



Houston office market report

Q3 2024

**AVISON
YOUNG**

Houston office market trends

821k sf

Quarterly net absorption marks largest gain since 2018

Houston's office market is showing promising signs of a recovery with 821k sf of positive absorption in Q3, marking the largest quarterly gain in six years. Despite several large tenants, such as Apache, Bechtel, and Fluor, reducing their footprints by an average of 34% over the past year, broad-based tenant demand has increased occupancy levels with 477k sf absorbed year-to-date. This growth is fueled by a growing number of companies expanding their operations in Houston, particularly in the energy and engineering sectors.

543k sf

Limited construction will fuel high-quality space shortage

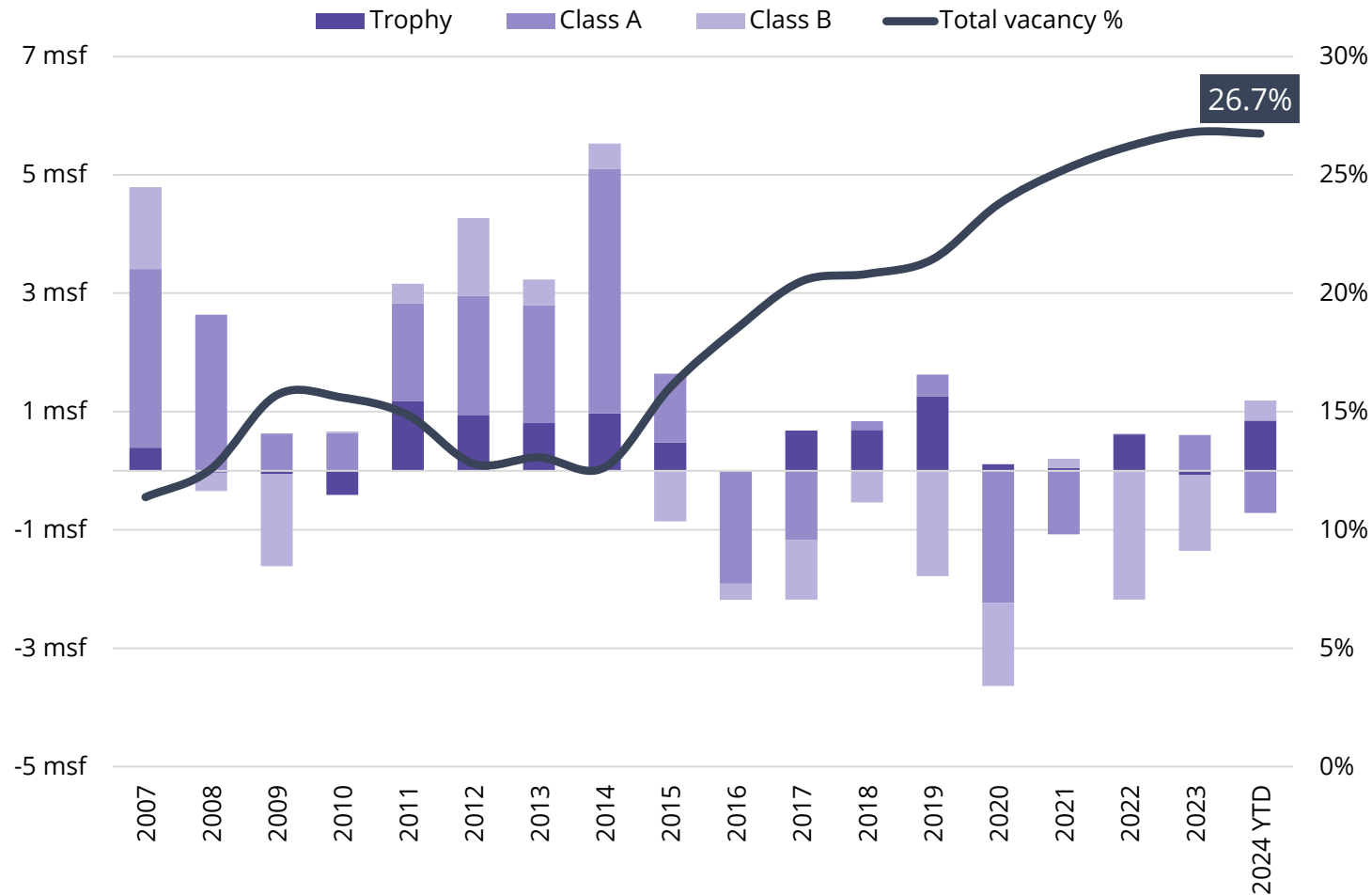
A global pandemic, inflation, higher interest rates, and shifting work dynamics have significantly softened office fundamentals. Currently, only 543k sf of new office space is under construction and slated for delivery in the coming years. As companies adapt to the new normal of hybrid work, they are increasingly prioritizing modern amenities such as outdoor spaces, collaborative areas, and advanced technology. These features are in short supply in the existing Houston market, driving strong demand for the limited new construction available.

\$81 psf

Office investment sales price per square foot

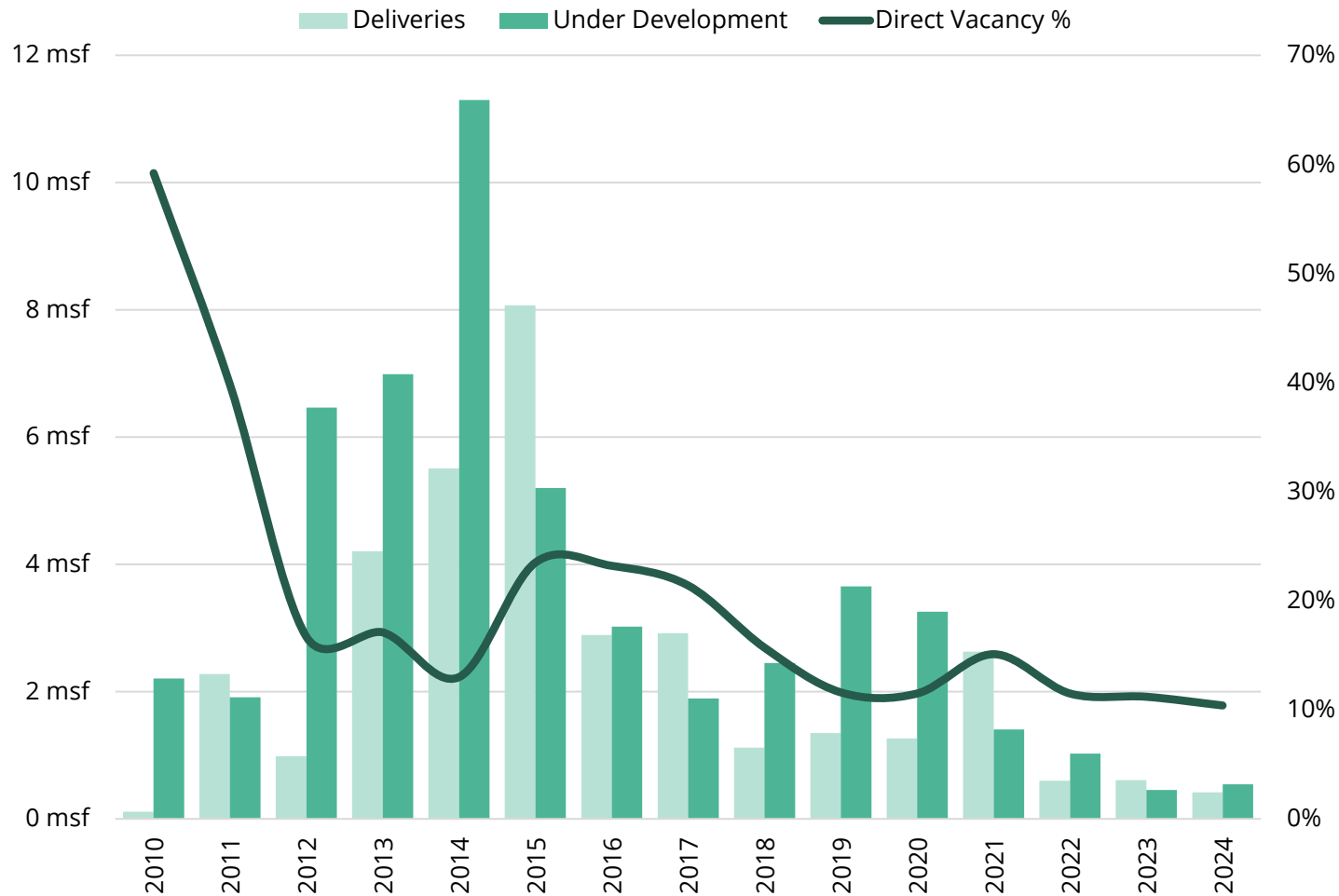
The decline in office property values has created opportunities for investors, but the elevated interest rate environment poses significant challenges. Increased borrowing costs have led to a substantial discount in office asset prices, making it difficult to justify investments for some. However, the Federal Reserve's additional expected rate cuts offer a glimmer of hope. As borrowing costs decrease and bond yields fall, CRE investment activity and asset values are expected to rebound, presenting potential opportunities for those willing to navigate the current market conditions.

