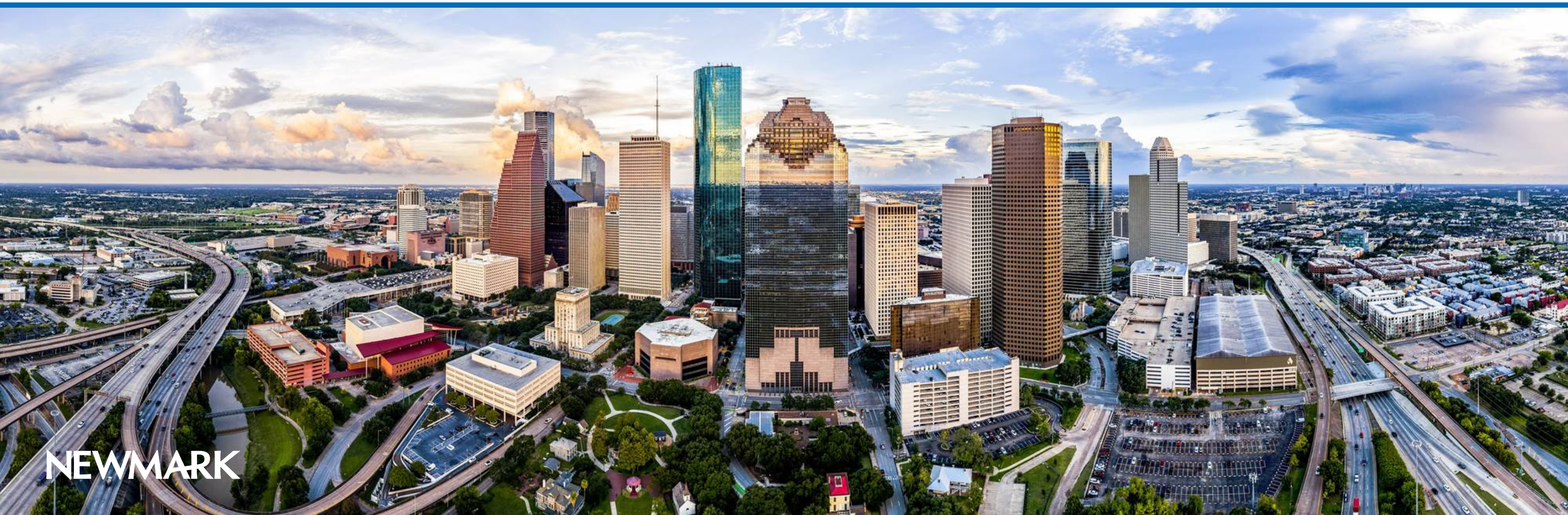


2Q24

# Houston Office Market Overview



NEWMARK

# Market Observations

## Economy

- The Houston market’s unemployment rate dropped four basis points year over year to 4.3% but remains well below the five-year average of 5.5%.
- Job growth has slowed compared with recent highs to 2.3% year over year, and is trending toward pre-pandemic levels, with May 2019 growth at 2.2%.
- All sectors, except information, reported employment growth, with other services leading job gains at 6.9% over the past 12 months.
- Office-using jobs in the market eased from the all-time high to 782,660 employees, reflecting 9.8% growth since 2019.

## Major Transactions

- Ovintiv signed the quarter’s largest deal, renewing 168,805 SF at 4 Waterway Square Place in The Woodlands submarket.
- Blue Cross Blue Shield signed a 136,800 SF lease at West Belt Office Center I for the second largest lease of the quarter.
- Tenants are showing renewed interest in the Galleria/Uptown, with two of the five-largest deals of the quarter occurring in the submarket.
- Notable transactions during the quarter come from a mix of tenant industries, indicating there is still appetite for space among occupiers in the market.

## Leasing Market Fundamentals

- Average annual full-service asking rental rates rose slightly to \$30.00/SF, reflecting a 0.4% increase year over year.
- Overall vacancy rates remained at 25.4%, in the second quarter of 2024, reflecting no change quarter over quarter and increasing by 80 basis points year over year.
- The under-construction pipeline remains muted, with 1.2 MSF in progress.
- Total leasing activity closed the quarter at 3.1 MSF, well below the long-term second-quarter average of 4.4 MSF. The average lease size was 3,713 SF, an increase of 3.6% quarter over quarter and a decrease of 15.1% year over year.

## Outlook

- The Houston office market will likely continue to see subdued growth in 2024. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- Strong demand for premier office product has continued to keep rents elevated in top tier buildings, increasing the rent spread between Class A and Class B assets, with flight-to-quality expected to remain a trend in the market.
- The office market is expected to remain tenant friendly with continued muted demand. As a result, overall asking rents in non-premier buildings are projected to remain flat in the near term.

