



# Houston office market report

Q1 2024

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**AVISON  
YOUNG**

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# Houston office market trends

479k sf

## Top quality assets drive office market recovery

Office market fundamentals are gradually improving as the top end of the market continues to lead in the recovery. Over 479k square feet (sf) of Trophy space was absorbed in Q1 2024, while the overall market saw a modest net absorption gain of 66k sf. There are signs of stabilization, with vacancy rates plateauing at 26.4% and availability rates decreasing by 100 basis points over the prior year. However, for a full recovery, the office sector will need sustained leasing activity alongside the conversion of obsolete buildings into alternative uses, to offset the significant amount of space returned to the market since the onset of the pandemic.

12.2%

## Well-capitalized owners continue to attract tenants

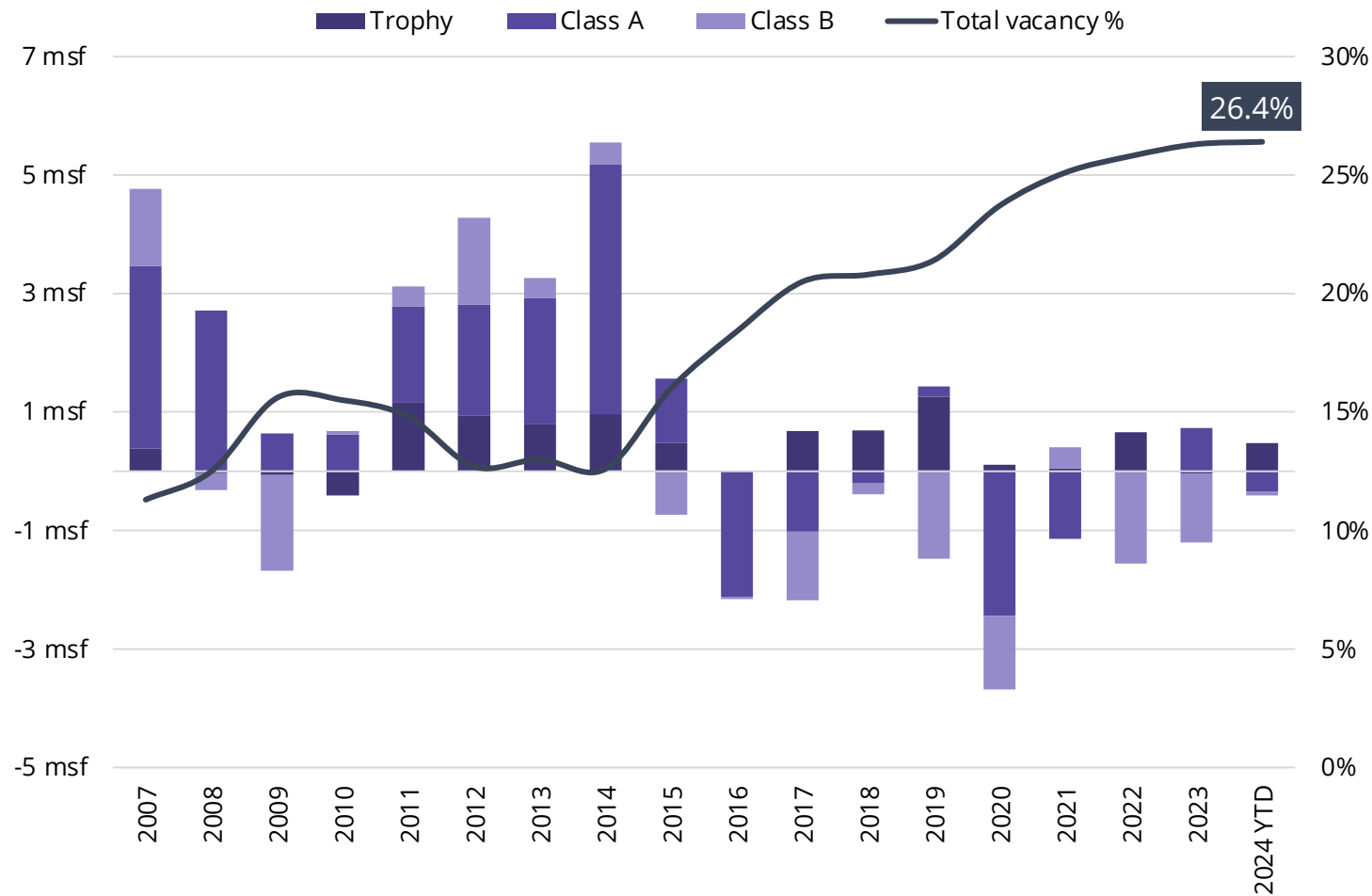
Despite office vacancy rates remaining near an all-time high, newer office buildings (built after 2010) continue to boast significantly lower direct vacancy rates (12.2%) compared to older vintage assets. While the flight to quality trend persists, and a flight to capital has become more prevalent as owners in a stronger financial position have been able to capture a larger share of the new deals in the market, there remains a growing bifurcation. Rents for top-tier class A space have begun to rise due to limited options, while cash-constrained landlords of older buildings struggle to attract new tenants, facing extended vacancy periods.

2.4 msf

## Office leasing slumps, but tenants prioritize quality

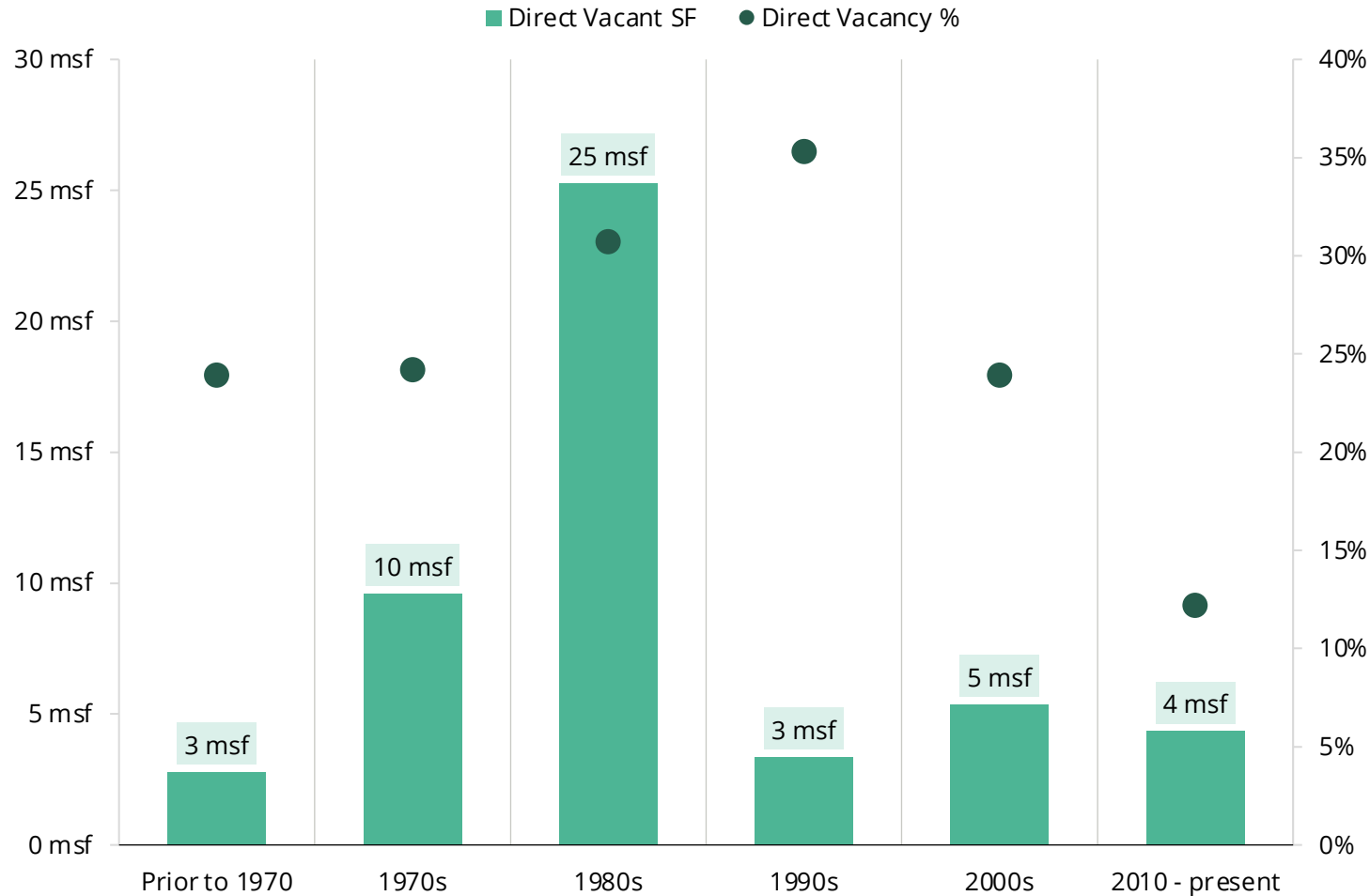
Leasing activity in Q1 2024 reached 2.4 msf, which remains 36.5% below the 5-year pre-pandemic average. Notably, leasing activity was driven by tenants in the energy, engineering, consulting, and research sectors. Despite the moderate pace of leasing activity, tenants are still showing a strong preference for high-quality spaces. A significant 67.1% of all leases signed in Q1 2024 were concentrated in Trophy and class A assets. This trend of higher-end assets outperforming the broader market, coupled with stabilizing vacancy and availability rates, suggests a potential market correction.

