2Q25

Houston Office Market Overview

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.
- Office-using jobs in the market totaled 771,935 in May 2025, reflecting 8.1% growth since 2019. Contraction in the information and business and professional services sectors continues to negatively impact overall office-using employment in the market.

Leasing Market Fundamentals

- Average annual full-service asking rental rates fell to $28.69/SF, reflecting a 2.6% decrease year over year. Direct rates fell by 2.8% year over year to $28.86/SF while sublease rents decreased 3.7% annually to $23.06/SF, resulting in a narrowing rent spread of $5.80/SF.
- Overall vacancy rates rose by 20 basis points year over year to 25.5%. On a quarterly basis, vacancy fell by 20 basis points, indicating that occupancies may be beginning to stabilize.
- The second quarter of 2025 closed with positive absorption of 571,948 SF, significantly outpacing supply and reversing a years-long trend, as occupancies steadied and deliveries slowed.
- Total leasing activity closed the quarter at 2.8 MSF, well below the long-term second-quarter average of 4.5 MSF. Fewer and smaller deals transacted during the quarter, with an average lease size of 3,901 SF, while the number of deals decreased by 35.6% year over year.

Major Transactions

- Westlake Chemical signed the largest deal of the second quarter of 2025, signing a new lease for 158,000 SF at 5444 Westheimer Rd. in the Galleria/Uptown submarket.
- Bechtel signed the second largest lease of the quarter, expanding 77,000 SF at 2103 CityWest Blvd in the Westchase submarket.
- Tenants have shown renewed interest in the Galleria/Uptown, as two of the five largest deals of the quarter occurred in the submarket.
- The quarter's top five largest deals come from a diverse mix of tenant industries, underscoring the long-term resilience of the Houston market.

Outlook

- The Houston office market will likely continue to see subdued growth heading into the second half of 2025, as the market continues to feel the impacts of national economic headwinds. Large transactions during the second quarter of 2025 from energy and oil and gas companies points to tenant optimism in the market.
- Strong demand for premier office product has continued to keep rents elevated in top-tier buildings, as flight-to-quality remains a trend in the market. However, the decrease in Class A asking rents could signal forthcoming constraints among availabilities within the asset class, as premier Class A space is taken off the market.
- The office market is expected to remain tenant friendly with continued muted demand. As financing and operating costs increase, long-term leases in premier assets might become more attractive to tenants as a strategy to hedge against future rent increases.

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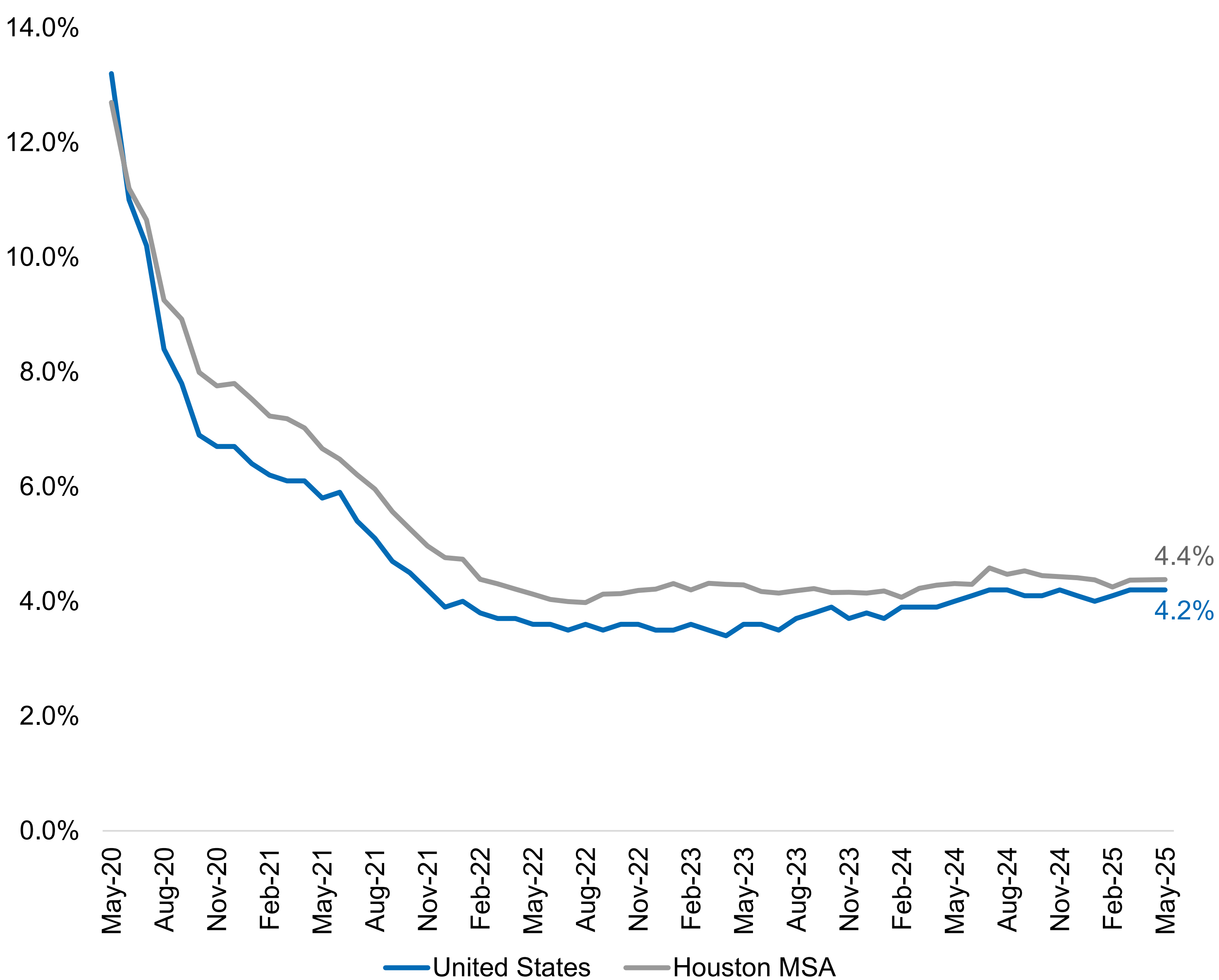
Economy

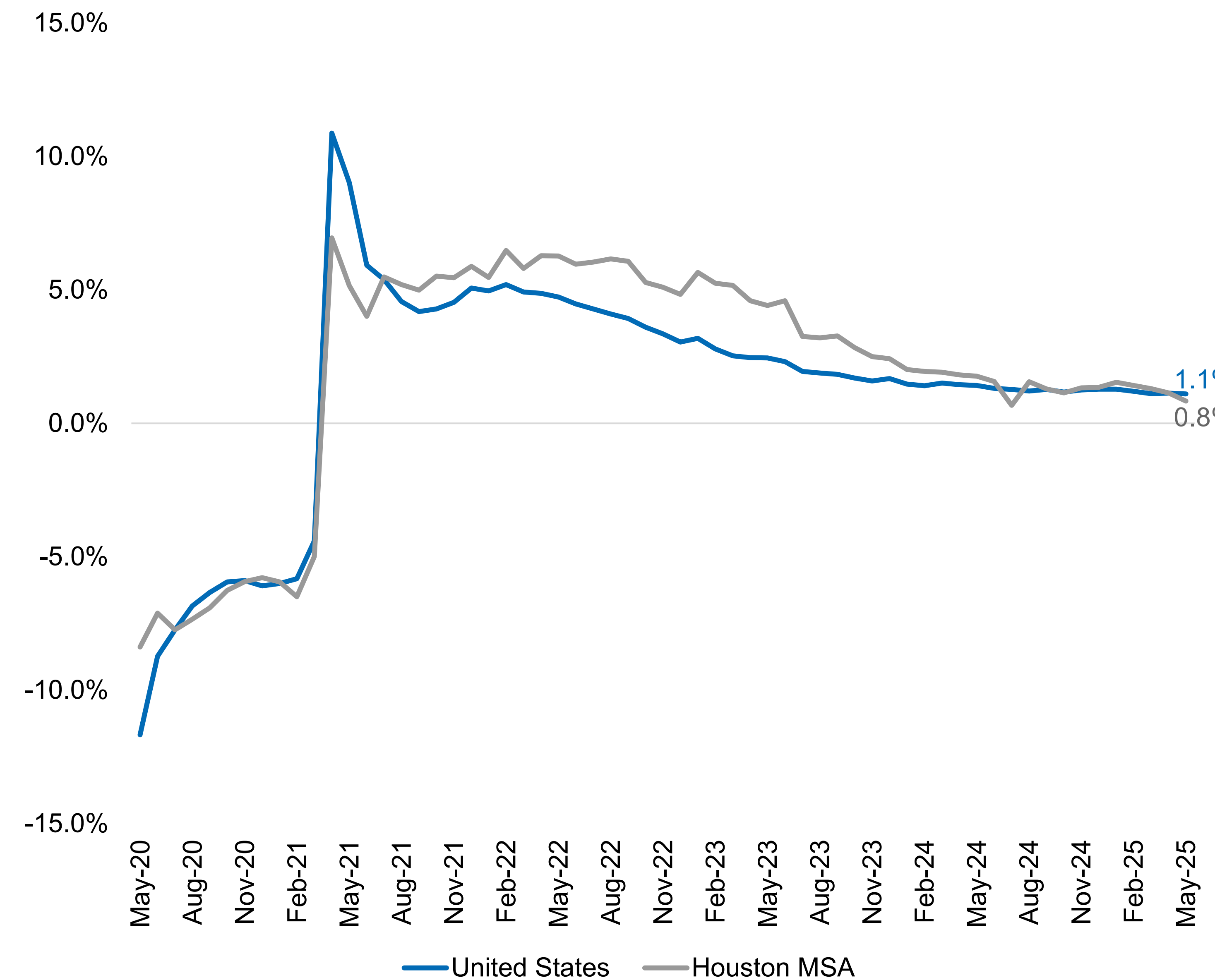
Slowdown in Employment Growth Pushes Unemployment Up

