

**MARKET FUNDAMENTALS**

	YOY Chg	Outlook
<b>25.4%</b> Vacancy Rate	▲	▼
<b>-475K</b> Net Absorption, SF	▲	▼
<b>\$31.33</b> Asking Rent, PSF	▼	▼

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

**ECONOMIC INDICATORS**

	YOY Chg	Outlook
<b>3.5M</b> Houston Employment	▲	▲
<b>4.4%</b> Houston Unemployment Rate	▲	▼
<b>4.1%</b> 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 nation-wide and among the 10 U.S. markets with the largest labor forces, Houston's annual growth ranked second, just behind Manhattan (1.7%).

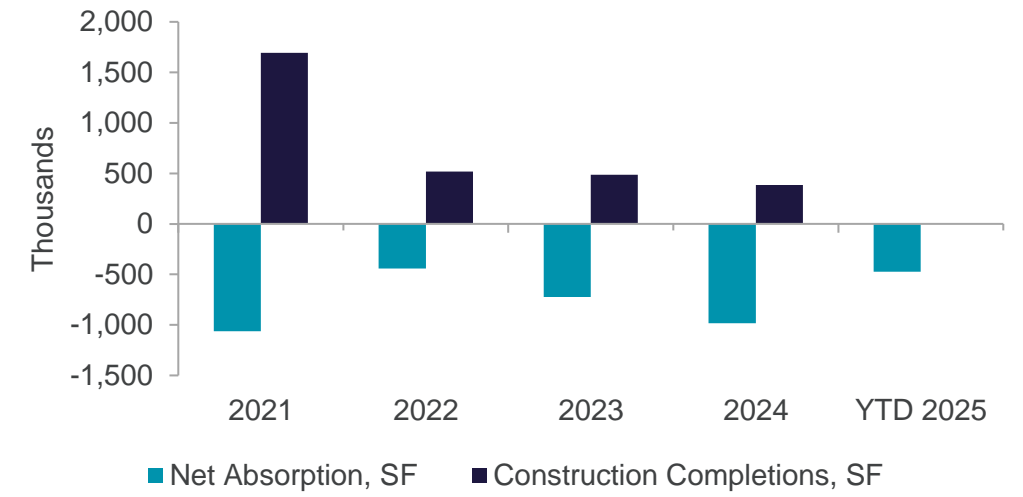
The Houston MSA private employment sectors with the largest YOY growth included Other Services (5.8%), Manufacturing (2.2%), Leisure and Hospitality (1.8%), and Construction (1.6%). Three sectors declined during that time – Information (-4.4%), Financial Activities (-1.2%), and Mining and Logging (-0.2%). Houston's unemployment rate remained elevated at 4.4% in Q1 2025, 30 basis points (bps) above the national rate of 4.1%.

**SUPPLY**

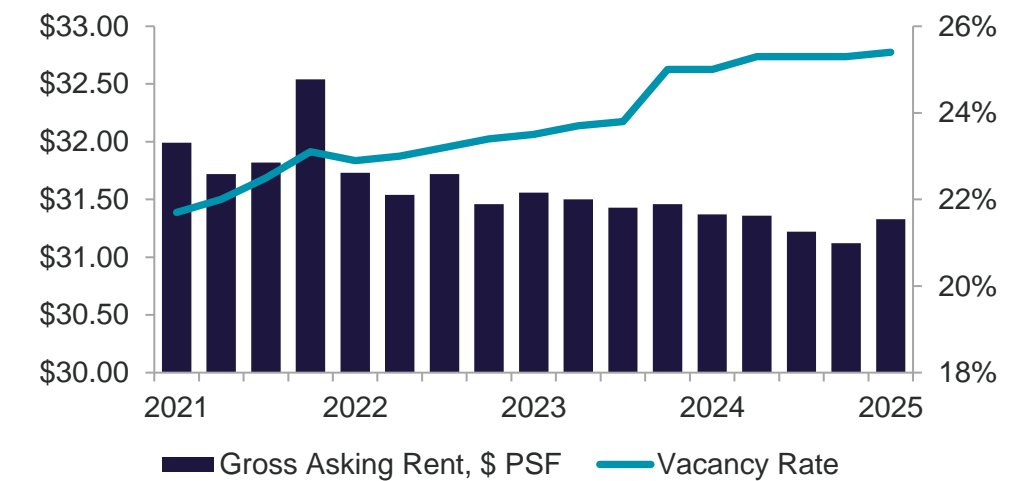
In Q1 2025, the Houston office market saw no new construction completions, marking a full year since the last building was delivered—Norton Rose Fulbright Tower in Q1 2024. Although the development pipeline remains limited, three office buildings are currently under construction – CityCentre Six, 300,000 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).

