



MARKET FUNDAMENTALS

	YOY Chg	Outlook
6.1% Vacancy Rate	▼	▬
444K Net Absorption, SF	▼	▲
\$7.40 Asking Rent, PSF	▼	▲

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

ECONOMIC INDICATORS

	YOY Chg	Outlook
3.5M Houston Employment	▲	▲
4.4% Houston Unemployment Rate	▲	▼
4.1% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMY

Total employment stood at 3.5 million in Houston's metro area (MSA) at the end of Q1 2025, representing a 1.3% year-over-year (YOY) increase. Houston's YOY job growth is slightly higher than the 1.2% YOY rise experienced nationwide and among the 10 U.S. markets with the largest labor forces, Houston's annual growth ranked second, just behind Manhattan (1.7%).

The Houston MSA private employment sectors with the largest YOY growth included other services (5.8%), manufacturing (2.2%), leisure and hospitality (1.8%), and construction (1.6%). Three sectors declined during that time – information (-4.4%), financial activities (-1.2%), and mining and logging (-0.2%). Houston's unemployment rate remained elevated at 4.4% in Q1 2025, 30 basis points (bps) above the national rate of 4.1%.

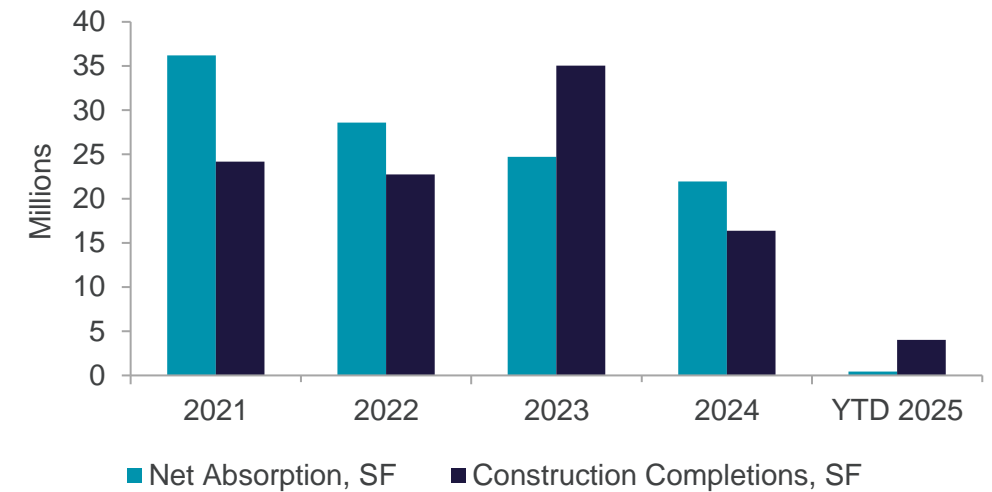
SUPPLY

The development pipeline cooled in 2024, but Q1 2025 marked the second consecutive quarter in which project starts outpaced deliveries, with 4.5 million square feet (msf) breaking ground compared to 4.0 msf delivered. Developers are responding to increased demand from companies occupying smaller spaces. Of the 83 developments currently underway in Houston, over 80% are under 300,000 square feet (sf) in size and all but five are speculative projects. The North led all submarkets in deliveries with 1.3 msf completed. Due to limited construction activity in 2024, the West and Northeast recorded no significant deliveries this quarter.

