NEWMARK

Market Overview

Houston Office

1Q26

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Market Observations

Economy

- The Houston market's unemployment rate rose 12 basis points year over year to 4.5% and remains below the five-year average of 5.5%.
- Job growth fell by 96 basis points year over year to 0.4%, significantly below the five-year average of 1.8%.
- All sectors except information, business and professional services, and manufacturing, reported employment growth, with education and health leading job gains at 2.8% over the past 12 months.
- Office-using jobs reported annual contraction in December 2025, with continued losses in the information and business and professional services sectors negatively impacting growth. Despite this, office-using employment has grown by 7.0% since 2019 and currently stands at 763,940 jobs.

Leasing Market Fundamentals

- Average annual full-service asking rental rates rose to a new peak of $30.52/SF, reflecting a 6.3% increase year over year. Direct rates increased by 6.2% year over year, hitting a peak of $30.66/SF, while sublease rents rose by 13.3% annually to $25.91/SF, resulting in a narrowing rent spread of $4.75/SF.
- Overall vacancy rates were unchanged year over year at 25.8% in the first quarter of 2026, returning to the record high of one year ago. On a quarterly basis, vacancy rose by 20 basis points, driven up by the delivery of CityCentre Six and slower demand.
- The first quarter of 2026 closed with negative absorption of 287,336 SF, a decrease from the previous quarter, driven by large move-outs in the CBD.
- Total leasing activity closed the quarter at 2.7 MSF, below the 16-year first-quarter average of 4.4 MSF. Fewer deals transacted during the quarter, with deal volume falling 7.5% year over year, and average lease size also decreasing by 8.9% to 3,832 SF.

Major Transactions

- Natural gas transporter, Boardwalk Pipeline Partners, inked the largest deal of the first quarter of 2026 with a new lease for 143,253 SF, relocating from 9 Greenway Plaza to 990 Town & Country Blvd in the Katy Freeway submarket.
- Crescent Energy signed the second largest deal of the first quarter with a new lease at 609 Main for 125,000 SF. The company is expected to occupy in early 2027 after a $27 million buildout of its space.
- New leasing accounted for three of the quarter's five largest transactions, underscoring tenant leverage to capitalize on favorable conditions to upgrade space into high-quality buildings.
- Three of the quarter's five largest transactions occurred in the CBD, highlighting the submarket's renewed demand and appeal to occupiers in the legal sectors, as well as corporate headquarters.

Outlook

- Investment in the Houston market will likely take a measured approach as elevated vacancies, higher financing costs, and a muted development pipeline support cautious capital deployment.
- Vacancy is expected to level off near current highs, supported by limited new supply and steady occupier decision-making despite slower job growth.
- Rent growth is likely to moderate, as landlords maintain headline rate stability while using targeted concessions to support deal flow.
- Flight-to-quality and westward migration trends are likely to persist, reinforcing demand in top suburban submarkets and best-in-class buildings.

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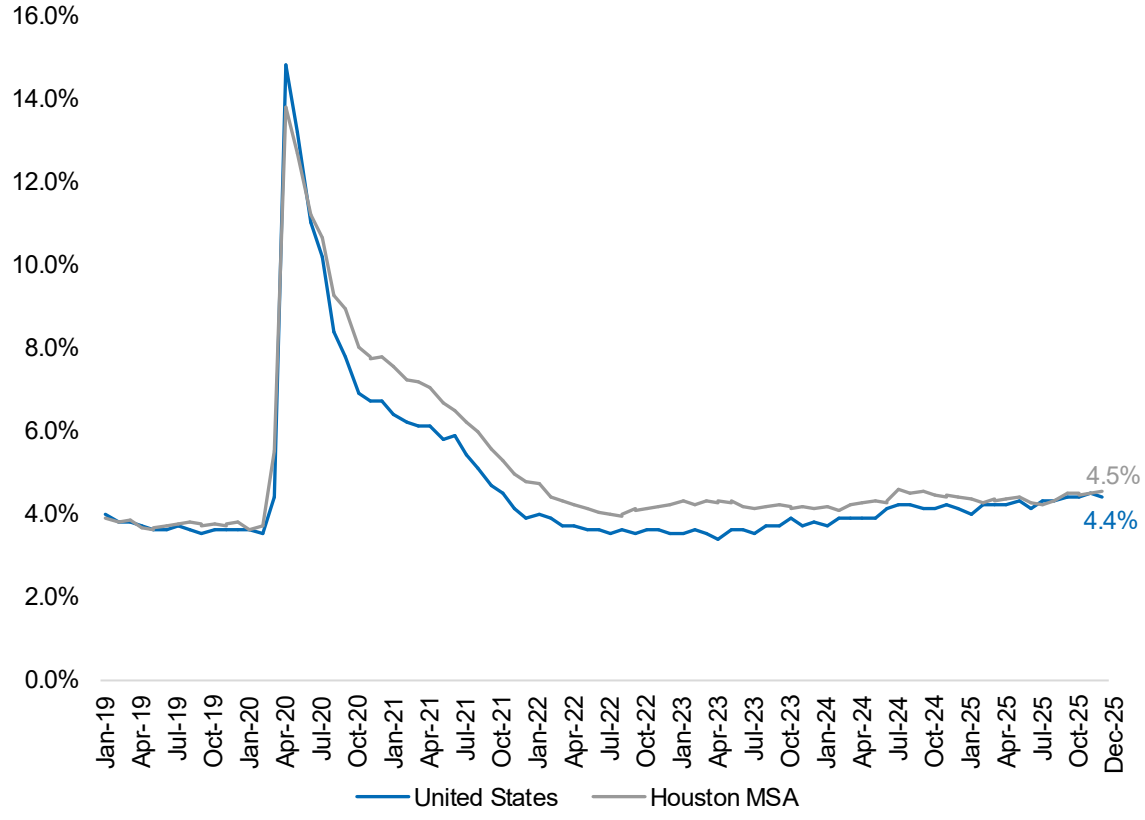
Economy

