

# Houston Office

## Q4 2023

# Houston Office | Q4 2023

## Quarterly Market Report

Houston Office market ends year with absorption in the black for first time since 2019

### Executive Summary

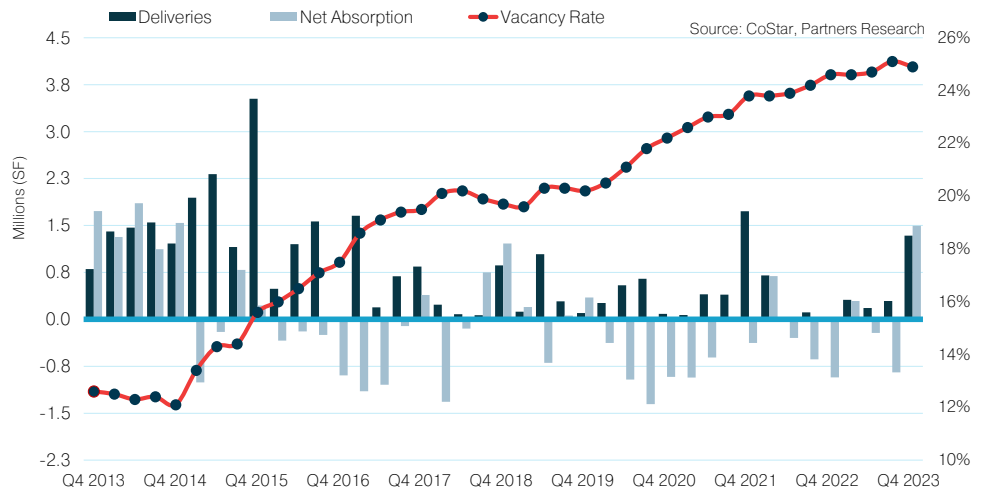
#### Q4 in Review

By the end of Q4 2023, the overall vacancy rate in the Houston office market rose 30 basis points year-over-year, from 24.6% to 24.9%. Net absorption increased to 1.4 million sq. ft., improving from the previous year's -925,910 sq. ft. Class A space accounted for 87% (1.3 million sq. ft.) of the quarter's positive net absorption—emphasizing “flight-to-quality” in Houston's office market. Axiom Space secured the largest move-in for the year, occupying a 400,000-sq.-ft. building at 13200 Space Center Boulevard in December. Year-to-date, net absorption is at 723,438 sq. ft. Leasing activity is at 2.5 million sq. ft., down 41% from 4.2 million sq. ft. last year. Downsizing continued through the fourth quarter—NRG Energy reduced their footprint by 186,000 sq. ft., inking a deal for 245,000 sq. ft. of office space at 1301 McKinney Street in October. Lastly, the average asking rent (FSG) reached \$30.42 per sq. ft.—a record-high for the metro's office sector.

#### Houston Economic Update

Houston's unemployment rate decreased to 4.4% in October 2023, slightly down from 4.7% in September 2023, according to the latest release of Houston's Economic Indicators. The metro's jobless rate beat the state and the national rates at 4.1% and 3.9%, respectively. Houston's employment reached 3.4 million in October 2023—growing an annualized 3.7% (30,474 jobs) in the three months ending in October. The largest job gains by sector included: leisure and hospitality (+8,899 jobs, 10.3%), government (+9,578 jobs, 9%), information and other services (+3,529 jobs, 9.2%). The largest job declines by sector included: construction (-4,417 jobs, -7.5%), professional and business services (-13,502 jobs, -2.4%), and oil and gas (-1,193 jobs, -1.7%).

### Supply & Demand



### Key Market Indicators

	CURRENT Q4 2023	PRIOR QUARTER Q3 2023		PRIOR YEAR Q4 2022	
Vacant Total	24.9%	25.1%	↓	24.6%	↑
Vacant Direct	23.8%	23.9%	↓	23.6%	↑
Available Total	27.4%	28.4%	↓	29.0%	↓
Available Direct	25.3%	25.9%	↓	26.1%	↓
Net Absorption (SF)	1,494,414	-846,648	↑	-925,910	↑
Leasing Activity (SF)	2,508,919	2,692,807	↓	4,267,238	↓
Construction (SF)	1,457,304	2,796,133	↓	3,343,512	↓
Deliveries (SF)	1,338,829	294,170	↑	22,329	↑
Avg Asking Rent (FSG)	\$30.42	\$30.24	↑	\$30.02	↑
Inventory (SF)	247,480,319	246,141,490	↑	245,354,320	↑

