

TEXAS OFFICE Market Insight

MAY 2017

Measuring the “Big Four” Texas Office Markets

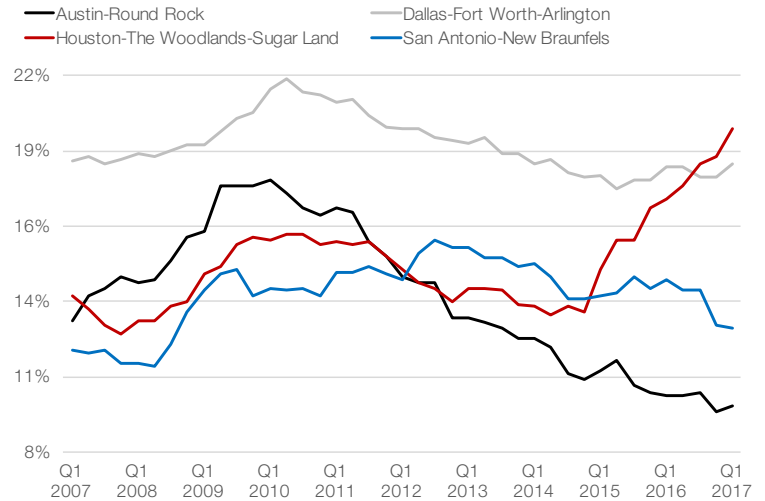
The triangular region framed in by the cities of Austin, Dallas-Fort Worth, Houston and San Antonio are home to the four largest office markets in Texas. With no state income tax and a low tax burden for businesses, the megaregion continues to lure an increasing number of American companies looking to relocate.

What is the best way to evaluate how an office market is performing? Vacancy rate and rent trend analyses are valuable in determining what is driving the market. Additionally, economic trends, such as population and employment data, provide information that assists in defining the health of a region and can be used to reflect the current and future demand for office space.

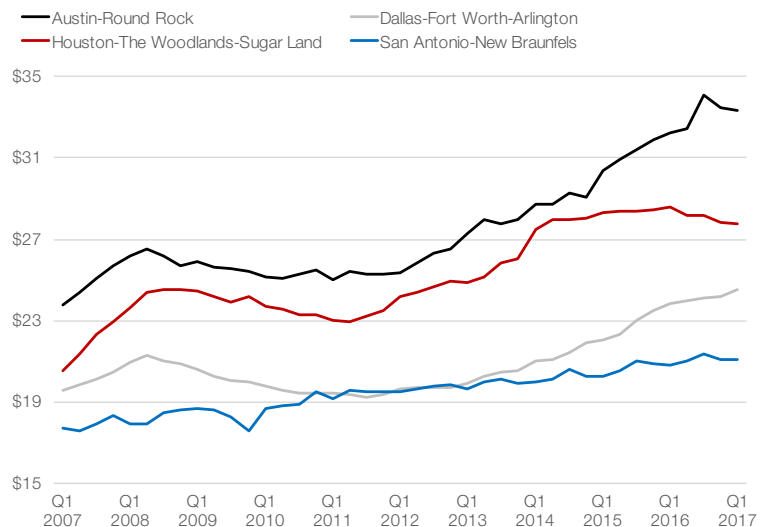
A preferred metric for demand is employment, and for office demand, the labor statistics used for the office-using industry sectors throughout the state are most heavily concentrated in the Professional and Business Services, Financial Activities, and Information sectors. The Texas Workforce Commission reported that Professional and Business Services employment grew by 25,000 jobs in the first quarter of 2017, representing the industry’s strongest first-quarter gains since 1990. In addition, that sector added the most jobs in March, with 13,200.

How has this positive job growth played out at the local level in Texas’ “Big Four”? Home to headquarters locations for many technology corporations, the Austin office market has experienced declining vacancies, increasing rents and overall positive net absorption since Q1 2011. Austin added 32,000 new jobs in the 12 months ending in March, making Austin the 14th-fastest-growing major metro. Also, during the same period, 6,900 new jobs were added to the office-using industry sector. Austin has faced the least amount of instability among the

Overall Vacancy by Market



Overall Gross Asking Rate by Market



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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www.naipartners.com

four major metros and continues to display robust office market dynamics.