1. Economy
2. Leasing Market Fundamentals

2Q24

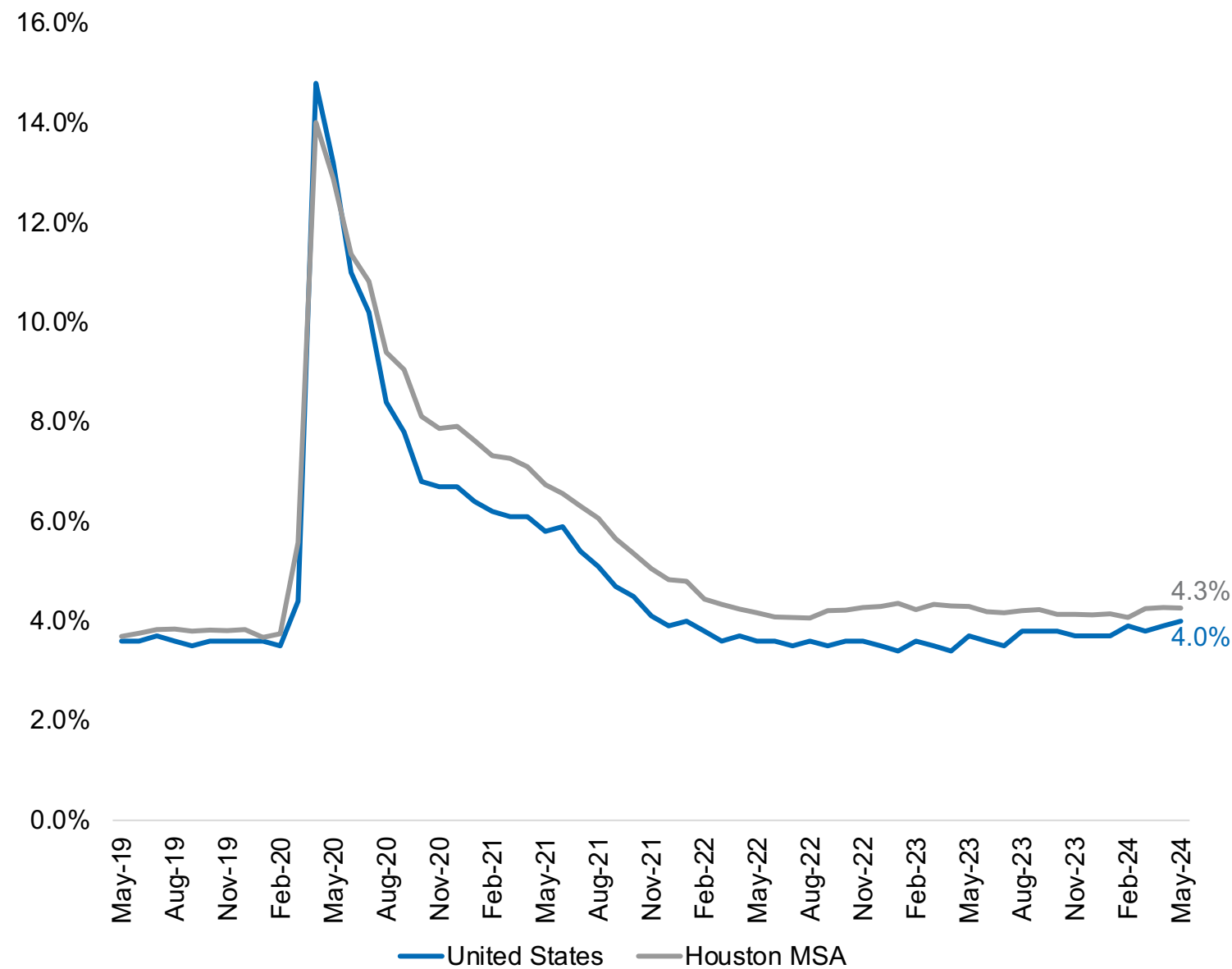
# Economy



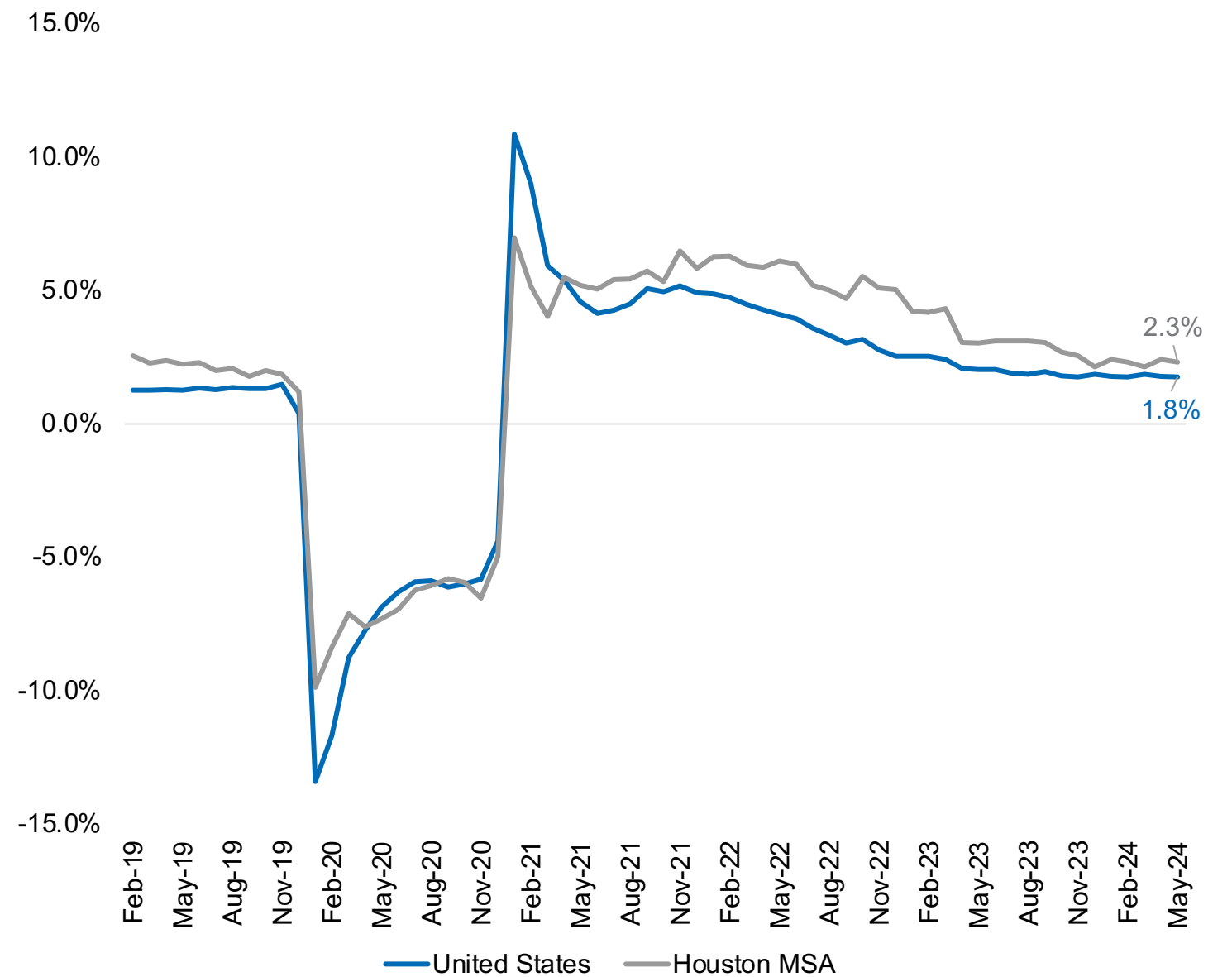
# Metro Employment Trends Continue Slow Growth

The Houston market has generally reported higher unemployment rates compared with the national average, while outperforming in employment growth. Recent national economic headwinds have pushed the market's unemployment rate and the national average to converge, at 4.3% and 4.0%, respectively. Houston's unemployment rate decreased by four basis points year over year, while the employment year-over-year growth rate slowed by 71 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

