NEWMARK

Market Overview

Houston Office

4Q25

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Market Observations

Economy

- The Houston market's unemployment rate was unchanged year over year at 4.5% and remains below the five-year average of 5.5%.
- Job growth fell by 63 basis points year over year to 0.7%, significantly below the five-year average of 1.8%.
- All sectors, except manufacturing, information, business and professional services, reported employment growth, with education and health leading job gains at 3.0% over the past 12 months.
- Office-using jobs in the market contracted in September 2025, with continued losses in the information and business and professional services sectors negatively impacting growth. Despite this, office-using employment has grown by 6.5% since 2019 and currently stands at 760,384 jobs.

Leasing Market Fundamentals

- Average annual full-service asking rental rates rose to a new all-time high of $30.31/SF, reflecting a 2.9% increase year over year. Direct rates increased by 2.8% year over year to $30.47/SF while sublease rents rose by 9.9% annually to $25.59/SF, resulting in a narrowing rent spread of $4.88/SF.
- Overall vacancy rates fell by 20 basis points year over year to 25.6% in the fourth quarter of 2025. On a quarterly basis, vacancy was unchanged, indicating that occupancies may be stabilizing.
- The fourth quarter of 2025 closed with positive absorption of 221,555 SF, a decrease from the previous quarter. Annual absorption totaled 1.2 MSF for 2025, the market's best year for demand since 2014.
- Total leasing activity closed the quarter at 2.2 MSF, below the 16-year fourth-quarter average of 4.6 MSF. Fewer deals transacted during the quarter, with deal volume falling 35.5% year over year, with average lease size also decreasing by 22.9% to 3,528 SF.

Major Transactions

- Electronics manufacturer, HP inked the largest deal of the fourth quarter of 2025, with its renewal for 378,400 SF at its campus in The Woodlands submarket.
- Simpson Thacher & Bartlett signed the second largest deal of the fourth quarter of 2025, subleasing 99,397 SF from Maverick at 1000 Main St in the CBD submarket.
- Renewals accounted for three of the quarter's five largest transactions, highlighting tenant leverage and mutual incentives as landlords aim to preserve occupancy and tenants seek to sidestep relocation costs.
- The quarter's five largest deals occurred in various submarkets, highlighting the market's wider appeal to occupiers.

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.
- Asking rents will likely become range-bound in the near term, as Class A momentum moderates, Class B rates remain stable alongside concessions, and the direct-sublet spread tightens.
- 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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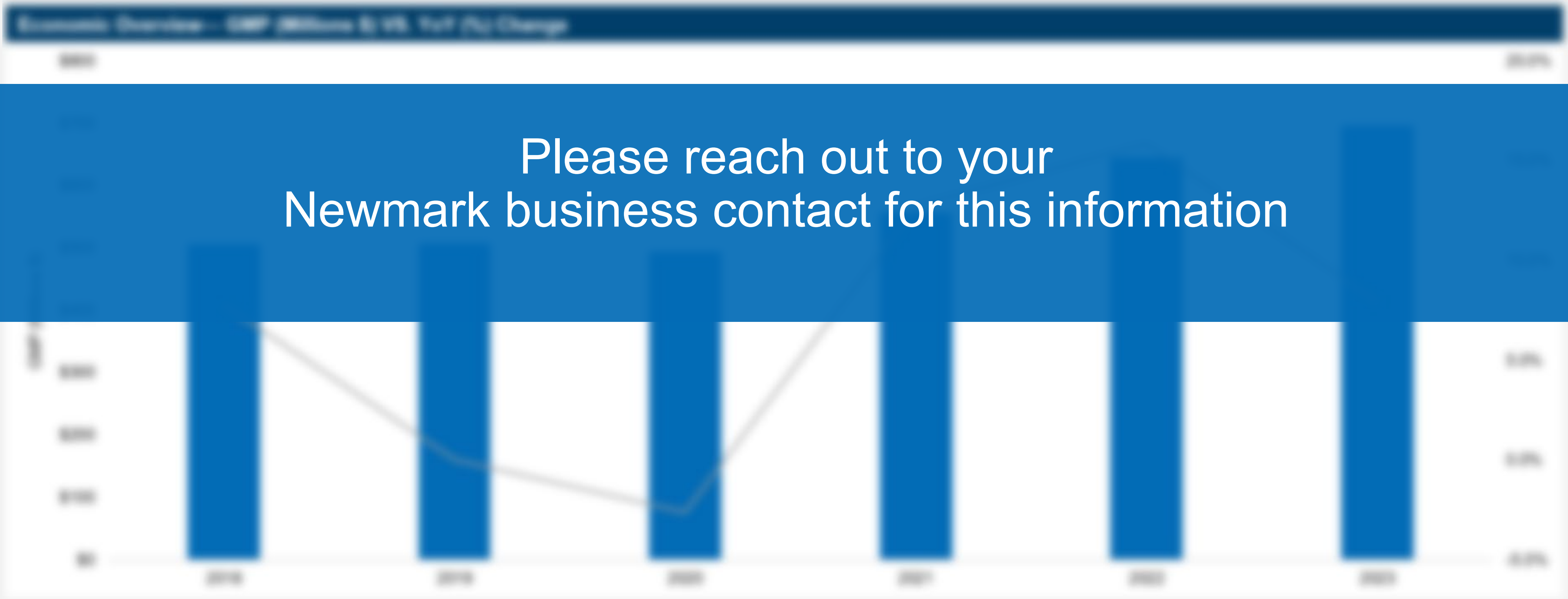
Economy

