

Houston Office

Q1 2024

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Quarterly Market Report

Active leasing and headline deals energize Houston's office market, despite a rise in vacancies

Executive Summary

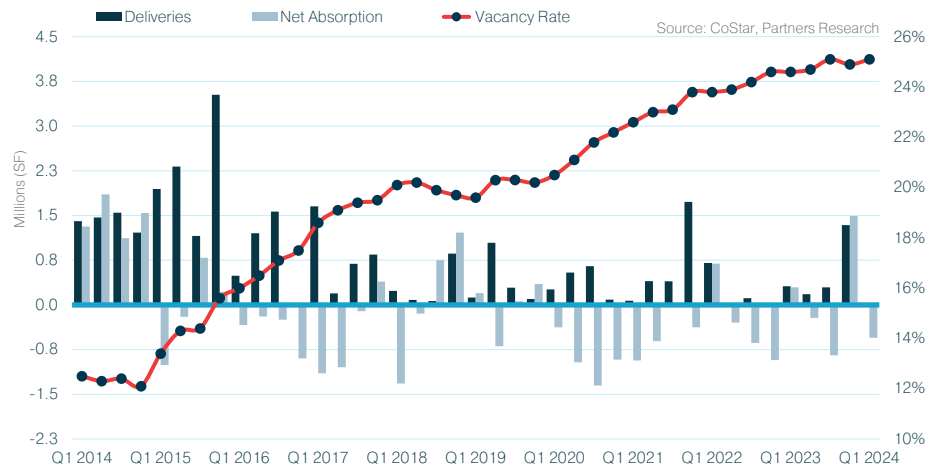
Q1 In Review

By the end of Q1 2024, the overall vacancy rate in the Houston office market rose 80 basis points year-over-year, from 24.3% to 25.1%. Net absorption dipped back into negative territory for the quarter at a negative 552,926 sq. ft. Still, leasing activity has increased over recent quarters, with several big deals announced, like Dow Chemical's planned move-in to the yet to be built, CityCentre Six office property. Dow Chemical will be the lead tenant, taking 258,363 sq. ft. of the 308,000-sq.-ft. project that is scheduled to be completed in 2026. Also, Norton Rose Fulbright is scheduled to move into Discovery West (1550 Lamar St) in mid-2024, they are taking 117,454 sq. ft. of just completed office property in the Houston CBD.

Houston Economic Update

Houston's unemployment rate has held steady over the past few months and remains at 4.4% as of December 2023. Houston employment grew 0.8%, annualized, from September through December 2023, a net increase of 6,517 jobs. Education and health services led growth, rising 6.7%(7,405 jobs) and offsetting declines in other sectors. Overall, the decline in trade, transportation and utilities, professional and business services, leisure and hospitality, and manufacturing amounted to a loss of 4,342 jobs in the fourth quarter. Since the pandemic spike, Houston unemployment has been higher than both the state and nation, likely due to the slower recovery of oil and gas jobs and strong labor force growth. Among the major sectors, oil and gas is one of three that remained below January 2020 employment levels in Texas in December 2023 (the others are construction and manufacturing). Houston's labor force has grown by 3.8% since attaining its pre-pandemic level of employment in April 2022, aided by migration to the region. By comparison, labor force growth was 3.8% in Texas and 2.2% nationally since April 2022.

Supply & Demand



Key Market Indicators

	CURRENT Q1 2024	PRIOR QUARTER Q4 2023		PRIOR YEAR Q1 2023	
Vacant Total	25.1%	24.9%	▲	25.2%	▼
Vacant Direct	23.8%	23.8%	=	23.8%	▲
Available Total	27.9%	27.4%	▲	29.4%	▼
Available Direct	25.7%	25.3%	▲	26.7%	▼
Net Absorption (SF)	-552,926	1,494,414	▼	29,330	▼
Leasing Activity (SF)	2,597,853	2,508,819	▲	3,036,164	▼
Construction (SF)	1,409,570	1,457,304	▼	3,133,608	▼
Deliveries (SF)	27,000	1,338,829	▲	265,000	▲
Avg Asking Rent (Gross)	\$30.22	\$30.42	▼	\$29.86	▼
Inventory (SF)	247,507,319	247,480,319	▲	241,971,561	▲

Market Overview

Negative Net Absorption in Q1 2024

Net absorption—move-ins minus move-outs—was a negative 552,926 sq. ft. for the quarter. This was a reversal from the fourth quarter of 2023 when 1.5 million sq. ft. was absorbed. For early 2024, Class B properties made up the bulk of the negative net absorption (347,357 sq. ft.). Notable move-ins for the quarter include EnLink Midstream taking 61,682 sq. ft. of sublease space at Hess Tower and SynergenX Health taking 54,247 sq. ft. at Viva Center.

