

NEWMARK

Market Overview

Houston Office

3Q26



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Market Observations

Economy

- The Houston market's unemployment rate declined by 12 basis points year over year to 4.5% and remains below the five-year average of 4.7%.
- Job growth slowed by 15 basis points year over year to 0.9%, significantly below the five-year average of 1.7%.
- All sectors except information, financial activities, and manufacturing reported employment growth, with the office-using business and professional services sector leading annual gains at 2.4%.
- Office-using employment grew 1.3% to a record 786,590 jobs at the end of the third quarter of 2026, despite continued job losses in the information and financial activities sectors.

Leasing Market Fundamentals

- Average full-service asking rents rose 2.3% year over year to $31.02/SF during the third quarter of 2026, a 0.2% decline from the record high of $31.08/SF set during the previous quarter. Direct rates declined by 0.2% quarter over quarter to $31.14/SF, while sublease rents climbed 7.7% annually to a high of $26.54/SF, shrinking the direct-to-sublet spread to $4.60/SF.
- Houston's office vacancy rate was 25.6% in the third quarter of 2026, unchanged from the previous quarter and up 30 basis points year over year.
- The third quarter of 2026 closed with 31,374 SF of negative absorption, bringing year-to-date absorption to 55,335 SF and extending yearly positive demand seen in 2025 after net move-outs in 2024.
- Total leasing activity closed the quarter at 2.6 MSF, down 17.9% quarter over quarter and 22.4% year over year, bringing year to date leasing activity to 8.9 MSF. This marks the second consecutive quarter and year of declining leasing activity and reflects a 42.4% decrease in leasing activity as compared to the 16-year third-quarter leasing average.

Major Transactions

- Harris County Flood Control District signed the largest lease of the third quarter of 2026, relocating to 86,743 SF of space at Westway III.
- In line with Houston's reputation as a major global energy hub, energy and energy-adjacent companies, namely Marathon Petroleum and Michels, signed the second and fourth largest leases of the quarter.
- Amid slowing leasing activity, Class A space captured the majority of leased square footage in the third quarter of 2026. Class A transactions totaled 1.7 MSF, accounting for 65.5% of the market's leasing activity, indicating that occupiers are taking or retaining space in high-quality assets.
- Houston's largest lease transactions were almost evenly split between direct leases and renewals in the third quarter of 2026, with one sublease rounding out the activity. Continuing recent trends, the market's largest deals were largely concentrated outside of the CBD and large tenants are migrating westward.

Outlook

- Investment in the Houston market will likely take a measured approach near term as elevated vacancies, rising financing costs, and a muted development pipeline slow 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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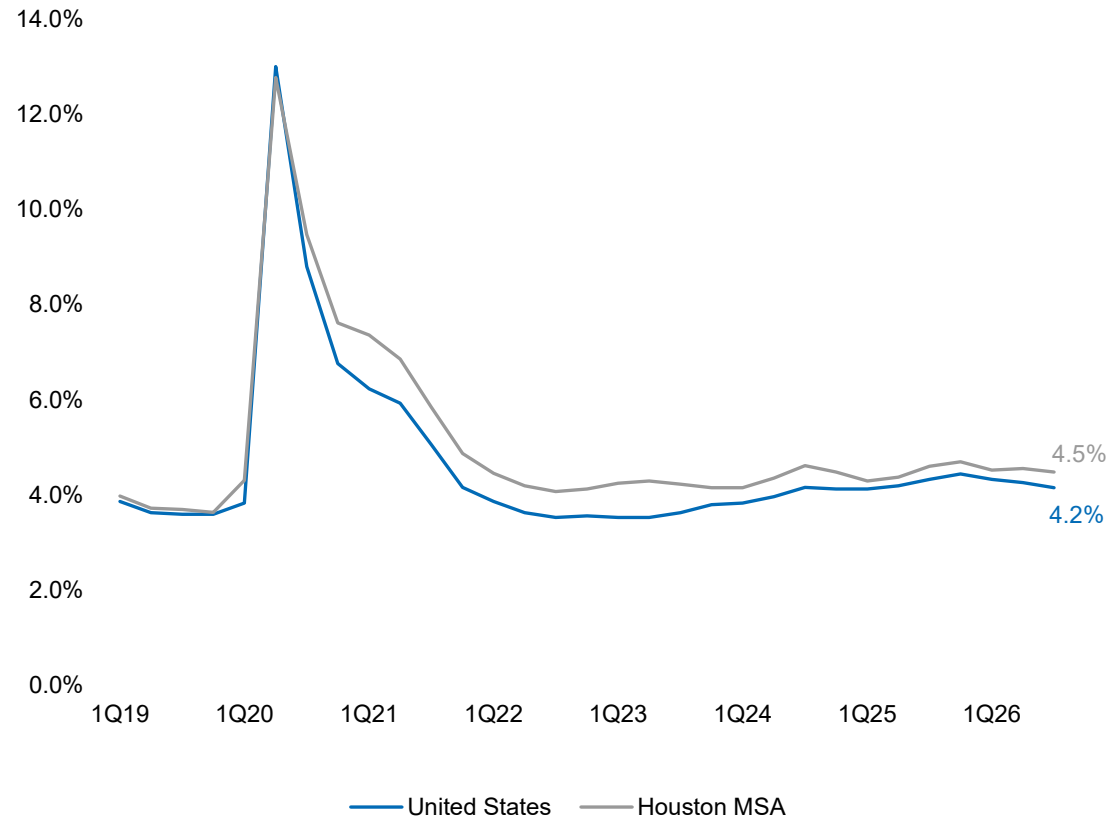
Economy



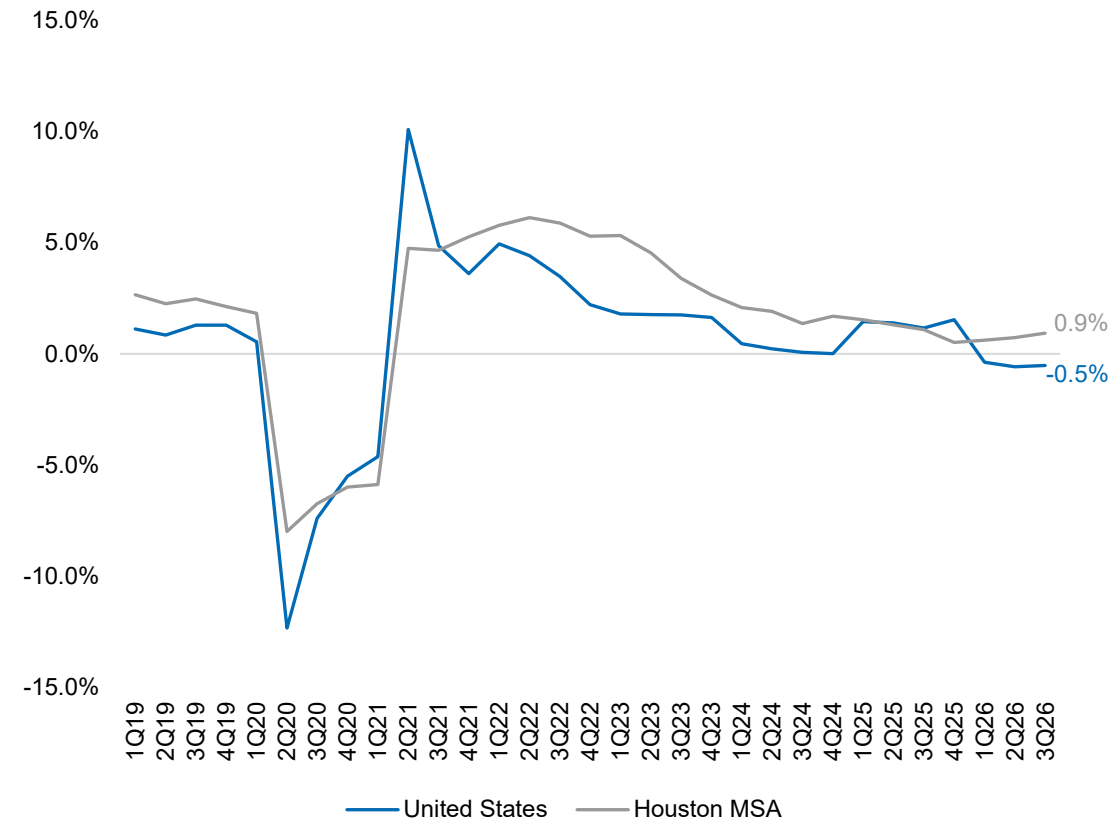
Unemployment Remains Above National Average While Job Growth Picks Up

Houston has historically maintained an unemployment rate above the national average, while generally outperforming in year-over-year employment growth. As of the third quarter of 2026, the market's unemployment rate closed at 4.5%, decreasing by 12 basis points year over year and remaining higher than the national rate. Meanwhile, the market reported 0.9% year over year employment growth in the third quarter of 2026 and continues to outperform the nation. This is the highest annual growth rate reported since the end of 2025. The annual employment growth rate reached its highest level since the end of 2025. Regional employment increased by 6,980 jobs during the third quarter of 2026, remaining above the 3.5 million-job threshold first surpassed in the previous quarter.

