

Office

Galleria/West Loop North

🏢 Houston

🗺️ Southwestern Region

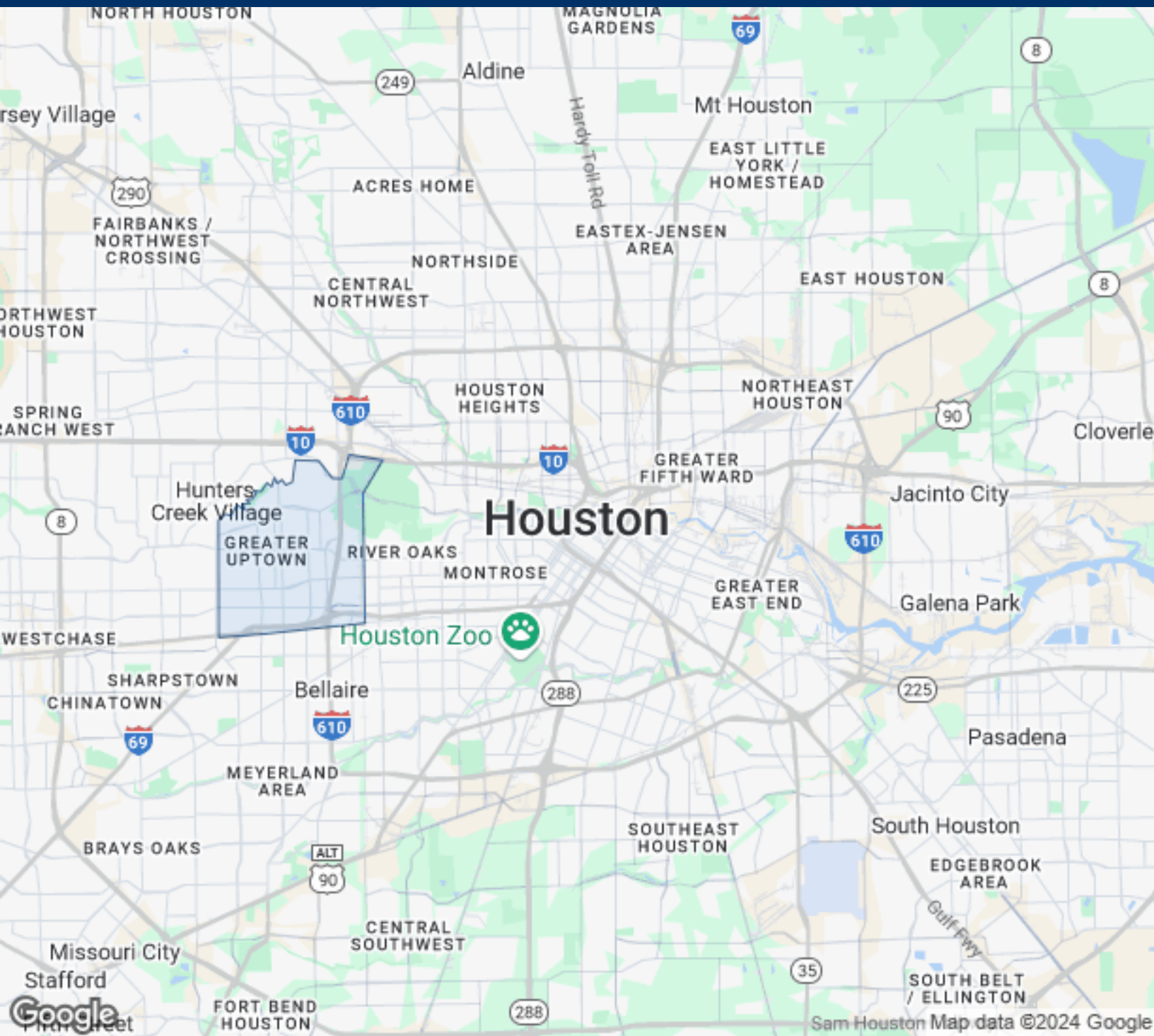
🇺🇸 United States

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CRE

REPORT GENERATED
September 10, 2024

DATA AS OF Q2 2024



Office

Galleria/West Loop North

Galleria/West Loop North

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I. EXECUTIVE BRIEFING

AVERAGE
ASKING RENT**\$30.34/sqft**AVERAGE
VACANCY**24.4%**

(Published July 2024)

- Rent in the Galleria/West Loop North submarket was up 0.2% from June.
- Rent is expected to finish 2024 at \$30.42 in the Galleria/West Loop North submarket.
- Vacancy in the Galleria/West Loop North submarket drifted downward by 20 basis points.
- The Galleria/West Loop North submarket had the lowest vacancy level since November 2023.

Submarket Overview

The Galleria/West Loop North submarket, one of sixteen distinct geographic concentrations within Houston, contains 27.7 million market rate rental square feet, or 14.5% of the metro's total inventory of office space. In the ten-year period beginning with Q3 2014, new additions to the submarket totaled 1.5 million square feet, while 655,000 square feet were removed by developer activity. The net total gain of 820,000 square feet equates to an annualized inventory growth rate of 0.3%, trailing the metro growth rate by 0.8 percentage points over the same period.

Asking and Effective Rent

After registering mixed movement in May and April, asking rents remained flat in June, limiting the second quarter gain to 0.5%. Average asking rents in the submarket advanced by 0.2% in July to a level of \$30.34. Over the past twelve months, asking rents have climbed a total of 1.7%, up from \$29.84. The Galleria/West Loop North submarket's July asking rent levels are higher than the metro's average of \$29.84, while asking rent growth in July is equal to the metro average of 0.2%. Effective rents, which take into account concessions offered to new lessees, increased more quickly, up by 0.5% during July.

Competitive Inventory, Employment, Absorption

Total employment in the Houston metropolitan area grew by 18,600 jobs during the second quarter, while in the dominant office-using industries, employment expanded by 3,900. Quarterly movement in the average occupancy level of competitive office square footage rarely mirrors the period's total employment gains or losses, but it is advisable to weigh longer-term economic and demographic trends as factors contributing to current demand. Since the beginning of Q3 2014, the average growth rate for office-using employment in Houston has been 1.9% per year, representing the average annual addition of 17,900 jobs. Over the same time period, the metro posted an average annual absorption rate of negative 405,700 square feet. During July, metropolitan absorption totaled negative 964,000 square feet. In the Galleria/West Loop North submarket, however, new renters took a net total of 42,000 square feet off of the market. Over the last 12 months, submarket absorption totaled 683,000 square feet; by comparison, the average annual absorption rate recorded since the beginning of Q3 2014 is negative 214,700 square feet. The submarket's average vacancy rate drifted downward by 20 basis points during July to 24.4%, which is 3.6 percentage points higher than the long-term average, but 1.6 percentage points lower than the current metro average.



Executive Briefing (cont.)

Outlook

Between now and year's end, 92,000 square feet of competitive office stock will be introduced to the submarket, and Reis estimates that net total absorption will be negative 128,000 square feet. In response, the vacancy rate will drift upward by 0.8 percentage points to 25.2%. During 2025 and 2026, no additional competitive stock is expected to be introduced to the submarket inventory. Office employment growth at the metro level during 2025 and 2026 is projected to average 1.1% annually, enough to facilitate an absorption rate averaging 852,000 square feet per year. The Galleria/West Loop North submarket will benefit disproportionately from this growth rate, posting absorption averaging 283,000 square feet per year, 33.2% of the projected metro total. The submarket vacancy rate will finish 2025 at 24.3% and will decline 1.2 percentage points to 23.1% by year end 2026. Between now and year-end 2024 asking rents are expected to rise 0.3% to a level of \$30.42, while effective rents will decline by -1.5% to \$25.39. On an annualized basis, asking and effective rents are projected to advance at a rate of 1.0% through year end 2026, reaching average rates of \$31.05 and \$25.91 per square foot, respectively.

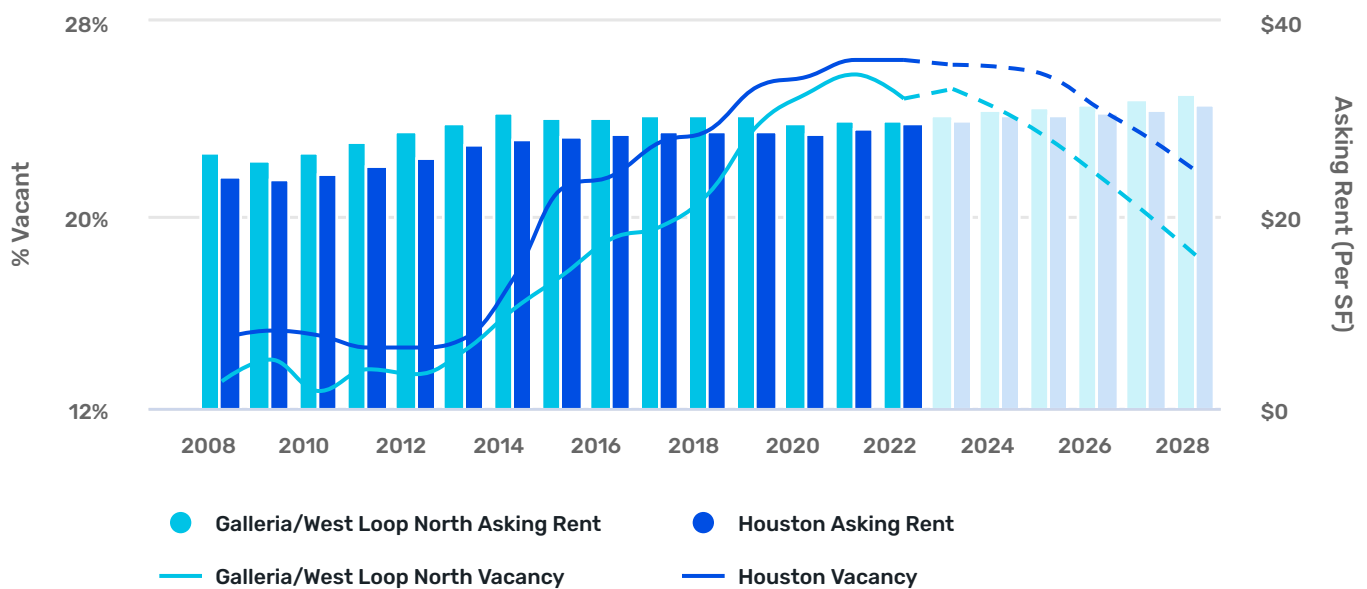
II. OVERVIEW

Key Performance Indicators

<p>Effective Rent PER SF</p> <p>\$25.66</p> <p>↑ from 0.9% Q1 2024</p>	<p>Vacancy Rate</p> <p>24.6%</p> <p>↓ from -30 Q1 2024</p>	<p>Income Growth PER HOUSEHOLD</p> <p>1.2%</p> <p>↑ vs 0.9% national</p>	<p>Job Growth</p> <p>0.5%</p> <p>↑ vs 0.4% national</p>
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Asking Rent and Vacancy Trends