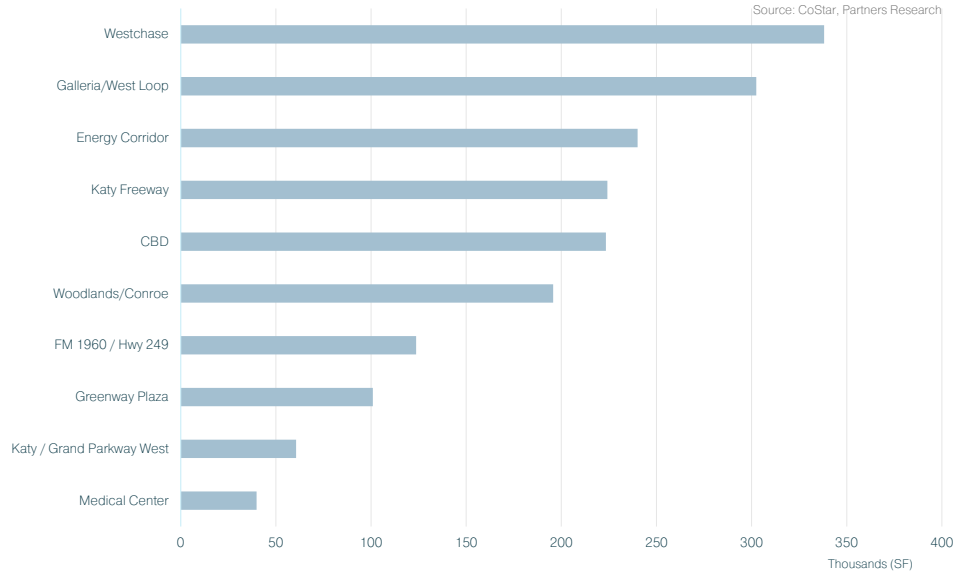
Leasing Down 14% Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 2.6 million sq. ft. This is up 3.5% over the previous quarter, but still well below the historic norm. Notable leases signed in early 2024 include Kraken taking 48,040 sq. ft. at 945 Bunker Hill and Enstor Gas signing a 43,598-sq.-ft. sublease deal at CityWestPlace. Additionally, Westlake Corp. extended their lease at Westlake Center (155,403 sq. ft.) and R.G. Miller Engineers signed a new lease at Eldridge Oaks for 28,791 sq. ft.

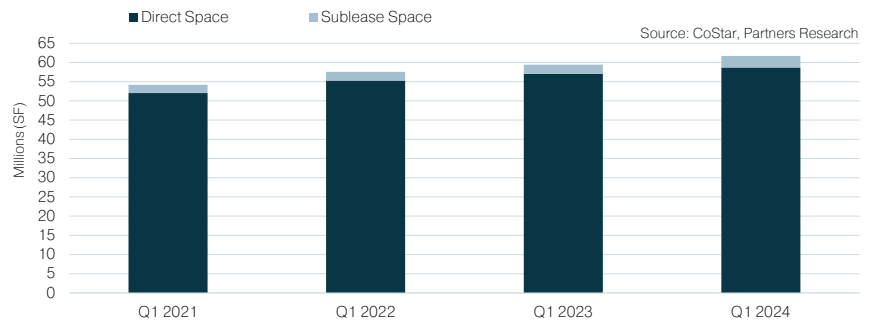
Vacancy Rate at 25.1%

The overall vacancy rate in Houston's office market is 25.1%. Quarter-over-quarter, the vacancy rate increased 30 basis points from 24.8%. Year-over-year, the vacancy rate increased 80 basis points from 24.3%. Class A and Class B properties have vacancy rates of 26.2% and 24.6%, respectively. With leasing activity increasing slightly and construction trending downward, the total vacancy rate is likely to be relatively flat for the remainder of 2024.

Leasing Activity | Top 10 Submarkets



Vacancy



Only a Single Delivery so far in 2024, 27,000 Sq. Ft.