Houston has historically posted 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, but 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

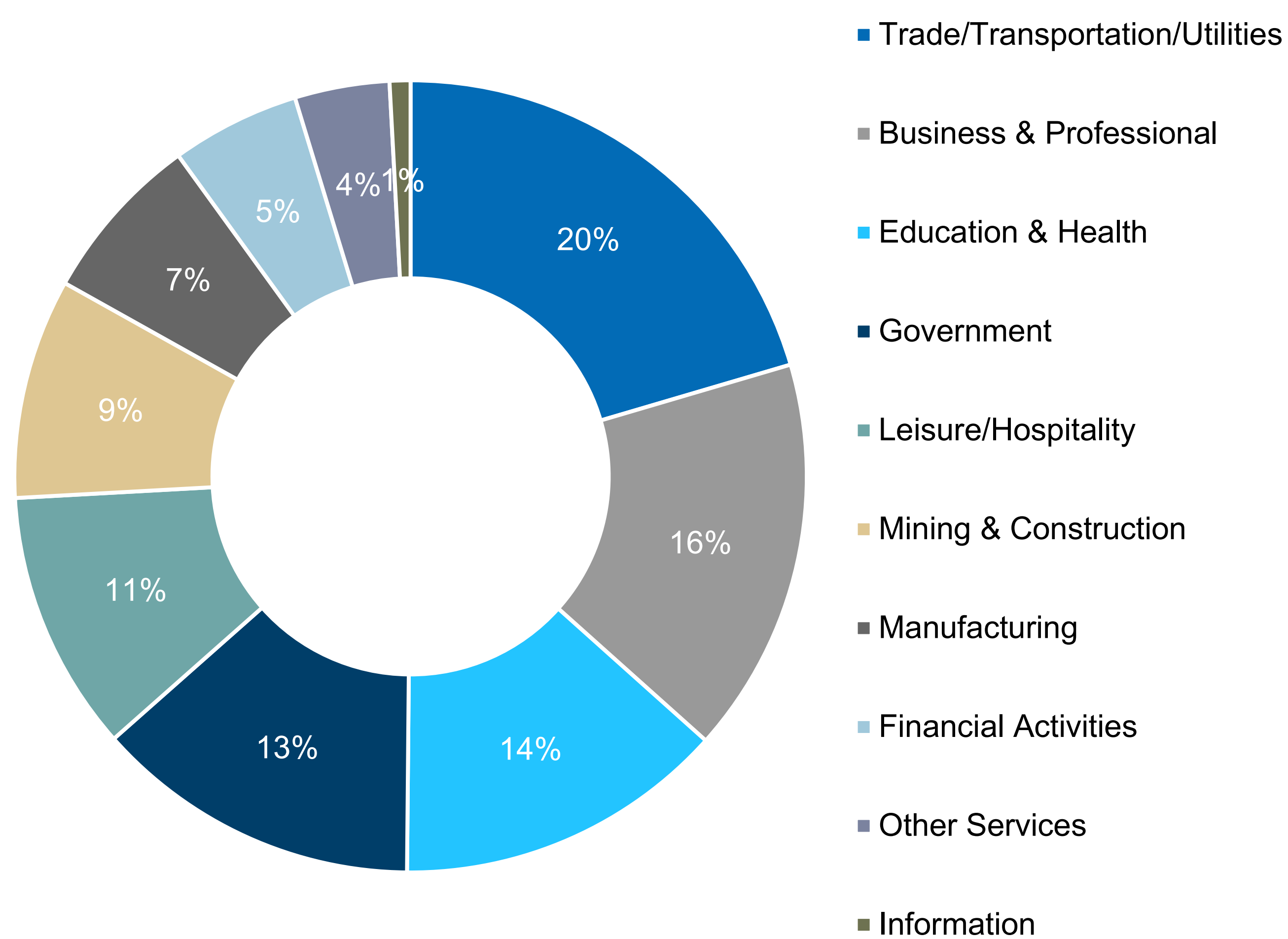


Source: U.S. Bureau of Labor Statistics, Houston MSA

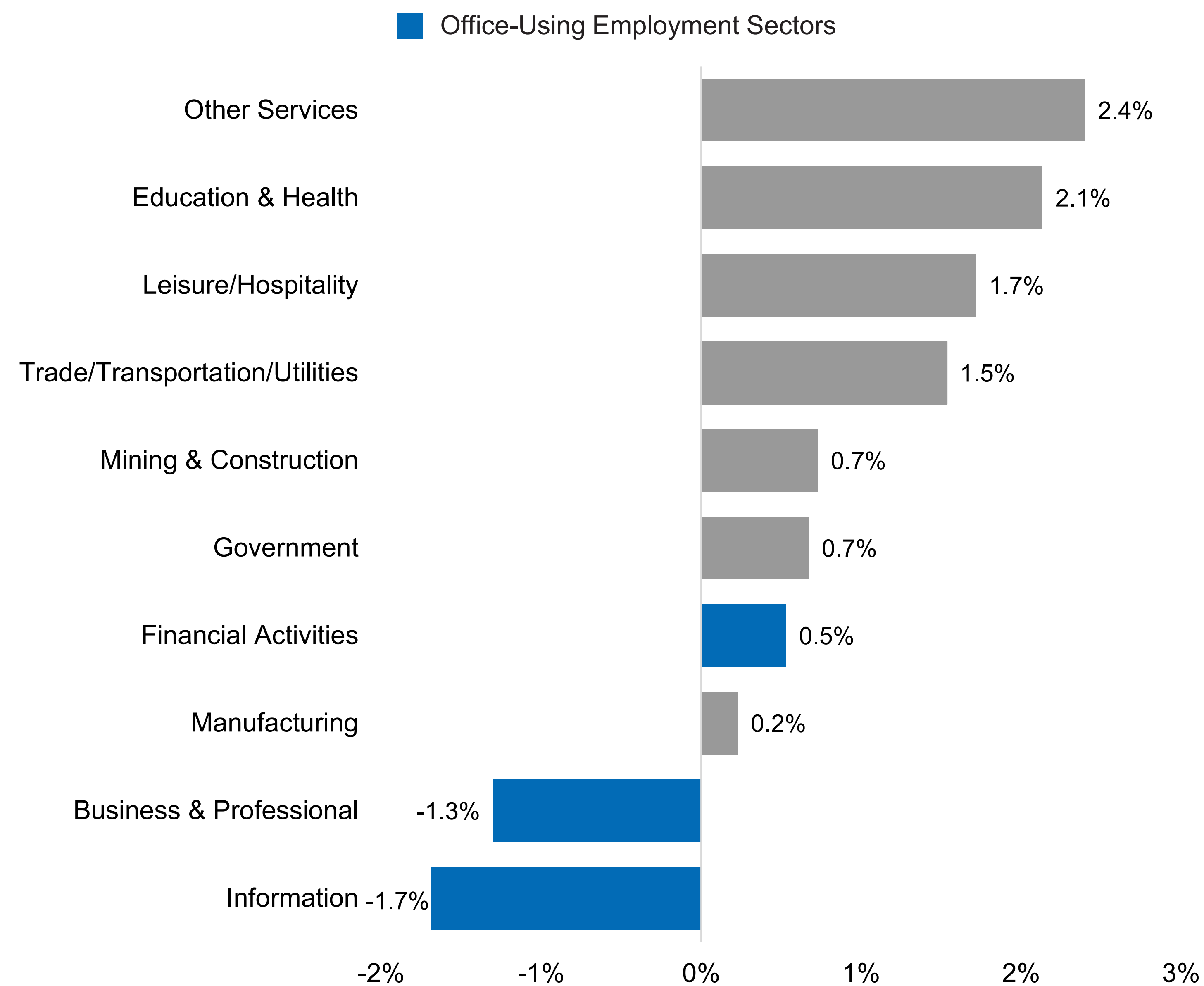
Employment Growth Slows Across Most Office Sectors

Known for its energy sector, the Houston market's top two employment industries account for 36.6% of market share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 16.2%. While most industries in the metro continued reporting growth, two office-using sectors contracted, with the business and professional services and information sectors declining by 1.3% and 1.7% year over year, respectively. Meanwhile, financial activities reported marginal growth of 0.5%.