[View Full Table in Appendix](#)



Year	Galleria/West Loop North		Houston	
	Asking Rent per SF	Vacancy Rate %	Asking Rent per SF	Vacancy Rate %
2024	\$30.42	25.2%	\$29.91	26.2%
2025	\$30.78	24.3%	\$30.22	26.1%
2026	\$31.05	23.1%	\$30.46	25.7%
2027	\$31.44	21.6%	\$30.72	24.4%
2028	\$31.93	20.0%	\$31.03	23.2%
2029	\$32.48	18.3%	\$31.34	21.8%

Submarket Performance

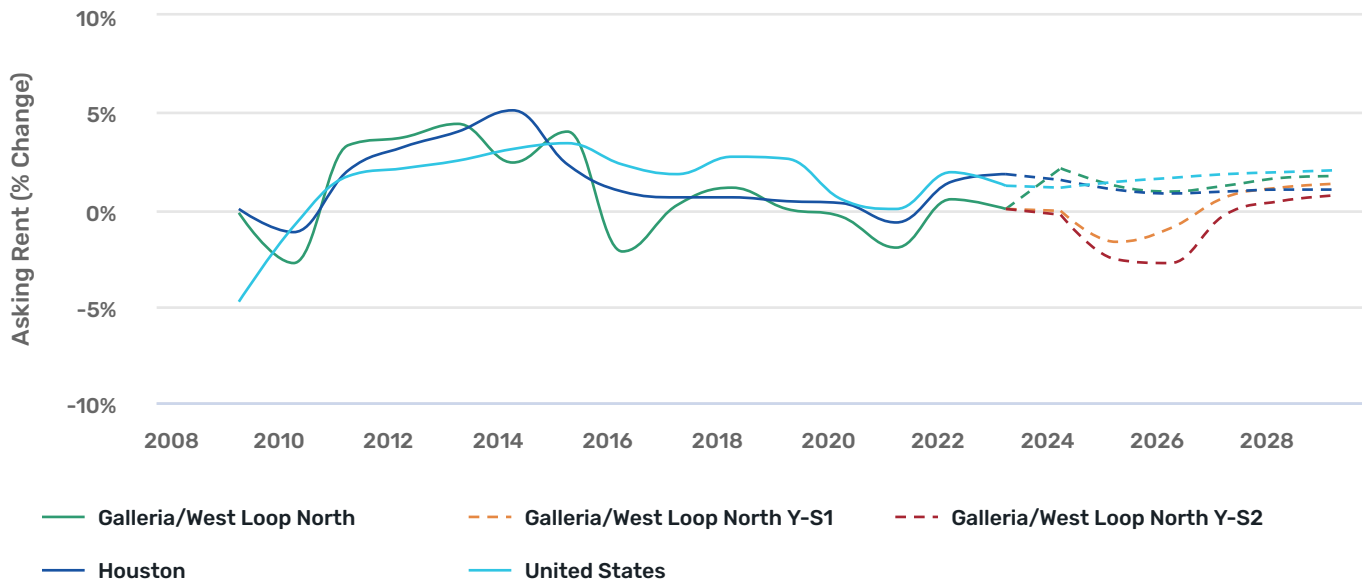
Year	Quarter	Asking Rent Per SF	Asking Rent % Change	Effective Rent Per SF	Effective Rent % Change	% Vacant	% Vacant Change in BPS
2021	Q1	\$29.76	-1.7%	\$25.20	-1.8%	23.7%	0
2021	Q2	\$29.91	0.5%	\$25.02	-0.7%	24.5%	80
2021	Q3	\$29.88	-0.1%	\$24.87	-0.6%	25.2%	70
2021	Q4	\$29.65	-0.8%	\$24.77	-0.4%	25.0%	-20
2021	Y	\$29.65	-2.0%	\$24.77	-3.4%	25.0%	130
2022	Q1	\$30.06	1.4%	\$25.24	1.9%	22.6%	-240
2022	Q2	\$30.09	0.1%	\$24.76	-1.9%	27.7%	510
2022	Q3	\$29.72	-1.2%	\$24.50	-1.1%	27.2%	-50
2022	Q4	\$29.81	0.3%	\$24.88	1.6%	25.8%	-140
2022	Y	\$29.81	0.5%	\$24.88	0.4%	25.8%	80
2023	Q1	\$29.84	0.1%	\$24.98	0.4%	26.3%	50
2023	Q2	\$29.81	-0.1%	\$24.81	-0.7%	27.2%	90
2023	Q3	\$29.87	0.2%	\$25.14	1.3%	26.1%	-110
2023	Q4	\$29.81	-0.2%	\$25.13	0.0%	24.8%	-130
2023	Y	\$29.81	0.0%	\$25.13	1.0%	24.8%	-100
2024	Q1	\$30.12	1.0%	\$25.42	1.2%	24.9%	10
2024	Q2	\$30.28	0.5%	\$25.66	0.9%	24.6%	-30

Submarket Inventory

Year	Quarter	Inventory Per SF	Completions Per SF	Inventory % Growth	Vacant Stock In SF	Occupied Stock In SF	Net Absorption In SF
2021	Q1	27,575,000	62,000	0.2%	6,548,000	21,027,000	40,000
2021	Q2	27,575,000	0	0.0%	6,746,000	20,829,000	-198,000
2021	Q3	27,575,000	0	0.0%	6,946,000	20,629,000	-200,000
2021	Q4	27,575,000	0	0.0%	6,892,000	20,683,000	54,000
2021	Y	27,575,000	62,000	0.2%	6,892,000	20,683,000	-304,000
2022	Q1	27,575,000	0	0.0%	6,240,000	21,335,000	652,000
2022	Q2	27,667,000	92,000	0.3%	7,666,000	20,001,000	-1,334,000
2022	Q3	27,667,000	0	0.0%	7,530,000	20,137,000	136,000
2022	Q4	27,667,000	0	0.0%	7,142,000	20,525,000	388,000
2022	Y	27,667,000	92,000	0.3%	7,142,000	20,525,000	-158,000
2023	Q1	27,667,000	0	0.0%	7,278,000	20,389,000	-136,000
2023	Q2	27,667,000	0	0.0%	7,536,000	20,131,000	-258,000
2023	Q3	27,667,000	0	0.0%	7,209,000	20,458,000	327,000
2023	Q4	27,667,000	0	0.0%	6,859,000	20,808,000	350,000
2023	Y	27,667,000	0	0.0%	6,859,000	20,808,000	283,000
2024	Q1	27,667,000	0	0.0%	6,887,000	20,780,000	-28,000
2024	Q2	27,667,000	0	0.0%	6,806,000	20,861,000	81,000

Scenarios: Asking Rent Per SF

[View Full Table in Appendix](#)



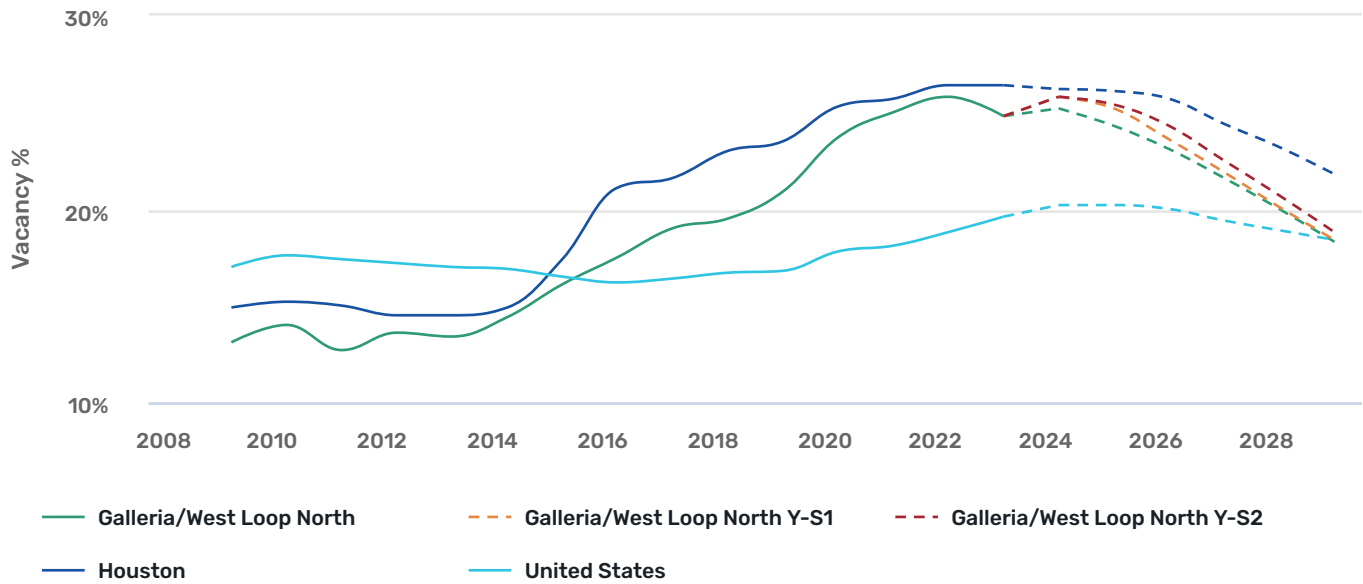
Year	Galleria/West Loop North			Houston	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2024	2.1%	-0.1%	-0.3%	1.5%	1.1%
2025	1.2%	-1.7%	-2.6%	1.0%	1.4%
2026	0.9%	-1.0%	-2.8%	0.8%	1.6%
2027	1.2%	0.6%	-0.3%	0.9%	1.8%
2028	1.6%	1.1%	0.4%	1.0%	1.9%
2029	1.7%	1.3%	0.7%	1.0%	2.0%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Vacancy

[View Full Table in Appendix](#)