The vacancy rate closed Q1 2025 at 25.4%, reflecting a slight increase of 10 bps from 25.3% in Q4 2024. Over the past five quarters, vacancy rates have consistently hovered around the 25% mark, indicating signs of stabilization. Overall availability, which includes vacant space and upcoming space marketed as available, ended Q1 2025 at 29.6%, an increase of 30 bps from Q4 2024. Direct space availability rose by 40 bps quarter-over-quarter (QOQ), while sublease space remained steady at 2.8%.

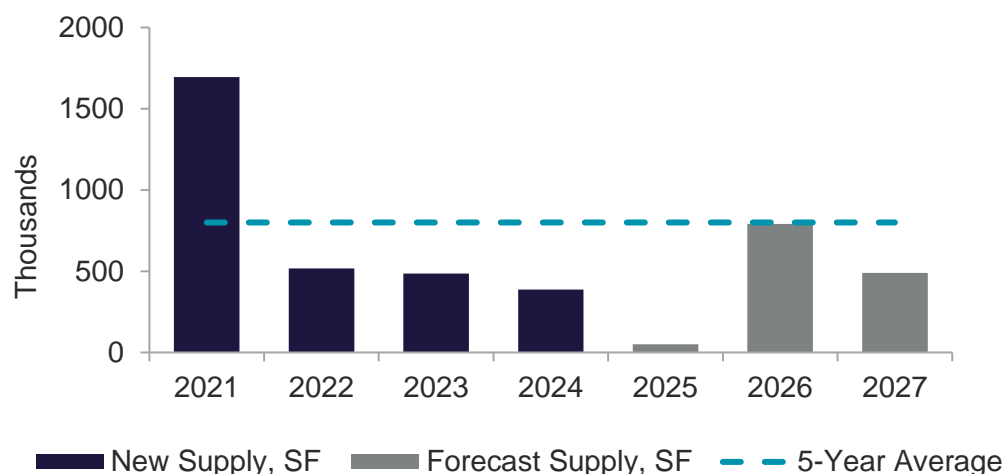
**SPACE DEMAND / DELIVERIES**



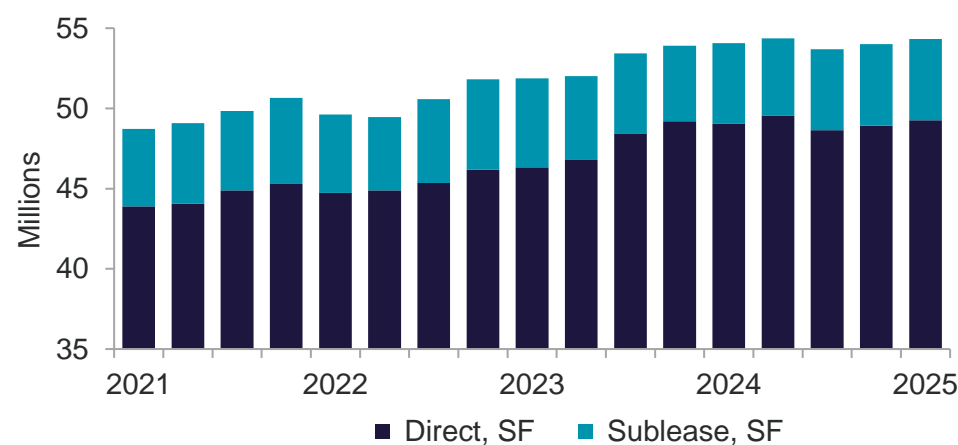
**OVERALL VACANCY & ASKING RENT**



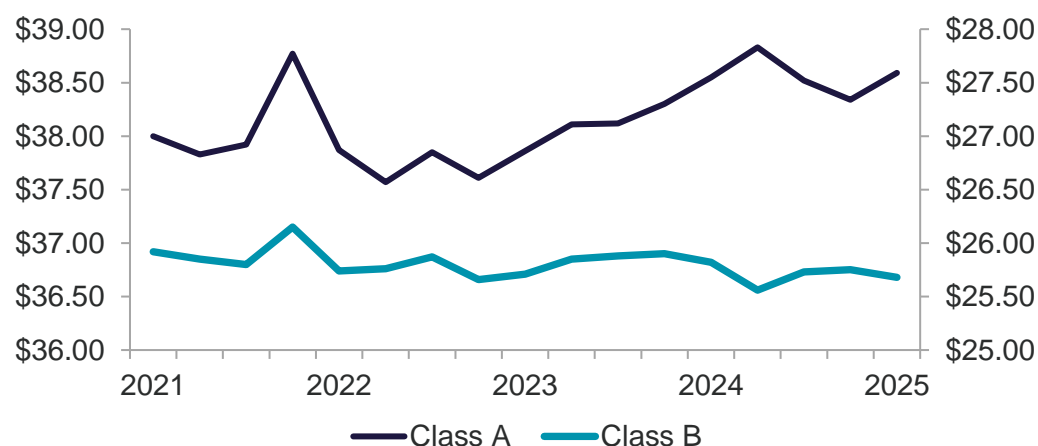
NEW SUPPLY / 5-YEAR HISTORICAL AVERAGE



DIRECT AND SUBLEASE SPACE AVAILABLE



ASKING RENT COMPARISON (Gross \$psf/year)



DEMAND

Houston’s office market contracted by 475,082 sf in Q1 2025, a notable drop from -113,891 sf recorded in Q4 2024. This decline was partly driven by the move-outs of LyondellBasell from 1 Houston Center in the Central Business District and Empyrean Benefits from Pinnacle Westchase in the Westchase submarket. Despite this quarterly contraction, several submarkets posted positive absorption in Q1 2025.