Construction deliveries were almost non-existent in the first quarter of 2024, with only a single 27,000-sq.-ft. medical office completed in Northwest submarket. The multi-tenant property is currently 85.9% leased. The construction pipeline has been trending downward over the past few quarters and is down 55% over the past year.

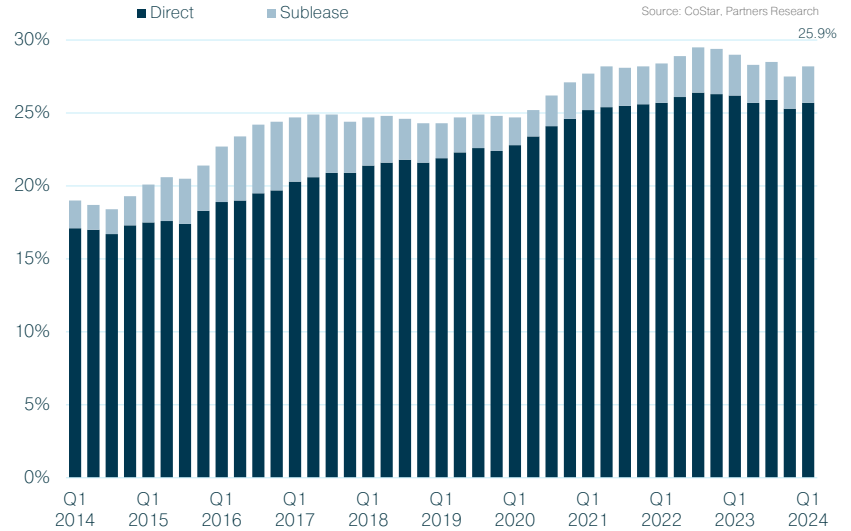
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume was at \$186 million, this is down sharply from previous volumes. Over the past year, 122 deals were completed in the Houston office market with an average transaction price of \$69 and an average cap rate of 9.2%. In early 2024, Granite properties sold The Tower at 290, a 245,846-sq.-ft. office building, for \$11.8 million or \$48 per square foot. The building was 62% leased at the time of sale and went for an 8.5% cap rate.

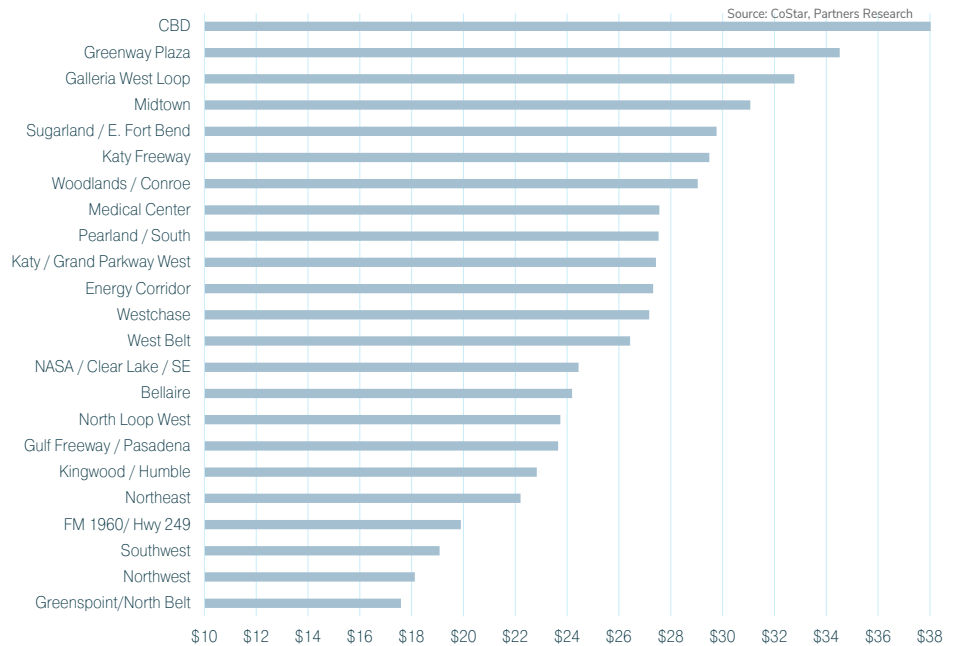
Class A Record High Asking Rent

Overall, asking rates were mixed with Class A properties reaching a new record high, while Class B rates decreased moderately. Overall, rates decreased slightly from last quarter but were still up year over year. Houston's overall full-service average currently stands at \$30.22 per sq. ft.—This is up 1.2% from the first quarter of 2023, when rates were \$29.86 per sq. ft. Asking rents for overall Class A and Class B space are at \$35.48 per sq. ft. and \$22.86 per sq. ft., respectively. The CBD still currently has the highest overall average asking rate at \$39.16, an almost 30% premium over the overall market rate. Given the market's current leasing environment and a 27.9% availability flat overall rates are expected throughout 2024.