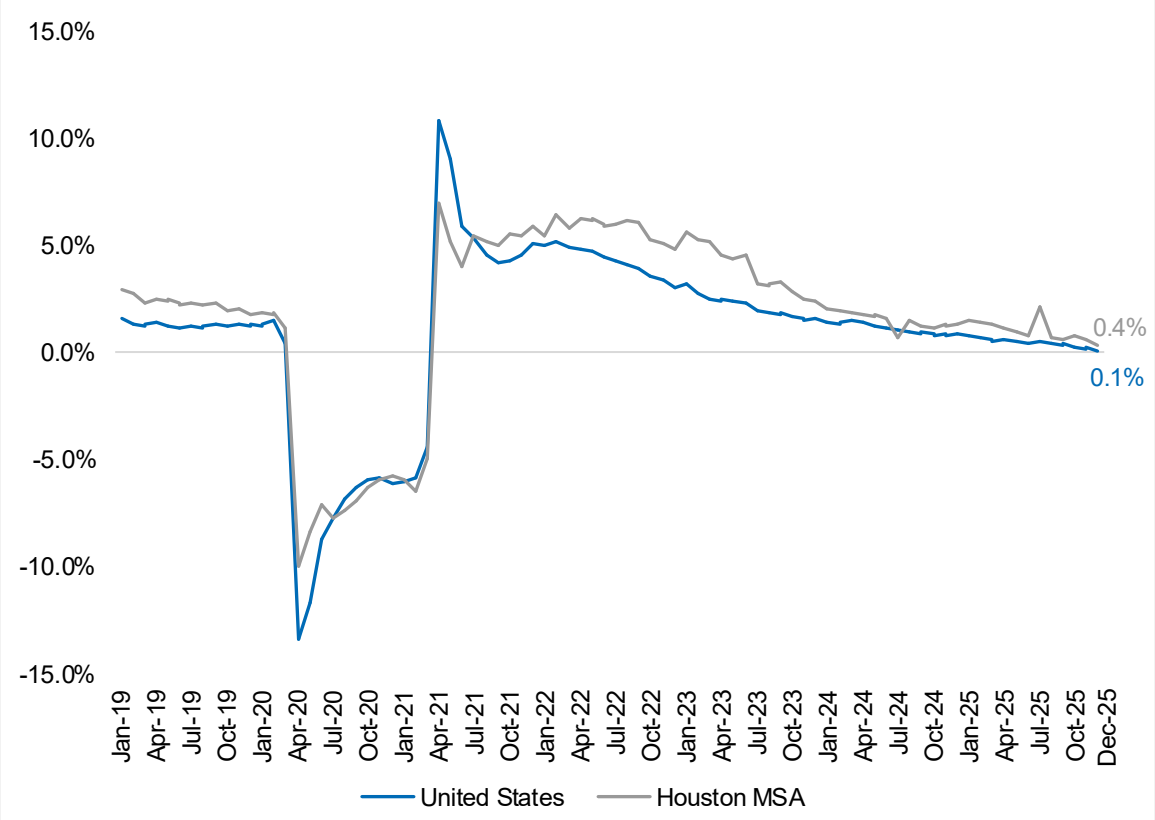
Unemployment Remains Above National Average As Employment Growth Slows

Houston has historically posted slightly higher unemployment than the national average while outpacing it in job growth. As of December 2025, Houston's unemployment rate was 4.5%, hovering just above the national average of 4.4%. After lagging the national average for most of the past year, the gap narrowed to 13 basis points in December 2025. However, employment growth in Houston slowed more sharply, down 96 basis points from the prior year to 0.4%, reflecting a broader labor market cooldown following years of strong gains. While job growth in Houston has recently slowed more sharply than in the U.S. overall, the metro has generally outpaced the nation in employment gains over the past several years.

Unemployment Rate*, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

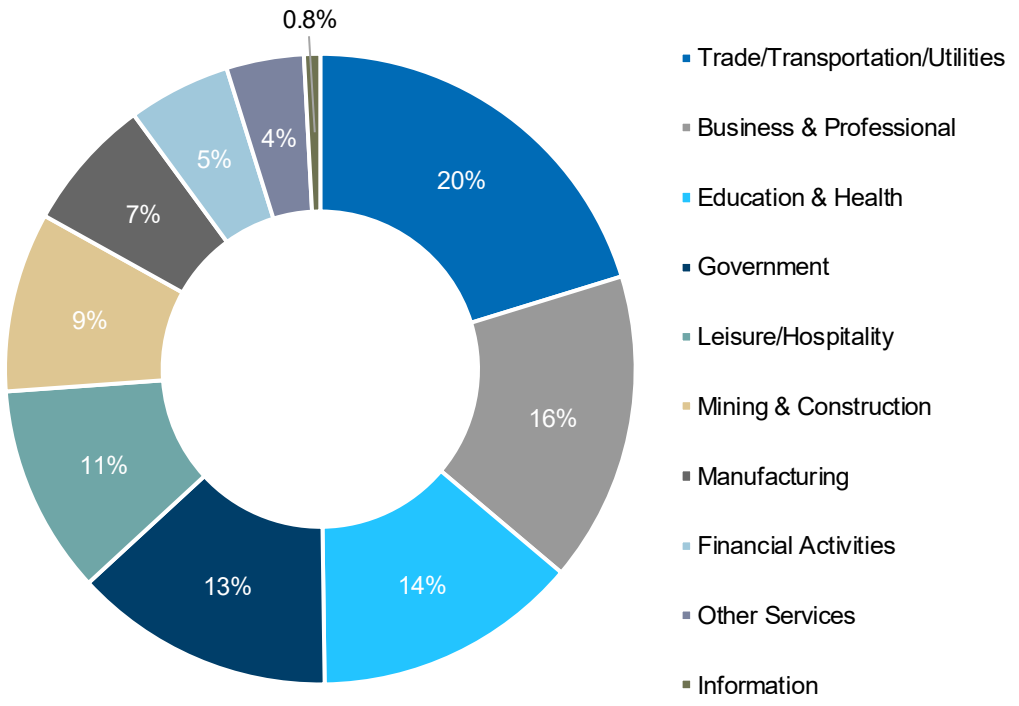


Source: U.S. Bureau of Labor Statistics, Houston MSA
*October 2025 government shutdown missing data addressed with duplicating September 2025's data

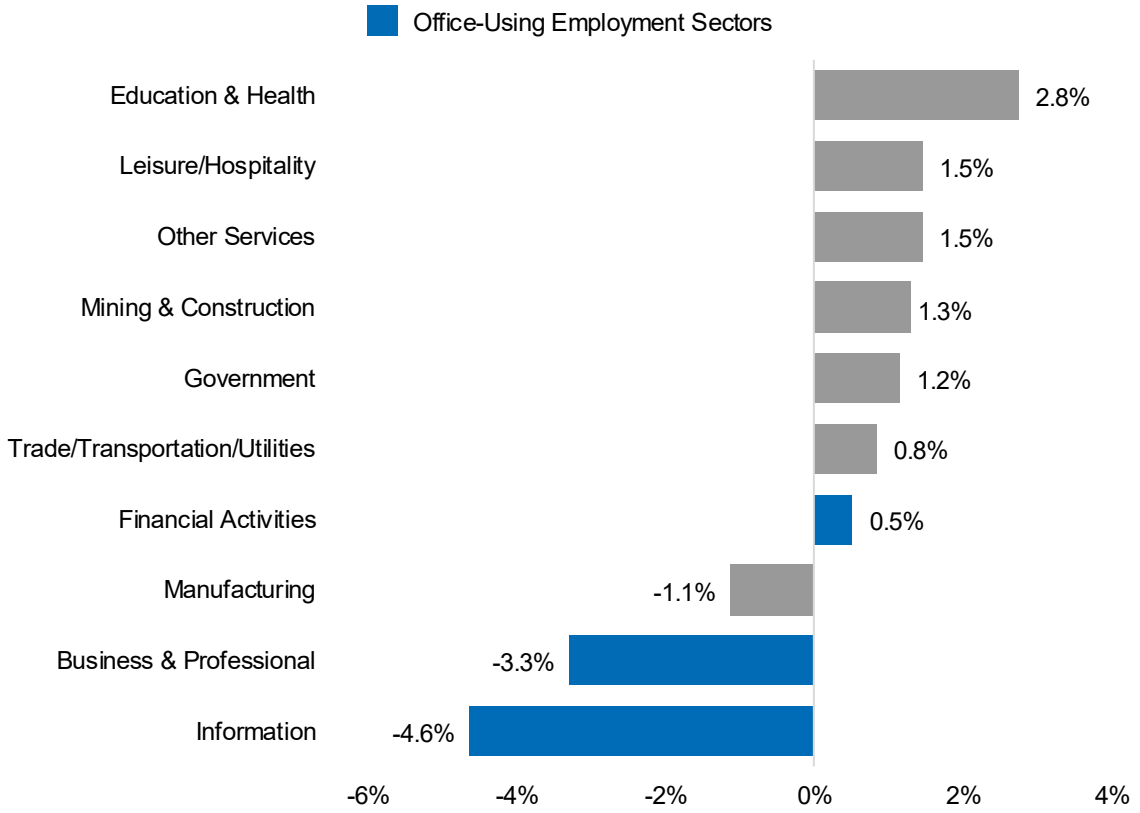
Information Leads Decline in Office-Using Employment Sectors