Katy Freeway West led the market with 256,330 sf absorbed, followed by the West Loop/Galleria at 199,194 sf. Both submarkets more than doubled their absorption compared to the previous quarter, with Katy Freeway West achieving the highest QOQ increase. Meanwhile, Class A office space absorbed 89,296 sf, while Class B office space recorded a loss of 399,021 sf. This contrast highlights the growing divide in demand, with occupiers increasingly favoring modern, high quality office spaces over older, less competitive properties.

Leasing activity slowed during the quarter, with new leases totaling 1.8 million square feet (msf), the lowest volume recorded in the past year. This slowdown reflects both a quarterly decline and a significant 1.0 msf drop compared to the previous year. Class A buildings accounted for 55.4% (973,000 sf) of the total new leasing activity, Class B buildings accounted for 38.3% (673,000 sf), and Class C buildings accounted for 6.2% (109,000 sf).

The Central Business District led the market recording the highest number of new leases at 284,000 sf, followed by Greenway with 230,000 sf.

PRICING

The overall average gross asking rent ended Q1 2025 at \$31.33 per square foot (psf), slightly higher than \$31.12 psf the previous quarter, but relatively unchanged from \$31.37 psf the previous year. The Class A average gross asking rent closed the quarter at \$38.59 psf, up from \$38.34 psf in the previous quarter and unchanged from \$38.55 psf the previous year. Class A asking rents have remained stable over the last 5-years, averaging \$38.06 psf.