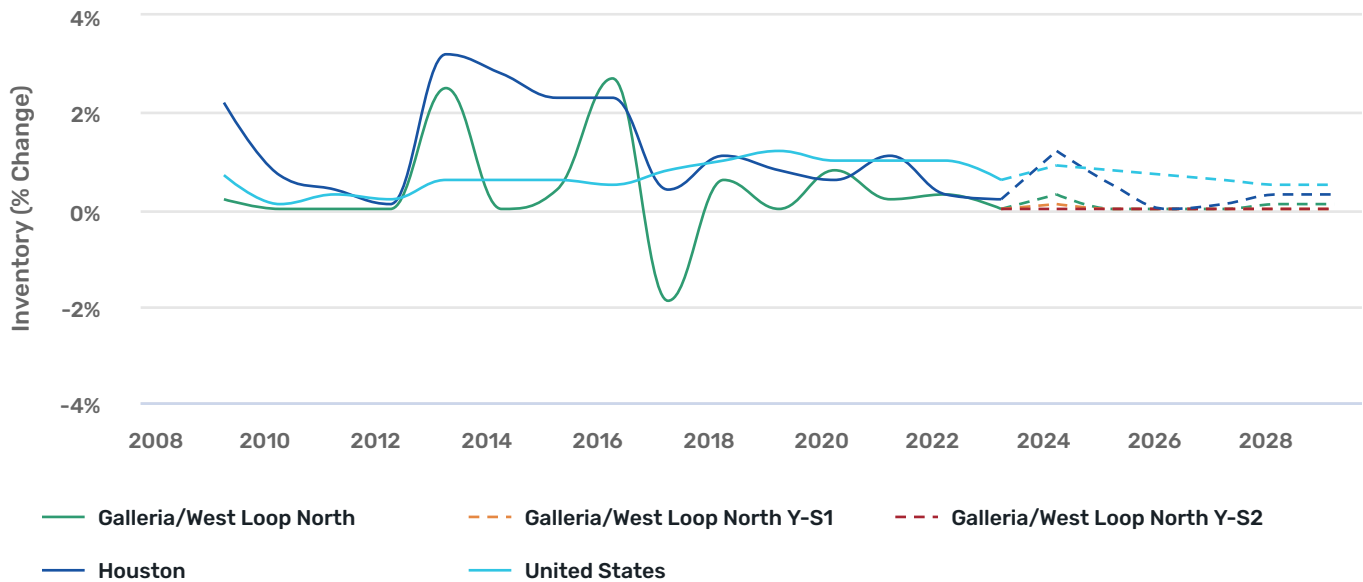
Year	Galleria/West Loop North			Houston	United States
	% Vacant	S1 - % Vacant ¹	S2 - % Vacant ²	% Vacant	% Vacant
2024	25.2%	25.8%	25.8%	26.2%	20.2%
2025	24.3%	25.2%	25.4%	26.1%	20.2%
2026	23.1%	23.6%	24.3%	25.7%	20.0%
2027	21.6%	21.9%	22.5%	24.4%	19.4%
2028	20.0%	20.1%	20.7%	23.2%	18.9%
2029	18.3%	18.4%	18.8%	21.8%	18.4%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Inventory

[View Full Table in Appendix](#)



Year	Galleria/West Loop North			Houston	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2024	0.3%	0.1%	0.0%	1.2%	0.9%
2025	0.0%	0.0%	0.0%	0.5%	0.8%
2026	0.0%	0.0%	0.0%	0.0%	0.7%
2027	0.0%	0.0%	0.0%	0.1%	0.6%
2028	0.1%	0.0%	0.0%	0.3%	0.5%
2029	0.1%	0.0%	0.0%	0.3%	0.5%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Annualized Construction/Absorption (Historical 1 Year and 3 Year)

	1 Year History			3 Year History		
	SF Built Ending 12/31/2023	SF Absorbed Ending 12/31/2023	Con/Abs Ratio Ending 12/31/2023	SF Built Ending 12/31/2023	SF Absorbed Ending 12/31/2023	Con/Abs Ratio Ending 12/31/2023
Galleria/West Loop North	0	283,000	0	51,000	-60,000	-0.85
Houston	354,000	439,000	0.8	1,015,000	72,000	14.09
Southwestern Region	5,472,000	1,023,000	5.34	6,241,000	987,000	6.32

Annualized Construction/Absorption (Historical 5 Year and Forecasted)

	5 Year History			5 Year Forecast		
	SF Built Ending 12/31/2023	SF Absorbed Ending 12/31/2023	Con/Abs Ratio Ending 12/31/2023	SF Built Ending 12/31/2028	SF Absorbed Ending 12/31/2028	Con/Abs Ratio Ending 12/31/2028
Galleria/West Loop North	73,000	-234,000	-0.32	24,400	284,600	0.09
Houston	1,068,000	-386,000	-2.77	810,800	1,820,600	0.45
Southwestern Region	6,389,000	875,000	7.3	10,348,200	9,547,800	1.08

Quarterly Construction/Absorption (Current and Previous Quarters)

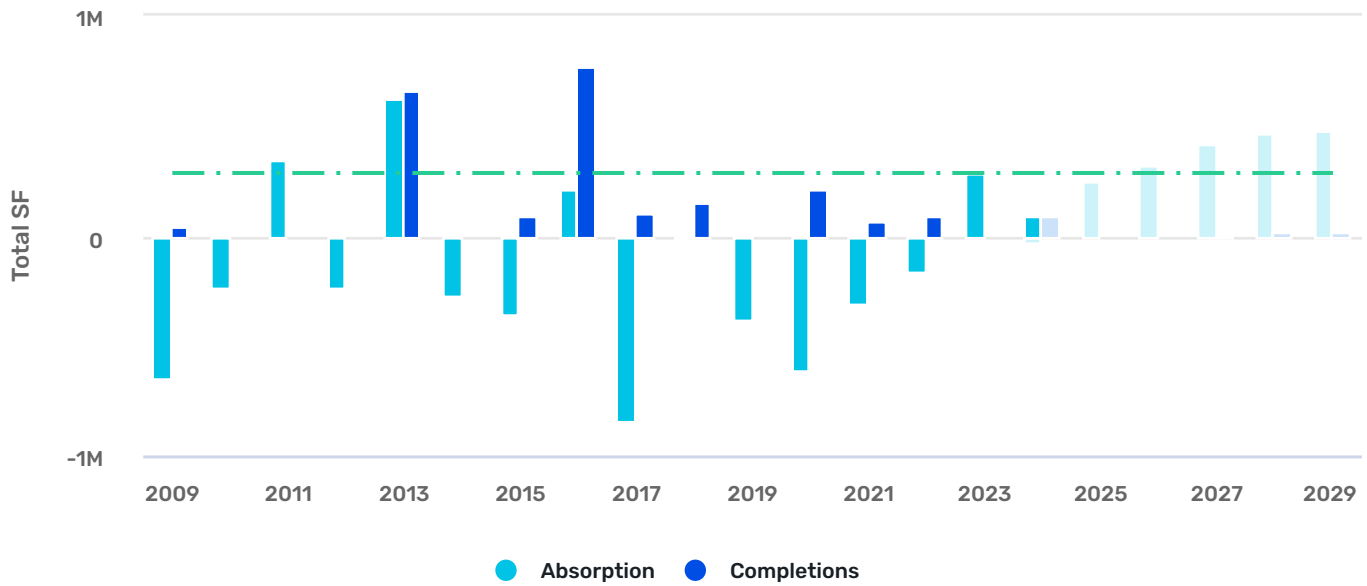
	Q2 2024			Q1 2024		
	SF Built Ending 6/30/2023	SF Absorbed Ending 6/30/2023	Con/Abs Ratio Ending 6/30/2023	SF Built Ending 3/31/2023	SF Absorbed Ending 3/31/2023	Con/Abs Ratio Ending 3/31/2023
Galleria/West Loop North	0	81,000	0	0	-28,000	0
Houston	0	782,000	0	409,000	1,198,000	0.3
Southwestern Region	33,000	226,000	0.1	1,371,000	670,000	2

Quarterly Construction/Absorption (YTD)

	YTD Average		
	SF Built	SF Absorbed	Con/Abs Ratio
Galleria/West Loop North	0	26,500	0
Houston	204,500	990,000	0.2
Southwestern Region	702,000	448,000	1.6

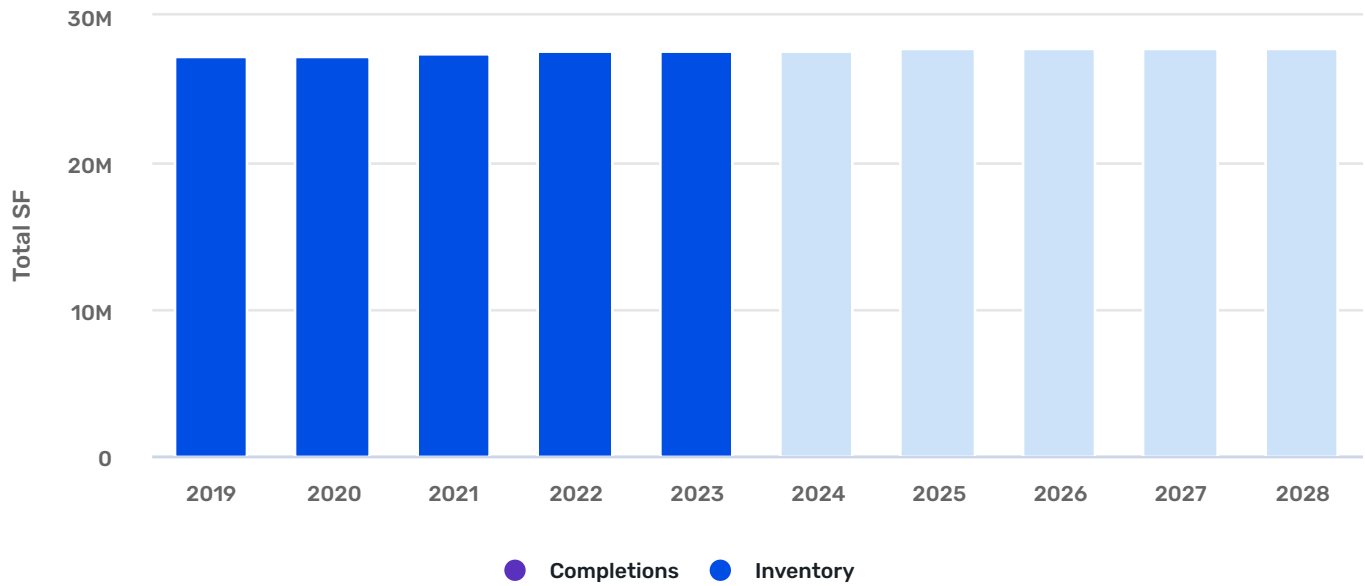
Absorption Trends

[View Full Table in Appendix](#)