Known for its energy sector, the Houston market's two largest employment industries account for 36.2% of market share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 15.9%. While most industries in the metro continued reporting annual growth in December 2025, two office-using sectors contracted, with the business and professional services and information sectors declining by 3.3% and 4.6% year over year, respectively. Meanwhile, financial activities reported incremental growth of 0.5%.

Employment by Industry, December 2025



Employment Growth by Industry, 12-Month % Change, December 2025

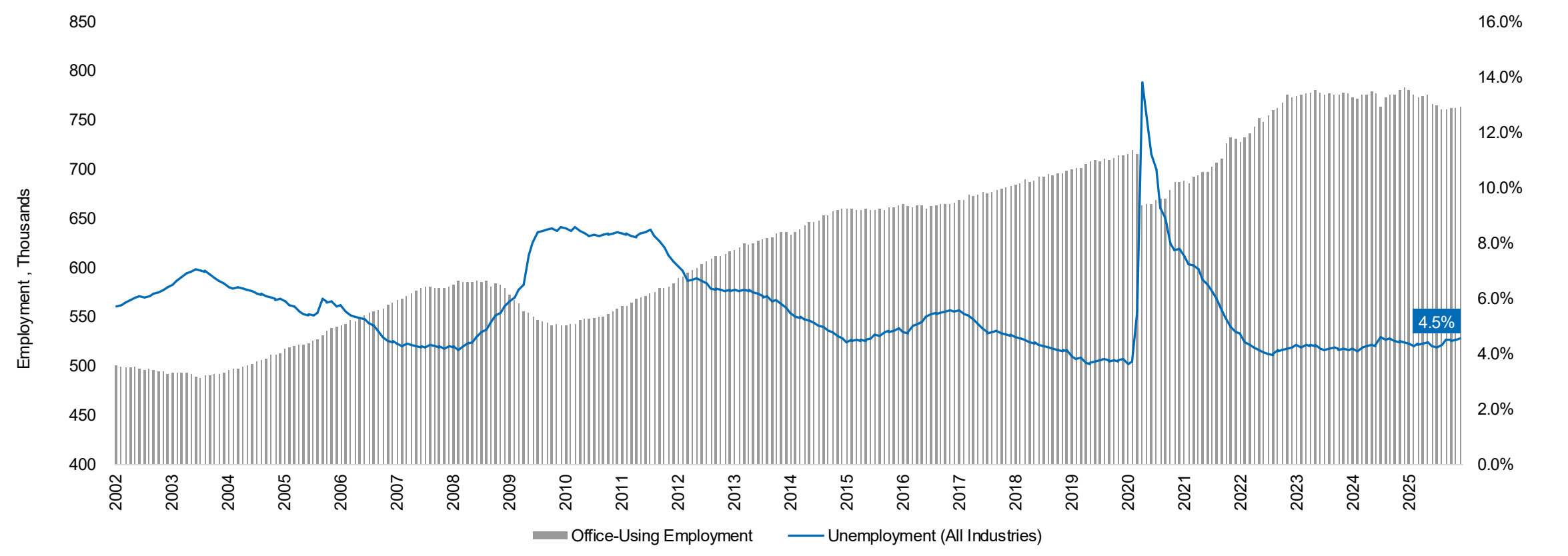


Source: U.S. Bureau of Labor Statistics, Houston MSA

Information, Business & Professional Job Losses Keep Office Employment Below Peak

Office-using employment in the Houston market totaled 763,940 employees at the end of December 2025, down 2.1% year over year and 2.4% below the December 2024 peak of 783,105 jobs. Currently, the unemployment rate is at 4.5%, below the five-year average of 5.5% from 2020 to 2024. The office-using business and professional and information sectors reported negative annual growth, while the financial activities sector posted slight gains. The lagging information and business and professional services sectors remain contributing factors to Houston's increasing unemployment rate and decreasing office-using employment numbers.

Office-Using Employment* and Unemployment Rate Across All Industries**



Source: U.S. Bureau of Labor Statistics, Houston MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