# Market Overview

## Positive Net Absorption in Q4 2023

Net absorption—move-ins minus move-outs—is at 1.4 million sq. ft., improving year-over-year from -925,910 sq. ft. Year-to-date, net absorption is at 723,898 sq. ft., up from the prior year-to-date number of -1.1 million sq. ft. Class A space accounted for 87% (1.3 million sq. ft.) of the quarter's positive absorption—emphasizing “flight-to-quality” in Houston’s office market. Axiom Space occupied a 4-story, 400,000-sq.-ft. office building at 13200 Space Center Boulevard in December 2023—securing the largest move-in of the quarter and the year. This is Axiom Space’s second move-in—(106,000 sq. ft. in May 2023)—expanding their Houston office presence to 506,000 sq. ft.

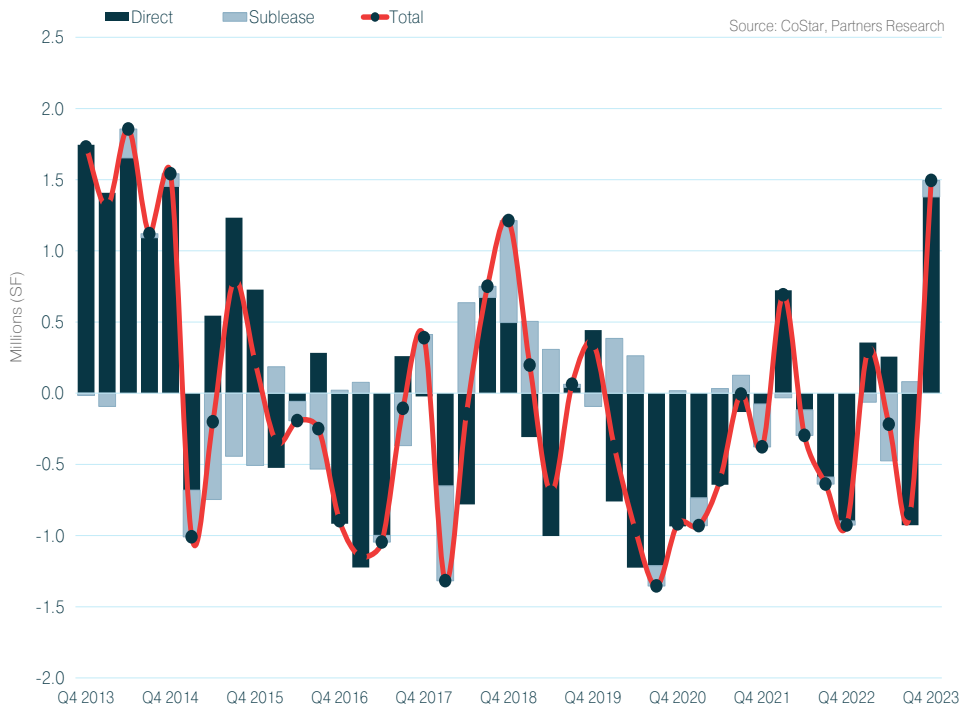
## Leasing Down 41% Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 2.5 million sq. ft.—down 41% from 4.2 million sq. ft. in Q4 2022. Year-to-date, leasing activity is at 13.0 million sq. ft., compared to the prior year-to-date tally of 16.9 million sq. ft. By year-end, 77 leases were signed, averaging 54,828 square feet, with notable exceptions in May 2023 by LyondellBasell Industries (318,504 sq. ft.) and Fluor Corporation (308,186 sq. ft.). Tenant preference for smaller, high-quality space contributed to the slowdown in leasing activity throughout 2023. Downsizing continued in the fourth quarter; NRG Energy signed a 245,000-sq.-ft. office lease for Class A space—a 186,000-sq.-ft. reduction— at 1301 McKinney Street (3 Houston Center) in Q4 2023. NRG’s anticipated move-in date is January 2026.