OUTLOOK

- The office market will continue to experience a growing divide, as demand increasingly concentrates on high-quality spaces, further weakening the appeal and viability of less competitive properties.
- Leasing activity is projected to remain soft, driven by ongoing economic uncertainty, as occupiers adopt a more conservative stance toward long-term commitments.
- New construction will likely 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)	YTD NET ABSORPTION (SF)	YTD NEW LEASING ACTIVITY (SF)	UNDER CONSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
<b>Central Business District</b>	<b>36,521,089</b>	<b>1,319,969</b>	<b>10,164,501</b>	<b>31.4%</b>	<b>-416,141</b>	<b>-416,141</b>	<b>283,730</b>	<b>0</b>	<b>\$42.40</b>	<b>\$44.92</b>
Inner Loop	4,737,322	198,367	932,351	23.9%	-8,792	-8,792	33,578	0	\$34.83	\$49.50
West Loop/Galleria	29,288,210	435,421	8,463,460	30.4%	199,194	199,194	237,087	0	\$34.09	\$38.88
Greenway	9,457,523	159,381	2,463,651	27.7%	-109,183	-109,183	230,416	143,228	\$33.67	\$36.03
South Main/Medical Center	4,347,934	39,565	842,736	20.3%	-21,177	-21,177	24,563	0	\$25.64	N/A
Southwest	8,705,563	387,397	1,898,467	26.3%	-50,042	-50,042	18,116	0	\$18.48	N/A
Sugar Land	4,097,880	34,339	975,756	24.6%	-83,923	-83,923	42,801	0	\$32.92	\$35.64
Westchase	14,998,014	366,067	5,181,333	37.0%	-73,596	-73,596	146,102	0	\$25.76	\$32.96
Katy Freeway East	6,707,084	323,639	646,915	14.5%	27,660	27,660	89,953	300,000	\$35.96	\$48.04
Katy Freeway West	16,748,958	429,542	4,784,153	31.1%	256,330	256,330	190,403	0	\$30.27	\$33.59
Katy/Grand Parkway West	1,216,761	73,954	68,787	11.7%	-7,635	-7,635	11,288	0	\$32.44	\$32.80
North Loop/Northwest	6,434,712	89,252	1,362,903	22.6%	-11,506	-11,506	35,126	0	\$20.39	\$25.87
West Belt	4,937,021	278,591	1,559,653	37.2%	62,471	62,471	134,522	0	\$28.67	\$32.84
North Belt/Greenspoint	10,316,059	48,985	4,741,658	46.4%	-66,545	-66,545	22,571	0	\$19.32	\$26.69
Far Northwest	6,493,244	475,468	2,240,592	41.8%	-48,771	-48,771	59,782	50,000	\$22.44	\$30.62
The Woodlands/Spring	10,823,714	289,093	1,917,741	20.4%	-123,128	-123,128	138,146	0	\$39.76	\$43.76
Kingwood/Humble	625,283	0	78,662	12.6%	231	231	3,698	0	\$20.56	N/A
East/Southeast	2,659,243	4,253	322,914	12.3%	10,679	10,679	31,059	0	\$20.73	N/A
NASA/Clear Lake	4,211,207	120,248	607,313	17.3%	-11,208	-11,208	22,174	0	\$24.79	\$29.20
<b>SUBURBAN TOTALS</b>	<b>146,805,732</b>	<b>3,753,562</b>	<b>39,089,045</b>	<b>29.2%</b>	<b>-58,941</b>	<b>-58,941</b>	<b>1,471,385</b>	<b>493,228</b>	<b>\$28.36</b>	<b>\$35.54</b>
<b>HOUSTON TOTALS</b>	<b>183,326,821</b>	<b>5,073,531</b>	<b>49,253,546</b>	<b>29.6%</b>	<b>-475,082</b>	<b>-475,082</b>	<b>1,755,115</b>	<b>493,228</b>	<b>\$31.33</b>	<b>\$38.59</b>

