3Q25

Houston Office Market Overview

Market Observations

Economy

- The Houston market's unemployment rate dropped 15 basis points year over year to 4.3% and remains below the five-year average of 5.5%.
- Job growth fell by 82 basis points year over year to 0.7%, significantly below the five-year average of 1.8%.
- All sectors, except manufacturing, business and professional services, and information reported employment growth, with other services leading job gains at 3.3% over the past 12 months.
- Office-using jobs in the market contracted in August 2025, with continued losses in the information and business and professional services sectors negatively impacting growth. Despite this, office-using employment has grown by 6.6% since 2019 and currently stands at 760,957 jobs.

Leasing Market Fundamentals

- Average annual full-service asking rental rates rose to a new all-time high of $30.29/SF, reflecting a 2.3% increase year over year. Direct rates increased by 2.1% year over year to $30.48/SF while sublease rents rose by 8.8% annually to $24.56/SF, resulting in a widening rent spread of $5.92/SF.
- Overall vacancy rates rose by only 10 basis points year over year to 25.5% in the third quarter of 2025. On a quarterly basis, vacancy fell by 10 basis points, indicating that occupancies may be beginning to stabilize.
- The third quarter of 2025 closed with positive absorption of 636,813 SF, a marked improvement quarter over quarter, and bringing year-to-date totals to positive 1.2 MSF for 2025.
- Total leasing activity closed the quarter at 3.6 MSF, below the long-term third-quarter average of 4.5 MSF. Fewer deals transacted during the quarter, falling 17.1% year over year, but the average lease size increased by 17.3% over the same period to 4,571 SF.

Major Transactions

- Energy infrastructure firm Williams Companies inked the largest deal of the third quarter of 2025, with its renewal/expansion for 412,857 SF at its namesake tower in the Galleria submarket.
- JP Morgan Chase & Co. signed the second largest deal of the third quarter of 2025, renewing 235,000 SF at 9900 Old Katy Rd where the company has been a tenant since 2004.
- All five of the largest deals of the quarter were renewals, underscoring a tenant-friendly negotiating environment and a strong desire by landlords to maintain well-occupied buildings and a similar desire by tenants to avoid relocation expenses.
- The quarter's top five largest deals occurred in various submarkets, rather than concentrated in one area, highlighting the overall appeal of the Houston market.

Outlook

- The Houston office market will likely continue to see subdued growth as softer leasing volumes point to slower stabilization timelines for new projects. Until absorption materially outpaces deliveries, speculative starts will face financing challenges.
- The strong rebound in Class A rents suggests improving confidence and leasing activity among top-tier tenants, driven by flight-to-quality trends or limited new supply in prime submarkets. In the near-term, Class A rents are expected to stabilize barring a surge in new supply.
- Office occupiers in Houston have strong leverage and can negotiate deals that were not available in pre-pandemic conditions. The slow demand recovery, persistent high vacancies, and growing willingness among landlords to make deals ensure that this remains a tenant-favored market.

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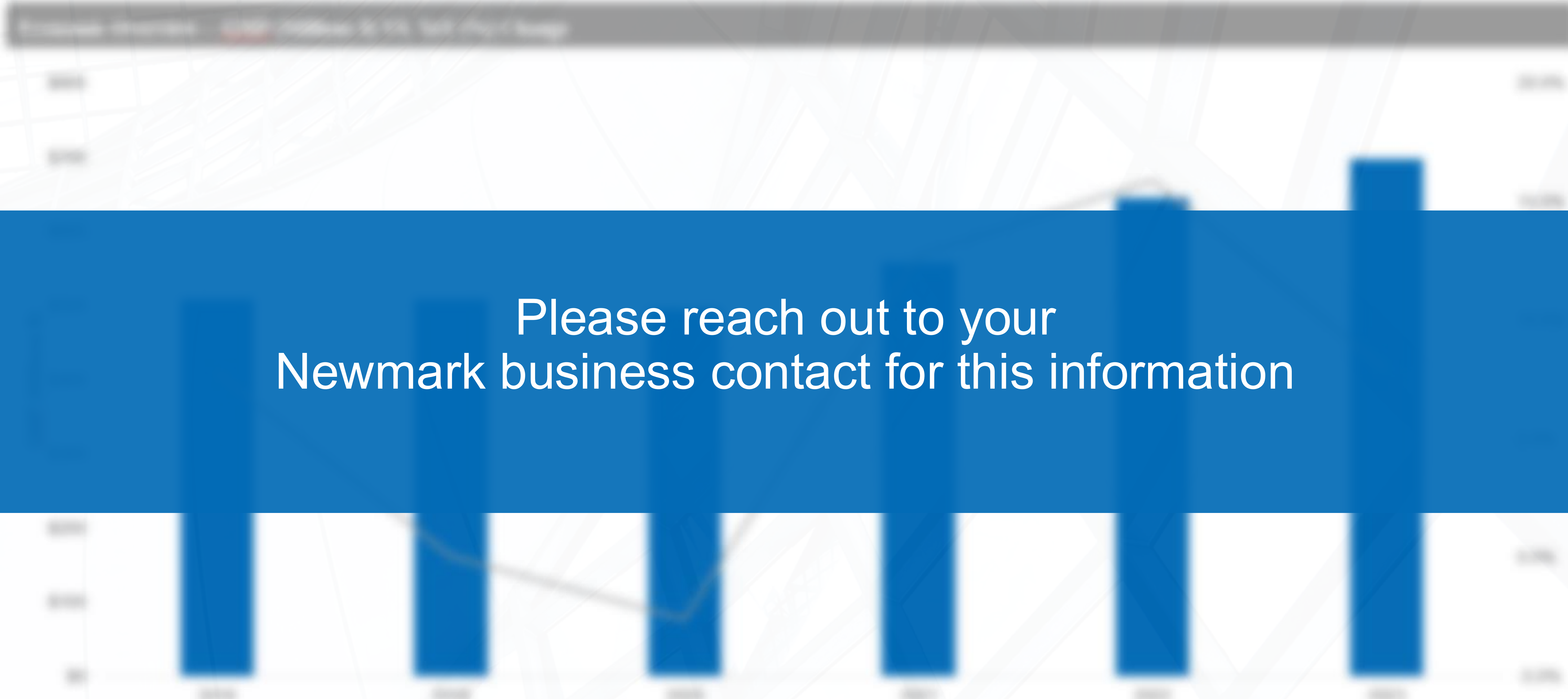
Economy

