



HOUSTON *CITYWIDE* **OFFICE MARKET REPORT**

QUARTERLEE Q4 2025

EXECUTIVE SUMMARY

Over the past several years, the Houston office market has undergone a shift due to a few major factors such as economic volatility, demand for more accommodating workplace environments, and capital market disruption in office investment properties. As the market progressed through 2025, a clear bifurcation emerged as tenant demand was increasingly concentrated in high-quality, amenity-rich Class A buildings that support hybrid work models and employee engagement. While overused, the “flight to quality” cliché is still relevant as companies reduce their footprints but prioritize space designed to attract talent and support hybrid work schedules. Aging buildings are at odds with rising construction and tenant improvement costs, leading to persistent vacancy and pricing pressure as they continue to struggle. Despite advertised rates appearing stable, Tenants are offered generous concessions which typically include free rent, tenant improvement allowances, flexible lease structures accompanied by capital investment in building common areas to add the latest amenities as Landlord’s compete within a shallower tenant market. Looking ahead in the near term, Houston’s office market can be best described as transitional rather than recovered as it was among the fastest major markets to return to the office, but momentum has been gradual since 2024, which represented the lowest leasing volume in 15 years (NIC the 2020 pandemic), as the energy businesses that serve as the backbone of the economy become more adept at operating with less office employees. As large blocks of second-generation space continue to come online, Tenants retain leverage while Landlords endure gradual stabilization. For the long term, full recovery will depend on sustained absorption, disciplined expansion among mixed use developments, and the continued invention of office as a destination as opposed to an operational necessity

TRAVIS TAYLOR
PRINCIPAL



KEY TAKEAWAYS

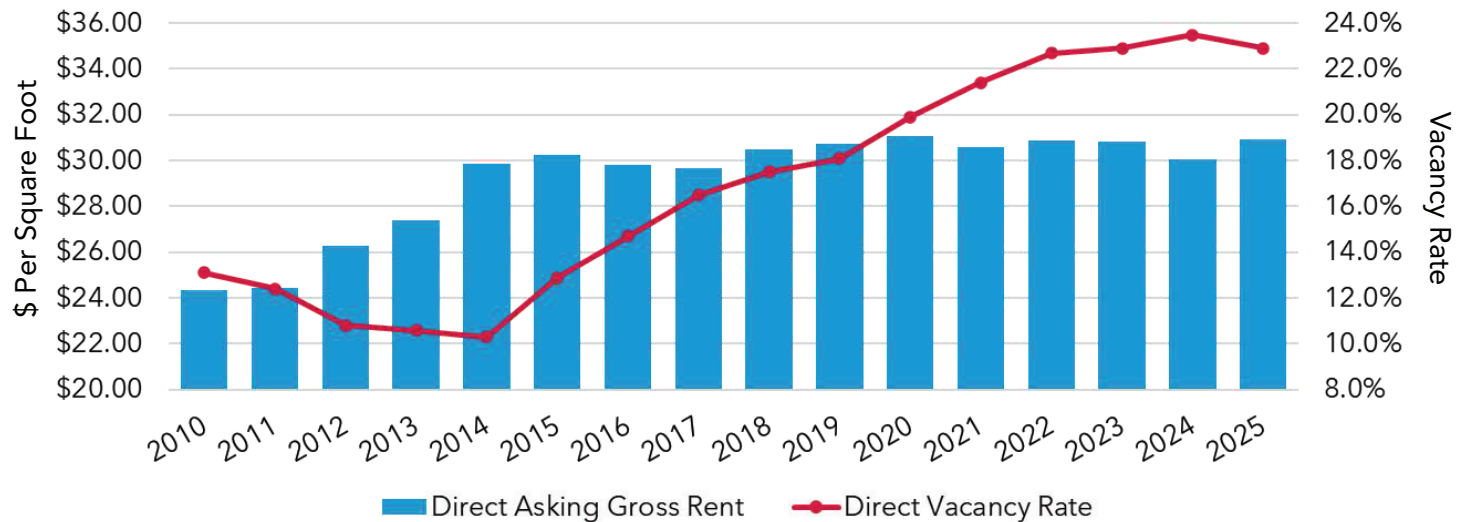
- Houston's office market is showing early signs of stabilization, with positive net absorption in 2025 marking a reversal from multiple years of contraction.
- Vacancy remains elevated but has begun to edge downward, suggesting leasing activity is gradually outpacing space returned to the market.
- Tenant demand continues to favor well-located, high-quality Class A assets, reinforcing a bifurcated market environment.
- Asking rents have remained resilient despite vacancy pressure, supported by disciplined landlord pricing and limited new supply.
- Construction pipeline remains historically muted, helping prevent additional oversupply and supporting long-term market balance.
- Investment activity is improving as buyers capitalize on discounted pricing, clearer valuation benchmarks, and favorable long-term fundamentals.

Q-O-Q CHANGE	Fundamental Analysis		OUTLOOK
▼	Direct Vacancy Rate	22.9% 23.2% Q3 2025	▼
▲	Direct Asking Gross Rent	\$30.95 PSF \$30.94 PSF Q3 2025	▲
▼	Leasing Activity	1,625,322 SF 2,603,738 SF Q3 2025	=
▲	Net Absorption	783,042 SF 377,456 Q3 2025	▲
▲	Under Construction	820,234 SF 711,218 Q3 2025	▲
▲	Deliveries	80,000 SF 49,117 Q3 2025	▲
▲	Available Sublease	5,698,685 SF 5,541,295 SF Q3 2025	▲



LEASED BY LEE & ASSOCIATES

DIRECT ASKING GROSS RENT VS. DIRECT VACANCY RATE



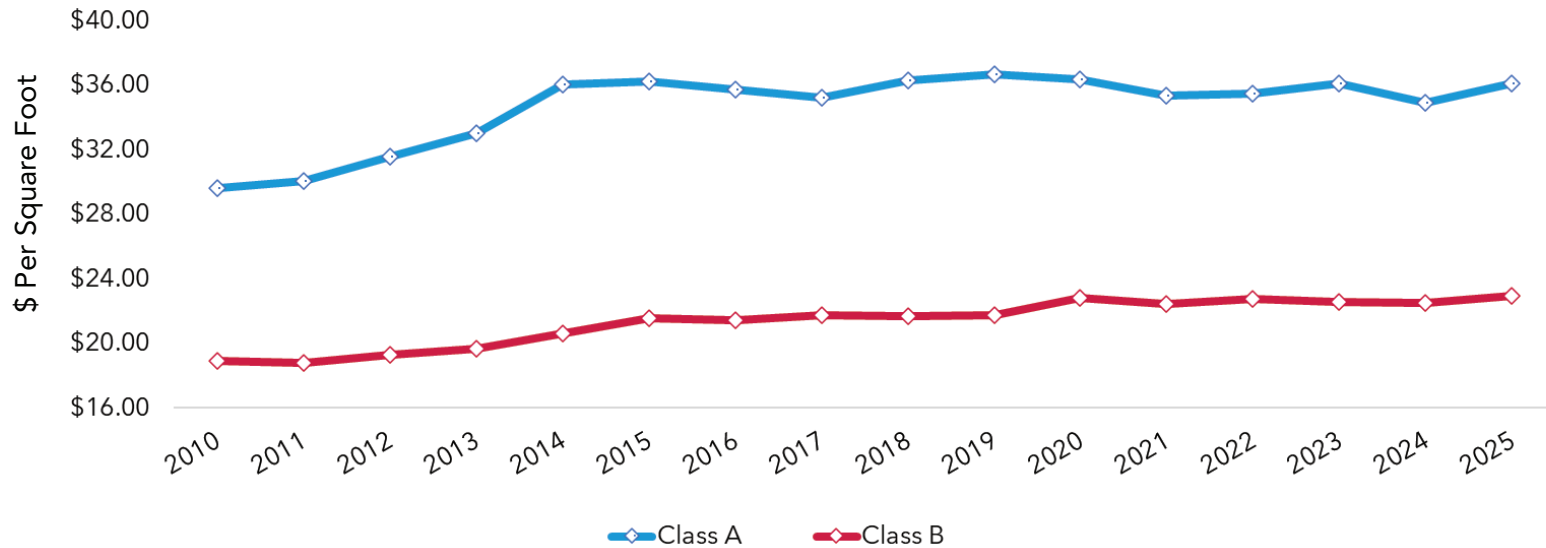
The Houston office market continues to exhibit a widening gap between rent performance and vacancy levels, shaped by the market disruption that emerged between 2019 and 2021. Direct asking gross rents averaged \$30.95 per square foot in 2025, up from \$30.07 per square foot in 2024 and significantly higher than the \$24.36 per square foot recorded in 2010. Rents increased steadily leading up to 2019, reaching \$30.71 per square foot, and peaked at \$31.05 per square foot in 2020.