Availability Rate



Overall Gross Asking Rent (\$/PSF)



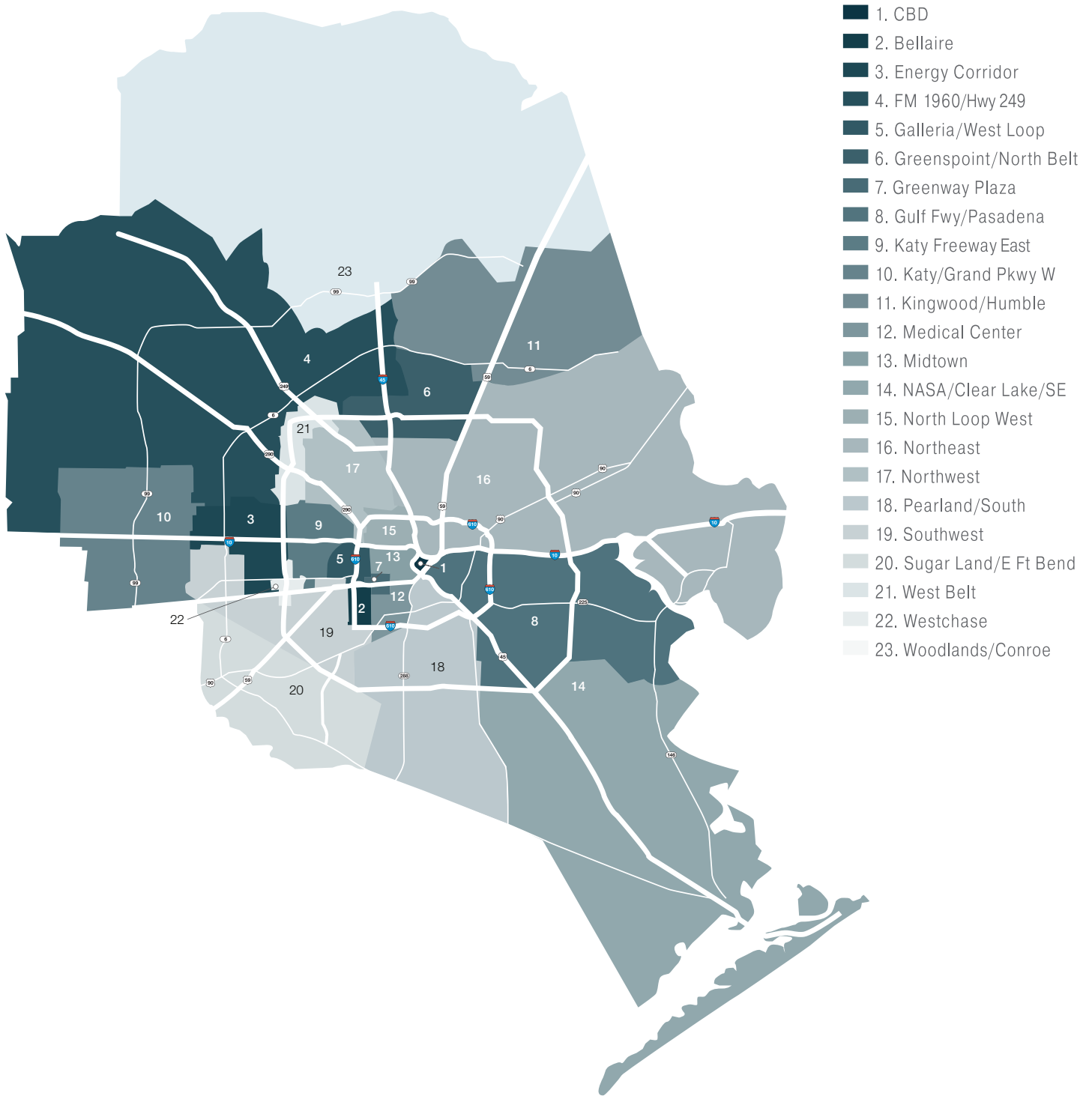
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Medical Center Total	10,248,309	16.6%	17.0%	-113,054	-113,054	0	521,552	27.56
Class A	5,061,020	22.3%	20.2%	-46,634	-46,634	0	521,552	31.89
Class B	3,465,755	14.7%	17.3%	-66,420	-66,420	0	0	23.64
Midtown Total	6,489,350	16.4%	18.3%	-9,914	-9,914	0	0	31.07
Class A	2,565,033	19.4%	21.4%	-12,121	-12,121	0	0	33.93
Class B	3,158,474	16.8%	18.9%	2,207	2,207	0	0	29.30
NASA/Clear Lake/SE Total	7,825,071	10.7%	14.9%	12,223	12,223	0	25,304	24.44
Class A	2,194,981	17.8%	25.0%	-4,064	-4,064	0	25,304	27.81
Class B	4,815,677	8.2%	11.5%	16,287	16,287	0	0	20.61
North Loop West Total	4,445,018	20.2%	20.5%	7,153	7,153	0	0	23.74
Class A	1,247,308	24.5%	23.9%	-24,281	-24,281	0	0	26.21
Class B	2,784,219	18.8%	18.9%	31,434	31,434	0	0	22.43
Northeast Total	2,429,957	15.9%	18.2%	2,570	2,570	0	0	22.20
Class A	174,781	7.3%	7.3%	0	0	0	0	29.53
Class B	1,683,797	17.8%	21.7%	2,570	2,570	0	0	22.57
Northwest Total	3,698,884	21.0%	24.7%	46,255	46,255	27,000	0	18.12
Class A	805,808	38.4%	38.5%	-15,871	-15,871	0	0	21.12
Class B	2,194,160	18.9%	23.3%	62,126	62,126	27,000	0	16.44
Pearland/South Total	1,811,198	8.6%	10.6%	8,735	8,735	0	0	27.53
Class A	811,294	7.5%	9.9%	10,097	10,097	0	0	27.55
Class B	779,297	10.5%	12.8%	-1,362	-1,362	0	0	27.53
Southwest Total	11,783,425	21.5%	21.1%	-207,624	-207,624	0	157,437	19.08
