

KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Houston

ECONOMY

- » United States (U.S.) economic momentum strengthened in the second half of 2025, with GDP growth accelerating on the back of robust services spending, rising artificial intelligence (AI) related investment, and a rebound in durable goods consumption.
- » Looking ahead to 2026, expanded business investment tax incentives are expected to support increased domestic capital investment, while larger personal tax refunds should bolster consumer spending.
- » However, the extent of the resulting economic benefits will depend on corporate confidence in the economic, financial market, and policy environment, as well as consumers' capacity and willingness to spend rather than save.
- » The Port of Houston plays a vital role in the economic strength of both Houston and the state of Texas. The Port has demonstrated consistent year-over-year (YOY) growth, handling 335,275 twenty-foot equivalent units (TEUs) in November, container volumes totaled 4.0 million (M) TEUs, reflecting a 5.0% increase over the same period last year, according to the Port of Houston. Continued investment of \$1.9 billion in infrastructure projects, including Project 11 and the Port's 2040 Plan, positions the Port to expand capacity, support long-term growth, and strengthen its role as a dependable hub for importers and exporters.
- » Houston's population growth is up 1.2%, adding more than 98,500 people in the past year, and 9.3%, adding more than 735,600 over the last five years.
- » Houston now ranks as the fourth most populous U.S. city and saw the largest numeric population gain from July 2023 to July 2024, per Census Bureau data.
- » National warehouse and storage employment continued its downward trend, decreasing by 28,000 positions compared with the same period last year.
- » WTI crude oil price reached \$57.42 per barrel at the end of 2025, a 21.5% decline from the beginning of the year. United States Rig counts remain at 647 as of the end of the year, down 36 from this time last year. Natural gas prices increased 9.4% from this time last year with the current figure at \$3.97 per million British Thermal Units.
- » The growth of AI development and investment in Texas has driven rising logistics demand statewide, supported by the state's abundant and relatively low-cost power supply, pro-business environment, and availability of scalable land. As AI-related users expand, they require logistics space for the storage, manufacturing, and distribution of components critical to data center development and operations, while benefiting from Texas's central location, robust transportation infrastructure, and speed-to-market advantages.

TRENDS: LOGISTICS PROPERTIES

	Q4 2024	Q4 2025	Chg YOY
Vacancy	6.3%	7.1%	▲
Net Asking Rents	\$0.70	\$0.75	▲
Net Absorption, SF	4.5M	4.4M	▼
Under Construction, SF	14.7M	19.5M	▲
New Deliveries, SF	1.8M	3.1M	▲

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

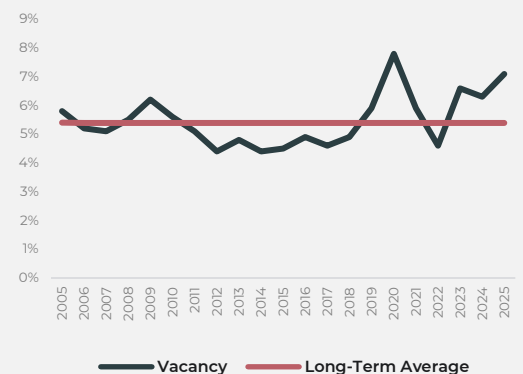
ECONOMIC INDICATORS

	Nov 24	Nov 25	Delta
National Warehousing Employment (thousands)	1,844	1,816	-1.5% ▼