During the 2019 to 2021 period, asking rents demonstrated notable resilience despite unprecedented shifts in workplace utilization. Rents declined only modestly from \$31.05 per square foot in 2020 to \$30.61 per square foot in 2021 before stabilizing in the low \$30 range through 2025. This limited pricing adjustment highlights landlords' ability to maintain asking rates, particularly within newer and higher-quality assets.

Vacancy trends diverged sharply over the same period. The direct vacancy rate rose from 18.1% in 2019 to 19.9% in 2020 and continued climbing to 21.4% in 2021, ultimately reaching 22.9% in 2025. While vacancy remains elevated, the slight improvement from 2024 suggests early signs of stabilization. As 2025 concludes, rent stability alongside high vacancy underscores a market increasingly defined by selective, quality-driven tenant demand.

The Houston office market is expected to see continued stabilization as vacancy trends improve and rent levels remain resilient. Demand should remain strongest for well-located, high-quality assets, supporting steady pricing and gradual absorption heading into 2026.

DIRECT ASKING GROSS RENT



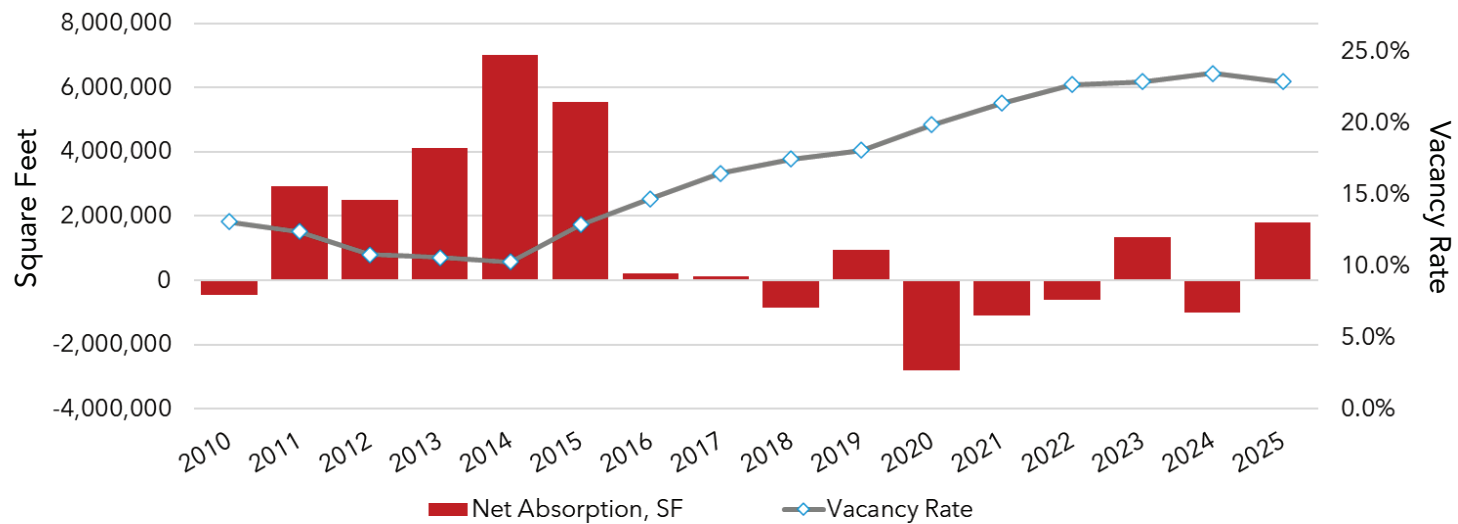
As of Q4 2025, the Houston office market continues to demonstrate a clear and widening performance gap between Class A and Class B assets. Class A asking rents averaged \$36.12 per square foot in 2025, an increase from \$34.93 per square foot in 2024 and among the highest levels recorded over the past decade. After experiencing modest softening between 2020 and 2022, Class A rents rebounded, reflecting sustained tenant preference for newer, well-amenitized buildings in prime locations.

In contrast, Class B rents have remained comparatively flat. Asking rents for Class B space averaged \$22.96 per square foot in 2025, up slightly from \$22.52 per square foot in 2024 but still well below Class A pricing. While Class B rents have gradually increased from \$18.93 per square foot in 2010, growth has been incremental and far less volatile than Class A. This stability, however, reflects limited pricing power rather than strengthening demand.

The spread between Class A and Class B rents has widened materially, reinforcing a bifurcated market. Tenants continue to prioritize efficiency, amenities, and long-term value, driving leasing activity toward higher-quality assets. Older and less competitive buildings face increased pressure to compete through concessions, reinvestment, or repositioning strategies.

Looking ahead, Class A assets are expected to maintain pricing strength as demand remains concentrated in top-tier buildings, while Class B rents are likely to see only modest growth absent significant capital improvements. This dynamic should continue to define Houston's office market performance into 2026.

