Market Report

RETAIL 3Q/26

Houston Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

Capital Floods In Despite First-Half Demand and Construction Hitting Historic Lows

First-half development falls as demand flips. Construction in the first six months of this year fell to its lowest level since 2011, with just under 1.3 million square feet delivered, roughly half the 10-year average. In addition to areas that delivered no completions, seven of the 12 submarkets saw a decrease in first-half space delivered compared with the prior year. The retreat reflects elevated material and land expenses alongside still-high financing costs, which have sidelined speculative development. The pullback coincides with first-half demand reaching a historic low, as the second quarter of 2026 posted the metro's steepest net relinquishment since at least 2007.

Retailer closures hit Houston in the second quarter. Single-tenant properties shed the most space in the first half of 2026, though the give-back was similar for multi-tenant space relative to their inventories. Vacancy rose 30 basis points quarter-over-quarter to 6.1 percent, the highest level since 2014, outside the pandemic. Properties larger than 50,000 square feet accounted for the bulk of the relinquishment as national chain closures worked through the market. First-half lease signings declined slightly year-over-year, with little change in the average time to lease.

2026 FORECAST

EMPLOYMENT

35,000 — Jobs will be created

1.0% — Increase Y-O-Y

CONSTRUCTION

2,600,000 — Sq. ft. will be added

0.7% — Inventory increase Y-O-Y

VACANCY

6.0% — Vacancy rate

20 — BPS increase Y-O-Y

RENT

$21.00 — Average asking rent by year-end

1.8% — Increase Y-O-Y

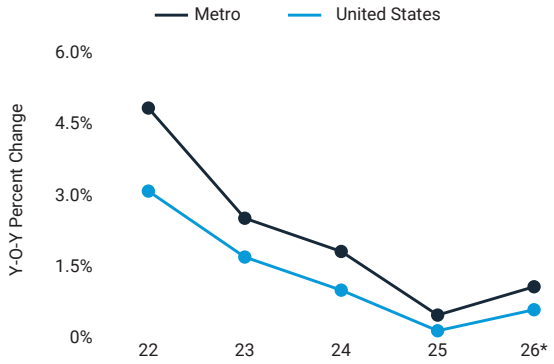
EMPLOYMENT

Houston added 27,700 jobs on net through the first six months of the year, led by gains in professional and business services and construction, up 2.2 percent and 3.8 percent, respectively. Trade, transportation, and utilities also expanded, pushing the sector to a local record as infrastructure and port-related growth drives hiring. The industry continued to account for roughly 20 percent of metrowide employment, underscoring Houston's position as a logistics and distribution hub.

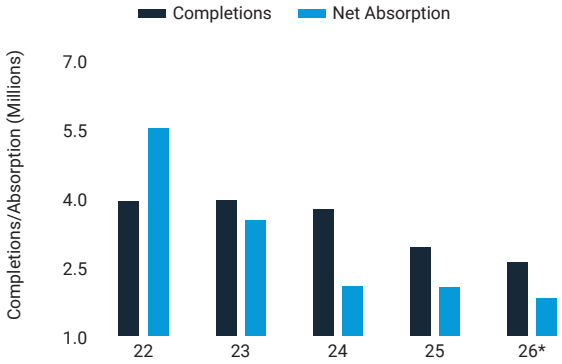
CONSTRUCTION

The 2026 delivery slate will finish 7 percent below 2025, marking a historically low level of construction, though activity is shifting geographically. South Houston is seeing an uptick in development, anchored by a new shopping center in Pearland and a Lowe's in Manvel. East and west Houston, by contrast, will see development activity fall 30 and 60 percent, respectively. This pullback may ease competition for vacant spaces.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



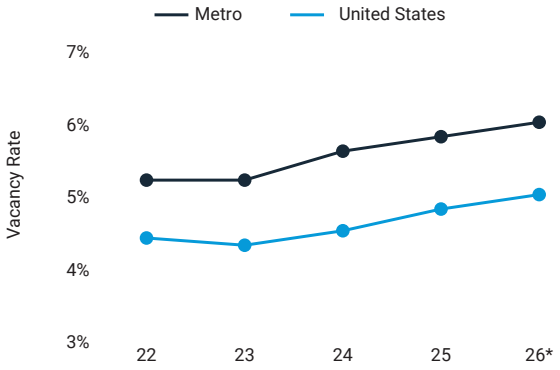
* Forecast

Sources: BLS; CoStar Group, Inc.