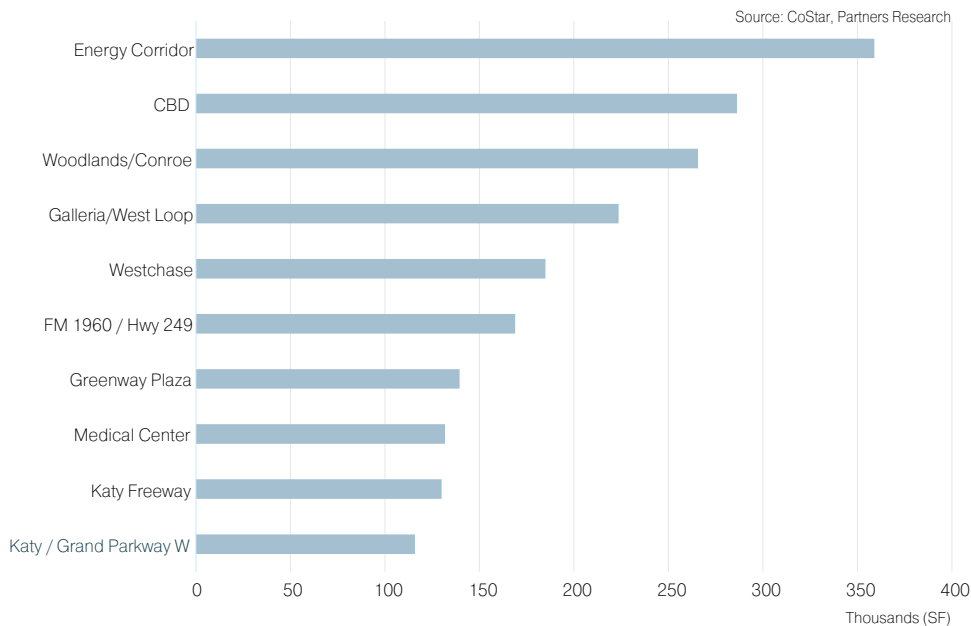
## Vacancy Rate at 24.9%

The overall vacancy rate in Houston’s office market is 24.9%. Quarter-over-quarter, the vacancy rate decreased 20 basis points from 25.1%. Year-over-year, the vacancy rate increased 30 basis points from 24.6%. Class A and Class B properties have vacancy rates of 26.2% and 25.4%, respectively. Class A submarkets with the greatest year-over-year increases in vacancy rates include: Gulf Freeway/Pasadena (21.8% to 33.0%), Medical Center (18.5% to 22.3%), and Katy Freeway (7.3% to 9.9%). Class B submarkets with the greatest year-over-year increases include: West Belt (24.1% to 32.4%), Southwest (16.7% to 23.9%), and Midtown (13.3% to 16.8%).

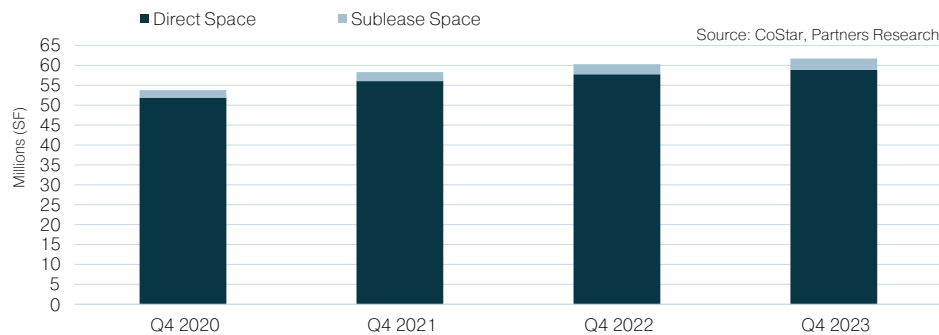
# Net Absorption



# Leasing Activity | Top 10 Submarkets



# Vacancy



## Deliveries Surpass 1 Million Sq. Ft.

By the end of Q4 2023, deliveries in the Houston office market had increased to 1.3 million sq. ft., surging year-over-year from 22,329 sq. ft. This marks the first time in two years that deliveries surpassed 1 million sq. ft. (1.7 million sq. ft. in Q4 2021). Year-to-date, deliveries are at 2.1 million sq. ft.—with the Katy Freeway and the South Main/Medical Center submarkets accounting for 66% of the space delivered. Dynamic One at TMC Helix Park—a 350,000-sq.-ft. office building—built in October 2023 at 1840 Dynamic Way (South Main/Medical Center submarket) accounted for the largest delivery of the year. Office construction is at 1.4 million sq. ft. across 10 buildings, with 375,581 sq. ft. (26%) available for lease. Over the prior three years, construction averaged 3.6 million sq. ft. annually.