New Construction Trends

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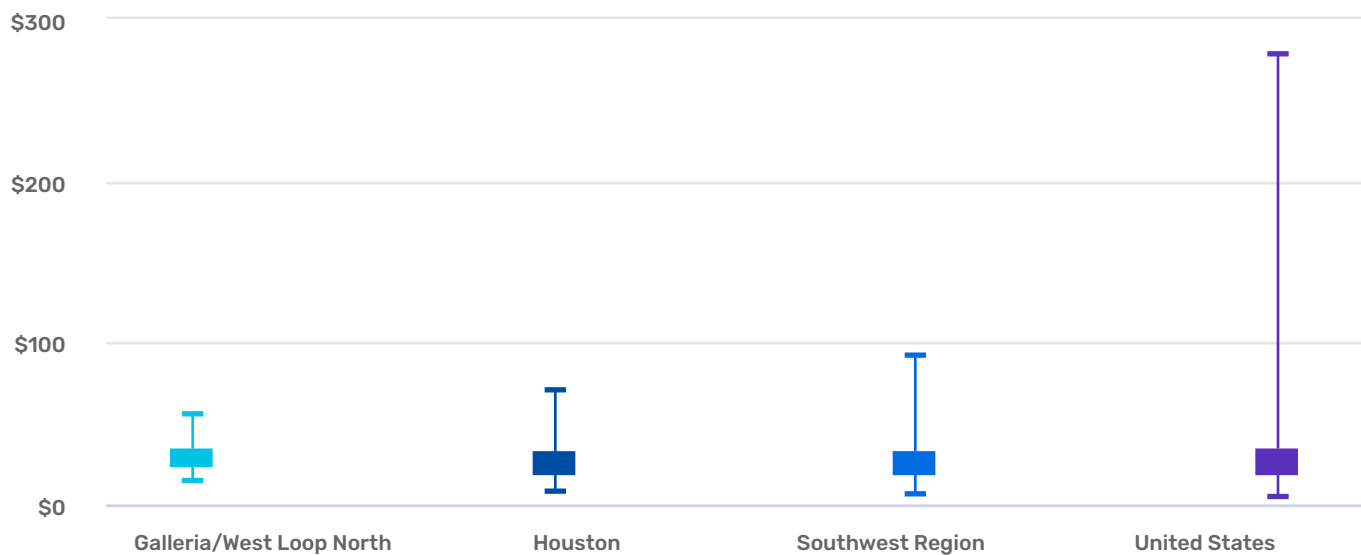


III. PERFORMANCE

Performance By Vintage

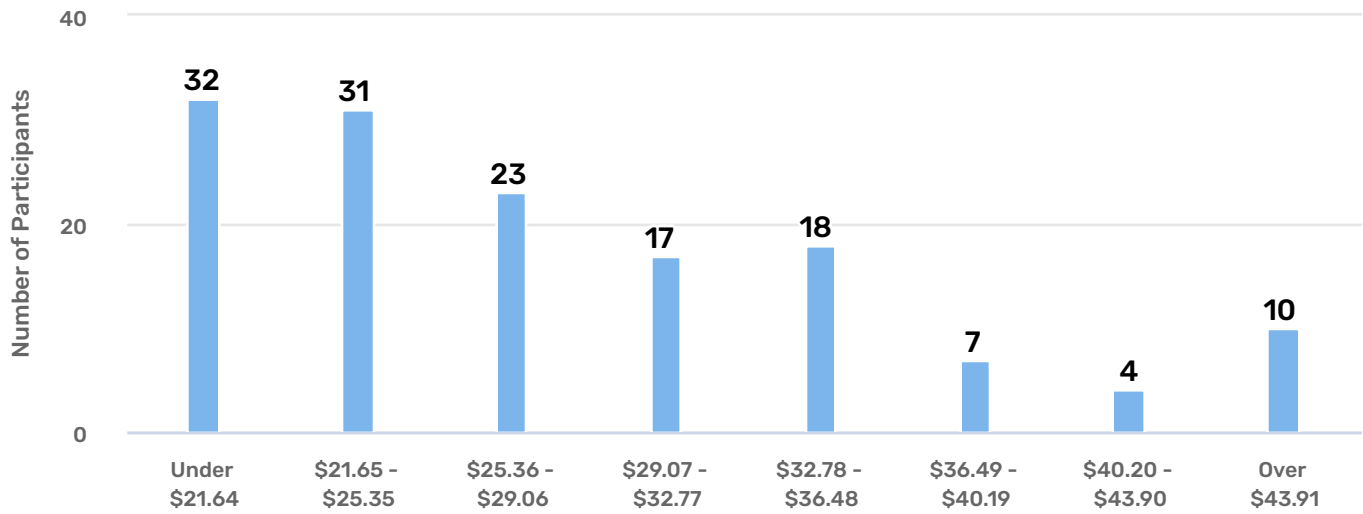
Year Built	Asking Rent (Per SF)	% Vacant	Inventory %
Before 1970	\$26.66	43.2%	2.0%
1970-1979	\$29.38	26.1%	39.0%
1980-1989	\$34.61	22.4%	49.0%
1990-1999	\$32.19	56.3%	1.0%
2000-2009	\$34.27	16.7%	1.0%
2010-2019	\$37.86	19.5%	6.0%
After 2019	\$50.38	24.5%	1.0%
All	\$30.34	24.4%	100.0%

Rent Distribution Benchmark (Per SF)



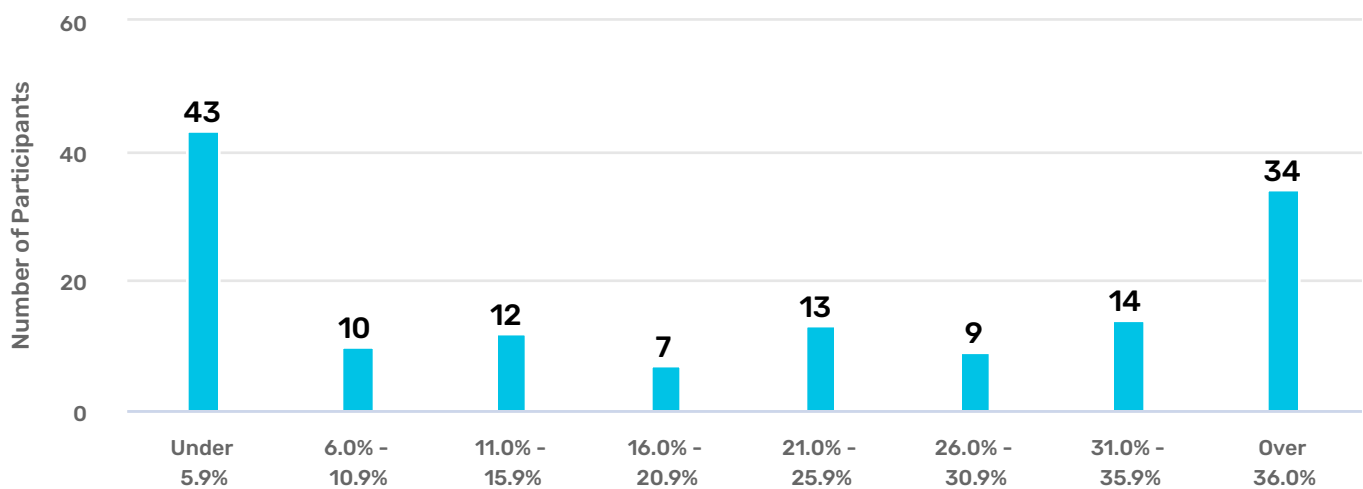
	Minimum Rent	Lower Quartile Rent	Median Rent	Upper Quartile Rent	Maximum Rent
Galleria/West Loop North	\$13.38	\$23.10	\$26.34	\$33.34	\$54.99
Houston	\$7.71	\$19.00	\$24.77	\$31.84	\$69.38
Southwest Region	\$5.72	\$18.56	\$24.65	\$32.62	\$90.88
United States	\$4.39	\$19.00	\$24.62	\$33.00	\$277.29

Asking Rent Distribution Per SF



Low	25%	Mean	Median	75%	High
\$17.93	\$25.83	\$30.34	\$32.83	\$39.37	\$47.64

Vacancy Distribution



Low	25%	Mean	Median	75%	High
0.9%	9.2%	24.4%	27.2%	38.3%	70.6%

IV. SUBMARKETS

CRE Fundamentals: REIS Rank, Asking Rent, Vacancy, Inventory

Submarket Name	REIS Rank*	Inventory SF	Asking Rent SF	Vacancy	Effective Rent SF	Effective Rent % Chg SF
Allen Pkwy/Montrose	37	5,390,000	\$28.60	18.6%	\$24.02	5.7%
Brazoria/Galveston	560	500,000	\$27.83	9.2%	\$23.51	-1.2%
CBD	590	40,972,000	\$40.57	28.0%	\$34.04	0.4%
Galleria/West Loop North	80	27,667,000	\$30.34	24.4%	\$25.78	3.4%
Galleria/West Loop South	467	2,629,000	\$25.92	16.2%	\$21.71	0.9%
Gulf Fwy/Pasadena/Clear Lake	243	6,475,000	\$23.12	21.8%	\$19.34	1.2%
North/FM 1960	401	4,423,000	\$19.39	34.3%	\$16.01	0.6%
North/North Belt	63	10,191,000	\$20.80	44.1%	\$17.59	0.2%
North/Woodlands/Conroe	127	8,739,000	\$30.90	17.3%	\$26.47	1.6%
Northeast/East	273	1,755,000	\$20.44	13.1%	\$16.22	1.1%
Northwest	203	11,051,000	\$22.72	26.4%	\$17.20	2.0%
Richmond/Buffalo Speedway	359	11,425,000	\$30.40	23.2%	\$23.30	1.5%
South Main/Medical Center	110	1,026,000	\$25.70	21.2%	\$21.63	4.2%
Southwest	32	14,618,000	\$23.04	26.4%	\$17.40	6.1%
West/Katy Fwy	47	28,290,000	\$28.95	24.2%	\$25.19	6.4%
Westheimer/Westchase	145	15,391,000	\$26.86	26.8%	\$21.52	3.0%

Concessions: CRD, Commissions, Effective Rent, Expenses, Free Rent, Improvements, Lease Terms

Submarket Name	CRD %	Free Rent Mos	Expenses \$	Lease Terms Years	Leasing Commission	Leasing Commission (Renewal)	Tenant Improvements	Tenant Improvements (Renewal)
Allen Pkwy/ Montrose	-1.2%	1.7	\$11.80	4.2	9.7%	7.3%	\$24.47	\$9.86
Brazoria/ Galveston	-5.7%	0	\$16.61	3.9	11.0%	8.0%	\$28.30	\$19.57
CBD	-3.6%	4.59	\$13.80	6.9	8.9%	5.7%	\$57.47	\$16.54
Galleria/West Loop North	-4.3%	2.4	\$15.40	6.6	9.5%	5.8%	\$42.29	\$13.25
Galleria/West Loop South	-4.2%	2.4	\$10.90	4.4	9.3%	6.3%	\$43.41	\$11.27
Gulf Fwy/ Pasadena/ Clear Lake	-2.5%	1.7	\$9.40	3.1	8.7%	5.9%	\$40.48	\$8.24
North/FM 1960	-3.6%	2.1	\$8.00	3.1	11.7%	4.7%	\$51.68	\$6.34
North/North Belt	-3.6%	2.9	\$8.80	4	9.7%	6.0%	\$32.78	\$8.73
North/ Woodlands/ Conroe	-1.4%	0.4	\$8.60	3.4	10.8%	4.8%	\$30.00	\$10.83
Northeast/ East	-5.2%	2	\$9.10	2.8	12.5%	6.1%	\$50.13	\$10.80
Northwest	-2.8%	2	\$9.50	3.5	8.4%	5.8%	\$50.47	\$13.75
Richmond/ Buffalo Speedway	-3.7%	3.5	\$14.60	3.9	10.0%	4.9%	\$24.22	\$12.89
South Main/ Medical Center	-7.7%	1.5	\$8.20	3	15.9%	8.7%	\$38.47	\$6.63
Southwest	-6.5%	3.9	\$8.40	4.4	9.0%	6.1%	\$32.81	\$9.73
West/Katy Fwy	-3.1%	2.8	\$13.60	3.6	9.6%	6.9%	\$37.81	\$11.07
Westheimer/ Westchase	-3.9%	2.29	\$12.40	3.8	9.9%	8.1%	\$38.15	\$10.37

*There are 851 submarkets in the Office sector nationally.

