HOUSTON OFFICE MARKET

Yardi® Matrix

Market Analysis

Fourth Quarter 2017

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Sector on the Mend

Houston continues to be one of the fastest-growing metros in the U.S., with a growing population and an economy that is rapidly diversifying from its reliance on energy. The metro's office market has grown substantially in recent years, but it faces some challenges that include the ongoing recovery from the drop in oil prices, a sometimes-unconstrained development pipeline and the effects of Hurricane Harvey.

Overall office vacancy rates sit at roughly 22%, due to the imbalance between supply and demand. Landlords are still trying to fill **large blocks of sublease** space that became vacant as a result of the energy downturn. Greenspoint (where vacancy rates are now 54.5%) and the Energy Corridor (32.7%) were hit the hardest by the downturn. Meanwhile, between 2015 and the end of this year, about **15 million square feet** of new office space should come online. Recovery from the hurricane should be less long lasting, as displaced tenants mostly signed short-term leases until they can return to their original locations.

Investment activity remains sluggish, with total transaction volume amounting to $750 million in October. Although Houston is showing signs of improvement, recovery is expected to take longer in the office sector.

Job growth has been weak, as gains in manufacturing (13,300 new jobs added year-over-year through October), education and health services (9,000), and professional and business services (8,800) have been offset by decreases in mining; trade, transportation and utilities; and hospitality. The Harvey recovery effort is expected to create a wave of construction jobs.

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