Houston Gross Metropolitan Product



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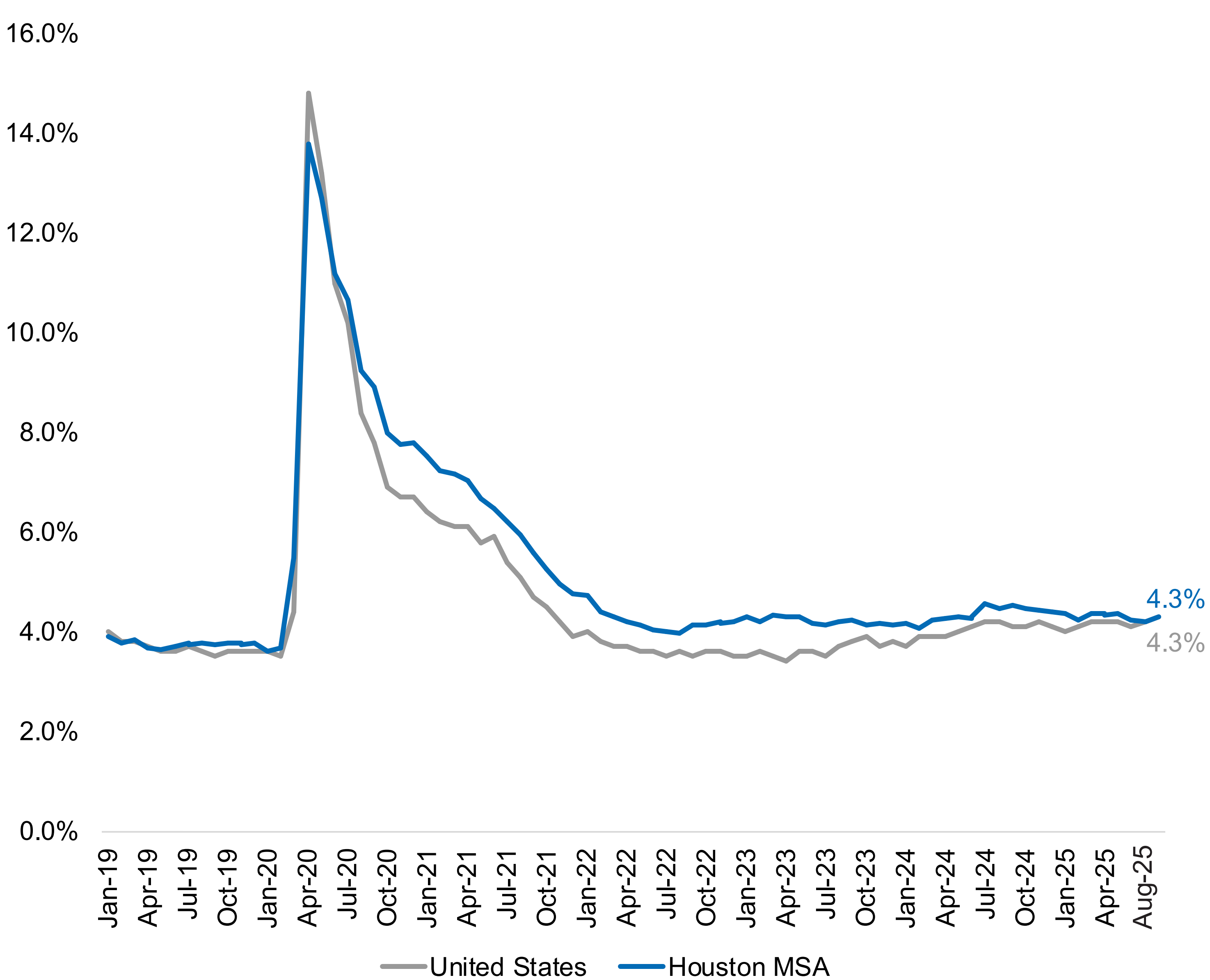
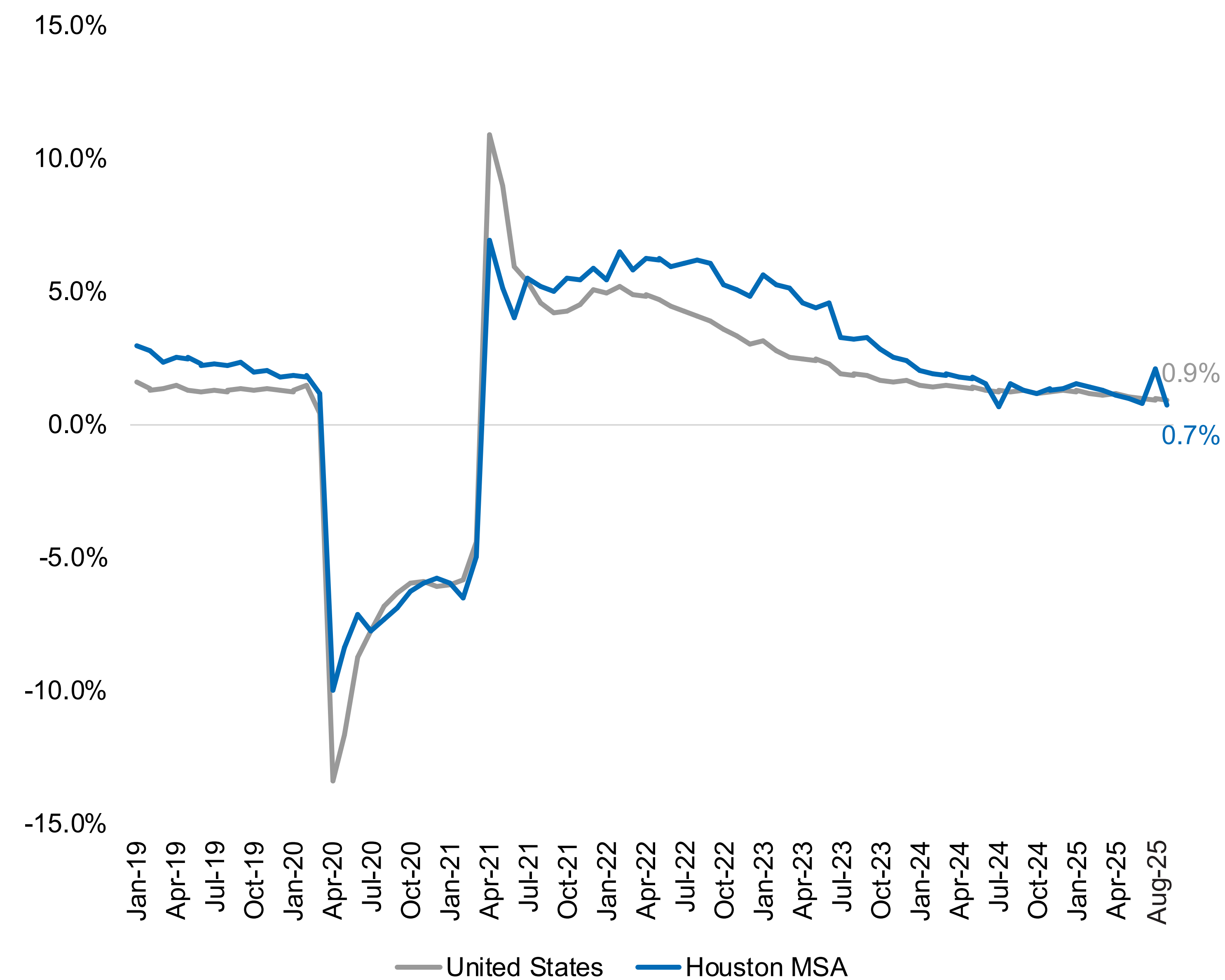
Unemployment Converges with National Average

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 August 2025, unemployment rates have converged, with both Houston and the U.S. at 4.3%. Houston's unem ployment rate fell by 15 basis points year over year. However, employment growth slowed more sharply, down 82 basis points from the prior year to 0.7%, reflecting a broader labor market co oldown following years of strong gains.