Houston office net absorption by class



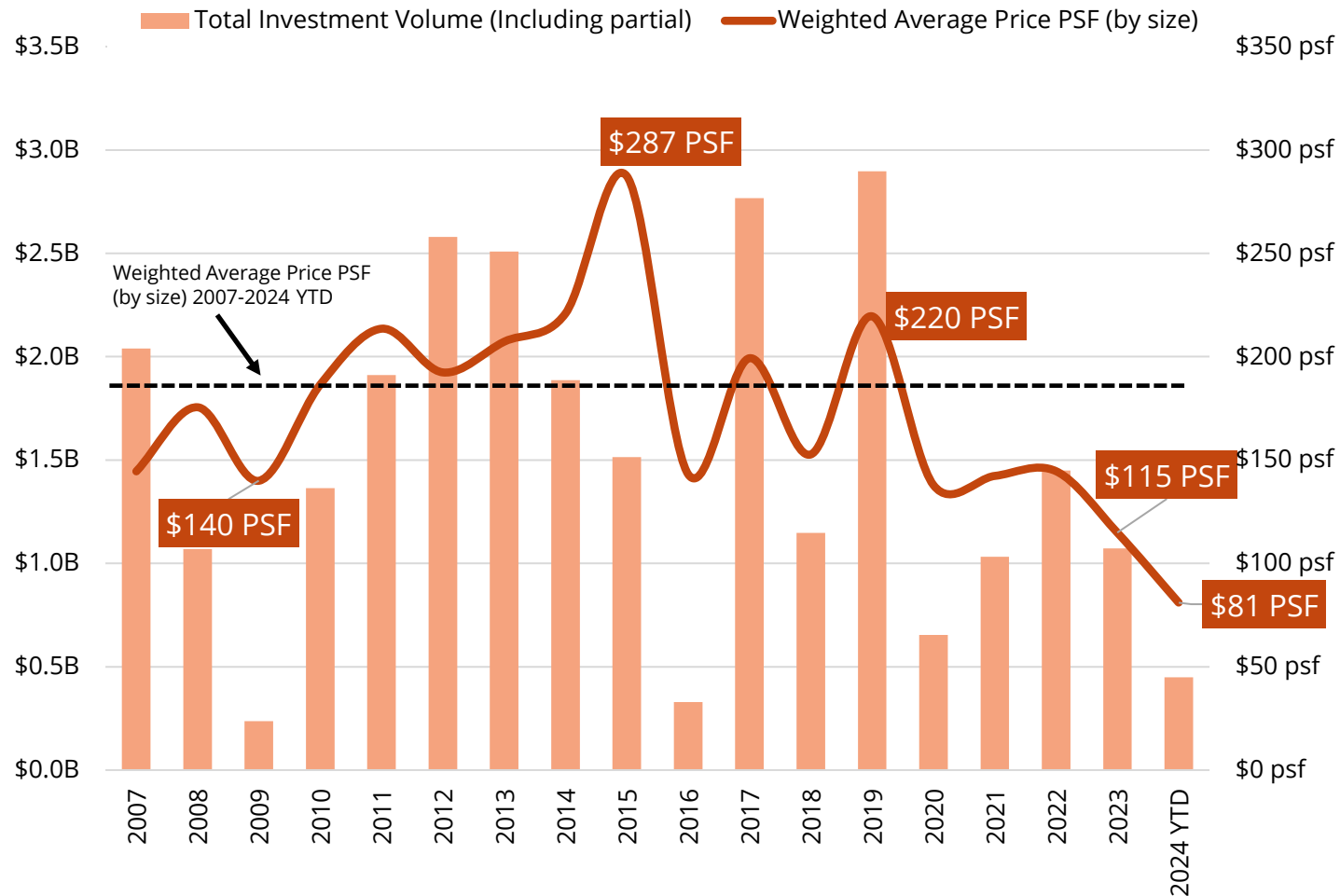
The trophy office segment continues to outperform the market, with 848k sf of positive absorption year-to-date. Tenants are increasingly drawn to these high-quality buildings, which offer superior amenities and modern features in prime locations.

Office development pipeline remains muted



The limited office construction pipeline and strong leasing demand for newer product has led to limited space options for larger tenants. This is highlighted by the stark contrast in direct vacancy rates for newer product (built 2010+) at 10.4% compared to older vintage product built prior to 2000 exceeding 29.7%.

Office investment sales activity



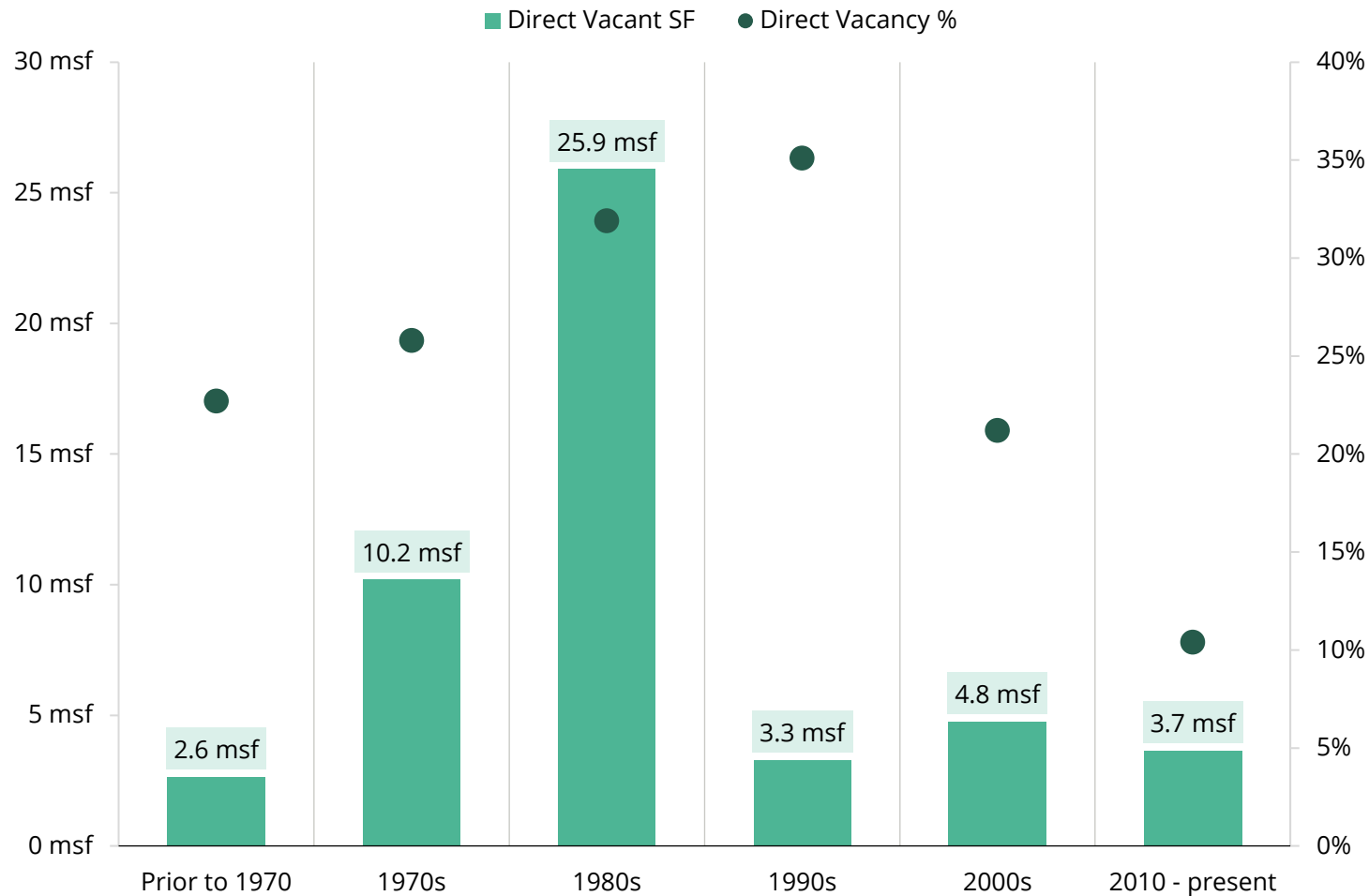
Elevated interest rates continue to hinder office property sales, increasing borrowing costs for both buyers and sellers. As a result, office assets are selling at a significant discount compared to pre-interest rate hike levels. This downward pressure on property values has pushed the average price to \$81 psf.