Houston Gross Metropolitan Product

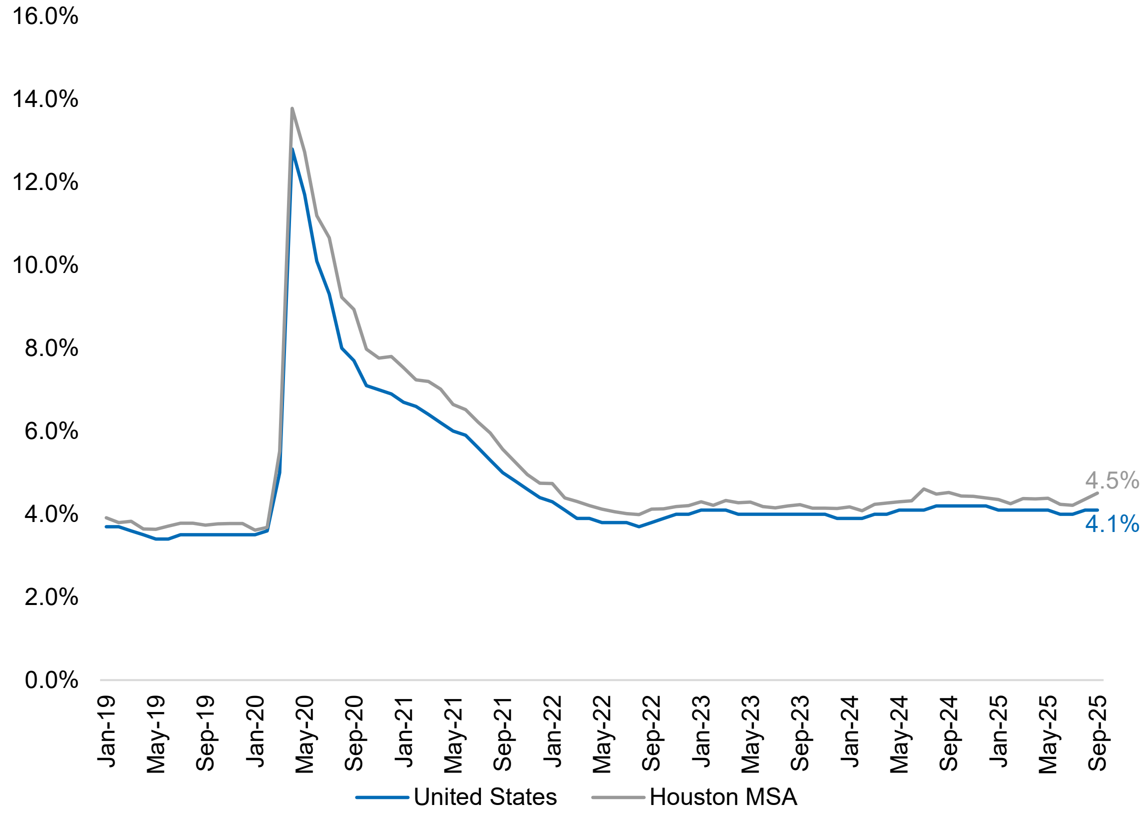


Source: Moody's Analytics

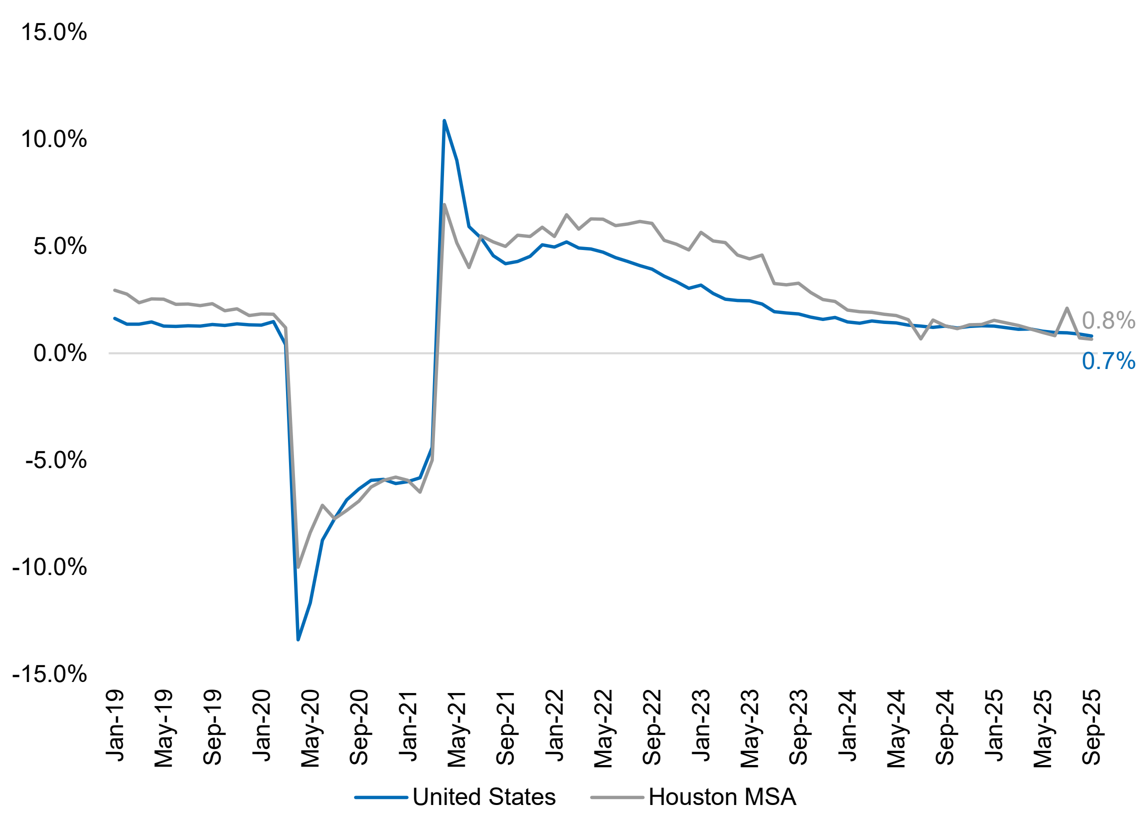
Unemployment Remains Above National Average As Employment Growth Slows

Houston has historically posted slightly higher unemployment than the national average while outpacing it in job growth. As of September 2025, Houston's unemployment rate was 4.5%, higher than the national average of 4.1%. Houston's unemployment rate has trailed the national average for most of the last year, widening to a 40-basis point gap in September 2025. However, employment growth in Houston slowed more sharply, down 63 basis points from the prior year to 0.7%, reflecting a broader labor market cooldown following years of strong gains.

Unemployment Rate, Seasonally Adjusted



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

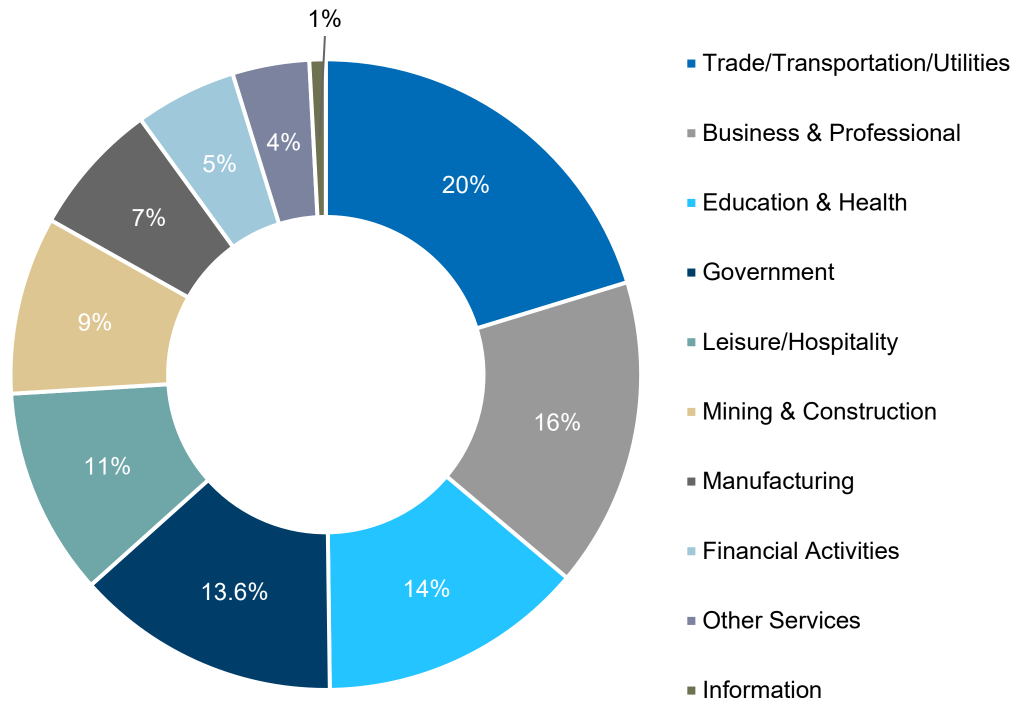


Source: U.S. Bureau of Labor Statistics, Houston MSA

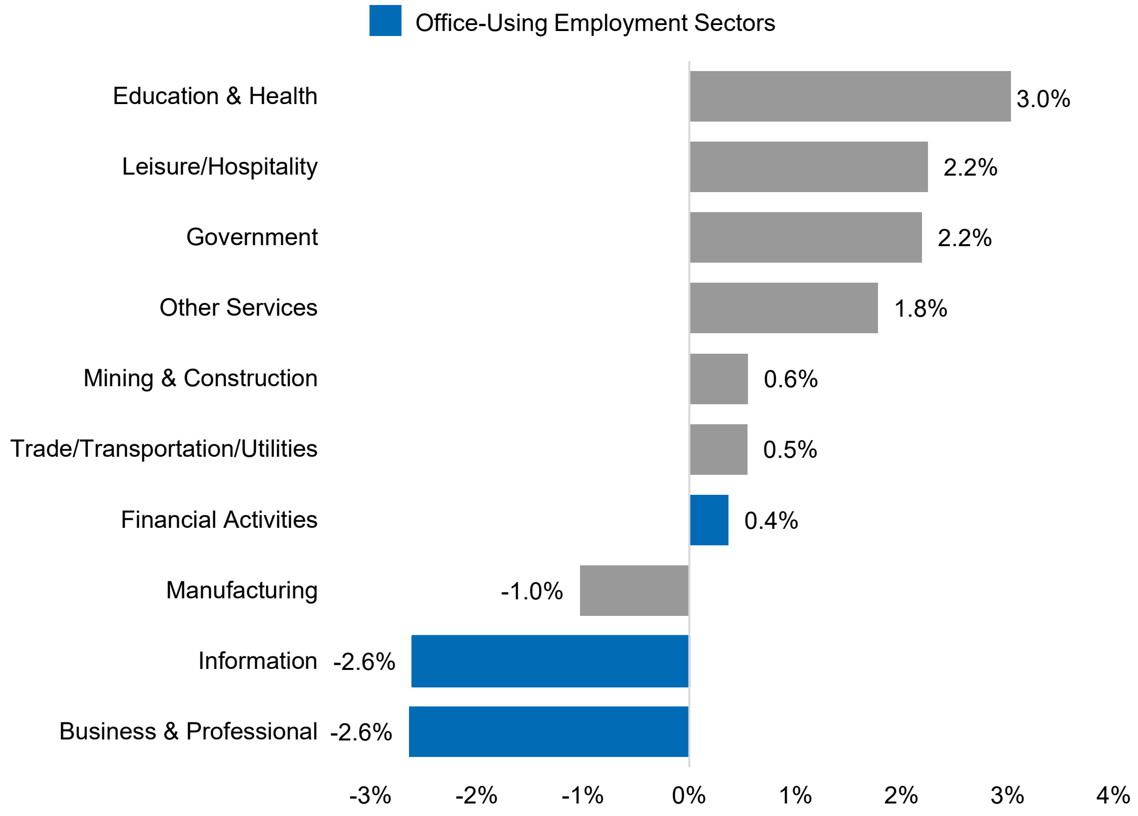
Decline in Most Office-Using Employment Sectors Continues

