KBC ADVISORS

Q2 2026

KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Houston

ECONOMY

- The economy continues to be supported by artificial intelligence (AI)-driven investment, though sustained growth will depend on whether new investment tax incentives in the One Big Beautiful Bill Act encourage broader business spending and hiring beyond AI. A wider expansion in capital investment could strengthen the economic outlook while creating additional opportunities for landlords and investors and increasing competition for logistics space.
- Additional factors that could influence the economic outlook and demand for logistics space include domestic manufacturing investment, real wage growth, retail sales, trade policy, financial market conditions, and geopolitical developments.
- National warehouse and storage employment declined by 33,000 positions year-over-year, extending its recent downward trend. The slowdown is largely attributed to greater automation across warehouse operations, moderating consumer spending, and restrained hiring by some employers in response to economic uncertainty.
- The Port of Houston plays a vital role in the economic strength of both Houston and Texas. In May, the Port handled 398,322 twenty-foot equivalent units (TEUs), with total imports reaching 1.8 million (M) TEUs year-to-date (YTD), unchanged from the prior year. Houston's growth remains closely tied to broader Gulf Coast economic trends, with manufacturing investment and nearshoring activity in Mexico supporting continued trade flows. The region's strategic location also provides direct access to both domestic distribution networks and Latin American markets.
- Houston's population grew 1.3% over the past year, adding more than 107,000 residents, and has increased 9.9% over the past five years, totaling over 790,000 new people, while remaining the fourth most populous city in the U.S..
- WTI crude oil price reached $69.50 per barrel at the end of June, a minimal increase from this time last year and down more than 50% from the peak that occurred in April of this year. United States Rig counts remain at 573 as of the end of June, up 26 from this time last year. Natural gas prices decreased 6.4% from this time last year with the current figure at $3.28 per Million British Thermal Units.

VACANCY

- Houston's overall direct vacancy rate declined to 6.6%, down 30 basis points (bps) from the previous quarter and remains at the same level as the year-prior. The rate remains 130 bps above the long-term average (LTA) of 5.3%.

Data in this report was provided by KBC Advisors, St. Louis Federal Reserve, The Port of Houston, and CoStar.

TRENDS: LOGISTICS PROPERTIES

	Q2 2025	Q2 2026	Chg YOY
Direct Vacancy	6.6%	6.6%	▲
Net Asking Rents	$0.75	$0.74	▼
Net Absorption, SF	3.2M	6.9M	▲
Under Construction, SF	16.8M	24.8M	▲
New Deliveries, SF	3.8M	3.3M	▼

Under Construction, & New Deliveries statistics reflect buildings 50,000 SF and up. Overall asking net rents are monthly rates.. Vacancy rates reflect direct vacancies.

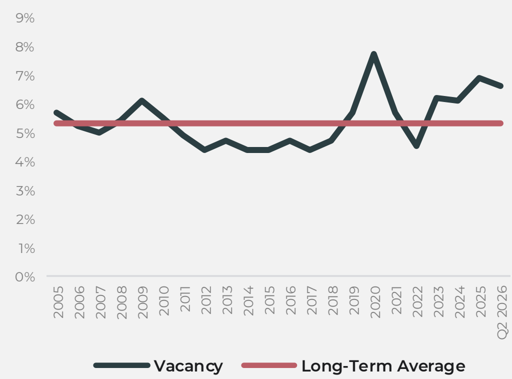
ECONOMIC INDICATORS

	May 25	May 26	Delta	
National Warehousing Employment (thousands)	1,875	1,842	-1.8%	▼

	Jun 25	Jun 26	Delta	
Houston Population	7.9M	8.0M	1.3%	▲

Increases / Decreases YOY

DIRECT VACANCY VS. LONG-TERM AVERAGE



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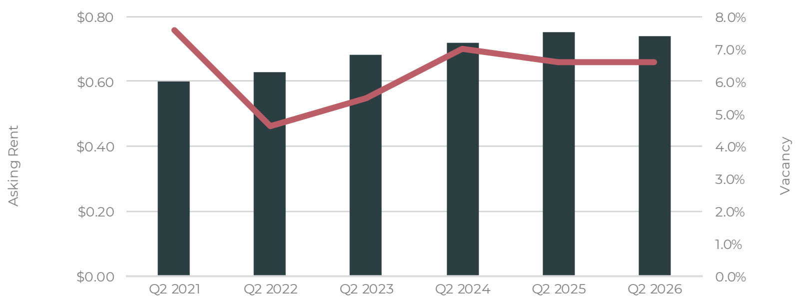
VACANCY CONT'D.