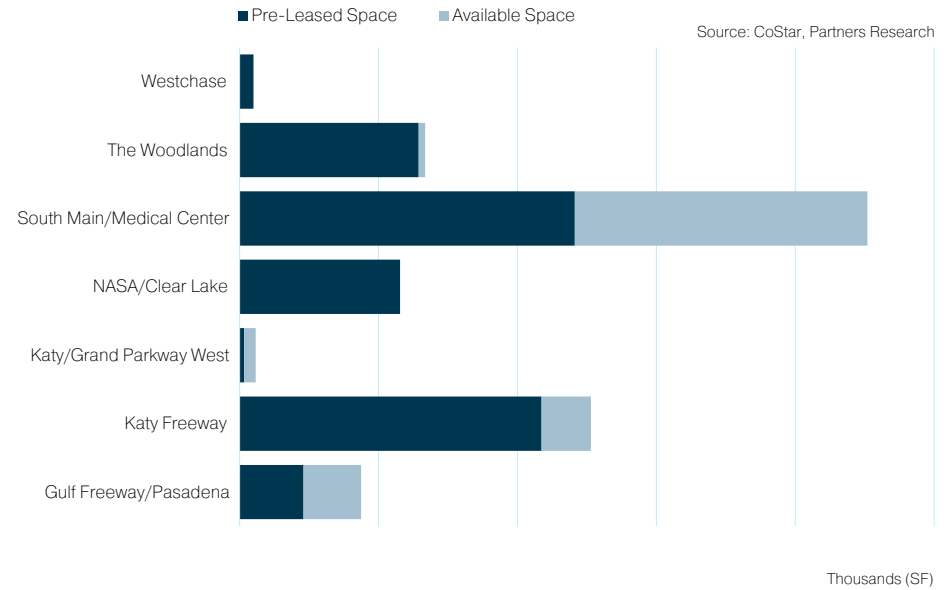
## Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q4 2023 at \$322 million, down 86% from \$1.1 billion in Q4 2022. By year-end, 673 deals were completed in the Houston office market with an average transaction price of \$85 and an average cap rate of 7.7%. A significant sales transaction in 2023 included Parkway acquiring a 2.7 million-sq.-ft. portfolio—7 buildings and 9.91 acres of land—of CityWest Place and Post Oak Central. The properties were 76.6% leased at the time of sale. Canada Pension Plan Investments sold the properties and land for \$330 million in September 2023.

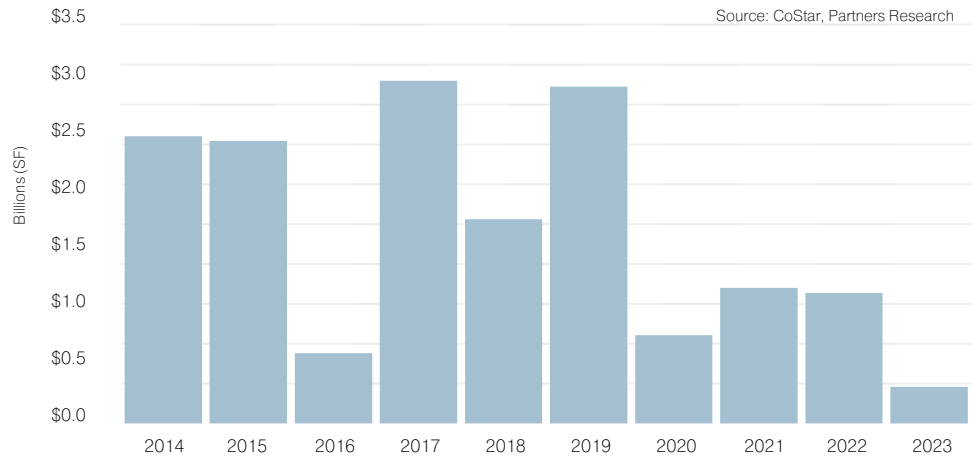
## Record-High Asking Rent

Houston's overall full-service average rent increased to \$30.42 per sq. ft.—a record-high for the metro's office sector—up slightly from the previous year's \$30.02 per sq. ft. Asking rents for overall Class A and Class B space are at \$35.47 per sq. ft. and \$23.07 per sq. ft., respectively. The submarkets with the highest year-over-year increases in asking rents include the Northeast at \$22.20 per sq. ft. (10.5%), followed by the Northwest at \$18.12 per sq. ft. (8.5%). Given the market's current leasing environment and available space (68.1 million sq. ft.), minimal rent increases will continue throughout 2024.

