

Houston Office

Q2 2024

Houston Office | Q2 2024

Quarterly Market Report

Houston Office market sees record-high asking rents amid rising vacancies

Executive Summary

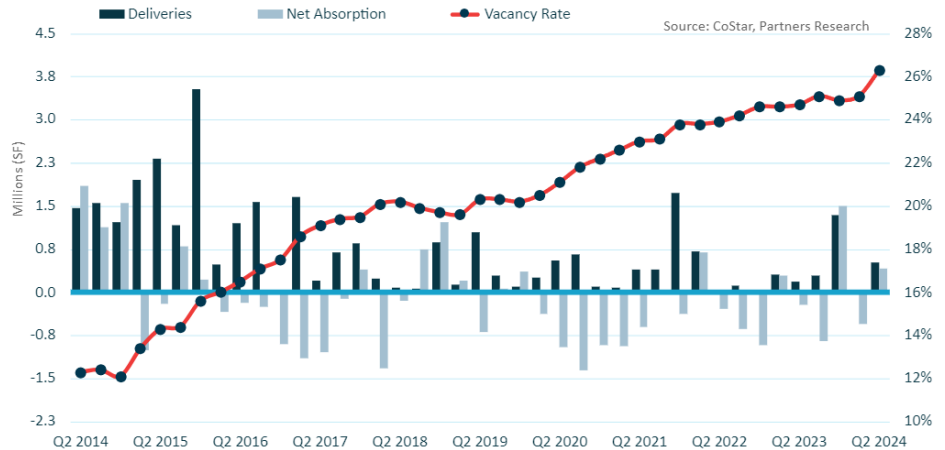
Q2 In Review

By the end of Q2 2024, the overall vacancy rate in the Houston office market rose 120 basis points over the past quarter to 26.3%. Net absorption was a positive 402,024 sq. ft., but this did not keep pace with the 521,323 sq. ft. of new office construction that was delivered to the market. Newer Class A properties continue to account for most of the positive net absorption for the quarter, with 73% going into higher quality properties. Average asking rates have been split between higher quality Class A assets and more commodity Class B properties. The high-quality assets are achieving near or at record high-rates, while the commodity properties continue to see moderate rental rate declines. This has flattened out the overall average. Rates currently stand at \$30.25 per sq. ft.—up 1.9% year over year.

Houston Economic Update

Houston's labor market growth was strong and broad. In the energy sector, production jobs declined year over year while growth has been concentrated in mining-related services. Exports of energy goods through the Port of Houston ticked down in March. Inflation slowed in April, and real wages were up year over year. Houston added jobs at a strong pace in April. Annualized total nonfarm job growth from March to April was 4.3% (or 12,110 jobs). Annualized employment growth was 2.0% (17,163) from January through April. The strongest gains were in education and health services (4.2%), leisure and hospitality (3.7%) and financial activities (3.6%). Education and health services added 4,700 jobs while leisure and hospitality added 3,273. Trade, transportation and utilities was the only sector to shed jobs during that same period, declining 0.7% (-1,217 jobs).

Supply & Demand



Key Market Indicators

	CURRENT Q2 2024	PRIOR QUARTER Q1 2024		PRIOR YEAR Q2 2023	
Vacant Total	26.3%	25.1%	▲	24.7%	▲
Vacant Direct	23.8%	23.8%	=	23.2%	▲
Available Total	28.7%	27.9%	▲	28.4%	▲
Available Direct	25.7%	25.7%	=	25.9%	▼
Net Absorption (SF)	402,024	-552,926	▲	-337,527	▲
Leasing Activity (SF)	3,039,687	2,597,853	▲	3,713,475	▼
Construction (SF)	1,121,299	1,409,570	▼	2,975,207	▼
Deliveries (SF)	521,323	27,000	▲	180,000	▲
Avg Asking Rent (Gross)	\$30.25	\$30.22	▲	\$29.70	▲
Inventory (SF)	242,715,270	247,507,319	▼	243,891,893	▼

Market Overview

Positive Net Absorption in Q2 2024

Net absorption—move-ins minus move-outs—was a positive 402,024 sq. ft. for the quarter; this is much healthier than the negative 552,926 sq. ft. in Q1 2024 or the negative 337,527 sq. ft. in Q2 of 2023. Notable recent move-ins include OneSubsea subleasing 99,501 sq. ft. at Energy Center V, Up Excellence Academy leasing 59,000 sq. ft. at 330 N Sam Houston, and Rimkus Consulting Group leasing 50,380 sq. ft. at Woodbranch Plaza III.