# Houston office net absorption by class



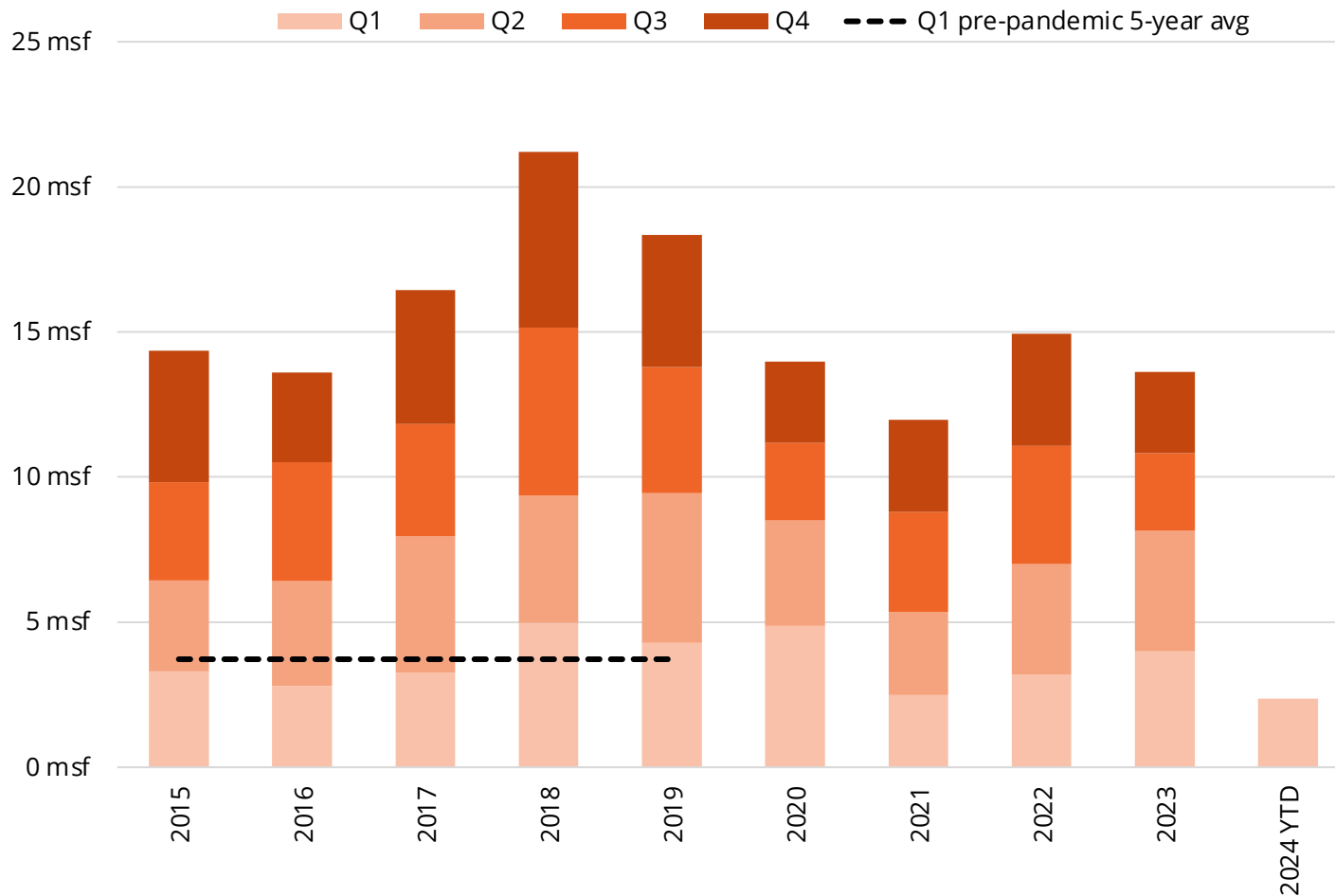
**Houston's office vacancy rate has plateaued, indicating signs of stabilization. High quality buildings are offsetting losses in older vintage assets, marking a positive start to a recovery.**

# Houston office vacancy by vintage



**A persistent flight-to-quality continues to drive a stark disparity in vacancy rates, with newer office product built since 2010 outperforming older vintage assets.**

# Historical office leasing activity



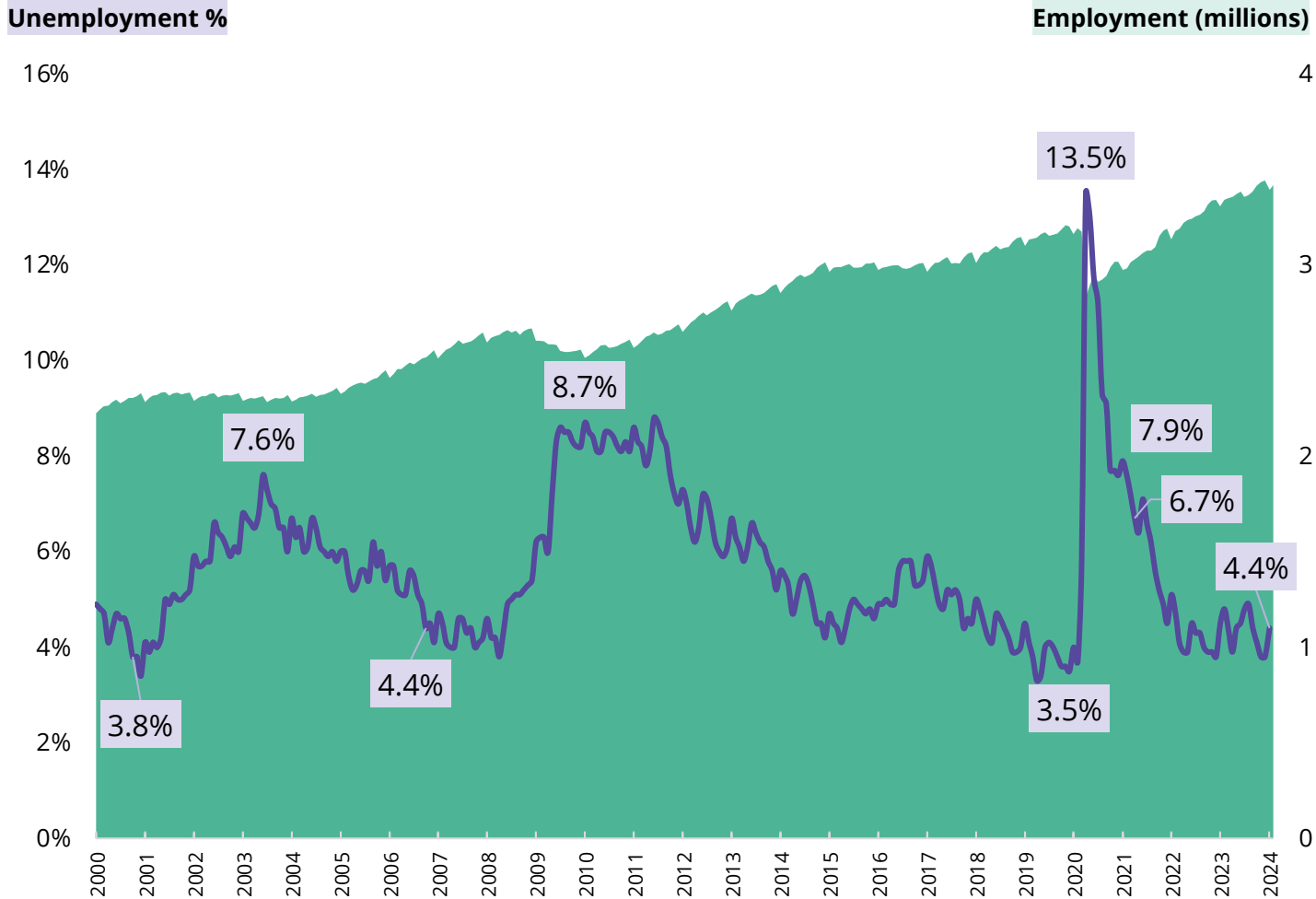
**Tenants are prioritizing high-quality assets with desirable amenities in prime locations, leading to well-capitalized owners dominating deal flow.**

