

HOUSTON OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Houston Employment	3.0M	3.0M	▲
Houston Unemployment	5.5%	4.5%	▼
U.S. Unemployment	4.7%	4.1%	▼

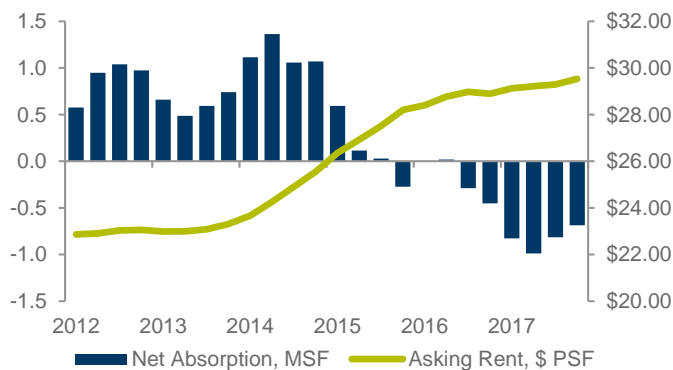
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Availability Rate	27.6%	27.4%	▲
YTD Net Absorption (SF)	-1.8M	-2.7M	▼
Under Construction (SF)	1.6M	1.4M	▼
Average Asking Rent*	\$28.85	\$29.80	▼

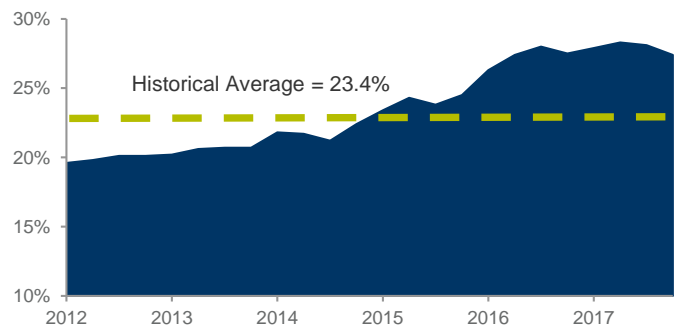
\*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Availability



Economy

Although 2017 will be remembered for the destruction left behind from Hurricane Harvey, it was a unique year which also included Super Bowl LI, a solar eclipse, snow and a World Series championship! While Houston's economy took a hit from Hurricane Harvey, it created an opportunity to display the heart of Houston—resiliency. Gradual job growth is returning after the hurricane's temporary setback and 2017 could end with nearly 50,000 net new jobs. Economic activity has picked up and job growth is expected to continue into 2018. With oil prices above \$60/bbl at the end of 2017, economic lethargy has flatlined, and it appears that optimism is returning. Although it is unlikely that energy companies will begin to hire additional office staff, most local economists are expecting 50,000 to 70,000 new jobs in 2018. Sectors including manufacturing, real estate, arts and entertainment, and health care are likely to see job gains. In addition, the U.S. economic growth, as well as global trade, will further fuel Houston's economy.

Market Overview

Houston's office market showed a slight improvement as availability dropped from 28.1% in third quarter 2017 to 27.4% in fourth quarter 2017. Unfortunately, this demand for office space is short lived, primarily brought on by flooded offices with tenants seeking temporary space. Many of these tenants will return to their offices in early to mid-2018 when repairs have been completed. Total available sublease space decreased to 8.6 million square feet (msf) due to several large subleases, including McDermott International's nearly 200,000-square-foot (sf) lease for short term space. Energy companies continued to add available space, including three new sublease listings totaling more than 350,000 sf. Overall absorption (including vacant sublease space) was negative 2.7 msf for 2017. Overall asking rents increased slightly in fourth quarter 2017 due to Class A space returning to the market. Net effective rates are lower and concessions, including free rent and tenant improvements, have increased. Office sales were strong in fourth quarter 2017 due to a few high-profile transactions including Canada Pension Plan Investment Board's 19-building multi-market portfolio purchase. In addition, Brookfield Asset Management, Inc. purchased the 4.2-msf Houston Center portfolio in downtown Houston.

Outlook

Even though Houston's office availability dropped slightly in fourth quarter 2017, it was brought on in part by demand for temporary space. Houston's office market remains relatively lethargic and the surplus of supply coupled with low demand will continue to be a drag over the next few years.

