2Q25

Houston Industrial Market Overview

NEWMARK

Market Observations

Economy

- The Houston market's unemployment rate rose 7 basis points year over year to 4.4% but remains below the five-year average of 5.3%.
- Job growth fell by 93 basis points year over year to 0.8%, remaining below pre-pandemic levels, with February 2020 growth at 1.8%.
- All sectors, except business and professional services and information reported employment growth, with other services leading job gains at 2.4% over the past 12 months.
- All industrial-using job sectors in the market reflected yearly growth, with manufacturing, mining/construction, and trade/transportation/utilities, reflecting growth of 0.2%, 0.7% and 1.5%, respectively.

Leasing Market Fundamentals

- The market realized 1.2 MSF of positive absorption in the second quarter of 2025, a quarterly increase of 74.3% but an annual decline of 74.9%, that was outpaced by deliveries.
- Overall rental rates grew 11.4% year over year to $10.27/SF, reaching a new all-time high for the fifth consecutive quarter.
- Construction deliveries rose to 4.0 MSF in the second quarter of 2025, while the pipeline grew to 18.6 MSF under construction.
- The vacancy rate rose by 30 basis points quarter over to quarter to 7.1%, driven up by new deliveries and muted occupancies.

Major Transactions

- Foxconn signed the quarter's largest lease, taking 417,360 SF at 8228 Houston Ave in the Northwest submarket.
- JW Fulfillment Inc. entered the Houston market with a 353,024-square-foot lease at 2062 Woods Rd. in the Southwest submarket, marking the second largest deal of the quarter.
- The top five largest deals of the quarter were composed of new commitments, highlighting robust tenant interest and confidence in the Houston market.
- Occupiers signed the quarter's largest deals in multiple submarkets, indicating a competitive environment among submarkets to attract high-quality tenant and reduced concentration risk.

Outlook

- The Houston industrial market will likely remain cautious through the rest of 2025, as trade tensions and tariff uncertainties continue. Investment is expected to stay muted until there is more clarity on trade policies and their impact on imports and construction costs. Market activity may pick up once conditions stabilize.
- The market will likely see an influx of supply on the market in the near term due to 2.4% of the current market's inventory being under construction. New supply, which is 27.4% pre-leased, will likely cause vacancy rates to rise in the second half of 2025.
- Asking rents are expected to continue rising, but at a more moderate pace, due to a large pipeline of quality new product commanding higher pricing coming online.

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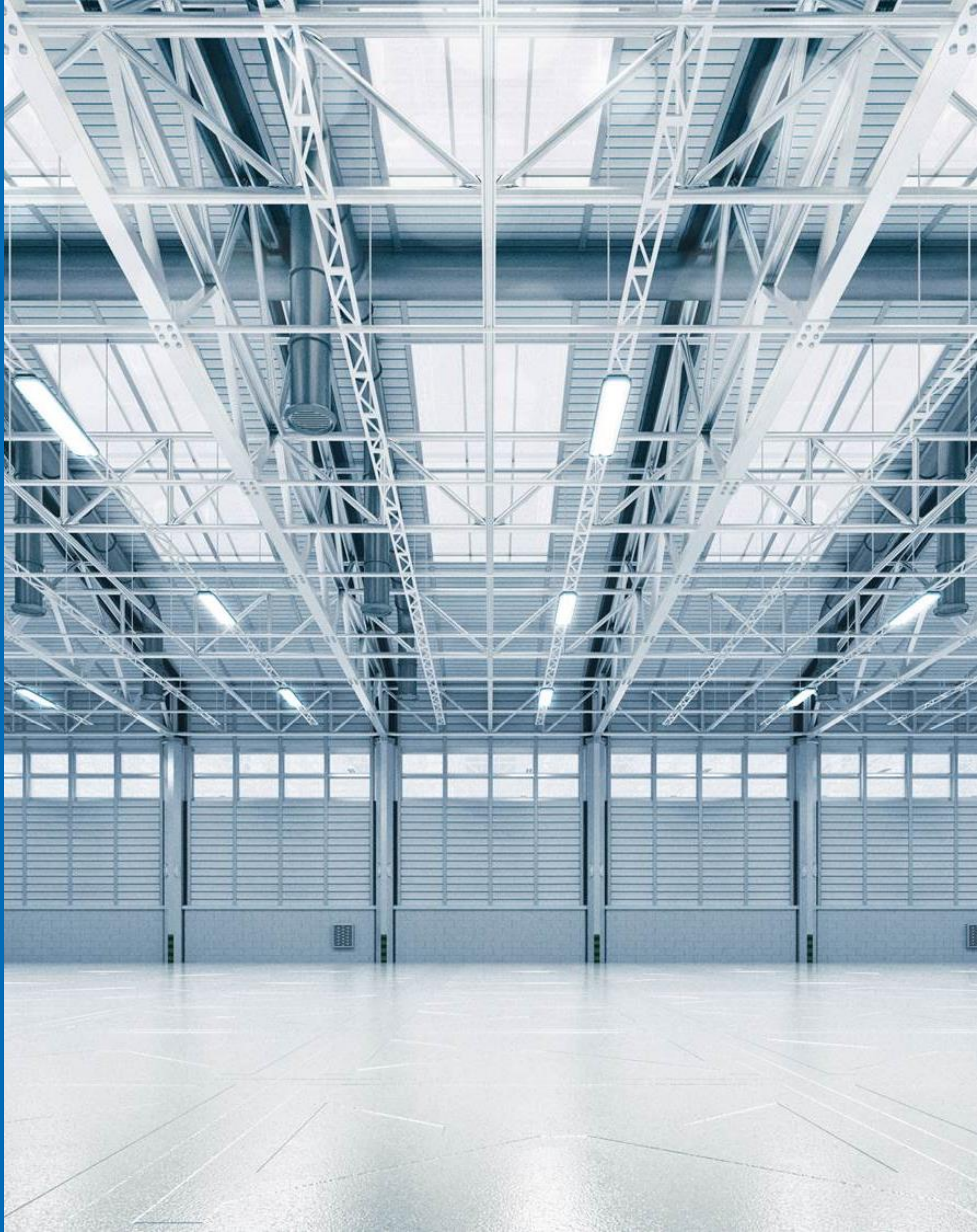
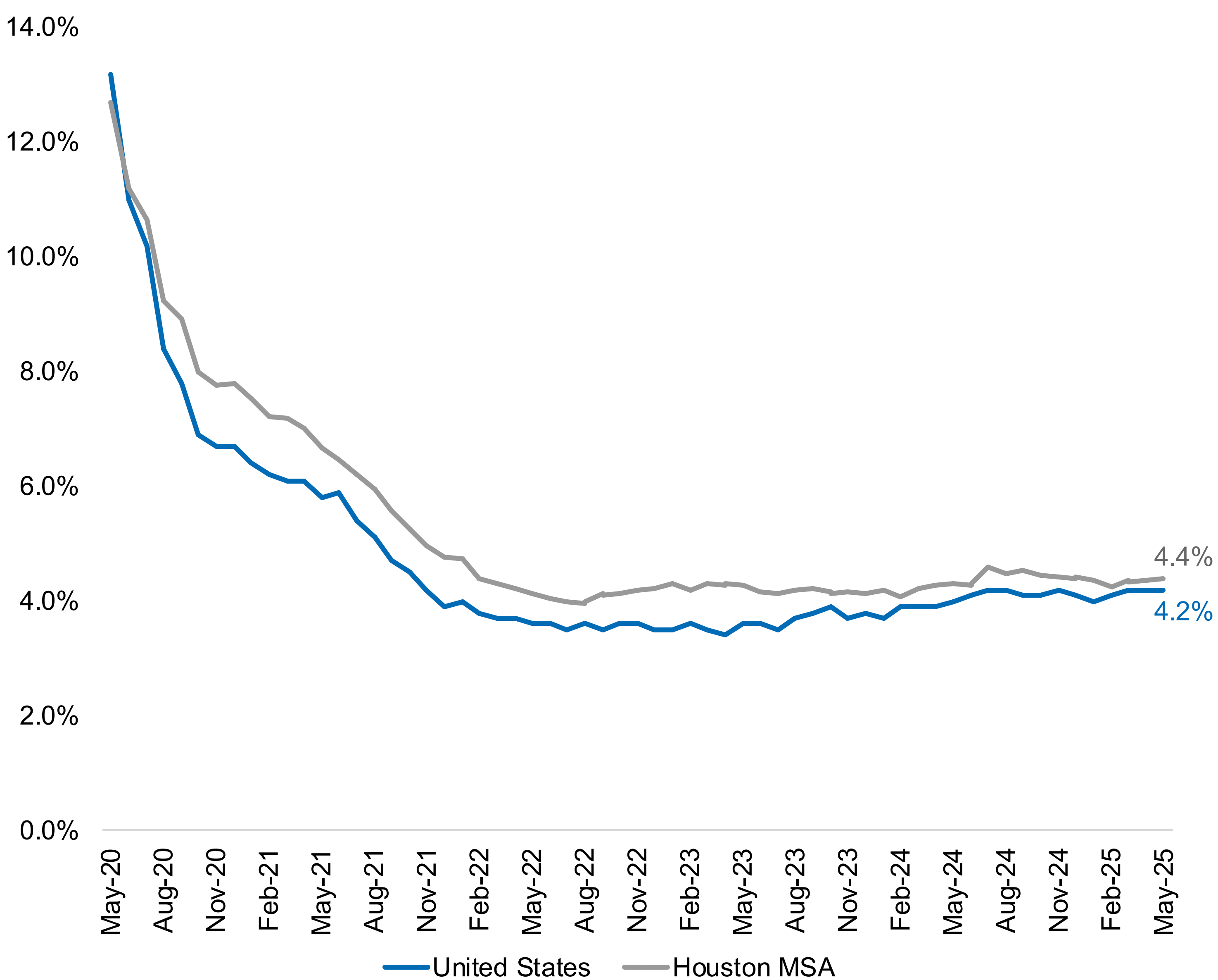


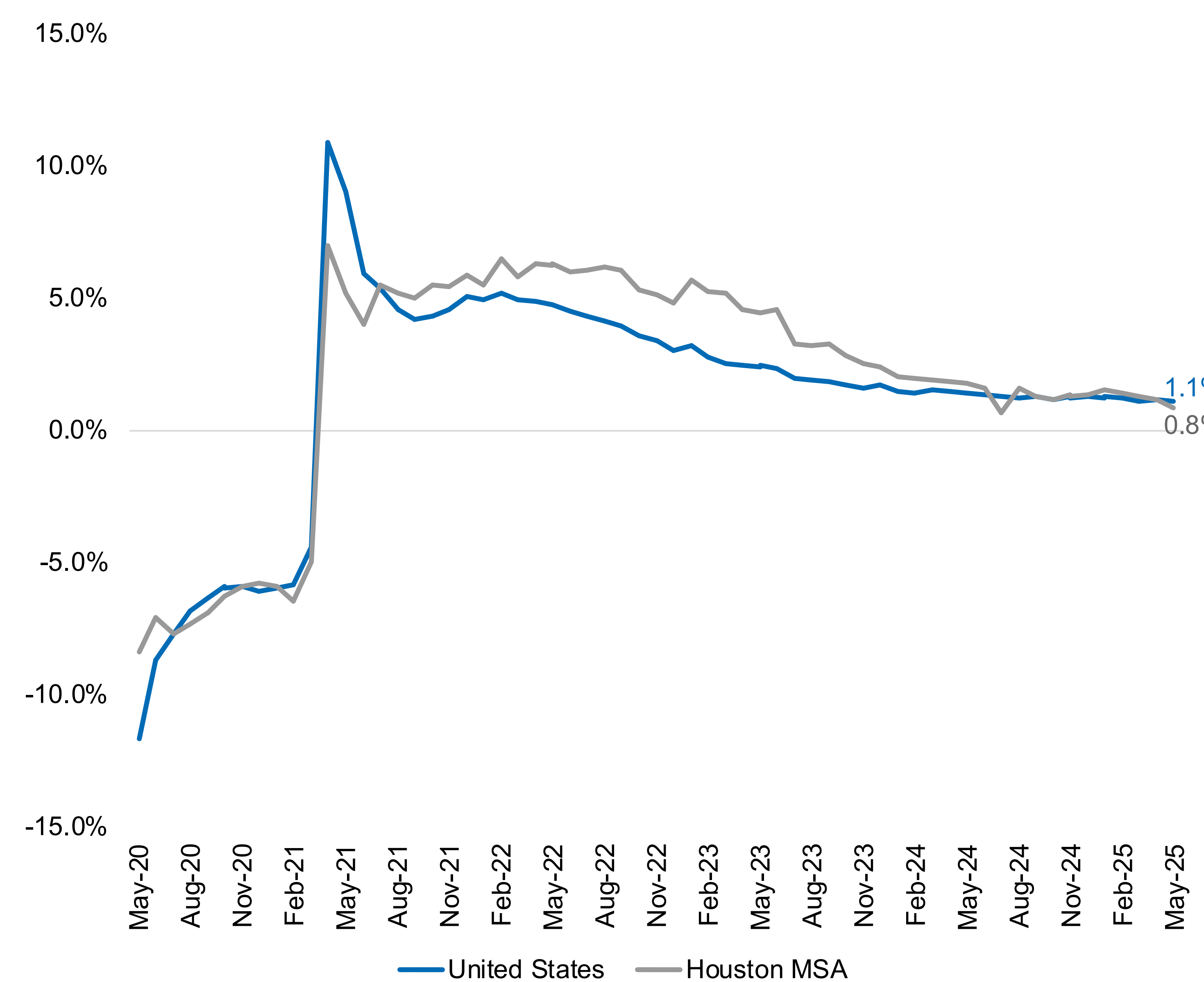
Slowdown in Employment Growth Pushes Unemployment Up