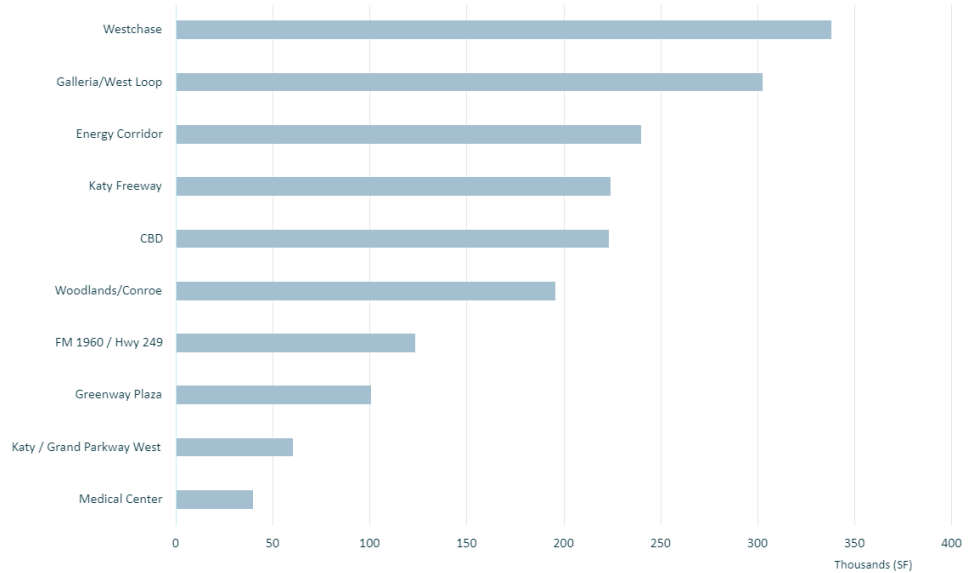
Leasing Up 17% Quarter Over Quarter

Quarterly leasing velocity—comprised of new leases and renewals—stood at 3 million sq. ft.— up 17% from 2.6 million sq. ft. in Q1 2024. Notable new leases that will impact future absorption numbers include Blue Cross Blue signing a lease for 136,800 sq. ft. at West Belt Office Center I, Noble Corp. leasing 110,250 sq. ft. at CityWestPlace and Orion Group Holdings leasing 47,416 sq. ft. at East River One.

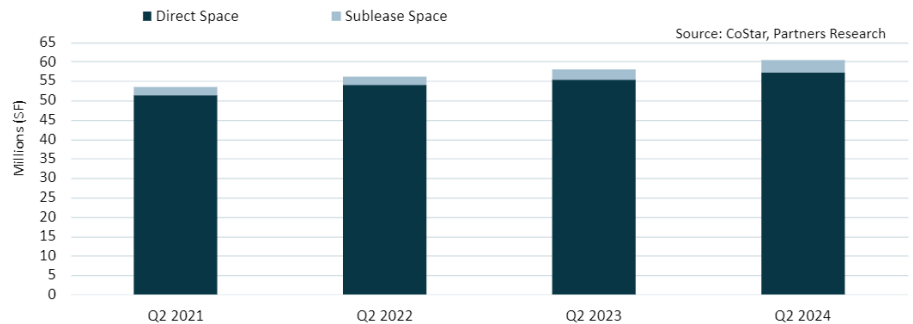
Vacancy Rate at 26.3%

The overall vacancy rate in Houston's office market is 26.3%. Quarter over quarter, the vacancy rate increased 120 basis points from 25.1%. Year over year, the vacancy rate increased 160 basis points from 24.7%. Class A and Class B properties have vacancy rates of 27.1% and 25.3%, respectively. Among the submarkets, Greenspoint/North Belt and FM 1960/Hwy 249 have the highest vacancy rates at 50.1% and 38.3%, respectively. On the opposite end of the spectrum, the Pearland/South and Northeast submarkets have vacancy rates in the single digits, at 7.6% and 9.9%, respectively.

Leasing Activity | Top 10 Submarkets



Vacancy



Deliveries Surpass 500,000 Sq. Ft.

For Q2 2024, new office deliveries were 521,323 sq. ft. The most notable new delivery was 1550 on the Green, a 386,323-sq. ft. office property that is part of the Discovery West business park in the Houston CBD. The project has been roughly 50% leased by Norton Rose Fulbright (117,454 sq. ft.) and the Boston Consulting Group (53,007 sq. ft.). The only other significant new project was the 135,000-sq. ft. medical office property leased by Kelsey-Seybold Clinic at 11555 University Blvd in Sugarland.

