RifleCRE

HOUSTON
OFFICE
Q1 2026

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EXECUTIVE SUMMARY | METRICS AT A GLANCE

EXECUTIVE SUMMARY

Houston's office market opened 2026 on a cautiously optimistic note. Leasing activity strengthened to roughly 2.5 million square feet – a meaningful step up from the prior quarter and broadly in line with the five-year quarterly average – while average asking rents continued to grind higher, supported by a flight-to-quality dynamic that increasingly defines the market. Headline vacancy remained essentially flat in the mid-to-upper 26% range as new supply, the tail end of large legacy move-outs, and steady backfill of existing space roughly offset one another.

Net absorption registered modestly negative for the quarter, marking a second consecutive quarter of occupancy losses after the market's strongest year of demand since 2015. The losses, however, were highly concentrated – most notably in the CBD, where Shell's previously announced lease expiration removed more than 500,000 square feet from the occupied base in a single move. Excluding that single event, the market would have posted positive absorption.

Underlying fundamentals continue to firm. Class A product captured the majority of leasing activity, trophy asking rents crossed $50 per square foot for the first time on record, the under-construction pipeline shrank to historic lows with what remains nearly fully pre-leased, and sublease availability is steadily compressing. Houston's office visitation now sits at 67.8% of pre-pandemic levels – third nationally among Tier 1 markets, behind only Washington, D.C. and Manhattan.

METRICS AT A GLANCE

VACANCY & ABSORPTION

OVERALL VACANCY
26.6 %
+10 bps Q/Q
-80 bps Y/Y

NET ABSORPTION
-273K SF
Negative Q/Q
Negative Y/Y

TOTAL INVENTORY
~250.1
MSF Flat Q/Q & Y/Y

LEASING ACTIVITY
~2.5M
+10-30% Q/Q
+47% Y/Y

ASKING RENT - ALL CLASSES (PSF)

Trophy	$57.71	+5.9% Y/Y
Class A	$36.35	+5.8% Y/Y
Avg. asking	$30.79	+7.2% Y/Y
Sublease	$25.91	+13.3% Y/Y

CONSTRUCTION PIPELINE

NEW DELIVERIES
~499k SF
+120% Q/Q

UNDER CONSTRUCTION
273,600 SF
Lower Q/Q & Y/Y

OFFICE VISITATION
67.8%
of pre- pandemic ↑Y/Y

SUPPLY, DEMAND & OCCUPANY
NEW SUPPLY & CONSTRUCTION PIPELINE

SUPPLY, DEMAND & OCCUPANCY

VACANCY

Overall vacancy in Houston ended Q1 2026 in the mid-to-upper 26% range – essentially unchanged on a quarterly basis and roughly 50 to 80 basis points improved versus Q1 2025. The headline figure continues to be dragged by older, commodity Class B and lower-tier Class A buildings; newer Class A properties delivered after 2015 are running at direct vacancy of just 10.3%, illustrating just how bifurcated the market has become.

Total availability (including sublease and known move-outs) has eased to roughly 26.3%, down from a Q4 2022 peak of 28.4%, with sublease space – long a source of below-market optionality – continuing to compress.

ABSORPTION

Net absorption was modestly negative for the quarter, averaging roughly -273,000 square feet across sources. The CBD accounted for essentially all of the loss, with Shell's 500,000+ square foot lease expiration dominating the move-out activity. Outside the CBD, the picture was much healthier: twelve submarkets recorded positive absorption, and Class A product alone accounted for all of it. Leaders included FM 1960 (+152,000 SF), NASA/Clear Lake (+75,000 SF), and The Woodlands/Conroe (+71,000 SF).

LEASING ACTIVITY

Leasing volume totaled approximately 2.5 million square feet – up roughly 10–30% quarter-over-quarter depending on the source's tracked universe, and a sharp improvement from the 1.7 MSF posted in Q1 2025. The CBD led the market with more than 375,000 SF of activity, anchored by a series of high-profile renewals and a handful of new headquarter-scale commitments. Class A 'tier 2' (the strong-but-not-trophy tier) captured 57% of year-to-date leasing – its highest share since 2019 – confirming that the flight-to-quality narrative has broadened beyond just the trophy tower set. Tenants continue to upgrade where they can, often within their existing footprint or with modest expansions, while landlords of older Class B product are increasingly losing tenancy to refurbished mid-tier Class A space.

NEW SUPPLY & CONSTRUCTION PIPELINE

Three projects totaling roughly 499,450 square feet delivered in Q1 – a 120% jump from Q4 2025 deliveries – but every one of them came online substantially leased or fully occupied. The flagship delivery was City Centre Six in the Katy Freeway corridor, which delivered 91% leased with Dow Chemical as the anchor tenant. Additional deliveries in the NASA/Clear Lake and Gulf Freeway/Pasadena submarkets also entered the market with little to no speculative vacancy.