Known for its energy sector, the Houston market's two largest employment industries account for 36.1% 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 September 2025, two office-using sectors contracted, with the business and professional services and information sectors both declining by 2.6% year over year. Meanwhile, financial activities reported incremental growth of 0.4%.

Employment by Industry, September 2025



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

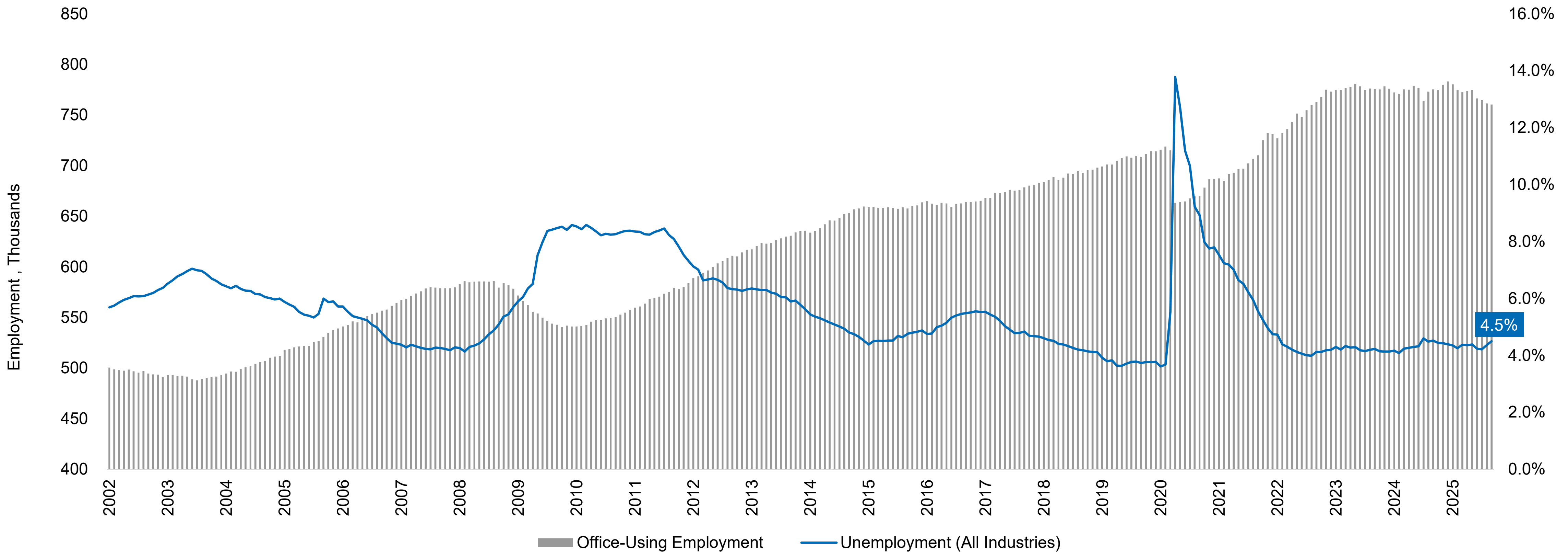


Source: U.S. Bureau of Labor Statistics, Houston MSA

Overall Office-Using Employment Continues to Ease From Historical High

Office-using employment in the Houston market totaled 760,384 employees at the end of September 2025, contracting by 22,721 jobs from the all-time high in December 2024. 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 are contributing factors to Houston's unemployment rate and decreasing office-using employment numbers.

Office-Using Employment* and Unemployment Across All Industries



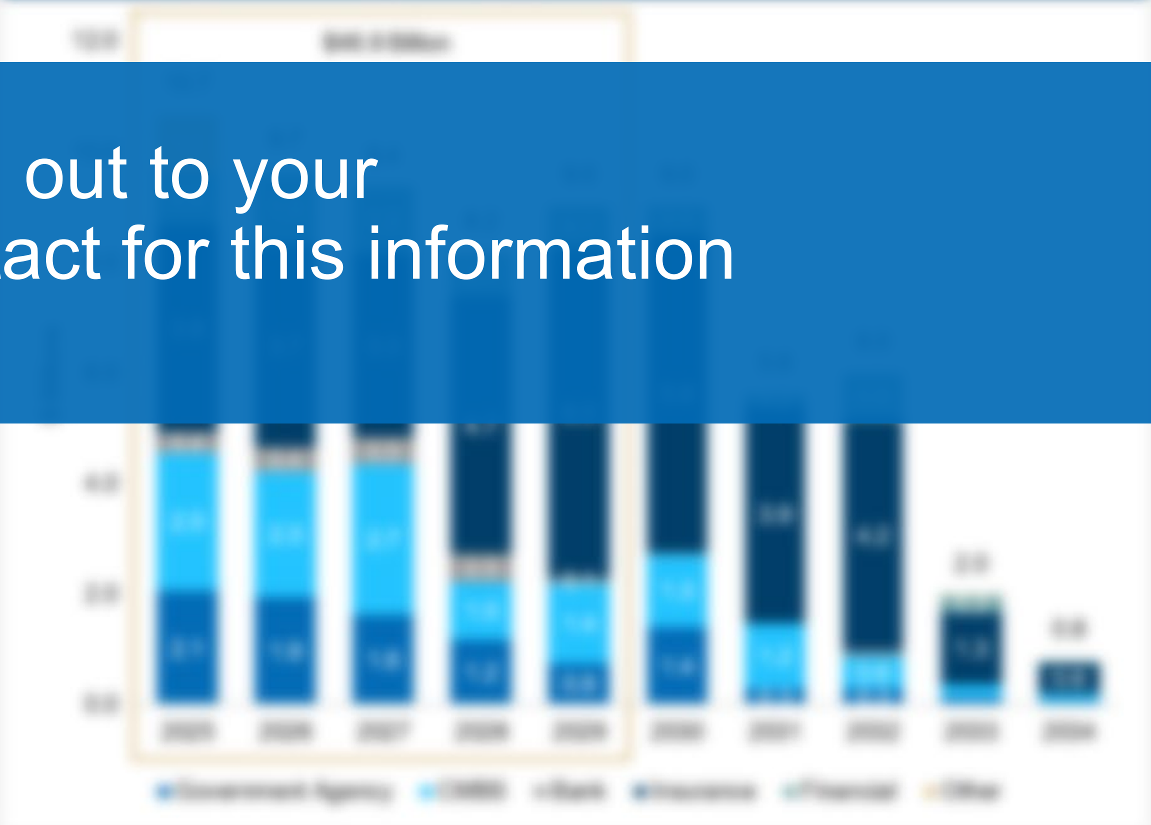
Source: U.S. Bureau of Labor Statistics, Houston MSA