# Houston employment trends

Let's examine the economic trends impacting the office sector



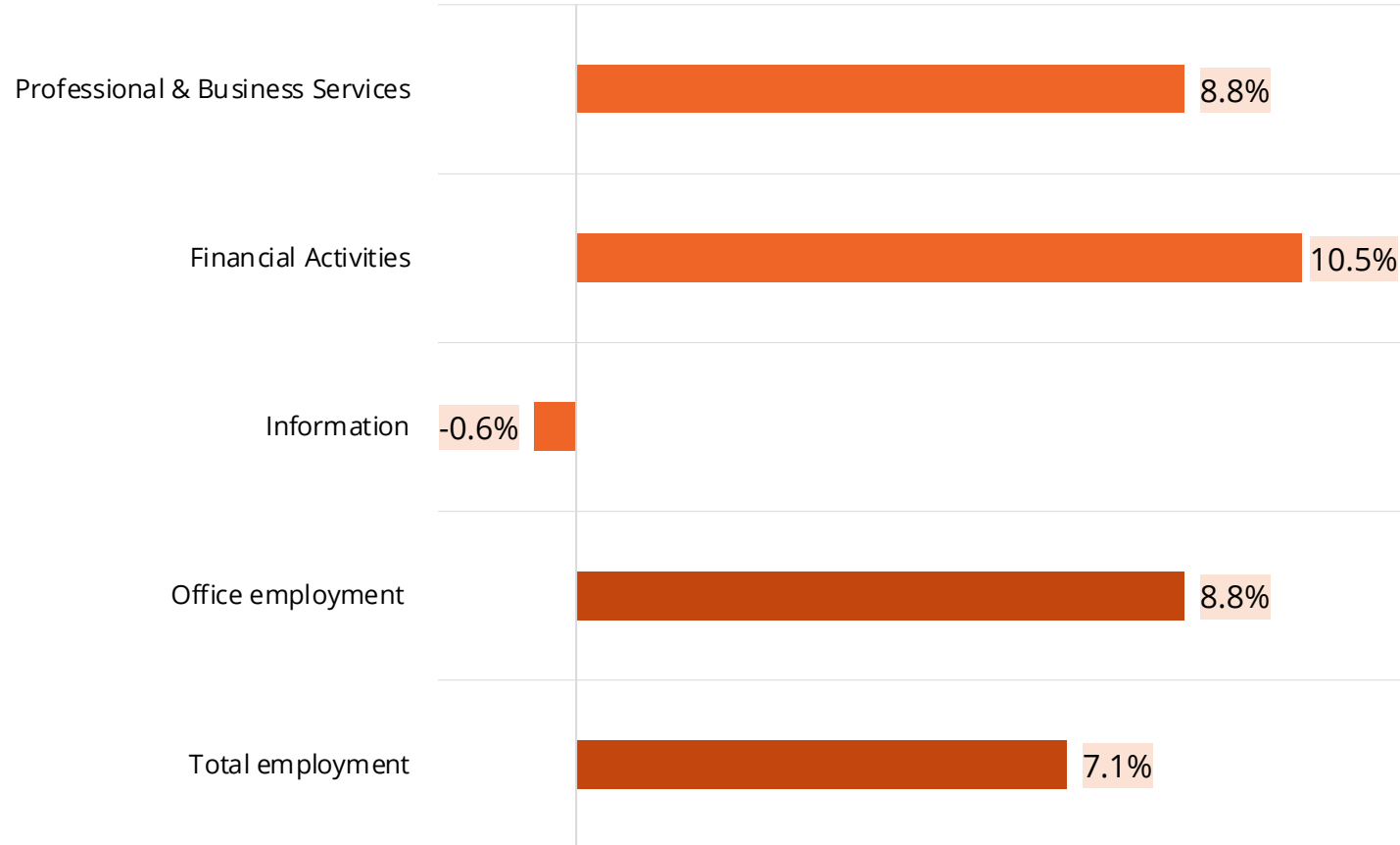
# Employment and unemployment rate



**Houston's employment base has expanded by 87k jobs over the past 12 months, while unemployment remains relatively low at 4.4%.**

# Houston office-using job gains

Houston Metropolitan statistical area  
February 2020 to February 2024



**Strong office job growth has helped buoy the market, with 63k jobs gained since its pre-pandemic peak, but there remains a disconnect between office job growth and office demand.**

