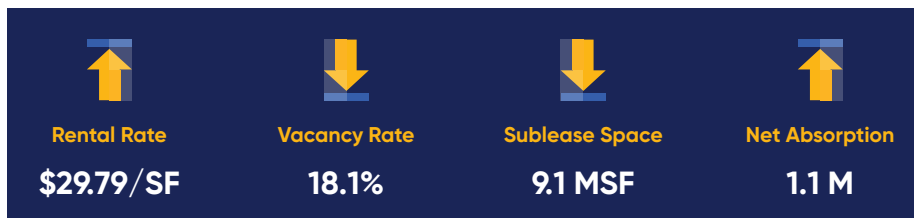


# Occupier's Guide

The Houston office market showed signs of stabilization during the third quarter of 2018 after plodding through a sluggish 2017. Overall, leasing activity is up fueled by both a recovering energy market and healthy job growth. With the spike in demand, net absorption is on the rise after setting its highest mark in more than 3 years last quarter. In addition, available sublease space continued to contract for the second-straight quarter, falling to around 9 MSF. Vacancy, while tightening, remains elevated, but a slowing development pipeline should help provide additional relief from the glut of empty space that has been choking the market. Even still, with so much available square footage, a full recovery is far from sight as it could take years for the market to completely correct itself.



## Rental and Vacancy Rates

Asking Rent	Total Vacancy Rate	YoY Change
\$35.50/SF	Houston   Class A 20.7%	▼ 0.40%
\$22.21/SF	Houston   Class B 15.4%	▼ 0.40%
\$29.79/SF	Houston   Class A + B 18.1%	▼ 0.40%
\$45.17/SF	CBD   Class A 19.0%	▼ 0.30%
\$29.73/SF	CBD   Class B 20.1%	▼ 0.90%
\$42.71/SF	CBD   Class A + B 19.3%	▼ 0.50%
\$31.57/SF	Suburban   Class A 21.2%	▼ 0.40%
\$21.62/SF	Suburban   Class B 14.8%	▼ 0.30%
\$26.64/SF	Suburban   Class A + B 17.9%	▼ 0.30%

## Recent Transactions

Tenant	Size	Submarket	Type
1 Vinson & Elkins	212,000 SF	CBD	Relocation
2 Hines	150,000 SF	CBD	Relocation
3 Constellation	93,000 SF	CBD	Sublease
4 BP	85,500 SF	Katy Freeway West	Sublease
5 Haynes & Boone	72,903 SF	CBD	Renewal
6 Pima Medical	64,818 SF	West Belt	Relocation

## Occupier's Perspective



The market is firmly occupier friendly and should remain so until landlords can put a dent in the excess inventory.



Concession packages including free rent and TI allowances have begun to flatten but currently remain elevated.



If employment levels and the energy market remain strong, expect demand to continue to uptick into 2019.

## Market Trends



### Asking Rents Climbing

Overall, asking rents continue to climb despite the office market being awash with available space as the average rate marches closer to the \$30.00/SF mark.

### Occupiers Flock to Quality

With so many quality, high-value options, occupiers are flocking to recently delivered or renovated Class A product with better amenities as landlords try to backfill space.

### Vacancy Compresses

While the vacancy rate fell a mere 40 basis points in the third quarter, it is noteworthy as this broke a streak of 15 consecutive quarters of vacancy expansion following the drop in oil prices back in mid 2014.