**October 2025 government shutdown missing data addressed with duplicating September 2025's data

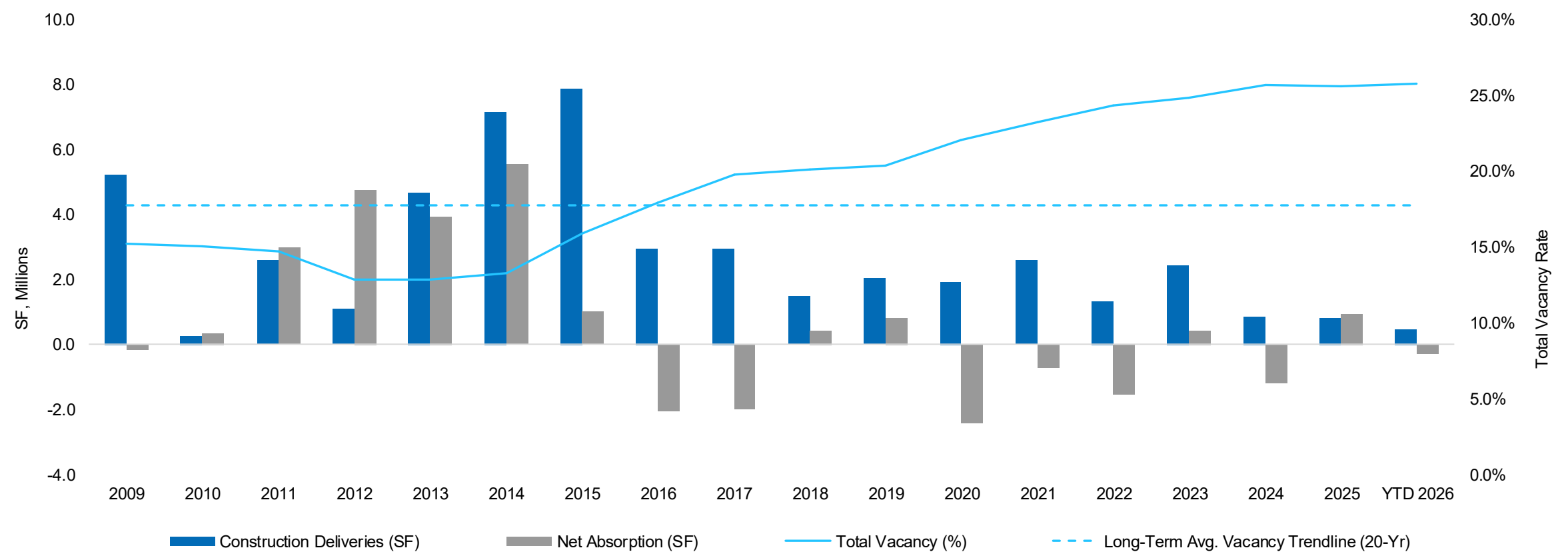
02

Leasing Market Fundamentals

Negative Demand Brings Vacancy Back to Record High

In the first quarter of 2026, Houston's office vacancy rate rose by 20 basis points quarter over quarter to 25.8%, returning to the record high first recorded a year ago. This figure remains significantly higher than the 20-year historical average of 17.8%, revealing a longer-term trend of steadily increasing vacancies. Occupancies declined in the first quarter of 2026, with 287,336 SF of negative absorption. Historically, Houston has recorded negative absorption in the first quarter, indicating the trend is seasonal rather than structural. The construction pipeline offloaded several projects in the first quarter of 2026, including CityCentre Six which added 324,450 SF to the market's inventory. In total, 464,450 SF of new supply delivered in the first quarter. In the near-term, vacancy is likely to remain elevated but stable, as pre-leased construction should help temper further vacancy spikes.

Historical Construction Deliveries, Net Absorption, and Vacancy

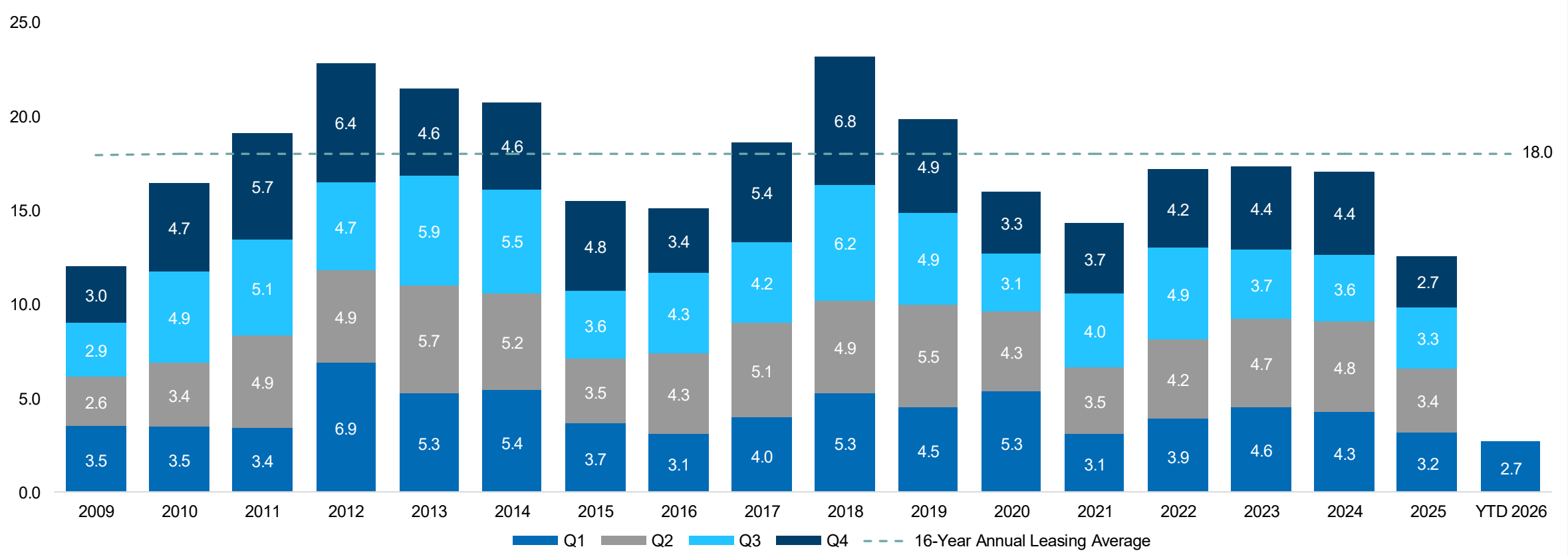


Source: Newmark Research, CoStar

Leasing Activity Trails Long Term First-Quarter Average

Leasing activity in the Houston market totaled 2.7 MSF in the first quarter of 2026, flat from the previous quarter but down 15.7% from the same period a year ago. Leasing activity in the first quarter of 2026 was 37.8% below the 16-year first-quarter average of 4.4 MSF, highlighting the market's seasonally slower demand. Deal counts edged lower in the first quarter, pointing to slightly weaker demand, while the average deal size totaled 3,832 SF, slightly improved from the previous quarter but 57 SF smaller than a year ago. Overall, the market has settled into a lower, more stable level of activity, with deal sizes starting to edge up.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Preference for Class A Space Leads to Annual Vacancy Decline Despite Growing Inventory

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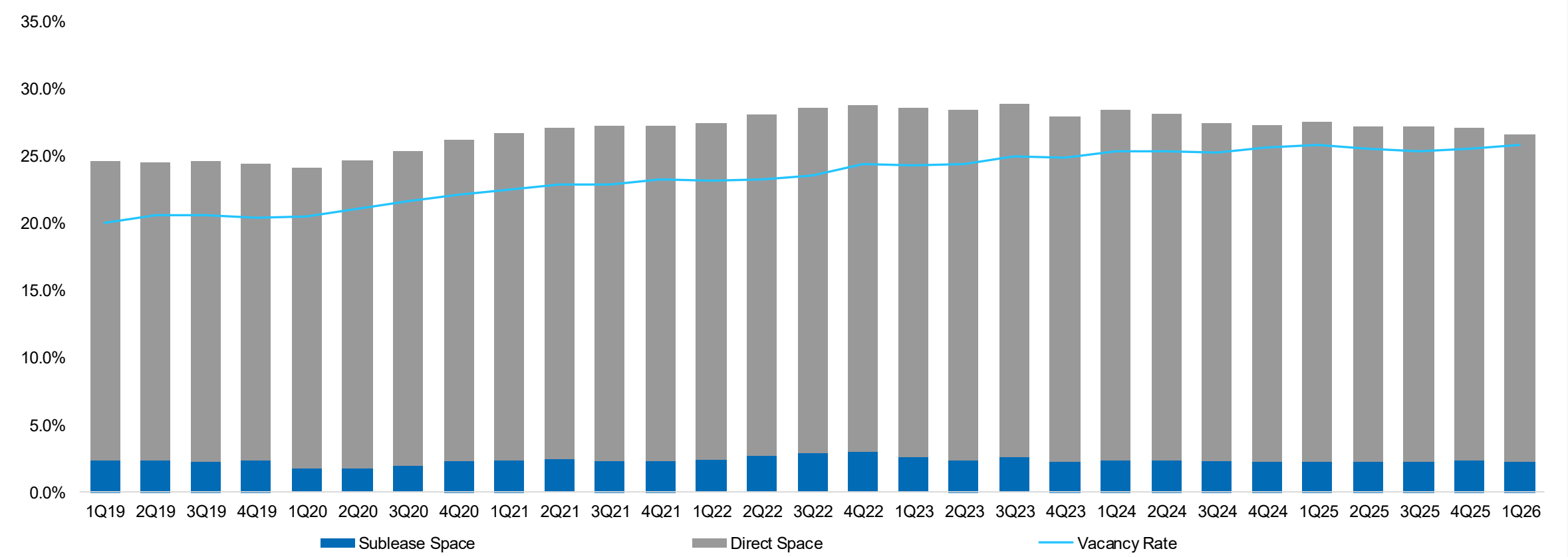
Source: Newmark Research, CoStar

Sublease Levels Stable as Overall Availability Continues to Fall

Sublease availability in the Houston market has remained relatively stable, with rates hovering between 2.3% and 2.4% over the last ten quarters. In the first quarter of 2026, sublease availability was 2.3%, falling 10 basis points from the previous quarter. While direct availabilities have generally risen since the pandemic, they have decreased 200 basis points from the historic peak of 26.3% set in the third quarter of 2023 to the current rate of 24.3%. Vacancy rates remain high at 25.8%, returning to the historic high recorded a year ago. Stable sublease levels and declining direct availability point to gradual improvement in overall market conditions in the coming quarters.

