801	1,638,610	30.2%	8,387	-249,116	281,974	0	\$21.43	\$32.87
Woodlands/Conroe	7,602,713	186,759	1,347,158	20.2%	41,441	206,239	784,803	681,630	\$33.96	\$37.80
East/Northeast	1,144,193	1,699	236,064	20.8%	62,091	69,166	35,685	0	\$17.14	\$20.00
<b>SUBURBAN</b>	<b>148,374,940</b>	<b>7,660,810</b>	<b>35,233,302</b>	<b>28.9%</b>	<b>-688,756</b>	<b>-2,207,380</b>	<b>5,287,906</b>	<b>767,885</b>	<b>\$26.78</b>	<b>\$34.03</b>
<b>HOUSTON TOTALS</b>	<b>185,600,396</b>	<b>9,835,407</b>	<b>42,239,602</b>	<b>28.1%</b>	<b>-541,790</b>	<b>-2,669,536</b>	<b>7,109,667</b>	<b>1,517,885</b>	<b>\$29.51</b>	<b>\$37.75</b>

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

## Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
910 Louisiana	431,307	NRG Energy	Sublease	Central Business District
126 Northpoint Drive	100,020	US Citizenship and Immigration	Renewal	North Belt
601 Travis	60,000	EDF Trading	New	Central Business District

## Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Greenspoint Plaza (multiple buildings)	2,057,239	Northwestern Mutual Life / Lincoln Property Company	Undisclosed	North Belt
925 North Eldridge Parkway	597,829	Trammell Crow Company / Bank of America Corporation	Undisclosed	Katy Freeway
2100 West Loop South	162,726	Buchanan Street Partners / Elite Street Capital	Undisclosed	West Loop/Galleria

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