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

02

Debt/Capital Markets

Highest Loan Volume Due in 2025



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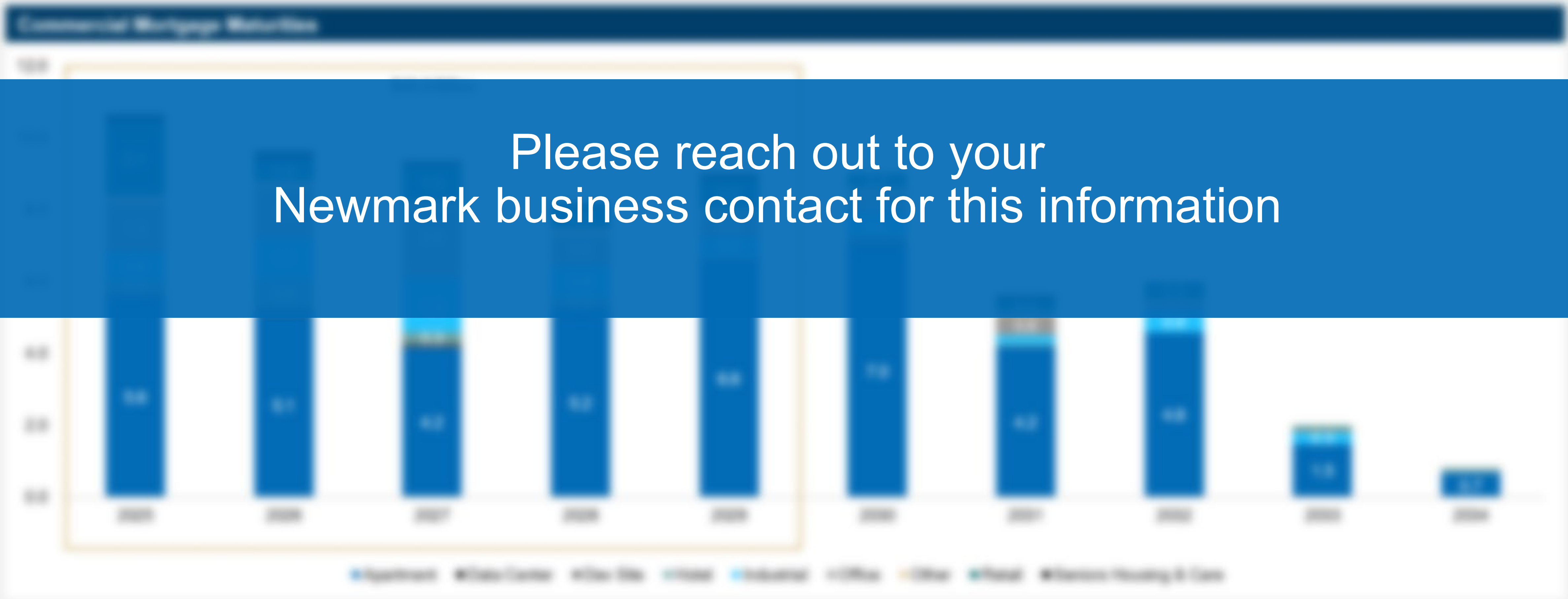
Source: RCA, Newmark Research

Multifamily Maturities Particularly Elevated Through 2029, Office Not So Much



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Source: RCA, Newmark Research

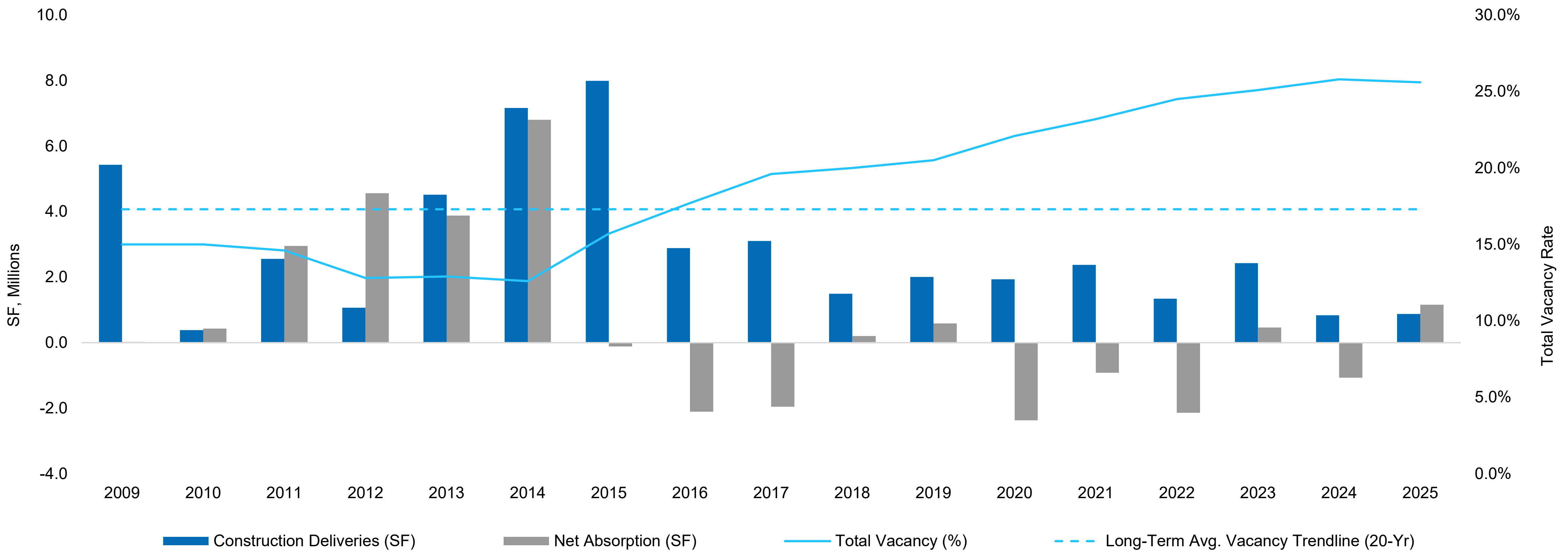
03

Leasing Market Fundamentals

Vacancy Stable but High as Annual Demand Improves

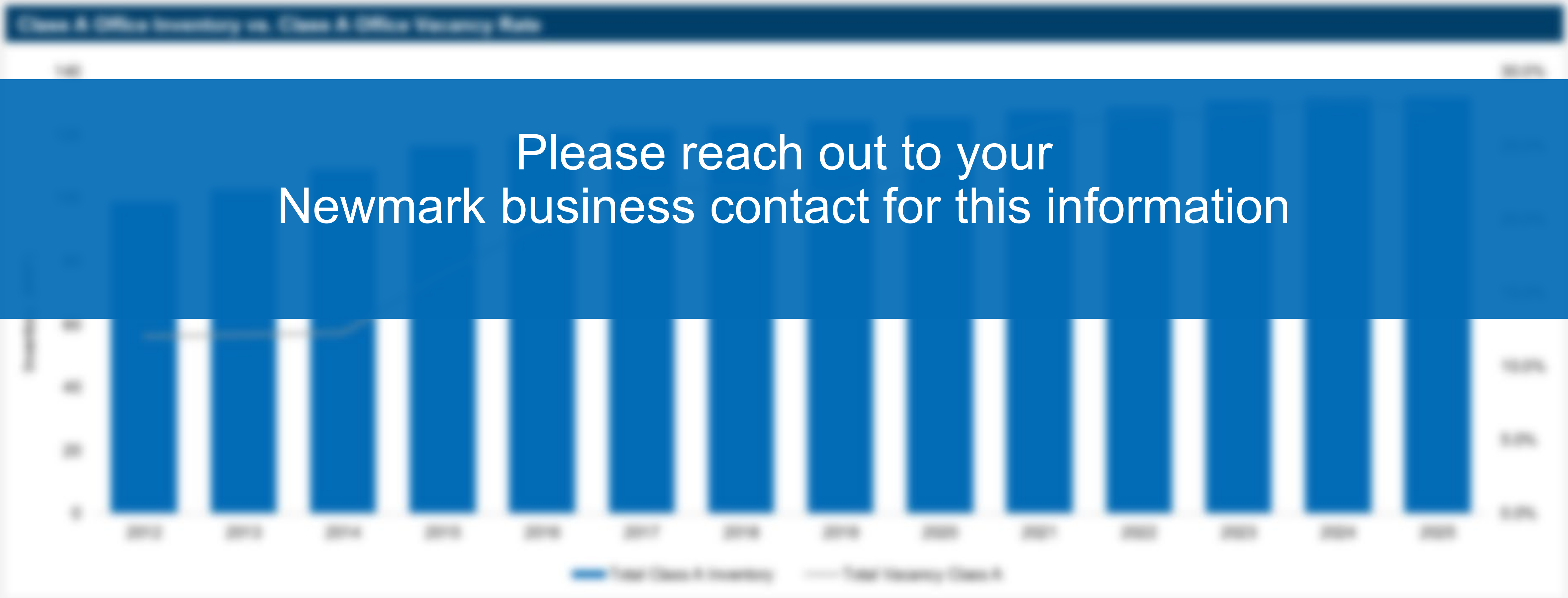
In the fourth quarter of 2025, Houston's office vacancy rate stood at 25.6% for the second consecutive quarter while falling 20 basis points year over year. This figure remains significantly higher than the 20-year historical average of 17.3%, revealing a longer-term trend of steadily increasing vacancies. 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. Occupancies slowed in the fourth quarter of 2025 with 221,555 SF of positive absorption, below the long-term fourth quarter average of 349,324 SF since 2009. However, annual absorption for 2025 totaled 1.2 MSF, the market's best year for demand since 2014. New supply pressure remained contained in the fourth quarter of 2025, as deliveries totaled 89,479 SF. In the near-term, vacancy is likely to remain elevated but stable, as the construction pipeline delivers largely pre-committed space.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Class A Vacancy Sees Annual Decline as Inventory Plateaus

