

INVESTMENT FORECAST

Office
Houston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Investor Confidence Renewed Amid Stabilizing Demand Growth, Strategic Focus on Premium Assets

Demand improving as supply pressure abates. Houston is one of only seven major U.S. markets that have not recorded a quarterly net relinquishment of office space since early 2024. The total vacant space in Houston by the end of this year is only 11 percent higher than in 2019; this is, by far, the lowest increase among the top 10 U.S. markets by total inventory. Taken together, supply and demand should remain largely in balance this year. Suburban office absorption is steady, especially in submarkets like The Woodlands, Northwest Houston, and West Loop, which offer short commutes to many of the metro's fast-growing western neighborhoods. The recovery in downtown office demand also stood out in 2025, as lower supply pressure and strong absorption contributed to steady vacancy compression. With about 80 percent of this year's deliveries pre-leased, the market is well positioned for further improvement in office fundamentals.

Investors target newer, well-connected properties. Sales activity in Houston picked up last year by about 50 percent, approaching the metro's 2022 peak. Class A trades doubled over the past year, and sales above \$20 million rose at a similar pace. This underscores sustained interest in premium assets, even as elevated metrowide vacancy compared to other major U.S. markets prompted several other high-vacancy property sales. This also reflects the broader flight-to-quality trend, further highlighted by transaction activity tripling year-over-year in several of the metro's most active submarkets, including the western suburbs, such as Katy Freeway and Westchase, as well as downtown Houston. As nationwide economic uncertainty persists, investors will likely continue prioritizing assets with strong tenant profiles and durable cash flows, reinforcing the advantage of well-located, high-performing properties.

2026 MARKET FORECAST

+0.2%



Employment: Houston's job growth will slow to the second-lowest level in a decade, totaling 8,000 net jobs. The office-using sector will shed 3,000 jobs, many fewer than in 2025.

1,600,000
sq. ft.



Construction: The last three years have marked the lightest delivery periods since 2010, illustrating how considerably supply pressure has eased.

-40 bps



Vacancy: As net absorption continues to outpace new supply for a fourth consecutive year, vacancy will drop to 21.2 percent in 2026. Yet the metric remains the third highest among all major markets.

+1.1%

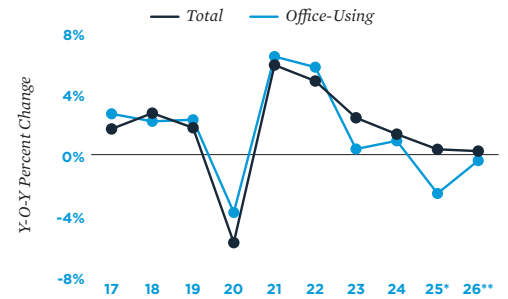


Rent: Continued vacancy compression will put upward pressure on the average asking rent. At \$22.05 per square foot, Houston remains the most affordable primary market nationwide.

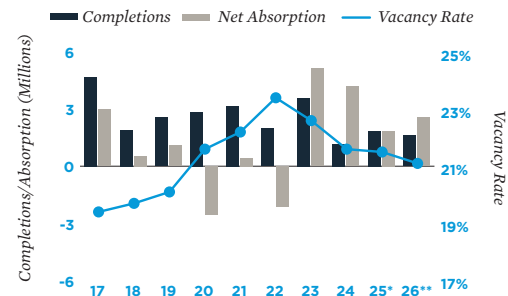
INVESTMENT:

Commuter convenience and limited speculative new supply help keep Class B/C vacancy especially low in Sugar Land-Stafford. Investors could target these areas for reliable cash flow.

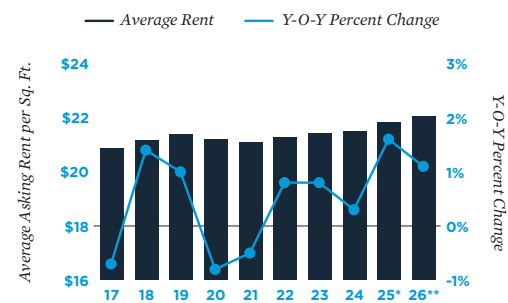
Employment Trends



Supply and Demand



Rent Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Alan L. Pontius

Senior Managing Director, National Division Leader
Tel: (415) 963-3000 | apontius@ipausa.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 January 2026. 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 office 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.