The under-construction pipeline shrank to just 273,600 square feet – historically low for a market the size of Houston. Only two projects remain: Autry Park (~127,000 SF, ~95% pre-leased, expected late 2026) and The RO (~146,000 SF, 100% pre-leased, expected 2027). With no new speculative starts on the horizon, the supply side will continue to work in the existing market'sfavor over the next 18 to 24 months.

RENTAL RATES | SUBMARKET HIGHLIGHTS

RENTAL RATES

Average asking rent for the overall market ticked up to $30.79 PSF (full-service gross), a quarterly gain of approximately 0.7% and a year-over-year gain of more than 7%. Class A asking rents reached $36.35 PSF, up 1.5% on the quarter. Trophy asking rents surpassed $50 PSF for the first time on record and finished the quarter at an average of $57.71 PSF – up 5.9% year-over-year.

Net effective rents continue to lag asking rents, as landlords offer elevated tenant improvement allowances and free-rent periods to close deals. The headline figures should therefore be read as gross asking levels rather than realized economics. Sublease asking rents rose 13.3% year-over-year to $25.91 PSF – narrowing the discount versus direct space to just $4.75 PSF and reflecting both reduced sublease Inventory and improved quality of the remaining available sublet blocks.

SUBMARKET HIGHLIGHTS

Central Business District (CBD)

The CBD posted the quarter's most paradoxical story: it both led the market in gross leasing volume (>375,000 SF) and produced the largest occupancy loss (-155,929 SF). Shell's previously announced leaseexpiration accounted for nearly all of the absorption drag. Notable CBD deals included Mayer Brown's60,965 SF renewal at 700 Louisiana and Yetter Coleman's 43,906 SF new lease at 600 Travis. Class Aasking rents in the CBD held in the high $30s/low $40s, and trophy product continued to perform.

Katy Freeway / Energy Corridor

Energy-sector tenancy continues to dominate this submarket and drove the quarter's headlinetransaction – Boardwalk Pipelines' 143,253 SF new lease at 990 Town and Country Boulevard. Class A asking rents in Katy Freeway East are the highest in the market at over $60 PSF, supported by direct ClassA vacancy of just 16.3%. City Centre Six delivered 91% leased.

The Woodlands / Conroe

Continued positive absorption (+71,480 SF) and Class A asking rents above $45 PSF reflect ongoing suburban headquarters demand, including renewed activity from healthcare, energy services, and professional services tenants. Limited new supply continues to keep this submarket tight.

NASA / Clear Lake

One of the quarter's stronger performers (+74,557 SF of absorption). A small new delivery in the submarket came online essentially fully leased, and aerospace, defense, and engineering tenants continue to drive demand.

FM 1960

Posted the highest positive absorption in the market (+152,084 SF) – driven by a combination of mid-sized professional services and healthcare-affiliated tenants taking advantage of value pricing in repositioned Class B/A- assets. Westchase Healthy activity led by Zachry Engineering's 52,745 SF new lease. The submarket remains a relative value option for cost-sensitive energy services and professional services tenants seeking Class A space at below-market pricing.