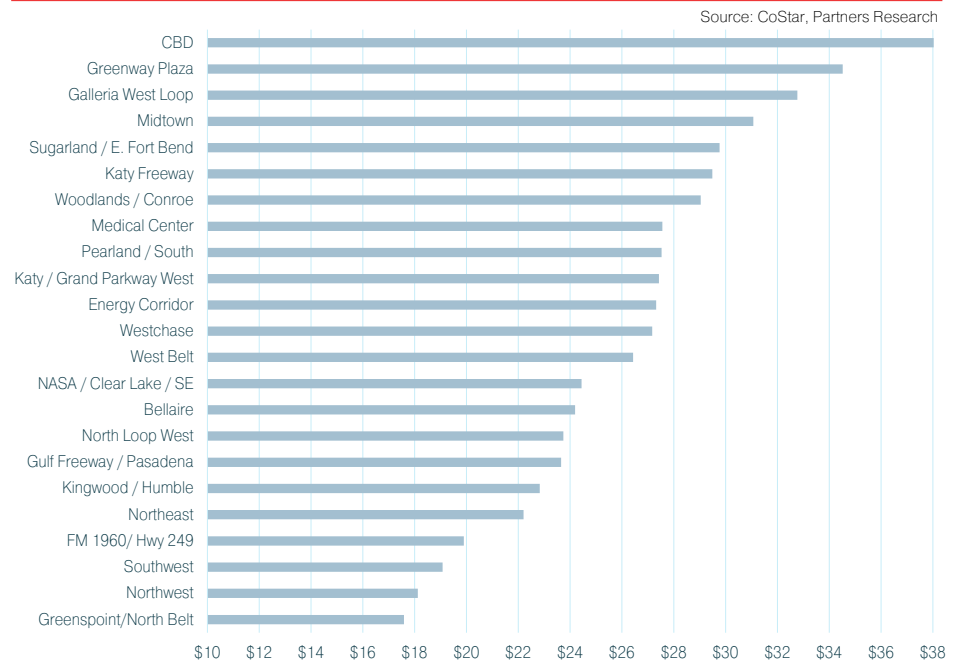
## Deliveries



## Cumulative Sales Volume



## 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)
<b>Houston Market Total</b>	<b>247,480,319</b>	<b>24.9%</b>	<b>27.4%</b>	<b>1,494,414</b>	<b>723,898</b>	<b>1,338,829</b>	<b>1,457,304</b>	<b>30.42</b>
Class A	136,812,805	26.2%	29.7%	1,305,644	1,433,318	944,601	1,145,970	35.47
Class B	96,458,094	25.4%	26.4%	210,455	-745,616	344,288	311,344	23.07
<b>CBD Total</b>	<b>41,227,781</b>	<b>30.2%</b>	<b>34.8%</b>	<b>83,366</b>	<b>42,636</b>	<b>0</b>	<b>386,323</b>	<b>42.03</b>
Class A	31,461,192	27.0%	32.3%	96,849	80,461	0	386,323	44.92
Class B	9,192,849	41.9%	45.4%	-13,483	-37,041	0	0	31.85
<b>Bellaire Total</b>	<b>4,727,182</b>	<b>20.2%</b>	<b>21.2%</b>	<b>-9,045</b>	<b>-96,485</b>	<b>0</b>	<b>0</b>	<b>24.19</b>
Class A	1,449,266	24.4%	24.3%	-12,474	30,322	0	0	26.50
Class B	2,914,793	17.1%	18.5%	8,941	-32,570	0	0	23.75
<b>Energy Corridor Total</b>	<b>23,139,367</b>	<b>26.0%</b>	<b>28.5%</b>	<b>360,837</b>	<b>322,913</b>	<b>0</b>	<b>0</b>	<b>27.32</b>
Class A	15,574,902	28.6%	29.4%	159,515	-96,659	0	0	30.97
Class B	7,309,911	21.1%	27.4%	200,400	422,479	0	0	22.12
<b>FM 1960/Hwy 249 Total</b>	<b>11,294,497</b>	<b>29.5%</b>	<b>36.1%</b>	<b>25,729</b>	<b>-266,112</b>	<b>0</b>	<b>75,600</b>	<b>19.90</b>
Class A	3,268,861	25.5%	40.9%	36,968	-49,827	0	0	26.64
Class B	6,970,107	33.6%	36.7%	2,351	-191,990	0	75,600	18.53
<b>Galleria/West Loop Total</b>	<b>30,171,380</b>	<b>29.4%</b>	<b>31.8%</b>	<b>-28,042</b>	<b>-336,388</b>	<b>0</b>	<b>0</b>	<b>32.77</b>
Class A	21,117,665	29.4%	35.5%	-25,222	-163,893	0	0	34.79
Class B	8,905,106	29.8%	23.5%	-9,505	-168,276	0	0	26.07
