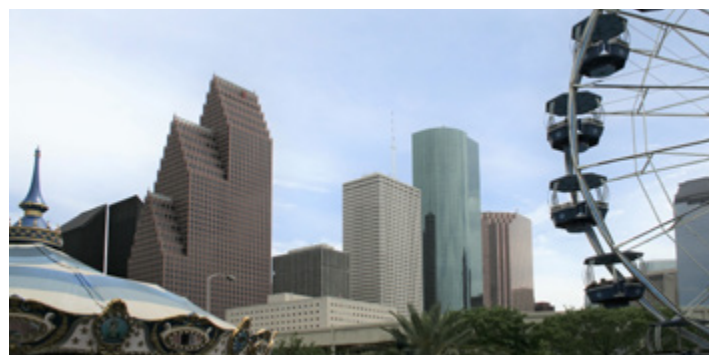


# Houston's office market posts positive absorption in Q2 2018

**Lisa Bridges** Director of Market Research | Houston

Houston's office market made progress in the second quarter, posting positive absorption of 84,750 SF. This is a substantial increase from the negative 1.4 million SF of absorption recorded in the first quarter. Talos Energy relocated into 101,072 square feet in 3 Allen Center building in June and Cigna Corp. moved 600 employees into 91,190 square feet of space in the Brookhollow Central One building located at 2800 North Loop West in May. These were the largest relocations during the second quarter of 2018.

Even though the recent data released by the US Bureau of Labor Statistics shows the Houston MSA created 79,200 jobs (not seasonally adjusted) between May 2017 and May 2018, an annual growth rate of 2.6% which is above the national average job growth rate of 1.6%, indicating that Houston's economy is humming along, many large firms have recently begun downsizing their office space or relocating to smaller footprints. This is proven to be true in the latest report that Occidental Petroleum will vacate close to 800,000 SF of its' Greenway Plaza submarket space and place it on the sublease market for occupancy in 2020. The company plans to move to a new West Houston building planned on the site of the former ConocoPhillips West campus, according to a recent article in the Houston Business Journal.



## Vacancy & Availability

Houston's citywide vacancy rate decreased 30 basis points from 22.0% to 21.7% over the quarter, but this was an increase year

### Market Indicators

Relative to prior period

	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↓	↑
NET ABSORPTION	↑	↑	↓
NEW CONSTRUCTION	↓	↓	↑
UNDER CONSTRUCTION	↓	↑	—

\*Projected

### Summary Statistics

Houston Office Market

	Q2 2017	Q1 2018	Q2 2018
Vacancy Rate	18.8%	22.0%	21.7%
Net Absorption (Million Square Feet)	-0.7	-1.4	0.1
New Construction (Million Square Feet)	0.2	0.2	0.1
Under Construction (Million Square Feet)	2.2	1.5	1.8
Class A Vacancy Rate			
CBD	17.3%	19.8%	18.9%
Suburban	21.4%	22.7%	22.3%

### Asking Rents

Per Square Foot Per Year

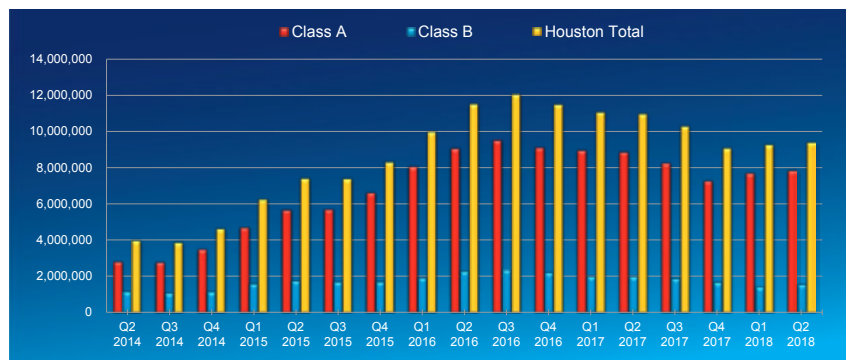
Houston Class A	\$36.12	\$34.91	\$34.46
CBD Class A	\$44.36	\$44.23	\$43.64
Suburban Class A	\$33.76	\$32.21	\$31.87

on year of 290 basis points up from the 18.8% recorded in Q2 2017. Over the quarter, the average suburban vacancy rate increased 20 basis points from 19.2% to 19.4% and the average CBD vacancy rate fell 30 basis points from 22.0% to 21.7%.

The average Class A vacancy rate in the CBD dropped 90 basis points over the quarter from 19.8% to 18.9% and the average Class B vacancy rate in the CBD increased from 31.4% to 33.0%. The average suburban Class A vacancy rate decreased 40 basis points from 22.7% to 22.3% between quarters, while the average suburban Class B vacancy rate rose 80 basis points from 16.1% to 16.9%.

Of the 1,699 existing office buildings in our survey, 81 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Within these, 23 buildings have 200,000 SF or more of contiguous space available. Citywide, the available sublease space increased over the quarter from 9.0 million SF to 9.4 million SF, which is 4.1% of Houston's total office inventory. Available space differs from vacant space in that it includes space that is currently being marketed for lease and may be occupied with a future availability date. In contrast, vacant space is truly vacant and is and may still be immediately available. Most of the sublease space is located in Class A properties as seen in the chart below.

#### HISTORICAL AVAILABLE SUBLEASE SPACE



#### AVAILABLE SUBLEASE SPACE - 150,000 SF OR GREATER

Large Sublease Availabilities (Total available in building and/or complex)			
BUILDING	TENANT	SUBMARKET	SF
5 Greenway Plaza	Oxy	Greenway Plaza	807,567
Four WestLake Park	BP	Katy Freeway	479,483
Energy Tower II	KTI Corporation (Technip)	Katy Freeway	375,937
NRG Tower	Reliant Energy Retail	CBD	262,325
One Shell Plaza	Shell Oil	CBD	245,785
Three WestLake Park	Phillips 66	Katy Freeway	221,723
1100 Louisiana	Enbridge	CBD	202,680
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Energy Center I	Foster Wheeler	Katy Freeway	182,966
Westway III	GE Oil & Gas	West Belt	182,004
Four Oaks Place	BHP	West Loop/Galleria	180,343
West Memorial Place II	IHI E&C	Katy Freeway	158,317
Three Northborough	FMC Technologies	North Belt	157,276
1001 Louisiana St	EP Energy Corporation	CBD	156,497

Source: CoStar

## Job Growth & Unemployment

(not seasonally adjusted)

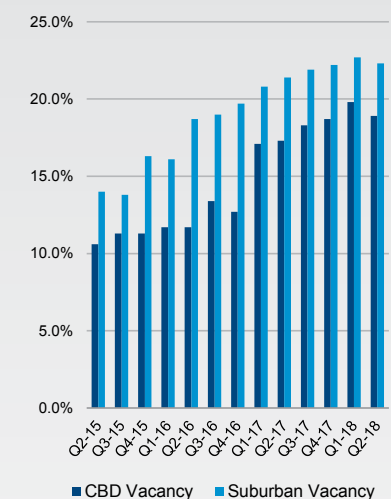
UNEMPLOYMENT	5/17	5/18
HOUSTON	4.8%	4.2%
TEXAS	4.1%	3.7%
U.S.	4.1%	3.6%

JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	2.6%	79.2K
TEXAS	2.8%	344.7K
U.S.	1.6%	2.4M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS



## Absorption & Demand

Houston's office market posted 84,750 SF of positive net absorption in Q2 2018. Suburban Class B space recorded the largest loss, with 595,012 SF of negative net absorption. In contrast, Suburban Class A space recorded the largest gain, posting 589,503 SF of positive net absorption. Many of the tenants that moved consolidated from several locations into one and others downsized to more effective spaces. The large amount of sublease space placed on the market during the energy downturn decreased during 2017; however, sublease space crept back up over the 9.0M SF mark during the first half of 2018.

## Rental Rates

Average rental rates have held relatively steady through the energy downturn as landlords prefer to give some abated rent than lower the base rent. Houston's average asking rental rate for Class A space decreased over the quarter from \$34.97 per SF to \$34.91 per SF. The average Class A rental rate in the CBD decreased slightly over the quarter from \$44.37 to \$44.23 per SF, while the average Suburban Class A rental rate decreased from \$32.33 to \$32.21 per SF. The current average gross rental rate, which includes all property classes for Houston office space is \$29.19 per SF.

## Leasing Activity

Houston's office leasing activity decreased 30% over the quarter, falling from .9 million SF in Q1 2018 to .7 million SF in Q2 2018. Activity included new/direct, sublet and renewals. Some of the more notable transactions are listed in the table below.

Looking ahead, Houston's office market absorption has already turned back to red in the first week of the third quarter primarily due to companies downsizing to new locations or contracting in their current locations.

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Jefferson Towers at Cullen Center	CBD	118,896	Harris County Veterans Service Office <sup>1</sup>	Jun-18
Remington Square III	West Belt	82,941	Acclara Solutions <sup>1</sup>	May-18
Energy Tower IV	West Loop/Galleria	52,834	Kiewit Engineering Group Inc <sup>2</sup>	May-18
609 Main @ Texas	CBD	31,000	Simmons & Company International <sup>1</sup>	Apr-18
Four WestLake Park	Katy Freeway	24,844	High Radius Corporation <sup>2</sup>	Apr-18
3355 W Alabama St	Greenway Plaza	15,000	Titan Gas <sup>1</sup>	May-18

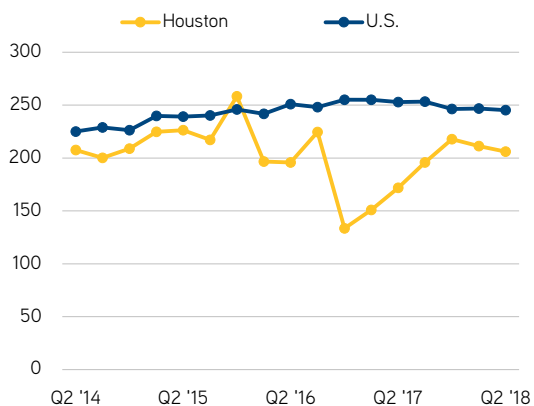
<sup>1</sup>New/Direct

<sup>2</sup>Sublease

## Sales Activity

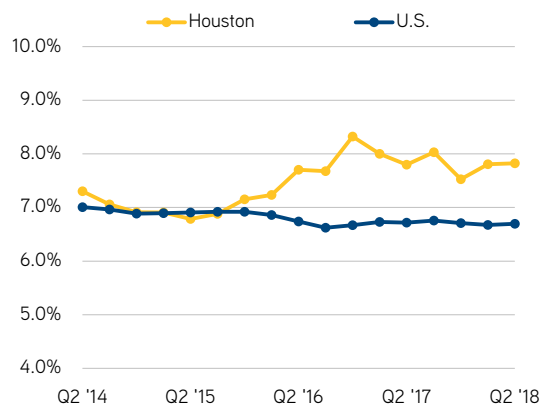
Houston's office investment sales dropped slightly over the year, falling by 6.3% since Q1 2017. The average sales price per square foot trended down slightly from \$211 to \$206 per SF over the quarter and rose significantly over the year from \$172 per SF in Q2 2017. Houston's average cap rate of 7.8% is trending higher than the U.S. average of 6.7%.

AVERAGE OFFICE SALES PRICE PER SF



Sources: CoStar and Real Capital Analytics

AVERAGE OFFICE CAP RATE



## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2018	Q1-2018	Q2-2018	Q1-2018	AVG (\$/SF)
CBD												
A	36	34,037,682	5,054,758	14.9%	1,394,248	4.1%	6,449,006	18.9%	19.8%	283,858	-490,161	\$43.64
B	30	9,115,329	2,929,467	32.1%	76,020	0.8%	3,005,487	33.0%	31.4%	-145,862	-5,720	\$28.97
C	13	855,542	99,657	11.6%	0	0.0%	99,657	11.6%	12.2%	5,050	450	\$19.99
Total	79	44,008,553	8,083,882	18.4%	1,470,268	3.3%	9,554,150	21.7%	22.0%	143,046	-495,431	\$38.03
SUBURBAN												
A	387	97,353,570	17,951,996	18.4%	3,750,490	3.9%	21,702,486	22.3%	22.7%	589,503	-529,512	\$31.87
B	942	77,224,121	12,524,388	16.2%	499,781	0.6%	13,024,169	16.9%	16.1%	-595,012	-311,205	\$20.42
C	291	12,124,581	1,467,049	12.1%	13,314	0.1%	1,480,363	12.2%	11.8%	-52,787	-15,614	\$17.07
Total	1620	186,702,272	31,943,433	17.1%	4,263,585	2.3%	36,207,018	19.4%	19.2%	-58,296	-856,331	\$26.70
OVERALL												
A	423	131,391,252	23,006,754	17.5%	5,144,738	3.9%	28,151,492	21.4%	21.9%	873,361	-1,019,673	\$34.46
B	972	86,339,450	15,453,855	17.9%	575,801	0.7%	16,029,656	18.6%	17.7%	-740,874	-316,925	\$22.04
C	304	12,980,123	1,566,706	12.1%	13,314	0.1%	1,580,020	12.2%	11.8%	-47,737	-15,164	\$17.26
Total	1699	230,710,825	40,027,315	17.3%	5,733,853	2.5%	45,761,168	19.8%	19.8%	84,750	-1,351,762	\$28.99

## Houston Suburban Office Market Summary

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2018	Q1-2018	Q2-2018	Q1-2018	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	8	2,284,619	341,702	15.0%	2,459	0.1%	344,161	15.1%	18.3%	74,753	24,420	\$32.77
B	35	2,606,695	208,594	8.0%	21,156	0.8%	229,750	8.8%	7.8%	-26,605	-40,333	\$28.34
C	13	393,211	102,557	26.1%	0	0.0%	102,557	26.1%	25.1%	-4,032	1,896	\$28.04
Total	56	5,284,525	652,853	12.4%	23,615	0.4%	676,468	12.8%	13.6%	44,116	-14,017	\$30.61
BAYTOWN												
B	3	186,005	8,540	4.6%	0	0.0%	8,540	4.6%	4.6%	77	4,962	\$21.45
C	3	81,481	2,500	3.1%	0	0.0%	2,500	3.1%	3.1%	0	0	-
Total	6	267,486	11,040	4.1%	0	0.0%	11,040	4.1%	4.2%	77	4,962	\$16.59
BELLAIRE												
A	6	1,028,630	124,345	12.1%	14,484	1.4%	138,829	13.5%	12.0%	-15,770	31,682	\$28.17
B	19	2,403,006	137,022	5.7%	4,511	0.2%	141,533	5.9%	3.3%	-62,103	15,427	\$24.55
C	5	318,508	35,176	11.0%	0	0.0%	35,176	11.0%	11.0%	0	-829	\$18.32
Total	30	3,750,144	296,543	7.9%	18,995	0.5%	315,538	8.4%	6.3%	-77,873	46,280	\$25.33
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	9	368,376	2,819	80.0%	0	0.0%	2,819	80.0%	1.7%	3,470	2,506	\$18.00
C	7	287,369	10,132	3.5%	0	0.0%	10,132	3.5%	5.0%	4,166	-110	\$17.09
Total	17	715,745	12,951	1.8%	0	0.0%	12,951	1.8%	2.9%	7,636	2,396	\$17.29
E. FORT BEND CO SUGAR LAND												
A	17	3,400,728	200,458	5.9%	161,805	4.8%	362,263	10.7%	12.3%	57,466	-161,280	\$30.42
B	39	2,400,968	203,669	8.5%	47,054	2.0%	250,723	10.4%	10.6%	-1,766	-15,416	\$23.12
C	5	146,524	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
Total	61	5,948,220	404,127	6.8%	208,859	3.5%	612,986	10.3%	11.3%	55,700	-176,696	\$26.74



## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2018	Q1-2018	Q2-2018	Q1-2018	AVG (\$/SF)
FM 1960												
A	13	2,975,786	363,657	12.2%	12,512	0.4%	376,169	12.6%	12.1%	-14,850	-22,055	\$28.09
B	71	4,316,624	843,341	19.5%	20,501	0.5%	863,842	20.0%	19.1%	-40,072	-8,372	\$16.89
C	23	804,117	122,840	15.3%	0	0.0%	122,840	15.3%	18.7%	27,437	-3,484	\$14.26
Total	107	8,096,527	1,329,838	16.4%	33,013	0.4%	1,362,851	16.8%	16.5%	-27,485	-33,911	\$19.71
GREENWAY PLAZA												
A	21	7,427,627	1,409,508	19.0%	49,440	0.7%	1,458,948	19.6%	17.5%	-162,220	65,964	\$36.37
B	31	3,086,430	383,081	12.4%	4,237	0.1%	387,318	12.5%	13.0%	14,142	-81,782	\$25.41
C	13	463,608	77,409	16.7%	0	0.0%	77,409	16.7%	15.8%	-4,201	-2,844	\$21.28
Total	65	10,977,665	1,869,998	17.0%	53,677	0.5%	1,923,675	17.5%	16.1%	-152,279	-18,662	\$33.50
GULF FREEWAY PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	42	2,438,717	409,655	16.8%	10,555	0.4%	420,210	17.2%	16.6%	-15,503	10,258	\$21.49
C	28	1,021,870	143,559	14.0%	0	0.0%	143,559	14.0%	11.4%	-27,385	12,724	\$18.43
Total	71	3,483,293	553,214	15.9%	10,555	0.3%	563,769	16.2%	13.9%	-42,888	22,982	\$20.70
I-10 EAST												
B	6	427,851	95,791	22.4%	0	0.0%	95,791	22.4%	20.9%	-6,229	4,961	\$14.95
C	6	250,017	13,000	5.2%	0	0.0%	13,000	5.2%	5.2%	0	0	\$18.08
Total	71	3,483,293	553,214	15.9%	10,555	0.3%	563,769	16.2%	13.9%	-42,888	22,982	\$20.70
KATY FREEWAY												
A	88	22,154,396	3,502,455	15.8%	1,720,746	7.8%	5,223,201	23.6%	27.0%	752,167	-497,823	\$35.76
B	93	8,468,307	1,633,937	19.3%	73,641	0.9%	1,707,578	20.2%	19.6%	-47,155	-75,256	\$21.92
C	30	1,438,991	99,660	6.9%	10,557	0.7%	110,217	7.7%	6.8%	-12,814	-38,433	\$19.69
Total	211	32,061,694	5,236,052	16.3%	1,804,944	5.6%	7,040,996	22.0%	24.1%	692,198	-611,512	\$31.14
KATY GRAND PARKWAY												
A	15	1,421,622	233,793	16.4%	14,092	1.0%	247,885	17.4%	20.3%	41,019	50,961	\$28.95
B	15	1,119,332	10,899	1.0%	0	0.0%	10,899	1.0%	0.9%	-1,046	-4,060	\$23.63
C	3	191,192	16,392	8.6%	0	0.0%	16,392	8.6%	8.3%	-551	3,865	\$22.00
Total	33	2,732,146	261,084	9.6%	14,092	0.5%	275,176	10.1%	11.5%	39,422	50,766	\$26.91
KINGWOOD HUMBLE												
B	20	1,364,454	80,793	5.9%	318	0.0%	81,111	5.9%	4.6%	-18,700	1,595	\$22.18
C	5	159,139	13,678	8.6%	0	0.0%	13,678	8.6%	23.8%	24,215	426	\$18.14
Total	25	1,523,593	94,471	6.2%	318	0.0%	94,789	6.2%	6.6%	5,515	2,021	\$21.60
NASA CLEAR LAKE												
A	12	1,772,451	215,407	12.2%	10,576	0.6%	225,983	12.7%	10.8%	-35,425	2,522	\$26.34
B	49	3,258,809	978,201	30.0%	1,575	0.0%	979,776	30.1%	30.1%	2,101	40,929	\$19.07
C	18	542,983	70,442	13.0%	0	0.0%	70,442	13.0%	13.2%	1,182	7,139	\$14.42
Total	79	5,574,243	1,264,050	22.7%	12,151	0.2%	1,276,201	22.9%	22.3%	-32,142	50,590	\$20.05
NORTH BELT GREENSPPOINT												
A	23	5,231,209	3,285,322	62.8%	14,519	0.3%	3,299,841	63.1%	59.8%	-169,858	43,231	\$22.56
B	56	5,628,146	1,778,243	31.6%	16,620	0.3%	1,794,863	31.9%	28.6%	-185,460	-34,794	\$15.78
C	21	1,241,666	260,999	21.0%	2,757	0.2%	263,756	21.2%	21.0%	-3,122	-19,003	\$13.03
Total	100	12,101,021	5,324,564	44.0%	33,896	0.3%	5,358,460	44.3%	41.3%	-358,440	-10,566	\$19.83
NORTHEAST NEAR AND OUTLIER												
A	3	642,223	21,702	3.4%	0	0.0%	21,702	3.4%	4.4%	6,355	4,526	-
B	5	207,158	25,362	12.2%	0	0.0%	25,362	12.2%	12.3%	54	4,469	\$23.21
C	2	56,562	10,216	18.1%	0	0.0%	10,216	18.1%	22.4%	2,448	-418	\$15.00
Total	10	905,943	57,280	6.3%	0	0.0%	57,280	6.3%	7.3%	8,857	8,577	\$12.95

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2018	Q1-2018	Q2-2018	Q1-2018	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	9	1,985,781	687,878	34.6%	24,157	1.2%	712,035	35.9%	34.4%	-28,332	26,035	\$23.00
B	72	5,769,090	966,415	16.8%	1,910	0.0%	968,325	16.8%	17.2%	26,355	-35,549	\$19.10
C	33	1,329,729	140,608	10.6%	0	0.0%	140,608	10.6%	3.1%	-99,664	13,172	\$17.44
Total	114	9,084,600	1,794,901	19.8%	26,067	0.3%	1,820,968	20.0%	18.9%	-101,641	3,658	\$20.46
RICHMOND FOUNTAINVIEW												
B	14	847,843	125,700	14.8%	0	0.0%	125,700	14.8%	15.4%	4,853	-11,062	\$16.60
C	10	392,300	31,231	8.0%	0	0.0%	31,231	8.0%	5.5%	-9,566	-8,595	\$17.16
Total	24	1,240,143	156,931	12.7%	0	0.0%	156,931	12.7%	12.3%	-4,713	-19,657	\$16.71
SAN FELIPE VOSS												
A	3	1,720,793	466,583	27.1%	9,597	0.6%	476,180	27.7%	27.6%	-436	-28,312	\$36.35
B	30	3,157,598	569,910	18.0%	24,896	0.8%	594,806	18.8%	18.8%	-871	-63,199	\$24.99
Total	33	4,878,391	1,036,493	21.2%	34,493	0.7%	1,070,986	22.0%	21.9%	-1,307	-91,511	\$30.10
SOUTH												
A	1	76,048	9,307	12.2%	0	0.0%	9,307	12.2%	14.5%	1,715	-3,770	\$31.42
B	12	359,619	30,295	8.4%	0	0.0%	30,295	8.4%	7.0%	-5,116	3,222	\$24.49
C	5	195,387	10,700	5.5%	0	0.0%	10,700	5.5%	6.3%	1,704	35,596	\$20.00
Total	18	631,054	50,302	8.0%	0	0.0%	50,302	8.0%	7.7%	-1,697	35,048	\$27.26
SOUTH MAIN MEDICAL CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	12	829,793	106,240	12.8%	0	0.0%	106,240	12.8%	12.2%	-5,177	11,987	\$17.75
C	7	286,418	49,358	17.2%	0	0.0%	49,358	17.2%	20.8%	10,191	-4,610	\$15.28
Total	20	1,601,211	155,598	9.7%	0	0.0%	155,598	9.7%	10.0%	5,014	7,377	\$16.65
SOUTHEAST												
B	17	1,271,884	112,209	8.8%	0	0.0%	112,209	8.8%	8.4%	-5,523	-14,848	\$15.91
C	2	118,209	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
Total	19	1,390,093	112,209	8.1%	0	0.0%	112,209	8.1%	7.7%	-5,523	-14,848	\$15.91
SOUTHWEST												
A	6	1,578,768	334,133	21.2%	29,163	1.8%	363,296	23.0%	24.2%	18,211	23,343	\$18.47
B	63	6,068,282	1,155,169	19.0%	57,989	1.0%	1,213,158	20.0%	20.7%	42,789	-91,084	\$17.20
C	35	1,824,250	252,217	13.8%	0	0.0%	252,217	13.8%	13.6%	-4,342	8,449	\$15.07
Total	104	9,471,300	1,741,519	18.4%	87,152	0.9%	1,828,671	19.3%	19.9%	56,658	-59,292	\$17.14
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	-
B	12	925,976	233,335	25.2%	0	0.0%	233,335	25.2%	24.1%	-10,520	11,136	\$26.23
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
Total	15	1,106,092	253,072	22.9%	0	0.0%	253,072	22.9%	21.9%	-10,520	11,136	\$26.23
WEST BELT												
A	28	3,608,563	805,410	22.3%	431,780	12.0%	1,237,190	34.3%	29.4%	-175,953	-172,144	\$29.63
B	35	2,058,731	324,596	15.8%	101,889	4.9%	426,485	20.7%	17.2%	-73,352	59,128	\$20.96
C	4	112,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	67	5,779,923	1,130,006	19.6%	533,669	9.2%	1,663,675	28.8%	24.5%	-249,305	-113,016	\$27.14
WEST LOOP												
A	49	17,931,158	3,178,970	17.7%	498,561	2.8%	3,677,531	20.5%	21.3%	139,928	280,287	\$37.90
B	51	5,756,257	781,580	13.6%	46,850	0.8%	828,430	14.4%	12.7%	-96,460	-2,984	\$27.36
C	4	216,268	2,185	100.0%	0	0.0%	2,185	100.0%	0.0%	-2,185	0	\$20.00
Total	104	23,903,683	3,962,735	16.6%	545,411	2.3%	4,508,146	18.9%	19.0%	41,283	277,303	\$35.81

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2018	Q1-2018	Q2-2018	Q1-2018	AVG (\$/SF)
WESTCHASE												
A	34	10,004,357	1,854,698	18.5%	698,994	7.0%	2,553,692	25.5%	25.7%	18,532	-150,438	\$35.28
B	61	7,407,642	901,351	12.2%	20,103	0.3%	921,454	12.4%	11.0%	-105,152	20,891	\$19.66
C	5	176,872	14,980	8.5%	0	0.0%	14,980	8.5%	5.8%	-4,788	4,788	\$15.00
Total	100	17,588,871	2,771,029	15.8%	719,097	4.1%	3,490,126	19.8%	19.3%	-91,408	-124,759	\$28.65
THE WOODLANDS												
A	46	11,382,385	896,931	7.9%	57,605	0.5%	954,536	8.4%	9.1%	82,201	-20,626	\$32.41
B	69	4,461,008	441,031	9.9%	45,976	1.0%	487,007	10.9%	10.9%	-165	13,014	\$26.24
C	5	131,696	25,356	19.3%	0	0.0%	25,356	19.3%	31.2%	15,718	-3,234	\$24.88
Total	120	15,975,089	1,363,318	8.5%	103,581	0.6%	1,466,899	9.2%	9.8%	97,754	-10,846	\$30.27

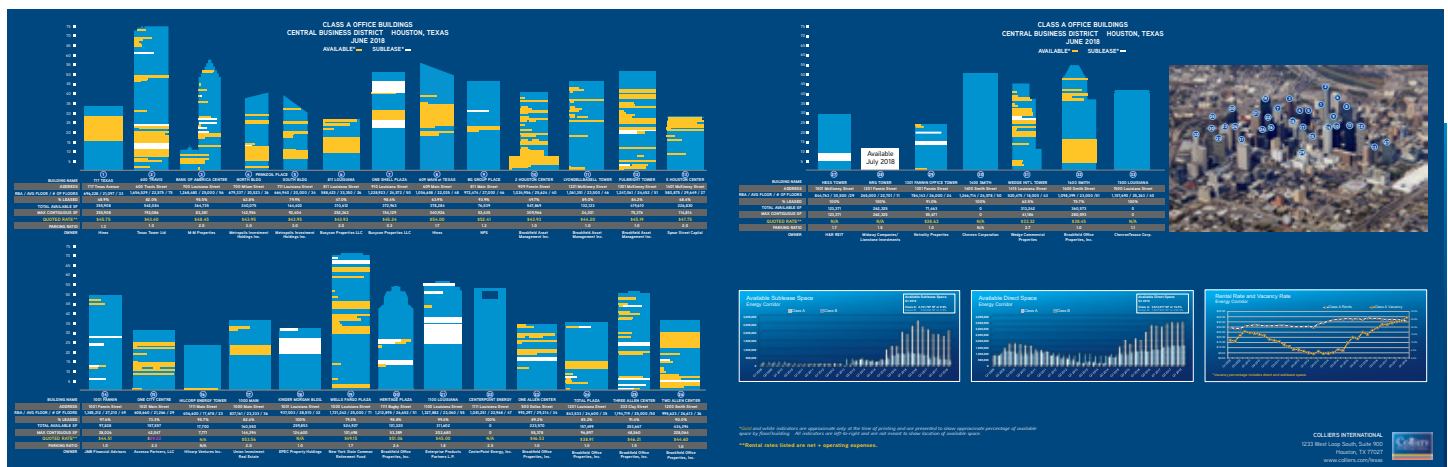
## Office Development Pipeline

1.8 million SF of office space is under construction and 5% of the space is pre-leased. Build-to-suit projects make up 38% of the space under construction, and the remaining 62% is spec office space which is 60% pre-leased. The table below includes office buildings under construction with a RBA of 100,000 SF or more.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
Capitol Tower	800 Capitol St	CBD	778,344	36.4%	SCD Acquisitions LLC	Jun-19
CityPlace 2 - BTS for ABS	1701 City Plaza Dr	The Woodlands	326,800	93.9%	Barker Patrinely Group, Inc	Oct-18
CityPlace - HP Building 1	City Plaza Dr	The Woodlands	189,000	100%	Patrinely Group, Inc	Jan-19
CityPlace - HP Building 2	City Plaza Dr	The Woodlands	189,000	100%	Patrinely Group, Inc	Jan-19
Chasewood Crossing Three	19350 State Highway 249	FM 1960	156,000	0%	Greenwood Properties	Jul-19
CityPlace 1	1700 City Plaza Dr	The Woodlands	149,500	5.2%	Patrinely Group, Inc	Apr-19

## Skylines | Now Available Online at [colliers.com/houston](http://colliers.com/houston)

A skyline view of available space for eight of Houston's Class A office submarkets including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase is now available online.

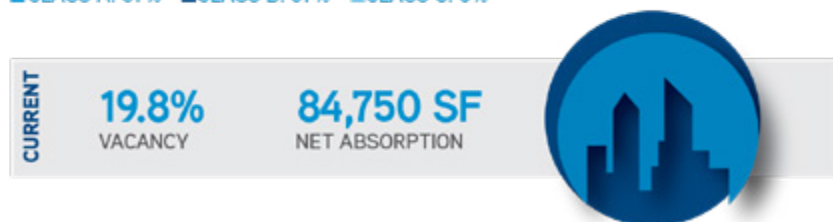
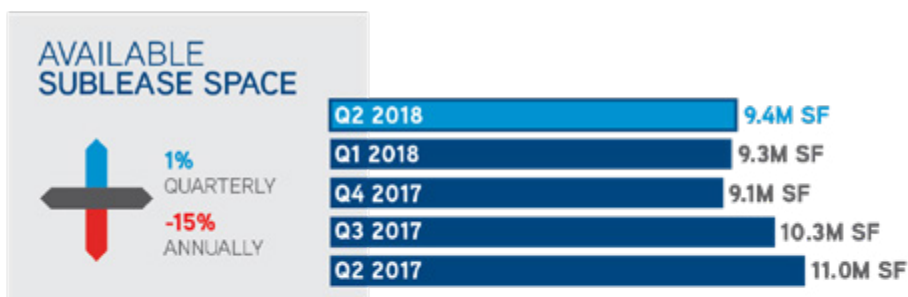
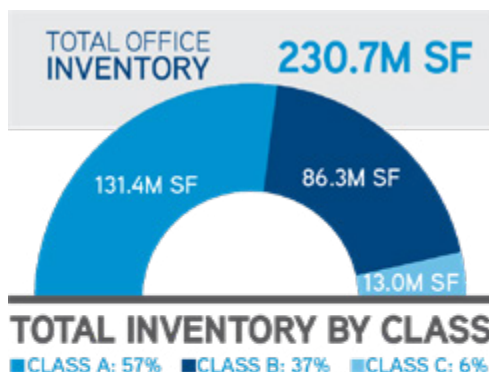


## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
BG Group Place	811 Main St	CBD	972,474	2011	93.6%	79,568	\$52.41	BG Holdco LLC
Wells Fargo Plaza	1000 Louisiana St	CBD	1,816,180	1982	80.5%	468,866	\$49.77	Clarion Partners
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	98.8%	43,708	\$51.06	Brookfield Office Properties, Inc
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	99.1%	1,375	\$50.04	Midway Cc15 Partners
Town Centre One	750 Town & Country Blvd	Katy Freeway	253,714	2015	85.2%	46,109	\$43.09	Moody Ramin
Amegy Tower	1717 W Loop Fwy S	West Loop/Galleria	380,000	2017	90.2%	61,986	\$49.87	Zions Bancorporation
BBVA Compass Plaza	3009 Post Oak Blvd	West Loop/Galleria	326,200	2013	100%	11,035	\$51.63	Corporacion Masaveu S.A.
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2000	85.5%	154,057	\$49.48	Canada Pension Plan Investment Board
Granite Briarpark Green	3151 Briarpark Dr	Westchase	302,551	2013	98.9%	91,547	\$39.77	GPI Briarpark Green LP
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	95.5%	13,899	\$44.47-\$50.47	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space currently listed.  
Source: CoStar Property

## Q2 2018 Houston Office Highlights



### FOR MORE INFORMATION

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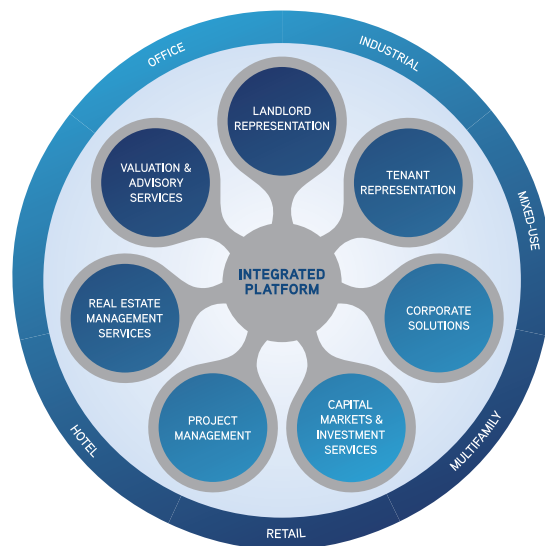
Colliers statistical criteria includes all general purpose multi and single tenant office buildings 20,000 SF or greater.

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Colliers International Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 12,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of \$2.3 billion (\$2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than \$20 billion of assets under management from the world's most respected institutional real estate investors.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

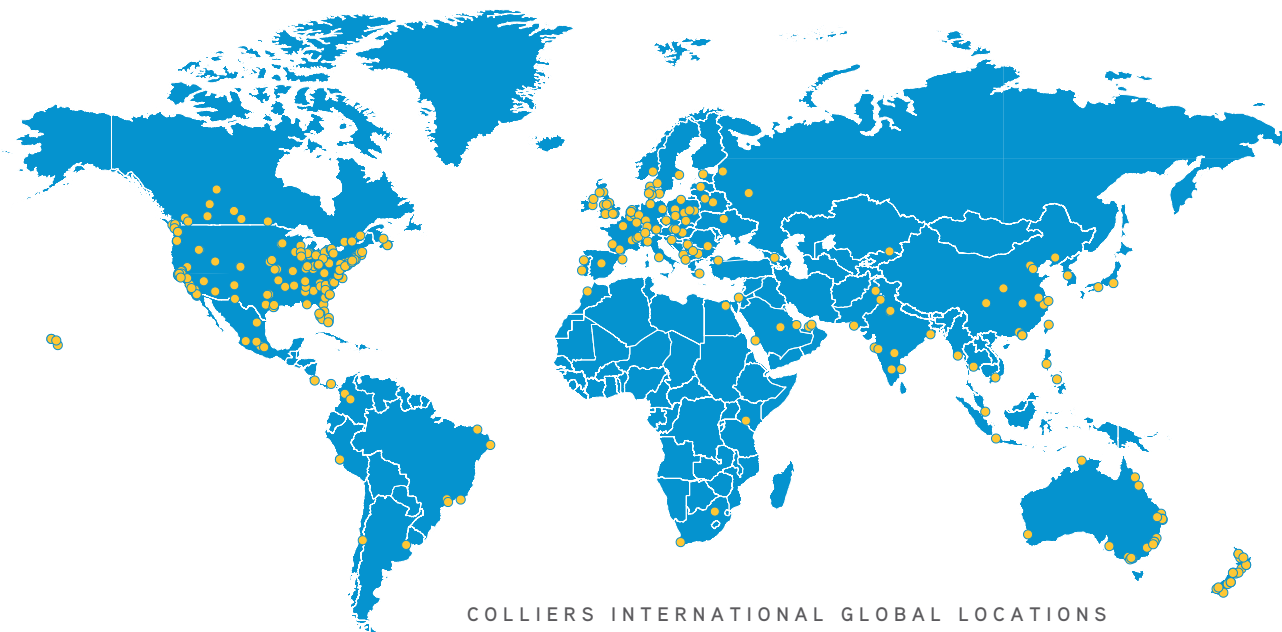
Colliers is led by an experienced leadership team with a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.



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*Our philosophy revolves around the fact that the best possible results come from linking our global enterprise with local advisors who understand your business, your market, and how to integrate real estate into a successful business strategy.*



**\$116B**  
TRANSACTION VALUE

**2B**  
SF UNDER MANAGEMENT

**\$2.7B**  
IN REVENUE

**413**  
OFFICES

**15,400**  
PROFESSIONALS

**SIOR**  
**340**  
ACCREDITED MEMBERS

**69**  
COUNTRIES



# Additional sublease space in Q1 pushes total available square feet back above 9.0M SF

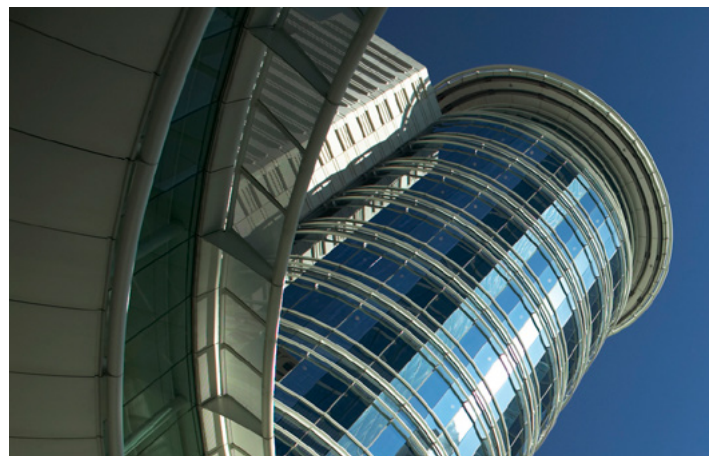
**Lisa Bridges** Director of Market Research | Houston

After six straight quarters of negative net absorption, Houston's office market posted positive net absorption in Q4 2017, a little glimmer of hope that Houston's office market was finally starting to look up. The optimism was short-lived as several large companies vacated space during Q1 2018 due to layoffs and mergers, causing negative absorption. One of the companies, Technip, which announced its merger with FMC Technologies in 2017 had over 3,000 layoffs nationwide during Q1 and the company vacated over 375,000 SF of class A space in the Katy Freeway submarket.

Developers remain disciplined, only beginning new construction with a lead tenant in place. Currently, there are only four such projects under construction including Capital Tower in the Central Business District and three projects in North Houston within the CityPlace development.

Most of the office buildings that were damaged by Hurricane Harvey in 2017 have been rehabbed and are back on-line and landlords are making contingency plans for future unforeseen events.

According to the U.S. Bureau of Labor Statistics, the Houston MSA created 67,100 jobs (not seasonally adjusted) between February 2017 and February 2018, an annual growth rate of 2.2%, which is above the national average job growth rate of 1.6%.



Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↑	■
NET ABSORPTION	↓	↓	↑
NEW CONSTRUCTION	↓	↓	↓
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q1 2017	Q4 2017	Q1 2018
Vacancy Rate	18.5%	19.1%	20.1%
Net Absorption (Million Square Feet)	-0.7	0.3	-1.5
New Construction (Million Square Feet)	1.8	0.5	0.2
Under Construction (Million Square Feet)	1.6	1.9	1.5
Class A Vacancy Rate			
CBD	17.0%	18.7%	20.2%
Suburban	20.5%	22.2%	22.9%

## Asking Rents Per Square Foot Per Year

Houston Class A	\$35.79	\$34.97	\$34.91
CBD Class A	\$44.46	\$44.37	\$44.23
Suburban Class A	\$33.26	\$32.33	\$32.21

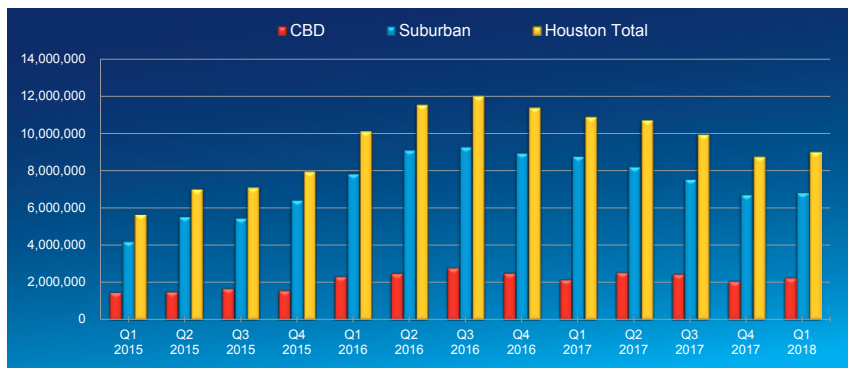
## Vacancy & Availability

Houston's citywide vacancy rate increased 100 basis points from 19.1% to 20.1% over the quarter and rose 160 basis points from 18.5% in Q1 2017. Over the quarter, the average suburban vacancy rate increased 70 basis points from 19.0% to 19.7% and the average CBD vacancy rate increased 120 basis points from 20.8% to 22.0%.

The average Class A vacancy rate in the CBD increased 150 basis points over the quarter from 18.7% to 20.2%, and the average Class B vacancy rate in the CBD increased 40 basis points from 28.3% to 28.7%. The average suburban Class A vacancy rate increased 70 basis points from 22.2% to 22.9% between quarters, while the average suburban Class B vacancy rate rose 50 basis points from 16.4% to 16.9%.

Of the 1,709 existing office buildings in our survey, 84 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Of these, 23 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space increased over the quarter from 8.8 million SF to 9.0 million SF, or 3.8% of Houston's total office inventory. Available space differs from vacant space in that it includes space that is currently being marketed for lease and may be occupied with a future availability date. In contrast, vacant space is truly vacant and is and may still be immediately available.

### HISTORICAL AVAILABLE SUBLEASE SPACE



### AVAILABLE SUBLEASE SPACE - 150,000 SF OR GREATER

Large Sublease Availabilities (Total available in building and/or complex)			
BUILDING	TENANT	SUBMARKET	SF
Four WestLake Park	BP	Katy Freeway	504,327
Energy Tower II	KTI Corporation (Technip)	Katy Freeway	375,937
NRG Tower	Reliant Energy Retail	CBD	262,325
Three Greenspoint Place	ExxonMobil	North Belt	253,562
Three WestLake Park	Phillips 66	Katy Freeway	221,723
1100 Louisiana	Enbridge	CBD	202,680
8 Greenspoint	ExxonMobil	North Belt	198,256
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Energy Center I	Foster Wheeler	Katy Freeway	182,966
Four Oaks Place	BHP	West Loop/Galleria	180,343
West Memorial Place II	IHI E&C	Katy Freeway	158,317
Three Northborough	FMC Technologies	North Belt	157,276
One Shell Plaza	Shell Oil	CBD	154,129

Source: CoStar

## Job Growth & Unemployment

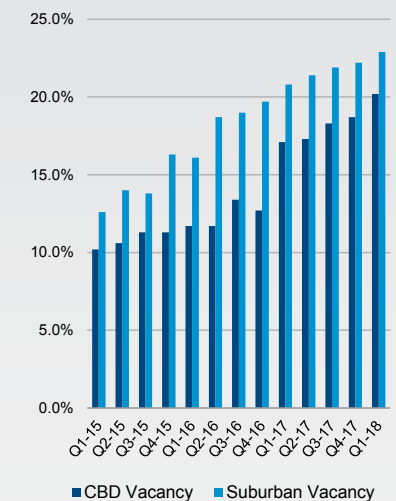
(not seasonally adjusted)

UNEMPLOYMENT	2/17	2/18
HOUSTON	5.9%	4.7%
TEXAS	4.8%	4.1%
U.S.	4.9%	4.4%

JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	2.2%	67.1K
TEXAS	2.4%	288.6K
U.S.	1.6%	2.3M

### CBD vs. Suburban

#### CLASS A OFFICE VACANCY



#### CLASS A OFFICE RENTS



## Absorption & Demand

Houston's office market posted 1.5M SF of negative net absorption in Q1 2018. CBD Class A space recorded the largest loss, with 586,221 SF of negative net absorption. Some of the tenants that relocated during the quarter include NRG, Hunting Energy Services LP, Technip and WeWork. Many of the tenants that moved consolidated from several locations into one and others downsized to more effective spaces. The large amount of sublease space placed on the market during the energy downturn decreased during 2017; however, sublease space crept back up over the 9.0M SF mark during Q1 2018.

## Rental Rates

Houston's average asking rental rate for Class A space decreased over the quarter from \$34.97 per SF to \$34.91 per SF. The average Class A rental rate in the CBD decreased slightly over the quarter from \$44.37 to \$44.23 per SF, while the average Suburban Class A rental rate decreased from \$32.33 to \$32.21 per SF. The current average gross rental rate, which includes all property classes for Houston office space is \$29.19 per SF.

## Leasing Activity

Houston's office leasing activity decreased 32% over the quarter, falling from 4.8 million SF in Q4 2017 to 3.3 million SF in Q1 2018. The majority of the leasing activity was caused by renewals, but there were some tenants that signed new leases and will relocate in the coming months.

Q1 2018 Select Office Lease Transactions				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Post Oak Central	West Loop/Galleria	524,342	Apache Corp <sup>2</sup>	Feb-18
Williams Tower	West Loop/Galleria	324,342	The Williams Companies, Inc <sup>2</sup>	Jan-18
609 Main	CBD	54,000	Royal Bank of Canada <sup>1</sup>	Jan-18
9811 Katy Freeway	Katy Freeway	46,720	FairfieldNodal <sup>1</sup>	Jan-18
811 Main	CBD	24,494	Yetter Coleman <sup>1</sup>	Feb-18
Three Greenway Plaza	Greenway	23,049	Foster LLP <sup>1</sup>	Jan-18

<sup>1</sup>New/Direct

<sup>2</sup>Renewal

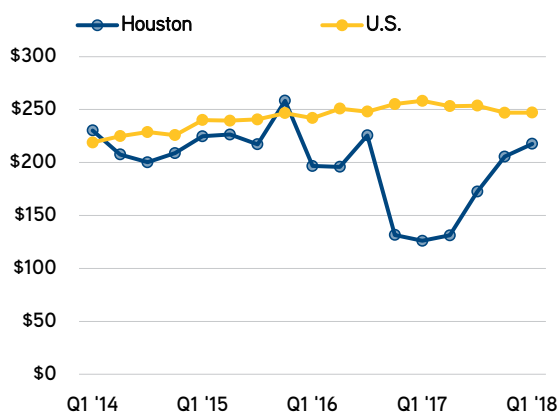
<sup>3</sup>Expansion

<sup>4</sup>Sublease

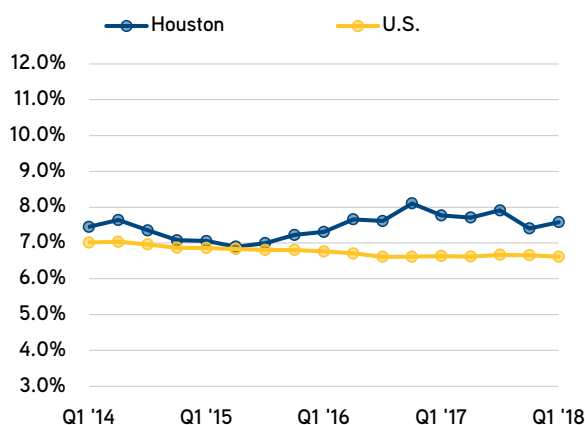
## Sales Activity

Houston's office investment sales dropped slightly over the year, falling by 6.3% since Q1 2017. The average sales price per square foot increased from \$206 to \$218 per SF over the quarter and rose significantly over the year from \$126 per SF in Q1 2017. Houston's average cap rate of 7.6% is higher than the U.S. average of 6.6%.

AVERAGE OFFICE SALES PRICE PER SF



AVERAGE OFFICE CAP RATE



Sources: CoStar and Real Capital Analytics

## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2018	Q4-2017	Q1-2018	Q4-2017	AVG (\$/SF)
CBD												
A	35	32,989,934	5,150,429	15.6%	1,513,894	4.6%	6,664,323	20.2%	18.7%	-490,618	-64,862	\$44.23
B	31	10,143,862	2,836,893	28.0%	74,344	0.7%	2,911,237	28.7%	28.3%	-41,740	-12,296	\$29.08
C	13	855,542	104,707	12.2%	0	0.0%	104,707	12.2%	12.3%	450	-450	\$19.99
Total	79	43,989,338	8,092,029	18.4%	1,588,238	3.6%	9,680,267	22.0%	20.8%	-531,908	-77,608	\$41.02
SUBURBAN												
A	380	96,791,258	17,767,302	18.4%	4,421,772	4.6%	22,189,074	22.9%	22.2%	-586,221	311,264	\$32.21
B	939	77,289,858	12,721,588	16.5%	352,985	0.5%	13,074,573	16.9%	16.4%	-325,049	87,435	\$20.39
C	299	12,489,681	1,429,359	11.4%	26,669	0.2%	1,456,028	11.7%	11.2%	-41,086	13,045	\$16.58
Total	1618	186,570,797	31,918,249	17.1%	4,801,426	2.6%	36,719,675	19.7%	19.0%	-952,356	411,744	\$26.80
OVERALL												
A	415	129,781,192	22,917,731	17.7%	5,935,666	4.6%	28,853,397	22.2%	20.9%	-1,076,839	246,402	\$34.91
B	970	87,433,720	15,558,481	17.8%	427,329	0.5%	15,985,810	18.3%	18.1%	-366,789	75,139	\$21.98
C	312	13,345,223	1,534,066	11.5%	26,669	0.2%	1,560,735	11.7%	11.2%	-40,636	12,595	\$16.82
Total	1697	230,560,135	40,010,278	17.4%	6,389,664	2.8%	46,399,942	20.1%	19.1%	-1,484,264	334,136	\$29.19

## Houston Suburban Office Market Summary

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2018	Q4-2017	Q1-2018	Q4-2017	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	8	2,284,619	506,584	22.2%	8,495	0.4%	515,079	22.5%	19.4%	-71,745	120,649	\$32.31
B	34	2,587,866	182,529	7.1%	18,752	0.7%	201,281	7.8%	6.3%	-38,469	13,306	\$28.47
C	14	415,211	100,389	24.2%	0	0.0%	100,389	24.2%	24.2%	32	19,982	\$25.92
Total	56	5,287,696	789,502	14.9%	27,247	0.5%	816,749	15.4%	13.3%	-110,182	153,937	\$30.61
BAYTOWN												
B	3	186,005	8,617	4.6%	0	0.0%	8,617	4.6%	7.3%	4,962	-8,617	\$21.45
C	3	81,481	2,500	3.1%	0	0.0%	2,500	3.1%	3.1%	0	-2,500	\$0.00
Total	6	267,486	11,117	4.2%	0	0.0%	11,117	4.2%	6.0%	4,962	-11,117	\$16.63
BELLAIRE												
A	6	1,028,630	117,986	11.5%	5,073	0.5%	123,059	12.0%	15.0%	31,682	-17,647	\$21.31
B	20	2,429,283	205,328	8.5%	2,091	0.1%	207,419	8.5%	9.2%	15,427	13,635	\$24.42
C	5	318,508	35,176	11.0%	0	0.0%	35,176	11.0%	10.8%	-829	6,786	\$18.32
Total	31	3,776,421	358,490	9.5%	7,164	0.2%	365,654	9.7%	9.9%	46,280	2,774	\$22.80
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	377,455	6,289	1.7%	0	0.0%	6,289	1.7%	2.3%	2,506	0	\$17.86
C	7	287,369	14,298	5.0%	0	0.0%	14,298	5.0%	4.9%	-110	0	\$16.05
Total	17	724,824	20,587	2.8%	0	0.0%	20,587	2.8%	3.2%	2,396	0	\$16.60
E. FORT BEND CO SUGAR LAND												
A	17	3,399,199	244,632	7.2%	175,097	5.2%	419,729	12.3%	7.6%	-161,280	56,893	\$30.10
B	39	2,400,968	215,694	9.0%	39,063	1.6%	248,957	10.4%	9.0%	-15,416	9,146	\$22.68
C	6	194,524	31,487	16.2%	0	0.0%	31,487	16.2%	16.2%	0	0	\$17.70
Total	62	5,994,691	491,813	8.2%	214,160	3.6%	700,173	11.7%	8.4%	-176,696	66,039	\$24.92

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2018	Q4-2017	Q1-2018	Q4-2017	AVG (\$/SF)
FM 1960												
A	13	2,977,678	356,817	12.0%	8,126	0.3%	364,943	12.3%	11.2%	-30,955	-26,228	\$26.97
B	71	4,341,763	834,481	19.2%	20,524	0.5%	855,005	19.7%	18.7%	-6,649	27,284	\$17.09
C	23	806,282	145,657	18.1%	648	0.1%	146,305	18.1%	17.9%	-1,761	-44,038	\$13.63
Total	107	8,125,723	1,336,955	16.5%	29,298	0.4%	1,366,253	16.8%	16.4%	-39,365	-42,982	\$19.35
GREENWAY PLAZA												
A	22	7,520,681	1,234,405	16.4%	51,967	0.7%	1,286,372	17.1%	17.9%	60,022	30,864	\$36.42
B	31	3,086,707	395,202	12.8%	6,258	0.2%	401,460	13.0%	10.4%	-81,782	21,538	\$27.08
C	13	463,608	73,208	15.8%	0	0.0%	73,208	15.8%	15.2%	-2,844	2,038	\$21.76
Total	66	11,070,996	1,702,815	15.4%	58,225	0.5%	1,761,040	15.9%	15.4%	-24,604	54,440	\$33.62
GULF FREEWAY PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	42	2,438,717	409,655	16.8%	10,555	0.4%	420,210	17.2%	16.6%	-15,503	10,258	\$21.49
C	28	1,021,870	143,559	14.0%	0	0.0%	143,559	14.0%	11.4%	-27,385	12,724	\$18.43
Total	71	3,483,293	553,214	15.9%	10,555	0.3%	563,769	16.2%	13.9%	-42,888	22,982	\$20.70
I-10 EAST												
B	6	427,851	95,791	22.4%	0	0.0%	95,791	22.4%	20.9%	-6,229	4,961	\$14.95
C	6	250,017	13,000	5.2%	0	0.0%	13,000	5.2%	5.2%	0	0	\$18.08
Total	12	677,868	108,791	16.0%	0	0.0%	108,791	16.0%	15.1%	-6,229	4,961	\$15.32
KATY FREEWAY												
A	88	22,147,857	3,612,277	16.3%	2,188,904	9.9%	5,801,181	26.2%	24.0%	-487,237	-75,004	\$35.57
B	96	8,793,172	1,607,947	18.3%	76,789	0.9%	1,684,736	19.2%	18.4%	-64,649	84,315	\$21.74
C	32	1,487,546	85,331	5.7%	23,264	1.6%	108,595	7.3%	4.7%	-38,433	11,749	\$19.18
Total	216	32,428,575	5,305,555	16.4%	2,288,957	7.1%	7,594,512	23.4%	19.7%	-590,319	21,060	\$31.11
KATY GRAND PARKWAY												
A	15	1,444,248	265,702	18.4%	23,202	1.6%	288,904	20.0%	19.5%	50,961	5,492	\$26.46
B	14	1,078,090	7,204	70.0%	0	0.0%	7,204	70.0%	50.0%	-2,080	10,751	\$28.58
C	3	190,504	2,649	1.4%	0	0.0%	2,649	1.4%	40.0%	-1,980	-669	\$20.40
Total	32	2,712,842	275,555	10.2%	23,202	0.9%	298,757	11.0%	10.4%	46,901	15,574	\$26.26
KINGWOOD HUMBLE												
B	21	1,394,112	61,378	4.4%	1,754	0.1%	63,132	4.5%	4.9%	4,809	-2,852	\$22.62
C	5	159,139	37,893	23.8%	0	0.0%	37,893	23.8%	24.1%	426	1,320	\$17.98
Total	26	1,553,251	99,271	6.4%	1,754	0.1%	101,025	6.5%	6.1%	5,235	-1,532	\$20.85
NASA CLEAR LAKE												
A	12	1,772,451	177,901	10.0%	12,657	0.7%	190,558	10.8%	10.9%	2,522	-31,778	\$24.12
B	49	3,286,052	981,394	29.9%	483	0.0%	981,877	29.9%	31.1%	40,929	-36,048	\$18.49
C	19	561,524	114,846	20.5%	0	0.0%	114,846	20.5%	21.7%	7,139	8,206	\$15.56
Total	80	5,620,027	1,274,141	22.7%	13,140	0.2%	1,287,281	22.9%	23.1%	50,590	-59,620	\$19.01
NORTH BELT GREENSPPOINT												
A	23	5,232,856	2,858,675	54.6%	251,866	4.8%	3,110,541	59.4%	60.3%	43,231	7,854	\$23.78
B	48	4,940,635	1,463,633	29.6%	15,672	0.3%	1,479,305	29.9%	29.6%	-18,764	9,319	\$15.98
C	22	1,269,177	257,877	20.3%	2,757	0.2%	260,634	20.5%	19.2%	-16,603	20,473	\$13.05
Total	93	11,442,668	4,580,185	40.0%	270,295	2.4%	4,850,480	42.4%	43.4%	7,864	37,646	\$20.68
NORTHEAST NEAR AND OUTLIER												
A	3	640,700	28,057	4.4%	0	0.0%	28,057	4.4%	5.1%	4,526	-118	\$0.00
B	5	207,158	25,416	12.3%	0	0.0%	25,416	12.3%	14.4%	4,469	15,561	\$23.21
C	2	56,562	12,664	22.4%	0	0.0%	12,664	22.4%	21.7%	-418	-3,803	\$15.00
Total	10	904,420	66,137	7.3%	0	0.0%	66,137	7.3%	8.3%	8,577	11,640	\$11.79



## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2018	Q4-2017	Q1-2018	Q4-2017	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	9	1,985,781	680,029	34.2%	3,674	0.2%	683,703	34.4%	35.7%	26,035	9,834	\$23.51
B	74	5,831,157	977,638	16.8%	8,660	0.1%	986,298	16.9%	15.2%	-99,753	-8,809	\$18.73
C	33	1,328,889	40,944	3.1%	0	0.0%	40,944	3.1%	4.1%	13,172	8,952	\$16.90
Total	116	9,145,827	1,698,611	18.6%	12,334	0.1%	1,710,945	18.7%	18.3%	-60,546	9,977	\$20.60
RICHMOND FOUNTAINVIEW												
B	15	874,343	130,553	14.9%	0	0.0%	130,553	14.9%	13.7%	-11,062	10,006	\$16.77
C	10	392,300	21,665	5.5%	0	0.0%	21,665	5.5%	3.3%	-8,595	7,522	\$17.41
Total	25	1,266,643	152,218	12.0%	0	0.0%	152,218	12.0%	10.5%	-19,657	17,528	\$16.86
SAN FELIPE VOSS												
A	3	1,720,793	475,744	27.6%	0	0.0%	475,744	27.6%	26.0%	-28,312	-56,114	\$35.91
B	30	3,162,586	569,746	18.0%	24,189	0.8%	593,935	18.8%	16.8%	-63,199	-64,942	\$24.97
Total	33	4,883,379	1,045,490	21.4%	24,189	0.5%	1,069,679	21.9%	18.6%	-91,511	-121,056	\$29.95
SOUTH												
A	1	76,048	11,022	14.5%	0	0.0%	11,022	14.5%	9.5%	-3,770	0	\$21.50
B	12	359,619	25,179	7.0%	0	0.0%	25,179	7.0%	7.9%	3,222	2,575	\$25.58
C	5	195,387	12,404	6.3%	0	0.0%	12,404	6.3%	24.6%	35,596	1,200	\$20.00
Total	18	631,054	48,605	7.7%	0	0.0%	48,605	12.3%	12.3%	35,048	3,775	\$27.26
SOUTH MAIN MEDICAL CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	11	722,821	85,302	11.8%	0	0.0%	85,302	11.8%	13.1%	9,673	4,404	\$18.08
C	8	393,112	75,310	19.2%	0	0.0%	75,310	19.2%	18.6%	-2,296	-12,983	\$15.73
Total	20	1,600,933	160,612	10.0%	0	0.0%	160,612	10.0%	9.1%	7,377	-8,579	\$16.65
SOUTHEAST												
B	17	1,537,874	106,686	6.9%	0	0.0%	106,686	6.9%	6.0%	-14,848	-6,813	\$15.32
C	2	118,209	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	19	1,656,083	106,686	6.4%	0	0.0%	106,686	6.4%	5.5%	-14,848	-6,813	\$15.32
SOUTHWEST												
A	6	1,578,768	352,344	22.3%	29,163	1.8%	381,507	24.2%	25.6%	23,343	-28,202	\$18.82
B	63	6,094,054	1,250,545	20.5%	5,402	0.1%	1,255,947	20.6%	19.1%	-91,084	-41,675	\$16.60
C	34	1,803,171	134,692	7.5%	0	0.0%	134,692	7.5%	7.9%	8,449	-44,789	\$15.20
Total	103	9,475,993	1,737,581	18.3%	34,565	0.4%	1,772,146	18.7%	18.0%	-59,292	-114,666	\$16.94
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	11	905,022	222,815	24.6%	0	0.0%	222,815	24.6%	25.9%	11,136	1,000	\$25.59
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	14	1,085,138	242,552	22.4%	0	0.0%	242,552	22.4%	23.4%	11,136	1,000	\$23.51
WEST BELT												
A	28	3,608,373	758,004	21.0%	303,233	8.4%	1,061,237	29.4%	24.6%	-172,144	46,663	\$28.21
B	36	2,108,656	327,198	15.5%	25,935	1.2%	353,133	16.7%	19.6%	59,128	-20,958	\$23.39
C	4	112,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	68	5,829,658	1,085,202	18.6%	329,168	5.6%	1,414,370	24.3%	22.0%	-113,016	25,705	\$26.76
WEST LOOP												
A	49	17,920,115	3,229,945	18.0%	606,472	3.4%	3,836,417	21.4%	22.5%	280,287	-37,093	\$38.45
B	52	5,879,283	760,433	12.9%	14,047	0.2%	774,480	13.2%	13.1%	-2,984	-31,499	\$26.67
C	4	216,268	0	0.0%	0	0.0%	0	0.0%	0.0%	0	2,900	\$19.50
Total	105	24,015,666	3,990,378	16.6%	620,519	2.6%	4,610,897	19.2%	20.0%	277,303	-65,692	\$36.21

### Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2018	Q4-2017	Q1-2018	Q4-2017	AVG (\$/SF)
WESTCHASE												
A	34	10,005,368	1,875,243	18.7%	696,981	7.0%	2,572,224	25.7%	24.2%	-150,438	155,796	\$35.22
B	61	7,407,642	1,348,847	18.2%	35,913	0.5%	1,384,760	18.7%	19.0%	20,891	-35,216	\$19.73
C	5	213,302	32,736	15.3%	0	0.0%	32,736	15.3%	14.7%	-1,412	0	\$16.52
Total	100	17,626,312	3,256,826	18.5%	732,894	4.2%	3,989,720	22.6%	21.4%	-130,959	120,580	\$28.65
THE WOODLANDS												
A	38	10,720,667	962,198	9.0%	56,862	0.5%	1,019,060	9.5%	9.5%	-2,949	149,403	\$33.33
B	69	4,430,967	416,088	9.4%	46,898	1.1%	462,986	10.4%	11.1%	30,270	8,656	\$25.50
C	5	131,696	41,074	31.2%	0	0.0%	41,074	31.2%	28.7%	-3,234	-3,191	\$24.81
Total	112	15,283,330	1,419,360	9.3%	103,760	0.7%	1,523,120	10.0%	10.4%	24,087	154,868	\$30.79

## Office Development Pipeline

1.5 million SF of office space is under construction and 66% of the space is pre-leased. Build-to-suit projects make up 46% of the space under construction, and the remaining 54% is spec office space which is 36% pre-leased. The table below includes office buildings under construction with a RBA of 100,000 SF or more.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
Capitol Tower	800 Capitol St	CBD	778,344	36.4%	SCD Acquisitions LLC	Jun-19
CityPlace 2 - BTS for ABS	1701 City Plaza Dr	The Woodlands	326,800	93.9%	Barker Patrinely Group, Inc	Oct-18
CityPlace - HP Building 1	City Plaza Dr	The Woodlands	189,000	100%	Barker Patrinely Group, Inc	Jan-19
CityPlace - HP Building 2	City Plaza Dr	The Woodlands	189,000	100%	Barker Patrinely Group, Inc	Jan-19

Skylines | Now Available Online at [colliers.com/houston](http://colliers.com/houston)

A skyline view of available space for eight of Houston's Class A office submarkets including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase is now available online.