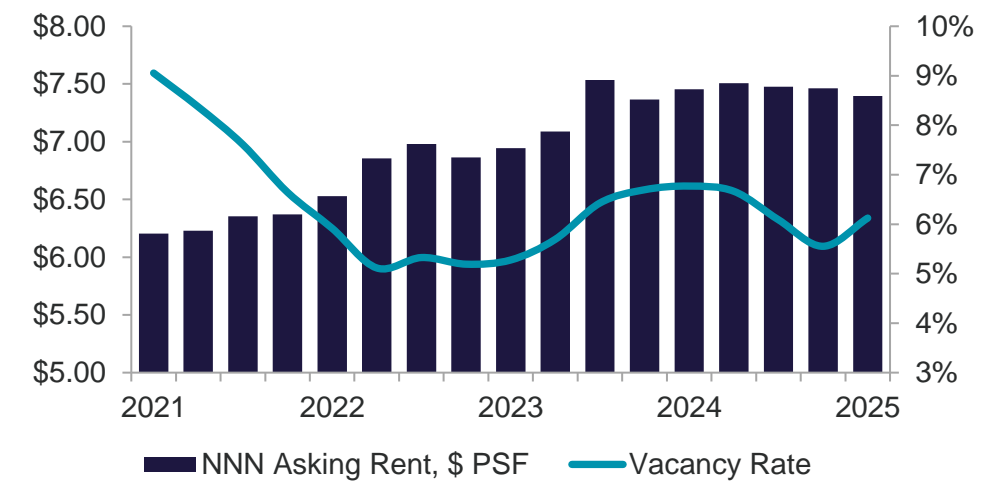
Construction activity remained heavily concentrated in the Southeast (4.1 msf) and Northwest (3.5 msf), which together account for more than half of Houston's total 13.4 msf underway. Notably, 65.4% (2.3 msf) of the Northwest's total broke ground during Q1 2025. Speculative projects continued to dominate the pipeline, comprising 80.6% of the space currently under construction. While development activity remains beneath the record-setting pace of recent years, Houston's pipeline is expected to stay resilient as developers remain focused on areas with sustained tenant demand and tighter availability.

Sublease availability declined to 4.0 msf by quarter-end, holding steady at 0.7%. This aligns with the market's five-year average and suggests continued stabilization in the sublease sector following elevated availability early in 2024.