VACANCY

Despite historically low construction in the first half of the year, Houston's vacancy rate rose to 6.1 percent, driven by second-quarter net relinquishment. Single-tenant properties shed the most space in the first half of 2026. Multi-tenant space also softened, but its vacancy rate held 60 basis points below that of single-tenant at 5.7 percent as of June, in contrast to the national trend. Geographically, much of the second-quarter relinquishment was concentrated in the Inner Loop and southeast Houston.

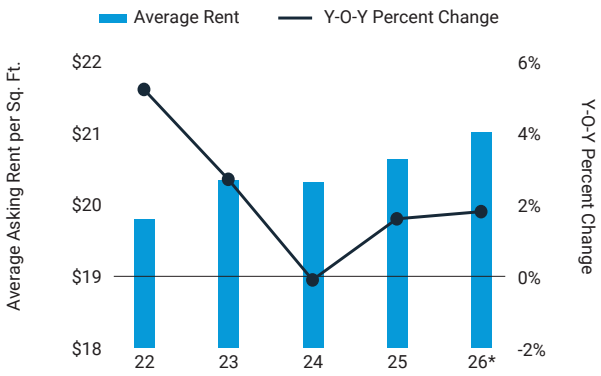
VACANCY TRENDS



RENT

Despite softening demand, rent growth persisted into the first half of 2026. Average asking rent rose by 3.8 percent year-over-year as of June, though the figure may be modestly skewed by higher-end space entering the leasing market. West and south Houston led the metro, with average asking rents rising more than 6 percent over the year ended in June. The Inner Loop also posted a 6.3 percent increase, as vacancy tightened by 20 basis points, with pricing holding firm despite the significant net relinquishment.

RENT TRENDS



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

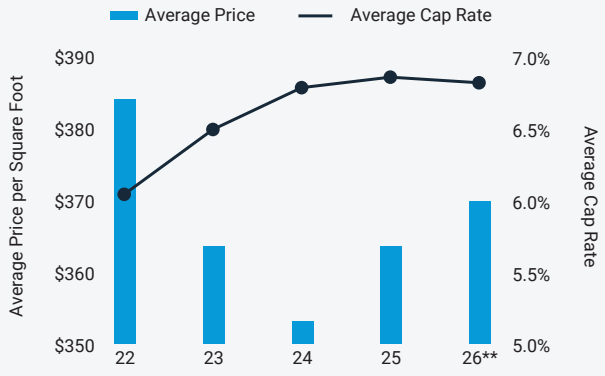
INVESTMENT HIGHLIGHTS

- Houston investment activity surged 85 percent over the 12 months ended in June, with significant gains across all price tranches. Both single- and multi-tenant trades accelerated, though single-tenant activity stood out — nearly doubling year-over-year — led primarily by the $1 million to $10 million tranche. Multi-tenant activity in the $20 million-plus tranche more than doubled over the same period, signaling growing confidence from both private and institutional investors. Pricing followed suit, with the average sale price per square foot inching up 3.4 percent while the mean cap rate held in the upper-6 percent range, at the higher end of major Texas metros.

- Northwest Houston led all submarkets, with transaction activity climbing 75 percent year-over-year as of June, accounting for 19 percent of metrowide deal flow. The area holds roughly 17 percent of inventory and recorded a 30-basis-point decline in vacancy. The submarket drew a notable share of portfolio trades, a clear signal of institutional confidence, supported by its large share of the metro's inventory. It also showed a unique concentration of fast-food trades, capturing just over 30 percent of activity in this segment across the metro.

- Southeast and north Houston also saw notable growth, each up over 30 percent year-over-year. In southeast Houston, nearly 70 percent of traded properties were 10,000 square feet or less, underscoring investor preference for smaller-format retail, alongside a distinct concentration of restaurant trades. North Houston trailed northwest Houston as the second-most active submarket, comprising roughly 18 percent of trades.

SALES TRENDS



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