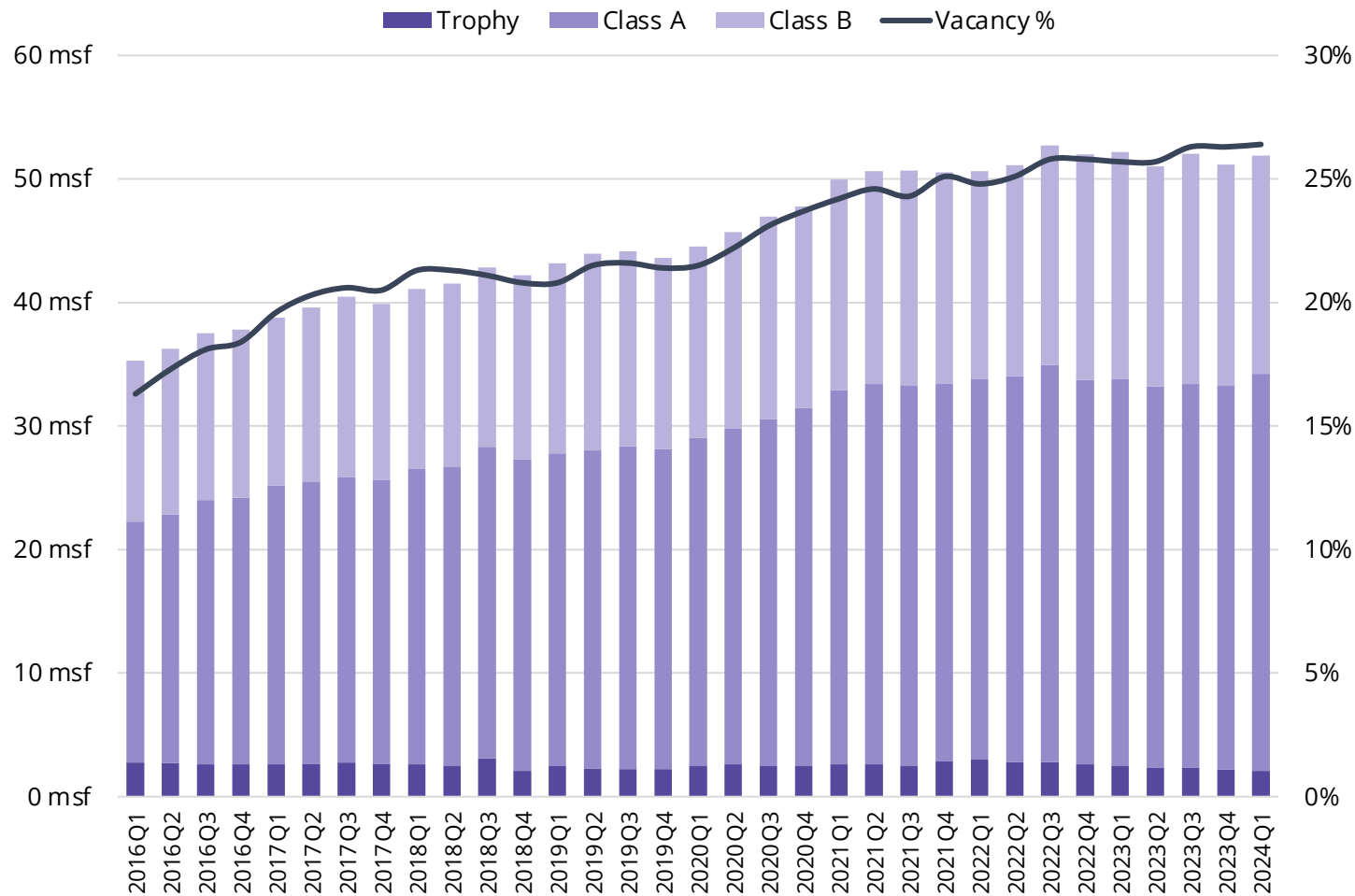


# Occupier market conditions

Let's examine more prevailing office trends

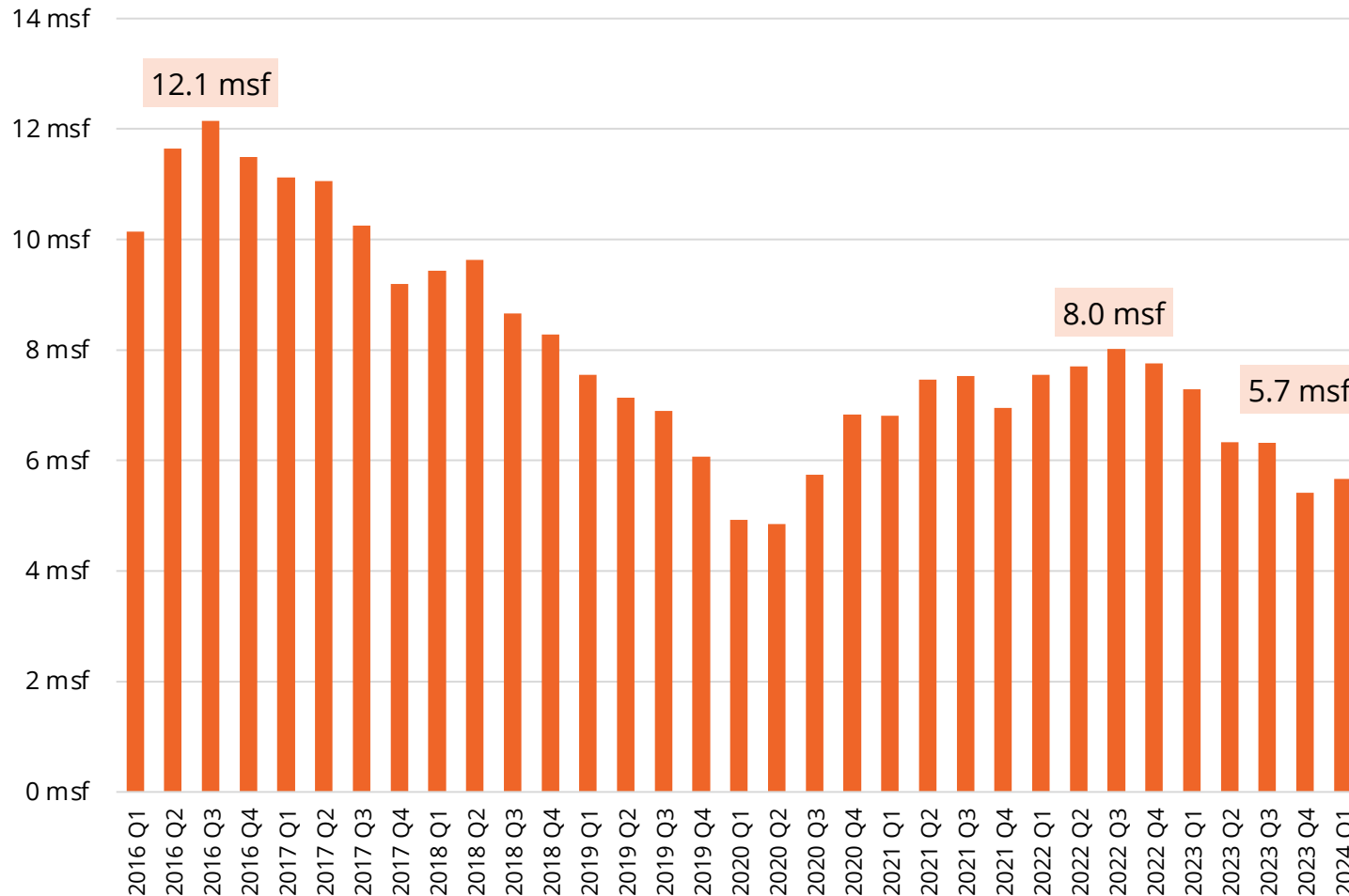


# Direct availability by class vs vacancy



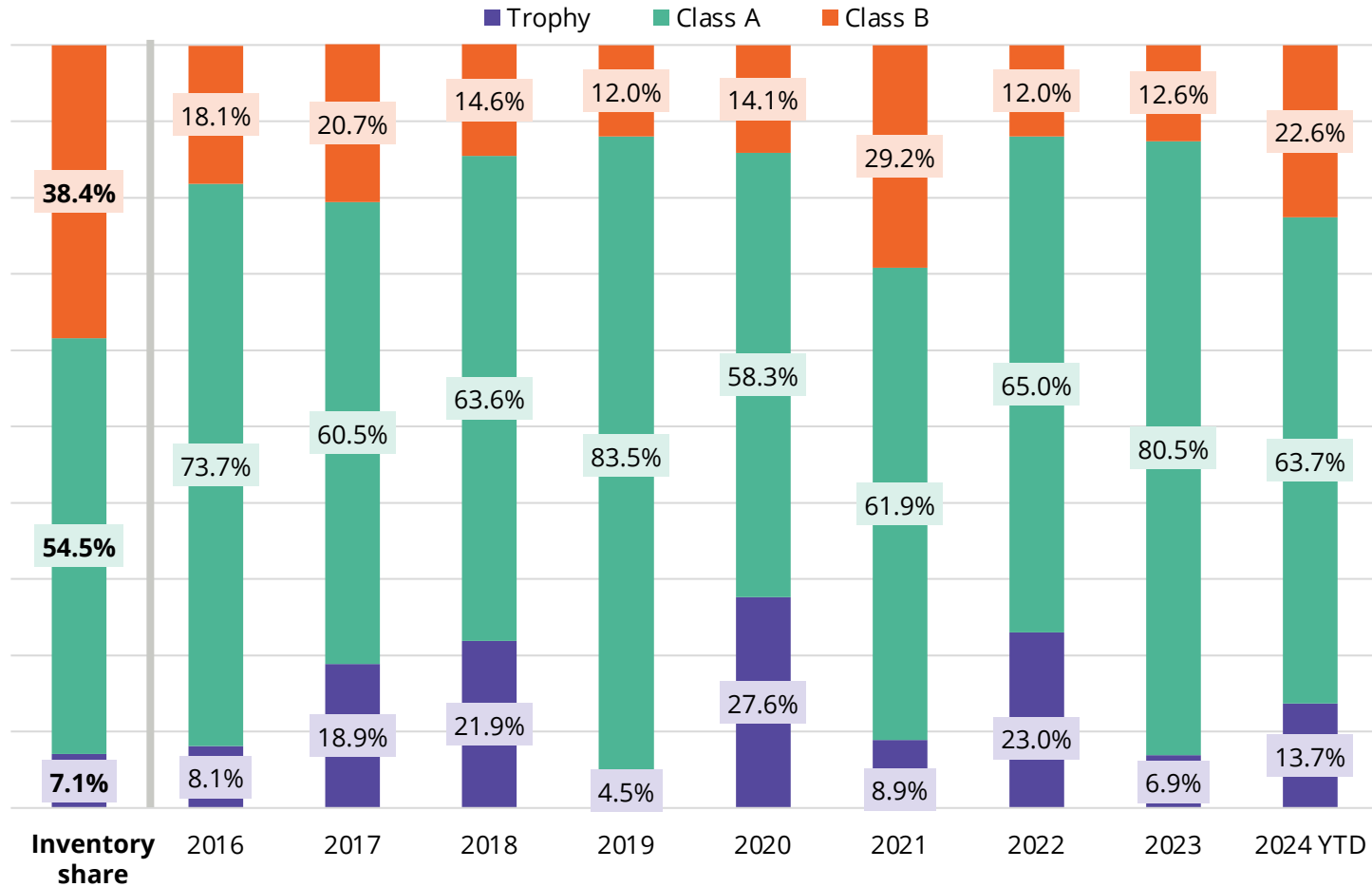
**With a tightening market for high-quality office space, tenants will soon be forced to consider the next tier of quality space options, causing a trickle-down effect.**

# Available sublet space



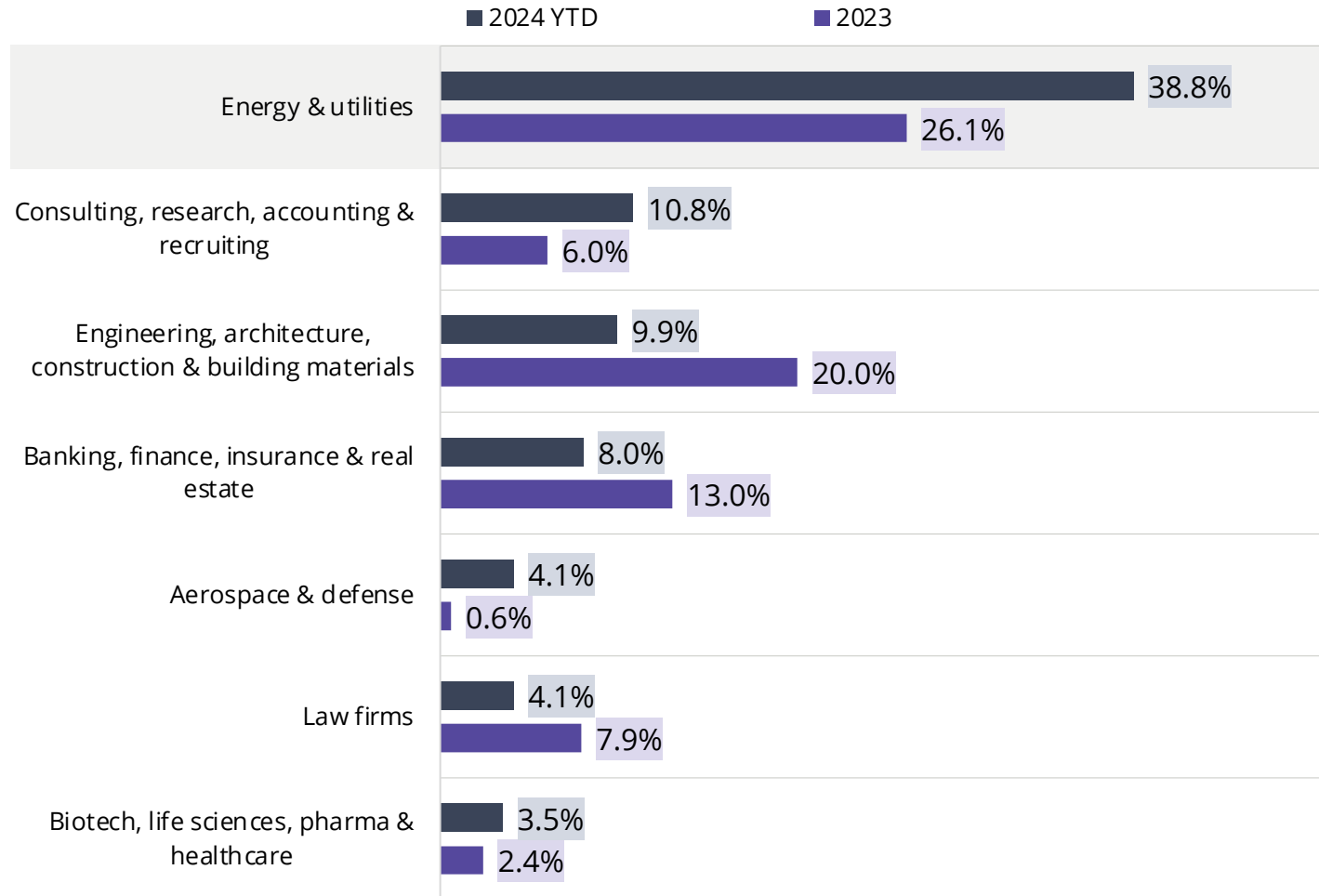
**Available sublet space, currently standing at 5.7 msf, has declined by 22% over the past 12 months and dropped by 53% since hitting a record high of 12.1 msf in Q3 2016.**

# Leasing activity by asset class



**Trophy and class A assets continue to outperform the broader market, accounting for 84% of leasing activity since 2016 while making up 62% of the inventory.**

# Leasing activity by industry sector



**Energy-related firms continued to dominate in leasing activity in Q1 2024, followed by consulting, research, accounting, and recruiting firms.**

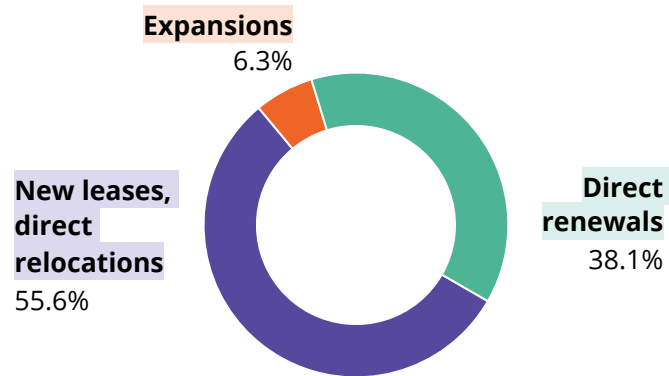
# Transaction activity by lease type

# 34.4%

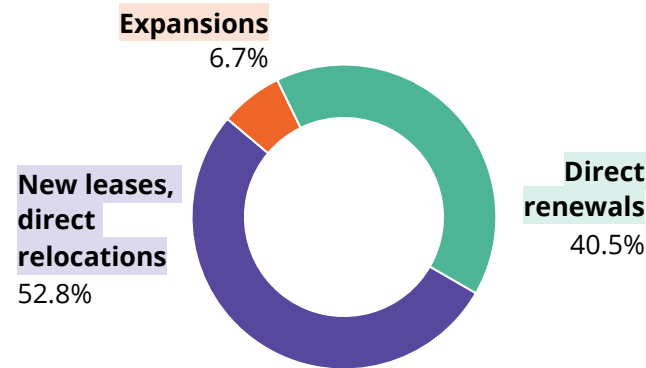
Percent increase in new deals and expansions as a share of total leasing activity, 2024 vs. pre-COVID

The distribution of transaction activity has shifted, with new deals and direct relocations accounting for 61.6% of the annual transactions above 10,000 sf, compared to 55.6% from 2018 to March 2020.