Class A	1,348,129	24.4%	24.7%	-18,452	-18,452	0	157,437	19.00
Class B	8,428,725	23.9%	23.3%	-189,172	-189,172	0	0	19.53
Sugar Land/E Ft Bend	6,852,964	21.1%	22.6%	100,111	100,111	0	135,000	29.77
Class A	3,872,476	20.6%	21.8%	66,151	66,151	0	0	31.88
Class B	2,894,751	21.8%	23.8%	33,960	33,960	0	135,000	27.35
West Belt Total	5,686,033	31.5%	39.4%	48,313	48,313	0	0	26.43
Class A	3,807,277	31.8%	40.1%	61,140	61,140	0	0	29.11
Class B	1,791,127	32.4%	39.8%	-12,827	-12,827	0	0	22.09
Westchase Total	14,912,605	32.1%	36.7%	16,282	16,282	0	0	27.17
Class A	8,631,496	30.6%	36.9%	45,920	45,920	0	0	33.29
Class B	6,170,025	34.8%	37.0%	-29,638	-29,638	0	0	19.69
Woodlands/Conroe Total	17,350,523	18.3%	19.0%	-158,030	-158,030	0	55,354	29.04
Class A	10,530,311	19.2%	18.7%	-140,907	-140,907	0	55,354	31.23
Class B	6,416,142	17.7%	20.0%	-17,123	-17,123	0	0	27.19
Suburban Total	206,252,538	24.1%	26.3%	-607,148	-607,148	27,000	1,023,247	26.99
Class A	105,351,613	26.0%	28.9%	-320,491	-320,491	-	759,647	31.36
Class B	87,292,245	23.7%	24.4%	-286,657	-286,657	27,000	263,600	21.82
Houston Market Total	247,507,319	25.1%	27.9%	-552,926	-552,926	27,000	1,409,570	30.22
Class A	136,812,805	26.2%	30.4%	-205,569	-205,569	-	1,145,970	35.48
Class B	96,485,094	24.6%	26.9%	-347,357	-347,357	27,000	263,600	22.86

Market Overview

Houston Office Submarkets



Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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