

TEXAS SNAPSHOT Houston Office Market

by Clay Peeples, SIOR of Boyd Commercial, LLC

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The trend for new office development in Houston is in the suburban office markets, in particular, the Energy Corridor/Park 10 area, Westchase and along the West Sam Houston Parkway, according to Clay Peeples, SIOR, director of Houston-based Boyd Commercial/ CORFAC International. "Accessibility is driving the growth in these areas while companies are moving to and expanding in areas that are closer to the residential communities where their employees reside with good access to the freeway systems," he says.

A number of significant office developments are underway or planned throughout the metropolitan area. Myers, Crow & Saviers, for example, is developing Oak Park Office Center II in the Westchase District. The 206,362-square-foot facility is located at 6380 Rogerdale. Also in Westchase, Dienna Nelson Augustine Company is developing a 300,000-square-foot office building for Jacobs Engineering. "This is the second building that will be owned and occupied by Jacobs Engineering," Peeples says.

The Energy Corridor is another booming area of town for office product. Trammell Crow Company is currently developing the first phase of a two-building project at the northeast corner of Eldridge at Katy Freeway. The 330,000-square-foot, 13-story Energy Center speculative building is set to be available in the fourth quarter of next year. Also along the corridor, CORE Real Estate is developing Park Ten. The three-story, 174,000-square-foot speculative building is located at 17000 Katy Freeway.

MAJOR OFFICE LEASES SIGNED IN HOUSTON IN 2006		
<u>Tenant</u>	<u>Building</u>	<u>Square Footage</u>
BMC Software	City West Place Building IV	622,200 (renewal)
Chevron	Continental Center I	480,147
EOG Resources	Heritage Plaza	225,648
Baker Hughes Incorporated	American Tower	114,000
HCA Houston	West Belt Office Center	100,552
Lockheed Martin	Clear Lake Central I	89,805
Weatherford International	World Houston Plaza	84,439
SAIC	2400 NASA Parkway	80,000
Hilcorp Energy Company	Total Plaza	72,246
Jacobs Engineering	5959 Corporate Drive	66,638

Source: Boyd Commercial/CORFAC International

"Regarding the impact on the market, the new development is taking place where the demand has been the strongest, so my feeling is the demand should be there for these new buildings," Peeples says. "I don't see energy prices dropping significantly anytime soon, so I think that the office market in Houston is going to be strong for some time to come."

Duke Realty Corporation and Koll Development Company (KDC) are two new office developers in the Houston market. "Duke Realty purchased 42 acres along the West Sam Houston Parkway and will kick off their first office building in the Sam Houston Crossing project," Peeples says. "It will be a three-story, 159,175-square-foot building, which should be ready for occupancy in June 2007." KDC is beginning development of a 150,063-square-foot speculative building called Intellicenter, which will be located in Westway Business Park off the West Sam Houston Tollway between Clay Road and Tanner.

There is no major tenant absorbing the majority of office space in Houston, according to Peeples. "While the energy industry has had plenty to do with the overall positive absorption in the Houston office market, other sectors such as healthcare, finance/insurance/real estate and law firms have also been expanding," he says.

The range for Class A space in the Houston office market is \$20 to \$26 per square foot (full service). According to CoStar, Class A vacancy rates are at 12.4 percent for the overall suburban market and 17.8 percent for the central business district (CBD). Class B vacancy rates are 15.4 percent for the overall suburban market and 15.9 percent for the CBD. The overall Houston office market ended the second quarter 2006 with a vacancy rate of 14.4 percent. The vacancy rate was 15.1 percent at the end of the first quarter 2006, 15.4 percent at the end of the fourth quarter 2005, and 15.5 percent at the end of the third quarter 2005. Net absorption totaled approximately 1.51 million square feet in the second quarter 2006.

Near term, Peeples expects the Energy Corridor, Westchase, and the West Sam Houston Parkway markets to continue to be active. "It is my understanding that BP has acquired 39 acres near their Westlake location for future expansion and Shell is also planning for some expansion of their existing campus, so we should see some significant 'user' development to go along with the speculative development," he says. "We will also see new office projects in Sugar Land, The Woodlands and the FM 1960/FM 249 areas."

Overall, the recent positive office absorption and the pace of new office development are being fueled by a strong energy market and steady job growth in the Houston area. "While the energy business and related companies are fueling much of the growth, other industries such as healthcare are showing strength as well as evidenced by the 511,000-square-foot medical building and the 800,000-square-foot headquarters currently being built for the Memorial Hermann Healthcare System," Peeples says.