

HOUSTON OFFICE MARKET

Yardi® Matrix

Market Analysis

First Quarter 2019

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Growth In Sight Yet Again



Houston has been making headway following the economic slowdown, and—while the metro's office market is far from healthy—signs point toward a strengthening economy. As an economy deeply rooted in energy, Houston is taking steps toward diversifying. As the fourth-largest metro in the U.S., Houston has a business-friendly climate and affordable cost of living that continue to be significant draws for companies and residents alike. The metro had 716,000 office-using jobs as of October, with professional and business services leading growth, having added 30,600 jobs in the 12 months ending in October.

An oversupply of office space is shaping Houston's development pipeline, but that has not prevented developers from breaking ground on several new projects. More than 3.2 million square feet was under construction as of December; that will add 3.1% to total stock once delivered. Tenants in search of well-amenitized space are focusing on locations providing walkability and connectivity. The largest development in the metro is Hines' 800 Texas Ave. in the Central Business District. Slated for delivery in late 2021, the 1 million-square-foot asset already has anchor tenants: Vinson & Elkins and Hines itself.

Investment activity has lost some steam compared to prior years, in line with national trends. However, investor interest remained consistent, as more than \$1.4 billion in office assets traded in 2018. With acquisition yields for highly rated office properties in the 6.5 to 7.0% range, Houston is trending slightly higher than other second-tier markets, like Denver, Phoenix or Atlanta.