Occupier market conditions

Let's examine more prevailing office trends

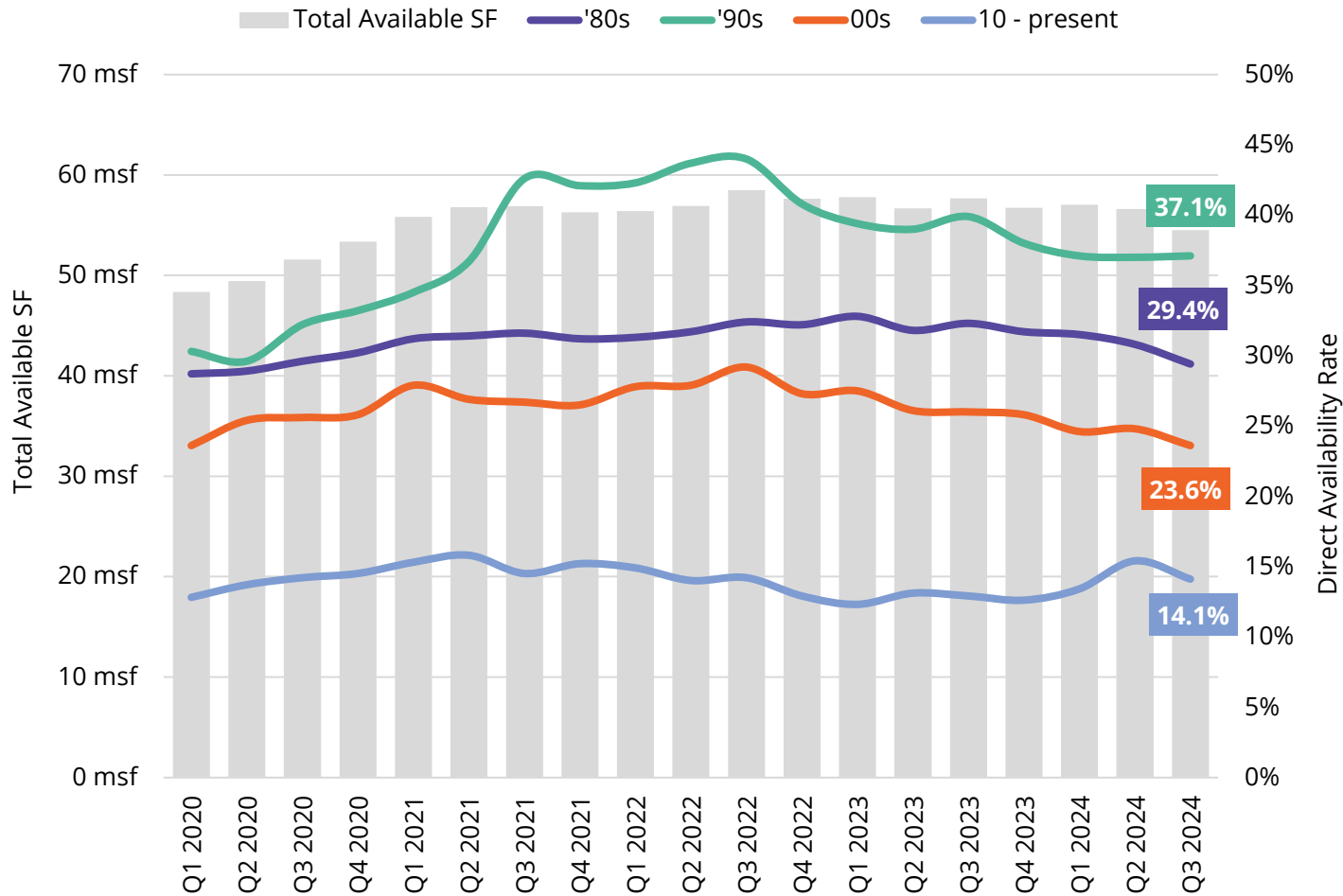


Houston office vacancy by vintage



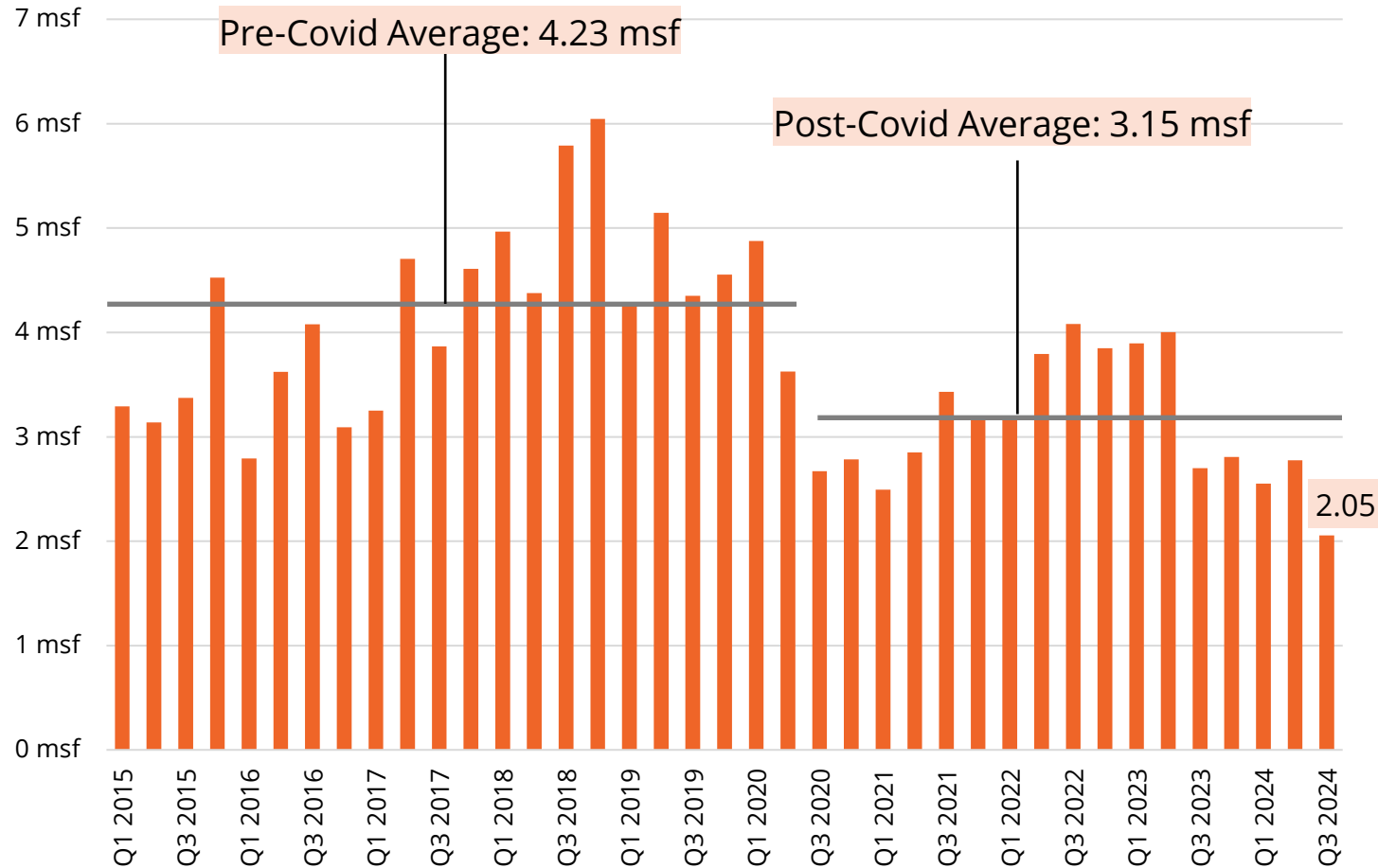
Houston's overall office vacancy rate has remained unchanged at 26.7% year-over-year, but it has improved by 40 basis points from the prior quarter. While most building vintages have seen a decline in vacancy rates, buildings constructed in the 1970s have experienced an increase.

Availability by building age group



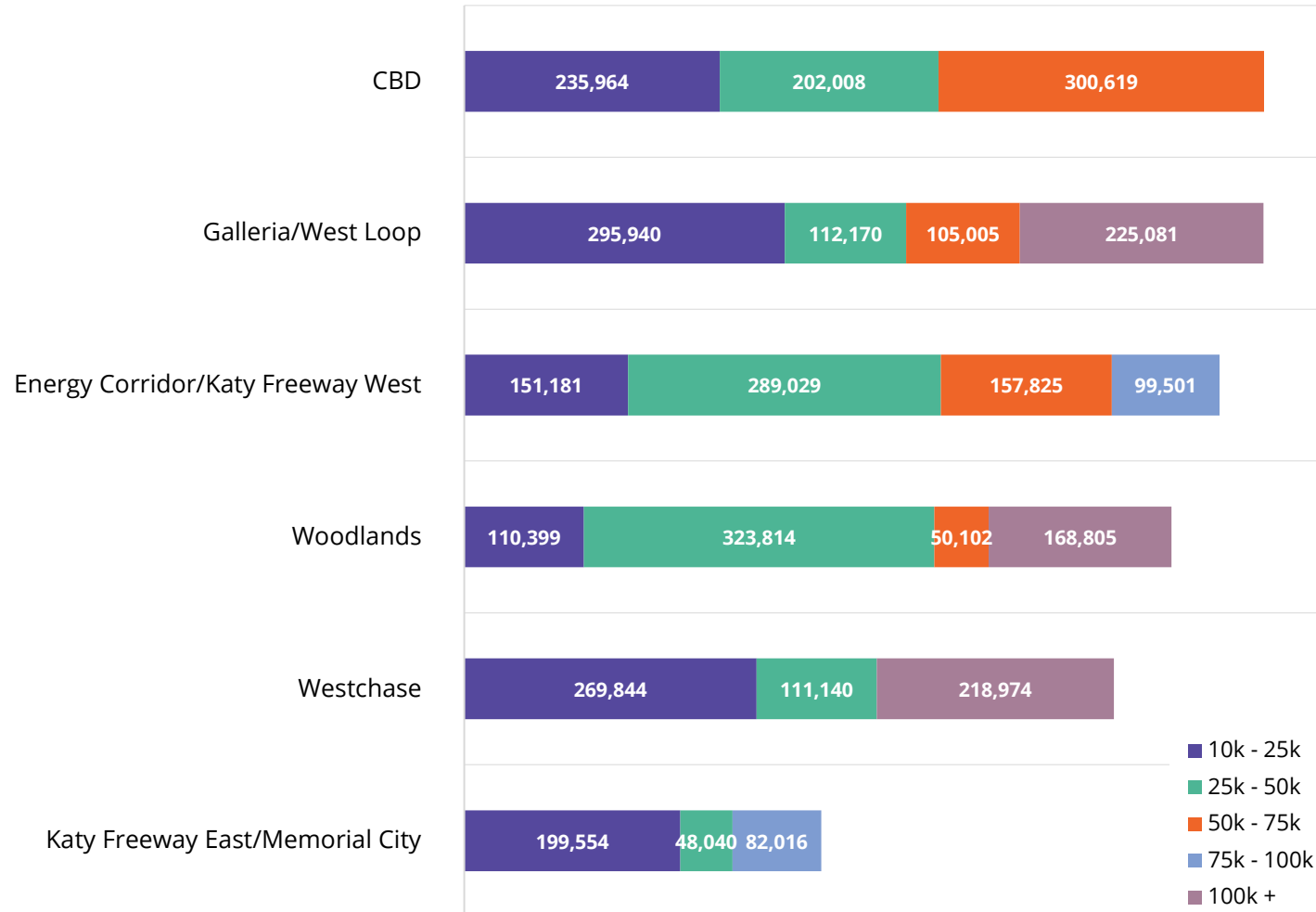
Direct office availability has declined since its peak in Q3 2022. Newer buildings, constructed in 2010 and later, have the lowest availability at 14.1%, reflecting their modern design and amenities. In contrast, older properties, particularly those built in the 1980s-90s, have higher availability rates due to factors such as obsolescence and outdated amenities.