Unemployment Rate, Seasonally Adjusted



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

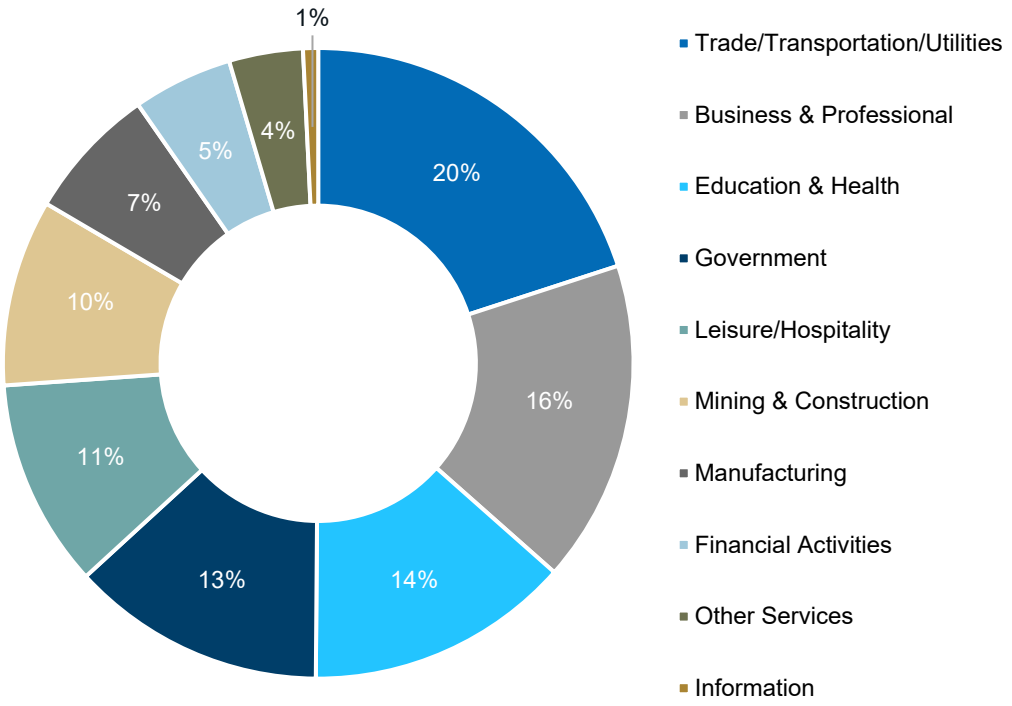


Source: Oxford Economics, Houston MSA

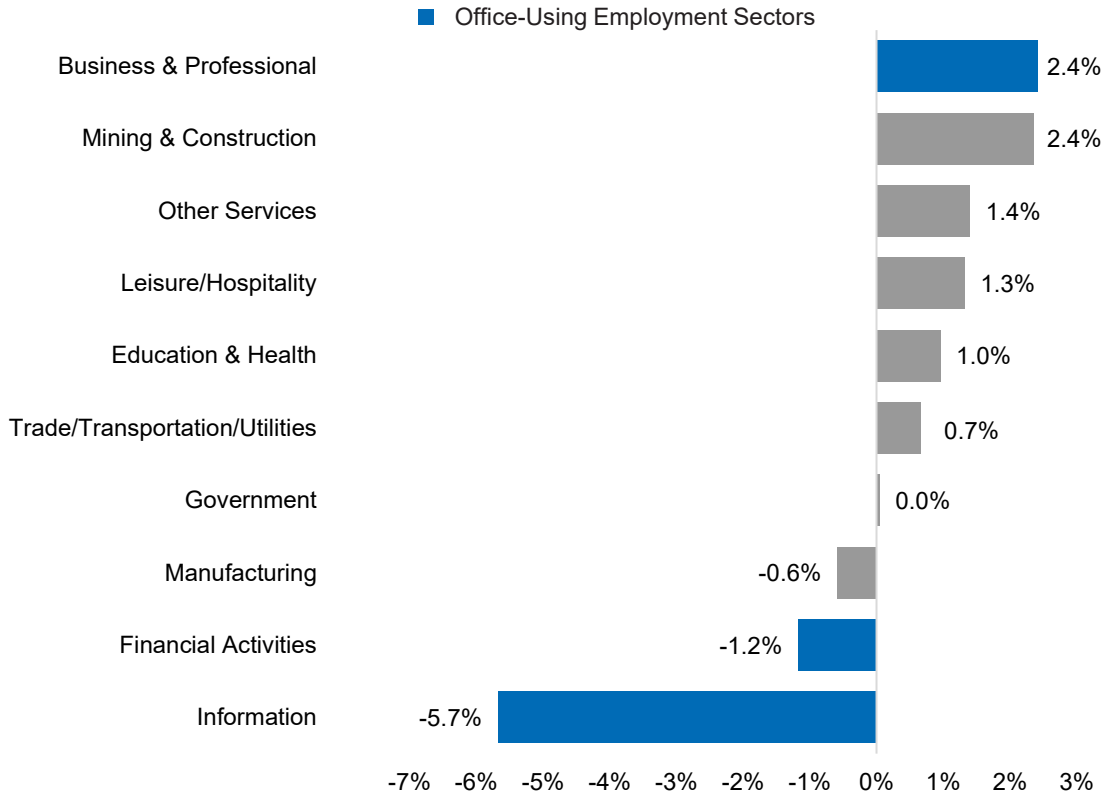
Most Office-Using Sectors Report Annual Declines

As of the third quarter of 2026, Houston's two largest employment sectors, trade/transportation/utilities and business and professional services, account for 36.5% of the workforce. The office-using business and professional services sector composes 16.5% of total employment. Employment growth was generally positive; however, most office-using employment sectors reported annual declines. Two of the three office-using sectors contracted, as financial activities and information decreased 1.2% and 5.7%, respectively. Despite those losses, business and professional services tied with mining and construction for the highest annual growth of 2.4%. Despite recent softness in office-using employment, six out of 10 sectors reported growth, with government unchanged – highlighting Houston's diversified economy and supporting long-term employment stability.

Employment by Industry, 3Q26



Employment Growth by Industry, 12-Month % Change, 3Q26

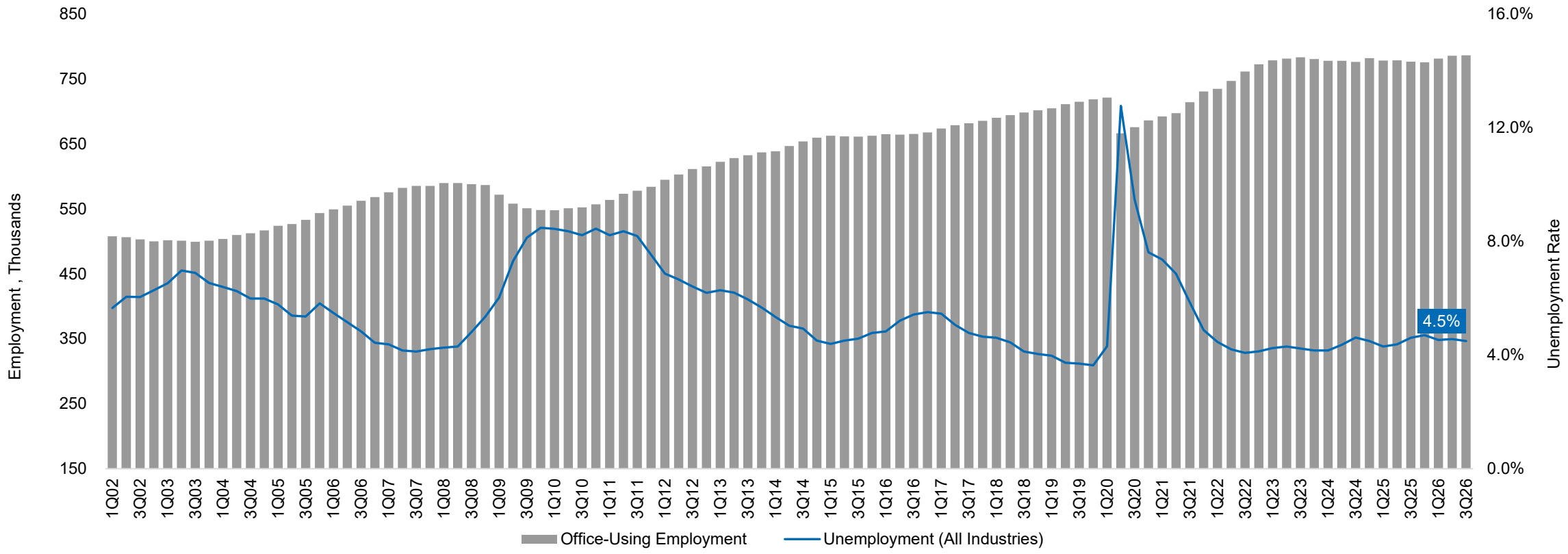


Source: U.S. Bureau of Labor Statistics, Houston MSA

Gains in Business and Professional Services Push Office-Using Employment to New High

Houston's office-using employment increased 1.3% year over year to 786,590 jobs, as of September 2026. Annual job gains in business and professional services more than offset losses reported in financial activities and information to push total office-using employment to a record high, reflecting 9.4% growth since the pre-pandemic period. Coinciding with the growth in office-using jobs, the unemployment rate declined by 12 basis points annually to 4.5%. This trend may continue as firms look to relocate to Houston despite national economic headwinds. As labor market conditions stabilize, Houston's historically elevated office-using employment base should be well positioned to support future office demand.