Available Space as Percent of Overall Market

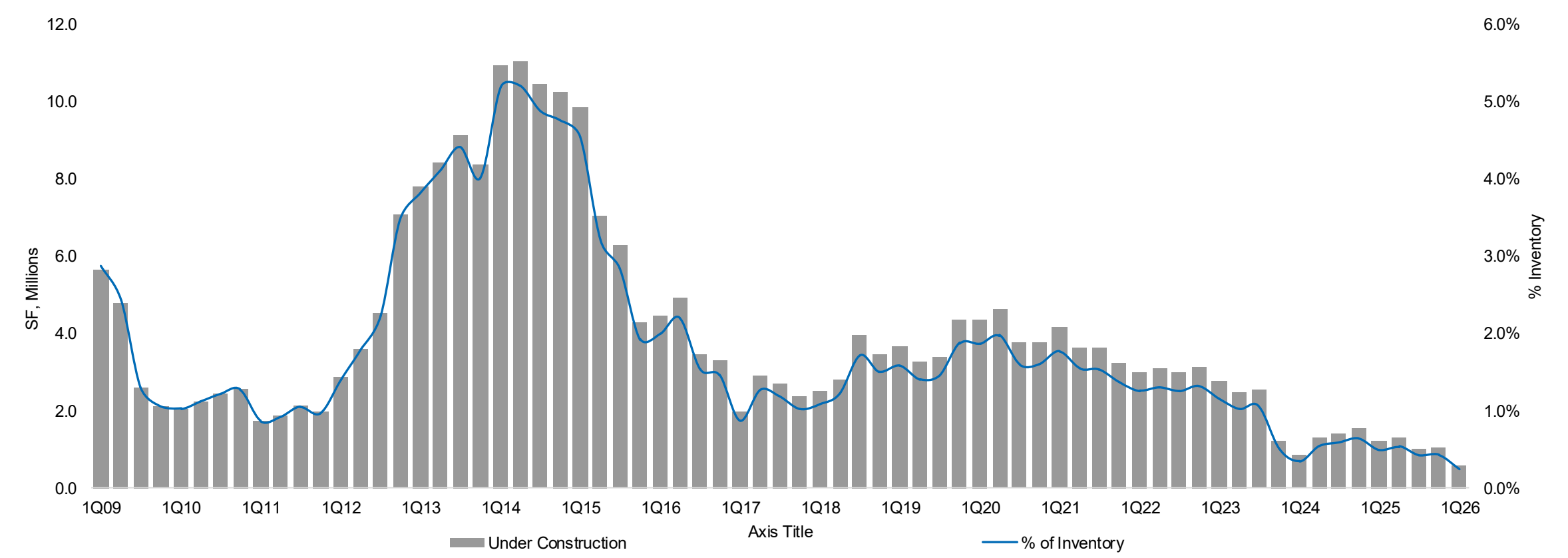


Source: Newmark Research, CoStar

Construction Pipeline Contracts After CityCentre Six Delivery in the First Quarter

Construction activity in the Houston market has remained relatively muted following the oil downturn in 2016. As of the first quarter of 2026, the market had 591,440 SF under construction. The under-construction portion of the market's inventory declined at the end of the first quarter, as 324,450 SF of space was removed from the pipeline with the delivery of CityCentre Six in the Katy Freeway submarket. Currently, under construction space accounts for only 0.2% of the market's inventory. Non-medical office projects currently underway include Autry Park (127,651 SF) and The RO (146,003 SF). Elevated vacancies, tenant downsizing, and capital constraints will continue to suppress speculative development, keeping future supply additions modest in the near to mid-term.