- The North and Northwest submarkets recorded the lowest vacancy rates relative to their inventory this quarter. The North submarket also posted a quarter-over-quarter (QOQ) decline in direct vacancy, reflecting the continued desirability of both submarkets.
- Buildings up to 150,000 square feet (SF) account for more than half of the market's inventory and maintain a healthy 6.5% vacancy rate. While the 150,000–300,000 SF segment recorded the highest vacancy rate at 9.7%, its total vacant square footage is comparable to the combined vacant space across all buildings larger than 300,000 SF.
- The decline in vacancy reflects demand outpacing new deliveries. However, with an expanding construction pipeline and recent completions, vacancy could trend higher if demand does not keep pace. Leasing momentum has strengthened on a quarterly basis and is expected to continue through year-end, supported by active deals, RFPs, and tour activity.

RENT

- In Q2 2026, 12-month asking rent growth declined 1.8%, bringing average rents across distribution, flex, and manufacturing product to $0.74 per square foot per month (/SF/month).
- Rental rates continue to vary by submarket, building size, lease term, and deal structure. While overall asking rents have trended lower on a yearly level, asking rents have remained relatively stable QOQ.
- Select transactions continue to include elevated tenant improvement allowances driven by specific tenant requirements, while free rent and annual escalation rates remain in line with prior-year levels, as landlords continue to use concessions to maintain base rents.

DIRECT VACANCY & ASKING RENT



	Q2 2021	Q2 2022	Q2 2023	Q2 2024	Q2 2025	Q2 2026
Asking Rent	$0.60	$0.63	$0.68	$0.72	$0.75	$0.74
Vacancy	7.6%	4.6%	5.5%	7.0%	6.6%	6.6%

Asking Rent — Vacancy

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DEMAND

- Net absorption remained strong in the first half of 2026, surpassing total absorption recorded in 2025 with YTD demand reaching 11.3M SF.
- Leasing activity increased from the previous quarter and remained nearly 20% above year-ago levels. Through the first half of 2026, leasing volume exceeded the first half of 2025 by 2.0M SF.
- The Northwest and North submarkets continue to lead the market, supported by their strong appeal to occupiers. This quarter, the Southeast and Northwest submarkets accounted for 40% of total leasing activity.
- Buildings up to 150,000 SF and those between 150,000–300,000 SF each accounted for approximately 35% of leasing activity this quarter.
- Retailers continue to compete with e-commerce users for available space, while data center-related users have become increasingly active in the market. Supported by Houston's strong labor pool, companies such as AOI and QTS have expanded their presence through recent building acquisitions and leases this quarter.
- Crane-served manufacturing activity remains strong in Houston with limited facility availability. In response, speculative development is expected to uptick over the next few quarters, with a trend toward larger building footprints.

CONSTRUCTION

- The construction pipeline for buildings 50,000 SF and greater continues to grow, with 24.8M SF currently under construction (UC) across 116 buildings.
- A significant influx of capital, driven by Houston's high desirability, has pushed the pipeline up nearly 50% since last year. We can anticipate for this to continue if the market continues to remain healthy.
- Of the 24.8M SF currently under construction, 35% (43 projects) falls within the 150,000–300,000 SF range, reflecting capital constraints and the limited availability of well-located land. Projects exceeding 500,000 SF account for just 14% of the construction pipeline, with only four speculative developments currently underway. As demand for big box buildings continues, developers are expected to resume construction of 500,000+ SF speculative projects to meet anticipated tenant demand.
- New deliveries totaled 3.3M SF in the second quarter of 2026, down from the prior quarter. Despite the slowdown, first-half 2026 deliveries exceeded the same period in 2025 by 4.5M SF.
- Houston's healthy market fundamentals continue to encourage new development, but the pace of new supply will need to remain aligned with demand to sustain long-term market balance.