NET ABSORPTION VS. DIRECT VACANCY RATE



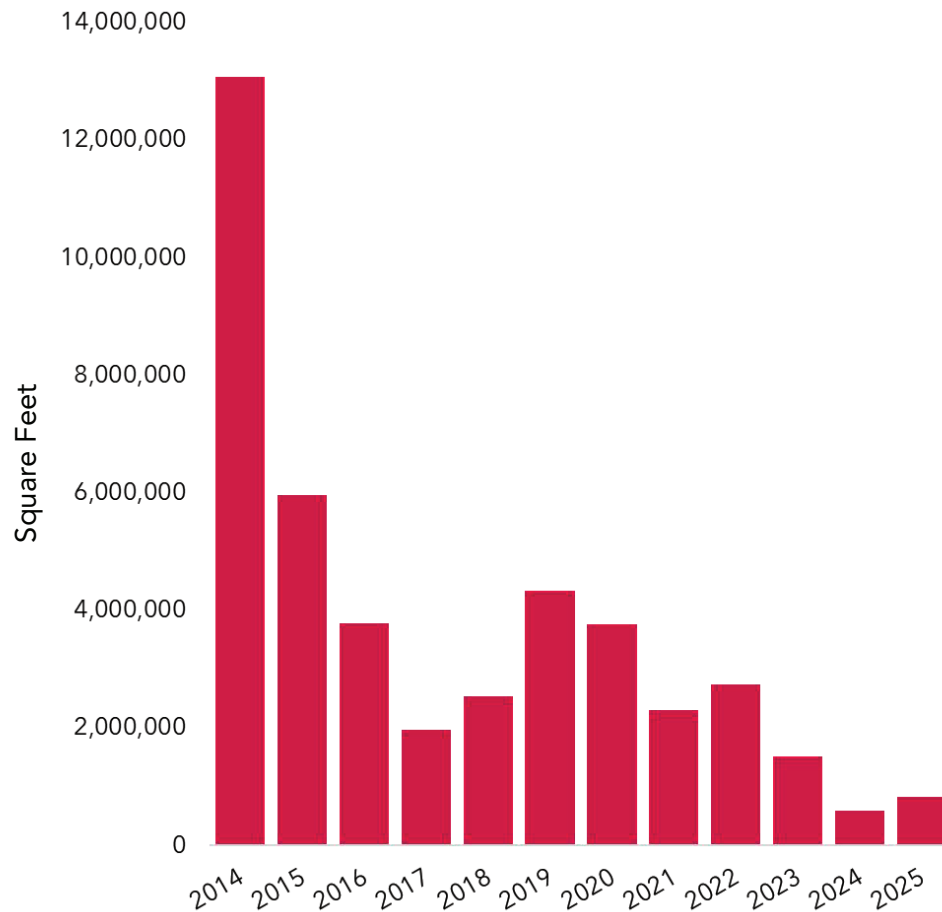
The market shows early signs of stabilization as positive net absorption begins to counterbalance historically elevated vacancy levels. Net absorption totaled 1.8 million square feet in 2025, a notable improvement from the negative 1.0 million square feet recorded in 2024 and one of the strongest annual gains since 2019. This positive absorption follows multiple years of contraction, including significant negative absorption in 2020 (-2.8 million square feet), 2021 (-1.1 million square feet), and 2022 (-608,597 square feet), highlighting a meaningful shift in leasing momentum.

Despite improving absorption, vacancy remains elevated. The direct vacancy rate stood at 22.9% in 2025, down slightly from 23.5% in 2024, but still well above pre-2015 levels, when vacancy ranged near 10–13%. Vacancy increased steadily following 2015, accelerating after 2018 as absorption weakened and space availability expanded. Although vacancy peaked in 2024, the modest decline in 2025 suggests that new leasing activity is beginning to outpace space returned to the market.

The relationship between net absorption and vacancy underscores the uneven nature of the recovery. While positive absorption signals renewed tenant engagement, the scale of excess supply continues to weigh on overall occupancy metrics. Sustained absorption will be required over multiple periods to materially reduce vacancy levels.

Looking ahead, continued positive absorption should support gradual vacancy compression, particularly in well-located and higher-quality assets. While vacancy is expected to remain elevated in the near term, improving demand fundamentals point toward a more balanced market heading into 2026.

CONSTRUCTION PIPELINE



Houston's office construction pipeline remains historically muted as elevated construction and financing costs continue to limit speculative development. As of Q4 2025, 820,234 square feet of traditional office space remains under construction across the Houston MSA, consistent with Q3 2025 levels and reflecting a pipeline that is largely build-to-suit or heavily pre-leased. This restrained activity stands in sharp contrast to prior development cycles, particularly the 2014–2019 period, when annual construction volumes regularly exceeded several million square feet.

Only one office building delivered during Q4 2025, with Friendswood Parkway Plaza office building completing construction in the NASA/Clear Lake submarket. The limited delivery volume underscores the cautious stance developers continue to take amid uncertain demand fundamentals. Recent years have seen a steady decline in construction activity, falling from over 1.5 million square feet in 2023 to under 600,000 square feet in 2024, before modestly increasing in 2025.

The largest projects currently underway remain unchanged. Midway's CityCentre Six in the Katy Freeway East submarket continues construction, with 336,580 square feet scheduled to deliver in Q1 2026. Also slated for Q1 2026 delivery is The RO in Greenway Plaza submarket, totaling 146,003 square feet and fully committed to Vitol. Longer-term projects include Hanover's Autry Park (127,651 SF, Q4 2026) and 1945 Allen Parkway, a 210,000-square-foot headquarters for Service Corporation International, expected in Q1 2027.

Looking ahead, office construction activity is expected to remain limited, helping prevent further oversupply. This disciplined pipeline should support long-term market stabilization as demand gradually improves, particularly for high-quality, pre-leased assets.

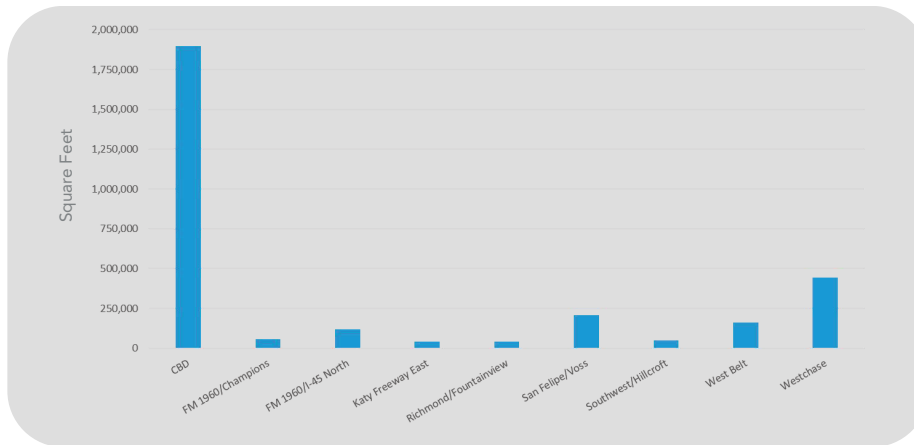
QUARTERLY TREND ANALYSIS

	2025 Q4	2025 Q3	2025 Q2	2025 Q1	2024 Q4
DIRECT VACANCY RATE (%)	22.9%	23.2%	23.4%	23.4%	23.2%
DIRECT ASKING GROSS RATE (PSF)	\$30.95	\$30.94	\$29.18	\$30.11	\$30.25
LEASING ACTIVITY (SF)	1,625,322	2,603,738	2,482,508	2,511,494	3,812,771
SALES ACTIVITY (SF)	3,018,600	2,740,735	10,500,886	5,335,483	4,575,290
NET ABSORPTION (SF)	783,042	377,456	610,275	(67,388)	(226,730)
UNDER CONSTRUCTION (SF)	820,234	711,218	741,700	597,413	637,413
DELIVERIES (SF)	80,000	49,117	0	40,000	0
AVAILABLE SUBLEASE (SF)	5,698,685	5,541,295	5,678,272	5,637,427	5,949,691