Employment by Industry, May 2025



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

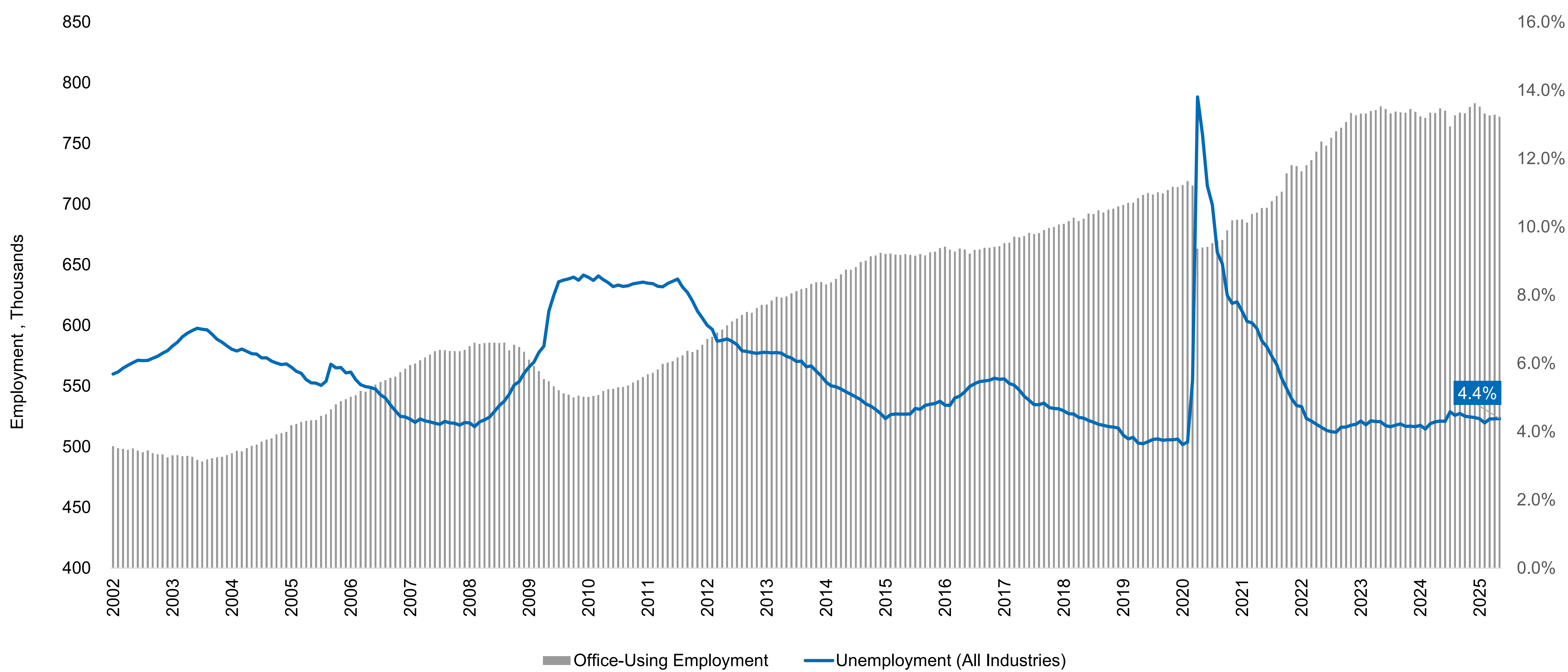


Source: U.S. Bureau of Labor Statistics, Houston MSA

Overall Office-Using Employment Continues to Ease From Historical High

Office-using employment in the Houston market as of the end of May 2025 totals 771,935 employees, falling from the all-time high in December 2024 by 11,170 jobs. Currently, the unemployment rate is at 4.4%, below the five-year average of 5.3% since May 2020. The office-using business and professional and information sectors reported negative annual growth, while the financial activities sector posted marginal gains. The lagging information and business and professional services sectors are contributing factors to Houston's unemployment rate and decreased office-using employment numbers.

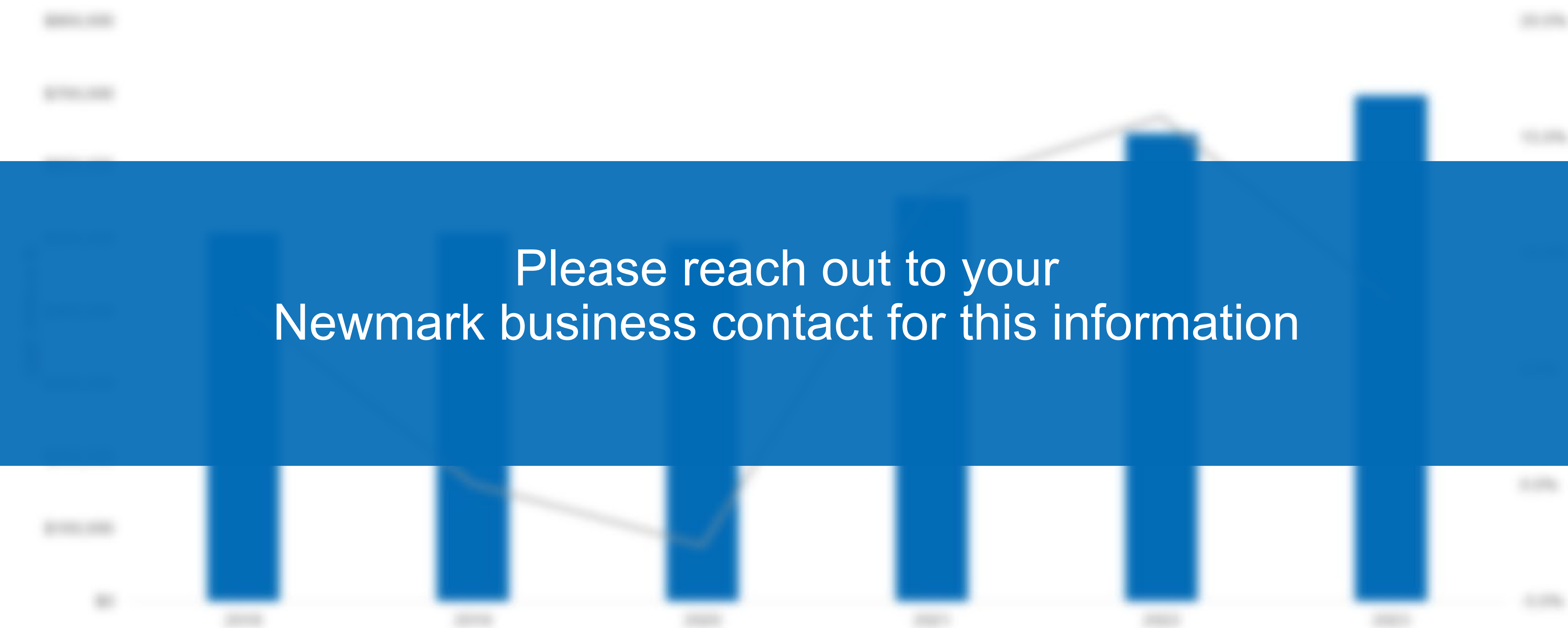
Office-Using Employment* and Unemployment Across All Industries



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.

