

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
25.8% Vacancy Rate	▲	▲
-219K Net Absorption, SF	▼	▼
\$31.07 Asking Rent*, PSF	▼	▼

*(Overall, All Property Classes)
Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
3.4M Houston Employment	▲	▲
4.4% Houston Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics

ECONOMY

Total employment stood at 3.4 million in Houston's metro area (MSA) at the end of Q3 2024, representing a 1.8% year-over-year (YOY) increase. Houston's YOY job growth closely resembles the 1.5% YOY increase experienced nation-wide. Among the 10 U.S. markets with the largest labor forces, Houston's YOY growth ranked second for the second consecutive quarter, just behind Miami (2.1%).

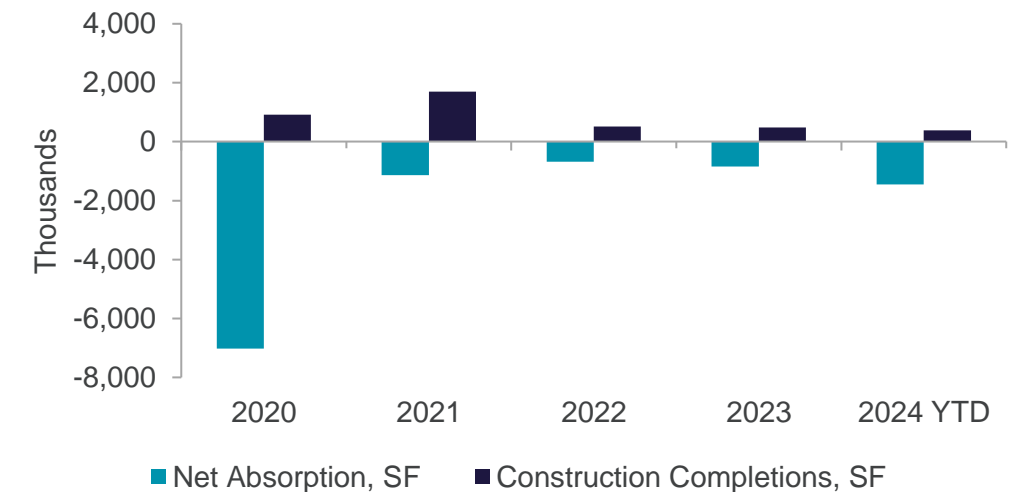
The Houston MSA employment sectors with the largest YOY growth include Other Services (5.1%), Construction (4.3%), and Education & Health Services (3.7%). Just one sector declined in YOY growth - Information (-2.2%). Houston's unemployment rate increased 20 basis points YOY, ending Q3 2024 at 4.4% and stands just above the 4.1% unemployment rate nation-wide.

SUPPLY

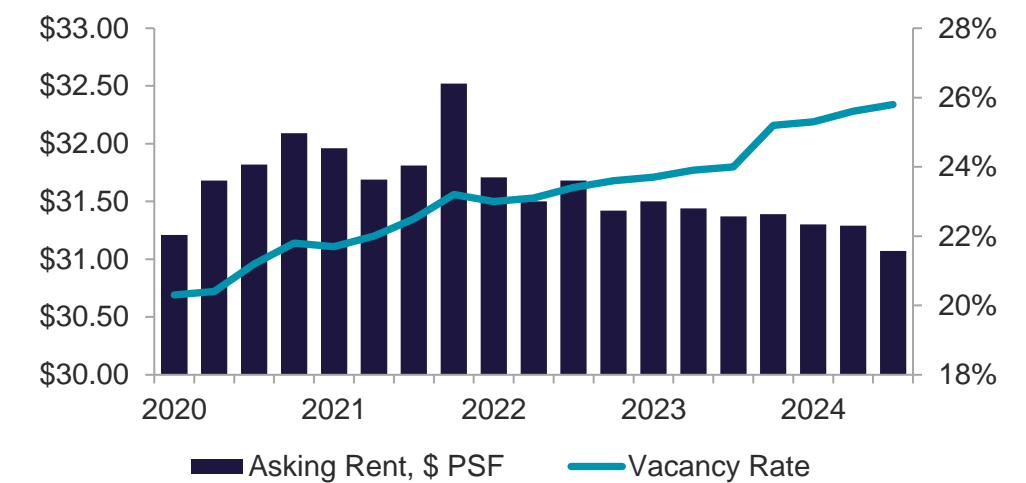
During the third quarter, the Houston office market experienced no new construction deliveries. Despite a restrained development pipeline, the market currently has three for-lease office buildings under construction - CityCentre Six, 300,000 square feet (sf) located in the Katy Freeway East submarket (64.2% preleased), The RO, 143,000 sf located in the Greenway submarket (100% preleased), and One Bridgeland Green, 50,000 sf located in the Far Northwest submarket (80.3% preleased).