V. NEW CONSTRUCTION

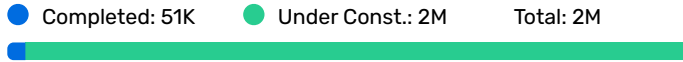
Top New Construction Projects By Size

Property Name	Property Type	Size sqft	Construction Status	Expected Completion	Expected Groundbreak	Developer	Developer Phone
4411 San Felipe St, Houston, TX, 77027							
4411 San Felipe	Office	92,340	Complete	05/01/2022	-	-	-
4411 San Felipe, Houston, TX, 77027							
4411 San Felipe	Office	92,340	Under Constr.	-	3/2021	-	-

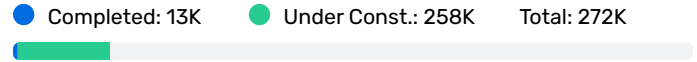
Submarket Project Tally (as of 08/29/2024)

[View Full Table in Appendix](#)

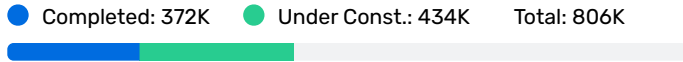
South Main/Medical Center



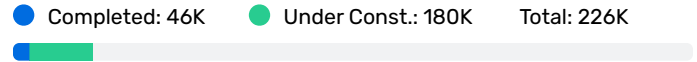
Gulf Fwy/Pasadena/Clear Lake



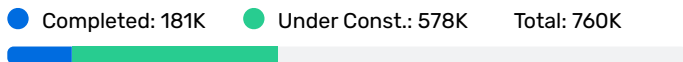
West/Katy Fwy



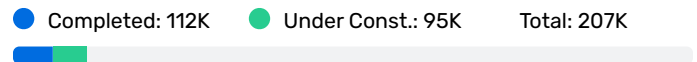
Southwest



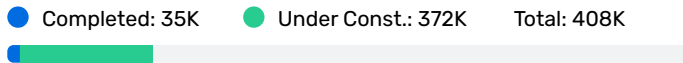
North/Woodlands/Conroe



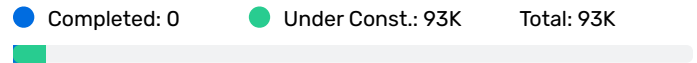
Brazoria/Galveston



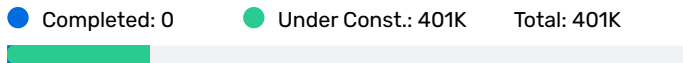
Northwest



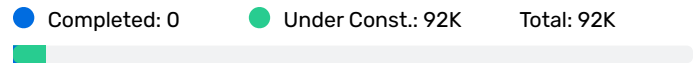
Galleria/West Loop South



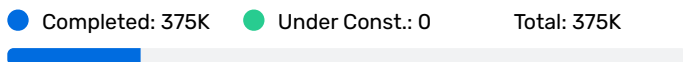
Northeast/East



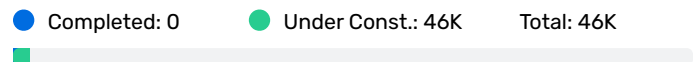
Galleria/West Loop North



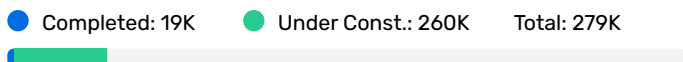
CBD



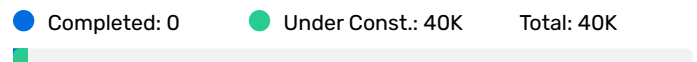
North/FM 1960



Allen Pkwy/Montrose



Richmond/Buffalo Speedway



Construction Deliveries

[View Full Table in Appendix](#)

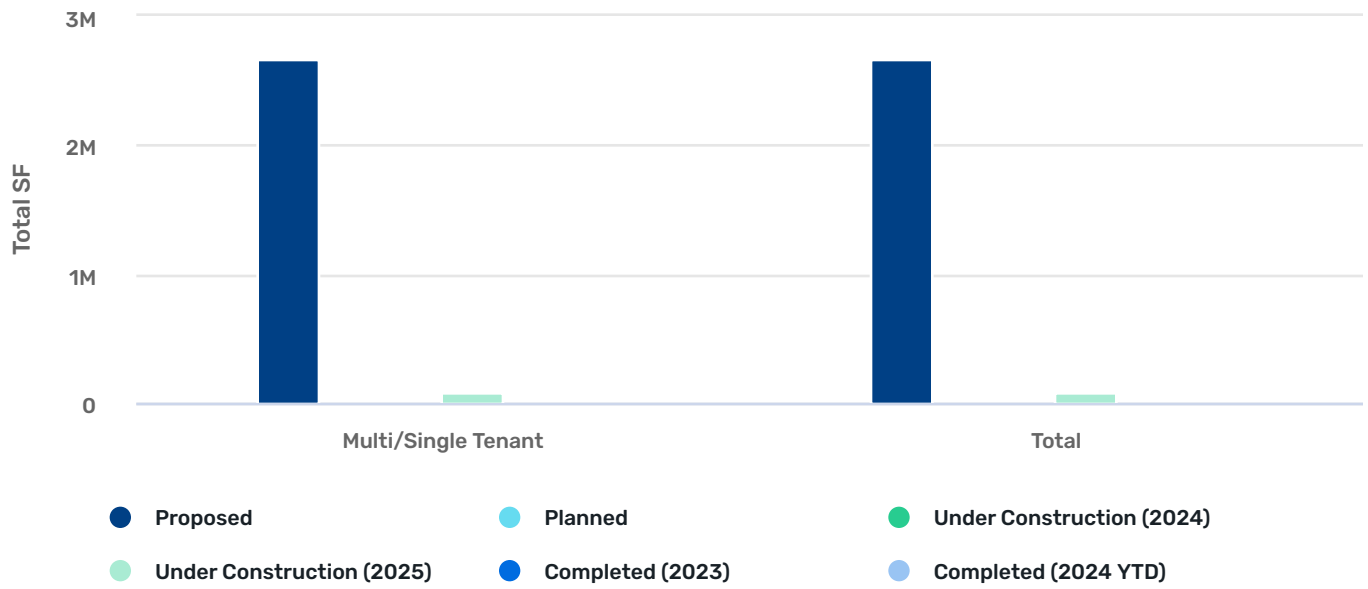
V. New Construction

Office

Houston

Southwestern Region

United States



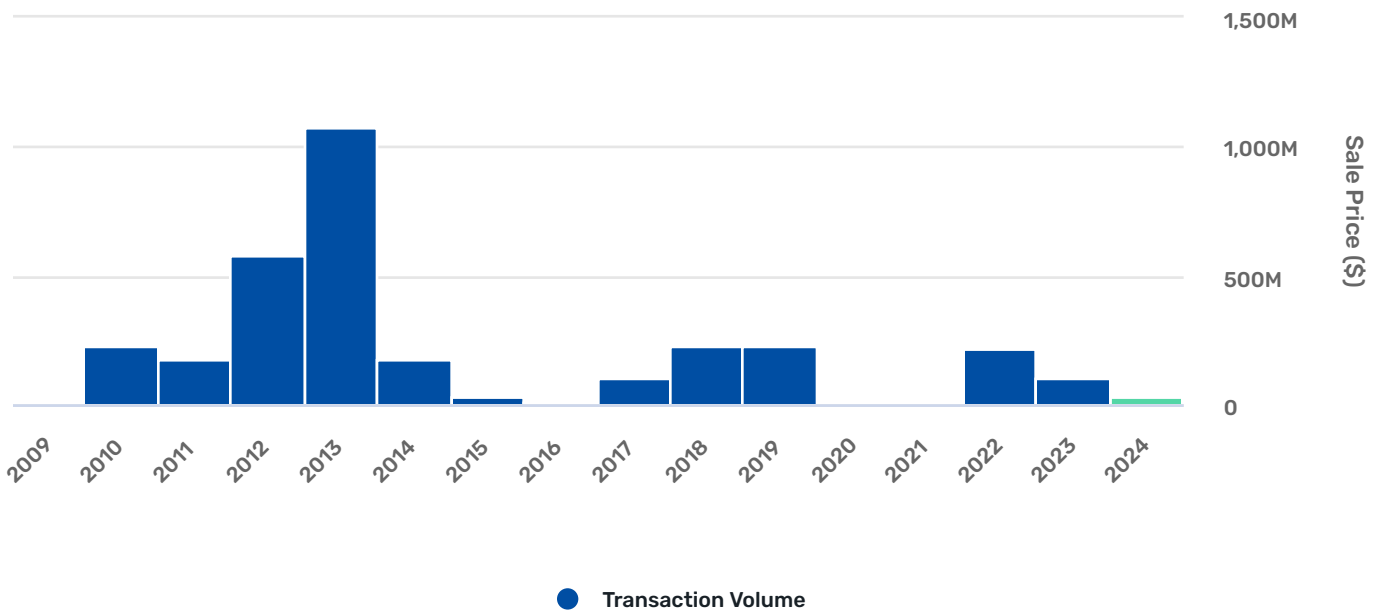
VI. TRANSACTIONS

Key Performance Indicators (2024 YTD)

