

Intelligent Investment

2026 U.S. Real Estate Market Outlook

REPORT

HOUSTON

CBRE RESEARCH
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Office Market Outlook

01

PRONOUNCED BIFURCATION CONTINUES AS SCARCITY OF PREMIUM SPACE LIFTS NEXT TIER OF CLASS A

Houston's office market enters 2026 with pronounced bifurcation, where outcomes for owners vary dramatically by building quality and location. Highly amenitized assets built after 2015 now enjoy single-digit vacancy, and 2026 will see the last few remaining spaces in these buildings lease up. This, in turn, will continue to drive spillover demand into the next vintage tranche, specifically, those properties built (or fully renovated) since 2000. This trend, already being seen throughout Houston, is positioning these assets for improved leasing, higher occupancy, and stronger rents. Average asking rents across all asset classes in Houston are forecast to increase by 1.7% in 2026. As these Class A assets are stabilized, the lending market continues its recovery, and the development pipeline remains weak, expect heightened investment sales activity in this tranche.

02

OFFICE LEASING ACTIVITY IN 2026 WILL CONCENTRATE IN PRIMARY SUBMARKETS AMONG 10,000-50,000 SF REQUIREMENTS

Occupier flight to top-tier assets is expected to accelerate through 2026 in primary submarkets as tenants prioritize quality, amenities and proximity to employees. Tenants in the market activity at year-end is pointing towards 2026 deals being done primarily in the mid-tier size range: spaces between 1-2 floors. This is notable in that there are very few large tenants (100K sq. ft.+) looking for space that will land in 2026, a notable change from previous years.

In addition, high build-out costs may discourage relocations, leading many occupiers to favor renewals. Those that do opt to move will see heightened build-out costs and may lengthen lease commitments to minimize the expense. The most active office occupiers in Houston remain legal, energy, insurance, finance and engineering firms.

03

TROPHY LANDLORDS PUSH RATES HIGHER WHILE LOWER-TIER OWNERS MAINTAIN ELEVATED CONCESSIONS

Trophy building owners in prime locations will continue to push rates to record levels while slowly reducing concessions, enjoying strong occupancy and rent appreciation.

Lower-tier owners, however, in a bid to stabilize occupancy, will do so by moderating rates and maintaining elevated concessions. Renovation activity will increase in the recovering Class A- tier, as the likelihood to capture tenant demand improves and as the capital markets necessary to finance such builds loosen.

Key Takeaways

FOR OWNERS

- Owners of trophy buildings in prime locations will continue pushing rates while reducing concessions. Those at 90% occupancy should review their rollover schedule to begin negotiations with tenants early, given the hyper-competitive market for top-tier space.
- Property Management teams should focus on tenant experience to ensure tenants do not decamp for another building at expiration.
- Lower-tier owners should work aggressively to secure transactions and preserve cash flow. These owners should also mobilize to devise amenity planning to compete with higher-tier assets.
- Investment activity is also projected to increase compared to 2025, with capital concentrating on best-in-class and proven submarkets.

FOR TENANTS

- Competition for premium spaces will stay intense. Occupiers – particularly large ones targeting Downtown, Galleria, The Woodlands and Energy Corridor - are encouraged to enter the market much earlier than usual. Doing so will ensure lease flexibility can be negotiated, potentially reducing rent obligations with 'blend and extend' structures.
- Given increased capital markets activity, tenants in buildings with ownership changes will have OPEX implications with potential tax increases.

Industrial Market Outlook

01

HOUSTON'S ROBUST LEASING FUNDAMENTALS WILL CONTINUE IN 2026

Houston's industrial market is set to carry its strength and momentum from 2025 into 2026, driven by powerful structural trends shaping demand. Continued e-commerce growth, expansion among high-tech manufacturing users, and rising demand from third-party logistics providers will drive absorption across key submarkets. Specifically, Asian manufacturing interests are capitalizing on nearshoring opportunities; the Port's incredible performance will further drive logistics demand; and tenant diversification will provide resilient foundation for 2026. This flight to quality for tenants moving into newer product is anticipated to mirror national trends and continue apace.