Houston Gross Metropolitan Product



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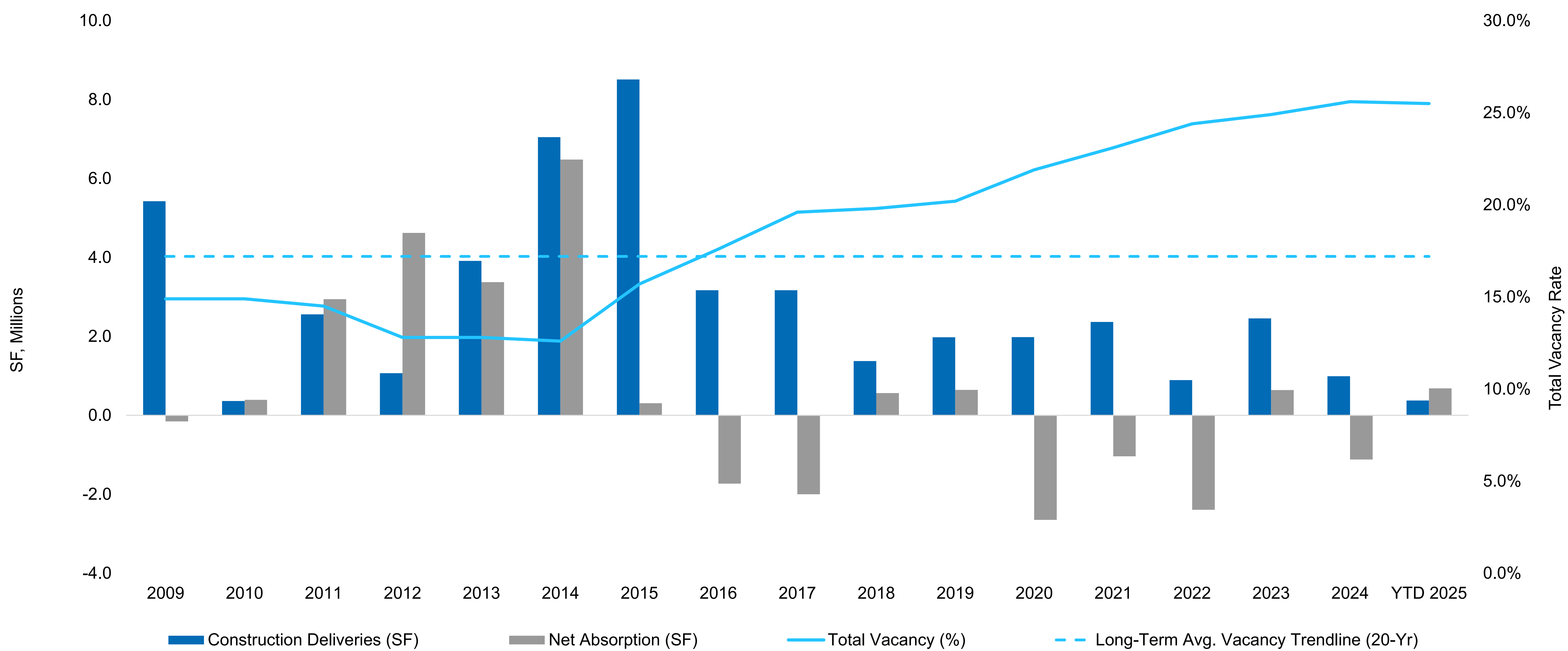
Leasing Market Fundamentals

Demand Outpaces Deliveries, Reversing Years-Long Trend

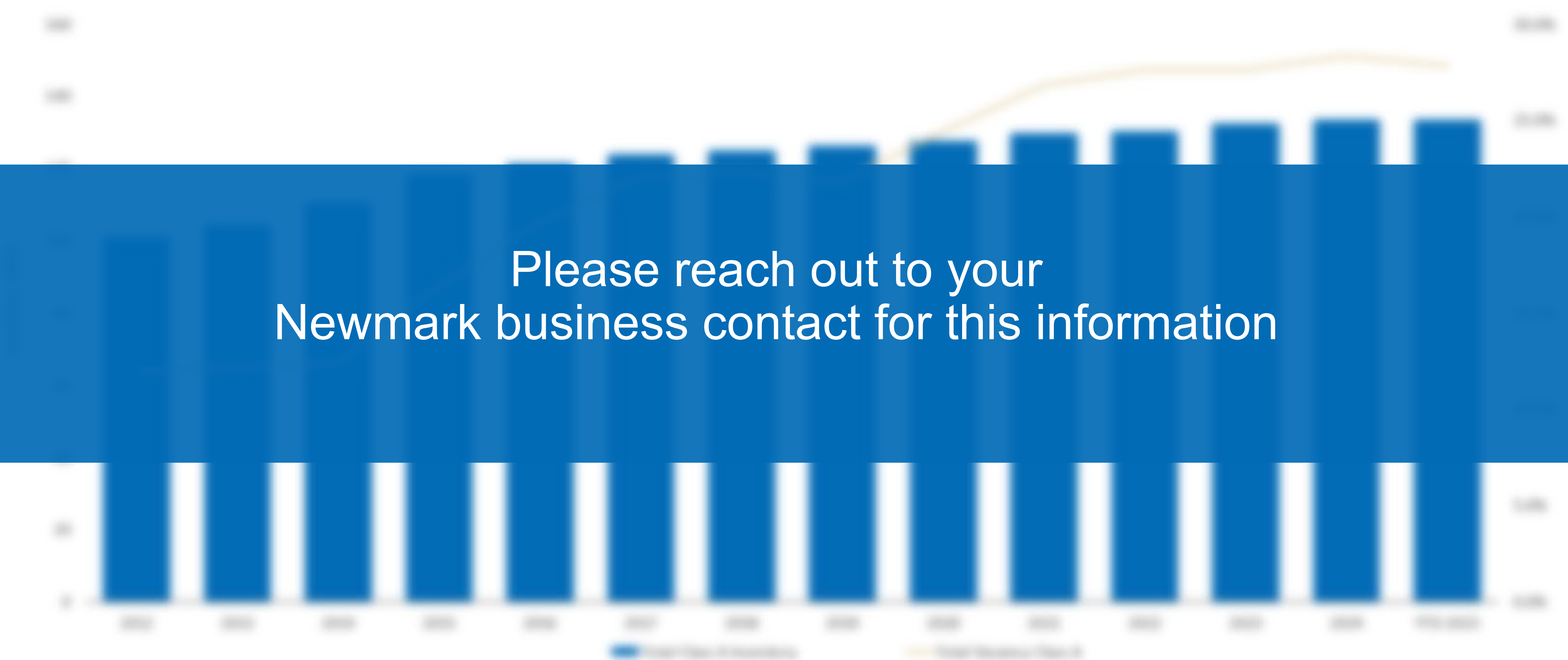
In the second quarter of 2025, Houston's office vacancy rate was 25.5%, rising 20 basis points year over year. This figure stands significantly higher than the historical average of 17.2%, revealing a longer-term trend of increasing vacancies. Despite the annual increase, vacancy fell by 20 basis points from the previous quarter, indicating that office occupancies may be starting to stabilize. Since the oil downturn in 2015 and 2016, the Houston market has witnessed a persistent increase in vacancy rates. This trend was driven largely by an influx in new office deliveries, which have consistently outpaced annual absorption. In the second quarter of 2025, however, the market realized positive absorption of 571,948 SF, outpacing deliveries by nearly a half-million square feet.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Corporate Office Downsizing has Pushed Class A Vacancy to Near Record High



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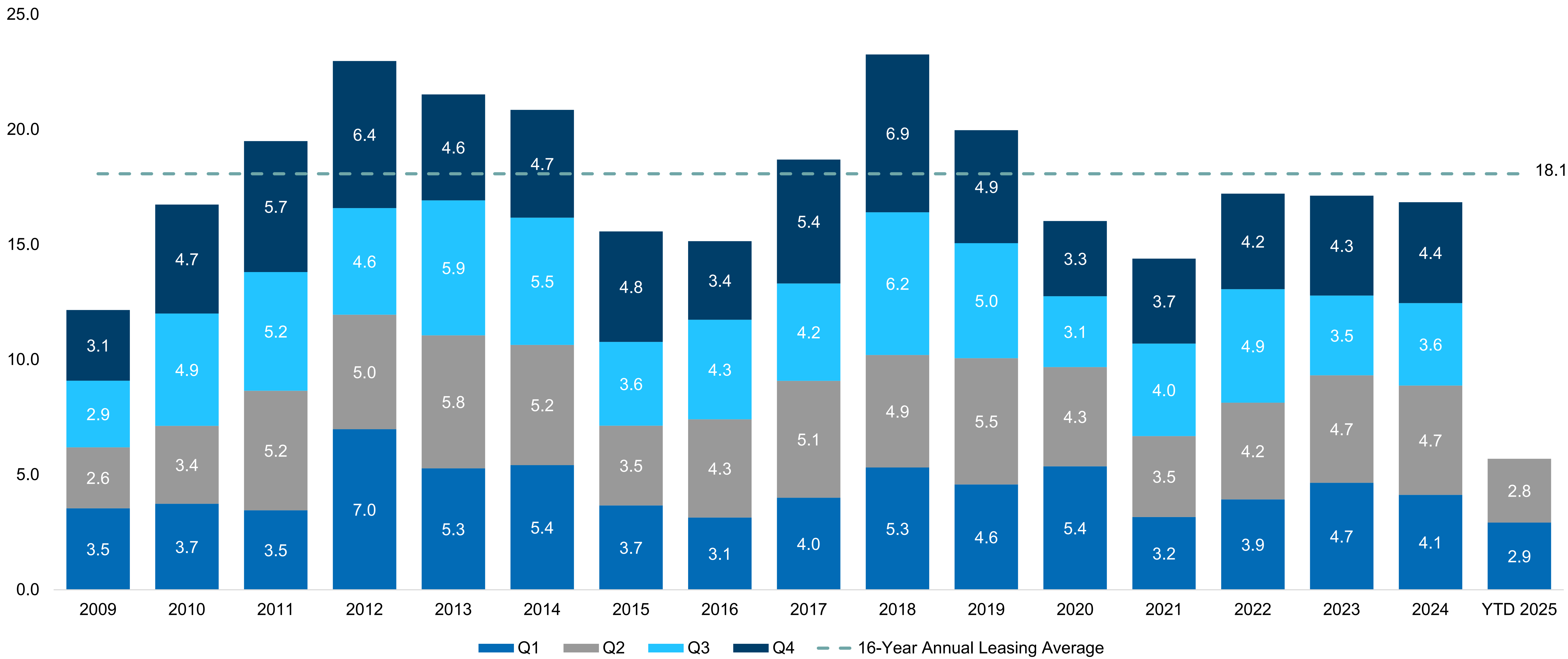
Slower and Smaller Deal Activity; Leasing Volume Well Below Quarterly Average

