



O'Connor Office Forecast Luncheon – Speakers: Bryant Lach, JLL; Kevin Wyatt, Lincoln Property Company



Takeaway: Houston has a 24% vacancy of office space, including primary and sub-lease inventory, and it is not going away any time soon, as companies down-size, and, "right-size", learning how to make do with less space than before the downturn in 2014.



BRYANT LACH
JLL

- On the positive side, Houston is attractive to out of town companies seeking to relocate, due to our lower cost of doing business and of living overall
- There is a tiny bit of specialized pre-leased space under construction, but overall there is almost no new addition to supply
- Of the sub-markets, the Galleria area is strong, with a second consecutive quarter of new absorption

- Prospective new tenants carefully evaluate location with regard to where their execs and employees live; I-10 / BW-8 / Memorial City / Westchase are in favor, as are locations near The Woodlands and the new ExxonMobil campus
- Cities need a vibrant CBD but Houston's size has resulted in satellite office clusters to minimize commute times



KEVIN WYATT
LINCOLN PROPERTIES

- Tenants overall are downsizing and learning to live with less space for storage, law libraries, etc.
- Different open-concept approaches to office space are being tried, but the jury is still out...some companies, like law firms require private offices, and execs dislike giving up 'the corner office'
- Excess sub-lease space is being returned to landlords with gathering speed...landlords hate to chop up this space and are looking first for replacement large tenants
- Incentive being offered by landlords include one year free on a ten year lease, but incentives are beginning to top out as landlords evaluate what to do: sell their buildings, or renovate them to bring them up to date with new state-of-the-art buildings which are the ones in demand
- Higher tenant improvement / build-out budgets are one form of incentive available to new tenants
- Lots of available space in Energy Corridor remaining; oil firms can expand quickly, or cut employees quickly depending on price of oil



- Office owners in CBD are 'pushing retail up from tunnel system to the surface' to increase appeal of CBD for residential living
- The CBD needs to be more connected to transit to facilitate commuting from outlying suburbs
- Houston jobs growth has been 27,000 in 2017; 45,000 in 2018; and projected to be 80,000 in 2019
- Despite oil per barrel increasing from \$26 to \$66 per barrel in recent months, oil hiring has not picked up proportionately
- Office space is a commodity and landlords are scratching their heads as to how to differentiate their space-some are creating Silicon Valley-like employee amenity/entertainment centers with bocce ball, putting greens, fitness centers, and garden areas