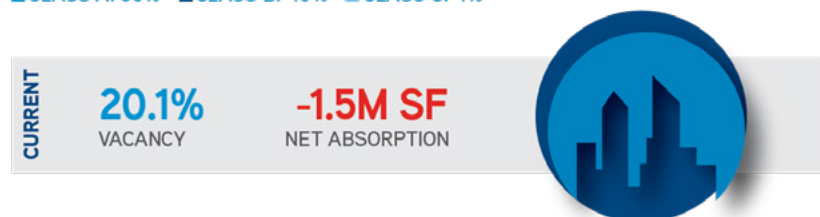
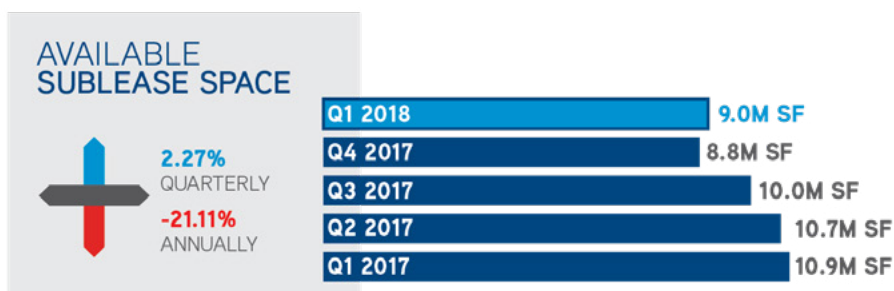
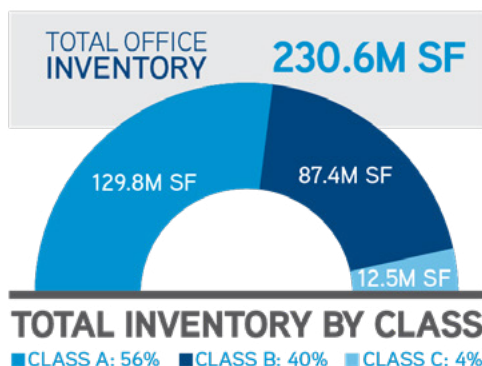


## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
BG Group Place	811 Main St	CBD	972,474	2011	93.9%	76,539	\$52.41	BG Holdco LLC
Bank of America Center	700 Louisiana St	CBD	1,268,480	1983/2001	94.1%	301,413	\$48.16	M-M Properties
Kirby Grove	2925 Richmond Ave	Greenway Plaza	248,275	2015	85.5%	45,989	\$47.31	Midway Companies
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	99.1%	13,675	\$50.04	Midway Cc15 Partners
Nexen Building	945 Bunker Hill Rd	Katy Freeway	331,513	2012	90.3%	55,554	\$42.77	MetroNational Corporation
Amegy Tower	1717 W Loop Fwy S	West Loop/Galleria	380,000	2017	90.2%	61,986	\$49.87	Aions Bancorporation
BBVA Compass Plaza	3009 Post Oak Blvd	West Loop/Galleria	326,200	2013	100%	11,035	\$51.62	Corporacion Masaveu S.A.
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2000	85.5%	154,057	\$50.45	Canada Pension Plan Investment Board
Granite Briarpark Green	3151 Briarpark Dr	Westchase	302,551	2013	98.9%	97,500	\$39.77	GPI Briarpark Green LP
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	95.5%	8,899	\$44.47-\$50.47	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space currently listed.  
Source: CoStar Property

## Q1 2018 Houston Office Highlights



### FOR MORE INFORMATION

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Colliers statistical criteria includes all general purpose multi and single tenant office buildings 20,000 SF or greater.

# Houston's office market posts positive net absorption for the first time in several years

**Lisa Bridges** Director of Market Research | Houston

After six straight quarters of negative net absorption, Houston's office market posts 673,000 SF of positive net absorption in Q4 2017. Although positive, Houston's office market 2017 year-end absorption total is still well within the red, at negative 1.7M SF. After three years in an economic energy slump, Houston's office market is ready for a boost. Even though oil prices have recently increased, the increase is not enough to spur hiring sprees in the energy industry. With the recent increase in oil prices the U.S. Energy Information Administration (EIA) has revised its forecast for world oil demand in 2018 by 100,000 barrels per day. Although Brent crude prices are up to \$64 per barrel, the highest price since November 2014, it's not enough to accelerate leasing of vacant office space. Recent news articles indicate that some of the large energy giants reported profits in the fourth quarter. However, profits were largely driven by continued lean budgets and staff reductions.

Developers have shown restraint over the past few years, only starting projects with a lead tenant guaranteed. A handful of planned buildings broke ground this past year with lead tenants in place including Bank of America, American Bureau of Shipping and HP. Once these projects deliver, those companies will vacate their existing space, leaving more than 1 million square feet for landlords to backfill.

In August 2017, Houston faced one of the worst natural disasters in history. Hurricane Harvey, a Category 4 hurricane, slammed the Texas coast and dumped over 50 inches of rain in parts of Houston. The event caused widespread flooding, destroying homes, businesses and infrastructure. This was a temporary set-back for many, but has had permanent ramifications for others. A joint industry survey confirmed that less than 7% of Houston's office inventory suffered damage. Of that amount, the majority have been repaired and back in operation with a handful of buildings still undergoing repair.

According to the U.S. Bureau of Labor Statistics, the Houston MSA created 48,500 jobs (not seasonally adjusted) between November 2016 and November 2017, an annual growth rate of 1.6%, which is above than the national averages job growth rate of 1.5%.

Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↓	↑
NET ABSORPTION	↑	↑	↓
NEW CONSTRUCTION	↑	↑	↓
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q4 2016	Q3 2017	Q4 2017
Vacancy Rate	17.5%	19.3%	19.1%
Net Absorption (Million Square Feet)	-0.1	-0.8	0.7
New Construction (Million Square Feet)	0	0.2	0.5
Under Construction (Million Square Feet)	3.1	2.2	1.1
Class A Vacancy Rate			
CBD	13.4%	18.3%	18.5%
Suburban	19.7%	21.9%	21.3%

Asking Rents Per Square Foot Per Year			
Houston Class A	\$35.35	\$35.31	\$34.97
CBD Class A	\$44.64	\$44.36	\$44.37
Suburban Class A	\$32.78	\$32.92	\$32.33

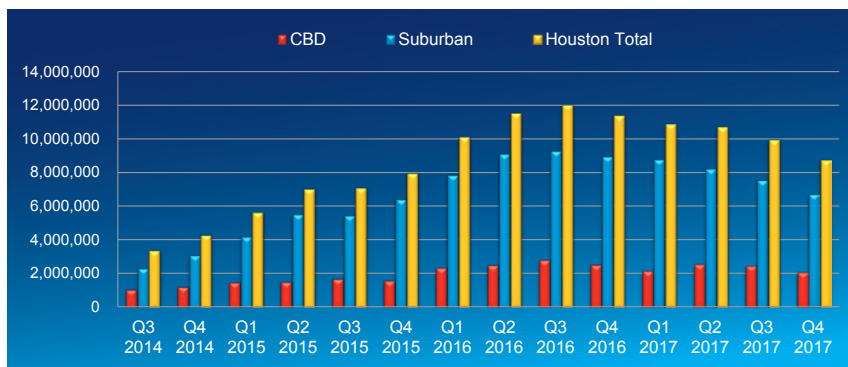
## Vacancy & Availability

Houston's citywide vacancy rate decreased 20 basis points from 19.3% to 19.1% over the quarter and rose 150 basis points from 17.5% in Q4 2016. Over the quarter, the average suburban vacancy rate decreased 20 basis points from 18.9% to 18.7% and the average CBD vacancy rate increased 20 basis points from 20.4% to 20.6%.

The average CBD Class A and Class B vacancy rates increased 20 basis points over the quarter from 18.3% to 18.5% and from 28.2% to 28.4%, respectively. The average suburban Class A vacancy rate decreased 60 basis points from 21.9% to 21.3% between quarters, while the average suburban Class B vacancy rate rose 10 basis from 16.7% to 16.8%.

Of the 1,709 existing office buildings in our survey, 86 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Further, 24 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 8.8 million SF, or 3.8% of Houston's total office inventory. Available space differs from vacant space, in that it includes space that is currently being marketed for lease and may be occupied with a future availability date. Whereas vacant space is truly vacant and is and may still be immediately available.

### HISTORICAL AVAILABLE SUBLEASE SPACE



### AVAILABLE SUBLEASE SPACE - 150,000 SF OR GREATER

Large Sublease Availabilities (Total available in building and/or complex)			
BUILDING	TENANT	SUBMARKET	SF
Four WestLake Park	BP	Katy Freeway	504,327
Two Allen Center	Chevron	CBD	396,309
1100 Louisiana	Enbridge	CBD	294,580
Three Greenspoint Place	ExxonMobil	North Belt	253,562
One Shell Plaza	Shell Oil	CBD	229,140
Three WestLake Park	Phillips 66	Katy Freeway	221,723
8 Greenspoint	ExxonMobil	North Belt	198,256
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Energy Center I	Foster Wheeler	Katy Freeway	182,966
Four Oaks Place	BHP	West Loop/Galleria	180,343
West Memorial Place II	IHI E&C	Katy Freeway	158,317
CityWestPlace 2	Statoil	Westchase	154,887
Three Northborough	FMC Technologies	North Belt	151,372

Source: CoStar

## Job Growth & Unemployment

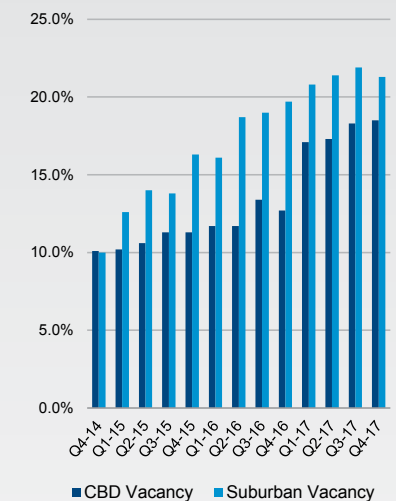
(not seasonally adjusted)

UNEMPLOYMENT	11/16	11/17
HOUSTON	5.2%	4.3%
TEXAS	4.5%	3.7%
U.S.	4.4%	3.9%

JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	1.6%	48.5K
TEXAS	2.7%	331.6K
U.S.	1.5%	2.1M

### CBD vs. Suburban

#### CLASS A OFFICE VACANCY



#### CLASS A OFFICE RENTS





## Absorption & Demand

Houston's office market posted 673,545 SF of positive net absorption in Q4 2017. CBD Class A space recorded the largest loss, with 72,517 SF of negative net absorption, while Suburban Class A posted the largest gain with 767,203 SF of positive net absorption. Some of the tenants that moved during the quarter include McDermott International (186,962 SF) in the West Belt submarket, Targa Resources Corp. (128,600 SF) in the CBD submarket, Lockton Companies (116,250 SF) in the Westchase submarket and Empyrean Benefit Solutions, Inc. (106,904 SF) in the Westchase submarket. The large amount of sublease space placed on the market during the energy downturn has steadily decreased over the last five quarters from 11.8M SF to 8.8M SF. The majority of the available sublease space has less than three years of term remaining.

## Rental Rates

Houston's average Class A asking rental rate decreased over the quarter from \$35.31 per SF to \$34.97 per SF. The average Class A rental rate in the CBD remained steady over the quarter at \$44.37 per SF, while the average Suburban Class A rental rate decreased from \$32.92 to \$32.33 per SF. The current average rental rate, which includes all property classes, for Houston office space is \$29.22 per SF gross.

## Leasing Activity

Houston's office leasing activity increased 17% over the quarter, rising from 3.0 million SF in Q3 2017 to 3.5 million SF in Q4 2017. A majority of the leasing activity was caused by renewals, but there were some tenants that needed short-term sublease space while their current lease space is rebuilt due to damage caused by Hurricane Harvey.

### Q4 2017 Select Office Lease Transactions

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Two Allen Center	CBD	200,000	Saudi Aramco <sup>4</sup>	Oct-17
1360 Post Oak Blvd	West Loop/Galleria	156,151	Stewart Title <sup>4</sup>	Nov-17
Three Allen Center	CBD	98,000	Talos Energy <sup>1</sup>	Dec-17
Bank of America Center	CBD	82,916	TransCanada <sup>3</sup>	Oct-17
Two Allen Center	CBD	55,178	Chamberlain Hrdlicka <sup>2</sup>	Oct-17
LyondellBasell Tower	CBD	48,233	Beck Redden <sup>2</sup>	Nov-17

<sup>1</sup>New/Direct

<sup>2</sup>Renewal

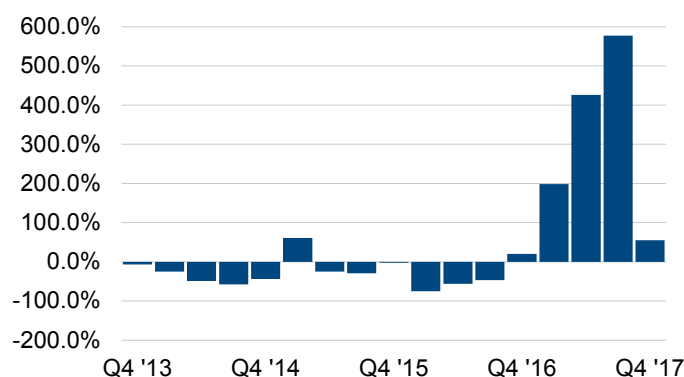
<sup>3</sup>Expansion

<sup>4</sup>Sublease

## Sales Activity

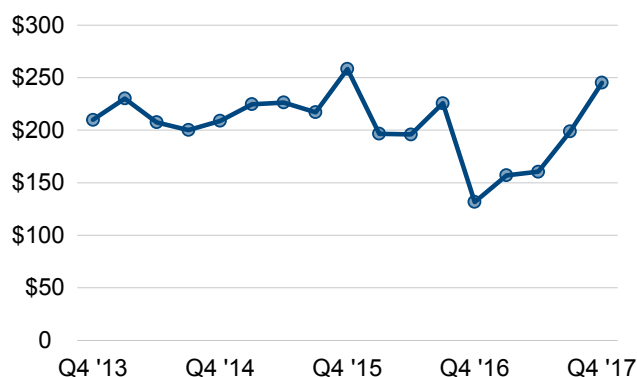
Houston's office investment sales activity grew substantially over the year, rising by 54% since Q4 2016. With most of the investor community believing the downturn in the energy industry has reached the bottom and has begun to rebound, they now see Houston as offering limited downside and the potential for healthy returns. The average sales price per square foot increased from \$199 to \$245 per SF over the quarter and rose significantly over the year by 86%.

### Q4 2017 CHANGE IN SALES (YEAR OVER YEAR)



Sources: CoStar and Real Capital Analytics

### Q4 2017 OFFICE SALES PRICE PER SF



## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2017	Q3-2017	Q4-2017	Q3-2017	AVG (\$/SF)
CBD												
A	35	32,989,934	4,889,887	14.8%	1,224,504	3.7%	6,114,391	18.5%	18.3%	-72,517	-318,832	\$44.37
B	29	9,786,995	2,696,141	27.5%	79,902	0.8%	2,776,043	28.4%	28.2%	-12,296	49,426	\$29.46
C	14	877,182	110,139	12.6%	0	0.0%	110,139	12.6%	12.5%	-450	0	\$20.26
Total	78	43,654,111	7,696,167	17.6%	1,304,406	3.0%	9,000,573	20.6%	20.4%	-85,263	-269,406	\$41.02
SUBURBAN												
A	380	97,348,807	17,483,824	18.0%	3,243,132	3.3%	20,726,956	21.3%	21.9%	767,203	-293,549	\$32.33
B	942	78,134,090	12,647,319	16.2%	467,390	0.6%	13,114,709	16.8%	16.7%	-22,461	-226,857	\$20.46
C	309	12,933,782	1,421,941	11.0%	8,739	0.1%	1,430,680	11.1%	11.3%	14,066	-46,167	\$16.86
Total	1631	188,416,679	31,553,084	16.7%	3,719,261	2.0%	35,272,345	18.7%	18.9%	758,808	-566,573	\$26.88
OVERALL												
A	415	130,338,741	22,373,711	17.2%	4,467,636	3.4%	26,841,347	20.6%	20.9%	694,686	-612,381	\$34.97
B	971	87,921,085	15,343,460	17.5%	547,292	0.6%	15,890,752	18.1%	18.0%	-34,757	-177,431	\$22.04
C	323	13,810,964	1,532,080	11.1%	8,739	0.1%	1,540,819	11.2%	11.4%	13,616	-46,167	\$17.11
Total	1709	232,070,790	39,249,251	16.9%	5,023,667	2.2%	44,272,918	19.1%	19.3%	673,545	-835,979	\$29.22

## Houston Suburban Office Market Summary

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2017	Q3-2017	Q4-2017	Q3-2017	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	8	2,284,619	416,878	18.2%	26,456	1.2%	443,334	19.4%	24.7%	120,649	-135,299	\$32.54
B	34	2,587,866	157,579	6.1%	24,233	0.9%	181,812	7.0%	7.5%	13,306	-11,897	\$30.17
C	14	415,211	78,961	19.0%	0	0.0%	78,961	19.0%	23.8%	19,982	-8,192	\$25.86
Total	56	5,287,696	653,418	12.4%	50,689	1.0%	704,107	13.3%	16.2%	153,937	-155,388	\$31.16
BAYTOWN												
B	3	186,005	13,579	7.3%	0	0.0%	13,579	7.3%	2.7%	-8,617	0	\$21.45
C	3	81,481	2,500	3.1%	0	0.0%	2,500	3.1%	0.0%	-2,500	0	\$0.00
Total	6	267,486	16,079	6.0%	0	0.0%	16,079	6.0%	1.9%	-11,117	0	\$18.11
BELLAIRE												
A	6	1,091,536	127,336	11.7%	20,294	1.9%	147,630	13.5%	11.8%	-18,293	7,448	\$24.31
B	20	2,511,750	200,920	8.0%	3,626	0.1%	204,546	8.1%	8.6%	12,235	-44,953	\$24.35
C	5	318,508	34,347	10.8%	0	0.0%	34,347	10.8%	12.9%	6,786	509	\$17.24
Total	31	3,921,794	362,603	9.2%	23,920	0.6%	386,523	9.9%	9.9%	728	-36,996	\$23.66
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	377,455	8,795	2.3%	0	0.0%	8,795	2.3%	2.3%	0	3,879	\$19.51
C	7	287,369	14,188	4.9%	0	0.0%	14,188	4.9%	4.9%	0	0	\$16.47
Total	17	724,824	22,983	3.2%	0	0.0%	22,983	3.2%	3.2%	0	3,879	\$17.63
E. FORT BEND CO/SUGAR LAND												
A	17	3,399,199	223,993	6.6%	34,456	1.0%	258,449	7.6%	9.3%	56,893	28,904	\$31.24
B	39	2,400,968	174,984	7.3%	38,557	1.6%	213,541	8.9%	9.4%	11,246	23,791	\$21.85
C	6	194,524	31,487	16.2%	0	0.0%	31,487	16.2%	16.2%	0	1,454	\$18.00
Total	62	5,994,691	430,464	7.2%	73,013	1.2%	503,477	8.4%	9.7%	68,139	54,149	\$25.14

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2017	Q3-2017	Q4-2017	Q3-2017	AVG (\$/SF)
FM 1960												
A	12	2,913,178	302,353	10.4%	4,415	0.2%	306,768	10.5%	9.8%	-22,528	24,021	\$27.23
B	72	4,337,459	861,928	19.9%	9,833	0.2%	871,761	20.1%	19.6%	12,812	-22,298	\$16.88
C	23	806,282	144,544	17.9%	0	0.0%	144,544	17.9%	12.5%	-44,038	-38,862	\$14.01
Total	107	8,056,919	1,308,825	16.2%	14,248	0.2%	1,323,073	16.4%	16.3%	-53,754	-37,139	\$18.95
GREENWAY												
A	22	7,483,998	1,283,810	17.2%	40,191	0.5%	1,324,001	17.7%	15.5%	-5,185	73,190	\$35.90
B	31	3,099,575	311,235	10.0%	8,443	0.3%	319,678	10.3%	11.0%	21,538	27,379	\$27.34
C	16	540,311	70,730	13.1%	0	0.0%	70,730	13.1%	13.4%	1,672	759	\$22.40
Total	69	11,123,884	1,665,775	15.0%	48,634	0.4%	1,714,409	15.4%	14.1%	18,025	101,328	\$33.73
GULF FREEWAY PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	39	2,318,121	353,814	15.3%	0	0.0%	353,814	15.3%	15.3%	893	328	\$21.56
C	29	1,083,382	121,367	11.2%	0	0.0%	121,367	11.2%	13.2%	21,889	-13,689	\$22.00
Total	69	3,424,209	475,181	13.9%	0	0.0%	475,181	13.9%	14.5%	22,782	-13,361	\$21.67
I-10 EAST												
B	6	427,851	89,562	20.9%	0	0.0%	89,562	20.9%	22.1%	4,961	11,864	\$14.92
C	6	250,017	13,000	5.2%	0	0.0%	13,000	5.2%	5.2%	0	5,277	\$21.18
Total	12	677,868	102,562	15.1%	0	0.0%	102,562	15.1%	16.4%	4,961	17,141	\$15.71
KATY FREEWAY												
A	89	22,268,352	3,533,573	15.9%	1,276,044	5.7%	4,809,617	21.6%	23.2%	429,323	-119,326	\$36.91
B	99	9,182,297	1,568,823	17.1%	38,305	0.4%	1,607,128	17.5%	18.5%	164,002	-100,522	\$22.35
C	32	1,485,888	53,738	3.6%	5,982	0.4%	59,720	4.0%	5.2%	17,649	-9,494	\$18.92
Total	220	32,936,537	5,156,134	15.7%	1,320,331	4.0%	6,476,465	19.7%	21.3%	610,974	-229,342	\$32.29
KATY GRAND PARKWAY												
A	14	1,372,203	253,728	18.5%	14,092	1.0%	267,820	19.5%	19.9%	5,492	31,890	\$26.93
B	14	1,078,242	5,124	0.5%	0	0.0%	5,124	0.5%	1.5%	10,751	17,536	\$30.08
C	3	190,504	669	0.4%	0	0.0%	669	0.4%	0.0%	-669	0	\$22.26
Total	31	2,640,949	259,521	9.8%	14,092	0.5%	273,613	10.4%	12.3%	15,574	49,426	\$26.92
KINGWOOD HUMBLE												
B	21	1,394,112	55,511	4.0%	1,414	0.1%	56,925	4.1%	4.7%	8,164	10,274	\$21.80
C	5	168,300	38,319	22.8%	0	0.0%	38,319	22.8%	23.6%	1,320	-376	\$19.13
Total	26	1,562,412	93,830	6.0%	1,414	0.1%	95,244	6.1%	6.7%	9,484	9,898	\$20.71
NASA CLEAR LAKE												
A	12	1,772,451	119,256	6.7%	17,559	1.0%	136,815	7.7%	7.6%	-2,241	-6,429	\$24.15
B	49	3,323,585	1,054,000	31.7%	735	0.0%	1,054,735	31.7%	30.9%	-27,977	-45,191	\$18.72
C	20	586,995	123,017	21.0%	0	0.0%	123,017	21.0%	22.2%	7,174	-32,760	\$15.61
Total	81	5,683,031	1,296,273	22.8%	18,294	0.3%	1,314,567	23.1%	23.8%	-23,044	-84,380	\$18.92
NORTH BELT/GREENSPOINT												
A	24	5,456,015	2,901,906	53.2%	251,866	4.6%	3,153,772	57.8%	57.9%	7,854	26,269	\$23.94
B	51	5,290,944	1,717,315	32.5%	105,730	2.0%	1,814,481	34.3%	34.4%	6,100	-32,720	\$15.94
C	22	1,342,784	275,691	20.5%	2,757	0.2%	278,448	20.7%	22.3%	20,573	28,137	\$14.09
Total	97	12,089,743	4,894,912	40.5%	360,353	3.0%	5,246,701	43.4%	44.9%	34,527	21,686	\$20.58
NORTHEAST NEAR AND OUTLIER												
A	3	640,700	32,583	5.1%	0	0.0%	32,583	5.1%	5.1%	-118	52,535	\$0.00
B	5	207,158	29,885	14.4%	0	0.0%	29,885	14.4%	21.9%	15,561	-2,963	\$23.21
C	2	56,562	12,246	21.7%	0	0.0%	12,246	21.7%	14.9%	-3,803	0	\$15.00
Total	10	904,420	74,714	8.3%	0	0.0%	74,714	8.3%	9.5%	11,640	49,572	\$11.74

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2017	Q3-2017	Q4-2017	Q3-2017	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,223,165	706,064	31.8%	3,674	0.2%	709,738	31.9%	32.4%	9,834	-6,996	\$24.01
B	76	5,923,845	952,540	16.1%	13,967	0.2%	966,507	16.3%	15.1%	-71,074	38,824	\$18.90
C	32	1,301,378	51,716	4.0%	0	0.0%	51,716	4.0%	4.7%	9,052	-14,112	\$16.21
Total	118	9,448,388	1,710,320	18.1%	17,641	0.2%	1,727,961	18.3%	17.4%	-52,188	17,716	\$20.93
RICHMOND FOUNTAINVIEW												
B	13	780,198	112,402	14.4%	0	0.0%	112,402	14.4%	14.5%	708	-2,240	\$22.77
C	12	486,445	20,159	4.1%	0	0.0%	20,159	4.1%	7.6%	16,820	23,263	\$16.83
Total	25	1,266,643	132,561	10.5%	0	0.0%	132,561	10.5%	11.8%	17,528	21,023	\$21.87
SAN FELIPE VOSS												
A	3	1,720,793	378,726	22.0%	0	0.0%	378,726	22.0%	22.7%	12,592	-17,642	\$35.86
B	30	3,162,586	511,261	16.2%	19,475	0.6%	530,736	16.8%	14.7%	-64,942	-36,301	\$23.97
Total	33	4,883,379	889,987	18.2%	19,475	0.4%	909,462	18.6%	18.3%	-52,350	-53,943	\$29.03
SOUTH												
A	1	76,048	7,252	9.5%	0	0.0%	7,252	9.5%	9.5%	0	10,033	\$32.28
B	12	408,812	28,401	6.9%	0	0.0%	28,401	6.9%	7.6%	2,575	-81	\$26.55
C	5	194,042	48,000	24.7%	0	0.0%	48,000	24.7%	25.4%	1,200	0	\$18.00
Total	18	678,902	83,653	12.3%	0	0.0%	83,653	12.3%	12.9%	3,775	9,952	\$27.26
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	11	815,274	86,342	10.6%	108	0.0%	86,450	10.6%	10.8%	1,929	-11,709	\$16.07
C	8	428,964	71,304	16.6%	0	0.0%	71,304	16.6%	13.6%	-12,983	1,434	\$15.21
Total	20	1,729,238	157,646	9.1%	108	0.0%	157,754	9.1%	8.5%	-11,054	-10,275	\$16.65
SOUTHEAST												
B	17	1,537,874	91,838	6.0%	0	0.0%	91,838	6.0%	5.5%	-6,813	3,172	\$17.06
C	3	142,419	978	0.7%	0	0.0%	978	0.7%	0.0%	-978	0	\$24.00
Total	20	1,680,293	92,816	5.5%	0	0.0%	92,816	5.5%	4.5%	-7,791	3,172	\$17.13
SOUTHWEST												
A	6	1,578,768	396,778	25.1%	8,072	0.5%	404,850	25.6%	23.9%	-28,202	-68,560	\$18.41
B	63	6,110,765	1,165,955	19.1%	5,402	0.1%	1,171,357	19.2%	18.7%	-28,198	-37,137	\$17.88
C	37	1,877,125	145,816	7.8%	0	0.0%	145,816	7.8%	5.4%	-44,789	4,620	\$15.11
Total	106	9,566,658	1,708,549	17.9%	13,474	0.1%	1,722,023	18.0%	14.3%	-101,189	-101,077	\$17.77
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	11	905,022	223,815	24.7%	10,136	1.1%	233,951	25.9%	26.0%	1,000	16,200	\$25.59
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	14	1,085,138	243,552	22.4%	10,136	0.9%	253,688	23.4%	23.5%	1,000	16,200	\$23.52
WEST BELT												
A	28	3,608,373	647,003	17.9%	242,090	6.7%	889,093	24.6%	25.9%	-45,009	-114,482	\$29.74
B	32	1,905,534	273,690	14.4%	75,954	4.0%	349,644	18.3%	17.4%	-18,758	28,730	\$23.07
C	4	112,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	64	5,626,536	920,693	16.4%	318,044	5.7%	1,238,737	22.0%	22.5%	-63,767	-85,752	\$27.76
WEST LOOP/GALLERIA												
A	49	18,098,537	3,376,111	18.7%	687,266	3.8%	4,063,377	22.5%	22.2%	-45,009	-114,482	\$37.67
B	52	5,879,588	759,277	12.9%	12,219	0.2%	771,496	13.1%	12.6%	-31,499	-42,827	\$26.80
C	4	216,268	0	0.0%	0	0.0%	0	0.0%	1.3%	2,900	-200	\$19.50
Total	105	24,194,393	4,135,388	17.1%	699,485	2.9%	4,834,873	20.0%	19.7%	-73,608	-157,509	\$35.67

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)	NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2017	Q3-2017	AVG (\$/SF)
WESTCHASE										
A	34	10,006,734	1,794,179	17.9%	568,530	5.7%	2,362,709	23.6%	23.6%	\$34.45
B	63	7,555,862	1,379,994	18.3%	33,601	0.4%	1,413,595	18.7%	18.2%	\$19.82
C	5	213,302	31,324	14.7%	0	0.0%	31,324	14.7%	14.7%	\$16.28
Total	102	17,775,898	3,205,497	18.0%	602,131	3.4%	3,807,628	21.4%	21.2%	\$28.65
THE WOODLANDS										
A	37	10,627,712	962,558	9.1%	48,127	0.5%	1,010,685	9.5%	10.9%	\$32.67
B	70	4,425,342	458,750	10.4%	65,652	1.5%	524,402	11.8%	11.5%	\$25.07
C	5	131,696	37,840	28.7%	0	0.0%	37,840	28.7%	26.3%	\$25.20
Total	112	15,184,750	1,459,148	9.6%	113,779	0.7%	1,572,927	10.4%	11.2%	\$30.09

## Office Development Pipeline

1.9 million SF of office space is under construction, of which 62% is pre-leased. Build-to-suit projects make up 44% of the pipeline and the remaining 56% is spec office space under construction and is 36% pre-leased. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
Capitol Tower	800 Capitol St	CBD	778,344	31%	SCD Acquisitions LLC	Jun-19
CityPlace 2 - BTS for ABS	1701 City Plaza Dr	The Woodlands	326,800	93.9%	Barker Patrinely Group, Inc	Oct-18
CityPlace - HP Building 1	City Plaza Dr	The Woodlands	189,000	100%	Barker Patrinely Group, Inc	Jan-19
CityPlace - HP Building 2	City Plaza Dr	The Woodlands	189,000	100%	Barker Patrinely Group, Inc	Jan-19
The Post Oak	1600 West Loop S	West Loop/Galleria	104,579	70%	Tellepsen Builders	Feb-18

## Skylines | Now Available Online at [colliers.com/texas/houston/skylines](http://colliers.com/texas/houston/skylines)

At a glance, view available space for eight of Houston's Class A office skylines including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase.





## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
BG Group Place	811 Main St	CBD	972,474	2011	92.4%	131,628	\$53.91	BG Holdco LLC
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	98.5%	97,532	\$51.06	Brookfield Office Properties, Inc
Kirby Grove	2925 Richmond Ave	Greenway Plaza	248,275	2015	85.5%	45,989	\$47.31	Midway Companies
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	99.1%	8,790	\$50.04	Midway Cc15 Partners
Town Centre One	750 Town & Country Blvd	Katy Freeway	253,714	2015	77.1%	58,065	\$42.04	Moody Ramin
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	90.2%	171,892	\$47.81	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2003	90.1%	39,764	\$45.48	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	85.5%	128,303	\$44.83	Canada Pension Plan Investment Board
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	89.5%	197,928	\$44.63	TIER REIT, Inc
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	94.0%	8,899	\$44.47-\$50.47	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space currently listed.  
Source: CoStar Property

## Q4 2017 Houston Office Highlights



### FOR MORE INFORMATION

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Colliers statistical criteria includes all general purpose multi and single tenant office buildings 20,000 SF or greater.

# Houston's office market vacancy rate continues to struggle amid \$50 crude prices

**Lisa Bridges** Director of Market Research | Houston

Houston's office market continues to struggle as U.S. crude prices waiver around \$50 per barrel. According to the U.S. Energy Information Administration (EIA), they are expected to stay in this range through 2018. With no indication that prices will rise substantially over the next few years, vacant office space placed on the market by firms in the energy industry will take longer to absorb. Recent news articles indicate that some of the large energy giants reported profits in the second quarter. However, profits were largely driven by lean budgets and staff reductions.

Fortunately, most of the proposed projects that were in the construction pipeline when the oil slump hit were put on hold. Companies such as Bank of America, American Bureau of Shipping and HP, have signed leases in proposed buildings that have either recently begun construction or will begin in the very near future. Once these projects deliver, those companies will vacate their existing space, leaving more than 1.0 million square feet for landlords to backfill.

During the third quarter of 2017, Houston faced one of the worst natural disasters in history. Hurricane Harvey, a Category 4 hurricane, slammed the Texas coast and dumped over 50 inches of rain in parts of Houston. The event caused widespread flooding, destroying homes, businesses and infrastructure. Several large refineries were shut down due to the flooding and off-shore drilling was stopped once the storm entered the Gulf of Mexico. This event stalled business for several weeks, but Houston was resilient and quickly went back to work. This was a temporary set-back for many, but has had permanent ramifications for others. A joint industry survey confirmed that less than 7% of Houston's office inventory suffered damage. Of that amount, approximately 45% were repaired and back on-line within the first month. Another 30% reported repairs to be completed by the end of the year and the remaining properties were so severely damaged they could not report a time frame for repairs.

According to the U.S. Bureau of Labor Statistics, the Houston MSA created 53,500 jobs (not seasonally adjusted) between August 2016 and August 2017, an annual growth rate of 1.8%.

Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↑	↑
NET ABSORPTION	↓	■	■
NEW CONSTRUCTION	↓	■	↑
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q3 2016	Q2 2017	Q3 2017
Vacancy Rate	16.9%	18.8%	19.1%
Net Absorption (Million Square Feet)	-0.4	-0.7	-0.7
New Construction (Million Square Feet)	1.5	0.2	0.2
Under Construction (Million Square Feet)	2.9	2.3	2.2
Class A Vacancy Rate CBD Suburban	12.8% 19.6%	17.3% 21.4%	18.3% 21.4%

Asking Rents Per Square Foot Per Year			
Houston Class A	\$36.10	\$35.50	\$35.31
CBD Class A	\$45.38	\$44.39	\$44.36
Suburban Class A	\$34.25	\$33.16	\$32.92

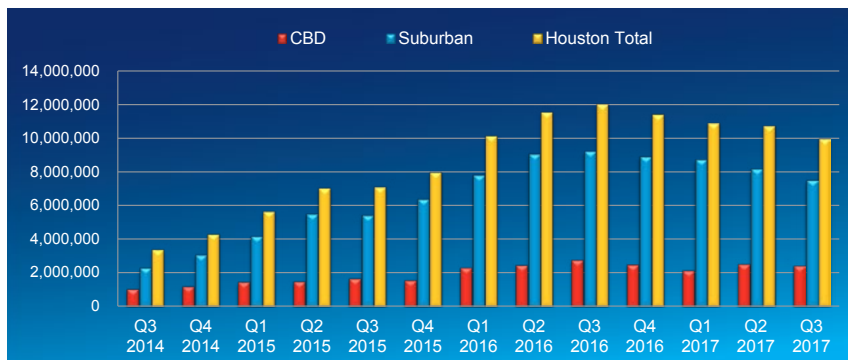
## Vacancy & Availability

Houston's citywide vacancy rate rose 30 basis points from 18.8% to 19.1% over the quarter, and rose 200 basis points from 17.1% in Q3 2016. Over the quarter, the average suburban vacancy rate increased 30 basis points from 18.5% to 18.8%, and the average CBD vacancy rate increased 60 basis points from 19.8% to 20.4%.

The average CBD Class A vacancy rate increased 100 basis points from 17.3% to 18.3% over the quarter, while the average CBD Class B vacancy rate fell 50 basis points from 28.7% to 28.2%. The average suburban Class A vacancy rate remained steady at 21.4% between quarters, while the average suburban Class B vacancy rate rose 50 basis from 16.4% to 16.9%.

Of the 1,709 existing office buildings in our survey, 91 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Further, 28 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 10.0 million SF or 4.3% of Houston's total office inventory, and 18.2% of the total available space. Available space differs from vacant space, in that it includes space that is currently being marketed for lease, and may be occupied with a future availability date. Whereas vacant space is truly vacant and is and may still be immediately available.

### HISTORICAL AVAILABLE SUBLEASE SPACE



### AVAILABLE SUBLEASE SPACE - 150,000 SF OR GREATER

Large Sublease Availabilities (Total available in building and/or complex)			
BUILDING	TENANT	SUBMARKET	SF
Four WestLake Park	BP	Katy Freeway	504,327
Two Allen Center	Chevron	CBD	396,309
One Shell Plaza	Shell Oil	CBD	320,796
Four Oaks Place	BHP	West Loop/Galleria	320,349
1100 Louisiana	Enbridge	CBD	294,580
Three Greenspoint Place	ExxonMobil	North Belt	253,562
Three WestLake Park	Phillips 66	Katy Freeway	221,723
8 Greenspoint	ExxonMobil	North Belt	198,256
CityWestPlace 2	Statoil	Westchase	190,214
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Energy Center I	Foster Wheeler	Katy Freeway	182,966
West Memorial Place II	IHI E&C	Katy Freeway	158,317
Three Northborough	FMC Technologies	North Belt	151,372

Source: CoStar

## Job Growth & Unemployment

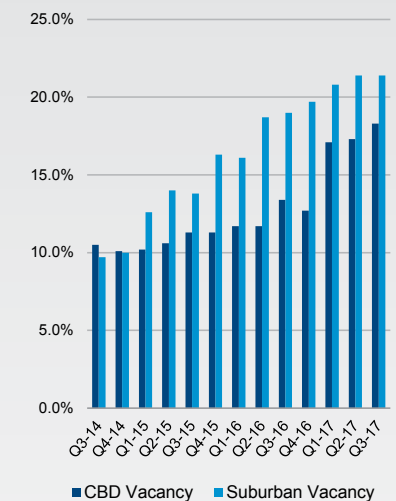
(not seasonally adjusted)

UNEMPLOYMENT	8/16	8/17
HOUSTON	5.7%	5.2%
TEXAS	4.9%	4.5%
U.S.	5.1%	4.5%

JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	1.8%	53.5K
TEXAS	2.4%	286.3K
U.S.	1.5%	2.1M

### CBD vs. Suburban

#### CLASS A OFFICE VACANCY



#### CLASS A OFFICE RENTS



## Absorption & Demand

Houston's office market posted 669,517 SF of negative net absorption in Q3 2017. Suburban Class B space recorded the largest loss, with 406,747 SF of negative net absorption, while Suburban Class A posted the largest gain with 61,218 SF of positive net absorption. Some of the tenants that moved during the quarter include Kirkland & Ellis (104,025 SF) in the CBD submarket, ABM Industries Incorporated (62,457 SF) in the E Fort Bend Co/Sugar Land submarket, and Apache Industrial Services Inc. (33,128 SF) in the Northeast Near submarket. Over the last two years, Houston's office market has suffered due to downsizing by large energy companies, and some of these firms moved from leases in third-party buildings into owned property, thus creating a glut of vacant sublease space. However, available sublease space has decreased over the last four quarters, primarily due to lease expirations and space going back to the landlord. There were a few instances where the sublease space was withdrawn by the sublessor. The majority of the sublease space in the market now has three years of term or less remaining.

## Rental Rates

Houston's average Class A asking rental rate increased over the quarter from \$35.50 per SF to \$35.31 per SF. The average Class A rental rate in the CBD remained steady over the quarter at \$44.36 per SF, while the average Suburban Class A rental rate decreased from \$33.16 to \$32.74 per SF. The current average rental rate, which includes all property classes, for Houston office space is \$29.34 per SF gross.

## Leasing Activity

Houston's office leasing activity decreased 18.7% between quarters, dropping from 3.4 million SF in Q2 2017 to 2.7 million SF in Q3 2017.

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
910 Louisiana	CBD	431,000	NRG <sup>1</sup>	Aug-17
1000 Main	CBD	105,026	Porter Hedges LLP <sup>2</sup>	Aug-17
601 Travis	CBD	60,000	EDF Trading NA <sup>1</sup>	Jul-17
811 Main St	CBD	50,000	Gibson Dunn <sup>4</sup>	Sep-17
Heritage Plaza	CBD	28,560	S&P Global Platts <sup>2</sup>	Sep-17
Three Hughes Landing	The Woodlands	27,390	Sabinal Energy <sup>1,3</sup>	Sep-17

<sup>1</sup>New/Direct

<sup>2</sup>Renewal

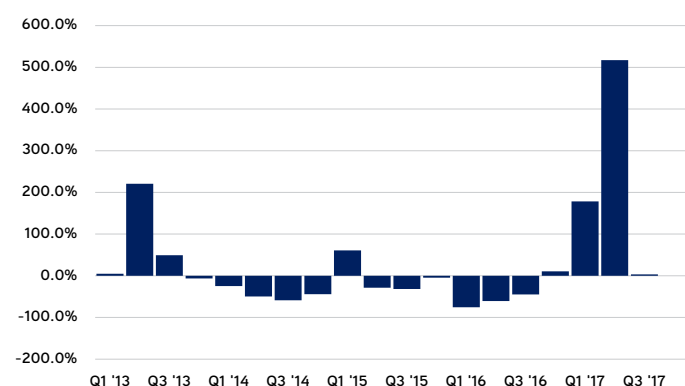
<sup>3</sup>Colliers International Transaction

<sup>4</sup>Sublease

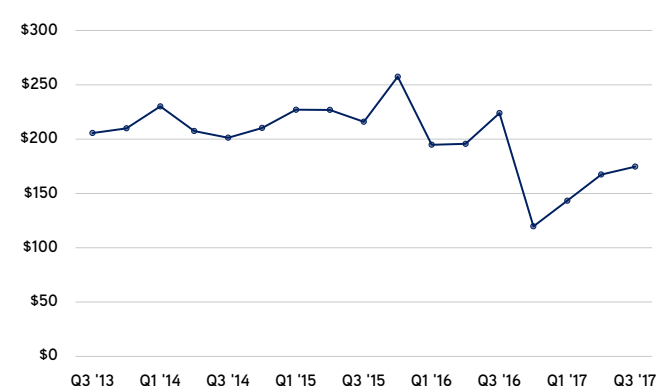
## Sales Activity

Houston's office investment sales activity increased substantially over the year, increasing by 3.4% since Q3 2016. With most of the investor community believing the downturn in the energy industry has reached the bottom and has begun to rebound, they now see Houston as offering limited downside and the potential for healthy returns. The average sales price per square foot increased over the quarter, but is still below the historical average.

Q3 2017 CHANGE IN SALES (YEAR OVER YEAR)



Q3 2017 OFFICE SALES PRICE PER SF



Sources: CoStar and Real Capital Analytics

## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE	
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2017	Q2-2017	Q3-2017	Q2-2017	AVG (\$/SF)
CBD												
A	35	32,894,996	4,817,048	14.6%	1,189,387	3.6%	6,006,435	18.3%	17.3%	-315,051	-79,994	\$44.36
B	29	9,786,995	2,686,247	27.4%	77,500	0.8%	2,763,747	28.2%	28.7%	49,426	-99,793	\$29.29
C	14	877,182	109,689	12.5%	0	0.0%	109,689	12.5%	12.5%	0	-10,402	\$20.26
Total	78	43,559,173	7,612,984	17.5%	1,266,887	2.9%	8,879,871	20.4%	19.8%	-265,625	-190,189	\$41.02
SUBURBAN												
A	378	96,573,957	16,991,952	17.6%	3,720,739	3.9%	20,712,691	21.4%	21.4%	61,218	-823,868	\$32.92
B	946	78,347,883	12,735,103	16.3%	477,060	0.6%	13,212,163	16.9%	16.4%	-406,747	316,491	\$20.54
C	307	12,809,451	1,421,140	11.1%	14,410	0.1%	1,435,550	11.2%	10.3%	-58,363	-32,400	\$17.22
Total	1631	187,731,291	31,148,195	16.6%	4,212,209	2.2%	35,360,404	18.8%	18.5%	-403,892	-539,777	\$27.05
OVERALL												
A	413	129,468,953	21,809,000	16.8%	4,910,126	3.8%	26,719,126	20.6%	20.3%	-253,833	-903,862	\$35.31
B	975	88,134,878	15,421,350	17.5%	554,560	0.6%	15,975,910	18.1%	17.8%	-357,321	216,698	\$22.07
C	321	13,686,633	1,530,829	11.2%	14,410	0.1%	1,545,239	11.3%	10.4%	-58,363	-42,802	\$17.43
Total	1709	231,290,464	38,761,179	16.8%	5,479,096	2.4%	44,240,275	19.1%	18.8%	-669,517	-729,966	\$29.34

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2017	Q2-2017	Q3-2017	Q2-2017	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	8	2,284,619	423,786	18.5%	140,197	6.1%	563,983	24.7%	18.8%	-135,299	33,687	\$33.01
B	34	2,587,866	239,142	9.2%	11,898	0.5%	251,040	9.7%	8.5%	-31,897	40,878	\$30.85
C	14	415,211	98,943	23.8%	0	0.0%	98,943	23.8%	21.9%	-8,192	-4,203	\$25.87
Total	56	5,287,696	761,871	14.4%	152,095	2.9%	913,966	17.3%	14.0%	-175,388	70,362	\$31.40
BAYTOWN												
B	3	186,005	4,962	2.7%	0	0.0%	4,962	2.7%	2.7%	0	0	\$21.45
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	6	267,486	4,962	1.9%	0	0.0%	4,962	1.9%	1.9%	0	0	\$21.45
BELLAIRE												
A	6	1,091,536	122,699	11.2%	6,638	0.6%	129,337	11.8%	12.5%	7,448	14,641	\$24.79
B	20	2,511,750	214,690	8.5%	2,091	0.1%	216,781	8.6%	6.8%	-44,953	12,529	\$24.36
C	5	318,508	41,133	12.9%	0	0.0%	41,133	12.9%	13.1%	509	2,065	\$17.29
Total	31	3,921,794	378,522	9.7%	8,729	0.2%	387,251	9.9%	7.9%	-36,996	29,235	\$23.73
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	330,925	8,795	2.7%	0	0.0%	8,795	2.7%	3.8%	3,879	-3,879	\$20.65
C	7	287,369	14,188	4.9%	0	0.0%	14,188	4.9%	4.9%	0	2,298	\$17.69
Total	17	678,294	22,983	3.4%	0	0.0%	22,983	3.4%	3.0%	3,879	-1,581	\$18.82
E. FORT BEND CO/SUGAR LAND												
A	17	3,399,199	229,198	6.7%	86,144	2.5%	315,342	9.3%	10.1%	28,904	-28,946	\$31.19
B	39	2,432,147	221,644	9.1%	6,211	0.3%	227,855	9.4%	10.3%	23,291	20,301	\$21.84
C	5	146,524	39,464	26.9%	0	0.0%	39,464	26.9%	26.9%	0	0	\$0.00
Total	61	5,977,870	490,306	8.2%	92,355	1.5%	582,661	9.7%	10.6%	52,195	-8,645	\$26.12



## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2017	Q2-2017	Q3-2017	Q2-2017	AVG (\$/SF)
FM 1960												
A	12	2,912,546	285,928	9.8%	4,415	0.2%	290,343	10.0%	11.3%	37,766	-19,659	\$27.84
B	72	4,269,184	831,839	19.5%	76,395	1.8%	908,234	21.3%	19.3%	-85,559	46,529	\$16.57
C	21	713,914	91,573	12.8%	0	0.0%	91,573	12.8%	8.6%	-29,929	6,410	\$14.38
Total	105	7,895,644	1,209,340	15.3%	80,810	1.0%	1,290,150	16.3%	15.4%	-77,722	33,280	\$19.07
GREENWAY												
A	20	7,202,397	1,042,501	14.5%	32,497	0.5%	1,074,998	14.9%	16.0%	74,190	-25,442	\$36.83
B	31	3,193,440	363,006	11.4%	18,435	0.6%	381,441	11.9%	10.8%	-36,025	-31,852	\$27.00
C	16	541,109	72,402	13.4%	0	0.0%	72,402	13.4%	13.5%	759	10,067	\$22.56
Total	67	10,936,946	1,477,909	13.5%	50,932	0.5%	1,528,841	14.0%	14.3%	38,924	-47,227	\$33.72
GULF FREEWAY PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	39	2,318,121	354,707	15.3%	0	0.0%	354,707	15.3%	15.3%	328	54,513	\$21.31
C	29	1,083,382	143,256	13.2%	0	0.0%	143,256	13.2%	12.0%	-13,689	-3,395	\$22.51
Total	69	3,424,209	497,963	14.5%	0	0.0%	497,963	14.5%	8.8%	-13,361	51,118	\$21.66
I-10 EAST												
B	6	427,851	94,523	22.1%	0	0.0%	94,523	22.1%	24.9%	11,864	4,001	\$14.91
C	6	250,017	13,000	5.2%	0	0.0%	13,000	5.2%	7.3%	5,277	0	\$20.84
Total	12	677,868	107,523	15.9%	0	0.0%	107,523	15.9%	18.1%	17,141	4,001	\$15.63
KATY FREEWAY												
A	89	22,292,442	3,567,434	16.0%	1,585,251	7.1%	5,152,685	23.1%	22.4%	-119,326	-201,770	\$37.25
B	100	9,271,502	1,729,735	18.7%	75,591	0.8%	1,805,326	19.5%	18.4%	-100,522	-25,416	\$22.50
C	32	1,485,888	62,959	4.2%	14,410	1.0%	77,369	5.2%	4.6%	-9,494	-5,619	\$18.64
Total	221	33,049,832	5,360,128	16.2%	1,675,252	5.1%	7,035,380	21.3%	20.5%	-229,342	-232,805	\$32.27
KATY GRAND PARKWAY												
A	14	1,254,281	259,220	20.7%	14,092	1.1%	273,312	21.8%	24.3%	31,890	9,971	\$27.63
B	13	964,368	24,215	2.5%	0	0.0%	24,215	2.5%	4.3%	17,536	-9,029	\$25.91
C	3	190,504	0	0.0%	0	0.0%	0	0.0%	0.0%	0	297	\$26.26
Total	30	2,409,153	283,435	11.8%	14,092	0.6%	297,527	12.3%	14.4%	49,426	1,239	\$27.48
KINGWOOD HUMBLE												
B	21	1,394,112	65,089	4.7%	0	0.0%	65,089	4.7%	5.4%	10,274	1,928	\$21.87
C	5	168,300	39,639	23.6%	0	0.0%	39,639	23.6%	23.3%	-376	-14,463	\$19.36
Total	26	1,562,412	104,728	6.7%	0	0.0%	104,728	6.7%	6.9%	9,898	-12,535	\$20.92
NASA CLEAR LAKE												
A	12	1,772,451	117,675	6.6%	46,436	2.6%	164,111	9.3%	8.9%	-6,429	2,104	\$24.30
B	49	3,320,833	1,042,771	31.4%	0	0.0%	1,042,771	31.4%	29.5%	-64,128	51,304	\$18.51
C	20	583,215	146,002	25.0%	0	0.0%	146,002	25.0%	16.3%	-50,725	3,187	\$15.29
Total	81	5,676,499	1,306,448	23.0%	46,436	0.8%	1,352,884	23.8%	22.0%	-121,282	56,595	\$18.67
NORTH BELT/GREENSPPOINT												
A	24	5,456,015	2,837,832	52.0%	248,794	4.6%	3,086,626	56.6%	57.1%	26,269	-244,763	\$24.25
B	51	5,290,944	1,695,586	32.0%	96,080	1.8%	1,791,666	33.9%	33.2%	-32,720	-37,155	\$15.80
C	22	1,343,784	271,460	20.2%	0	0.0%	271,460	20.2%	22.3%	28,137	-22,885	\$14.30
Total	97	12,090,743	4,804,878	39.7%	344,874	2.9%	5,149,752	42.6%	43.3%	21,686	-304,803	\$20.71
NORTHEAST NEAR AND OUTLIER												
A	3	640,700	32,465	5.1%	0	0.0%	32,465	*5.1%	0.0%	*52,535	0	\$0.00
B	5	207,158	45,446	21.9%	0	0.0%	45,446	21.9%	20.5%	-2,963	23,948	\$23.59
C	2	56,562	8,443	14.9%	0	0.0%	8,443	14.9%	14.9%	0	0	\$15.00
Total	10	904,420	86,354	9.5%	0	0.0%	86,354	9.5%	6.2%	49,572	23,948	\$13.88
*Vacancy and absorption increased over the quarter due to the delivery of a new building. Tenant moved in thus the absorption, but part of the building is still vacant.												

