

KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Houston

ECONOMY

» Texas continues to see strong demand tied to Artificial Intelligence (AI) driven investment, with data center buildout fueling a related need for logistics and manufacturing space, from equipment staging to distribution supporting construction and operations. This momentum could broaden depending on new investment tax incentives in the One Big Beautiful Bill Act, encouraging business spending and hiring beyond AI, which can strengthen the statewide outlook and increase competition for logistics space tied to AI-driven growth.

» Beyond AI-driven demand, several other variables could shape both the broader economic outlook and logistics space needs going forward. These include the pace of domestic manufacturing investment, trends in real wage growth and retail sales, shifts in trade policy, conditions in financial markets and geopolitical developments.

» Warehouse and storage employment nationally fell by 32,000 jobs compared to the prior year, continuing a trend that has persisted in recent months. This decline reflects several converging factors: increased automation adoption within warehouse operations, softening consumer demand and more cautious hiring approach among employers navigating economic uncertainty.

» The Port of Houston remains vital to the Houston and Texas economies. In August, the Port handled 373,756 twenty-foot equivalent units (TEUs), bringing year-to-date (YTD) imports to 2.6M TEUs, up 2% from the prior year. Growth continues to track Gulf Coast trends, with manufacturing investment and Mexico nearshoring supporting trade flows, aided by the region's access to domestic distribution networks and Latin American markets. At mid-year 2026, Houston led the top 10 ports in import growth (+6.8%) and trailed only Los Angeles in total volume growth (+2.8%).

» Houston's population grew 1.3% over the past year, adding more than 104,000 residents, and has increased 10.5% over the past five years, totaling over 760,000 new people, while remaining the fourth most populous city in the US.

» WTI crude oil closed September at $100.24 per barrel, up 40% since the start of the war in Iran. Where oil and gas prices head over the next 12 to 18 months remains uncertain. US rig counts stood at 595 at the end of September, up 53 from a year earlier. Natural gas prices fell 2.4% year-over-year, with the current price at $2.84 per million British thermal units.

VACANCY

» Houston's overall direct vacancy rate increased to 6.9%, up 40 basis points (bps) over Q2 2026 and up 20 bps from this time last year. The current rate remains 160 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

	Q3 2025	Q3 2026	Chg. YOY
Direct Vacancy	6.7%	6.9%	▲
Net Asking Rents	$0.77	$0.74	▼
Net Absorption, SF	2.7M	5.4M	▲
Under Construction, SF	17.5M	26.2M	▲
New Deliveries, SF	5.1M	7.1M	▲

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

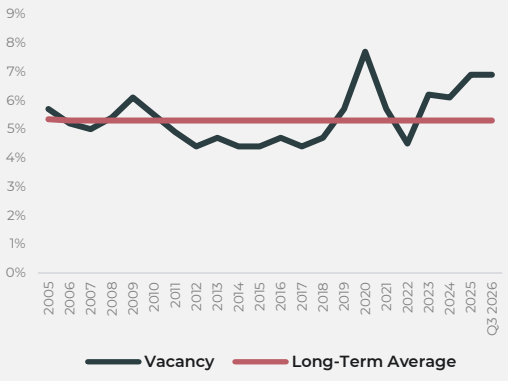
ECONOMIC INDICATORS

	Aug 25	Aug 26	Delta	
National Warehousing Employment (thousands)	1,869	1,837	-1.7%	▼

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

▶ Increases / Decreases YOY

DIRECT VACANCY VS. LONG-TERM AVERAGE



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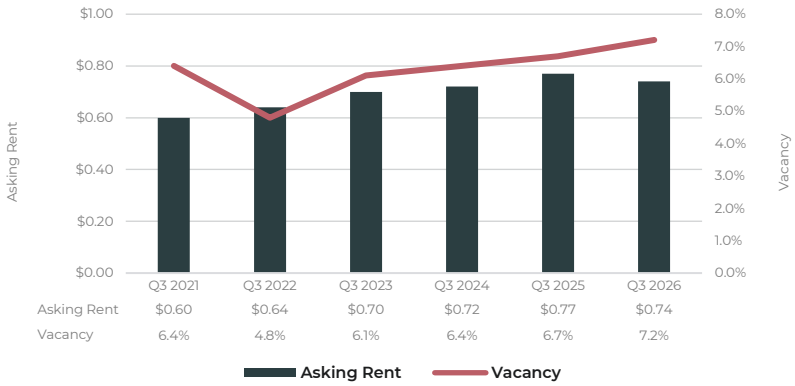
VACANCY CONT'D.