Leasing activity continued its decline since the fourth quarter of 2024, ending the second quarter of 2025 at 2.8 MSF. Since 2009, second quarter leasing activity averaged 4.5 MSF, with activity in the second quarter of 2025 roughly 38.3% lower than the historical average. However, in recent years, annual leasing activity displayed greater consistency, averaging 17.1 MSF annually from 2022 to 2024. Deal size averaged 3,901 SF in the second quarter of 2025, down 403 SF from a year ago. The reduction in leasing activity, which saw a 35.6% year-over-year decline in the number of deals, is largely attributed to occupiers waiting out the challenging debt environment and macroeconomic uncertainty.

Total Leasing Activity (msf)

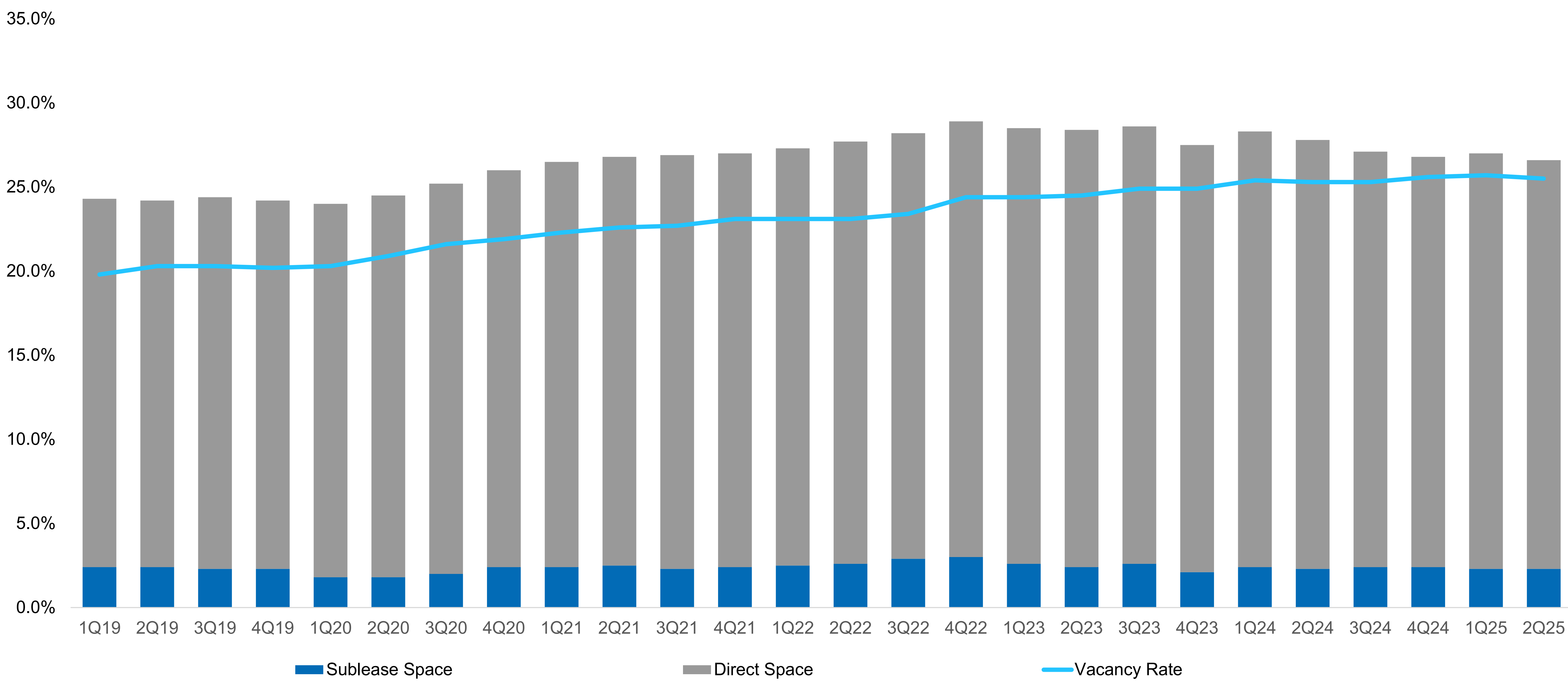


Source: Newmark Research, CoStar

Availability Continues to Fall Year Over Year as Sublease Space Stabilizes

Since 2019, sublease availability in the Houston market has remained relatively stable, with rates hovering between 2.3% and 2.4% for the last six quarters. In the second quarter of 2025, sublease availability was 2.3%, unchanged from the previous quarter. While direct availabilities have generally risen since the pandemic, they have decreased from a recent peak of 26.0% in the third quarter of 2023 to the current rate of 24.3%. Vacancy rates are still high at 25.5% but have fallen 20 basis points from the peak recorded last quarter.

Available Space as Percent of Overall Market

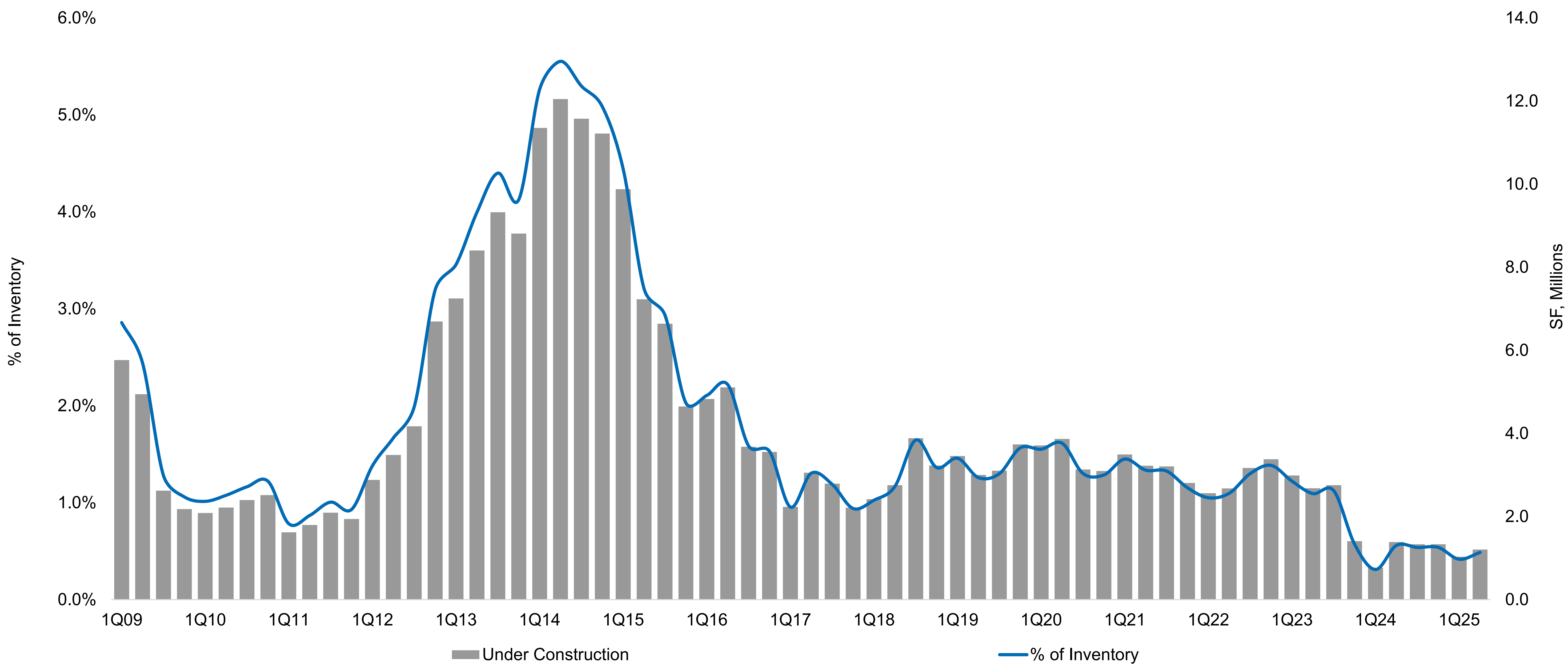


Source: Newmark Research, CoStar

Uptick in Construction Starts Keeps Construction Pipeline Alive

Construction activity has remained relatively muted in the market since 2016. As of the second quarter of 2025, the market had 1.2 MSF under construction*, with 247,651 SF of new construction starts during the quarter. Under construction space accounts for 0.5% of the market's inventory, indicating there is less risk of overbuilding. Non-medical office projects currently underway include Autry Park (127,651 SF), The Ro (146,003 SF) and CityCentre Six (308,000 SF).