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2017	Q2-2017	Q3-2017	Q2-2017	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,223,165	705,046	31.7%	6,105	0.3%	711,151	32.0%	31.7%	-6,996	6,273	\$23.23
B	76	5,918,798	864,767	14.6%	8,266	0.1%	873,033	14.8%	15.6%	51,124	17,445	\$18.96
C	32	1,301,378	60,768	4.7%	0	0.0%	60,768	4.7%	3.6%	-14,112	3,271	\$14.25
Total	118	9,443,341	1,630,581	17.3%	14,371	0.2%	1,644,952	17.4%	17.9%	30,016	26,989	\$20.63
RICHMOND FOUNTAINVIEW												
B	13	780,198	113,110	14.5%	0	0.0%	113,110	14.5%	14.2%	-2,240	33,337	\$17.43
C	12	486,445	36,979	7.6%	0	0.0%	36,979	7.6%	12.4%	23,263	3,452	\$16.46
Total	25	1,266,643	150,089	11.8%	0	0.0%	150,089	11.8%	13.2%	21,023	36,789	\$17.19
SAN FELIPE VOSS												
A	3	1,720,793	390,318	22.7%	1,000	0.1%	391,318	22.7%	21.7%	-17,642	965	\$36.27
B	31	3,205,259	501,371	15.6%	6,492	0.2%	507,863	15.8%	14.3%	-49,984	-6,493	\$23.75
Total	34	4,926,052	891,689	18.1%	7,492	0.2%	899,181	18.3%	17.7%	-67,626	-5,528	\$29.23
SOUTH												
A	1	76,048	7,252	9.5%	0	0.0%	7,252	9.5%	22.7%	10,033	-7,252	\$32.28
B	12	359,619	30,976	8.6%	0	0.0%	30,976	8.6%	8.6%	-81	-1,347	\$23.54
C	5	194,042	49,200	25.4%	0	0.0%	49,200	25.4%	25.4%	0	0	\$18.00
Total	18	629,709	87,428	13.9%	0	0.0%	87,428	13.9%	15.5%	9,952	-8,599	\$21.15
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	11	722,821	98,421	13.6%	958	0.1%	99,379	13.7%	10.7%	-22,364	5,620	\$16.07
C	8	393,112	60,031	15.3%	0	0.0%	60,031	15.3%	15.2%	-276	-11,135	\$15.61
Total	20	1,600,933	158,452	9.9%	958	0.1%	159,410	10.0%	7.2%	-22,640	-5,515	\$15.90
SOUTHEAST												
B	17	1,510,848	73,969	4.9%	0	0.0%	73,969	4.9%	5.6%	9,960	-38,058	\$17.18
C	3	142,419	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$6.76
Total	20	1,653,267	73,969	4.5%	0	0.0%	73,969	4.5%	5.1%	9,960	-38,058	\$17.18
SOUTHWEST												
A	6	1,578,768	209,890	13.3%	32,793	2.1%	242,683	15.4%	11.0%	-68,560	4,053	\$18.52
B	65	6,187,879	1,038,257	16.8%	5,402	0.1%	1,043,659	16.9%	16.3%	-37,137	115,805	\$17.20
C	38	1,930,996	102,827	5.3%	0	0.0%	102,827	5.3%	5.6%	4,620	2,503	\$15.35
Total	109	9,697,643	1,350,974	13.9%	38,195	0.4%	1,389,169	14.3%	13.4%	-101,077	122,361	\$17.26
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	11	905,022	224,815	24.8%	10,136	1.1%	234,951	26.0%	27.8%	16,200	6,252	\$25.59
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	14	1,085,138	244,552	22.5%	10,136	0.9%	254,688	23.5%	25.0%	16,200	6,252	\$23.52
WEST BELT												
A	29	3,623,681	719,228	19.8%	95,311	2.6%	814,539	22.5%	28.7%	226,845	-154,859	\$28.30
B	32	1,905,534	238,876	12.5%	92,010	4.8%	330,886	17.4%	18.9%	28,730	90,416	\$22.61
C	4	112,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	65	5,641,844	958,104	17.0%	187,321	3.3%	1,145,425	20.3%	23.0%	255,575	-64,443	\$26.88
WEST LOOP/GALLERIA												
A	48	17,816,947	3,279,861	18.4%	630,685	3.5%	3,910,546	21.9%	21.3%	-114,482	-281,391	\$37.05
B	53	6,161,178	790,385	12.8%	12,219	0.2%	802,604	13.0%	12.0%	-62,098	-28,842	\$26.99
C	4	216,268	2,900	1.3%	0	0.0%	2,900	1.3%	1.2%	-200	1,512	\$19.50
Total	105	24,194,393	4,073,146	16.8%	642,904	2.7%	4,716,050	19.5%	18.8%	-176,780	-308,721	\$35.09

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)	NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2017	Q2-2017	AVG (\$/SF)
WESTCHASE										
A	33	9,816,819	1,685,563	17.2%	691,512	7.0%	2,377,075	24.2%	24.5%	\$35.95
B	63	7,555,163	1,366,728	18.1%	29,981	0.4%	1,396,709	18.5%	18.0%	\$19.99
C	5	213,302	31,324	14.7%	0	0.0%	31,324	14.7%	14.7%	\$16.28
Total	101	17,585,284	3,083,615	17.5%	721,493	4.1%	3,805,108	21.6%	21.6%	\$28.68
THE WOODLANDS										
A	38	10,685,124	1,056,319	9.9%	98,869	0.9%	1,155,188	10.8%	10.9%	\$35.04
B	70	4,429,358	457,278	10.3%	24,895	0.6%	482,173	10.9%	11.6%	\$25.58
C	5	131,696	34,649	26.3%	0	0.0%	34,649	26.3%	30.9%	\$25.27
Total	113	15,246,178	1,548,246	10.2%	123,764	0.8%	1,672,010	11.0%	11.3%	\$32.03

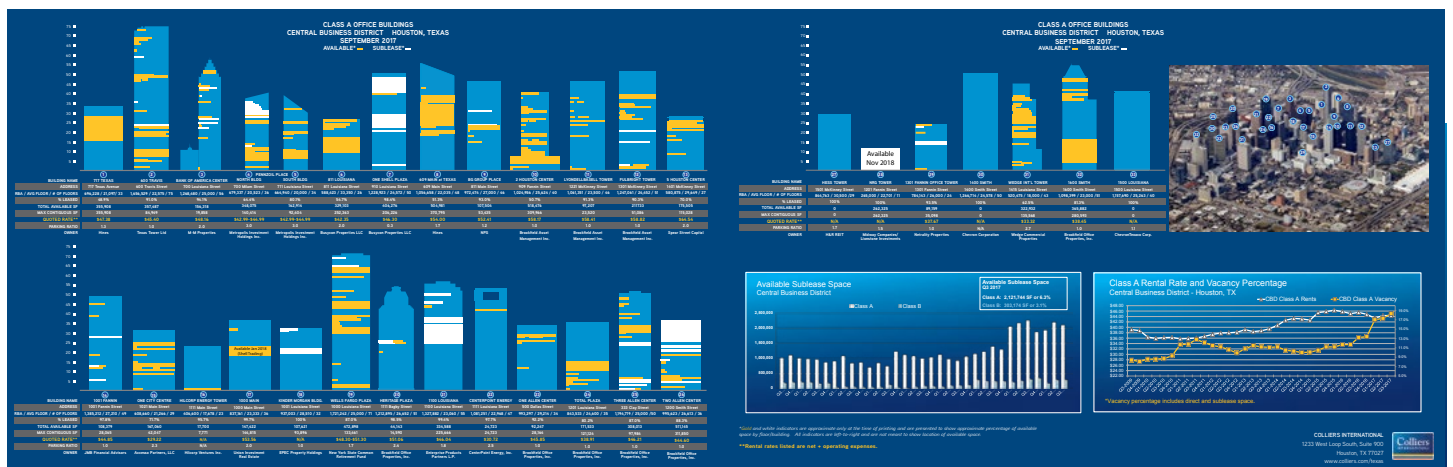
## Office Development Pipeline

2.2 million SF of office space is under construction, of which 47.3% is pre-leased. Build-to-suit projects make up 36.5% of the pipeline, and the remaining 1,374,315 SF is spec office space under construction which is approximately 23.4% pre-leased. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
Capitol Tower	800 Capitol St	CBD	778,344	27.0%	SCD Acquisitions LLC	Jun-19
CityPlace 2 - BTS for ABS	1701 City Plaza Dr	The Woodlands	326,800	93.9%	Barker Patrinely Group, Inc	Oct-18
CityPlace -BTS for HP	City Plaza Dr	The Woodlands	189,000	100%	Barker Patrinely Group, Inc	Jan-19
Kirby Collection	3200 Kirby Dr	Greenway Plaza	188,545	0%	Thor Properties LLC	Oct-17
Lockton Place	3657 Briarpark Dr	Westchase	187,011	80.9%	Triten Real Estate Partners	Oct-17
Lake Pointe One	0 Creek Bend Dr	E Fort Bend Co/Sugar Land	147,159	0%	Planned Community Developers	Sep-18
The Post Oak	1600 West Loop S	West Loop/Galleria	104,579	46.8%	Tellepsen Builders	Dec-17

## Skylines | Now Available Online at [colliers.com/texas/houston/skylines](http://colliers.com/texas/houston/skylines)

At a glance, view available space for eight of Houston's Class A office skylines including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase.

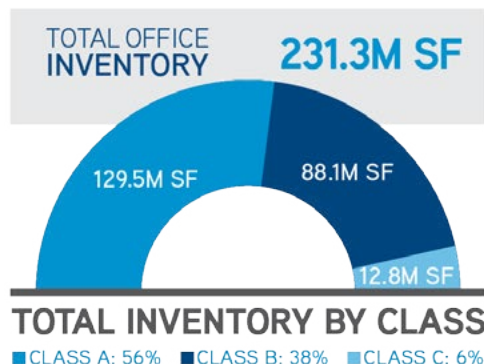


## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
BG Group Place	811 Main St	CBD	972,474	2011	93.0%	107,504	\$52.41	BG Holdco LLC
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	98.5%	44,143	\$51.06	Brookfield Office Properties, Inc
Kirby Grove	2925 Richmond Ave	Greenway Plaza	248,275	2015	85.5%	35,989	\$47.31	Midway Companies
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	99.1%	8,790	\$50.04	Midway Cc15 Partners
Town Centre One	750 Town & Country Blvd	Katy Freeway	253,714	2015	65.6%	87,278	\$42.04	Moody Ramin
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	90.0%	187,088	\$47.81	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2003	90.1%	39,764	\$45.48	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	85.5%	128,303	\$45.83	Parkway Properties, Inc
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	89.5%	208,682	\$42.63	TIER REIT, Inc
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	94.0%	8,899	\$42.60-\$48.60	The Woodlands Development Company, L.P.

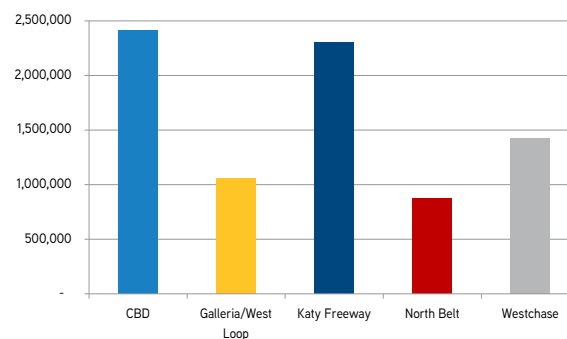
Note: Available SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q3 2017 Houston Office Highlights



### TOP 5 SUBMARKETS AVAILABLE SUBLEASE SPACE

Square Feet



**CURRENT**

**19.1% VACANCY**

**-0.7M SF NET ABSORPTION**



### FOR MORE INFORMATION

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# Houston office vacancy increases again over the quarter, now at highest rate since 1994

**Lisa Bridges** Director of Market Research | Houston

Houston's office market continues to struggle as global oil futures trade below \$50 a barrel. With no indication that prices will rise in the immediate future, it will take a while to absorb all of the space the energy industry has placed on the market over the last few years. The good news is most of the larger office projects that were started before the oil slump have delivered, and the projects that were in the construction pipeline were put on hold. There are some tenants in the market with a preference for newer innovative space, and certain developers are willing to meet these requirements even in an oversaturated market. Skanska USA recently signed a deal with Bank of America to occupy 200,000 SF in a new building known as Capitol Tower in the CBD and broke ground during the second quarter with the building scheduled to deliver in 2019. This isn't such great news for the rest of the submarket, as Bank of America will vacate approximately 400,000 SF in its existing Class A building at 700 Louisiana St.

Absorption remained flat, posting about 700,000 SF of negative net absorption. The average vacancy rate rose slightly by 40 basis points over the quarter, and by 230 basis points annually.

Available sublease space decreased slightly but this was primarily due to expiring terms and the space going back to direct marketing by the landlord. There were a few instances where the sublease space was withdrawn by the sublessor. The majority of the sublease space in the market now has 1-3 years of term remaining.

According to the U.S. Bureau of Labor Statistics, the Houston metropolitan area created 45,300 jobs (not seasonally adjusted) between May 2016 and May 2017. Most of the recent quarterly job growth occurred in employment services, public education, food services and drinking places, health care, and fabricated metal products.

## Market Indicators

Relative to prior period

Annual  
Change

Quarterly  
Change

Quarterly  
Forecast\*

VACANCY



NET ABSORPTION



NEW CONSTRUCTION



UNDER CONSTRUCTION



\*Projected

## Summary Statistics

Houston Office Market

Q2 2016

Q1 2017

Q2 2017

Vacancy Rate

16.5%

18.4%

18.8%

Net Absorption  
(Million Square Feet)

-0.2

-0.7

-0.7

New Construction  
(Million Square Feet)

2.3

1.8

0.2

Under Construction  
(Million Square Feet)

4.0

1.6

2.2

Class A Vacancy Rate  
CBD  
Suburban

11.7%

18.7%

17.1%

20.8%

17.3%

21.4%

## Asking Rents

Per Square Foot Per Year

Houston Class A

\$35.94

\$35.79

\$36.12

CBD Class A

\$44.76

\$44.39

\$44.36

Suburban Class A

\$34.54

\$33.26

\$33.76



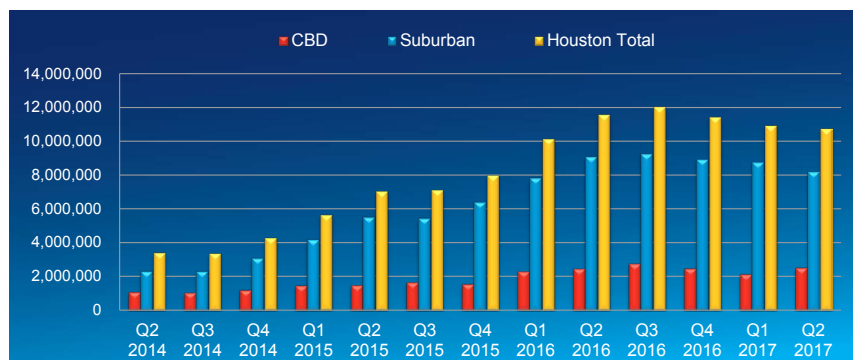
## Vacancy & Availability

Houston's citywide vacancy rate rose 40 basis points from 18.4% to 18.8% over the quarter, and rose 230 basis points from 16.5% in Q2 2016. Over the quarter, the average suburban vacancy rate increased 30 basis points from 18.2% to 18.5%, and the average CBD vacancy rate increased 50 basis points from 19.3% to 19.8%.

The average CBD Class A vacancy rate increased 20 basis points from 17.1% to 17.3% over the quarter, while the average CBD Class B vacancy rate increased 100 basis points from 27.7% to 28.7%. The average suburban Class A vacancy rate increased 60 basis points from 20.8% to 21.4%, and in contrast, the average suburban Class B vacancy rate fell 30 basis points between quarters from 16.7% to 16.4%.

Of the 1,707 existing office buildings in our survey, 94 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Further, 29 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 10.7 million SF or 4.7% of Houston's total office inventory, and 19.7% of the total available space. Available space differs from vacant space as it includes space that is currently being marketed for lease and may be vacant or occupied with a future availability date.

### AVAILABLE SUBLEASE SPACE



### Large Sublease Availabilities (Total available in building and/or complex)

BUILDING	TENANT	SUBMARKET	SF
One Shell Plaza	Shell Oil	CBD	801,990
Four WestLake Park	BP	Katy Freeway	504,327
Four Oaks Place	BHP	West Loop/Galleria	411,038
Two Allen Center	Chevron	CBD	396,309
1100 Louisiana	Enbridge	CBD	294,580
Three Greenspoint Place	ExxonMobil	North Belt	253,562
Three WestLake Park	Phillips 66	Katy Freeway	221,723
Energy Center II	WorleyParsons	Katy Freeway	203,343
Pinnacle Westchase	Phillips 66	Westchase	198,425
8 Greenspoint	ExxonMobil	North Belt	198,256
CityWestPlace 2	Statoil	Westchase	190,214
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Westway II	GE Oil & Gas	West Belt	186,957
Energy Center I	Foster Wheeler	Katy Freeway	182,966
West Memorial Place II	IHI E&C	Katy Freeway	158,317

Source: CoStar

## Job Growth & Unemployment

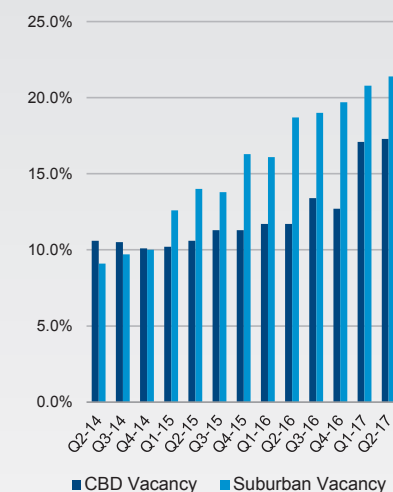
(not seasonally adjusted)

UNEMPLOYMENT	5/16	5/17
HOUSTON	4.9%	5.1%
TEXAS	4.3%	4.4%
U.S.	4.5%	4.1%

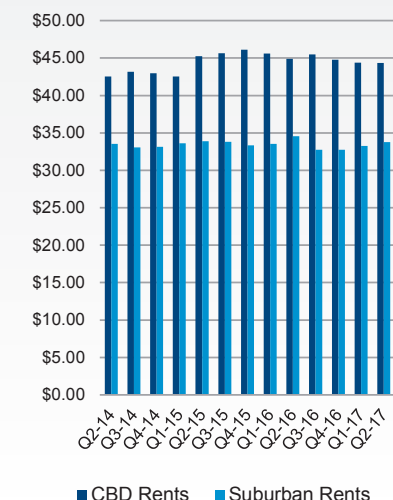
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	1.5%	45.3K
TEXAS	2.2%	268.1K
U.S.	1.6%	2.26M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS



## Absorption & Demand

Houston's office market posted 654,564 SF of negative net absorption in Q2 2017. Suburban Class A space recorded the largest loss, with 754,825 SF of negative net absorption, while Suburban Class B posted the largest gain with 336,469 SF of positive net absorption. Some of the tenants contributing to the positive absorption include Vantiv (46,777 SF) in the North Belt/Greenspoint submarket, Disa Global Solutions Inc. (34,865 SF) in the West Belt submarket and PSS Industrial Group (33,286 SF) in the South Main/Med Center submarket. Over the last two years, Houston's office market has suffered due to downsizing by large energy companies, and some of these firms moved from leases in third-party buildings into owned property, thus creating a glut of vacant sublease space. However, available sublease space has decreased over the last three quarters, primarily due to lease expirations and space going back to the landlord.

## Rental Rates

Houston's average Class A asking rental rate increased over the quarter from \$35.79 per SF to \$36.12 per SF. The average Class A rental rate in the CBD decreased marginally over the quarter while the average Suburban Class A rental rate increased from \$33.26 to \$33.76 per SF. The current average rental rate, which includes all property classes, for Houston office space is \$29.89 per SF gross.

## Leasing Activity

Houston's office leasing activity changed marginally between quarters. It increased by 100,000 SF to 2.6 million SF of transactions in Q2 2017.

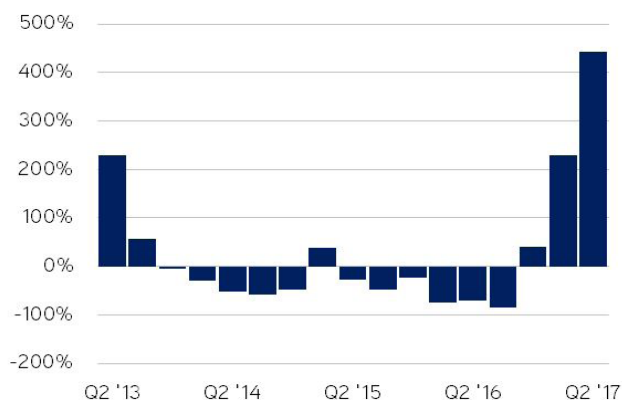
Q2 2017 Select Office Lease Transactions				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Post Oak Central	West Loop/Galleria	524,000	Apache Corporation <sup>3</sup>	Jun-17
Capitol Tower	CBD	209,447	Bank of America <sup>5</sup>	Apr-17
One Allen Center	CBD	204,000	Motiva Enterprises <sup>1,2</sup>	May-17
Port Crossing Commerce Center	Southeast	77,892	MRC Global <sup>5,6</sup>	Jun-17
Air Liquide Center North	Katy Freeway	73,128	Archrock Inc. <sup>4</sup>	May-17
1311 Broadfield	Katy Freeway	54,426	Saipem <sup>7</sup>	May-17
Grandway West - Bldg 4	Katy Grand Parkway West	35,449	PCL Industrial Construction <sup>5</sup>	Jun-17

<sup>1</sup>Expansion  
<sup>2</sup>Renewal  
<sup>3</sup>Extension  
<sup>4</sup>Sublease  
<sup>5</sup>Prelease in proposed or building under construction  
<sup>6</sup>Colliers International Transaction  
<sup>7</sup>New/Direct

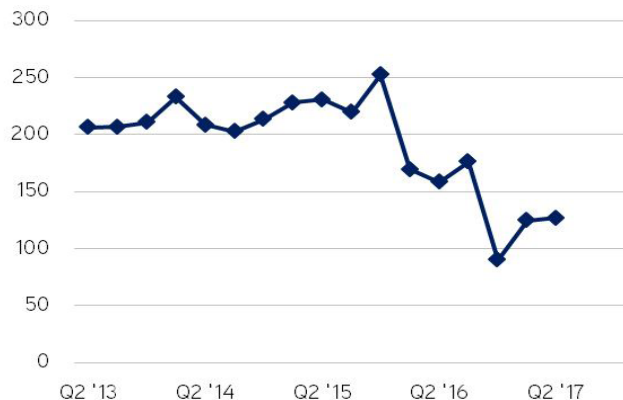
## Sales Activity

Houston's office investment sales activity increased substantially over the year, increasing by 439% since Q2 2016. With most of the investor community believing the downturn in the energy industry has reached the bottom and has begun to rebound, they now see Houston as offering limited downside and the potential for healthy returns. The average sales price increased marginally over the quarter, but is still well below the historical average.

Q2 2017 CHANGE IN SALES (YEAR OVER YEAR)



Q2 2017 OFFICE SALES PRICE PER SF



Sources: CoStar and Real Capital Analytics

## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE	
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2017	Q1-2017	Q2-2017	Q1-2017	AVG (\$/SF)
CBD												
A	35	32,892,879	4,911,704	14.9%	789,481	2.4%	5,701,185	17.3%	17.1%	-89,795	-489,338	\$44.36
B	29	9,786,995	2,736,596	28.0%	76,577	0.8%	2,813,173	28.7%	27.7%	-99,793	-170,360	\$29.15
C	15	921,797	109,689	11.9%	0	0.0%	109,689	11.9%	10.8%	-10,402	-2,491	\$20.22
Total	79	43,601,671	7,757,989	17.8%	866,058	2.0%	8,624,047	19.8%	19.3%	-199,990	-662,189	\$38.65
SUBURBAN												
A	377	96,618,239	17,078,545	17.7%	3,559,545	3.7%	20,638,090	21.4%	20.8%	-754,825	247,265	\$33.76
B	943	78,258,117	12,272,022	15.7%	559,199	0.7%	12,831,221	16.4%	16.7%	336,469	-299,793	\$20.50
C	308	12,944,939	1,309,416	10.1%	19,189	0.1%	1,328,605	10.3%	10.0%	-36,218	-9,926	\$15.57
Total	1628	187,821,295	30,659,983	16.3%	4,137,933	2.2%	34,797,916	18.5%	18.2%	-454,574	-62,454	\$27.67
OVERALL												
A	412	129,511,118	21,990,249	17.0%	4,349,026	3.4%	26,339,275	20.3%	19.6%	-844,620	-242,073	\$36.12
B	972	88,045,112	15,008,618	17.0%	635,776	0.7%	15,644,394	17.8%	18.1%	236,676	-470,153	\$22.08
C	323	13,866,736	1,419,105	10.2%	19,189	0.1%	1,438,294	10.4%	10.3%	-46,620	-12,417	\$15.93
Total	1707	231,422,966	38,417,972	16.6%	5,003,991	2.2%	43,421,963	18.8%	18.4%	-654,564	-724,643	\$29.89

## Houston Suburban Office Market Summary

INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE	
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2017	Q1-2017	Q2-2017	Q1-2017	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	8	2,284,619	422,128	18.5%	6,556	0.3%	428,684	18.8%	20.2%	33,687	19,721	\$33.87
B	33	2,566,687	219,143	8.5%	0	0.0%	219,143	8.5%	10.1%	40,878	-31,288	\$28.93
C	15	436,390	84,860	19.4%	5,891	1.3%	90,751	20.8%	19.8%	-4,203	-1,510	\$25.77
Total	56	5,287,696	726,131	13.7%	12,447	0.2%	738,578	14.0%	15.3%	70,362	-13,077	\$31.43
BAYTOWN												
B	3	186,005	4,962	2.7%	0	0.0%	4,962	2.7%	2.7%	0	0	\$21.45
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	6	267,486	4,962	1.9%	0	0.0%	4,962	1.9%	1.9%	0	0	\$21.45
BELLAIRE												
A	6	1,091,536	120,817	11.1%	11,676	1.1%	132,493	12.1%	13.5%	14,641	-3,236	\$24.82
B	20	2,516,477	133,139	5.3%	2,091	0.1%	135,230	5.4%	5.9%	12,529	8,124	\$24.26
C	5	318,508	41,642	13.1%	0	0.0%	41,642	13.1%	13.7%	2,065	-5,880	\$17.17
Total	31	3,926,521	295,598	7.5%	13,767	0.4%	309,365	7.9%	8.6%	29,235	-992	\$23.49
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	330,925	12,674	3.8%	0	0.0%	12,674	3.8%	2.7%	-3,879	15,198	\$18.06
C	7	277,660	7,492	2.7%	0	0.0%	7,492	2.7%	3.3%	1,536	8,049	\$14.91
Total	17	668,585	20,166	3.0%	0	0.0%	20,166	3.0%	2.7%	-2,343	23,247	\$16.89
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	260,476	7.7%	83,770	2.5%	344,246	10.1%	9.3%	-28,946	1,851	\$31.18
B	39	2,432,147	229,472	9.4%	21,674	0.9%	251,146	10.3%	11.2%	20,301	7,124	\$21.74
C	5	146,524	39,464	26.9%	0	0.0%	39,464	26.9%	26.9%	0	0	\$0.00
Total	61	5,977,870	529,412	8.9%	105,444	1.8%	634,856	10.6%	10.5%	-8,645	8,975	\$24.76

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2017	Q1-2017	Q2-2017	Q1-2017	AVG (\$/SF)
FM 1960												
A	12	2,912,546	316,350	10.9%	11,759	0.4%	328,109	11.3%	10.6%	-19,659	7,791	\$27.81
B	72	4,271,480	741,988	17.4%	80,687	1.9%	822,675	19.3%	20.3%	46,529	-54,518	\$16.70
C	21	713,914	61,644	8.6%	0	0.0%	61,644	8.6%	9.5%	6,410	5,010	\$14.26
Total	105	7,897,940	1,119,982	14.2%	92,446	1.2%	1,212,428	15.4%	15.8%	33,280	-41,717	\$19.70
GREENWAY												
A	20	7,202,397	1,136,047	15.8%	13,141	0.2%	1,149,188	16.0%	15.6%	-25,442	-29,925	\$37.07
B	31	3,194,306	334,418	10.5%	10,998	0.3%	345,416	10.8%	9.8%	-31,852	-38,114	\$26.56
C	16	541,109	73,161	13.5%	0	0.0%	73,161	13.5%	15.4%	10,067	-7,420	\$22.18
Total	67	10,937,812	1,543,626	14.1%	24,139	0.2%	1,567,765	14.3%	13.9%	-47,227	-75,459	\$34.09
GULF FREEWAY/PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	0.0%	0	3,122	\$23.00
B	39	2,308,259	230,979	10.0%	0	0.0%	230,979	10.0%	9.4%	60,513	15,871	\$21.76
C	29	1,108,382	73,067	6.6%	0	0.0%	73,067	6.6%	6.4%	-1,595	1,222	\$14.07
Total	69	3,439,347	304,046	8.8%	0	0.0%	304,046	8.8%	8.3%	58,918	20,215	\$19.91
I-10 EAST												
B	5	343,701	89,387	26.0%	0	0.0%	89,387	26.0%	27.1%	3,801	-6,972	\$14.64
C	6	250,017	18,277	7.3%	0	0.0%	18,277	7.3%	7.3%	0	0	\$20.84
Total	11	593,718	107,664	18.1%	0	0.0%	107,664	18.1%	18.8%	3,801	-6,972	\$15.69
KATY FREEWAY												
A	87	22,242,430	3,494,574	15.7%	1,538,391	6.9%	5,032,965	22.6%	21.5%	-251,376	220,562	\$37.51
B	100	9,271,502	1,595,827	17.2%	57,553	0.6%	1,653,380	17.8%	17.6%	-25,416	-155,447	\$22.64
C	32	1,485,888	54,953	3.7%	12,922	0.9%	67,875	4.6%	4.2%	-5,619	-3,861	\$18.24
Total	219	32,999,820	5,145,354	15.6%	1,608,866	4.9%	6,754,220	20.5%	19.6%	-282,411	61,254	\$32.69
KATY/GRAND PARKWAY WEST												
A	14	1,254,281	305,202	24.3%	0	0.0%	305,202	24.3%	25.1%	9,971	3,479	\$27.39
B	13	964,368	41,751	4.3%	0	0.0%	41,751	4.3%	3.4%	-9,029	16,566	\$25.65
C	3	190,504	0	0.0%	0	0.0%	0	0.0%	20.0%	297	713	\$26.26
Total	30	2,409,153	346,953	14.4%	0	0.0%	346,953	14.4%	14.5%	1,239	20,758	\$27.18
KINGWOOD/HUMBLE												
B	21	1,401,599	59,822	4.3%	8,730	0.6%	68,552	4.9%	5.3%	5,059	100,235	\$23.22
C	5	168,300	39,263	23.3%	0	0.0%	39,263	23.3%	14.7%	-14,463	0	\$15.47
Total	26	1,569,899	99,085	6.3%	8,730	0.6%	107,815	6.9%	6.3%	-9,404	100,235	\$20.15
NASA/CLEAR LAKE												
A	12	1,770,973	111,381	6.3%	46,301	2.6%	157,682	8.9%	9.0%	2,104	-330	\$24.17
B	49	3,319,055	1,011,502	30.5%	0	0.0%	1,011,502	30.5%	30.7%	51,304	-23,328	\$18.24
C	20	658,589	93,871	14.3%	0	0.0%	93,871	14.3%	14.2%	-349	-544	\$15.09
Total	81	5,748,617	1,216,754	21.2%	46,301	0.8%	1,263,055	22.0%	22.0%	53,059	-24,202	\$18.54
NORTH BELT/GREENSPPOINT												
A	24	5,448,487	2,831,928	52.0%	248,794	4.6%	3,080,722	56.5%	52.0%	-247,515	105,366	\$24.14
B	51	5,346,053	1,731,734	32.4%	181,947	3.4%	1,879,364	35.2%	34.7%	-26,108	-33,161	\$16.87
C	22	1,343,784	299,221	22.3%	376	0.0%	299,597	22.3%	20.6%	-22,885	-10,900	\$14.04
Total	97	12,138,324	4,862,883	40.1%	431,117	3.6%	5,259,683	43.3%	40.9%	-296,508	61,305	\$20.93
NORTHEAST NEAR AND NORTHEAST OUTLIER												
A	2	555,700	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	5	207,158	42,483	20.5%	0	0.0%	42,483	20.5%	32.1%	23,948	-3,889	\$23.59
C	2	56,562	8,443	14.9%	0	0.0%	8,443	14.9%	14.9%	0	0	\$15.00
Total	9	819,420	50,926	6.2%	0	0.0%	50,926	6.2%	9.1%	23,948	-3,889	\$22.17

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2017	Q1-2017	Q2-2017	Q1-2017	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,223,165	690,297	31.1%	13,858	0.6%	704,155	31.7%	32.0%	6,273	-31,317	\$22.87
B	76	5,922,240	919,957	15.5%	4,200	0.1%	924,157	15.6%	15.9%	17,445	1,884	\$18.75
C	32	1,281,482	62,656	4.9%	0	0.0%	62,656	4.9%	5.1%	3,271	726	\$14.03
Total	118	9,426,887	1,672,910	17.7%	18,058	0.2%	1,690,968	17.9%	18.2%	26,989	-28,707	\$20.27
RICHMOND/FOUNTAINVIEW												
B	13	779,782	173,470	22.2%	0	0.0%	173,470	22.2%	26.5%	33,337	-11,869	\$17.80
C	12	486,445	60,242	12.4%	0	0.0%	60,242	12.4%	13.1%	3,452	1,314	\$17.10
Total	25	1,266,227	233,712	18.5%	0	0.0%	233,712	18.5%	21.4%	36,789	-10,555	\$17.62
SAN FELIPE/VOSS												
A	3	1,720,793	413,395	24.0%	1,000	0.1%	414,395	24.1%	24.1%	965	21,344	\$36.33
B	31	3,205,259	451,660	14.1%	6,219	0.2%	457,879	14.3%	14.1%	-6,493	-24,333	\$23.84
Total	34	4,926,052	865,055	17.6%	7,219	0.1%	872,274	17.7%	17.6%	-5,528	-2,989	\$29.81
SOUTH												
A	1	76,048	17,285	22.7%	0	0.0%	17,285	22.7%	13.2%	-7,252	0	\$32.42
B	12	359,619	30,895	8.6%	0	0.0%	30,895	8.6%	8.2%	-1,347	-4,148	\$23.44
C	5	194,042	49,200	25.4%	0	0.0%	49,200	25.4%	25.4%	0	2,063	\$18.00
Total	18	629,709	97,380	15.5%	0	0.0%	97,380	15.5%	14.1%	-8,599	-2,085	\$22.29
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	11	722,821	76,165	10.5%	850	0.1%	77,015	10.7%	11.4%	5,620	-6,124	\$16.49
C	8	393,112	39,005	9.9%	0	0.0%	39,005	9.9%	7.1%	-11,135	-600	\$19.49
Total	20	1,600,933	115,170	7.2%	850	0.1%	116,020	7.2%	6.9%	-5,515	-6,724	\$17.51
SOUTHEAST												
B	17	1,510,848	83,929	5.6%	0	0.0%	83,929	5.6%	3.0%	-38,058	587	\$15.67
C	3	142,419	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$6.76
Total	20	1,653,267	83,929	5.1%	0	0.0%	83,929	5.1%	2.8%	-38,058	587	\$15.67
SOUTHWEST												
A	7	1,651,901	187,783	11.4%	2,540	0.2%	190,323	11.5%	11.8%	4,953	4,816	\$18.75
B	65	6,221,695	1,001,120	16.1%	5,402	0.1%	1,006,522	16.2%	18.0%	115,805	-66,376	\$17.13
C	38	1,924,536	112,017	5.8%	0	0.0%	112,017	5.8%	5.8%	283	6,399	\$14.72
Total	110	9,798,132	1,300,920	13.3%	7,942	0.1%	1,308,862	13.4%	14.6%	121,041	-55,161	\$17.16
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	11	905,022	241,015	26.6%	10,136	1.1%	251,151	27.8%	28.4%	6,252	2,800	\$25.59
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	14	1,085,138	260,752	24.0%	10,136	0.9%	270,888	25.0%	25.5%	6,252	2,800	\$23.65
WEST BELT												
A	29	3,673,250	759,022	20.7%	187,386	5.1%	946,408	25.8%	24.6%	-42,783	-43,819	\$29.97
B	32	1,903,446	240,866	12.7%	118,750	6.2%	359,616	18.9%	23.6%	90,416	10,603	\$20.81
C	4	162,629	16,200	10.0%	0	0.0%	16,200	10.0%	10.5%	900	-800	\$24.58
Total	65	5,739,325	1,016,088	17.7%	306,136	5.3%	1,322,224	23.0%	23.9%	48,533	-34,016	\$27.71
WEST LOOP/GALLERIA												
A	49	17,884,563	3,160,808	17.7%	659,353	3.7%	3,820,161	21.4%	19.8%	-272,966	-15,439	\$37.39
B	53	6,161,178	723,005	11.7%	17,501	0.3%	740,506	12.0%	11.6%	-28,842	15,033	\$27.46
C	4	216,268	2,700	1.2%	0	0.0%	2,700	1.2%	1.9%	1,512	6,849	\$0.00
Total	106	24,262,009	3,886,513	16.0%	676,854	2.8%	4,563,367	18.8%	17.6%	-300,296	6,443	\$35.52



## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2017	Q1-2017	Q2-2017	Q1-2017	AVG (\$/SF)
WESTCHASE												
A	33	9,816,819	1,714,083	17.5%	688,486	7.0%	2,402,569	24.5%	24.2%	-29,891	-100,115	\$36.06
B	62	7,476,713	1,354,103	18.1%	16,101	0.2%	1,370,204	18.3%	18.1%	-14,325	2,640	\$19.71
C	5	213,302	31,324	14.7%	0	0.0%	31,324	14.7%	12.0%	-5,762	2,195	\$16.28
Total	100	17,506,834	3,099,510	17.7%	704,587	4.0%	3,804,097	21.7%	21.4%	-49,978	-95,280	\$28.72
THE WOODLANDS												
A	38	10,683,106	1,117,232	10.5%	46,534	0.4%	1,163,766	10.9%	11.8%	98,411	83,394	\$36.74
B	70	4,429,772	496,556	11.2%	16,360	0.4%	512,916	11.6%	11.3%	-11,919	-36,891	\$25.33
C	5	131,696	40,714	30.9%	0	0.0%	40,714	30.9%	30.9%	0	-12,951	\$24.60
Total	113	15,244,574	1,654,502	10.9%	62,894	0.4%	1,717,396	11.3%	11.8%	86,492	33,552	\$32.41

## Office Development Pipeline

Houston's construction pipeline for office space contains 2.2 million SF of which 37% is pre-leased. Build-to-suit projects make up 43% of the pipeline, and the remaining 1,303,130 SF is spec office space under construction which is approximately 37% pre-leased. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
Capitol Tower	800 Capitol St	CBD	778,344	27.0%	SCD Acquisitions LLC	Jun-19
CityPlace 2 - BTS for ABS	1701 City Plaza Dr	The Woodlands	326,800	93.9%	Barker Patrinely Group, Inc	Oct-18
Kirby Collection	3200 Kirby Dr	Greenway Plaza	188,545	0%	Thor Properties LLC	Aug-17
Lockton Place	3657 Briarpark Dr	Westchase	187,011	77.9%	Triton Real Estate Partners	Oct-17
Lake Pointe One	0 Creek Bend Dr	E Fort Bend Co/Sugar Land	147,159	0%	Planned Community Developers	Sep-18
The Post Oak	1600 West Loop S	West Loop/Galleria	104,579	5.6%	Tellepsen Builders	Dec-17

## Skylines | Now Available Online at [colliers.com/texas/houston/skylines](http://colliers.com/texas/houston/skylines)

At a glance, view available space for eight of Houston's Class A office skylines including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase.



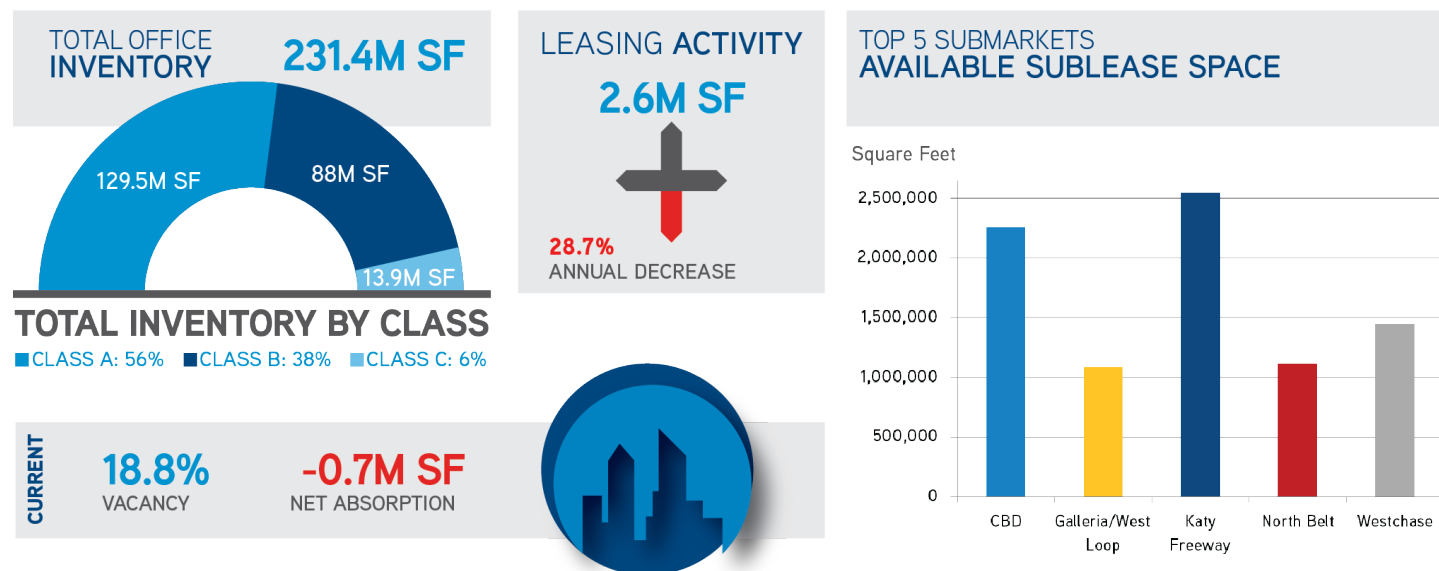
## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
BG Group Place	811 Main St	CBD	972,474	2011	93.0%	116,538	\$52.41	BG Holdco LLC
609 Main at Texas	609 Main St	CBD	1,056,658	2017	50.9%	508,444	\$54.00	Hines Interests Limited Partnership
CityCentre One	800 Town & Country Blvd	Katy Freeway	119,000	2009	80.9%	27,779	\$51.06	Stockbridge Capital Group LLC
Town Centre One	750 Town & Country Blvd	Katy Freeway	253,714	2015	63.0%	93,826	\$42.54	Moody Ramin
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	93.5%	148,635	\$49.90	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2013	90.1%	30,075	\$45.48	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	85.5%	100,331	\$47.33	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	89.0%	207,681	\$42.63	TIER REIT, Inc.
21 Waterway	21 Waterway Ave	The Woodlands	104,372	2005	91.0%	7,234	\$47.43	21 Waterway Holding LLC
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	97.8%	4,355	\$49.64	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space listed.

Source: CoStar Property

## Q2 2017 Houston Office Highlights



### FOR MORE INFORMATION

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Accelerating success.

# Houston office construction down 50% from one year ago

**Lisa Bridges** Director of Market Research | Houston

Houston's office market has struggled over the past few years with rising vacancy and slower than average job growth due to a weakened energy market. However, as the office construction pipeline has grown smaller and most spec developments have been put on hold, the office market appears to be stabilizing.

Although the average vacancy rate in Houston increased 100 basis points over the quarter, 1.8M SF of new inventory delivered and 40% of that space was vacant. Available sublease space has decreased over the last two quarters and energy sector layoffs have declined. The market will most likely remain relatively flat, plodding through 2017.

Houston's office market posted 0.7M SF of negative net absorption during the first quarter, which is only 0.3% of Houston's total office inventory. Developers have been disciplined over the last few years as evidenced by the fact the construction pipeline has shrunk by 50% in just one year and by 65% in two years. The 1.8M SF of office space under construction is 43% pre-leased and the majority is scheduled to deliver within the next year.

Recent press announcements regarding tenants pre-leasing space in proposed buildings indicates a preference for newer innovative space. Although this will eventually add more vacant space to an already saturated market, it is a very small percentage overall.

According to the U.S. Bureau of Labor Statistics, the Houston metropolitan area created 19,300 jobs (not seasonally adjusted) between February 2016 and February 2017. Most of the job growth occurred in arts, entertainment & recreation, government, retail trade, and education.

## Market Indicators

Relative to prior period

Annual  
Change

Quarterly  
Change

Quarterly  
Forecast\*

VACANCY



NET ABSORPTION



NEW CONSTRUCTION



UNDER CONSTRUCTION



\*Projected

## Summary Statistics

Houston Office Market

Q1 2016

Q4 2016

Q1 2017

Vacancy Rate

15.3%

17.5%

18.5%

Net Absorption  
(Million Square Feet)

1.3

-0.7

-0.7

New Construction  
(Million Square Feet)

1.2

0

1.8

Under Construction  
(Million Square Feet)

6.3

3.1

1.6

Class A Vacancy Rate  
CBD  
Suburban

11.7%

16.0%

12.7%

19.7%

17.0%

20.5%

## Asking Rents

Per Square Foot Per Year

Houston Class A

\$27.98

\$35.35

\$35.79

CBD Class A

\$42.15

\$44.64

\$44.46

Suburban Class A

\$33.11

\$32.78

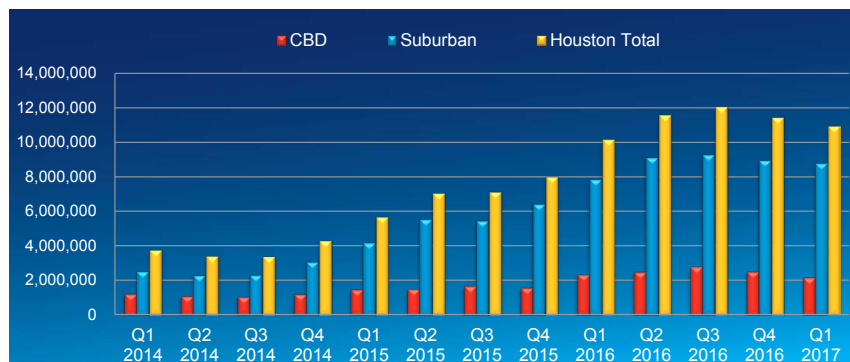
\$33.26

## Vacancy & Availability

Houston's citywide vacancy rate rose 100 basis points from 17.5% to 18.5% over the quarter, and rose 320 basis points from 15.3% in Q1 2016. Over the quarter, the average suburban vacancy rate increased 70 basis points from 17.6% to 18.3%, and the average CBD vacancy rate increased 350 basis points from 15.6% to 19.1%.

The average CBD Class A vacancy rate increased 430 basis points from 12.7% to 17.0% over the quarter, primarily due to the delivery of 609 Main. The average CBD Class B vacancy rate increased 180 basis points from 24.6% to 26.4%. The average suburban Class A vacancy rate increased 80 basis points from 19.7% to 20.5%, and the average suburban Class B vacancy rate rose 50 basis points between quarters from 16.5% to 17.0%.

Of the 1,708 existing office buildings in our survey, 93 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Further, 31 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 10.9 million SF or 4.7% of Houston's total office inventory, and 21.2% of the total available space.



### Large Sublease Availabilities (Total available in building and/or complex)

BUILDING	TENANT	SUBMARKET	SF
One Shell Plaza	Shell Oil	CBD	801,990
Four WestLake Park	BP	Katy Freeway	509,520
Four Oaks Place	BHP	West Loop/Galleria	461,931
Two Allen Center	Chevron	CBD	311,850
Three Greenspoint Place	ExxonMobil	North Belt	253,562
Three WestLake Park	Phillips 66	Katy Freeway	221,723
CityWestPlace 2	Statoil	Westchase	211,774
Energy Center II	WorleyParsons	Katy Freeway	210,871
Northborough Tower	Noble Energy	North Belt	204,198
8 Greenspoint	ExxonMobil	North Belt	198,256
Two Westlake	ConocoPhillips & BP	Katy Freeway	191,813
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Westway II	GE Oil & Gas	West Belt	186,957
Energy Center I	Foster Wheeler	Katy Freeway	182,966
Pinnacle Westchase	Phillips 66	Westchase	160,356
West Memorial Place II	IHI E&C	Katy Freeway	158,317
Three Northborough	FMC Technologies	North Belt	151,372

Source: CoStar

## Job Growth & Unemployment

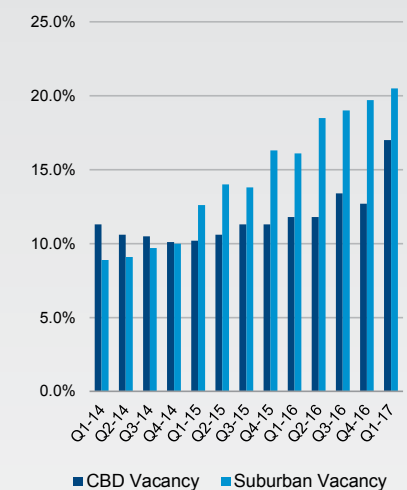
(not seasonally adjusted)

UNEMPLOYMENT	2/16	2/17
HOUSTON	4.7%	5.9%
TEXAS	4.4%	5.1%
U.S.	5.2%	4.9%

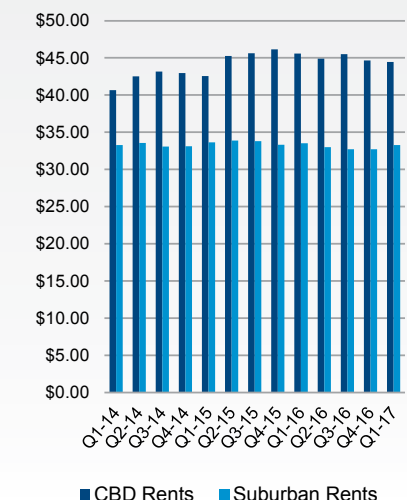
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	0.6%	19.3K
TEXAS	1.8%	218.8K
U.S.	1.7%	2.36M

### CBD vs. Suburban

#### CLASS A OFFICE VACANCY



#### CLASS A OFFICE RENTS



## Absorption & Demand

Houston's office market posted 745,413 SF of negative net absorption in Q1 2017. CBD Class A space recorded the largest loss, with 457,627 SF of negative net absorption, while Suburban Class A posted a gain with 334,148 SF of positive net absorption. Over the last two years, Houston's office market has suffered due to downsizing by large energy companies and some of these firms moving from third-party buildings into owned property, thus creating a glut of vacant sublease space. However, available sublease space has decreased over the last two quarters, indicating that Houston's office market might be at a turning point.

## Rental Rates

Houston's average asking rental rates remained relatively flat over the quarter. The average Class A rental rate in both the CBD and Suburban submarkets decreased marginally over the quarter, as did the average Class B rental rates. The current average rental rate, which includes all property classes, for Houston office space is \$29.59 per SF gross.

## Leasing Activity

Houston's office leasing activity decreased 27.8% between quarters from 3.0 million SF to 2.2 million SF of transactions in Q1 2017.

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
811 Louisiana	CBD	127,734	Targa Resources Corporation	Mar-17
1401 Enclave	Katy Freeway	91,414	IHS Global, Inc <sup>1,2,3</sup>	Feb-17
811 Main	CBD	54,215	Crestwood Partners <sup>4</sup>	Feb-17
12301 Kuland Dr	Gulf Freeway/Pasadena	42,627	IBM <sup>3</sup>	Mar-17
609 Main	CBD	35,788	McKinsey & Company	Feb-17
Park Ten Plaza	Katy Freeway	28,808	RigNet	Jan-17
Three Allen Center	CBD	27,673	Castex Energy, Inc	Mar-17
1801 Smith	CBD	21,605	Legacy Holding	Feb-17
Bank of America Center	CBD	21,290	Arnold & Porter Kaye Sholer	Mar-17
Loop Central One	Bellaire	18,690	Easter Seals of Greater Houston <sup>1</sup>	Mar-17

<sup>1</sup>Colliers International transaction

<sup>2</sup>Expansion

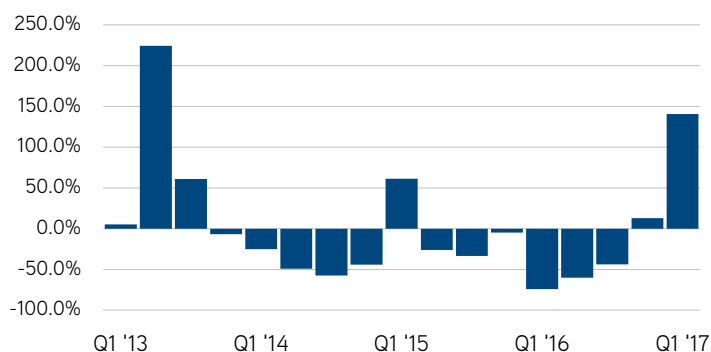
<sup>3</sup>Renewal

<sup>4</sup>Sublease

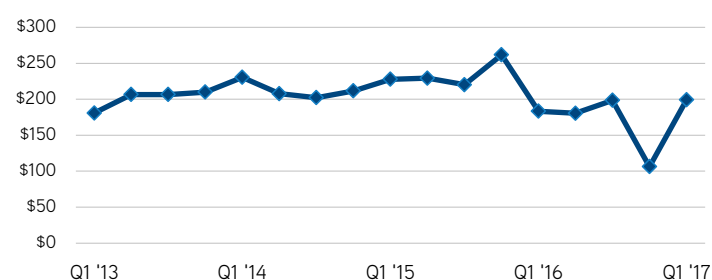
## Sales Activity

Houston's office investment sales activity soared over the year, increasing by 140% since Q1 2016. The average sales price increased from \$183 to \$199 per square foot.

Q4 2016 CHANGE IN SALES (YEAR OVER YEAR)



Q4 2016 OFFICE SALES PRICE PER SF



Sources: CoStar and Real Capital Analytics



## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2017	Q4-2016	Q1-2017	Q4-2016	AVG (\$/SF)
CBD												
A	34	32,513,497	4,773,949	14.7%	740,522	2.3%	5,514,471	17.0%	12.7%	-457,627	47,953	\$44.46
B	32	10,496,468	2,691,793	25.6%	76,949	0.7%	2,768,742	26.4%	24.6%	-182,500	-5,964	\$30.42
C	15	921,797	99,287	10.8%	0	0.0%	99,287	10.8%	10.5%	-2,491	4,574	\$19.45
Total	81	43,931,762	7,565,029	17.2%	817,471	1.9%	8,382,500	19.1%	15.6%	-642,618	46,563	\$39.14
SUBURBAN												
A	374	96,597,717	16,390,340	17.0%	3,389,887	3.5%	19,780,227	20.5%	19.7%	324,148	-520,056	\$33.26
B	946	78,841,764	12,812,483	16.3%	593,809	0.8%	13,406,292	17.0%	16.5%	-423,037	-158,091	\$20.60
C	307	12,995,082	1,322,748	10.2%	5,982	0.0%	1,328,730	10.2%	9.5%	-3,906	-34,065	\$16.62
Total	1627	188,434,563	30,525,571	16.2%	3,989,678	2.1%	34,515,249	18.3%	17.6%	-102,795	-712,212	\$27.22
OVERALL												
A	408	129,111,214	21,164,289	16.4%	4,130,409	3.2%	25,294,698	19.6%	18.1%	-133,479	-472,103	\$35.79
B	978	89,338,232	15,504,276	17.4%	670,758	0.8%	16,175,034	18.1%	17.7%	-605,537	-164,055	\$22.30
C	322	13,916,879	1,422,035	10.2%	5,982	0.0%	1,428,017	10.3%	10.2%	-6,397	-29,491	\$16.82
Total	1708	232,366,325	38,090,600	16.4%	4,807,149	2.1%	42,897,749	18.5%	17.5%	-745,413	-665,649	\$29.59

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2017	Q4-2016	Q1-2017	Q4-2016	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	7	2,130,993	429,271	20.1%	25,198	1.2%	454,469	21.3%	21.6%	5,699	13,997	\$34.06
B	34	2,720,313	283,626	10.4%	2,562	0.1%	286,188	10.5%	9.2%	-35,531	-29,353	\$29.22
C	15	436,390	86,548	19.8%	-	0.0%	86,548	19.8%	19.5%	-1,510	-19,391	\$26.23
Total	56	5,287,696	799,445	15.1%	27,760	0.5%	827,205	15.6%	13.7%	-31,342	-34,747	\$31.50
BAYTOWN												
B	3	186,005	4,962	2.7%	0	0.0%	4,962	2.7%	2.7%	0	0	\$21.45
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	6	267,486	4,962	1.9%	0	0.0%	4,962	1.9%	1.9%	0	0	\$21.45
BELLAIRE												
A	6	1,091,536	136,002	12.5%	11,132	1.0%	147,134	13.5%	13.2%	-3,236	6,479	\$26.50
B	20	2,519,698	147,759	5.9%	0	0.0%	147,759	5.9%	6.2%	8,124	12,518	\$24.07
C	5	318,508	43,707	13.7%	0	0.0%	43,707	13.7%	11.9%	-5,880	2,649	\$16.83
Total	31	3,929,742	327,468	8.3%	11,132	0.3%	338,600	8.6%	9.7%	-992	21,646	\$24.11
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	330,925	8,795	2.7%	0	0.0%	8,795	2.7%	7.3%	15,198	-13,801	\$18.42
C	7	277,660	9,028	3.3%	0	0.0%	9,028	3.3%	6.2%	8,049	-2,916	\$7.50
Total	17	668,585	17,823	2.7%	0	0.0%	17,823	2.7%	3.6%	23,247	-16,717	\$12.89
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	231,530	6.8%	83,770	2.5%	315,300	9.3%	9.3%	1,851	-17,646	\$31.34
B	39	2,434,364	277,941	11.4%	18,556	0.8%	296,497	12.2%	12.4%	5,846	-431	\$22.11
C	5	146,524	39,464	26.9%	0	0.0%	39,464	26.9%	26.9%	0	0	\$0.00
Total	61	5,980,087	548,935	9.2%	102,326	1.7%	651,261	10.9%	10.1%	7,697	-18,077	\$24.41

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2017	Q4-2016	Q1-2017	Q4-2016	AVG (\$/SF)
FM 1960												
A	12	2,913,211	296,691	10.2%	11,759	0.4%	308,450	10.6%	10.9%	7,791	-434	\$27.80
B	72	4,255,720	815,931	19.2%	73,413	1.7%	889,344	20.9%	19.7%	-52,018	16,314	\$16.72
C	21	713,914	68,054	9.5%	0	0.0%	68,054	9.5%	10.2%	5,010	-4,144	\$13.33
Total	105	7,882,845	1,180,676	15.0%	85,172	1.1%	1,265,848	16.1%	15.6%	-39,217	11,736	\$19.31
GREENWAY												
A	20	7,267,315	1,067,466	14.7%	11,991	0.2%	1,079,457	14.9%	15.1%	14,364	73,829	\$36.94
B	31	3,194,309	292,424	9.2%	21,140	0.7%	313,564	9.8%	8.6%	-38,114	40,668	\$26.48
C	16	532,718	83,228	15.6%	0	0.0%	83,228	15.6%	14.2%	-7,420	2,887	\$22.15
Total	67	10,994,342	1,443,118	13.1%	33,131	0.3%	1,476,249	13.4%	14.2%	-31,170	117,384	\$33.97
GULF FREEWAY/PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	13.7%	3,122	0	\$0.00
B	39	2,260,490	220,980	9.8%	0	0.0%	220,980	9.8%	10.7%	21,772	25,001	\$21.55
C	29	1,109,470	69,672	6.3%	0	0.0%	69,672	6.3%	6.4%	1,022	-6,150	\$17.52
Total	69	3,392,666	290,652	8.6%	0	0.0%	290,652	8.6%	12.0%	25,916	18,851	\$20.58
I-10 EAST												
B	6	397,701	147,188	37.0%	0	0.0%	147,188	37.0%	35.3%	-6,972	0	\$15.35
C	5	267,130	83,277	31.2%	0	0.0%	83,277	31.2%	33.0%	4,883	4,000	\$20.78
Total	11	664,831	230,465	34.7%	0	0.0%	230,465	34.7%	32.0%	-2,089	4,000	\$17.31
KATY FREEWAY												
A	87	22,312,368	3,224,155	14.5%	1,577,556	7.1%	4,795,166	21.5%	21.7%	227,107	-448,250	\$37.42
B	101	9,664,744	1,980,647	20.5%	51,860	0.5%	2,032,507	21.0%	18.8%	-211,442	74,647	\$23.22
C	32	1,542,378	54,767	3.6%	5,982	0.4%	60,749	3.9%	3.7%	-3,324	-841	\$18.52
Total	220	33,519,490	5,259,569	15.7%	1,635,398	4.9%	6,888,422	20.6%	18.9%	12,341	-374,444	\$31.88
KATY/GRAND PARKWAY WEST												
A	14	1,254,548	315,173	25.1%	0	0.0%	315,173	25.1%	25.4%	3,479	-3,451	\$27.26
B	13	964,368	32,722	3.4%	0	0.0%	32,722	3.4%	2.6%	16,566	4,206	\$26.46
C	3	190,504	297	20.0%	0	0.0%	297	20.0%	50.0%	713	3,210	\$25.92
Total	30	2,409,420	348,192	14.5%	0	0.0%	348,192	14.5%	17.4%	20,758	3,965	\$27.18
KINGWOOD/HUMBLE												
B	21	1,400,700	64,881	4.6%	8,730	0.6%	73,611	5.3%	5.7%	100,235	6,465	\$23.22
C	5	168,300	24,800	14.7%	0	0.0%	24,800	14.7%	14.7%	0	-2,800	\$15.47
Total	26	1,569,000	89,681	5.7%	8,730	0.6%	98,411	6.3%	7.0%	100,235	3,665	\$21.08
NASA/CLEAR LAKE												
A	12	1,770,973	109,143	6.2%	50,643	2.9%	159,786	9.0%	9.0%	-330	-739	\$24.07
B	48	3,255,712	991,563	30.5%	0	0.0%	991,563	30.5%	29.0%	-47,656	-60,194	\$17.69
C	20	658,973	93,522	14.2%	0	0.0%	93,522	14.2%	14.1%	-544	3,441	\$15.06
Total	80	5,685,658	1,194,228	21.0%	50,643	0.9%	1,244,871	21.9%	19.2%	-48,530	-57,492	\$18.07
NORTH BELT/GREENSPPOINT												
A	24	5,451,944	2,393,509	43.9%	447,003	8.2%	2,840,512	52.1%	54.0%	105,366	-58,134	\$24.00
B	51	5,326,103	1,631,219	30.6%	179,847	3.4%	1,811,066	34.0%	33.4%	-33,161	-104,499	\$16.88
C	22	1,344,665	268,462	20.0%	0	0.0%	268,462	20.0%	19.2%	-10,900	3,828	\$14.13
Total	97	12,122,712	4,293,190	35.4%	626,850	5.2%	4,920,040	40.6%	32.7%	61,305	-158,805	\$20.68
NORTHEAST NEAR AND NORTHEAST OUTLIER												
A	2	555,700	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	5	205,618	66,431	32.3%	0	0.0%	66,431	32.3%	30.4%	-3,889	0	\$23.28
C	2	56,562	8,443	14.9%	0	0.0%	8,443	14.9%	14.9%	0	1,178	\$15.00
Total	9	817,880	74,874	9.2%	0	0.0%	74,874	9.2%	9.3%	-3,889	1,178	\$22.35