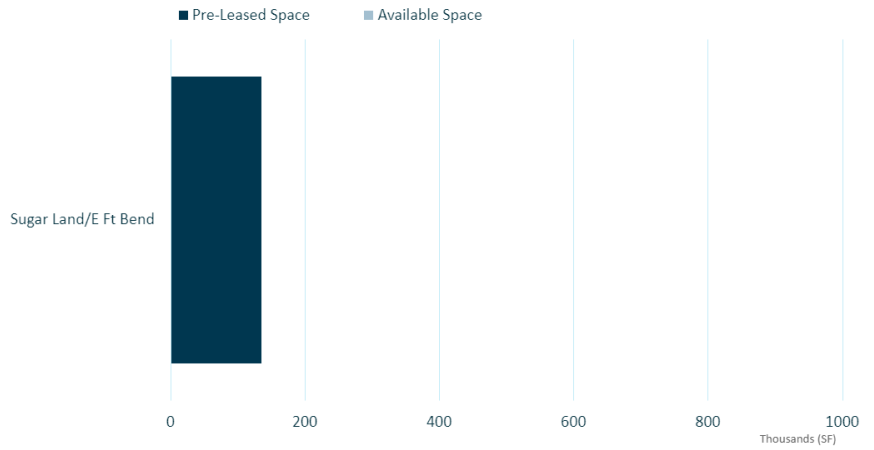
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q2 2024 stood at \$206 million. This represents 124 office properties that sold for an average transaction price of \$74 per sq. ft. and an average cap rate of 9.4%. Notable recent office sales transactions include The Wideman Company purchasing 708 and 712 Main, a two building complex totaling 889,186 sq. ft. 708 Main was recently vacated by WeWork and 712 Main was 70% leased at the time of the sale. Also, Goddard Investment Group purchased Energy Center II, a 306,721-sq. ft. office property that boasts major tenants such Baker Hughes (130,644 sq. ft.), AES Drilling Fluids (27,614 sq. ft.) and Equifax (17,932 sq. ft.).

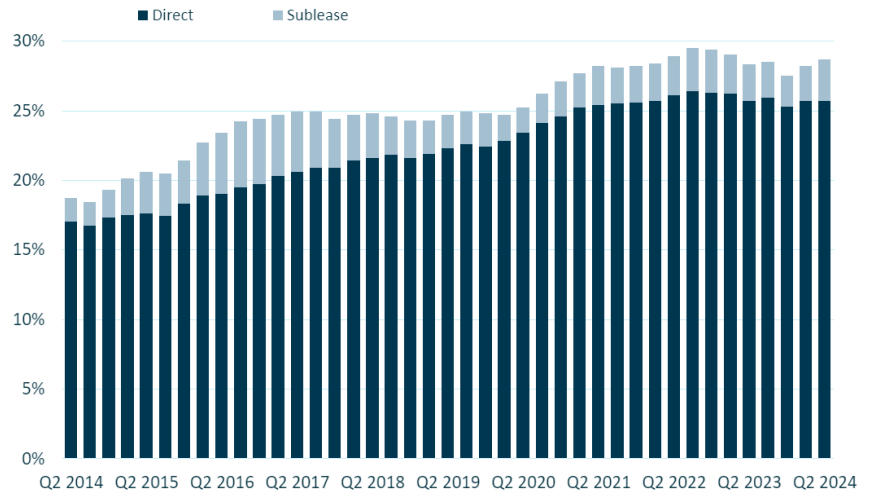
Record-High Asking Rent

Houston's overall full-service average rent increased to \$30.25 per sq. ft.— up slightly from the last quarter's \$30.22 per sq. ft. Asking rents for overall Class A and Class B space are at \$35.35 per sq. ft. and \$22.06 per sq. ft., respectively. Over the past few quarters, rates for quality Class A properties have continued to increase, while commodity Class B properties have seen a moderate decline, making rates overall relatively flat. Over the past year, overall asking rates are up 1.9%.