- The North and Northwest submarkets continue to record the lowest vacancy rates relative to their inventory, with North seeing an increase in direct vacancy quarter-over-quarter (QOQ) while Northwest held flat. Notably, the East and West submarkets experienced a decline in rates QOQ.
- Buildings up to 150,000 square feet (SF) account for roughly 56% of the market's inventory and maintains a 6.7% vacancy rate. The 150,000–300,000 SF threshold recorded the highest vacancy rate at 9.2%, but also lead the market in net absorption this quarter, suggesting the elevated vacancy is being driven by a wave of new deliveries rather than weak demand. Buildings 300,000 SF+ recorded a 5.5% vacancy rate in the third quarter, down from the 8.1% at the beginning of the year.

RENT

- In Q3 2026, 12-month asking rent growth declined 2.8%, bringing average rents across distribution, flex, and manufacturing product to $0.74 per square foot per month (/SF/month).
- Rental rates remain generally steady to flat across most submarkets, though conditions vary by building size; landlords continue offering concessions, averaging 3.5% on escalations, to protect base rents, while tenant improvement packages remain elevated for tenants with unique space requirements.
- Deals in the 150,000–300,000 SF threshold are landing within a penny of each other on monthly base rent, a surprisingly tight range given the segment's higher vacancy and softer demand, suggesting landlords are holding the line on pricing rather than competing on rate.

DIRECT VACANCY & ASKING RENT



	Q3 2021	Q3 2022	Q3 2023	Q3 2024	Q3 2025	Q3 2026
Asking Rent	$0.60	$0.64	$0.70	$0.72	$0.77	$0.74
Vacancy	6.4%	4.8%	6.1%	6.4%	6.7%	7.2%

Asking Rent — Vacancy

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DEMAND

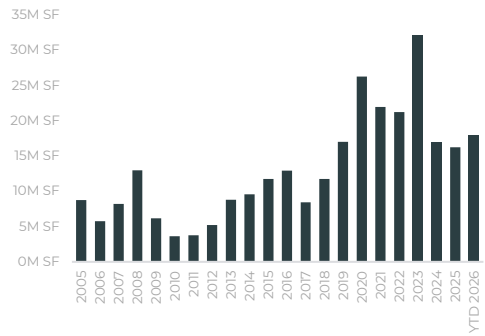
- Net absorption YTD totals 17.1M SF, the third-highest Q1-Q3 period over the past two decades, trailing only 2021 (26.4M SF) and 2022 (21.6M SF), and more than double 2025's pace of 7.3M SF.
- YTD leasing activity (40.6M SF through Q3) has already surpassed the previous high of 38.7M SF set in 2021, marking the strongest Q1-Q3 period since at least 2005. Leasing activity YTD has remained concentrated in the Northwest and Southeast submarkets, which combined for roughly 42% of total volume, underscoring their continued appeal to occupiers.
- Data center users are dominating the market, with bulk users (500,000 SF+) looking at existing product, but limited availability is pushing them toward planned/proposed product instead.
- User investments have been active in the Houston market in 2026, led by QTS Datacenters' purchase of Generation Park (1M SF) and the TAS acquisition at Blue Ridge Commerce Center (782,015 SF), along with notable buys from Chefman (420,510 SF) and Gulf Coast Crating (341,120 SF) in Baytown.
- Manufacturing demand remains strong, and investor interest in these buildings is high. This demand is likely to drive traditional developers toward crane-served projects and industrial outdoor storage sites, while data center-related users are also increasingly occupying and leasing crane-served buildings.

CONSTRUCTION

- The construction pipeline for buildings 50,000 SF+ continues to grow, with 26.2M SF under construction (UC) across 110 buildings, with nearly 30% preleased. A significant influx of capital, driven by Houston's high desirability, has pushed the construction pipeline up 50% since last year.
- Limited availability of well-located land has concentrated the construction pipeline in the 300,000–499,999 SF range, which accounts for 33.7% (23 projects) of the 26.2M SF currently UC, the largest share of any size tier. Projects exceeding 500,000+ SF account for just 21% of the construction pipeline, with two 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. There's currently only one building UC for 1.0M SF which is getting strong tenant demand.
- New deliveries totaled 7.1M SF in the third quarter of 2026, up 2.2M SF from Q3 2025. Deliveries so far this year have reached 17.9M SF, already outpacing the totals seen in both 2024 and 2025.
- 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.