Continuing its upward trend, Houston's vacancy rate increased to a 5-year high of 25.8% in Q3 2024. Although this rise is just 20 basis points above the previous quarter's 25.6% vacant, it still represents a new peak for the market during this period. Overall availability, which includes vacant space and upcoming space marketed as available, ended Q3 2024 at 29.6%, unchanged from Q2 2024. Direct space available decreased 20 bps quarter-over-quarter (QOQ) to 26.7%, while sublease space increased 20 bps QOQ to 2.9%. Notably, Houston's sublease space has remained relatively stable, averaging 2.7% over the past 5 years.

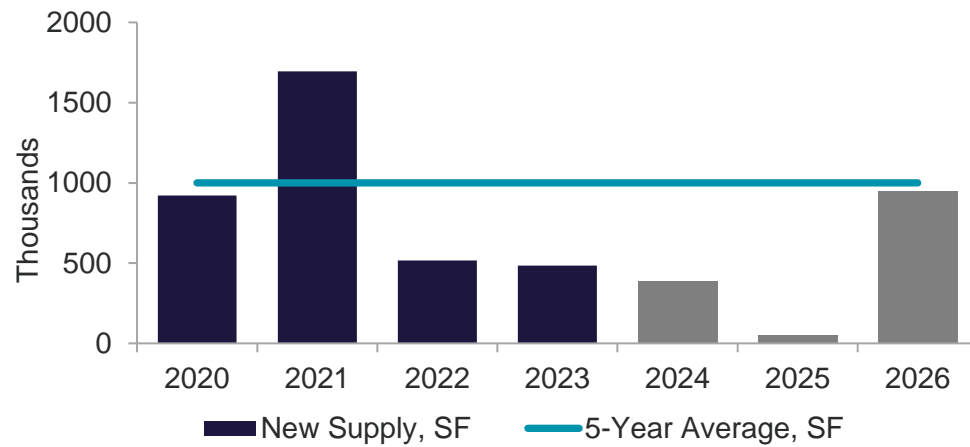
SPACE DEMAND / DELIVERIES



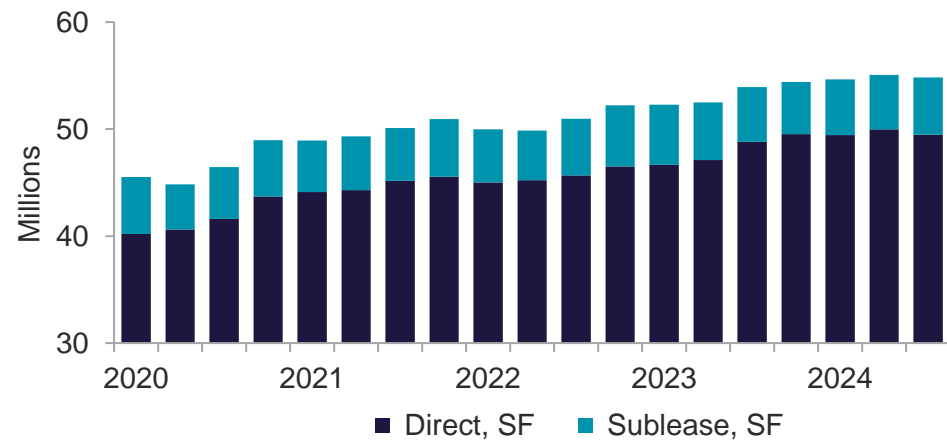
OVERALL VACANCY & ASKING RENT



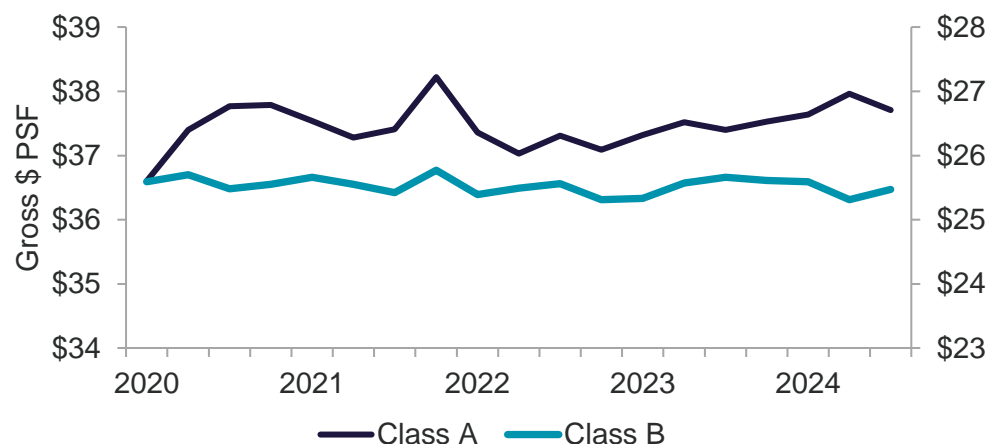
NEW SUPPLY / 5-YR HISTORICAL AVERAGE



DIRECT AND SUBLEASE SPACE AVAILABLE



ASKING RENT COMPARISON



DEMAND

Net absorption for the third quarter totaled -218,797 sf, an improvement from the -613,764 sf recorded in Q2 2024. In an office market with nearly 190 million square feet (msf), the current quarter's -218,797 sf net absorption is essentially a net zero for the Houston office market. Class A office space posted 342,585 sf, while Class B office space posted -495,867 sf. Class B negative absorption was marred by APA Corporation (Apache) vacating a large block of space located in the Post Oak Central complex in the West Loop/Galleria submarket.