Houston has historically reported slightly higher unemployment than the national average while outpacing it in job growth—until September 2024, when local employment gains slowed to match national trends. As of May 2025, unemployment rates have nearly converged, with Houston at 4.4% and the U.S. at 4.2%. Houston's unemployment rate rose just 7 basis points year over year. However, employment growth slowed more sharply, down 93 basis points from the prior year, reflecting a broader labor market cooldown following years of strong gains.

Unemployment Rate, Seasonally Adjusted



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

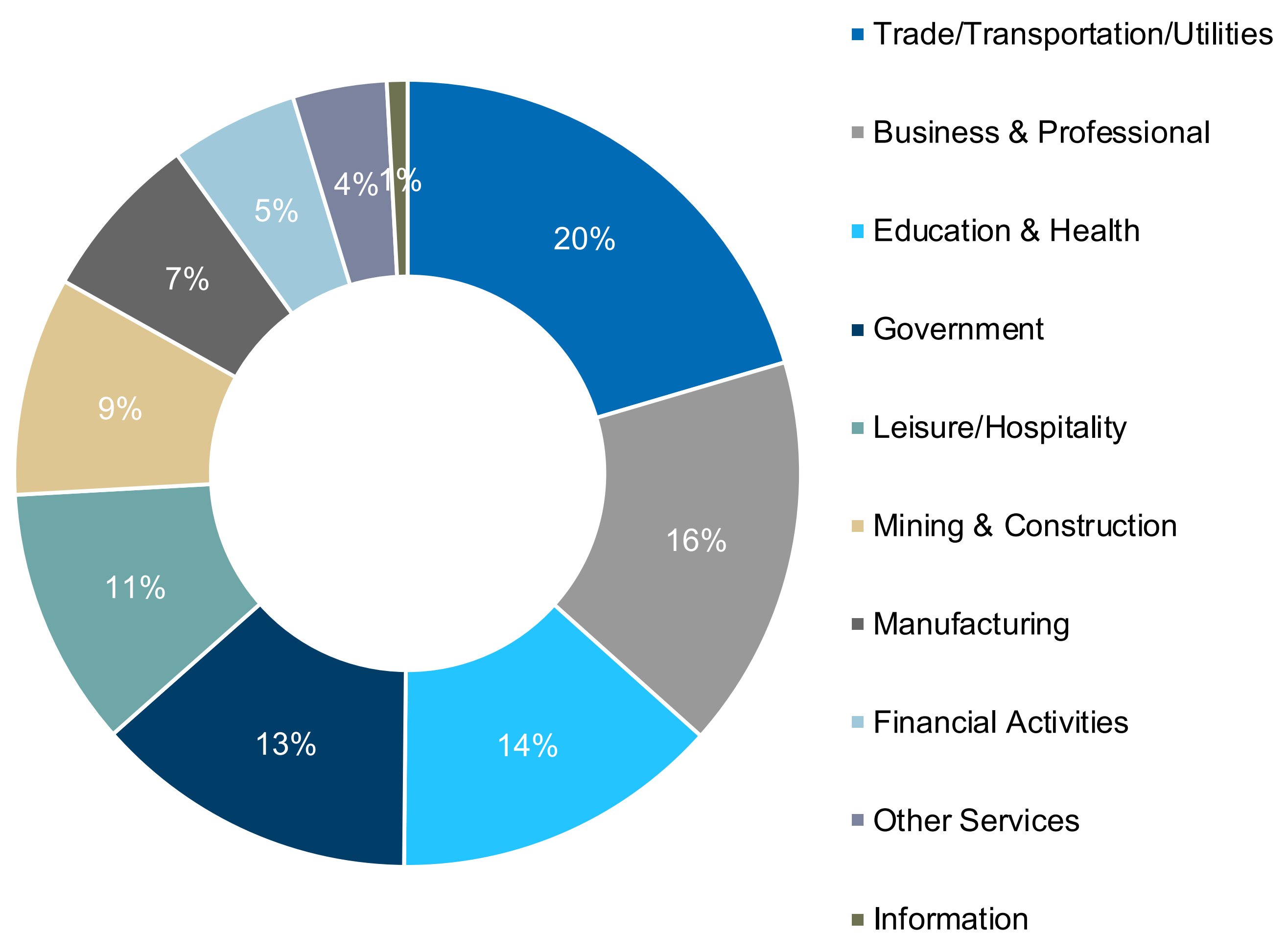


Source: U.S. Bureau of Labor Statistics, Houston MSA

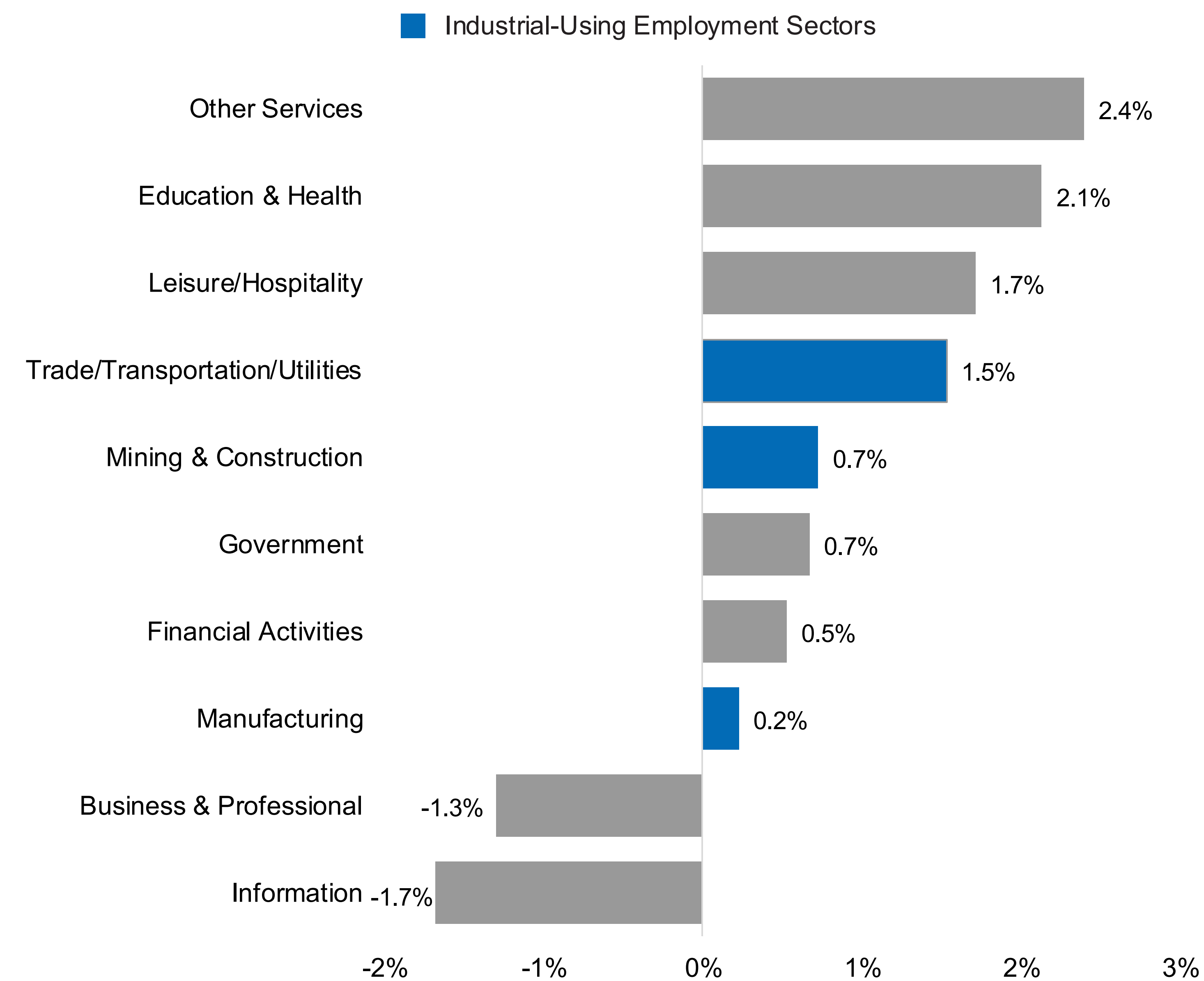
Employment Sees Moderate Growth Across All Industrial Sectors

Known for its energy sector, the Houston market's top two employment industries account for 36.6% of market share. The industrial-using employment's trade/transportation/utilities sector is the largest industry sector in the metroplex at 20.4%. While most industries in the metro continued reporting growth, the financial activities and information sectors contracted. Industrial-using industries reported moderate year-over-year growth ranging from 0.2% to 1.5%, with trade, transportation and utilities leading annual employment gains.

