

# PARTNERS MARKET EDGE

YOUR MONTHLY INSIGHT AND MARKET ANALYSIS BY TEXAS CRE RESEARCH EXPERT STEVE TRIOLET

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## “SUPERSONIC TRANSPORT” TO QUALITY

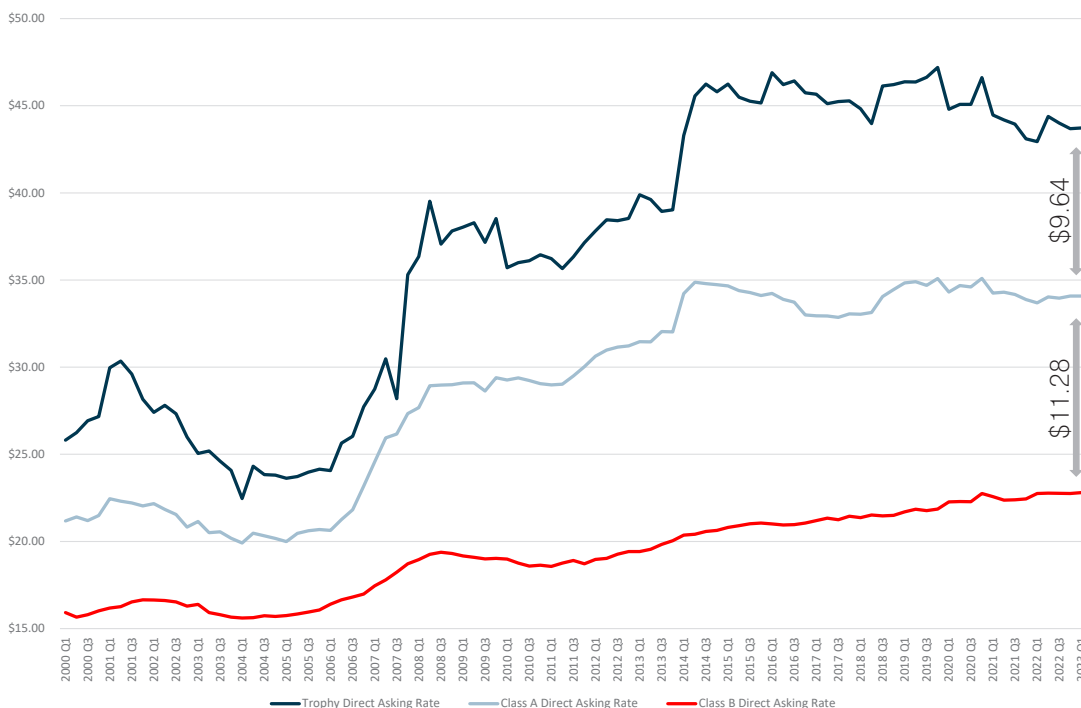
The gap between asking rates for Houston Office Trophy and Class B space has nearly doubled

Flight to quality in office properties refers to a situation where tenants and investors seek out high-quality, premium office spaces in established, prime locations, rather than lower-quality or secondary office spaces with fewer amenities. During periods of economic uncertainty or instability, there is often a flight to quality as tenants and investors become more risk-averse and seek out safe and stable investments.

This can lead to increased demand for premium office spaces in prime locations, while lower-quality or secondary office spaces often experience decreased demand. This “flight” has been going on for some time but has accelerated significantly since the pandemic. The continued shift in the office using workforce has partially been driven by a greater level of concern for quality of life and well-being that Trophy properties can provide. Remote and hybrid work arrangements have spurred many companies to redesign their space in the hopes of drawing back their workforce to the office on a more consistent basis.

Flight to quality is not a solely Houston phenomenon, but the recent data in key metrics like vacancy, rental rates and absorption show a profound difference between Trophy properties and Class A & B properties. Trophy office properties in Houston, for example, have a 2.7% higher occupancy rate than Class A properties (20.4% versus 23.1% total vacancy rates, respectively). Below you can see the spread on rates and how net absorption differs between the different office quality levels.

### Houston Trophy, Class A and Class B Direct Asking Rates (FSG)



The dynamic of “flight to quality” has resulted in a widening gap of asking rates between Trophy, Class A and Class B properties.

Historically, the average gap between Class A and Class B was \$9.58, while it is currently \$11.28. Trophy properties are currently almost double Class B (with a \$20.92 delta in rates).

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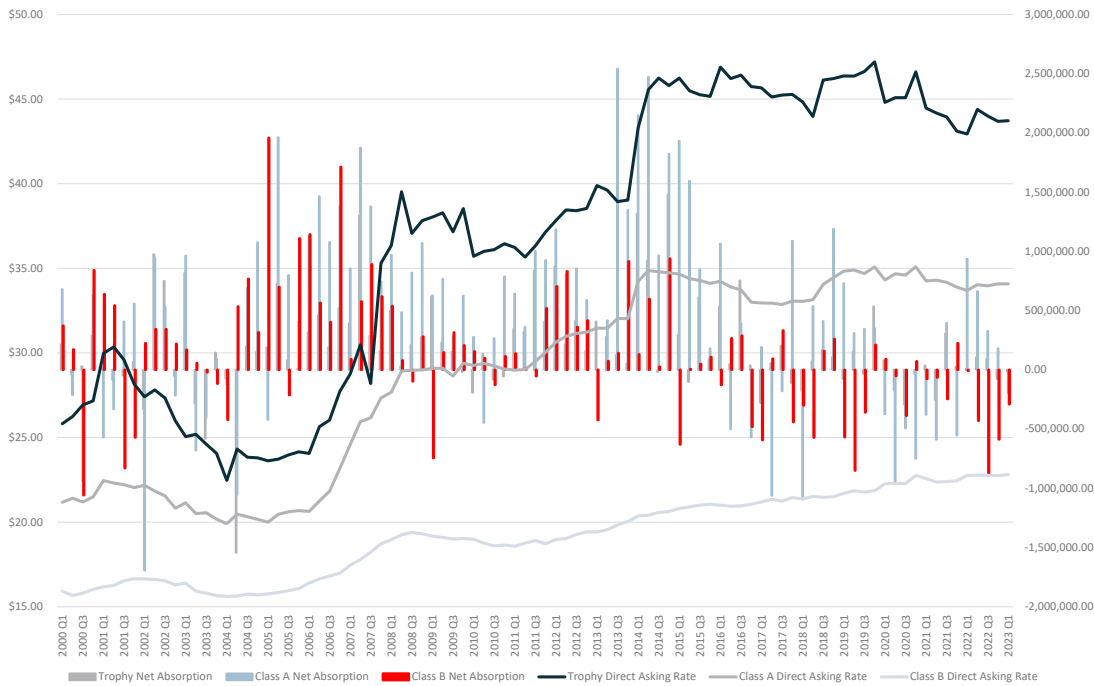
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HISTORICALLY, THE AVERAGE GAP BETWEEN CLASS A AND CLASS B WAS \$9.58—A FIGURE THAT HAS RISEN TO \$11.28—WHILE ASKING RATES FOR TROPHY PROPERTIES ARE CURRENTLY ALMOST DOUBLE THOSE OF CLASS B.

—Steve Triolet ”

## Houston Trophy, Class A and Class B Direct Asking Rates and Net Absorption



Trophy properties have much more steady net absorption trends, being more consistently positive. Historically almost 200,000 square feet of Trophy space is absorbed each quarter.

General Class A and Class B are more volatile with more wild swings between positive and negative net absorption numbers.

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