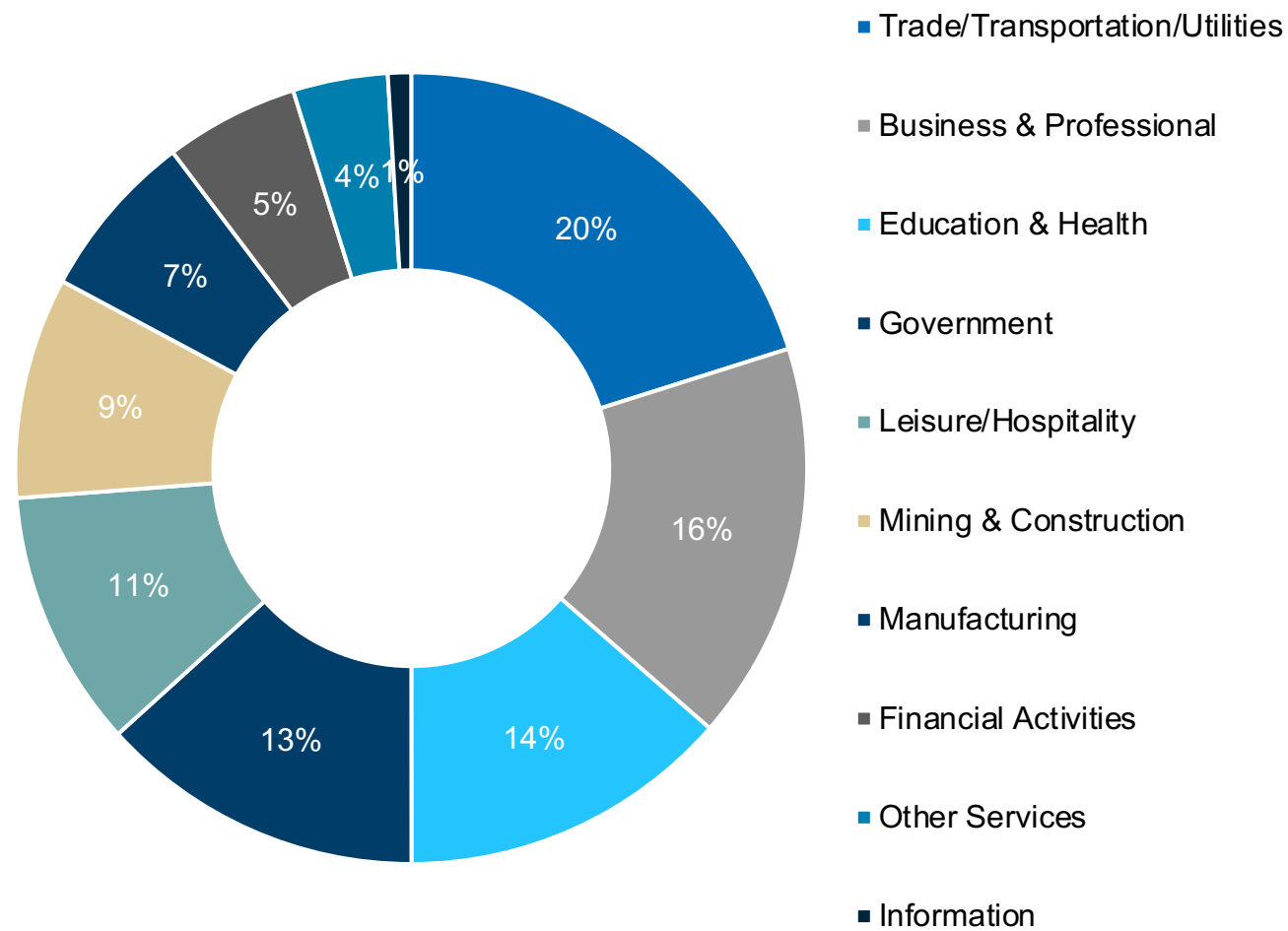


Source: U.S. Bureau of Labor Statistics, Houston MSA

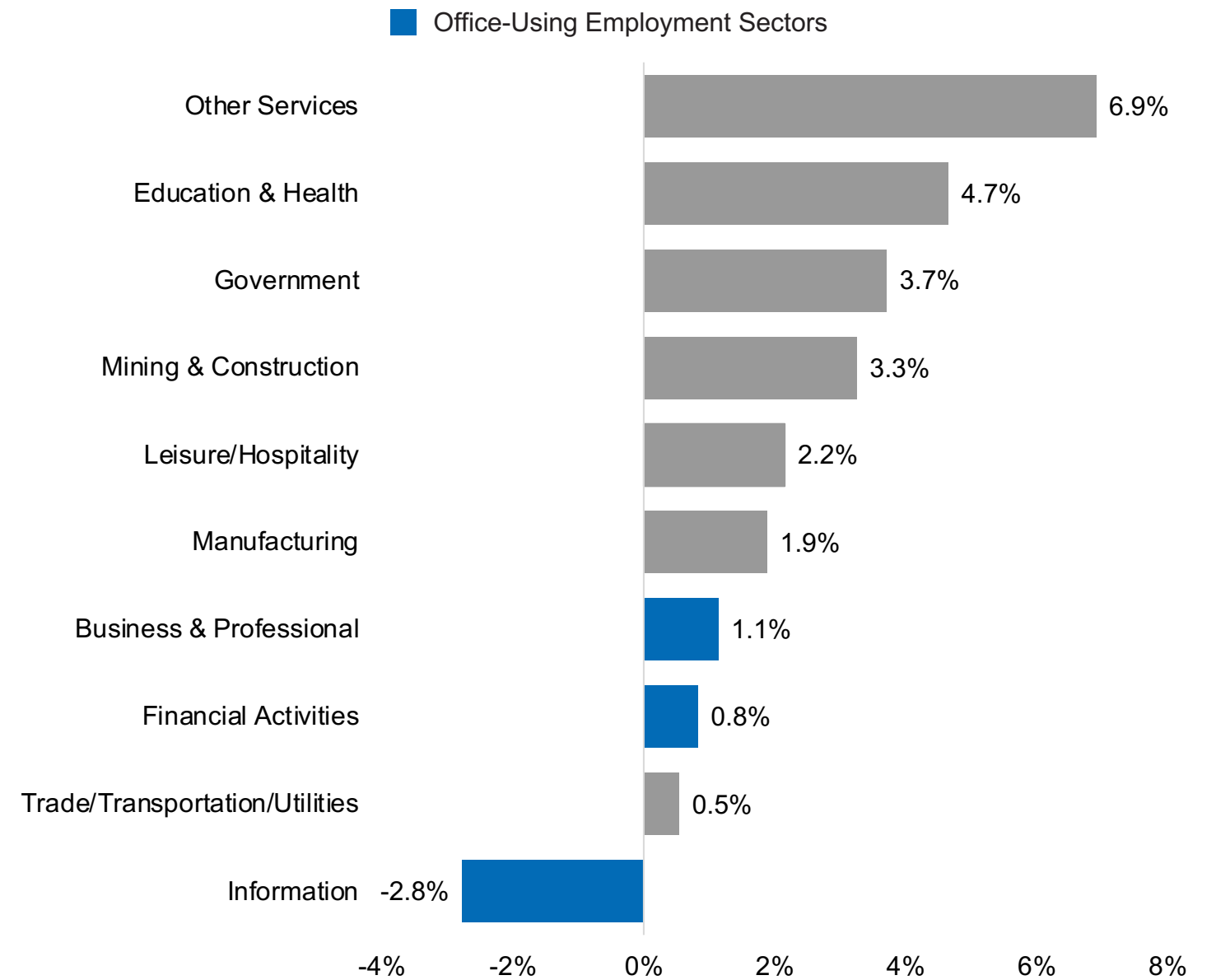
# Employment Growth Continues Across Most Office Sectors

Known for its energy sector, the Houston market's top two employment industries account for 36.4% of market share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 16.3%. All industries in the metro, except for information, reported growth with office-using industries reporting year-over-year gains ranging from 0.8% to 1.1% with the information sector reflecting a decline of 2.8%.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