Employment by Industry, May 2025



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

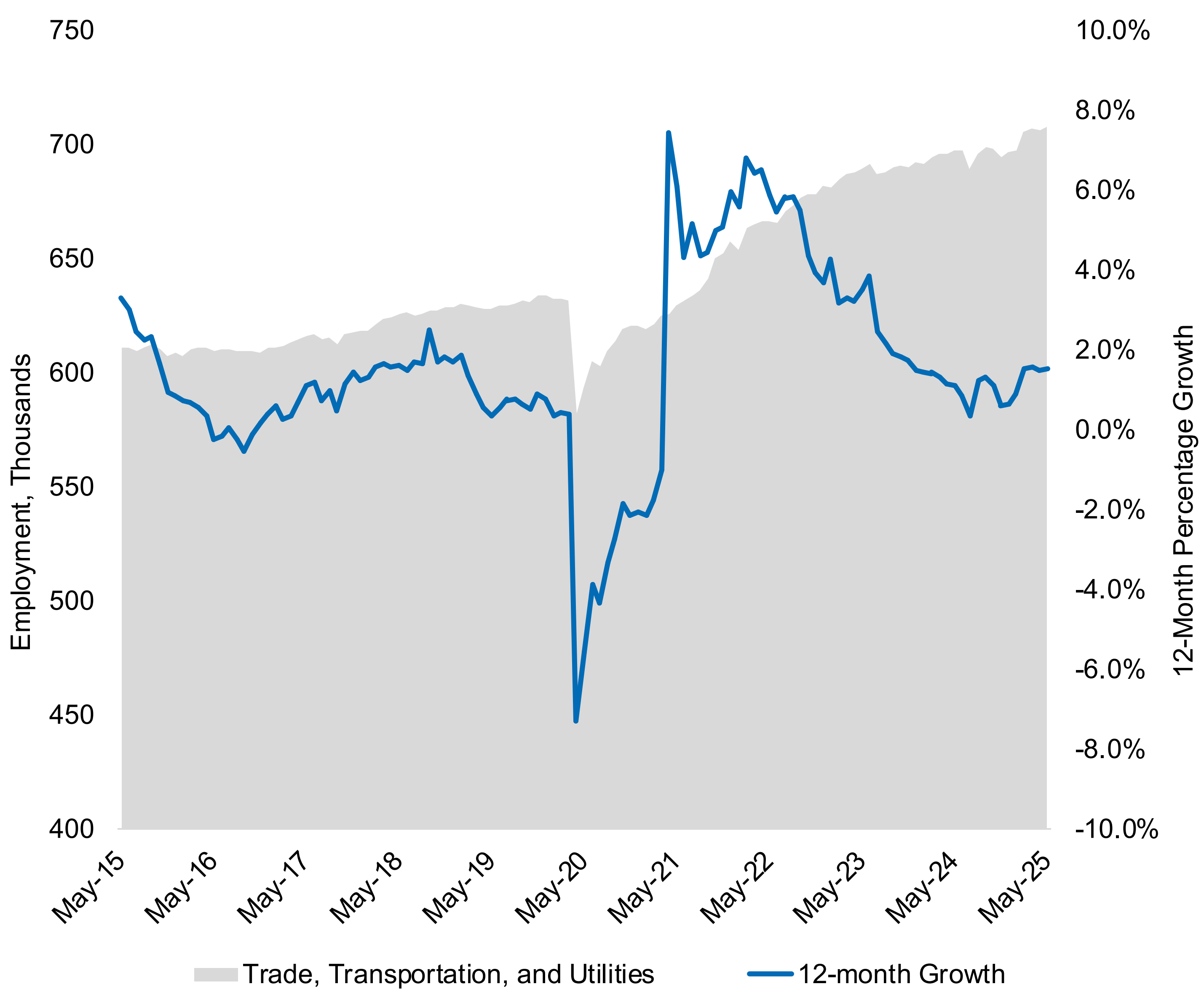


Source: U.S. Bureau of Labor Statistics, Houston MSA

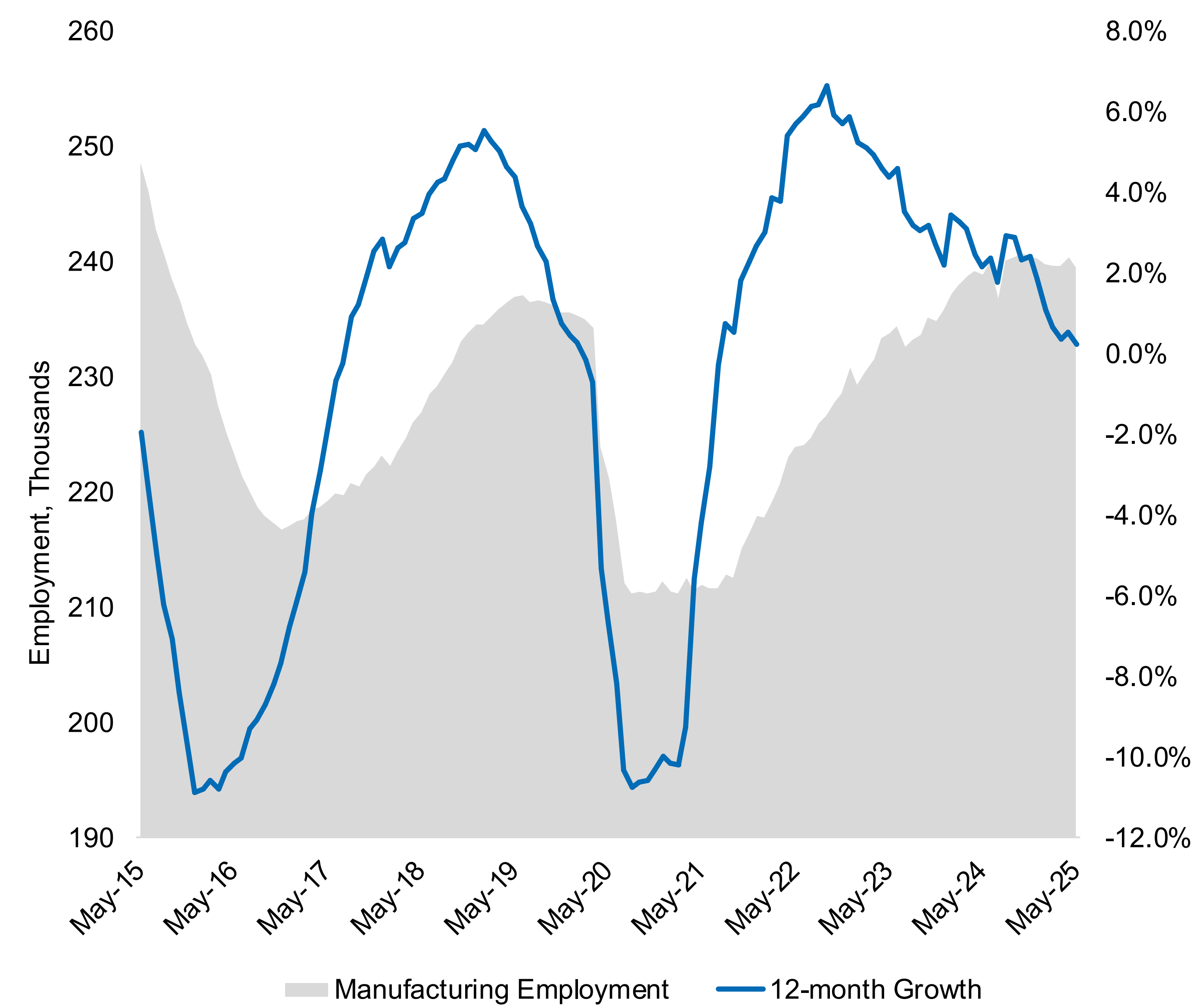
Industrial Employment Maintains Positive Growth

In May 2025, trade/transportation/utilities employment reached a new high of 708,265 employees, an annual growth rate of 1.5%. Manufacturing employment saw marginal annual growth of 0.2% to 239,488 employees, falling 0.5% below the peak reported in October 2024. Overall industrial-using employment continues to show yearly growth, albeit at a slower pace than before, reflecting broader economic conditions.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



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

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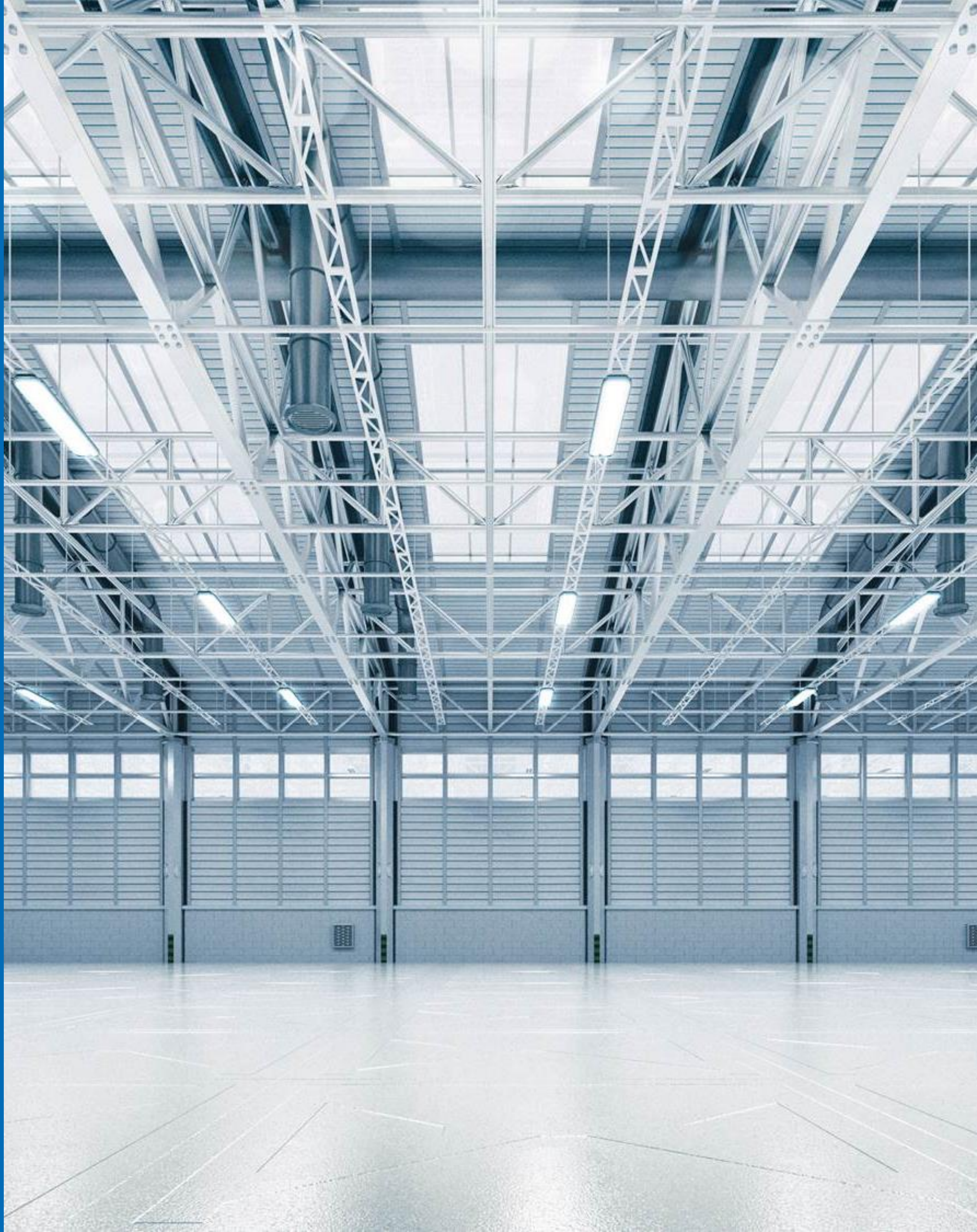
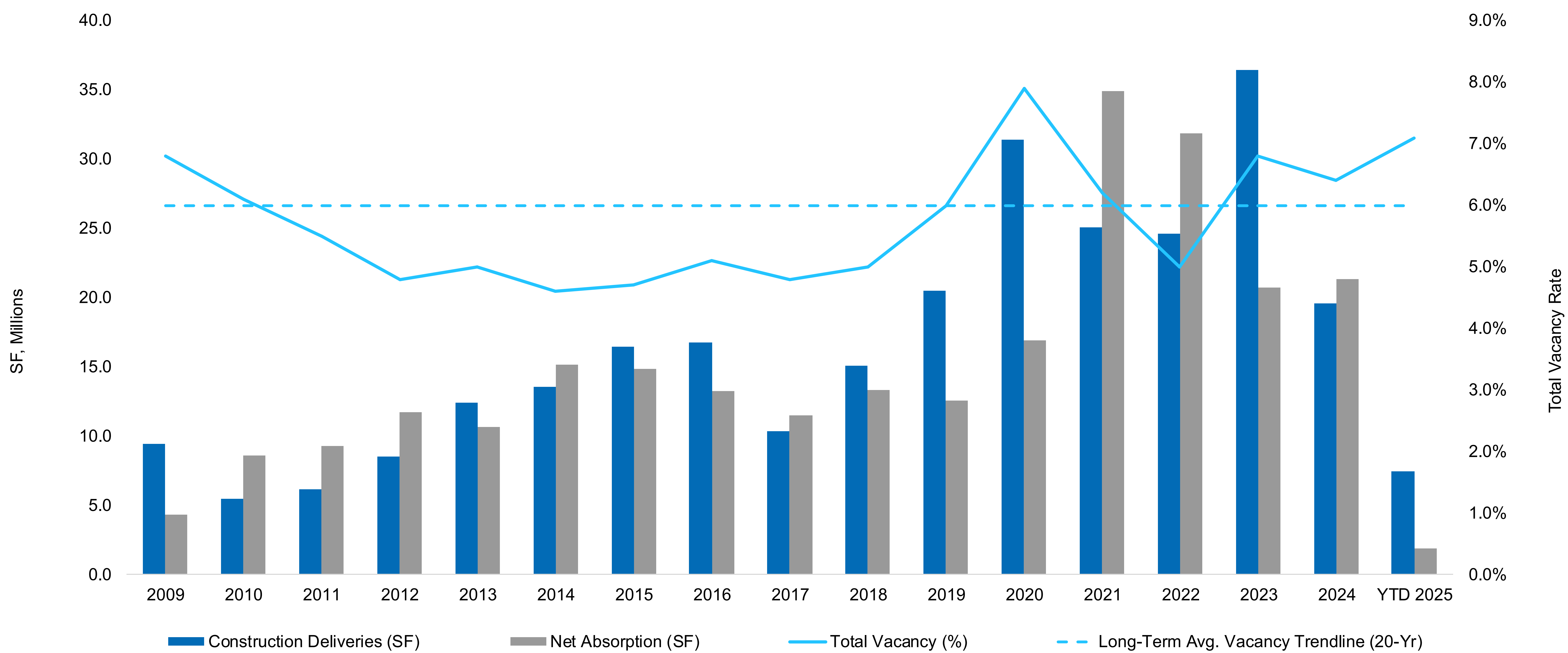
Leasing Market Fundamentals



