



MarketView Houston

Office | Fourth Quarter 2009

In 2009, Houston's energy sector made considerable readjustments to weakened global demand—oil and gas services firms and oil majors cut their capital spending and began the process of “right-sizing” their organizations. As a result, Houston felt what the rest of the nation had already experienced—significant job losses. From this, over the year, the office market started much the same process of readjustment.

In the fourth quarter of 2009, Houston shed approximately 1 MSF of office space, leading to a twelve month net loss of 2.7 MSF, the largest since 1986. The CBD market retracted by 236,000 SF while the Suburban market experienced 805,000 SF of negative absorption, leading to annual losses of 625,000 SF and 2.1 MSF, respectively.

Class A rental rates appear to have peaked, declining for the third consecutive quarter, albeit marginally. It is important to note with regard to market statistics, the “Greater Pearland” submarket was created in the fourth quarter, which is comprised of three office buildings that were originally a part of the “South Main/Medical Center” submarket.

Although sublease space doubled in the last two years, it was unchanged due to the completion of subleases. There was only one building completed this quarter, although the annual total of 5.4 MSF was almost a mirror of 2008's 5.2 MSF.

Looking ahead, 2010 has many questions, most of which will not be answered with clarity in the short-term. As oil majors continue to adjust their plans, experts believe that job losses will most likely continue throughout the first half of the year. As history has revealed, the office market will not recover as quickly as it has fallen, and it appears there is still more of a decline ahead.

“The Houston-Sugar Land-Baytown MSA's over-the-year job growth was -3.4 percent in November, declining by 88,900 jobs since November 2008. Last year at this time, the area added 31,800 jobs, or 1.2 percent over the previous year. Educational &

Quick Stats

	4Q09	Change from last	
		Yr.	Qtr.
Vacancy	15.9%	↑	↑
Lease Rates	\$24.00	↑	↓
Net Absorption*	(1.0) MSF	↓	↓
Under Construction	2.4 MSF	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Health Services and Government were the two major industry groups adding the most positions, up 6,900 and 6,400 jobs respectively from November 2008. Construction was down 25,800 jobs from this time last year, the most in this time series which started in 2000. Professional & Business Services and Manufacturing were also down considerably from November 2008. The thirteen county region's unemployment rate was 8.2 percent, up from the 5.4 percent rate of November 2008.” Source: The Worksource

In the fourth quarter, 2245 Texas, a six story building in Sugar Land, delivered. This brought the annual total of completed construction to 5.4 MSF. With new construction starts a

thing of the past, only 2.4 MSF remain in the pipeline. The most notable projects - BP's Helios Plaza (370 KSF), Hess Tower (944 KSF) and MainPlace (972 KSF) comprise the vast majority of the projects under construction, all of which are fully pre-leased except MainPlace.

Overall vacancy has increased 60 basis points to 15.9% from the previous quarter; however, what is most noticeable is the 400 basis point rise in vacancy since the end of 2008.

Class A vacancy emulated the overall market (the Class A segment comprises 48% of the market) with a quarterly increase of 57 basis points to 11.9%. Within the Class A market, the Allen Parkway submarket's vacancy nearly doubled, from 6.5% to 12.9%, while the Westchase submarket experienced a thirty percent jump, from 15.6% to 20.3%, all within three months and as a result of tenant relocations. The CBD Class A vacancy increased 38 basis points over the quarter, but remains at a healthy 6.1% rate.

Overall rates held flat across the city at \$24.00 PSF, although there is fragmented softening occurring on a quoted basis. This signals that in the overall market and most importantly the Class A segment, which holds at \$31.29 PSF, there are some landlords rethinking the idea of holding face rates, while ultimately offering lower proposed rates and concession packages on transactions that occur in the marketplace.

With regard to absorption, Houston has been in the red for the entire year. In the fourth quarter, the office market shed 1 MSF, resulting in 2.7 MSF lost on an annual-basis - virtually erasing all of the total positive absorption in 2008.

The CBD market lost 236,000 SF in the fourth quarter totaling 625,000 SF of negative absorption for the year. Locke Lord Bissell & Liddell gave back approximately 88,000 SF at Chase Tower (600 Travis), while Chase Center (601 Travis), after being sold by Chase as part of its real estate disposition plan, is now marketing 125,000 SF (available in 2009) that was previously held off the market

The Suburban market fared much the same - 805,000 SF lost in the fourth quarter - totaling 2.1 MSF of negative absorption for the year. 3010 Briarpark was the most notable contributing factor, where ABB, Access Mediquip, Aker Kvaerner, CB&I, GE Oil & Gas and Spark Energy vacated roughly 346,000 SF. On a net basis, this contributed approximately 245,000 SF of negative absorption in the suburban markets.