Unemployment Rate, Seasonally Adjusted



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

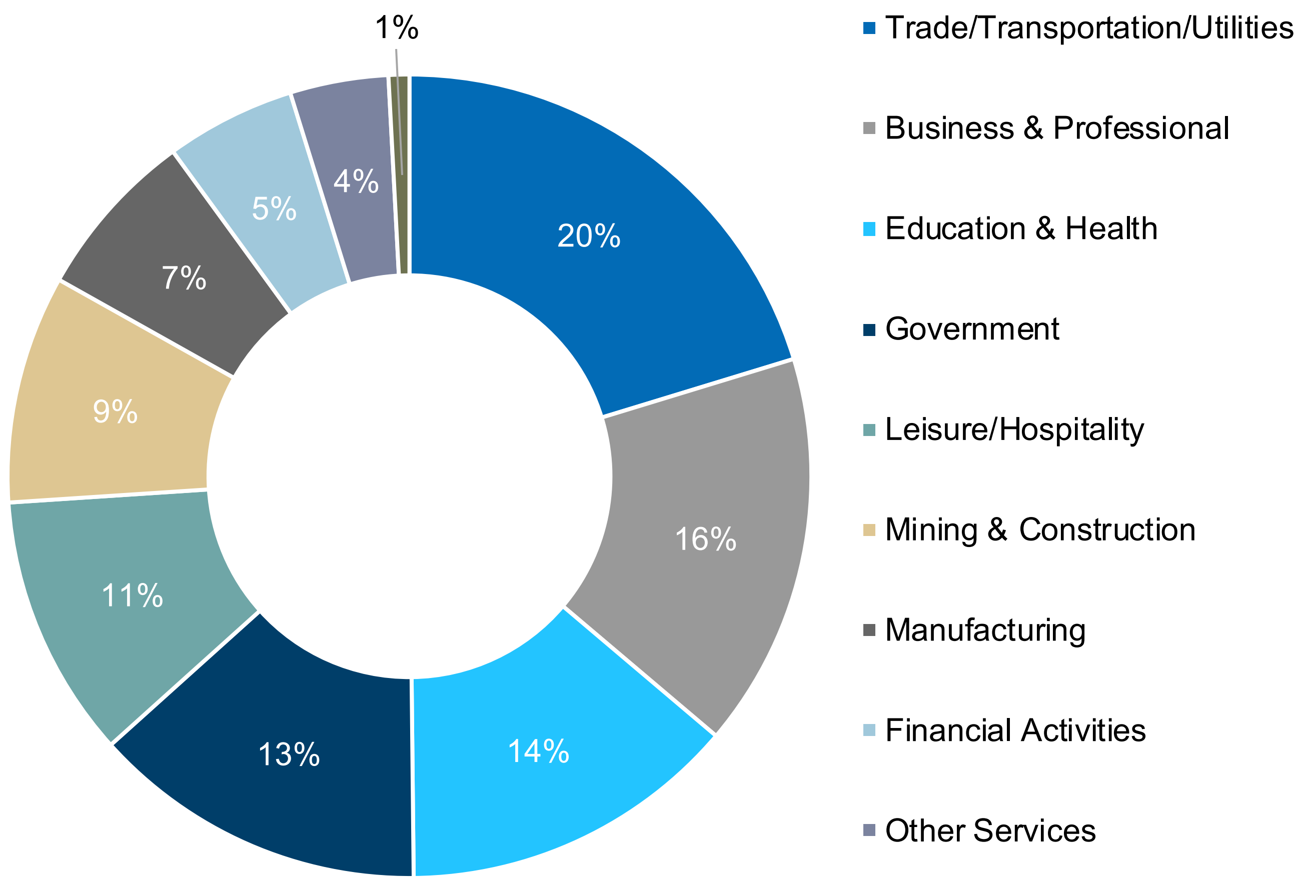


Source: U.S. Bureau of Labor Statistics, Houston MSA

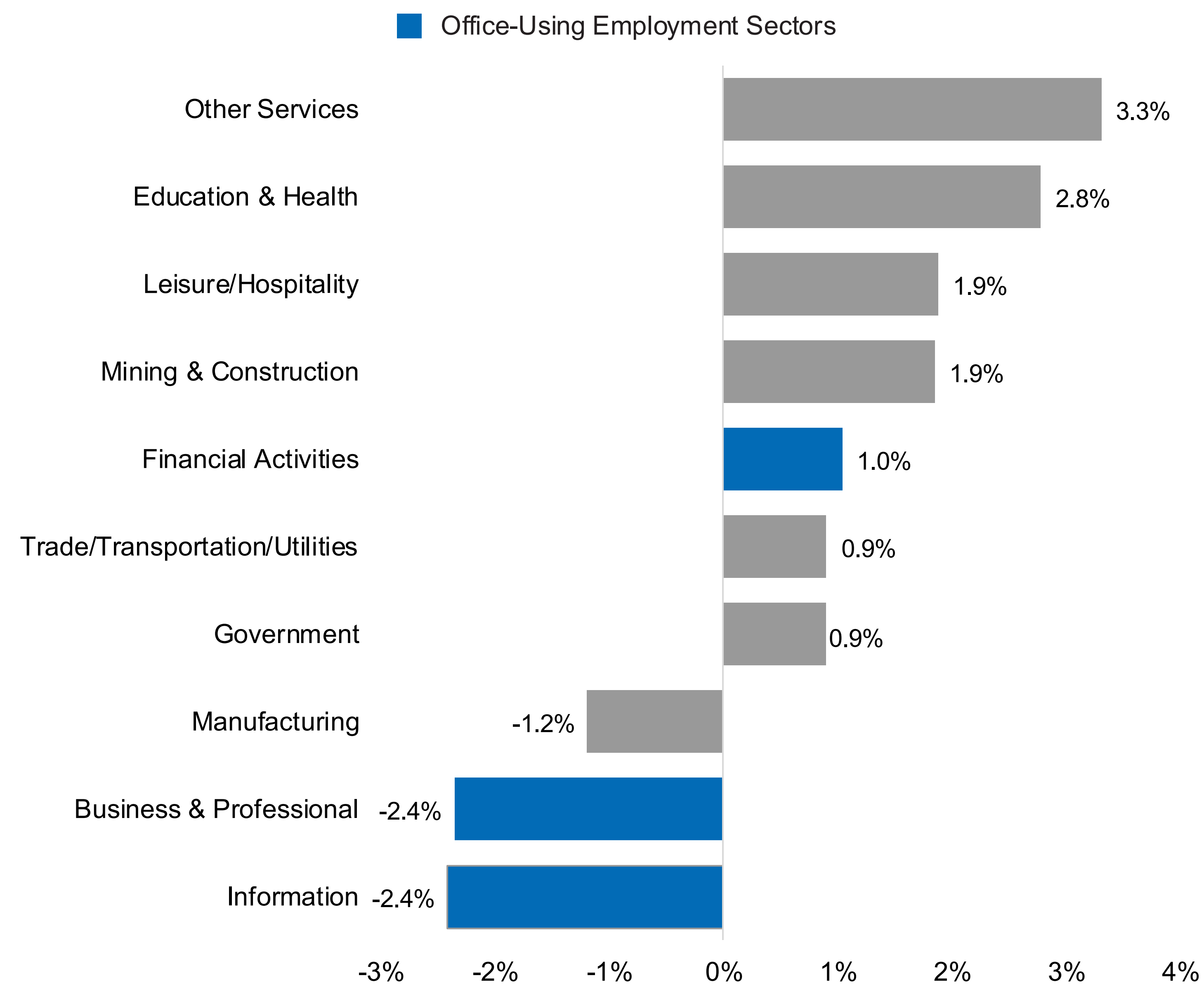
Most Office-Using Employment Sectors Decline

Known for its energy sector, the Houston market's top two 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 growth, two office-using sectors contracted, with the business and professional services and information sectors both declining by 2.4% year over year. Meanwhile, financial activities reported modest growth of 1.0%.

Employment by Industry, August 2025



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

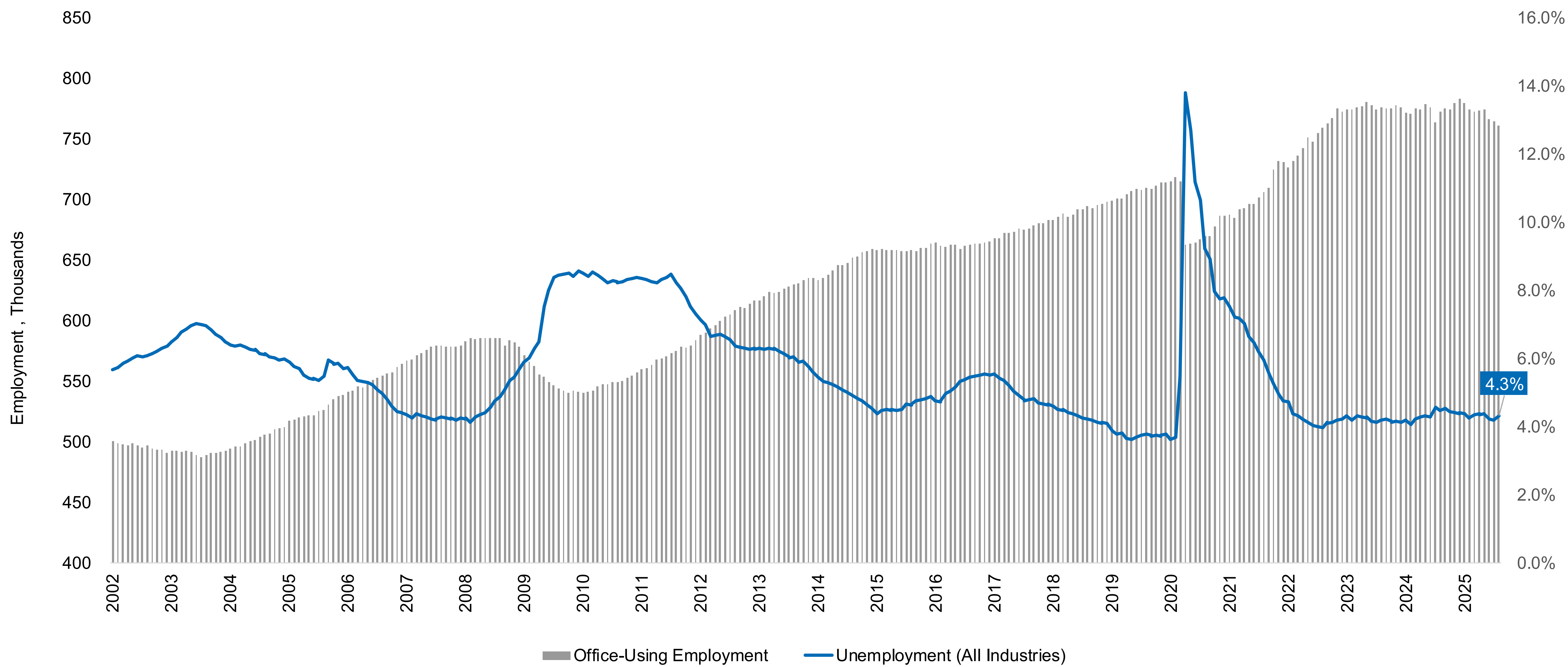


Source: U.S. Bureau of Labor Statistics, Houston MSA

Overall Office-Using Employment Continues to Ease From Historical High

Office-using employment in the Houston market as of the end of August 2025 totals 760,957 employees, falling from the all-time high in December 2024 by 22,148 jobs. Currently, the unemployment rate is at 4.3%, 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 moderate 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



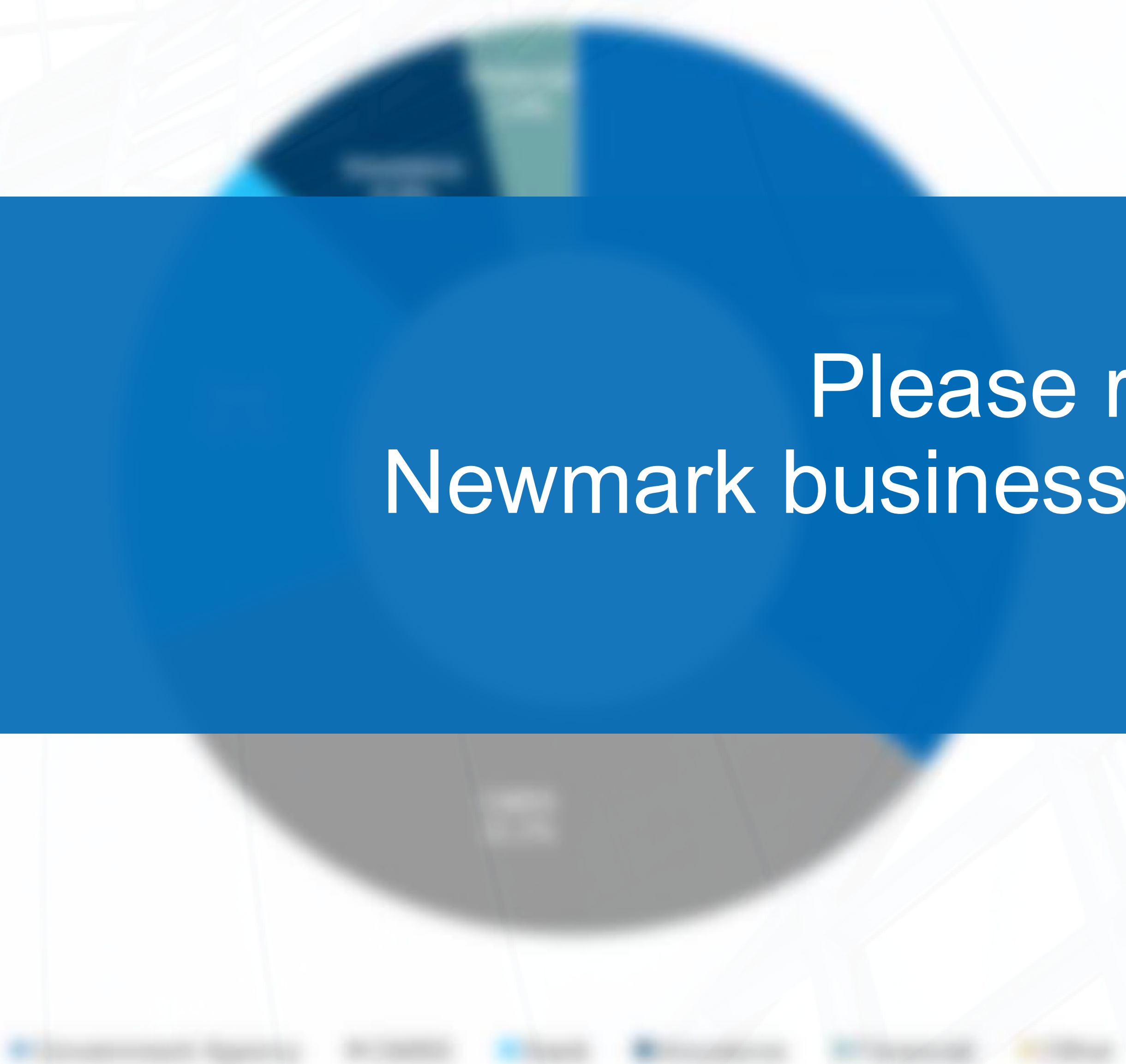
Source: U.S. Bureau of Labor Statistics, Houston MSA