Supply-Demand Imbalance Pushes Industrial Vacancy Higher

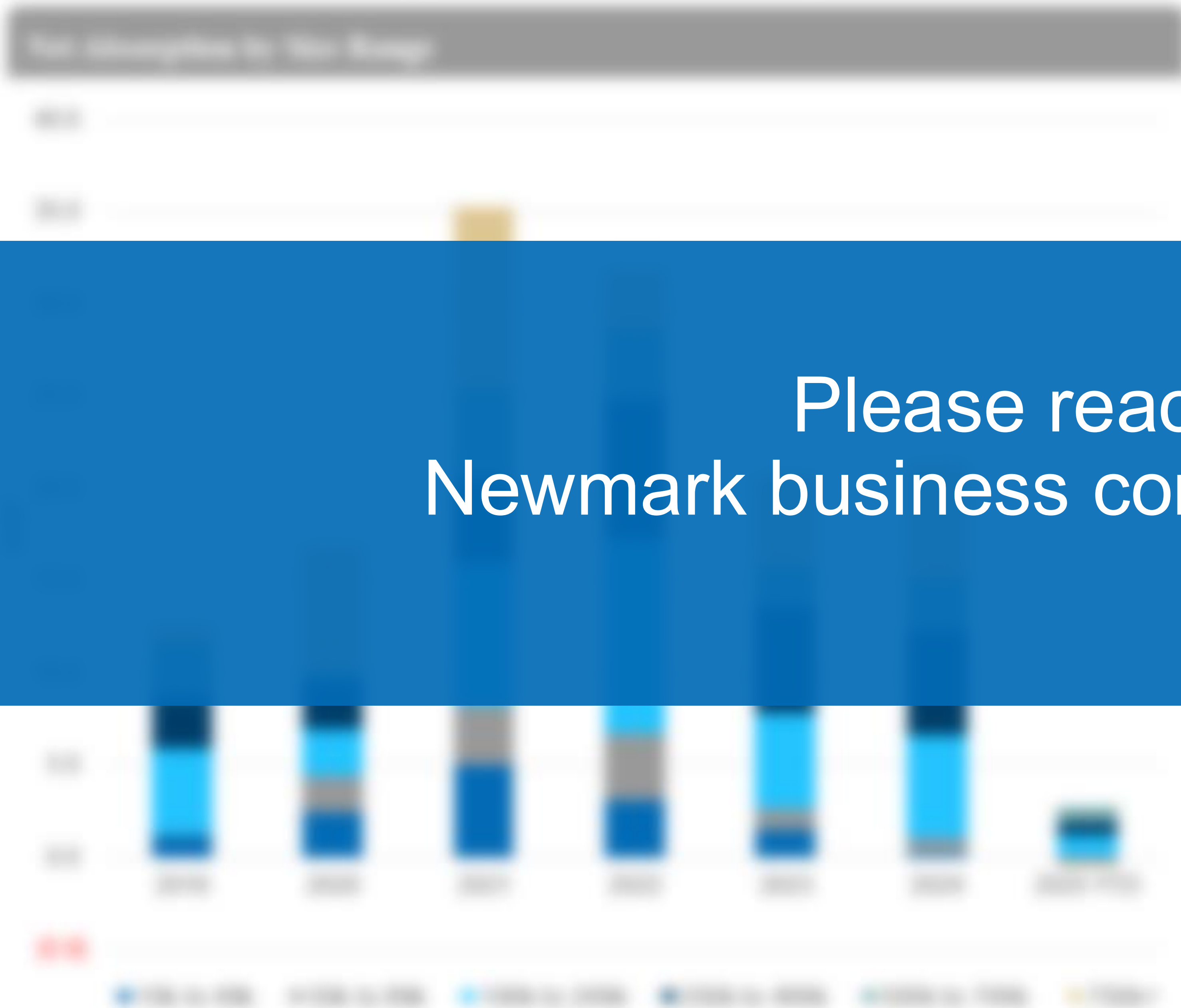
Houston's industrial vacancy rate rose in the second quarter of 2025 to 7.1%, an increase of 30 basis points from the previous quarter. From the beginning of 2023 through the second quarter of 2024, supply consistently outpaced demand, with deliveries exceeding net absorption and vacancy steadily trending upward. In the second half of 2024, however, the trend moderated as construction activity tapered and net absorption surpassed deliveries in both the third and fourth quarters, driving vacancy rates lower. In the second quarter of 2025, supply again exceeded demand as the market recorded 4.0 million square feet of deliveries against a net absorption of just 1.2 million square feet, resulting in a rise in vacancy.

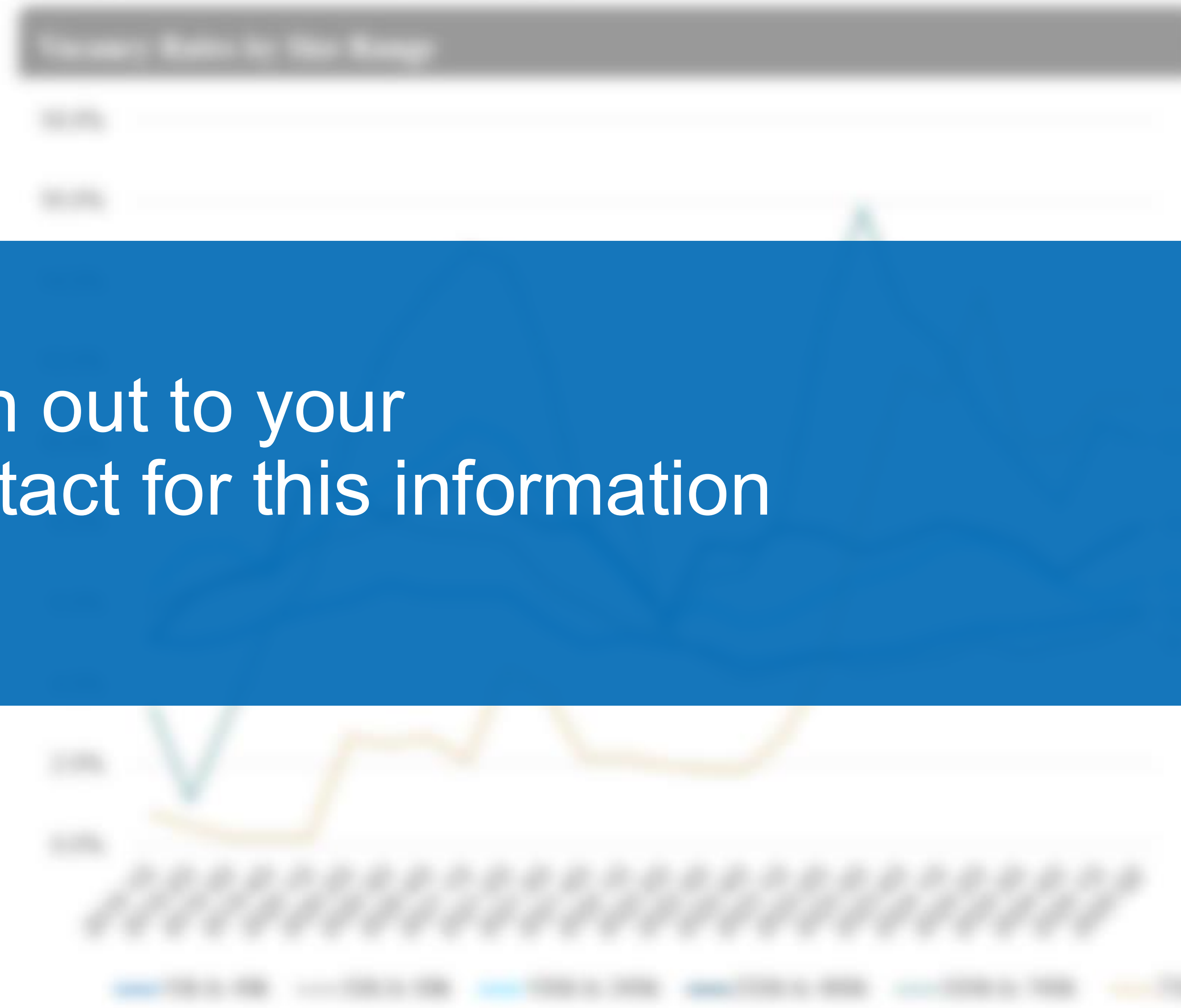
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Large Buildings Continue to Drive Absorption Despite Higher Vacancy Rates