<b>Greenspoint/North Belt Total</b>	<b>11,483,860</b>	<b>44.6%</b>	<b>42.7%</b>	<b>166,055</b>	<b>314,159</b>	<b>0</b>	<b>0</b>	<b>17.59</b>
Class A	5,150,428	53.2%	51.3%	128,481	234,463	0	0	20.16
Class B	5,143,166	43.2%	38.0%	38,234	-35,505	0	0	14.81
<b>Greenway Plaza Total</b>	<b>11,025,716</b>	<b>22.9%</b>	<b>26.7%</b>	<b>11,693</b>	<b>98,219</b>	<b>0</b>	<b>0</b>	<b>34.52</b>
Class A	7,525,069	23.2%	28.0%	46,453	143,097	0	0	36.68
Class B	3,036,525	23.5%	25.5%	-31,333	-39,248	0	0	29.23
<b>Gulf Fwy/Pasadena Total</b>	<b>4,609,919</b>	<b>18.9%</b>	<b>14.0%</b>	<b>-34,441</b>	<b>-82,934</b>	<b>0</b>	<b>0</b>	<b>23.65</b>
Class A	524,586	33.0%	33.7%	1,533	77,972	0	0	23.09
Class B	3,272,766	18.8%	13.8%	-25,298	-107,567	0	0	23.65
<b>Katy Freeway Total</b>	<b>10,974,893</b>	<b>11.7%</b>	<b>11.3%</b>	<b>-1,635</b>	<b>98,732</b>	<b>355,694</b>	<b>0</b>	<b>29.49</b>
Class A	7,190,275	9.9%	9.3%	21,218	147,252	355,694	0	40.35
Class B	2,602,083	19.7%	18.5%	-28,505	-55,765	0	0	21.89
<b>Katy/Grand Pkwy W Total</b>	<b>3,742,124</b>	<b>14.4%</b>	<b>15.6%</b>	<b>2,693</b>	<b>76,789</b>	<b>0</b>	<b>0</b>	<b>27.43</b>
Class A	2,120,181	20.1%	21.6%	7,734	61,358	0	0	27.99
Class B	1,468,711	7.6%	8.5%	-5,041	15,431	0	0	24.35
<b>Kingwood/Humble Total</b>	<b>1,550,263</b>	<b>15.0%</b>	<b>15.5%</b>	<b>-7,911</b>	<b>45,924</b>	<b>0</b>	<b>0</b>	<b>22.83</b>
Class A	380,466	16.6%	16.8%	0	47,289	0	0	22.04
Class B	1,086,928	14.8%	15.2%	-7,911	3,787	0	0	23.03
<b>Medical Center Total</b>	<b>10,248,309</b>	<b>16.6%</b>	<b>17.0%</b>	<b>418,341</b>	<b>435,735</b>	<b>638,907</b>	<b>521,552</b>	<b>27.56</b>
Class A	5,061,020	22.3%	20.2%	483,757	543,614	638,907	521,552	31.89
Class B	3,465,755	14.7%	17.3%	-65,256	-107,469	0	0	23.64