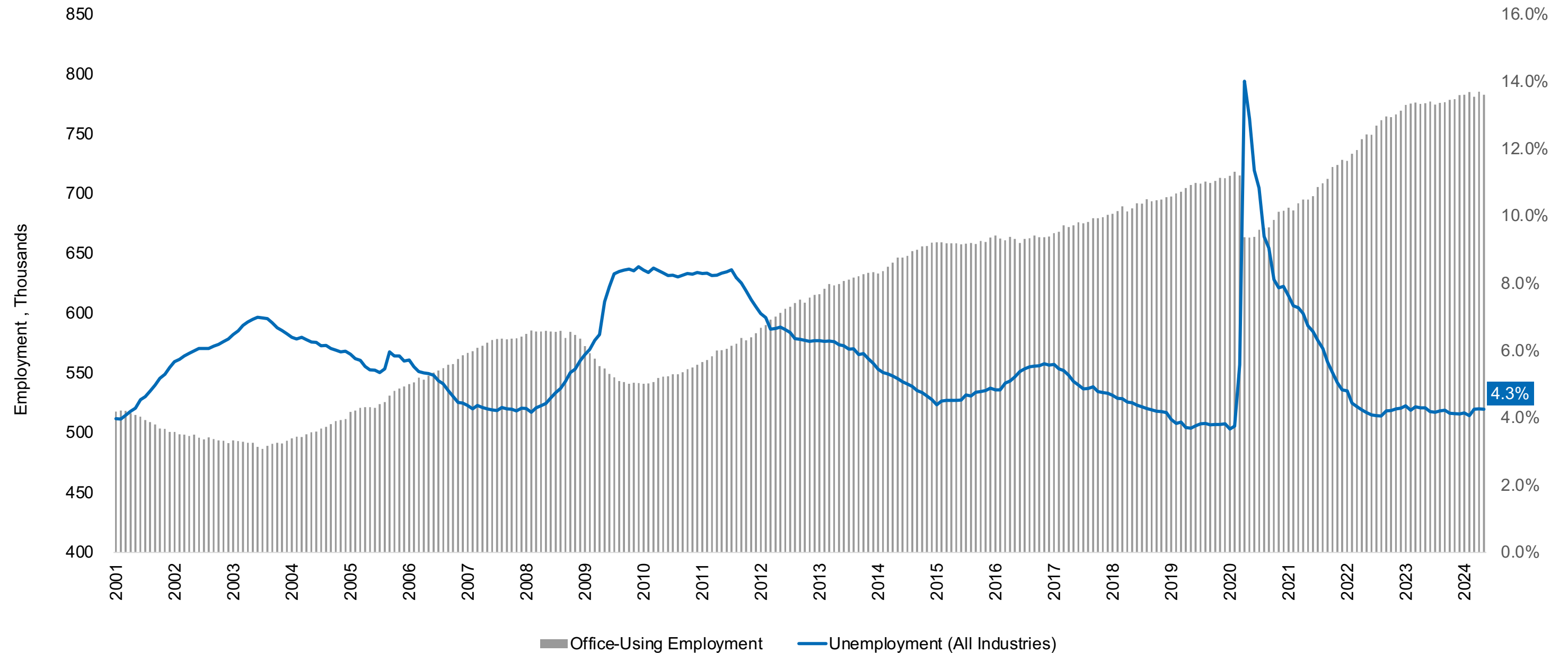


Source: U.S. Bureau of Labor Statistics, Houston MSA

# Overall Office-Using Employment Eases from Historical High

Office-using employment in the Houston market as of the end of May 2024 is at 782,660 employees, falling by 2,740 from the all-time high the previous month. Currently, the unemployment rate is at 4.3%, above the 3.8% average levels reported in 2019. The office-using information sector was the only employment sector to report negative annual growth, while the business and professional services sector posted marginal gains. Collectively, these sectors are a contributing factor to Houston's unemployment rate and decreased office-using employment numbers.

## Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Houston MSA

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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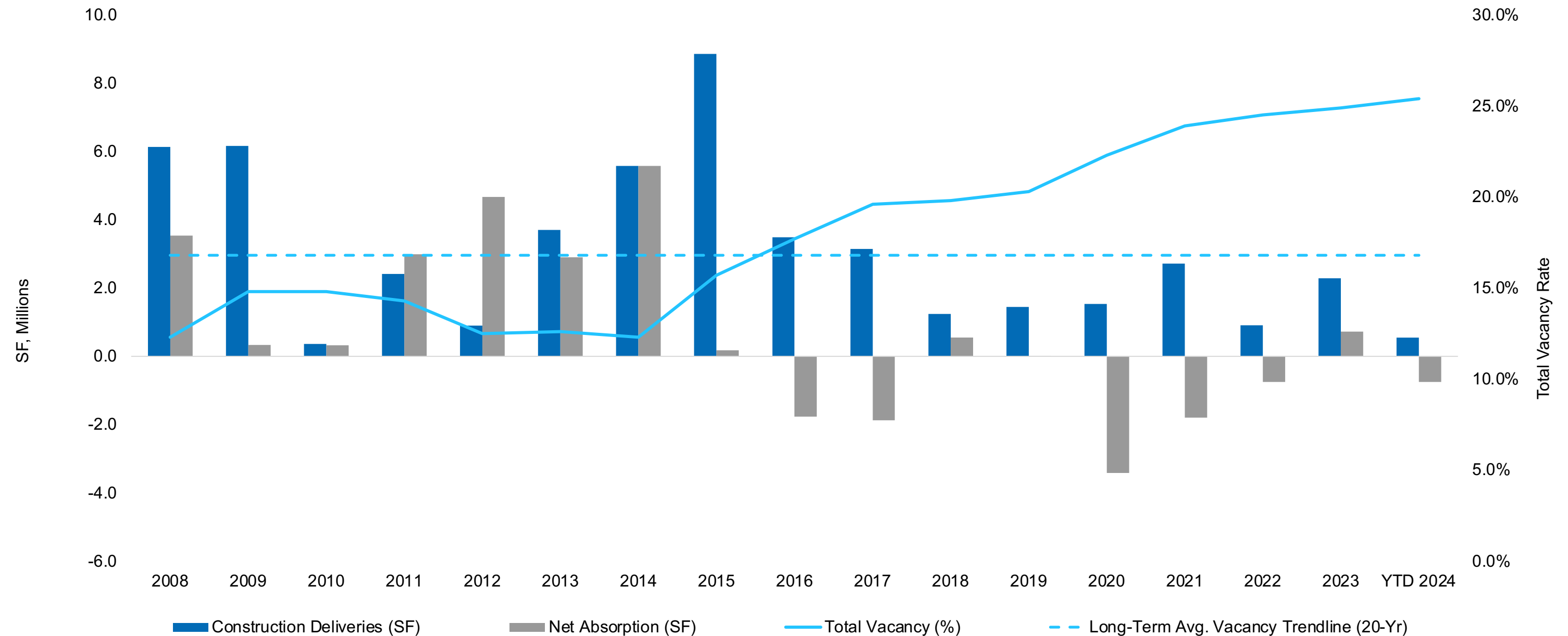
# Leasing Market Fundamentals



# Vacancy Begins to Flatten as Net Absorption Outpaces Deliveries

The Houston office vacancy rate increased by 80 basis points year over year to 25.4% in the second quarter of 2024, well above the long-term average of 16.8%. Quarter over quarter, vacancy rates experienced no change as absorption slightly outpaced deliveries. Since the oil crash in 2016, vacancy rates have steadily increased in the market as new deliveries outpaced annual absorption, but as the construction pipeline empties vacancy in the market is expected to stabilize in the near-term.