<p>Transaction Volume GALLERIA/WEST LOOP NORTH</p> <p>\$29.26M</p>	<p>Number of Transactions GALLERIA/WEST LOOP NORTH</p> <p>2</p>	<p>12 Month Rolling Cap Rate GALLERIA/WEST LOOP NORTH</p> <p>—</p>
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Sales Trends

[View Full Table in Appendix](#)



Sales Trends - Quarterly

Year	Quarter	Transaction Volume (\$)	Number of Transactions	Mean Sale Price	Median Sale Price	Mean Transaction Cap Rate	Median Transaction Cap Rate
2021	Q2	\$2.1M	1	\$183.63	\$183.63	-	-
2021	Q3	\$2.25M	1	\$204.77	\$204.77	-	-
2022	Q1	\$53.732M	1	\$305.02	\$305.02	-	-
2022	Q3	\$161.513M	2	\$329.03	\$337.00	3.2%	3.2%
2022	Q4	\$6.65M	1	\$34.28	\$34.28	-	-
2023	Q1	\$105M	1	\$107.09	\$107.09	-	-
2024	Q1	\$26.6M	1	\$144.87	\$144.87	-	-
2024	Q2	\$2.66M	1	\$148.60	\$148.60	6.3%	6.3%

10 Largest Transactions (2024 YTD)

Address	City	State	Sale Price ¹²	Sale Price Per SQFT	Sale Date	Size sf
777 Post Oak Boulevard	Houston	TX	\$26,600,000	\$144.00	03/11/2024	183,618
6100 Richmond Avenue	Houston	TX	\$2,660,000	\$148.00	04/24/2024	17,900
4615 Southwest Freeway	Houston	TX	\$734,160	\$2.00	03/14/2024	331,819

1: Only includes transactions that are verified

2: Any transactions missing a sale price did not have their sale price disclosed at time of sale

10 Most Recent Transactions

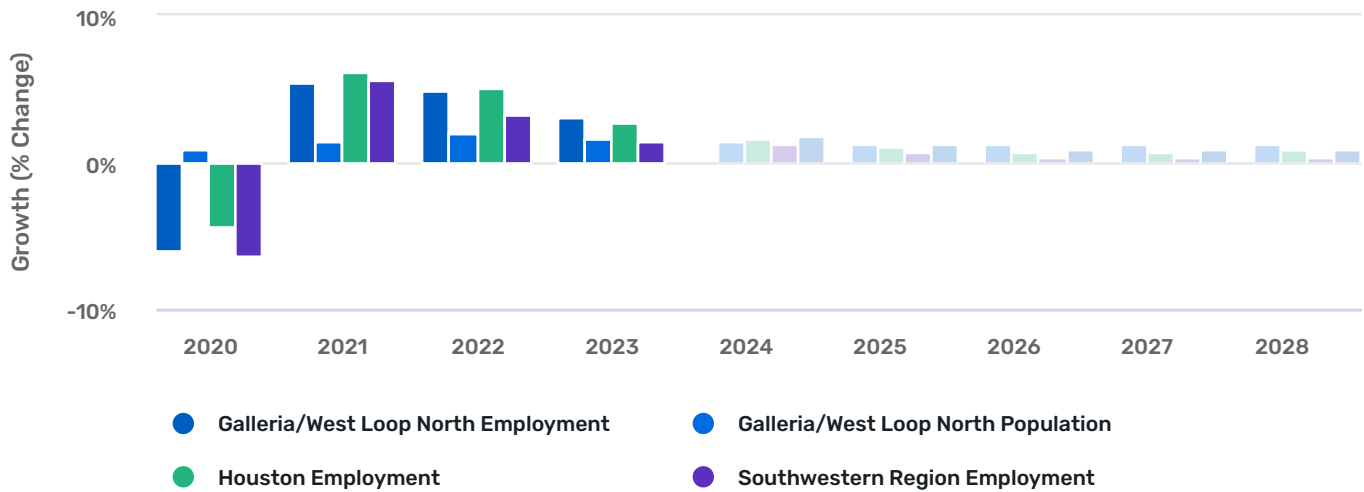
Address	City	State	Sale Price ¹	Sale Price Per SQFT	Sale Date	Size sf
5850 San Felipe Street	Houston	TX	-	-	08/20/2024	110,592
2603 Augusta Drive	Houston	TX	-	-	08/19/2024	251,070
1333 W Loop S	Houston	TX	-	-	08/14/2024	272,621
6100 Richmond Avenue	Houston	TX	\$2,660,000	\$148.00	04/24/2024	17,900
4600 Westheimer Road	Houston	TX	-	-	04/11/2024	225,840
2909 Hillcroft Street	Houston	TX	-	-	03/21/2024	91,985
4615 Southwest Freeway	Houston	TX	\$734,160	\$2.00	03/14/2024	331,819
777 Post Oak Boulevard	Houston	TX	\$26,600,000	\$144.00	03/11/2024	183,618
4740 INGERSOLL ST	Houston	TX	-	-	03/04/2024	10,952
5802 Val Verde St	Houston	TX	-	-	01/26/2024	6,785

¹: Any transactions missing a sale price did not have their sale price disclosed at time of sale

VII. DEMOGRAPHICS

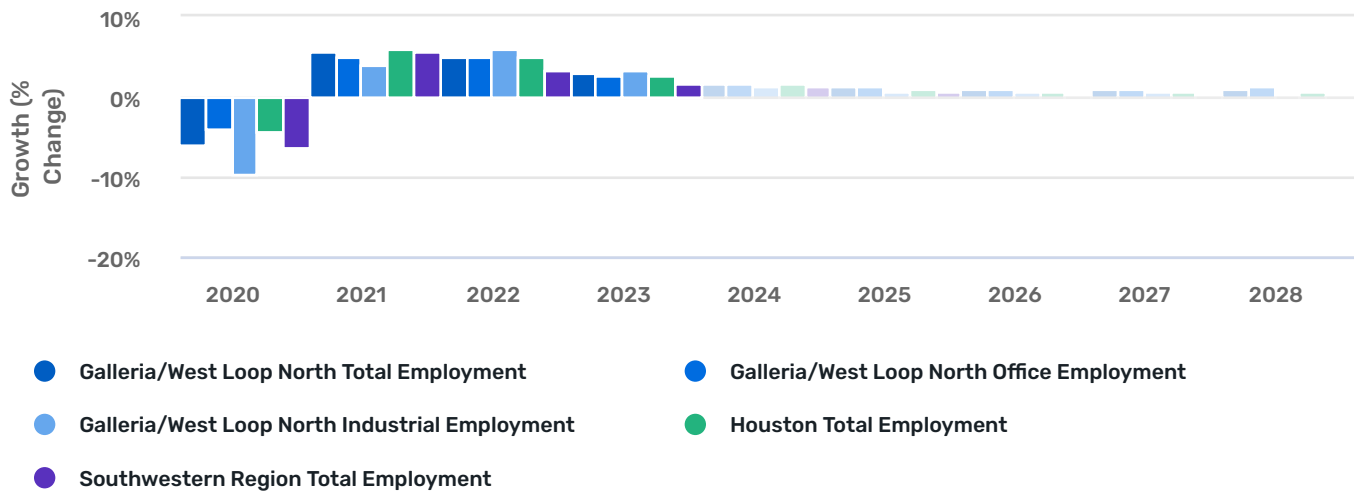
Employment and Population Growth

[View Full Table in Appendix](#)



Employment Growth

[View Full Table in Appendix](#)



VII. Demographics

Office

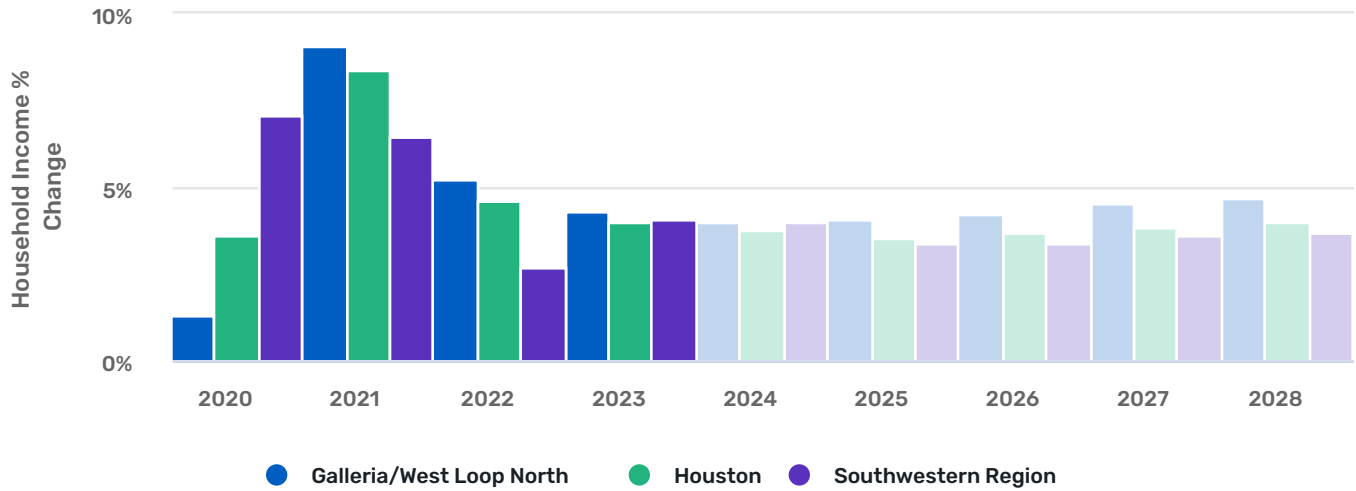
Houston

Southwestern Region

United States

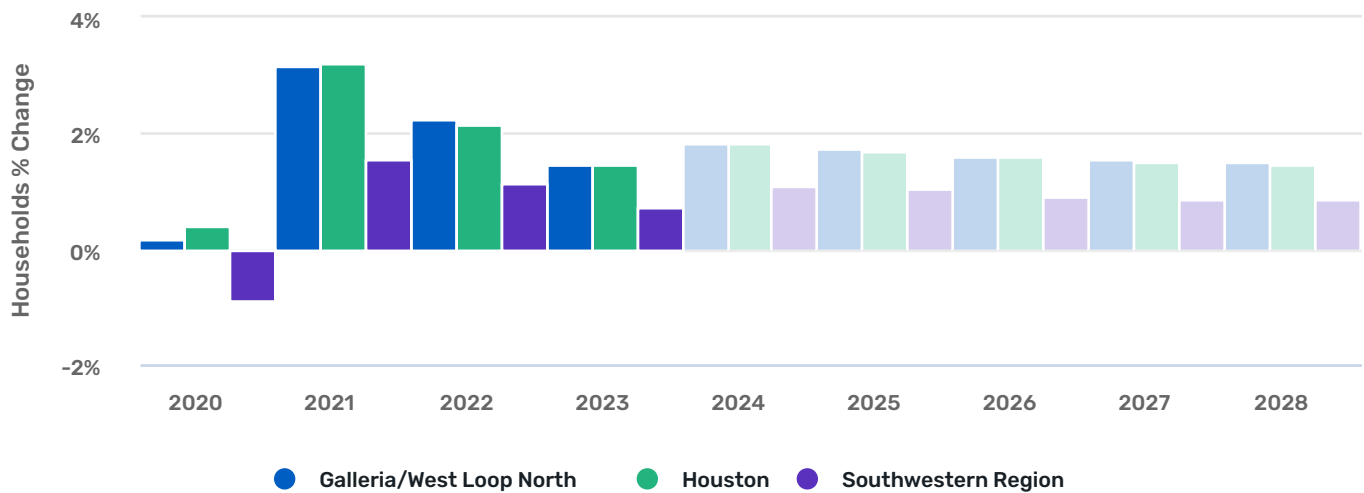
Household Income Growth

[View Full Table in Appendix](#)