Office Under Construction* and % of Inventory



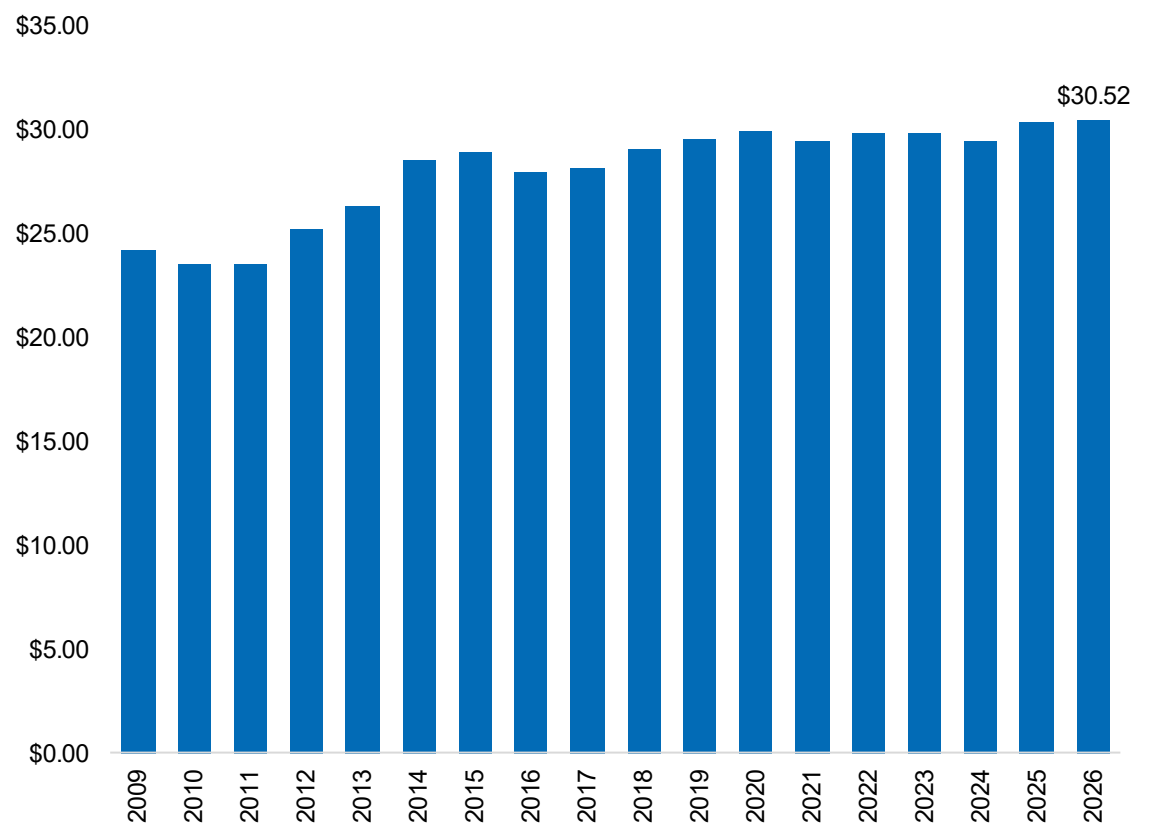
Source: Newmark Research, CoStar

* The bulk of space under construction in 4Q25 is medical office

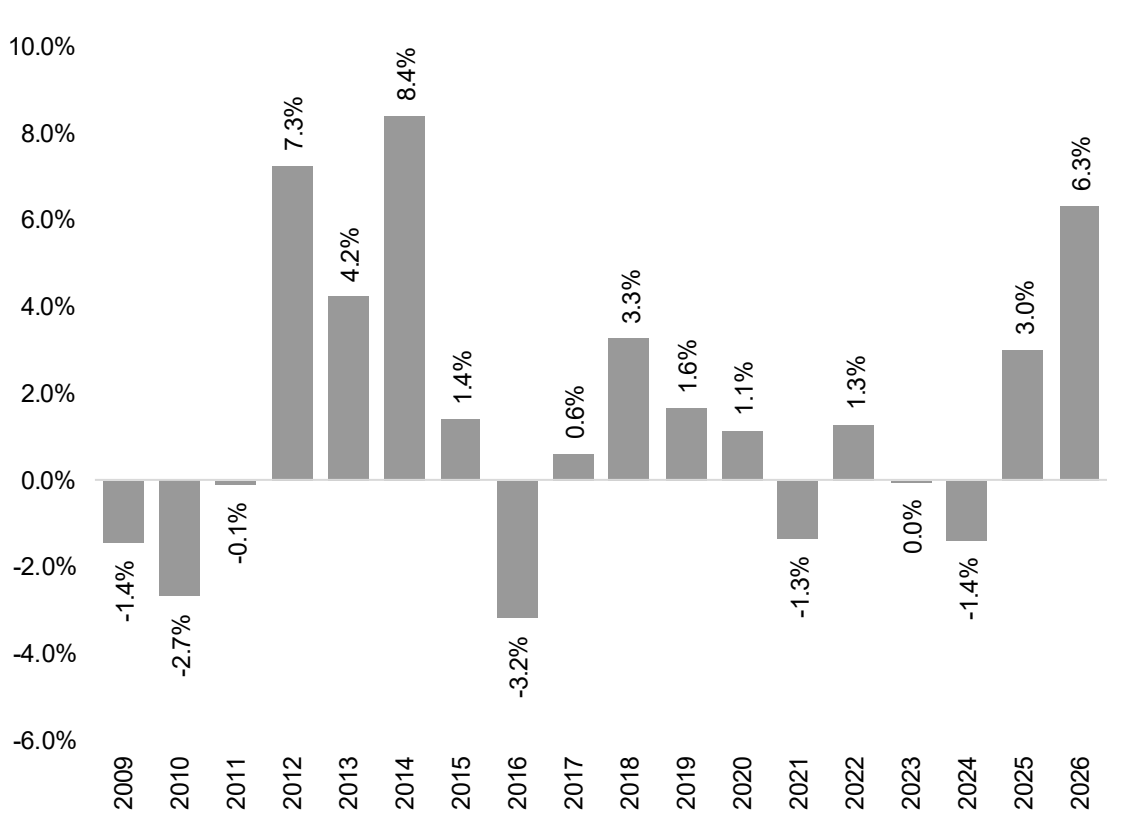
Asking Rate Growth Continues, Reaching New All-Time High

In the first quarter of 2026, asking rents posted strong growth of 6.3% year over year to $30.52/SF, reaching a new all-time high. Overall rates moved in line with higher direct rents, which rose by 6.2% year over year, signaling stabilization after several quarters of negative or flat growth. The current rent levels are roughly 10.6% higher than the 17-year historical first-quarter average, indicating that landlords are holding base rents stable or slightly elevated while offering increased concessions. While the rebound in recent quarters suggests some pricing power in select segments, elevated availability and tenant leverage should cap gains, keeping growth modest rather than pointing to a sustained rebound. As elevated availability persists, rent growth is expected to remain modest and increasingly concentrated in the highest-quality assets despite headline rate strength.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