Historical Construction Deliveries, Net Absorption, and Vacancy

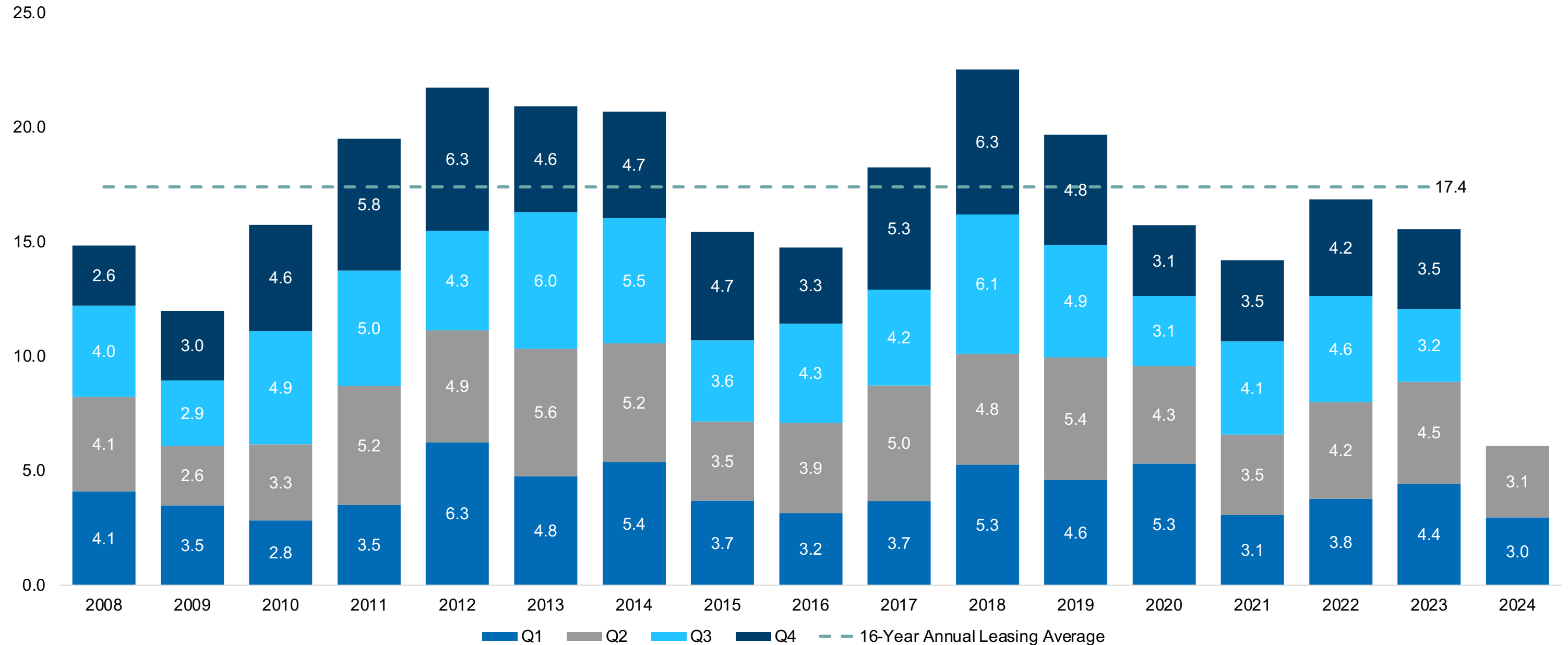


Source: Newmark Research, CoStar

# Declining Deal Activity Continues, Resulting in Slowing Leasing Activity

Leasing activity in the market remains slower, with leasing activity in the second quarter of 2024 totaling 3.1 MSF. Since 2008, second-quarter leasing activity averaged 4.4 MSF, with the second quarter of 2024 well below the historical average. Deal size averaged 3,713 SF in the second quarter of 2024, an average of 130 SF more than the previous quarter and 662 SF less than a year ago. The slowing leasing activity pace is largely attributed to fewer deals being done, likely because of a more challenging debt liquidity environment.

Total Leasing Activity (msf)

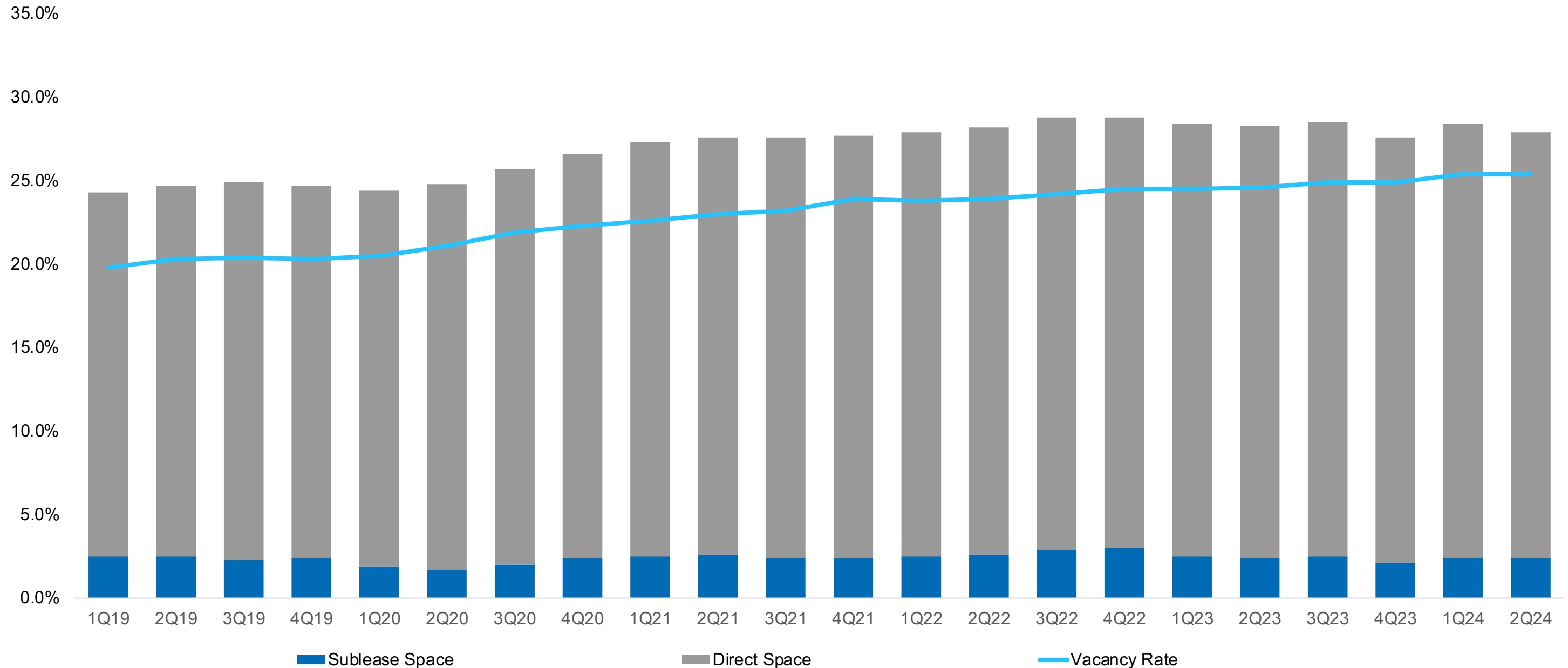


Source: Newmark Research, CoStar

# Availability Falls from Record High but Remains Elevated

Sublease availabilities in the Houston market have declined since the oil crash in 2016, remaining at a relatively steady level since 2019. As of the end of the second quarter of 2024, sublease availability in the market was at 2.4%. Direct availabilities have generally increased since the pandemic, reaching an all-time high of 26.0% in the first quarter of 2024, with the current direct availability rate at 25.5%. At 25.4%, vacancies continue to remain elevated alongside availabilities.

