

HOUSTON OFFICE MARKET

Yardi® Matrix

Market Analysis

Second Quarter 2019

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Solid Fundamentals Sustain Expansion



Houston's office market continues its steady recovery underpinned by strong market fundamentals and consistent demand for space. As a market traditionally rooted in energy, Houston has been taking major steps toward diversifying its economy and making headway in the technology, innovation and health-care sectors, among others. Employers added 18,600 office-using jobs year-over-year through February, with professional and business services leading gains (up 3.5%), on par with national trends.

Development activity is driven by a flight-to-quality trend, with tenants seeking newly constructed and more efficient office space. Some 2.6 million square feet was under construction as of March; that will add 1.1% to existing stock upon delivery. Developers remain optimistic despite rising labor and construction costs, breaking ground even on speculative projects in the late stages of the real estate cycle. Year-to-date, one development has broken ground in Houston: Stonelake Capital Partners' Park Place River Oaks is being built on spec, with a completion date scheduled for late 2020.

Investor interest has been steady compared to previous years, despite a slowdown in transaction activity in the first quarter, in line with national sales trends. Buyers continue to focus on core submarkets and value-add opportunities that could generate higher returns. Acquisition yields for highly rated properties were in the 6.5% to 7% range. Houston is trending slightly higher than other second-tier markets, such as Phoenix, Austin and Atlanta.