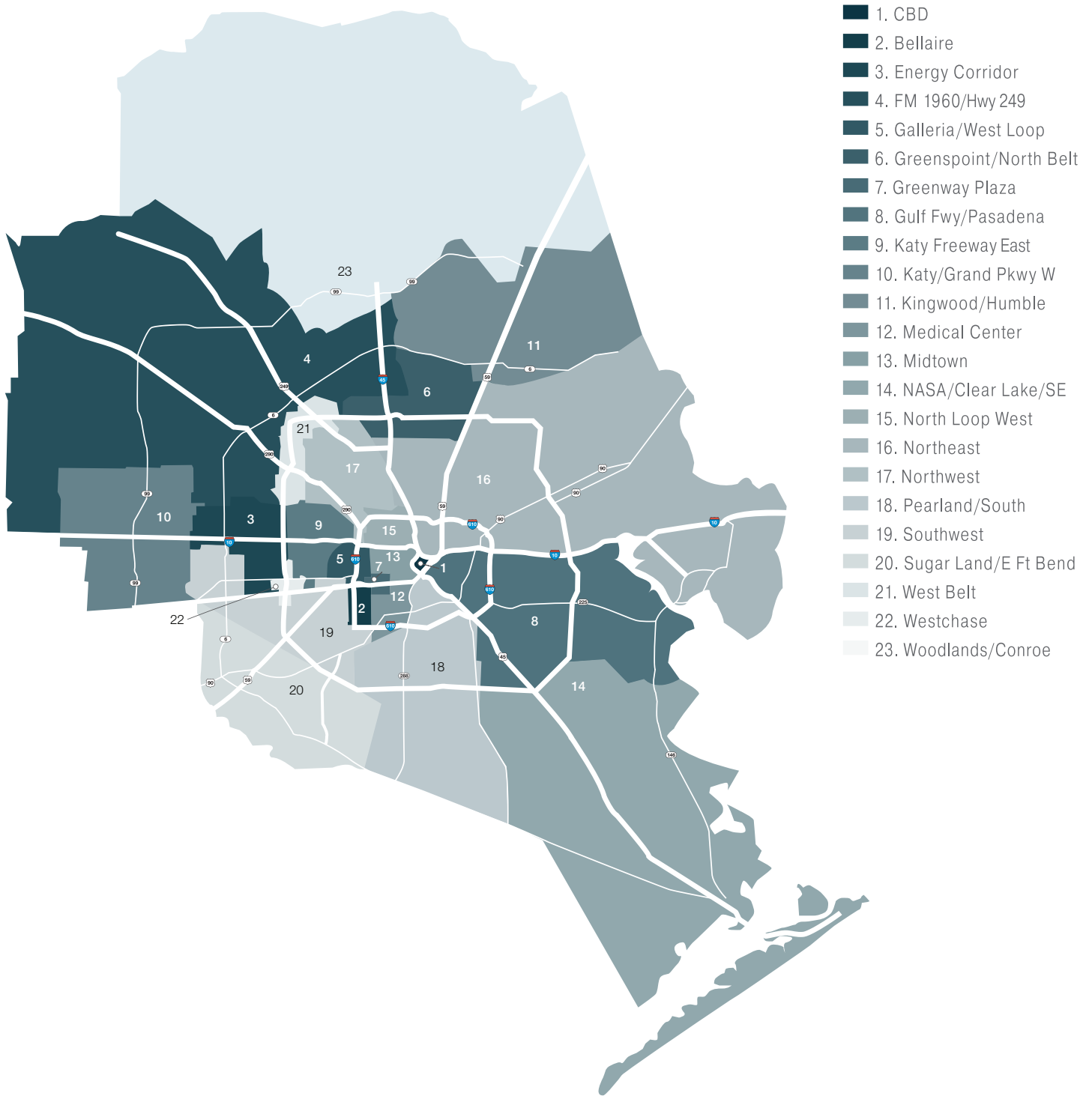
# Market Overview

## 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)
<b>Midtown Total</b>	<b>6,489,350</b>	<b>16.4%</b>	<b>18.3%</b>	<b>14,296</b>	<b>-65,935</b>	<b>0</b>	<b>0</b>	<b>31.07</b>
Class A	2,565,033	19.4%	21.4%	16,169	51,608	0	0	33.93
Class B	3,158,474	16.8%	18.9%	-14,651	-111,388	0	0	29.30
<b>NASA/Clear Lake/SE Total</b>	<b>7,825,071</b>	<b>10.7%</b>	<b>14.9%</b>	<b>128,754</b>	<b>198,313</b>	<b>125,000</b>	<b>25,304</b>	<b>24.44</b>
Class A	2,194,981	17.8%	25.0%	-13,074	-56,324	0	25,304	27.81
Class B	4,815,677	8.2%	11.5%	122,004	233,719	125,000	0	20.61
<b>North Loop West Total</b>	<b>4,445,018</b>	<b>20.2%</b>	<b>20.5%</b>	<b>7,393</b>	<b>22,288</b>	<b>0</b>	<b>0</b>	<b>23.74</b>
Class A	1,247,308	24.5%	23.9%	16,982	50,091	0	0	26.21
Class B	2,784,219	18.8%	18.9%	-9,589	-25,560	0	0	22.43
<b>Northeast Total</b>	<b>2,429,957</b>	<b>15.9%</b>	<b>18.2%</b>	<b>-8,280</b>	<b>26,810</b>	<b>0</b>	<b>0</b>	<b>22.20</b>
Class A	174,781	7.3%	7.3%	1,468	323	0	0	29.53
Class B	1,683,797	17.8%	21.7%	-13,169	20,683	0	0	22.57
<b>Northwest Total</b>	<b>3,698,884</b>	<b>21.0%</b>	<b>24.7%</b>	<b>-82,112</b>	<b>-52,552</b>	<b>0</b>	<b>0</b>	<b>18.12</b>
Class A	805,808	38.4%	38.5%	-72,927	-42,023	0	0	21.12
Class B	2,167,160	18.9%	23.3%	-9,185	-9,887	0	0	16.44
<b>Pearland/South Total</b>	<b>1,811,198</b>	<b>8.6%</b>	<b>10.6%</b>	<b>33,240</b>	<b>32,925</b>	<b>0</b>	<b>0</b>	<b>27.53</b>
Class A	811,294	7.5%	9.9%	35,074	22,864	0	0	27.55
Class B	779,297	10.5%	12.8%	-1,834	10,061	0	0	27.53
