

INVESTMENT FORECAST

Office
Houston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Population Expansion at Houston's Edges Pulls Retailers and Attracts Investment

Local consumer demand outpaces supply pressure. Population growth in Houston last year more than doubled the 2019 metric, resulting in the second-largest gain among major U.S. metros. A swiftly growing job market has propelled local expansion, supporting a need for additional retail in many suburban areas, including rapidly growing outer suburbs like Katy and Tomball. Both townships reported a population growth rate of at least 15 percent from 2020 to 2023. Additionally, each of these areas saw over 2,000 apartment units absorbed on net last year. Consumer demand for essential retail, such as grocers and restaurants, will grow in conjunction with the population. Moving closer to the city center, retail vacancy in the CBD compressed 80 basis points last year. Some of that momentum could carry into 2025, as office occupancy began trending upwards in mid-2024, bringing additional weekday foot traffic to the area. Still, leasing activity may stay concentrated around growing suburbs, with move-ins scheduled downtown — including a new pickleball gym — reflecting the value placed on experiential tenants to drive foot traffic to surrounding stores.

Fairly steady sales activity evident across the metro. During the last two years, over half the trades closed in Houston were spread among the Northwest, North and Southeast sections of the metro. All three submarkets are home to expanding consumer bases and retail inventories larger than 50 million square feet. Near-term sales trends on the northern half of the metro are unlikely to shift drastically; yet, rent movement was bifurcated last year, with the Northwest area entering 2025 approximately \$2 per square foot higher than North Houston. Meanwhile, deal flow could accelerate in Southwest Houston after the area's mean asking rent rose by double-digits in 2024.

2025 MARKET FORECAST

+1.6%



EMPLOYMENT: Houston adds 55,000 new jobs on net this year, placing it in the top three for role expansion, trailing only Dallas-Fort Worth and New York nationally.

2,320,000
sq. ft.



CONSTRUCTION: Completions moderate this year as inventory expands by 0.6 percent. Still, Houston will receive the second-largest delivery slate by square footage among major U.S. metros.

-10 bps



VACANCY: Easing supply pressure and a net absorption level that exceeds the previous year will push the vacancy rate below the trailing five-year average to 5.5 percent by December.

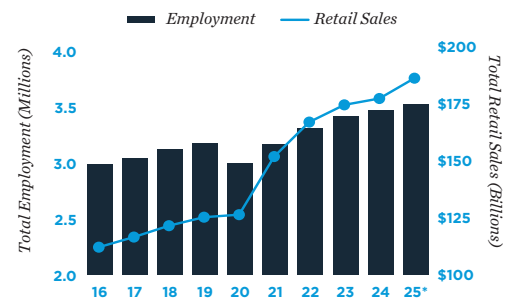
+1.8%



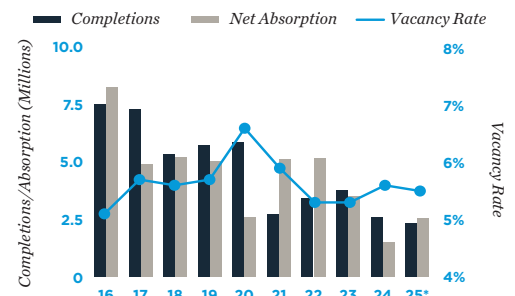
RENT: Strengthening tenant demand will assist in lifting the average asking rent to \$20.45 per square foot in 2025 — the second-highest rate among major Texas metros.

INVESTMENT: *While home to a relatively small inventory, Austin County could gain traction with investors if a new Tesla factory being considered in nearby Brookshire comes to fruition.*

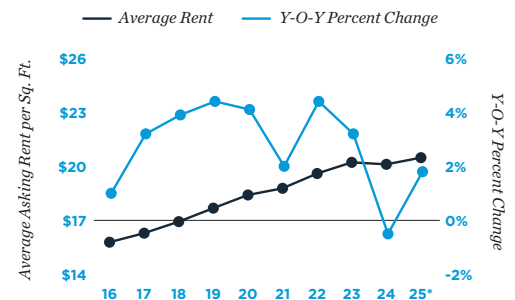
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Houston Office:

Ford Noe

Senior Vice President, Regional Manager

3 Riverway, Suite 800

Houston, TX 77056

Tel: (713) 452-4200 | ford.no@marcusmillichap.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.