Houston office leasing activity



Leasing activity in Q3 totaled 2.1 msf, well below the 5-year pre-Covid leasing average. The slower pace is likely influenced by a challenging debt and liquidity environment for building owners, which has hindered larger deals from occurring as easily with their lenders, and the adoption of hybrid and remote work.

Leasing activity by submarket & deal size



Houston's office market is showing signs of resilience, with the urban core, West Houston, and The Woodlands leading in leasing activity year-to-date. Small to medium-sized deals (10-50k sf) currently dominate, accounting for 63% of the aggregate leasing volume.

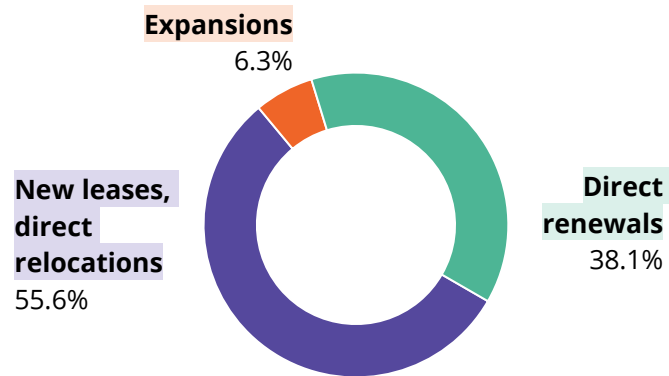
Transaction activity by lease type

28.4%

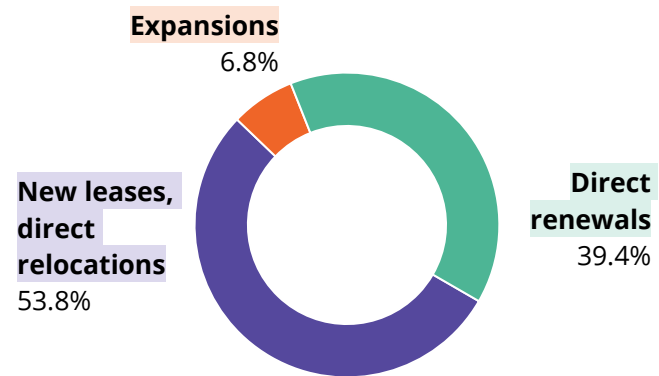
Percent increase in new deals and expansions as a share of total leasing activity, 2024 vs. pre-COVID

The distribution of transaction activity has shifted, with new deals and direct relocations accounting for 71.4% of the year-to-date transactions above 10,000 sf, compared to 55.6% from 2018 to March 2020.

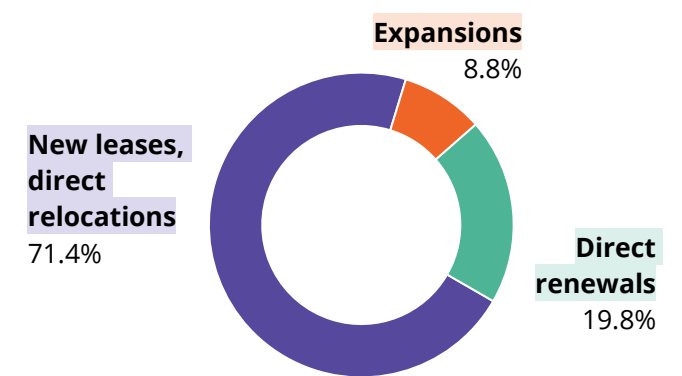
Pre-COVID From 2018 to March 2020



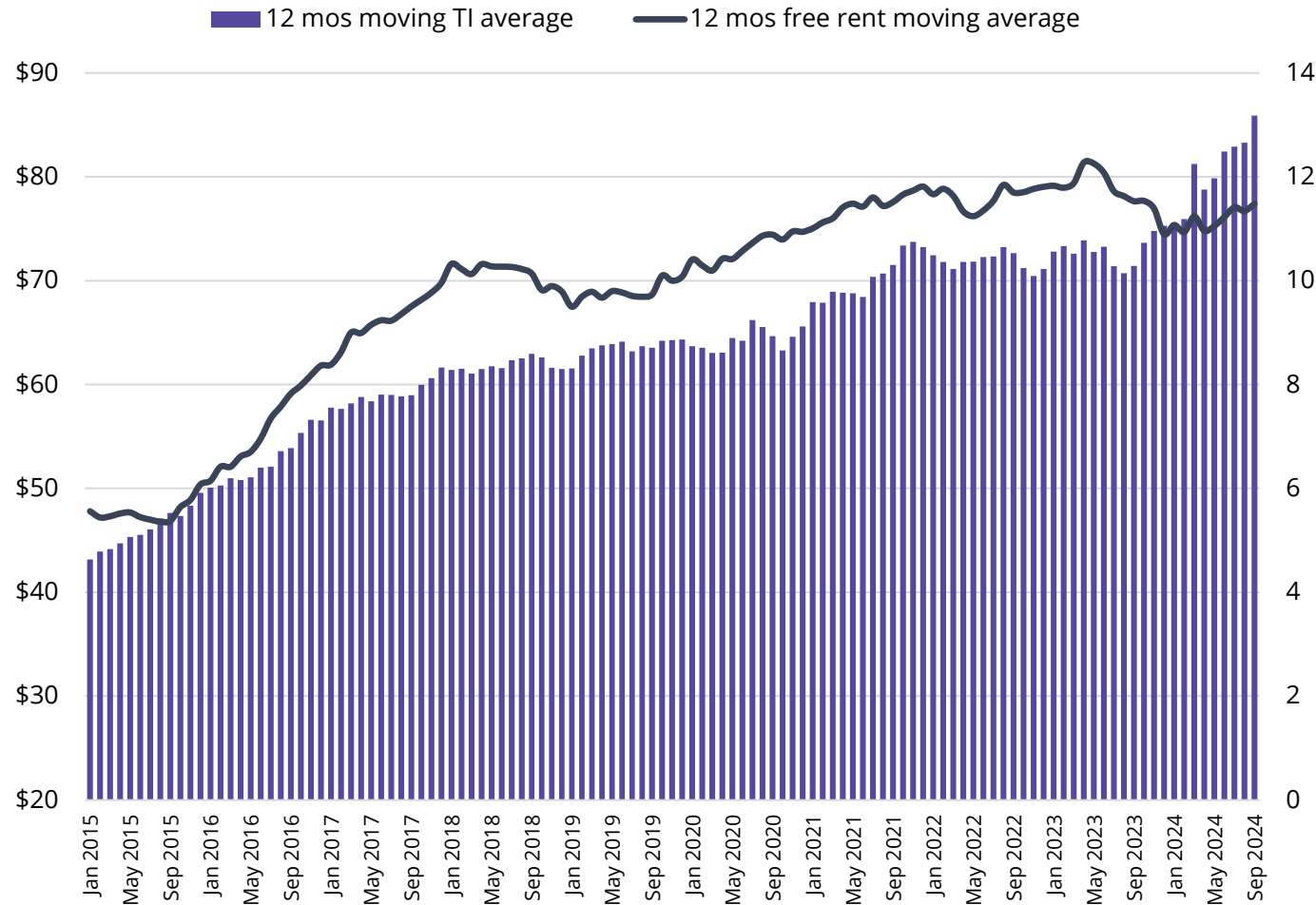
Post COVID April 2020 to Present



YTD 2024



Class A office concessionary trends

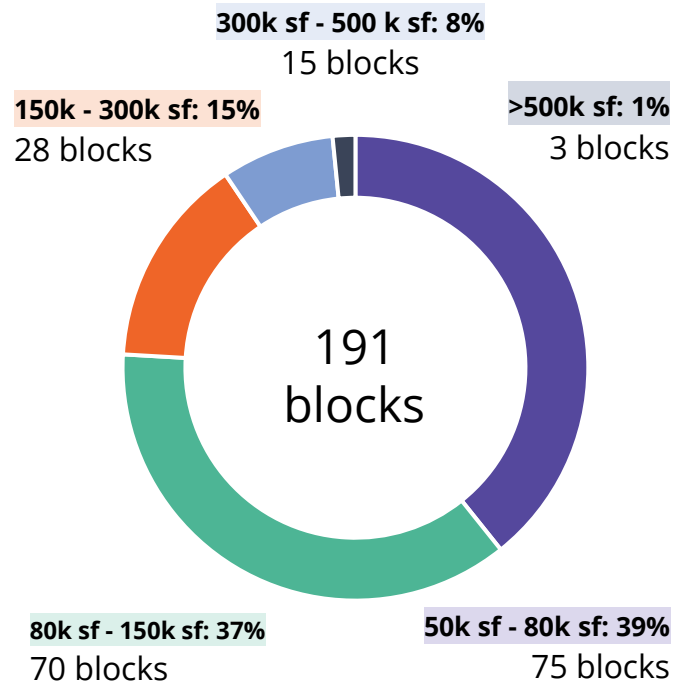


Landlords remain motivated to attract tenants and execute deals but may face limitations in offering tenant incentives such as improvement packages and rent abatements due to underlying building loans or financial constraints, particularly in today's challenging economic climate.

