

RifleCRE

# HOUSTON OFFICE MARKET

— Q4 2023 —

# Q4 2023 HOUSTON OFFICE MARKET HIGHLIGHTS

During the fourth quarter of 2023, the Houston office space landscape experienced a significant buoyancy, reflective of the city's broader economic momentum. This period stood out as a testament to Houston's resilience and adaptability in the face of overarching commercial real estate challenges and trends. Here are the highlights that delineated the quarter:

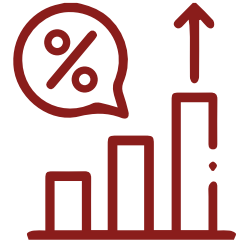
## JOB MARKET EXPANSION



The Houston metro area made a remarkable stride in employment, creating 78,000 jobs, signaling a surge in demand for office space. This job growth serves as the bedrock for the heightened need for high-quality office environments, accommodating the burgeoning workforce and driving commercial real estate development forward.

## ABSORPTION RATES

The positive absorption trends point to a healthy, recovering market. Specifically, the absorption rate measures the net change in occupied office space, and in Q4 2023, these figures underscored a significant uptake, a sure sign of growing business confidence and investment in the Houston area.



## VACANCY AND AVAILABILITY



Despite the uptick in leasing activity, vacancy rates remained a point of focus. The market-level intellect indicates nuanced movements in vacancy and availability, underscoring the complexities of the Houston office space market and highlighting the critical need for strategic location scouting.

## RENTAL PRICE STABILITY

Interestingly, rental prices showed remarkable stability, balancing affordability with the premium on space quality that savvy businesses seek. This stability played a key role in allowing businesses the flexibility to find office space for lease without being subjected to the vagaries of price volatility.



The synthesis of these factors offers a clear panorama of Houston's office space environment, positioning the city as an attractive hub for businesses looking to expand or establish their operations. With the amplification in job creation and the steadfastness of rental prices, the Houston market caters to a wide array of industries, fostering a space where innovation and growth can thrive poisedly.

As we consider the implications of these Q4 insights, it is evident that Houston's office space market is aligned with the broader economic indicators. The layered complexities of the market dynamics demand a nuanced understanding, and it is here that the forethought and expertise of a tech-savvy, globally connected real estate partner becomes indispensable. Businesses considering the Houston market will find a canvas ripe with opportunity, underscored by a professional and knowledgeable support structure that understands the intricate dance of supply and demand in commercial real estate.

# TRENDS IMPACTING THE HOUSTON OFFICE MARKET

The landscape of Houston's office space is continually evolving, with several emerging trends profoundly impacting the market. A noteworthy 10% increase in office-using jobs has been recorded, featuring 70,000 new roles since the pre-pandemic peak. This job market dynamism, although reflective of economic growth, does not mirror the expected surge in office space occupancy due to the pervasion of remote and hybrid work arrangements.

## SPACE QUALITY OVER QUANTITY



Quality is triumphing over quantity as Houston sees an infusion of 671k square feet in office space absorption in top-tier assets, despite the overall market recording a net loss of 410k square feet.

## VACANCY DISPARITIES



High vacancy rates continue to plague the market, yet buildings erected post - 2010 boast a significantly better performance at a -28.9% vacancy rate compared to older counterparts, indicating a potential shift towards building repurposing in the future.

## ECONOMIC HEADWINDS



Leasing velocity has seen a deceleration in the latter half of the year as financial conditions tightened and economic slowdown loomed, signaling caution among businesses seeking office space for lease.

## FLIGHT TO QUALITY



A distinct flight-to-quality trend underpins the market, where newly constructed or renovated office properties are gaining a competitive edge over outdated buildings struggling to secure tenants.

## TECHNOLOGY AS A GAME-CHANGER



The integration of advanced technology, including building automation systems and data analytics, is recalibrating the offerings in the Houston office space market, underscoring a shift towards more efficiently managed and sustainable workspaces.

## MARKET RESILIENCE



Despite a subdued performance expected to extend into the near future, the office space market is poised for a rebound. Large upcoming leases are signaling a revival on the horizon for 2024, demonstrating Houston's office market's resilience and adaptive capacity.

## STRATEGIC ADAPTATIONS



Landlords and tenants alike are recalibrating their strategies to emphasize flexibility, focusing on resilience and sustainability, paving the way for long-term evolutions in Houston's office space ecosystem.



## ECONOMIC INDICATORS INFLUENCING THE MARKET

In the final quarter of 2023, the economic indicators have provided an in-depth understanding of the fluctuations within the Houston office space market. The overarching trends of vacancy rates, rent stability, and submarket growth continue to paint a nuanced picture of the city's commercial real estate landscape. These metrics are crucial in informing decisions about office space for lease and investment within the region.

# FUTURE OUTLOOK AND PROJECTIONS

As we turn our gaze to the future of Houston's office space landscape, the projections for this ever-evolving market are shaping up to be multifaceted, rooted in both the strengths and challenges that have characterized the recent past. Here's what is anticipated for the office space market, looking ahead:



## ADAPTATION AND RECOVERY

The Houston office market's path to revival is set to continue, as sectors like healthcare, technology, and professional services drive job growth forward. While the high vacancy rate of 22.5% lingers, the adaptability shown by the market in response to post-COVID-19 adjustments - such as remote work and space downsizing - promises a gradual recalibration of supply and demand.



## STRATEGIC LEASING

With an economy that saw the creation of 78k jobs and a boost in office-using employment, companies are anticipated to leverage the increased availability and competitive rates of office space for lease. This, combined with Houston's affordability, positions the city favorably as companies seek cost-effective yet high-quality office solutions.



## QUALITY OVER QUANTITY

The preference for Trophy and class A+ properties is predicted to be a cornerstone in the future leasing landscape. Tenants will likely continue to favor enhanced office environments that offer domestic comforts, ensuring a stimulating and supportive workspace that reflects the shift in work-life balance priorities.



## CONSTRUCTION HESITANCY

The near standstill in construction activity points towards a conservative approach, likely instigated by current economic uncertainty. This hesitancy could result in a tighter supply of premium office spaces, potentially driving demand for renovated properties as businesses seek out the best value propositions.



## NEGOTIATION POWER

With a substantial net loss of occupied space and increased availability, potential lessees are in a stronger negotiating position. Rental rates are expected to remain tenant-friendly, offering opportunities for businesses to secure favorable terms.



## POTENTIAL UPTURN

Large leases on the horizon suggest a seeding of hope for market revitalization. The lack of a direct correlation between job creation and office absorption is likely a temporary mismatch, with expectations of alignment as businesses adjust to a post-pandemic reality.



## CONCLUSION


In summary, the Q4 2023 Houston office space market provided a snapshot of resilience amid economic headwinds, spotlighting a responsive market with room for opportunity.

We witnessed significant employment growth, stable rental prices, and the embrace of quality over quantity, alongside an increased demand for premium office spaces that position Houston as a key player for businesses and investors alike. Our exploration unearthed the intricacies of trends, like the shift towards advanced technology-infused workspaces and the market's adaptability to post-pandemic work arrangements, cementing the city's reputation as a dynamic and elastic commercial hub.

A long-exposure photograph of a city street at night, showing light trails from cars. In the background, a dense skyline of skyscrapers is visible against a dark sky. The scene is dimly lit, with some streetlights and building lights providing a soft glow.

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