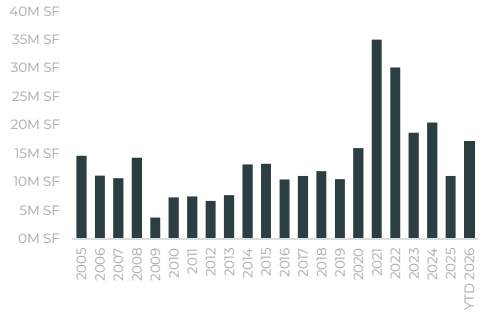
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NEW SUPPLY

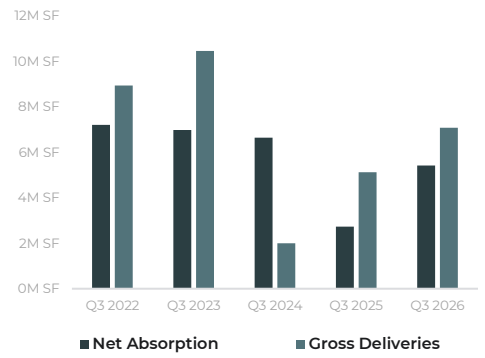


New Supply statistics reflect buildings 50,000 SF and up.

NET ABSORPTION



SUPPLY & DEMAND



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



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MARKET SUMMARY Q3 2026

Submarket Cluster	Total Inventory	Q2 2026 Direct Vacancy Rate	Q3 2026 Direct Vacancy Rate	YTD 2026 Overall Net Absorption	YTD 2026 Leasing Activity	Under Construction	YTD 2026 Construction Completions	Overall Asking Net Rent
East	86,010,568	6.6%	6.3%	983,942	3,720,077	1,024,697	924,566	$0.72
North	153,625,311	5.7%	6.5%	3,041,820	7,234,049	4,981,691	3,042,663	$0.95
Northwest	194,586,202	6.3%	6.3%	4,257,050	9,147,471	7,954,489	4,015,854	$0.90
South	62,775,264	6.9%	8.5%	1,028,037	3,934,479	2,758,956	3,076,595	$0.90
Southeast	137,948,454	10.1%	10.6%	2,443,598	7,858,189	3,673,139	4,014,562	$0.87
Southwest	91,529,884	3.5%	4.1%	2,196,277	4,191,456	3,617,910	1,691,075	$1.05
West	47,013,981	5.2%	3.8%	3,148,061	4,546,609	2,236,110	1,164,850	$1.09
Total Houston	**773,489,664**	**6.5%**	**6.9%**	**17,098,785**	**40,632,330**	**26,246,992**	**17,930,165**	**$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 Q3 2026

Building Name	Submarket	Tenant	Square Feet	Lease Type
TGS Cedar Port DC 4	Southeast	Tesla	1,218,956	New Lease
East Belt Logistics Park	East	Quanta Services	858,600	New Lease
Cedar Port Logistics Center Building II	Southeast	Tesla	800,405	New Lease
Baytown 146 Building 2	Southeast	Gulf Coast Crating	428,080	New Lease

SIGNIFICANT SALE TRANSACTIONS Q3 2026

Building Name	Submarket	Buyer	Seller	Square Feet	Buyer Type	Sale Type
Constellation Eldridge	Northwest	Granite REIT	Constellation Partners	537,375	Investment	Building
TGS Cedar Port DC 10	Southeast	Chefman	TGS	420,510	User	Building
Victory Commerce Center	Southeast	Ares Management Corporation	Link Logistics	349,050	Investment	Building

TOP PROJECTS UNDER CONSTRUCTION Q3 2026

Building Name	Submarket	Developer	Square Feet	Completion Date
Prologis Legacy Point Building 1	Northwest	Prologis	1,002,406	Q1 2027
Hightower Business Park Phase II Building 5	Southwest	Crow Holdings	737,621	Q1 2027
Northwest 99 Business Park DC 3	Northwest	Clay Development	704,080	Q2 2027
Fairbanks Landing Building 2	Northwest	Freehill	677,220	Q4 2027

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

KBCADVISORS

John Ferruzzo, SIOR
+1 713 501 7999
john.ferruzzo@kbcadvisors.com

Jim Autenreith, SIOR
+1 713 922 0829
jim.autenreith@kbcadvisors.com

William Carpenter, SIOR
+1 713 204 4716
william.carpenter@kbcadvisors.com

Woody Hillyer
+1 832 928 1139
woody.hillyer@kbcadvisors.com

Sam Rayburn, SIOR
+1 713 731 5238
sam.rayburn@kbcadvisors.com

Judd Harrison
+1 832 266 5114
judd.harrison@kbcadvisors.com

Jax Rawlinson
+1 832 491 9963
jax.rawlinson@kbcadvisors.com

Natalie Benitez
Market Researcher
+1 469 442 6597
natalie.benitez@kbcadvisors.com

Jack Ferruzzo
+1 713 304 5911
jack.ferruzzo@kbcadvisors.com

Tanner Thompson
+1 832 589 6659
tanner.thompson@kbcadvisors.com

Travis Fatjo
+1 281 840 3579
travis.fatjo@kbcadvisors.com

Isabella Ragiotto
+1 713 907 4461
isabella.ragiotto@kbcadvisors.com

Houston Office
1233 West Loop South, Suite 1270
Houston, TX 77027

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