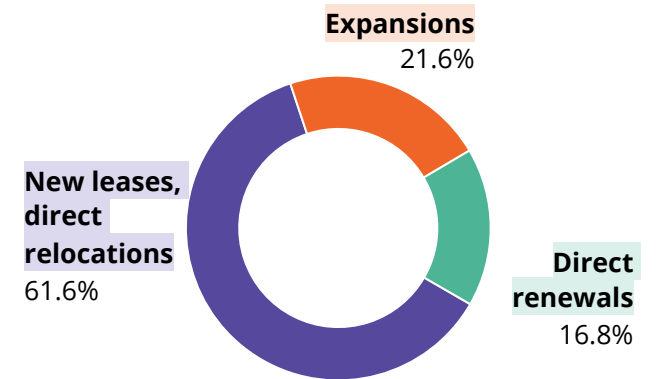
## Pre-COVID From 2018 to March 2020



## Post COVID April 2020 to Present

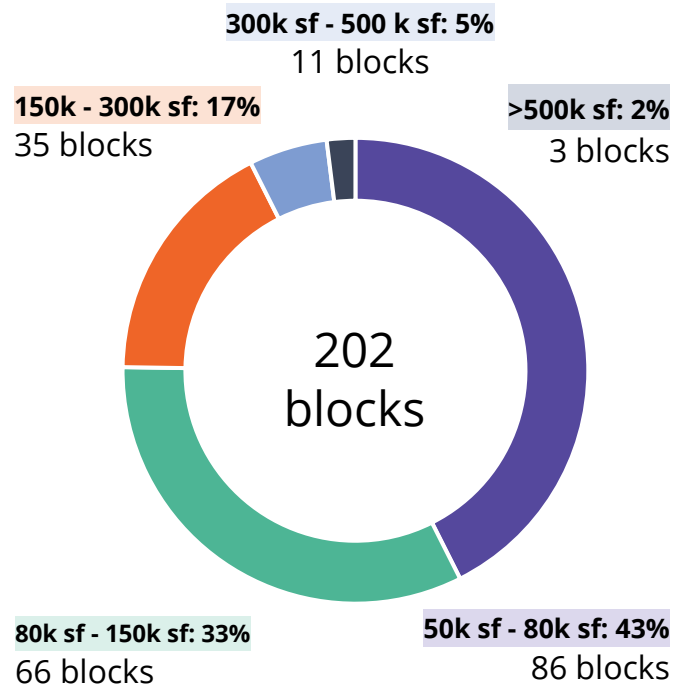


## Q1 2024

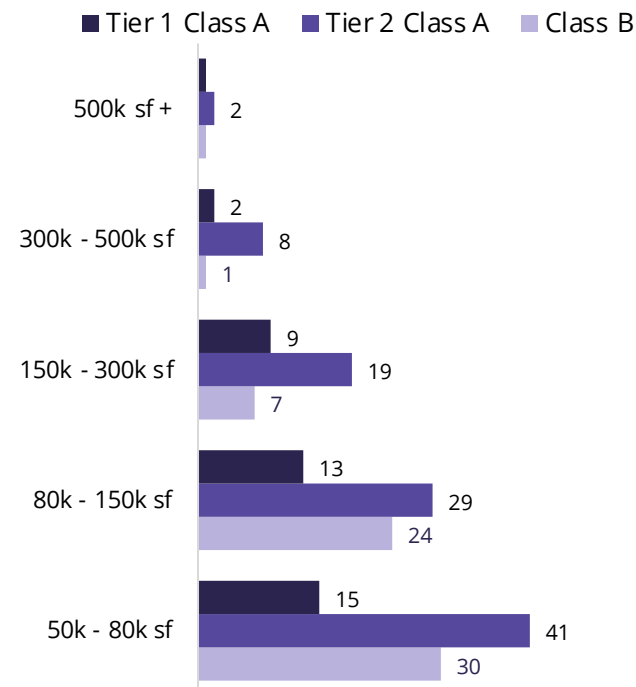


# Houston office large block availability

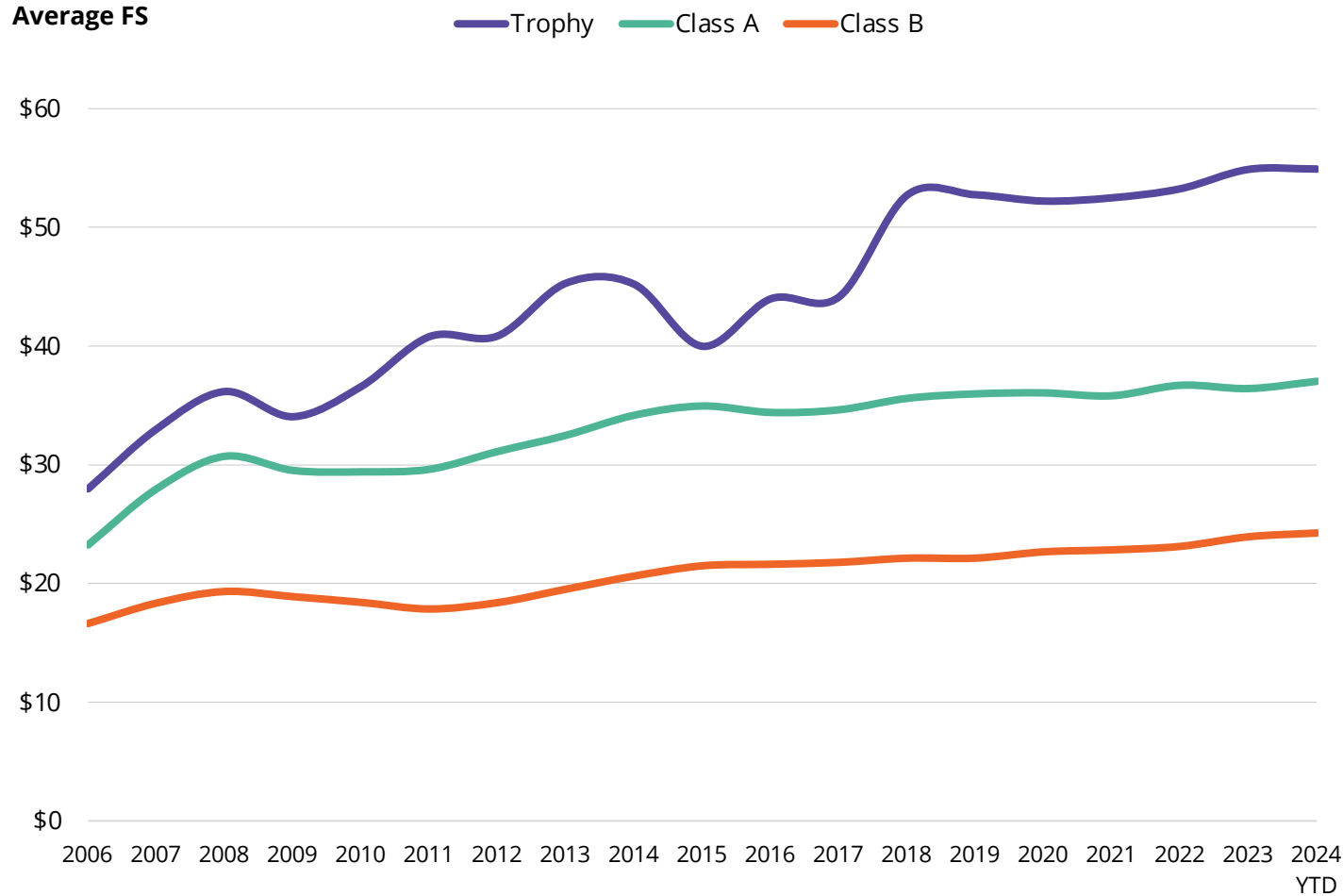
## Number of blocks by size



## Blocks by quality of building



# Houston office annual asking rents by class



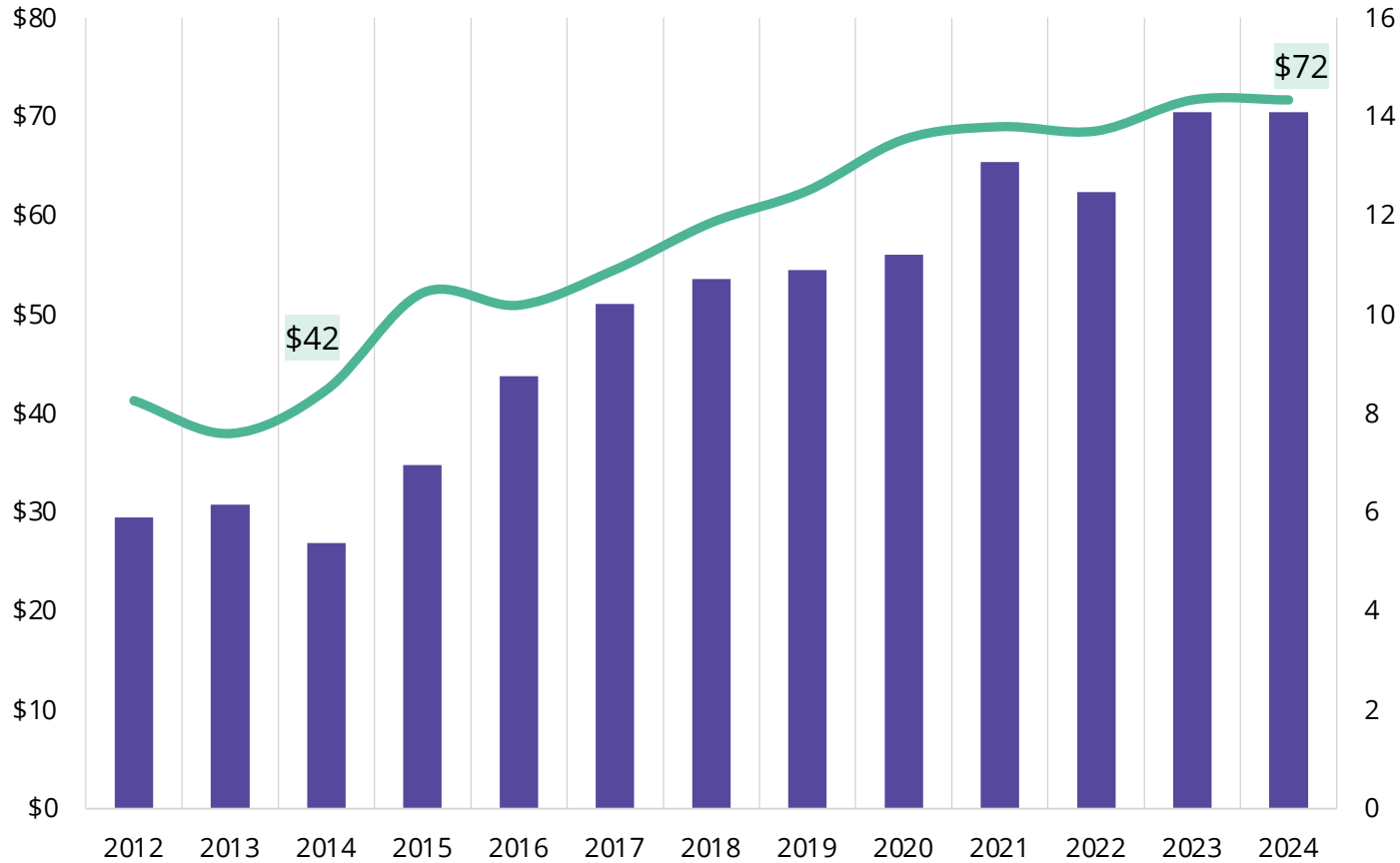
**Strong leasing demand for top quality spaces and fewer space options have led to asking rent growth within the trophy and class A+ segment of the market in recent quarters.**



# Class A office concessionary trends

Tenant allowance psf

