

HOUSTON

Office Market Report Q3 2023

Houston Overview

354,258,031

SF TOTAL
INVENTORY

77,409,130

SF TOTAL
AVAILABILITY

81.3%

OVERALL
OCCUPANCY

-740,255 SF

Q3 NET
ABSORPTION

\$29.94

AVG GROSS
RENT



"Houston's consistently **high office attendance levels** have highlighted its resilience and prominence as a **thriving business destination.**"

Executive Summary

In Q3 2023, the Houston office market struggled with a 21.5% vacancy rate, totaling 77 million square feet available for lease citywide. Notably, the Central Business District (CBD) submarket, the largest in inventory, has seen a 2.5 million square feet increase in available space since 2020, contributing to a net negative absorption of 397,000 square feet citywide in the past year.

Two main factors drive the 2023 office leasing market: the trend of downsizing office spaces to accommodate hybrid work and the flight-to-quality office assets. Notable examples include Bechtel reducing its footprint from 440,000 square feet to 280,000 square feet (Q4 2023) and NRG downsizing from 430,000 square feet to 245,000 square feet. Additionally, the challenge of 7.3 million square feet of sublease space available, constituting 2% of the total market, remains.

Rent growth has remained stagnant in both the Houston and broader U.S. office markets. Houston's metro office rents have held steady at an average of \$29.00 per square foot gross for the past two years. The highest rents are found in submarkets with a concentration of four- and five-star office properties. Specifically, the CBD boasts the highest asking rents at \$36.00 per square foot, followed by The Woodlands and Katy Freeway East submarkets with an average of \$33.00 per square foot. Given the current environment and the presence of sublease inventory, property owners are expected to face challenges in raising rents in the near term.



Robert O. Cromwell II
Managing Director

Houston's new office construction pipeline has diminished in the last three years, with approximately 4.9 million square feet under construction, well below the 10-year average of 7.5 million square feet. Ongoing projects include assets in the South Main/Medical Center, CBD, Katy Freeway East, and The Woodlands submarket, encompassing various types of developments.

Office sales in Houston have slowed over the last 18 months. In Q1 2023, the number of office buildings that were sold was the lowest in the past three years. Notably, quality assets account for a significant portion of confirmed 2023 office sales, representing 65% of office buildings traded, totaling \$200 of \$375 million.

Notable Transactions:

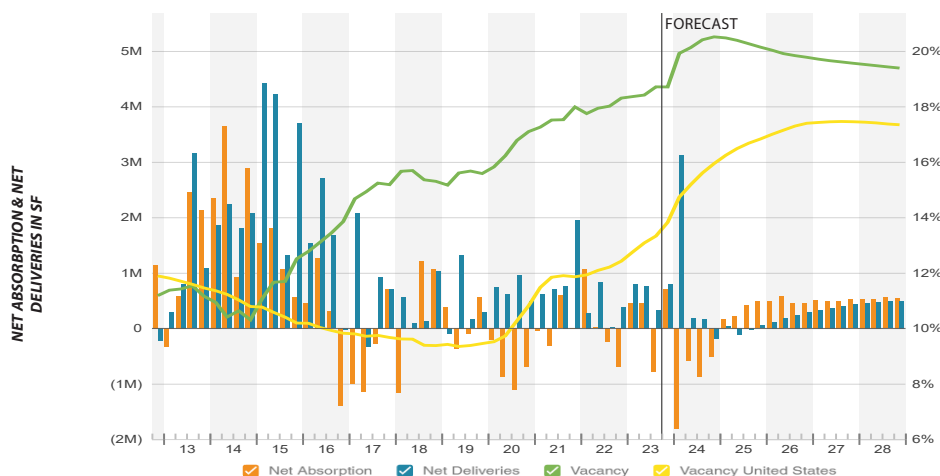
- » NRG Energy leased 255,000 SF at Houston Center » One Oak Park in the Westchase submarket, 153,000 SF traded for \$26,460,000 (\$173.00 per SF)
- » NextDecade leased 90,000 SF at 1000 Louisiana » 2929 Briarpark in the Westchase submarket traded for \$5,163,000 (\$37.00 per SF)
- » Lime Rock Partners renewed and expanded to 57,000 SF at Heritage Plaza » 6100 Hillcroft traded at auction for \$4,000,000 (\$30.00 per SF)
- » Kent leased 54,000 SF at Briarlake Plaza
- » Cobb Findley & Associates leased 50,000 SF at Westway Park

