

MARKET FUNDAMENTALS

	YOY Chg	Outlook
25.5% Vacancy Rate	▲	▼
-259K Net Absorption, SF	▼	▼
\$31.09 Asking Rent, PSF	▼	▼

*(Overall, All Property Classes)
Rental rates reflect gross asking \$psf/year*

ECONOMIC INDICATORS

	YOY Chg	Outlook
3.5M Houston Employment	▲	▲
4.5% Houston Unemployment Rate	▲	▼
4.2% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMY

Total employment stood at 3.5 million in Houston's metro area (MSA) at the end of 2024, representing a 1.8% year-over-year (YOY) increase. Houston's YOY job growth is higher than the 1.4% YOY increase experienced nation-wide and among the 10 U.S. markets with the largest labor forces, Houston's YOY growth ranked first.

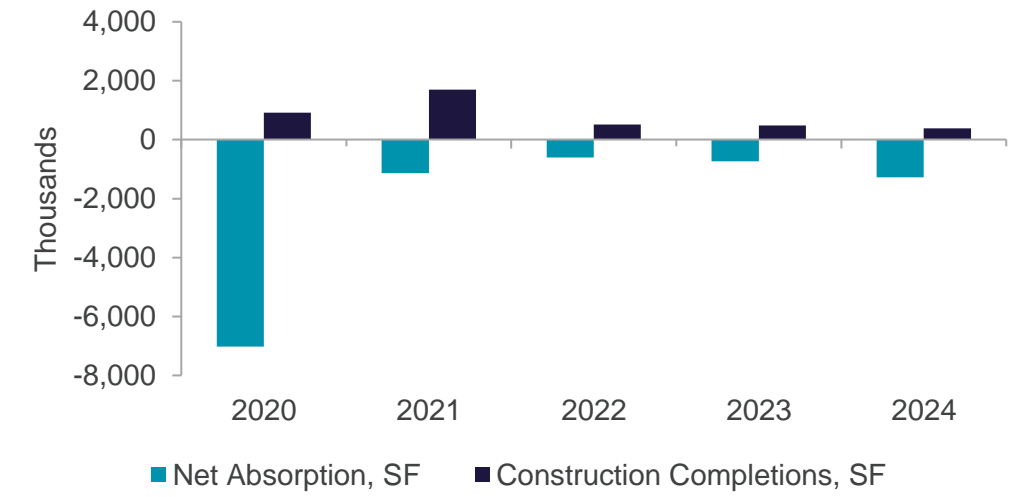
The Houston MSA private employment sectors with the largest YOY growth include Construction (6.2%), Other Services (6.0%), Education & Health Services (3.8%), Financial Activities (2.4%), Manufacturing (1.8%), and Mining & Logging (1.4%). Just one sector declined in YOY growth – Information (-2.6%). Houston's unemployment rate increased 40 basis points (bps) YOY, ending 2024 at 4.5% and stands just above the 4.2% unemployment rate nation-wide.

SUPPLY

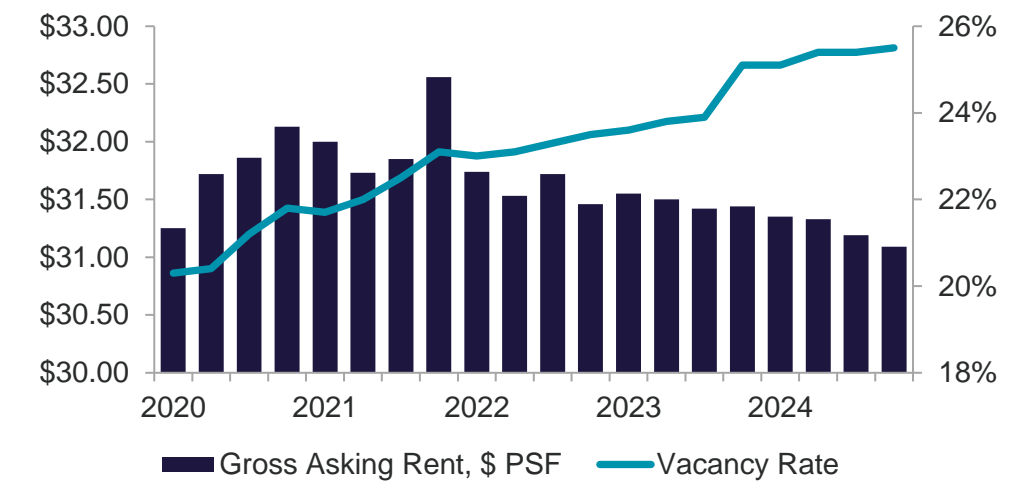
The Houston office market continued to see no new construction deliveries during the current quarter. The development pipeline remained limited, with three for-lease office buildings under construction – CityCentre Six, 300,000 square feet (sf) located in the Katy Freeway East submarket (64.2% preleased), The RO, 143,000 sf located in the Greenway submarket (100% preleased), and One Bridgeland Green, 50,000 sf located in the Far Northwest submarket (80.3% preleased).

