

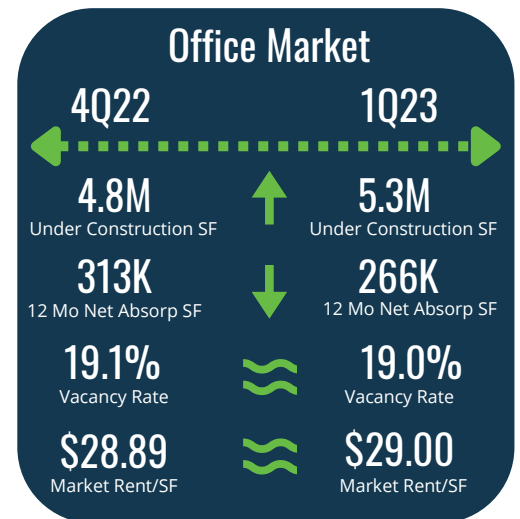


## Houston Office Market - Vacancy is Stable at the Moment

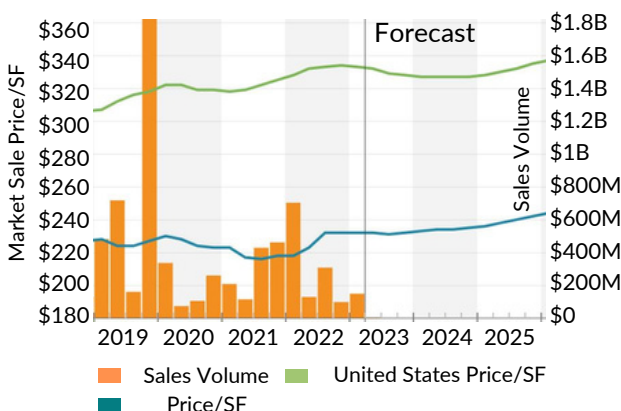
The Houston office market continues to add new buildings while struggling to lease vintage products. In 1Q23 the vacancy rate remained unchanged from 4Q22 at 18.8%, causing Houston to keep its record of highest vacancy in the nation among major markets, but interestingly is the 8th largest market for new construction with over 108 new office buildings under construction totaling 5,164,000 SF. Houston is the 7th largest US office market with 350 million SF, but the Houston market has struggled to breathe new life into its older buildings as new companies are drawn to its new, LEED and green properties with state-of-the-art amenities and modern, fresh designs. Houston continues to grow and its higher quality properties classed as trophy and class A+, continue to outperform the wider market evidenced by the pre-leasing strength of new buildings under construction at 63.9% before the doors are even opened.

## Life Sciences Sector Booming

There are a mix of projects under construction, totaling 5.3 million SF, in the South Main/Medical Center, the Central Business District, Katy Freeway East and the Woodlands submarkets. Nearly half of the projects are appearing within the South Main/Medical Center submarket, due to the thriving demand for life sciences buildings. The Medical Center is the world's largest health care cluster, which influences the need for office space.



## Sales Volume & Market Sale Price Per SF



## Financial Conditions Halting Sales

Buyers have been a bit more guarded lately because of rising borrowing costs and the vulnerability in the market for traditional office space. Therefore, buyers are continuing to target quality and valued properties for a long-lasting investment. However, because of many factors like high rates, excessive demand for assets, tightening financial conditions and elevated costs of capital, investment sales activity will likely slow down over the next quarter.

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