KEY ACTIVITIES

TENANT	BUILDING NAME/ADDRESS	SIZE (SF)	SUBMARKET
COMMENCEMENTS			
Camden Property Trust	Williams Tower	104,013	West Loop/Galleria
Simpson Thacher	1000 Main Street	99,397	Central Business District
Ezee Fiber	Houston Technology Center	94,179	Southwest/Beltway 8
LEASING ACTIVITY			
Simpson Thacher	1000 Main Street	99,397	Central Business District
Kimmeridge Energy	990 Town and Country Boulevard	90,786	Katy Freeway East
Concorde Career Colleges	Westchase Commons	45,000	Westchase
SUBLEASE			
Noble Energy	Noble Energy Center II	447,726	FM 1960/Highway 249
NOV	Parkwood Circle Building	410,000	Southwest/ Beltway 8
JP Morgan Chase	The Jones on Main	269,048	Central Business District
BUYER SELLER	BUILDING NAME/ADDRESS	SIZE (SF)	SUBMARKET
SALE TRANSACTIONS			
Houston Police Officers Pension System Brookfield, Blackstone	1600 Smith Street	1,293,646	Central Business District
Tourmaline Capital Partners Spear Street Capital	5 Houston Center	604,055	Central Business District
IES Commercial and Industrial Granite Properties	2925 Briarpark Drive	229,061	Westchase
DEVELOPER	BUILDING NAME/ADDRESS	SIZE (SF)	SUBMARKET
DELIVERIES			
Castle BioScience	Friendswood Parkway Plaza	80,000	NASA/Clear Lake
UNDER CONSTRUCTION			
Midway	CityCentre Six	336,580	Katy Freeway East
Hines (SCI Headquarters)	1945 Allen Parkway	210,000	Allen Parkway/Midtown
Transwestern (VITOL Headquarters)	The RO	146,003	Greenway Plaza

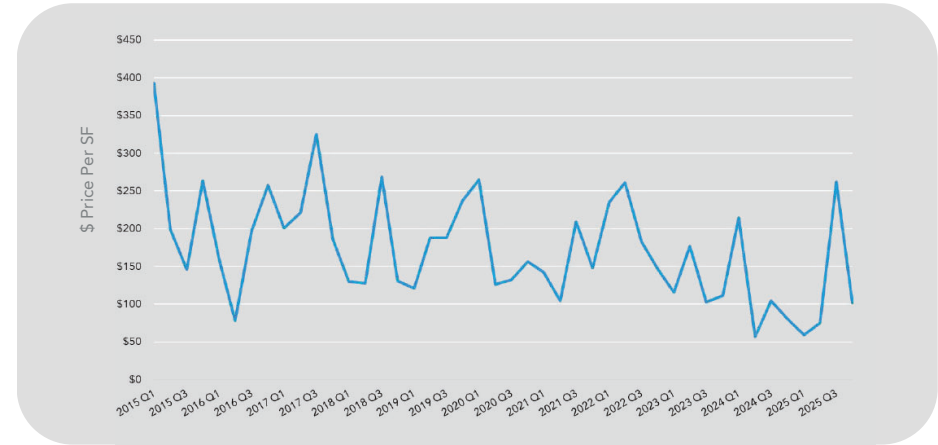
SALES OVERVIEW



SUBMARKET SALES ACTIVITY

Houston's office investment market continues to regain momentum in 2025, with sales activity accelerating despite vacancy levels. Year-to-date transaction volume has already surpassed full-year 2024 totals, signaling renewed investor confidence. Buyers remain highly price-sensitive, targeting assets trading well below pre-pandemic valuations, often at a steep discount to replacement cost. This repricing has positioned Houston as one of the most active office markets nationally by deal volume. Activity has been strongest in suburban submarkets, where leasing fundamentals have shown greater resilience, while select Class A assets in prime locations continue to attract institutional capital. Overall, the sales market reflects improving liquidity, disciplined underwriting, and cautious optimism as pricing clarity continues to emerge.

Looking ahead, sales momentum is expected to remain steady as pricing continues to adjust, and debt markets gradually improve. Investors focused on long-term fundamentals are likely to stay active, particularly in suburban submarkets and well-located Class A assets, while challenged properties may continue to trade selectively.



HISTORICAL OFFICE SALE PRICE

Historical pricing trends highlight the significant reset underway in Houston's office market. Average sale prices have declined materially from pre-pandemic peaks, with many assets transacting at 30% to 70% discounts, depending on age, location, and quality. Recent transactions illustrate this bifurcation clearly: newer, well-located Class A properties are maintaining stronger pricing, while older Class B and C buildings continue to trade at deeply discounted levels to attract capital. Larger institutional transactions in the CBD and Westchase submarkets underscore investor willingness to deploy capital where long-term fundamentals and basis justify risk. This pricing environment continues to favor buyers seeking yield and repositioning opportunities.

Pricing is expected to stabilize as bid-ask spreads narrow and valuation expectations reset. While further softness may persist for aging assets, improving leasing trends and increased transaction volume should help establish clearer benchmarks, supporting more consistent pricing discovery heading into 2026.

NOTABLE SALES



1600 Smith Street

1600 Smith Street | Houston
Central Business District
1,293,646 SF | Built 1984
Seller: Brookfield, Blackstone
Buyer: City of Houston
Buyer Type: User



1401 McKinney Street

1401 McKinney Street | Houston
Central Business District
604,055 SF | Built 2002
Seller: Spear Street Capital, PFA Pension
Buyer: Tourmaline Capital Partners
Buyer Type: Investment



2925 Briarpark Drive

2925 Briarpark Drive | Houston
Westchase
229,061 SF | Built 1983
Seller: Granite Properties
Buyer: IES Commercial and Industrial
Buyer Type: Investment/User



9801 Westheimer Road

9801 Westheimer Road | Houston
Westchase
212,859 SF | Built 1981
Seller: Fuller Realty, Harbert Management Corporation
Buyer: Saleh Investments
Buyer Type: Investment

OVERALL MARKET STATISTICS

SUBMARKET / CLASS	INVENTORY (SF)	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	PREVIOUS QUARTER DIRECT VACANCY RATE	DIRECT ASKING GROSS RENT	CURRENT QUARTER LEASING ACTIVITY (SF)	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD DELIVERIES (SF)
TOTAL HOUSTON MARKET												
Class A	139,759,298	24.0%	1.3%	25.3%	24.5%	\$36.12	1,055,237	6,951,883	754,142	1,677,943	820,234	129,117
Class B	100,008,422	21.4%	0.9%	22.3%	21.4%	\$22.96	570,085	3,163,789	28,900	126,652	0	0
TOTAL	239,767,720	22.9%	1.1%	24.0%	23.2%	\$30.95	1,625,322	10,115,672	783,042	1,804,595	820,234	129,117
CENTRAL BUSINESS DISTRICT												
Class A	38,752,387	23.7%	1.4%	25.1%	25.2%	\$43.25	252,790	1,613,600	582,828	605,079	0	0
Class B	12,124,223	26.5%	0.0%	26.5%	26.4%	\$24.59	2,038	47,310	-2,752	14,423	0	0
TOTAL	50,876,610	24.4%	1.0%	25.4%	25.5%	\$38.49	254,828	1,660,910	580,076	619,502	0	0
SUBURBAN												
Class A	101,006,911	24.1%	1.2%	25.4%	24.3%	\$32.96	802,447	5,338,283	171,314	1,072,864	820,234	129,117
Class B	87,884,199	20.7%	1.0%	21.7%	20.7%	\$22.64	568,047	3,116,479	31,652	112,229	0	0
TOTAL	188,891,110	22.5%	1.1%	23.7%	22.6%	\$28.44	1,370,494	8,454,762	202,966	1,185,093	820,234	129,117