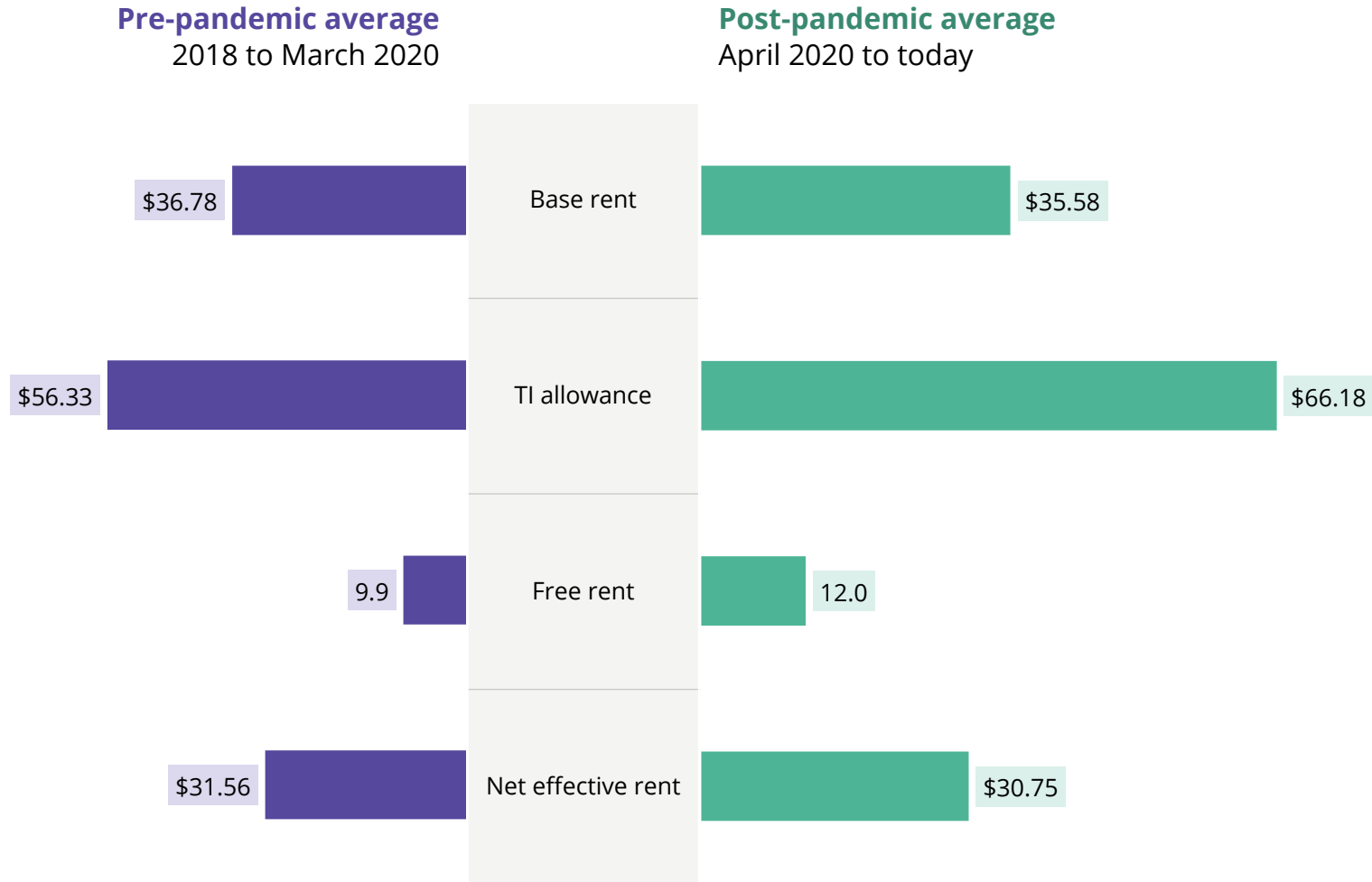
# of months rent free



**Class A tenant improvement allowances and average free rent reached record highs following the 2015-16 oil bust and COVID pandemic and remain elevated to entice tenants.**

Source: AVANT by Avison Young  
Note: Concessions inclusive of only new direct leases & expansions greater than 10k sf, concessions normalized for a 10-year term

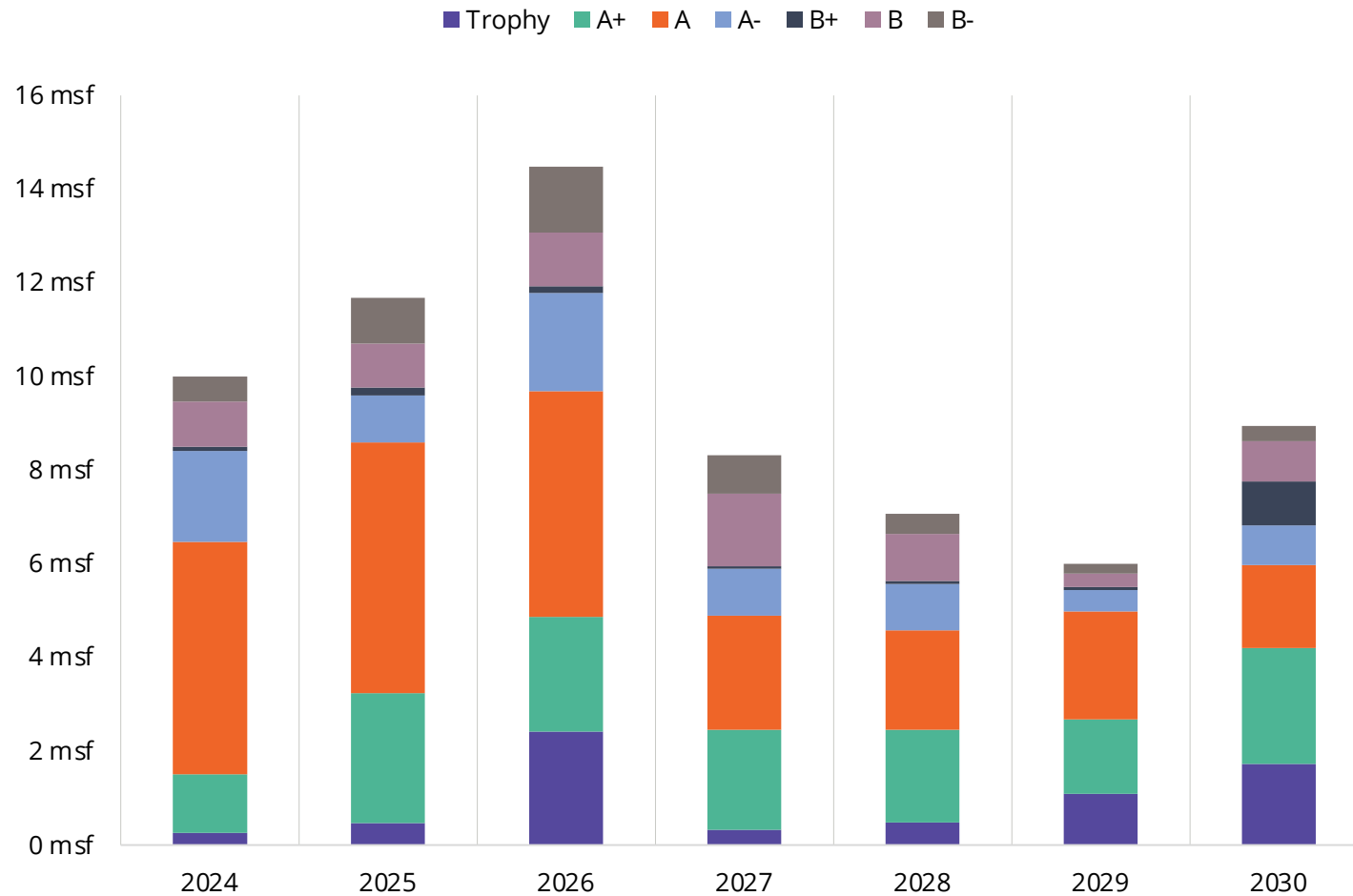
# Houston office concessionary trends



**Houston's office vacancy rate remains high, giving tenants leverage for deals, but rising costs of capital and construction may limit future concessions.**