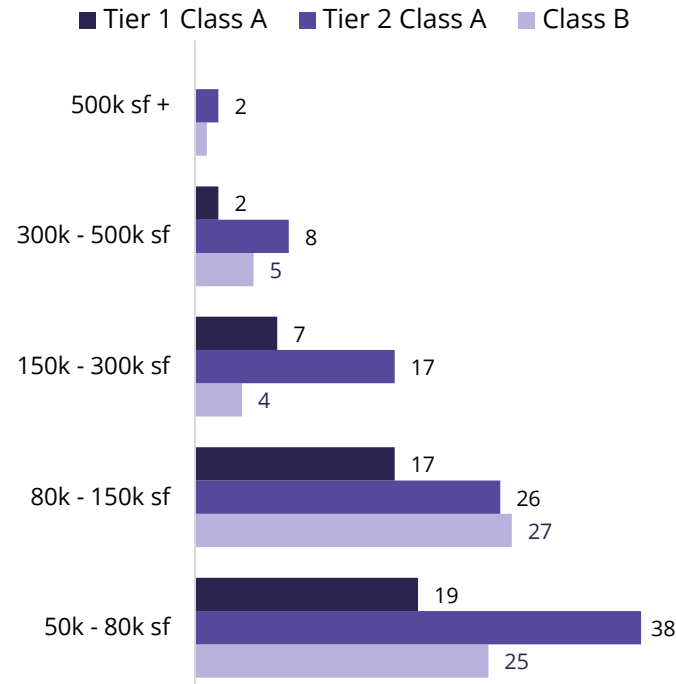
Source: AVANT by Avison Young
 Note: Concessions inclusive of only new direct leases & expansions, concessions normalized for a 10-year term

Houston office large block availability

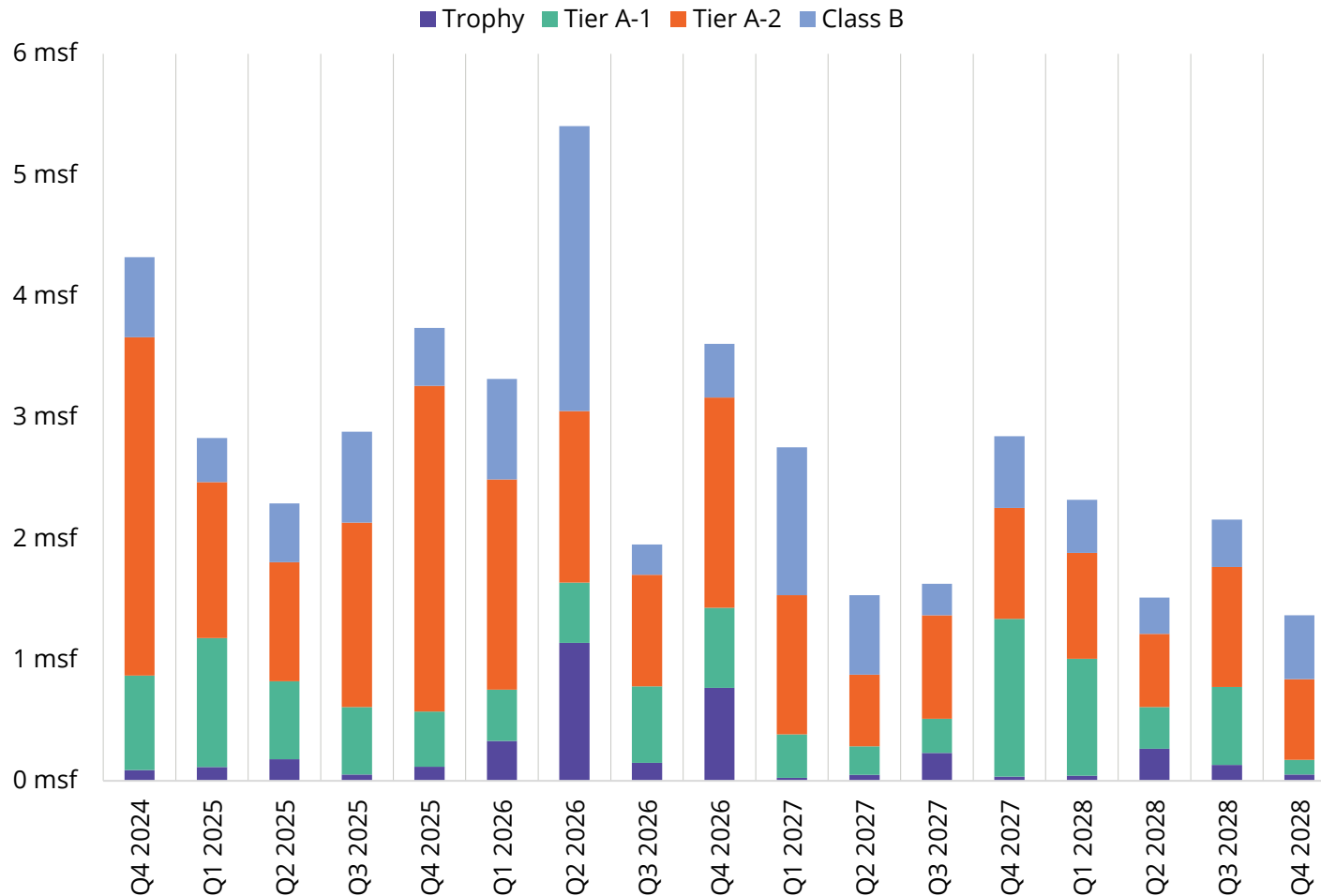
Number of blocks by size



Blocks by quality of building



Houston office lease expirations



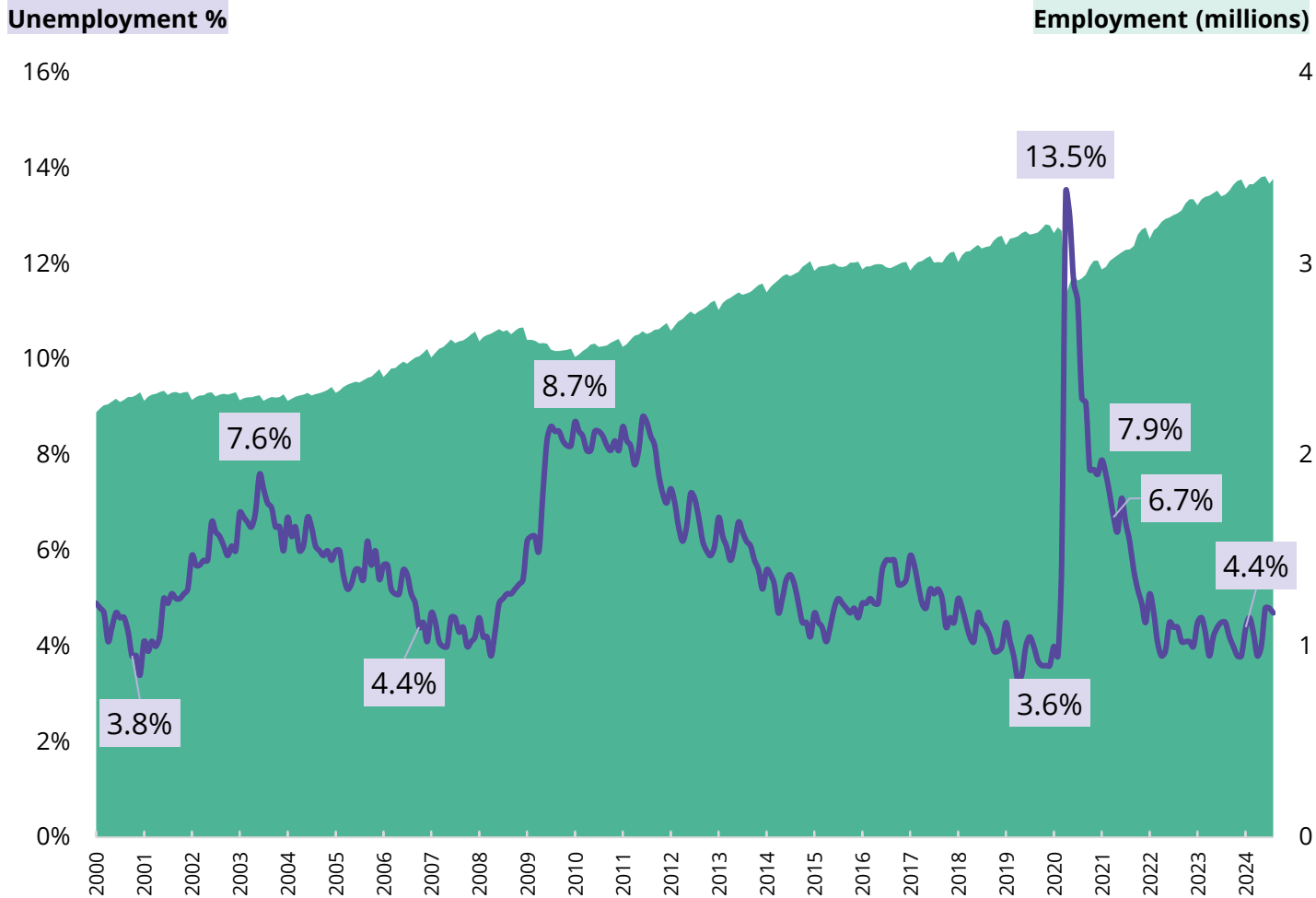
Lease expiration rollover is expected to climb through 2026, resulting in tenants entering the market early and transacting well in advance of their leases expiring. With many occupiers prioritizing high-quality space, this expiring inventory could exacerbate the flight-to-quality trend, putting a premium on well-equipped offices.