SUBMARKET BY CLASS

SUBMARKET / CLASS	INVENTORY (SF)	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	PREVIOUS QUARTER DIRECT VACANCY RATE	DIRECT ASKING GROSS RENT	CURRENT QUARTER LEASING ACTIVITY (SF)	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD DELIVERIES (SF)
ALLEN PARKWAY/MIDTOWN												
Class A	101,006,911	24.1%	1.2%	25.4%	24.3%	\$32.96	802,447	5,338,283	171,314	1,072,864	820,234	129,117
Class B	87,884,199	20.7%	1.0%	21.7%	20.7%	\$22.64	568,047	3,116,479	31,652	112,229	0	0
TOTAL	188,891,110	22.5%	1.1%	23.7%	22.6%	\$28.44	1,370,494	8,454,762	202,966	1,185,093	820,234	129,117
BAYTOWN												
Class B	584,259	1.7%	0.0%	1.7%	1.7%	\$17.65	0	2,605	0	115,608	0	0
TOTAL	584,259	1.7%	0.0%	1.7%	1.7%	\$17.65	0	2,605	0	115,608	0	0
BELLAIRE												
Class A	1,269,957	24.1%	0.2%	24.4%	24.6%	\$30.77	14,704	65,824	5,511	(26,934)	0	0
Class B	2,946,676	13.6%	0.3%	13.9%	14.3%	\$27.60	8,989	64,120	20,706	2,361	0	0
TOTAL	4,216,633	16.7%	0.3%	17.0%	17.4%	\$29.79	23,693	129,944	26,217	(24,573)	0	0
CONROE/MONTGOMERY COUNTY												
Class A	60,000	0.0%	0.0%	0.0%	0.0%	n/a	0	0	0	0	0	0
Class B	577,188	12.6%	0.0%	12.6%	13.6%	\$31.24	0	26,864	45,136	55,091	0	0
TOTAL	637,188	11.4%	0.0%	11.4%	12.2%	\$31.24	0	26,864	45,136	55,091	0	0
FORT BEND COUNTY/SUGAR LAND												
Class A	2,858,122	39.6%	0.2%	39.8%	38.5%	\$34.09	16,116	99,864	(33,040)	(33,356)	0	0
Class B	3,006,043	26.8%	0.4%	27.2%	27.0%	\$23.51	17,797	145,617	6,189	156,567	0	0
TOTAL	5,864,165	33.1%	0.3%	33.4%	32.6%	\$30.60	33,913	245,481	(26,851)	123,211	0	0
FM 1960/BELTWAY 8												
Class A	413,139	60.4%	0.0%	60.4%	56.7%	\$15.26	3,474	13,316	(15,499)	(20,156)	0	0
Class B	2,272,149	20.8%	0.0%	20.8%	21.0%	\$14.97	14,466	75,389	4,378	39,384	0	0
TOTAL	2,685,288	26.9%	0.0%	26.9%	26.5%	\$15.04	17,940	88,705	(11,121)	19,228	0	0

SUBMARKET BY CLASS (CONTINUED)

SUBMARKET / CLASS	INVENTORY (SF)	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	PREVIOUS QUARTER DIRECT VACANCY RATE	DIRECT ASKING GROSS RENT	CURRENT QUARTER LEASING ACTIVITY (SF)	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD DELIVERIES (SF)
FM 1960/HIGHWAY 249												
Class A	2,605,760	57.5%	0.0%	57.5%	57.1%	\$28.19	416	75,736	(10,270)	64,719	0	0
Class B	4,075,562	27.7%	0.3%	27.9%	26.8%	\$23.12	32,681	107,603	(33,144)	(98,201)	0	0
TOTAL	6,681,322	39.3%	0.2%	39.5%	38.7%	\$24.73	33,097	183,339	(43,414)	(33,482)	0	0
GREENWAY PLAZA												
Class A	7,806,605	26.6%	0.1%	26.7%	26.5%	\$35.45	37,865	404,528	(11,968)	(114,330)	146,003	0
Class B	3,065,947	18.7%	0.2%	18.9%	19.4%	\$28.10	18,533	122,174	19,180	(18,854)	0	0
TOTAL	10,872,552	24.4%	0.1%	24.5%	24.5%	\$33.83	56,398	526,702	7,212	(133,184)	146,003	0
GULF FREEWAY/PASADENA												
Class A	456,040	13.0%	0.0%	13.0%	16.5%	\$35.00	15,525	21,525	16,071	63,519	0	0
Class B	2,633,881	18.3%	0.5%	18.8%	18.4%	\$24.33	2,174	59,512	3,026	(126,308)	0	0
TOTAL	3,089,921	17.5%	0.4%	18.0%	18.1%	\$25.58	17,699	81,037	19,097	(62,789)	0	0
I-10 EAST												
Class B	510,209	11.3%	0.0%	11.3%	12.3%	\$19.33	6,409	26,115	4,920	8,836	0	0
TOTAL	510,209	11.3%	0.0%	11.3%	12.3%	\$19.33	6,409	26,115	4,920	8,836	0	0
KATY FREEWAY EAST												
Class A	6,221,597	11.0%	3.5%	14.5%	3.6%	\$50.26	164,811	623,723	(465,363)	(406,037)	336,580	0
Class B	2,232,947	14.8%	0.1%	14.9%	13.0%	\$20.99	11,425	102,413	(41,581)	(29,914)	0	0
TOTAL	8,454,544	12.0%	2.6%	14.6%	6.0%	\$39.27	176,236	726,136	(506,944)	(435,951)	336,580	0
KATY FREEWAY WEST												
Class A	15,963,690	18.9%	1.2%	20.1%	20.3%	\$31.96	131,179	632,265	216,484	369,451	0	0
Class B	9,878,873	18.8%	0.2%	19.0%	18.3%	\$24.26	71,969	411,931	(45,224)	(62,864)	0	0
TOTAL	25,842,563	18.9%	0.8%	19.7%	19.5%	\$27.25	203,148	1,044,196	171,260	306,587	0	0

SUBMARKET BY CLASS (CONTINUED)

SUBMARKET / CLASS	INVENTORY (SF)	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	PREVIOUS QUARTER DIRECT VACANCY RATE	DIRECT ASKING GROSS RENT	CURRENT QUARTER LEASING ACTIVITY (SF)	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD DELIVERIES (SF)
KATY/GRAND PARKWAY WEST												
Class A	1,536,067	20.9%	0.0%	20.9%	20.8%	\$34.79	0	185,126	(1,578)	(54,301)	0	0
Class B	778,693	8.6%	0.0%	8.6%	9.1%	\$32.71	3,879	20,426	4,011	(7,578)	0	0
TOTAL	2,314,760	16.7%	0.0%	16.7%	16.8%	\$33.63	3,879	205,552	2,433	(61,879)	0	0
KINGWOOD/HUMBLE												
Class A	270,000	0.0%	0.0%	0.0%	0.0%	n/a	0	0	0	0	0	0
Class B	1,172,156	5.6%	0.6%	6.1%	5.3%	\$20.71	3,311	22,296	(3,599)	2,911	0	0
TOTAL	1,442,156	4.5%	0.5%	5.0%	4.3%	\$20.71	3,311	22,296	(3,599)	2,911	0	0
NASA/CLEAR LAKE												
Class A	2,197,511	12.7%	1.1%	13.8%	12.5%	\$29.55	2,117	102,761	(4,248)	16,120	0	80,000
Class B	3,230,683	20.9%	0.1%	20.9%	20.0%	\$20.98	14,624	124,740	(28,023)	196	0	0
TOTAL	5,428,194	17.6%	0.5%	18.1%	17.0%	\$23.50	16,741	227,501	(32,271)	16,316	0	80,000
NORTH BELT/GREENSPOINT												
Class A	4,715,157	51.8%	0.0%	51.8%	52.3%	\$18.80	32,070	103,882	23,207	(4,411)	0	0
Class B	7,072,365	38.4%	0.1%	38.5%	38.3%	\$15.45	19,078	212,191	(2,576)	(107,803)	0	0
TOTAL	11,787,522	43.7%	0.1%	43.8%	43.9%	\$17.45	51,148	316,073	20,631	(112,214)	0	0
NORTH LOOP WEST												
Class A	1,508,584	19.1%	0.0%	19.1%	19.9%	\$25.45	25,837	84,752	12,101	73,441	0	0
Class B	2,156,023	19.1%	0.6%	19.7%	17.5%	\$20.44	30,359	172,275	(33,540)	(17,039)	0	0
TOTAL	3,664,607	19.1%	0.3%	19.4%	18.5%	\$23.07	56,196	257,027	(21,439)	56,402	0	0
NORTHEAST												
Class A	273,223	1.0%	0.0%	1.0%	1.0%	n/a	0	0	0	0	0	0
Class B	514,631	2.2%	0.0%	2.2%	1.8%	\$24.53	1,230	10,434	(2,149)	2,312	0	0
TOTAL	787,854	1.8%	0.0%	1.8%	1.5%	\$24.53	1,230	10,434	(2,149)	2,312	0	0