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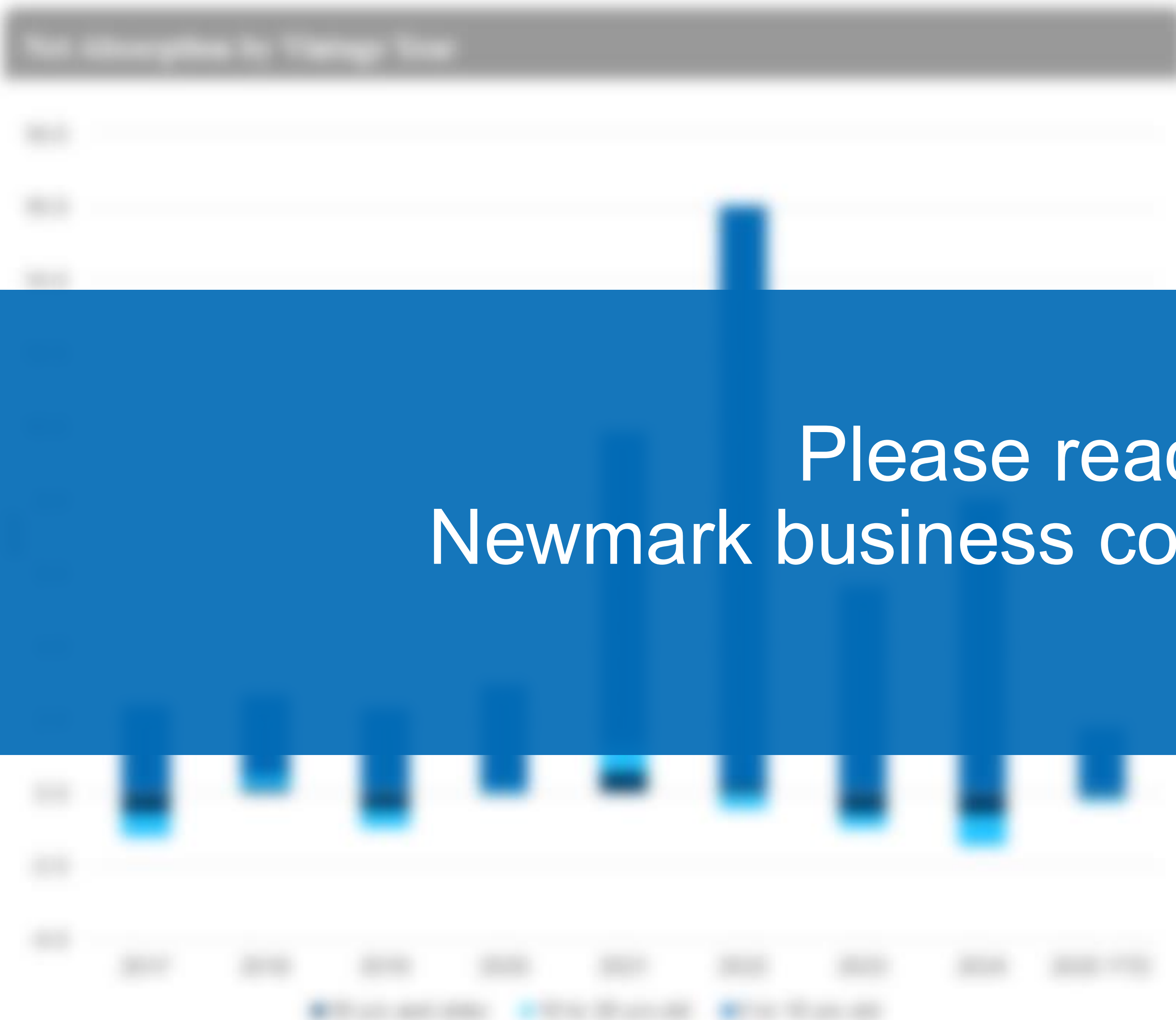
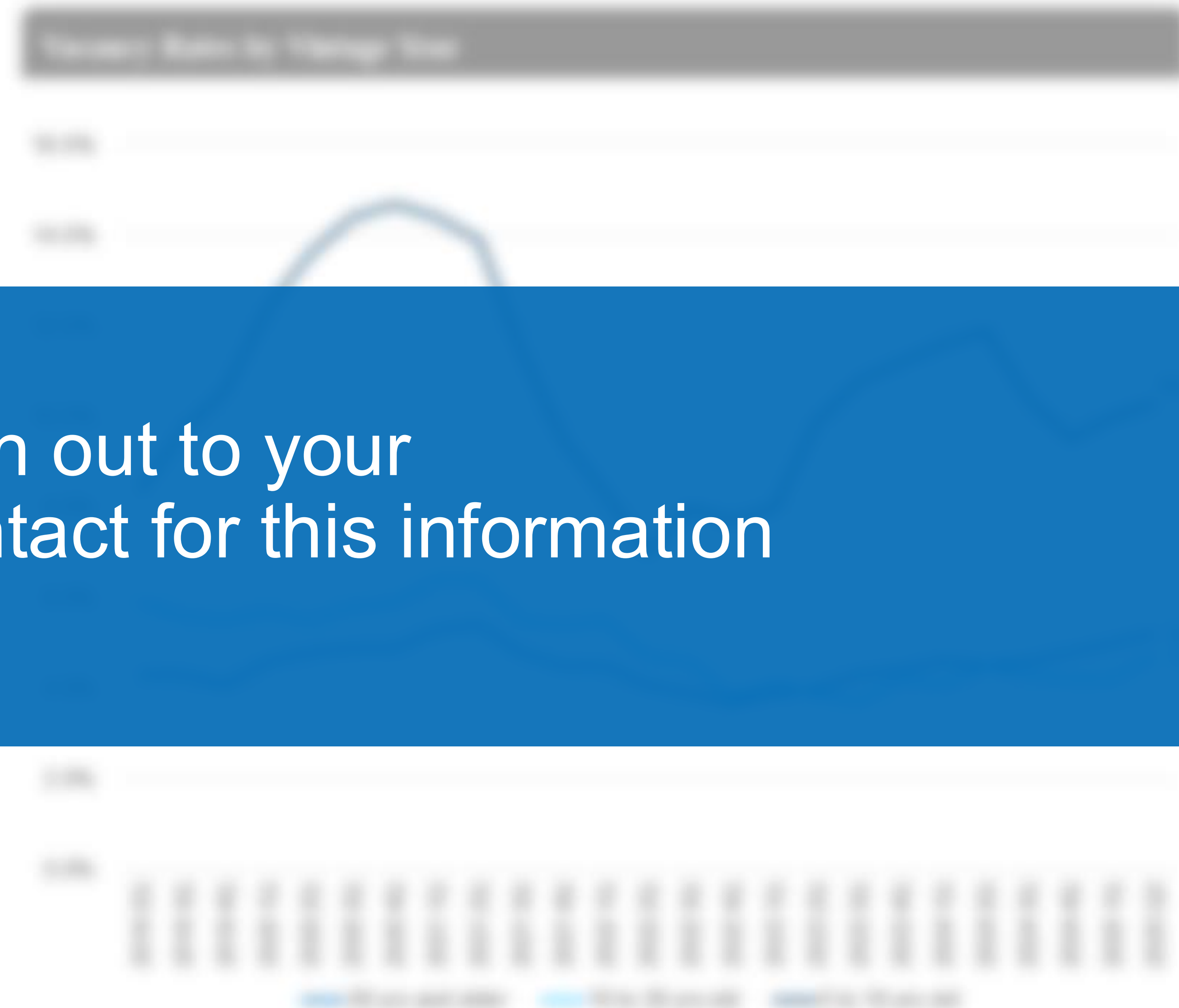
Preference for Modern Industrial Buildings Drives Demand





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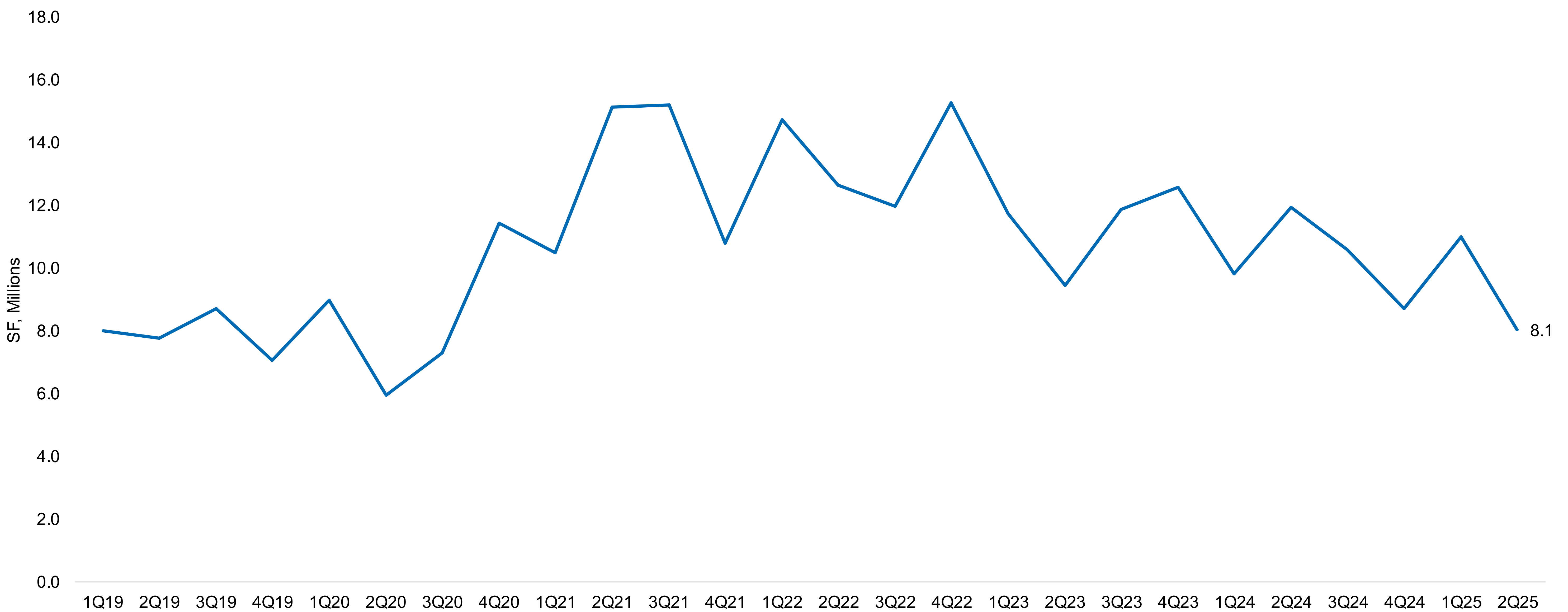
Leasing Volume Falls Below Historical Average as Deal Sizes Shrink

In the second quarter of 2025, leasing activity totaled 8.1 MSF, a 26.7% decrease from the previous quarter and a 32.7% decrease year-over-year. Since 2019, second quarter deal volume has averaged 10.5 MSF, with the second quarter of 2025 falling 23.2% below the quarterly average. Along with leasing activity in the second quarter of 2025, the average deal size shrunk by 14.7% year over year to 17,659 SF, an indication that occupiers are signing smaller deals across the market.

Total Leasing Activity (SF)

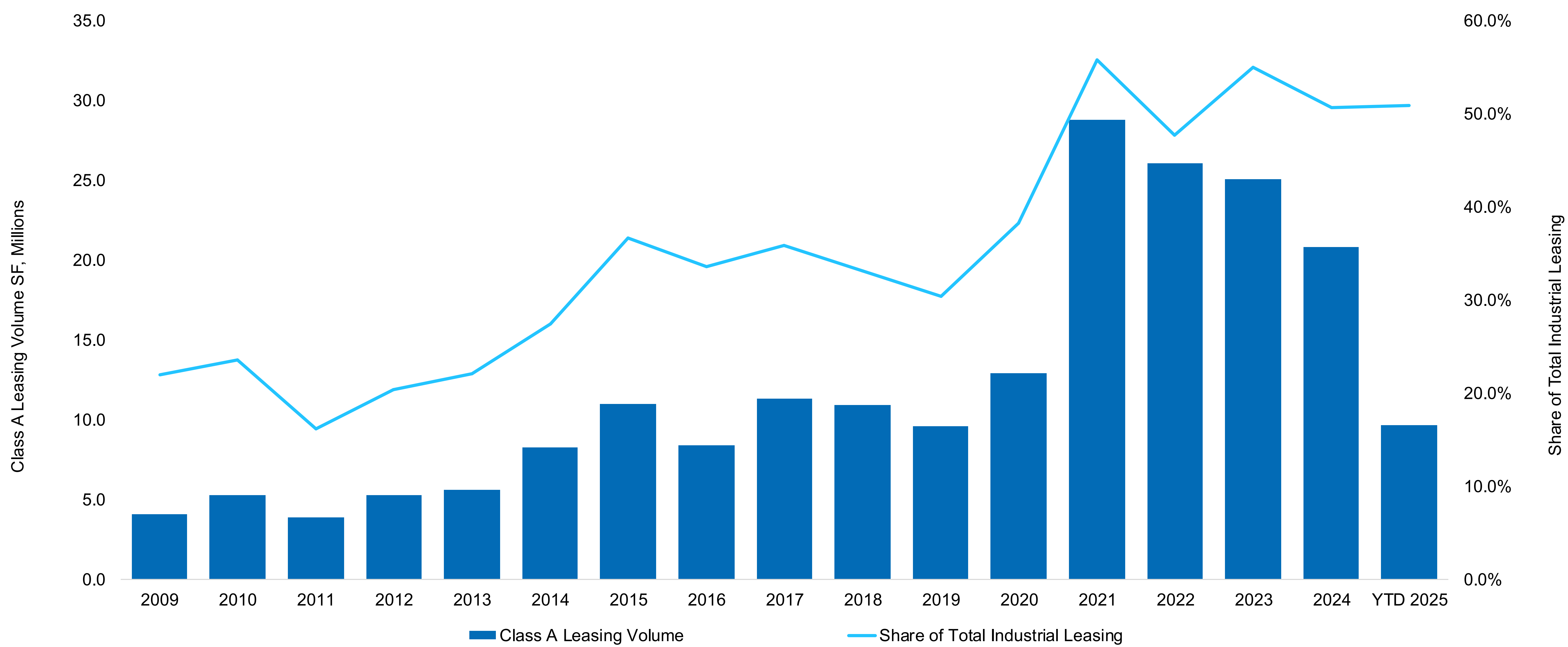


Source: Newmark Research, CoStar

Class A Warehouse Leasing Slows but Remains above Long-Term Average

Class A warehouse space leasing activity totaled 4.1 MSF in the second quarter of 2025, roughly 54.9% lower than the historic high of 9.1 MSF reported in the fourth quarter of 2022. Class A warehouse leasing accounted for 50.9% of activity in the second quarter of 2025, a decrease of 430 basis points from activity one year ago, and well above the quarterly pre-pandemic average of 27.7% from 2008 to 2019. Despite Class A leasing by square footage declining during the quarter, the proportion of Class A leasing compared with total leasing continues to remain elevated, indicating that there is still appetite for quality assets in the market.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

