

Houston Office

Q3 2024

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Quarterly Market Report

Demand for Class A Properties Helps Vacancy, while Rates hold Steady

Executive Summary

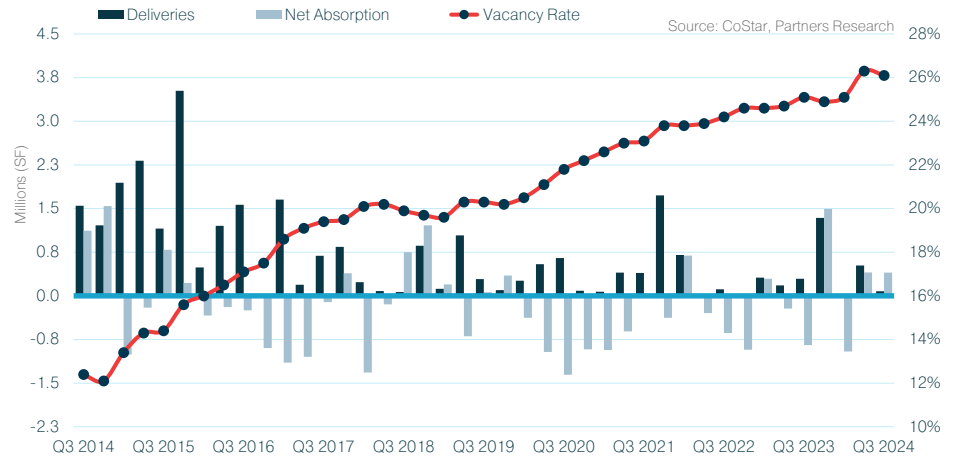
Q3 In Review

The Houston office market saw several positive developments in 3Q24, marked by improving net absorption, steady rental rates, and a slight reduction in the overall vacancy rate. However, challenges remain as leasing activity slowed moderately and the tepid demand for Class B properties remained a drag on the overall market. Some key submarkets like the Energy Corridor, Galleria, The Woodlands and Westchase showed notable levels of new leasing activity. Construction deliveries and the construction pipeline have been steadily declining over recent quarters, pointing to stabilization in market fundamentals, especially for newer, Class A properties. Rates have been split, with new properties at or near record high rates, while older Class B properties continue to see moderate rental rate declines.

Houston Economic Update

Houston's labor market rebounded in August, but the unemployment rate ticked up to 4.5%. Over the past three months, employment in Houston grew an annualized 1.3% or 11,174 jobs. After two weak months of payroll data in June and July, August growth was very strong. From July to August, employment grew 10.3% annualized. This is likely the result of a rebound in activity after Hurricane Beryl and deferred hiring. Job gains in the last three months were concentrated in trade, transportation and utilities, construction, and financial activities. Trade, transportation and utilities – the largest sector of Houston's labor market – grew an annualized 2.8% (up 4,886 jobs) from May to August. Construction had the strongest growth, expanding 11.1% (6,286 jobs) on an annualized basis over the same time period. Growth in construction was broad based across subsectors but particularly strong among specialty trade contractors. Employment in financial activities grew an annualized 5.4% (2,440 jobs) from May to August. Leisure and hospitality was a drag on growth, contracting an annualized 2.5% (down 2,274 jobs).

Supply & Demand



Key Market Indicators

	CURRENT Q3 2024	PRIOR QUARTER Q2 2024		PRIOR YEAR Q3 2023	
Vacant Total	26.1%	26.3%	↓	25.9%	↑
Vacant Direct	25.5%	23.8%	↑	24.9%	↑
Available Total	27.4%	28.7%	↓	29.4%	↓
Available Direct	25.5%	25.7%	↓	27.1%	↓
Net Absorption (SF)	400,973	402,024	↓	-337,527	↑
Leasing Activity (SF)	2,410,459	3,039,687	↓	3,713,475	↓
Construction (SF)	1,089,312	1,121,299	↓	2,975,207	↓
Deliveries (SF)	80,658	521,323	↓	180,000	↑
Avg Asking Rent (Gross)	\$30.29	\$30.25	↑	\$29.70	↑
Inventory (SF)	240,020,213	239,187,691	↑	234,230,725	↑

Over the past year, the Houston's labor market is balanced and growing near trend. Employment grew 1.8% between August 2023 and August 2024. Mining and construction saw the strongest year-over-year growth. Anemic growth in professional and business services and a slight contraction in financial activities weighed on the metro area's overall performance.