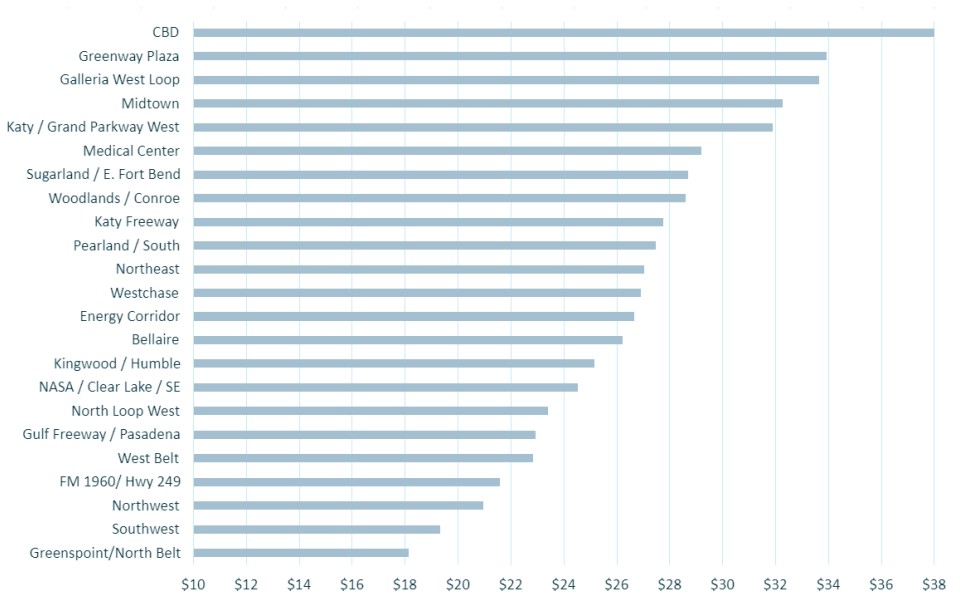
Deliveries



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 (%)	Q2 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q2 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Total	41,227,781	31.5%	35.9%	-412,914	-358,692	386,323	0	39.33
Class A	31,129,724	28.4%	34.1%	-236,618	-121,696	386,323	0	44.50
Class B	8,645,543	42.6%	42.6%	-176,296	-236,996	0	0	26.42
Bellaire Total	4,727,182	17.9%	21.1%	-219	63,107	0	0	26.23
Class A	1,454,897	18.9%	25.4%	16,432	59,210	0	0	28.00
Class B	2,859,059	17.3%	18.9%	-16,651	3,897	0	0	23.72
Energy Corridor Total	23,139,367	25.8%	26.0%	-1,168	63,427	0	0	26.67
Class A	14,641,464	28.2%	28.9%	1,337	108,397	0	0	30.47
Class B	7,764,494	21.2%	22.4%	-2,505	-44,970	0	0	22.23
FM 1960/Hwy 249 Total	11,294,497	31.2%	38.3%	-84,370	-122,076	0	120,000	21.60
Class A	3,097,845	27.4%	44.7%	-14,649	-44,114	0	0	27.95
Class B	6,156,815	33.2%	35.1%	-69,721	-77,962	0	120,000	19.81
Galleria/West Loop Total	28,446,396	30.0%	31.9%	78,498	-89,379	0	0	33.67
Class A	19,946,964	29.6%	35.1%	120,132	8,381	0	0	35.89
Class B	8,499,432	31.2%	31.4%	-41,634	-97,760	0	0	25.93
Greenspoint/North Belt Total	10,350,725	50.1%	50.1%	26,411	-119,467	0	0	18.14
Class A	4,813,901	57.8%	57.9%	-14,796	-38,107	0	0	20.33
Class B	5,536,824	43.5%	44.3%	41,207	-81,360	0	0	15.60
Greenway Plaza Total	10,412,878	26.0%	30.8%	53,527	-191,129	0	0	33.94
Class A	7,529,614	26.7%	31.4%	51,350	-193,713	0	0	35.49
Class B	2,883,264	24.1%	29.1%	2,177	2,584	0	0	29.42
Gulf Fwy/Pasadena Total	3,748,032	19.7%	19.7%	7,247	-2,798	0	0	22.94
Class A	533,133	30.1%	31.1%	12,388	12,388	0	0	28.92
Class B	3,214,899	18.0%	18.6%	-5,141	-15,186	0	0	21.29
Katy Freeway Total	23,823,355	21.4%	22.1%	121,554	215,305	0	0	27.78
Class A	21,221,272	22.2%	22.5%	95,765	128,313	0	0	32.99
Class B	2,602,083	19.8%	21.2%	25,789	86,992	0	0	22.27
Katy/Grand Pkwy W Total	3,588,892	14.7%	15.5%	-21,903	-14,209	0	25,710	31.91
Class A	2,011,517	20.1%	21.9%	-7,795	20,533	0	0	32.84
Class B	1,577,375	7.8%	7.8%	-14,108	-34,742	0	25,710	27.37
Kingwood/Humble Total	1,478,291	15.5%	19.6%	-5,927	10,701	0	25,000	25.18
Class A	335,466	16.2%	16.2%	9,056	9,056	0	0	25.38
Class B	1,142,825	15.4%	21.1%	-14,983	1,645	0	25,000	23.84
Medical Center Total	8,454,516	22.1%	23.1%	21,209	-91,845	0	0	29.21
Class A	4,794,357	22.7%	23.2%	-1,667	-48,301	0	0	32.88
Class B	3,660,159	14.8%	16.1%	22,876	-43,544	0	0	26.08
Midtown Total	6,489,350	19.7%	20.3%	-29,996	-39,910	0	0	32.28
Class A	2,565,033	24.6%	25.5%	-121,304	-133,425	0	0	35.57
Class B	3,127,333	15.8%	16.1%	91,308	93,515	0	0	29.10
NASA/Clear Lake/SE Total	7,825,071	14.7%	17.8%	7,704	19,927	0	25,304	24.55
Class A	1,930,357	19.8%	23.1%	-4,379	-8,443	0	25,304	28.61
Class B	3,311,512	11.8%	14.7%	12,083	28,370	0	0	19.97