Office Under Construction and % of Inventory



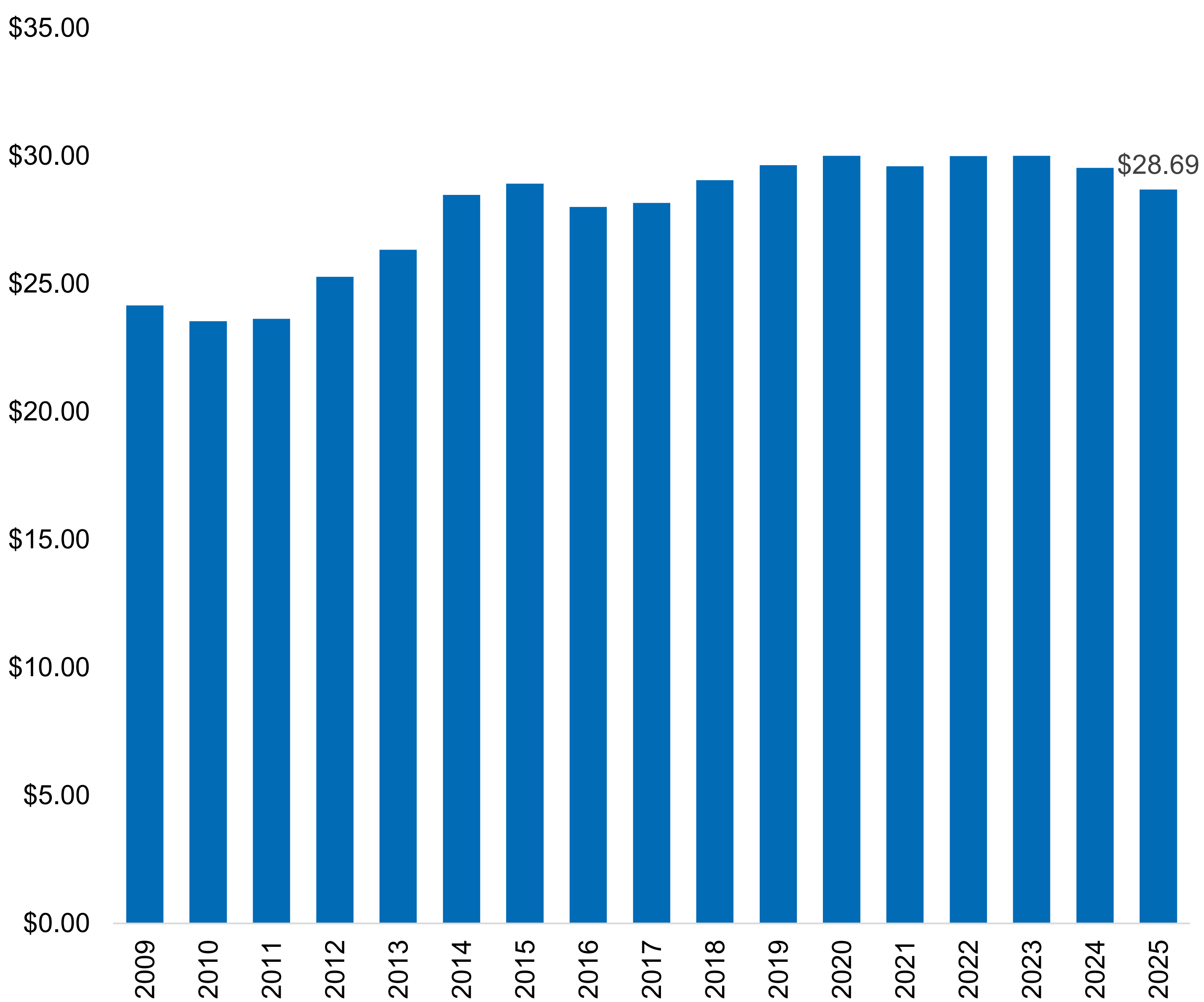
Source: Newmark Research, CoStar

* The bulk of space under construction in 2Q25 is medical office

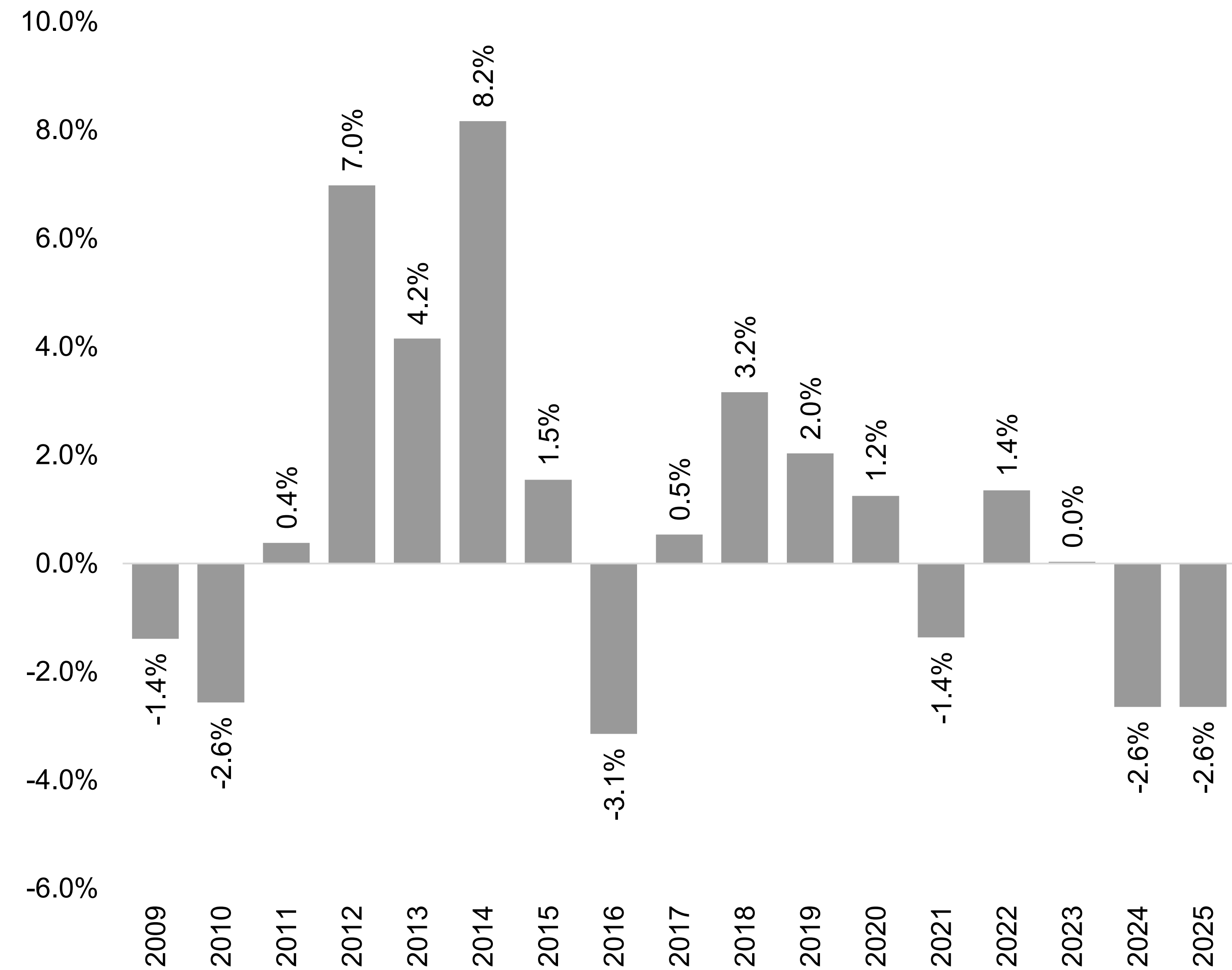
Rents Continue Trending Downward from All-Time High

In the second quarter of 2025, asking rents declined by 2.6% year over year to $28.69/SF and remain below the peak asking rate of $30.07/SF reported in the third quarter of 2022. Despite the recent dip in rental rates, tenants could see elevated asking rents in the near-term, as landlords adjust for higher operational and financing costs.