Office-Using Employment* and Unemployment Rate Across All Industries



Source: Oxford Economics, Houston MSA

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

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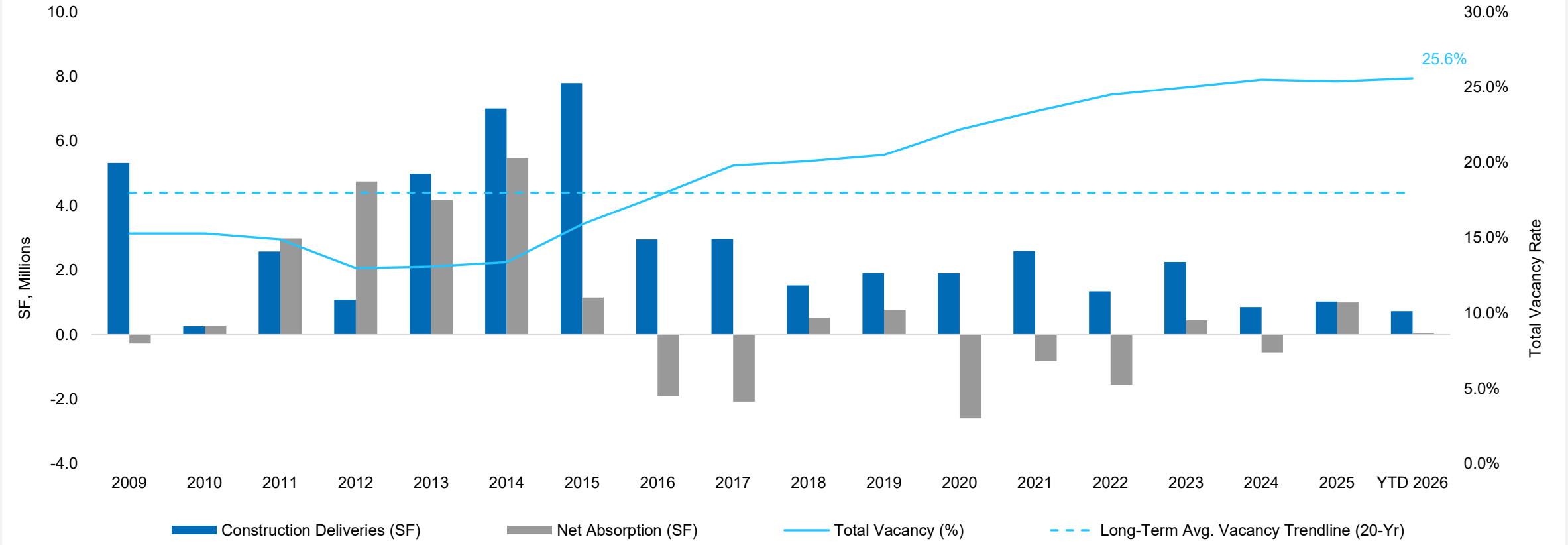
Leasing Market Fundamentals



Vacancy Holds Near Record High Despite Positive Demand

Houston's office vacancy rate was 25.6% in the third quarter of 2026, unchanged from the previous quarter and up 30 basis points year over year. Houston recorded 31,374 SF of negative net absorption in the third quarter, but year-to-date net absorption remained positive at 55,335 SF. On the supply side, 731,036 SF of new construction has delivered year to date, including CityCentre Six in the Katy Freeway submarket and The RO in the Greenway Plaza submarket. With deliveries largely pre-leased and the construction pipeline thinning, vacancy is expected to remain elevated but stable in the near term as limited new supply helps temper vacancy spikes. Vacancy will remain elevated until obsolete building stock is renovated or removed from the office inventory.

Historical Construction Deliveries, Net Absorption, and Vacancy

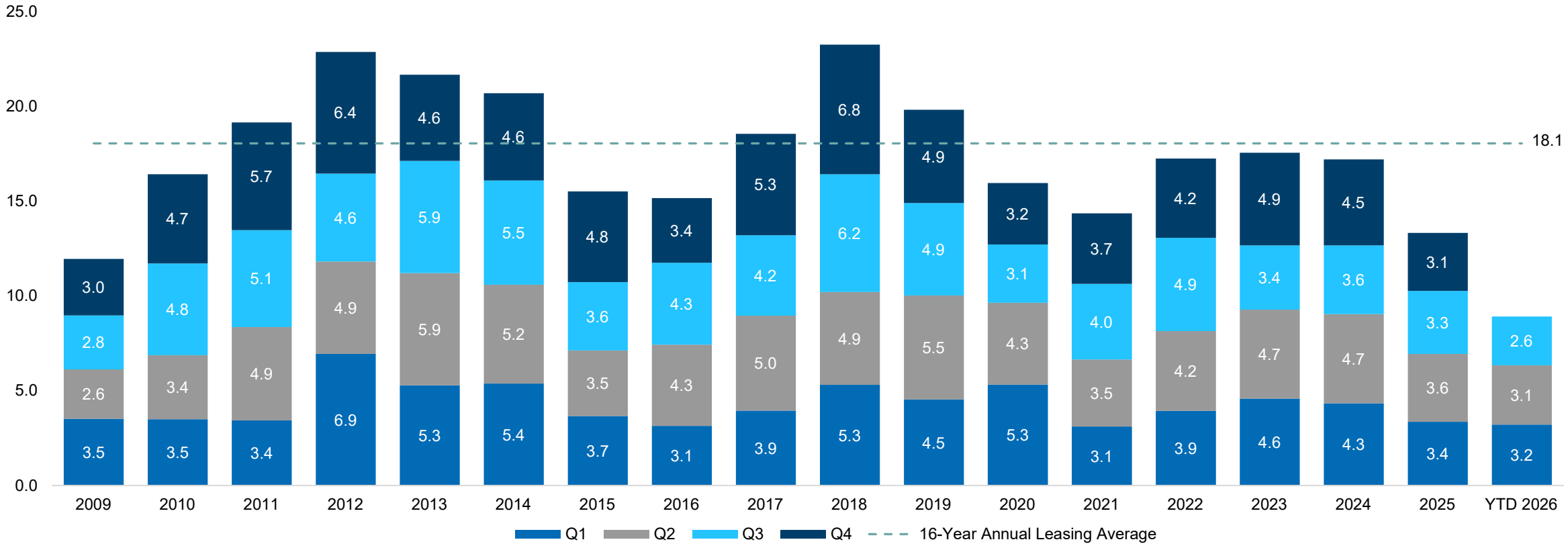


Source: Newmark Research, CoStar

Third-Quarter Leasing Declines for a Second Consecutive Year

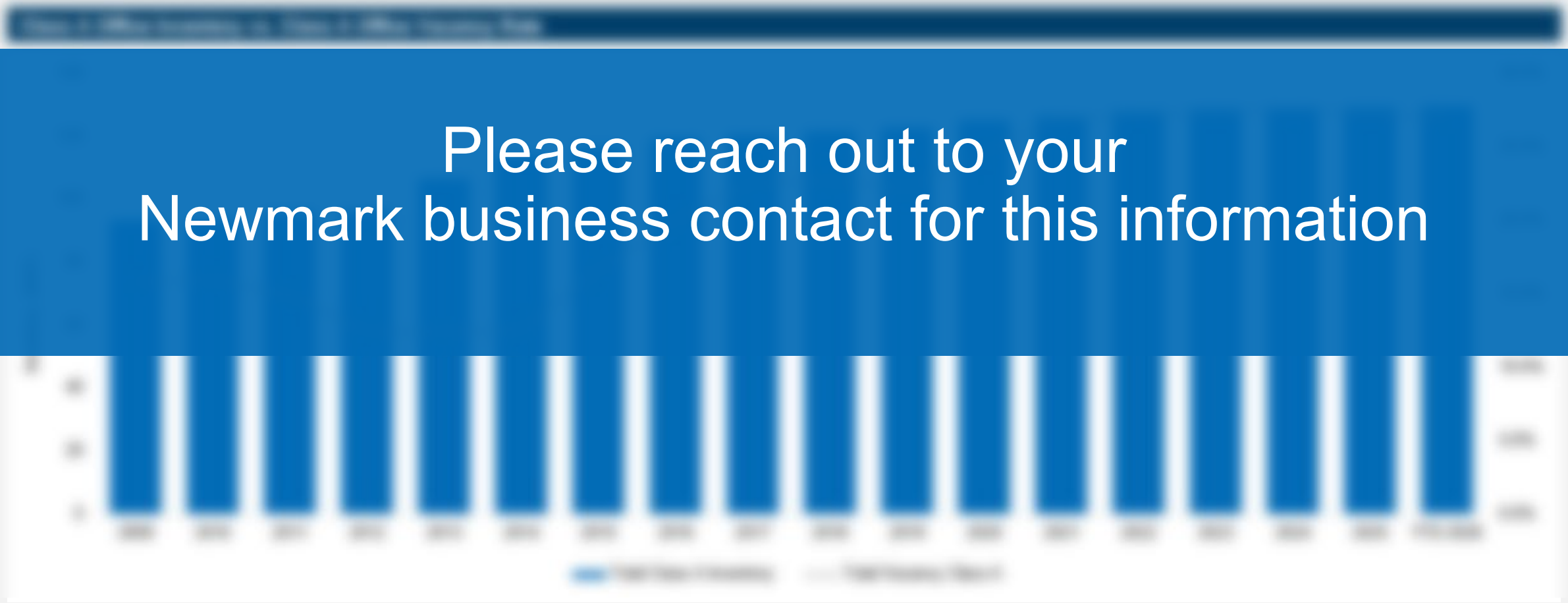
Leasing activity in the Houston market totaled 2.6 MSF in the third quarter of 2026, down 17.9% from the previous quarter and marking the second consecutive quarterly decline. Volume also fell 22.4% year over year, the second consecutive annual decline in third-quarter leasing, and was 42.4% below the 16-year third-quarter average. Year-to-date leasing totaled 8.9 MSF, the lowest first-three-quarter total since 2009.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Flight-to-Quality Persists as Class A Vacancy Holds in a Narrow Band