The West Loop/Galleria submarket recorded the largest negative net absorption at -397,830 sf. This marks the third consecutive quarter that the submarket has experienced the highest negative absorption. Conversely, The Woodlands/Spring submarket ended Q3 2024 with the largest positive net absorption at 153,399 sf, a substantial jump from the 7,732 sf absorbed in the previous quarter.

The Houston office market recorded 2.3 msf of new leasing activity during Q3 2024. This brings the year-to-date leasing total to 7.3 msf, on par with the 5-year quarterly average of 2.4 msf. Class A buildings accounted for 62.0% (1.4 msf) of the total new leasing activity, Class B buildings accounted for 28.4% (645,000 sf), and Class C buildings accounted for 9.6% (217,000 sf). The West Loop/Galleria submarket led all other submarkets this quarter, closing 527,000 sf of new leases, with Katy Freeway West close behind, closing 400,000 sf of new leases. The two largest leases signed occurred in the West/Loop Galleria submarket - TDECU (105,000 sf) at One Post Oak Central and Camden Property Trust (104,000 sf) at Williams Tower.

PRICING

The overall average gross asking rent ended Q3 2024 at \$31.07 per square foot (psf), slightly lower than \$31.29 psf the previous quarter, and 1.0% lower than \$31.37 psf the previous year. Class A average gross asking rent closed the quarter at \$37.71 psf, slightly higher than \$37.96 psf the previous quarter and 1.0% higher than \$37.40 psf the previous year. The slight rise in class A asking rents is mostly attributed to the increase of high-quality office space available in the market.