Office Average Asking Rent, $/SF, FS

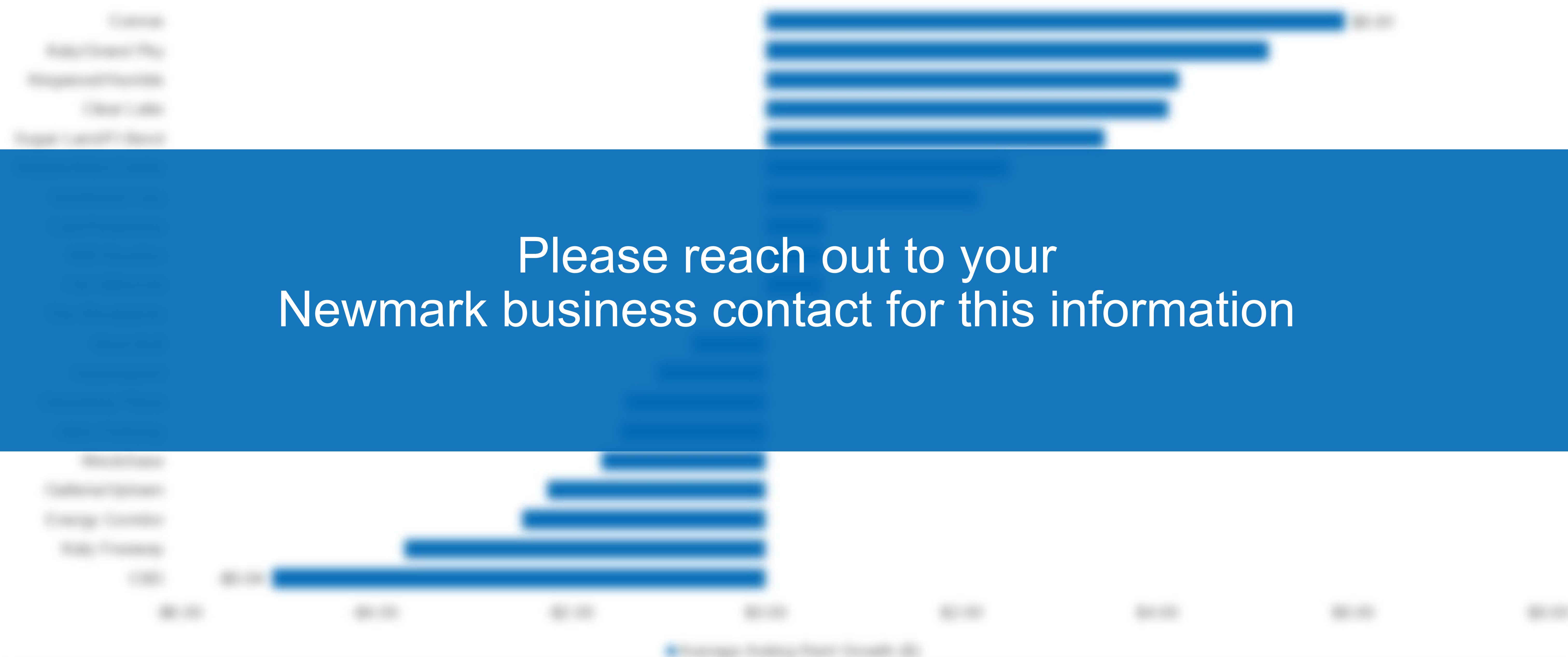


Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

Strongest Five-Year Rent Growth Reported in Suburban Office Submarkets



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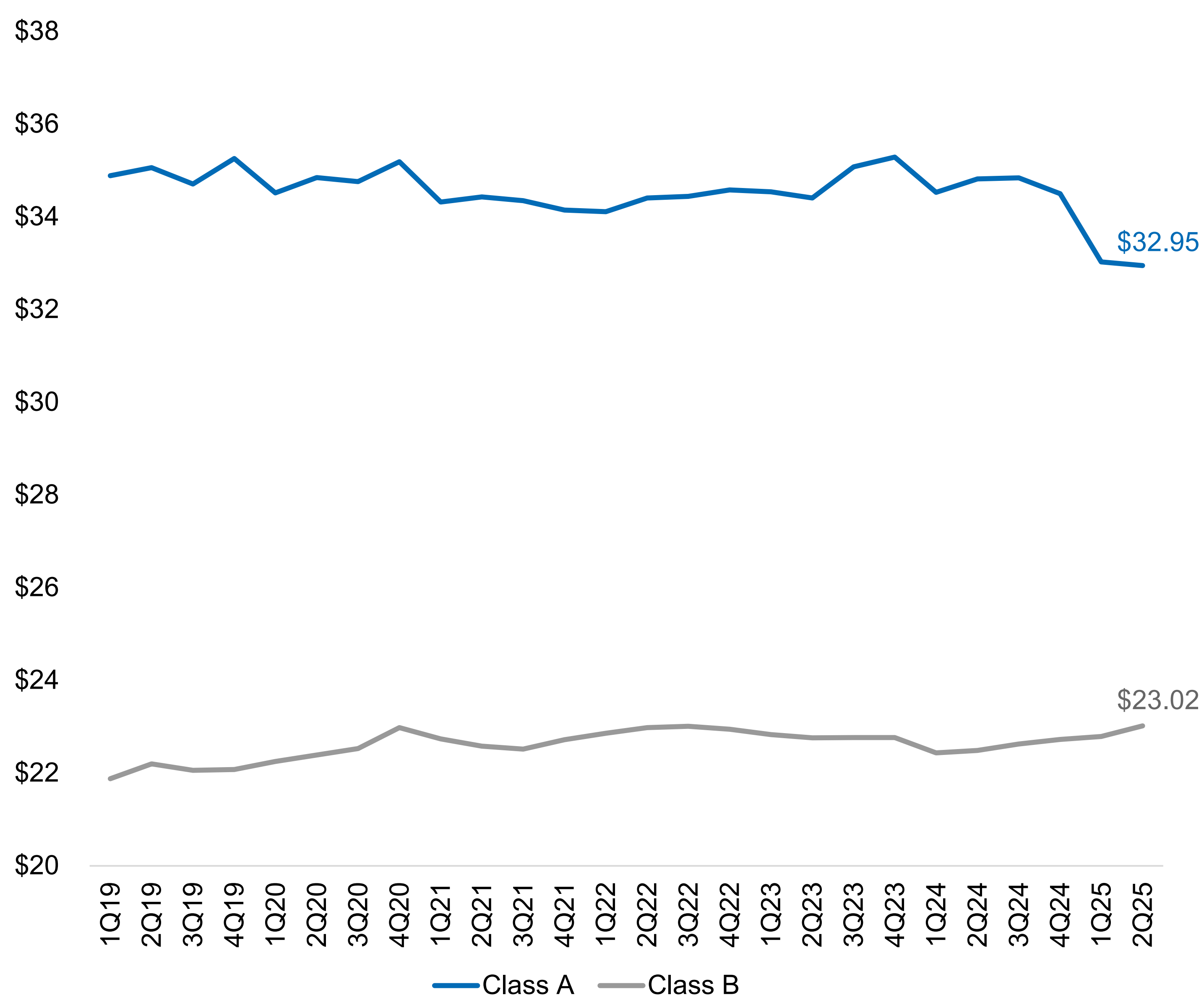
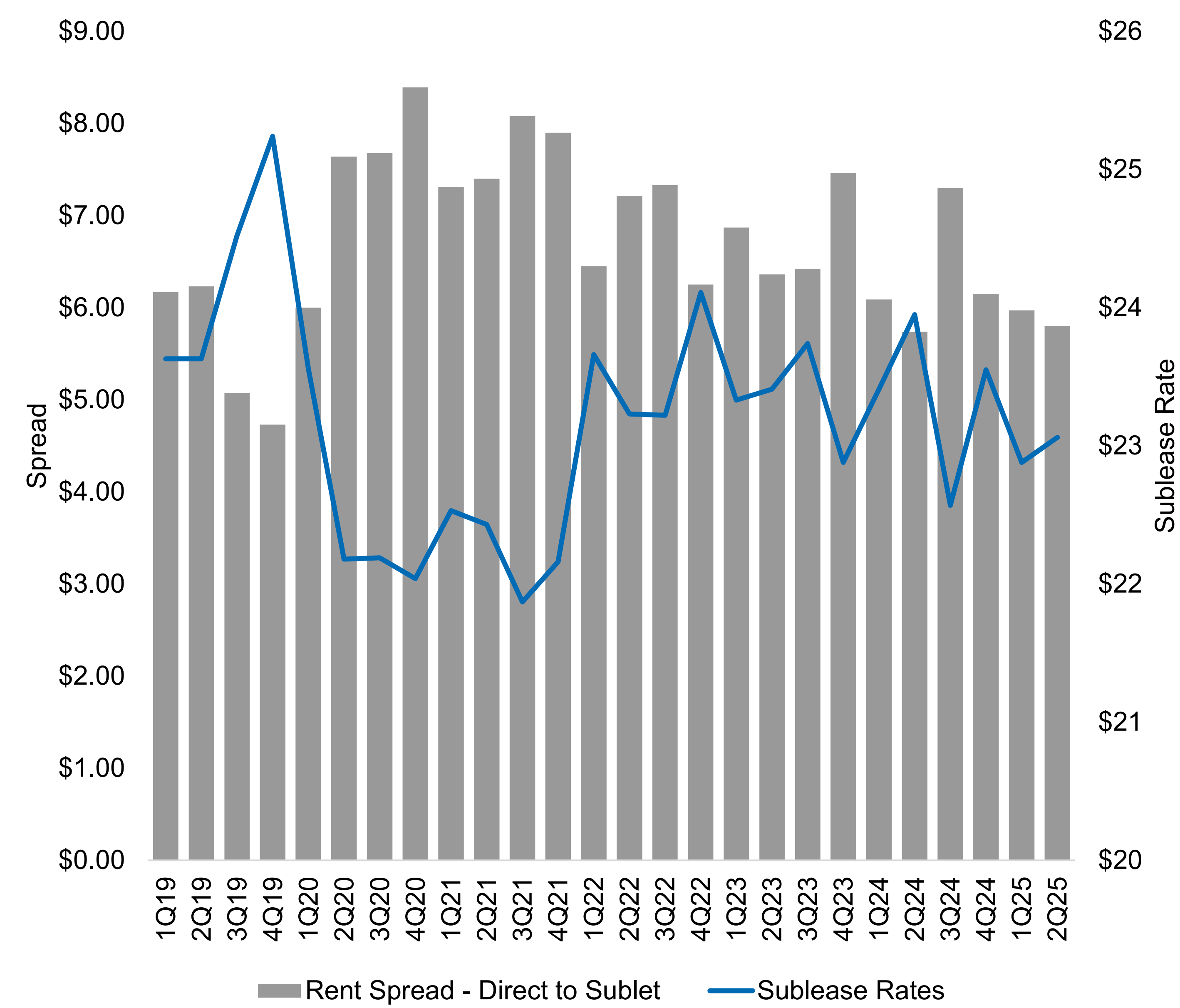
Class A Rent Premium Continues To Shrink