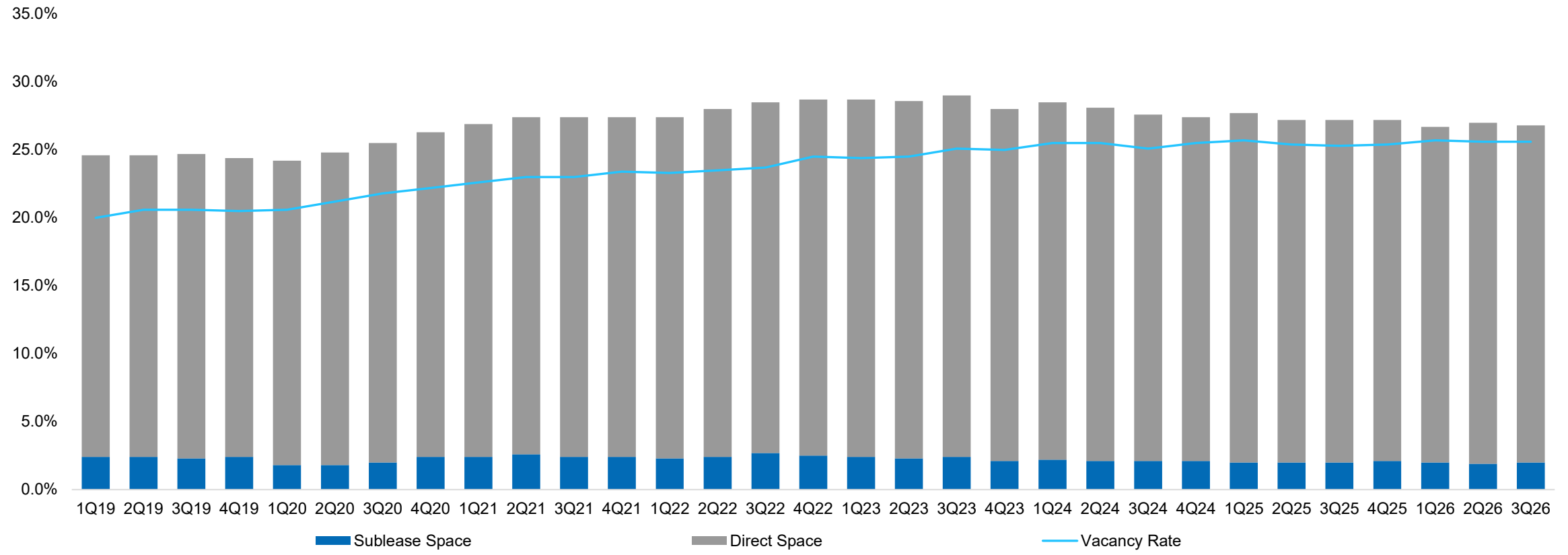
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Source: Newmark Research, CoStar

Availability Drops as Vacancy Holds Flat

Sublease availability in the Houston market has remained relatively stable, with rates hovering between 1.9% and 2.2% over the last eleven quarters. In the third quarter of 2026, sublease availability was 2.0%, rising 10 basis points from the previous quarter and near the low end of that range. While direct availabilities have generally risen since the pandemic, they have declined 180 basis points from the historic peak of 26.6% set in the third quarter of 2023 to 24.8% in the third quarter of 2026, reflecting quarterly and annual decreases of 30 and 40 basis points, respectively. Vacancy was unchanged on a quarterly basis at 25.6%, but remains 30 basis points higher annually. With sublease availability holding steady and direct availability well below its peak, market conditions appear poised for gradual improvement in the coming quarters.

Available Space as Percent of Overall Market

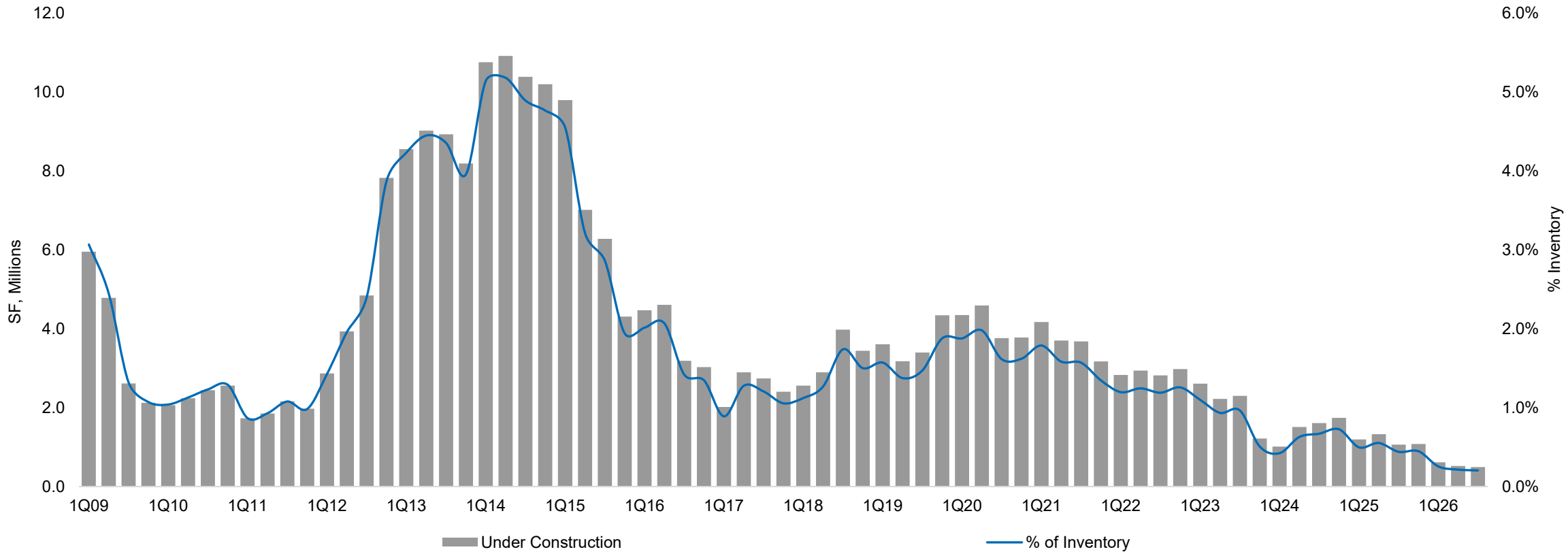


Source: Newmark Research, CoStar

Construction Pipeline Continues to Fall to All-Time Lows

Construction activity in the Houston office market has wound down steadily since the third quarter of 2020. As of the third quarter of 2026, the construction pipeline fell to an all-time low of 492,662 SF, a decline of 25,900 SF from the prior quarter following the recent completion of The RO. Under-construction space continues to account for only 0.2% of the market's inventory, the lowest share recorded since 2009. The non-medical office projects currently underway include Autry Park and 2811 Kirby, which are slated to deliver 127,651 SF and 104,434 SF, respectively. Elevated vacancies, tenant downsizing, and capital constraints are expected to keep speculative development and future supply additions tempered.