OUTLOOK

- Houston's overall economy has been remarkably resilient and will continue to grow, but at a much slower pace than 2 years ago.
- The recent Federal Reserve rate cut has the potential to rekindle investor interest in the office market. Lower borrowing costs could entice investors, while building owners might seize the opportunity to refinance existing loans.
- Construction starts are expected to remain minimal. This limitation in new developments could enhance the appeal of existing properties, making well-positioned buildings increasingly attractive to prospective tenants.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE	CURRENT QTR NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	YTD NEW LEASING ACTIVITY (SF)	UNDER CONSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Central Business District	37,192,041	1,282,807	10,825,623	32.6%	-323,318	-255,919	931,231	0	\$42.05	\$45.15
Inner Loop	4,904,884	184,905	955,878	23.3%	-94,785	-28,746	186,800	0	\$34.60	\$38.19
West Loop/Galleria	29,120,648	505,206	8,361,281	30.4%	-397,830	-1,233,731	1,094,679	0	\$34.11	\$39.64
Greenway	9,457,523	192,369	2,665,173	30.2%	50,026	-166,066	378,245	143,228	\$33.99	\$36.59
South Main/Medical Center	4,598,639	55,026	830,752	19.3%	266	-63,844	65,448	0	\$25.92	N/A
Southwest	8,705,563	427,487	1,843,799	26.1%	-91,729	-257,966	285,389	0	\$18.57	\$25.50
Sugar Land	4,097,880	68,478	986,934	25.8%	-1,011	-91,413	61,893	0	\$32.04	\$32.81
Westchase	14,998,014	433,933	4,858,865	35.3%	61,620	168,497	790,879	0	\$25.32	\$32.40
Katy Freeway East	6,287,084	299,927	437,385	11.7%	87,858	49,490	504,077	300,000	\$37.99	\$48.41
Katy Freeway West	17,754,654	409,957	4,713,742	28.9%	106,034	367,486	1,287,378	0	\$29.34	\$32.29
Katy/Grand Parkway West	1,166,859	59,232	123,253	15.6%	-5,127	-11,611	50,453	0	\$33.89	\$34.66
North Loop/Northwest	6,434,712	103,685	1,222,748	20.6%	39,732	87,841	259,226	0	\$20.43	\$25.52
West Belt	5,063,321	330,658	1,628,583	38.7%	59,056	77,310	220,972	0	\$28.06	\$29.24
North Belt/Greenspoint	10,730,827	56,681	4,809,140	45.3%	86,733	-67,932	225,533	0	\$18.64	\$23.99
Far Northwest	6,493,244	494,975	2,276,029	42.7%	-13,267	-113,967	149,399	49,117	\$22.82	\$28.54
The Woodlands/Spring	10,823,714	314,989	1,922,724	20.7%	153,399	165,870	518,644	0	\$38.20	\$41.65
Kingwood/Humble	625,283	0	74,648	11.9%	12,815	20,818	16,662	0	\$20.54	N/A
East/Southeast	2,659,243	9,353	335,388	13.0%	19,375	-27,571	83,370	0	\$20.66	\$24.21
NASA/Clear Lake	4,211,207	123,771	597,870	17.1%	31,356	-65,672	166,989	0	\$24.96	\$29.16
SUBURBAN TOTALS	148,133,299	4,070,632	38,644,192	28.8%	104,521	-1,191,207	6,346,036	492,345	\$28.04	\$34.25
HOUSTON TOTALS	185,325,340	5,353,439	49,469,815	29.6%	-218,797	-1,447,126	7,277,267	492,345	\$31.07	\$37.71