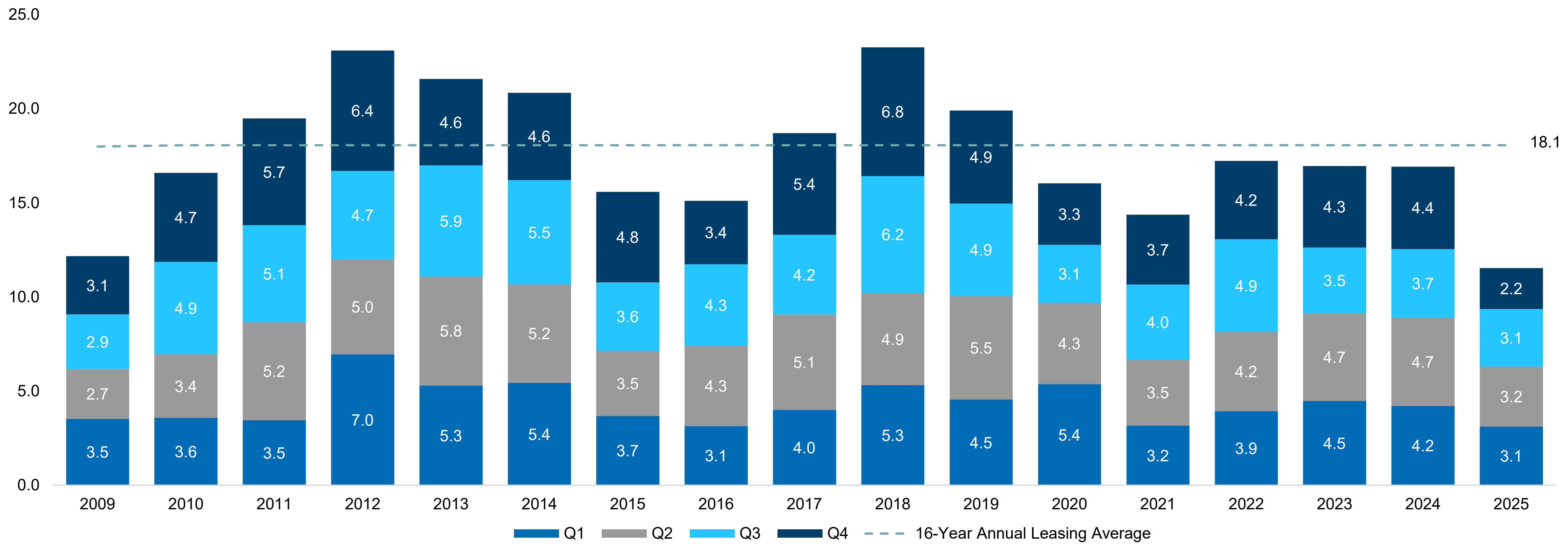


Source: Newmark Research, CoStar

Annual Leasing Volume Falls to Lowest Level Since 2005

Leasing activity in the Houston market softened significantly in the fourth quarter of 2025, totaling 2.2 MSF, falling to a historic quarterly low. Fourth quarter leasing was roughly 50.3% lower than the same period a year ago and remains below the 16-year fourth-quarter average of 4.6 MSF, highlighting a slower demand environment that began in late 2023. Total annual leasing for 2025 also lags at 11.5 MSF, compared to the annual average of 17.0 MSF reported from 2022 to 2024. However, activity during that period was primarily driven by renewals, rather than new demand.

Total Leasing Activity (msf)

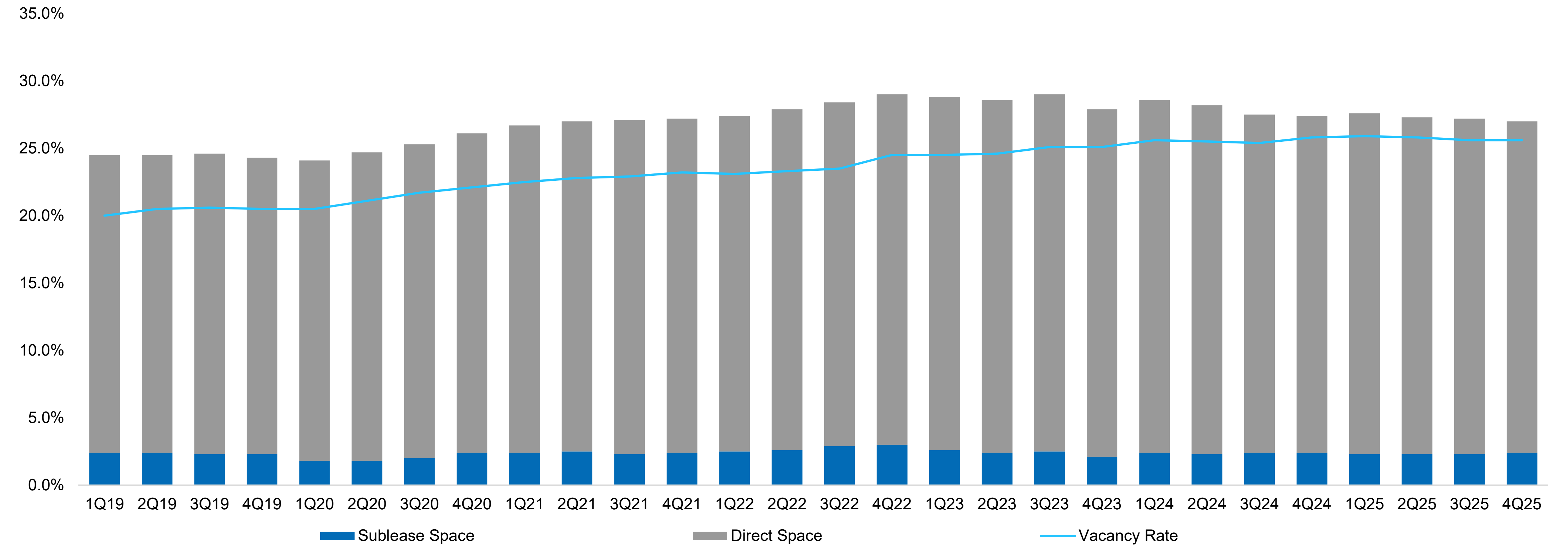


Source: Newmark Research, CoStar

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 eight quarters. In the fourth quarter of 2025, sublease availability was 2.4%, rising 10 basis points from the previous quarter. While direct availabilities have generally risen since the pandemic, they have decreased from the historic peak of 26.5% set in the third quarter of 2023 to the current rate of 24.6%. Vacancy rates remain high at 25.6% but have fallen 30 basis points from the peak recorded in the first quarter of 2025.