Market Overview

Positive Net Absorption in Q3 2024

In 3Q24, the Houston office market recorded 400,973 sq. ft. of positive net absorption, with Class A properties leading the way with 271,879 sq. ft. in comparison to 129,094 sq. ft. for Class B properties. On a submarket level, The Woodlands/Conroe and Westchase led the way with healthy demand of 240,611 sq. ft. and 162,599 sq. ft., respectively. Notable move-ins for those areas include Bechtel Corp. taking 108,724 sq. ft. of sublease space at CityWestPlace building 4 in Westchase and McDermott taking 43,000 sq. ft. at Hughes Landing.

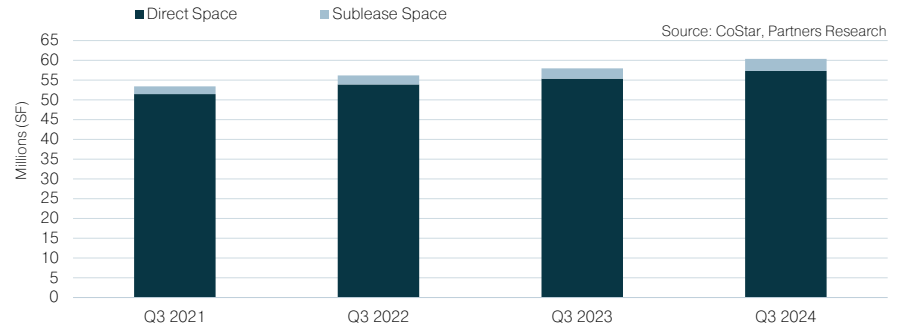
Leasing Declined For Most Submarkets, Still High in Energy Corridor, Galleria and Westchase

Quarterly leasing velocity—comprised of new leases and renewals—stood at 2.4 million sq. ft.—down 21% from 3 million sq. ft. in Q2 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, Camden Property Trust leased 104,013 sq. ft. at Williams Tower and Orion Group Holdings leasing 47,416 sq. ft. at East River One.

Vacancy Rate at 26.1%

The overall vacancy rate in Houston's office market is 26.1%, this is down 20 basis points over the past quarter but up 80 basis points from one year ago. Class A and Class B properties have vacancy rates of 27.0% and 24.7%, respectively. Among the submarkets, Greenspoint/North Belt and Sugar Land/E Ft Bend have the highest vacancy rates at 48.5% and 34.7%, respectively. On the opposite end of the spectrum, the Pearland/South and Northeast submarkets have vacancy rates at 8.6% and 10.9%, respectively.

Vacancy



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Deliveries and Construction Pipeline Continue to Decline

For 3Q24, new office deliveries were 80,658 sq. ft. This is down over 50% from recent quarters. Also, the construction pipeline has been trending down is currently at 1.1 million sq. ft. This is down 63% from one year ago. As far as recent construction deliveries, the most notable new delivery in 2024 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 in 2024 was the 135,000-sq. ft. medical office property leased by Kelsey-Seybold Clinic at 11555 University Blvd in Sugarland.