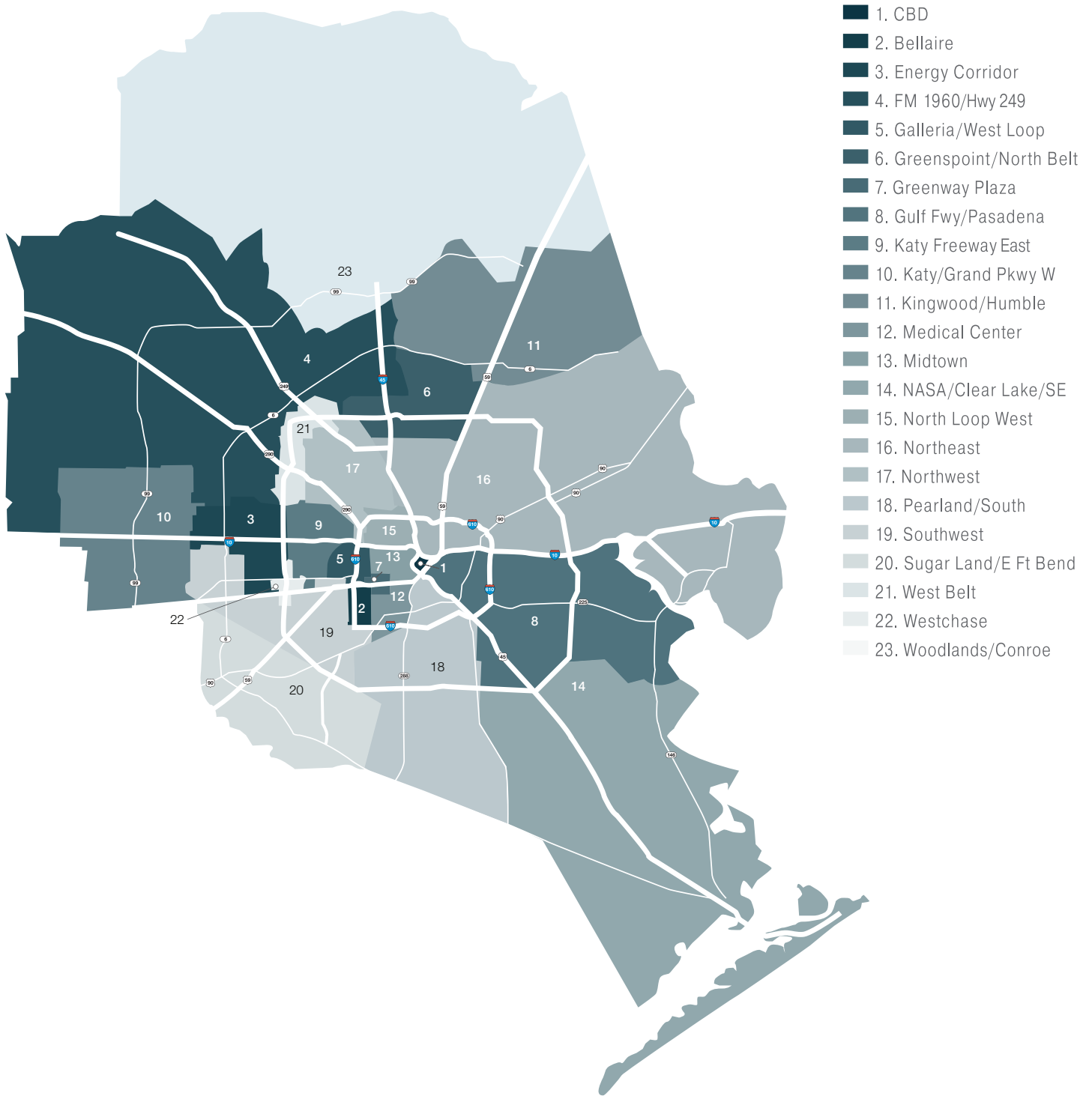
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q2 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
North Loop West Total	4,445,018	21.4%	22.4%	-15,258	-8,105	0	87,563	23.42
Class A	1,229,538	21.2%	21.2%	25,417	1,136	0	0	25.51
Class B	2,743,670	21.5%	25.2%	-40,675	-9,241	0	87,563	22.35
Northeast Total	2,429,957	9.9%	10.2%	-17,596	-15,026	0	50,000	27.06
Class A	124,781	9.2%	9.2%	2,783	2,783	0	0	31.30
Class B	689,298	10.0%	10.4%	-20,379	-17,809	0	50,000	25.53
Northwest Total	3,698,884	20.5%	22.9%	83,063	129,318	0	136,163	20.97
Class A	1,900,580	26.0%	26.0%	74,722	58,851	0	0	23.64
Class B	5,054,078	18.4%	21.9%	8,341	70,467	0	136,163	19.66
Pearland/South Total	1,811,198	7.6%	11.0%	9,863	18,598	0	0	27.50
Class A	811,294	6.7%	11.7%	-3,369	6,728	0	0	28.01
Class B	824,089	8.5%	10.4%	13,232	11,870	0	0	27.81
Southwest Total	11,783,425	22.9%	30.1%	-51,652	-259,276	0	151,746	19.33
Class A	1,348,129	31.6%	37.2%	-78,564	-97,016	0	76,746	19.22
Class B	7,396,132	27.7%	28.8%	26,912	-162,260	0	75,000	19.57
Sugar Land/E Ft Bend	6,852,964	21.3%	23.2%	143,209	243,320	135,000	0	28.72
Class A	3,776,334	21.7%	25.3%	-562	65,589	0	0	30.35
Class B	3,177,205	20.8%	20.8%	143,771	177,731	135,000	0	26.16