	Dec 24	Dec 25	Delta
Houston Population	7.8M	7.9M	1.2% ▲

► Increases / Decreases YOY

VACANCY VS. LONG-TERM AVERAGE



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VACANCY

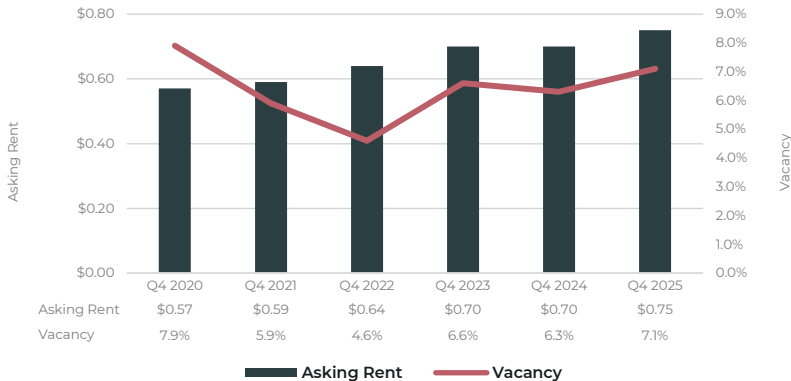
- » Houston’s vacancy rate ended 2025 at 7.1%, up 80 basis points (bps) YOY but down 10 bps quarter-over-quarter (QOQ) and remains 170 bps above the 5.4% long-term average.
- » Direct vacancy declined 10 bps QOQ to 6.8%, driven by sharp improvements in the West and Southwest submarkets, including a 350-bp reduction in the West and an 80-bp decrease in the Southwest.
- » The South submarket experienced the largest increase in vacancy this quarter, increasing 80 bps from the prior quarter.
- » Strong leasing activity at the end of 2025 may lead to increased absorption in early 2026, potentially placing downward pressure on vacancy rates.
- » Although net absorption outpaced deliveries at year-end, the expanding construction pipeline could pressure vacancy rates if demand remains at current levels.

RENT

- » Q4 2025 12-month rent growth continues to remain positive at 6.7%, bringing the total market rent per square foot (/SF) to a monthly figure of \$0.75/SF between distribution, flex and manufacturing buildings.
- » Although rents have increased YOY, market wide rents remain flat compared to the prior quarter. Certain submarkets are recording elevated rents, while others, such as infill submarkets, are experiencing flat rent growth.
- » Select deals continue to reflect higher tenant improvement allowances tied to unique tenant requirements, while free rent and annual escalation rates remain consistent with prior-year levels.



VACANCY & ASKING RENT



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

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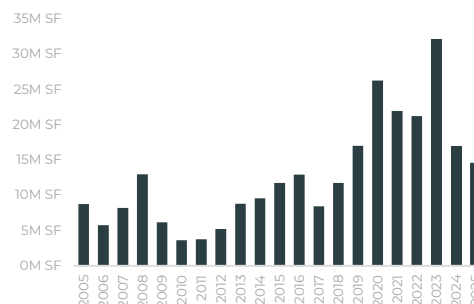
DEMAND

- » Net absorption remained positive in the fourth quarter, with 4.4 million square feet (M SF) being absorbed, bringing 2025 net absorption to 11.0M SF. Although it remains positive, net absorption on a yearly and quarterly basis is down, indicating a slowdown from the 20.5M SF that was absorbed in 2024.
- » Despite a decline in net absorption, current levels remain elevated, exceeding the 2005 to 2020 historical average by more than 410,000 SF, reflecting demand levels above the pre-COVID period.
- » Leasing activity remains elevated compared to the previous quarter and year, with 9.3M SF leased in the fourth quarter, bringing 2025 leasing to 42.3M SF.
- » Current leasing is 6.7M SF above 2024 and 15.3M SF above the historical average, signaling strong demand and a robust end to 2025.
- » Foxconn drove significant market demand in 2025, purchasing over 1.0M SF from Dalfen in the Northwest submarket and leasing more than 600,000 SF at Transwestern's Innerbelt Northwest Logistics Park, along with over 650,000 SF in the Northern submarket at Prologis Central Distribution Center.
- » Crane served manufacturing demand continues to remain strong in the Houston market with limited availability for crane served options.