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2017	Q4-2016	Q1-2017	Q4-2016	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,223,066	689,221	31.0%	21,207	1.0%	710,428	32.0%	30.5%	-31,317	-17,748	\$22.68
B	77	5,941,082	957,775	16.1%	3,827	0.1%	961,602	16.2%	15.9%	-16,816	-82,391	\$19.08
C	33	1,303,208	65,927	5.1%	0	0.0%	65,927	5.1%	5.1%	726	-28,675	\$14.07
Total	120	9,467,356	1,712,923	18.1%	25,034	0.3%	1,737,957	18.4%	17.7%	-47,407	-128,814	\$20.34
RICHMOND/FOUNTAINVIEW												
B	13	780,187	206,807	26.5%	0	0.0%	206,807	26.5%	25.0%	-11,869	-3,648	\$17.24
C	12	486,445	63,694	13.1%	0	0.0%	63,694	13.1%	13.4%	1,314	-456	\$17.49
Total	25	1,266,632	270,501	21.4%	0	0.0%	270,501	21.4%	19.2%	-10,555	-4,104	\$17.30
SAN FELIPE/VOSS												
A	3	1,720,793	414,360	24.1%	1,000	0.1%	415,360	24.1%	25.4%	21,344	-7,764	\$36.32
B	31	3,205,259	446,267	13.9%	5,119	0.2%	451,386	14.1%	13.3%	-24,333	-72,513	\$24.22
Total	34	4,926,052	860,627	17.5%	6,119	0.1%	866,746	17.6%	15.6%	-2,989	-80,277	\$30.05
SOUTH												
A	1	76,048	10,033	13.2%	0	0.0%	10,033	13.2%	13.2%	0	0	\$32.42
B	12	465,251	29,548	6.4%	0	0.0%	29,548	6.4%	5.5%	-4,148	1,582	\$23.29
C	5	194,042	49,200	25.4%	0	0.0%	49,200	25.4%	26.4%	2,063	1,671	\$15.01
Total	18	735,341	88,781	12.1%	0	0.0%	88,781	12.1%	12.2%	-2,085	3,253	\$19.73
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	12	766,112	81,785	10.7%	850	0.1%	82,635	10.8%	10.0%	-6,124	19,067	\$19.40
C	8	428,964	27,870	6.5%	0	0.0%	27,870	6.5%	6.4%	-600	795	\$19.49
Total	21	1,680,076	109,655	6.5%	850	0.1%	110,505	6.6%	7.5%	-6,724	19,862	\$19.42
SOUTHEAST												
B	17	1,563,009	45,871	2.9%	0	0.0%	45,871	2.9%	3.0%	587	6,753	\$14.54
C	3	142,419	0	0.0%	0	0.0%	0	0.0%	0.0%	0	4,992	\$0.00
Total	20	1,705,428	45,871	2.7%	0	0.0%	45,871	2.7%	11.7%	587	11,745	\$14.54
SOUTHWEST												
A	6	1,576,901	178,176	11.3%	0	0.0%	178,176	11.3%	11.7%	5,616	4,095	\$18.46
B	65	6,221,242	1,055,673	17.0%	36,654	0.6%	1,092,327	17.6%	16.5%	-66,376	2,771	\$16.92
C	38	1,924,536	112,300	5.8%	0	0.0%	112,300	5.8%	6.2%	6,399	11,206	\$14.62
Total	109	9,722,679	1,346,149	13.8%	36,654	0.4%	1,382,803	14.2%	14.1%	-54,361	18,072	\$16.93
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	10	830,022	230,167	27.7%	10,136	1.2%	240,303	29.0%	29.4%	3,600	-9,500	\$24.58
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	13	1,010,138	249,904	24.7%	10,136	1.0%	260,040	25.7%	25.2%	3,600	-9,500	\$22.64
WEST BELT												
A	28	3,584,109	697,810	19.5%	188,715	5.3%	886,525	24.7%	23.5%	-43,019	11,319	\$29.81
B	32	1,885,983	302,717	16.1%	102,805	5.5%	405,522	21.5%	20.6%	-17,172	38,033	\$20.72
C	3	87,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	63	5,557,721	1,000,527	18.0%	291,520	5.2%	1,292,047	23.2%	23.1%	-60,191	49,352	\$27.06
WEST LOOP/GALLERIA												
A	48	17,798,908	3,238,879	18.2%	253,545	1.4%	3,492,424	19.6%	18.0%	23,032	-85,562	\$37.22
B	53	6,161,178	693,731	11.3%	17,933	0.3%	711,664	11.6%	11.8%	15,033	-7,279	\$27.57
C	4	216,268	4,212	1.9%	0	0.0%	4,212	1.9%	5.1%	6,849	-6,740	\$20.00
Total	105	24,176,354	3,936,822	16.3%	271,478	1.1%	4,208,300	17.4%	15.9%	44,914	-99,581	\$35.50

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2017	Q4-2016	Q1-2017	Q4-2016	AVG (\$/SF)
WESTCHASE												
A	33	9,817,089	1,716,849	17.5%	666,526	6.8%	2,383,375	24.3%	23.3%	-100,115	-39,534	\$36.13
B	62	7,478,569	1,341,482	17.9%	14,397	0.2%	1,355,879	18.1%	18.2%	2,640	-69,014	\$19.86
C	5	213,302	25,562	12.0%	0	0.0%	25,562	12.0%	13.0%	2,195	-2,315	\$16.48
Total	100	17,508,960	3,083,893	17.6%	680,923	3.9%	3,764,816	21.5%	20.4%	-95,280	-110,863	\$28.89
THE WOODLANDS												
A	39	10,926,590	1,222,335	11.2%	39,842	0.4%	1,262,177	11.6%	12.3%	83,394	49,487	\$36.80
B	70	4,427,100	453,591	10.2%	45,980	1.0%	499,571	11.3%	10.4%	-37,017	46,507	\$24.54
C	5	131,696	40,714	30.9%	0	0.0%	40,714	30.9%	21.1%	-12,951	506	\$24.60
Total	114	15,485,386	1,716,640	11.1%	85,822	0.6%	1,802,462	11.6%	12.3%	33,426	96,500	\$33.27

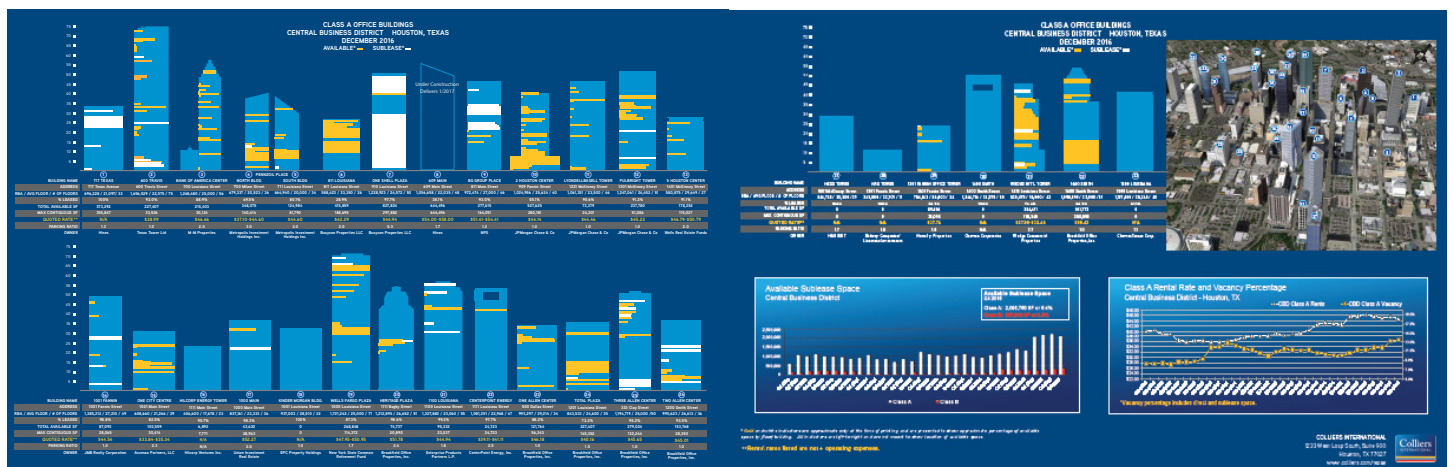
## Office Development Pipeline

Houston's construction pipeline for office space contains 1.6 million SF of which 42% is pre-leased. Build-to-suit projects make up 43% of the pipeline, and the remaining 918,400 SF is spec office space under construction which is approximately 10% pre-leased. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
CityPlace 2 - BTS for ABS	1701 City Plaza Dr	The Woodlands	326,800	94%	Barker Patrinely Group, Inc	Oct-18
Kirby Collection	3200 Kirby Dr	Greenway Plaza	188,545	0%	Thor Properties LLC	Aug-17
Lockton Place	3657 Briarpark Dr	Westchase	187,011	78%	Triton Real Estate Partners	Oct-17
One Grand Crossing	SWC of Grand Parkway & I-10	Katy/Grand Parkway W	171,538	0%	Trammell Crow Company	Mar-18
The Post Oak	1600 West Loop S	West Loop/Galleria	104,579	6%	Tellepsen Builders	Dec-17

## Skylines | Now Available Online at [colliers.com/texas/houston/skylines](http://colliers.com/texas/houston/skylines)

At a glance, view available space for eight of Houston's class a office skylines including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase.



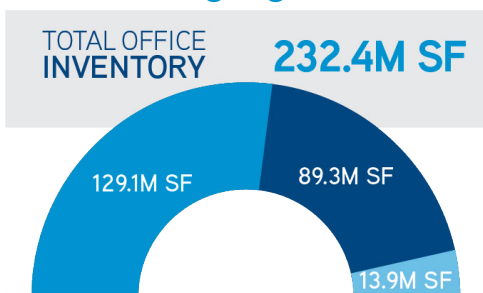
## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	99.0%	66,683	\$51.06	Bop Heritage LLC
Bank of America	700 Louisiana St	CBD	1,268,480	1983	92.5%	171,016	\$50.07	M-M Properties
BG Group Place	811 Main	CBD	972,474	2011	93.0%	223,400	\$52.41	BG Holdco LLC
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	10,736	\$50.04	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	94.6%	132,419	\$46.31	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2013	90.1%	30,075	\$45.48	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	85.5%	100,331	\$46.49	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	95.1%	209,564	\$44.63	TIER REIT, Inc.
21 Waterway	21 Waterway Ave	The Woodlands	104,372	2005	100%	13,315	\$47.43	The Woodlands Development Company, L.P.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	97.8%	9,355	\$49.25	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space listed.

Source: CoStar Property

## Q1 2017 Highlights



### TOTAL INVENTORY BY CLASS

■ CLASS A: 56% ■ CLASS B: 38% ■ CLASS C: 6%



**CURRENT**  
**18.5%**  
 VACANCY  
**-0.7M SF**  
 NET ABSORPTION



**LEASING ACTIVITY**  
**2.2M SF**  
**25.3%**  
 ANNUAL DECREASE

## FOR MORE INFORMATION

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# After several years of economic woes, Houston's office market coasts into 2017

**Lisa Bridges** Director of Market Research | Houston

After several challenging years, Houston's office market saw some improvement over the quarter. The market will most likely remain relatively flat, coasting through 2017. The citywide vacancy rate increased by only 40 basis points between quarters, and absorption, although negative, was only a third of the previous quarter's total. Q4 2016 witnessed several energy companies remove available sublease space as they began to shift out of the contraction mode and begin looking forward again. Although leasing activity remains lower than normal, deals are getting done and some of those even include pre-leasing of proposed developments.

Houston's office market posted 0.1M SF of negative net absorption during the fourth quarter, an improvement from the 0.3M SF of negative net absorption posted in the previous quarter. Houston's city-wide office vacancy rate rose significantly on an annual basis, increasing by 220 basis points from 15.3% to 17.5% in Q4 2015. As stated earlier, the vacancy rate rose by only 40 basis points over the quarter, much less than in previous quarterly comparisons during 2015 and 2016.

No new buildings delivered during Q4 however, 1.8M SF of the 3.1M SF in the construction pipeline is scheduled to deliver in Q1 2017. There have been several recent press announcements of tenants pre-leasing space in proposed buildings, indicating a preference for newer innovative space. Although this would appear to add vacant space to an already saturated market, it is a very small percentage overall.

According to the U.S. Bureau of Labor Statistics, the Houston metropolitan area created 13,400 jobs (not seasonally adjusted) between October 2015 and October 2016. Most of the job growth occurred in government, retail trade, education and healthcare, trade, transportation and utilities, and professional services.

## Market Indicators

Relative to prior period

	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↑	↑
NET ABSORPTION	↓	↑	↓
NEW CONSTRUCTION	↓	↓	↑
UNDER CONSTRUCTION	↓	↑	↑

\*Projected

## Summary Statistics

Houston Office Market

	Q4 2015	Q3 2016	Q4 2016
Vacancy Rate	15.3%	17.1%	17.5%
Net Absorption (Million Square Feet)	0.2	-0.3	-0.1
New Construction (Million Square Feet)	3.4	1.6	0
Under Construction (Million Square Feet)	8.0	2.9	3.1
Class A Vacancy Rate			
CBD	11.3%	13.5%	13.4%
Suburban	16.3%	19.1%	19.7%

## Asking Rents

Per Square Foot Per Year

Houston Class A	\$34.71	\$35.83	\$35.35
CBD Class A	\$46.13	\$45.50	\$44.64
Suburban Class A	\$32.80	\$33.58	\$32.78

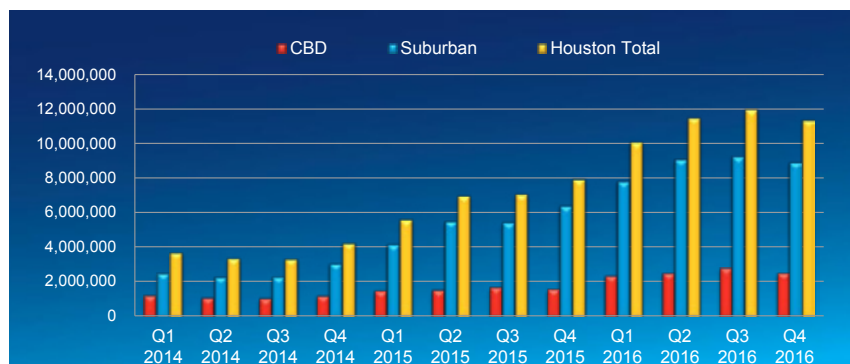
## Vacancy & Availability

Houston's citywide vacancy rate rose 40 basis points from 17.1% to 17.5% over the quarter, and rose 220 basis points from 15.3% in Q4 2015. Over the quarter, the average suburban vacancy rate increased 40 basis points from 17.2% to 17.6%, and the average CBD vacancy rate was unchanged at 16.8%.

The average CBD Class A vacancy rate decreased 10 basis points from 13.5% to 13.4% over the quarter, while the average CBD Class B vacancy rate remained the same at 26.9%. The average suburban Class A vacancy rate increased 60 basis points from 19.1% to 19.7%, and the average suburban Class B vacancy rate rose 20 basis points between quarters from 16.3% to 16.5%.

Of the 1,708 existing office buildings in our survey, 92 buildings have 100,000 SF or more of contiguous space available for lease or sublease. Further, 29 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 11.8 million SF or 5.1% of Houston's total office inventory, and 22.1% of total available space.

## Available Sublease Space



## Large Sublease Availabilities (Total available in building and/or complex)

BUILDING	TENANT	SUBMARKET	SF
One Shell Plaza	Shell Oil	CBD	801,990
Four WestLake Park	BP	Katy Freeway	559,094
Four Oaks Place	BHP	West Loop/Galleria	475,070
717 Texas	Freeport-McMoRan	CBD	355,847
Energy Center II	WorleyParsons	Katy Freeway	257,659
Three Greenspoint Place	ExxonMobil	North Belt	253,562
Three WestLake Park	Phillips 66	Katy Freeway	242,052
Two Westlake	ConocoPhillips & BP	Katy Freeway	230,845
Northborough Tower	Noble Energy	North Belt	204,198
8 Greenspoint	ExxonMobil	North Belt	198,256
BG Group Place	BG Group	CBD	194,243
CityWestPlace 2	Statoil	Westchase	190,214
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	189,285
Westway II	GE Oil & Gas	West Belt	186,957
Energy Center I	Foster Wheeler	Katy Freeway	182,966

Source: CoStar

## Job Growth & Unemployment

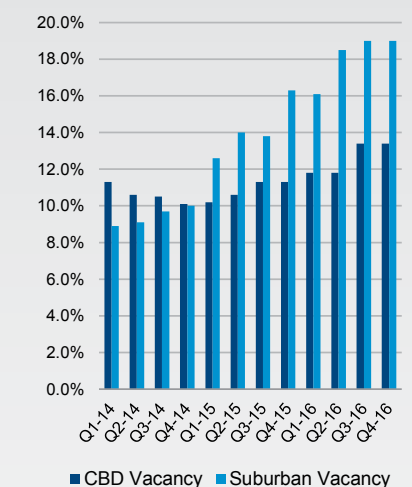
(not seasonally adjusted)

UNEMPLOYMENT	10/15	10/16
HOUSTON	4.8%	4.9%
TEXAS	4.4%	4.2%
U.S.	4.8%	4.4%

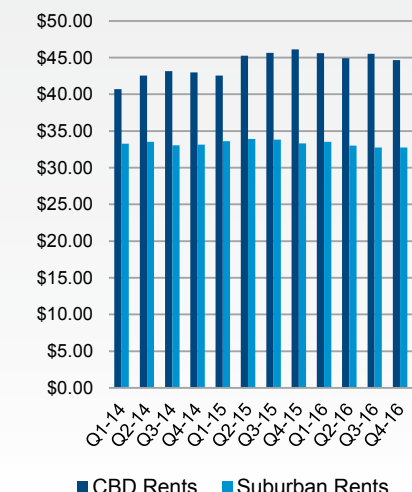
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	0.4%	13.4K
TEXAS	1.8%	212.6K
U.S.	1.6%	2.3M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS



## Absorption & Demand

Houston's office market posted 142,249 SF of negative net absorption in Q4 2016, pushing the year-end 2016 total to negative 363,539 SF. Suburban Class B space recorded the largest loss, with 134,800 SF of negative net absorption, while Suburban Class A posted a gain with 31,374 SF of positive net absorption. Over the last two years, Houston's office market has suffered due to large energy companies downsizing and moving from third-party owned buildings into owned property, thus creating a glut of unoccupied and available sublease space. During the fourth quarter, available sublease space decreased for the first time since Q2 2014.

## Rental Rates

The significant increases in vacancy rates in Houston's office market have led to decreases in average asking rental rates. Although most average rental rates dropped slightly or remained relatively flat over the quarter, we witnessed several landlords with large blocks of space reduce rental rates by \$2.00 to \$6.00 per square foot. The average Class A rental rate in both the CBD and Suburban submarkets decreased over the quarter, while the average Class B rental rate increased slightly.

## Leasing Activity

Houston's office leasing activity decreased 38.1% between quarters, recording only 2.1 million SF of transactions in Q4 2016. Quarterly leasing activity has decreased by 53.3% in just one year when compared to the 4.5 million SF recorded in Q4 2015.

Q4 2016 Select Office Lease Transactions				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Springwoods Village	The Woodlands	378,000	HP Inc <sup>2</sup>	Dec-16
Heritage Plaza	CBD	109,476	Breitbart Energy <sup>4</sup>	Nov-16
The Sugar Creek on the Lake	E Fort Bend/Sugar Land	62,457	ABM Industries Inc	Oct-16
BG Group Place	CBD	60,655	Thompson & Knight LLP <sup>4</sup>	Nov-16
2 Houston Center	CBD	46,840	Diamond McCarthy LLP <sup>5</sup>	Dec-16
Sierra Pines II	The Woodlands	27,025	Jones & Carter	Nov-16
Energy Tower IV	Katy Freeway	26,417	Middleton Raines + Zapata LLP	Oct-16
Transworld Financial Center	Northwest Far	25,889	Luby's, Inc <sup>3</sup>	Nov-16

<sup>1</sup>Colliers International transaction

<sup>2</sup>Pre-lease in proposed or building under construction

<sup>3</sup>Renewal

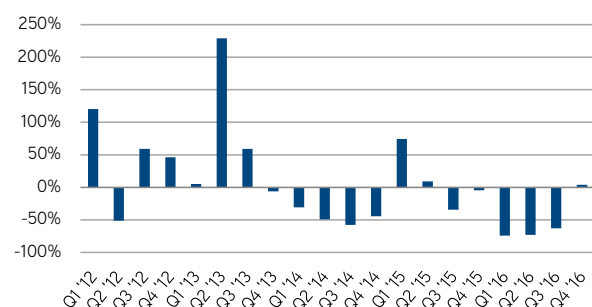
<sup>4</sup>Sublease

<sup>5</sup>Contraction

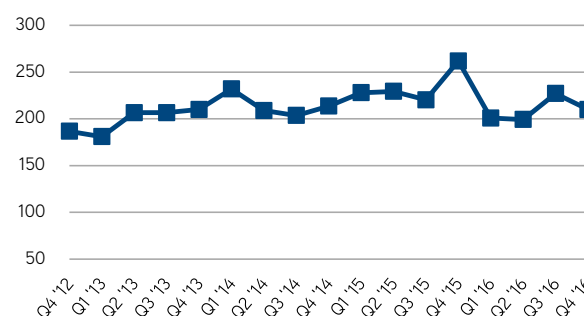
## Sales Activity

Houston's office investment sales activity picked up slightly over the past year, increasing by 4% since Q4 2015. The average sales price decreased from \$227 to \$210 per square foot.

Q4 2016 CHANGE IN SALES (YEAR OVER YEAR)



Q4 2016 OFFICE SALES PRICE PER SF



Sources: CoStar and Real Capital Analytics

## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2016	Q3-2016	Q4-2016	Q3-2016	AVG (\$/SF)
CBD												
A	34	31,571,839	3,277,139	10.4%	952,244	3.0%	4,229,383	13.4%	13.5%	31,374	-412,324	\$44.64
B	32	10,496,468	2,597,438	24.7%	229,539	2.2%	2,826,977	26.9%	26.9%	-5,964	9,102	\$30.17
C	15	921,797	186,796	20.3%	0	0.0%	186,796	20.3%	20.8%	4,574	6,357	\$21.07
Total	81	42,990,104	6,061,373	14.1%	1,181,783	2.7%	7,243,156	16.8%	16.8%	29,984	-396,865	\$41.42
SUBURBAN												
A	371	95,721,265	16,322,153	17.1%	2,488,392	2.6%	18,810,545	19.7%	19.1%	-19,708	629,788	\$32.78
B	950	79,079,218	12,250,627	15.5%	772,015	1.0%	13,022,642	16.5%	16.3%	-134,800	-562,042	\$20.58
C	306	13,112,952	1,237,073	9.4%	3,467	0.0%	1,240,540	9.5%	9.8%	-17,725	-8,564	\$15.81
Total	1627	187,913,435	29,809,853	15.9%	3,263,874	1.7%	33,073,727	17.6%	17.2%	-172,233	59,182	\$27.62
OVERALL												
A	405	127,293,104	19,599,292	15.4%	3,440,636	2.7%	23,039,928	18.1%	17.7%	11,666	217,464	\$35.35
B	982	89,575,686	14,848,065	16.6%	1,001,554	1.1%	15,849,619	17.7%	17.5%	-140,764	-552,940	\$22.12
C	321	14,034,749	1,423,869	10.1%	3,467	0.0%	1,427,336	10.2%	10.5%	-13,151	-2,207	\$16.51
Total	1708	230,903,539	35,871,226	15.5%	4,445,657	1.9%	40,316,883	17.5%	17.1%	-142,249	-337,683	\$28.66

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2016	Q3-2016	Q4-2016	Q3-2016	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	7	2,130,993	434,970	20.4%	25,198	1.2%	460,168	21.6%	22.3%	13,997	16,438	\$34.72
B	34	2,720,313	244,588	9.0%	6,069	0.2%	250,657	9.2%	8.1%	-29,353	-20,364	\$30.57
C	14	426,107	31,781	7.5%	-	0.0%	31,781	7.5%	4.2%	-13,934	6,788	\$23.14
Total	55	5,277,413	711,339	13.5%	31,267	0.6%	742,606	14.1%	13.7%	-29,290	2,862	\$32.91
BAYTOWN												
B	3	186,005	4,962	2.7%	0	0.0%	4,962	2.7%	2.7%	0	589	\$21.45
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$7.95
Total	6	267,486	4,962	1.9%	0	0.0%	4,962	1.9%	1.9%	0	589	\$21.45
BELLAIRE												
A	6	1,091,536	135,366	12.4%	8,532	0.8%	143,898	13.2%	13.8%	6,479	-56,094	\$26.52
B	20	2,749,031	188,210	6.8%	7,727	0.3%	195,937	7.1%	7.6%	12,518	-26,581	\$24.81
C	5	327,020	37,827	11.6%	0	0.0%	37,827	11.6%	12.4%	2,649	-5,563	\$16.92
Total	31	4,167,587	361,403	8.7%	16,259	0.4%	377,662	9.1%	9.7%	21,646	-88,238	\$24.62
CONROE AND OUTLYING MONTGOMERY CO												
A	1	0	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	326,764	23,993	7.3%	0	0.0%	23,993	7.3%	3.1%	-13,801	-1,722	\$17.95
C	7	289,662	17,077	5.9%	0	0.0%	17,077	5.9%	4.9%	-2,916	-2,447	\$11.63
Total	17	616,426	41,070	6.7%	0	0.0%	41,070	6.7%	3.6%	-16,717	-4,169	\$15.32
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	258,278	7.6%	58,873	1.7%	317,151	9.3%	8.8%	-17,646	-39,580	\$30.53
B	39	2,470,844	258,990	10.5%	18,303	0.7%	277,293	11.2%	11.2%	-431	6,323	\$22.28
C	5	146,524	39,464	26.9%	0	0.0%	39,464	26.9%	26.9%	0	-39,464	\$0.00
Total	61	6,016,567	556,732	9.3%	77,176	1.3%	633,908	10.5%	10.1%	-18,077	-72,721	\$24.53

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2016	Q3-2016	Q4-2016	Q3-2016	AVG (\$/SF)
FM 1960												
A	12	2,913,211	300,688	10.3%	15,553	0.5%	316,241	10.9%	10.8%	-434	28,927	\$27.88
B	72	4,255,255	764,654	18.0%	69,472	1.6%	834,126	19.6%	20.0%	16,214	1,178	\$17.16
C	20	664,853	65,751	9.9%	973	0.1%	66,724	10.0%	9.4%	-4,144	2,751	\$14.36
Total	104	7,833,319	1,131,093	14.4%	85,998	1.1%	1,217,091	15.5%	15.6%	11,636	32,856	\$19.85
GREENWAY												
A	20	7,267,315	1,079,909	14.9%	13,912	0.2%	1,093,821	15.1%	16.1%	73,829	94,724	\$36.95
B	31	3,194,309	266,111	8.3%	9,339	0.3%	275,450	8.6%	9.9%	40,668	-31,502	\$26.67
C	16	532,718	75,808	14.2%	0	0.0%	75,808	14.2%	14.8%	2,887	-2,646	\$22.23
Total	67	10,994,342	1,421,828	12.9%	23,251	0.2%	1,445,079	13.1%	14.2%	117,384	60,576	\$34.24
GULF FREEWAY/PASADENA												
A	1	22,706	3,122	13.7%	0	0.0%	3,122	13.7%	13.7%	0	0	\$30.59
B	40	2,284,432	240,084	10.5%	2,668	0.1%	242,752	10.6%	11.7%	25,001	105,176	\$20.97
C	29	1,042,096	70,694	6.8%	0	0.0%	70,694	6.8%	6.2%	-6,150	462	\$17.81
Total	70	3,349,234	313,900	9.4%	2,668	0.1%	316,568	9.5%	12.0%	18,851	105,638	\$20.35
I-10 EAST												
B	8	467,901	140,416	30.0%	0	0.0%	140,416	30.0%	30.7%	3,400	-12,344	\$15.40
C	5	267,130	83,277	31.2%	0	0.0%	83,277	31.2%	33.0%	4,883	4,000	\$20.78
Total	13	735,031	223,693	30.4%	0	0.0%	223,693	30.4%	32.0%	8,283	-8,344	\$17.40
KATY FREEWAY												
A	86	22,065,502	3,326,972	15.1%	923,489	4.2%	4,250,461	19.3%	19.6%	85,123	-96,720	\$37.87
B	101	9,675,774	1,676,952	17.3%	152,316	1.6%	1,829,268	18.9%	19.6%	66,444	-88,509	\$23.75
C	33	1,559,285	54,931	3.5%	2,494	0.2%	57,425	3.7%	3.6%	-841	-4,221	\$18.54
Total	220	33,300,561	5,058,855	15.2%	1,078,299	3.2%	6,137,154	18.4%	18.9%	150,726	-189,450	\$32.98
KATY/GRAND PARKWAY WEST												
A	14	1,254,548	318,652	25.4%	0	0.0%	318,652	25.4%	25.1%	-3,451	58,958	\$27.87
B	12	939,316	24,236	2.6%	0	0.0%	24,236	2.6%	3.0%	4,206	1,775	\$25.79
C	3	190,504	1,010	50.0%	0	0.0%	1,010	50.0%	2.2%	3,210	0	\$23.44
Total	29	2,384,368	343,898	14.4%	0	0.0%	343,898	14.4%	17.4%	3,965	60,733	\$27.71
KINGWOOD/HUMBLE												
B	20	1,300,700	65,116	5.0%	8,730	0.7%	73,846	5.7%	6.2%	6,465	1,133	\$22.23
C	5	168,300	24,800	14.7%	0	0.0%	24,800	14.7%	13.1%	-2,800	0	\$16.37
Total	25	1,469,000	89,916	6.1%	8,730	0.6%	98,646	6.7%	7.0%	3,665	1,133	\$20.61
NASA/CLEAR LAKE												
A	12	1,770,973	140,239	7.9%	35,725	2.0%	175,964	9.9%	9.9%	-739	-12,380	\$24.09
B	48	3,255,360	934,077	28.7%	4,000	0.1%	938,077	28.8%	27.1%	-54,364	-58,779	\$17.89
C	20	660,409	92,978	14.1%	0	0.0%	92,978	14.1%	14.6%	3,441	8,741	\$15.86
Total	80	5,686,742	1,167,294	20.5%	39,725	0.7%	1,207,019	21.2%	19.2%	-51,662	-62,418	\$18.47
NORTH BELT/GREENSPPOINT												
A	23	5,258,406	2,486,359	47.3%	255,321	4.9%	2,741,680	52.1%	51.0%	-58,134	35,087	\$25.15
B	52	5,322,025	1,423,945	26.8%	245,416	4.6%	1,669,361	31.4%	29.9%	-78,968	36,938	\$17.59
C	22	1,344,665	257,562	19.2%	0	0.0%	257,562	19.2%	19.4%	3,828	8,345	\$14.09
Total	97	11,925,096	4,167,866	35.0%	500,737	4.2%	4,668,603	39.1%	32.7%	-133,274	80,370	\$21.88
NORTHEAST NEAR AND NORTHEAST OUTLIER												
A	2	555,700	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	5	209,618	66,542	31.7%	0	0.0%	66,542	31.7%	31.7%	0	-8,653	\$22.97
C	2	56,562	8,443	14.9%	0	0.0%	8,443	14.9%	17.0%	1,178	203	\$15.00
Total	9	821,880	74,985	9.1%	0	0.0%	74,985	9.1%	9.3%	1,178	-8,450	\$22.07



## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2016	Q3-2016	Q4-2016	Q3-2016	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,223,066	662,345	29.8%	43,180	1.9%	705,525	31.7%	30.9%	-17,748	6,801	\$22.81
B	78	5,909,780	983,687	16.6%	10,536	0.2%	994,223	16.8%	15.4%	-81,991	49,985	\$19.58
C	33	1,303,208	66,653	5.1%	0	0.0%	66,653	5.1%	2.9%	-28,675	-808	\$13.22
Total	121	9,436,054	1,712,685	18.2%	53,716	0.6%	1,766,401	18.7%	17.7%	-128,414	55,978	\$20.58
RICHMOND/FOUNTAINVIEW												
B	13	783,577	194,938	24.9%	0	0.0%	194,938	24.9%	24.4%	-3,648	-9,671	\$16.76
C	12	495,591	55,204	11.1%	0	0.0%	55,204	11.1%	11.0%	-456	6,325	\$15.65
Total	25	1,279,168	250,142	19.6%	0	0.0%	250,142	19.6%	19.2%	-4,104	-3,346	\$16.52
SAN FELIPE/VOSS												
A	3	1,720,793	413,240	24.0%	6,816	0.4%	420,056	24.4%	24.0%	-7,764	27,864	\$36.00
B	31	3,205,259	423,596	13.2%	3,457	0.1%	427,053	13.3%	11.1%	-72,513	-51,994	\$24.55
Total	34	4,926,052	836,836	17.0%	10,273	0.2%	847,109	17.2%	15.6%	-80,277	-24,130	\$30.20
SOUTH												
A	1	80,000	10,033	12.5%	0	0.0%	10,033	12.5%	12.5%	0	-548	\$26.31
B	12	465,159	25,400	5.5%	0	0.0%	25,400	5.5%	5.8%	1,582	8,778	\$23.87
C	5	194,042	51,263	26.4%	0	0.0%	51,263	26.4%	27.3%	1,671	-134	\$15.10
Total	18	739,201	86,696	11.7%	0	0.0%	86,696	11.7%	12.2%	3,253	8,096	\$18.97
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	12	766,112	75,661	9.9%	850	0.1%	76,511	10.0%	12.5%	19,067	25,193	\$19.62
C	8	428,964	27,270	6.4%	0	0.0%	27,270	6.4%	6.5%	795	3,099	\$20.02
Total	21	1,680,076	102,931	6.1%	850	0.1%	103,781	6.2%	7.5%	19,862	28,292	\$19.73
SOUTHEAST												
B	17	1,563,009	187,424	12.0%	0	0.0%	187,424	12.0%	12.4%	6,753	-6,469	\$17.29
C	3	142,419	0	0.0%	0	0.0%	0	0.0%	3.5%	4,992	-4,992	\$0.00
Total	20	1,705,428	187,424	11.0%	0	0.0%	187,424	11.0%	11.7%	11,745	-11,461	\$17.29
SOUTHWEST												
A	6	1,576,901	183,792	11.7%	0	0.0%	183,792	11.7%	11.9%	4,095	40,988	\$18.50
B	66	6,266,065	1,050,187	16.8%	31,594	0.5%	1,081,781	17.3%	17.3%	2,771	1,683	\$17.20
C	38	1,924,536	118,699	6.2%	0	0.0%	118,699	6.2%	6.7%	11,206	13,255	\$14.25
Total	110	9,767,502	1,352,678	13.8%	31,594	0.3%	1,384,272	14.2%	14.1%	18,072	55,926	\$17.12
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	10	830,022	233,767	28.2%	10,136	1.2%	243,903	29.4%	28.2%	-9,500	-15,739	\$24.20
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	13	1,010,138	253,504	25.1%	10,136	1.0%	263,640	26.1%	25.2%	-9,500	-15,739	\$22.32
WEST BELT												
A	28	3,584,109	714,861	19.9%	149,619	4.2%	864,480	24.1%	23.9%	-9,655	-107,854	\$30.45
B	32	1,885,695	306,372	16.2%	90,351	4.8%	396,723	21.0%	22.9%	34,466	-5,477	\$20.31
C	3	87,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	63	5,557,433	1,021,233	18.4%	239,970	4.3%	1,261,203	22.7%	23.1%	24,811	-113,331	\$27.41
WEST LOOP/GALLERIA												
A	47	17,418,908	2,933,931	16.8%	236,137	1.4%	3,170,068	18.2%	17.6%	-97,613	-58,329	\$37.68
B	53	6,161,178	705,851	11.5%	20,846	0.3%	726,697	11.8%	11.7%	-7,279	47,066	\$26.88
C	4	216,268	11,061	5.1%	0	0.0%	11,061	5.1%	2.0%	-6,740	-2,258	\$20.00
Total	104	23,796,354	3,650,843	15.3%	256,983	1.1%	3,907,826	16.4%	15.9%	-111,632	-13,521	\$35.54

## Houston Suburban Office Market Summary - Continued

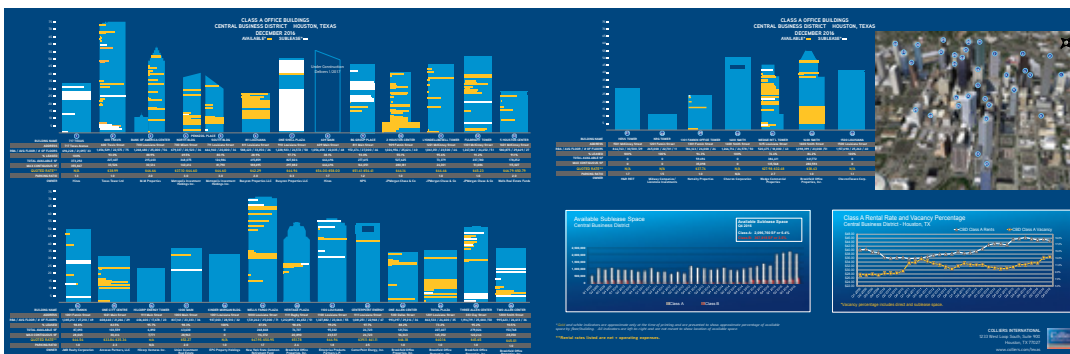
INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2016	Q3-2016	Q4-2016	Q3-2016	AVG (\$/SF)
WESTCHASE												
A	33	9,817,089	1,593,930	16.2%	676,195	6.9%	2,270,125	23.1%	22.7%	-39,534	655,054	\$36.09
B	62	7,477,832	1,341,127	17.9%	17,392	0.2%	1,358,519	18.2%	17.2%	-69,014	-491,434	\$20.02
C	5	213,302	27,757	13.0%	0	0.0%	27,757	13.0%	11.9%	-2,315	0	\$17.47
Total	100	17,508,223	2,962,814	16.9%	693,587	4.0%	3,656,401	20.9%	20.4%	-110,863	163,620	\$28.64
THE WOODLANDS												
A	39	10,926,590	1,305,729	12.0%	39,842	0.4%	1,345,571	12.3%	12.8%	49,487	36,452	\$36.43
B	70	4,407,883	399,741	9.1%	62,813	1.4%	462,554	10.5%	11.5%	46,507	-18,621	\$24.30
C	5	328,281	17,763	5.4%	0	0.0%	17,763	5.4%	8.6%	10,506	0	\$29.98
Total	114	15,662,754	1,723,233	11.0%	102,655	0.7%	1,825,888	11.7%	12.3%	106,500	17,831	\$33.55

## Office Development Pipeline

Houston's construction pipeline for office space contains 3.1 million SF of which 44.8% is pre-leased. Build-to-suit projects make up 24.5% of the pipeline, and the remaining 2.3M SF is spec office space under construction which is approximately 28.5% pre-leased. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
609 Main at Texas	609 Main St	CBD	1,056,658	38.1%	Hines	Jan-17
Future Amegy Bank HQ	1717 W Loop Fwy S	Post Oak Park	380,000	90.2%	Hines	Feb-17
Memorial City	10100 Katy Fwy	Katy Freeway East	238,173	34.5%	MetroNational Corporation.	Feb-17
Kirby Collection	3200 Kirby Dr	Greenway Plaza	212,878	11.4%	Thor Equities	Aug-17
Lockton Place	3657 Briarpark Dr	Westchase	186,000	100%	Triton Real Estate Partners	Oct-17
Bldg. 1	Highway 99	Katy/Grand Parkway W	171,538	0.0%	Trammell Crow Company	Aug-17
The Post Oak	1600 West Loop S	Galleria/Uptown	104,579	0.0%	Tellepsen Builders	Dec-17
Insperty Centre 4	29541 Loop 494	Kingwood/Humble	100,000	100%	Insperty	Jan-17

Skylines | Now Available Online at [colliers.com/texas/houstonskylines](http://colliers.com/texas/houstonskylines)



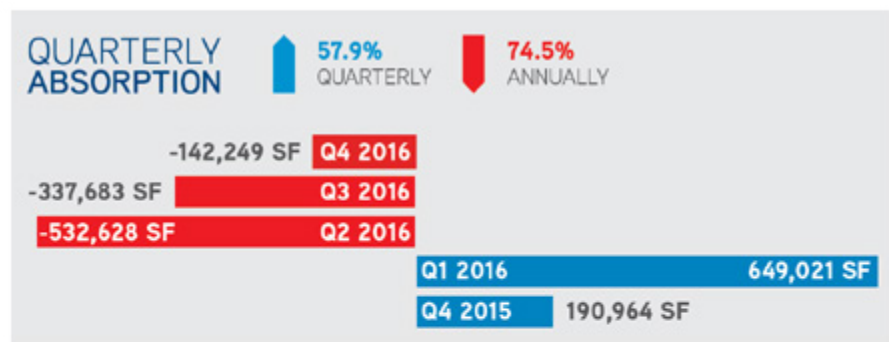
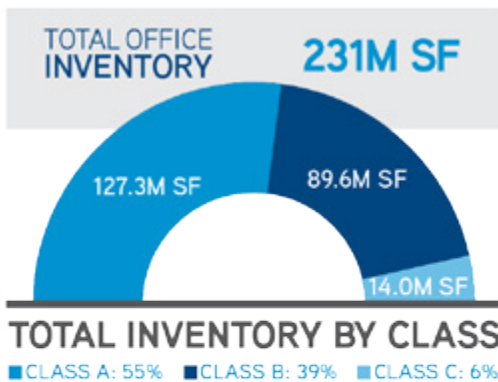
At a glance, view available space for eight of Houston's class a office skylines including CBD, Galleria, Energy Corridor, Greenway Plaza, North Belt, Sugar Land, The Woodlands, and Westchase.

## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	98.6%	74,737	\$51.78	Bop Heritage LLC
5 Houston Center	1401 McKinney St	CBD	580,875	2002	91.1%	178,253	\$46.79-50.79	Wells Real Estate Funds
BG Group Place	811 Main	CBD	972,474	2011	93.0%	277,615	\$56.91	BG Holdco LLC
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	9,361	\$45.51	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	95.2%	171,635	\$46.50-\$49.50	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2013	90.1%	39,764	\$47.27-\$49.27	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	85.5%	100,331	\$46.49	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	93.5%	169,458	\$44.49	TIER REIT, Inc.
21 Waterway	21 Waterway Ave	The Woodlands	104,372	2005	95.7	11,490	\$47.65-48.65	The Woodlands Development Company, L.P.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,696	2014	97.8%	9,355	\$48.90	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q4 2016 Highlights



### FOR MORE INFORMATION

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# Houston office market construction pipeline shrinks seventy-three percent over the year

**Lisa Bridges** Director of Market Research | Houston

Houston's office market continues to struggle due to the downturn in the energy industry, leading to negative net absorption and decreased leasing activity. Leasing activity has dropped by 28.6% since Q3 2015 and by 13.8% over the quarter. Tenants are renewing existing leases, but more companies continue to contract than expand.

Houston's office market posted 0.4M SF of negative net absorption during the third quarter. Even with the positive absorption year-to-date, because of the additional space completed and added to the market, Houston's city-wide office vacancy rate rose from 16.2% to 17.1% over the quarter, and the annual rate rose significantly, increasing by 260 basis points from 14.5% in Q3 2015.

Available sublease space has increased from 7.1M SF to 12.0M SF, growing 68.6% over the year. The major energy firms, as well as the engineering companies and oilfield service firms that support them continue to suffer with the results of the significant drop in the price of oil. ConocoPhillips has almost 600,000 square feet of new, never occupied space on the market. Shell recently announced it will vacate the majority of its space in the CBD submarket, adding additional space on the sublease market. We are hopeful that Houston's office market has hit the bottom and no more significant blocks of space will be added.

1.5M SF of new inventory delivered during Q3 2016 and 48.9% of this space is pre-leased. Houston's office construction pipeline is shrinking and currently totals 2.9M SF, 73.0% less than the 10.8M SF under construction in Q3 2015. The majority of the new space is located in suburban submarkets and is scheduled to deliver over the next 15 months.

According to the U.S. Bureau of Labor Statistics, the Houston metropolitan area created 14,200 jobs (not seasonally adjusted) between August 2015 and August 2016. Most of the job growth occurred in education and healthcare, trade, transportation and utilities, and professional services.

## Market Indicators

Relative to prior period

Annual  
Change

Quarterly  
Change

Quarterly  
Forecast\*

VACANCY



NET ABSORPTION



NEW CONSTRUCTION



UNDER CONSTRUCTION



\*Projected

## Summary Statistics

Houston Office Market

Q3 2015

Q2 2016

Q3 2016

Vacancy Rate

14.5%

16.2%

17.1%

Net Absorption  
(Million Square Feet)

0.7

-0.6

-0.4

New Construction  
(Million Square Feet)

1.4

2.3

1.5

Under Construction  
(Million Square Feet)

10.8

4.0

2.9

Class A Vacancy Rate  
CBD  
Suburban

10.4%

14.6%

11.8%

18.3%

13.4%

19.1%

## Asking Rents

Per Square Foot Per Year

Average (all classes)

\$27.83

\$29.57

\$29.70

CBD Class A

\$42.72

\$44.89

\$45.50

Suburban Class A

\$33.02

\$33.69

\$33.58

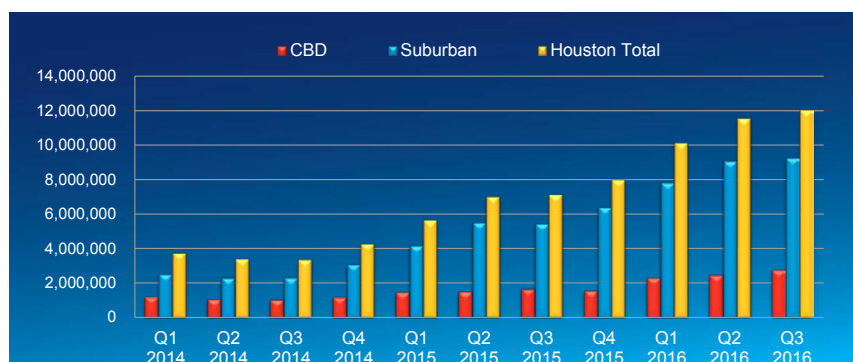
## Vacancy & Availability

Houston's citywide vacancy rate rose 90 basis points from 16.2% to 17.1% over the quarter, and rose 260 basis points from 14.5% in Q3 2015. Over the quarter, the average suburban vacancy rate increased 80 basis points from 16.4% to 17.2%, and the average CBD vacancy rate increased 120 basis points from 15.6% to 16.8%.

The average CBD Class A vacancy rate rose 160 basis points from 11.8% to 13.4% over the quarter, while the average CBD Class B vacancy rate remained the same at 26.5%. The average suburban Class A vacancy rate increased 80 basis points from 18.3% to 19.1%, and the average suburban Class B vacancy rate rose 100 basis points between quarters from 15.3% to 16.3%.

Of the 1,701 existing office buildings in our survey, 142 buildings now have 100,000 SF or more of contiguous space available for lease or sublease. Further, 57 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 12.0 million SF or 5.2% of Houston's total office inventory, two and one half times more than the 3.4M SF in Q3 2014 when oil prices dropped significantly.

## Available Sublease Space



## Large Sublease Availabilities

BUILDING	TENANT	SUBMARKET	SF
One Shell Plaza	Shell Oil	CBD	756,162
Energy Center Four	ConocoPhillips	Katy Freeway	597,628
Four WestLake Park	BP	Katy Freeway	559,094
Four Oaks Place	BHP	West Loop/Galleria	421,479
717 Texas	Freeport-McMoRan	CBD	355,847
Energy Center II	WorleyParsons	Katy Freeway	257,659
Three WestLake Park	Phillips 66	Katy Freeway	242,052
BG Group Place	BG Group	CBD	299,257
Northborough Tower	Noble Energy	North Belt	204,198
8 Greenspoint	ExxonMobil	North Belt	198,256
CityWestPlace 2	Statoil	Westchase	190,214
10777 Clay Rd	AMEC Foster Wheeler	Katy Freeway	187,285
Westway II	GE Oil & Gas	West Belt	186,957
Energy Center I	Foster Wheeler	Katy Freeway	182,966
Pinnacle Westchase	Phillips 66	Westchase	160,356

Source: CoStar

## Job Growth & Unemployment

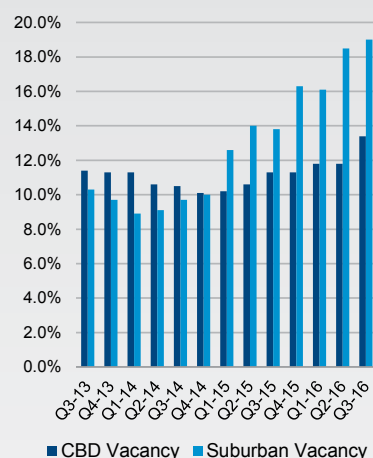
(not seasonally adjusted)

UNEMPLOYMENT	08/15	08/16
HOUSTON	4.9%	5.8%
TEXAS	4.6%	5.0%
U.S.	5.0%	5.2%

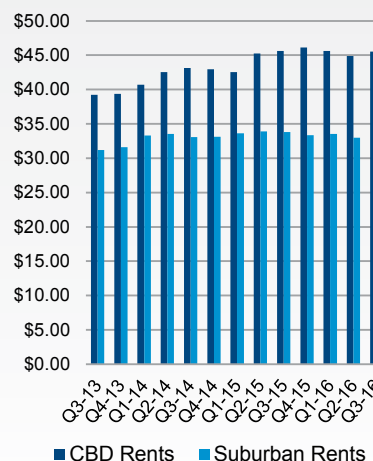
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	0.5%	14.2K
TEXAS	1.6%	186.9K
U.S.	1.7%	2.4M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS





## Absorption & Demand

Houston's office market posted 0.4M SF of negative net absorption in Q3 2016, pushing year-to-date absorption down to around 0.3M SF. Suburban Class B space posted the largest loss, with 0.5M SF of negative net absorption, while Suburban Class A posted the largest gain, 565,185 SF of positive net absorption. This positive absorption is the result of resulting from Phillips 66 occupancy of its namesake new building at 2101 Citywest Blvd in the Westchase submarket. The majority of Q3 negative absorption was due to tenants downsizing and consolidating in an effort to cut expenditures.

## Rental Rates

The significant increases in vacancy rates in Houston's office market have begun to have an impact on average asking rental rates. Although most rental rates remained relatively flat over the quarter, we witnessed several landlords with large blocks of space drop rental rates by \$2.00 to \$4.00 per square foot. In contrast, several buildings delivered over the quarter and those buildings are offering lease space with a higher than average asking rental rate.

## Leasing Activity

Houston's office leasing activity decreased 13.8% between quarters recording only 2.5 million SF of transactions in Q3 2016. When compared to the 3.5 million SF recorded in Q3 2015, quarterly leasing activity has fallen by 28.6% in just one year.

Q3 2016 Select Office Lease Transactions				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
609 Main St.	CBD	237,708	United Airlines <sup>2</sup>	Aug-16
1330 Enclave Parkway	Katy Freeway	86,000	Lloyd's Register <sup>3</sup>	Jul-16
Wells Fargo Plaza	CBD	75,378	Halcon Resources <sup>4</sup>	Sep-16
609 Main St.	CBD	56,806	Orrick, Herrington & Sutcliffe LLP <sup>2</sup>	Aug-16
CityWestPlace Bldg 4	Westchase	50,929	American Midstream <sup>4</sup>	Jul-16
Sugar Land Town Square Bldg B	E Fort Bend/Sugar Land	46,629	CVR Energy, Inc <sup>1</sup>	Jul-16
CityWestPlace Bldg 1	Westchase	46,092	TechSpace Holding	Aug-16
13111 Northwest Fwy	Northwest	32,664	K. Hovnanian of Houston II, LLC <sup>1</sup>	Jul-16

<sup>1</sup>Colliers International transaction

<sup>2</sup>Pre-lease in proposed or building under construction

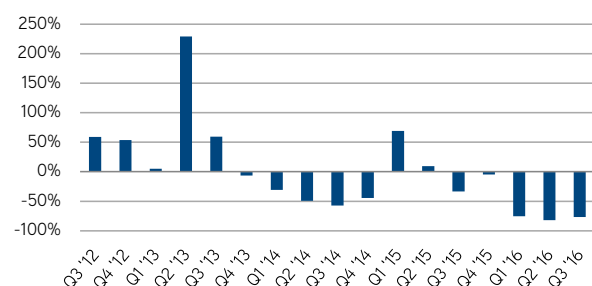
<sup>3</sup>Renewal

<sup>4</sup>Sublease

## Sales Activity

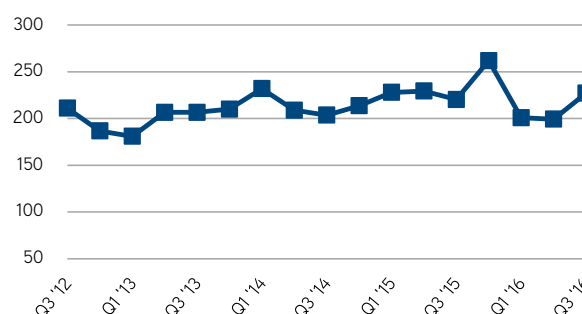
Houston's office investment sales activity has slowed significantly over the past year, dropping by 77.0% since Q3 2015. The average sales price has remained stable over the year and is currently \$227 per square foot.