Houston's vacancy rate in Q4 2024 rose slightly to 25.5%, an increase of 10 bps from 25.4% in Q3 2024. For the year, vacancy rates have remained relatively stable, fluctuating between 25.1% and 25.5%, with this quarter marking the highest level. Overall availability, which includes vacant space and upcoming space marketed as available, ended Q4 2024 at 29.4%, up 20 bps from Q3 2024. Direct space availability and sublease space each increased by 10 bps quarter-over-quarter, with direct space reaching 26.5% and sublease space at 2.9%. Over the past five years, the percentage of sublease space has held steady, averaging 2.7%.

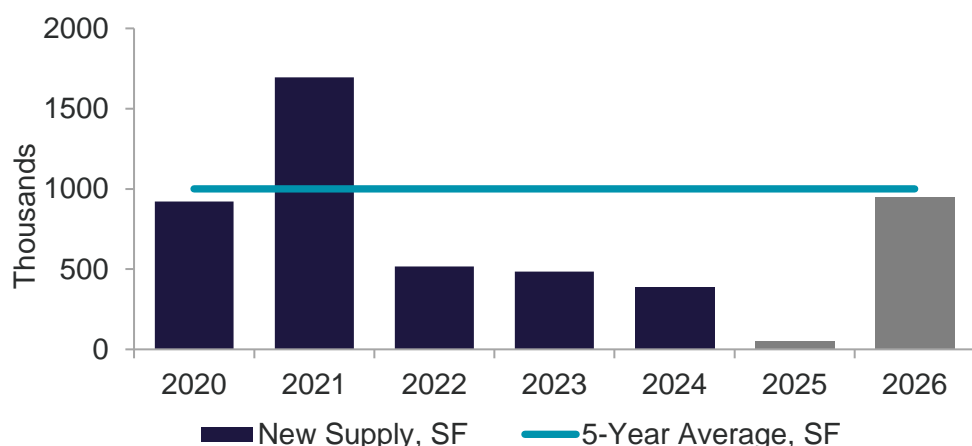
SPACE DEMAND / DELIVERIES



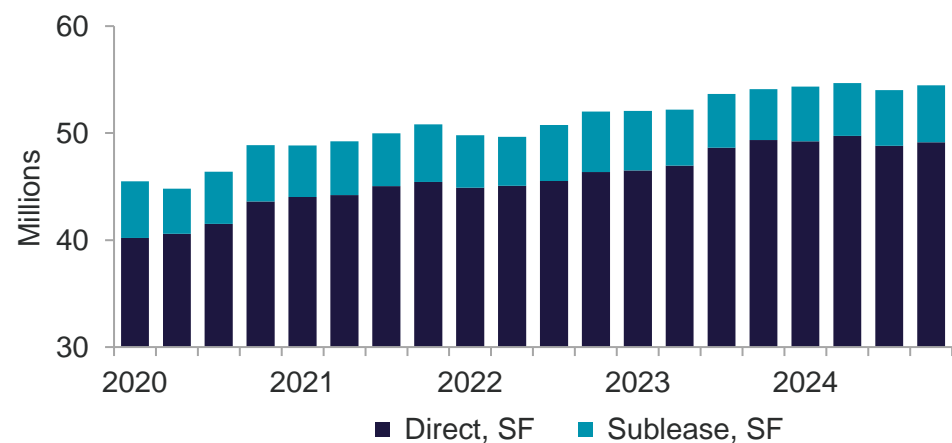
OVERALL VACANCY & ASKING RENT



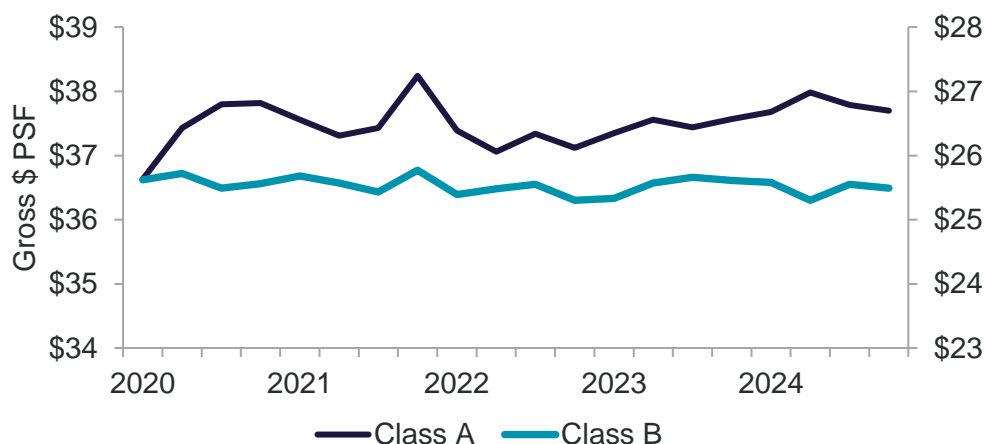
NEW SUPPLY / 5-YEAR HISTORICAL AVERAGE



DIRECT AND SUBLEASE SPACE AVAILABLE



ASKING RENT COMPARISON



DEMAND

Net absorption for the fourth quarter totaled -258,523 sf, a notable deviation from 104,385 sf recorded in Q3 2024. However, within Houston’s nearly 190 million square feet (msf) of office inventory, this quarterly figure is effectively negligible, equating to a net zero for the market. Class A office space absorbed 50,282 sf in the fourth quarter, while Class B office space recorded -296,432 sf. For the year, Class A experienced positive absorption totaling 409,334 sf, a stark contrast to Class B’s -1,232,297 sf. This persistent disparity underscores the growing preference for modern, high-quality office spaces over older, less competitive properties.