<b>Southwest Total</b>	<b>11,783,425</b>	<b>21.5%</b>	<b>21.1%</b>	<b>-148,731</b>	<b>-623,923</b>	<b>0</b>	<b>187,437</b>	<b>19.08</b>
Class A	1,348,129	24.4%	24.7%	737	-12,802	0	157,437	19.00
Class B	8,428,725	23.9%	23.3%	-112,506	-605,685	0	30,000	19.53
<b>Sugar Land/E Ft Bend</b>	<b>6,852,964</b>	<b>21.1%</b>	<b>22.6%</b>	<b>69,581</b>	<b>31,647</b>	<b>0</b>	<b>135,000</b>	<b>29.77</b>
Class A	3,872,476	20.6%	21.8%	67,294	55,827	0	0	31.88
Class B	2,894,751	21.8%	23.8%	2,287	-63,912	0	135,000	27.35
<b>West Belt Total</b>	<b>5,686,033</b>	<b>31.5%</b>	<b>39.4%</b>	<b>-107,493</b>	<b>-106,732</b>	<b>0</b>	<b>0</b>	<b>26.43</b>
Class A	3,807,277	31.8%	40.1%	5,681	41,383	0	0	29.11
Class B	1,791,127	32.4%	39.8%	-113,174	-148,115	0	0	22.09
<b>Westchase Total</b>	<b>14,912,605</b>	<b>32.1%</b>	<b>36.7%</b>	<b>377,133</b>	<b>206,633</b>	<b>0</b>	<b>0</b>	<b>27.17</b>
Class A	8,631,496	30.6%	36.9%	328,466	258,877	0	0	33.29
Class B	6,170,025	34.8%	37.0%	48,667	-52,244	0	0	19.69
<b>Woodlands/Conroe Total</b>	<b>17,350,523</b>	<b>18.3%</b>	<b>19.0%</b>	<b>222,993</b>	<b>400,606</b>	<b>219,228</b>	<b>126,088</b>	<b>29.04</b>
Class A	10,530,311	19.2%	18.7%	-25,018	68,699	0	55,354	31.23
Class B	6,416,142	17.7%	20.0%	248,011	340,466	219,228	70,734	27.19
<b>Suburban Total</b>	<b>206,252,538</b>	<b>23.9%</b>	<b>25.9%</b>	<b>1,411,048</b>	<b>681,262</b>	<b>1,338,829</b>	<b>1,070,981</b>	<b>26.78</b>
Class A	105,351,613	26.0%	28.9%	1,208,815	1,352,857	994,601	759,647	31.22
Class B	87,265,245	23.7%	24.4%	223,938	-708,575	344,228	311,334	21.66

# 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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