Household Growth

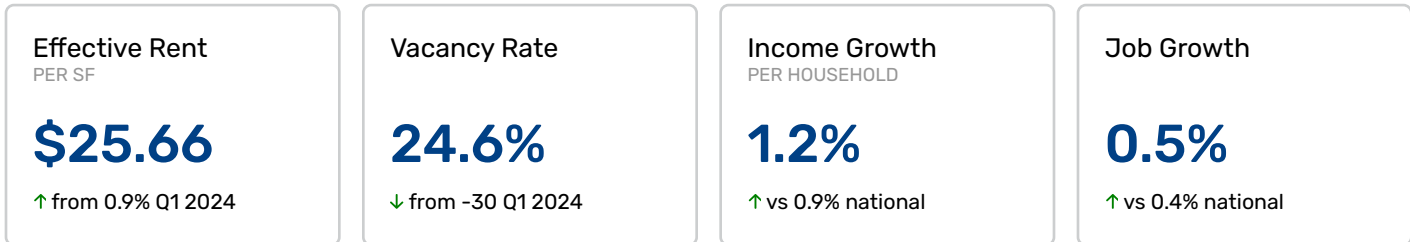
[View Full Table in Appendix](#)



VIII. THE INSIGHT

Last Updated: 08/26/2024

Key Performance Indicators



Economic Overview

Author: Chris Rosin

Located on the Gulf coast of Texas, Houston's commercial real estate market has always been intimately linked to energy & resources, trade & export, and manufacturing & logistics. Houston's top employers include Exxon, John Wood Group (through its acquisition of Houston based Mustang Engineering Inc), Landry's Inc., and Shell plc. While 2023 was a turbulent year for Houston, Houston's unemployment remained historically low with stable job growth. The revised job numbers in 2024 indicate that while job growth has slowed, it remains on par with the national average. Core manufacturing and logistics outperformed the national average with the most recent reading of PMI for the metro above 50, signaling modest expansion.

Houston's economy has been intimately linked with the energy market. Although West Texas Intermediate crude oil prices have dropped from their peak of \$87 in April to \$77, it is still significantly higher than the break-even for new oil expansion. Drilling activity has been stagnant, but prospects look good as oil and natural gas drilling will begin to recover over the coming year.

Global trade will remain subdued as high interest rates limit rate, not only elevate the cost of borrowing, but also raise the value of the dollar, making U.S. goods more expensive. This will be a major headwind for Houston as it is one of the largest exporters among major metros.

Office:

The Houston office market, which comprises of 190 sectors, has seen a slight increase in asking rent from \$29.64 in Q1 2024 to \$29.77 in Q2 2024. This represents a modest growth of 0.4%, slightly lower than the 0.6% growth observed in the previous quarter. The vacancy rate has also improved, decreasing from 25.9% to 25.4%. Absorption, however, has seen a decline from 1,198,000.0 in Q1 to 860,000.0 in Q2. Interestingly, there were no completions in Q2, compared to 409,000.0 in Q1. This data suggests a mixed performance in the Houston office market, with some indicators showing improvement while others show a decline.

Economic Overview (cont.)

Warehouse/Distribution:

The Houston warehouse/distribution market in the Industrial sector has shown positive trends in the second quarter of 2024. The asking rent has increased from \$7.76 in Q1 to \$7.82 in Q2, marking a growth of 0.8%, slightly higher than the 0.6% growth observed in the previous quarter. This represents a 0.77% increase in asking rent over the period. The vacancy rate has also improved, dropping from 8.4% to 7.8%. Absorption, while still robust, has seen a slight decrease from 2,858,000 sq ft in Q1 to 2,729,000 sq ft in Q2. Completions have significantly reduced from 1,524,000 sq ft in Q1 to 741,000 sq ft in Q2, indicating a slowdown in new supply entering the market.

Retail:

In the first quarter, retail sales were gaining momentum with both February and March posting strong figures. However, this momentum did not carry into the second quarter. April sales declined by 0.2% and May saw a minor increase of 0.1%. Consumers have been waiting patiently for the Federal Reserve to cut interest rates, allowing prices to decrease from their elevated levels. However, the Federal Reserve continues to hammer the point that while inflation is moving in the right direction. It is not doing so quickly enough to warrant any decrease in interest rates.

The Ret market in Houston has shown a slight increase in asking rent from Q1 to Q2 in 2024, moving from \$19.76 to \$19.80, a growth of approximately 0.2%. This represents a marginal increase of about 0.2% quarter over quarter. Despite this growth in asking rent, the market has experienced negative absorption, with a decrease from -48,000 in Q1 to -13,000 in Q2. This suggests that while rents are increasing, the market is not absorbing the available space as quickly. The vacancy rate has remained steady at 12.9% for both quarters, indicating a stable level of unoccupied space. There were no completions recorded for both quarters, suggesting a lack of new supply entering the market.

Multifamily:

In Q2, the Houston multifamily market showed a slight increase in asking rent, from \$1,303 in the first quarter (2024Q1) to \$1,313, representing a 0.77% increase. This growth is slightly higher than the 0.2% growth observed in the previous quarter. The vacancy rate also saw a marginal increase from 7.6% to 7.7%. Absorption, which refers to the number of apartments rented out, increased from 2946 units to 3216 units. However, the number of completions, or new apartments added to the market, decreased from 4395 units in 2024Q1 to 4133 units in 2024Q2. This suggests that while demand for apartments in Houston is growing, the supply is slightly decreasing.

Outlook

Outlook (cont.)

Besides the metro's deep root in the energy sector, Houston's economic growth benefited from the diversified industries spanning across health care and social assistance, retail trade, food services, finance and insurance. Houston's leadership in oil and energy has supported the technical and professional service sector in the area. Not only that, but Houston is one of the nation's largest exporters and as these industries improve, we expect Houston's economy to slowly outpace the nation. Longer term, the concentration of energy-related industries, strong population growth, and expansion in transportation and distribution will propel above average gains for area.

Although drilling activity remained flat this year, the number of drilled but uncomplete wells have dwindled, signaling a time for expansion. This will boost the many industries in Houston that support the drilling industry. The strong links between Houston's Gulf coast location and its active trade and export will continue to sustain the demand for industrial space. Effective revenue for office space is expected to grow at a modest 3.01% by the end of 2026, meanwhile warehouse and distribution rent is to trend towards a 9.4% growth.

Although there have been some volatilities in consumer spending given the elevated interest rates, consumers are still spending. The retail sector has exhibited signs of resilience in several aspects. Consumer credit delinquencies remain muted, which is a positive sign for future quarters. A drop in inflation, coupled with interest rate cuts, may enable consumers to continue their previous spending patterns. We forecast the Houston multifamily market effective rent to grow by 6.9% by the end of 2026 and the retail effective rent to grow by 7.8%.

(Next Update: Nov, 2024)

IX. APPENDIX

Asking Rent and Vacancy Trends

 [View Chart in Overview](#)

Year	Galleria/West Loop North		Houston	
	Asking Rent per SF	Vacancy Rate %	Asking Rent per SF	Vacancy Rate %
2009	\$26.47	13.1%	\$24.05	14.9%
2010	\$25.73	14.0%	\$23.76	15.2%
2011	\$26.59	12.7%	\$24.24	15.0%
2012	\$27.57	13.6%	\$25.01	14.5%
2013	\$28.77	13.4%	\$26.01	14.5%
2014	\$29.46	14.4%	\$27.34	14.9%
2015	\$30.65	16.1%	\$27.96	17.4%
2016	\$29.99	17.5%	\$28.22	21.1%
2017	\$30.04	19.0%	\$28.39	21.6%
2018	\$30.37	19.5%	\$28.56	23.0%
2019	\$30.38	20.9%	\$28.67	23.5%
2020	\$30.26	23.7%	\$28.76	25.3%
2021	\$29.65	25.0%	\$28.55	25.7%
2022	\$29.81	25.8%	\$28.94	26.4%
2023	\$29.81	24.8%	\$29.47	26.4%
2024	\$30.42	25.2%	\$29.91	26.2%
2025	\$30.78	24.3%	\$30.22	26.1%
2026	\$31.05	23.1%	\$30.46	25.7%
2027	\$31.44	21.6%	\$30.72	24.4%
2028	\$31.93	20.0%	\$31.03	23.2%
2029	\$32.48	18.3%	\$31.34	21.8%

Scenarios: Asking Rent Per SF

 [View Chart in Overview](#)

Year	Galleria/West Loop North			Houston	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2009	-0.2%	--	--	0.0%	-4.8%
2010	-2.8%	--	--	-1.2%	-0.9%
2011	3.3%	--	--	2.0%	1.7%
2012	3.7%	--	--	3.2%	2.1%
2013	4.4%	--	--	4.0%	2.5%
2014	2.4%	--	--	5.1%	3.1%
2015	4.0%	--	--	2.3%	3.4%
2016	-2.2%	--	--	0.9%	2.3%
2017	0.2%	--	--	0.6%	1.8%
2018	1.1%	--	--	0.6%	2.7%
2019	0.0%	--	--	0.4%	2.6%
2020	-0.4%	--	--	0.3%	0.5%
2021	-2.0%	--	--	-0.7%	0.0%
2022	0.5%	--	--	1.4%	1.9%
2023	0.0%	--	--	1.8%	1.2%
2024	2.1%	-0.1%	-0.3%	1.5%	1.1%
2025	1.2%	-1.7%	-2.6%	1.0%	1.4%
2026	0.9%	-1.0%	-2.8%	0.8%	1.6%
2027	1.2%	0.6%	-0.3%	0.9%	1.8%
2028	1.6%	1.1%	0.4%	1.0%	1.9%
2029	1.7%	1.3%	0.7%	1.0%	2.0%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Vacancy

