Opening up office in 2018

BY BRANDI SMITH

When it opens its doors in 2019, Skanska's Capitol Tower will reach 35 stories into the downtown Houston skyline, offering up 775,000 square feet of Class-A office and retail space. Six and a half floors of the sustainable building, totalling 210,000 square feet, will be occupied by Bank of America.

Kristen Rabel
CBRE

"That was by far the most unique deal I worked on in 2017," says Kristen Rabel, senior vice president of CBRE Houston. "It was exciting to work with a large tenant and get them to understand the vision of Capitol Tower."

She, along with CBRE's Warren Savery and Rima Soroka, worked on the deal that ultimately triggered Skanska to kick off construction and bring Capitol Tower out of the ground.

"Capitol Tower is a game-changer for downtown office space in Houston, so it is an honor to have such a prestigious, global firm like Bank of America as our lead tenant," Matt Damborsky, executive vice president for Skanska USA Commercial Development in Houston, said in a statement.

Billed as "Tomorrow's workplace, today," the building is focused on a "newer, younger and greener Houston." It's a prime example of what the larger tenants in Houston are looking for in 2018: new product with modern, flexible and collaborative office space.

"More than ever, tenants are focused on recruiting and retaining talent and trying to stay in the forefront of the changes in technology and how they affect the use of office space," says Rabel.

Working the office market in the hub of the oil industry hasn't exactly been easy after oil prices bottomed out, but 2018 looks promising. CBRE reports that Houston's office market marked positive net absorption (325,000 square feet) in the final quarter of 2017 - for the first time in 18 months.

"With oil prices staying above $60 a barrel, we are starting to see tenants make long-term decisions regarding their office space," Rabel says. "In addition, we have had positive job growth so we are definitely trending in the right direction to get Houston back on track."

Overall office vacancy also dropped in Q4 as sublease listings decreased by about 1.3 million square feet.

"We are slowly coming back and the market is on its way to positive growth," says Rabel. " I don't think we will see the robust growth like we have had in the past few years; however, the positive absorption we saw in the fourth quarter indicates that modest occupancy gains may continue to materialize in the near-term."

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Skanska's Capitol Tower

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IN DALLAS

"Clients expect all of the amenities"

"If you're renewing a lease in the Dallas market this year, get ready to pay more", says Scott Bumpas, managing principal for Cresa's Dallas-Ft. Worth office.

"I would suggest starting the process as early as you can," he says.

Bumpas says a slate of corporate relocations to the market (including Fannie Mae, Goldman Sachs and Alston & Bird) are eating up space and driving up value in some parts of town.

Scott Bumpas
Cresa

"We probably have a little less leverage right now, especially in the hotter markets like Uptown and Legacy. Submarkets outside of those areas afford us a little more leverage," he says. "Overall, landlords in the Dallas/Ft. Worth markets are fair and look at the long term when things may change back more to the tenants' advantage."

Vacancy in DFW is sitting at about 19 percent, after 5.7 million square feet of net absorption in 2017. Still, there's another 5.3 million square feet under construction right now. A lot of that space is geared toward modern clients who have different needs and desires than tenants even a decade ago.

"Clients expect all of the amenities of Class A buildings to attract and retain top talent. This includes tenant lounges, fitness centers, common training rooms, restaurants, and high-speed network connections, to name a few," Bumpas says.

Parking is also a significant issue for clients in a city where many buildings have parking ratios of three per 1,000 square feet.

"We have many clients that need significantly more parking than the older buildings can provide," says Bumpas.

Those clients are varied, though he notes that more technology-related companies are coming on board.

"When asked, we are told that these companies prefer the entrepreneurial culture of our company to the large publicly traded real estate firms," Bumpas says.

He can't name names (Crensa has a policy against it), but Bumpas says he's working on a sizable renewal in Frisco for a well-known international client.

"As hot as the Frisco market is, we were able to work with the owner to structure a creative renewal that was great for our client and enabled the owner to structure a refinance that helped them with their long term ownership," he says.

IN SAN ANTONIO

"That area is exploding"

Looking ahead to 2018, Transwestern's executive managing director of its San Antonio office, Larry Mendez, is optimistic about the year to come after what he calls a "strong" '17.

"We ended with positive absorption and significant rate increase," he says of the office market in San Antonio. "There's a lot of new product and it's doing well."

