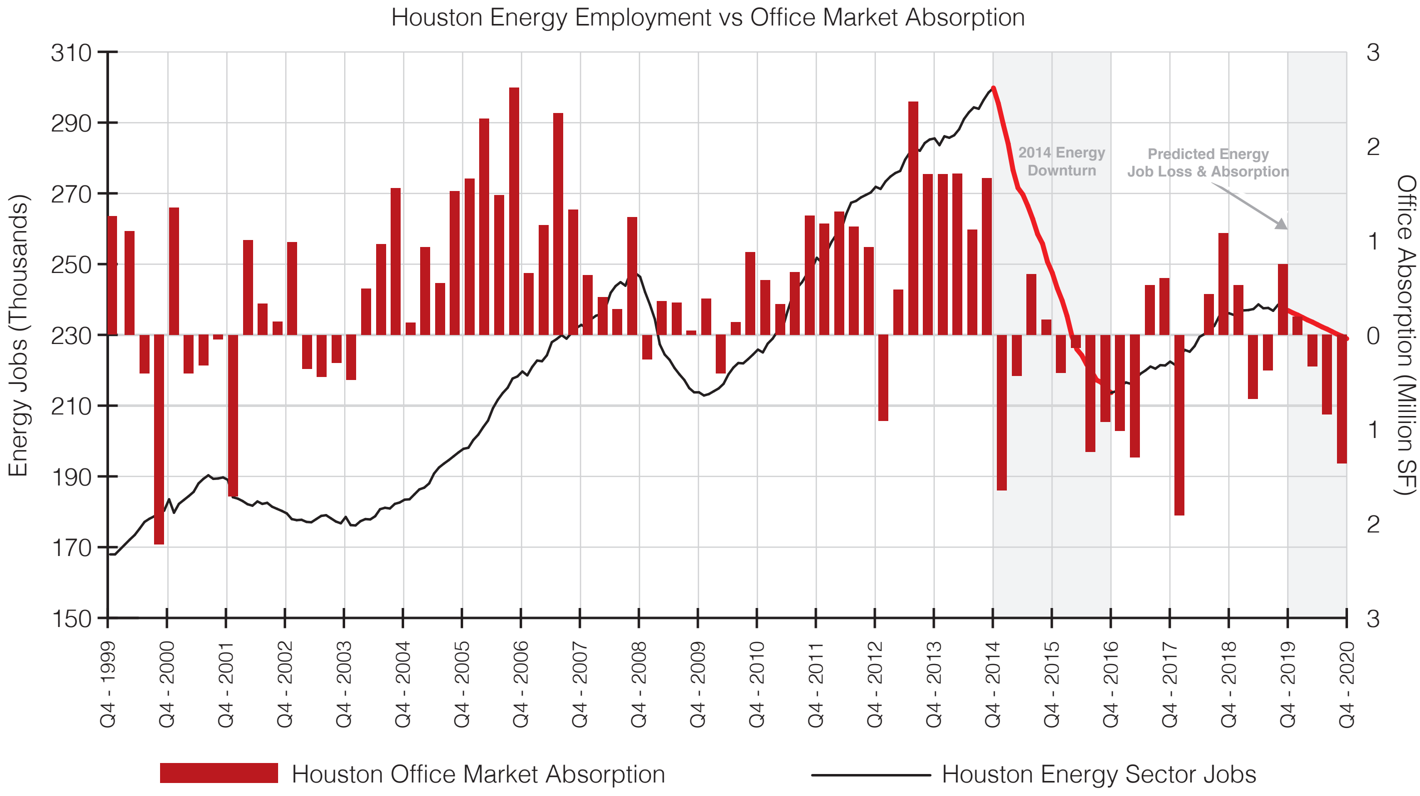
Houston Economic QuickTake

March 2020

Oil and Gas price impact on the Houston Office Market

Here are our key takeaways on the impact the drop in oil and gas prices will likely have on the Houston office market.

- West Texas Intermediate crude futures fell into the high $20s per barrel on March 9, representing crude oil's largest single-day price drop since the Gulf War in 1991, according to the Financial Times. Prices have remained in the mid-$20s-to-low-$30s.
    - Ongoing low oil prices—WTI closed at $26.85 per barrel as of March 17, 2020—could lead to thousands of job losses, and in turn, lowered demand for office space.
- The last energy downturn started in 2014 and lasted until mid-2017, with oil prices plunging 75% from more than $100 per barrel to about $26 per barrel. The city of Houston shed about 93,000 energy jobs during that time and has only regained about 40% of those jobs since, reported the Greater Houston Partnership.
- In December, The Greater Houston Partnership predicted that Houston's energy jobs would decrease by 4,000 in 2020. Amid the oil price plunge and the energy stock market crash, the current forecast has doubled to losing 8,000 energy jobs.



- On average, office tenants occupy roughly 250 sq. ft. per employee. If we assume the 8,000 lost jobs are all office jobs, that equates to approximately 2 million sq. ft. feet of negative absorption.
- Houston's office market consists of 237 million sq. ft. If the energy sector causes a negative absorption of 2 million sq. ft., the total vacancy will increase by 0.8% from 21.8% to 22.6%.

In conclusion, the drop in oil and gas prices will absolutely hurt the Houston office market, however, the market was already depressed from the 2014/2015 losses and these new losses, while important, will have less of a material impact than the losses in 2014/2015.

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