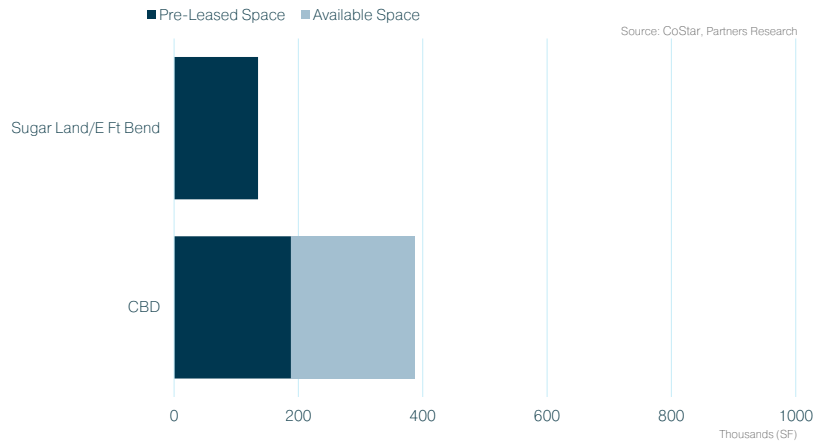
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q3 2024 stood at \$266 million. This represents 121 office properties that sold for an average transaction price of \$75 per sq. ft. and an average cap rate of 9.5%. 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. A local investor (S Hashmi Holdings) bought the 525,580 sq. ft. Southwest Corp. Center through Ten-X auction in June. Also, Goddard Investment Group purchased Energy Center II, a 306,721-sq. ft. is 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.).

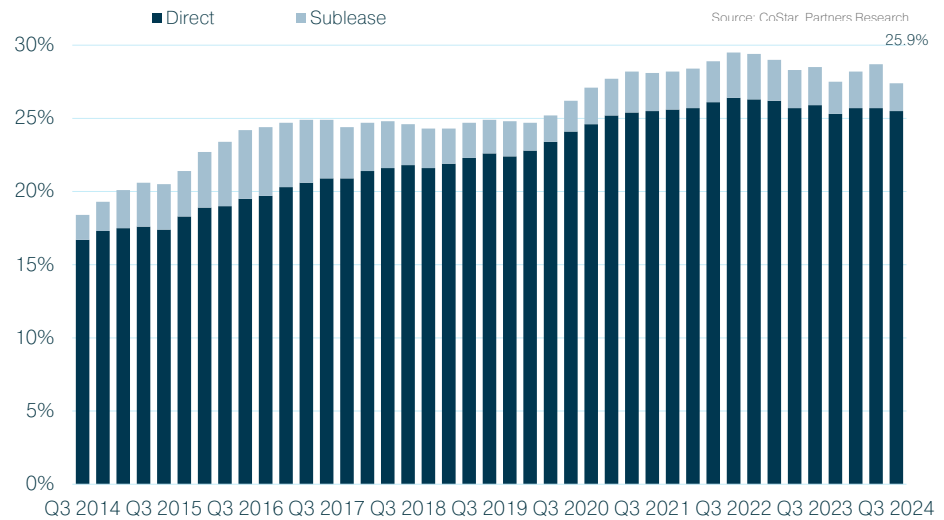
Asking Rates Up 2% over Past Year

Despite the elevated vacancy rates average asking rental rates have held steady in Houston. The overall asking rent across all property types increased slightly, with the average asking rent for Class A office space at \$35.68 per square foot and Class B office space at \$22.82 per square foot. Class A buildings in premier locations, particularly in the CBD and Galleria submarkets, continue to command premium rents despite higher vacancies, supported by strong demand from tenants seeking well-located, modern space. In contrast, Class B buildings, while offering lower rents, face pressure to remain competitive, especially as Class A rents compress in weaker submarkets.