Available Space as Percent of Overall Market

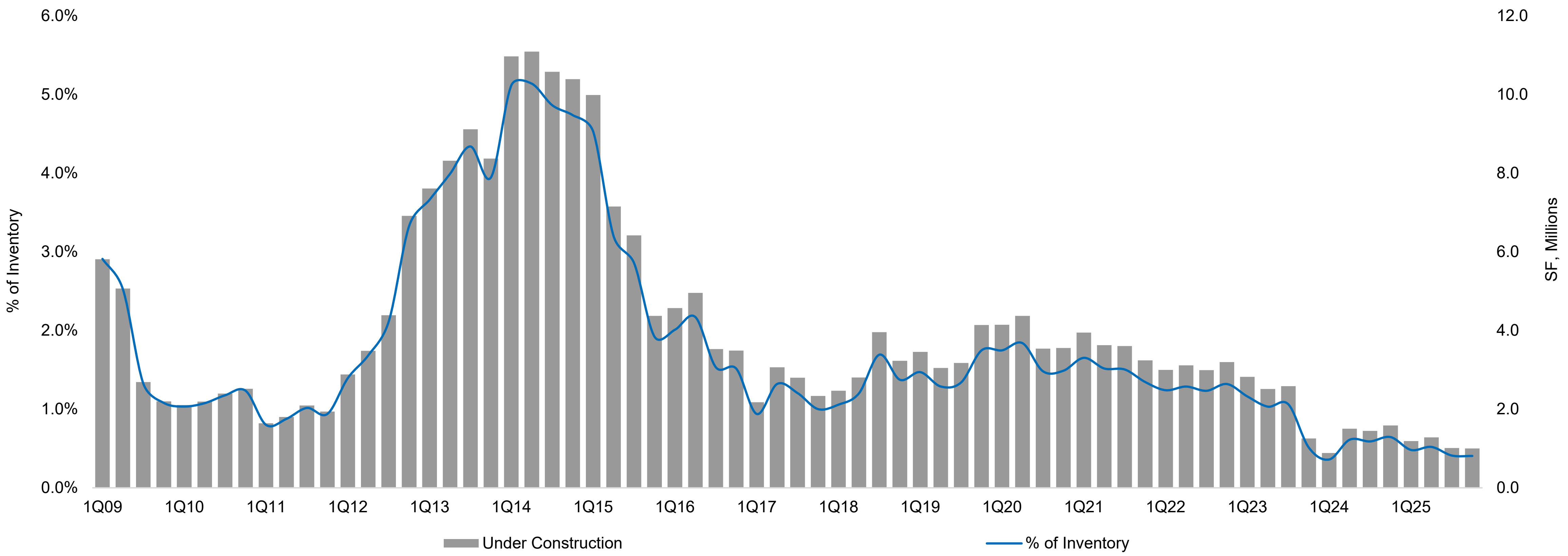


Source: Newmark Research, CoStar

Several Prominent Projects Keep Construction Pipeline Alive

Construction activity has remained relatively muted in the market following the oil downturn in 2016. As of the fourth quarter of 2025, the market had 999,102 SF under construction*, with 76,746 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). 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



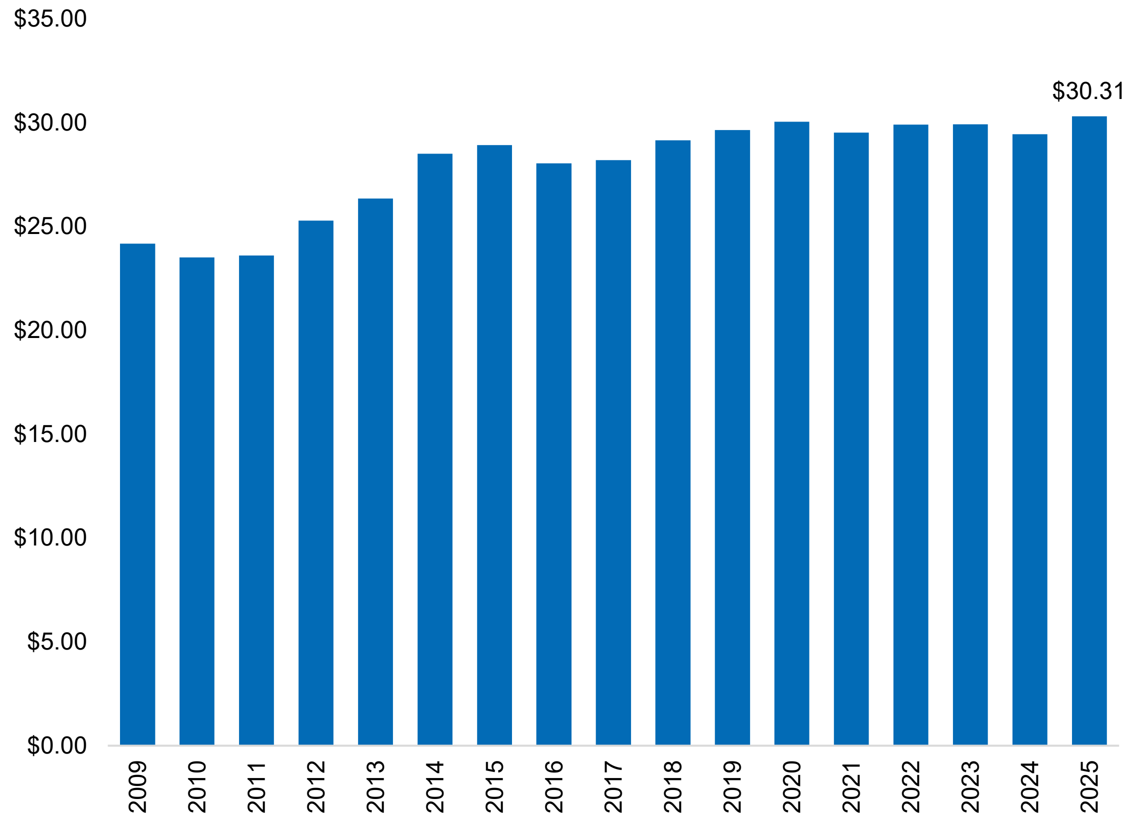
Source: Newmark Research, CoStar

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

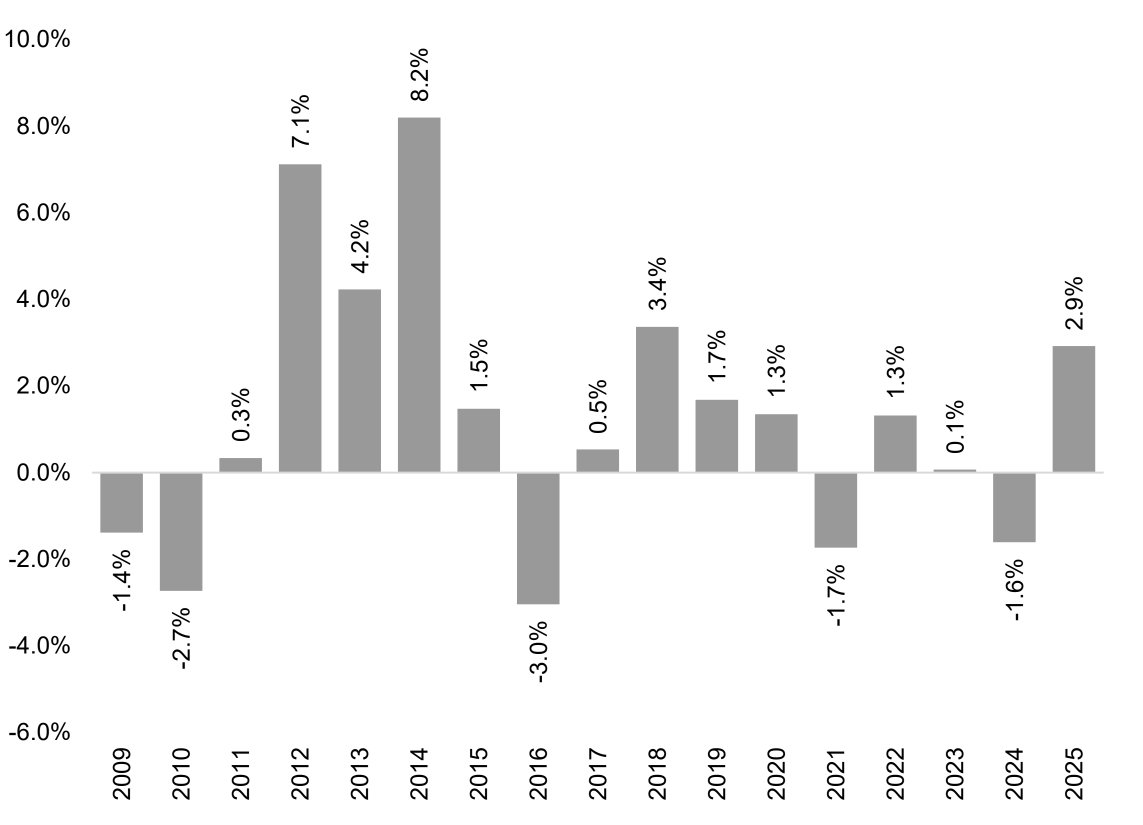
Asking Rate Growth Continues, Reaching New All-Time High

In the fourth quarter of 2025, asking rents posted strong growth of 2.9% year over year to $30.31/SF, reaching a new all-time high. Overall rates moved in line with higher direct rents, signaling stabilization after several quarters of negative or flat growth. The current rent levels are roughly 9.2% higher than historical fourth-quarter averages, indicating that landlords are holding base rents stable or slightly elevated while offering increased concessions. While the rebound in 2025 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.