Historical Overview

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
12 Mo. Net Absorption SF	168,854	727,580	-486,659	-160,337	-541,287
12 Mo. Net Delivered SF	2,389,767	1,187,000	2,200,000	1,763,542	2,271,104
Market Rent per SF	\$28.76	\$29.67	\$29.00	\$29.11	\$29.94
Annual Rent Growth	0.6%	0.3%	0.4%	0.8%	0.90%
Avg. Cap Rate	7.63%	7.77%	6.80%	8.86%	9.04%

Q3 2023 Key Metrics

NET ABSORPTION, NET DELIVERIES, & VACANCY



NET ABSORPTION

Year over Year | 2023 Forecast

NET DELIVERIES

Year over Year | 2023 Forecast

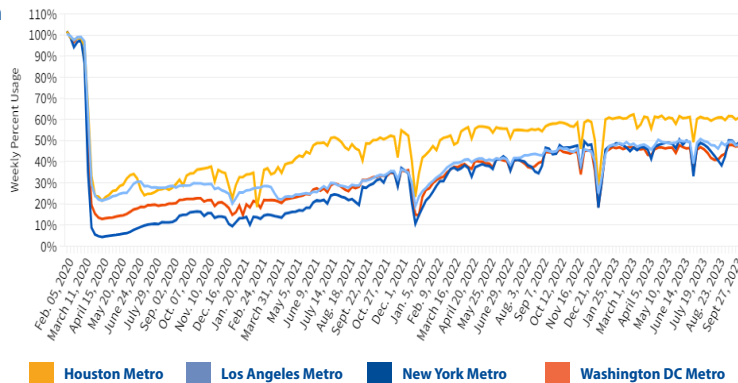
VACANCY

Year over Year | 2023 Forecast

HOUSTON SHINES BRIGHT: LEADING THE WAY IN OFFICE ATTENDANCE

According to Katle Systems' Back to Work Barometer, Houston stands out as a shining example of office attendance in the latest report.

Houston's impressive 61% of pre-pandemic attendance levels in the week ending October 18, showcased its resilience and appeal as a business hub. This strong performance has been consistent over the past year, with Houston hitting peaks of 50.4% in both late January and late September.



While some cities approached the 50% mark, they did not quite reach Houston's exceptional levels. For example, New York has maintained a 49.5% attendance rate, while Los Angeles and Washington, D.C., have hovered around 48.9% and 48%, respectively.

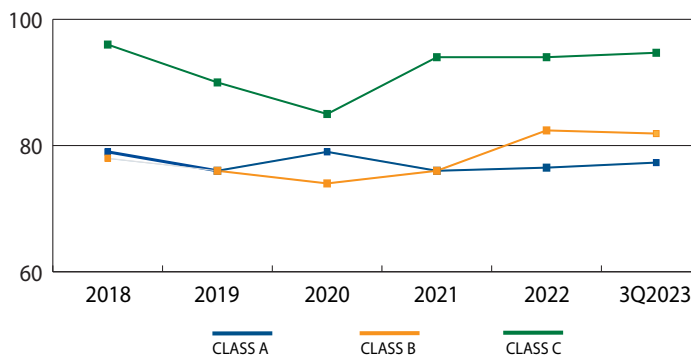
In summary, Houston's consistently high office attendance levels have highlighted its resilience and prominence as a thriving business destination.

Source: Kastle Systems, Oct 2023, CoStar Group Daily Roundup Report

Source: 2023 CoStar Group Office Attendance Edges Higher <https://product.costar.com/home/news/6768151748>

Key Takeaways

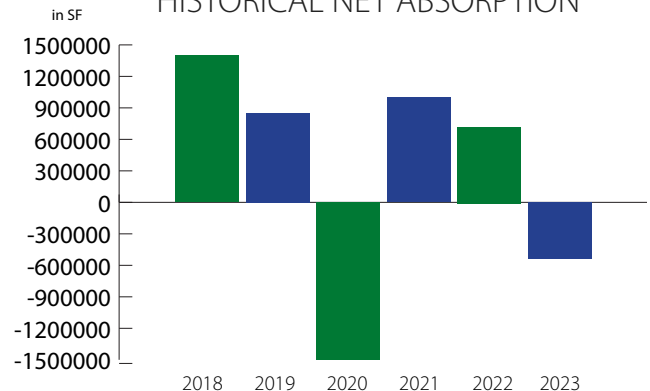
OCCUPANCY RATES



Citywide occupancy rates in Houston remained stable in Q3 2023, at 81.3%. **Class A** occupancy rates were also maintained, at **77.3%**. Classes B and C saw moderate changes, with **Class B** decreasing by 0.1% to **81.9%** and **Class C** increasing by 0.3% to **94.7%**.