Office Under Construction* and % of Inventory

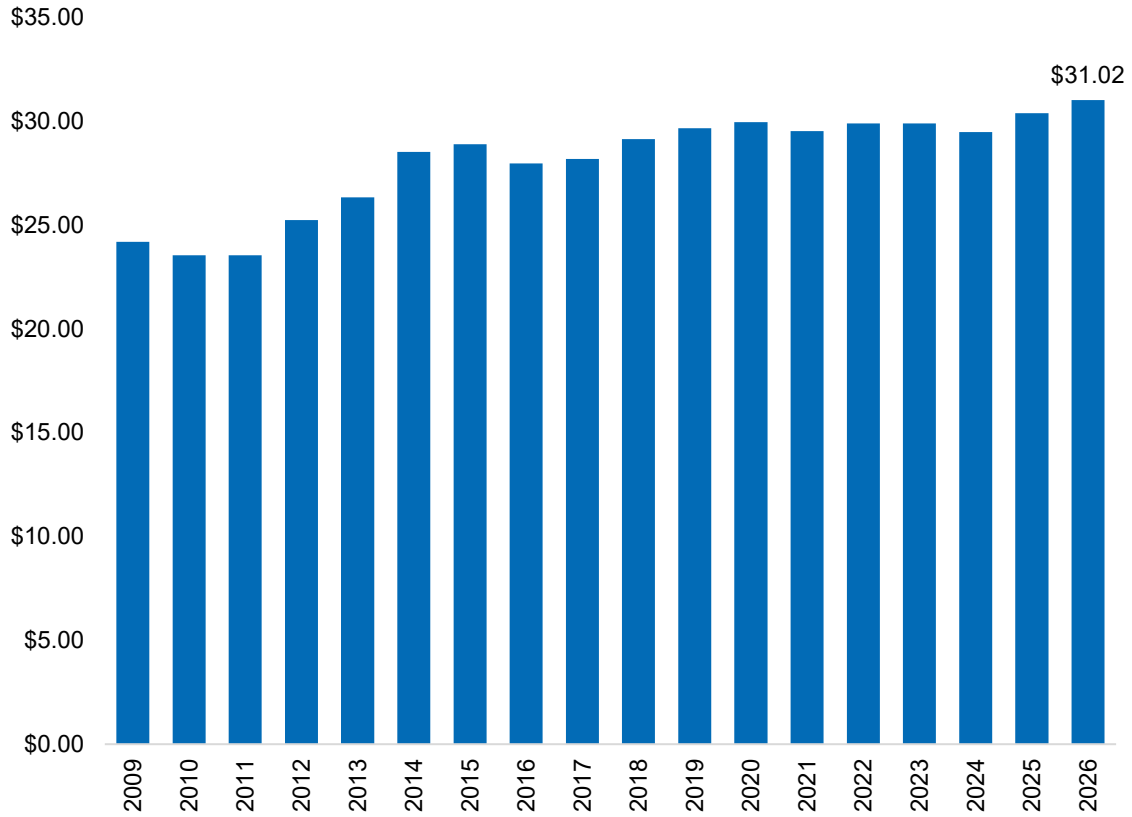


Source: Newmark Research, CoStar
*Includes medical office

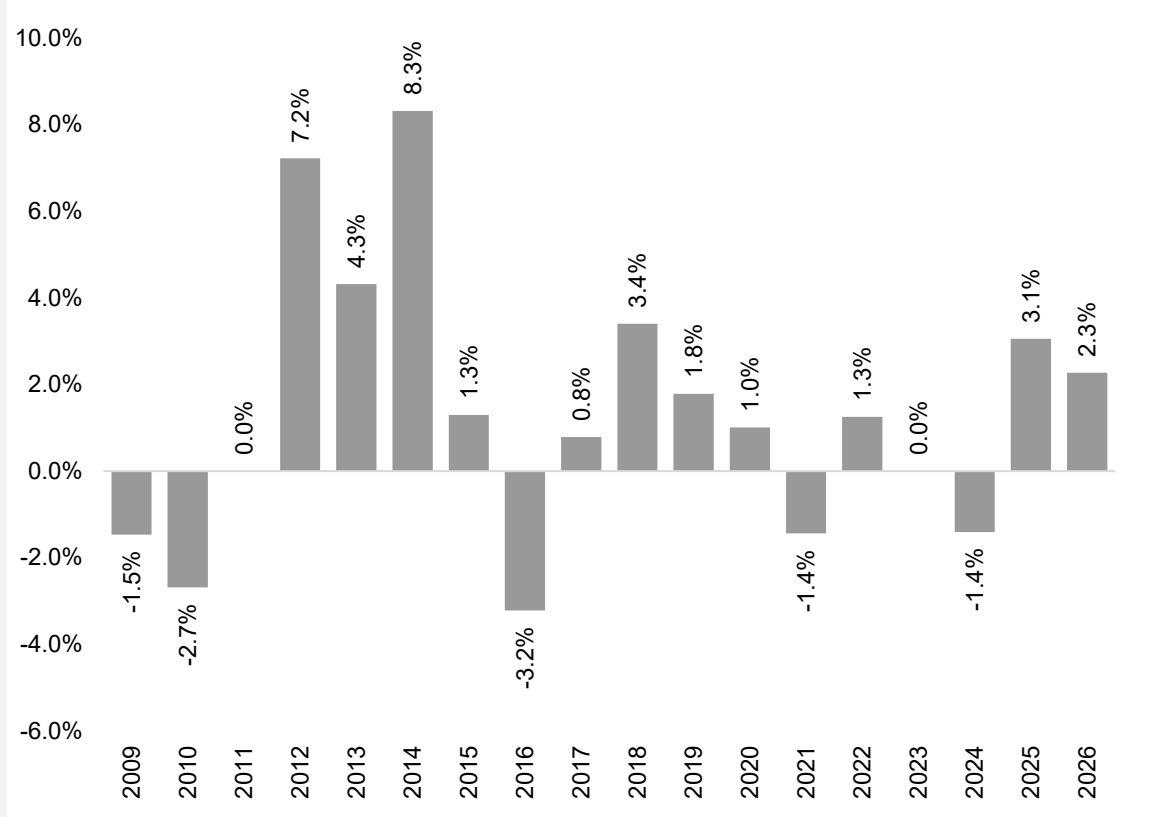
Asking Rents Modestly Decline from All-Time High

In the third quarter of 2026, asking rents posted annual growth of 2.3% year over year, rising from $30.33/SF a year earlier to $31.02/SF. However, rents closed the quarter slightly below the record high of $31.08/SF set during the previous quarter, reflecting a modest decline of 0.2%. The latest quarter reflects a normalization of rent growth when compared to the 6.4% and 8.3% annual jumps in asking rents reported during the first and second quarters of 2026. This suggests landlords are holding base rents stable or slightly declining while offering increased concessions to entice tenants. While the annual rent growth points to some pricing power in select segments, elevated availability and tenant leverage should temper future gains, with rent growth expected to stay concentrated in the highest-quality assets.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