Class A rents ended the second quarter of 2025 at $32.95/SF, while Class B rents reached an all-time high of $23.02/SF. The $9.93/SF spread represents a 19.5% decrease year over year. The dip in Class A asking rates underscores the flight-to-quality trend in the market, as the majority of Trophy and Class A+ spaces are now occupied, potentially leading to limited availability of Class A spaces for tenants. Sublease rates increased slightly to $23.06/SF in the second quarter of 2025, rising 0.8% quarter over quarter. The rent spread between direct and sublease rates narrowed to $5.80/SF in the second quarter of 2025, a decline of 2.8% quarter over quarter.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Class A Assets Continue to Lead Market Activity, Despite Shrinking Deal Size

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 second quarter of 2025, Class A space accounted for 62.9% of the market's leasing activity by SF, but only 35.4% of the market's deal volume. Average leases signed in Class A space were 6,080 SF, reflecting a 20.2% decrease in size from the previous quarter, but continue to remain larger than the average market deal size of 3,901 SF.

Notable 2Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Westlake Chemical	5444 Westheimer	Galleria/Uptown	Direct New	158,000
Petrochemical company, Westlake Corporation, signed a new lease for 158,000 SF at 5444 Westheimer in the Galleria/Uptown submarket, relocating from its current location at 2801 Post Oak Blvd.				
Bechtel	2103 CityWest	Westchase	Expansion	77,000
Global engineering firm Bechtel, expanded its lease at 2103 CityWest in the Westchase submarket, taking an additional 77,000 SF.				
Morgan Stanley	Williams Tower	Galleria/Uptown	Renewal	71,535
Global financial services firm, Morgan Stanley, renewed its lease at Williams Tower for 71,535 SF, where it has been a tenant since 1999.				
Gibson, Dunn, & Crutcher, LLP	811 Main St.	CBD	Direct New	69,450
Gibson, Dunn, & Crutcher, a global law firm, signed a direct lease for 69,450 SF at 811 Main St. in the CBD. The firm was previously subleasing space in the building.				
The Travelers Companies, Inc.	4650 Westway Park Blvd	West Belt	Renewal	63,000
Insurance firm, The Travelers Companies, Inc., signed a renewal for 63,000 SF at 4650 Westway in the West Belt submarket.				

Source: Newmark Research, CoStar

Houston Office Submarket Overview

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Houston Class A Office Submarket Overview

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Houston Class B Office Submarket Overview

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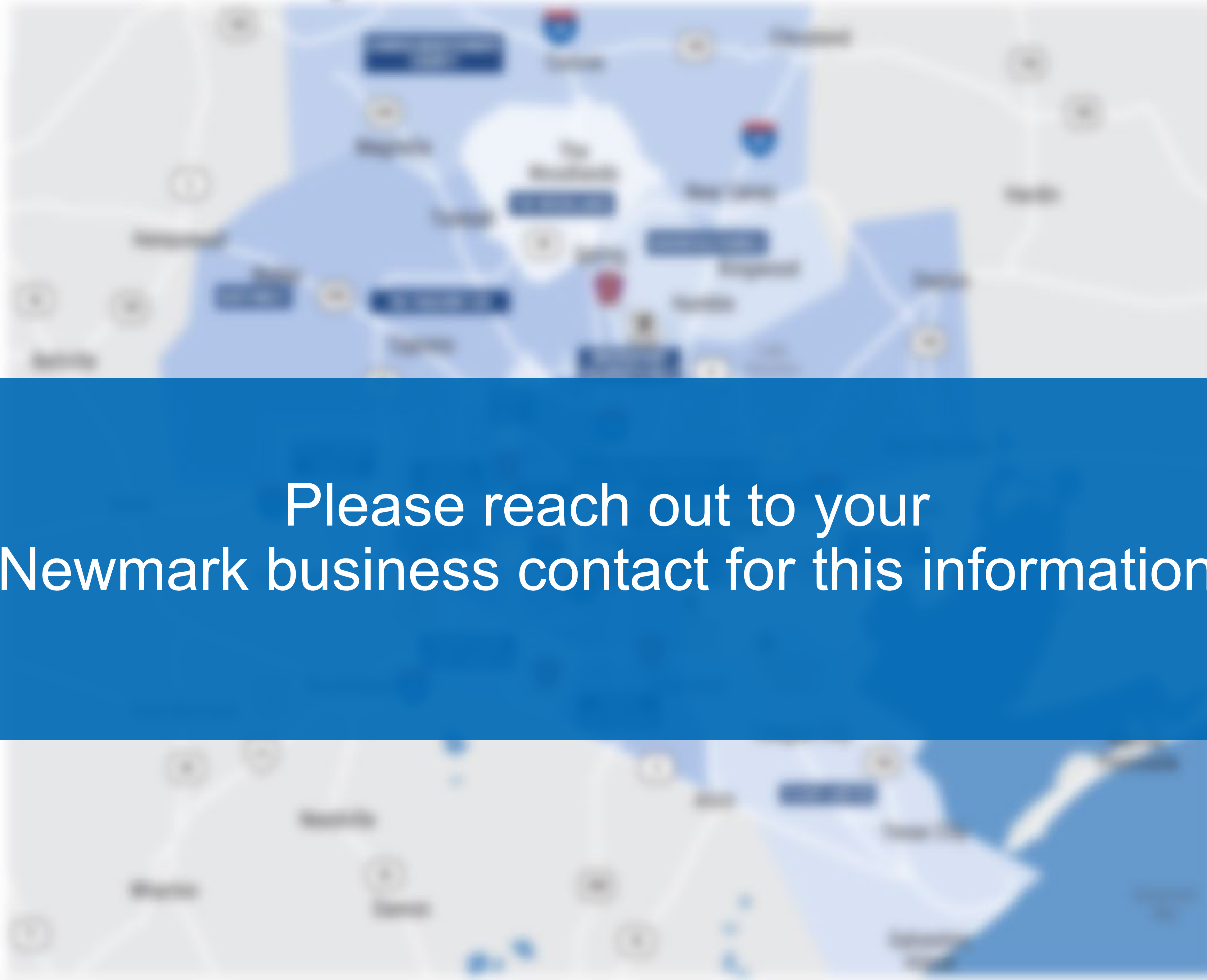
Houston Office Submarket Map



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Appendix

Houston Office Market

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2Q25 Texas Office Market Overview

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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