According to Q3 data compiled by Transwestern, some big deals drove that absorption, including tenants filling up the Landmark One building, the Airport Center and Callaghan Tower, to name a few.

"If someone had told me six years ago that people would be doing $27 to $35 Triple Net office deals, I would have found that very hard to believe," Mendez says. "We've seen rates push high, higher than they've ever been. We've also seen a lot of new construction hit."

Larry Mendez
Transwestern

In the past two years alone, more than 1.62 million square feet of office product has come online in San Antonio. It's already averaging an occupancy rate of 60 percent. The influx of new space is changing the landlord-tenant dynamics, especially when it comes to subleasing.

"If you have a tenant in a downtown submarket, it's a landlord's submarket. You go deep northwest in San Antonio and it's more of a tenant's submarket," Mendez says. "What I have seen for the first time is a big discrepancy between the submarkets."

As evidence that the downtown San Antonio submarket is tightening, he points to USAA buying Bank of America Plaza. The only other Class-A tower is IBC, which is full, according to Mendez. Even the Class-B tower owned by USAA is full.

"What that does is it changes the market dynamics," he says. "It certainly turns it into a landlord market, especially for quality Class-A space."

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By comparison, Mendez points to office availability between I-10 and U.S. 281, as well as on Highway Loop 410, which has big blocks of space open in every single building. Prices there, he says, are $6 to $7 less per square foot.

"When you go out to the suburbs, there's just more and more competition; there's new product that's continuing to deliver," Mendez says. "In the northwest, we have probably 250,000 to 300,000 square feet that's going to deliver in the next six months."

One of the projects he's most excited to watch unfold in 2018 is going up across the street from The Pearl, which is about to deliver 400,000 square feet of space that is already 100 percent leased.

"That area is exploding," says Mendez.

He and his partners represented the San Antonio Independent School District in the sale of 14 acres along Broadway St. to GrayStreet Partners. The developers plan to build apartments, a hotel, offices, retail space and parks on the property.

"This project will be very symbiotic with what The Pearl's doing," says Mendez. "It's completely changing that midtown submarket."

Coupled with what's happened in downtown, he says it's a landlord's submarket for the first time in 30 years.

IN AUSTIN

"Rates are going up"

The power of the landlord seems to be a theme in Central Texas for 2018.

"If you are a landlord, the market is great," says Ford Alexander, executive managing director of Cushman & Wakefield's Austin office. "If you are a tenant, the market is brutal."

In 2017, companies like Facebook, Google, Indeed, and Expedia signed massive office leases in Texas's capital city, helping the city reach 627,000 square feet of net absorption.

"We are in the ninth year of the growth cycle in Austin and it looks like demand will continue through 2018," Alexander says. "We need more space to handle expansion projections and supply in the short term will not keep up with demand. We all know what that means: rates are going up."

Because of the increase in price, Alexander says clients are looking for ways to be more efficient. He lists Facebook, Amazon, Apple, Google and Oracle, which all have a large presence in Austin, as companies that are building their own amenities in their spaces as a way to recruit and retain talent.

Ford Alexander
Cushman & Wakefield

"The largest of these is the kitchen and dining facilities where they serve three meals a day.," he says. "Tenants are wanting to locate close to restaurants, bars and entertainmen, thus driving the demand for CBD and the Domain."

Those areas, says Alexander, are the hot spots that command the highest rates right now. A lack of amenities is hurting the Loop 360 area, however.

That evolution is just a result of Austin's significant maturation in the past decade, he says.

"Ten years ago, the majority of the market was made up of home-grown tech companies, along with local and regional professional firms and a smattering of branch offices for larger companies," Alexander says.

Today, tech giants call Austin home and, as they grow, so does the demand for office space.

"Leverage for tenants is minimal and down from last year due to the lack of supply," says Alexander.

That pushes him and his clients to get creative when it comes to finding a location that will fit their needs.

"We moved a client that had term on their lease remaining to a larger building that was previously a music venue," Alexander says, reflecting on one of his most unique projects of 2017. "The goal is to utilize part of the building as office space for the company, utilize part for co-working and revitalize the music venue for events and shows at SxSW."

Overall, the men and women working in the Texas office market seem to be looking forward to a promising 2018. Whether it's a return to normal in Houston, a rush of new space in Dallas or a landlord-tenant battle in Central Texas, the year holds many opportunities in a state where business is booming. ■