Available Space as Percent of Overall Market

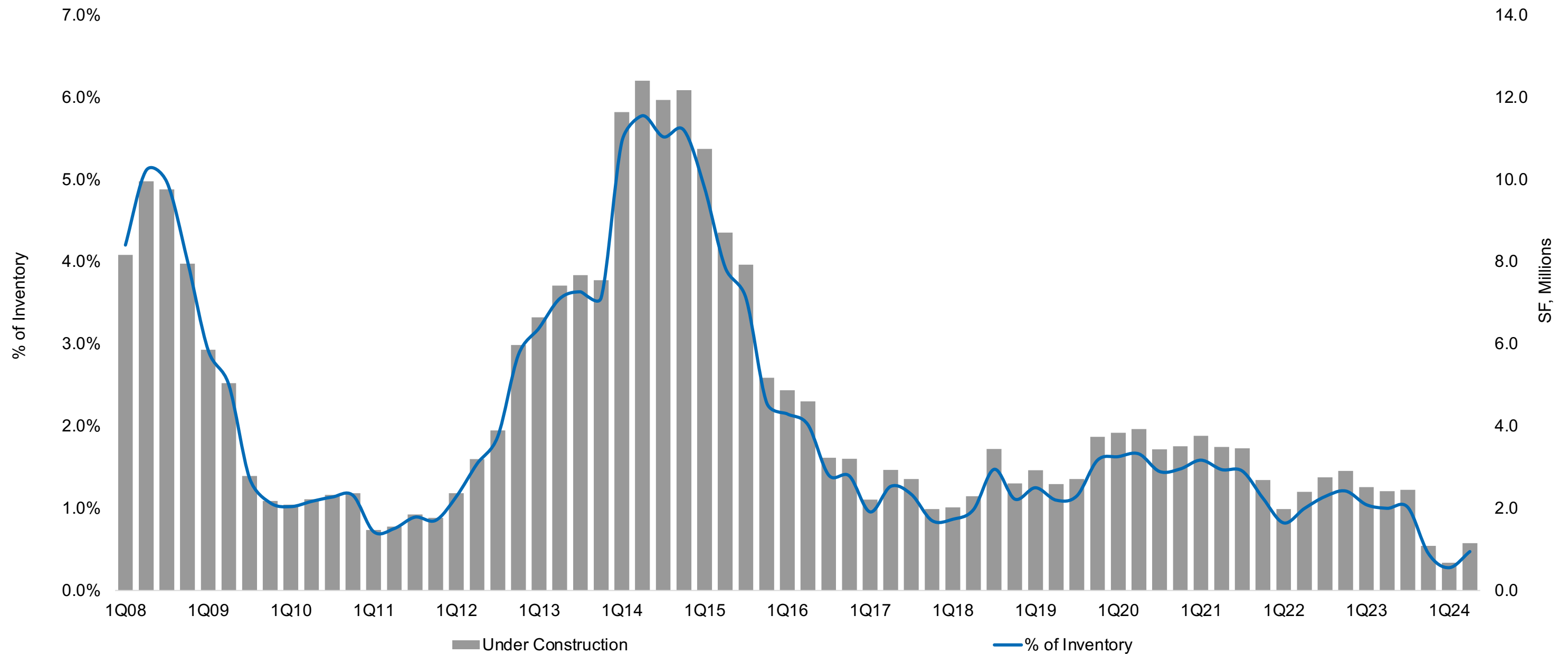


Source: Newmark Research, CoStar

# Construction Activity Rises but Remains Subdued

Construction activity has remained relatively muted in the market since 2016. As of the second quarter of 2024, the market had 1.2 MSF under construction\*, accounting for 0.5% of the market's inventory, indicating there is less risk of overbuilding.