Office Average Asking Rent, $/SF, FS

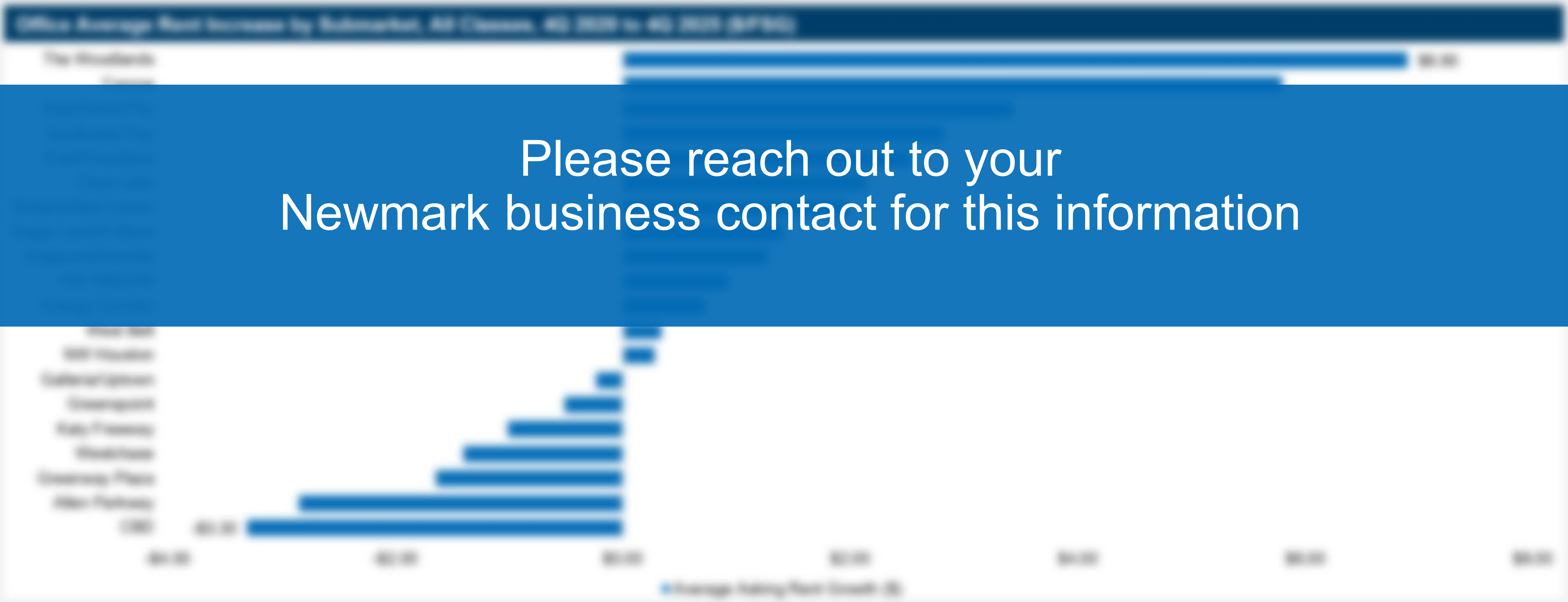


Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

Strongest Five-Year Rent Growth Reported in Suburban Office Submarkets



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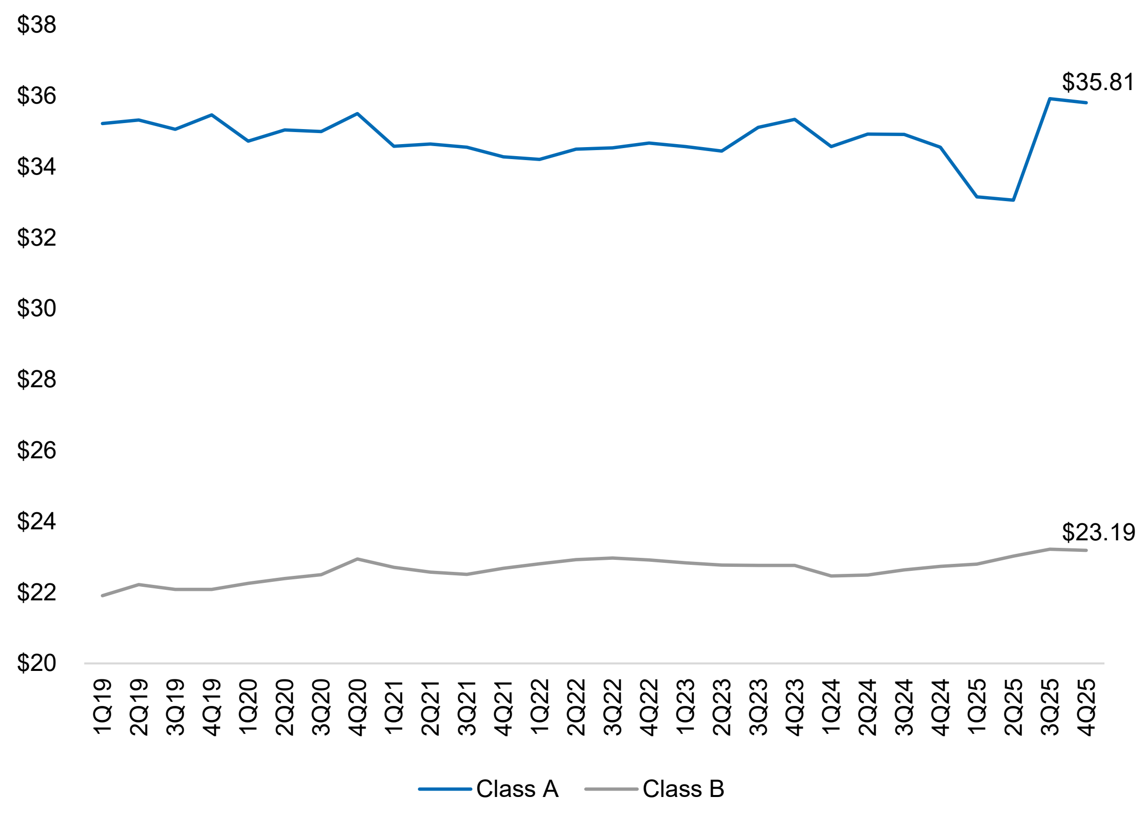
Source: Newmark Research, CoStar

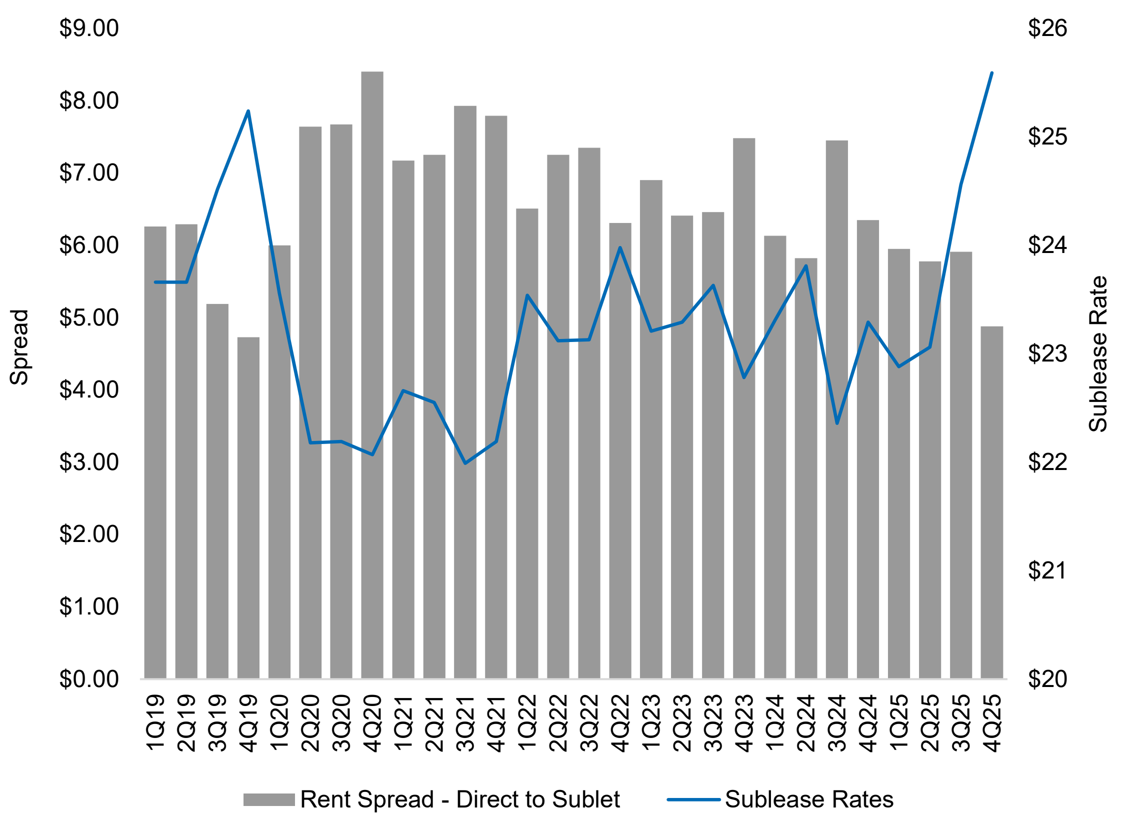
Class A Rents Ease While Sublease Rates Strengthen