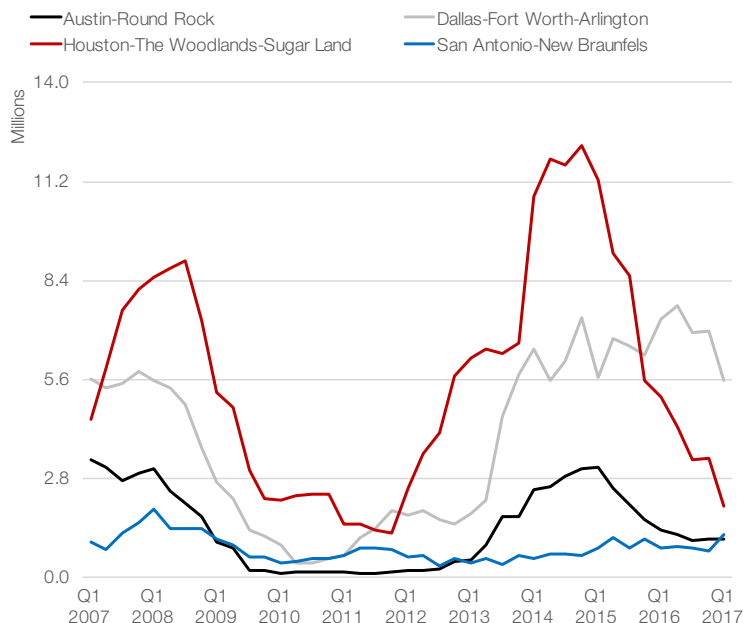
Dallas-Fort Worth is a corporate magnet luring many businesses to the area for expansions and relocations, promoting healthy leasing activity. Vacancy rates should remain steady and rental rates solid as large companies are continuing to commit to long-term leases. In the 12 months ending in March, Dallas-Fort Worth added 42,400 new jobs, a 4.6% increase, in the office-using industry sectors. Vigorous job growth and corporate migrations should keep leasing activity strong, indicating an ongoing healthy market.

Houston's current economic difficulties result almost entirely from the downfall of oil prices and record-low levels of drilling activity. Following two-plus years of a downturn, Houston is beginning to see some initial signs of recovery in the office market, albeit small ones. Year-over-year, Houston added 6,800 jobs, a 1.0% increase in the office-using industry sectors, as of March 2017. The glut of available sublease space is down, and the construction pipeline has declined. While recovery may be too strong a term, the worst of the oil slump appears to be over—though it will take a combination of rising oil prices, increased leasing activity to reduce a large amount of surplus office space, and other non-energy related industry growth to fully reestablish Houston's office market.

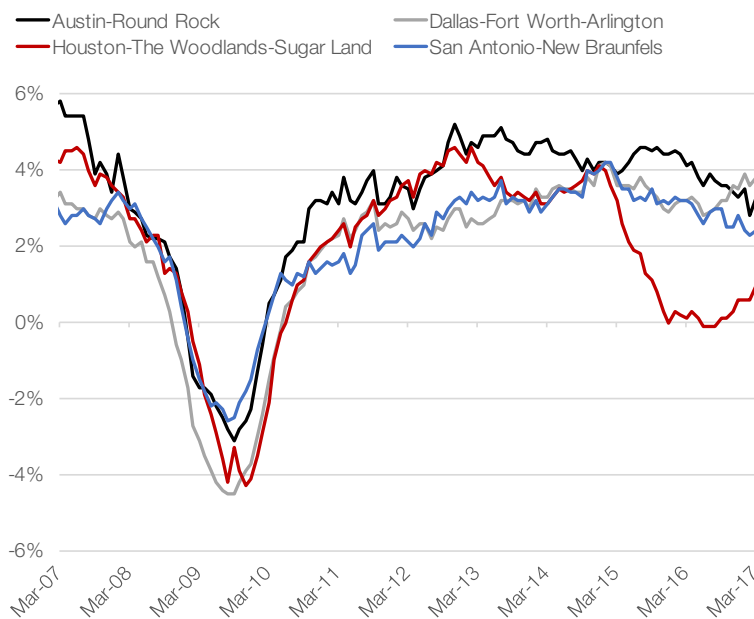
San Antonio has created a stable economic environment, along with added population and job growth. Much of this growth comes via the tech and healthcare industries. In the office-using industry sectors, the San Antonio metro added 4,800 jobs, a 2.0% increase, in the 12 months ending in March. The overall vacancy rate for San Antonio fell to 12.6% in Q1 2017, on the heels of the more than 1.0 million sq. ft. San Antonio absorbed during 2016. Adding to the overall success of the economy, San Antonio has increased the amount of Class A office space being built, which has contributed to rising rental rates. It is projected that demand is expected to outpace supply, driving down vacancy and boosting a robust pace of rent growth. Overall, growth in the diverse San Antonio economy should continue at a stable pace.

Texas is a diverse state with a dynamic economy that is more wide-ranging than it was 30 years ago when it depended on much more on the oil and gas sector. Now, the state is more resilient in the face of cyclic economic downturns, and things are looking much better for Texas at this point in 2017 than in the last couple of years.

Under Construction by Market



**Payroll Employment by Market
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change**



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Director of Research

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tel 713 275 9618



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