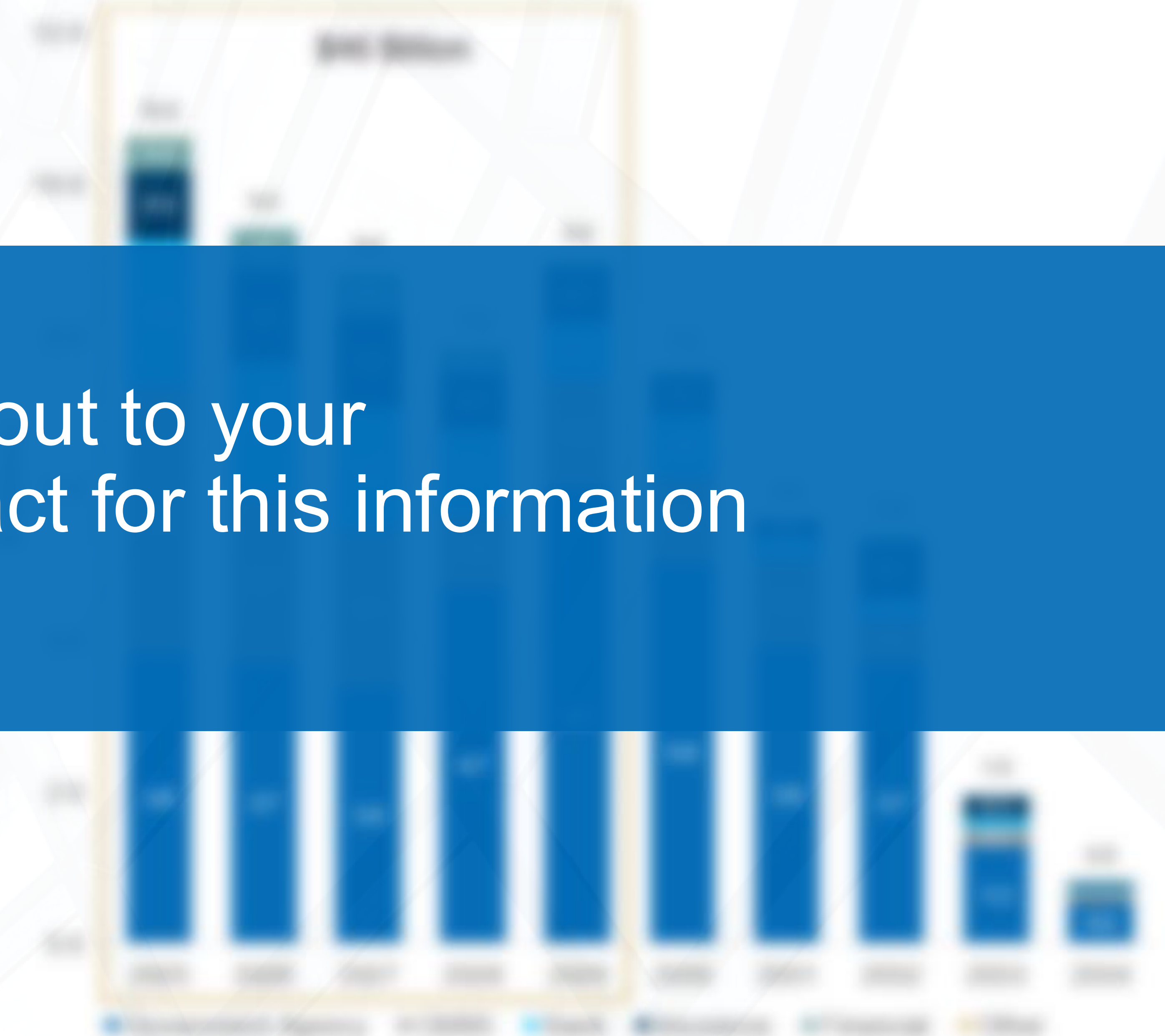
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

3Q25

Debt/Capital Markets

Highest Loan Volume Due in 2025





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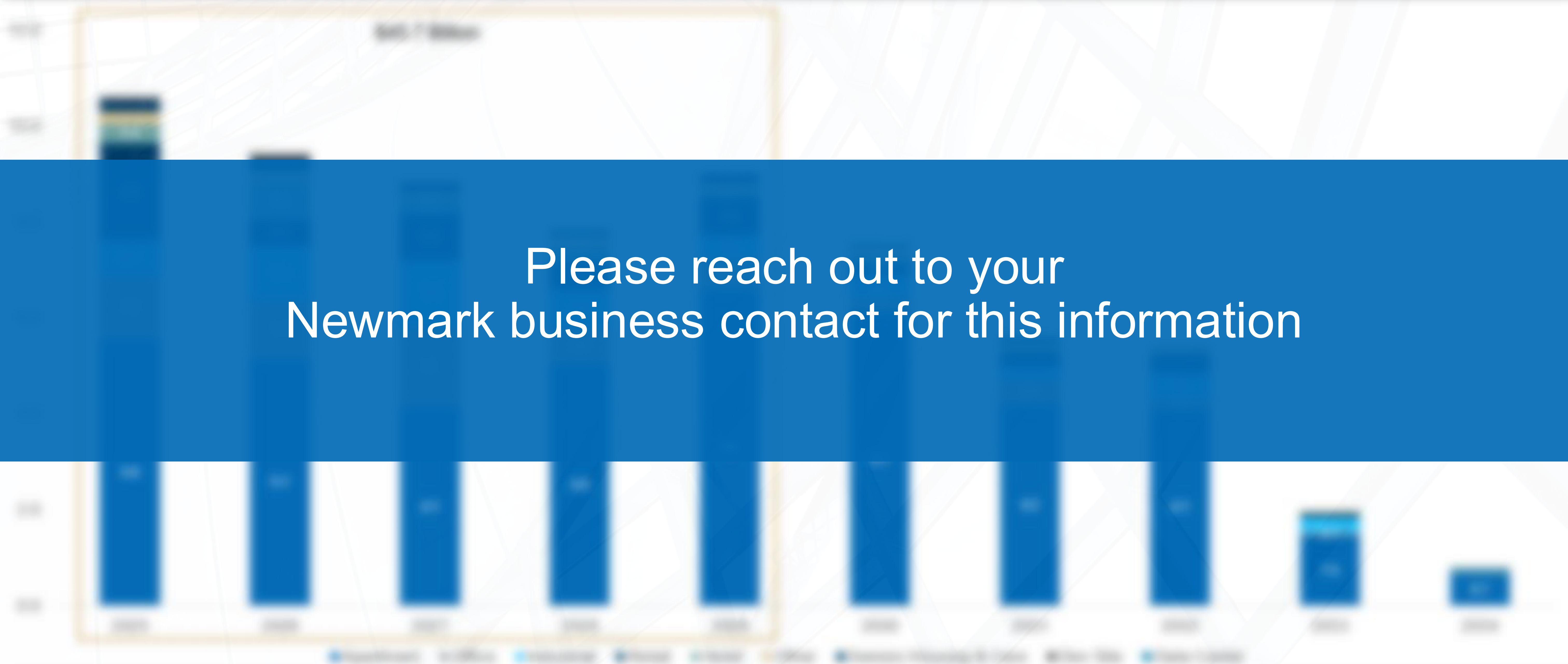
Multifamily Maturities Particularly Elevated Through 2029, Office Not So Much



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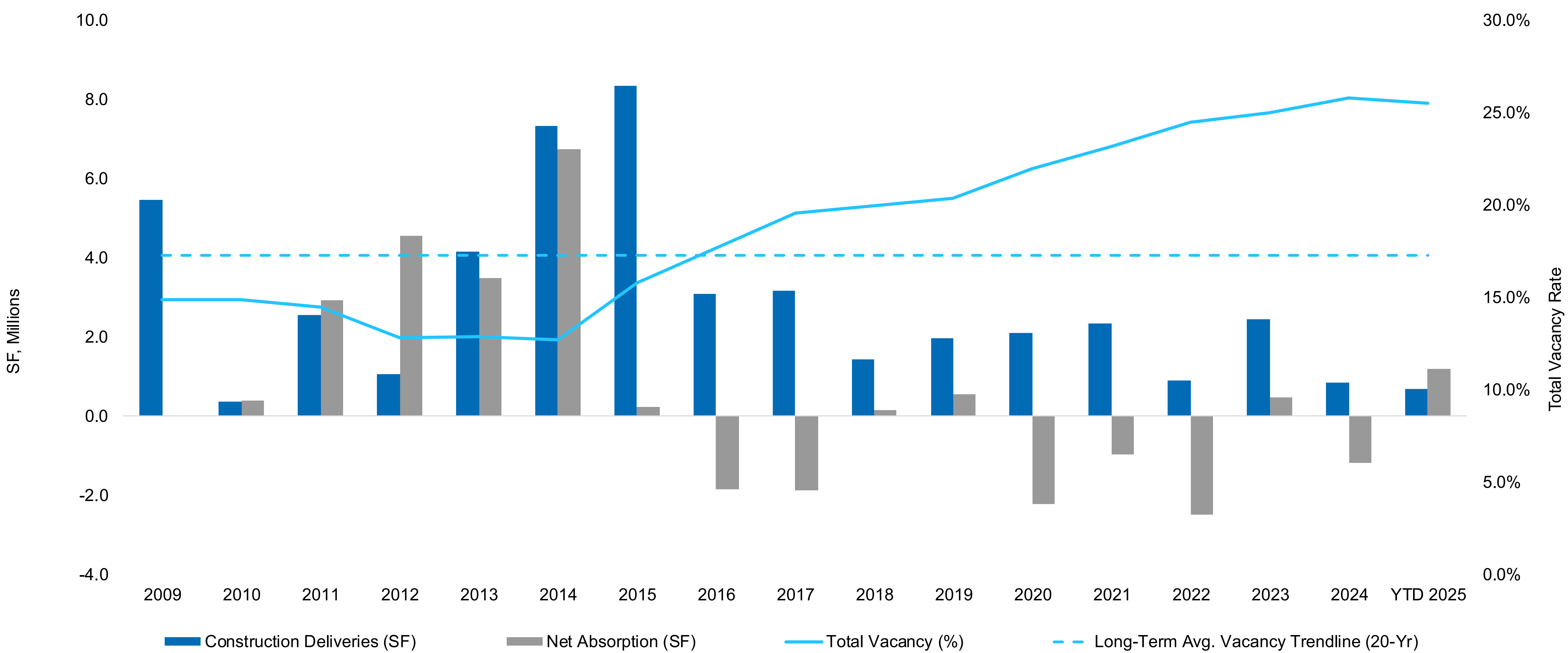
3Q25