Houston employment trends

Let's examine the economic trends impacting the office sector

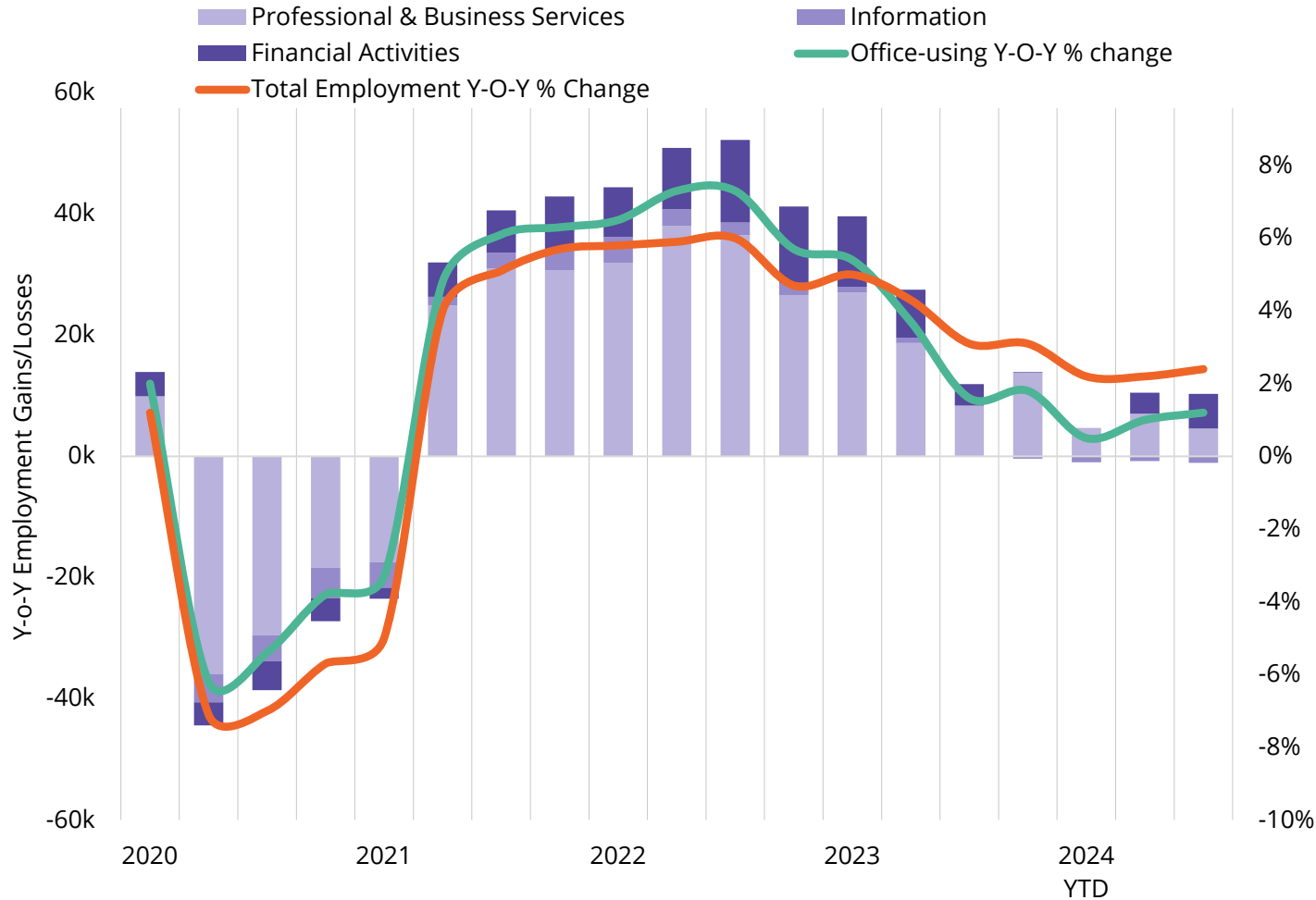


Employment and unemployment rate



Houston's economy continues to demonstrate strength, with 80,500 jobs created over the past year. While job growth has slowed from recent highs to 2.6% year-over-year, it remains healthy and approaches pre-pandemic levels. Furthermore, the unemployment rate remains relatively low at 4.7%.

Houston office-using job gains



Houston’s economy has remained resilient, with 71k jobs gained since its pre-pandemic peak in February 2020. While this office job growth is healthy, it has not directly translated into increased office space demand, likely due to the rise of remote work, changes in office layout and utilization, and economic uncertainty.

Introducing

The Office Busyness Index

Access the most accurate view of office utilization in the industry today. Explore our interactive dashboard to uncover how busy office buildings truly are across U.S. markets.

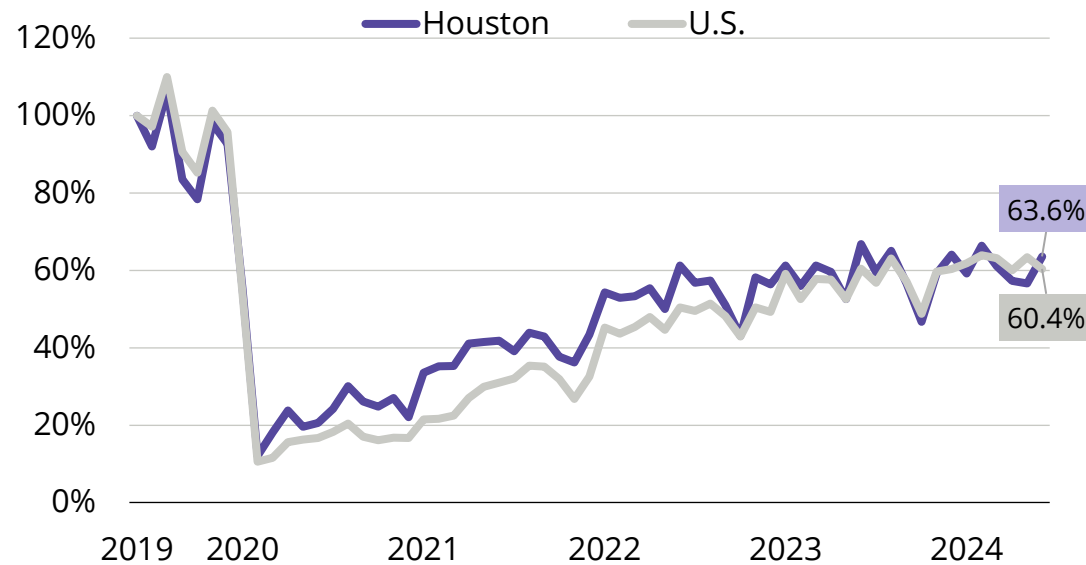
[Learn more](#)



Houston Office Busyness Index

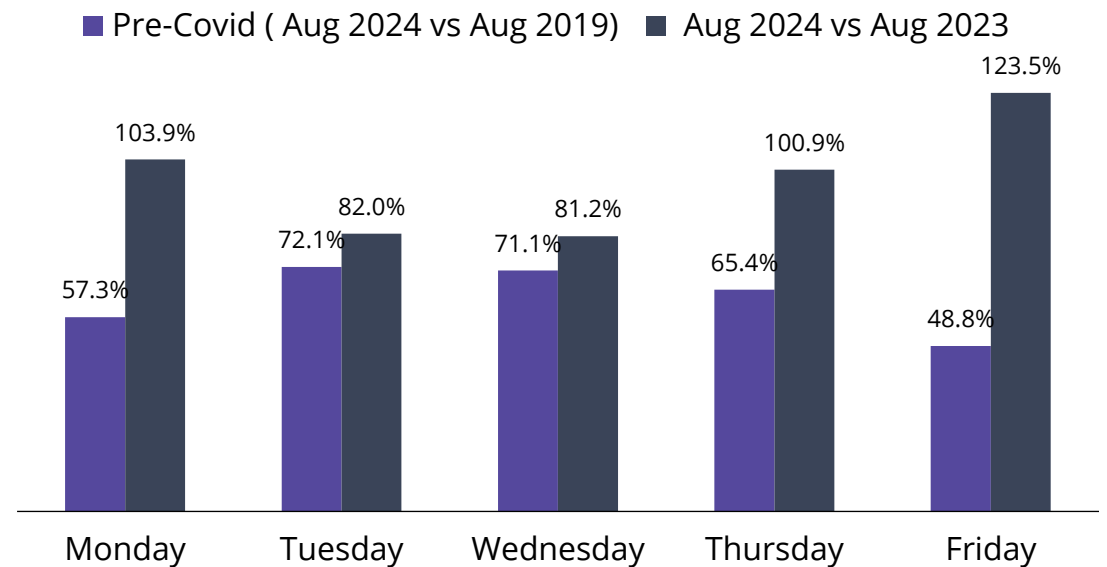
63.6%

Houston's office visitation recovery continues to outpace the national average, reaching 63.6% of the pre-pandemic levels.