SUBMARKET BY CLASS (CONTINUED)

SUBMARKET / CLASS	INVENTORY (SF)	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	PREVIOUS QUARTER DIRECT VACANCY RATE	DIRECT ASKING GROSS RENT	CURRENT QUARTER LEASING ACTIVITY (SF)	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD DELIVERIES (SF)
NORTHWEST												
Class A	1,003,084	23.0%	0.9%	23.8%	30.9%	\$21.01	5,068	86,401	79,871	80,890	0	49,117
Class B	4,041,177	8.5%	1.0%	9.5%	8.3%	\$16.54	18,249	127,808	(9,537)	(16,639)	0	0
TOTAL	5,044,261	11.4%	0.9%	12.3%	12.8%	\$18.22	23,317	214,209	70,334	64,251	0	49,117
RICHMOND/FOUNTAINVIEW												
Class B	738,557	19.8%	0.0%	19.8%	20.6%	\$16.26	368	3,848	6,225	(5,081)	0	0
TOTAL	738,557	19.8%	0.0%	19.8%	20.6%	\$16.26	368	3,848	6,225	(5,081)	0	0
SAN FELIPE/VOSS												
Class A	2,291,757	29.4%	2.5%	31.8%	29.3%	\$32.80	27,783	165,944	(2,306)	146,923	0	0
Class B	2,966,328	23.2%	0.0%	23.2%	23.3%	\$22.92	22,568	129,369	3,642	19,069	0	0
TOTAL	5,258,085	25.9%	1.1%	27.0%	25.9%	\$27.60	50,351	295,313	1,336	165,992	0	0
SOUTH												
Class A	586,103	3.5%	0.0%	3.5%	5.0%	\$29.60	0	11,062	8,811	(1,801)	0	0
Class B	498,805	7.1%	0.0%	7.1%	5.8%	\$30.20	428	2,708	(6,408)	(4,819)	0	0
TOTAL	1,084,908	5.2%	0.0%	5.2%	5.4%	\$29.98	428	13,770	2,403	(6,620)	0	0
SOUTH MAIN/MEDICAL CENTER												
Class A	250,000	0.0%	0.0%	0.0%	0.0%	n/a	0	0	0	0	0	0
Class B	1,408,148	7.8%	0.0%	7.8%	7.9%	\$18.35	4,126	74,563	1,216	42,884	0	0
TOTAL	1,658,148	6.6%	0.0%	6.6%	6.7%	\$18.35	4,126	74,563	1,216	42,884	0	0
SOUTHEAST												
Class B	228,543	0.0%	0.0%	0.0%	0.0%	n/a	0	0	0	0	0	0
TOTAL	228,543	0.0%	0.0%	0.0%	0.0%	n/a	0	0	0	0	0	0

SUBMARKET BY CLASS (CONTINUED)

SUBMARKET / CLASS	INVENTORY (SF)	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	PREVIOUS QUARTER DIRECT VACANCY RATE	DIRECT ASKING GROSS RENT	CURRENT QUARTER LEASING ACTIVITY (SF)	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD DELIVERIES (SF)
SOUTHWEST/BELTWAY 8												
Class A	1,183,314	31.3%	0.0%	31.3%	31.9%	\$17.79	0	35,118	7,256	(52,329)	0	0
Class B	6,964,621	18.9%	5.9%	24.8%	19.9%	\$20.80	77,070	171,914	68,532	131,232	0	0
TOTAL	8,147,935	20.7%	5.0%	25.7%	21.6%	\$19.85	77,070	207,032	75,788	78,903	0	0
SOUTHWEST FAR												
Class A	80,536	42.1%	0.0%	42.1%	42.1%	\$37.53	0	0	0	19,247	0	0
Class B	477,028	0.4%	0.0%	0.4%	0.4%	n/a	0	0	0	5,200	0	0
TOTAL	557,564	6.4%	0.0%	6.4%	6.4%	\$37.53	0	0	0	24,447	0	0
WEST BELT/HIGHWAY 290												
Class A	3,449,186	25.4%	3.3%	28.6%	26.0%	\$30.70	7,890	159,755	21,516	228,092	0	0
Class B	2,103,237	28.2%	0.5%	28.8%	28.2%	\$24.30	0	31,142	0	7,678	0	0
TOTAL	5,552,423	26.5%	2.2%	28.7%	26.9%	\$28.00	7,890	190,897	21,516	235,770	0	0
WEST LOOP/GALLERIA												
Class A	17,874,724	31.8%	1.3%	33.1%	33.3%	\$38.39	194,767	1,190,921	275,683	513,532	0	0
Class B	6,514,794	31.4%	0.1%	31.6%	31.5%	\$29.93	31,997	266,393	5,871	(25,871)	0	0
TOTAL	24,389,518	31.7%	1.0%	32.7%	32.9%	\$36.46	226,764	1,457,314	281,554	487,661	0	0
WESTCHASE												
Class A	9,540,006	24.3%	1.1%	25.4%	25.6%	\$32.23	54,262	437,518	119,349	108,202	0	0
Class B	7,714,507	27.0%	3.4%	30.4%	27.4%	\$20.46	115,326	293,166	33,321	(61,047)	0	0
TOTAL	17,254,513	25.5%	2.1%	27.6%	26.4%	\$27.54	169,588	730,684	152,670	47,155	0	0
WOODLANDS												
Class A	13,852,700	9.7%	1.4%	11.0%	9.4%	\$47.57	56,591	607,174	(35,151)	61,964	0	0
Class B	3,620,014	10.3%	1.7%	12.0%	10.5%	\$27.59	26,382	220,498	6,854	110,368	0	0
TOTAL	17,472,714	9.8%	1.4%	11.2%	9.6%	\$41.32	82,973	827,672	(28,297)	172,332	0	0

OUTLOOK

As Houston wraps up 2025, the office market is showing early but meaningful signs of stabilization following several years of disruption. Leasing fundamentals have begun to improve, with positive net absorption recorded in 2025, marking a clear shift from the prolonged contraction experienced between 2020 and 2024. While vacancy remains elevated near historical highs, the modest year-over-year decline suggests that new leasing activity is gradually outpacing space returned to the market. Tenant demand continues to concentrate in well-located, high-quality Class A assets, reinforcing a bifurcated environment where newer buildings outperform aging inventory.