# MARKETBEAT

# Houston, Texas

Office Q4 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>	37,126,473	2,060,211	7,005,565	24.4%	-159,090	-608,124	2,233,950	750,000	\$40.67	\$44.65
South Main	2,287,899	12,006	370,621	16.7%	-11,172	-22,788	81,220	0	\$26.04	\$39.00
Richmond/Buffalo Speedway	10,236,403	162,689	1,872,706	19.9%	-49,221	-116,836	487,808	0	\$33.95	\$38.51
Montrose	3,209,533	48,685	390,018	13.7%	117,911	25,009	332,365	0	\$32.19	\$34.18
West Loop/Galleria	25,074,161	845,343	4,922,470	23.0%	-142,111	-924,817	1,386,389	0	\$34.45	\$39.73
SW Houston/Fort Bend County	10,197,001	240,613	1,504,730	17.1%	-72,896	-19,496	531,803	0	\$22.95	\$30.30
Gulf Freeway/Pasadena	1,538,293	0	165,549	10.8%	14,202	23,137	59,902	0	\$22.06	\$34.50
NASA/Clear Lake	5,132,260	26,339	1,305,696	26.0%	-86,260	-169,254	161,478	0	\$19.90	\$24.82
Katy Freeway	30,152,756	2,346,425	7,190,130	31.6%	429,441	85,655	1,493,926	0	\$30.45	\$35.11
Westheimer/Gessner	15,507,234	1,444,886	3,626,489	32.7%	96,369	-115,517	852,098	0	\$27.51	\$35.42
San Felipe/Voss	5,090,941	71,281	1,089,524	22.8%	-38,743	-108,551	254,416	0	\$29.91	\$36.75
Richmond/Fountainview	1,237,207	0	135,475	11.0%	34,618	64,199	99,884	0	\$17.95	N/A
SW Freeway/Hillcroft	3,015,914	31,182	758,267	26.2%	-101,982	-118,980	160,238	0	\$13.59	N/A
Northwest	8,947,326	110,423	2,248,969	26.4%	-21,605	-327,207	441,567	0	\$22.43	\$28.02
North Belt	11,174,355	905,178	6,209,087	63.7%	-10,290	-339,567	403,150	0	\$20.70	\$25.76
F.M. 1960	6,485,718	238,409	1,630,947	28.8%	-148,028	-424,257	439,183	0	\$21.29	\$32.89
Woodlands/Conroe	7,602,713	172,617	1,306,858	19.5%	72,350	283,547	926,239	681,630	\$31.21	\$34.16
East/Northeast	1,144,193	3,113	217,577	19.3%	489	65,690	72,795	0	\$17.46	\$20.00
<b>SUBURBAN</b>	<b>148,033,907</b>	<b>6,659,189</b>	<b>34,945,113</b>	<b>28.1%</b>	<b>83,072</b>	<b>-2,140,033</b>	<b>8,184,461</b>	<b>681,630</b>	<b>\$26.94</b>	<b>\$33.68</b>
<b>HOUSTON TOTALS</b>	<b>185,160,380</b>	<b>8,719,400</b>	<b>41,950,678</b>	<b>27.4%</b>	<b>-76,018</b>	<b>-2,748,157</b>	<b>10,418,411</b>	<b>1,431,630</b>	<b>\$29.80</b>	<b>\$37.36</b>

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

## Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4424 West Sam Houston Parkway North	186,962	McDermott International	Sublease	Katy Freeway
1360 Post Oak Blvd.	156,151	Stewart Title	Sublease	West Loop/Galleria
9700 Bissonnet St.	76,504	AT&T	Direct	SW Houston/Fort Bend County

## Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Multi-market Portfolio (19 buildings)	8,636,885	Parkway, Inc. / Canada Pension Plan Investment Board	Undisclosed	Multi-market
Central Business District (4 buildings)	4,011,478	J.P. Morgan Asset Management / Brookfield Asset Management, Inc.	\$855,000,000 / \$213	Central Business District
10720 West Sam Houston Parkway North	216,500	Liberty Property Development Corp. II/Exeter Property Group	Undisclosed	Northwest

Cushman & Wakefield  
1330 Post Oak Boulevard  
Suite 2700  
Houston, Texas 77056-3054  
[cushmanwakefield.com](http://cushmanwakefield.com)

For more information, contact:  
Cammie Moise  
Associate Director, Research  
Tel: +1 713 877 1700  
[cammie.moise@cushwake.com](mailto:cammie.moise@cushwake.com)

### About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm with 45,000 employees in more than 70 countries helping occupiers and investors optimize the value of their real estate. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of \$6 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter. Copyright © 2018 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.