Leasing Market Fundamentals

Demand Continues to Rebound as Vacancy Stabilizes

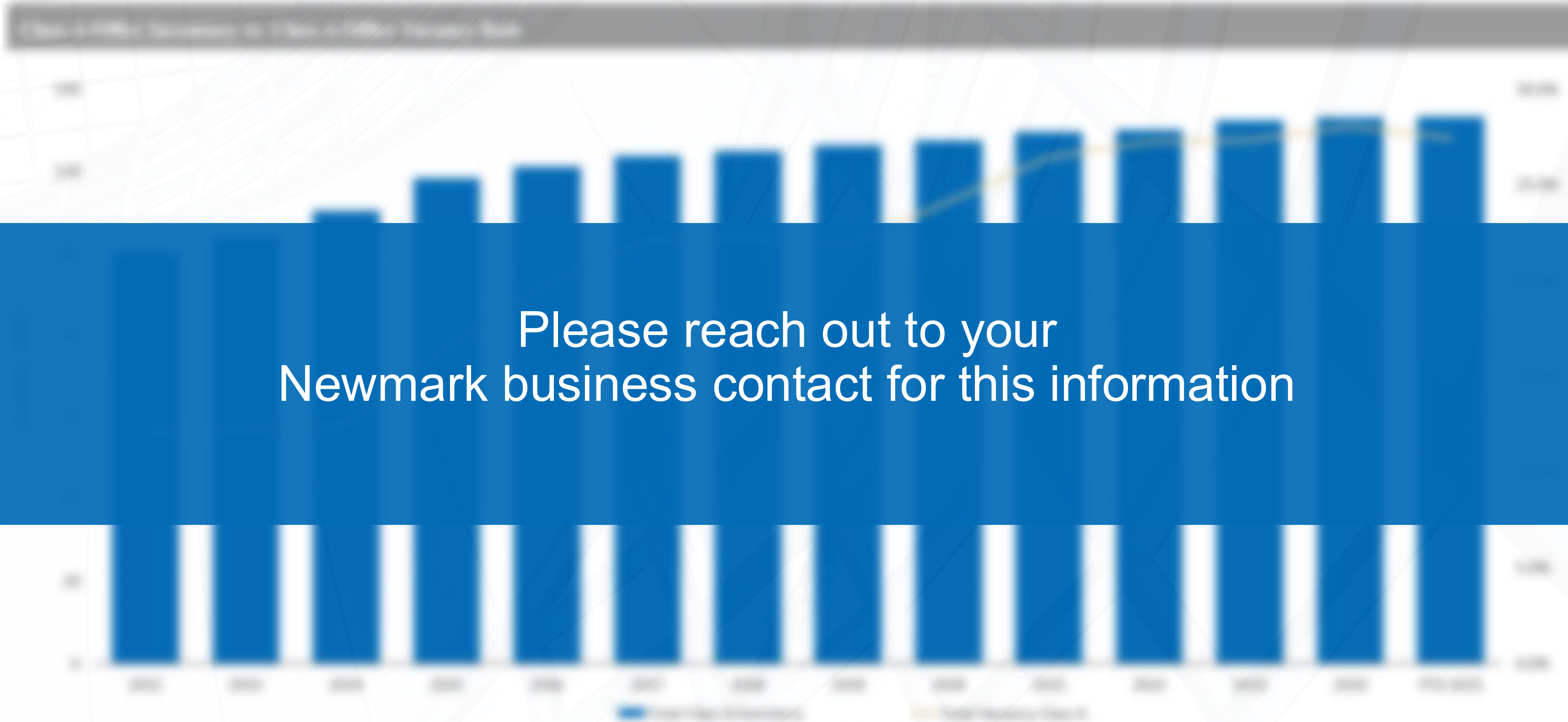
In the third quarter of 2025, Houston's office vacancy rate stood at 25.5%, rising 10 basis points year over year. This figure remains significantly higher than the historical average of 17.3%, revealing a longer-term trend of steadily increasing vacancies. Despite the annual increase, vacancy fell by 10 basis points from the previous quarter. The vacancy rate remaining high but stable points to a market with excess available inventory that is obsolete or only slowly being reabsorbed. The third quarter of 2025 showed strong positive absorption of 636,813 SF, above the long-term third quarter average of 302,805 SF. New supply pressure remained contained in the third quarter of 2025, as deliveries totaled 319,117 SF.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Class A Vacancy Begins to Plateau



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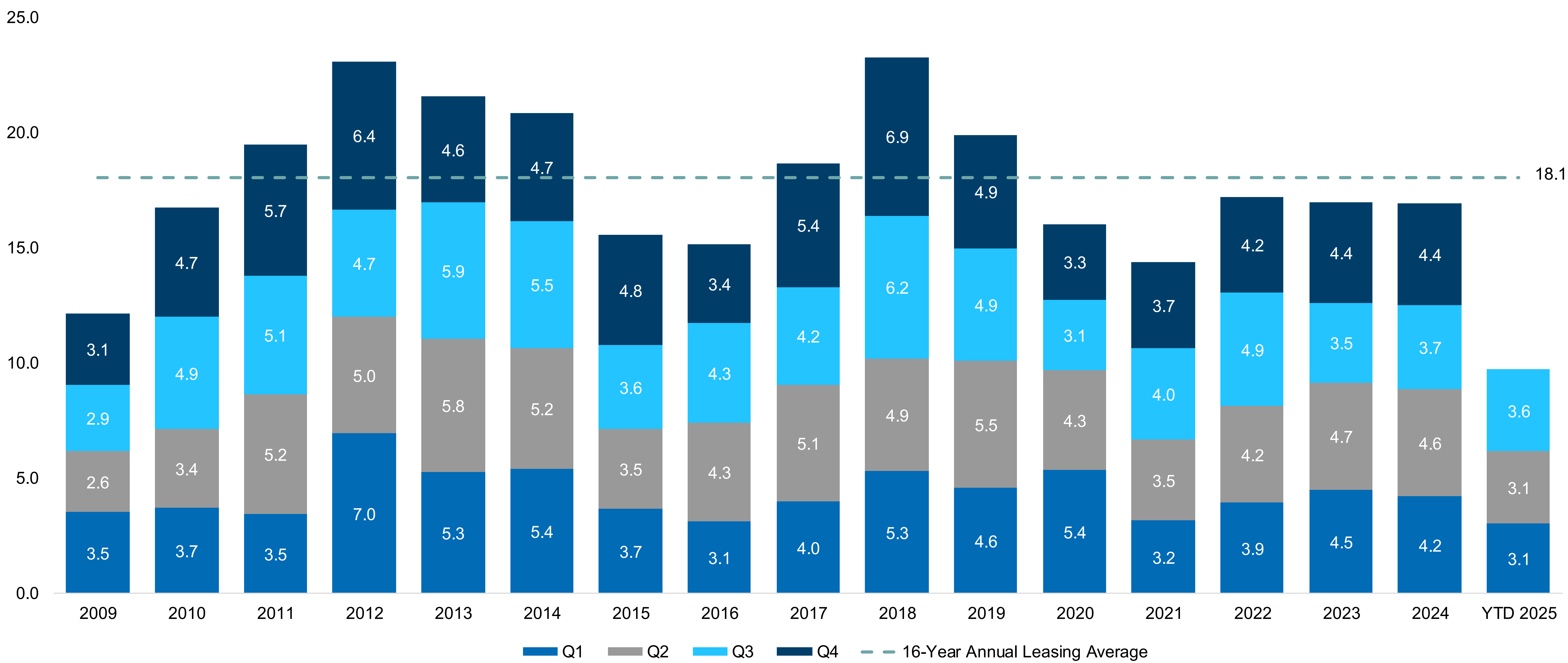
Leasing Volume Remains Below Baseline Demand

Leasing activity in the Houston market continues to soften, totaling 3.6 MSF in the third quarter of 2025, roughly 2.8% lower than the same period a year ago. Third quarter 2025 leasing remains below the historical third-quarter average of 4.5 MSF, marking a continuation of a slower demand environment that began in late 2023. Leasing activity displayed greater consistency from 2022 to 2024, averaging 17.0 MSF annually. However, activity during that period was primarily driven by renewals, rather than net new demand. Currently, leasing activity remains below baseline demand, meaning fewer new leases are being signed than the market's replacement need, indicating a cautious occupier mindset.