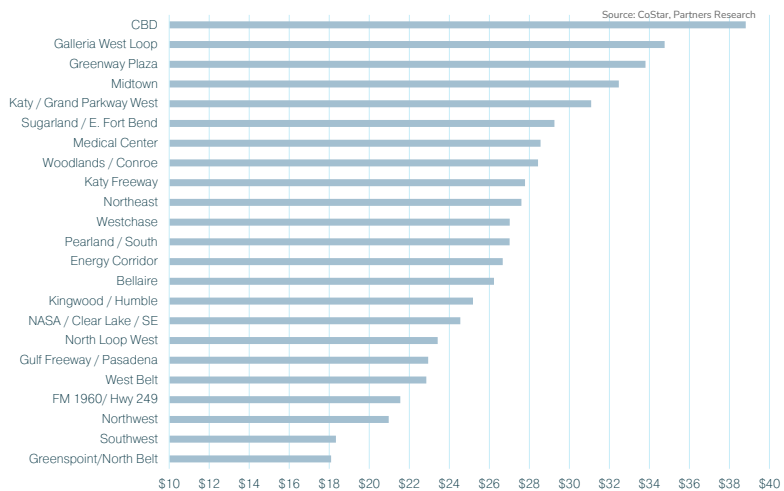
Deliveries



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 (%)	Q3 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q3 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Total	40,546,275	32.8%	36.1%	64,230	-294,462	0	0	38.81
Class A	34,990,864	30.1%	33.9%	91,416	-30,280	0	0	42.64
Class B	5,555,411	49.5%	50.3%	-27,186	-264,182	0	0	24.94
Bellaire Total	4,316,640	12.9%	16.2%	158,519	221,626	0	0	27.09
Class A	1,510,406	18.0%	24.6%	2,168	61,378	0	0	28.15
Class B	2,806,234	10.1%	11.6%	156,351	160,248	0	0	25.01
Energy Corridor Total	22,446,478	25.8%	26.0%	504,769	568,196	0	0	26.21
Class A	15,522,558	23.4%	26.8%	510,170	618,567	0	0	30.47
Class B	6,923,920	21.1%	22.6%	-5,401	-50,371	0	0	21.35
FM 1960/Hwy 249 Total	9,239,043	30.7%	37.4%	102,608	-19,468	0	120,000	21.55
Class A	3,150,982	30.4%	46.7%	13,167	-30,947	0	120,000	24.70
Class B	6,088,061	32.4%	35.0%	89,441	11,479	0	0	20.22
Galleria/West Loop Total	23,138,319	31.4%	31.4%	-418,356	-507,735	0	0	34.76
Class A	17,267,942	31.5%	31.8%	-405,705	-397,324	0	0	36.72
Class B	5,870,377	30.9%	30.9%	-12,651	-110,411	0	0	27.18
Greenspoint/North Belt Total	10,318,146	48.5%	48.5%	144,411	24,944	0	0	18.09
Class A	4,813,901	57.2%	57.2%	28,658	-9,449	0	0	20.36
Class B	5,504,245	40.8%	40.8%	115,753	34,393	0	0	15.40
Greenway Plaza Total	10,486,518	25.3%	29.4%	45,775	-145,354	0	146,000	33.80
Class A	8,123,068	25.6%	30.3%	37,632	-156,081	0	146,000	34.96
Class B	2,363,450	24.1%	26.2%	8,143	10,727	0	0	29.74
Gulf Fwy/Pasadena Total	3,805,449	19.6%	19.6%	949	-1,849	0	0	22.56
Class A	533,973	32.3%	32.3%	-12,035	353	0	0	29.13
Class B	3,271,476	17.6%	17.6%	12,984	-2,202	0	0	20.66
Katy Freeway Total	24,660,205	21.4%	22.1%	32,934	248,239	0	402,293	27.78
Class A	22,058,122	19.0%	21.9%	7,145	135,458	0	402,293	32.05
Class B	2,602,083	19.8%	21.2%	25,789	112,781	0	0	22.27
Katy/Grand Pkwy W Total	3,655,057	12.6%	12.6%	44,560	30,351	0	25,710	31.09
Class A	2,542,606	14.7%	14.7%	15,719	36,252	0	25,710	31.85
Class B	1,112,451	7.6%	7.6%	28,841	-5,901	0	0	27.17
Kingwood/Humble Total	1,603,773	16.1%	20.2%	17,874	28,575	0	25,000	25.67
Class A	439,794	22.8%	22.8%	0	9,056	0	0	27.00
Class B	1,163,979	13.6%	19.8%	17,874	19,519	0	25,000	25.45
Medical Center Total	8,454,516	23.0%	23.0%	-49,231	-141,076	0	0	28.56
Class A	5,178,715	28.5%	28.5%	-49,721	-98,022	0	0	31.83
Class B	3,275,801	14.3%	16.2%	490	-43,054	0	0	24.50
Midtown Total	5,676,750	16.7%	19.5%	27,994	-11,916	0	0	32.47
Class A	2,862,418	19.1%	24.7%	31,319	-102,106	0	0	36.28
Class B	2,814,332	14.3%	14.3%	-3,325	90,190	0	0	27.99
NASA/Clear Lake/SE Total	5,522,899	15.8%	20.2%	-50,903	-30,976	25,304	0	25.02
Class A	2,053,390	16.4%	23.3%	36,552	28,109	25,304	0	28.59
Class B	3,469,509	15.5%	18.4%	-87,455	-59,085	0	0	21.11