West Belt Total	5,686,033	28.9%	38.1%	42,130	90,443	0	0	22.85
Class A	3,487,309	29.2%	39.7%	45,546	106,686	0	0	24.58
Class B	1,702,088	28.4%	34.9%	-3,416	-16,243	0	0	18.60
Westchase Total	14,912,605	31.7%	38.2%	245,701	261,983	0	0	26.93
Class A	8,525,044	27.4%	36.6%	287,018	332,938	0	0	33.10
Class B	6,526,222	37.3%	40.3%	-41,317	-70,955	0	0	19.45
Woodlands/Conroe Total	17,350,523	19.2%	19.6%	102,005	-56,025	0	55,354	28.63
Class A	10,326,544	21.5%	20.4%	35,704	-105,203	0	55,354	30.44
Class B	6,085,774	15.2%	18.3%	66,301	49,178	0	168,000	26.92
Suburban Total	212,749,159	24.1%	26.1%	714,032	106,884	135,000	676,840	27.05
Class A	116,405,373	29.6%	29.8%	530,565	210,074	-	433,863	31.59
Class B	86,534,630	23.6%	24.4%	284,373	-2,284	135,000	687,436	21.84
Houston Market Total	242,715,270	26.3%	28.7%	402,024	-150,902	521,323	1,121,299	30.25
Class A	147,535,097	27.1%	30.7%	293,947	88,378	386,323	433,863	35.35
Class B	95,180,173	25.3%	26.0%	108,077	-239,280	135,000	687,436	22.64

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.

Steve Triolet

SVP of Research and Market Forecasting

tel 214 223 4008

steve.triolet@partnersrealestate.com

partners

HOUSTON

+ 713 629 0500

1360 Post Oak Blvd #1900

Houston, Texas 77056

PARTNERSREALESTATE.COM