Total Leasing Activity (msf)

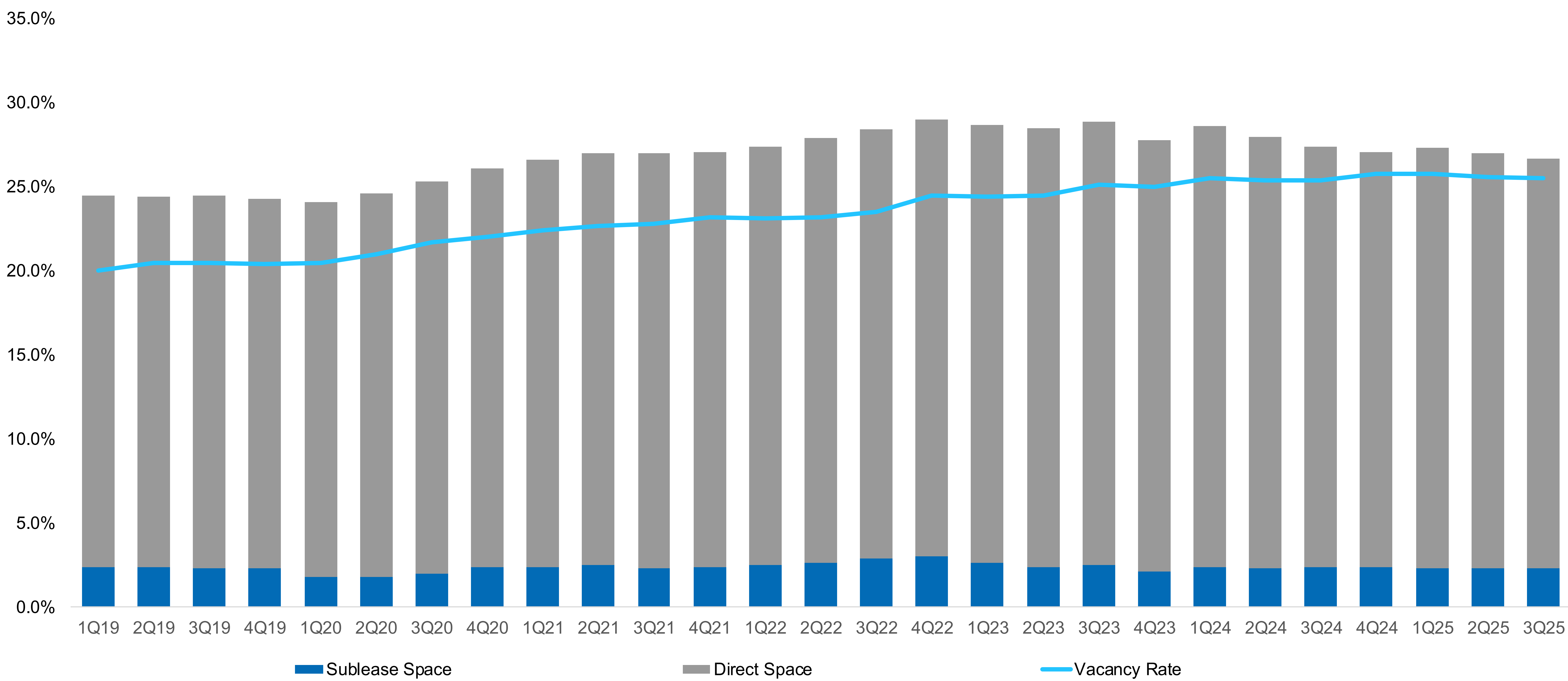


Source: Newmark Research, CoStar

Sublease Space Remains Stable as Availability Continues to Fall

Since 2019, sublease availability in the Houston market has remained relatively stable, with rates hovering between 2.3% and 2.4% over the last seven quarters. In the third quarter of 2025, sublease availability was 2.3%, unchanged from the previous two quarters. While direct availabilities have generally risen since the pandemic, they have decreased from a recent peak of 26.4% in the third quarter of 2023 to the current rate of 24.4%. Vacancy rates are still high at 25.5% but have fallen 30 basis points from the peak recorded in the first quarter of 2025.

Available Space as Percent of Overall Market

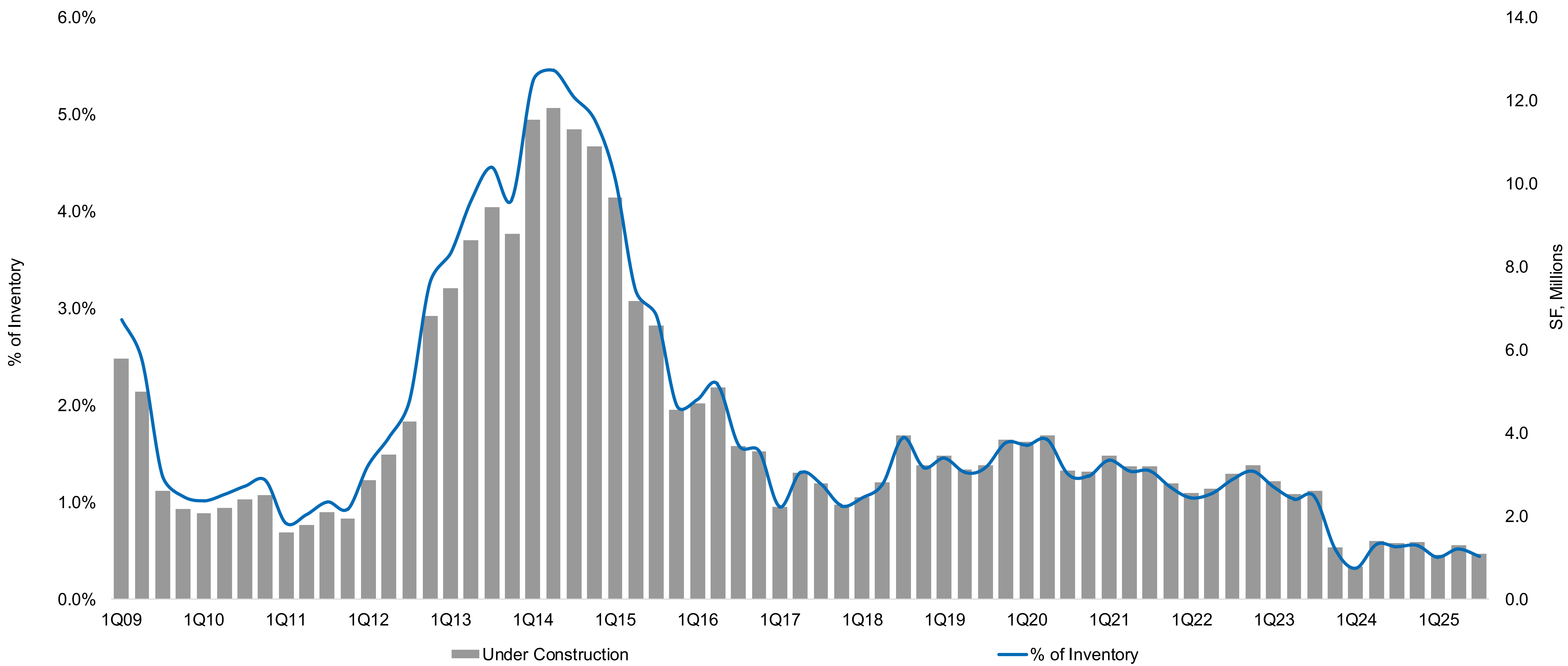


Source: Newmark Research, CoStar

Several Prominent Projects Keep Construction Pipeline Alive

Construction activity has remained relatively muted in the market since 2016. As of the third quarter of 2025, the market had 1.1 MSF under construction*, with 127,746 SF of new construction starts during the quarter. Under construction space accounts for 0.4% 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 (307,904 SF).