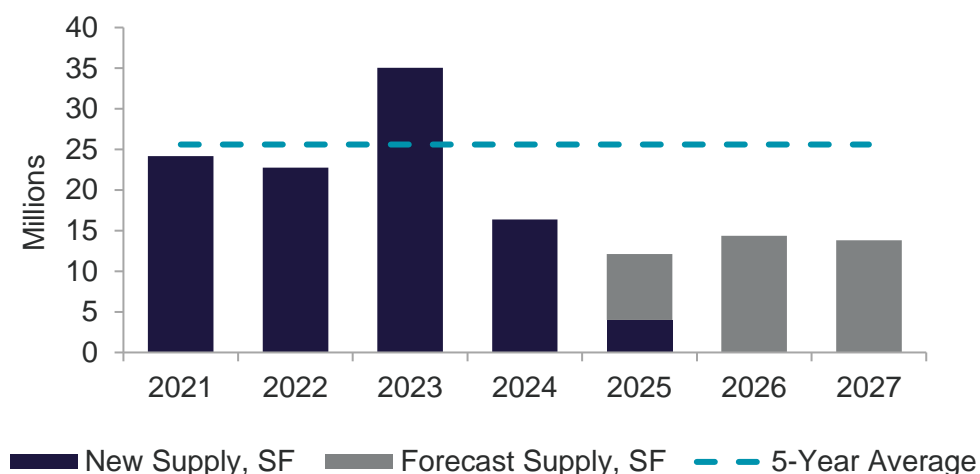
SPACE DEMAND / DELIVERIES



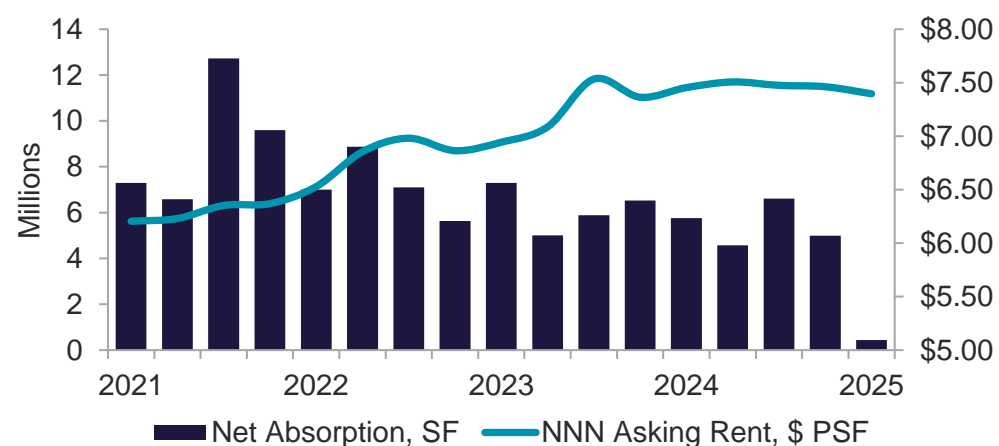
OVERALL VACANCY & ASKING RENT



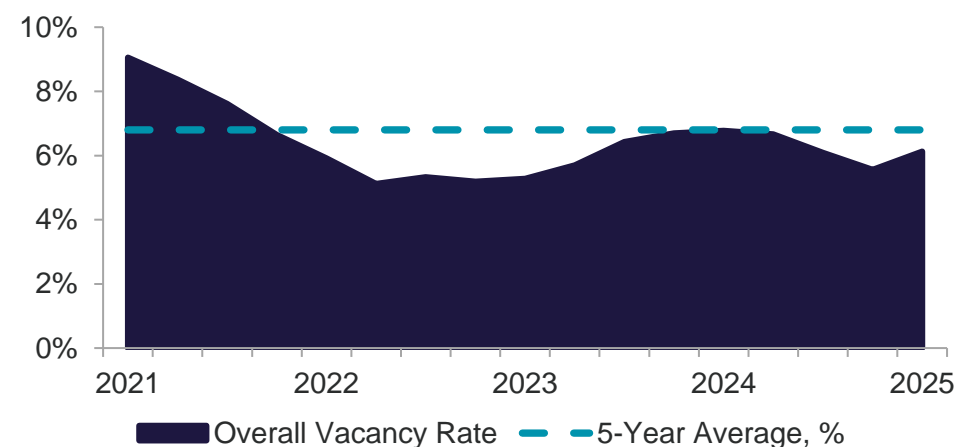
NEW SUPPLY / 5-YEAR HISTORICAL AVERAGE



OVERALL NET ABSORPTION AND ASKING RENT



OVERALL VACANCY



DEMAND

Houston’s industrial demand remained muted relative to recent activity, with 6.4 msf of new leases signed during the quarter. While this was consistent with Q4 2024’s total of 6.1 msf, it trailed the average quarterly leasing totals observed in 2023 and 2024, which stood at 8.1 msf. Deal volume also declined, with 21.2% fewer transactions compared to last year’s quarterly average. The Northwest led all submarkets in leasing activity with 1.9 msf, underscoring its consistent strength and tenant preference.

Net absorption dropped sharply to just 444,000 sf, marking Houston’s lowest quarterly total since before the pandemic. However, this dip is likely an anomaly, shaped by the timing of several large occupier movements. Several tenants from major leases signed last year took occupancy late in 2024, boosting absorption in the latter half of the year and pulling demand forward that might have otherwise landed in Q1 2025. At the same time, a higher quantity of sizable move-outs during the quarter added downward pressure. Although leasing demand is expected to remain subdued in the near term, positive absorption is anticipated throughout the remainder of 2025.

Vacancy ticked upward for the first time in more than a year, rising 50 bps to 6.1%. This increase was partially due to the return of several larger blocks of space to the market, although vacancy will likely hold stable throughout the remainder of the year.

PRICING

Average asking rents declined slightly during the quarter, ending Q1 2025 at \$7.40 per square foot (psf). This represented a 0.9% decrease quarter-over-quarter (QOQ) and a 0.8% decline YOY. The South and Southwest submarkets posted the highest asking rates, closing the quarter at \$8.09 psf and \$7.97 psf, respectively. In the warehouse/distribution sector—the largest segment of the industrial market—asking rents dipped 0.5% QOQ to \$7.21 psf.

Despite softening demand, average rental rates are expected to remain elevated due to increased construction costs, stricter development financing conditions, and a slowdown in speculative supply. While rent growth is expected to decelerate further in 2025, landlords in prime submarkets with newer product are likely to maintain pricing power, particularly as construction remains disciplined.