Several submarkets posted positive absorption in Q4 2024, with the Central Business District leading at 86,490 sf, followed by the West Loop/Galleria with 84,260 sf—a significant rebound from -384,028 sf recorded in the previous quarter.

New leasing activity totaled 2.2 msf in Q4 2024, bringing the total for the year to 9.7 msf, on par with the 5-year average of 9.6 msf. While Q4 2024 leasing activity showed a slight decline compared to the previous quarter’s 2.5 msf, it still demonstrated strong demand to round out the year. Class A buildings accounted for 62.2% (1.4 msf) of the total new leasing activity, Class B buildings accounted for 29.5% (642,000 sf), and Class C buildings accounted for 8.2% (179,000 sf).

The West Loop/Galleria submarket led the market for the second consecutive quarter, with 518,000 sf of new leases signed. The Katy Freeway West submarket followed, with 232,000 sf of new leases.

PRICING

The overall average gross asking rent ended Q4 2024 at \$31.09 per square foot (psf), slightly lower than \$31.19 psf the previous quarter, and 1.1% lower than \$31.44 psf the previous year. Class A average gross asking rent closed the quarter at \$37.70 psf, slightly lower than \$37.79 psf in the previous quarter but 0.3% higher than \$37.57 psf the previous year. Class A asking rents have remained stable over the last 5-years, averaging \$37.51 psf.