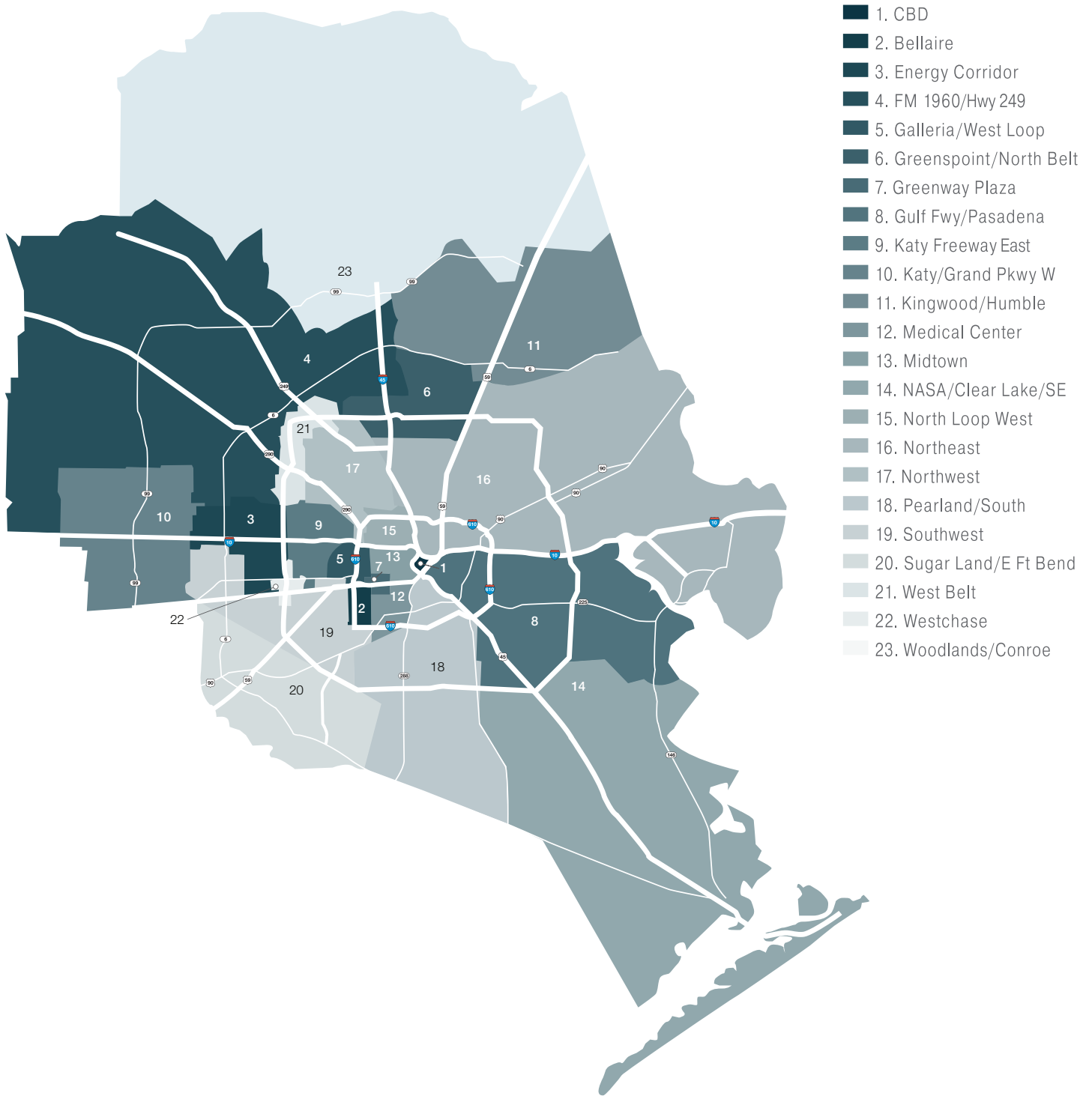
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North Loop West Total	3,860,474	19.2%	21.9%	15,210	7,105	0	0	23.80
Class A	1,472,532	21.3%	22.4%	5,534	6,670	0	0	27.31
Class B	2,387,942	18.0%	21.6%	9,676	435	0	0	20.14
Northeast Total	845,506	10.9%	10.9%	-5,783	-20,809	0	50,000	27.60
Class A	124,781	4.0%	4.2%	6,404	9,187	0	50,000	31.53
Class B	720,725	12.1%	12.1%	-12,187	-29,996	0	0	26.87
Northwest Total	6,841,924	18.6%	22.3%	57,933	187,251	0	87,563	20.96
Class A	2,143,574	24.6%	25.3%	25,014	83,865	0	87,563	24.75
Class B	4,698,350	15.8%	20.0%	32,919	103,386	0	0	18.11
Pearland/South Total	1,635,383	8.6%	11.1%	-16,805	1,793	0	0	27.01
Class A	872,947	6.4%	11.0%	-1,532	5,196	0	0	27.01
Class B	762,436	11.2%	11.2%	-15,273	-3,403	0	0	27.01
Southwest Total	8,660,266	24.0%	26.9%	329,835	70,559	0	151,746	18.33
Class A	1,821,129	26.5%	31.4%	38,012	-59,004	0	151,746	18.12
Class B	6,839,137	23.3%	25.6%	291,823	129,563	0	0	18.43
Sugar Land/E Ft Bend	7,084,797	34.7%	34.7%	-979,309	-735,989	0	48,000	29.25
Class A	3,735,531	36.7%	36.7%	-475,783	-410,194	0	48,000	30.88