OUTLOOK

- While lower absorption and leasing activity will persist throughout the year, overall demand is expected to remain positive and will support steady growth as Houston remains one of the nation’s premier industrial markets.
- As a port market with logistics-driven demand, Houston could face near-term headwinds from reduced global trade flows tied to rising tariffs. However, Houston is also well-positioned to benefit from accelerated reshoring, supported by strength in the petrochemical, transportation, and emerging manufacturing sectors.
- Tighter lending conditions, rising construction costs, and normalized demand are all expected to keep new development starts relatively limited, reinforcing a more disciplined and sustainable development pipeline.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (OS)	OVERALL WEIGHTED AVG NET RENT (W/D)
CENTRAL BUSINESS DISTRICT	179,109	0	0.0%	0	0	0	0	N/A	N/A	N/A
North-Near	6,738,626	120,774	1.8%	-58,219	-58,219	0	0	N/A	\$7.20	\$4.50
North-Mid	15,976,696	1,060,377	6.6%	-51,596	-51,596	0	797,324	\$7.92	N/A	\$8.59
North-Far	60,558,881	4,901,892	8.1%	-35,667	-35,667	814,588	464,771	\$6.64	\$7.59	\$7.20
North-Montgomery County	14,263,996	284,933	2.0%	53,934	53,934	0	0	N/A	\$19.55	\$8.91
NORTH	97,538,199	6,367,976	6.5%	-91,548	-91,548	814,588	1,262,095	\$6.82	\$9.49	\$7.37
Northeast-Near	22,045,631	1,217,053	5.5%	184,517	184,517	833,504	0	\$6.09	\$9.04	\$6.75
Northeast-Far	14,765,414	2,098,786	14.2%	-56,145	-56,145	943,467	0	\$6.65	N/A	\$7.08
NORTHEAST	36,811,045	3,315,839	9.0%	128,372	128,372	1,776,971	0	\$6.47	\$9.04	\$6.98
Northwest-Near	25,545,046	1,045,404	4.1%	-187,969	-187,969	0	0	\$9.96	\$9.97	\$5.88
Northwest-Far	117,398,162	5,519,924	4.7%	551,996	551,996	3,502,000	537,375	\$8.76	\$10.49	\$7.68
NORTHWEST	142,943,208	6,565,328	4.6%	364,027	364,027	3,502,000	537,375	\$9.10	\$10.36	\$7.54
South-Near	22,631,454	509,406	2.3%	-106,763	-106,763	184,805	0	N/A	\$12.31	\$5.44
South-Far	20,892,543	1,344,386	6.4%	216,898	216,898	1,134,497	661,680	N/A	\$11.75	\$8.20
SOUTH	43,523,997	1,853,792	4.3%	110,135	110,135	1,319,302	661,680	N/A	\$12.07	\$7.71
Southeast-Near	38,188,216	1,810,737	4.7%	-245,006	-245,006	0	0	\$6.14	N/A	\$5.58
Southeast-Mid	16,829,619	220,536	1.3%	4,250	4,250	1,190,208	0	N/A	N/A	\$8.19
Southeast-Far	81,470,547	7,912,529	9.7%	141,267	141,267	2,875,385	752,254	\$10.20	\$9.77	\$7.26
SOUTHEAST	136,488,382	9,943,802	7.3%	-99,489	-99,489	4,065,593	752,254	\$7.01	\$9.77	\$6.98
Southwest-Near	4,466,335	20,000	0.4%	-20,000	-20,000	0	0	N/A	N/A	\$8.00
Southwest-Far	63,542,083	3,130,241	4.9%	135,973	135,973	1,498,576	798,200	\$8.00	\$11.99	\$7.52
SOUTHWEST	68,008,418	3,150,241	4.6%	115,973	115,973	1,498,576	798,200	\$8.00	\$11.99	\$7.52
West-Far	32,530,067	1,574,658	4.8%	-75,174	-75,174	147,285	0	\$6.88	\$11.51	\$6.49
West-Waller County	27,360,156	3,074,545	11.2%	-8,421	-8,421	272,529	0	N/A	N/A	\$7.12
WEST	59,890,223	4,649,203	7.8%	-83,595	-83,595	419,814	0	\$6.88	\$11.51	\$6.97
HOUSTON TOTALS	585,382,581	35,846,181	6.1%	443,875	443,875	13,396,844	4,011,604	\$7.22	\$10.74	\$7.21