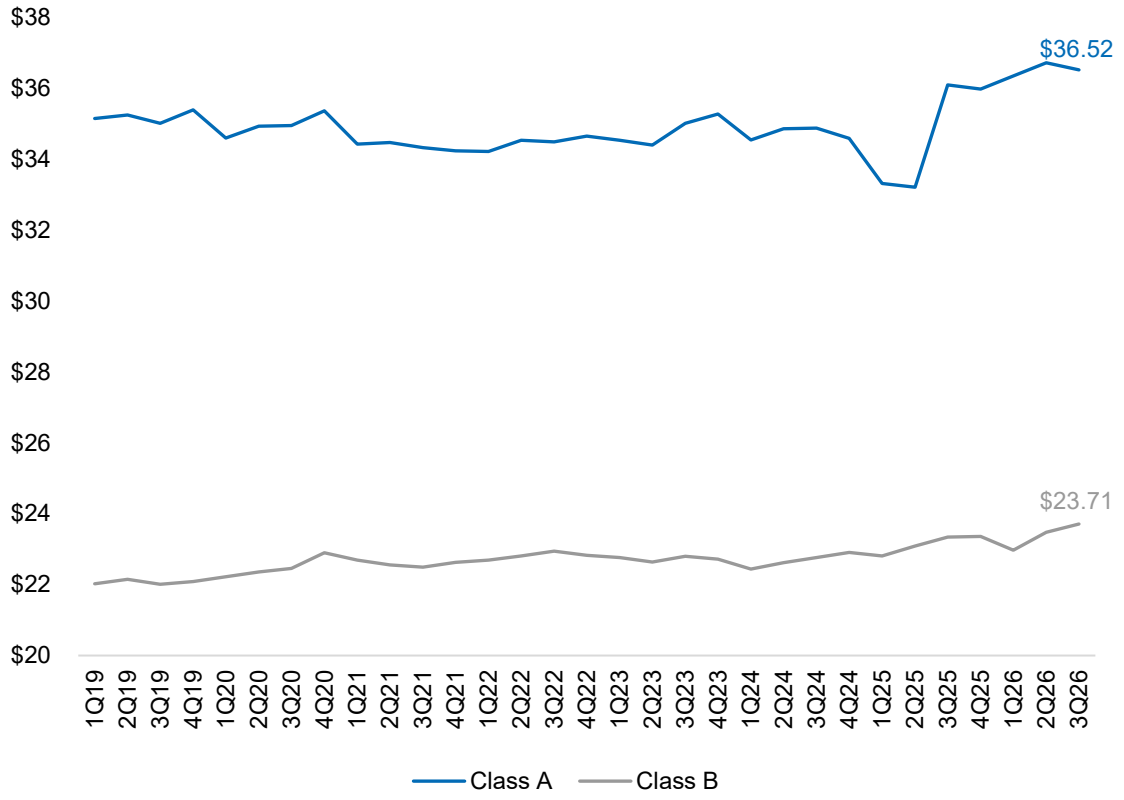


Source: Newmark Research, CoStar

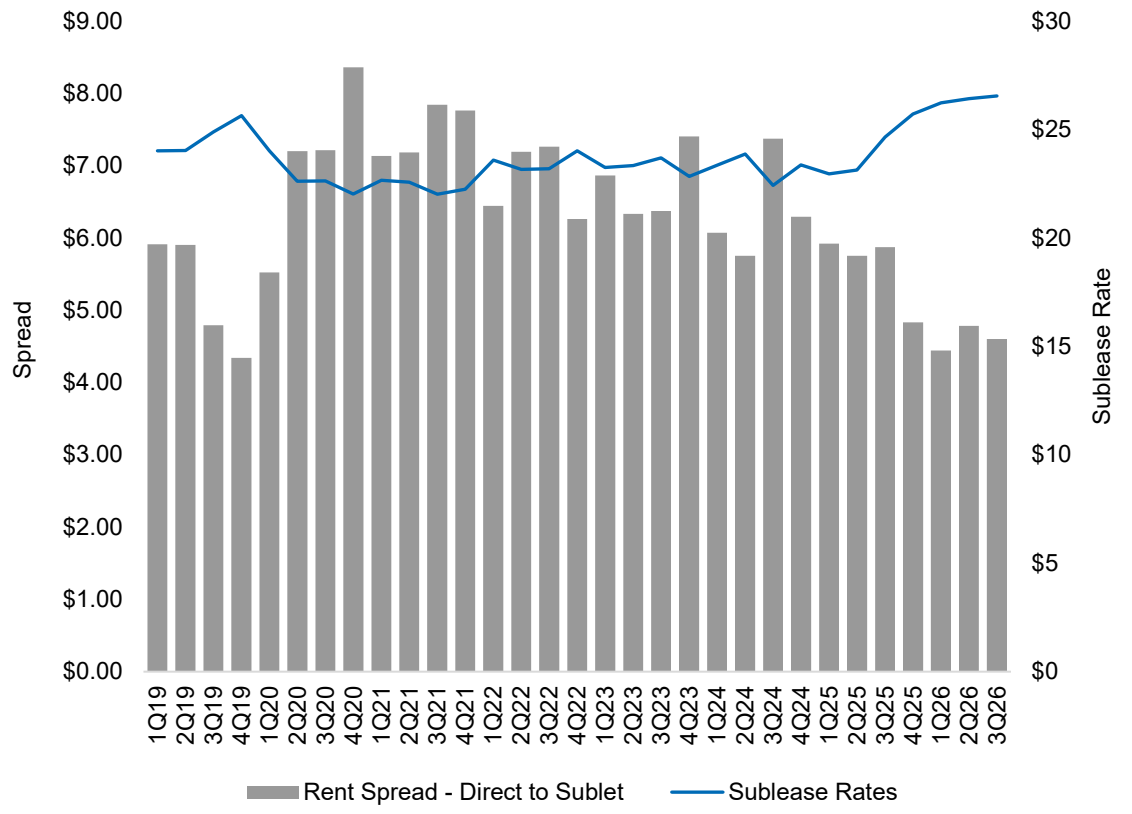
Rent Spreads Narrow as Class B and Sublease Rents Rise

In the third quarter of 2026, Class A asking rents declined 0.5% quarter over quarter to $36.52/SF, while Class B asking rents rose 1.0% to a record $23.71/SF. The spread between the two classes narrowed by $0.43/SF to $12.81/SF, continuing a trend that began in the first quarter of 2026. Sublease asking rents increased 7.7% year over year to a record $26.54/SF, while direct asking rents declined 0.2% from the previous quarter's record high to $31.14/SF. The direct–sublease rent spread consequently narrowed to $4.60/SF from $4.78/SF in the previous quarter.

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



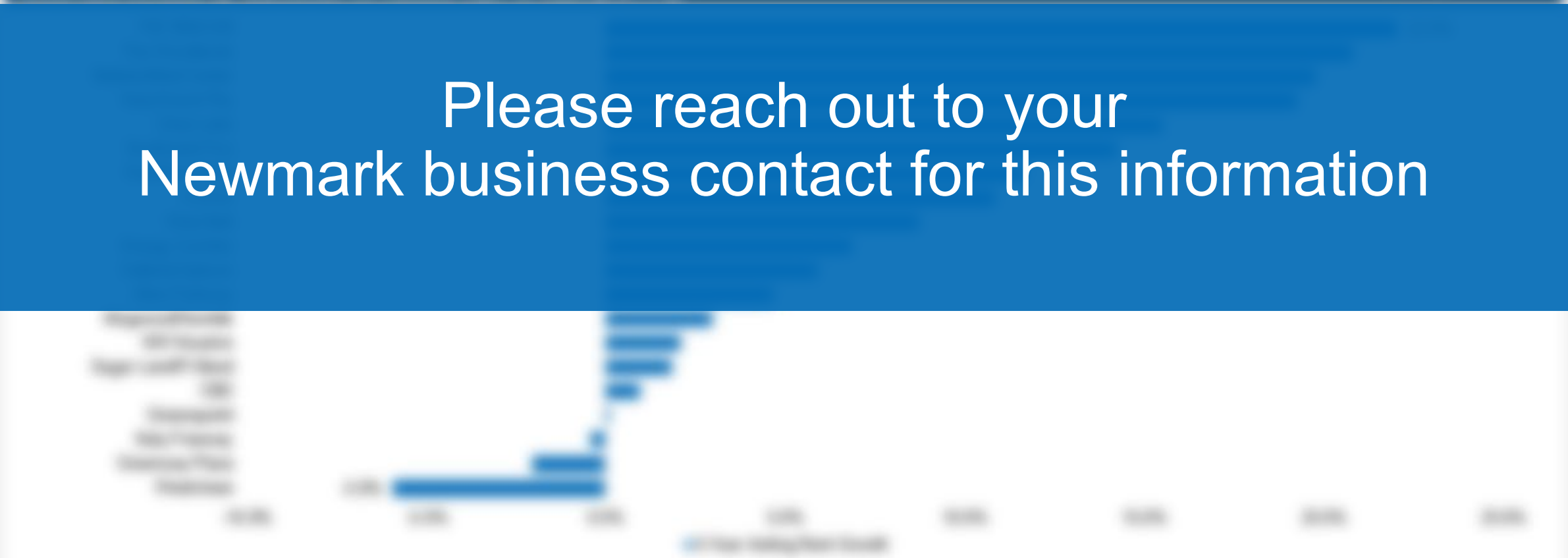
Sublease Rates, $/SF, FS



Source: Newmark Research, CoStar

Strongest Five-Year Rent Growth Reported in Northern Suburban Submarkets

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Source: Newmark Research, CoStar

Class A Accounts for Majority of Leased Space

Amid slowing leasing activity, Class A space captured the majority of leased square footage in the third quarter of 2026. Class A transactions totaled 1.7 MSF, accounting for 65.5% of the market's leasing activity, indicating that occupiers are taking or retaining space in high-quality assets. Houston's largest lease transactions were almost evenly split between direct leases and renewals in the third quarter of 2026, with one sublease rounding out the activity. In line with Houston's reputation as a major global energy hub, energy and energy-adjacent companies, namely Marathon Petroleum and Michels, signed the second and fourth largest leases of the quarter. Continuing recent trends, the market's largest deals were largely concentrated outside of the CBD and large tenants are migrating westward.

Notable 3Q26 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Harris County Flood Control District	Westway III	West Belt	Direct New	86,743
Newmark represented Harris County Flood Control District when it signed the largest lease of the third quarter of 2026, relocating its office to 4425 Westway Park Boulevard. It is expected to occupy the new office during the first half of 2027.				
Marathon Petroleum	One Allen Center	CBD	Renewal	56,748
Energy company Marathon renewed and more than doubled its office footprint at 500 Dallas Street to the 29th and 30th floors. The firm had previously only occupied the 29th floor since 2021.				
Target Hospitality	Two Hughes Landing	The Woodlands	Direct New	52,234
Houston-based corporate housing and relocation logistics provider Target Hospitality relocated and expanded its corporate headquarters from Building 2 of 9320 Lakeside Boulevard to 1790 Hughes Landing Boulevard.				
Michels	Woodbranch Plaza III	Energy Corridor	Sublease	50,380
Wisconsin-based construction and infrastructure company Michels sublet the second and third floors of 12140 Wickchester Lane. The office space had been leased to Rimkus prior to this.				
Spaces	Central Park Two	Galleria/Uptown	Renewal	37,395
Coworking company Spaces renewed and contracted its footprint to the second and third floors of 1980 Post Oak Boulevard. The company had earlier occupied the first through third floors since 2018.				