Office Under Construction and % of Inventory



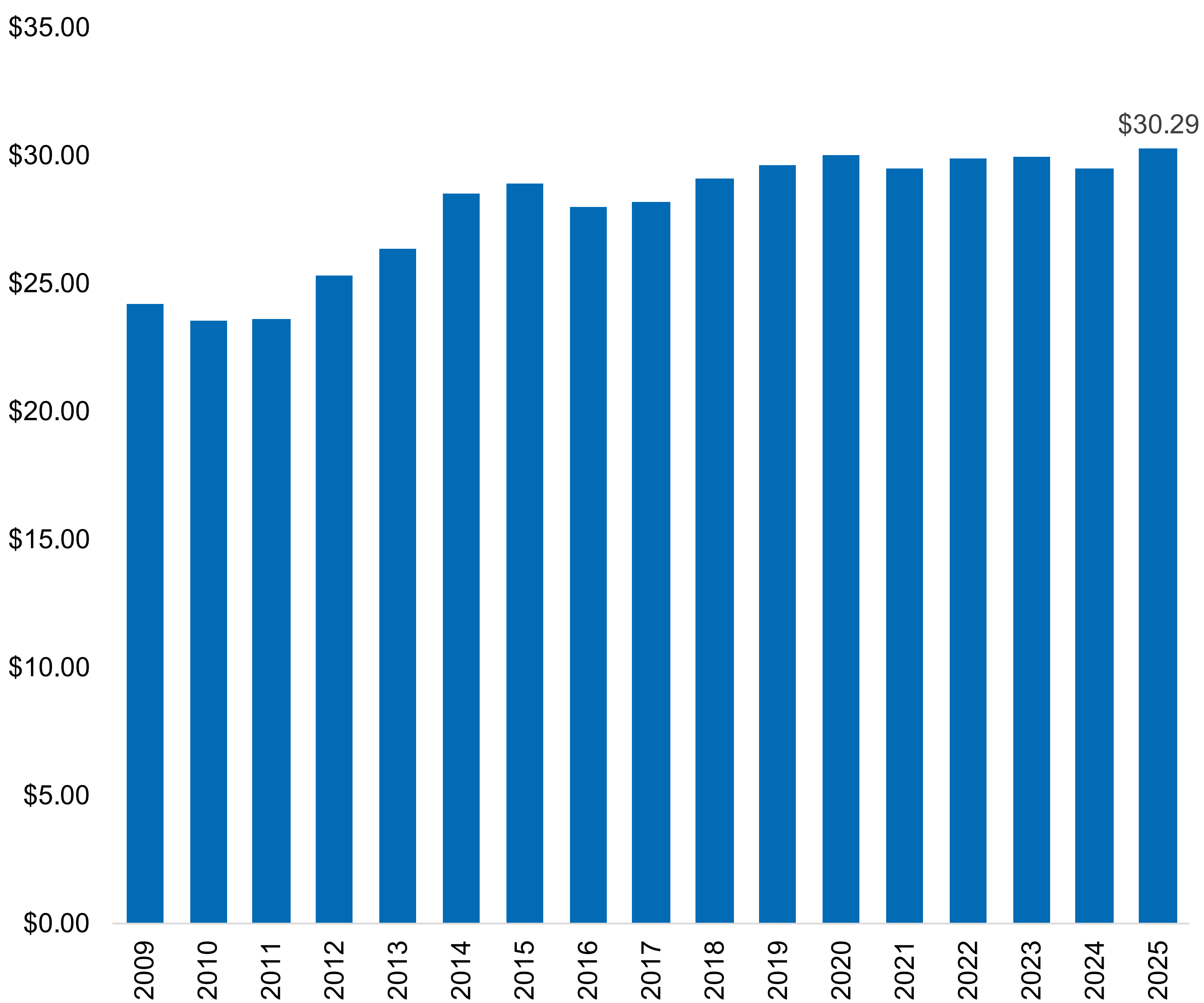
Source: Newmark Research, CoStar

* The bulk of space under construction in 3Q25 is medical office

Rents Spike to Reach New All-Time High

In the third quarter of 2025, asking rents posted solid growth of 2.3% year over year to $30.29/SF, reaching a new all-time high. Overall rates aligned with higher direct rents and reflected stabilization after several quarters of negative or flat growth. The current rent levels are roughly 9.5% higher than historical third-quarter averages, indicating that landlords are holding base rents stable or slightly elevated while offering increased concessions.

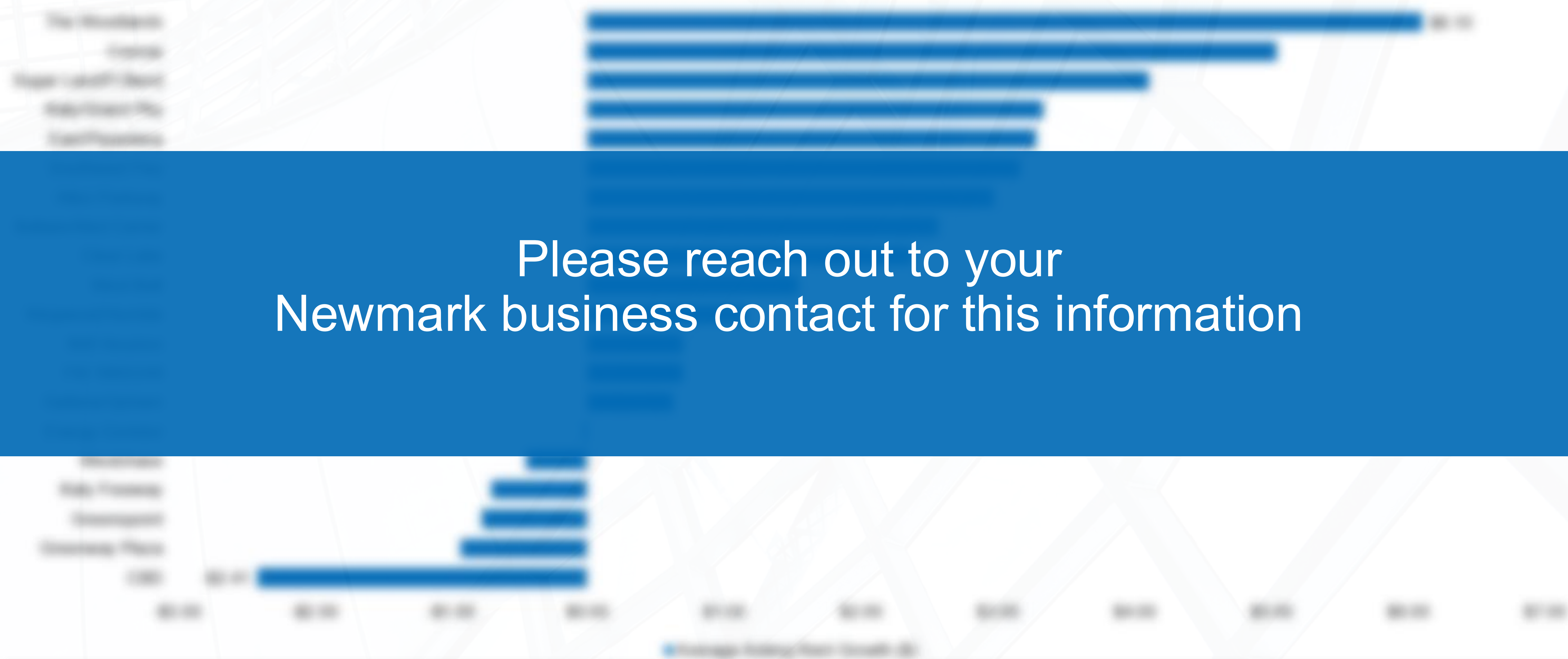
Office Average Asking Rent, $/SF, FS



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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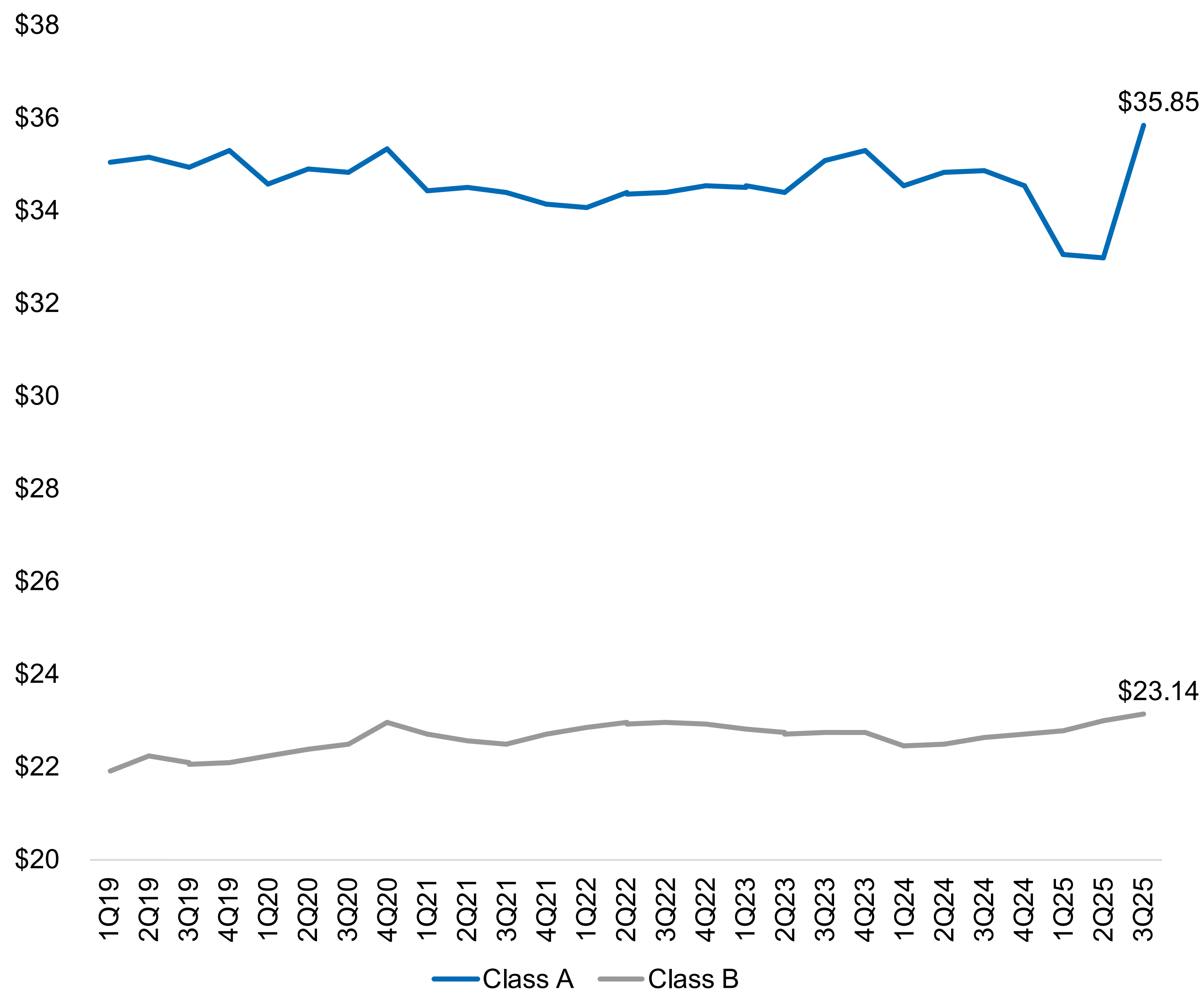
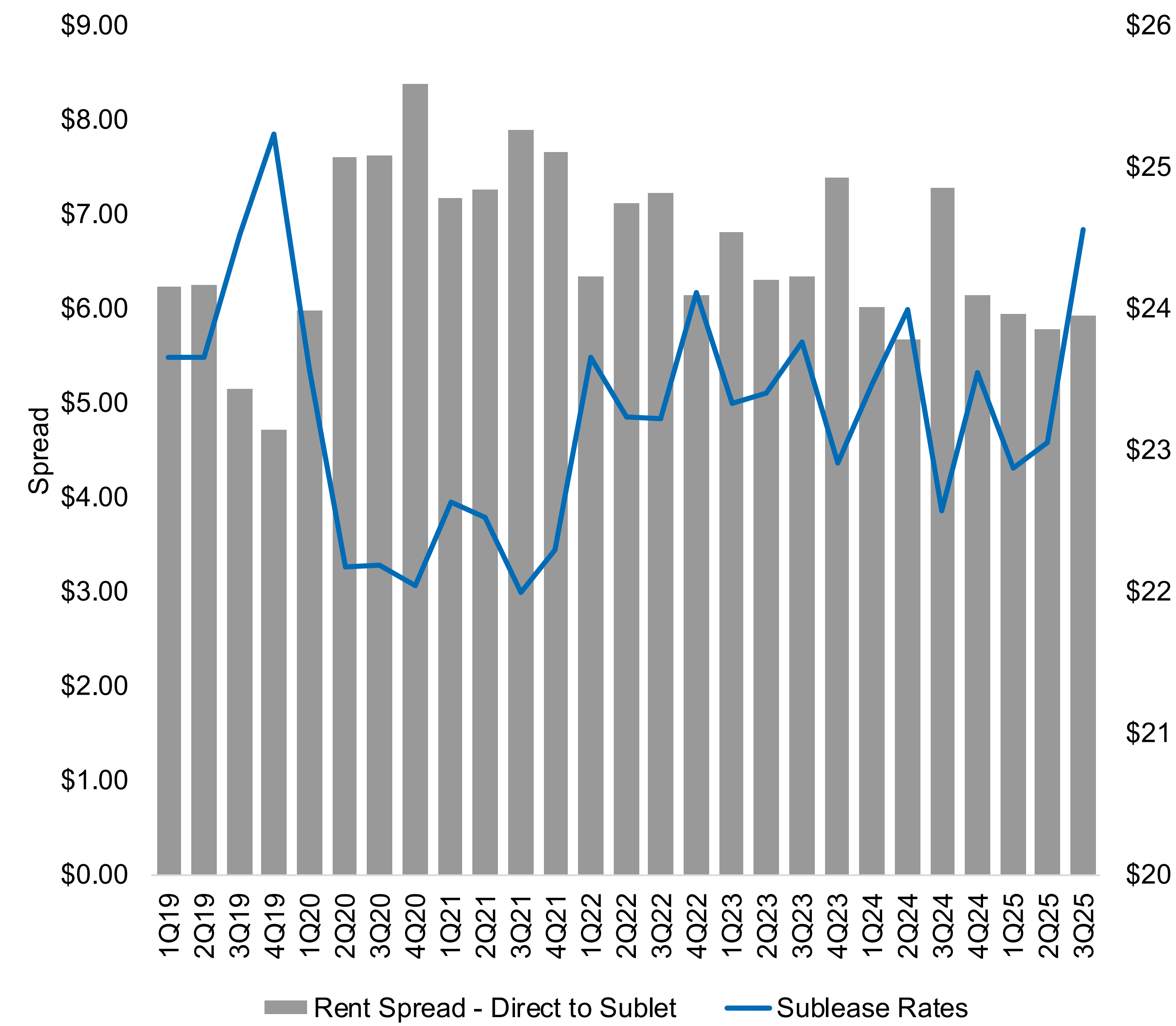
Class A and Sublease Rates are on the Rise