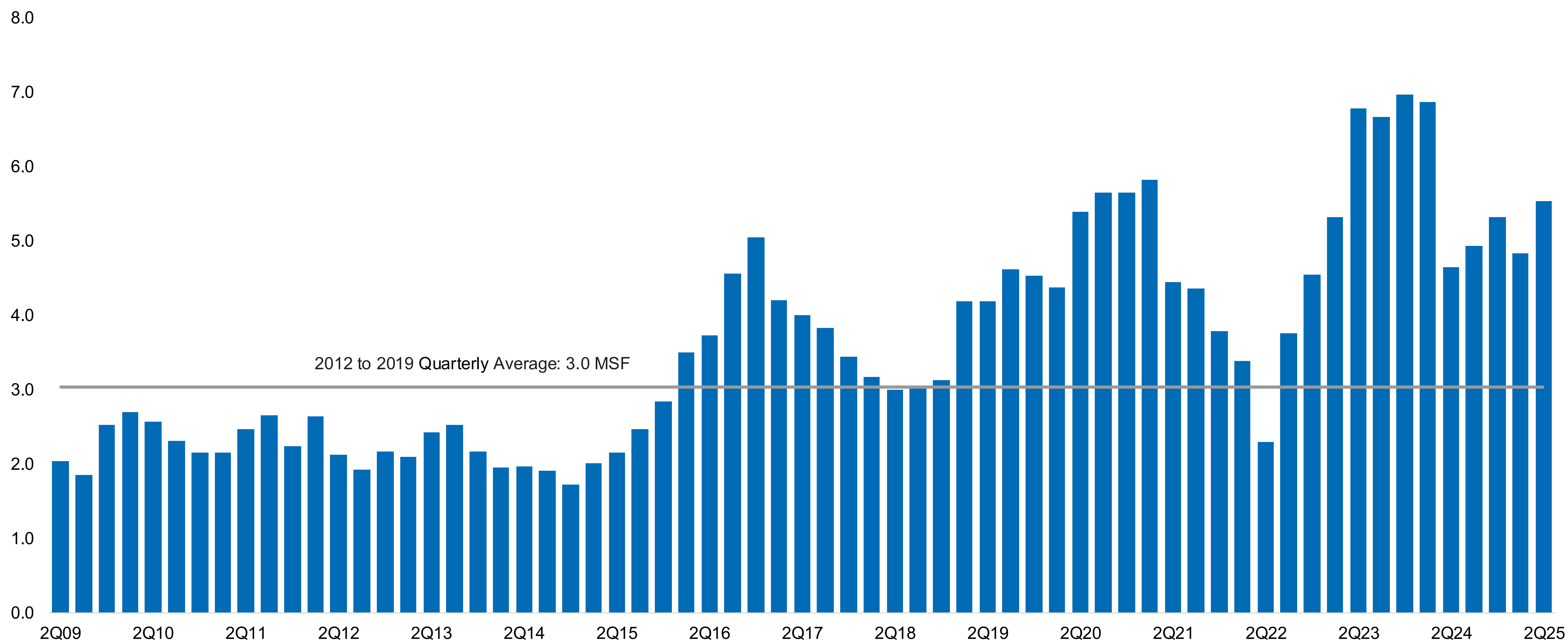


Source: Newmark Research, CoStar

Sublease Availability Remains Elevated but Below Quarterly High

As of the end of the second quarter of 2025, sublease space available totaled 5.5 MSF, a 14.6% increase from the previous quarter and a 19.0% increase year-over-year, remaining well above the pre-pandemic quarterly average of 3.0 MSF recorded from 2012 to 2019. Overall, tariff turmoil has led sublease availability to oscillate up and down in recent quarters. Several sublease transactions in early 2024 removed a significant amount of space from the market, bringing current levels to roughly 1.4 MSF below the quarterly high of 6.9 MSF reported in the fourth quarter of 2023.

Available Industrial Sublease Volume (msf)

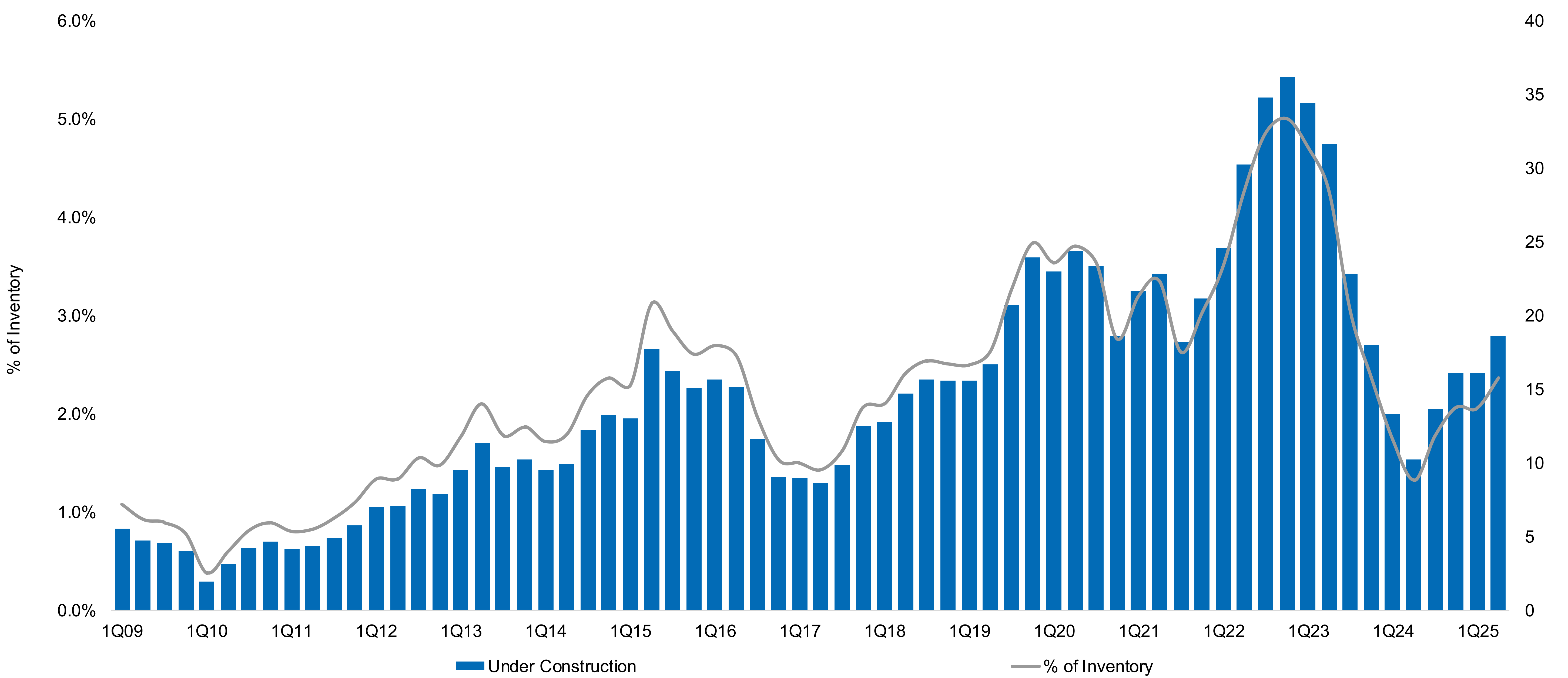


Source: Newmark Research, CoStar

Industrial Supply Pipeline Sees Uptick in New Projects

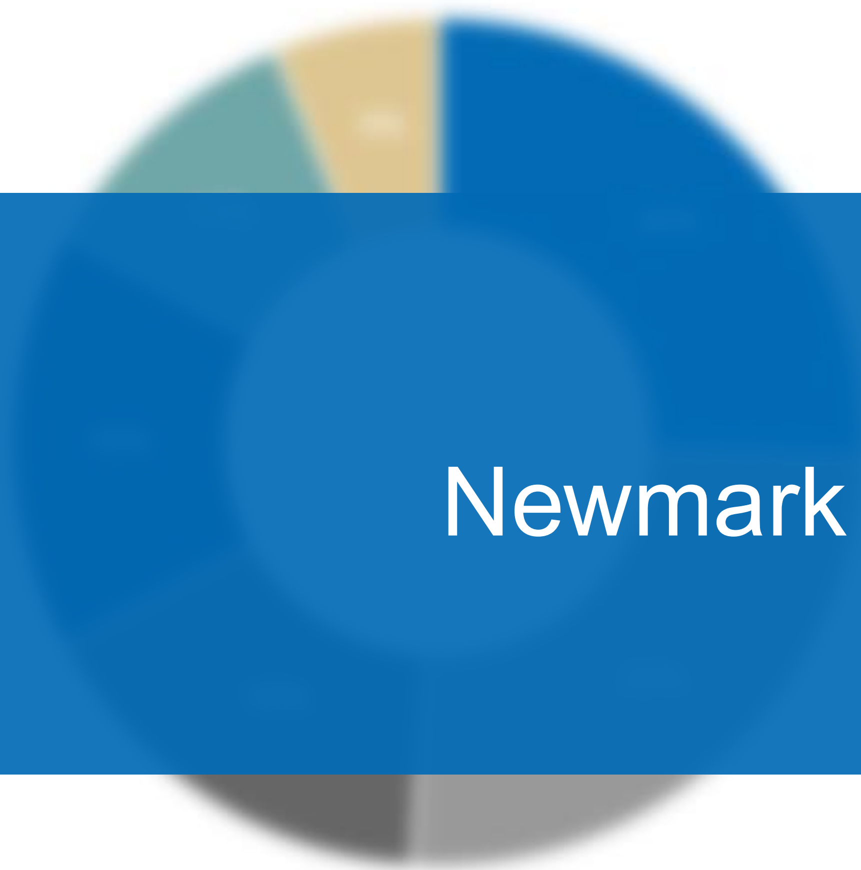
The second quarter of 2025 saw a 15.8% increase in the construction pipeline, with 18.6 MSF under development. By the end of the quarter, 4.0 MSF had been delivered, with projects under construction representing 2.4% of total inventory. A friendlier financing environment in mid-2024 spurred new projects, though the market may still face mid-term supply shortages.