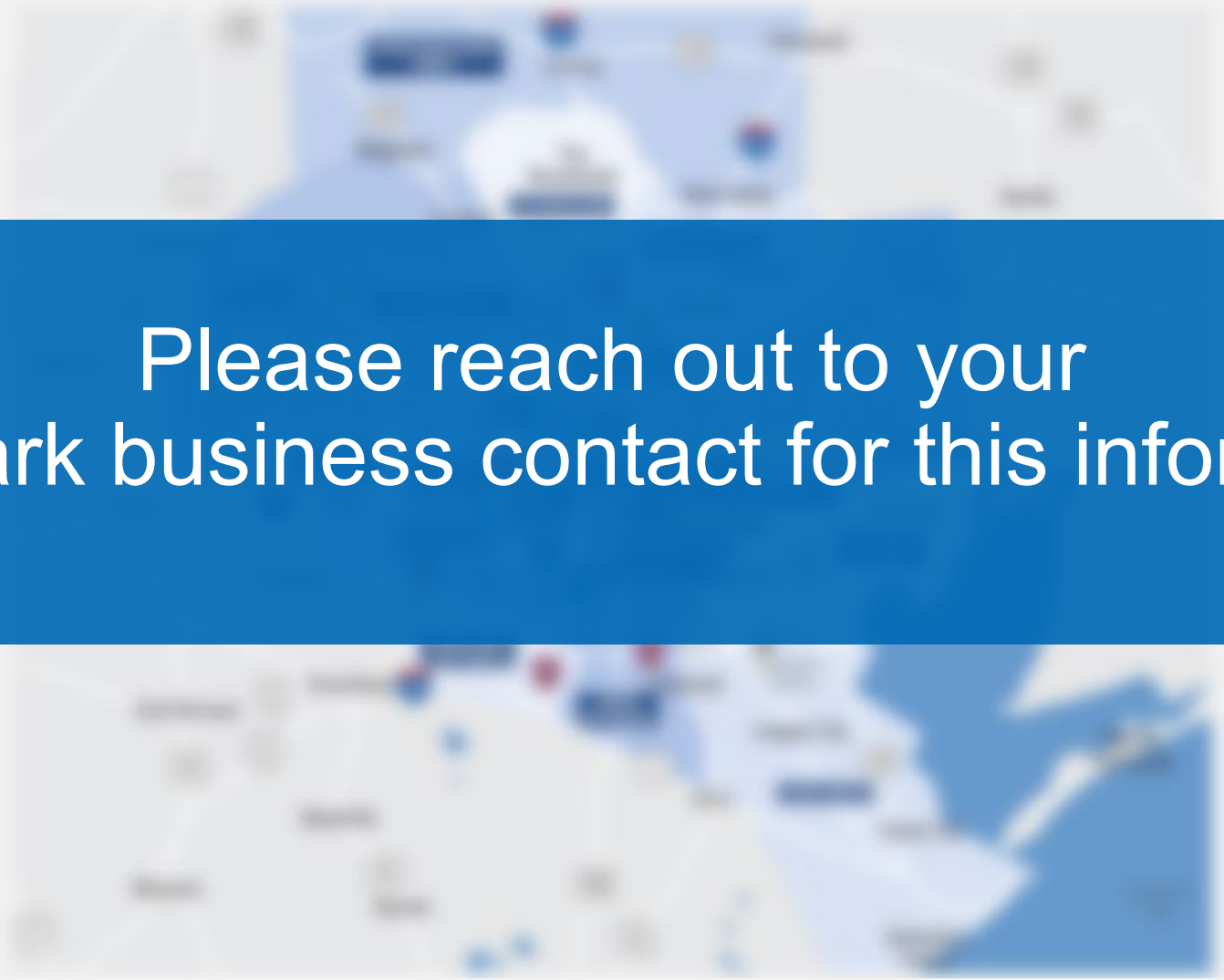
Source: Newmark Research, CoStar

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Market Statistics & Map



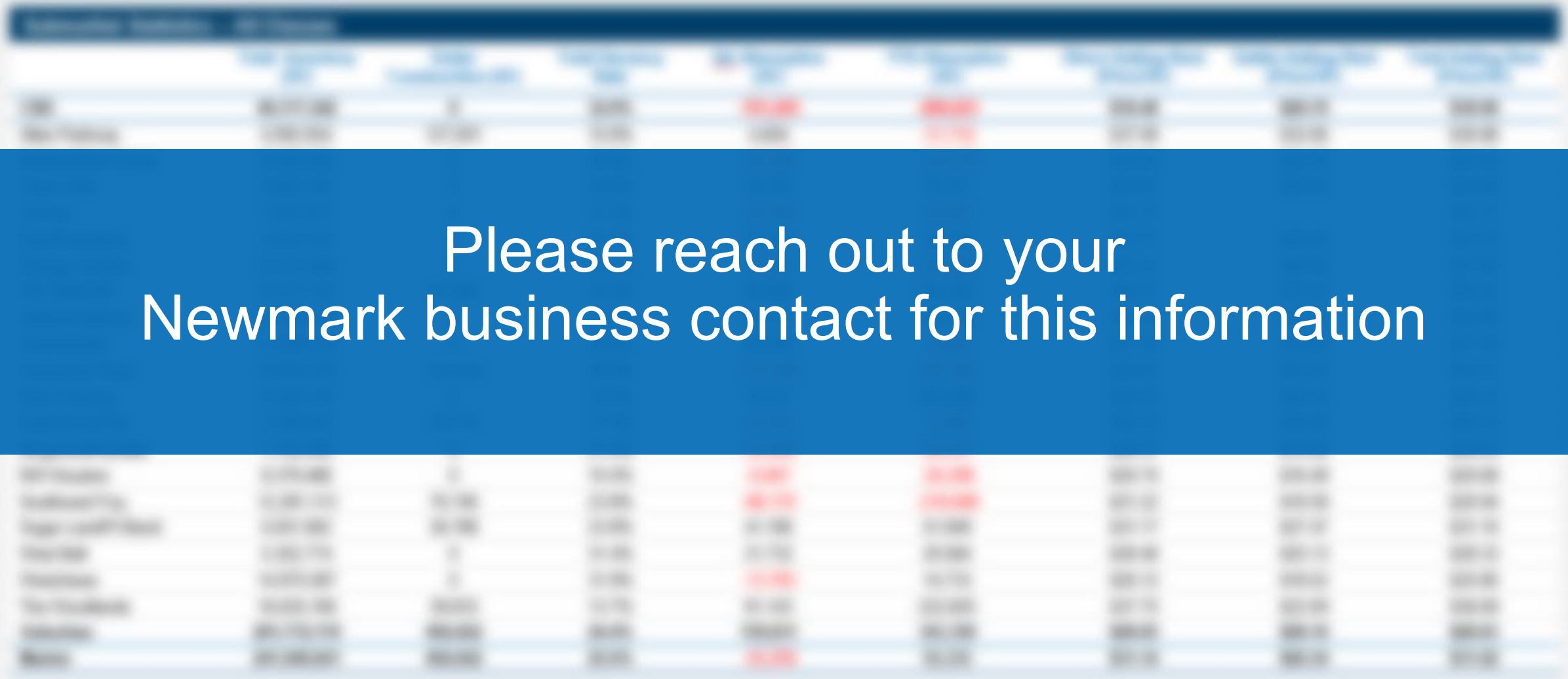
Houston Office Submarket Map



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Source: Newmark Research

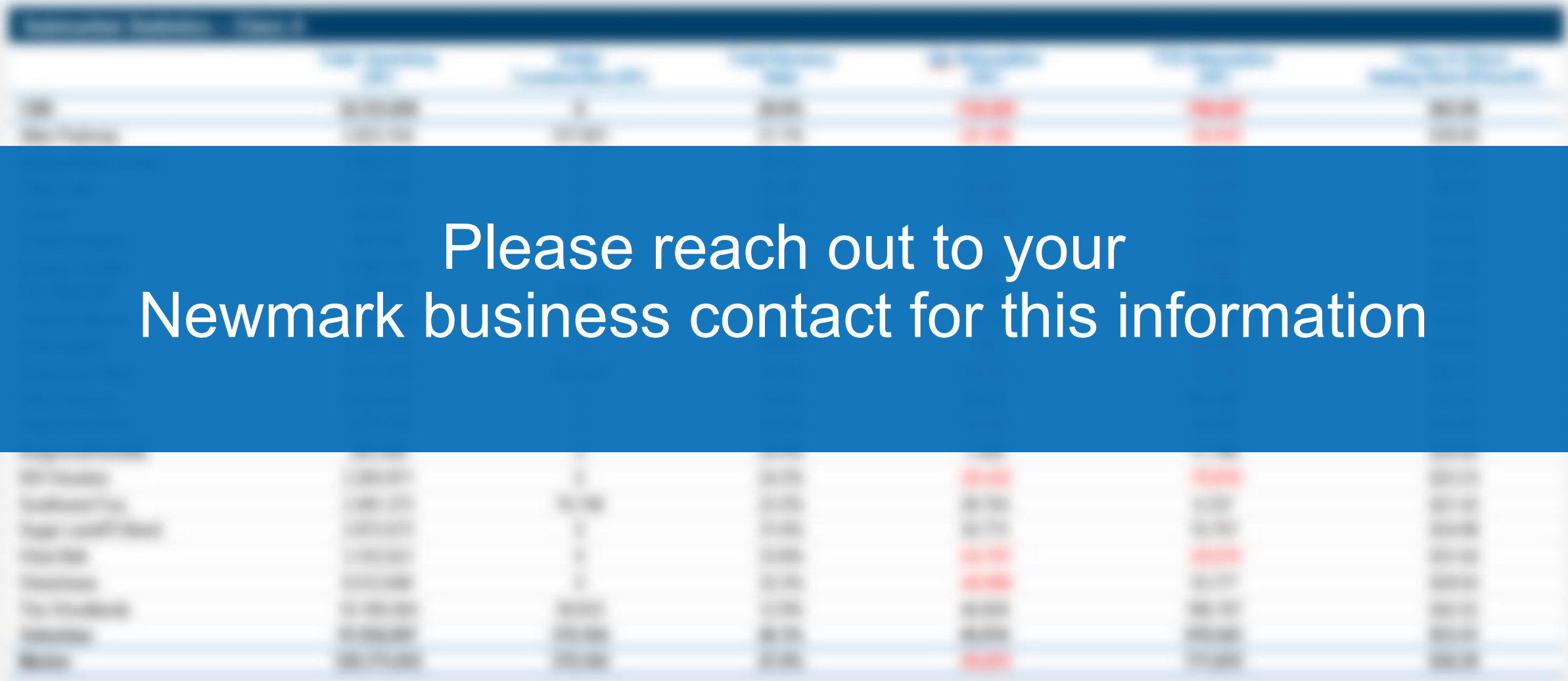
Houston Office Submarket Overview



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Source: Newmark Research

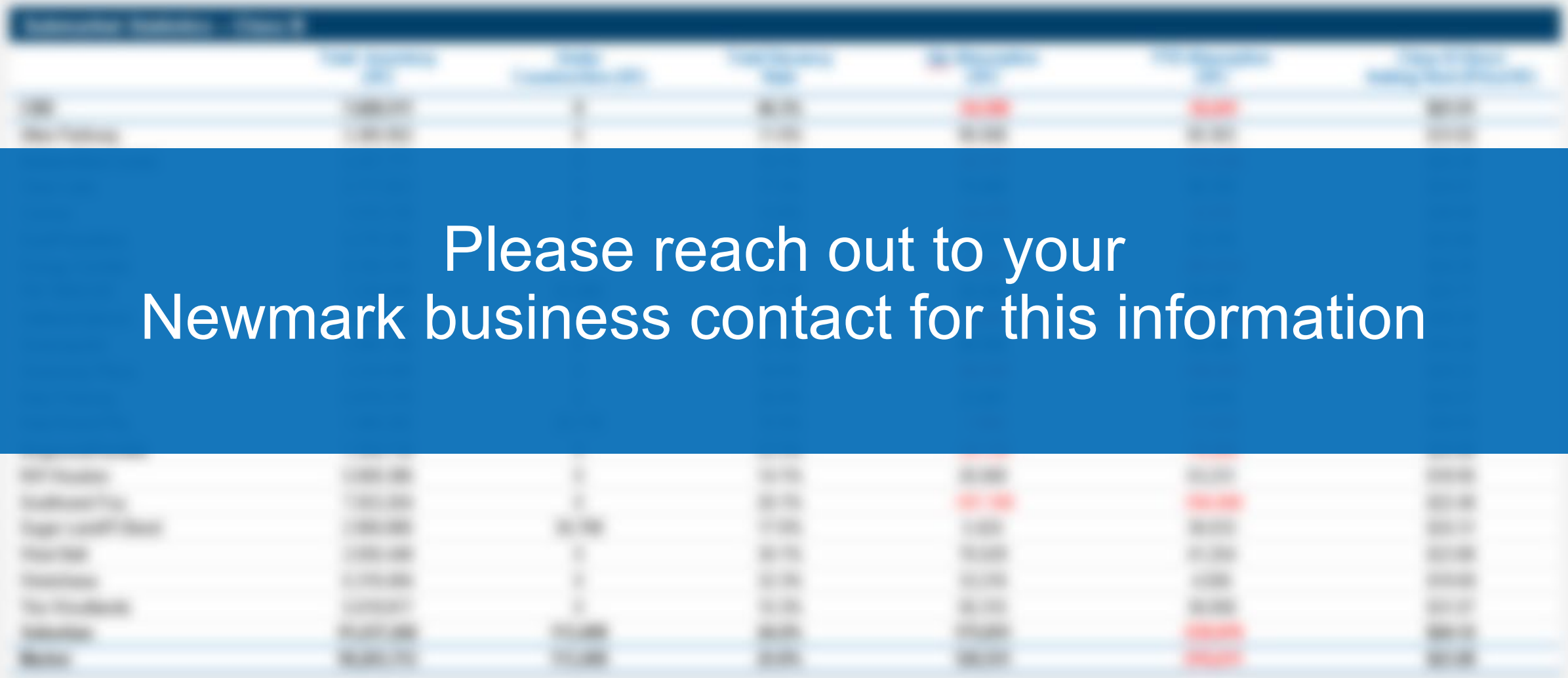
Houston Class A Office Submarket Overview



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Source: Newmark Research

Houston Class B Office Submarket Overview