CONSTRUCTION

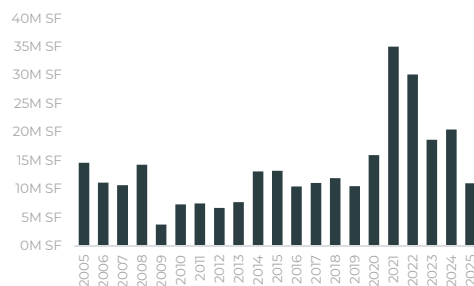
- » The construction pipeline continues to grow, with 19.5M SF currently under construction (UC) across 93 buildings, 17.7% of which is pre-leased to users in industries such as manufacturing, e-commerce, energy, and 3PL's.
- » The pipeline increased 32.5% from this time last year due to Houston's strong leasing demand and tight vacancy rates that were seen in 2024.
- » Of the 19.5M SF UC, more than 40% (39 projects) fall in the 150,000-300,000 SF range, largely driven by capital constraints and scarcity of well-located land. Large bulk supply 500,000 SF+ is becoming scarcer due to bulk demand returning to the market with only one available speculative project UC in this threshold.
- » The market delivered 14.6M SF of new supply in 2025, a decrease of 2.4M SF from 2024, continuing the downward trend following the all-time peak in 2023. However, deliveries are expected to remain near current levels, or potentially increase, given the expanding construction pipeline.
- » Houston's strong fundamentals continue to support new development; however, close monitoring of supply levels will be critical to maintaining long-term market balance.

NEW SUPPLY

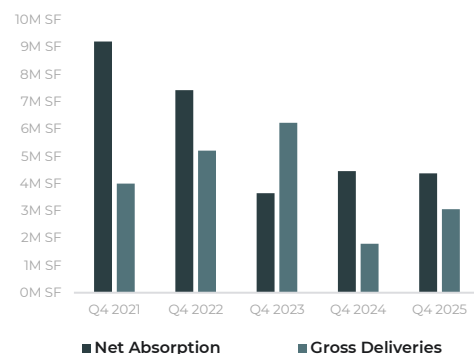


New Supply statistics reflect buildings 50,000 SF and up.

NET ABSORPTION



SUPPLY & DEMAND



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

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MARKET SUMMARY Q 4 2 0 2 5

Submarket Cluster	Total Inventory	Q3 2025 Direct Vacancy Rate	Q4 2025 Direct Vacancy Rate	2025 Overall Net Absorption	2025 Leasing Activity	Under Construction	2025 Construction Completions	Overall Asking Net Rent
East	84,456,377	7.4%	7.0%	1,169,922	2,972,314	1,097,456	1,691,380	\$0.73
North	148,658,111	6.3%	6.6%	1,811,780	7,944,673	3,446,933	1,853,307	\$0.93
Northwest	190,058,535	5.8%	6.2%	776,938	11,816,448	6,241,908	2,667,590	\$0.93
South	59,518,572	4.2%	5.0%	1,206,058	2,380,529	1,703,658	1,878,390	\$0.79
Southeast	134,835,207	9.5%	9.8%	1,602,306	6,325,208	4,259,697	4,614,079	\$0.79
Southwest	87,153,567	5.7%	4.9%	1,598,296	5,305,078	1,691,073	1,536,827	\$0.94
West	44,777,401	10.5%	7.0%	2,857,890	5,578,553	1,056,690	369,814	\$1.09
Total Houston	749,457,770	6.9%	6.8%	11,023,190	42,322,803	19,497,415	14,611,387	\$0.75

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 Q 4 2 0 2 5

Building Name	Submarket	Tenant	Square Feet	Lease Type
6401 North Eldridge Parkway	Northwest	ProEnergy Services*	455,623	New Lease
Maverick Distribution	North	Modular Power Solutions*	435,680	New Lease
Northwest 99 Business Park	Northwest	SEG Solar	425,360	New Shell
Prologis Legacy Point Building 5	Northwest	Enchanted Rock*	407,302	New Shell
The Uplands Twinwood Distribution Center	West	Smart Supply Chain	384,608	New Lease
6401 North Eldridge Parkway	Northwest	Electro Tech Industries*	337,593	New Lease

Tenants with * are users related to AI/Data Centers

TOP PROJECTS UNDER CONSTRUCTION Q 4 2 0 2 5

Building Name	Submarket	Developer	Square Feet	Completion Date
Kingsland Ranch Logistics Park Phase II Building 5	West	Clarion Partners	504,370	Q2 2026
Innerbelt Northwest Logistics Building 2	Northwest	Transwestern Development Company	428,800	Q4 2026
TGS Cedar Port Distribution Center 10	Southeast	TGS Cedar Port Partners	420,510	Q2 2026
Goose Creek Commerce Center Building 1	Southeast	Hillwood	417,337	Q3 2026



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