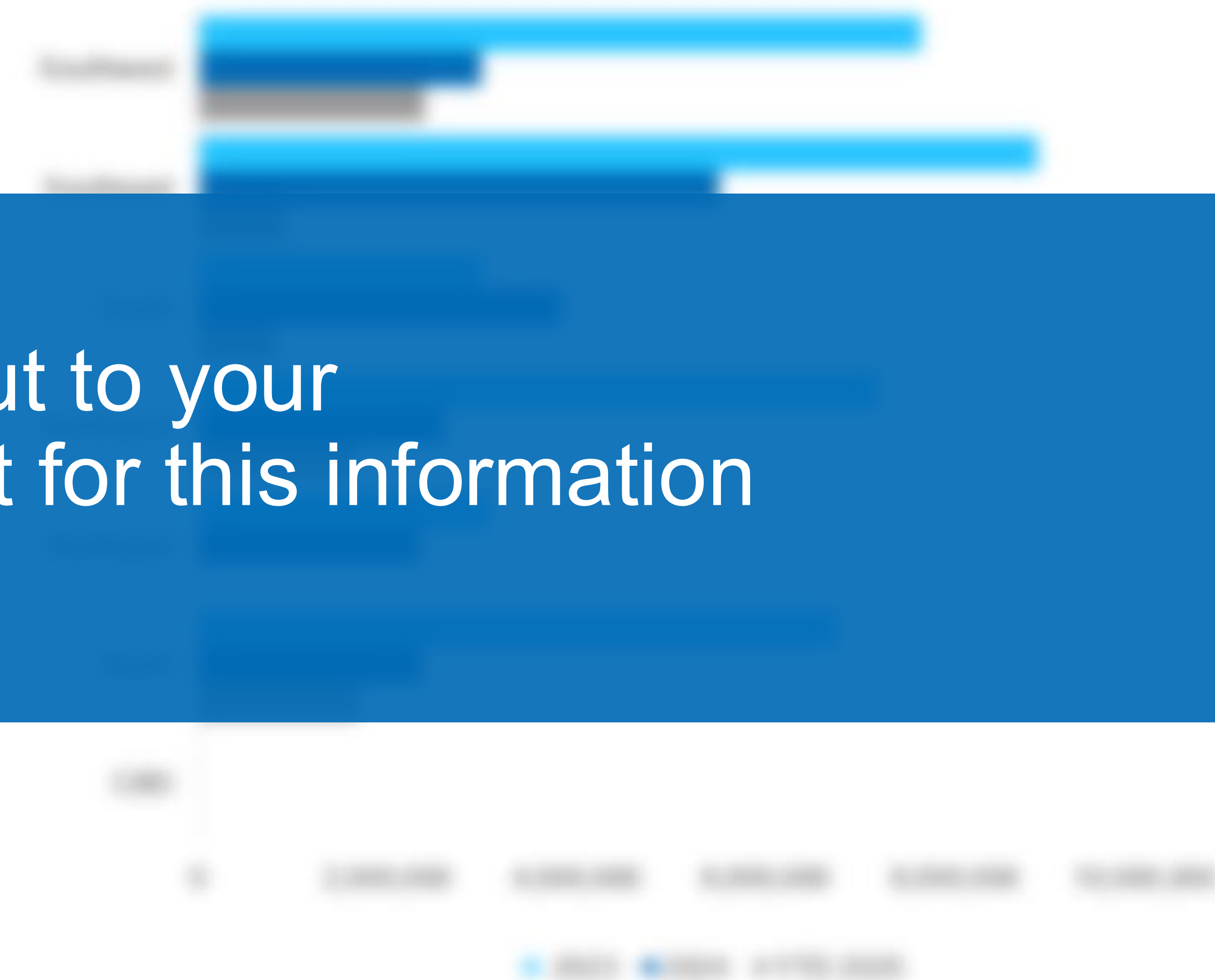
Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

Southeast Submarket Leads With Recent Construction Deliveries





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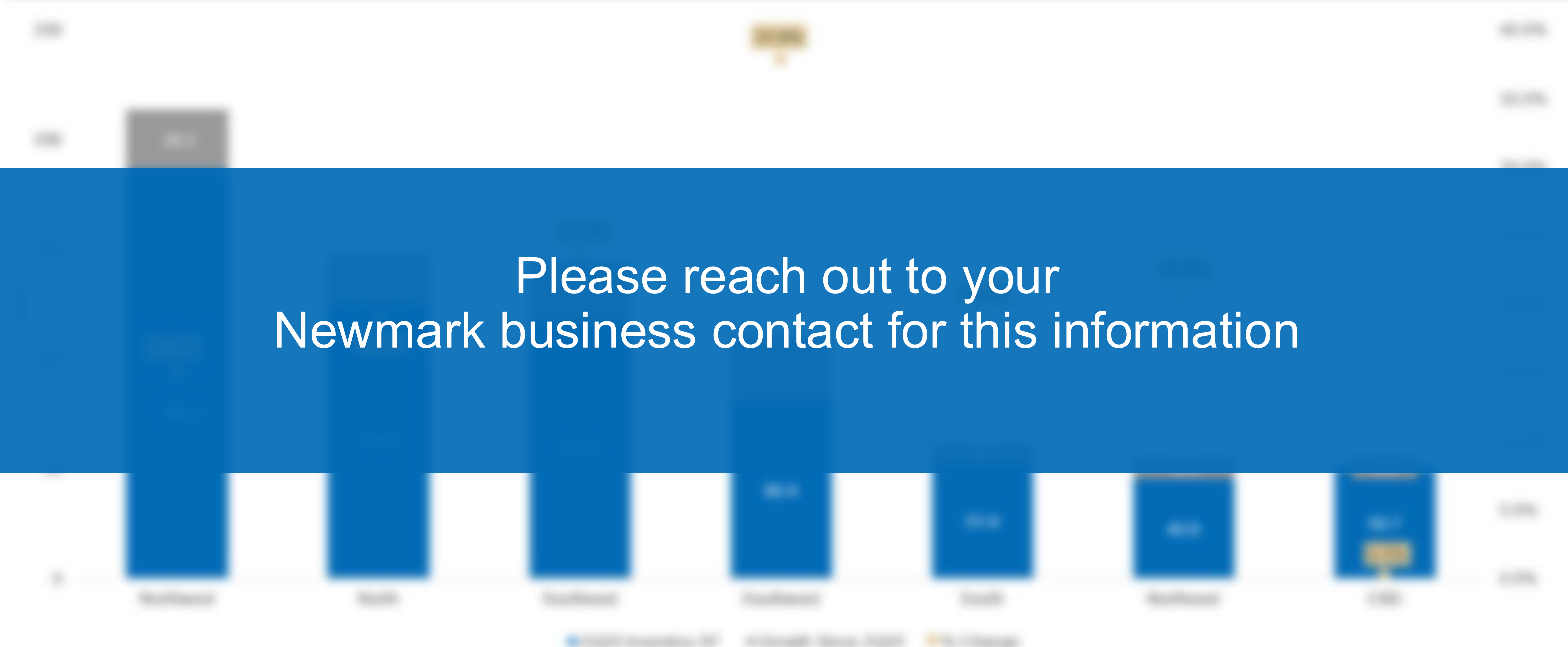
Key Submarkets For Industrial Growth



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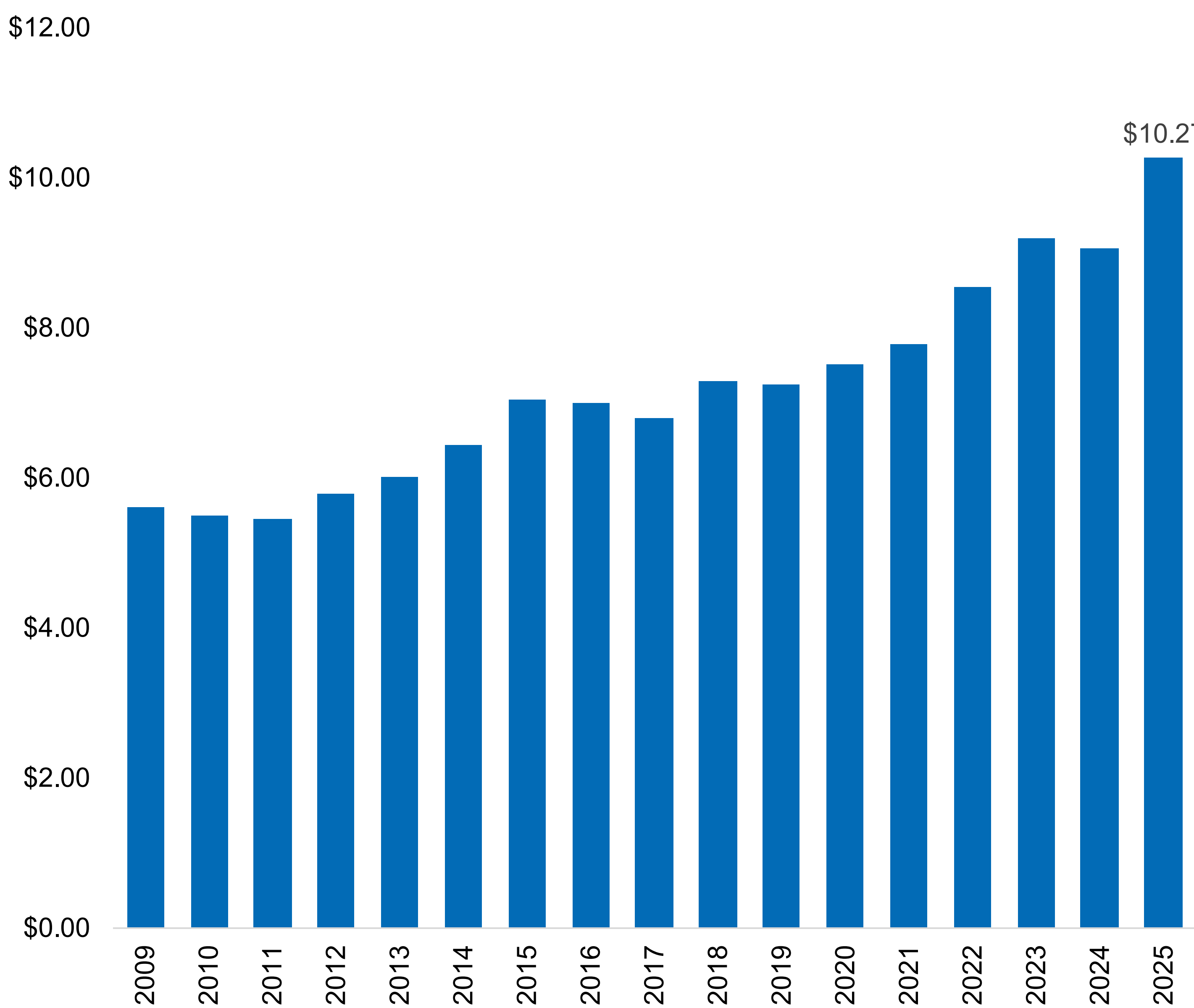
Asking Rents Reach New All-Time High

Industrial average asking rents reached a new peak in the second quarter of 2025 at $10.27/SF, increasing by 11.4% year over year. Asking rents in the market are being driven up by small-bay flex product, which has seen an uptick in demand in recent quarters, as well as by newly delivered product. In the near-term, asking rents will likely continue to rise at a moderate pace as the market works through the current under-construction pipeline.