Houston's office 12-month net absorption in Q3 2023 is negative at **-541,287** square feet; a decrease of 380,950 square feet (SF) from the previous quarter (Q2 2023: -160,337 SF) and a decrease of 710,141 square feet from the same quarter last year (Q3 2022: 168,854 SF).

HISTORICAL NET ABSORPTION



Recent Sales



Medical Center of Tomball
155 School St
\$37,000,000



2929 Briarpark Dr
2929 Briarpark Dr
\$5,163,625



Fugro Center
6100 Hillcroft Ave
\$4,100,000



Heritage Park
390 Benmar Dr
\$4,000,000



Wells Fargo Bank Building
12941 North Fwy
\$3,843,750

– Submarket Statistics

Submarket	Total Inventory	Total SF Available	Occupancy Rate (%)	Net Absorption	SF Under Construction	Avg. Gross Rate (\$/PSF)
Houston	354,258,031	77,409,130	81.3%	-740,255	5,040,354	\$29.94
Class A	161,098,078	43,404,945	77.3%	-608,170	2,927,210	\$35.08
Class B	150,383,637	30,704,623	81.9%	-189,750	2,043,216	\$23.43
Class C	41,917,071	3,212,043	94.7%	65,422		\$19.70
Bellaire	5,469,259	1,086,444	82.2%	-2,650		\$25.47
Class A	1,581,843	384,441	78.4%	1,469		\$27.22
Class B	3,170,663	581,149	83.4%	17,230		\$25.43
Class C	714,753	120,854	85.0%	-21,349		\$19.12
CBD	52,558,090	15,024,557	75.7%	-313,456	386,323	\$41.74
Class A	36,459,003	10,700,190	75.9%	-182,186	386,323	\$44.62
Class B	14,500,312	4,266,024	73.0%	-128,238		\$31.53
Class C	1,598,775	58,343	93.8%	-3,032		\$25.90
E Fort Bend Co/Sugar Land	10,913,168	2,070,144	84.4%	-17,341	273,128	\$28.62
Class A	4,349,717	980,466	79.3%	-3,203		\$30.60
Class B	5,873,662	1,053,374	86.8%	-14,861	268,228	\$26.44
Class C	667,033	28,942	95.7%	1,973		\$22.91
Greenway Plaza	13,223,024	3,058,420	79.9%	75,024		\$34.05
Class A	7,525,069	2,081,429	76.0%	87,095		\$36.36
Class B	4,312,803	894,800	82.1%	-7,446		\$29.11
Class C	1,382,643	82,191	94.7%	-4,625		\$24.05
Katy Freeway (Cluster)	41,434,554	8,777,103	82.0%	-398,800	355,694	\$27.12
Class A	26,004,160	5,651,955	80.7%	-379,994	355,694	\$31.34
Class B	12,824,023	2,950,335	81.9%	-6,335		\$21.77
Class C	2,600,630	171,813	95.4%	-12,471		\$21.85
Katy Freeway West	28,358,006	7,411,049	77.3%	-416,672		\$26.85
Class A	18,368,481	4,961,251	74.8%	-416,040		\$30.44
Class B	9,428,919	2,425,049	81.0%	4,712		\$21.52
Class C	560,606	24,749	95.8%	-5,344		\$19.82
Katy Freeway East	13,076,548	1,366,054	92.3%	17,872	355,694	\$28.58
Class A	7,635,679	690,704	95.0%	36,046	355,694	\$39.61
Class B	3,395,104	525,286	84.4%	-11,047		\$22.78
Class C	2,040,024	147,064	95.3%	-7,127		\$22.27
Kingwood/Humble	4,229,921	382,519	90.5%	18,938		\$25.55
Class A	604,794	52,136	86.8%	21,724		\$27.39
Class B	2,693,342	256,612	90.6%	-260		\$25.98
Class C	913,426	70,271	92.5%	-2,526		\$20.41
Midtown	11,154,083	1,398,363	89.1%	-45,760	9,000	\$30.98
Class A	3,353,731	565,583	84.2%	-70,888		\$35.22
Class B	5,217,728	713,208	88.5%	21,251	9,000	\$29.01
Class C	2,566,146	119,572	96.6%	3,877		\$25.02

- Submarket Statistics Continued...