## Office Under Construction and % of Inventory



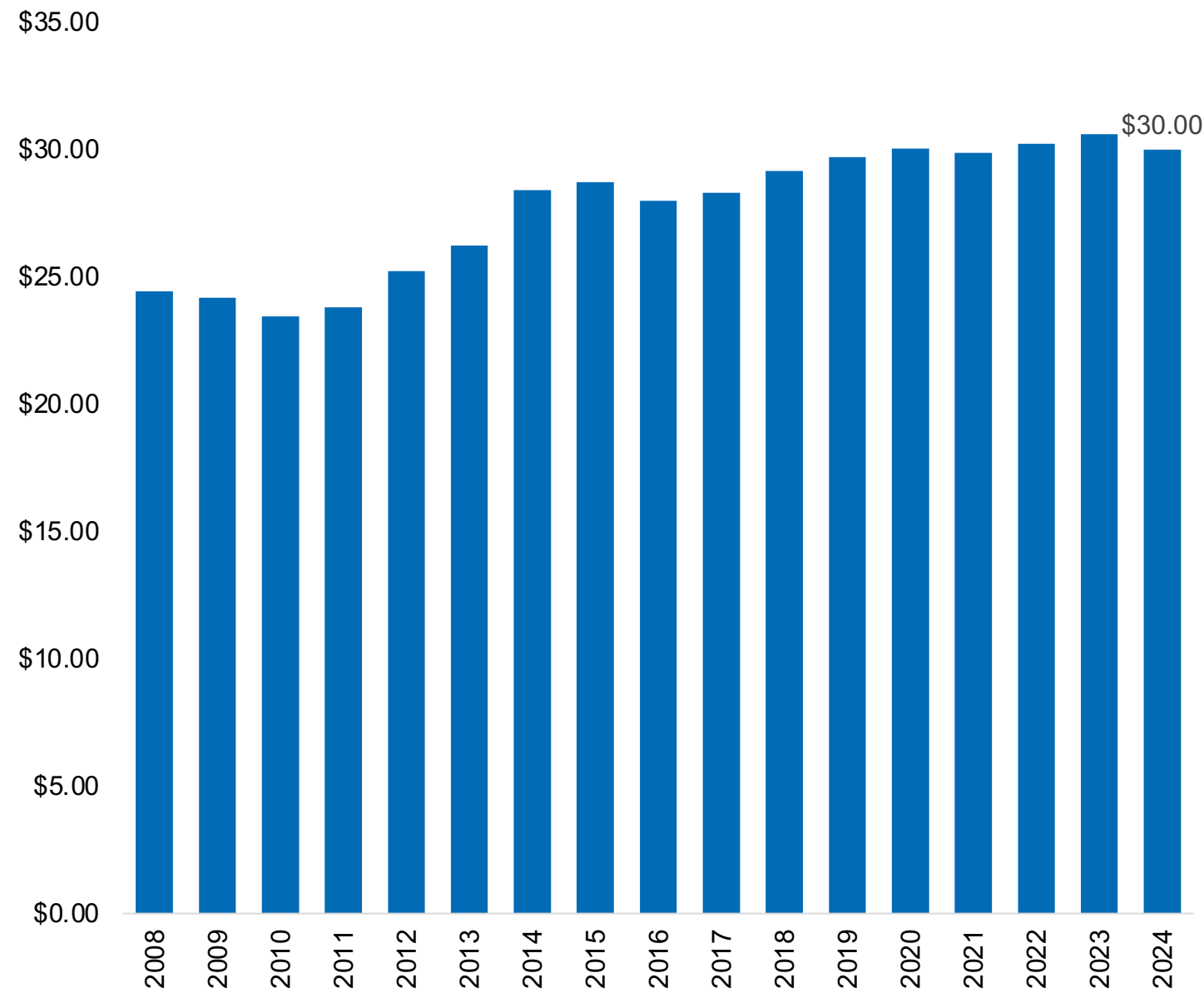
Source: Newmark Research, CoStar

\* The bulk of space under construction in 2Q24 is medical office

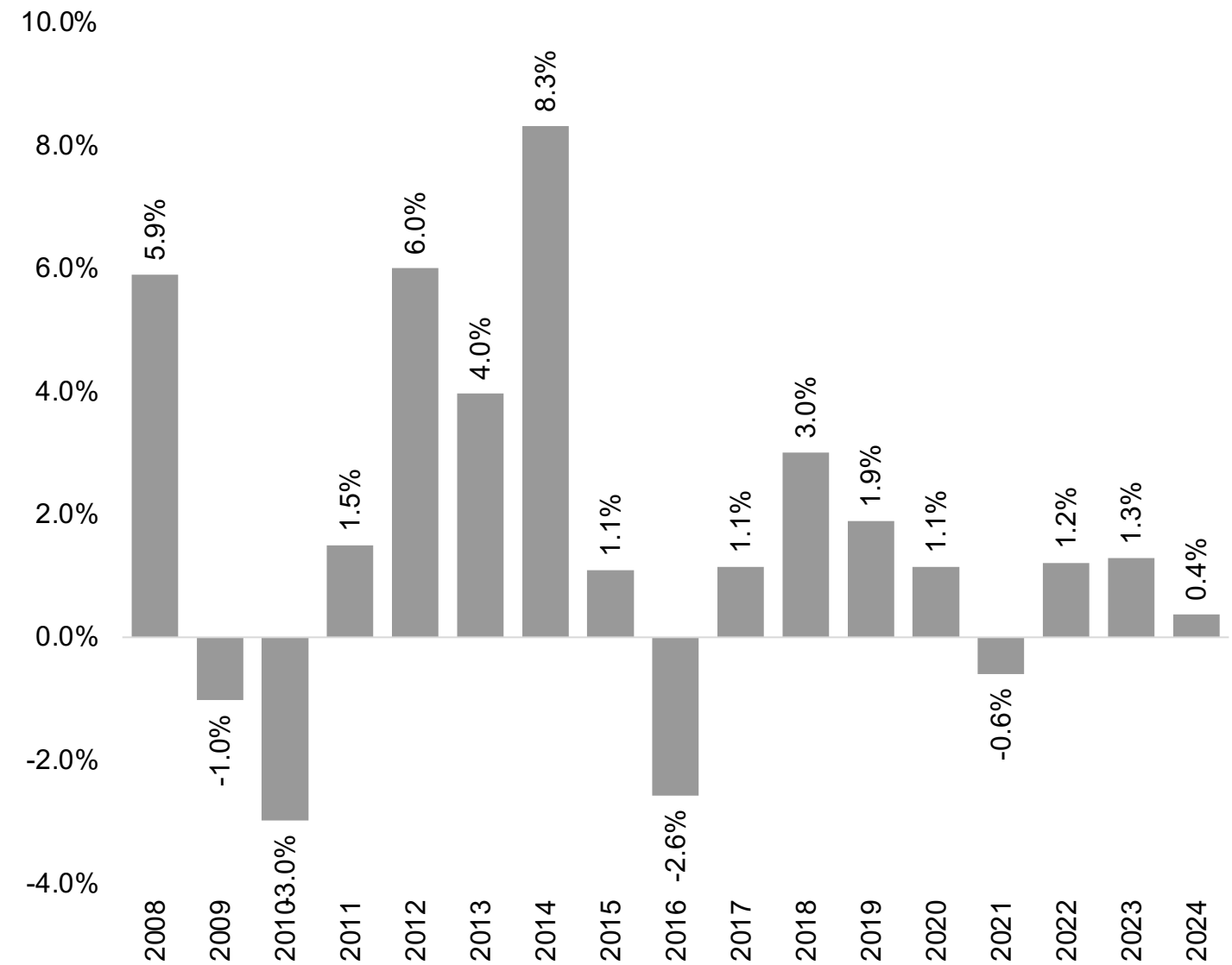
# Rents Increase Year Over Year but Remain Below All-Time High

Rents rose slightly in the second quarter of 2024 by 0.4% year over year to \$30.00/SF but remain below the all-time high of \$30.62/SF reported in the fourth quarter of 2023. Generally, asking rents are likely to remain elevated in a market impacted by inflation and increasing operating costs.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

