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Chadd Bolding



Ryan Bishop

O'Connor Office Forecast

Speakers: Chadd Bolding, Colliers International; Ryan Bishop, Stream Realty Partners

Takeaway: Although office vacancies have not reached the all-time highs attained during the '80s Oil Depression in Houston, they have come close. The consensus is that we 'hit bottom' in 2016, but that the recovery will be long and slow, providing financial heartburn for landlords and good opportunities for tenants.

- Oil supply and demand worldwide is expected to return to equilibrium in 2017, which should result in rising prices...which will help Houston
- Houston office vacancies have increased from 9% to 22% in approximately two years
- Atlanta, Dallas, and Denver all have vacancies as well-in the 16-23% range
- Half of oil and gas bankruptcies have been in Houston's CBD, with Westchase, the Energy Corridor and North Belt not far behind...not all bankruptcies have rejected their leases...yet
- Much of the sublease space is very attractive Class A space, with offerings of low rates, long term leases (five years +), and other concessions...very hard for new buildings to compete
- Because of the slowly rising but uncertain rate environment, many landlords are hesitant to quote rates 3-4-5 years ahead
- Memorial City, the Inner Loop, Sugar Land, and The Woodlands have remained in the high occupancy zone, largely because they are mixed-use developments, which are in vogue at the moment
- We can expect increasing merger & acquisition activity among the oil & gas companies, and the accompanying consolidation may throw more sublease space on the market
- There are private equity firms supporting new small company start-ups, and these are taking advantage of cheaper sublease space
- Brokers are optimistic as more tenants are starting to make decisions-gray clouds are behind us and blue skies are ahead
- Jobs drive absorption and Houston continues to gain jobs, although on average they are lower paying jobs than oil & gas jobs
- \$60-\$65 bbl prices are needed for Houston's O&G community to stabilize, get their balance sheets in order, and to consider growing / hiring again
- The new 35 story Fertitta building in the Galleria, which will come online during this downturn, is expected to do well since it is a mixed-use development, with retail, hotel, multi-family, and office
- There has been a massive flight from Greenspoint office buildings and the future for re-leasing them ranges from uncertain to grim, and may hinge on a huge tenant coming in with other companies following it-a significant renovation may be required in the meantime