INVESTMENT FORECAST

IPA | INSTITUTIONAL PROPERTY ADVISORS

Retail

Houston

2026

Tightening Multi-Tenant Vacancy Attracts Institutions, Fueling Nation-Leading Investment Growth

Shopping centers show resilience in more selective environment. Vacancy pressure is expected to moderate in Houston in 2026 as bankruptcy-driven closures slow, with multi-tenant properties likely to anchor performance. In north, northwest, and southwest Houston, shopping center vacancy held flat or declined last year even as single-tenant availability increased, reflecting grocery, fitness, and experiential tenants clustering in high-traffic centers. Supply dynamics have reinforced this trend, with only about 35 percent of delivered space since 2020 being multi-tenant product. Leasing volume also held near the metro's past-decade average in 2025, totaling more than 9 million square feet and signaling durable tenant demand that is likely to support further tightening, particularly in higher-income trade areas. Less-affluent neighborhoods in the east and south have lagged, but several large-format backfills slated for 2026 should support absorption and point to sustained tenant confidence.

Large deals signal a cyclical turning point. For the first time, Houston led all major markets in retail trades above $10 million after posting the nation's fastest rise in overall sales activity in 2025. Higher going-in cap rates than in other major Texas metros are helping more deals pencil, while catalysts such as Eli Lilly's planned $6.5 billion manufacturing campus underpin long-term population growth. Affluent western and northern suburbs should remain key targets, particularly near Katy, where retail vacancy has held near 5 percent. Grocery-anchored centers will likely draw interest, though large investors have increasingly acquired portfolios of smaller strip centers. This broader liquidity pool may create opportunities for private buyers to execute value-add strategies that position these centers for sale to institutional bidders.

2026 MARKET FORECAST

+0.5% — **Employment:** A net of 17,000 jobs will be created in 2026, likely led by the healthcare sector. Retail trade and food services also posted job growth last year, reflecting ongoing retailer expansion.

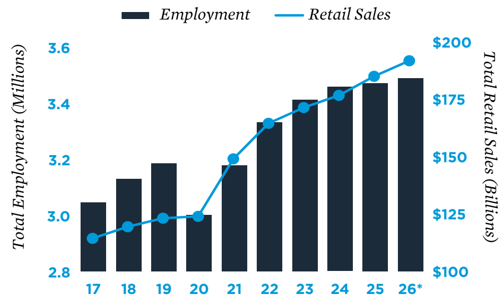
2,400,000 *sq. ft.* — **Construction:** Completions in 2026 are expected to mirror last year's near-record-low delivery slate, totaling less than half the past 10-year average, with inventory growth of just 0.6 percent.

+30 bps — **Vacancy:** Amid a still-cautious leasing backdrop, the metro's vacancy rate edges up to 6.2 percent, the highest level since 2021, but remains 10 basis points below the long-run average.

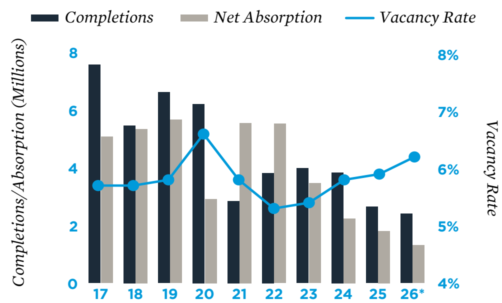
+0.7% — **Rent:** Rent growth will remain minimal for a third straight year. The average asking rate will inch up to $20.63 per square foot, roughly in line with San Antonio and Dallas-Fort Worth.

INVESTMENT: *The planned 2026 opening of Texas A&M's $200 million Space Institute could attract investors near Baybrook, where Dick's Sporting Goods recently signed the submarket's largest retail lease since 2021.*

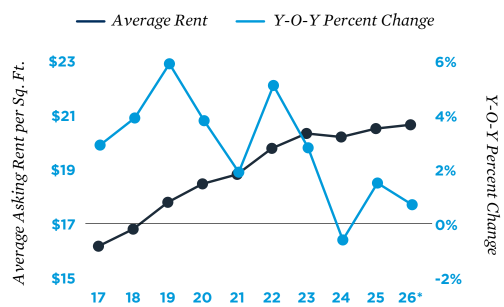
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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