Q3 2016 CHANGE IN SALES (YEAR OVER YEAR)



Sources: CoStar and Real Capital Analytics

Q3 2016 OFFICE SALES PRICE PER SF



## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2016	Q2-2016	Q3-2016	Q2-2016	AVG (\$/SF)
CBD												
A	34	31,571,839	3,213,076	10.2%	1,029,981	3.3%	4,243,057	13.4%	11.8%	-412,324	-5,848	\$45.50
B	33	10,516,468	2,582,238	24.6%	204,147	1.9%	2,786,385	26.5%	26.5%	-2,115	25,708	\$29.40
C	15	921,797	191,370	20.8%	0	0.0%	191,370	20.8%	21.5%	6,357	-3,989	\$21.07
Total	80	42,869,104	5,981,034	14.0%	1,234,128	2.9%	7,215,162	16.8%	15.6%	-524,282	17,260	\$38.67
SUBURBAN												
A	371	95,782,090	15,871,357	16.6%	2,384,826	2.5%	18,256,183	19.1%	18.3%	565,185	-400,762	\$33.58
B	944	78,880,917	11,873,808	15.1%	948,403	1.2%	12,822,158	16.3%	15.3%	-531,451	-217,077	\$20.53
C	304	13,199,398	1,288,271	9.8%	7,149	0.1%	1,295,420	9.8%	9.7%	-32,378	24,549	\$16.07
Total	1619	187,862,405	29,033,436	15.5%	3,340,378	1.8%	32,373,761	17.2%	16.4%	1,356	-593,290	\$26.46
OVERALL												
A	405	127,353,929	19,084,433	15.0%	3,414,807	2.7%	22,499,240	17.7%	16.7%	152,861	-406,610	\$35.83
B	977	89,397,385	14,456,046	16.2%	1,152,550	1.3%	15,608,543	17.5%	16.5%	-533,566	-191,369	\$22.11
C	319	14,121,195	1,479,641	10.5%	7,149	0.1%	1,486,790	10.5%	10.5%	-26,021	20,560	\$16.71
Total	1701	230,872,509	35,020,120	15.2%	4,574,506	2.0%	39,594,573	17.1%	16.2%	-406,726	-577,419	\$29.70

## Houston Suburban Office Market Summary

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2016	Q2-2016	Q3-2016	Q2-2016	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	7	2,130,993	448,967	21.1%	25,198	1.2%	474,165	22.3%	23.0%	16,438	56,584	\$34.14
B	32	2,637,672	188,216	7.1%	6,069	0.2%	194,285	7.4%	7.5%	3,449	-12,079	\$29.83
C	15	471,791	41,661	8.8%	-	0.0%	41,661	8.8%	5.2%	-17,026	7,654	\$20.66
Total	54	5,240,456	678,844	13.0%	31,267	0.6%	718,839	13.7%	13.6%	2,861	52,159	\$32.06
BAYTOWN												
B	3	186,005	4,962	2.7%	0	0.0%	4,962	2.7%	3.0%	589	0	\$21.45
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
Total	6	267,486	4,962	1.9%	0	0.0%	4,962	1.9%	2.1%	589	0	\$21.45
BELLAIRE												
A	6	1,091,536	141,845	13.0%	8,532	0.8%	150,377	13.8%	8.6%	-56,094	6,553	\$26.57
B	18	2,599,876	197,443	7.6%	0	0.0%	197,443	7.6%	6.6%	-26,581	-2,205	\$24.26
C	5	327,020	40,476	12.4%	0	0.0%	40,476	12.4%	10.7%	-5,563	2,649	\$16.56
Total	29	4,018,432	379,764	9.5%	8,532	0.2%	388,296	9.7%	7.5%	-88,238	6,997	\$25.02
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	326,764	10,192	3.1%	0	0.0%	10,192	3.1%	2.6%	-1,722	0	\$17.93
C	7	289,662	14,161	4.9%	0	0.0%	14,161	4.9%	4.0%	-2,447	-5,390	\$15.00
Total	17	676,426	24,353	3.6%	0	0.0%	24,353	3.6%	3.0%	-4,169	-5,390	\$17.25
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	238,318	7.0%	61,187	1.8%	299,505	8.8%	7.6%	-39,580	-67,501	\$30.37
B	39	2,469,412	261,009	10.6%	15,853	0.6%	276,862	11.2%	11.5%	6,323	-13,121	\$22.19
C	3	204,593	39,464	19.3%	0	0.0%	39,464	19.3%	0.0%	-39,464	0	\$0.00
Total	59	6,073,204	538,791	8.9%	77,040	1.3%	615,831	10.1%	8.9%	-72,721	-80,622	\$25.57

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2016	Q2-2016	Q3-2016	Q2-2016	AVG (\$/SF)
FM 1960												
A	12	2,913,211	295,511	10.1%	20,296	0.7%	315,807	10.8%	11.8%	28,927	16,630	\$27.23
B	72	4,255,516	765,918	18.0%	84,422	2.0%	850,340	20.0%	20.0%	1,178	18,774	\$17.15
C	20	664,853	56,607	8.5%	973	0.1%	57,580	8.7%	9.1%	2,751	-3,597	\$14.48
Total	104	7,833,580	1,118,036	14.3%	105,691	1.3%	1,223,727	15.6%	13.8%	32,856	31,807	\$18.04
GREENWAY												
A	20	7,248,250	1,162,937	16.0%	4,713	0.1%	1,167,650	16.1%	15.3%	94,724	21,721	\$37.42
B	31	3,194,309	306,779	9.6%	9,339	0.3%	316,118	9.9%	8.9%	-31,502	-62,609	\$26.53
C	16	532,718	78,695	14.8%	0	0.0%	78,695	14.8%	14.3%	-2,646	-9,372	\$22.32
Total	67	10,975,277	1,548,411	14.1%	14,052	0.1%	1,562,463	14.2%	13.3%	60,576	-50,260	\$33.63
GULF FREEWAY/PASADENA												
A	1	22,706	3,122	13.7%	0	0.0%	3,122	13.7%	13.7%	0	0	\$30.59
B	39	2,257,506	296,153	13.1%	0	0.0%	296,153	13.1%	16.8%	104,376	-4,944	\$20.72
C	29	1,042,096	99,579	9.6%	0	0.0%	99,579	9.6%	9.6%	462	-19,739	\$18.46
Total	69	3,322,308	398,854	12.0%	0	0.0%	398,854	12.0%	14.5%	104,838	-24,683	\$20.29
I-10 EAST												
B	7	447,901	140,416	31.3%	0	0.0%	140,416	31.3%	28.8%	-11,244	-4,314	\$15.40
C	5	267,130	88,160	33.0%	0	0.0%	88,160	33.0%	34.5%	4,000	-2,160	\$20.78
Total	12	715,031	228,576	32.0%	0	0.0%	228,576	32.0%	31.0%	-7,244	-6,474	\$18.05
KATY FREEWAY												
A	86	22,064,102	3,360,889	15.2%	974,695	4.4%	4,335,584	19.6%	17.8%	-96,720	-63,218	\$35.92
B	99	9,611,014	1,647,366	17.1%	228,346	2.4%	1,875,712	19.5%	18.6%	-88,509	-16,753	\$23.93
C	33	1,559,285	52,718	3.4%	3,866	0.2%	56,584	3.6%	3.4%	-4,221	1,289	\$18.63
Total	218	33,234,401	5,060,973	15.2%	1,206,907	3.6%	6,267,880	18.9%	17.3%	-189,450	-78,682	\$30.63
KATY/GRAND PARKWAY WEST												
A	14	1,254,548	358,254	28.6%	0	0.0%	358,254	28.6%	29.8%	15,905	60,617	\$27.75
B	12	906,841	47,037	5.2%	0	0.0%	47,037	5.2%	5.5%	2,705	-368	\$26.06
C	3	190,504	4,220	2.2%	0	0.0%	4,220	2.2%	2.2%	0	-4,220	\$23.14
Total	29	2,351,893	409,511	17.4%	0	0.0%	409,511	17.4%	18.2%	18,610	56,029	\$27.59
KINGWOOD/HUMBLE												
B	20	1,300,700	71,581	5.5%	8,730	0.7%	80,311	6.2%	6.3%	1,133	6,501	\$21.67
C	5	168,300	22,000	13.1%	0	0.0%	22,000	13.1%	13.1%	0	14,000	\$17.97
Total	25	1,469,000	93,581	6.4%	8,730	0.6%	102,311	7.0%	7.0%	1,133	20,501	\$21.19
NASA/CLEAR LAKE												
A	12	1,770,973	144,402	8.2%	30,823	1.7%	175,225	9.9%	9.2%	-12,380	-5,580	\$24.10
B	47	3,196,342	807,125	25.3%	4,000	0.1%	811,125	25.4%	23.5%	-59,279	64,292	\$17.50
C	20	660,409	96,419	14.6%	0	0.0%	96,419	14.6%	15.9%	8,741	95	\$15.85
Total	79	5,627,724	1,047,946	18.6%	34,823	0.6%	1,082,769	19.2%	18.1%	-62,918	58,807	\$18.53
NORTH BELT/GREENSPPOINT												
A	23	5,258,406	2,071,757	39.4%	12,516	0.2%	2,084,273	39.6%	40.3%	35,087	-241,291	\$25.16
B	55	5,571,641	1,412,429	25.4%	248,498	4.5%	1,660,927	29.8%	30.5%	36,138	-41,491	\$16.38
C	22	1,344,665	241,096	17.9%	0	0.0%	241,096	17.9%	18.6%	8,345	16,663	\$14.16
Total	100	12,174,712	3,725,282	30.6%	261,014	2.1%	3,986,296	32.7%	33.4%	79,570	-266,119	\$21.09
NORTHEAST NEAR AND NORTHEAST OUTLIER												
A	2	555,700	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	5	206,618	66,542	31.7%	0	0.0%	66,542	31.7%	16.5%	-8,653	6,821	\$22.97
C	2	56,562	9,621	17.0%	0	0.0%	9,621	17.0%	17.4%	203	-791	\$15.00
Total	9	818,880	76,163	9.3%	0	0.0%	76,163	9.3%	5.0%	-8,450	6,030	\$21.02

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2016	Q2-2016	Q3-2016	Q2-2016	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,223,066	652,539	29.4%	35,238	1.6%	687,777	30.9%	31.2%	6,801	-7,508	\$22.97
B	78	5,908,621	902,872	15.3%	9,360	0.2%	912,232	15.4%	16.3%	49,985	58,627	\$19.11
C	34	1,336,021	80,178	6.0%	0	0.0%	80,178	6.0%	5.9%	-808	8,971	\$13.25
Total	122	9,467,708	1,635,589	17.3%	44,598	0.5%	1,680,187	17.7%	18.3%	55,978	60,090	\$20.35
RICHMOND/FOUNTAINVIEW												
B	13	783,577	191,290	24.4%	0	0.0%	191,290	24.4%	23.2%	-9,671	6,136	\$16.56
C	12	495,591	54,748	11.0%	0	0.0%	54,748	11.0%	12.3%	6,325	6,218	\$15.80
Total	25	1,279,168	246,038	19.2%	0	0.0%	246,038	19.2%	19.0%	-3,346	12,354	\$16.37
SAN FELIPE/VOSS												
A	3	1,720,793	405,476	23.6%	6,816	0.4%	412,292	24.0%	25.6%	27,864	-47,187	\$36.27
B	31	3,201,331	348,196	10.9%	6,344	0.2%	354,540	11.1%	9.5%	-51,994	-26,956	\$24.30
Total	34	4,922,124	753,672	15.3%	13,160	0.3%	766,832	15.6%	15.1%	-24,130	-74,143	\$30.68
SOUTH												
A	1	80,000	10,033	12.5%	0	0.0%	10,033	12.5%	11.9%	-538	-7,783	\$27.22
B	12	465,159	26,982	5.8%	0	0.0%	26,982	5.8%	7.7%	8,778	64	\$22.69
C	5	194,042	52,934	27.3%	0	0.0%	52,934	27.3%	27.2%	-134	-1,704	\$15.10
Total	18	739,201	89,949	12.2%	0	0.0%	89,949	12.2%	13.3%	8,106	-9,423	\$19.45
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	12	758,391	95,578	12.6%	0	0.0%	95,525	12.6%	15.3%	25,193	-11,050	\$18.61
C	7	398,964	27,365	6.9%	700	0.2%	28,065	7.0%	7.8%	3,099	-5,160	\$20.71
Total	20	1,642,355	122,943	7.5%	700	0.0%	123,590	7.5%	8.5%	28,292	-16,210	\$18.85
SOUTHEAST												
B	17	1,563,009	194,177	12.4%	0	0.0%	194,177	12.4%	12.0%	-6,469	4,686	\$17.05
C	3	142,419	4,992	3.5%	0	0.0%	4,992	3.5%	0.0%	-4,992	0	-
Total	20	1,705,428	199,169	11.7%	0	0.0%	199,169	11.7%	11.0%	-11,461	4,686	\$17.05
SOUTHWEST												
A	6	1,576,901	187,887	11.9%	0	0.0%	187,887	11.9%	14.5%	40,988	-2,052	\$18.33
B	66	6,262,972	1,012,112	16.2%	31,594	0.5%	1,043,706	16.7%	16.7%	1,683	54,683	\$16.62
C	38	1,924,536	129,905	6.7%	0	0.0%	129,905	6.7%	7.4%	13,255	12,931	\$14.16
Total	110	9,679,657	1,329,904	13.7%	31,594	0.3%	1,361,498	14.1%	14.6%	55,926	65,562	\$16.70
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	-
B	10	830,022	224,267	27.0%	10,136	1.2%	234,403	28.2%	26.3%	-15,739	-1,333	\$24.20
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
Total	13	1,010,138	244,004	24.2%	10,136	1.0%	254,140	25.2%	23.6%	-15,739	-1,333	\$24.20
WEST BELT												
A	28	3,584,133	705,207	19.7%	149,618	4.2%	854,825	23.9%	20.8%	-107,854	-47,386	\$27.81
B	32	1,901,390	272,987	14.4%	158,202	8.3%	431,189	22.7%	21.6%	-2,922	-105,138	\$20.53
C	3	87,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
Total	63	5,573,152	978,194	17.6%	307,820	5.5%	1,286,014	23.1%	20.8%	-110,776	-152,524	\$24.21
WEST LOOP/GALLERIA												
A	47	17,440,174	2,834,620	16.3%	237,835	1.4%	3,072,455	17.6%	14.4%	-58,323	-13,267	\$37.69
B	53	6,161,178	680,631	11.0%	38,787	0.6%	719,418	11.7%	12.4%	47,066	-60,058	\$26.79
C	4	216,268	2,711	1.3%	1610	0.7%	4,321	2.0%	1.0%	-2,258	-802	\$20.00
Total	104	23,817,620	3,517,962	14.8%	278,232	1.2%	3,796,194	15.9%	13.7%	-13,515	-74,127	\$35.23

## Houston Suburban Office Market Summary - Continued

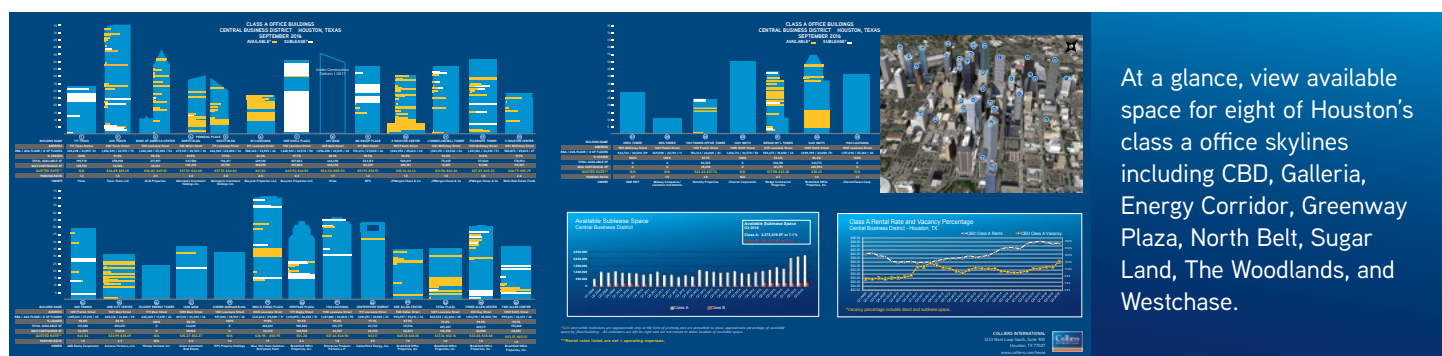
INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2016	Q2-2016	Q3-2016	Q2-2016	AVG (\$/SF)
WESTCHASE												
A	33	9,817,089	1,510,278	15.4%	741,879	7.6%	2,252,157	22.9%	29.4%	633,488	-70,892	\$36.99
B	62	7,477,832	1,270,128	17.0%	19,377	0.3%	1,289,505	17.2%	10.7%	-491,434	-45,456	\$20.03
C	5	213,302	25,442	11.9%	0	0.0%	25,442	11.9%	11.9%	0	7,014	\$17.56
Total	100	17,508,223	2,805,848	16.0%	761,256	4.3%	3,567,104	20.4%	21.2%	142,054	-109,334	\$30.72
THE WOODLANDS												
A	39	10,926,590	1,319,578	12.1%	75,480	0.7%	1,395,058	12.8%	11.5%	36,452	10,798	\$37.05
B	70	4,399,318	431,420	9.8%	69,346	1.6%	500,766	11.4%	11.1%	-14,328	-29,786	\$24.45
C	4	308,161	25,119	8.2%	0	0.0%	25,119	8.2%	8.2%	0	0	\$19.80
Total	113	15,634,069	1,776,117	11.4%	144,826	0.9%	1,920,943	12.3%	11.3%	22,124	-18,988	\$32.57

## Office Development Pipeline

Houston's construction pipeline contains 2.9 million SF of office space and 46.9% is pre-leased. Build-to-suit projects make up 23.2% of the pipeline, and the remaining 2.2M SF of spec office space under construction is approximately 32.7% pre-leased. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
609 Main at Texas	609 Main St	CBD	1,056,658	38.6%	Hines	Jan-17
Future Amegy Bank HQ	1717 W Loop Fwy S	Post Oak Park	380,000	90.2%	Hines	Feb-17
Memorial City	10100 Katy Fwy	Katy Freeway East	238,173	33.6%	MetroNational Corporation.	Feb-17
Kirby Collection	3200 Kirby Dr	Greenway Plaza	191,805	0.5%	Thor Equities	Dec-17
Lockton Place	3657 Briarpark Dr	Westchase	186,000	100%	Triton Real Estate Partners	Oct-17
The Post Oak	1600 West Loop S	Galleria/Uptown	104,579	0.0%	Tellepsen Builders	Dec-17
Insperty Centre 4	29541 Loop 494	Kingwood/Humble	100,000	100%	Insperty	Jan-17

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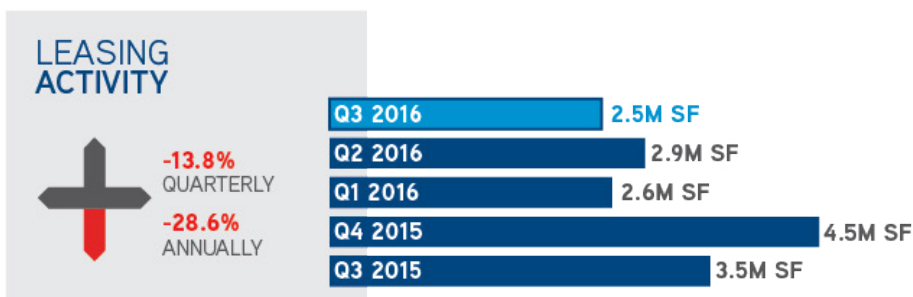
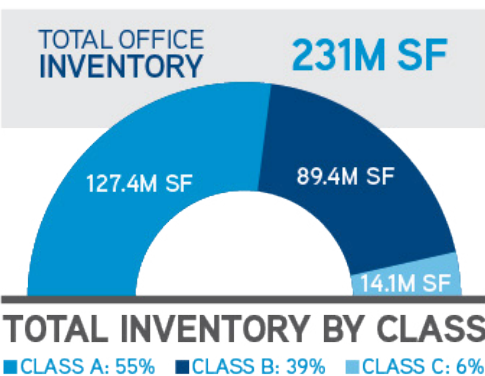
## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	98.6%	184,663	\$55.28	Bop Heritage LLC
5 Houston Center	1401 McKinney St	CBD	580,875	2002	91.1%	51,969	\$46.79-50.79	Wells Real Estate Funds
BG Group Place	811 Main	CBD	972,474	2011	98.5%	338,228	\$56.91	NPS of Korea
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	9,361	\$48.00	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	97.0%	177,594	\$46.50-\$48.50	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2013	88.4%	42,962	\$47.27-\$49.27	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	80.7%	125,265	\$46.49	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	93.5%	183,808	\$44.49	TIER REIT, Inc.
21 Waterway	21 Waterway Ave	The Woodlands	104,372	2005	95.7	11,490	\$47.25-48.25	The Woodlands Development Company, L.P.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	97.8%	9,355	\$48.90	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space listed.

Source: CoStar Property

## Q3 2016 Highlights



### FOR MORE INFORMATION

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# Houston's office market leasing activity drops almost thirty-five percent in one year

**Lisa Bridges** Director of Market Research | Houston

Houston's office market continues to struggle due to the downturn in the energy industry, leading to negative net absorption and decreased leasing activity. Leasing activity has dropped by 34.3% since Q2 2015 and decreased by 20.6% over the quarter. Tenants are renewing existing leases, but more companies are contracting than expanding.

Houston's office market posted 0.4M SF of negative net absorption during the second quarter, pushing mid-year net absorption down to 1.0M SF. Houston's city-wide office vacancy rate rose from 15.2% to 16.2% over the quarter, and the annual rate rose significantly, increasing by 220 basis points from 14.0% in Q2 2015.

Available sublease space has increased from 6.9M SF to 10.8M SF, growing 55.9% over the year. The majority of this space was leased by growing energy companies addressing their future expansion needs and now that the hiring has stopped and job cuts have occurred, the expansion space is no longer needed. Some of the larger energy firms with multiple blocks of space on the market for sublease ultimately intend to consolidate operations into space not taken under a sublease.

2.3M SF of new inventory delivered during Q2 2016 and 58.7% of this space is pre-leased. Houston's office construction pipeline is shrinking and currently totals 4.0M SF of which 49.7% is pre-leased. The majority of the new space is located in suburban submarkets and is scheduled to deliver over the next 18 months.

According to the U.S Bureau of Labor Statistics, the Houston metropolitan area created only 5,100 jobs (not seasonally adjusted) between May 2015 and May 2016, about an eighth of the historical average. Most of the job growth occurred in the Arts, Entertainment & Recreation sector, followed by Accommodation & Food Services, then by Healthcare.

Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↑	↑
NET ABSORPTION	↓	↓	↓
NEW CONSTRUCTION	↓	↓	↓
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q2 2015	Q1 2016	Q2 2016
Vacancy Rate	14.0%	15.2%	16.2%
Net Absorption (Million Square Feet)	0.5	1.4	-0.4
New Construction (Million Square Feet)	2.1	1.2	2.3
Under Construction (Million Square Feet)	12.3	6.3	4.0
Class A Vacancy Rate			
CBD	10.7%	11.9	11.9
Suburban	14.1%	16.0	18.3

## Asking Rents

Per Square Foot Per Year

Average (all classes)	\$28.13	\$28.34	\$28.10
CBD Class A	\$45.25	\$45.60	\$44.89
Suburban Class A	\$33.59	\$33.33	\$32.75

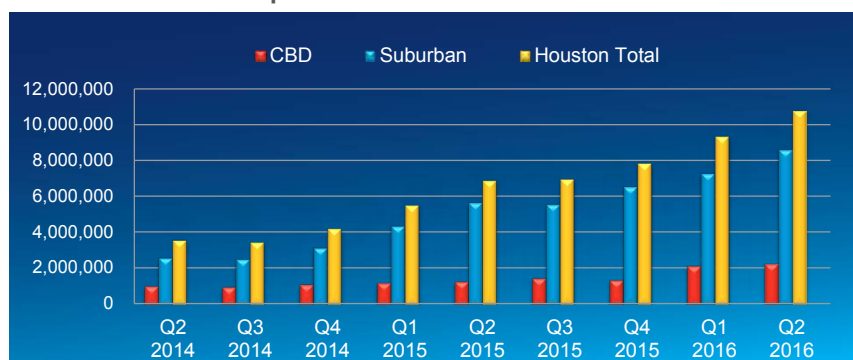
## Vacancy & Availability

Houston's citywide vacancy rate rose 100 basis points from 15.2% to 16.2% over the quarter, rising 220 basis points from 14.0% in Q2 2015. Over the quarter, the average suburban vacancy rate increased 130 basis points from 15.1% to 16.4%, and the average CBD vacancy rate remained flat at 15.4%.

The average CBD Class A vacancy rate was unchanged at 11.9% over the quarter, while the average CBD Class B vacancy rate decreased 30 basis points from 25.6% to 25.3%. The average suburban Class A vacancy rate increased 230 basis points from 16.0% to 18.3%, and the average suburban Class B vacancy rate rose 40 basis points between quarters from 14.9% to 15.3%.

Of the 1,697 existing office buildings in our survey, 140 buildings now have 100,000 SF or more of contiguous space available for lease or sublease. Further, 52 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 10.8 million SF or 4.7% of Houston's total office inventory, but only 3.1 million SF or 1.4% of the available space is currently vacant. Available sublease space now accounts for almost 21.7% of all available space.

### Available Sublease Space



## Absorption & Demand

Houston's office market posted 0.4M SF of negative net absorption in Q2 2016, pushing mid-year absorption down to around 1.0M SF. Suburban Class A space posted the largest loss, with 0.3M SF of negative net absorption, while CBD Class B posted the largest gain, 25,708 SF of positive net absorption. The majority of Q2 negative absorption was due to tenants downsizing and consolidating in an effort to cut expenditures.

## Rental Rates

Houston's office market has softened and this has begun to have an impact on average asking rental rates. The average asking rate for all classes in Houston decreased from \$28.34 per SF to \$28.10 per SF over the quarter, and decreased from \$28.13 per SF in Q2 2015. The average suburban Class A rental rate decreased from \$33.33 per SF to \$32.75 per SF over the quarter, and decreased from \$33.59 per SF in Q2 2015. The average CBD Class A rental rate decreased over the quarter from \$45.60 per SF to \$44.89 per SF.

## Job Growth & Unemployment

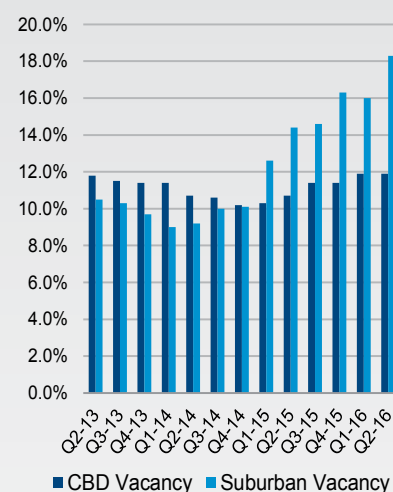
(not seasonally adjusted)

UNEMPLOYMENT	05/15	05/16
HOUSTON	4.4%	4.8%
TEXAS	4.3%	4.2%
U.S.	5.3%	4.5%

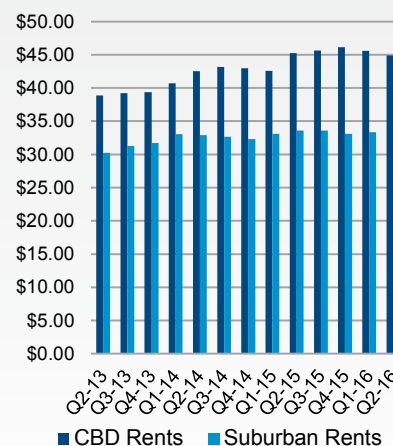
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	0.2%	5.1K
TEXAS	1.4%	169.4K
U.S.	1.7%	2.4M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS



## Leasing Activity

Houston's office leasing activity decreased 20.6% between quarters recording only 2.0 million SF of transactions in Q2 2016. When compared to the 3.0 million SF recorded in Q2 2015, quarterly leasing activity has fallen by 34.3% in just one year.

### Q2 2016 Select Office Lease Transactions

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
CityPlace 2	The Woodlands	326,800	American Bureau of Shipping <sup>2</sup>	May-16
3 Sugar Creek Center Blvd	E Fort Bend Co/Sugar Land	26,000	Aetna <sup>1,3</sup>	May-16
8787 Tallyho Rd	Gulf Freeway/Pasadena	35,035	Wally Park	May-16
Remington Square Phase II	West Belt	34,748	Patterson-UTI Drilling Company	May-16
Air Liquide Center-South	Katy Freeway East	23,451	Texas Mutual	Jun-16
2603 Augusta Dr.	San Felipe/Voss	23,812	Johnston, LLC	Feb-16

<sup>1</sup>Colliers International transaction

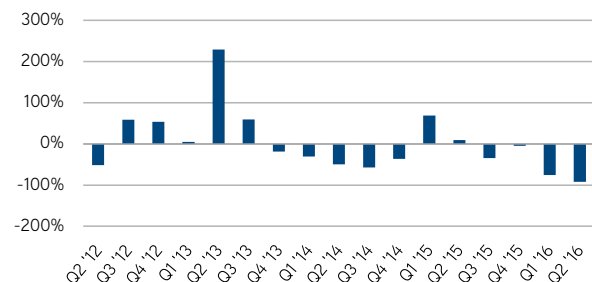
<sup>2</sup>Pre-lease in proposed building

<sup>3</sup>Renewal

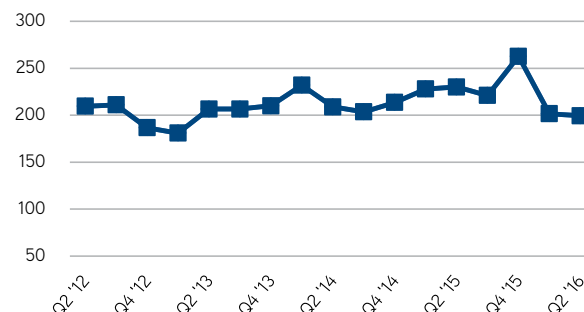
## Sales Activity

Houston's office investment sales activity has slowed significantly over the past year, dropping by 83.0% since Q2 2015. The average sales price decreased over the year from \$230 per SF to \$199 per SF in Q2 2015.

### Q2 2016 OFFICE SALES VOLUME

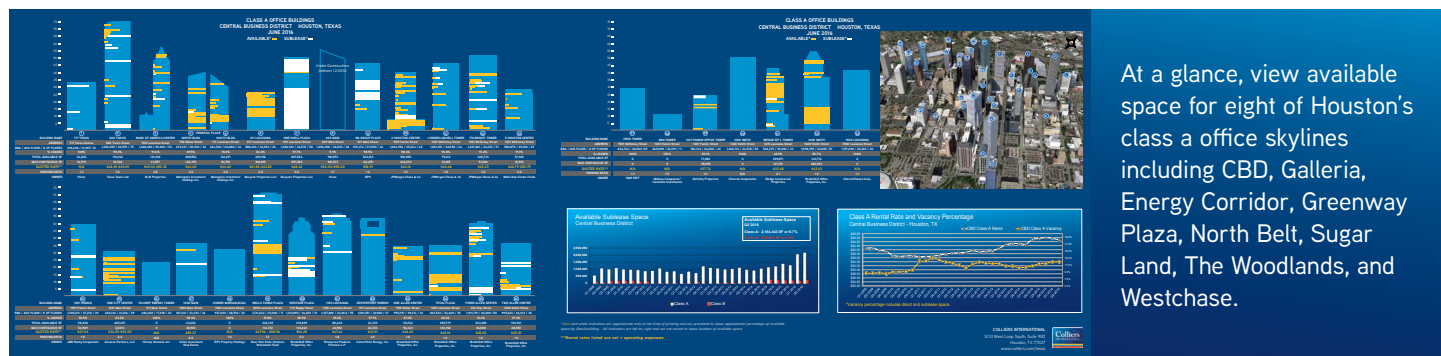


### Q2 2016 OFFICE SALES PRICE PER SF



Sources: CoStar and Real Capital Analytics

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## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2016	Q1-2016	Q2-2016	Q1-2016	AVG (\$/SF)
CBD												
A	33	31,450,301	3,019,366	9.6%	728,111	2.3%	3,747,477	11.9%	11.9%	-5,848	211,035	\$44.89
B	32	10,496,468	2,469,964	23.5%	190,635	1.8%	2,660,599	25.3%	25.6%	25,708	6,860	\$29.12
C	15	921,797	197,727	21.5%	0	0.0%	197,727	21.5%	21.0%	-3,989	6,600	\$21.07
Total	80	42,868,566	5,687,057	13.3%	918,746	2.1%	6,605,803	15.4%	15.4%	15,871	224,495	\$38.54
SUBURBAN												
A	368	94,460,944	15,943,872	16.9%	1,319,678	1.4%	17,263,550	18.3%	16.0%	-302,143	1,040,374	\$32.75
B	945	79,414,546	11,278,438	14.2%	868,120	1.1%	12,146,558	15.3%	14.9%	-108,008	152,516	\$20.38
C	304	13,278,222	1,287,879	9.7%	6,119	0.5%	1,293,998	9.7%	10.4%	-3,657	-21,074	\$16.23
Total	1617	187,153,712	28,510,189	15.2%	2,193,917	1.2%	30,704,106	16.4%	15.1%	-413,808	1,171,816	\$26.40
OVERALL												
A	401	125,911,245	18,963,238	15.1%	2,047,789	1.6%	21,011,027	16.7%	14.9%	-307,991	1,251,409	\$34.56
B	977	89,911,014	13,748,402	15.3%	1,058,755	1.2%	14,807,157	16.5%	16.3%	-82,300	159,376	\$21.10
C	319	14,200,019	1,485,606	10.5%	6,119	0.0%	1,491,725	10.5%	10.4%	-7,646	-14,474	\$16.56
Total	1697	230,022,278	34,197,246	14.9%	3,112,663	1.4%	37,309,909	16.2%	15.2%	-397,937	1,396,311	\$28.10

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2016	Q1-2016	Q2-2016	Q1-2016	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	7	2,130,993	484,540	22.7%	6,063	0.3%	490,603	23.0%	25.7%	56,584	20,240	\$34.74
B	32	2,637,063	196,637	7.5%	6,964	0.3%	203,601	7.7%	7.0%	-17,946	-20,840	\$30.68
C	15	471,791	24,635	5.2%	-	0.0%	24,635	5.2%	6.8%	7,654	1,727	\$21.50
Total	54	5,239,847	705,812	13.5%	13,027	0.2%	718,839	13.7%	15.1%	46,292	1,127	\$32.84
BAYTOWN												
B	3	186,005	5,551	3.0%	0	0.0%	5,551	3.0%	3.0%	0	0	\$23.18
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$7.95
Total	6	267,486	5,551	2.1%	0	0.0%	5,551	2.1%	2.1%	0	0	\$19.43
BELLAIRE												
A	6	1,091,536	73,890	6.8%	20,393	1.9%	94,283	8.6%	9.2%	6,553	13,768	\$26.64
B	19	2,631,259	182,862	6.9%	0	0.0%	182,862	6.9%	6.9%	-2,205	-50,939	\$24.33
C	5	327,020	34,913	10.7%	0	0.0%	34,913	10.7%	11.5%	2,649	1,785	\$16.51
Total	30	4,049,815	291,665	7.2%	20,393	0.5%	312,058	7.7%	7.9%	6,997	-35,386	\$25.02
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	326,764	8,470	2.6%	0	0.0%	8,470	2.6%	2.6%	0	2,149	\$17.44
C	7	289,662	11,714	4.0%	0	0.0%	11,714	4.0%	2.2%	-5,390	0	\$12.10
Total	17	676,426	20,184	3.0%	0	0.0%	20,184	3.0%	2.2%	-5,390	2,149	\$15.38
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	198,738	5.8%	6,413	0.2%	205,151	6.0%	5.7%	-12,727	39,285	\$31.34
B	39	2,469,412	262,674	10.6%	20,511	0.8%	283,185	11.5%	10.9%	-13,121	32,099	\$21.88
C	3	204,593	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	59	6,073,204	461,412	7.6%	26,924	0.4%	488,336	8.0%	7.6%	-25,848	71,384	\$26.15



## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2016	Q1-2016	Q2-2016	Q1-2016	AVG (\$/SF)
FM 1960												
A	12	2,924,111	320,367	11.0%	17,562	0.6%	337,929	11.6%	12.0%	12,863	-1,183	\$26.80
B	72	4,264,108	768,167	18.0%	83,351	2.0%	851,518	20.0%	20.0%	18,774	-46,850	\$17.37
C	20	664,853	59,358	8.9%	973	0.1%	60,331	9.1%	8.5%	-3,597	1,864	\$14.11
Total	104	7,853,072	1,147,892	14.6%	101,886	1.3%	1,249,778	15.9%	13.8%	28,040	-46,169	\$18.24
GREENWAY												
A	19	7,072,528	1,072,932	15.2%	7,442	0.1%	1,080,374	15.3%	15.6%	21,721	155,879	\$37.18
B	31	3,194,309	277,365	8.7%	7,251	0.2%	284,616	8.9%	7.0%	-62,609	4,415	\$27.52
C	16	532,718	76,049	14.3%	0	0.0%	76,049	14.3%	12.5%	-9,372	-3,501	\$22.29
Total	66	10,799,555	1,426,346	13.2%	14,693	0.1%	1,441,039	13.3%	13.0%	-50,260	156,793	\$33.22
GULF FREEWAY/PASADENA												
A	1	22,706	3,122	13.7%	0	0.0%	3,122	13.7%	13.7%	0	0	\$30.59
B	38	2,231,506	374,529	16.8%	0	0.0%	374,529	16.8%	12.6%	-4,944	20,351	\$21.07
C	30	1,157,096	125,208	10.8%	0	0.0%	125,208	10.8%	6.9%	-44,906	1,434	\$18.23
Total	69	3,411,308	502,859	14.7%	0	0.0%	502,859	14.7%	10.6%	-49,850	21,785	\$20.48
I-10 EAST												
B	7	447,680	109,853	24.5%	0	0.0%	109,853	24.5%	23.6%	-4,314	11,197	\$14.88
C	5	267,130	92,160	34.5%	0	0.0%	92,160	34.5%	33.7%	-2,160	0	\$12.00
Total	12	714,810	202,013	28.3%	0	0.0%	202,013	28.3%	27.4%	-6,474	11,197	\$14.01
KATY FREEWAY												
A	85	21,681,711	3,416,150	15.8%	440,432	2.0%	3,856,582	17.8%	14.0%	-63,218	239,313	\$35.87
B	99	9,609,770	1,579,954	16.4%	288,399	3.0%	1,868,353	19.4%	18.7%	-67,071	-74,609	\$24.36
C	32	1,539,285	48,119	3.1%	4,244	0.3%	52,363	3.4%	3.5%	-1,750	318	\$18.72
Total	216	32,830,766	5,044,223	15.4%	733,075	2.2%	5,777,298	17.6%	15.9%	-132,039	165,022	\$30.65
KATY/GRAND PARKWAY WEST												
A	14	1,254,548	394,751	31.5%	0	0.0%	394,751	31.5%	27.5%	40,025	4,527	\$27.40
B	12	906,841	49,742	5.5%	0	0.0%	49,742	5.5%	3.2%	-368	900	\$26.14
C	3	190,504	4,220	2.2%	0	0.0%	4,220	2.2%	0.0%	-4,220	0	\$23.47
Total	29	2,351,893	448,713	19.1%	0	0.0%	448,713	19.1%	15.4%	35,437	5,427	\$27.27
KINGWOOD/HUMBLE												
B	20	1,300,700	72,714	5.6%	8,730	0.7%	81,444	6.3%	6.8%	6,501	21,248	\$21.46
C	5	165,500	22,000	13.3%	0	0.0%	22,000	13.3%	21.8%	14,000	745	\$17.95
Total	25	1,466,200	94,714	6.5%	8,730	0.6%	103,444	7.1%	8.5%	20,501	21,993	\$20.94
NASA/CLEAR LAKE												
A	12	1,770,973	133,308	7.5%	29,537	1.7%	162,845	9.2%	8.9%	-5,580	-62,627	\$23.87
B	48	3,259,256	747,846	22.9%	4,000	0.1%	751,846	23.1%	25.4%	75,092	161,381	\$17.80
C	20	660,409	105,160	15.9%	0	0.0%	105,160	15.9%	15.9%	95	-896	\$15.45
Total	80	5,690,638	986,314	17.3%	33,537	0.6%	1,019,851	17.9%	19.1%	69,607	97,858	\$18.68
NORTH BELT/GREENSPPOINT												
A	24	5,278,921	2,019,457	38.3%	32,510	0.6%	2,051,967	38.9%	35.6%	-173,898	-59,529	\$25.58
B	55	5,673,872	1,449,951	25.6%	92,660	1.6%	1,542,611	27.2%	29.2%	112,963	6,430	\$16.68
C	21	1,315,665	249,441	19.0%	0	0.0%	249,441	19.0%	20.2%	16,663	-7,760	\$13.95
Total	100	12,268,458	3,718,849	30.3%	125,170	1.0%	3,844,019	31.3%	31.9%	-44,272	-60,859	\$21.31
NORTHEAST NEAR AND NORTHEAST OUTLIER												
A	2	555,700	0	0.0%	0	0.0%	0	13.6%	13.6%	0	555,700	\$0.00
B	5	206,618	41,014	19.9%	0	0.0%	41,014	19.9%	12.6%	6,821	1,863	\$22.75
C	2	56,562	9,824	17.4%	0	0.0%	9,824	17.4%	16.0%	-791	-1,786	\$15.00
Total	9	818,880	50,838	6.2%	0	0.0%	50,838	6.2%	4.0%	6,030	555,777	\$20.87

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2016	Q1-2016	Q2-2016	Q1-2016	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,230,997	659,340	29.6%	35,238	1.6%	694,578	31.1%	30.8%	-7,508	-68,646	\$22.95
B	78	5,976,489	953,358	16.0%	8,859	0.1%	962,217	16.1%	17.1%	58,627	-15,345	\$18.73
C	35	1,356,021	79,370	5.9%	0	0.0%	79,370	5.9%	6.5%	8,971	-115	\$13.20
Total	123	9,563,507	1,692,068	17.7%	44,097	0.5%	1,736,165	18.2%	18.8%	60,090	-84,106	\$20.08
RICHMOND/FOUNTAINVIEW												
B	13	783,577	181,619	23.2%	0	0.0%	181,619	23.2%	24.0%	6,136	-10,202	\$17.49
C	12	495,591	61,073	12.3%	0	0.0%	61,073	12.3%	13.6%	6,218	-7,160	\$15.95
Total	25	1,279,168	242,692	19.0%	0	0.0%	242,692	19.0%	19.9%	12,354	-17,362	\$17.02
SAN FELIPE/VOSS												
A	3	1,720,793	437,160	25.4%	2,996	0.2%	440,156	25.6%	22.8%	-47,187	-2,246	\$36.03
B	32	3,242,040	296,202	9.1%	6,344	0.2%	302,546	9.3%	8.5%	-26,956	5,789	\$24.01
Total	35	4,962,833	733,362	14.8%	9,340	0.2%	742,702	15.0%	13.5%	-74,143	3,543	\$30.55
SOUTH												
A	1	80,000	9,485	11.9%	0	0.0%	9,485	11.9%	2.1%	-7,783	0	\$29.63
B	12	465,159	35,760	7.7%	0	0.0%	35,760	7.7%	7.7%	64	633	\$22.17
C	5	194,042	52,800	27.2%	0	0.0%	52,800	27.2%	26.3%	-1,704	0	\$15.10
Total	18	739,201	98,045	13.3%	0	0.0%	98,045	13.3%	12.0%	-9,423	633	\$21.38
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	12	753,508	108,771	14.4%	0	0.0%	108,771	14.4%	13.0%	-11,050	5,340	\$18.86
C	7	398,964	30,464	7.6%	700	0.2%	31,164	7.8%	6.5%	-5,160	6,649	\$20.49
Total	20	1,637,472	139,235	8.5%	700	0.0%	139,935	8.5%	7.6%	-16,210	11,989	\$19.37
SOUTHEAST												
B	17	1,557,543	187,708	12.1%	0	0.0%	187,708	12.1%	12.4%	4,686	-2,046	\$18.62
C	3	144,043	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	20	1,701,586	187,708	11.0%	0	0.0%	187,708	11.0%	11.3%	4,686	-2,046	\$18.62
SOUTHWEST												
A	6	1,576,901	228,875	14.5%	10,000	0.6%	238,875	15.1%	15.0%	-2,052	2,535	\$18.43
B	66	6,262,972	1,013,795	16.2%	31,594	0.5%	1,045,389	16.7%	17.6%	54,683	5,350	\$16.55
C	38	1,918,536	148,949	7.8%	0	0.0%	148,949	7.8%	8.4%	12,931	4,188	\$14.22
Total	110	9,758,409	1,391,619	14.3%	41,594	0.4%	1,433,213	14.7%	15.5%	65,562	12,073	\$16.72
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	10	830,022	218,664	26.3%	0	0.0%	218,664	26.3%	26.2%	-1,333	0	\$22.02
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	13	1,010,138	238,401	23.6%	0	0.0%	238,401	23.6%	23.5%	-1,333	0	\$22.02
WEST BELT												
A	28	3,579,518	700,272	19.6%	46,699	1.3%	746,971	20.9%	19.5%	-47,386	12,465	\$29.79
B	31	1,879,390	259,475	13.8%	146,792	7.8%	406,267	21.6%	16.0%	-105,138	-10,764	\$20.11
C	3	87,629	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	62	5,546,537	959,747	17.3%	193,491	3.5%	1,153,238	20.8%	18.0%	-152,524	1,701	\$25.61
WEST LOOP/GALLERIA												
A	46	16,846,324	2,223,727	13.2%	200,331	1.2%	2,424,058	14.4%	13.5%	-13,267	5,848	\$37.83
B	53	6,161,178	703,787	11.4%	62,787	1.0%	766,574	12.4%	11.5%	-60,058	95,061	\$26.80
C	4	216,268	1,861	0.9%	202	0.1%	2,063	1.0%	0.0%	-802	0	\$20.00
Total	103	23,223,770	2,929,375	12.6%	263,320	1.1%	3,192,695	13.7%	12.9%	-74,127	100,909	\$35.59

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2016	Q1-2016	Q2-2016	Q1-2016	AVG (\$/SF)
WESTCHASE												
A	33	9,815,108	2,418,255	24.6%	358,634	3.7%	2,776,889	28.3%	18.4%	-70,892	247,673	\$37.75
B	62	7,758,187	778,694	10.0%	19,377	0.2%	798,071	10.3%	9.7%	-45,456	-38,059	\$19.57
C	5	213,302	25,442	11.9%	0	0.0%	25,442	11.9%	15.2%	7,014	5,553	\$17.56
Total	100	17,786,597	3,222,391	18.1%	378,011	2.1%	3,600,402	20.2%	14.3%	-109,334	215,167	\$31.58
THE WOODLANDS												
A	38	10,724,657	1,129,766	10.5%	105,428	1.0%	1,235,194	11.5%	9.6%	11,609	-62,628	\$36.88
B	70	4,399,318	413,276	9.4%	80,501	1.8%	493,777	11.2%	10.5%	-29,786	47,964	\$24.13
C	4	308,161	25,119	8.2%	0	0.0%	25,119	8.2%	8.2%	0	-24,119	\$19.80
Total	112	15,432,136	1,568,161	10.2%	185,929	1.2%	1,754,090	11.4%	9.8%	-18,177	-38,783	\$30.23

## Office Development Pipeline

Houston's construction pipeline contains 3.9 million SF of office space and 49.7% is pre-leased. Build-to-suit projects make up 38.7% of the pipeline, and the remaining 2.4M SF of spec office space under construction is approximately 19.4% pre-leased. Approximately 600,000 SF, or 39.1% of the build-to-suit projects under construction, are pre-leased to energy industry companies. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

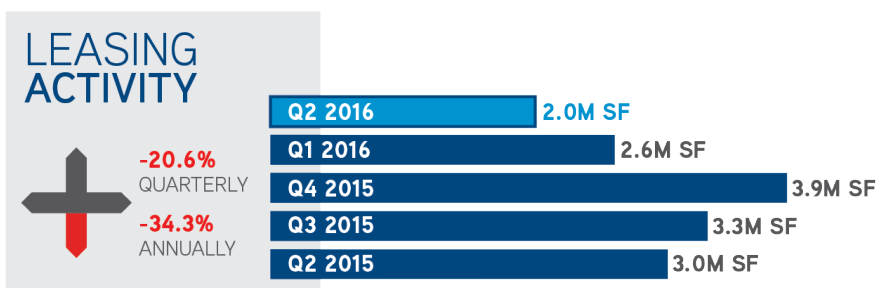
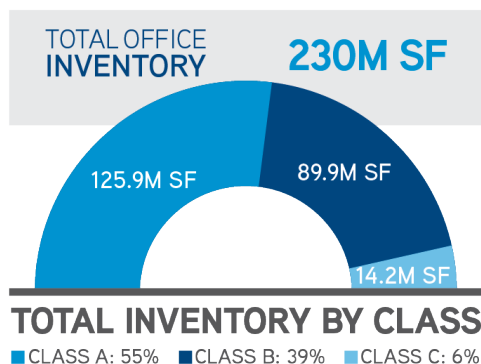
BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
609 Main at Texas	609 Main St	CBD	1,056,658	5.9%	Hines	Jan-17
BHP Biliton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100%	Transwestern	Aug-16
West Memorial Place Phase II	15377 Memorial Dr	Katy Freeway West	428,565	48.8%	Skanska Commercial Development	Jul-16
Future Amegy Bank HQ	1717 W Loop Fwy S	Post Oak Park	380,000	90.2%	Hines	Feb-17
10100 Katy Fwy	10100 Katy Fwy	Katy Freeway East	238,173	33.6%	Anslow Bryant Construction Ltd.	Jan-17
Regions Financial Center	3773 Richmond Ave	Greenway Plaza	210,000	51.3%	The Redstone Companies	Jul-16
Wildwood Corporate Centre II	480 Wildwood Forest Dr	The Woodlands	201,933	0%	Archway Properties	Jul-16
Kirby Collection	3200 Kirby Dr	Greenway Plaza	186,696	0%	Thor Equities	Dec-17
Lockton Place	3657 Briarpark Dr	Westchase	186,000	100%	Triton Real Estate Partners	May-17
The Post Oak	1601 Hollyhurst Ln	Galleria/Uptown	140,000	100%	Tellepsen Builders	Oct-17
The George R. Brown	700 Avenida De Las Americas	CBD	115,000	100%	Griffin Partners Inc.	Oct-16

## Quoted gross rental rates for **existing** top performing office buildings

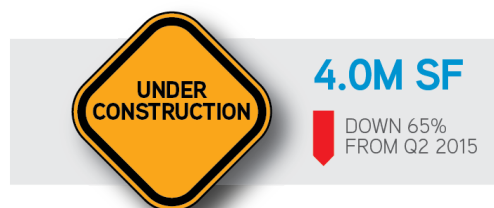
BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	91.8%	236,749	\$47.95-\$50.95	New York State Common Retirement Fund
5 Houston Center	1401 McKinney St	CBD	580,875	2002	91.1%	51,969	\$49.79	Wells Real Estate Funds
BG Group Place	811 Main	CBD	972,474	2011	98.5%	105,652	\$56.91	NPS of Korea
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	9,361	\$48.00	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	97.0%	147,871	\$48.50-\$52.50	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2013	88.4%	42,962	\$47.27-\$49.27	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	80.1%	179,217	\$46.49	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	93.4%	149,819	\$44.49	TIER REIT, Inc.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	97.8%	9,355	\$48.90	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q2 2016 Highlights



**CURRENT** **16.2% VACANCY** **-0.4M SF NET ABSORPTION**



### FOR MORE INFORMATION

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# Houston's office market continues to struggle, but it's faring better than expected

**Lisa Bridges** Director of Market Research | Houston

Houston is home to most major energy companies and its economy and real estate market can be positively or negatively affected by the price of oil. Houston's Q1 2016 office market continues to struggle due to the low price of oil, but it appears to be faring better than expected in a \$40 per barrel economy.

Houston's city-wide vacancy rate remained unchanged at 15.3% over the quarter, however the annual rate rose significantly, increasing by 220 basis points from 13.1% in Q1 2015. The increase in the amount of sublease space placed on the market during 2015 was a major factor. Houston's available sublease space more than doubled between Q4 2014 and Q4 2015, increasing from 3.8M SF to 8.0M SF, but only increased to 9.2M SF in Q1 2016. The majority of this space was previously leased by growing energy companies addressing their future expansion needs. Houston's office leasing activity declined 30.3% over the year, and 5.5% over the quarter. Tenants are renewing existing leases, but in today's market, more companies are contracting than expanding.

Only 1.4M SF of new inventory delivered during Q1 2016 and 100% of this space is pre-leased. Houston's office construction pipeline is shrinking and currently totals 6.3M SF of which 50% is pre-leased. The majority of the new space is located in suburban submarkets and is scheduled to deliver over the next 12 months.

Houston's office market posted 1.3M SF of positive net absorption in Q1 2016 and average office rental rates have remained relatively flat.

According to the U.S Bureau of Labor Statistics, the Houston metropolitan area created only 9,000 jobs (not seasonally adjusted) between February 2015 and February 2016, about half of the annual long-term average. Most of the job growth occurred in the government sector, followed by construction and health care.

Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	▬	↑
NET ABSORPTION	↑	↑	↓
NEW CONSTRUCTION	↓	↓	↑
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q1 2015	Q4 2015	Q1 2016
Vacancy Rate	13.1%	15.3%	15.3%
Net Absorption (Million Square Feet)	0.2	0.4	1.3
New Construction (Million Square Feet)	3.4	3.2	1.2
Under Construction (Million Square Feet)	17.0	8.0	6.3
Class A Vacancy Rate			
CBD	10.0%	11.3	11.7
Suburban	12.6%	16.3	16.0

## Asking Rents

Per Square Foot Per Year

Average (all classes)	\$27.75	\$27.83	\$27.98
CBD Class A	\$42.15	\$46.04	\$45.60
Suburban Class A	\$33.11	\$33.02	\$33.33



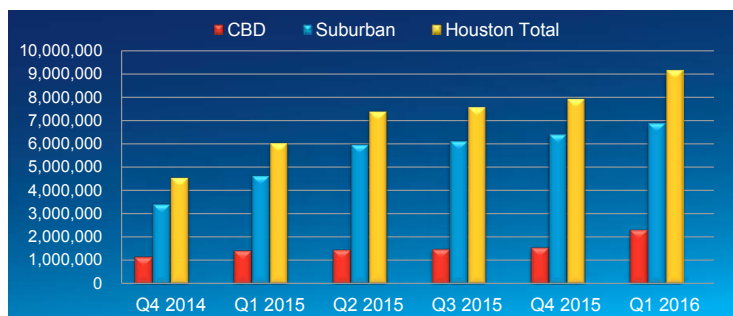
## Vacancy & Availability

Houston's citywide vacancy rate remained at 15.3% over the quarter, but it rose by 220 basis points from 13.1% in Q1 2015. Over the quarter, the average suburban vacancy rate decreased marginally from 15.2% to 15.1%, and the average CBD vacancy rate increased from 15.5% to 15.9%.

The average CBD Class A vacancy rate increased 40 basis point over the quarter from 11.3% to 11.7%, while the average CBD Class B vacancy rate increased 50 basis points from 25.8% to 26.3%. The average suburban Class A vacancy rate decreased 30 basis points from 16.3% to 16.0%, and the average suburban Class B vacancy rate decreased 10 basis points between quarters from 15.0% to 14.9%.

Of the 1,697 existing office buildings in our survey, 132 buildings now have 100,000 SF or more of contiguous space available for lease or sublease. Further, 51 buildings have 200,000 SF or more of contiguous space available. Citywide, available sublease space totals 9.2 million SF or 4.0% of Houston's total office inventory, but only 3.2 million SF of the available sublease space is currently vacant. Available sublease space now accounts for almost 20.0% of all available space.

### Available Sublease Space



## Absorption & Demand

Houston's office market posted 1.2M SF of positive net absorption in Q1 2016, three times as much as the 400,000 SF absorbed in the previous quarter. Most of the positive absorption can be attributed to the two new buildings that FMC Technologies completed in Generation Park, and the new Millenium Tower in Westchase that National Oilwell Varco pre-leased. Suburban Class A space posted the largest gain, with 1.1M SF of positive net absorption, while CBD Class B posted the largest loss, 49,322 SF of net negative absorption.

Some of the larger tenants that moved into new space during Q1 included FMC Technologies (555,700 SF) moving into 13450 Lockwood in the Northeast Near submarket, Stage Stores, Inc (168,900 SF) moving into 2425 West Loop South in the West Loop/Galleria submarket, Texas Children's Health Plan (138,600 SF) moving into 6330 West Loop South in the Bellaire submarket, and National Oilwell Varco (126,000 SF) moving into Millennium Tower II in the Westchase submarket.

## Rental Rates

Although Houston's office market has softened, most submarkets saw an increase in rental rates over the quarter. This is the result of increasing operating expenses and new building deliveries which typically demand higher rental rates. The average asking rate for all classes in Houston increased from \$27.83 per SF

## Job Growth & Unemployment

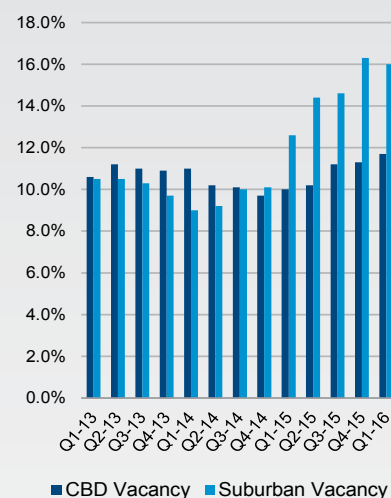
(not seasonally adjusted)

UNEMPLOYMENT	02/15	02/16
HOUSTON	4.4%	4.7%
TEXAS	4.4%	4.3%
U.S.	5.8%	5.2%

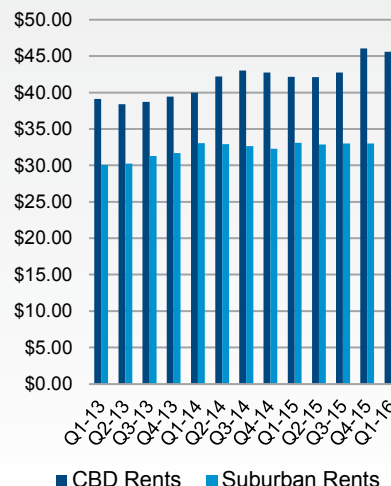
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	0.3%	9.0K
TEXAS	1.5%	172.7K
U.S.	2.0%	2.9M

### CBD vs. Suburban

#### CLASS A OFFICE VACANCY



#### CLASS A OFFICE RENTS



to \$27.98 per SF over the quarter, and increased from \$27.75 per SF in Q1 2015. The average suburban Class A rental rate increased from \$33.02 per SF to \$33.33 per SF over the quarter, and increased from \$33.11 per SF in Q1 2015. The average CBD Class A rental rate decreased over the quarter from \$46.04 per SF to \$45.60 per SF.

## Leasing Activity

Houston's office leasing activity decreased 5.5% between quarters recording 2.1 million SF of transactions in Q1 2016. When compared to the 3.0 million SF recorded in Q1 2015, quarterly leasing activity has decreased significantly, falling by 30.3% in just one year.

Q1 2016 Select Office Lease Transactions				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Greenspoint Park II	North Belt/Greenspoint	43,600	Bureau Veritas	Jan-16
Total Plaza	CBD	34,900	Pattern Energy Group	Feb-16
1221 McKinney St	CBD	22,920	Mitsubishi Motors	Mar-16
2707 N Loop W	Northwest	21,079	Catholic Charities of the Archdiocese of Galveston-Houston <sup>1</sup>	Jan-16
Southwest Center	Southwest	19,384	HRSS LLP	Feb-16
Dairy Ashford Plaza	Katy Freeway	17,927	Shellpoint Mortgage Servicing <sup>1</sup>	Jan-16

<sup>1</sup> Colliers International transaction

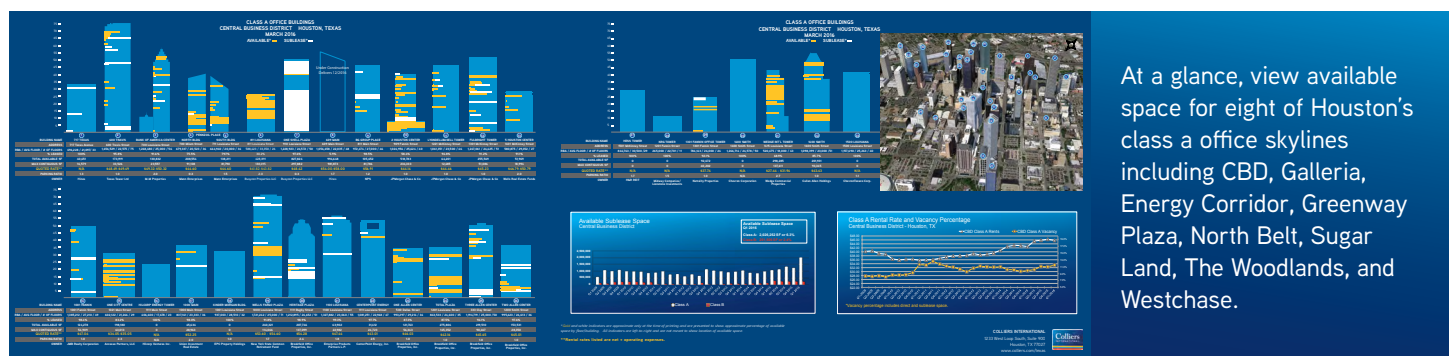
## Sales Activity

Houston's office investment sales activity has also slowed significantly recording only 12 transactions, with an average price of \$172 per square foot. Below is a list of significant transactions and current investment opportunities.

