O'Connor Office Forecast Luncheon

Speakers: Sanford Criner, CBRE; Griff Bandy, NAI Partners; Bruce Rutherford, JLL

Takeaway: The office segment in Houston has lots of excess due to vast amounts of sublease space being returned to the market by retrenching oil & gas companies. Return to positive absorption will be 2018 at the earliest.

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Sanford Criner


Griff Bandy


Bruce Rutherford

- The current oil crash is spreading now to other sectors, i.e those supplying goods and services to the Oil Patch
- After this recovery we may never again have so many employees in the O&G sector
- This 'crash' has instead been a long and slow decline, with projections still being revised downward
- Office demand has a 98% correlation to job growth (or decline)
- Between 1980-84 Houston doubled office SF and those 35 year old buildings are now losing tenants to brand new buildings which have deeply discounted lease or sub-lease rates
- Owners of older buildings are beginning to invest to bring their buildings up to current standards-where possible-and there will be a good market down the road for these upgraded buildings
- We have the largest inventory ever of sub-lease space available on the market: 12 million SF, and 3 million has been average on a historical basis
- Tenants in Class B buildings are taking advantage-when their leases expire-of moving up to Class A buildings, which often have discounted rents
- There are heavy concessions to tenants desiring to lease space, including up to 18 months free rent loaded on the front end, free parking, etc
- Rental rates are being discounted up to 35% from asking rates
- 90% of sub-lease space is only available in 50,000 SF and up chunks-landlords are hesitant to chop up these chunks, because of the expense of building out larger open plan space into corridors and offices-landlords are sitting back waiting for full floor tenants
- Small spaces are in demand by new private equity start-ups
- West Houston and CBD have largest blocks of available new and sub-lease space
- Of the entire US office market, Houston is the only city with a falling market
- O&G-related employment makes up about 50% of demand for Houston office space
- Tenants with leases expiring in Class A buildings are attracted to the sub-lease space, since to renew their existing leases with higher building operating costs is more expensive
- There have been 90 O&G bankruptcies so far in TX this year, with more yet to come...more layoffs will be coming
- Houston has a very bright future and this is a 'once in a generation opportunity' for companies to move here due to availability of cheap office space
- This downturn is worse than that of the '80s but companies are better capitalized so there is less pain
- There have been 192 sub-leases signed this year, and most have been small deals