OUTLOOK

- Houston’s overall economy remained positive. The market is anticipated to follow a balanced growth trajectory, but at a much slower pace than two years ago.
- Vacancy rates are expected to stabilize in 2025 as leasing activity increasingly aligns with available inventory, driven by balanced tenant demand and restrained development trends.
- New construction is likely to stay limited as developers remain cautious, focusing on securing major tenants before launching new projects.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE	CURRENT QTR NET ABSORPTION (SF)	2024 NET ABSORPTION (SF)	2024 NEW LEASING ACTIVITY (SF)	UNDER CONSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Central Business District	37,192,041	1,303,187	10,712,405	32.3%	86,490	-169,429	1,128,630	0	\$41.80	\$44.81
Inner Loop	4,904,884	215,920	973,987	24.3%	54,801	46,037	222,087	0	\$34.98	\$38.74
West Loop/Galleria	29,120,648	488,674	8,258,157	30.0%	84,260	-1,061,459	1,715,717	0	\$34.17	\$39.74
Greenway	9,457,523	217,942	2,582,572	29.6%	7,876	-147,367	499,737	143,228	\$33.61	\$36.02
South Main/Medical Center	4,598,639	51,340	900,936	20.7%	-54,458	-112,149	96,673	0	\$25.59	N/A
Southwest	8,705,563	387,397	1,877,642	26.0%	-55,281	-290,121	364,127	0	\$18.57	\$25.50
Sugar Land	4,097,880	41,456	969,556	24.7%	-9,518	-85,237	84,881	0	\$32.40	\$33.16
Westchase	14,998,014	347,915	4,857,401	34.7%	-42,370	265,280	884,677	0	\$25.77	\$32.80
Katy Freeway East	6,707,084	285,564	581,325	12.9%	-6,983	47,893	693,763	300,000	\$35.71	\$47.05
Katy Freeway West	17,754,654	511,853	4,710,243	29.4%	-57,178	311,399	1,546,767	0	\$30.05	\$33.05
Katy/Grand Parkway West	1,166,859	94,952	64,523	13.7%	-59,967	-75,499	116,787	0	\$31.49	\$32.22
North Loop/Northwest	6,434,712	125,904	1,284,784	21.9%	-156,714	-96,292	394,252	0	\$20.09	\$25.13
West Belt	4,937,021	242,350	1,580,590	36.9%	-52,136	25,174	442,644	0	\$28.51	\$29.72
North Belt/Greenspoint	10,398,059	37,247	4,602,163	44.6%	-22,340	26,747	305,938	0	\$18.65	\$24.30
Far Northwest	6,493,244	503,421	2,266,405	42.7%	-97,449	-200,048	215,042	49,117	\$22.98	\$28.88
The Woodlands/Spring	10,823,714	327,753	1,929,255	20.9%	64,302	234,309	623,992	0	\$38.66	\$42.47
Kingwood/Humble	625,283	0	76,530	12.2%	-2,449	18,369	23,517	0	\$20.57	N/A
East/Southeast	2,659,243	9,353	317,001	12.3%	1,424	-15,743	107,983	0	\$21.02	\$24.26
NASA/Clear Lake	4,211,207	123,771	611,894	17.5%	59,167	1,724	211,064	0	\$24.95	\$29.12
SUBURBAN TOTALS	148,094,231	4,012,812	38,444,964	28.7%	-345,013	-1,106,983	8,549,648	492,345	\$28.15	\$34.46
HOUSTON TOTALS	185,286,272	5,315,999	49,157,369	29.4%	-258,523	-1,276,412	9,678,278	492,345	\$31.09	\$37.70