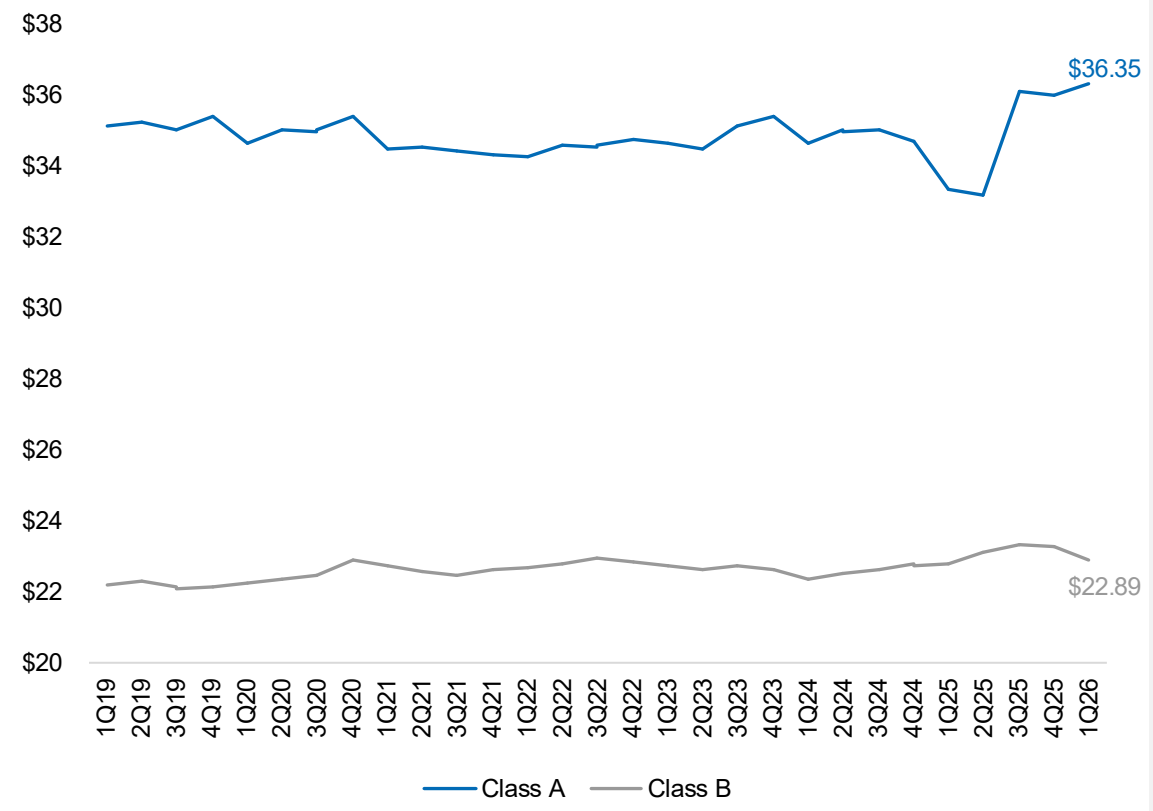


Source: Newmark Research, CoStar

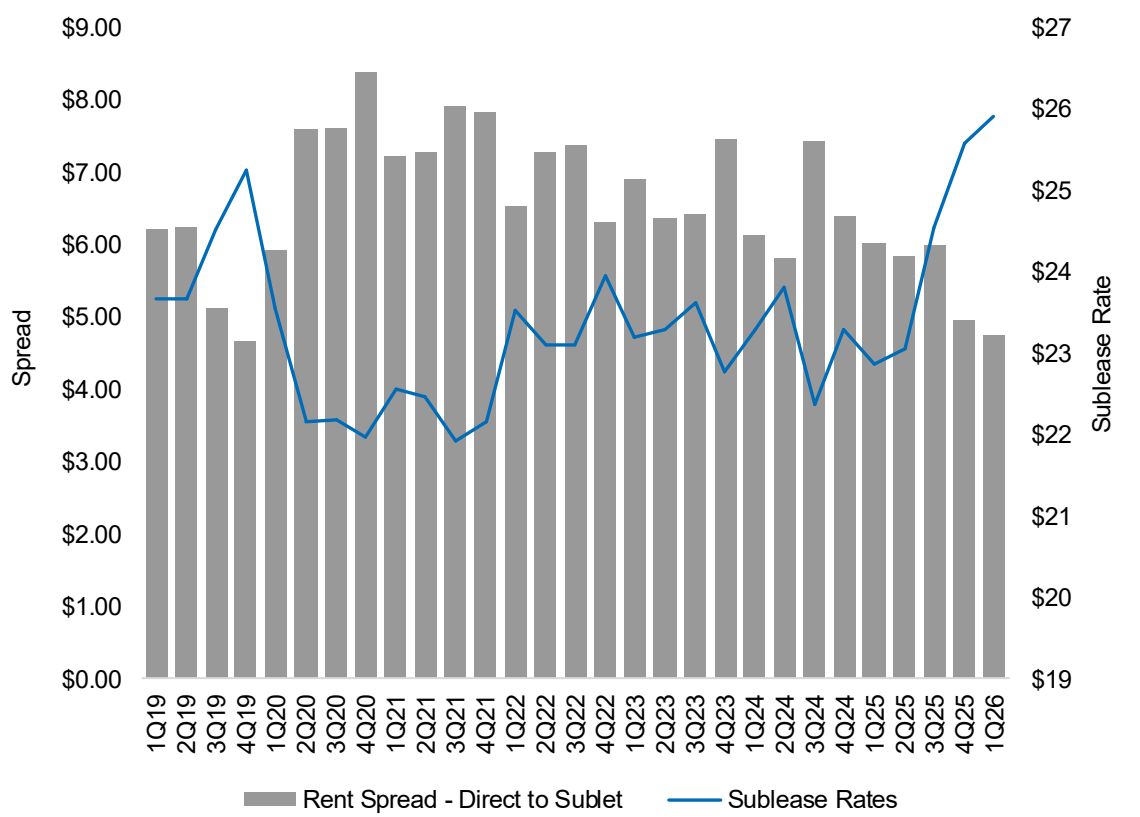
Premium Rents Hold Firm as Sublease Market Tightens

In the first quarter of 2026, Class A asking rents rose 1.0% to $36.35/SF, while Class B asking rents declined 1.5% to $22.89/SF quarter over quarter. The spread between Class A and Class B rents increased to $13.46/SF in the first quarter of 2026, driven by the rise in Class A rents. Both direct and sublet rates had notable annual increases of 6.2% and 13.3%, respectively. Direct rents hit a peak of $30.66/SF and sublease rates rose to $25.91/SF, narrowing the rent spread to $4.75/SF and maintaining a trend that started in the fourth quarter of 2025. Recent sublease listings, such as MRC Global at 1301 McKinney, have contributed to rising sublease rents, as higher-quality blocks of space entering the sublet market have helped narrow the rent spread.

Class A and Class B Asking Rents, $/SF, FS

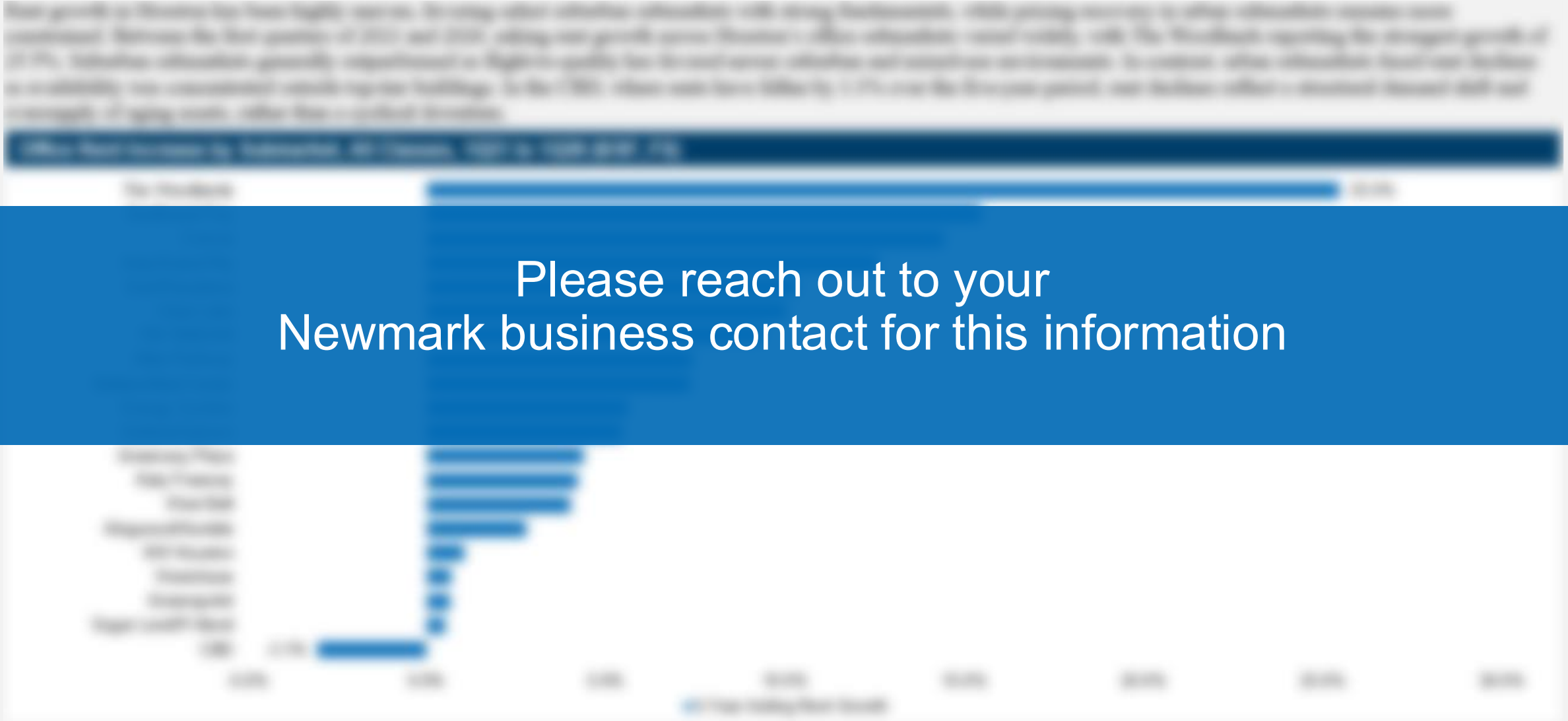


Sublease Rates, $/SF, FS



Source: Newmark Research, CoStar

Strongest Five-Year Rent Growth Reported in Suburban Office Submarkets



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Source: Newmark Research, CoStar