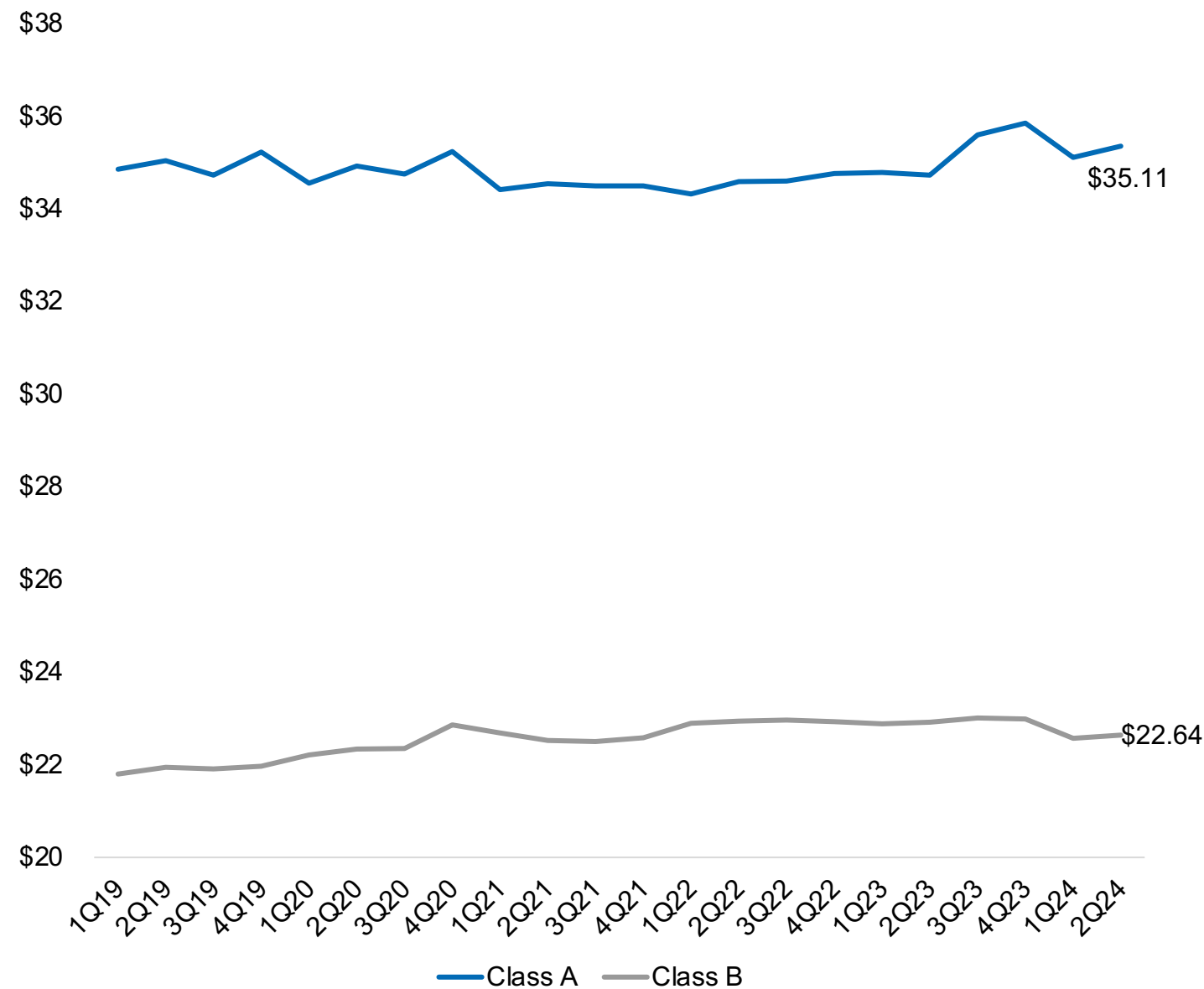


Source: Newmark Research, CoStar

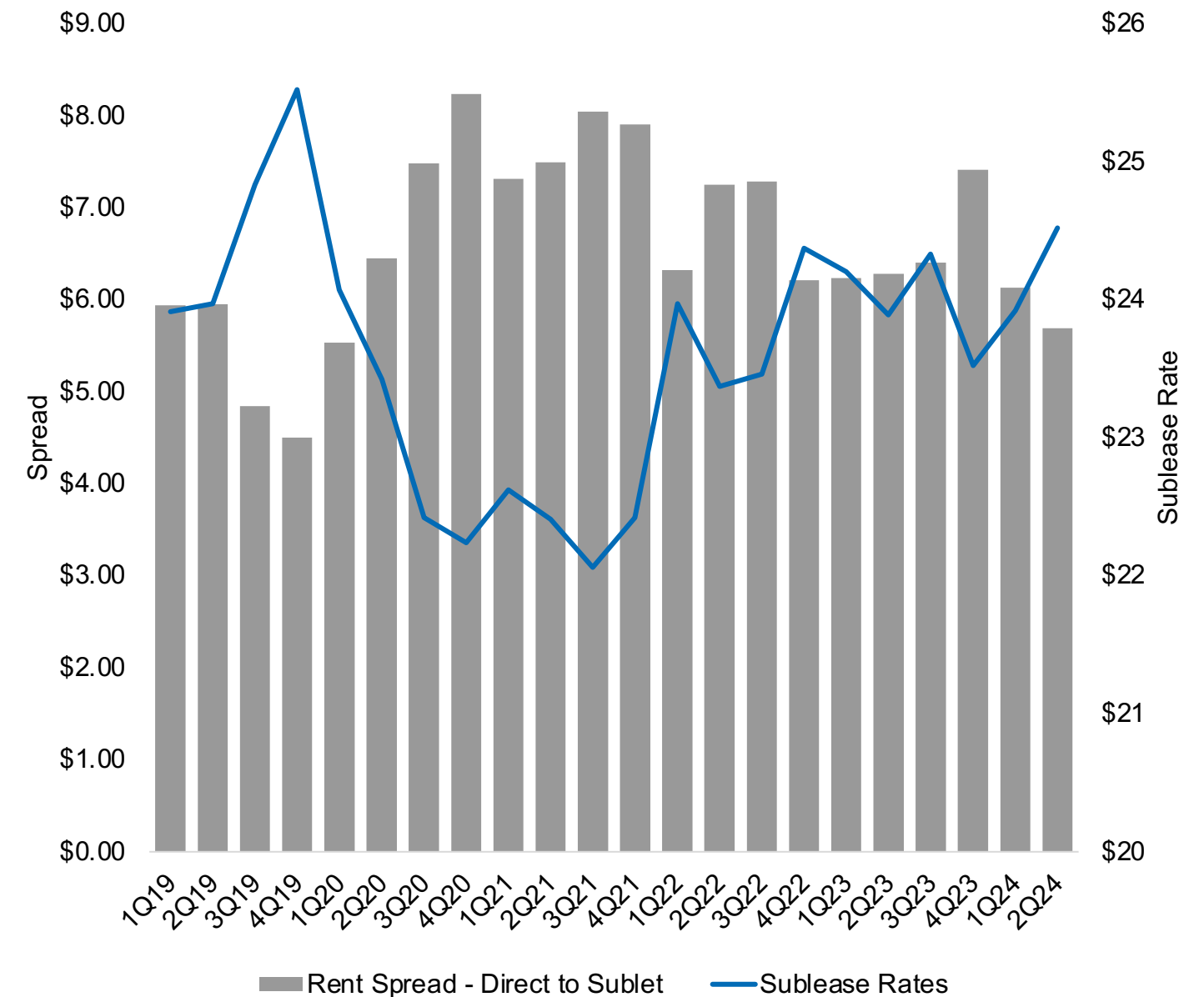
# Rent Spread Increases Among Class A Assets

As of the end of the second quarter of 2024, Class A rents ended at \$35.35/SF, while Class B reported \$22.64/SF. The \$12.71/SF spread represents a 7.6% increase year over year and reflects the greater demand for higher quality assets. Sublease rates have increased in recent quarters, rising by 2.5% quarter over quarter and 2.6% year over year. Currently, sublease rates average \$24.52/SF with a rent spread of \$5.69/SF between direct and sublease rates.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Flight-to-Quality Leasing Activity Persists

Despite slowing leasing activity, flight to quality continues as a trend in the market even as the rent spread in Class A spaces remains elevated. As of the end of the second quarter of 2024, Class A space accounted for 58.0% of the market's leasing activity by SF, but only 28.4% of the market's deal volume. Average leases signed in Class A space were 7,599 SF and continue to remain larger than the average market deal size at 3,713 SF.

## Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Ovintiv	4 Waterway Square Place	The Woodlands	Renewal	168,805
<i>Denver-based petroleum company Ovintiv renewed its lease for 168,802 SF at 4 Waterway Square Place in The Woodlands submarket.</i>				
Blue Cross Blue Shield	West Belt Office Center I	Southwest Fwy	Direct New	136,800
<i>Health insurance company Blue Cross Blue Shield signed a long-term lease for 136,800 SF at West Belt Office Center I in the Southwest Freeway submarket.</i>				
TDECU	One Post Oak Central	Galleria/Uptown	Direct New	135,000
<i>TDECU, a credit union based in Lake Jackson, TX, leased 135,000 SF at One Post Oak Central in the Galleria/Uptown submarket.</i>				
Camden Property Trust	Williams Tower	Galleria/Uptown	Direct New	104,000
<i>Multifamily development company Camden Property Trust signed for 104,000 SF at Williams Tower in the Galleria/Uptown submarket.</i>				
OneSubsea	Energy Center V	Energy Corridor	Direct New	99,501
<i>OneSubsea, a subsea equipment supplier, leased 99,501 SF across three floors at Energy Center V in the Energy Corridor.</i>				

Source: Newmark Research, CoStar



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