KEY LEASE TRANSACTIONS

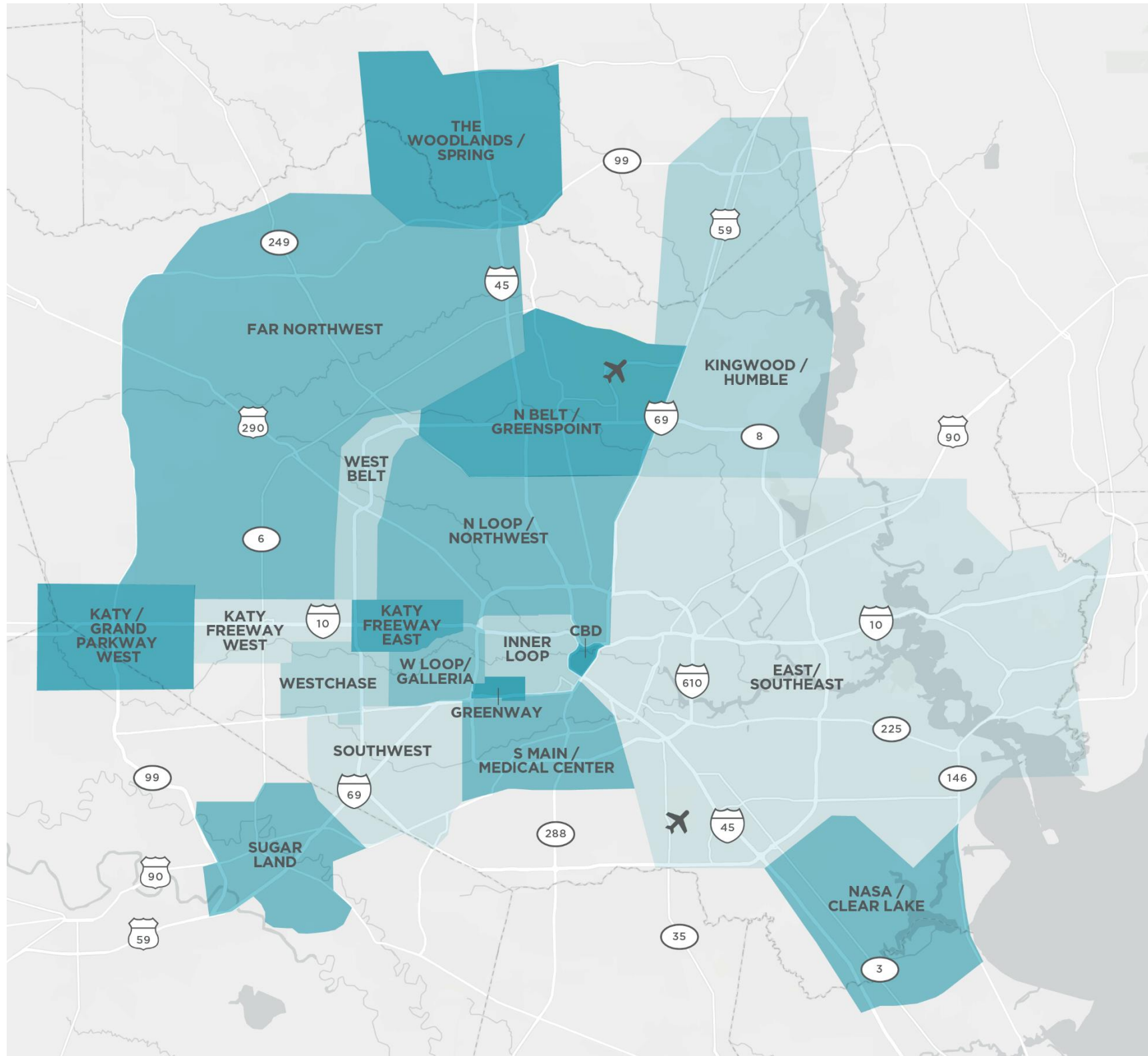
*Rental rates reflect full service asking

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
One Post Oak Central	2000 Post Oak Boulevard	West Loop/Galleria	TDECU	105,451
Williams Tower	2800 Post Oak Boulevard	West Loop/Galleria	Camden Property Trust	104,013
Greens Crossing II	820 Gears Road	North Belt/Greenspoint	General Services Administration	78,984
The Great Jones Building	708 Main Street	Central Business District	International Workplace Group	65,909

KEY SALES TRANSACTIONS

BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
TwentyFour25	2425 West Loop South	West Loop/Galleria	Naissance Capital Real Estate NBK	280,350
2603 Augusta	2603 Augusta Drive	West Loop/Galleria	ANICO Bridgewell Property Management	243,347
10101 Woodloch Forest	10101 Woodloch Forest Drive	The Woodlands/Spring	W.P. Carey Net Lease Office Properties	207,342
The Offices at Greenhouse	19219 Katy Freeway	Katy/Grand Parkway West	KBS Capital Commercial Investments	200,000

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