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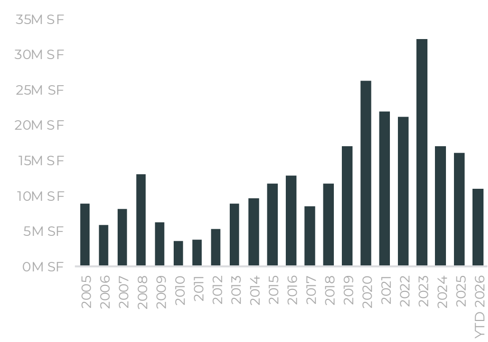
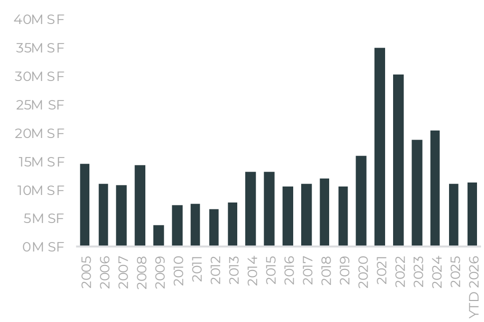
NEW SUPPLY

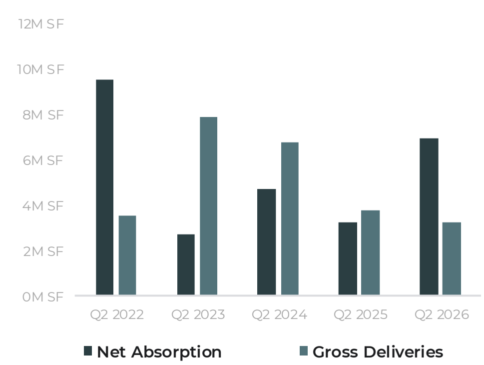


New Supply statistics reflect buildings 50,000 SF and up.

NET ABSORPTION



SUPPLY & DEMAND



Gross Deliveries statistics reflect buildings 50,000 SF and up.

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MARKET SUMMARY Q2 2026

Submarket Cluster	Total Inventory	Q1 2026 Direct Vacancy Rate	Q2 2026 Direct Vacancy Rate	YTD 2026 Overall Net Absorption	YTD 2026 Leasing Activity	Under Construction	YTD 2026 Construction Completions	Overall Asking Net Rent
East	84,961,393	8.2%	6.4%	523,722	2,903,556	983,366	594,536	$0.64
North	151,461,811	6.4%	5.8%	2,184,227	3,538,270	5,331,835	1,329,681	$0.95
Northwest	194,875,348	6.2%	6.4%	3,506,215	4,873,736	6,226,126	3,945,854	$0.93
South	61,762,695	6.8%	6.9%	649,956	2,359,051	3,240,569	2,114,026	$0.85
Southeast	134,589,724	10.1%	10.3%	880,752	4,046,058	6,083,933	986,922	$0.65
Southwest	90,273,073	3.9%	3.5%	1,462,043	1,919,928	2,380,056	793,842	$0.96
West	46,305,718	5.3%	5.4%	2.095,277	2,813,294	551,972	1,164,850	$1.08
Total Houston	**764,229,762**	**6.9%**	**6.6%**	**11,302,192**	**22,453,893**	**24,797,857**	**10,929,711**	**$0.74**

Under construction & YTD construction completions reflect buildings 50,000 SF and up. Overall asking net rents are monthly rates. Remaining statistics reflect distribution, flex and manufacturing space of all sizes.

SIGNIFICANT LEASE TRANSACTIONS Q2 2026

Building Name	Submarket	Tenant	Square Feet	Lease Type
Kingsland Ranch Logistics Center Phase II Building 2	West	Tesla	504,370	New Lease
Beltway Crossing Northwest Building 7	Northwest	Advanced Auto Parts	411,000	Renewal
South Belt Central Business Park Phase III Building 11	South	Graywolf	373,709	New Lease

SIGNIFICANT SALE TRANSACTIONS Q2 2026

Building Name	Submarket	Buyer	Seller	Square Feet	Buyer Type	Sale Type
Generation Park	East	QTS*	Outrigger Industrial	1,026,270	User	Building
Hightower Business Park Phase I	Southwest	Applied Optoelectronics Inc*	Trammell Crow Company	736,246	User	Building
Kirby District	South	Applied Optoelectronics Inc*	Stream Realty	388,133	User	Portfolio

*Tenants with * are users related to AI/Data Centers*

TOP PROJECTS UNDER CONSTRUCTION Q2 2026

Building Name	Submarket	Developer	Square Feet	Completion Date
Prologis Legacy Point Building 1	Northwest	Prologis	1,002,406	Q1 2027
Fairbanks Landing Building 2	Northwest	Freehill Development	677,220	Q4 2026
South Belt Central Business Park Phase III Building 5	South	IDV	620,751	Q4 2026
Twinwood Distribution Center	West	Clay Development	551,972	Q1 2027

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