 [View Chart in Overview](#)

Year	Galleria/West Loop North			Houston	United States
	% Vacant	S1 - % Vacant ¹	S2 - % Vacant ²	% Vacant	% Vacant
2009	13.1%	--	--	14.9%	17.0%
2010	14.0%	--	--	15.2%	17.6%
2011	12.7%	--	--	15.0%	17.4%
2012	13.6%	--	--	14.5%	17.2%
2013	13.4%	--	--	14.5%	17.0%
2014	14.4%	--	--	14.9%	16.9%
2015	16.1%	--	--	17.4%	16.5%
2016	17.5%	--	--	21.1%	16.2%
2017	19.0%	--	--	21.6%	16.4%
2018	19.5%	--	--	23.0%	16.7%
2019	20.9%	--	--	23.5%	16.8%
2020	23.7%	--	--	25.3%	17.8%
2021	25.0%	--	--	25.7%	18.1%
2022	25.8%	--	--	26.4%	18.8%
2023	24.8%	--	--	26.4%	19.6%
2024	25.2%	25.8%	25.8%	26.2%	20.2%
2025	24.3%	25.2%	25.4%	26.1%	20.2%
2026	23.1%	23.6%	24.3%	25.7%	20.0%
2027	21.6%	21.9%	22.5%	24.4%	19.4%
2028	20.0%	20.1%	20.7%	23.2%	18.9%
2029	18.3%	18.4%	18.8%	21.8%	18.4%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Inventory

 [View Chart in Overview](#)

Year	Galleria/West Loop North			Houston	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2009	0.2%	--	--	2.2%	0.7%
2010	0.0%	--	--	0.7%	0.1%
2011	0.0%	--	--	0.4%	0.3%
2012	0.0%	--	--	0.1%	0.2%
2013	2.5%	--	--	3.2%	0.6%
2014	0.0%	--	--	2.8%	0.6%
2015	0.4%	--	--	2.3%	0.6%
2016	2.7%	--	--	2.3%	0.5%
2017	-1.9%	--	--	0.4%	0.8%
2018	0.6%	--	--	1.1%	1.0%
2019	0.0%	--	--	0.8%	1.2%
2020	0.8%	--	--	0.6%	1.0%
2021	0.2%	--	--	1.1%	1.0%
2022	0.3%	--	--	0.3%	1.0%
2023	0.0%	--	--	0.2%	0.6%
2024	0.3%	0.1%	0.0%	1.2%	0.9%
2025	0.0%	0.0%	0.0%	0.5%	0.8%
2026	0.0%	0.0%	0.0%	0.0%	0.7%
2027	0.0%	0.0%	0.0%	0.1%	0.6%
2028	0.1%	0.0%	0.0%	0.3%	0.5%
2029	0.1%	0.0%	0.0%	0.3%	0.5%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".



Absorption Trends

[View Chart in Overview](#)

Year	Absorption (SF)	Completions (SF)
2009	-649,000	38,000
2010	-236,000	0
2011	340,000	0
2012	-235,000	0
2013	625,000	661,000
2014	-269,000	0
2015	-359,000	92,000
2016	212,000	769,000
2017	-840,000	100,000
2018	-15,000	150,000
2019	-382,000	0
2020	-610,000	210,000
2021	-304,000	62,000
2022	-158,000	92,000
2023	283,000	0
2024	-33,000	92,000
2024 YTD	95,000	0
2025	250,000	0
2026	316,000	0
2027	424,000	10,000
2028	466,000	20,000
2029	483,000	20,000

New Construction Trends

 [View Chart in Overview](#)

Year	Completions (SF)	Inventory (SF)
2019	0	27,303,000
2020	210,000	27,303,000
2021	62,000	27,513,000
2022	92,000	27,575,000
2023	0	27,667,000
2024	92,000	27,667,000
2025	0	27,759,000
2026	0	27,759,000
2027	10,000	27,759,000
2028	20,000	27,769,000

Submarket Project Tally: Proposed And Planned

 [View Chart in Overview](#)

	Multi/Single Tenant	Other Office
Galleria/West Loop North	2,659,896	-
Allen Pkwy/Montrose	1,894,732	-
Brazoria/Galveston	104,565	235,172
CBD	4,174,000	603,629
Galleria/West Loop South	427,581	9,900
Gulf Fwy/Pasadena/Clear Lake	469,501	379,568
North/FM 1960	1,856,167	29,853
North/North Belt	792,923	-
North/Woodlands/Conroe	9,327,554	2,686,757
Northeast/East	612,520	101,000
Northwest	1,909,677	442,448
Richmond/Buffalo Speedway	1,084,958	75,000
South Main/Medical Center	1,549,724	1,221,061
Southwest	2,404,537	177,235
West/Katy Fwy	5,791,937	813,461
Westheimer/Westchase	349,190	16,830

Size of Projects is in SF.

Submarket Project Tally: Under Construction

 [View Chart in Overview](#)

	Multi/Single Tenant	Other Office
Galleria/West Loop North	92,340	-
Allen Pkwy/Montrose	240,744	19,734
Brazoria/Galveston	32,900	62,000
CBD	-	-
Galleria/West Loop South	40,000	52,825
Gulf Fwy/Pasadena/Clear Lake	145,683	112,550
North/FM 1960	-	45,543
North/North Belt	-	-
North/Woodlands/Conroe	246,139	332,271
Northeast/East	399,762	1,225
Northwest	204,133	167,874
Richmond/Buffalo Speedway	40,000	-
South Main/Medical Center	481,313	1,381,275
Southwest	134,904	44,699
West/Katy Fwy	258,960	175,000
Westheimer/Westchase	-	-

Size of Projects is in SF.

Submarket Project Tally: Complete

 [View Chart in Overview](#)

	Multi/Single Tenant	Other Office
Galleria/West Loop North	-	-
Allen Pkwy/Montrose	18,900	-
Brazoria/Galveston	6,125	105,800
CBD	375,000	-
Galleria/West Loop South	-	-
Gulf Fwy/Pasadena/Clear Lake	489	12,800
North/FM 1960	-	-
North/North Belt	-	-
North/Woodlands/Conroe	120,041	61,377
Northeast/East	-	-
Northwest	17,414	18,082
Richmond/Buffalo Speedway	-	-
South Main/Medical Center	50,780	-
Southwest	23,873	22,403
West/Katy Fwy	364,616	7,381
Westheimer/Westchase	-	-

Size of Projects is in SF.

Construction Deliveries (In SF)

 [View Chart in New Construction](#)

	Proposed	Planned	Under Construction 2024	Under Construction 2025 and Later	Completed 2023	Completed 2024 YTD
Multi/Single Tenant	2,659,896	-	-	92,340	-	-
Total	2,659,896	0	0	92,340	0	0

Sales Trends

 [View Chart in Transactions](#)

Year	Transaction Volume (\$)	Number of Transactions	Mean Sale Price Per SF	Median Sale Price Per SF	Mean Transaction Cap Rate	Median Transaction Cap Rate
2009	\$8,700,000	1	\$79.30	\$79.30	9.8%	9.8%
2010	\$232,750,000	5	\$124.52	\$107.98	9.2%	8.1%
2011	\$176,000,000	3	\$166.19	\$166.19	-	-
2012	\$574,978,000	3	\$238.33	\$215.27	9.1%	9.1%
2013	\$1,078,533,537	8	\$241.12	\$211.76	5.6%	5.7%
2014	\$173,000,000	2	\$277.38	\$267.14	6.2%	6.2%
2015	\$34,993,750	3	\$108.86	\$88.39	-	-
2016	\$7,968,750	1	\$66.48	\$66.48	-	-
2017	\$105,024,062	5	\$159.75	\$115.00	7.0%	7.0%
2018	\$225,775,000	5	\$144.59	\$184.91	5.6%	5.6%
2019	\$226,897,187	5	\$309.28	\$202.97	-	-
2020	-	0	-	-	-	-
2021	\$4,350,000	2	\$193.99	\$194.20	-	-
2022	\$221,895,280	4	\$257.71	\$316.06	3.2%	3.2%
2023	\$105,000,000	1	\$107.09	\$107.09	-	-
2024	\$29,260,000	2	\$145.20	\$146.73	6.3%	6.3%

Includes sales of \$2M and greater only

Employment and Population

 [View Chart in Demographics](#)

	2020	2021	2022	2023	2024	2025	2026	2027
Employment								
Houston Total Employment	-6.0%	5.5%	5.0%	3.1%	1.8%	1.2%	0.9%	0.9%
Houston Office Employment	-4.1%	5.1%	4.9%	2.8%	1.7%	1.2%	1.1%	1.2%
Houston Industrial Employment	-9.6%	4.2%	6.0%	3.3%	1.4%	0.8%	0.7%	0.6%
Southwestern Region Total Employment	-4.4%	6.1%	5.1%	2.7%	1.6%	1.1%	0.8%	0.8%
Southwestern Region Office Employment	-2.9%	6.7%	5.2%	2.0%	1.4%	1.1%	1.1%	1.1%
Southwestern Region Industrial Employment	-6.2%	5.2%	6.2%	2.7%	1.3%	0.6%	0.5%	0.4%
United States Total Employment	-6.3%	5.7%	3.3%	1.5%	1.4%	0.7%	0.4%	0.4%
United States Office Employment	-4.5%	5.0%	2.8%	0.8%	1.0%	0.7%	0.7%	0.7%
United States Industrial Employment	-6.4%	4.1%	3.5%	1.0%	0.8%	0.4%	0.1%	0.0%
Population								
Houston Population	0.9%	1.4%	1.9%	1.7%	1.4%	1.3%	1.3%	1.3%
Southwestern Region Population	1.2%	1.5%	1.9%	1.7%	1.5%	1.3%	1.2%	1.2%
United States Population	0.1%	0.2%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%

% change from previous year.

Households

 [View Chart in Demographics](#)

	2020	2021	2022	2023	2024	2025	2026	2027
Household Growth								
Houston Households	0.2%	3.2%	2.3%	1.5%	1.8%	1.7%	1.6%	1.6%
Southwestern Region Households	0.4%	3.2%	2.1%	1.5%	1.8%	1.7%	1.6%	1.5%
United States Households	-0.9%	1.5%	1.1%	0.7%	1.1%	1.0%	0.9%	0.9%
Household Income								
Houston Household Income	1.3%	9.1%	5.2%	4.3%	4.0%	4.1%	4.2%	4.5%
Southwestern Region Household Income	3.6%	8.4%	4.6%	4.0%	3.8%	3.6%	3.7%	3.9%
United States Household Income	7.1%	6.4%	2.7%	4.1%	4.0%	3.4%	3.4%	3.6%

% change from previous year.