CAPITAL MARKETS | ECONOMIC CONTEXT CONCLUSION

CAPITAL MARKETS

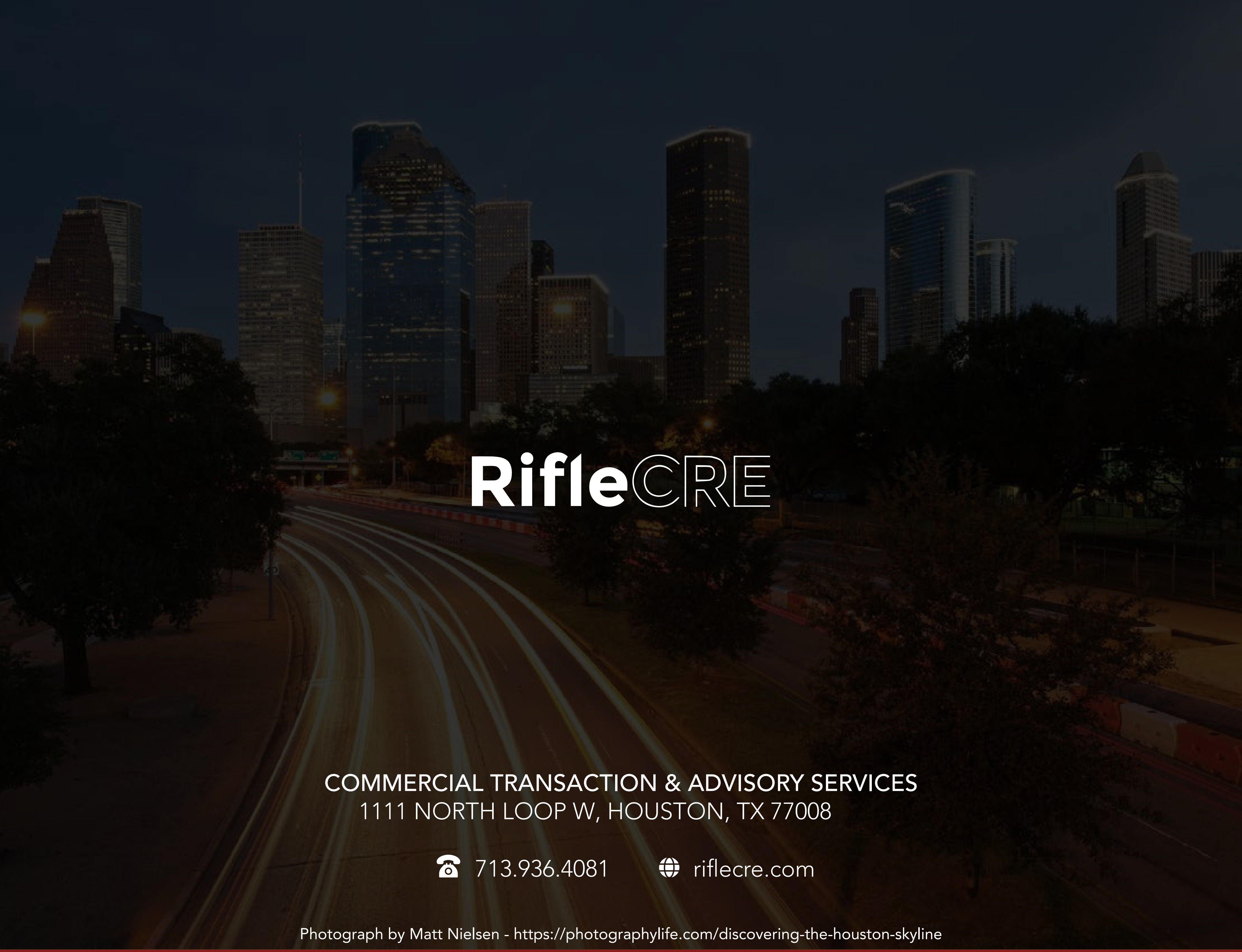
Investment sales activity continues its measured recovery. Trailing twelve-month volume reached approximately $788 million across 166 properties, with the average sale price working back up to $120 per square foot. Recent trades have pushed the post-pandemic high to roughly $137 PSF – a level driven by a mix of private capital and owner-user buyers stepping in to capitalize on deeply discounted basis pricing for repositioning plays.
The trophy and Class A+ segment continues to tighten in both rent and occupancy, supporting investor interest in the highest-quality assets, while older Class B and lower-tier Class A product is increasingly trading at land or owner-user economics rather than as stabilized investments.

ECONOMIC CONTEXT

Houston's labor market growth moderated through the November 2025 through February 2026 window but remained positive. Professional and business services – the most relevant office-using sector – led all sectors with +4,200 jobs (+1.5% annualized). Education and health services followed at +3,800 jobs (+3.3% annualized). The Greater Houston Partnership's 2026 forecast calls for more than 30,000 new jobs region-wide for the full year.
The headwind remains energy: oil and gas employment contracted -6.7% year-over-year (-5,000 jobs), reflecting subdued capital expenditures despite firm commodity prices. Offsetting that, the region continues to attract investment into energy transition activities – carbon capture, hydrogen, and battery storage – which is reshaping the composition of Houston's office-using base

CONCLUSION

The most important takeaway from Q1 is structural rather than statistical: Houston's office market is stabilizing in a way that is fundamentally different from the trajectory of the past five years. The under-construction pipeline is the smallest it has been in a generation, sublease space is compressing,leasing volume is back to long-run averages, and rents are rising faster than at any point since the energy downturn of 2014–16. The headwinds are concentrated and identifiable rather than systemic. The CBD will continue to absorb the impact of a handful of legacy large-tenant move-outs, and lower-tier Class B inventory will remain structurally challenged. But for owners of well-located, recently delivered or thoughtfully repositioned Class A product, fundamentals are pointing in the right direction. Expect continued pricing power at the top of the market, gradual occupancy gains outside the CBD, and a widening performance gap between the haves and the have-nots of the Houston office stock.



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COMMERCIAL TRANSACTION & ADVISORY SERVICES
1111 NORTH LOOP W, HOUSTON, TX 77008

☎ 713.936.4081 riflecre.com

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