Class A rents ended the third quarter of 2025 at $35.85/SF, while Class B rents rose to $23.14/SF, both reaching new all-time highs. Class A rates increased 8.7% quarter over quarter, reversing a year-long pattern of gradual declines that began in early 2024. The spread between Class A and Class B rents widened to $12.71/SF in the third quarter of 2025, signaling renewed momentum for high-quality space. Class B rents have remained relatively stable, rising 0.6% quarter over quarter, with landlords focusing on occupancy retention through concessions, rather than face-rate increases. After several quarters of stagnation and mild decline, both direct and sublet rates rose notably in the third quarter of 2025, increasing 2.1% and 8.8% year over year, respectively. Direct rents ended the quarter at $30.48/SF while sublease rates totaled $24.56/SF, widening the rent spread quarter over quarter to $5.92/SF. The steady rise in sublet rents suggests diminishing availability of discounted space on the market.

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



Sublease Rates, $/SF, FS



Source: Newmark Research, CoStar

Class A Deal Size Increases, Continues to Drive Market Activity

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 third quarter of 2025, Class A space accounted for 62.7% of the market's leasing activity, but only 28.0% of the market's deal count. Average leases signed in Class A space were 7,646 SF, reflecting an 8.7% increase in size from the previous quarter, and continue to remain larger than the average market deal size of 4,571 SF.

Notable 3Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Williams Companies	Williams Tower	Galleria/Uptown	Renewal/Expansion	412,857
Energy infrastructure firm Williams Companies, renewed and expanded its lease in its namesake tower in the Galleria/Uptown submarket for 412,857 SF. As part of its expansion, Williams Companies is backfilling around 72,000 SF previously occupied by commercial real estate firm CBRE.				
JP Morgan Chase & Co.	9900 Old Katy Rd	Katy Freeway	Renewal	235,000
Global financial services firm JP Morgan Chase & Co. renewed its lease for its consumer contact center at 9900 Old Katy Rd in the Katy freeway submarket. A long-time tenant, JP Morgan Chase has been in the building since 2004.				
Venture Global	5 Houston Center	CBD	Renewal	178,400
Venture Global, a producer of liquified natural gas, renewed its lease for 178,400 SF at 5 Houston Center in the CBD submarket. Venture Global occupies the 13th through 15th and 26th through 27th floors of the building.				
GEICO	21420 Merchants Way	Katy Grand Parkway	Renewal	135,716
Insurance company GEICO renewed its full-building lease of 21420 Merchants Way in the Katy/Grand Parkway submarket, highlighting a larger trend in the market of established tenants remaining in well-located, modern buildings rather than relocate. GEICO has been a tenant in the building since 2013.				
BMC Software	CityWest Place – Building 4	Westchase	Renewal	89,217
BMC Software, a multinational information technology firm, renewed its lease at 2103 City West Blvd in the Westchase submarket, taking a total of 89,217 SF. BMC has been a tenant in the building since the first quarter of 2016.				

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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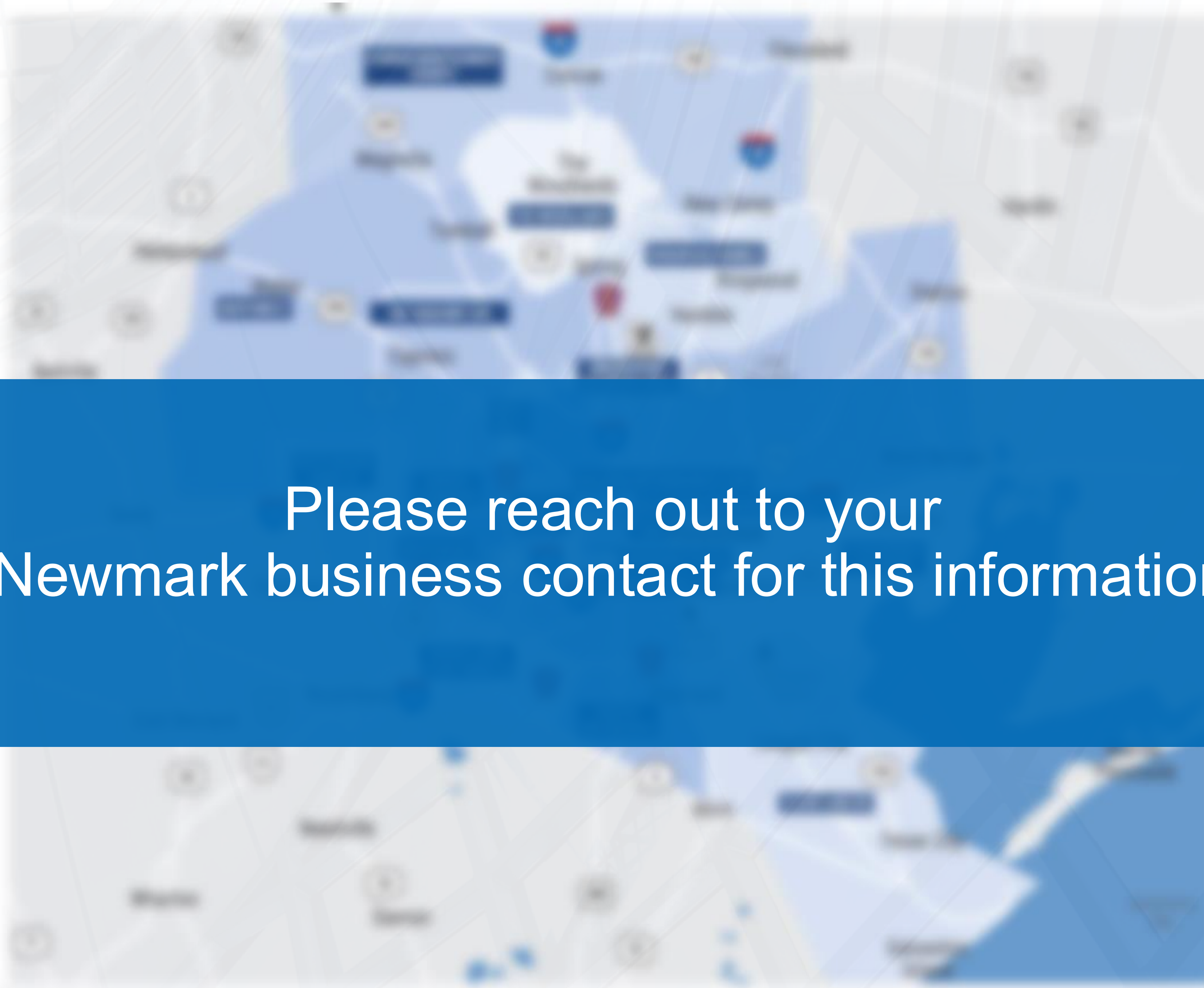
Houston Office Submarket Map



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Appendix

Houston Office Market

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3Q25 Texas Office Market Overview

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