Class B	3,349,266	32.5%	32.5%	-503,526	-325,795	0	0	26.17
West Belt Total	5,200,821	30.0%	37.0%	-29,451	60,992	0	0	22.93
Class A	3,435,109	30.7%	38.6%	-9,913	96,773	0	0	24.50
Class B	1,765,712	28.5%	33.9%	-19,538	-35,781	0	0	19.13
Westchase Total	15,460,771	30.6%	36.5%	162,599	424,582	0	0	27.02
Class A	9,468,191	25.7%	34.5%	132,242	465,180	0	0	32.59
Class B	5,992,580	38.4%	39.6%	30,357	-40,598	0	0	19.33
Woodlands/Conroe Total	16,560,203	17.5%	19.2%	240,611	184,586	55,354	33,000	28.43
Class A	10,844,780	18.2%	19.8%	245,416	140,213	55,354	0	30.22
Class B	5,715,423	16.0%	18.0%	-4,805	44,373	0	33,000	27.27
Suburban Total	199,473,938	24.7%	25.6%	336,743	443,627	80,658	1,089,312	27.18
Class A	119,976,449	26.0%	27.7%	180,463	433,130	80,658	1,031,312	31.22
Class B	79,497,489	23.1%	23.1%	156,280	10,497	-	58,000	21.78
Houston Market Total	240,020,213	26.1%	27.4%	400,973	149,165	80,658	1,089,312	30.29
Class A	154,967,313	27.0%	29.2%	271,879	402,850	80,658	1,031,312	35.00
Class B	85,052,900	24.7%	24.7%	129,094	-253,685	0	58,000	22.20

Market Overview

Houston Office Submarkets



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