Source: AVANT by Avison Young  
Note: Concessions inclusive of only new direct leases & expansions greater than 10k sf, concessions normalized for a 10-year term

# Houston office lease expirations

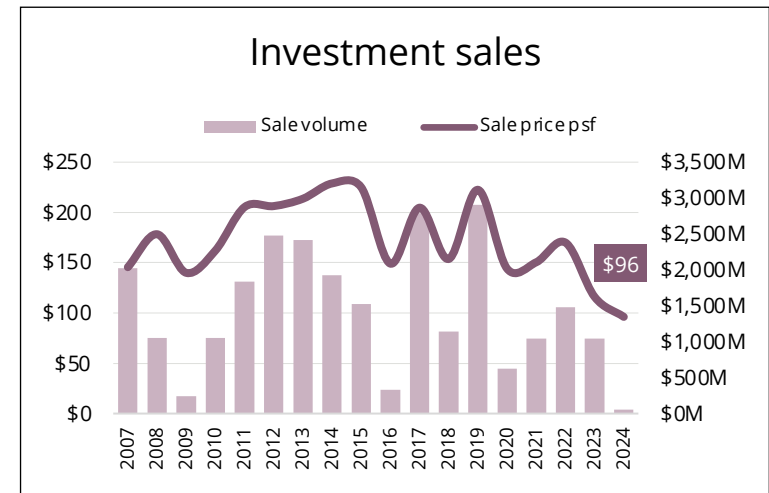
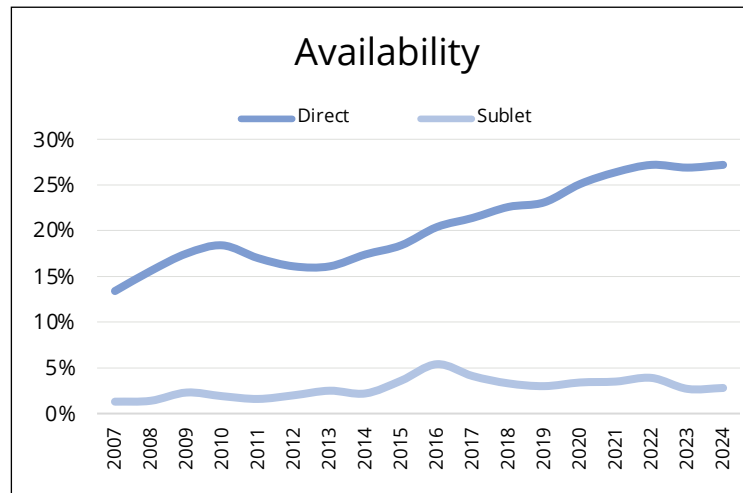
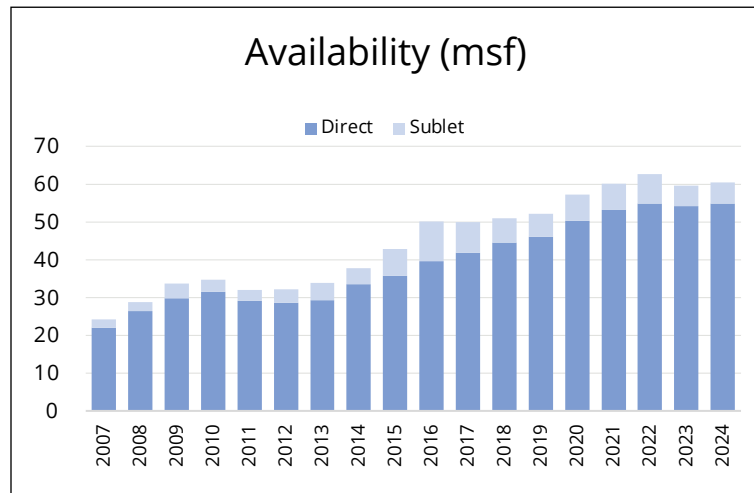
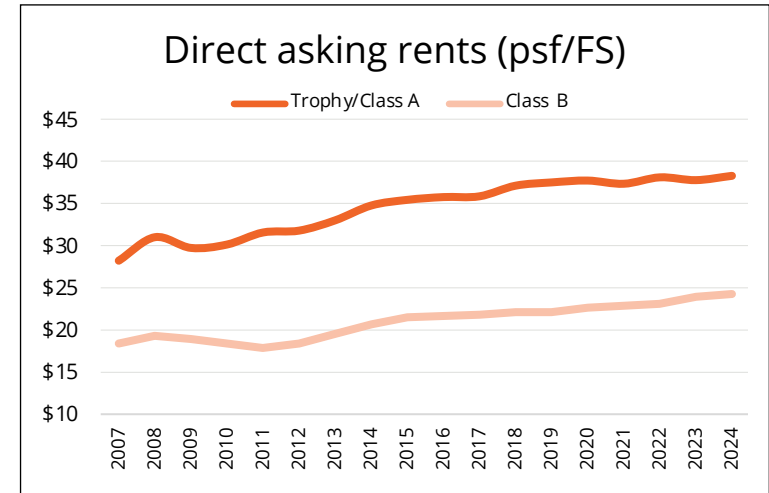
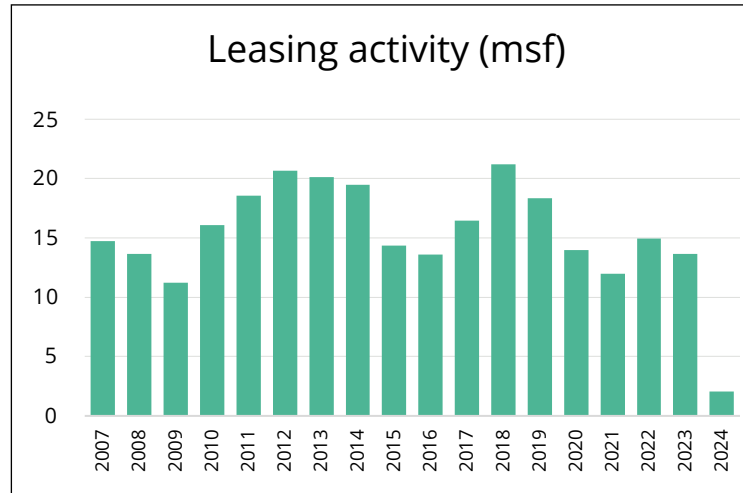
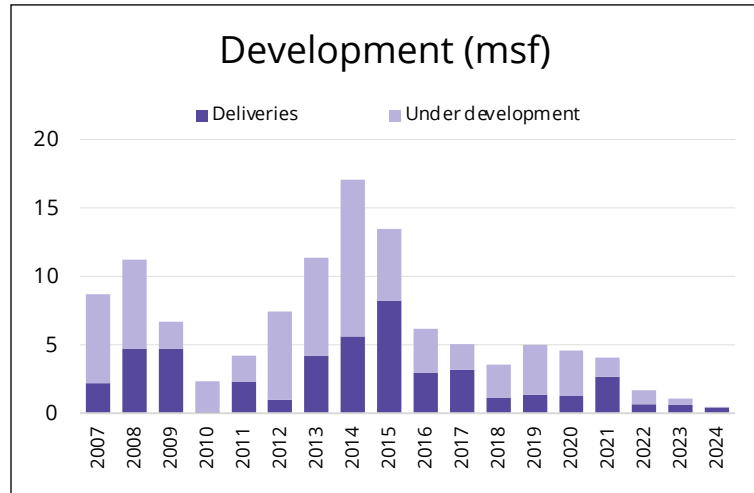


**The office sector has over 10 msf of expiring leases per year through 2026, which will likely result in the supply of high-quality space options being constrained if the flight-to-quality trend continues.**

# Appendix



# Houston office market indicators



# Houston office market activity

## Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Frazer	1410 Gillingham Lane	E Fort Bend Co/Sugar Land	February 2024	150,000	New	Sublease
Bechtel Corporation	2103 CityWest Boulevard	Westchase	February 2024	77,262	Expansion	Sublease
Axiom Space	1290 Hercules Avenue	NASA/Clear Lake	February 2024	63,716	Renewal	Direct
Enlink Midstream	1501 McKinney Street	CBD	January 2024	61,682	New	Sublease
Venture Global	1401 McKinney Street	CBD	March 2024	58,257	New	Direct
SynergenX	11445 Compaq Center West Drive	West Belt/249	January 2024	54,247	New	Direct
Kraken Oil & Gas	945 Bunker Hill Road	Katy Freeway East/Memorial City	February 2024	48,040	New	Direct
ENSTOR Gas	2107 CityWest Boulevard	Westchase	January 2024	43,598	New	Sublease
McCarthy Associates	2200 Post Oak Boulevard	Galleria/West Loop	March 2024	38,230	New	Direct
RG Miller Engineers	1080 Eldridge Parkway	Energy Corridor/Katy Freeway West	February 2024	28,971	New	Direct

## Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
6932 Brisbane Court	E Fort Bend Co/Sugar Land	October 2024	40,000	56.7%	O'Donnell/Snider Construction