KEY NEW LEASE TRANSACTIONS Q4 2024

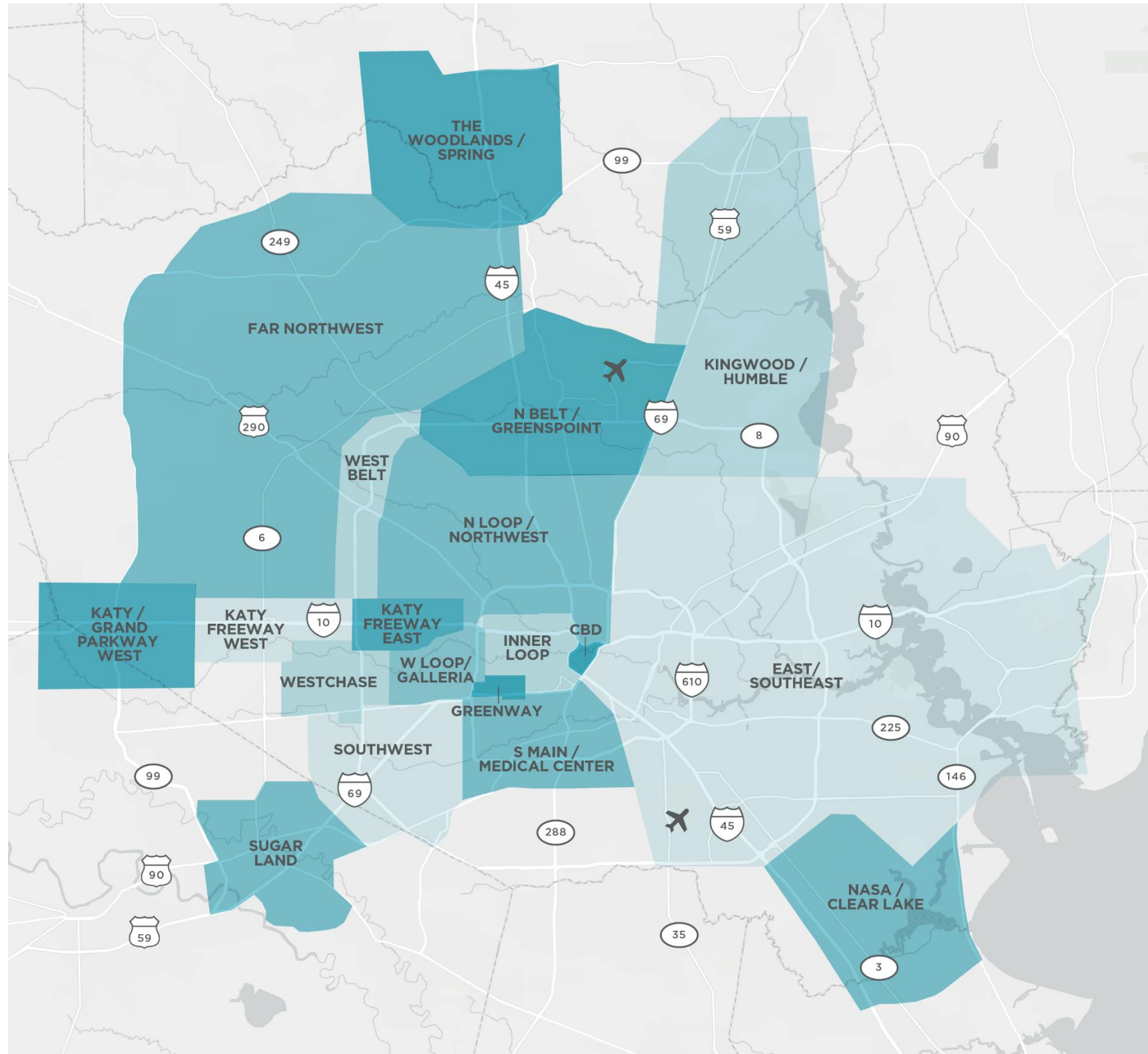
Rental rates reflect gross asking \$psf/year

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Invensys Building	10900 Equity Drive	West Belt	Quest Diagnostics	93,000
The Offices at Greenhouse	19219 Katy Freeway	Katy/Grand Parkway West	Det Norske Veritas	56,433
Westgate II	17320 Katy Freeway	Katy Freeway West	McDermott	50,489
Beltway Lake Phase III	5775 North Sam Houston Parkway West	West Belt	Lennar Homes	47,903

KEY SALES TRANSACTIONS Q4 2024

BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
Sugar Creek on the Lake	14141 Southwest Freeway	Sugar Land	Madison Marquette/Fuller Realty Kesaria Ameen	515,115
Energy Crossing II	15011 Katy Freeway	Katy Freeway West	Invesco Capital Commercial Investments	327,000
Energy Crossing I	15021 Katy Freeway	Katy Freeway West	Invesco Capital Commercial Investments	238,815
4265 San Felipe	4265 San Felipe	West Loop/Galleria	Woodbranch Management DML Capital	207,378

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