72.1%

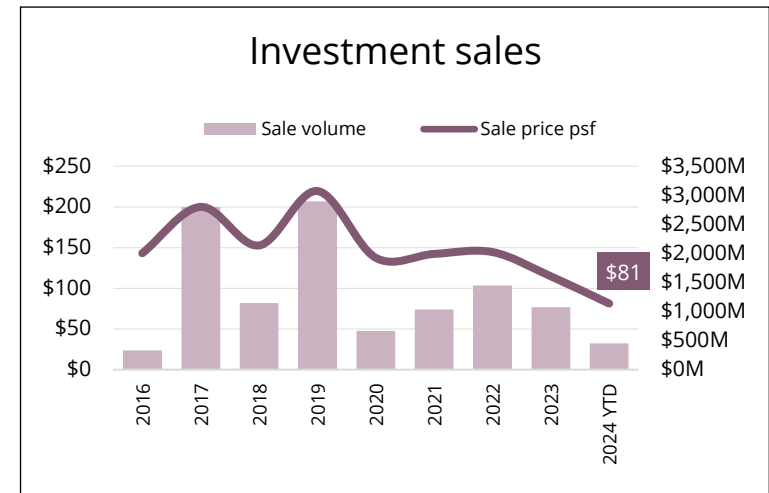
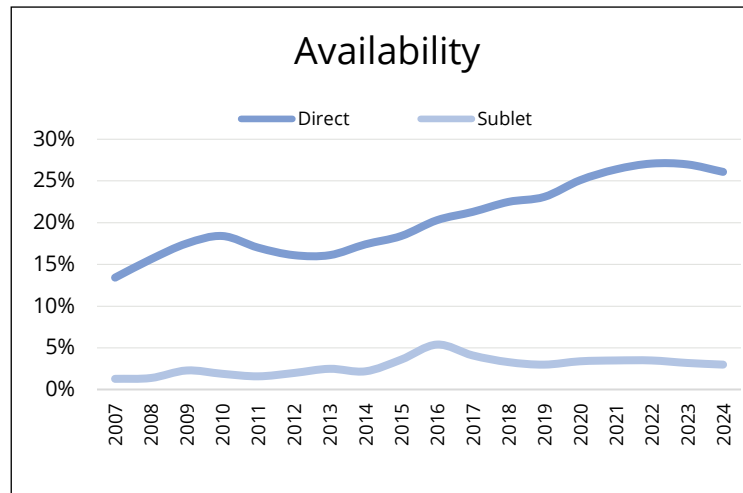
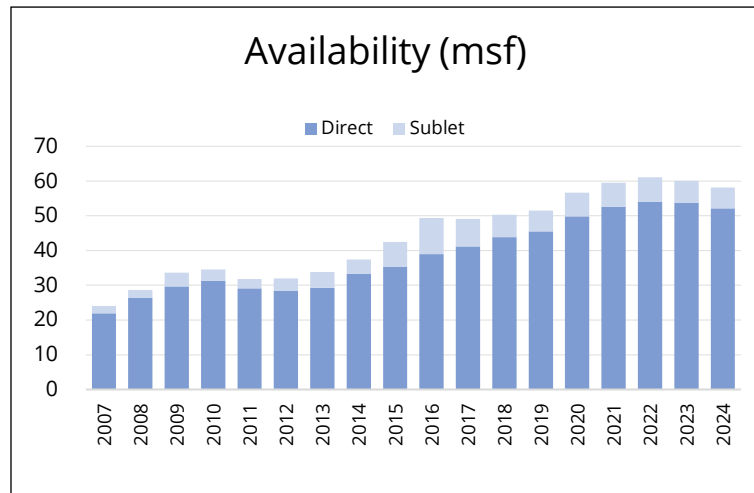
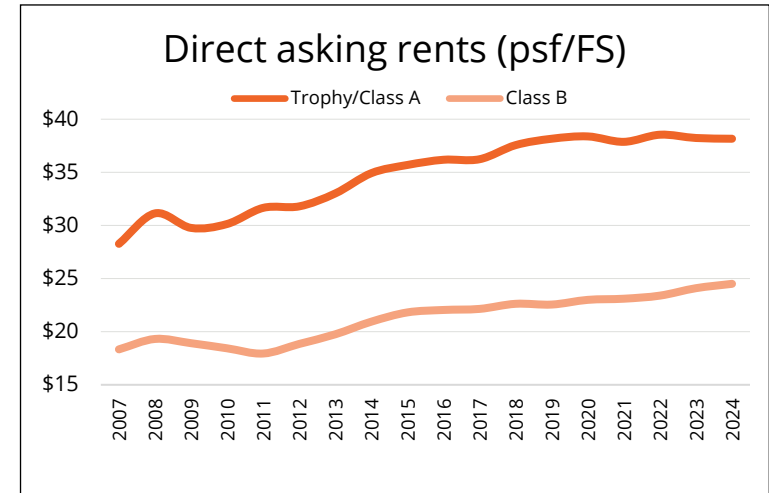
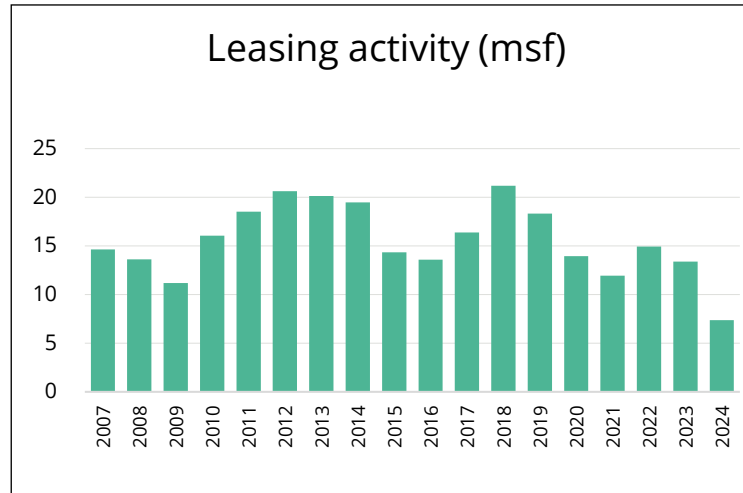
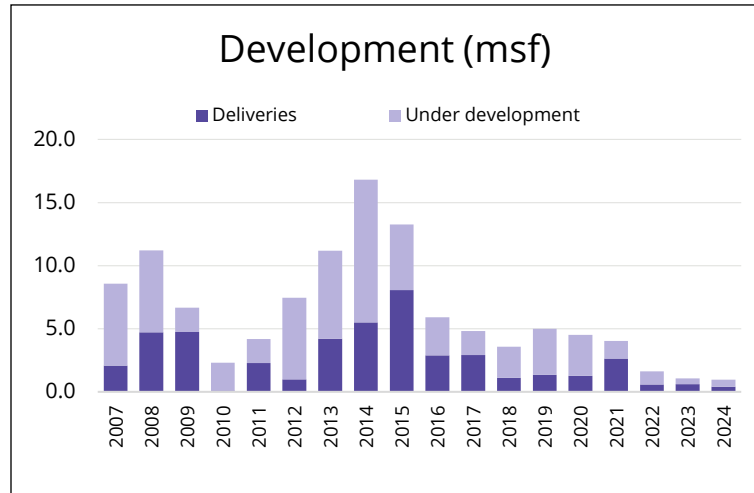
Office visits on Tuesdays have recovered 72.1% of the pre-pandemic levels, while Fridays are up 23.5% year-over-year.



Appendix



Houston office market indicators



Houston office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
TDECU	2000 Post Oak Boulevard	Galleria/West Loop	July 2024	121,068	New	Direct
Fayez Sarofim & Co.	845 Texas Avenue	CBD	July 2024	60,764	New	Direct
Mitsubishi Heavy Industries	3009 Post Oak Boulevard	Galleria/West Loop	July 2024	50,990	New	Direct
Kiewit	3831 Technology Forest Boulevard	Woodlands	September 2024	50,102	Renewal	Direct
Sable Offshore	845 Texas Avenue	CBD	July 2024	46,149	New	Direct
Beyond Finance	1401 Enclave Parkway	Energy Corridor/Katy Freeway West	August 2024	44,846	New	Sublease
Paul Hastings	609 Main Street	CBD	September 2024	44,529	New	Direct
EDG	580 Westlake Park Boulevard	Energy Corridor/Katy Freeway West	July 2024	44,400	New	Direct
TDECU	14141 Southwest Freeway	E Fort Bend Co/Sugar Land	August 2024	40,047	Extension	Direct
TMEIC	1080 Eldridge Parkway	Energy Corridor/Katy Freeway West	September 2024	39,698	New	Direct
Elevate Patient Financial Solutions	25700 Interstate 45	Woodlands	September 2024	35,943	Renewal	Direct
Patient Accounting Service Center	14141 Southwest Freeway	E Fort Bend Co/Sugar Land	July 2024	35,284	New	Direct

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
903 Town and Country Boulevard	Katy Freeway East/Memorial City	March 2026	308,000	73.4%	Midway
3120 Buffalo Speedway	Greenway Plaza	June 2026	146,000	100%	Transwestern
20203 Bridgeland Creek Parkway	Northwest	July 2025	49,117	80.3%	Tellepsen