# Houston office market stats

	Existing inventory sf	Deliveries sf (Q1 2024)	Under development sf	Direct vacancy	Direct available	Total vacancy	Total available	Sublet available sf	Net absorption sf (Q1 2024)	Net absorption % of inventory (Q1 2024)	Annual direct asking rent psf FS
Central Business District	40,259,860	386,323	-	26.9%	31.2%	28.0%	34.1%	1,210,032	188,557	0.5%	\$43.08
Galleria/West Loop	24,050,998	-	-	28.8%	30.5%	29.9%	32.4%	456,004	-106,650	-0.4%	\$36.71
Greenway Plaza	10,717,724	-	-	24.1%	25.7%	24.5%	27.3%	173,137	-204,892	-1.9%	\$36.54
Energy Corridor/Katy Freeway West	20,138,352	-	-	24.4%	27.2%	25.5%	30.6%	872,297	214,480	1.1%	\$29.87
Katy Freeway East/Memorial City	7,451,044	-	-	11.7%	9.5%	12.5%	11.4%	139,541	9,791	0.1%	\$33.91
Westchase	14,913,728	-	-	29.8%	32.4%	32.4%	36.3%	582,388	25,097	0.2%	\$28.62
North Belt	9,598,861	-	-	46.7%	42.1%	47.2%	42.8%	70,123	-18,611	-0.2%	\$20.94
Northwest	8,060,769	-	-	18.8%	19.2%	19.9%	20.7%	135,689	-54,076	-0.7%	\$21.09
NASA/Clear Lake	4,033,309	-	-	12.4%	15.9%	14.2%	18.9%	120,727	-4,963	-0.1%	\$26.38
E Fort Bend Co/Sugar Land	5,665,086	-	40,000	20.4%	21.7%	20.8%	22.9%	69,767	83,857	1.5%	\$30.86
Richmond/Fountainview	1,200,647	-	-	22.8%	24.2%	22.8%	24.2%	-	-11,487	-1.0%	\$18.25
San Felipe/Voss	5,284,652	-	-	30.1%	30.0%	30.4%	31.8%	90,378	6,254	0.1%	\$31.52
Bellaire	2,686,492	-	-	12.9%	14.8%	14.1%	16.9%	56,490	64,663	2.4%	\$29.73
Midtown	5,798,327	-	-	15.5%	16.8%	17.0%	18.9%	124,310	-1,549	0.0%	\$34.44
FM 1960	2,727,240	-	-	27.4%	31.5%	27.5%	31.6%	5,111	9,221	0.3%	\$17.82
Kingwood/Humble/Northeast	1,170,336	-	-	16.5%	17.6%	16.5%	17.6%	-	7,210	0.6%	\$20.62
Southwest	7,342,935	-	-	27.6%	25.5%	28.4%	26.3%	60,755	-108,071	-1.5%	\$21.26
Medical Center/South	1,619,067	-	-	14.9%	11.4%	14.9%	11.4%	-	-11,741	-0.7%	\$20.02
The Woodlands	11,829,986	-	-	16.9%	19.1%	18.8%	23.2%	485,292	-68,775	-0.6%	\$37.16
Gulf Freeway/Pasadena	2,426,696	-	-	22.2%	19.8%	23.8%	21.0%	27,382	-5,311	-0.2%	\$26.82
Katy/Grand Parkway West	2,549,480	-	-	10.8%	10.2%	14.3%	17.6%	188,696	25,462	1.0%	\$34.29
West Belt /249	9,238,540	-	-	34.2%	43.6%	35.9%	47.8%	800,640	52,048	0.6%	\$24.44
Southwest Far	1,201,110	32,200	-	12.9%	12.5%	12.9%	12.5%	-	-11,248	-0.9%	\$25.11
Southeast Far/South Hwy 35	825,685	-	-	1.6%	3.4%	1.6%	3.4%	-	-1,769	-0.2%	\$32.53
Conroe	574,150	-	-	15.8%	17.8%	15.8%	17.8%	-	-11,205	-2.0%	\$28.65
<b>Market total</b>	<b>201,365,074</b>	<b>418,523</b>	<b>40,000</b>	<b>25.2%</b>	<b>27.2%</b>	<b>26.4%</b>	<b>29.7%</b>	<b>5,668,759</b>	<b>66,292</b>	<b>0.0%</b>	<b>\$33.03</b>

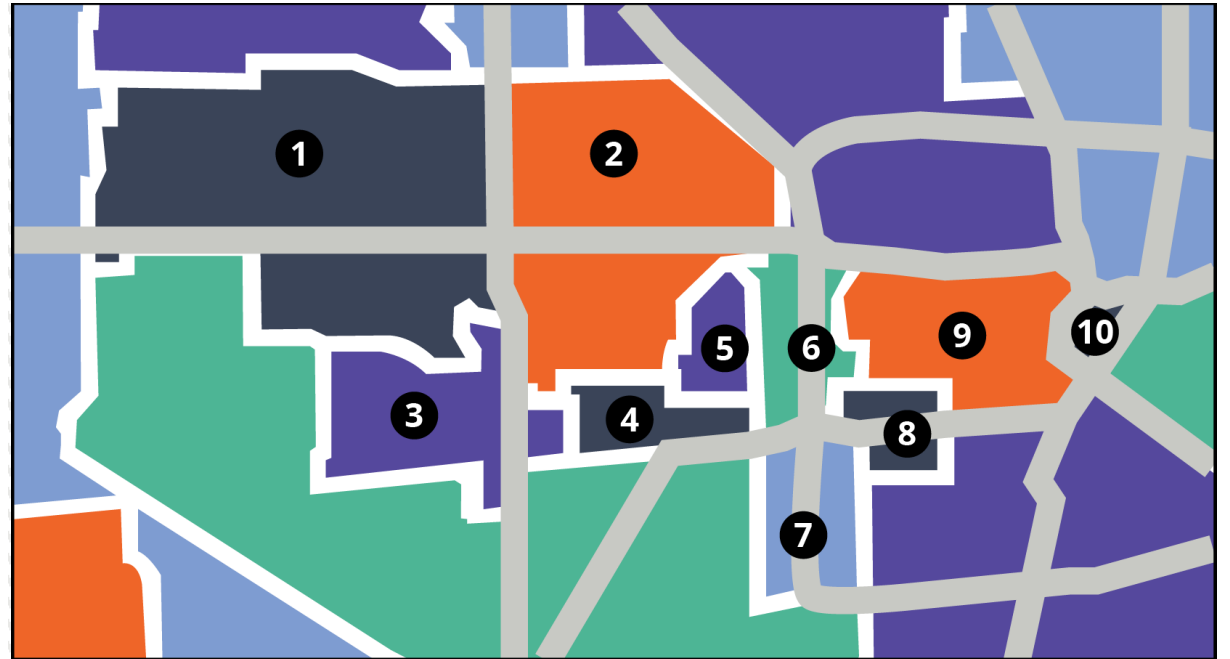
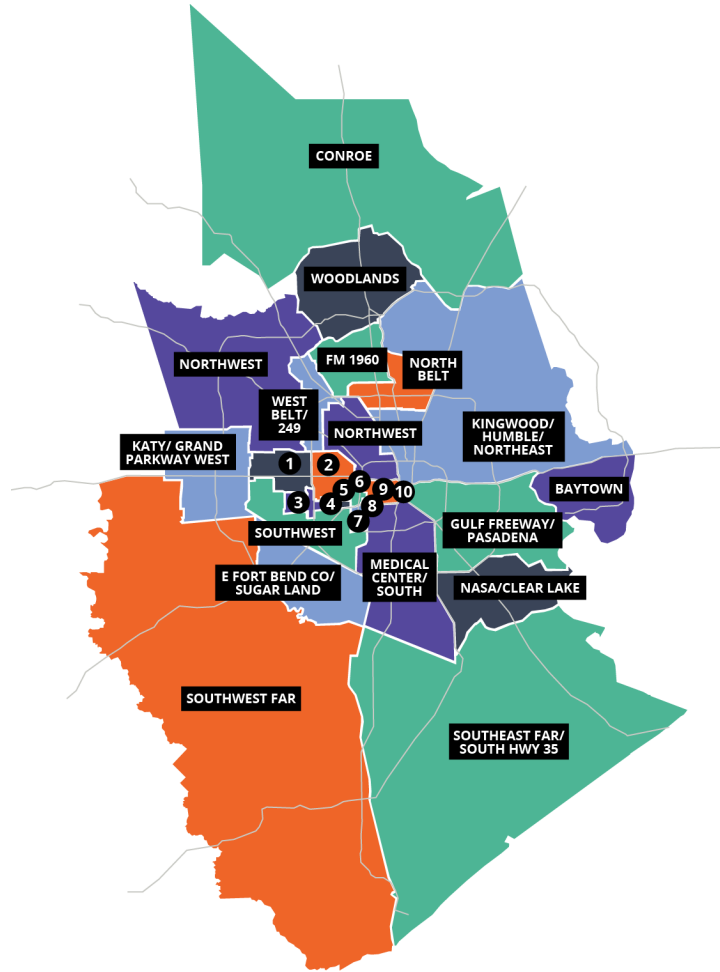
# Houston office market stats by class

	Existing inventory sf	Deliveries sf (Q1 2024)	Under development sf	Direct vacancy	Direct available	Total vacancy	Total available	Sublet available sf	Net absorption sf (Q1 2024)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	14,296,879	386,323	-	15.6%	14.5%	16.3%	17.6%	437,140	479,303	3.4%	\$54.92
Class A	109,729,785	32,200	-	26.0%	29.6%	27.6%	32.9%	4,270,685	-349,414	-0.3%	\$37.03
Class B	77,338,410	-	40,000	25.9%	26.2%	26.5%	27.5%	960,934	-63,597	-0.1%	\$24.26
<b>Market total</b>	<b>201,365,074</b>	<b>418,523</b>	<b>40,000</b>	<b>25.2%</b>	<b>27.2%</b>	<b>26.4%</b>	<b>29.7%</b>	<b>5,668,759</b>	<b>66,292</b>	<b>0.0%</b>	<b>\$33.03</b>





# Houston submarket map



## Map Key

- |                                     |                      |
|-------------------------------------|----------------------|
| 1 Energy Corridor/Katy Freeway West | 6 Galleria/West Loop |
| 2 Katy Freeway East/Memorial City   | 7 Bellaire           |
| 3 Westchase                         | 8 Greenway Plaza     |
| 4 Richmond/Fountainview             | 9 Midtown            |
| 5 San Felipe/Voss                   | 10 CBD               |

# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and  
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