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Source: Newmark Research

3Q26 Texas Office Market Overview



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Source: Newmark Research; CoStar

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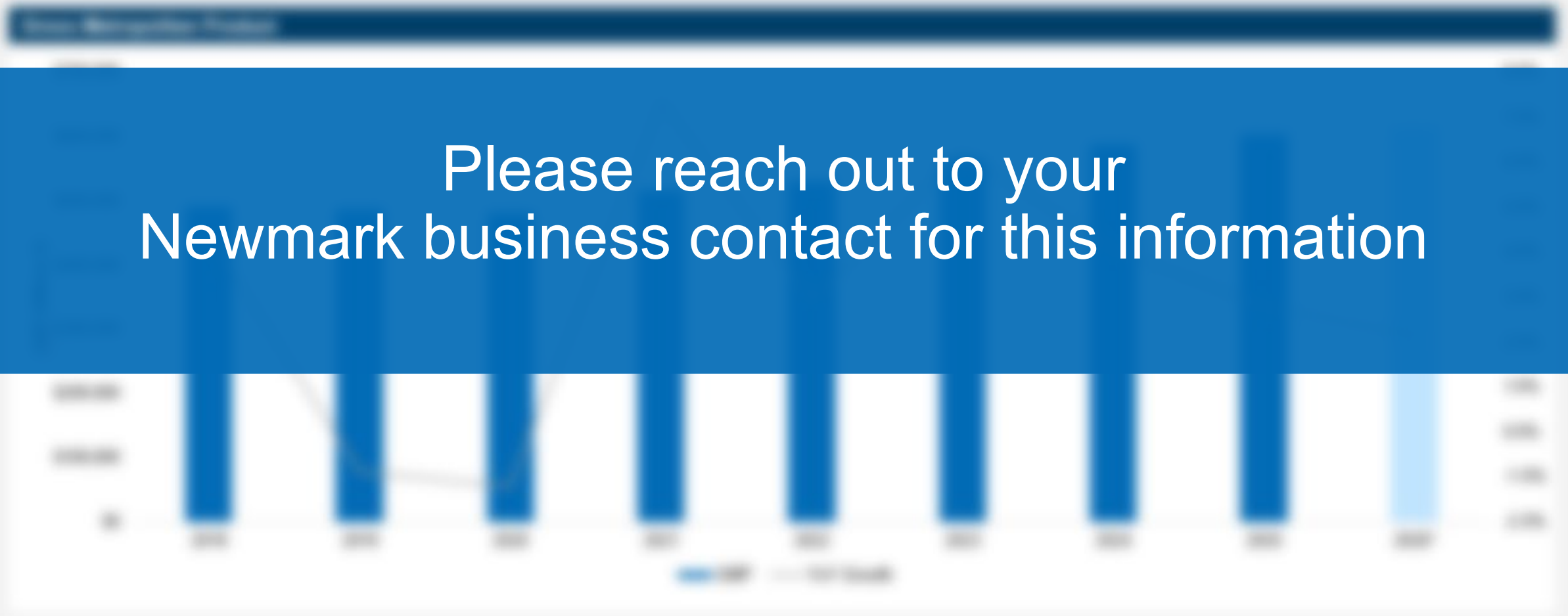
Supplemental Analysis



Houston Office Market

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Houston Gross Metropolitan Product Continues Growing



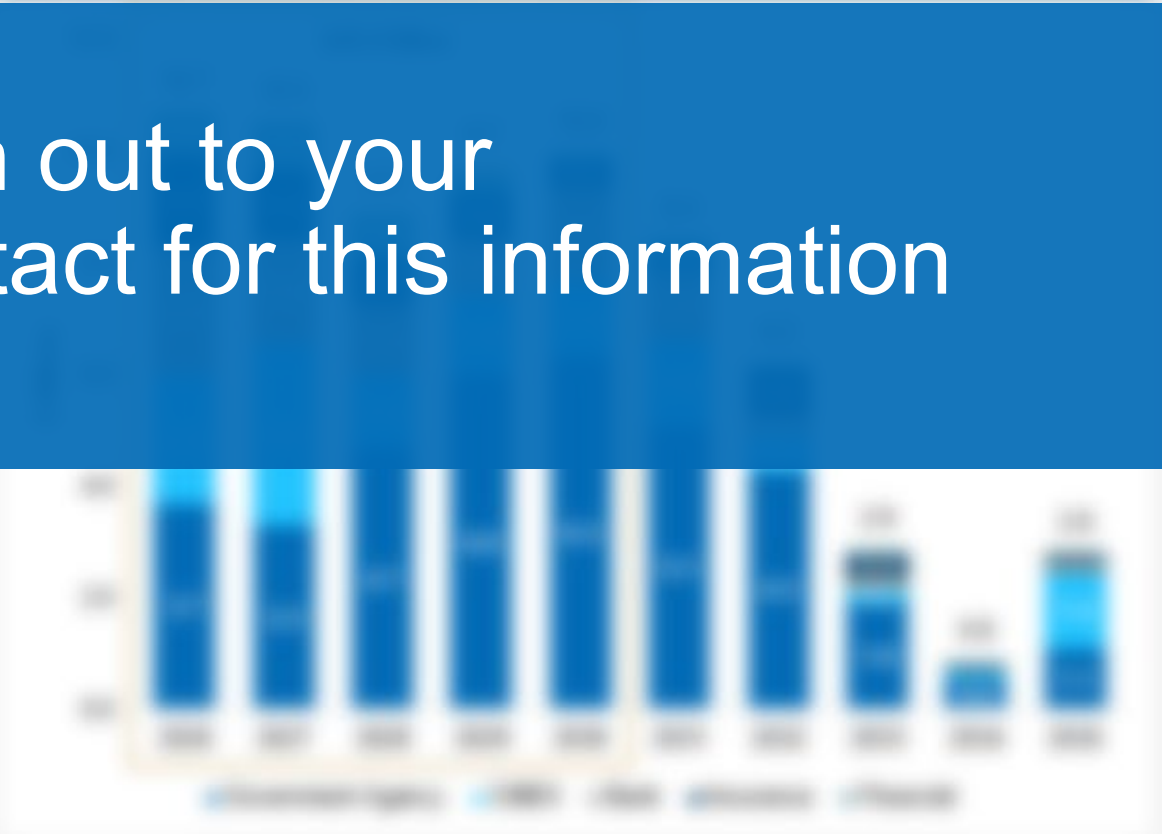
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Source: Oxford Economics, Houston MSA as of 10/12/26
*Forecasted for year-end 2026.

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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