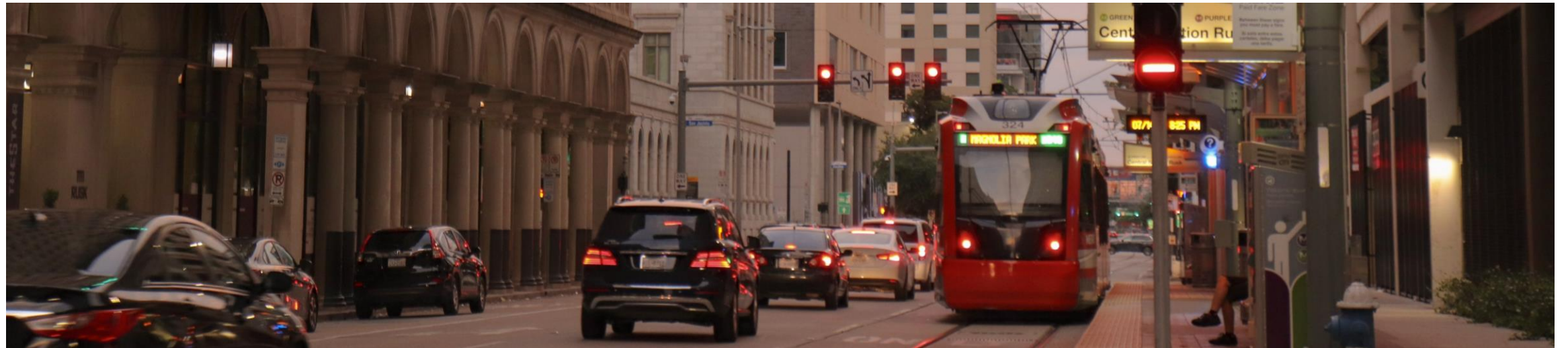
Houston office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Direct available	Total vacancy	Total available	Sublet available sf	Net absorption sf (Q3 2024)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Central Business District	40,156,410	386,323	-	29.0%	30.2%	30.1%	33.6%	1,420,110	58,890	(76,819)	\$42.61
Galleria/West Loop	24,018,058	-	-	32.0%	24.8%	33.0%	26.6%	451,115	(410,138)	(910,079)	\$36.01
Greenway Plaza	10,717,724	-	146,000	23.8%	26.2%	24.3%	28.0%	195,061	60,673	(122,187)	\$35.12
Energy Corridor/Katy Freeway West	20,138,912	-	-	22.9%	24.4%	23.9%	26.6%	444,621	543,940	540,015	\$30.84
Katy Freeway East/Memorial City	7,451,044	-	308,000	8.4%	10.3%	11.4%	14.3%	313,169	24,677	71,456	\$41.48
Westchase	14,913,728	-	-	29.2%	32.9%	31.3%	37.0%	600,845	134,316	356,867	\$28.36
North Belt	9,441,766	-	-	46.4%	43.6%	46.6%	44.2%	56,681	135,695	155,095	\$20.99
Northwest	8,000,769	-	49,117	17.4%	19.4%	18.5%	20.8%	116,546	41,002	164,854	\$21.49
NASA/Clear Lake	4,033,309	-	-	15.4%	16.8%	16.3%	20.6%	151,305	(66,363)	(36,065)	\$26.38
E Fort Bend Co/Sugar Land	4,503,689	-	40,000	26.3%	26.0%	26.8%	27.5%	68,478	36,206	55,785	\$31.28
Richmond/Fountainview	1,200,647	-	-	20.4%	22.3%	20.4%	22.3%	-	(9,560)	(7,966)	\$17.63
San Felipe/Voss	5,284,652	-	-	29.1%	28.0%	29.4%	30.2%	117,146	57,582	81,038	\$30.95
Bellaire	2,686,492	-	-	11.7%	15.5%	12.6%	17.2%	46,425	21,075	86,454	\$30.29
Midtown	5,768,327	-	-	14.5%	16.7%	16.3%	19.1%	141,296	17,569	42,680	\$37.43
FM 1960	2,727,240	-	-	31.8%	34.5%	31.8%	34.5%	-	(38,766)	(63,179)	\$17.53
Kingwood/Humble/Northeast	1,206,453	-	-	17.0%	16.6%	17.0%	16.6%	-	3,250	(414)	\$19.59
Southwest	7,206,929	-	-	21.6%	23.7%	28.2%	30.6%	498,126	3,923	(78,165)	\$20.83
Medical Center/South	1,379,067	-	-	13.2%	13.9%	13.2%	13.9%	-	(5,223)	(21,437)	\$20.12
The Woodlands	11,829,986	-	-	14.8%	18.5%	17.1%	21.9%	400,005	175,715	120,716	\$35.96
Gulf Freeway/Pasadena	2,360,196	-	-	18.6%	16.6%	19.0%	17.7%	25,424	8,835	59,112	\$26.07
Katy/Grand Parkway West	2,307,111	-	-	4.3%	7.6%	6.3%	11.9%	101,320	9,970	46,569	\$34.89
West Belt /249	9,253,540	-	-	33.7%	41.2%	35.9%	45.9%	846,731	30,340	42,577	\$25.19
Southwest Far	1,201,110	32,200	-	13.1%	12.4%	13.1%	12.4%	-	(7,475)	(13,909)	\$27.60
Southeast Far/South Hwy 35	825,685	-	-	1.6%	3.8%	1.6%	3.8%	-	(53)	(1,332)	\$17.88
Conroe	529,150	-	-	17.1%	20.7%	17.1%	20.7%	-	(4,941)	(14,377)	\$27.44
Market total	199,141,994	418,523	543,117	25.3%	26.1%	26.7%	28.9%	5,994,404	821,139	477,289	\$32.81

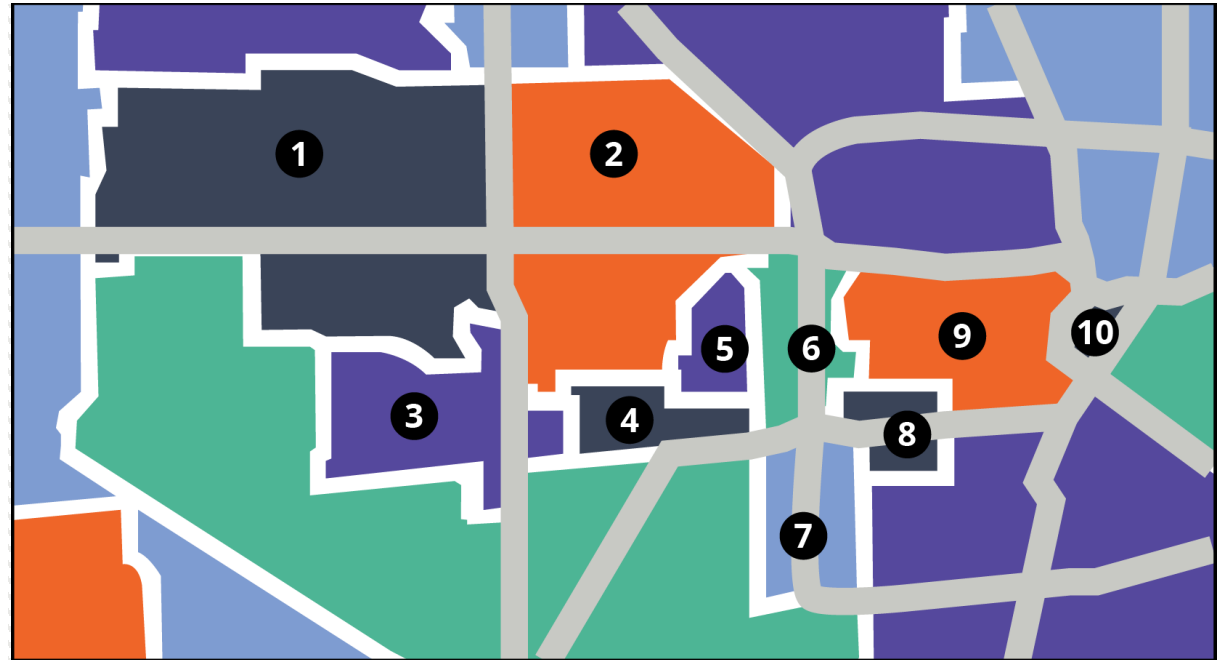
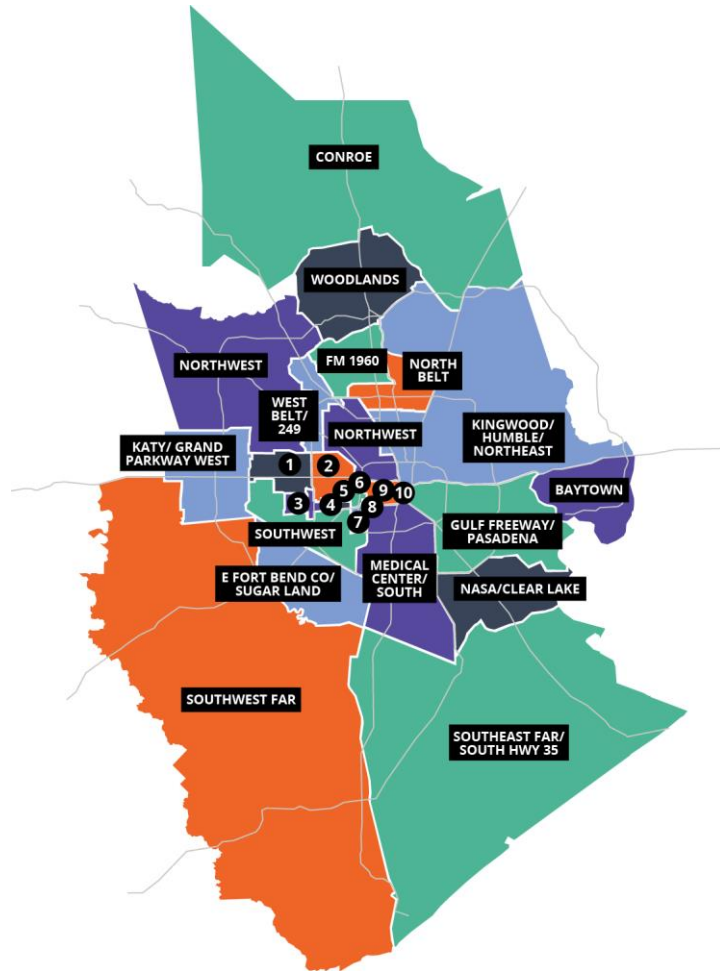
Houston office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Direct available	Total vacancy	Total available	Sublet available sf	Net absorption sf (Q3 2024)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Trophy	14,296,879	386,323	146,000	13.7%	12.1%	14.3%	15.0%	410,900	44,174	848,542	\$54.88
Class A	105,447,161	32,200	357,117	25.8%	28.3%	27.5%	31.7%	4,016,043	658,255	(712,803)	\$37.07
Class B	79,397,954	-	40,000	26.8%	25.7%	27.9%	27.6%	1,567,461	118,710	341,550	\$24.52
Market total	199,141,994	418,523	543,117	25.3%	26.1%	26.7%	28.9%	5,994,404	821,139	477,289	\$32.81

Please note: Lake Pointe Plaza comprised of 5 buildings totaling 1.16 million SF is excluded from competitive office inventory statistics since ownership plans to redevelop 53-acre site into a mixed-use waterfront development district. As a result, Fluor Enterprises recent move-out in Q3 2024 is not reflected in our competitive statistics since the proposed mixed-use redevelopment project will likely result in the existing office structures being demolished.



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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