Submarket	Total Inventory	Total SF Available	Occupancy Rate (%)	Net Absorption	SF Under Construction	Avg. Gross Rate (\$/PSF)
NASA/Clear Lake	10,830,197	1,517,686	89.8%	36,859	771,004	\$24.92
Class A	2,871,629	616,295	82.7%	14,531	450,904	\$27.31
Class B	6,114,924	708,460	92.5%	41,754	320,100	\$23.83
Class C	1,819,196	192,931	91.7%	-19,426		\$20.66
North Belt (Cluster)	13,623,906	4,980,979	62.2%	90,251		\$17.75
Class A	5,706,384	2,728,269	49.7%	7,211		\$20.15
Class B	6,153,518	1,936,466	65.4%	-27,889		\$15.11
Class C	1,764,004	316,244	91.4%	110,929		\$14.67
Northwest (Cluster)	13,026,239	2,225,236	85.8%	29,541	6,413	\$20.79
Class A	2,133,098	640,005	74.6%	-15,501		\$23.58
Class B	7,960,264	1,296,199	86.1%	43,942		\$19.25
Class C	2,892,957	264,114	93.5%	9,295		\$19.59
San Felipe/Voss	5,626,964	1,718,375	70.8%	-24,589		\$30.18
Class A	2,292,418	869,955	63.1%	-13,700		\$34.91
Class B	3,179,667	829,591	75.7%	-6,679		\$23.73
Class C	154,879	18,829	85.0%	-4,210		\$27.42
South Main/Medical Center	14,764,965	1,900,844	89.0%	-30,929	1,158,852	\$28.16
Class A	7,350,662	1,197,470	85.7%	-51,566	1,121,552	\$32.53
Class B	4,707,194	597,328	89.7%	21,637	37,300	\$23.03
Class C	2,707,109	106,046	96.7%	-1,000		\$27.71
Southwest (Cluster)	13,093,863	2,528,362	82.3%	-395,055	157,437	\$19.37
Class A	1,334,274	373,310	75.3%	1,518	157,437	\$18.96
Class B	9,105,836	1,989,336	80.0%	-390,973		\$20.07
Class C	2,653,153	165,716	93.7%	-5,600		\$15.75
The Woodlands	24,605,889	3,811,528	86.9%	-9,627	635,580	\$28.75
Class A	15,286,437	2,098,360	87.1%	-54,996		\$30.39
Class B	8,238,926	1,595,994	85.3%	55,078	635,580	\$27.54
Class C	1,009,636	117,174	96.4%	-9,709		\$27.51
West Loop (Cluster)	25,059,972	8,093,045	71.3%	58,771		\$33.13
Class A	18,453,683	6,661,347	71.2%	17,980		\$34.43
Class B	6,175,915	1,256,111	70.0%	41,832		\$27.52
Class C	430,374	175,587	94.6%	-1,041		\$18.75
Westchase (Cluster)	19,485,861	5,673,699	74.8%	77,764		\$26.11
Class A	10,954,843	3,381,905	74.5%	80,432		\$32.33
Class B	7,736,294	2,288,805	72.7%	-10,137		\$19.73
Class C	775,244	2,989	99.6%	7,469		\$18.21

Data Source: 2023 CoStar Group

Over 50+ Years of Houston Commercial Real Estate



1455 West Loop South
Suite 700
Houston, Texas 77027
(713) 773-5500

Market Research

Hannah Smith

Marketing Services Coordinator
Houston
(713) 773-5527
hsmith@moodyrambin.com

Kelsey Peters

Marketing Manager
Houston
(713) 773-5594
kpeters@moodyrambin.com

Contributors

Robert O. Cromwell II

Managing Director
Houston
(713) 773-5500
bcromwell@moodyrambin.com

Joshua Marcell

Executive Vice President
Office Tenant Representation
Houston
(713) 773-5539
jmarcell@moodyrambin.com



The information included herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, Moody Rambin cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.