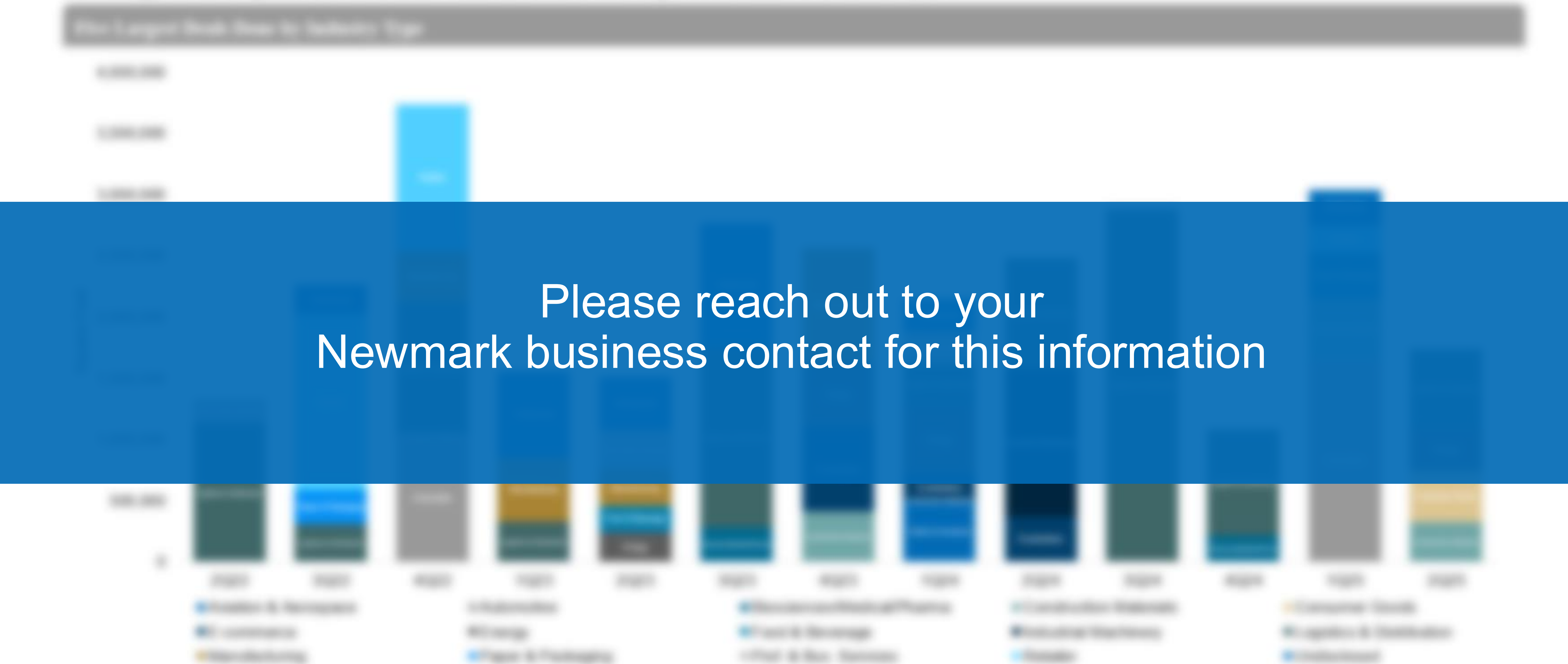
Industrial Average Asking Rent, $/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change

Source: Newmark Research, CoStar

Top Five Largest Deals Done by Industry Type



Notable 2Q25 Lease Transactions

Leasing activity fell year over year in the second quarter of 2025, with quarterly leasing activity at 8.1 MSF, below quarterly averages reported since 2010 of 10.5 MSF. The bulk of the quarter's leasing activity centered around direct leases, which totaled 7.0 MSF, while sublease activity ended the quarter accounting for 1.1 MSF. High-quality, Class A spaces continued to command the market, as leasing activity within the asset class accounted for 50.7% of total leasing transactions by square footage during the quarter. Class A deals averaged 99,506 SF in the second quarter of 2025, roughly five times larger than the market average deal size of 17,659 SF. Currently, only 27.4% of space under construction is pre-leased.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Foxconn	8228 Houston Ave	Northwest	Direct New	417,360
Electronics manufacturer Foxconn signed the largest deal of the quarter, leasing 417,360 SF at 8228 Houston Ave in the Northwest submarket.				
JW Fulfillment Inc	2062 Woods Dr	Southwest	Direct New	353,024
JW Fulfillment, Inc., a new-to-market third-party logistics company, leased 353,024 SF at 9626 Fallbrook Pines Dr in the Northwest submarket.				
SBM Offshore	Mason Ranch- Building 1	Southeast	Direct New	346,637
Dutch oil and gas services company, SBM Offshore, signed a new lease for 346,637 SF at 11249 I-10 E. in the Southeast submarket.				
DPR Construction	26007 Highway 249	Northwest	Direct New	325,219
DPR Construction, a commercial construction manager firm based in Redwood City, CA, signed a new lease for 325,219 SF at 26007 Highway 249 in the Northwest submarket.				
Texas Logistics & Fulfillment	12900 W Airport Blvd	Southwest	Direct New	299,731
Third-party logistics company, Texas Logistics & Fulfillment, took 299,731 SF at 12900 W Airport Blvd in the Southwest submarket.				

Source: Newmark Research

Houston Industrial Submarket Overview

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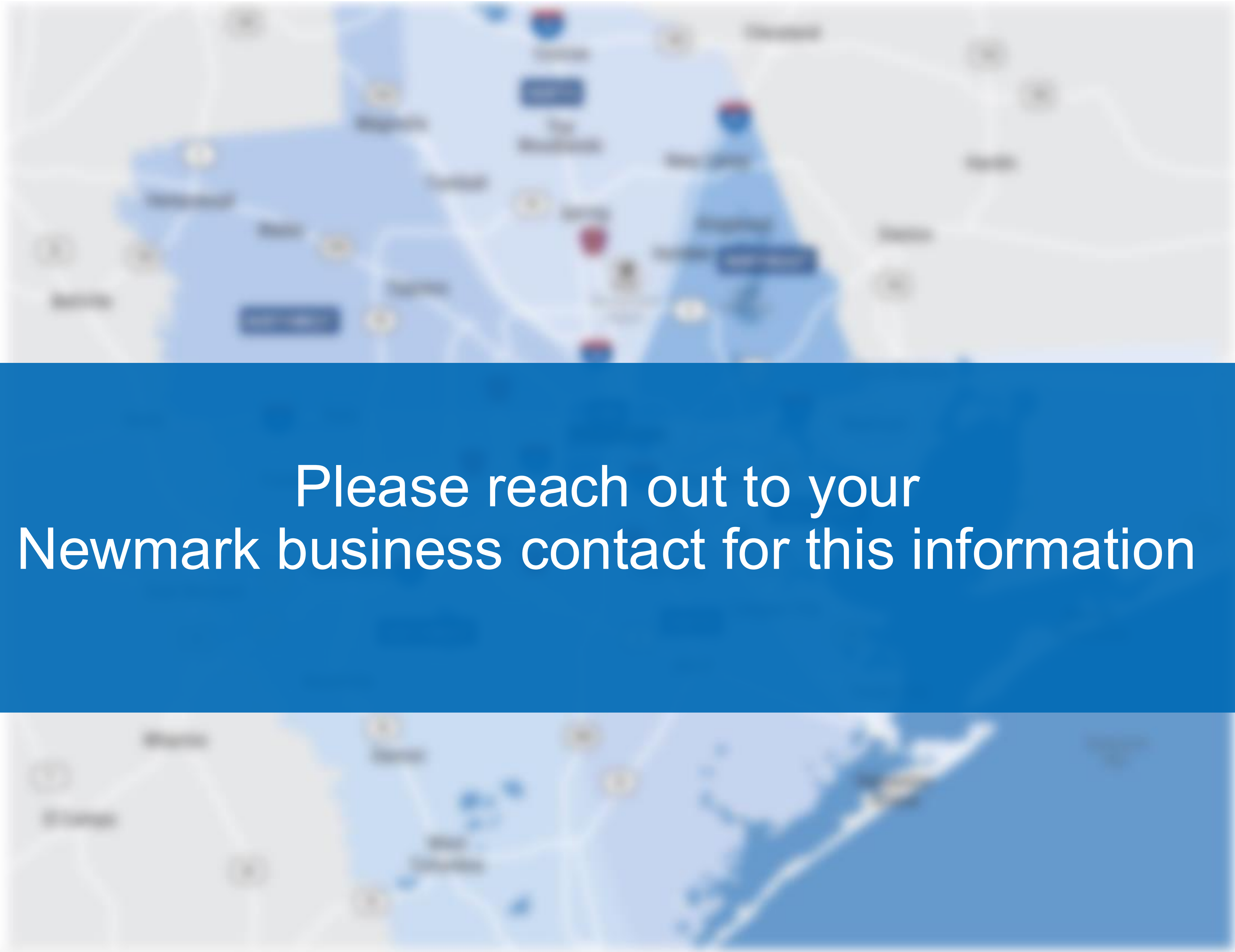
Houston Industrial Submarket Map



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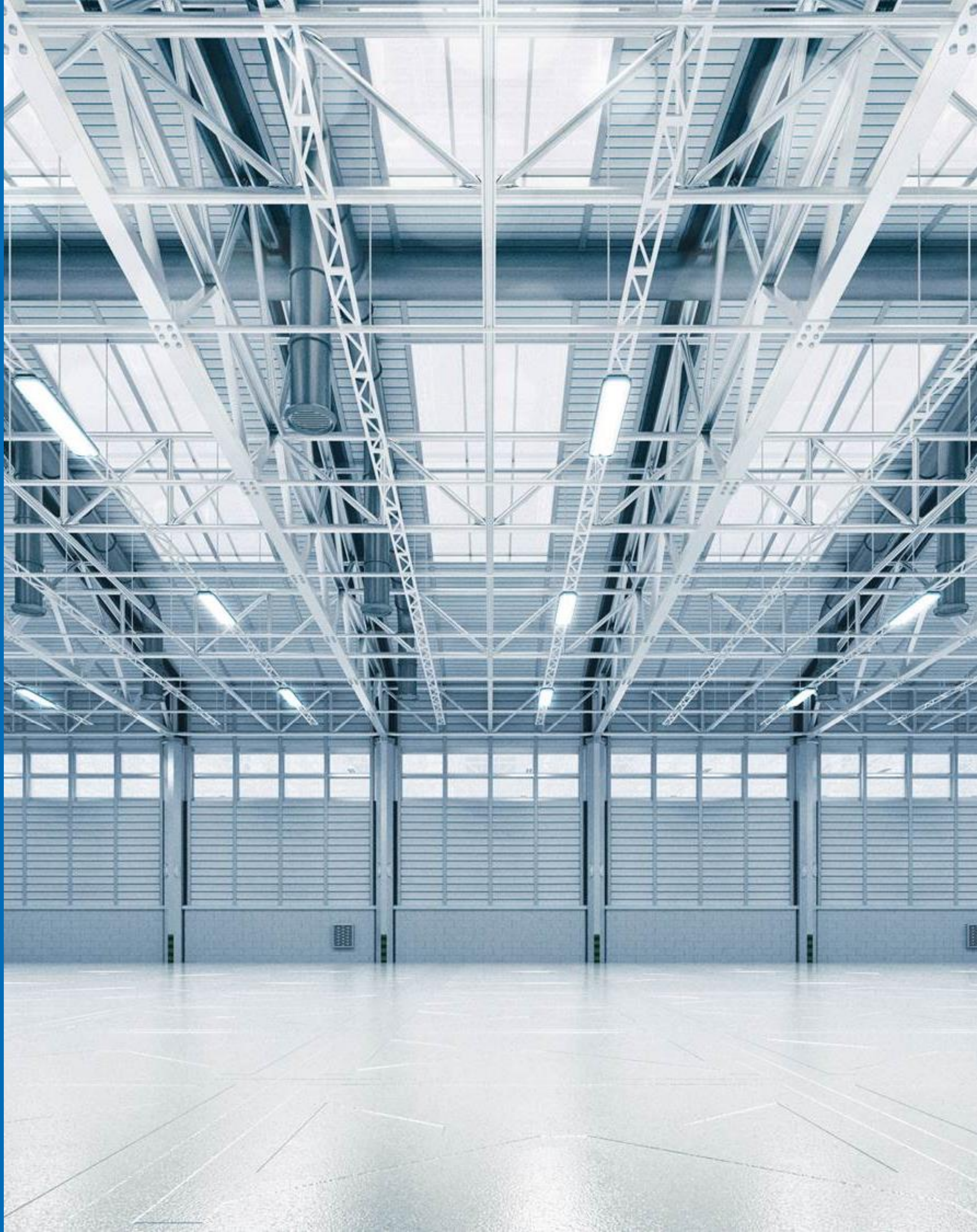
Appendix



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2Q25 Texas Industrial Market Overview





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Newmark business contact for this information

For more information:

Kirsten Kempf
Senior Research Analyst
Kirsten.Kempf@nmrk.com

Andrew Cook
Research Analyst
Andrew.Cook@nmrk.com

Ching-Ting Wang
Head of Southeast Research
ChingTing.Wang@nmrk.com

Houston
1700 Post Oak Blvd.
2 Blvd. Place, Suite 250
Houston, TX 77056
t 713-626-8888

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

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