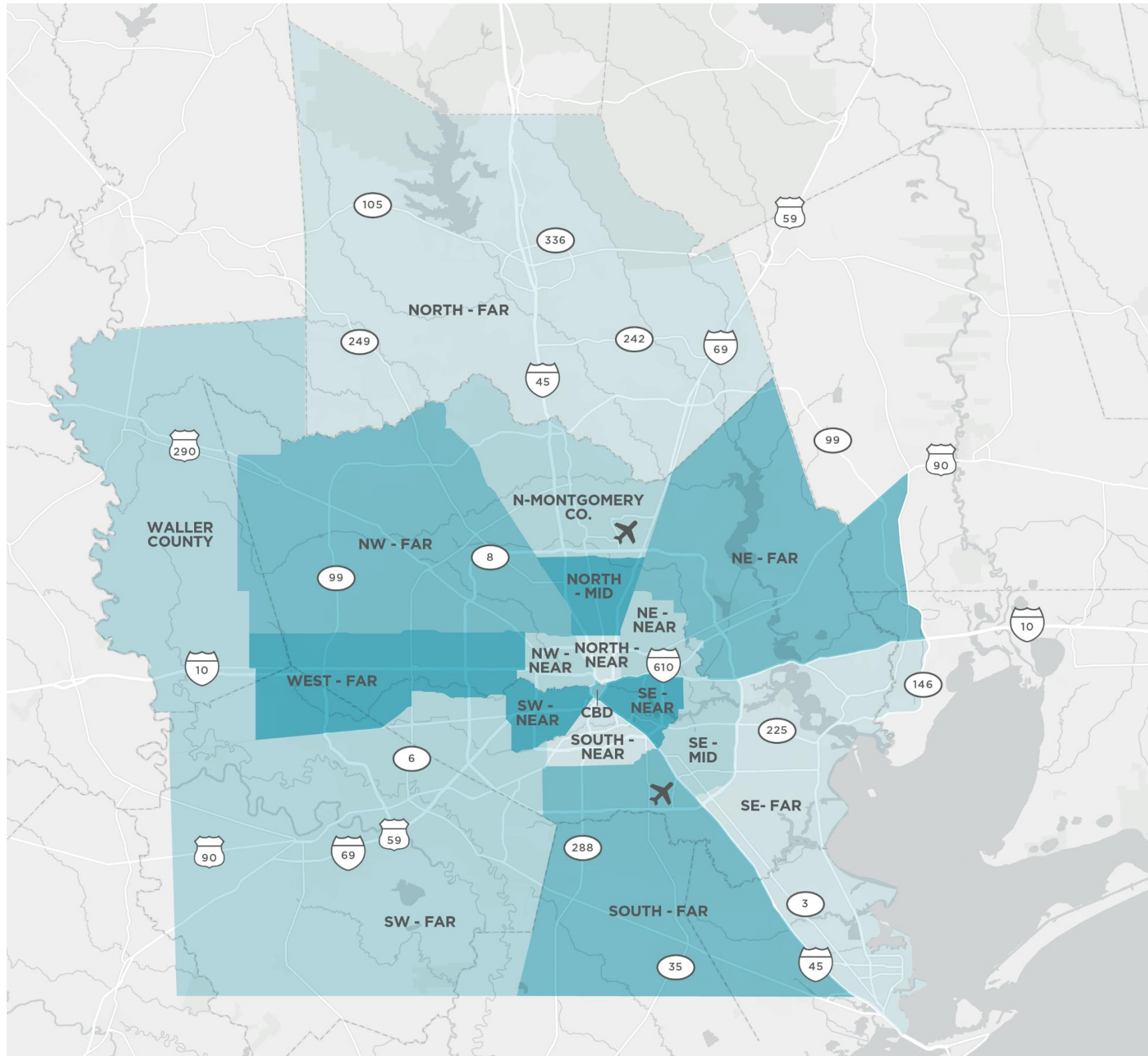
KEY NEW LEASE TRANSACTIONS Q1 2025

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Empire West Business Park – Building 10	111 Empire Boulevard	West	Tesla	616,463
Mason Ranch Industrial Park – Building 1	2244 North Mason Road	West	EDA International	373,860
AmeriPort Industrial Park – Building 6	5000 AmeriPort Parkway	Southeast	Exxon Mobil	298,200
Gateway Northwest Business Park – Building 3	20510 Hempstead Road	Northwest	Confidential	264,797

KEY NEW SALES TRANSACTIONS Q1 2025

BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
Houston Tradeport – 3 Buildings	8225 Plummer Street	Southeast	NorthPoint Development Morgan Stanley & Eaton Vance	1,383,358
Cedar Port Industrial Park – Building DC2	4407 East Grand Parkway South	Southeast	Trans-Global Solutions Americold Logistics	496,421
West Belt Business Park – 5 Buildings	10611 Harwin Drive	Southwest	Longpoint Realty Partners BKM Capital Partners	256,620
Generation Park Distribution Center – Building 2	10055 West Lake Houston Parkway	Northeast	Centris Industrial Outrigger Industrial	255,871

INDUSTRIAL SUBMARKETS



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