

INVESTMENT FORECAST

Office
Houston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Large Inventory of Stable Suburban Offices Available; Return to the CBD Gathering Momentum

Local employer retainment underpinning vacancy. At a time when space demand tends to skew toward smaller floorplans, Houston has the ability to attract and conserve multiple 100,000-square-foot leases each year from both domestic and international firms. Petroleum products producer LyondellBasell is upsizing their headquarters into a 318,000-square-foot space in Uptown, while Plains All American Pipeline is renewing their 260,000-square-foot lease downtown, committing to an 11-year term. Demand within the CBD shifted course midway through 2024 after declining for much of the past four years. Numerous large-scale move-ins within the urban core during 2025 may accelerate this local improvement. Meanwhile, suburban submarkets like Katy Freeway, East Fort Bend-Sugar Land and West Loop saw robust vacancy contractions last year, with the latter noting a 560-basis-point drop. Katy-Grand Parkway West entered 2025 with 7.6 percent vacancy following a 440-basis-point contraction. These areas' dense population of college-educated professionals should continue to attract companies, aiding future demand for office space.

Buyer interest likely to strengthen downtown. Investment trends moved toward a focus on suburban office spaces during the post-pandemic era. That bias may be shifting, however, as sales activity increased last year in the CBD — something that may become more prevalent going forward, as institutional investors are expected to return from the sidelines. Activity on the part of these buyers may increase trading velocity around the city center. Outside of the CBD, investors have been particularly active in and around Katy Freeway over the last three years. Buyer interest for assets in this area may improve further after the submarket reported a third consecutive year of vacancy contraction.

2025 MARKET FORECAST

+1.6%



EMPLOYMENT: Job growth will realign with its pre-pandemic average as 55,000 jobs are created. Of these new roles, 7,000 will be added across traditionally office-using sectors.

1,958,000
sq. ft.



CONSTRUCTION: Office inventory will expand by 0.6 percent, about half of the prior 10-year average. Much of this new supply is slated to come online in Northwest and Southwest Houston.

-30 bps



VACANCY: After a 120-basis-point drop in vacancy last year, shifting tenant needs will result in another dip in 2025, lowering the rate to 20.9 percent by the end of December.

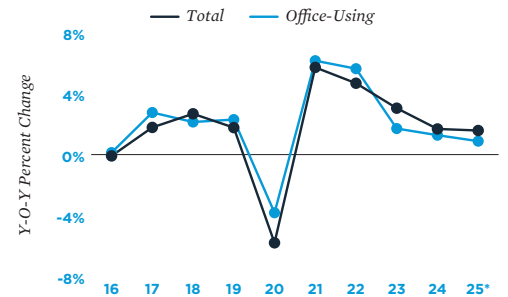
+0.6%



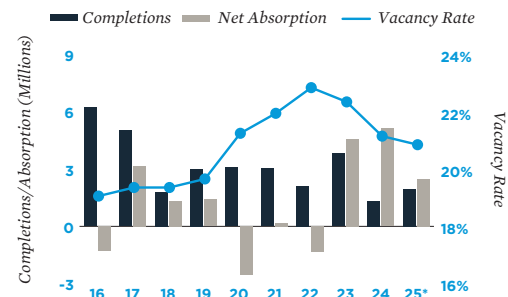
RENT: The average asking rent will increase for a fourth year in a row, nudging the rate up to \$21.70 per square foot. The Class A sector is likely to register the most pronounced gain among property tiers.

INVESTMENT: Institutional investors interested in Class A offices that are at least 90 percent leased may be directed to the Woodlands, where several of these properties typically come to market each year.

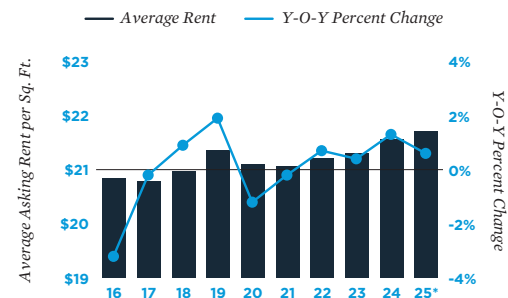
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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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.