Larger Class A Leases Continue to Drive Market Despite Fewer Deals

Despite slowing leasing activity, flight to quality continues as a trend in the market even as the rent spread in Class A spaces remains elevated. As of the end of the first quarter of 2026, Class A transactions totaled 1.8 MSF, accounting for 66.0% of the market's leasing activity, but only 30.4% of the market's deal count. The average Class A lease increased by 14.6% quarter over quarter to 8,332 SF and remain larger than the average market deal size of 3,832 SF. Class A assets continue to capture a disproportionate share of leased square footage despite fewer deals, reinforcing the divide between top-tier and lower-quality buildings.

Notable 1Q26 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Boardwalk Pipeline Partners	990 Town & Country Blvd	Katy Freeway	Direct New	143,253
Natural gas transporter, Boardwalk Pipeline Partners, will move from its current location at 9 Greenway Plaza to 990 Town & Country Blvd in the Katy Freeway submarket, after signing a lease for 143,253 SF. The deal is the largest transaction of the first quarter of 2026 and further highlights Houston's westward migration trend seen over the last several years.				
Crescent Energy	609 Main	CBD	Direct New	125,000
Houston-based Crescent Energy is planning a $27 million build out of its newly leased space at 609 Main, with the project scheduled to being in August. Crescent Energy is expected to relocate from JPMorgan Chase Tower in early 2027.				
U.S. Attorney General	700 Louisiana	CBD	Direct New	99,000
The U.S. Attorney General signed the second largest deal of the first quarter with a new lease at 700 Louisiana for 99,000 SF. The government office will relocate from nearby 1000 Louisiana with an expected move-in of June 2027.				
Forum Energy Technologies	10344 Sam Houston Park Dr	West Belt	Renewal	81,138
Forum Energy Technologies, an oilfield products company, renewed its lease for 81,138 SF at 10344 Sam Houston Park Dr. where it has been a tenant since 2016.				
Mayer Brown	700 Louisiana	CBD	Renewal	60,965
International law firm Mayer Brown renewed its lease at 700 Louisiana, where it has occupied since the early 1980s.				

Source: Newmark Research, CoStar

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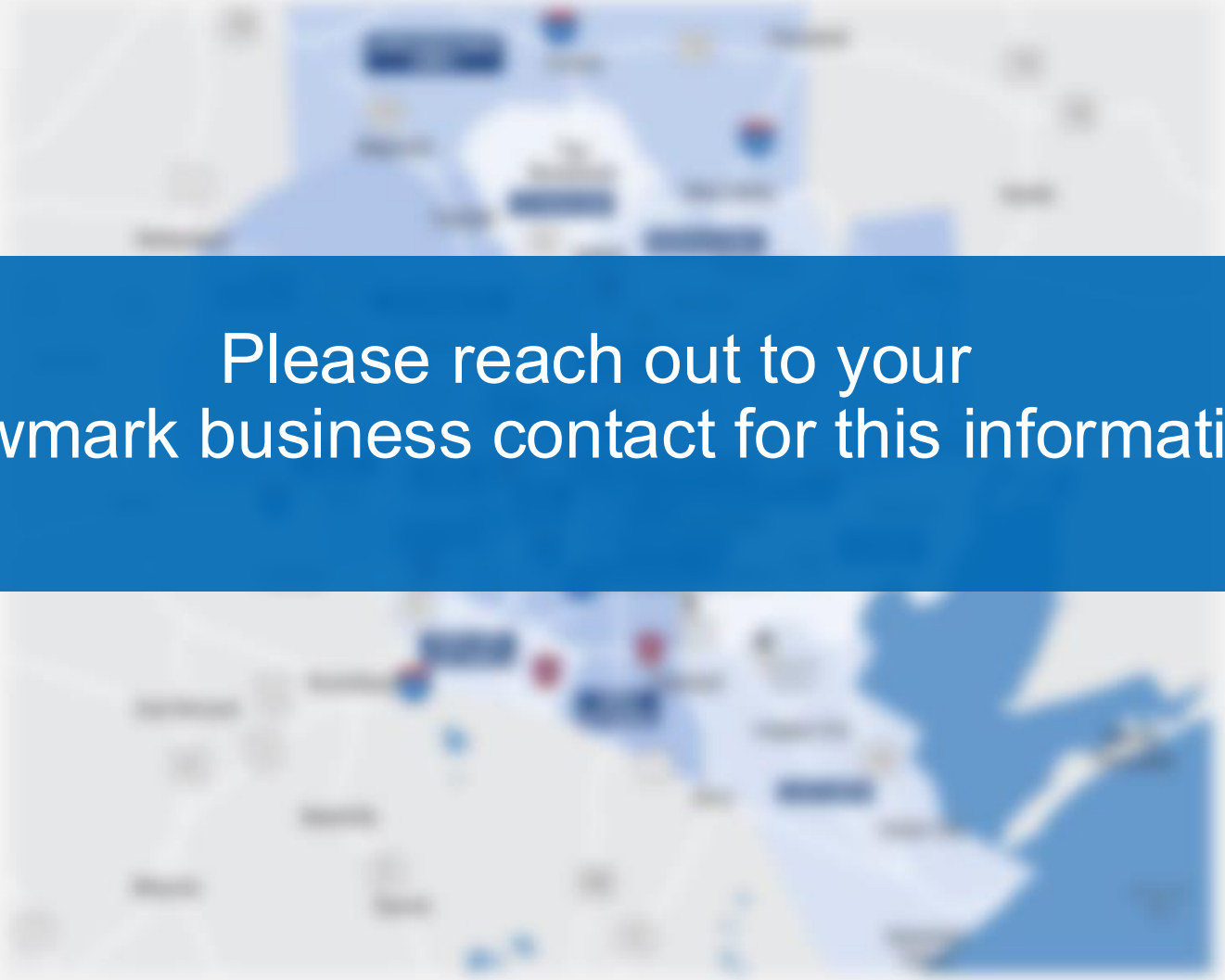
Market Statistics & Map

Houston Office Submarket Map



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Source: Newmark Research

Houston Office Submarket Overview

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Source: Newmark Research

Houston Class A Office Submarket Overview

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Source: Newmark Research

Houston Class B Office Submarket Overview

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Source: Newmark Research

1Q26 Texas Office Market Overview

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Source: Newmark Research; CoStar

04

Supplemental Analysis

Houston Office Market

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Houston Gross Metropolitan Product

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Source: Moody's Analytics

Highest Loan Volume Due in 2026

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Source: Newmark Research, RCA

Office Exposure Limited Amid Elevated Multifamily Maturities

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Source: Newmark Research, RCA

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