Q1 2016 Significant Sales Transactions and Listings – (100,000 SF or greater)								
BUILDING NAME	SUBMARKET	RBA (SF)	YEAR BUILT	BUYER	SELLER	SALE PRICE	\$/SF	CLOSED
5300 Memorial Dr & 10497 Town & Country Way	Midtown Katy Freeway	153,626 148,936	1983 1982	Equus Capital Partners, Ltd	Parkway Properties, Inc.	\$60.0M	\$198	Jan-16
5433 Westheimer	West Loop/ Galleria	134,187	1967/ 2014	Quasar Galleria Ltd	Songy Highroads	Undisclosed	N/A	Mar-16
2625 Bay Area Blvd 2525 Bay Area Blvd	NASA/Clear Lake	163,076 114,838	1995 1997		Metro Clear Lake Office Partners	List Price \$45.0M	\$162	Current Listing
11233 Shadow Creek Pky	South	80,000	2009		Zt Shadow Creek Partners	List Price \$25.0M	\$312	Current Listing

Sources: CoStar and Real Capital Analytics

## Skylines | Now Available Online at [colliers.com/texas/houstonskylines](http://colliers.com/texas/houstonskylines)



## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2016	Q4-2015	Q1-2016	Q4-2015	AVG (\$/SF)
CBD												
A	33	31,450,301	2,998,664	9.5%	695,377	2.2%	3,694,041	11.7%	11.3%	211,035	6,656	\$45.60
B	32	10,475,097	2,512,378	24.0%	239,818	2.3%	2,752,196	26.3%	25.8%	-49,103	-42,453	\$29.63
C	15	1,095,797	388,277	35.4%	0	0.0%	388,277	35.4%	36.0%	6,600	-2,557	\$21.24
Total	80	43,021,195	5,899,319	13.7%	935,195	2.2%	6,834,514	15.9%	15.5%	168,532	-38,354	\$39.13
SUBURBAN												
A	361	91,956,492	13,148,106	14.3%	1,525,771	1.7%	14,673,877	16.0%	16.3%	1,057,169	732,313	\$33.33
B	946	79,831,152	11,167,457	14.0%	758,207	0.9%	11,925,664	14.9%	15.0%	103,406	-359,072	\$20.34
C	310	13,500,833	1,399,058	10.4%	5,886	0.4%	1,404,944	10.4%	10.1%	-42,322	58,881	\$15.52
Total	1617	185,288,477	25,714,621	13.9%	2,289,864	1.2%	28,004,485	15.1%	15.2%	1,118,253	432,122	\$26.45
OVERALL												
A	394	123,406,793	16,146,770	13.1%	2,221,148	1.8%	18,367,918	14.9%	15.0%	1,268,204	738,969	\$34.71
B	978	90,306,249	13,679,835	15.1%	998,025	1.1%	14,677,860	16.3%	16.4%	54,303	-401,525	\$21.01
C	325	14,596,630	1,787,335	12.2%	5,886	0.0%	1,793,221	12.3%	12.1%	-35,722	56,324	\$15.79
Total	1697	228,309,672	31,613,940	13.8%	3,225,059	1.4%	34,838,999	15.3%	15.3%	1,286,785	393,768	\$27.98

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2016	Q4-2015	Q1-2015	Q4-2015	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	6	2,050,993	530,943	25.9%	6,063	0.3%	537,006	26.2%	27.2%	21,109	-3,891	\$34.79
B	32	2,637,063	178,691	6.8%	6,964	0.3%	185,655	7.0%	6.2%	-20,840	-29,498	\$30.20
C	16	486,399	54,527	11.2%	2,692	0.6%	57,219	11.8%	12.1%	1,727	-15,596	\$21.57
Total	54	5,174,455	764,161	14.8%	15,719	0.3%	779,880	15.1%	15.1%	1,996	-48,985	\$32.72
BAYTOWN												
B	3	186,005	5,551	3.0%	0	0.0%	5,551	3.0%	3.0%	0	697	\$23.18
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	0.0%	0	1,812	\$7.95
Total	6	267,486	5,551	2.1%	0	0.0%	5,551	2.1%	2.1%	0	2,509	\$19.43
BELLAIRE												
A	6	1,091,536	80,820	7.4%	20,016	1.8%	100,836	9.2%	10.5%	13,768	-16,035	\$26.62
B	19	2,631,259	180,657	6.9%	0	0.0%	180,657	6.9%	4.9%	-50,939	-8,790	\$23.18
C	5	327,020	51,436	15.7%	0	0.0%	51,436	15.7%	16.3%	1,785	-3,298	\$16.68
Total	30	4,049,815	312,913	7.7%	20,016	0.5%	332,929	8.2%	7.3%	-35,386	-28,123	\$24.35
CONROE AND OUTLYING MONTGOMERY CO												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
B	9	326,764	8,470	2.6%	0	0.0%	8,470	2.6%	3.2%	2,149	0	\$17.44
C	7	289,662	6,324	2.2%	0	0.0%	6,324	2.2%	2.2%	0	931	\$12.10
Total	17	676,426	14,794	2.2%	0	0.0%	14,794	2.2%	2.5%	2,149	931	\$15.49
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	188,396	5.5%	11,028	0.3%	199,424	5.9%	7.0%	39,285	993	\$30.65
B	39	2,469,412	249,949	10.1%	20,115	0.8%	270,064	10.9%	12.2%	32,099	405	\$21.64
C	3	204,593	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	59	6,073,204	438,345	7.2%	31,143	0.5%	469,488	7.7%	8.9%	71,384	1,398	\$26.06

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2016	Q4-2015	Q1-2016	Q4-2015	AVG (\$/SF)
FM 1960												
A	12	2,589,817	111,234	4.3%	17,562	0.7%	128,796	5.0%	4.7%	-8,196	-14,082	\$27.57
B	72	4,294,860	748,013	17.4%	102,279	2.4%	850,292	19.8%	18.7%	-46,850	-128,619	\$17.05
C	21	687,753	56,734	8.2%	0	0.0%	56,734	8.2%	8.5%	1,864	3,857	\$14.12
Total	105	7,572,430	915,981	12.1%	119,841	1.6%	1,035,822	13.7%	13.0%	-53,182	-138,844	\$17.87
GREENWAY												
A	18	6,935,830	1,068,951	15.4%	2,335	0.0%	1,071,286	15.4%	17.5%	155,897	89,234	\$36.60
B	32	3,327,496	227,578	6.8%	7,251	0.2%	234,829	7.1%	7.2%	4,415	5,895	\$27.85
C	16	532,718	72,663	13.6%	0	0.0%	72,663	13.6%	13.0%	-3,501	-1,673	\$22.43
Total	66	10,796,044	1,369,192	12.7%	9,586	0.1%	1,378,778	12.8%	14.2%	156,811	93,456	\$33.54
GULF FREEWAY/PASADENA												
A	1	22,706	3,122	13.7%	0	0.0%	3,122	13.7%	13.7%	0	-3,122	\$30.59
B	37	2,128,219	342,512	16.1%	26,330	1.2%	368,842	17.3%	17.4%	1,587	12,919	\$21.02
C	32	1,226,984	100,302	8.2%	0	0.0%	100,302	8.2%	8.3%	1,434	21,555	\$18.58
Total	70	3,377,909	445,936	13.2%	26,330	0.8%	472,266	14.0%	14.1%	3,021	31,352	\$20.20
I-10 EAST												
B	7	447,680	62,536	14.0%	0	0.0%	62,536	14.0%	10.0%	-17,944	6,475	\$14.84
C	5	267,130	99,243	37.2%	0	0.0%	99,243	37.2%	37.2%	0	-25,000	\$12.00
Total	12	714,810	161,779	22.6%	0	0.0%	161,779	22.6%	20.1%	-17,944	-18,525	\$14.01
KATY FREEWAY												
A	84	21,159,368	2,804,337	13.3%	506,241	2.4%	3,310,578	15.6%	16.6%	199,705	342,983	\$36.21
B	99	9,602,505	1,546,071	16.1%	248,288	2.6%	1,794,359	18.7%	18.0%	-63,639	-42,422	\$23.99
C	32	1,539,378	51,158	3.3%	2,494	0.2%	53,652	3.5%	3.5%	687	10,608	\$18.34
Total	215	32,301,251	4,401,566	13.6%	757,023	2.3%	5,158,589	16.0%	16.4%	136,753	311,169	\$30.55
KATY/GRAND PARKWAY WEST												
A	13	1,130,253	308,881	27.3%	1,600	0.1%	310,481	27.5%	27.9%	4,527	15,131	\$28.08
B	12	992,516	28,495	2.9%	0	0.0%	28,495	2.9%	0.2%	900	0	\$28.85
C	3	190,504	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	28	2,313,273	337,376	14.6%	1,600	0.1%	338,976	14.7%	13.9%	5,427	15,131	\$28.64
KINGWOOD/HUMBLE												
B	20	1,300,700	79,215	6.1%	8,730	0.7%	87,945	6.8%	8.4%	21,248	-4,828	\$21.06
C	4	143,500	14,000	9.8%	0	0.0%	14,000	9.8%	10.3%	745	1,371	\$17.95
Total	24	1,444,200	93,215	6.5%	8,730	0.6%	101,945	7.1%	8.6%	21,993	-3,457	\$20.65
NASA/CLEAR LAKE												
A	12	1,770,973	127,728	7.2%	29,537	1.7%	157,265	8.9%	5.3%	-62,627	1,969	\$24.66
B	48	3,259,577	816,138	25.0%	0	0.0%	816,138	25.0%	30.0%	161,281	26,189	\$17.89
C	20	660,409	105,255	15.9%	0	0.0%	105,255	15.9%	15.8%	-896	4,498	\$15.43
Total	80	5,690,959	1,049,121	18.4%	29,537	0.5%	1,078,658	19.0%	20.7%	97,758	32,656	\$18.52
NORTH BELT/GREENSPOINT												
A	24	5,462,492	1,853,170	33.9%	229,089	4.2%	2,082,259	38.1%	37.0%	-59,521	-44,452	\$25.96
B	54	5,800,592	1,512,368	26.1%	129,879	2.2%	1,642,247	28.3%	28.6%	13,979	-197,599	\$16.09
C	22	1,403,276	316,222	22.5%	0	0.0%	316,222	22.5%	20.2%	-33,332	1,814	\$12.86
Total	100	12,666,360	3,681,760	29.1%	358,968	2.8%	4,040,728	31.9%	31.3%	-78,874	-240,237	\$21.22
NORTHEAST NEAR AND NORTHEAST OUTLIER												
A	2	555,700	0	13.6%	0	0.0%	0	13.6%	13.6%	555,700	0	\$0.00
B	4	181,618	22,835	12.6%	0	0.0%	22,835	12.6%	13.6%	1,863	2,997	\$20.59
C	2	56,562	9,033	16.0%	0	0.0%	9,033	16.0%	12.8%	-1,786	0	\$14.71
Total	8	793,880	31,868	4.0%	0	0.0%	31,868	4.0%	13.4%	555,777	0	\$18.55

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2016	Q4-2015	Q1-2016	Q4-2015	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,230,998	637,636	28.6%	35,238	1.6%	672,874	30.2%	27.1%	-68,646	111,436	\$23.06
B	78	5,977,038	971,949	16.3%	5,146	0.1%	977,095	16.3%	16.3%	55	25,752	\$18.56
C	35	1,356,021	96,028	7.1%	0	0.0%	96,028	7.1%	7.1%	-115	4,886	\$13.24
Total	123	9,564,057	1,705,613	17.8%	40,384	0.4%	1,745,997	18.3%	17.5%	-68,706	142,074	\$20.09
RICHMOND/FOUNTAINVIEW												
B	13	780,977	187,755	24.0%	0	0.0%	187,755	24.0%	22.7%	-10,202	-12,667	\$17.52
C	12	494,819	67,291	13.6%	0	0.0%	67,291	13.6%	12.2%	-7,160	16,720	\$16.01
Total	25	1,275,796	255,046	20.0%	0	0.0%	255,046	20.0%	18.6%	-17,362	4,053	\$17.04
SAN FELIPE/VOSS												
A	3	1,720,793	384,560	22.3%	8,409	0.5%	392,969	22.8%	22.7%	-2,246	1,804	\$35.43
B	32	3,242,040	274,975	8.5%	7,725	0.2%	282,700	8.7%	8.9%	5,789	25,298	\$24.24
Total	35	4,962,833	659,535	13.3%	16,134	0.3%	675,669	13.6%	13.7%	3,543	27,102	\$30.12
SOUTH												
A	1	80,000	1,702	2.1%	0	0.0%	1,702	2.1%	2.1%	0	5,485	\$29.63
B	12	465,159	35,824	7.7%	0	0.0%	35,824	7.7%	7.8%	633	3,912	\$20.39
C	5	194,042	71,096	36.6%	0	0.0%	71,096	36.6%	36.6%	0	0	\$15.82
Total	18	739,201	108,622	14.7%	0	0.0%	108,622	14.7%	14.8%	633	9,397	\$19.48
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	12	753,508	97,721	13.0%	0	0.0%	97,721	13.0%	13.3%	5,340	7,474	\$19.10
C	7	398,964	25,304	6.3%	700	0.2%	26,004	6.5%	8.2%	6,649	1,000	\$20.57
Total	20	1,637,472	123,025	7.5%	700	0.0%	123,725	7.6%	8.3%	11,989	8,474	\$19.54
SOUTHEAST												
B	17	1,554,646	101,428	6.5%	0	0.0%	101,428	6.5%	6.4%	-2,046	174	\$18.41
C	5	194,326	5,326	2.7%	0	0.0%	5,326	2.7%	1.9%	-1,615	8,514	\$27.00
Total	22	1,748,972	106,754	6.1%	0	0.0%	106,754	6.1%	5.9%	-3,661	8,688	\$18.74
SOUTHWEST												
A	6	1,576,901	224,723	14.3%	12,100	0.8%	236,823	15.0%	15.2%	2,535	-15,289	\$18.22
B	66	6,255,637	1,118,554	17.9%	6,594	0.1%	1,125,148	18.0%	17.7%	-19,726	69,153	\$16.30
C	38	1,918,536	138,280	7.2%	0	0.0%	138,280	7.2%	7.7%	9,758	1,882	\$14.05
Total	110	9,751,074	1,481,557	15.2%	18,694	0.2%	1,500,251	15.4%	15.3%	-7,433	55,746	\$16.45
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	0	\$0.00
B	10	830,022	217,331	26.2%	0	0.0%	217,331	26.2%	26.2%	0	0	\$16.50
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	13	1,010,138	237,068	23.5%	0	0.0%	237,068	23.5%	23.5%	0	0	\$16.50
WEST BELT												
A	28	3,577,164	676,805	18.9%	22,780	0.6%	699,585	19.6%	19.9%	12,465	40,952	\$31.72
B	31	1,878,743	250,520	13.3%	50,609	2.7%	301,129	16.0%	15.5%	-10,764	-39,934	\$21.08
C	3	87,629	0	0.0%	0	0.0%	0	0.0%	0.6%	0	0	\$0.00
Total	62	5,543,536	927,325	16.7%	73,389	1.3%	1,000,714	18.1%	18.1%	1,701	1,018	\$27.24
WEST LOOP/GALLERIA												
A	45	16,671,482	2,079,075	12.5%	157,283	0.9%	2,236,358	13.4%	13.2%	-31,185	-263,172	\$37.62
B	55	6,268,275	682,965	10.9%	59,271	0.9%	742,236	11.8%	13.4%	95,061	-40,784	\$26.01
C	4	216,268	1,261	0.6%	0	0.0%	1,261	0.6%	0.6%	0	0	\$20.00
Total	104	23,156,025	2,763,301	11.9%	216,554	0.9%	2,979,855	12.9%	13.1%	63,876	-303,956	\$35.26



## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q1-2016	Q4-2015	Q1-2016	Q4-2015	AVG (\$/SF)
WESTCHASE												
A	32	8,725,110	1,193,543	13.7%	412,454	4.7%	1,605,997	18.4%	17.0%	247,673	40,085	\$37.89
B	63	7,840,222	756,304	9.6%	14,859	0.2%	771,163	9.8%	8.9%	-56,923	54,938	\$20.30
C	5	213,302	32,456	15.2%	0	0.0%	32,456	15.2%	17.8%	5,553	0	\$16.92
Total	100	16,778,634	1,982,303	11.8%	427,313	2.5%	2,409,616	14.4%	13.2%	196,303	95,023	\$31.52
THE WOODLANDS												
A	37	10,501,457	852,743	8.1%	54,036	0.5%	906,779	8.6%	9.0%	36,926	442,284	\$35.95
B	70	4,398,619	420,049	9.5%	64,167	1.5%	484,216	11.0%	11.6%	27,739	-71,790	\$23.88
C	4	308,161	25,119	8.2%	0	0.0%	25,119	8.2%	0.3%	-24,119	0	\$19.80
Total	111	15,208,237	1,297,911	8.5%	118,203	0.8%	1,416,114	9.3%	9.6%	40,546	370,494	\$30.06

## Office Development Pipeline

Houston's construction pipeline contains 6.3 million SF of office space, and 50.2% of the new space is pre-leased. Build-to-suit projects make up 42.6% of the pipeline, and the remaining 3.6M SF of spec office space under construction is approximately 17.1% pre-leased. Approximately 1.7 million SF, or 27.2% of the build-to-suit projects under construction, are pre-leased to energy industry companies. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

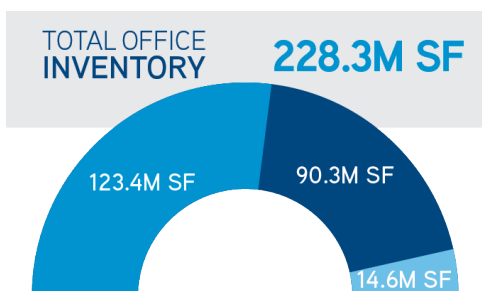
BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER/CONTRACTOR	EST. DELIVERY
Phillips 66	2101 Citywest Blvd	Westchase	1,100,000	100.0%	Gilbane Building Company	Jun-16
609 Main at Texas	609 Main St	CBD	1,056,658	5.9%	Hines	Dec-16
BHP Biliton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100.0%	Transwestern	Oct-16
Energy Center V	915 N Eldridge Pky	Katy Freeway West	524,744	0.1%	Trammell Crow Company	Apr-16
West Memorial Place Phase II	15377 Memorial Dr	Katy Freeway West	428,565	48.8%	Skanska Commercial Development	May-16
Future Amegy Bank HQ	1717 W Loop Fwy S	Post Oak Park	380,000	90.2%	Hines	Feb-17
Havenwood Office Park	25700 Interstate 45	The Woodlands	240,470	0.2%	Everson Developments, LLC	Apr-16
10100 Katy Fwy	10100 Katy Fwy	Katy Freeway East	226,511	28.6%	Anslow Bryant Construction Ltd.	Jun-17
Regions Financial Center	3773 Richmond Ave	Greenway Plaza	210,000	51.3%	The Redstone Companies	May-16
Wildwood Corporate Centre II	480 Wildwood Forest Dr	The Woodlands	201,933	0.1%	Archway Properties	Jul-16
Kirby Collection	3200 Kirby Dr	Greenway Plaza	186,696	0.0%	Thor Equities	Dec-17
Lockton Place	3657 Briarpark Dr	Westchase	186,000	100.0%	Triton Real Estate Partners	May-17
1885 Saint James Place	1885 St James Pl	West Loop/Galleria	158,585	3.9%	Nelson Murphree Legacy Partners	Apr-16
The Post Oak	1601 Hollyhurst Ln	Galleria/Uptown	140,000	100.0%	Tellepsen Builders	Oct-17
Grandway West - Bldg 2	2002 Grand Pky N	Katy/Grand Parkway West	124,295	32.2%	Transwern	Apr-16
The George R. Brown	700 Avenida De Las Americas	CBD	115,000	100.0%	Griffin Partners Inc.	Oct-16
Deerwood Glen Phase III	4460 Highway 225	Gulf Freeway/Pasadena	102,000	82.6%	Clay Development	May-16

## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	91.8%	240,321	\$53.95-\$54.95	New York State Common Retirement Fund
5 Houston Center	1401 McKinney St	CBD	580,875	2002	91.1%	51,969	\$50.29	Wells Real Estate Funds
BG Group Place	811 Main	CBD	972,474	2011	98.5%	105,652	\$56.91	NPS of Korea
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	1,946	\$48.00	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	97.0%	175,916	\$48.50-\$52.50	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/Galleria	304,419	2013	88.1%	43,650	\$47.27-\$49.27	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	95.0%	253,455	\$46.49	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	90.4%	176,513	\$44.49	TIER REIT, Inc.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	95.3%	14,243	\$43.55	The Woodlands Development Company, L.P.

Note: Available SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q1 2016 Highlights



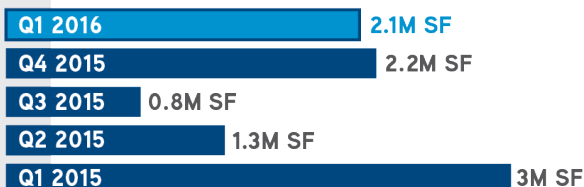
### TOTAL INVENTORY BY CLASS

■ CLASS A: 54% ■ CLASS B: 40% ■ CLASS C: 6%

### CLASS A LEASING ACTIVITY

**-5%**  
QUARTERLY

**-30%**  
ANNUALLY



**CURRENT**  
**15.3%**  
VACANCY

**1.3M SF**  
NET ABSORPTION



**6.3M SF**

**-37.1%**  
ANNUALLY

DOWN FROM 8M IN Q4 2015  
AND 17M IN Q1 2015

### FOR MORE INFORMATION

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**Houston led the nation in population growth in 2015, adding more than 159,000 residents, according to the U.S. Census Bureau.**

# Houston's office market vacancy rate continues to rise amid more energy industry lay-offs

**Lisa Bridges** Director of Market Research | Houston

Known as the Energy Capital of the World, Houston is home to most major energy companies and its economy is negatively affected by low oil prices. Houston's Q4 and YE 2015 office market indicators are, in large part, a response to the dramatic drop in oil prices that occurred in Q4 2014 and the subsequent reevaluation of and to adjustments in growth plans implemented by the "upstream" sector of the energy market. The "mid" and "downstream" players remain strong but tend to occupy less office space than the "upstream" companies. Further, other industries that provide services and goods to the energy industry, such as engineering, finance, manufacturing and law firms, are also feeling the effects, and the majority of these companies are office users.

Although Houston's city-wide vacancy rate rose by only 80 basis points over the quarter, the annual rate rose significantly, increasing by 430 basis points from 11.1% in Q4 2014 to 15.4% in Q4 2015. The increase in the amount of sublease space placed on the market during 2015 was a major factor. Houston's available sublease space more than doubled between Q4 2014 and Q4 2015, increasing from 3.8M SF to 8.0M SF. The majority of this space was previously leased by growing energy companies addressing their future expansion needs. Houston's office leasing activity declined 53.5% over the year. Tenants are renewing existing leases, but in today's market, more companies are contracting, not expanding.

Over 3.2M SF of new inventory delivered during Q4 2015 and 58.3% of the space is pre-leased. Houston's office construction pipeline totals 8.0M SF and 64.3% is pre-leased, which is significantly less than the 17.0M SF under construction one year ago. The majority of the new space is located in suburban submarkets and is scheduled to deliver over the next 12 months.

Houston's office market posted 652,900 SF of positive net absorption in Q4 2015. This pushed year-end positive net absorption to 1.7M SF, an annual total less than previous year's average net "quarterly" absorption. Average office rental rates have remained relatively flat over the year.

According to the U.S Bureau of Labor Statistics, the Houston metropolitan area created only 23,700 jobs between November 2014 and November 2015. This is an annual increase of just 0.8%, well below the 2014 annual growth rate of 3.4% (97,500 jobs). Local economists have predicted 2015 annual job growth will be around 20,000 jobs, however, we believe that number will be lower.

## Market Indicators

Relative to prior period

Annual  
Change

Quarterly  
Change

Quarterly  
Forecast\*

VACANCY



NET ABSORPTION



NEW CONSTRUCTION



UNDER CONSTRUCTION



\*Projected

## Summary Statistics

Houston Office Market

Q4 2014

Q3 2015

Q4 2015

Vacancy Rate

11.1

14.6%

15.4%

Net Absorption  
(Million Square Feet)

3.0

0.5

0.7

New Construction  
(Million Square Feet)

2.7

1.4

3.2

Under Construction  
(Million Square Feet)

17.0

10.8

8.0

Class A Vacancy Rate  
CBD  
Suburban

9.9

10.2

11.2

14.6

11.1

16.0

## Asking Rents

Per Square Foot Per Year

Average (all classes)

\$27.52

\$27.62

\$27.83

CBD Class A

\$43.01

\$42.13

\$42.72

Suburban Class A

\$32.66

\$32.88

\$33.02

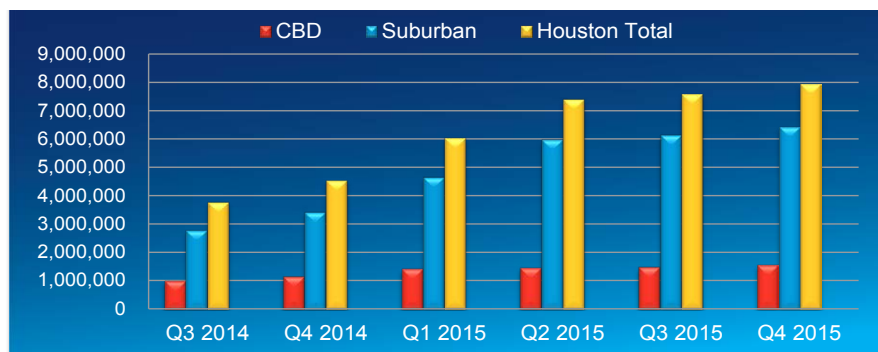
## Vacancy & Availability

Houston's citywide vacancy rate rose 80 basis points between quarters from 14.6% to 15.4%, and rose by 430 basis points from 11.1% in Q4 2014. Over the quarter, the average suburban vacancy rate increased from 14.4% to 15.3%, and the average CBD vacancy rate decreased from 15.8% to 15.7%.

The average CBD Class A vacancy rate decreased 10 basis point over the quarter from 11.2% to 11.1%, while the average CBD Class B vacancy rate fell 20 basis points from 27.3% to 27.1%. The average suburban Class A vacancy rate increased 140 basis points from 14.6% to 16.0%, and the average suburban Class B vacancy rate increased 70 basis points between quarters from 14.7% to 15.4%.

Of the 1,700 existing office buildings in our survey, 122 buildings now have 100,000 SF of contiguous space available for lease or sublease. Further, 44 buildings have 200,000 SF of contiguous space available, twice as many as in the previous quarter. Citywide, available sublease space totals 8.0 million SF or 3.5% of Houston's total office inventory, but only 3.7 million SF of the available sublease space is currently vacant.

## Available Sublease Space Houston, TX



## Absorption & Demand

Houston's office market posted 652,900 SF of positive net absorption in Q4 2015, more than the 457,762 SF absorbed in the previous quarter but significantly less than the 3.0M SF recorded in Q4 2014. Suburban Class A space posted the largest gain, with 941,603 SF of positive net absorption, while suburban Class B posted the largest loss, of 407,167 SF of negative net absorption.

Some of the larger tenants that moved into new space during Q4 included Statoil (430,677 SF) moving into CityWestPlace 2 in the Westchase submarket, Air Liquide USA, Inc. (234,500 SF) moving into 9811 Katy Freeway in the Katy Freeway submarket, Regions Bank (62,363 SF) moving into 3773 Richmond in the Greenway Plaza submarket, and Zachary Engineering Corp. (50,000 SF) moving into Westchase Park II in the Westchase submarket.

## Rental Rates

Although Houston's office market has softened, the citywide average rental rates remained relatively flat over the quarter, increasing marginally from \$27.62 per SF to \$27.83 per SF. The average CBD Class A rental rate increased slightly from \$42.70 per SF in Q3 2015 to \$43.41 per SF at year end while the average suburban Class A rental rate decreased somewhat from \$33.23 per SF in Q3 2015 to \$32.80 per SF at the end of the year.

## Job Growth & Unemployment

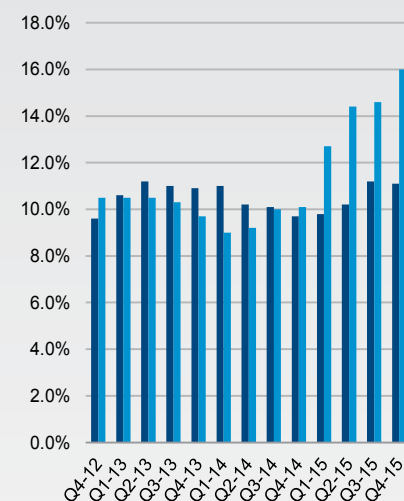
(not seasonally adjusted)

UNEMPLOYMENT	11/14	11/15
HOUSTON	4.3%	4.9%
TEXAS	4.5%	4.5%
U.S.	5.5%	4.8%

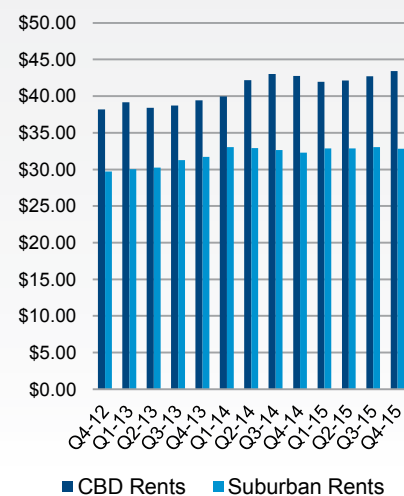
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	0.8%	23.7K
TEXAS	1.5%	180.4K
U.S.	1.9%	2.7M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS





## Leasing Activity

Houston's Class A office leasing activity increased 74.4% between quarters recording 1.5 million SF of transactions in Q4 2015. When compared to the 3.1 million SF recorded in Q4 2014, leasing activity has decreased significantly, falling by 53.5% in just one year.

### Q4 2015 Top Office Lease Transactions

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Post Oak Central	Galleria/Uptown	524,000	Apache Corporation <sup>6</sup>	Nov-15
Pennzoil Place South	CBD	189,000	Bracewell & Giuliani LLP <sup>1</sup>	Oct-15
3100 Main Street	Midtown	139,424	St. Luke's Episcopal Health System <sup>1</sup>	Oct-15
Energy Center IV	Katy Freeway West	106,555	BASF	Oct-15
609 Main	CBD	62,000	Kirkland & Ellis LLP <sup>4</sup>	Dec-15
Westchase Park II	Westchase	50,000	Zachary Engineering Corp	Oct-15
10555 Richmond Ave	Westchase	49,024	Ignite Restaurant Group	Oct-15

<sup>1</sup>Renewal

<sup>2</sup>Expansion

<sup>3</sup>Sublease

<sup>4</sup>Pre-lease/proposed or under construction

<sup>5</sup>Colliers International Transaction

<sup>6</sup>Expansion

## Sales Activity

Houston's office investment sales activity included 14 transactions, with an average price per square foot of \$247. Listed below are a few significant transactions that closed in Q4 2015.

### Q4 2015 Significant Sales Transactions – (100,000 SF or greater)

BUILDING NAME	SUBMARKET	RBA (SF)	YEAR BUILT	BUYER	SELLER	SALE PRICE	\$/SF	CLOSED
BBVA 2200 Post Oak Blvd	West Loop/ Galleria	326,200	2013	Masaveu Post Oak Houston Delaware, LLC	Stream Realty partners, L.P.	\$172M	\$527	Oct-15
Energy Center Three 935 N Eldridge Pky	Katy Freeway	546,604	2015	ConocoPhillips	Trammell Crow Company	\$275M approx.	\$503	Nov-15
16055 Space Center Blvd	NASA/Clear Lake	149,144	1985	Space Center Acquisition LLC	Parfinco Inc	N/A	N/A	Dec-15

Sources: CoStar and Real Capital Analytics



Bloomberg named Houston among the nation's richest and most productive cities in America, sitting in the No. 9 spot. Only two Texas cities are on the list. Dallas came in at No. 11.



## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2015	Q3-2015	Q4-2015	Q3-2015	AVG (\$/SF)
CBD												
A	32	31,043,701	2,661,586	8.6%	798,943	2.6%	3,460,529	11.1%	11.2%	19,662	-257,636	\$43.41
B	32	9,888,704	2,461,206	24.9%	223,038	2.3%	2,684,244	27.1%	27.3%	11,396	-12,467	\$28.92
C	15	889,861	420,338	47.2%	0	0.0%	420,338	47.2%	46.8%	-3,757	-2,511	\$18.71
Total	79	41,822,266	5,543,130	13.3%	1,021,981	2.4%	6,565,111	15.7%	15.8%	27,301	-272,614	\$38.65
SUBURBAN												
A	358	90,911,003	12,637,592	13.9%	1,917,996	2.1%	14,555,588	16.0%	14.6%	941,603	946,029	\$32.80
B	950	79,468,453	11,467,088	14.4%	744,052	0.9%	12,211,140	15.4%	14.7%	-407,167	-211,201	\$20.30
C	313	13,662,675	1,421,504	10.4%	9,781	0.7%	1,431,285	10.5%	12.2%	91,163	-4,452	\$15.39
Total	1621	184,042,131	25,526,184	13.9%	2,671,829	1.5%	28,198,013	15.3%	14.4%	625,599	730,376	\$26.32
OVERALL												
A	390	121,954,704	15,299,178	12.5%	2,716,939	2.2%	18,016,117	14.8%	13.7%	961,265	688,393	\$34.71
B	982	89,357,157	13,928,294	15.6%	967,090	1.1%	14,895,384	16.7%	15.9%	-395,771	-223,668	\$21.01
C	328	14,552,536	1,841,842	12.7%	9,781	0.1%	1,851,623	12.7%	14.1%	87,406	-6,963	\$15.79
Total	1700	225,864,397	31,069,314	13.8%	3,693,810	1.6%	34,763,124	15.4%	14.6%	652,900	457,762	\$27.98

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2015	Q3-2015	Q4-2015	Q3-2015	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	6	2,059,595	560,151	27.2%	6,063	0.3%	566,214	27.5%	27.3%	-3,388	53,443	\$33.58
B	32	2,636,274	161,680	6.1%	3,135	0.1%	164,815	6.3%	5.1%	-29,498	-9,973	\$29.43
C	15	466,292	53,753	11.5%	5,193	1.1%	58,946	12.6%	9.3%	-15,596	21,363	\$22.05
Total	53	5,162,161	775,584	15.0%	14,391	0.3%	789,975	15.3%	14.4%	-48,482	64,833	\$31.85
BAYTOWN												
B	3	186,005	5,551	3.0%	0	0.0%	5,551	3.0%	3.4%	697	0	\$23.18
C	3	81,481	0	0.0%	0	0.0%	0	0.0%	2.2%	1,812	0	\$0.00
Total	6	267,486	5,551	2.1%	0	0.0%	5,551	2.1%	3.0%	2,509	0	\$23.18
BELLAIRE												
A	6	1,091,536	70,833	6.5%	43,771	4.0%	114,604	10.5%	9.0%	-16,035	4,341	\$25.92
B	19	2,631,259	127,394	4.8%	2,324	0.1%	129,718	4.9%	4.6%	-8,790	7,816	\$23.90
C	5	327,020	53,221	16.3%	0	0.0%	53,221	16.3%	15.3%	-3,298	0	\$16.97
Total	30	4,049,815	251,448	6.2%	46,095	1.1%	297,543	7.3%	6.7%	-28,123	12,157	\$23.64
CONROE AND OUTLYING MONTGOMERY CO												
A	2	107,161	47,161	44.0%	0	0.0%	47,161	44.0%	44.0%	0	0	\$24.53
B	9	429,851	28,263	6.6%	0	0.0%	28,263	6.6%	6.6%	0	0	\$18.09
C	7	289,662	6,324	2.2%	0	0.0%	6,324	2.2%	2.5%	931	-2,781	\$15.72
Total	18	826,674	81,748	9.9%	0	0.0%	81,748	9.9%	10.0%	931	-2,781	\$21.25
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	214,242	6.3%	14,756	0.4%	228,998	6.7%	6.8%	993	20,625	\$30.65
B	39	2,409,479	263,745	10.9%	22,200	0.9%	285,945	11.9%	12.6%	16,623	143,256	\$21.91
C	3	204,593	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	59	6,013,271	477,987	7.9%	36,956	0.6%	514,943	8.6%	8.9%	17,616	163,881	\$26.13

## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2015	Q3-2015	Q4-2015	Q3-2015	AVG (\$/SF)
FM 1960												
A	12	2,589,817	103,038	4.0%	17,562	0.7%	120,600	4.7%	4.1%	-14,082	23,395	\$27.61
B	70	4,199,684	738,012	17.6%	62,001	1.5%	800,013	19.0%	16.0%	-128,619	28,012	\$16.48
C	21	726,855	62,027	8.5%	0	0.0%	62,027	8.5%	9.1%	3,857	6,478	\$16.52
Total	103	7,516,356	903,077	12.0%	79,563	1.1%	982,640	13.1%	11.2%	-138,844	57,885	\$17.53
GREENWAY												
A	18	6,949,625	1,240,264	17.8%	10,816	0.2%	1,251,080	18.0%	10.8%	79,114	23,007	\$34.83
B	34	3,451,098	243,028	7.0%	8,910	0.3%	251,938	7.3%	7.5%	5,895	-36,409	\$26.13
C	16	532,718	69,162	13.0%	-	0.0%	69,162	13.0%	12.7%	-1,673	37,505	\$22.42
Total	68	10,933,441	1,552,454	14.2%	19,726	0.2%	1,572,180	14.4%	9.8%	83,336	24,103	\$31.97
GULF FREEWAY/PASADENA												
A	1	22,706	3,122	13.7%	0	0.0%	3,122	13.7%	0.0%	-3,122	526	\$30.42
B	38	2,223,756	344,099	15.5%	26,330	1.2%	370,429	16.7%	17.2%	12,919	9,103	\$20.91
C	32	1,228,317	84,660	6.9%	0	0.0%	84,660	6.9%	8.6%	21,555	7,769	\$18.21
Total	71	3,474,779	431,881	12.4%	26,330	0.8%	458,211	13.2%	14.1%	31,352	17,398	\$20.02
I-10 EAST												
B	7	447,680	62,536	14.0%	0	0.0%	62,536	14.0%	10.0%	-17,944	6,475	\$14.84
C	5	267,130	99,243	37.2%	0	0.0%	99,243	37.2%	37.2%	0	-25,000	\$12.00
Total	12	714,810	161,779	22.6%	0	0.0%	161,779	22.6%	20.1%	-17,944	-18,525	\$14.01
KATY FREEWAY												
A	84	21,159,368	2,654,639	12.5%	622,477	2.9%	3,277,116	15.5%	12.4%	550,960	423,301	\$37.06
B	101	9,747,554	1,568,532	16.1%	236,541	2.4%	1,805,073	18.5%	17.8%	-68,027	-146,299	\$24.10
C	32	1,539,378	51,527	3.3%	2,812	0.2%	54,339	3.5%	4.2%	10,608	6,237	\$18.20
Total	217	32,446,300	4,274,698	13.2%	861,830	2.7%	5,136,528	15.8%	13.7%	493,541	283,239	\$31.37
KATY/GRAND PARKWAY WEST												
A	13	1,130,253	311,453	27.6%	3,555	0.3%	315,008	27.9%	29.2%	15,131	107,667	\$27.79
B	11	964,991	1,870	0.2%	0	0.0%	1,870	0.2%	0.2%	0	0	\$19.83
C	3	190,504	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	27	2,285,748	313,323	13.7%	3,555	0.2%	316,878	13.9%	14.5%	15,131	107,667	\$27.69
KINGWOOD/HUMBLE												
B	21	1,048,379	110,409	10.5%	8,730	0.8%	119,139	11.4%	10.9%	-4,828	-10,169	\$21.23
C	4	143,500	14,745	10.3%	0	0.0%	14,745	10.3%	11.2%	1,371	-1,492	\$17.89
Total	25	1,191,879	125,154	10.5%	8,730	0.7%	133,884	11.2%	10.9%	-3,457	-11,661	\$20.85
NASA/CLEAR LAKE												
A	12	1,770,973	65,101	3.7%	29,537	1.7%	94,638	5.3%	5.5%	1,969	-32,320	\$24.59
B	48	3,285,395	988,372	30.1%	0	0.0%	988,372	30.1%	29.8%	-10,640	-26,803	\$18.41
C	20	660,409	104,359	15.8%	0	0.0%	104,359	15.8%	16.5%	4,498	9,498	\$15.15
Total	80	5,716,777	1,157,832	20.3%	29,537	0.5%	1,187,369	20.8%	20.7%	-4,173	-49,625	\$19.07
NORTH BELT/GREENSPPOINT												
A	24	5,442,482	1,731,303	31.8%	256,128	4.7%	1,987,431	36.5%	35.7%	-44,455	-110,231	\$26.82
B	54	5,898,413	1,494,744	25.3%	150,012	2.5%	1,644,756	27.9%	23.6%	-197,596	-91,685	\$16.46
C	22	1,403,276	282,890	20.2%	0	0.0%	282,890	20.2%	20.3%	1,814	-10,351	\$11.97
Total	100	12,744,171	3,508,937	27.5%	406,140	3.2%	3,915,077	30.7%	28.4%	-240,237	-212,267	\$21.79
NORTHEAST NEAR AND NORTHEAST OUTLIER												
B	4	181,618	24,698	13.6%	0	0.0%	24,698	13.6%	15.2%	2,997	0	\$20.59
C	2	56,562	7,247	12.8%	0	0.0%	7,247	12.8%	12.8%	0	558	\$14.68
Total	6	238,180	31,945	13.4%	0	0.0%	31,945	13.4%	14.7%	2,997	558	\$18.55

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2015	Q3-2015	Q4-2015	Q3-2015	AVG (\$/SF)
NORTHWEST AND NORTHWEST OUTLIER												
A	10	2,230,998	564,997	25.3%	39,231	1.8%	604,228	27.1%	32.1%	111,436	32,457	\$23.03
B	78	5,990,534	959,277	16.0%	17,873	0.3%	977,150	16.3%	15.5%	25,752	-50,068	\$18.91
C	36	1,433,477	95,913	6.7%	0	0.0%	95,913	6.7%	7.0%	4,886	1,916	\$13.24
Total	124	9,655,009	1,620,187	16.8%	57,104	0.6%	1,677,291	17.4%	18.1%	142,074	-15,695	\$20.18
RICHMOND/FOUNTAINVIEW												
B	13	780,977	177,553	22.7%	0	0.0%	177,553	22.7%	21.1%	-12,667	2,836	\$17.49
C	12	494,819	60,131	12.2%	0	0.0%	60,131	12.2%	15.5%	16,720	200	\$14.84
Total	25	1,275,796	237,684	18.6%	0	0.0%	237,684	18.6%	18.9%	4,053	3,036	\$16.69
SAN FELIPE/VOSS												
A	3	1,720,793	382,314	22.2%	8,409	0.5%	390,723	22.7%	22.8%	1,804	15,819	\$35.63
B	32	3,241,314	287,526	8.9%	3,847	0.1%	291,373	9.0%	9.8%	25,298	-25,246	\$24.44
Total	35	4,962,107	669,840	13.5%	12,256	0.2%	682,096	13.7%	14.3%	27,102	-9,427	\$30.92
SOUTH												
A	1	80,000	1,702	2.1%	0	0.0%	1,702	2.1%	9.0%	5,485	2,954	\$29.63
B	12	465,159	36,457	7.8%	0	0.0%	36,457	7.8%	8.7%	3,912	5,415	\$20.21
C	5	194,042	71,100	36.6%	0	0.0%	71,100	36.6%	36.6%	0	0	\$15.82
Total	18	739,201	109,259	14.8%	0	0.0%	109,259	14.8%	16.1%	9,397	8,369	\$20.23
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	12	753,508	100,399	13.3%	2,662	0.4%	103,061	13.7%	14.7%	7,474	-10,434	\$19.18
C	7	367,307	31,671	8.6%	982	0.3%	32,653	8.9%	9.2%	1,000	-1,235	\$16.91
Total	20	1,605,815	132,070	8.2%	3,644	0.2%	135,714	8.5%	9.0%	8,474	-11,669	\$18.53
SOUTHEAST												
B	17	1,499,608	92,848	6.2%	0	0.0%	92,848	6.2%	6.2%	174	34,709	\$19.95
C	6	272,443	58,900	21.6%	0	0.0%	58,900	21.6%	24.7%	8,514	-53,900	\$0.00
Total	23	1,772,051	151,748	8.6%	0	0.0%	151,748	8.6%	9.1%	8,688	-19,191	\$19.95
SOUTHWEST												
A	6	1,583,702	227,256	14.3%	12,100	0.8%	239,356	15.1%	14.1%	-15,289	-22,801	\$17.67
B	66	5,940,507	1,292,190	21.8%	1,950	0.0%	1,294,140	21.8%	22.6%	48,258	-24,601	\$15.95
C	38	1,891,782	175,155	9.3%	0	0.0%	175,155	9.3%	9.5%	34,164	-1,217	\$14.00
Total	110	9,415,991	1,694,601	18.0%	14,050	0.1%	1,708,651	18.1%	17.7%	67,133	-48,619	\$15.98
SOUTHWEST FAR AND OUTLIER												
A	2	158,720	19,737	12.4%	0	0.0%	19,737	12.4%	12.4%	0	100,000	\$0.00
B	10	830,022	217,331	26.2%	0	0.0%	217,331	26.2%	26.2%	0	0	\$16.50
C	1	21,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	13	1,010,138	237,068	23.5%	0	0.0%	237,068	23.5%	23.5%	0	100,000	\$16.50
WEST BELT												
A	28	3,576,612	689,270	19.3%	22,780	0.6%	712,050	19.9%	16.4%	40,400	33,801	\$31.34
B	31	1,882,092	244,695	13.0%	40,190	2.1%	284,885	15.1%	13.1%	-37,454	-18,549	\$21.22
C	3	87,629	0	0.0%	0	0.0%	0	0.0%	0.6%	0	0	\$0.00
Total	62	5,546,333	933,965	16.8%	62,970	1.1%	996,935	18.0%	15.0%	2,946	15,252	\$27.63
WEST LOOP/GALLERIA												
A	45	16,670,706	1,975,951	11.9%	253,494	1.5%	2,229,445	13.4%	11.9%	-251,687	113,279	\$36.51
B	55	6,268,275	740,625	11.8%	66,891	1.1%	807,516	12.9%	12.7%	-11,003	-46,506	\$26.40
C	4	216,268	1,261	0.6%	0	0.0%	1,261	0.6%	0.6%	0	0	\$20.00
Total	104	23,155,249	2,717,837	11.7%	320,385	1.4%	3,038,222	13.1%	12.0%	-262,690	66,773	\$34.21

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q4-2015	Q3-2015	Q4-2015	Q3-2015	AVG (\$/SF)
WESTCHASE												
A	31	8,333,300	899,265	10.8%	509,405	6.1%	1,408,670	16.9%	17.4%	40,085	88,484	\$37.03
B	63	7,554,795	700,994	9.3%	10,646	0.1%	711,640	9.4%	10.2%	57,538	9,491	\$19.94
C	6	230,420	37,215	16.2%	794	0.3%	38,009	16.5%	16.5%	0	0	\$18.05
Total	100	16,118,515	1,637,474	10.2%	520,845	3.2%	2,158,319	13.4%	14.0%	97,623	97,975	\$30.86
THE WOODLANDS												
A	36	10,348,457	875,793	8.5%	67,912	0.7%	943,705	9.1%	4.4%	442,284	68,282	\$35.68
B	71	4,520,226	454,260	10.0%	79,810	1.8%	534,070	11.8%	9.4%	-87,638	38,428	\$24.44
C	5	335,395	1,000	0.3%	0	0.0%	1,000	0.3%	0.3%	0	0	\$19.80
Total	112	15,204,078	1,331,053	8.8%	147,722	1.0%	1,478,775	9.7%	5.9%	354,646	106,710	\$29.66

## Office Development Pipeline

Houston's construction pipeline contains 8.0 million SF of office space, and 64.3% of the new space is pre-leased. Build-to-suit projects make up 60.4% of the pipeline, and the remaining 2.2M SF of spec office space under construction is approximately 21.9% pre-leased. Approximately 2.6 million SF, or 52.9% of the build-to-suit projects under construction, are pre-leased to energy industry companies. The table below includes office buildings with a RBA of 100,000 SF or more under construction.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER	EST. DELIVERY
FMC Technologies Campus	Subsea Ln & W Lake Houston	Northeast Near	1,700,000	100%	McCord Development, Inc	Jan-16
Phillips 66	2101 Citywest Blvd	Westchase	1,100,000	100%	Gilbane Building Company	Jun-16
609 Main at Texas	609 Main St	CBD	1,056,658	0.0%	Hines	Dec-16
BHP Biliton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100%	Transwestern	Oct-15
Energy Center V	915 N Eldridge Pky	Katy Freeway West	524,328	0.0%	Trammell Crow Company	Apr-16
Millennium Tower II	10353 Richmond Ave	Westchase	445,000	100%	BMS Management, Inc.	Feb-16
Hilcorp Energy Tower	1110 Main Street	CBD	406,600	100%	Hines	Jan-16
West Memorial Place II	15377 Memorial Dr	Katy Freeway West	389,709	48.7%	Skanska Commercial Development	May-16
Future Amegy Bank HQ	1717 W. Loop South	Post Oak Park	380,000	74.2%	Hines	Feb-17
Havenwood Office Park	25700 Interstate 45	The Woodlands	240,470	0.2%	Everson Developments, LLC	Nov-15
Regions Financial Center	3773 Richmond Ave	Greenway Plaza	210,000	44.7%	The Redstone Companies	Apr-16
Wildwood Corporate Centre II	480 Wildwood Forest Dr	The Woodlands	201,933	0.0%	Archway Properties	Jul-16
Kirby Collection	3200 Kirby Dr	Greenway Plaza	186,813	0.0%	Thor Equities	Jul-16
1885 Saint James Place	1885 St James Pl	West Loop/Galleria	165,000	3.9%	Nelson Murphree Legacy Partners	Mar-16
The Post Oak	1601 Hollyhurst Ln	West Loop/Galleria	140,000	100%	Landry's Restaurants	Sep-17
Grandway West II	Grand Pky & Franz Rd	Katy Freeway West	124,017	17.6%	Transwestern	Apr-16

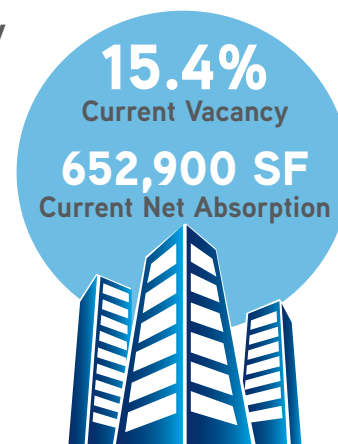
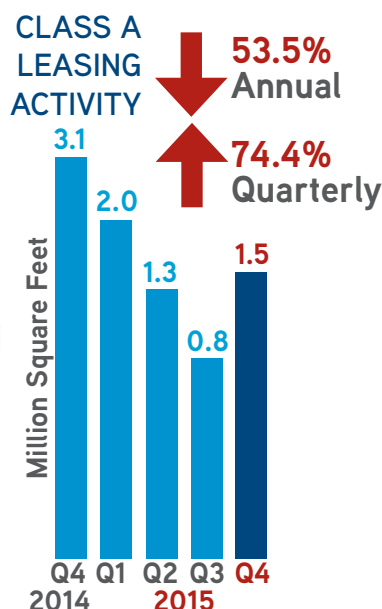
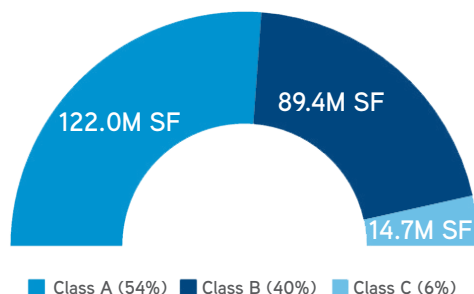
## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	91.8%	250,801	\$54.60	New York State Common Retirement Fund
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	99.2%	178,084	\$54.04	Brookfield Office Properties
BG Group Place	811 Main	CBD	972,474	2011	98.5%	108,823	\$56.91	NPS of Korea
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	5,986	\$48.07	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/ Galleria	1,476,973	1983	97.0%	117,818	\$48.38-\$52.38	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/ Galleria	304,419	2013	88.1%	33,961	\$48.73	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	95.0%	208,838	\$45.93	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	90.5%	47,510	\$44.49	TIER REIT, Inc.

Note: Avail. SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q4 2015 Highlights

TOTAL OFFICE INVENTORY **226.0** Million SF



### FOR MORE INFORMATION

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# Houston's office market impacted by energy industry layoffs

**Lisa Bridges** Director of Market Research | Houston

Known as the Energy Capital of the World, Houston is home to more than 3,700 energy related companies which make up just over half of the local economy. Houston's Q3 2015 office market indicators reflect the dramatic drop in oil prices that occurred in Q4 2014 and the subsequent reevaluation and adjustments in growth plans implemented by the "upstream" sector of the energy market. The "mid" and "downstream" players remain very strong but tend to occupy less office space than the "upstream" companies.

Houston's office leasing activity declined 39.7% between quarters, recording only 0.7 million SF in Q3 2015. When compared to the 3.4 million SF recorded 12 months ago in Q3 2014, leasing activity decreased by 77.7%. Tenants are renewing existing leases, but in today's market, more companies are contracting, not expanding.

Over 1.4M SF of new inventory delivered during Q3 2015 and 41.4% of the space was vacant. Houston's office construction pipeline totals 10.8M SF and 62.4% is pre-leased. The majority of the new space is located in suburban submarkets and is scheduled to deliver over the next 12 months.

Houston's office market posted 338,584 SF of positive net absorption, pushing year-to-date positive net absorption to 891,825 SF. Average rental rates increased marginally, however submarkets with higher than average vacancy rates have slightly lower quoted rental rates than a year ago. Recent hikes in property taxes have increased operating expenses, thus increasing gross rental rates.

The Houston metropolitan area created 38,400 jobs between August 2014 and August 2015, an annual increase of 1.3%. Sectors creating most of the jobs contributing to the annual increase include Legal Services and Accommodation & Food Services. Employment sectors that lost the most jobs over the year include Durable Goods Manufacturing and Real Estate & Rental and Leasing.

Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↑	↑
NET ABSORPTION	↓	↓	↓
NEW CONSTRUCTION	↓	↓	↑
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q3 2014	Q2 2015	Q3 2015
Vacancy Rate	12.2	14.3%	14.5%
Net Absorption (Million Square Feet)	0.7	0.4	0.3
New Construction (Million Square Feet)	1.5	2.1	1.4
Under Construction (Million Square Feet)	17.3	12.3	10.8
Class A Vacancy Rate			
CBD	10.1	10.2	10.4
Suburban	10.0	14.4	14.6

Asking Rents Per Square Foot Per Year			
Average (all classes)	\$27.52	\$27.62	\$27.83
CBD Class A	\$43.01	\$42.13	\$42.72
Suburban Class A	\$32.66	\$32.88	\$33.02

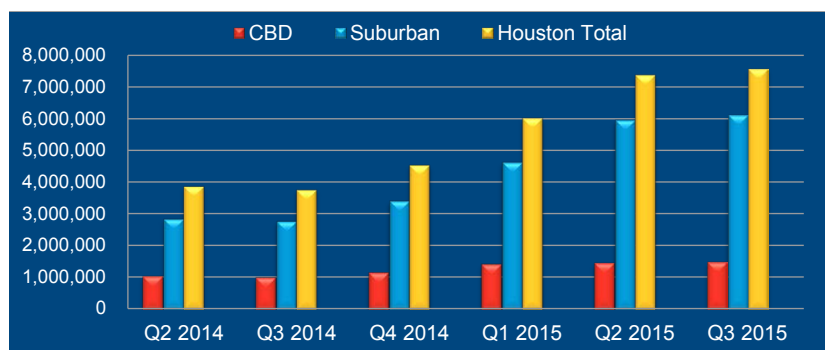
## Vacancy & Availability

Houston's citywide vacancy rate rose 20 basis points between quarters from 14.3% to 14.5%, and rose by 230 basis points from 12.2% in Q3 2014. Over the quarter, the average suburban vacancy rate increased from 14.2% to 14.4%, and the average CBD vacancy rate increased from 14.5% to 14.7%.

The average CBD Class A vacancy rate increased 20 basis point over the quarter from 10.2% to 10.4%, while the average CBD Class B vacancy rate rose 10 basis points from 24.8% to 24.9%. The average suburban Class A vacancy rate increased 20 basis points from 14.4% to 14.6%, and the average suburban Class B vacancy rate increased 30 basis points between quarters from 14.4% to 14.7%.

Of the 1,691 existing office buildings in our survey, 70 buildings have 100,000 SF of contiguous space available for lease or sublease. Further, 22 buildings have 200,000 SF of contiguous space available. Citywide, available sublease space totals 7.6 million SF or 3.4% of Houston's total office inventory, but only 3.3 million SF of the available sublease space is currently vacant.

### Available Sublease Space Houston, TX



## Absorption & Demand

Houston's office market posted 338,584 SF of positive net absorption in Q3 2015, slightly less than the 368,400 SF absorbed in the previous quarter. Suburban Class A space posted the largest gain, with 602,515 SF of positive net absorption, while suburban Class B posted the highest loss, with 178,238 SF of negative absorption.

Some of the larger tenants that moved into new space during Q3 include Gardere Wynne Sewell LLP (74,100 SF) moving into 1000 Louisiana in the CBD submarket, Vitol, Inc. (62,900 SF) moved into Kirby Grove in the Greenway Plaza submarket, and Microsoft (40,500 SF) moved into Town Centre One in the Katy Freeway submarket.

## Rental Rates

Although Houston's office market has softened, the citywide average rental rates increased slightly over the quarter.

The average CBD Class A rental rate increased 1.4% from \$42.13 per SF in Q2 2015 to \$42.72 per SF, but decreased from \$43.01 per SF in Q3 2014. The average CBD Class B rental rate increased slightly from \$28.14 per SF in Q2 2015 to \$28.31 per SF.

The average suburban Class A and B rental rates increased marginally from \$32.88 per SF in Q2 2015 to \$33.02 per SF and from \$20.34 per SF to \$20.41 per SF, respectively.

## Job Growth & Unemployment

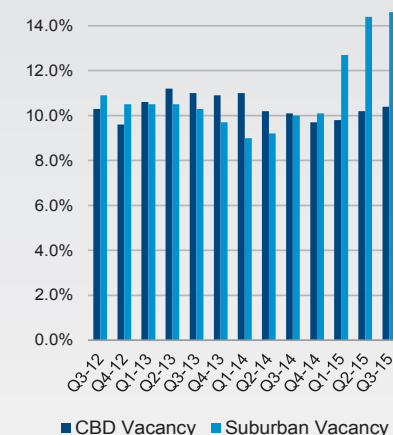
(not seasonally adjusted)

UNEMPLOYMENT	08/14	08/15
HOUSTON	5.1%	4.6%
TEXAS	5.3%	4.4%
U.S.	6.3%	5.2%

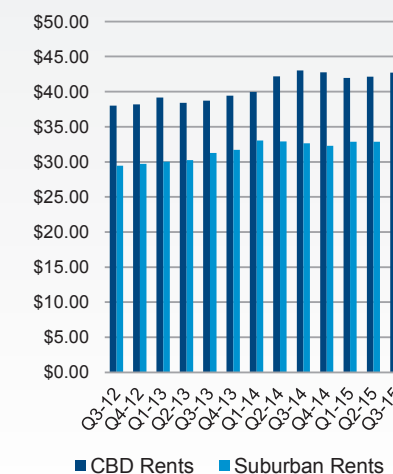
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	1.3%	38.4K
TEXAS	1.8%	212.4K
U.S.	2.1%	2.9M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS



## Leasing Activity

Houston's office leasing activity decreased 39.7% between quarters recording only 0.7 million SF of transactions in Q3 2015. When compared to the 3.4 million SF recorded in Q3 2014, leasing activity has decreased drastically, falling by 77.7% in just one year.

### Q3 2015 Top Office Lease Transactions

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
10001 Richmond Ave	Westchase	554,385	WesternGeco <sup>1</sup>	Sep-15
6330 West Loop South	Bellaire	139,244	Texas Children's Health Plan	Aug-15
10100 Katy Fwy	Katy Freeway East	80,000	CEMEX USA <sup>4</sup>	Jul-15
6330 West Loop South	Bellaire	55,676	Jones and Carter <sup>3,5</sup>	Aug-15
1301 McKinney St	CBD	50,237	MRC Global <sup>3</sup>	Aug-15
Deerwood Glen - 4440 SH 225	Gulf Freeway/Pasadena	38,240	Brock Holdings III, Inc <sup>5</sup>	Jul-15
515 Post Oak Blvd	Post Oak Park	32,000	Rockwater Energy Solutions, Inc	Aug-15
Two Hughes landing	The Woodlands	25,576	The Woodlands Development Company <sup>5</sup>	Aug-15
Granite Tower @ 290	Northwest Far	20,910	IDS	Jul-15
One Riverway	Riverway	19,478	EMC Corporation <sup>1</sup>	Jul-15

<sup>1</sup>Renewal

<sup>2</sup>Expansion

<sup>3</sup>Sublease

<sup>4</sup>Pre-lease/proposed or under construction

<sup>5</sup>Colliers International Transaction

## Sales Activity

Houston's office investment sales activity included 30 transactions, with an average price per square foot of \$129 and a median cap rate of 7.0%. Listed below are a few significant transactions that are pending or closed in Q3 2015.

### Q2 2015 Significant Sales Transactions – (100,000 SF or greater)

BUILDING NAME	SUBMARKET	RBA (SF)	YEAR BUILT	BUYER	SELLER	SALE PRICE	\$/SF	CLOSED
Energy Center 3 935 N Eldridge Pky	Katy Freeway	548,000	2015	ConocoPhillips	Trammell Crow Co	\$275M	\$501	Pending
One Commerce Green 515 W Greens Rd	North Belt	340,956	1983	Nabors Property Holdings LLC	Parkway Partners	\$47.5M	\$139	Sep-15
Comerica Bank 1 Sugar Creek Center Blvd	E Fort Bend/ Sugar Land	193,998	1983	Equus Capital Partners, Ltd	Parkway Partners	\$31.4M	\$160	Sep-15
2401 Fountain View	San Felipe/ Voss	174,223	1981/ 1999	Jetall Companies, Inc	American Spectrum Realty, Inc	\$15.4M	\$99	Jul-15

Sources: CoStar and Real Capital Analytics



Houston ranked No. 1 on Forbes 2015 "America's Fastest-Growing Cities" list. Forbes ranked metros Using data from Moody's Analytics, including 2014 and 2015 estimated population growth and 2014 year-over-year job growth and gross metro product.

## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2015	Q2-2015	Q3-2015	Q2-2015	AVG (\$/SF)
CBD												
A	31	30,708,600	2,579,891	8.4%	612,669	2.0%	3,192,560	10.4%	10.2%	-68,774	-119,920	\$42.72
B	32	10,423,105	2,383,667	22.9%	215,776	2.1%	2,599,443	24.9%	24.8%	-12,467	-497,193	\$28.31
C	16	1,115,797	412,320	37.0%	0	0.0%	412,320	37.0%	37.0%	0	0	\$18.56
Total	79	42,247,502	5,375,878	12.7%	828,445	2.0%	6,204,323	14.7%	14.5%	-81,241	-617,113	\$37.90
SUBURBAN												
A	346	87,510,933	10,869,366	12.4%	1,871,903	2.1%	12,741,269	14.6%	14.4%	602,515	1,073,683	\$33.02
B	947	79,359,571	11,062,974	13.9%	585,711	0.7%	11,648,685	14.7%	14.4%	-178,238	-109,602	\$20.41
C	319	14,057,632	1,707,274	12.1%	13,311	0.8%	1,720,585	12.2%	12.1%	-4,452	21,459	\$15.40
Total	1612	180,928,136	23,639,614	13.1%	2,470,925	1.4%	26,110,539	14.4%	14.2%	419,825	985,540	\$26.31
OVERALL												
A	377	118,219,533	13,449,257	11.4%	2,484,572	2.1%	15,933,829	13.5%	13.4%	533,741	953,763	\$34.74
B	979	89,782,676	13,446,641	15.0%	801,487	0.9%	14,248,128	15.9%	15.6%	-190,705	-606,795	\$21.04
C	335	15,173,429	2,119,594	14.0%	13,311	0.1%	2,132,905	14.1%	14.0%	-4,452	21,459	\$15.74
Total	1691	223,175,638	29,015,492	13.0%	3,299,370	1.5%	32,314,862	14.5%	14.3%	338,584	368,427	\$27.83

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2015	Q2-2015	Q3-2015	Q2-2015	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	6	2,059,595	556,763	27.0%	6,063	0.3%	562,826	27.3%	23.7%	53,443	58,347	\$33.57
B	33	2,688,556	132,182	4.9%	3,135	0.1%	135,317	5.0%	5.0%	-173	-3,138	\$30.08
C	16	526,292	100,849	19.2%	2,501	0.5%	103,350	19.6%	23.7%	21,363	-1,651	\$21.58
Total	55	5,274,443	789,794	15.0%	11,699	0.2%	801,493	15.2%	13.9%	74,633	53,558	\$32.12
BAYTOWN												
B	3	186,005	6,248	3.4%	0	0.0%	6,248	3.4%	3.4%	0	0	\$23.18
C	3	81,481	1,812	2.2%	0	0.0%	1,812	2.2%	2.2%	0	0	\$7.95
Total	6	267,486	8,060	3.0%	0	0.0%	8,060	3.0%	3.0%	0	0	\$19.76
BELLAIRE												
A	6	1,091,536	76,353	7.0%	22,216	2.0%	98,569	9.0%	9.4%	4,341	7,190	\$25.71
B	19	2,631,259	118,604	4.5%	2,324	0.1%	120,928	4.6%	4.9%	7,816	-594	\$24.15
C	5	327,020	49,923	15.3%	0	0.0%	49,923	15.3%	15.3%	0	2,247	\$16.97
Total	30	4,049,815	244,880	6.0%	24,540	0.6%	269,420	6.7%	7.0%	12,157	8,843	\$23.72
CONROE AND OUTLYING MONTGOMERY CO												
A	2	107,161	47,161	44.0%	0	0.0%	47,161	44.0%	44.0%	0	0	\$24.53
B	9	429,851	28,263	6.6%	0	0.0%	28,263	6.6%	6.6%	0	0	\$18.09
C	7	289,662	7,255	2.5%	0	0.0%	7,255	2.5%	2.5%	-2,781	320	\$15.72
Total	18	826,674	82,679	10.0%	0	0.0%	82,679	10.0%	10.0%	-2,781	320	\$21.25
E. FORT BEND/SUGAR LAND												
A	17	3,399,199	212,816	6.3%	17,175	0.5%	229,991	6.8%	7.4%	20,625	2,447	\$29.89
B	39	2,397,838	314,685	13.1%	21,337	0.9%	336,022	14.0%	15.3%	143,256	27,057	\$22.75
C	3	204,593	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	59	6,001,630	527,501	8.8%	38,512	0.6%	566,013	9.4%	10.2%	163,881	29,504	\$25.82



## Houston Suburban Office Market Summary - Continued

INVENTORY		DIRECT VACANCY			SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2015	Q2-2015	Q3-2015	Q2-2015	AVG (\$/SF)
FM 1960												
A	22	3,353,057	114,714	3.4%	27,680	0.8%	142,394	4.2%	5.1%	28,453	754,097	\$28.68
B	84	4,714,854	682,835	14.5%	7,601	0.2%	690,436	14.6%	15.1%	22,432	46,892	\$16.34
C	22	757,200	65,884	8.7%	0	0.0%	65,884	8.7%	9.6%	6,478	-3,855	\$16.00
Total	128	8,825,111	863,433	9.8%	35,281	0.4%	898,714	10.2%	10.8%	57,363	797,134	\$18.76
GREENWAY												
A	16	6,301,350	667,991	10.6%	13,928	0.2%	681,919	10.8%	11.2%	23,007	-48,340	\$33.45
B	33	3,314,400	216,071	6.5%	10,953	0.3%	227,024	6.8%	5.8%	-36,409	10,888	\$26.34
C	19	777,295	227,169	29.2%	-	0.0%	227,169	29.2%	34.1%	37,505	-4,798	\$18.27
Total	68	10,393,045	1,111,231	10.7%	24,881	0.2%	1,136,112	10.9%	11.2%	24,103	-42,250	\$29.66
GULF FREEWAY/PASADENA												
A	1	22,706	0	0.0%	0	0.0%	0	0.0%	2.3%	526	0	\$27.59
B	37	2,188,548	348,140	15.9%	0	0.0%	348,140	15.9%	16.3%	9,103	4,836	\$21.04
C	32	1,228,317	106,215	8.6%	0	0.0%	106,215	8.6%	9.3%	7,769	-9,637	\$18.21
Total	70	3,439,571	454,355	13.2%	0	0.0%	454,355	13.2%	13.7%	17,398	-4,801	\$20.08
I-10 EAST												
B	7	447,680	44,592	10.0%	0	0.0%	44,592	10.0%	11.4%	6,475	5,041	\$14.75
C	5	267,130	99,243	37.2%	0	0.0%	99,243	37.2%	27.8%	-25,000	0	\$12.00
Total	12	714,810	143,835	20.1%	0	0.0%	143,835	20.1%	17.5%	-18,525	5,041	\$13.86
KATY FREEWAY												
A	86	20,441,210	1,994,998	9.8%	869,568	4.3%	2,864,566	14.0%	13.8%	264,123	333,095	\$37.31
B	107	10,444,466	1,482,802	14.2%	254,927	2.4%	1,737,729	16.6%	15.2%	-146,299	-404,458	\$24.48
C	33	1,580,620	57,406	3.6%	7,541	0.5%	64,947	4.1%	4.5%	6,237	7,308	\$18.22
Total	226	32,466,296	3,535,206	10.9%	1,132,036	3.5%	4,667,242	14.4%	13.8%	124,061	-64,055	\$31.28
KINGWOOD/HUMBLE												
B	15	853,520	75,506	8.8%	0	0.0%	75,506	8.8%	8.0%	-6,834	-7,752	\$19.36
C	4	143,500	16,116	11.2%	0	0.0%	16,116	11.2%	10.2%	-1,492	300	\$17.84
Total	19	997,020	91,622	9.2%	0	0.0%	91,622	9.2%	8.4%	-8,326	-7,452	\$19.09
NASA/CLEAR LAKE												
A	12	1,770,973	67,070	3.8%	29,537	1.7%	96,607	5.5%	3.6%	-32,320	-8,213	\$24.44
B	49	3,337,795	915,671	27.4%	6,434	0.2%	922,105	27.6%	28.1%	16,247	36,331	\$18.67
C	20	660,409	108,857	16.5%	0	0.0%	108,857	16.5%	17.9%	9,498	-2,501	\$15.44
Total	81	5,769,177	1,091,598	18.9%	35,971	0.6%	1,127,569	19.5%	19.4%	-6,575	25,617	\$19.30
NORTH BELT/GREENSPPOINT												
A	24	5,442,036	1,814,489	33.3%	242,288	4.5%	2,056,777	37.8%	33.7%	-224,032	-100,629	\$28.76
B	58	5,999,273	1,261,448	21.0%	145,621	2.4%	1,407,069	23.5%	21.9%	-95,556	-60,374	\$16.51
C	22	1,403,276	284,704	19.6%	0	0.0%	284,704	20.3%	19.6%	-10,351	17,942	\$11.99
Total	104	12,844,585	3,360,641	26.2%	387,909	3.0%	3,748,550	29.2%	26.6%	-329,939	-143,061	\$22.96
NORTHEAST NEAR AND NORTHEAST OUTLIER												
B	4	181,618	27,695	15.2%	0	0.0%	27,695	15.2%	15.2%	0	4,838	\$20.59
C	2	56,562	7,247	12.8%	0	0.0%	7,247	12.8%	13.8%	558	3,946	\$14.70
Total	6	238,180	34,942	14.7%	0	0.0%	34,942	14.7%	14.9%	558	8,784	\$18.49
NORTHWEST AND NORTHWEST OUTLIER												
A	27	4,867,730	1,296,317	26.6%	67,881	1.4%	1,364,198	28.0%	29.3%	61,200	-105,556	\$26.76
B	93	7,294,756	1,114,679	15.3%	56,594	0.8%	1,171,273	16.1%	15.1%	-68,470	26,888	\$18.48
C	38	1,490,761	100,799	6.8%	0	0.0%	100,799	6.8%	6.9%	1,916	1,601	\$13.16
Total	158	13,653,247	2,511,795	18.4%	124,475	0.9%	2,636,270	19.3%	19.3%	-5,354	-77,067	\$21.92



## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q3-2015	Q2-2015	Q3-2015	Q2-2015	AVG (\$/SF)
RICHMOND/FOUNTAINVIEW												
B	13	780,977	164,886	21.1%	0	0.0%	164,886	21.1%	21.5%	2,836	9,298	\$17.62
C	12	495,591	76,851	15.5%	0	0.0%	76,851	15.5%	15.5%	200	8,174	\$14.78
Total	25	1,276,568	241,737	18.9%	0	0.0%	241,737	18.9%	19.2%	3,036	17,472	\$16.79
SAN FELIPE/VOSS												
A	3	1,720,793	385,118	22.4%	7,409	0.4%	392,527	22.8%	23.7%	15,819	-29,896	\$36.40
B	32	3,232,526	300,837	9.3%	7,564	0.2%	308,401	9.5%	9.0%	-16,976	-22,722	\$24.71
Total	35	4,953,319	685,955	13.8%	14,973	0.3%	700,928	14.2%	14.1%	-1,157	-52,618	\$31.65
SOUTH												
A	1	80,000	7,187	9.0%	0	0.0%	7,187	9.0%	12.7%	2,954	-4,200	\$29.63
B	12	465,159	40,369	8.7%	0	0.0%	40,369	8.7%	9.8%	5,415	3,484	\$20.79
C	5	194,042	71,100	36.6%	0	0.0%	71,100	36.6%	36.6%	0	0	\$15.82
Total	18	739,201	118,656	16.1%	0	0.0%	118,656	16.1%	17.2%	8,369	-716	\$20.52
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	13	873,035	227,400	26.0%	2,662	0.3%	230,062	26.4%	25.2%	-10,434	-7,884	\$18.57
C	7	367,307	31,178	8.5%	2475	0.7%	33,653	9.2%	8.8%	-1,235	8,042	\$16.50
Total	21	1,725,342	258,578	15.0%	5,137	0.3%	263,715	15.3%	14.6%	-11,669	158	\$18.12
SOUTHEAST												
B	17	1,499,608	93,022	6.2%	0	0.0%	93,022	6.2%	7.4%	-3,791	652	\$19.29
C	6	272,443	67,414	24.7%	0	0.0%	67,414	24.7%	5.0%	-53,900	-400	\$0.00
Total	23	1,772,051	160,436	9.1%	0	0.0%	160,436	9.1%	6.9%	-57,691	252	\$19.29
SOUTHWEST												
A	6	1,583,702	211,969	13.4%	12,100	0.8%	224,069	14.1%	12.7%	-22,801	21,663	\$17.70
B	66	5,940,507	1,289,084	21.7%	4,345	0.1%	1,293,429	21.8%	21.4%	-24,601	136,302	\$15.82
C	40	2,070,657	179,124	8.7%	0	0.0%	179,124	8.7%	8.6%	-1,217	-3,801	\$13.95
Total	112	9,594,866	1,680,177	17.5%	16,445	0.2%	1,696,622	17.7%	17.2%	-48,619	154,164	\$15.86
SOUTHWEST FAR AND OUTLIER												
A	8	539,633	157,276	29.1%	3,555	0.7%	160,831	29.8%	11.9%	124,793	269	\$26.78
B	15	1,098,266	219,201	20.0%	0	0.0%	219,201	20.0%	20.0%	0	230,430	\$17.22
C	2	51,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	25	1,689,295	376,477	22.3%	3,555	0.2%	380,032	22.5%	17.6%	124,793	230,699	\$26.23
WEST LOOP/GALLERIA												
A	45	16,657,080	1,754,929	10.5%	222,829	1.3%	1,977,758	11.9%	12.1%	113,279	-280,546	\$36.60
B	56	6,379,751	798,863	12.5%	28,459	0.4%	827,322	13.0%	12.2%	-46,506	-82,171	\$26.31
C	4	216,268	1,261	0.6%	0	0.0%	1,261	0.6%	0.6%	0	0	\$20.00
Total	105	23,253,099	2,555,053	11.0%	251,288	1.1%	2,806,341	12.1%	12.0%	66,773	-362,717	\$34.03
WESTCHASE												
A	31	8,336,417	1,133,617	13.6%	285,022	3.4%	1,418,639	17.0%	18.2%	100,823	21,396	\$36.70
B	62	7,527,443	754,124	10.0%	6,402	0.1%	760,526	10.1%	10.2%	9,491	52,489	\$20.03
C	7	257,772	45,867	17.8%	794	0.3%	46,661	18.1%	18.1%	0	-1,778	\$17.12
Total	100	16,121,632	1,933,608	12.0%	292,218	1.8%	2,225,826	13.8%	14.5%	110,314	72,107	\$30.17
THE WOODLANDS												
A	32	9,251,755	370,598	4.0%	44,652	0.5%	415,250	4.5%	5.2%	68,282	452,559	\$35.19
B	71	4,451,880	405,767	9.1%	27,353	0.6%	433,120	9.7%	10.5%	54,740	-115,935	\$24.76
C	5	338,038	1,000	0.3%	0	0.0%	1,000	0.3%	0.3%	0	0	\$19.80
Total	108	14,041,673	777,365	5.5%	72,005	0.5%	849,370	6.0%	6.8%	123,022	336,624	\$29.27

## Office Development Pipeline

Houston's construction pipeline contains 10.8 million SF of office space, and 63.9% of the new space is pre-leased. Build-to-suit projects make up 51.5% of the pipeline, and the remaining 5.2M SF of spec office space under construction is approximately 25.4% pre-leased. Approximately 5.5 million SF, or 50.9% of the build-to-suit projects under construction, are pre-leased to energy industry companies. The table below includes office buildings under construction with a RBA of 50,000 SF or more.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER	EST. DELIVERY
FMC Technologies Campus	Subsea Ln & W Lake Houston	Northeast Near	1,700,000	100.0%	McCord Development, Inc	Jan-16
Phillips 66	2101 Citywest Blvd	Westchase	1,100,000	100.0%	Gilbane Building Company	Jun-16
609 Main at Texas	609 Main St	CBD	1,056,658	0.0%	Hines	Dec-16
BHP Biliton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100.0%	Transwestern	Oct-15
Energy Center Four	925 N Eldridge Pky	Katy Freeway West	600,000	100.0%	Trammell Crow Company	Oct-16
Energy Center V	915 N Eldridge Pky	Katy Freeway West	524,328	0.0%	Trammell Crow Company	Apr-16
Air Liquide Center- South	9811 Katy Fwy	Katy Freeway East	452,370	59.1%	MetroNational	Nov-15
Millennium Tower II	10353 Richmond Ave	Westchase	445,000	100.0%	BMS Management, Inc.	Feb-16
Hilcorp Energy Tower	1110 Main Street	CBD	406,600	100.0%	Hines	Jan-16
3737 Buffalo Speedway	3737 Buffalo Speedway Ave	Greenway Plaza	400,000	28.8%	PM Realty Group	Oct-15
West Memorial Place II	15377 Memorial Dr	Katy Freeway West	389,709	48.7%	Skanska Commercial Development	May-16
Future Amegy Bank HQ	1717 W. Loop South	Post Oak Park	380,000	74.2%	Hines	Feb-17
ExxonMobil - Hughes Landing	1735 Hughes Landing Blvd	The Woodlands	318,170	100.0%	The Woodlands Development Company	Oct-15
Three Hughes landing	1780 Hughes Landing Blvd	The Woodlands	320,815	0.0%	The Woodlands Development Company	Nov-15
ExxonMobil - Hughes Landing	1725 Hughes Landing Blvd	The Woodlands	331,754	51.1%	The Woodlands Development Company	Oct-15
One Grove Street	2925 Richmond Ave	Greenway Plaza	248,275	62.8%	Midway Companies	Oct-15
Havenwood Office Park	25700 Interstate 45	The Woodlands	240,470	0.2%	Everson Developments, LLC	Nov-15
CityCentre Five	825 Town & Country	Katy Freeway East	227,063	64.7%	Midway Companies	00/2015
Wildwood Corporate Centre II	480 Wildwood Forest Dr	The Woodlands	201,933	0.0%	Archway Properties	Jul-16
Remington Square - Ph II	10713 W Sam Houston Pky N	FM 1960/Hwy 249	200,000	0.0%	Stream Realty Partners, L.P.	Oct-15
Regions Financial Center	3773 Richmond Ave	Greenway Plaza	210,000	44.7%	The Redstone Companies	Apr-16
1885 Saint James Place	1885 St James Pl	West Loop/Galleria	165,000	0.0%	Nelson Murphree Legacy Partners	Mar-16
Grandway West II	Grand Pky & Franz Rd	Katy Freeway West	130,200	16.2%	Transwestern	Mar-16
Gateway at Spring Valley	9090 Katy Fwy	Katy Freeway East	95,459	64.0%	Ersa Grae Corporation	Oct-15
Lennar Office Building/ Bldg. 6	681 Greens Pky	Greenspoint/ N Belt	68,950	100.0%	KDC Real Estate Devel. & Invt.	Oct-15

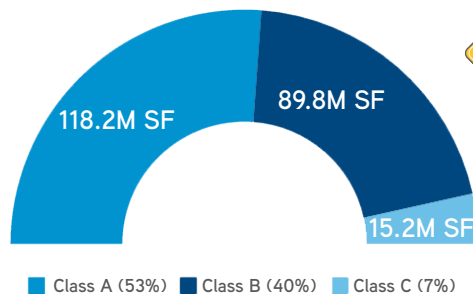
## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	91.8%	250,801	\$54.10	New York State Common Retirement Fund
Heritage Plaza	1111 Bagby St	CBD	1,212,895	1986	99.2%	12,964	\$54.04	Brookfield Office Properties
BG Group Place	811 Main	CBD	972,474	2011	98.5%	105,652	\$56.91	NPS of Korea
CityCentre Two	818 Town & Country Blvd	Katy Freeway	149,827	2009	98.7%	5,986	\$48.07	LaSalle Investment Management
Williams Tower	2800 Post Oak Blvd	West Loop/ Galleria	1,476,973	1983	97.6%	67,307	\$48.38-\$52.38	Invesco Real Estate
3009 Post Oak Blvd	3009 Post Oak Blvd	West Loop/ Galleria	304,419	2013	88.1%	33,961	\$48.73	Post Oak Building LLC
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	95.0%	208,609	\$45.93	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	98.1%	69,775	\$49.24	TIER REIT, Inc.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	92.0%	23,635	\$43.55	The Woodlands Development Company, L.P.

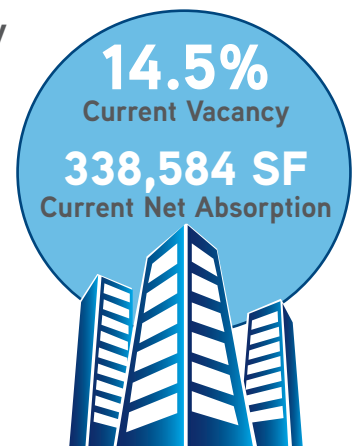
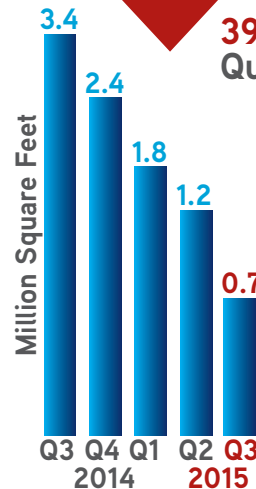
Note: Avail. SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q3 2015 Highlights

TOTAL OFFICE INVENTORY **223.2** Million SF



LEASING ACTIVITY  
77.7% Annual  
39.7% Quarterly



### FOR MORE INFORMATION

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# Houston's office market leasing activity hit hard by oil price slump

**Lisa Bridges** Director of Market Research | Houston

Houston is known as the Energy Capital of the World, home to more than 5,000 energy related companies that make up just over half of the local economy. Houston's Q2 2015 office market indicators reflect the dramatic drop in oil prices that occurred in Q4 2014 and the subsequent reevaluation and adjustments in growth plans implemented by the "upstream" sector of the energy market. The "mid" and "downstream" players remain very strong but tend to occupy less office space than the "upstream" companies.

Houston's office leasing activity decreased 35.8% between quarters, recording only 1.8 million SF in Q2 2015. When compared to the very strong 5.5 million SF recorded 12 months ago in Q2 2014, leasing activity decreased by 67.5%.

Over 2.1M SF of new inventory delivered during Q2 2015. Fortunately, only 6.0% was vacant. Houston's office construction pipeline totals 12.3M SF and 61.5% of the new product is pre-leased. The majority of the space is located in suburban submarkets and is scheduled to deliver over the next 12 months.

For the first time in 5 years, Houston's office market posted negative net absorption, primarily due to tenants relocating to new buildings and companies placing excess space on the sublease market. For the most part, average rental rates remained flat, however, the average CBD Class A rental rate increased 2.7% from \$41.96 per SF in Q1 2015 to \$42.32 per SF.

The Houston metropolitan area created 62,300 jobs between May 2014 and May 2015, an annual increase of 2.1% over the prior year's job growth. Sectors creating most of the jobs contributing to the annual increase include Professional & Business Services, mostly in legal services.

Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	↑	↑	↑
NET ABSORPTION	↓	↓	↓
NEW CONSTRUCTION	↑	↓	↑
UNDER CONSTRUCTION	↓	↓	↓

\*Projected

Summary Statistics Houston Office Market	Q2 2014	Q1 2015	Q2 2015
Vacancy Rate	11.6%	13.0%	14.1%
Net Absorption (Million Square Feet)	1.8	0.2	-0.5
New Construction (Million Square Feet)	1.4	3.5	2.1
Under Construction (Million Square Feet)	17.8	13.3	12.3
Class A Vacancy Rate CBD	10.1	9.5	10.0
Suburban	8.8	12.3	13.9

## Asking Rents Per Square Foot Per Year

Average	\$27.42	\$27.39	\$27.38
CBD Class A	\$42.18	\$41.96	\$42.32
Suburban Class A	\$32.89	\$32.88	\$32.88

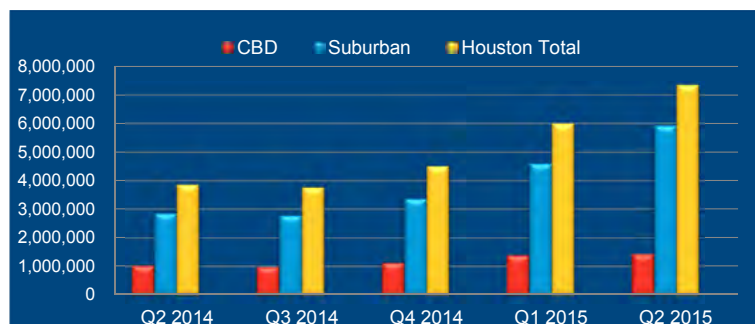
## Vacancy & Availability

Houston's citywide vacancy rate rose 110 basis points between quarters from 13.0% to 14.1%, and rose by 250 basis points from 11.6% in Q2 2014. Over the quarter, the average suburban vacancy rate increased 100 basis points from 13.0% to 14.0%, while the average CBD vacancy rate increased 150 basis points from 12.6% to 14.1%.

The average CBD Class A vacancy rate increased 50 basis point over the quarter from 9.5% to 10.0%, while the average CBD Class B vacancy rate rose 400 basis points from 18.3% to 22.7%. The average suburban Class A vacancy rate increased 160 basis points from 12.3% to 13.9%, and the average suburban Class B vacancy rate increased 50 basis points between quarters from 13.8% to 14.3%.

Of the 1,673 existing office buildings in our survey, 60 buildings have 100,000 SF of contiguous space available for lease or sublease. Further, 21 buildings have 200,000 SF of contiguous space available. Citywide, available sublease space totals 7.4 million SF or 3.3% of Houston's total office inventory, but only 2.8 million SF of the available sublease space is currently vacant.

### Available Sublease Space Houston, TX



## Absorption & Demand

Houston's office market posted 525,000 SF of negative net absorption in Q2 2015. The last time Houston's office market posted negative absorption was in Q2 2010. Suburban Class A space posted the largest gain, with 522,000 SF of positive net absorption, the majority of which occurred in The Woodlands submarket.

Some of the larger tenants that moved into new space during Q2 include ExxonMobil Company (500,000 SF) moving into the third and last phase of its new north Houston corporate campus in The Woodlands submarket, Sasol (171,475 SF) moved into Woodbranch Plaza IV in the Katy Freeway submarket, Nabors Industries (98,400 SF) moved into One Commerce Green in the North Belt submarket, and Air Liquide USA Inc. (73,120) moved into a new building in the Katy Freeway submarket.

## Rental Rates

Although Houston's office market has softened, the citywide average Class A and Class B rental rates remained flat over the quarter.

Surprisingly, the average CBD Class A rental rate increased 2.7% from \$41.96 per SF in Q1 2015 to \$42.32 per SF. In contrast, the average CBD Class B rental rate fell slightly by 1.0%.

The average suburban Class A rental rate remained steady while the average suburban Class B rental rate increased marginally over the quarter.

## Job Growth & Unemployment

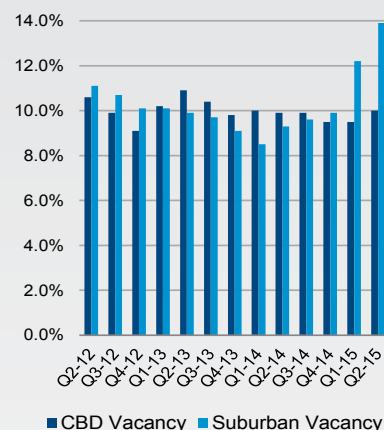
(not seasonally adjusted)

UNEMPLOYMENT	05/14	05/15
HOUSTON	4.9%	4.2%
TEXAS	5.0%	4.1%
U.S.	6.1%	5.3%

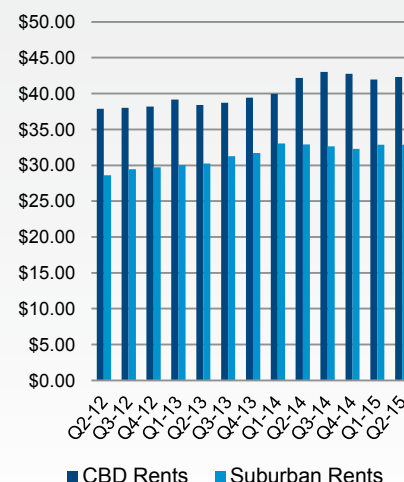
JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	2.1%	62.3K
TEXAS	2.5%	287K
U.S.	2.2%	3.1M

## CBD vs. Suburban

### CLASS A OFFICE VACANCY



### CLASS A OFFICE RENTS





## Leasing Activity

Houston's office leasing activity decreased 35.8% between quarters, recording only 1.8 million SF in Q2 2015. When compared to the 5.5 million SF recorded in Q2 2014, leasing activity has decreased an incredible 67.5% in just one year.

### Q2 2015 Top Office Lease Transactions

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
4 Greenway Plaza	Greenway Plaza	255,413	Transocean Ltd. <sup>1</sup>	May-15
West Memorial Place Ph II	Katy Freeway West	158,050	IHI E&C <sup>4</sup>	Jun-15
1301 Fannin	CBD	26,198	Virtis	May-15
Westchase Park Plaza	Westchase	23,891	Crum & Forster	Apr-15
1177 West Loop South	Post Oak Park	20,272	Heritage Texas Properties	Jun-15
Katy Ranch Ph. I - 24275 Katy Fwy	Southwest Outlier	17,464	US Silica Company <sup>4</sup>	Jun-15
11811 North Fwy	Greenspoint/N Belt	15,179	Fred Loya	Jun-15
Town Centre I	Katy Freeway Easy	15,000	Southcross Energy	Apr-15
Air Liquide Center - South	Katy Freeway East	13,667	Brunei Energy Inc. <sup>4</sup>	Apr-15
Brookhollow Central I	North Loop West	12,937	Total Renal Care Inc.	Apr-15

<sup>1</sup>Renewal

<sup>2</sup>Expansion

<sup>3</sup>Sublease

<sup>4</sup>Pre-lease/proposed or under construction

## Sales Activity

Houston's office investment sales activity included 20 transactions, with an average price per square foot of \$222 and an average cap rate of 6.87%. Listed below are a few significant transactions that closed in Q2 2015.

### Q2 2015 Significant Sales Transactions – (100,000 SF or greater)

BUILDING NAME	SUBMARKET	RBA (SF)	YEAR BUILT	BUYER	SELLER	SALE PRICE	\$/SF	CLOSED
Westgate II & III 17320 Katy Fwy and 17325 Park Row	Katy Freeway	412,173	2014	Griffin Capital Essential Asset REIT, Inc.	Transwestern	\$134M	\$325	Apr-15
801 Travis	CBD	220,380	1981/ 2014	LPC Realty Advisors I, Ltd	Goddard Investment Group, LLC	\$46.3M	\$210	Apr-15
Mason Creek I 21420 Merchants Way	Katy Freeway	135,716	2013	Nicola Crosby Real Estate Investments	TA Realty	\$38.5M	\$284	Jun-15
400 North Belt 400 N Sam Houston Pky E	North Belt	234,147	1981/ 2013	Hartman Short Term Income Properties XX, Inc.	Parkway Properties, Inc.	\$10.1M	\$43	May-15

Sources: CoStar and Real Capital Analytics



#### CITY TO WATCH

Houston was named the top market to watch for commercial real estate investment in 2015, according to the newest PricewaterhouseCoopers Emerging Trends in Real Estate, an annual report based on surveys and interviews with more than 1,000 real estate investors, fund managers, developers and other industry professionals.

## Houston Office Market Summary (CBD, Suburban, & Overall)

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2015	Q1-2015	Q2-2015	Q1-2015	AVG (\$/SF)
CBD												
A	31	30,288,063	2,423,841	8.0%	601,626	2.0%	3,025,467	10.0%	9.5%	-142,547	7,431	\$42.32
B	34	11,403,527	2,351,210	20.6%	235,766	2.1%	2,586,976	22.7%	20.0%	-497,193	-1,006,889	\$28.14
C	17	1,174,432	447,735	38.1%	0	0.0%	447,735	38.1%	38.1%	0	8,566	\$18.49
Total	82	42,866,022	5,222,786	12.2%	837,392	2.0%	6,060,178	14.1%	12.8%	-639,740	-990,892	\$37.38
SUBURBAN												
A	331	85,290,726	10,664,547	12.5%	1,217,204	1.4%	11,881,751	13.9%	12.3%	522,491	576,307	\$32.88
B	941	78,574,099	10,843,506	13.8%	510,834	0.7%	11,354,340	14.5%	14.0%	-411,879	525,607	\$20.41
C	319	14,181,551	1,770,469	12.5%	8,888	0.5%	1,779,357	12.5%	12.5%	4,551	115,718	\$15.33
Total	1591	178,046,376	23,278,522	13.1%	1,736,926	1.0%	25,015,448	14.0%	13.0%	115,163	1,217,632	\$25.83
OVERALL												
A	362	115,578,789	13,088,388	11.3%	1,818,830	1.6%	14,907,218	12.9%	11.6%	379,944	583,738	\$34.65
B	975	89,977,626	13,194,716	14.7%	746,600	0.8%	13,941,316	15.5%	14.7%	-909,072	-481,282	\$21.02
C	336	15,355,983	2,218,204	14.4%	8,888	0.1%	2,227,092	14.5%	14.6%	4,551	124,284	\$15.63
Total	1673	220,912,398	28,501,308	12.9%	2,574,318	1.2%	31,075,626	14.1%	13.0%	-524,577	226,740	\$27.38

## Houston Suburban Office Market Summary

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2015	Q1-2015	Q2-2015	Q1-2015	AVG (\$/SF)
ALLEN PARKWAY (MIDTOWN)												
A	4	1,598,033	154,707	9.7%	0	0.0%	154,707	9.7%	13.3%	58,347	-8,794	\$31.62
B	33	2,914,056	438,740	15.1%	2,250	0.1%	440,990	15.1%	15.0%	-2,438	10,817	\$26.04
C	16	526,292	119,520	22.7%	5,193	1.0%	124,713	23.7%	23.4%	-1,651	-2,232	\$22.89
Total	53	5,038,381	712,967	14.2%	7,443	0.1%	720,410	14.3%	15.4%	54,258	-209	\$27.12
BAYTOWN												
B	3	186,005	6,248	3.4%	0	0.0%	6,248	3.4%	3.4%	0	0	\$19.18
C	3	81,481	1,812	2.2%	0	0.0%	1,812	2.2%	2.2%	0	0	\$7.95
Total	6	267,486	8,060	3.0%	0	0.0%	8,060	3.0%	3.0%	0	0	\$16.66
BELLAIRE												
A	6	1,091,536	87,799	8.0%	15,111	1.4%	102,910	9.4%	10.1%	7,190	150	\$25.83
B	19	2,630,415	126,420	4.8%	2,324	0.1%	128,744	4.9%	4.9%	-594	-23,630	\$24.07
C	5	327,020	49,923	15.3%	0	0.0%	49,923	15.3%	16.0%	2,247	3,927	\$16.97
Total	30	4,048,971	264,142	6.5%	17,435	0.4%	281,577	7.0%	7.2%	8,843	-19,553	\$24.07
CONROE AND OUTLYING MONTGOMERY CO												
A	2	107,161	47,161	44.0%	0	0.0%	47,161	44.0%	44.0%	0	0	\$24.53
B	9	429,851	28,263	6.6%	0	0.0%	28,263	6.6%	6.6%	0	0	\$18.09
C	7	289,662	4,474	1.5%	0	0.0%	4,474	1.5%	1.7%	320	0	\$15.71
Total	18	826,674	79,898	9.7%	0	0.0%	79,898	9.7%	9.7%	320	0	\$21.25
E. FORT BEND/SUGAR LAND												
A	17	3,399,453	232,085	6.8%	18,531	0.5%	250,616	7.4%	7.4%	2,447	82,102	\$29.33
B	37	2,226,093	308,243	13.8%	17,379	0.8%	325,622	14.6%	15.9%	28,791	11,801	\$22.71
C	3	223,446	17,461	7.8%	1,461	0.7%	18,922	8.5%	8.5%	0	-2,311	\$21.00
Total	57	5,848,992	557,789	9.5%	37,371	0.6%	595,160	10.2%	10.7%	31,238	91,592	\$25.23

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2015	Q1-2015	Q2-2015	Q1-2015	AVG (\$/SF)
FM 1960												
A	14	2,577,951	115,985	4.5%	26,279	1.0%	142,264	5.5%	5.8%	302,050	7,478	\$29.79
B	89	4,915,559	768,994	15.6%	10,166	0.2%	779,160	15.9%	16.1%	13,909	74,532	\$16.53
C	22	757,200	72,362	9.6%	0	0.0%	72,362	9.6%	9.0%	-3,855	-13,168	\$15.80
Total	125	8,250,710	957,341	11.6%	36,445	0.4%	993,786	12.0%	12.5%	312,104	68,842	\$18.34
GREENWAY												
A	16	6,301,350	687,456	10.9%	17,470	0.3%	704,926	11.2%	10.4%	-48,340	-211,102	\$34.60
B	33	3,314,400	180,631	5.4%	9,984	0.3%	190,615	5.8%	6.1%	10,888	14,164	\$25.93
C	18	755,136	264,674	35.0%	-	0.0%	264,674	35.0%	34.4%	-4,798	1,553	\$18.33
Total	67	10,370,886	1,132,761	10.9%	27,454	0.3%	1,160,215	11.2%	10.8%	-42,250	-195,385	\$29.86
GULF FREEWAY/PASADENA												
A	1	22,706	526	2.3%	0	0.0%	526	2.3%	2.3%	0	0	\$27.59
B	38	2,236,248	397,837	17.8%	7,106	0.3%	404,943	18.1%	18.3%	4,836	128,807	\$20.42
C	32	1,228,317	113,984	9.3%	0	0.0%	113,984	9.3%	8.5%	-9,637	50,092	\$16.48
Total	71	3,487,271	512,347	14.7%	7,106	0.2%	519,453	14.9%	14.8%	-4,801	178,899	\$19.42
I-10 EAST												
B	7	447,680	55,013	12.3%	0	0.0%	55,013	12.3%	12.5%	1,095	29	\$14.65
C	5	267,130	74,243	27.8%	0	0.0%	74,243	27.8%	27.8%	0	-6,000	\$12.00
Total	12	714,810	129,256	18.1%	0	0.0%	129,256	18.1%	18.2%	1,095	-5,971	\$13.86
KATY FREEWAY												
A	84	19,780,923	2,322,718	11.7%	457,814	2.3%	2,780,532	14.1%	9.6%	29,121	160,921	\$35.82
B	105	10,185,600	1,383,556	13.6%	207,611	2.0%	1,591,167	15.6%	11.7%	-404,195	154,090	\$24.25
C	33	1,580,137	70,548	4.5%	1,440	0.1%	71,988	4.6%	5.0%	6,504	-8,271	\$18.13
Total	222	31,546,660	3,776,822	12.0%	666,865	2.1%	4,443,687	14.1%	10.0%	-368,570	306,740	\$30.11
KINGWOOD/HUMBLE												
B	15	853,520	62,290	7.3%	6,382	0.7%	68,672	8.0%	7.1%	-7,752	-2,266	\$19.38
C	4	143,500	14,624	10.2%	0	0.0%	14,624	10.2%	10.4%	300	-780	\$17.93
Total	19	997,020	76,914	7.7%	6,382	0.6%	83,296	8.4%	7.6%	-7,452	-3,046	\$18.98
NASA/CLEAR LAKE												
A	12	1,770,973	47,866	2.7%	1,311	0.1%	49,177	2.8%	2.3%	-8,213	27,930	\$24.65
B	48	3,278,825	926,002	28.2%	2,601	0.1%	928,603	28.3%	29.4%	35,977	-28,168	\$18.86
C	20	660,409	118,355	17.9%	0	0.0%	118,355	17.9%	17.5%	-2,501	11,868	\$15.37
Total	80	5,710,207	1,092,223	19.1%	3,912	0.1%	1,096,135	19.2%	19.6%	25,263	11,630	\$19.16
NORTH BELT/GREENSPPOINT												
A	24	5,440,831	1,573,202	28.9%	44,010	0.8%	1,617,212	29.7%	31.6%	103,569	-606,800	\$29.20
B	57	5,961,888	1,066,482	17.9%	125,615	2.1%	1,192,097	20.0%	19.2%	-47,852	-98,586	\$15.57
C	22	1,403,276	274,353	19.6%	0	0.0%	274,353	19.6%	20.8%	17,942	6,350	\$11.80
Total	103	12,805,995	2,914,037	22.8%	169,625	1.3%	3,083,662	24.1%	24.7%	73,659	-699,036	\$23.31
NORTHEAST NEAR AND NORTHEAST OUTLIER												
B	4	181,618	27,695	15.2%	0	0.0%	27,695	15.2%	17.9%	4,838	-5,147	\$20.92
C	2	56,562	7,805	13.8%	0	0.0%	7,805	13.8%	20.8%	3,946	0	\$14.32
Total	6	238,180	35,500	14.9%	0	0.0%	35,500	14.9%	18.6%	8,784	-5,147	\$17.88
NORTHWEST AND NORTHWEST OUTLIER												
A	27	4,889,129	1,362,095	27.9%	72,309	1.5%	1,434,404	29.3%	22.3%	-100,412	-103,388	\$26.38
B	92	7,232,325	1,047,775	14.5%	46,941	0.6%	1,094,716	15.1%	15.5%	26,627	-17,780	\$18.63
C	39	1,569,240	108,025	6.9%	0	0.0%	108,025	6.9%	7.2%	5,093	646	\$13.46
Total	158	13,690,694	2,517,895	18.4%	119,250	0.9%	2,637,145	19.3%	16.8%	-68,692	-120,522	\$22.00

## Houston Suburban Office Market Summary - Continued

INVENTORY			DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
CLASS	# OF BLDGS.	TOTAL (SF)	(SF)	RATE (%)	(SF)	RATE (%)	TOTAL (SF)	Q2-2015	Q1-2015	Q2-2015	Q1-2015	AVG (\$/SF)
RICHMOND/FOUNTAINVIEW												
B	13	777,051	167,722	21.6%	0	0.0%	167,722	21.6%	22.8%	9,298	13,007	\$17.66
C	12	495,591	79,758	16.1%	0	0.0%	79,758	16.1%	17.2%	5,467	-17,590	\$14.68
Total	25	1,272,642	247,480	19.4%	0	0.0%	247,480	19.4%	20.6%	14,765	-4,583	\$16.78
SAN FELIPE/VOSS												
A	3	1,720,793	396,990	23.1%	11,356	0.7%	408,346	23.7%	22.0%	-29,896	-84,986	\$35.92
B	32	3,232,526	282,313	8.7%	9,112	0.3%	291,425	9.0%	8.3%	-22,722	-11,320	\$24.19
Total	35	4,953,319	679,303	13.7%	20,468	0.4%	699,771	14.1%	13.1%	-52,618	-96,306	\$30.93
SOUTH												
A	1	80,000	10,141	12.7%	0	0.0%	10,141	12.7%	7.4%	-4,200	0	\$29.63
B	12	465,159	45,784	9.8%	0	0.0%	45,784	9.8%	10.6%	3,484	-1,120	\$20.78
C	5	194,042	71,100	36.6%	0	0.0%	71,100	36.6%	36.6%	0	0	\$15.83
Total	18	739,201	127,025	17.2%	0	0.0%	127,025	17.2%	17.1%	-716	-1,120	\$19.84
SOUTH MAIN/MED CENTER												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	12	764,906	193,774	25.3%	2,662	0.3%	196,436	25.7%	24.7%	-7,884	-3,167	\$20.58
C	8	475,436	55,610	11.7%	0	0.0%	55,610	11.7%	13.4%	8,042	3,601	\$15.57
Total	21	1,725,342	249,384	14.5%	2,662	0.2%	252,046	14.6%	14.6%	158	434	\$18.70
SOUTHEAST												
B	16	1,208,956	89,231	7.4%	0	0.0%	89,231	7.4%	7.4%	652	0	\$19.39
C	5	213,543	8,514	4.0%	0	0.0%	8,514	4.0%	4.0%	0	42,000	\$0.00
Total	21	1,422,499	97,745	6.9%	0	0.0%	97,745	6.9%	6.9%	652	42,000	\$19.39
SOUTHWEST												
A	6	1,583,702	203,839	12.9%	2,100	0.1%	205,939	13.0%	14.1%	16,992	31,433	\$17.65
B	63	5,634,229	1,017,787	18.1%	0	0.0%	1,017,787	18.1%	19.6%	88,958	246,867	\$15.56
C	40	2,070,657	195,196	9.4%	0	0.0%	195,196	9.4%	8.4%	-21,090	34,164	\$13.73
Total	109	9,288,588	1,416,822	15.3%	2,100	0.0%	1,418,922	15.3%	16.2%	84,860	312,464	\$15.63
SOUTHWEST FAR AND OUTLIER												
A	6	288,446	30,882	10.7%	3,555	1.2%	34,437	11.9%	12.0%	269	1,172	\$25.46
B	16	1,121,835	219,201	19.5%	0	0.0%	219,201	19.5%	25.3%	430	0	\$18.78
C	2	51,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$0.00
Total	24	1,461,677	250,083	17.1%	3,555	0.2%	253,638	17.4%	21.1%	699	1,172	\$23.17
WEST LOOP/GALLERIA												
A	44	16,564,567	1,726,346	10.4%	228,887	1.4%	1,955,233	11.8%	10.1%	-280,388	-7,034	\$35.95
B	56	6,420,184	774,214	12.1%	17,871	0.3%	792,085	12.3%	11.3%	-67,107	-11,688	\$26.61
C	4	216,268	1,261	0.6%	0	0.0%	1,261	0.6%	0.6%	0	1,008	\$20.73
Total	104	23,201,019	2,501,821	10.8%	246,758	1.1%	2,748,579	11.8%	10.3%	-347,495	-17,714	\$33.27
WESTCHASE												
A	31	8,336,417	1,230,620	14.8%	269,068	3.2%	1,499,688	18.0%	18.2%	21,396	-384,505	\$38.45
B	62	7,528,653	786,843	10.5%	9,490	0.1%	796,333	10.6%	11.0%	34,817	73,603	\$19.98
C	7	257,772	45,867	17.8%	794	0.3%	46,661	18.1%	17.4%	-1,778	10,861	\$18.21
Total	100	16,122,842	2,063,330	12.8%	279,352	1.7%	2,342,682	14.5%	14.9%	54,435	-300,041	\$30.11
THE WOODLANDS												
A	32	8,891,122	385,151	4.3%	50,940	0.6%	436,091	4.9%	7.1%	1,671,730	1,621,957	\$34.68
B	71	4,353,344	373,792	8.6%	19,963	0.5%	393,755	9.0%	9.1%	2,860	-10,689	\$24.60
C	5	338,038	1,000	0.3%	0	0.0%	1,000	0.3%	0.3%	0	0	\$19.80
Total	108	13,582,504	759,943	5.6%	70,903	0.5%	830,846	6.1%	7.8%	1,674,590	1,611,268	\$29.51

## Office Development Pipeline

Houston's construction pipeline contains 12.3 million SF of office space, and 61.5% of the total is pre-leased. Build-to-suit projects make up 60.0% of the pipeline, and the remaining 4.9M SF of spec office space under construction is approximately 28.3% pre-leased. Approximately 6.9 million SF, or 85.0% of the build-to-suit projects under construction, are pre-leased to energy industry companies. The table below includes office buildings under construction with a RBA of 45,000 SF or more.

BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER	EST. DELIVERY
FMC Technologies Campus	Subsea Ln & W Lake Houston	Northeast Near	1,700,000	100.0%	McCord Development, Inc	Jan-16
Phillips 66	2101 Citywest Blvd	Westchase	1,100,000	100.0%	Gilbane Building Company	Jun-16
609 Main at Texas	609 Main St	CBD	1,056,658	0.0%	Hines	Dec-16
BHP Biliton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100.0%	Transwestern	Oct-16
Energy Center Four	925 N Eldridge Pky	Katy Freeway West	600,000	100.0%	Trammell Crow Company	Sep-16
Energy Center V	915 N Eldridge Pky	Katy Freeway West	524,386	0.0%	Trammell Crow Company	Apr-16
Noble Energy Center II	SH 249 & Louetta Rd	FM 1960/Hwy 249	456,000	100.0%	Trammell Crow Company	Jul-15
Air Liquide Center- South	9811 Katy Fwy	Katy Freeway East	452,370	58.2%	MetroNational	Nov-15
Millennium Tower II	10353 Richmond Ave	Westchase	445,000	100.0%	BMS Management, Inc.	Feb-16
Hilcorp Energy Tower	1110 Main Street	CBD	406,600	100.0%	Hines	Jan-16
3737 Buffalo Speedway	3737 Buffalo Speedway Ave	Greenway Plaza	400,000	38.5%	PM Realty Group	Aug-15
West Memorial Place II	15377 Memorial Dr	Katy Freeway West	389,709	4.7%	Skanska Commercial Development	May-16
Future Amegy Bank HQ	1717 W. Loop South	Post Oak Park	380,000	74.2%	Hines	Feb-17
ExxonMobil - Hughes Landing	1735 Hughes Landing Blvd	The Woodlands	318,170	100.0%	The Woodlands Development Company	Apr-16
Three Hughes landing	1780 Hughes Landing Blvd	The Woodlands	320,815	0.0%	The Woodlands Development Company	Nov-15
ExxonMobil - Hughes Landing	1725 Hughes Landing Blvd	The Woodlands	331,067	48.3%	The Woodlands Development Company	Apr-16
Enclave Place	1414 Enclave	Katy Freeway West	300,907	0.0%	PM Realty Group	Aug-15
Kirby Grove	2925 Richmond Ave	Greenway Plaza	248,275	62.2%	Midway Companies	Sep-15
Havenwood Office Park	25700 Interstate 45	The Woodlands	240,470	0.2%	Everson Developments, LLC	Nov-15
CityCentre Five	825 Town & Country	Katy Freeway East	227,063	62.3%	Midway Companies	Sep-15
Remington Square - Ph II	10713 W Sam Houston Pky N	FM 1960/Hwy 249	200,000	0.0%	Stream Realty Partners, L.P.	Oct-15
Regions Financial Center	3773 Richmond Ave	Greenway Plaza	185,000	32.8%	The Redstone Companies	Apr-16
San Felipe Place	2229 San Felipe	Allen Parkway/Midtown	167,562	27.2%	Hines	Aug-15
1885 Saint James Place	1885 St James Pl	West Loop/Galleria	165,000	0.0%	Nelson Murphree Legacy Partners	Mar-16
Chasewood Crossing Three	19350 State Highway 249	FM 1960/Hwy 249	156,000	0.0%	Greenwood Corporations	Dec-15
Katy Ranch Phase I	24275 Katy Fwy	Southwest Outlier	151,187	16.4%	Freeway Properties	Aug-15
Park Ten Center - Phase II	16200 Park Row	Katy Freeway West	150,000	0.0%	Lincoln Property Company	Aug-15
Nalco Champion Headquarters	7705 Highway 90A	E Fort Bend/Sugar Land	133,000	100.0%	Nalco Holding Co	Aug-15
The Offices at Sam Houston	10203 W Sam Houston Dr	Northwest Far	108,633	88.9%	D'Agostino Companies	Jul-15
Gateway at Spring Valley	9090 Katy Fwy	Katy Freeway East	95,459	64.0%	Ersa Grae Corporation	Oct-15
River Oaks District - Office	4444 Westheimer Rd	Post Oak Park	92,021	36.4%	Oliver McMillan	Jul-15
Lennar Office Building/ Bldg. 6	681 Greens Pky	Greenspoint/ N Belt	68,950	100.0%	KDC Real Estate Devel. & Inv.	Oct-15
Memorial Green	12525 Memorial Dr	Katy Freeway East	49,883	5.8%	Midway Companies	Jun-16
Det Norske Veritas- Phase 2	22535 Colonial Pky	Katy Freeway West	47,250	100.0%	Chambers Street Properties	Aug-15



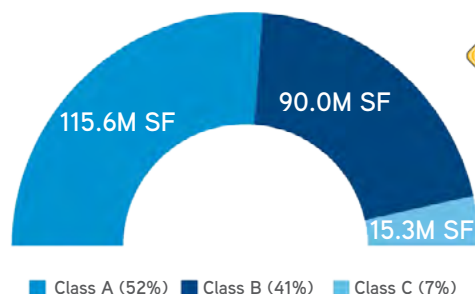
## Quoted gross rental rates for **existing** top performing office buildings

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	% LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	97.8%	258,563	\$53.87	New York State Common Retirement Fund
Bank of America Center	700 Louisiana St	CBD	1,268,480	1983	93.3%	208,673	\$52.28	M-M Properties
BG Group Place	811 Main	CBD	972,474	2011	97.4%	140,632	\$55.16	NPS of Korea
CityCentre Three	842 W Sam Houston Pky N	Katy Freeway	120,211	2012	97.8%	2,594	\$48.07	Midway T & C Land Investors
Williams Tower	2800 Post Oak Blvd	West Loop/ Galleria	1,476,973	1983	99.1%	103,814	\$50.36	Invesco Real Estate
BBVA Compass Plaza	2200 Post Oak Blvd	West Loop/ Galleria	312,574	2013	82.5%	54,793	\$48.30	RS Post Oak Perennial LP
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	95.0%	201,465	\$48.93	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	98.1%	69,775	\$49.24	TIER REIT, Inc.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	88.4%	56,435	\$39.78-\$46.28	The Woodlands Development Company, L.P.

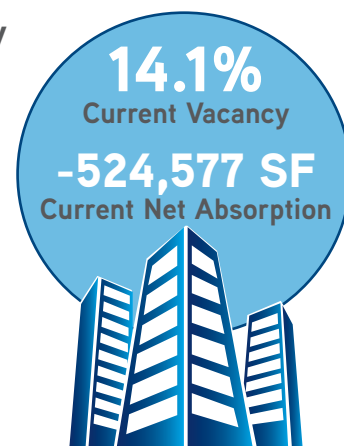
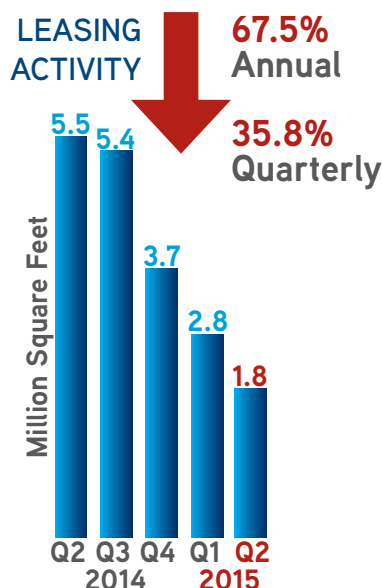
Note: Avail. SF includes direct and sublet space as well as any future available space listed.  
Source: CoStar Property

## Q2 2015 Highlights

TOTAL OFFICE INVENTORY **220.9** Million SF



**UNDER CONSTRUCTION**  
12.3M SF



### FOR MORE INFORMATION

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## HOUSTON OFFICE MARKET

## RESEARCH &amp; FORECAST REPORT

HOUSTON OFFICE  
MARKET INDICATORS

Q1 2014 Q1 2015

## CITYWIDE NET

ABSORPTION (SF) 2.3M 1.2M ↓

## CITYWIDE AVERAGE

VACANCY 11.8% 12.5% ↑

## CITYWIDE AVERAGE

RENTAL RATE \$27.10 \$27.35 ↑

## CITYWIDE DELIVERED

INVENTORY (SF) 2.2M 3.5M ↑

## CLASS A RENTAL RATE

CBD \$39.96 \$41.96 ↑

SUBURBAN \$33.05 \$32.88 ↓

## CLASS A VACANCY

CBD 10.8% 9.5% ↓

SUBURBAN 8.6% 12.2% ↑

JOB GROWTH & UNEMPLOYMENT  
(Not Seasonally Adjusted)

UNEMPLOYMENT 2/14 2/15

HOUSTON 5.4% 4.3%

TEXAS 5.7% 4.3%

U.S. 7.0% 5.8%

JOB GROWTH ANNUAL CHANGE # OF JOBS ADDED

HOUSTON 3.4% 96.7K

TEXAS 3.2% 362.4K

U.S. 2.4% 3.3M

Houston's Office Market Beginning to Feel the  
Effects of the Oil Price Slump

Houston's office market indicators have begun to reflect the dramatic drop in oil prices that occurred in Q4 2014. This is no surprise as just over one-half of Houston's economy is directly tied to the energy industry. Available sublease space increased by 33% between quarters from 4.5M SF to 6.0M SF. The good news is the majority of new inventory and projects under construction are significantly pre-leased and most proposed projects have been put on hold. This, coupled with a relatively low vacancy rate, should help keep Houston's office market fairly healthy until energy prices rise.

Over 3.5M SF of new inventory delivered during Q1 2015 and about 68.0% of the new inventory is pre-leased including 1.5M SF of ExxonMobil's North Houston campus.

Houston's office construction pipeline is still over 14.0M SF of which 65.0% is pre-leased. The majority of the space is located in suburban submarkets and is scheduled to deliver in 2015.

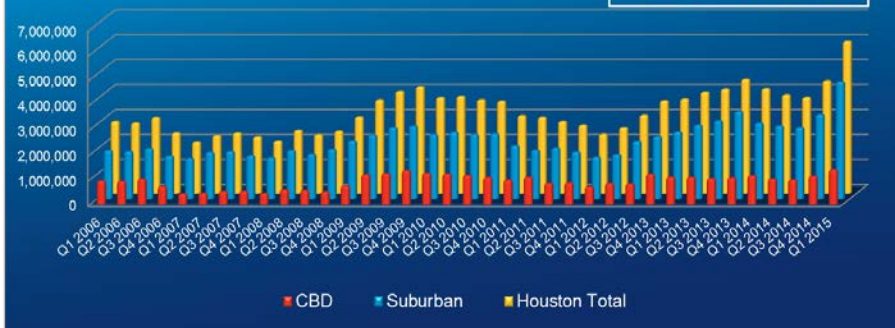
Houston's office market recorded 1.2M SF of positive absorption in Q1 2015, about one-half of what was recorded in the previous quarter.

The citywide average rental rate increased slightly between quarters; 0.9% from \$27.12 to \$27.35 per SF, and from \$27.10 per SF one year ago. The average CBD Class A rental rate increased over the quarter; however, the average Class A suburban rental rate decreased.

The Houston metropolitan area created 96,700 jobs between February 2014 and February 2015, an annual increase of 3.4% over the prior year's job growth. Sectors creating most of the jobs contributing to the annual increase include mining and logging, arts, entertainment & recreation, and accommodation & food services. Houston's unemployment rate fell from 5.4% one year ago to 4.3%.

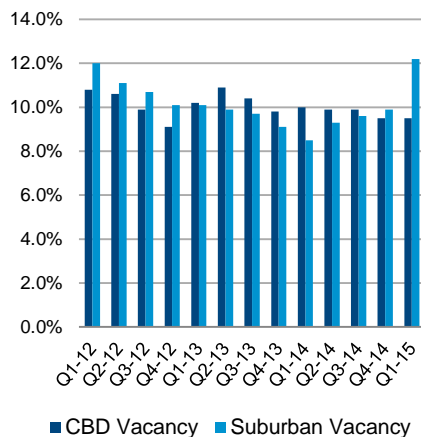
AVAILABLE SUBLEASE SPACE  
HOUSTON, TXAvailable Sublease Space  
Q1 2015

CBD: 1.3M SF or 3.3%  
Suburban: 4.7M SF or 2.7%  
Total: 6.0M SF or 2.8%



**CBD VS. Suburban**

Class A Office Vacancy

**VACANCY & AVAILABILITY**

Houston's citywide vacancy rate rose 90 basis points between quarters from 11.6% to 12.5%, and rose by 70 basis points from 11.8% in Q1 2014. Between quarters, the average suburban vacancy rate increased 90 basis points from 12.0% to 12.9%, while the average CBD vacancy rate increased 10 basis points from 10.6% to 10.7%.

The average CBD Class A vacancy rate remained steady between quarters at 9.5%, and the average CBD Class B vacancy rate rose 60 basis points from 10.3% to 10.9%. The average suburban Class A vacancy rate increased 230 basis points from 9.9% to 12.2%, and the average suburban Class B vacancy rate decreased 20 basis points between quarters from 13.8% to 13.6%.

Of the 1,666 existing office buildings in our survey, 55 buildings have 100,000 SF of contiguous space available for lease or sublease. Further, 20 buildings have 200,000 SF of contiguous space available. Citywide, available sublease space totals 6.0 million SF or 2.8% of Houston's total office inventory, but only 1.9 million SF of the available sublease space is vacant.

**ABSORPTION & DEMAND**

Houston's office market posted 1.2 million SF of positive net absorption in Q1 2015, about one-half of the 2.5 million SF posted in the previous quarter

Suburban Class A space posted the largest

gain, with 670,117 SF of positive net absorption, the majority of which occurred in The Woodlands submarket.

Some of the larger tenants that moved into new space during Q1 include ExxonMobil Company (1,500,000 SF) moving into the second phase of its new north Houston corporate campus in The Woodlands submarket, EOG Resources, Inc. (248,411 SF) moving into Heritage Plaza in the CBD submarket, Shell Oil (336,000 SF), Academy Sports and Outdoors, LTD (200,000 SF) and PGS (139,778 SF) which both moved into buildings located in the Katy Freeway submarket.

**RENTAL RATES**

Although Houston's office market has softened somewhat, the average citywide rental rate increased slightly between quarters. The average citywide rental rate for Class A space rose marginally, while the average citywide Class B rental rate increased 1.7% from \$20.64 per SF to \$20.98 per SF between quarters.

The average CBD Class A rental rate decreased 1.9% from \$42.75 per SF in Q4 2014 to \$41.96 per SF. The average suburban Class A rental rate rose 1.6% from \$32.36 per SF in Q4 2014 to \$32.88 per SF. The average CBD Class B rental rate decreased marginally while the average suburban Class B rental rate rose 1.9% from \$19.94 per SF to 20.31 per SF between quarters.

**QUOTED GROSS RENTAL RATES FOR EXISTING TOP PERFORMING OFFICE BUILDINGS**

Building Name	Address	Submarket	RBA (SF)	Year Built	% Leased	Avail. SF	Rent (\$/SF)	Owner
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	91.2%	258,563	\$53.87	New York State Common Retirement Fund
Bank of America Center	700 Louisiana St	CBD	1,268,480	1983	93.3%	183,924	\$52.28	M-M Properties
BG Group Place	811 Main	CBD	972,474	2011	97.4%	144,264	\$55.16	NPS of Korea
CityCentre Three	842 W Sam Houston Pky N	Katy Freeway	120,211	2012	97.8%	2,594	\$48.07	Midway T & C Land Investors
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	99.1%	95,034	\$50.38	Invesco Real Estate
BBVA Compass Plaza	2200 Post Oak Blvd	West Loop/Galleria	312,574	2013	82.5%	54,793	\$51.30	RS Post Oak Perennial LP
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	95.0%	176,193	\$48.93	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	98.1%	69,775	\$49.24	TIER REIT, Inc.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	86.2%	60,684	\$41.92- \$48.92	The Woodlands Development Company, L.P.

**Note:** Avail. SF includes direct and sublet space as well as any future available space listed.

**Source:** CoStar Property

## LEASING ACTIVITY

Houston's office leasing activity decreased 34% between quarters, recording 2.1 million SF in Q1 2015. The majority of the transactions were renewals and pre-leases in buildings currently under construction.

## Q1 2015 TOP OFFICE LEASE TRANSACTIONS

Building Name/Address	Submarket	SF	Tenant	Lease Date
Twelve Greenway Plaza	Greenway Plaza	191,893	Direct Energy <sup>1</sup>	Feb-15
Five Greenspoint Place	North Belt	113,801	Swift Energy Co.	Mar-15
Westway Plaza	Westchase	64,018	Superior Energy Services Inc. <sup>4</sup>	Jan-15
3773 Richmond Ave	Greenway Plaza	62,363	Regions Bank <sup>4</sup>	Feb-15
Four Greenspoint Place	North Belt	40,000	HealthHelp LLC	Jan-15
Briar Forest Crossing	Westchase	39,471	US Physical Therapy <sup>1</sup>	Mar-15
Ashford Crossing II	Katy Freeway	34,611	RigNet Inc. <sup>1</sup>	Jan-15
River Oaks District	West Loop/Galleria	33,500	U.S. Capital Advisors LLC <sup>4</sup>	Jan-15
1330 Post Oak Blvd	West Loop/Galleria	29,990	Morgan Stanley	Feb-15
Energy Center II	Katy Freeway	27,259	CARBO Ceramics <sup>1</sup>	Mar-15
Sugar Creek Place I	E Fort Bend/Sugar Land	25,986	Sabco America's	Jan-15
Post Oak Central	West Loop/Galleria	23,864	Cox Radio <sup>1</sup>	Feb-15
Kirby Grove	Greenway Plaza	62,903	Vitol Inc. <sup>4</sup>	Feb-15
1201 Louisiana	CBD	19,000	Houston Municipal Employees Pension System	Jan-15

<sup>1</sup>Renewal

<sup>2</sup>Expansion

<sup>3</sup>Sublease

<sup>4</sup>Pre-lease/proposed or under construction

## SALES ACTIVITY

Houston's office investment sales activity included 20 transactions, with an average price per square foot of \$236 and an average cap rate of 7.2%. Listed below are a few significant transactions that closed in Q1 2015.