Rent performance remains resilient despite vacancy pressures. Asking rents have largely held firm, supported by disciplined landlord pricing, and limited new construction. Houston's muted development pipeline, dominated by build-to-suit and heavily pre-leased projects, is expected to help prevent additional oversupply and support long-term market balance. On the investment side, improved transaction volume and pricing clarity indicate growing confidence as buyers capitalize on discounted valuations and favorable basis opportunities.

As we look ahead, market conditions are expected to improve gradually rather than rapidly. Sustained absorption will be necessary to materially reduce vacancy, particularly in older assets. However, Houston's population growth, diversified employment base, and constrained construction activity position the office market for continued stabilization and selective recovery heading into 2026.

6100 HILLCROFT AVENUE

LEASED BY LEE & ASSOCIATES



ECONOMIC UPDATE

Houston's economy remained resilient through the third quarter of 2025, supported by steady activity across core industries and continued strength in trade and logistics. Some labor market data have not yet been fully updated due to delays in Bureau of Labor Statistics releases, but the most recent figures suggest conditions are stabilizing. Total employment in the Houston MSA stood at approximately 3.48 million in October 2025, while the unemployment rate was 4.8% in September and generally in line with historical norms and comparable to the U.S. rate of 4.6% in November. Hiring slowed from earlier in the year, though demand remained evident across trade, transportation, manufacturing, and professional services, reflecting the region's diverse economic base.

Inflationary pressures continued to ease toward year-end. The Consumer Price Index rose 2.7% year-over-year in November 2025, signaling further cooling and supporting consumer spending and business confidence. Energy markets experienced modest softening, with the WTI spot price averaging \$60.06 per barrel in November, while upstream activity edged higher. The U.S. rig count increased to 545 in December, suggesting measured optimism among producers despite ongoing price volatility and disciplined capital deployment.

Port Houston remained a critical engine of regional economic activity, handling approximately 2.93 million TEUs year-to-date in 2025, underscoring sustained import and export demand. The strength of the port continues to bolster the industrial and logistics sectors, benefiting from Houston's strategic location and established infrastructure network. Overall, Houston's economic fundamentals remained solid heading into the final quarter of 2025, with a stable labor market, easing inflation, and continued momentum in trade, energy, and logistics positioning the region for steady, measured growth into 2026.

Q-O-Q Change



3.48M

Total Houston Employment
October 2025



4.8%

Houston Unemployment
September 2025



4.6%

U.S. Unemployment
November 2025



2.7%

Consumer Price Index
November 2025



545

Rig Count
December 2025



\$60.06

WTI Spot Price
November 2025



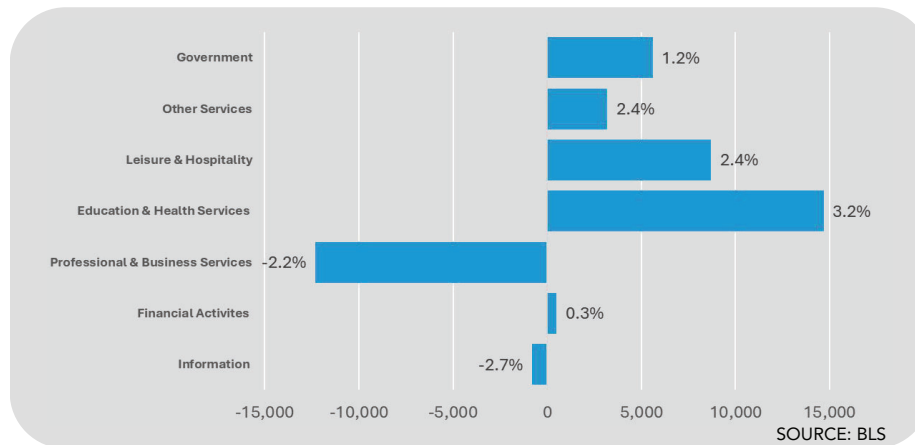
2,932,936

TEU's Total
2025 YTD



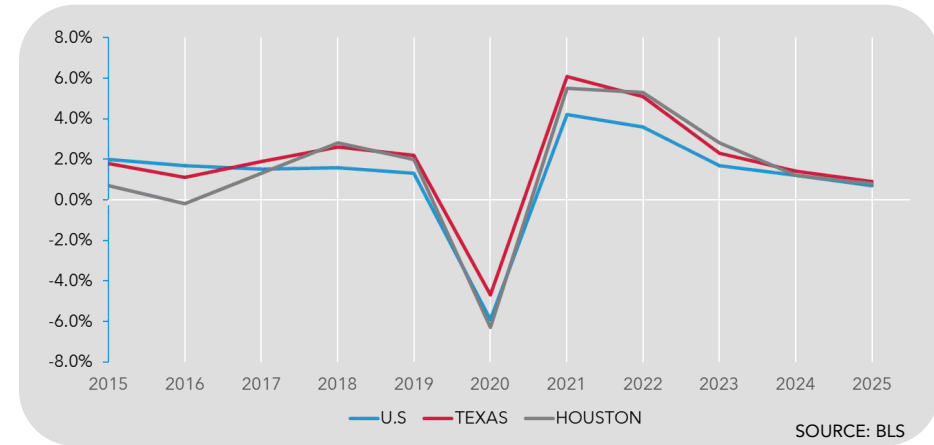
SOURCE: BLS, EIA, Greater Houston Partnership, Port Houston, and Texas Labor Market