In the fourth quarter of 2025, Class A asking rents totaled $35.81/SF with Class B at $23.19/SF, both edging down from their prior-quarter peaks. On a year-over-year basis, rent growth was moderate at 3.6% for Class A assets and 2.0% for Class B assets. The spread between Class A and Class B rents narrowed slightly to $12.62/SF in the fourth quarter of 2025, signaling moderation in Class A rent growth. Class B rents have remained relatively stable, down 0.1% quarter over quarter to $23.19/SF, 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 had notable annual increases of 2.8% and 9.9%, respectively. Direct rents were unchanged in the fourth quarter at $30.47/SF while sublease rates totaled $25.59/SF, hitting a recent high and narrowing the rent spread quarter over quarter to $4.88/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 Deals Continue to Drive Market Despite Smaller Deal Sizes Inked

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 fourth quarter of 2025, Class A transactions totaled 1.3 MSF, accounting for 59.9% of the market's leasing activity, but only 30.0% of the market's deal count. Although the average Class A lease decreased by 18.7% quarter over quarter to 7,044 SF, leases for the asset class remain larger than the average market deal size of 3,528 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 4Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
HP	10300-10400 Energy Dr	The Woodlands	Renewal	378,400
Electronics manufacturer, HP, renewed its lease for 378,400 SF across two buildings at 10300-10400 Energy Dr. in The Woodlands submarket. The campus has been leased in its entirety to HP since its completion in 2018.				
Simpson Thacher & Bartlett LLP	1000 Main	CBD	Sublease	99,397
Simpson Thacher & Bartlett, LLP, which specializes in mergers and acquisitions and private equity, took Maverick's sublease space for 99,397 SF at 1000 Main in the CBD submarket. With the move, Simpson Thacher expands its footprint in the CBD from the 67,561 SF it previously occupied at 600 Travis.				
BMC Software	CityWestPlace, Building 4	Westchase	Renewal	95,827
Software development company, BMC Software, renewed its lease for 95,827 SF in Building 4 at CityWestPlace in the Westchase submarket. BMC moved into the building in 2016, initially occupying 197,440 SF and gradually downsizing its footprint over the years.				
Kimmeridge Energy	990 Town & Country Blvd	Katy Freeway	Direct New	90,786
Oil and gas firm, Kimmeridge Energy, has leased 90,786 SF across the top three floors of 990 Town & Country Blvd in the Katy Freeway. Kimmeridge's lease brings the building, previously owned and occupied by ConocoPhillips, to 37.0% leased.				
Asurion	Legacy at Fallbrook	West Belt	Renewal	86,917
Tech device insurance and repair company, Asurion, renewed its lease at Legacy at Fallbrook in the West Belt submarket for 86,917 SF, downsizing from its previous 129,960 SF. The company has been a tenant in the building since 2019.				

Source: Newmark Research, CoStar

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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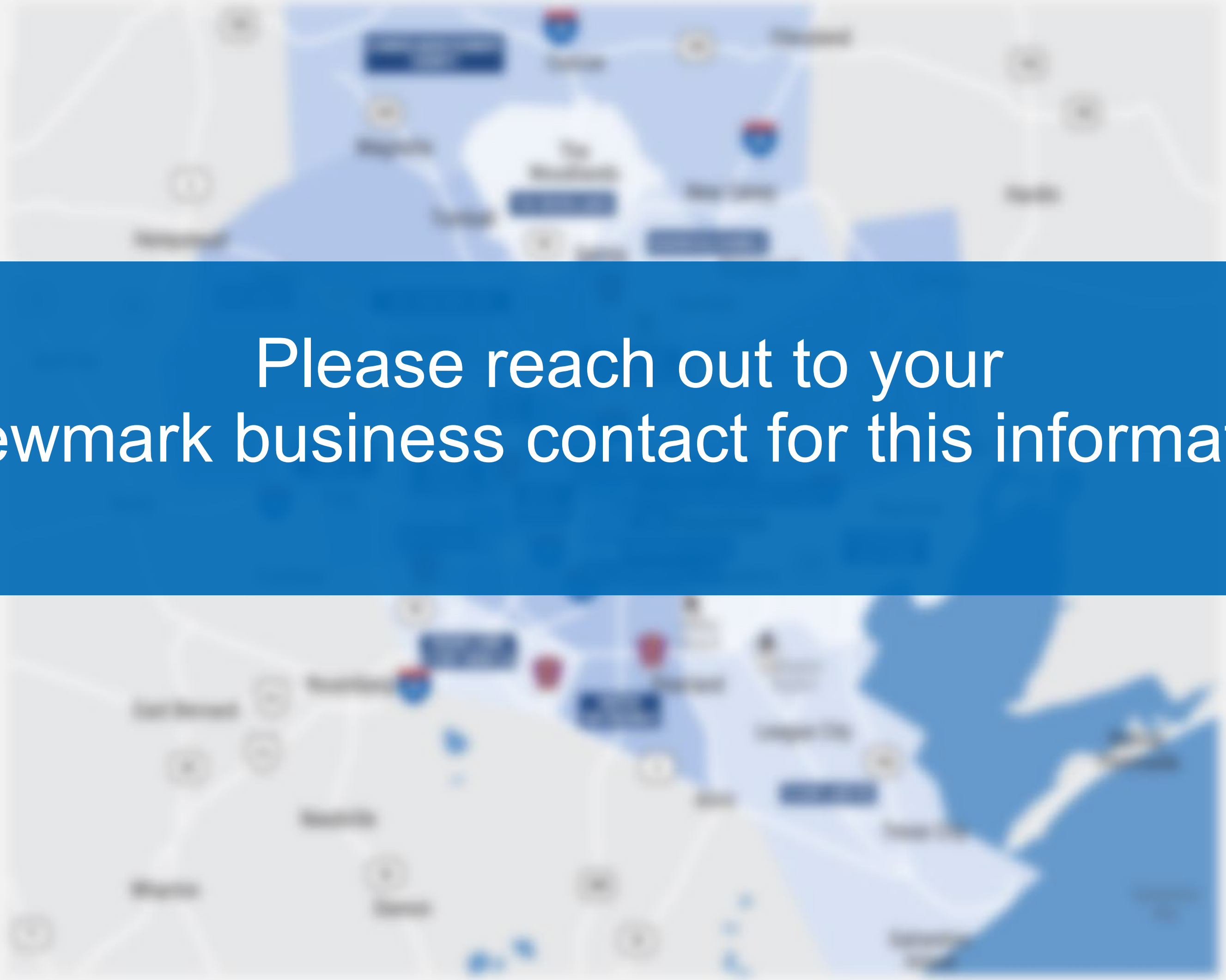
Source: Newmark Research

Houston Office Submarket Map



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Source: Newmark Research

04

Appendix

Houston Office Market

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4Q25 Texas Office Market Overview




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Source: Newmark Research; CoStar

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