KEY NEW LEASE TRANSACTIONS Q1 2025

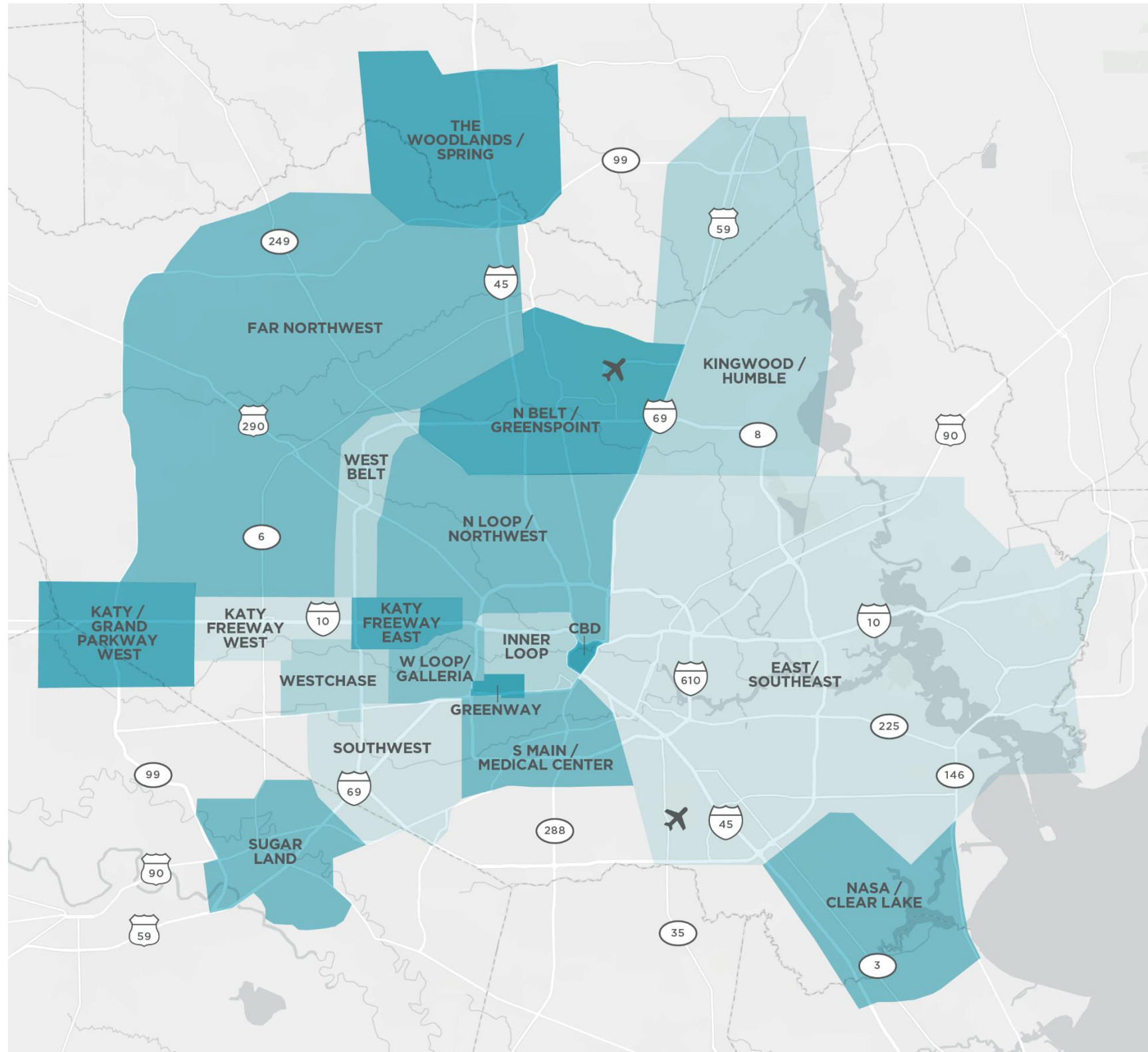
Rental rates reflect gross asking \$psf/year

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Kirby Grove	2925 Richmond Avenue	Greenway	Mercuria Energy Trading	70,875
Texas Tower	845 Texas Avenue	Central Business District	Skadden, Arps, Slate, Meagher & Flom	52,482
910 Louisiana	910 Louisiana Street	Central Business District	CAMS Management	50,506
Westway One	11210 Equity Drive	West Belt	Galen College of Nursing	48,536

KEY SALES TRANSACTIONS Q1 2025

BUILDING	ADDRESS	SUBMARKET	SELLER   BUYER	SF
717 Texas	717 Texas Avenue	Central Business District	Hines   New York Life	697,195
One City Centre	1021 Main Street	Central Business District	Accesso Partners   LAMB Properties	594,595
Thirty Forty Post Oak	3040 Post Oak Boulevard	West Loop/Galleria	MetLife Investment Management   Braun Enterprises	425,199
Energy Center I	585 North Dairy Ashford	Katy Freeway West	Spear Street Capital   Al Khor Holding	339,764

OFFICE SUBMARKETS



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