OFFICE EMPLOYMENT GROWTH



GROWTH BY INDUSTRY OCTOBER 2025 YEAR-OVER-YEAR CHANGE

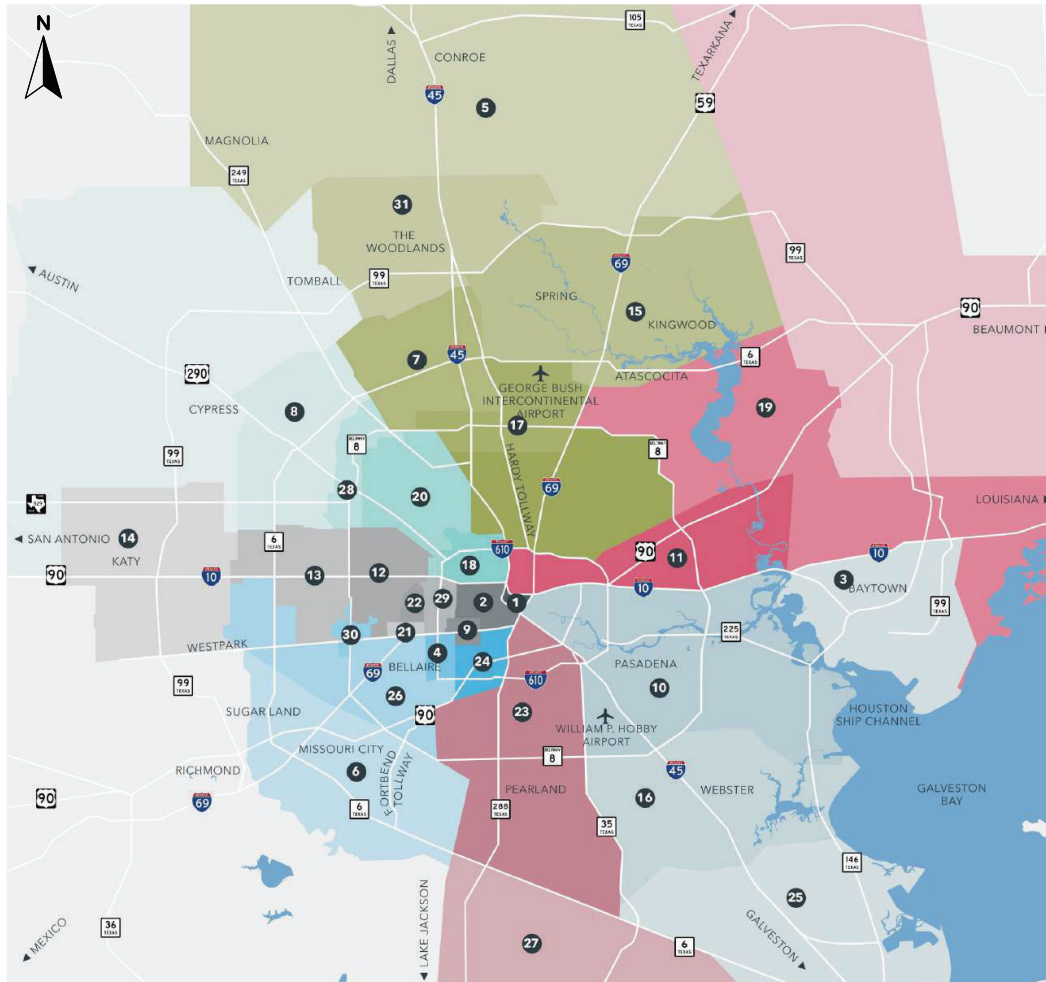
Data from early Q4 2025 show varied performance across Houston's office-using and service sectors. Education and Health Services led job growth, adding 14,700 positions (+3.2%), followed by solid gains in Leisure and Hospitality (+2.4%) and Other Services (+2.4%), reflecting continued strength in consumer-facing and healthcare-related industries. Government employment also increased by 5,600 jobs (+1.2%), signaling modest public-sector expansion. Financial Activities posted a slight gain of 500 jobs (+0.3%), indicating relative stability in banking and real estate-related roles. In contrast, Professional and Business Services declined by 12,300 jobs (-2.2%), pointing to softening demand in corporate and administrative employment. The Information sector also contracted, shedding 800 jobs (-2.7%), consistent with ongoing consolidation in tech and media. Despite pockets of weakness, overall service-sector employment remains supported by growth in healthcare, hospitality, and government.



EMPLOYMENT GROWTH OCTOBER 2025 10 YEAR CHANGE

Over the past decade, Houston's office employment growth has generally tracked alongside state and national trends, though with greater volatility at key points in the cycle. From 2015 to 2019, Houston experienced moderate expansion, with growth strengthening in 2018 and 2019 as gains in professional and business services outpaced national averages. The onset of the pandemic in 2020 triggered a sharp contraction of 6.3%, deeper than declines seen in Texas and the U.S. Recovery gained momentum in 2021 and 2022, when Houston posted robust growth of 5.5% and 5.3%, supported by strong hiring across business, energy-adjacent, and financial sectors. Since 2023, however, growth has slowed meaningfully, easing to 2.8% in 2023, 1.2% in 2024, and 0.8% in 2025. This cooling trend suggests Houston's office employment market is transitioning from post-pandemic recovery to a more normalized, stable growth environment.

SUBMARKET MAP



- | | |
|-------------------------------|------------------------------|
| 1 Central Business District | 16 NASA/Clear Lake |
| 2 Allen Parkway/Midtown | 17 North Belt/Greenspoint |
| 3 Baytown | 18 North Loop West |
| 4 Bellaire | 19 Northeast |
| 5 Conroe/Montgomery County | 20 Northwest |
| 6 Fort Bend County/Sugar Land | 21 Richmond/Fountainview |
| 7 FM 1960/Beltway 8 | 22 San Felipe/Voss |
| 8 FM 1960/Hwy 249 | 23 South |
| 9 Greenway Plaza | 24 South Main/Medical Center |
| 10 Gulf Freeway/Pasadena | 25 Southeast |
| 11 I-10 East | 26 Southwest/Beltway 8 |
| 12 Katy Freeway East | 27 Southwest Far |
| 13 Katy Freeway West | 28 West Belt/Highway 290 |
| 14 Katy/Grand Parkway West | 29 West Loop/Galleria |
| 15 Kingwood/Humble | 30 Westchase |
| | 31 Woodlands |

RESEARCH

MARY DOETTERL
RESEARCH DIRECTOR
MDOETTERL@LEE-ASSOCIATES.COM

ERIK JORGENSEN
RESEARCH ANALYST

NATHAN KRUEGER
RESEARCH ANALYST

JASMINE HUANG
JR. RESEARCH ANALYST

CLAY HARRIS
RESEARCH INTERN

OFFICE ADVISORS

CHRIS LEWIS, SIOR
MANAGING PRINCIPAL

LANDLORD REPRESENTATION

BILL INSULL, CCIM
PRINCIPAL

DREW LEWIS
PRINCIPAL

BLAKE R. VIRGILIO, SIOR, CCIM
PRINCIPAL

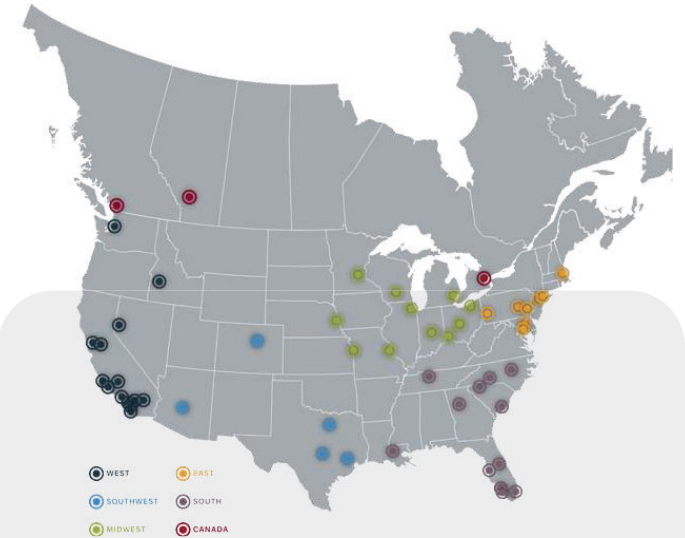
WADE BOWLIN
EXECUTIVE VICE PRESIDENT

MAX WELCH
ASSOCIATE

TENANT REPRESENTATION

TRAVIS TAYLOR
PRINCIPAL

JEFF CHARBONNEAU
ASSOCIATE



LOCAL EXPERTISE

INTERNATIONAL REACH

With offices in 80+ markets across North America, Lee & Associates has the ability to deliver first-class services to our clients both locally and internationally.

THE LEE ADVANTAGE

Every Lee & Associates office delivers world-class service to an array of regional, national, and international clients - from small businesses and local investors to major corporate users and institutional investors. Our professionals combine the latest technology, resources, and market intelligence with their experience, expertise, and commitment to superior service to optimize client results.

FOR MORE INFORMATION



713.744.7400



LEE-ASSOCIATES.COM/HOUSTON