## Q1 2015 SIGNIFICANT SALES TRANSACTIONS – (100,000 SF or greater)

Building Name	Submarket	RBA (SF)	Year Built	Buyer	Seller	Sale Price	\$/SF	Closed
C&J Energy Services - 3990 Rogerdale	Westchase	125,000	2014	American Realty Capital Global Trust, Inc.	InSite Commercial Real Estate	\$34.3M	\$275	3/2015
Honeywell – 1250 W Sam Houston Pky	Westchase	155,314	1985	Klein Family	Parkway Properties	\$28M	\$180	2/2015
Westgate 2 & 3 – 17320 Katy Fwy	Katy Freeway	411,500	2014	Griffin Capital	Miller Global Properties	\$135M	\$328	Under Contract

Sources: CoStar and Real Capital Analytics

## HOUSTON OFFICE MARKET SUMMARY (CBD, SUBURBAN &amp; OVERALL)

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q1-2015	Q4-2014	Q1-2015	Q4-2014	AVG (\$/SF)
CBD												
A	31	30,286,336	2,422,070	8.0%	460,850	1.5%	2,882,920	9.5%	9.5%	7,431	115,648	\$41.96
B	32	10,469,292	1,076,095	10.3%	63,688	0.6%	1,139,783	10.9%	10.3%	-56,889	22,969	\$28.33
C	17	1,174,432	447,735	38.1%	0	0.0%	447,735	38.1%	38.9%	8,566	0	\$18.21
Total	80	41,930,060	3,945,900	9.4%	524,538	1.3%	4,470,438	10.7%	10.6%	-40,892	138,617	\$37.19
Suburban												
A	319	82,343,365	9,073,685	11.0%	1,000,470	1.2%	10,074,155	12.2%	9.9%	670,117	1,694,597	\$32.88
B	946	78,257,823	10,274,932	13.1%	401,706	0.5%	10,676,638	13.6%	13.8%	501,903	795,512	\$20.31
C	321	14,557,555	1,825,799	12.5%	5,593	0.3%	1,831,392	12.6%	13.2%	115,581	-79,600	\$15.66
Total	1586	175,158,743	21,174,416	12.1%	1,407,769	0.8%	22,582,185	12.9%	12.0%	1,287,601	2,410,509	\$25.74
Overall												
A	350	112,629,701	11,495,755	10.2%	1,461,320	1.3%	12,957,075	11.5%	9.5%	677,548	1,810,245	\$34.68
B	978	88,727,115	11,351,027	12.8%	465,394	0.5%	11,816,421	13.3%	13.4%	445,014	818,481	\$20.98
C	338	15,731,987	2,273,534	14.5%	5,593	0.0%	2,279,127	14.5%	15.2%	124,147	-79,600	\$15.89
Total	1666	217,088,803	25,120,316	11.6%	1,932,307	0.9%	27,052,623	12.5%	11.5%	1,246,709	2,549,126	\$27.35

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q1-2015	Q4-2014	Q1-2015	Q4-2014	AVG (\$/SF)
Allen Parkway (Midtown)												
A	4	1,598,033	206,232	12.9%	6,822	0.4%	213,054	13.3%	12.8%	-8,794	3,873	\$32.87
B	32	2,620,056	118,694	4.5%	1,023	0.0%	119,717	4.6%	4.8%	6,609	8,063	\$28.75
C	15	503,182	117,870	23.4%	2692	0.5%	120,562	24.0%	23.5%	-2,232	-6,767	\$22.82
Total	51	4,721,271	442,796	9.4%	10,537	0.2%	453,333	9.6%	9.5%	-4,417	5,169	\$30.04
Baytown												
B	3	186,005	6,248	3.4%	0	0.0%	6,248	3.4%	3.4%	0	0	\$17.18
C	3	81,481	1,812	2.2%	0	0.0%	1,812	2.2%	2.2%	0	0	\$7.95
Total	6	267,486	8,060	3.0%	0	0.0%	8,060	3.0%	3.0%	0	0	\$14.34
Bellaire												
A	6	1,091,536	90,135	8.3%	62,222	5.7%	152,357	14.0%	8.1%	-63,614	19,472	\$25.99
B	19	2,630,415	120,705	4.6%	7,445	0.3%	128,150	4.9%	4.0%	-23,630	1,453	\$22.57
C	5	327,020	52,170	16.0%	0	0.0%	52,170	16.0%	17.2%	3,927	0	\$17.41
Total	30	4,048,971	263,010	6.5%	69,667	1.7%	332,677	8.2%	6.2%	-83,317	20,925	\$23.45
Conroe and Outlying Montgomery Co												
A	2	107,161	47,161	44.0%	0	0.0%	47,161	44.0%	44.0%	0	0	\$24.53
B	10	511,805	28,263	5.5%	0	0.0%	28,263	5.5%	5.5%	0	-6,444	\$18.09
C	7	289,662	4,794	1.7%	0	0.0%	4,794	1.7%	1.7%	0	0	\$15.71
Total	19	908,628	80,218	8.8%	0	0.0%	80,218	8.8%	8.8%	0	-6,444	\$21.25
E. Fort Bend/Sugar Land												
A	17	3,399,453	234,132	6.9%	79,983	2.4%	314,115	9.2%	9.9%	21,050	50,949	\$29.29
B	38	2,305,659	328,121	14.2%	105,858	4.6%	433,979	18.8%	19.3%	11,801	-26,894	\$23.01
C	3	223,446	17,461	7.8%	1,461	0.7%	18,922	8.5%	7.4%	-2,311	488	\$19.50
Total	58	5,928,558	579,714	9.8%	187,302	3.2%	767,016	12.9%	13.5%	30,540	24,543	\$25.30
FM 1960												
A	13	2,262,736	107,847	4.8%	29,842	1.3%	137,689	6.1%	6.1%	103	17,880	\$29.52
B	91	5,007,728	844,119	16.9%	0	0.0%	844,119	16.9%	18.3%	74,532	24,919	\$16.19
C	21	736,848	65,868	8.9%	0	0.0%	65,868	8.9%	7.1%	-13,305	8,642	\$15.68
Total	125	8,007,312	1,017,834	12.7%	29,842	0.4%	1,047,676	13.1%	13.8%	61,330	51,441	\$17.32



## HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (\$F)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q1-2015	Q4-2014	Q1-2015	Q4-2014	AVG (\$/SF)
Greenway												
A	16	6,287,231	631,902	10.1%	24,684	0.4%	656,586	10.4%	7.1%	-211,102	40,106	\$34.75
B	34	3,451,098	220,696	6.4%	9,839	0.3%	230,535	6.7%	7.1%	14,164	28,181	\$25.76
C	18	755,136	259,876	34.4%	-	0.0%	259,876	34.4%	34.6%	1,553	-8,984	\$17.83
Total	68	10,493,465	1,112,474	10.6%	34,523	0.3%	1,146,997	10.9%	9.1%	-195,385	59,303	\$29.90
Gulf Freeway/Pasadena												
A	1	22,706	526	2.3%	0	0.0%	526	2.3%	2.3%	0	0	\$27.59
B	38	2,236,248	402,673	18.0%	7,106	0.3%	409,779	18.3%	15.9%	69,612	-16,397	\$20.26
C	32	1,228,317	104,347	8.5%	0	0.0%	104,347	8.5%	12.6%	50,092	-26,602	\$16.92
Total	71	3,487,271	507,546	14.6%	7,106	0.2%	514,652	14.8%	14.6%	119,704	-42,999	\$19.47
I-10 East												
B	7	447,680	56,108	12.5%	0	0.0%	56,108	12.5%	12.5%	29	9,893	\$14.68
C	5	267,130	74,243	27.8%	0	0.0%	74,243	27.8%	25.5%	-6,000	3,300	\$15.26
Total	12	714,810	130,351	18.2%	0	0.0%	130,351	18.2%	17.4%	-5,971	13,193	\$14.85
Katy Freeway												
A	76	18,017,064	1,567,090	8.7%	98,201	0.5%	1,665,291	9.2%	4.6%	215,129	137,361	\$36.57
B	104	9,976,694	1,062,161	10.6%	124,811	1.3%	1,186,972	11.9%	11.7%	154,090	94,803	\$24.55
C	33	1,580,141	77,052	4.9%	1,440	0.1%	78,492	5.0%	4.4%	-8,271	-8,483	\$18.26
Total	213	29,573,899	2,706,303	9.2%	224,452	0.8%	2,930,755	9.9%	7.0%	360,948	223,681	\$30.13
Kingwood/Humble												
B	15	853,520	60,920	7.1%	0	0.0%	60,920	7.1%	6.9%	-2,266	-117	\$20.15
C	4	143,500	14,924	10.4%	0	0.0%	14,924	10.4%	9.9%	-780	0	\$17.93
Total	19	997,020	75,844	7.6%	0	0.0%	75,844	7.6%	7.3%	-3,046	-117	\$19.49
NASA/Clear Lake												
A	12	1,768,829	39,653	2.2%	1,311	0.1%	40,964	2.3%	3.9%	27,930	19,973	\$24.82
B	47	3,184,775	941,979	29.6%	2,601	0.1%	944,580	29.7%	29.4%	-8,168	65,088	\$18.48
C	20	660,409	115,854	17.5%	0	0.0%	115,854	17.5%	19.3%	11,868	1,287	\$15.47
Total	79	5,614,013	1,097,486	19.5%	3,912	0.1%	1,101,398	19.6%	20.2%	31,630	86,348	\$18.84
North Belt/Greenspoint												
A	24	5,441,523	1,701,571	31.3%	19,210	0.4%	1,720,781	31.6%	20.5%	-606,800	-448,746	\$30.18
B	58	6,021,556	1,005,729	16.7%	43,524	0.7%	1,049,253	17.4%	16.2%	-79,594	139,978	\$15.99
C	22	1,403,276	292,295	20.8%	0	0.0%	292,295	20.8%	21.3%	6,350	8,446	\$11.80
Total	104	12,866,355	2,999,595	23.3%	62,734	0.5%	3,062,329	23.8%	18.6%	-680,044	-300,322	\$24.09
Northeast Near and Northeast Outlier												
B	4	181,618	32,533	17.9%	0	0.0%	32,533	17.9%	15.1%	-5,147	-1,904	\$20.92
C	2	56,562	11,751	20.8%	0	0.0%	11,751	20.8%	20.8%	0	755	\$13.99
Total	6	238,180	44,284	18.6%	0	0.0%	44,284	18.6%	16.4%	-5,147	-1,149	\$18.39
Northwest and Northwest Outlier												
A	25	4,578,832	868,424	19.0%	86,186	1.9%	954,610	20.8%	12.3%	-27,666	36,482	\$26.59
B	91	7,147,716	1,008,382	14.1%	45,585	0.6%	1,053,967	14.7%	14.5%	-17,780	115,160	\$18.51
C	40	1,605,267	140,494	8.8%	0	0.0%	140,494	8.8%	8.8%	646	-1,282	\$15.16
Total	156	13,331,815	2,017,300	15.1%	131,771	1.0%	2,149,071	16.1%	13.1%	-44,800	150,360	\$22.17
Richmond/Fountainview												
B	14	805,875	177,020	22.0%	0	0.0%	177,020	22.0%	23.6%	13,007	14,178	\$17.59
C	12	495,591	85,225	17.2%	0	0.0%	85,225	17.2%	13.6%	-17,590	18,367	\$14.32
Total	26	1,301,466	262,245	20.1%	0	0.0%	262,245	20.1%	19.8%	-4,583	32,545	\$16.57

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q1-2015	Q4-2014	Q1-2015	Q4-2014	AVG (\$/SF)
San Felipe/Voss												
A	3	1,720,793	272,414	15.8%	11,356	0.7%	283,770	16.5%	17.1%	9,694	-89,325	\$35.82
B	32	3,231,840	255,692	7.9%	13,011	0.4%	268,703	8.3%	8.0%	-11,320	52,745	\$24.02
Total	35	4,952,633	528,106	10.7%	24,367	0.5%	552,473	11.2%	11.1%	-1,626	-36,580	\$30.75
South												
A	1	80,000	5,941	7.4%	0	0.0%	5,941	7.4%	7.4%	0	1,842	\$29.63
B	12	465,159	49,268	10.6%	0	0.0%	49,268	10.6%	10.4%	-1,120	5,841	\$20.74
C	5	194,042	71,100	36.6%	0	0.0%	71,100	36.6%	36.6%	0	889	\$23.17
Total	18	739,201	126,309	17.1%	0	0.0%	126,309	17.1%	16.9%	-1,120	8,572	\$23.52
South Main/Med Center												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	13	854,906	188,552	22.1%	0	0.0%	188,552	22.1%	21.7%	-3,167	426	\$19.86
C	8	475,436	63,652	13.4%	0	0.0%	63,652	13.4%	14.1%	3,601	-1,498	\$16.71
Total	22	1,815,342	252,204	13.9%	0	0.0%	252,204	13.9%	13.9%	434	-1,072	\$19.01
Southeast/Outlier												
B	16	1,222,226	89,883	7.4%	0	0.0%	89,883	7.4%	7.4%	0	61,245	\$19.84
C	5	213,543	8,514	4.0%	0	0.0%	8,514	4.0%	23.7%	42,000	-50,514	\$0.00
Total	21	1,435,769	98,397	6.9%	0	0.0%	98,397	6.9%	9.8%	42,000	10,731	\$19.84
Southwest												
A	6	1,583,702	222,931	14.1%	0	0.0%	222,931	14.1%	16.1%	31,433	3,811	\$17.36
B	64	5,712,918	1,185,633	20.8%	0	0.0%	1,185,633	20.8%	25.1%	246,867	122,293	\$16.37
C	41	2,103,849	174,106	8.3%	0	0.0%	174,106	8.3%	9.9%	34,164	691	\$13.93
Total	111	9,400,469	1,582,670	16.8%	0	0.0%	1,582,670	16.8%	20.2%	312,464	126,795	\$16.19
Southwest Far and Outlier												
A	6	289,839	34,706	12.0%	0	0.0%	34,706	12.0%	12.4%	1,172	48,788	\$26.23
B	15	889,662	219,631	24.7%	0	0.0%	219,631	24.7%	24.7%	0	67,500	\$18.75
C	2	51,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$18.00
Total	23	1,230,897	254,337	20.7%	0	0.0%	254,337	20.7%	20.8%	1,172	116,288	\$23.49
West Loop/Galleria												
A	44	16,548,108	1,430,393	8.6%	244,452	1.5%	1,674,845	10.1%	10.1%	-7,034	59,315	\$34.98
B	55	6,283,486	675,773	10.8%	20,173	0.3%	695,946	11.1%	10.9%	-11,688	63,026	\$26.73
C	4	216,268	1,261	0.6%	0	0.0%	1,261	0.6%	1.0%	1,008	0	\$20.31
Total	103	23,047,862	2,107,427	9.1%	264,625	1.1%	2,372,052	10.3%	10.2%	-17,714	122,341	\$32.64
Westchase												
A	30	8,169,697	1,227,476	15.0%	285,261	3.5%	1,512,737	18.5%	13.8%	-383,114	170,859	\$38.42
B	63	7,675,834	822,357	10.7%	767	0.0%	823,124	10.7%	11.7%	72,212	-16,835	\$20.17
C	9	608,015	70,130	11.5%	0	0.0%	70,130	11.5%	13.3%	10,861	-18,335	\$17.30
Total	102	16,453,546	2,119,963	12.9%	286,028	1.7%	2,405,991	14.6%	12.8%	-300,041	135,689	\$30.70
The Woodlands												
A	32	8,891,122	385,151	4.3%	50,940	0.6%	436,091	4.9%	7.1%	1,671,730	1,621,957	\$34.68
B	71	4,353,344	373,792	8.6%	19,963	0.5%	393,755	9.0%	9.1%	2,860	-10,689	\$24.60
C	5	338,038	1,000	0.3%	0	0.0%	1,000	0.3%	0.3%	0	0	\$19.80
Total	108	13,582,504	759,943	5.6%	70,903	0.5%	830,846	6.1%	7.8%	1,674,590	1,611,268	\$29.51

## OFFICE DEVELOPMENT PIPELINE

Houston's construction pipeline contains 14.5 million SF of office space, of which 65.0% is pre-leased. Build-to-suit projects make up 56.4% of the 14.5M SF, and the remaining 6.3M SF of spec office space under construction is approximately 19.5% pre-leased. Approximately 6.9 million SF or 85.0% of the build-to-suit projects under construction are pre-leased to energy industry companies. The table below includes office buildings under construction with an RBA of 45,000 SF or greater.

Building Name	Address	Submarket	SF	Pre-Leased	Developer	Est. Delivery
FMC Technologies Campus	Subsea Ln & W Lake Houston	Northeast Near	1,700,000	100.0%	McCord Development, Inc	Jan-16
Phillips 66	2101 Citywest Blvd	Westchase	1,100,000	100.0%	Gilbane Building Company	Jun-16
609 Main at Texas	609 Main St	CBD	1,056,658	0.0%	Hines	Dec-16
BHP Biliton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100.0%	Transwestern	Oct-16
Energy Center Four	925 N Eldridge Pky	Katy Freeway West	600,000	100.0%	Trammell Crow Company	Sep-16
Energy Center Three	935 N Eldridge Pky	Katy Freeway West	546,604	100.0%	Trammell Crow Company	Apr-15
Energy Center V	915 N Eldridge Pky	Katy Freeway West	524,386	0.0%	Trammell Crow Company	Apr-16
ExxonMobil Campus - Ph III	23125 I-45 S	The Woodlands	500,000	100.0%	Gilbane Building Company	Jun-15
Noble Energy Center II	SH 249 & Louetta Rd	FM 1960/Hwy 249	456,000	100.0%	Trammell Crow Company	Jun-15
Air Liquide Center- South	9811 Katy Fwy	Katy Freeway East	452,370	58.5%	MetroNational	Nov-15
Millennium Tower II	10353 Richmond Ave	Westchase	445,000	100.0%	BMS Management, Inc.	Feb-16
Hilcorp Energy Tower	1110 Main Street	CBD	406,600	100.0%	Hines	Jan-16
3737 Buffalo Speedway	3737 Buffalo Speedway Ave	Greenway Plaza	400,000	22.9%	PM Realty Group	Aug-15
West Memorial Place II	15377 Memorial Dr	Katy Freeway West	389,709	4.7%	Skanska Commercial Development	Jan-16
Future Amegy Bank HQ	1717 W. Loop South	Post Oak Park	380,000	74.2%	Hines	Feb-17
Shell Phase 4	201 N Dairy Ashford Rd	Katy Freeway West	336,000	100.0%	Hines	Apr-15
ExxonMobil - Hughes Landing	1735 Hughes Landing Blvd	The Woodlands	331,840	100.0%	The Woodlands Development Company	Apr-16
Three Hughes landing	1780 Hughes Landing Blvd	The Woodlands	320,815	0.0%	The Woodlands Development Company	Nov-15
ExxonMobil - Hughes Landing	1725 Hughes Landing Blvd	The Woodlands	317,052	100.0%	The Woodlands Development Company	Apr-16
Westway Plaza	11330 Clay Rd	FM 1960/Hwy 249	314,000	100.0%	Transwestern	May-15
Enclave Place	1414 Enclave	Katy Freeway West	300,907	0.0%	PM Realty Group	Aug-15
Kirby Grove	2525 Richmond Ave	Greenway Plaza	248,275	62.2%	Midway Companies	Aug-15
Havenwood Office Park	25700 Interstate 45	Woodlands	240,470	0.2%	Everson Developments, LLC	Nov-15
CityCentre Five	825 Town & Country	Katy Freeway East	227,063	56.4%	Midway Companies	Jul-15
Remington Square - Ph II	10713 W Sam Houston Pky N	FM 1960/Hwy 249	200,000	0.0%	Stream Realty Partners, L.P.	Oct-15
Regions Financial Center	3773 Richmond Ave	Greenway Plaza	185,000	32.8%	The Redstone Companies	Apr-16
Woodbranch Plaza IV	12120 Wickchester Ln	Katy Freeway West	171,475	100.0%	PM Realty Group	Apr-15
San Felipe Place	2229 San Felipe	Allen Parkway/Midtown	167,562	21.2%	Hines	Aug-15
1885 Saint James Place	1885 St James Pl	West Loop/Galleria	165,000	0.0%	Nelson Murphree Legacy Partners	Mar-16
Chasewood Crossing Three	19350 State Highway 249	FM 1960/Hwy 249	156,000	0.0%	Greenwood Corporations	Dec-15
Katy Ranch Phase I	24275 Katy Fwy	Southwest Outlier	151,187	0.0%	Freeway Properties	Jun-15
Park Ten Center - Phase II	16200 Park Row	Katy Freeway West	150,000	0.0%	Lincoln Property Company	Aug-15
Air Liquide Center- North	9807 Katy Fwy	Katy Freeway East	143,830	100.0%	MetroNational	May-15
Nalco Champion Headquarters	7705 Highway 90A	E Fort Bend/Sugar Land	133,000	100.0%	Nalco Holding Co	Aug-15
Mason Creek Office Center II	21700 Merchants Way	Katy Freeway West	127,955	0.0%	Myers Crow & Saviers, LTD.	May-15
CityPlace I	Springwoods Village Pky	Woodlands	116,500	0.0%	Coventry Development Corporation	May-16
The Offices at Sam Houston	10203 W Sam Houston Dr	Northwest Far	108,633	88.9%	D'Agostino Companies	Jul-15
Gateway at Spring Valley	9090 Katy Fwy	Katy Freeway East	95,459	64.0%	Ersa Grae Corporation	Oct-15
River Oaks District - Office	4444 Westheimer Rd	Post Oak Park	92,021	36.4%	Oliver McMillan	May-15
Memorial Green	12525 Memorial Dr	Katy Freeway East	49,883	5.8%	Midway Companies	Jun-16
Det Norske Veritas - Phase 2	22535 Colonial Pky	Katy Freeway West	47,250	100.0%	Chambers Street Properties	Aug-15

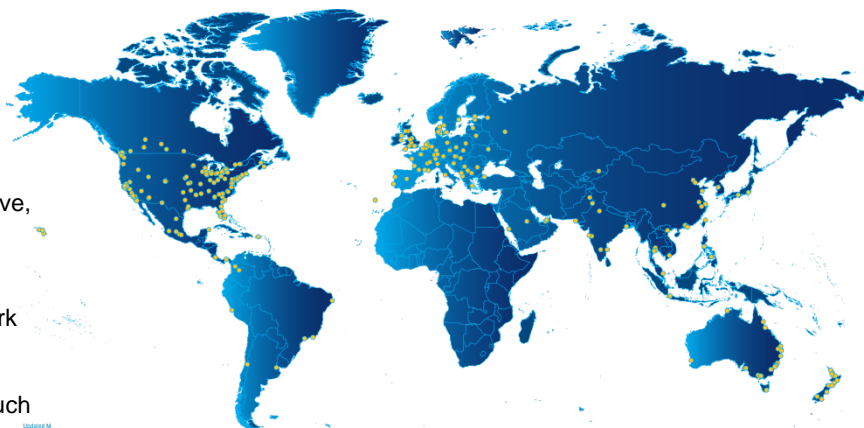
Data Source: CoStar Property

# The Colliers Advantage

## Enterprising Culture

Colliers International is a leader in global real estate services, defined by our spirit of enterprise. Through a culture of service excellence and a shared sense of initiative, we integrate the resources of real estate specialists worldwide to accelerate the success of our partners.

When you choose to work with Colliers, you choose to work with the best. In addition to being highly skilled experts in their field, our people are passionate about what they do. And they know we are invested in their success just as much as we are in our clients' success.



This is evident throughout our platform—from Colliers University, our proprietary education and professional development platform, to our client engagement strategy that encourages cross-functional service integration, to our culture of caring.

We connect through a shared set of values that shape a collaborative environment throughout our organization that is unsurpassed in the industry. That's why we attract top recruits and have one of the highest retention rates in the industry. Colliers International has also been recognized as one of the "best places to work" by top business organizations in many of our markets across the globe.

Colliers International offers a comprehensive portfolio of real estate services to occupiers, owners and investors on a local, regional, national and international basis.

*\*Information herein has been obtained from sources deemed reliable, however its accuracy cannot be guaranteed.*

## COLLIERS INTERNATIONAL AT A GLANCE\*



Based on 2013 results. Square footage includes office, industrial and retail property under management. Residential property is excluded from this total.



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Accelerating success.

## HOUSTON OFFICE MARKET

## RESEARCH &amp; FORECAST REPORT

HOUSTON OFFICE  
MARKET INDICATORS

Q3 2014 Q4 2014

CITYWIDE NET ABSORPTION (SF)	674K	2.2M	↑
CITYWIDE AVERAGE VACANCY	11.9%	11.5%	↓
CITYWIDE AVERAGE RENTAL RATE	\$27.08	\$26.79	↓
CITYWIDE DELIVERED INVENTORY (SF)	1.5M	2.1M	↑
CLASS A RENTAL RATE			
CBD	\$42.36	\$42.01	↓
SUBURBAN	\$32.13	\$31.61	↓
CLASS A VACANCY			
CBD	9.9%	8.6%	↓
SUBURBAN	9.6%	9.9%	↑

JOB GROWTH & UNEMPLOYMENT  
(Not Seasonally Adjusted)

UNEMPLOYMENT	10/13	10/14
HOUSTON	5.9%	4.7%
TEXAS	6.1%	4.8%
U.S.	7.0%	5.5%
JOB GROWTH	ANNUAL CHANGE	# OF JOBS ADDED
HOUSTON	4.3%	120.6K
TEXAS	3.9%	436.7K
U.S.	2.0%	2.8M

## Houston's Office Market Records 6.8M SF of Positive Net Absorption in 2014

Houston's office market posted 2.2M SF of positive net absorption in Q4 2014, bringing the year-end total to 6.8M SF.

Over 2.1M SF of new inventory delivered during Q4, bringing 2014 year-end delivered inventory to over 6.6M SF. ExxonMobil began moving into a portion of its new north campus and Southwestern Energy moved into its new corporate headquarters just south of the ExxonMobil campus.

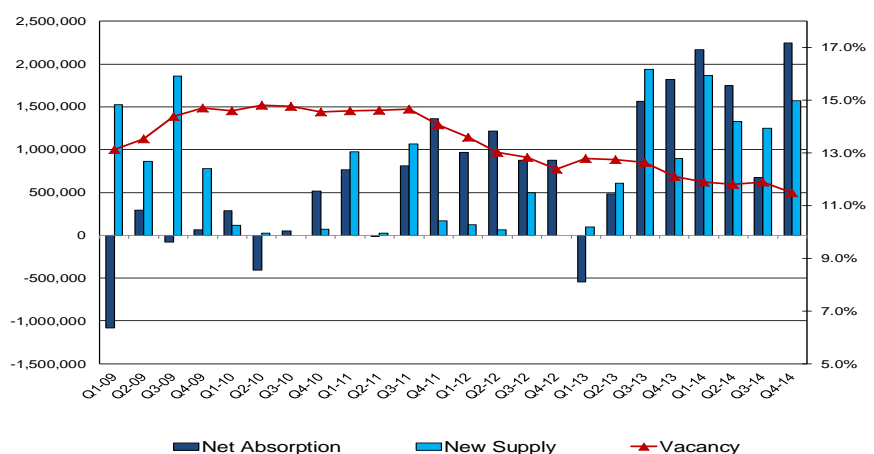
Houston's office construction pipeline still contains over 17.0M SF and 7.5M SF of that is speculative development which is 28.8% pre-leased. The majority of the space is located in the suburban submarkets and is scheduled to deliver in 2015.

The citywide average rental rate decreased slightly between quarters, 1.6% from \$27.08 to \$26.78 per SF, but is still 3.2% higher than it was a year ago. Both CBD and suburban Class A average rental rates decreased over the quarter; however, both Class B average rental rates rose.

Houston's office investment sales market is benefitting from the foreign capital that is pouring into the U.S. According to a recent survey by the Association of Foreign Investors in Real Estate (AFIRE), Houston ranked #3 in the top five U.S. cities for foreign investors.

The Houston metropolitan area created 120,600 jobs between October 2013 and October 2014, an annual increase of 4.3% over the prior year's job growth. Sectors creating most of the jobs contributing to the annual increase include mining and logging, construction, transportation, warehousing and utilities, and health care and social assistance. Houston's unemployment rate fell to 4.7% from 5.9% one year ago.

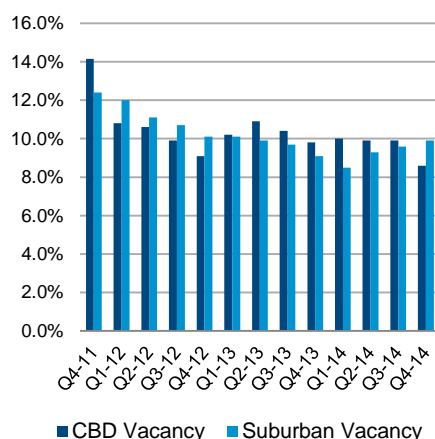
## ABSORPTION, NEW SUPPLY &amp; VACANCY RATES



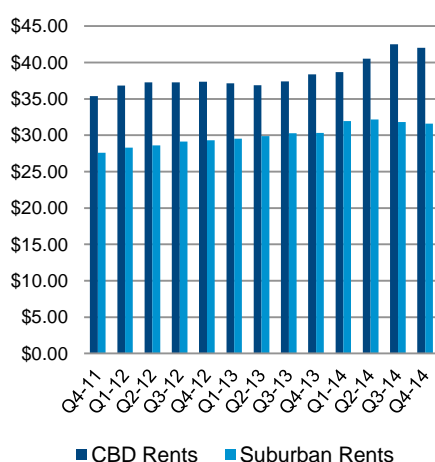


**CBD VS. Suburban**

Class A Office Vacancy



Class A Office Rents

**VACANCY & AVAILABILITY**

Houston's citywide vacancy rate fell 40 basis points between quarters from 11.9% to 11.5% and fell by 50 basis points annually from 12.0% in Q4 2013. Between quarters, the average suburban vacancy rate decreased 20 basis points from 12.2% to 12.0% while the average CBD vacancy rate decreased 110 basis points from 10.9% to 9.8%.

The average CBD Class A vacancy rate decreased 130 basis points between quarters from 9.9% to 8.6%, and the average CBD Class B vacancy rate fell 30 basis points from 10.4% to 10.1%. The average suburban Class A vacancy rate increased 30 basis points from 9.6% to 9.9%, and the average suburban Class B vacancy rate decreased 80 basis points from 14.6% to 13.8% between quarters.

Of the 1,647 existing office buildings in our survey, only 47 have 100,000 SF of contiguous space available for lease or sublease. Further, only 16 have 200,000 SF of contiguous space available. Citywide, available sublease space totals 4.6 million SF or 2.2% of Houston's total office inventory, but only 1.7 million SF of this sublease space is currently vacant.

**ABSORPTION & DEMAND**

Houston's office market posted 2,248,224 SF of positive net absorption in Q4 2014, pushing year-end total net absorption to 6,841,398 SF.

Suburban Class A space posted the largest gain, with 1,113,430 SF of positive net absorption, the majority of which occurred in The Woodlands submarket.

Some of the larger tenants that moved into new space during Q4 include ExxonMobil Company (1,000,000 SF) moving into the first phase of its new north Houston corporate campus in The Woodlands submarket, Memorial Resource Development (125,000 SF) and Motive Enterprises (109,000 SF) which moved into One Allen Center located in the CBD submarket, and Samsung Engineering America Inc. (80,000 SF) which moved into Two BriarLake Plaza in the Westchase submarket.

**RENTAL RATES**

The citywide average rental rate decreased 1.1% from \$27.08 per SF in Q3 2014 to \$26.79 per SF, but was still up 3.2% from \$25.97 per SF in Q4 2013. The average citywide rental rate for Class A fell 1.0% over the quarter and the average citywide Class B rental rate increased 1.3% between quarters.

The CBD Class A average rental rate decreased 0.8% from \$42.36 per SF in Q3 2014 to \$42.01 per SF. The suburban Class A average rental rate fell 1.7% from \$32.13 per SF in Q3 2014 to \$31.61 per SF. The average CBD Class B rental rate rose 0.5%, and the average suburban Class B rental rate rose 1.3% between quarters.

**QUOTED GROSS RENTAL RATES FOR EXISTING TOP PERFORMING OFFICE BUILDINGS**

Building Name	Address	Submarket	RBA (SF)	Year Built	% Leased	Avail. SF	Rent (\$/SF)	Owner
Wells Fargo Plaza	1000 Louisiana St	CBD	1,721,242	1983	97.8%	86,799	\$53.87	New York State Common Retirement Fund
Heritage Plaza	1111 Bagby	CBD	1,359,266	1986	98.9%	14,318	\$50.71	AEW Capital Management and Brookfield Office Properties, Inc.
BG Group Place	811 Main	CBD	972,474	2011	96.5%	144,264	\$51.96	NPS of Korea
CityCentre Three	842 W Sam Houston Pky N	Katy Freeway	120,211	2012	94.7%	6,349	\$45.96	Midway T & C Land Investors
Williams Tower	2800 Post Oak Blvd	West Loop/Galleria	1,476,973	1983	99.1%	70,353	\$48.36	Invesco Real Estate
BBVA Compass Plaza	2200 Post Oak Blvd	West Loop/Galleria	312,574	2013	78.4%	67,523	\$46.00	RS Post Oak Perennial LP
CityWestPlace 4	2103 CityWest Blvd	Westchase	518,293	2001	99.5%	92,984	\$47.43	Parkway Properties, Inc.
One BriarLake Plaza	2000 W Sam Houston Pky	Westchase	502,410	2000	97.5%	64,802	\$47.97	TIER REIT, Inc.
Two Hughes Landing	1790 Hughes Landing Blvd	The Woodlands	197,719	2014	86.2%	27,251	\$41.92- \$48.92	The Woodlands Development Company, L.P.

**Note:** Avail. SF includes direct and sublet space as well as any future available space listed.

**Source:** CoStar Property

## LEASING ACTIVITY

Houston's office leasing activity reached 1.8 million SF in Q4 2014 with transactions including renewals, expansions, subleases, and pre-leases in buildings currently under construction. 2014 year-end leasing activity totaled just over 12.4M SF.

## Q4 2014 Select Office Leases

Building name/address	Submarket	SF	Tenant	Lease date
Post Oak Central	West Loop/Galleria	230,000	Stewart Information Services <sup>6</sup>	Nov-14
CityWestPlace	Westchase	115,000	Bristow Group	Nov-14
One Commerce Green	North Belt/Greenspoint	98,000	Nabors Industries <sup>2</sup>	Dec-14
Gateway At Spring Valley	Katy Freeway	40,632	StollerUSA	Oct-14
330 N Sam Houston Pky E	North Belt/Greenspoint	32,325	North American University	Oct-14
16055 Space Center Blvd	NASA/Clear Lake	33,159	MasTec <sup>1, 2, 5</sup>	Nov-14
330 N Sam Houston Pky E	North Belt/Greenspoint	32,325	North American University	Oct-14
Gateway At Spring Valley	Katy Freeway	20,316	East West Bank <sup>4</sup>	Oct-14
America Tower	Allen Parkway (Midtown)	13,680	Peregrine Petroleum	Nov-14
600 Travis	CBD	13,191	Wilkie Farr & Gallagher <sup>3</sup>	Oct-14
1120 Nasa Parkway	NASA/Clear Lake	11,707	BurrowGlobal <sup>5</sup>	Dec-14
15835 Park Ten Place	Katy Freeway	10,216	NACE International <sup>2</sup>	Oct-14
Westheimer Central Plaza	Westchase	10,000	Keane Franc	Oct-14

<sup>1</sup>Renewal<sup>4</sup>Pre-lease/proposed or under construction<sup>2</sup>Expansion<sup>5</sup>Colliers International Transaction<sup>3</sup>Sublease<sup>6</sup>Extension

## SALES ACTIVITY

Houston's office investment sales activity included 38 sales transactions and a total sales volume of approximately \$478.9 million averaging \$176 per SF, with an average cap rate of 5.9%. Listed below are a few significant transactions that closed in Q4 2014.

## Q4 2014 SIGNIFICANT SALES TRANSACTIONS – (100,000 SF or greater)

Building Name	Submarket	RBA (SF)	Year Built	Buyer	Seller	Sale Price	\$/SF	Closed
The Lakes on Post Oak - 3000 Post Oak Blvd.	West Loop/Galleria	441,523	1979	FG Asset Management	Five Mile Capital Partners	\$170M	\$385	11/2014
Cullen Center – 600 Jefferson	CBD	449,087	1972	Stream Realty Partners	Brookfield Office Properties	\$69M	\$154	10/2014
2200 West Loop South	West Loop/Galleria	201,720	1974/2000	Tenaris Global Services Corp.	APF Properties LLC	\$47M	\$233	10/2014
Bering Office Tower – 2000 Bering Dr	San Felipe/Voss	192,211	1982/2008	Tanglewood Property Group	2000 Bering Ltd	\$29M	\$150	11/2014
Sam Houston Crossing One – 10343 Sam Houston Park Dr	Northwest Far	159,175	2007	Fuller Realty Partners, LLC and Independencia Asset Management, LLC	Duke Realty Corporation and Chambers Street Partners	\$26M	\$165	12/2014

Sources: CoStar and Real Capital Analytics

## HOUSTON OFFICE MARKET SUMMARY (CBD, SUBURBAN &amp; OVERALL)

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q4-2014	Q3-2014	Q4-2014	Q3-2014	AVG (\$/SF)
CBD												
A	31	30,286,336	2,108,777	7.0%	482,218	1.6%	2,590,995	8.6%	9.9%	415,004	40,532	\$42.01
B	30	10,395,668	1,016,288	9.8%	30,955	0.3%	1,047,243	10.1%	10.4%	35,023	27,238	\$28.13
C	19	1,254,657	490,659	39.1%	0	0.0%	490,659	39.1%	38.2%	-10,761	-5,529	\$19.21
Total	80	41,936,661	3,615,724	8.6%	513,173	1.2%	4,128,897	9.8%	10.9%	439,266	62,241	\$37.40
Suburban												
A	305	78,022,159	7,108,193	9.1%	595,927	0.8%	7,704,120	9.9%	9.6%	1,113,430	788,713	\$31.61
B	939	78,215,289	10,232,268	13.1%	557,154	0.7%	10,789,422	13.8%	14.6%	771,485	-236,352	\$20.09
C	323	14,705,326	1,930,904	13.1%	3,742	0.2%	1,934,646	13.2%	12.7%	-75,957	58,904	\$15.68
Total	1567	170,942,774	19,271,365	11.3%	1,156,823	0.7%	20,428,188	12.0%	12.2%	1,808,958	611,265	\$24.85
Overall												
A	336	108,308,495	9,216,970	8.5%	1,078,145	1.0%	10,295,115	9.5%	9.7%	1,528,434	829,245	\$33.96
B	969	88,610,957	11,248,556	12.7%	588,109	0.7%	11,836,665	13.4%	14.1%	806,508	-209,114	\$20.78
C	342	15,959,983	2,421,563	15.2%	3,742	0.0%	2,425,305	15.2%	14.7%	-86,718	53,375	\$16.09
Total	1647	212,879,435	22,887,089	10.8%	1,669,996	0.8%	24,557,085	11.5%	11.9%	2,248,224	673,506	\$26.79

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q4-2014	Q3-2014	Q4-2014	Q3-2014	AVG (\$/SF)
Allen Parkway (Midtown)												
A	4	1,598,033	204,260	12.8%	0	0.0%	204,260	12.8%	13.0%	3,873	18,066	\$32.84
B	32	2,620,056	109,025	4.2%	17,301	0.7%	126,326	4.8%	5.1%	8,063	15,653	\$28.16
C	15	503,182	118,330	23.5%	0	0.0%	118,330	23.5%	22.2%	-6,767	3,101	\$22.82
Total	51	4,721,271	431,615	9.1%	17,301	0.4%	448,916	9.5%	9.6%	5,169	36,820	\$29.54
Baytown												
B	3	186,005	6,248	3.4%	0	0.0%	6,248	3.4%	3.4%	0	-5,551	\$17.18
C	3	81,481	1,812	2.2%	0	0.0%	1,812	2.2%	2.2%	0	0	\$9.87
Total	6	267,486	8,060	3.0%	0	0.0%	8,060	3.0%	3.0%	0	-5,551	\$10.98
Bellaire												
A	6	1,090,749	70,682	6.5%	22,105	2.0%	92,787	8.5%	10.3%	19,472	-8,083	\$24.61
B	18	2,609,813	93,365	3.6%	11,155	0.4%	104,520	4.0%	4.1%	1,453	4,560	\$26.27
C	5	327,020	56,097	17.2%	0	0.0%	56,097	17.2%	17.2%	0	6,498	\$18.31
Total	29	4,027,582	220,144	5.5%	33,260	0.8%	253,404	6.3%	6.8%	20,925	2,975	\$25.24
Conroe and Outlying Montgomery Co												
A	2	107,161	47,161	44.0%	0	0.0%	47,161	44.0%	44.0%	0	-329	\$24.53
B	10	511,805	28,263	5.5%	0	0.0%	28,263	5.5%	4.3%	-6,444	0	\$18.09
C	7	289,662	4,794	1.7%	0	0.0%	4,794	1.7%	1.7%	0	2,500	\$15.71
Total	19	908,628	80,218	8.8%	0	0.0%	80,218	8.8%	8.1%	-6,444	2,171	\$21.25
E. Fort Bend/Sugar Land												
A	18	3,509,489	340,378	9.7%	15,945	0.5%	356,323	10.2%	11.6%	50,949	-34,839	\$28.66
B	37	2,195,623	324,745	14.8%	100,207	4.6%	424,952	19.4%	18.1%	-27,224	15,760	\$22.70
C	4	264,206	9,502	3.6%	2,302	0.9%	11,804	4.5%	4.5%	0	1,481	\$18.99
Total	59	5,969,318	674,625	11.3%	118,454	2.0%	793,079	13.3%	13.7%	23,725	-17,598	\$25.26
FM 1960												
A	13	2,262,736	103,753	4.6%	34,039	1.5%	137,792	6.1%	6.9%	17,880	-1,134	\$28.09
B	89	4,934,942	910,277	18.4%	0	0.0%	910,277	18.4%	19.0%	26,431	18,406	\$15.56
C	20	716,153	52,563	7.3%	0	0.0%	52,563	7.3%	8.5%	8,642	-4,480	\$15.51
Total	122	7,913,831	1,066,593	13.5%	34,039	0.4%	1,100,632	13.9%	14.6%	52,953	12,792	\$17.21

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (\$F)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q4-2014	Q3-2014	Q4-2014	Q3-2014	AVG (\$/SF)
Greenway												
A	16	6,224,406	427,624	6.9%	17,860	0.3%	445,484	7.2%	7.8%	40,106	-50,067	\$34.80
B	33	3,386,514	222,481	6.6%	10,145	0.3%	232,626	6.9%	7.6%	25,243	5,031	\$24.91
C	19	831,136	271,774	32.7%	-	0.0%	271,774	32.7%	32.2%	-4,318	-227	\$18.24
Total	68	10,442,056	921,879	8.8%	28,005	0.3%	949,884	9.1%	9.7%	61,031	-45,263	\$29.70
Gulf Freeway/Pasadena												
A	1	22,706	526	2.3%	0	0.0%	526	2.3%	2.3%	0	837	\$27.59
B	34	1,952,561	204,285	10.5%	7,106	0.4%	211,391	10.8%	10.0%	-16,397	16,161	\$19.99
C	31	1,193,282	154,439	12.9%	0	0.0%	154,439	12.9%	10.3%	-31,002	0	\$17.18
Total	66	3,168,549	359,250	11.3%	7,106	0.2%	366,356	11.6%	10.1%	-47,399	16,998	\$19.14
I-10 East												
B	7	447,680	56,137	12.5%	0	0.0%	56,137	12.5%	14.7%	9,893	312	\$14.68
C	5	267,130	68,243	25.5%	0	0.0%	68,243	25.5%	26.8%	3,300	4,291	\$15.26
Total	12	714,810	124,380	17.4%	0	0.0%	124,380	17.4%	19.2%	13,193	4,603	\$14.85
Katy Freeway												
A	73	17,021,340	836,865	4.9%	47,314	0.3%	884,179	5.2%	5.4%	143,423	162,253	\$33.90
B	104	9,877,284	989,691	10.0%	204,609	2.1%	1,194,300	12.1%	12.9%	108,720	-203,421	\$23.10
C	34	1,595,235	68,781	4.3%	1,440	0.1%	70,221	4.4%	3.9%	-8,483	17,003	\$18.14
Total	211	28,493,859	1,895,337	6.7%	253,363	0.9%	2,148,700	7.5%	7.9%	243,660	-24,165	\$27.43
Kingwood/Humble												
B	15	853,520	58,654	6.9%	0	0.0%	58,654	6.9%	6.9%	-117	-735	\$20.15
C	4	141,500	144	0.1%	0	0.0%	144	0.1%	0.1%	0	1,510	\$15.00
Total	19	995,020	58,798	5.9%	0	0.0%	58,798	5.9%	5.9%	-117	775	\$20.14
NASA/Clear Lake												
A	12	1,767,866	67,583	3.8%	1,311	0.1%	68,894	3.9%	5.0%	19,973	24,892	\$24.37
B	47	3,186,220	933,261	29.3%	3,151	0.1%	936,412	29.4%	31.4%	65,088	29,342	\$19.24
C	20	655,548	127,722	19.5%	0	0.0%	127,722	19.5%	19.7%	1,287	-1,842	\$15.64
Total	79	5,609,634	1,128,566	20.1%	4,462	0.1%	1,133,028	20.2%	21.7%	86,348	52,392	\$19.57
North Belt/Greenspoint												
A	24	5,438,248	1,106,364	20.3%	7,617	0.1%	1,113,981	20.5%	12.2%	-448,746	-101,902	\$28.43
B	57	5,996,655	908,223	15.1%	57,363	1.0%	965,586	16.1%	18.3%	129,199	-49,959	\$15.08
C	22	1,415,652	298,645	21.1%	0	0.0%	298,645	21.1%	21.7%	8,446	-15,581	\$11.68
Total	103	12,850,555	2,313,232	18.0%	64,980	0.5%	2,378,212	18.5%	16.1%	-311,101	-167,442	\$22.97
Northeast Near and Northeast Outlier												
B	4	181,618	27,386	15.1%	0	0.0%	27,386	15.1%	14.0%	-1,904	22,537	\$21.90
C	2	56,562	11,751	20.8%	0	0.0%	11,751	20.8%	22.1%	755	8,269	\$13.99
Total	6	238,180	39,137	16.4%	0	0.0%	39,137	16.4%	15.9%	-1,149	30,806	\$19.03
Northwest and Northwest Outlier												
A	22	3,990,573	458,958	11.5%	52,861	1.3%	511,819	12.8%	13.7%	36,482	-61,578	\$22.78
B	92	7,586,898	990,721	13.1%	59,187	0.8%	1,049,908	13.8%	15.4%	118,123	80,850	\$18.97
C	40	1,573,367	141,140	9.0%	0	0.0%	141,140	9.0%	8.9%	-1,282	10,364	\$15.76
Total	154	13,150,838	1,590,819	12.1%	112,048	0.9%	1,702,867	12.9%	14.1%	153,323	29,636	\$19.95
Richmond/Fountainview												
B	14	805,875	190,027	23.6%	0	0.0%	190,027	23.6%	25.3%	14,178	13,394	\$17.40
C	12	496,843	67,347	13.6%	0	0.0%	67,347	13.6%	17.3%	18,655	5,577	\$14.02
Total	26	1,302,718	257,374	19.8%	0	0.0%	257,374	19.8%	22.3%	32,833	18,971	\$16.50

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	INVENTORY		DIRECT VACANCY		SUBLEASE VACANCY		VACANCY	VACANCY RATE (%)		NET ABSORPTION (SF)		RENTAL RATE
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q4-2014	Q3-2014	Q4-2014	Q3-2014	AVG (\$/SF)
San Felipe/Voss												
A	3	1,720,793	286,055	16.6%	7,409	0.4%	293,464	17.1%	11.9%	-89,325	4,387	\$35.58
B	32	3,230,995	261,809	8.1%	6,778	0.2%	268,587	8.3%	9.6%	41,541	-9,181	\$23.91
Total	35	4,951,788	547,864	11.1%	14,187	0.3%	562,051	11.4%	10.4%	-47,784	-4,794	\$30.37
South												
A	1	80,000	5,941	7.4%	0	0.0%	5,941	7.4%	9.7%	1,842	0	\$26.98
B	12	465,159	48,148	10.4%	0	0.0%	48,148	10.4%	11.6%	5,841	-6,667	\$20.74
C	5	194,042	71,100	36.6%	0	0.0%	71,100	36.6%	37.1%	889	-1,539	\$23.17
Total	18	739,201	125,189	16.9%	0	0.0%	125,189	16.9%	18.1%	8,572	-8,206	\$23.33
South Main/Med Center												
A	1	485,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	13	854,906	185,385	21.7%	0	0.0%	185,385	21.7%	21.7%	426	21,073	\$19.72
C	8	475,436	63,676	13.4%	0	0.0%	63,676	13.4%	13.8%	2,079	9,045	\$16.69
Total	22	1,815,342	249,061	13.7%	0	0.0%	249,061	13.7%	13.7%	2,505	30,118	\$18.85
Southeast/Outlier												
B	16	1,222,226	89,883	7.4%	0	0.0%	89,883	7.4%	8.6%	61,245	-20,897	\$21.13
C	5	213,543	50,514	23.7%	0	0.0%	50,514	23.7%	0.0%	-50,514	0	\$17.00
Total	21	1,435,769	140,397	9.8%	0	0.0%	140,397	9.8%	7.3%	10,731	-20,897	\$20.55
Southwest												
A	6	1,583,702	254,364	16.1%	0	0.0%	254,364	16.1%	16.3%	3,811	29,229	\$16.56
B	64	5,675,165	1,423,921	25.1%	0	0.0%	1,423,921	25.1%	27.2%	120,903	-136,654	\$15.78
C	42	2,200,629	208,270	9.5%	0	0.0%	208,270	9.5%	9.5%	691	10,957	\$14.02
Total	112	9,459,496	1,886,555	19.9%	0	0.0%	1,886,555	19.9%	21.3%	125,405	-96,468	\$15.66
Southwest Far and Outlier												
A	3	166,551	26,872	16.1%	0	0.0%	26,872	16.1%	8.2%	53,720	3,248	\$23.77
B	17	981,291	238,146	24.3%	0	0.0%	238,146	24.3%	31.3%	69,025	1,300	\$18.75
C	2	51,396	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	\$18.00
Total	22	1,199,238	265,018	22.1%	0	0.0%	265,018	22.1%	28.0%	122,745	4,548	\$21.51
West Loop/Galleria												
A	43	16,382,709	1,431,069	8.7%	190,142	1.2%	1,621,211	9.9%	10.4%	82,034	192,818	\$34.87
B	56	6,455,013	695,235	10.8%	19,793	0.3%	715,028	11.1%	11.9%	56,137	50,032	\$26.70
C	4	216,268	2,269	1.0%	0	0.0%	2,269	1.0%	1.0%	0	-767	\$20.59
Total	103	23,053,990	2,128,573	9.2%	209,935	0.9%	2,338,508	10.1%	10.7%	138,171	242,083	\$32.48
Westchase												
A	30	8,160,813	994,113	12.2%	135,510	1.7%	1,129,623	13.8%	12.7%	170,859	101,757	\$36.20
B	63	7,679,669	870,517	11.3%	35,233	0.5%	905,750	11.8%	11.4%	-27,249	-159,065	\$20.60
C	9	608,015	80,991	13.3%	0	0.0%	80,991	13.3%	10.3%	-18,335	2,744	\$17.24
Total	102	16,448,497	1,945,621	11.8%	170,743	1.0%	2,116,364	12.9%	12.0%	125,275	-54,564	\$29.89
The Woodlands												
A	27	6,409,284	445,625	7.0%	63,814	1.0%	509,439	7.9%	9.5%	1,007,077	509,158	\$35.39
B	70	4,317,796	366,435	8.5%	25,126	0.6%	391,561	9.1%	8.8%	-10,689	61,367	\$24.28
C	5	338,038	1,000	0.3%	0	0.0%	1,000	0.3%	0.3%	0	0	\$19.80
Total	102	11,065,118	813,087	7.3%	88,940	0.8%	902,000	8.2%	8.9%	996,388	570,525	\$30.02



## OFFICE DEVELOPMENT PIPELINE

Houston's construction pipeline contains 17.0 million SF of office space, of which 62.8% is pre-leased. Build-to-suit projects make up 56.0% of the 17.0M SF, and the remaining 7.5M SF of spec office space under construction is approximately 28.8% pre-leased. The table below includes office buildings under construction with an RBA of 50,000 SF or greater.

Building Name	Address	Submarket	SF	Pre-Leased	Developer	Est. Delivery
ExxonMobil Campus - Ph II	23125 I-45 S	The Woodlands	1,500,000	100.0%	Gilbane Building Company	Mar-15
Phillips 66	2101 Citywest Blvd	Westchase	1,100,000	100.0%	Gilbane Building Company	Jun-16
609 Main at Texas	609 Main St	CBD	1,057,668	0.0%	Hines	Dec-16
CyrusOne W Campus Expansion	5150 Westway Park Blvd	Northwest Far	640,000	100.0%	CyrusOne	Mar-15
BHP Billiton Petroleum	1500 Post Oak Blvd	Galleria/Uptown	600,000	100.0%	Transwestern	Oct-16
Energy Center Four	925 N Eldridge Pky	Katy Freeway West	600,000	100.0%	Trammell Crow Company	Dec-16
Energy Center Three	935 N Eldridge Pky	Katy Freeway West	546,604	100.0%	Trammell Crow Company	Apr-15
Energy Center V	915 N Eldridge Pky	Katy Freeway West	526,637	0.4%	Trammell Crow Company	Apr-16
ExxonMobil Campus - Ph III	23125 I-45 S	The Woodlands	500,000	100.0%	Gilbane Building Company	Jun-15
Hilcorp Energy Tower	1110 Main Street	CBD	475,000	100.0%	Hines	Oct-15
Noble Energy Center II	SH 249 & Louetta Rd	FM 1960/Hwy 249	456,000	100.0%	Trammell Crow Company	Jun-15
Air Liquide Center- South	9811 Katy Fwy	Katy Freeway East	452,370	37.8%	MetroNational	Nov-15
Millennium Tower II	10353 Richmond Ave	Westchase	445,000	100.0%	BMS Management, Inc.	Feb-16
Energy Tower IV	11750 Katy Fwy	Katy Freeway West	429,157	39.4%	Mac Haik Realty LLC	Jan-15
3737 Buffalo Speedway	3737 Buffalo Speedway Ave	Greenway Plaza	400,000	22.9%	PM Realty Group	Aug-15
West Memorial Place II	15377 Memorial Dr	Katy Freeway West	389,709	4.1%	Skanska Commercial Development	Nov-15
Shell Phase 3 Bldg 1	201 N Dairy Ashford Rd	Katy Freeway West	336,000	100.0%	Hines	Mar-15
Shell Phase 3 Bldg 2	201 N Dairy Ashford Rd	Katy Freeway West	336,000	100.0%	Hines	Mar-15
Shell Phase 4	201 N Dairy Ashford Rd	Katy Freeway West	336,000	100.0%	Hines	Mar-15
West Memorial Place	15375 Memorial Dr	Katy Freeway West	334,147	55.3%	Skanska Commercial Development	Jan-15
ExxonMobil - Hughes Landing	1735 Hughes Landing Blvd	The Woodlands	331,840	100.0%	The Woodlands Development Company	Apr-16
ExxonMobil - Hughes Landing	1725 Hughes Landing Blvd	The Woodlands	317,052	100.0%	The Woodlands Development Company	Apr-16
Westway Plaza	11330 Clay Rd	FM 1960/Hwy 249	312,000	79.8%	Transwestern	Apr-15
Enclave Place	1414 Enclave	Katy Freeway West	300,907	0.0%	PM Realty Group	Aug-15
Beltway Lakes Phase III	5775 N Sam Houston Pky E	Northwest Far	271,384	0.0%	Radler Enterprises, Inc.	Jan-15
Town Centre I	700 Town & Country Blvd	Katy Freeway East	254,489	0.0%	Moody Rambin	Jan-15
Three Hughes landing	1780 Hughes Landing Blvd	The Woodlands	250,000	0.0%	The Woodlands Development Company	Oct-15
Kirby Grove	2525 Richmond Ave	Greenway Plaza	248,275	53.3%	Midway Companies	Aug-15
CityCentre Five	825 Town & Country	Katy Freeway East	227,063	68.2%	Midway Companies	Jul-15
Legacy at Fallbrook	10720 W Sam Houston Pky N	Northwest Far	206,754	15.0%	Liberty Property Trust	Jan-15
Academy Sports HQ	1800 N Mason Rd	Katy Freeway West	200,000	100.0%	Academy	Jan-15
Remington Square - Ph II	10713 W Sam Houston Pky N	FM 1960/Hwy 249	200,000	0.0%	Stream Realty Partners, L.P.	Oct-15
3773 Richmond Ave	3773 Richmond Ave	Greenway Plaza	185,000	1.0%	The Redstone Companies	Dec-15
One Grand Crossing	SWC of Grand Pky & I-10	Southwest Outlier	171,538	0.0%	Trammell Crow Company	Dec-15
Woodbranch Plaza IV	12120 Wickchester Ln	Katy Freeway West	171,475	100.0%	PM Realty Group	Apr-15
San Felipe Place	2229 San Felipe	Allen Parkway/Midtown	167,562	17.0%	Hines	Aug-15
1885 Saint James Place	1885 St James Pl	West Loop/Galleria	165,000	0.0%	Nelson Murphree Legacy Partners	Jan-16
Chasewood Crossing Three	19350 State Highway 249	FM 1960/Hwy 249	156,000	0.0%	Greenwood Corporations	Dec-15
Katy Ranch Phase I	24275 Katy Fwy	Southwest Outlier	151,187	0.0%	Freeway Properties	Mar-15
Park Ten Center - Phase II	16200 Park Row	Katy Freeway West	150,000	0.0%	Lincoln Property Company	Aug-15
Air Liquide Center- North	9807 Katy Fwy	Katy Freeway East	143,830	100.0%	MetroNational	May-15
Nalco Champion Headquarters	7705 Highway 90A	E Fort Bend/Sugar Land	133,000	100.0%	Nalco Holding Co	Aug-15
Beltway 8 Corporate Centre	5060 Westway Park Blvd	Northwest Far	130,451	7.9%	Panattoni Development	Jan-15
Mason Creek Office Center II	21700 Merchants Way	Katy Freeway West	127,955	0.0%	Myers Crow & Saviers, LTD.	May-15
The Offices at Sam Houston	10203 W Sam Houston Dr	Northwest Far	108,633	88.9%	D'Agostino Companies	Jul-15
River Oaks District - Office	4444 Westheimer Rd	Post Oak Park	99,826	36.9%	Oliver McMillan	Jan-15
Gateway at Spring Valley	9090 Katy Fwy	Katy Freeway East	95,459	64.0%	Ersa Grae Corporation	Oct-15
2829 Technology Forest Dr	2829 Technology Forest Dr	The Woodlands	87,999	48.1%	Black Forest Ventures	Jan-15
Grandway West - Bldg 1	Grand Pky & Franz Rd	Katy Freeway West	86,800	56.7%	The Urban Companies	Jan-15
Deerwood Glen II	4440 SH 225	Gulf Freeway/Pasadena	78,000	0.0%	Clay Development	Jan-15

Data Source: CoStar Property

## The Colliers Advantage

### Enterprising Culture

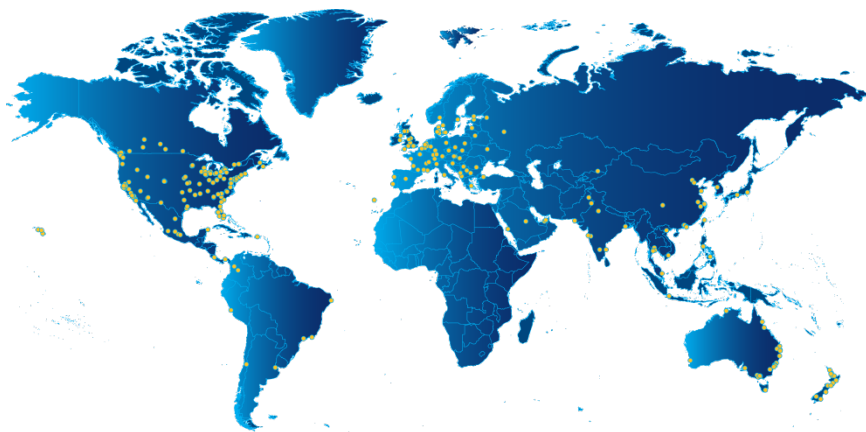
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*\*Information herein has been obtained from sources deemed reliable, however its accuracy cannot be guaranteed.*

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Based on 2013 results. Square footage includes office, industrial and retail property under management. Residential property is excluded from this total.



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