02

ACTIVE TENANTS IN THE MARKET WILL CREATE A COMPETITIVE ENVIRONMENT FOR SPACES LARGER THAN 100,000 SQ. FT.

Supply-demand dynamics are positioned to continue to favor owners of bulk warehouse, with tenants actively competing for space in larger buildings. 3PLs, e-commerce fulfillment, manufacturing and data center-related occupiers will continue to lead activity in this size segment. Though vacancy edged up in the back half of 2025, due to a jump in construction deliveries, the slowing development pipeline and consistent tenant activity will limit options for large occupiers moving into 2027 and beyond.

03

RENTAL RATES TRENDING UPWARD AND WITH IT, INCREASED INVESTMENT SALES ACTIVITY

Rents are on an upward trajectory, with landlords successfully pushing higher rates while reducing incentives. Looking ahead, average asking rents across all asset classes in Houston are forecast to increase by 2.9% in 2026. Tenants in key submarkets like the Southeast, Southwest and Northwest may experience 'sticker shock' at renewal time due to the jump in base rents in recent years.

The investment market is also primed for increased activity in 2026, with institutional REITs, owner-users and international buyers all eyeing Houston's strong fundamentals and consistently positive story as reasons to safely deploy capital.

Key Takeaways

FOR OWNERS AND DEVELOPERS

- In 2026, landlords with large blocks of available space will continue to benefit from favorable supply-demand dynamics, rising rental rates, and reduced concessions. Though many new options in the market abound from recent construction deliveries, the demand from tenants for these buildings is moving in tandem.
- Investment activity is expected to increase, driven by institutional REITs, PE firms, private capital, investment managers, owner-users and international buyers looking to capitalize on improving capital markets, along with Houston's consistently strong fundamentals. The primary challenge for developers in 2026 will remain limited land availability in prime locations.

FOR TENANTS

- Tenants will face a competitive environment as demand for space in Houston accelerates. Leasing activity is projected to improve which will result in rising rental rates and reduced concessions mean tenants must act quickly to secure quality space – the 'wait and see' approach is not recommended.
- Tenants should consider entering the market earlier than usual to engage their current owner and the market. Negotiating a 'blend-and-extend' may help to minimize dramatic rent increases that some tenants are seeing today.
- Labor-intensive tenant operations may face shrinking workforce availability and rising costs as immigration trends reshape Texas' labor market.

Retail Market Outlook

01

FITNESS, RESTAURANT AND WELLNESS TENANTS LEAD ACTIVITY IN HOUSTON'S STRONG DEMOGRAPHIC LOCATIONS

Houston's retail sector heads into 2026 with good momentum. Population and household formation growth, favorable disposable income metrics and the skyrocketing use of personal debt will further fuel demand in 2026, while limited supply will keep quality space scarce. Strip centers and service-related retail are the strongest in Houston with fitness, restaurant and wellness providers anticipated to drive leasing volume in the 5,000 - 10,000 sq. ft. range. CBRE's outlook favors precision in strategy, rewarding operators aligned with selective growth.

02

INSTITUTIONAL CAPITAL SURGE INTO HOUSTON STRIP CENTERS WILL DRIVE AGGRESSIVE PRICING ON QUALITY ASSETS

Institutional confidence in unanchored strip centers - validated from the pandemic - continues to accelerate, signaling deeper capital flows ahead. This institutional surge has compressed cap rates and will continue to drive pricing higher, while improving price discovery. Houston's performance aligns with US capital trends in this regard, and total retail investment sales in 2026 is forecast to increase at an annual pace of 3.5% over the next five years.

03

HOUSTON'S RETAIL LEASING ACTIVITY ANTICIPATED TO DEFY HEADWINDS

Houston retail is positioned for a healthy 2026 due to strong demographic trends, resilience in the retail sector and favorable supply-depend fundamentals. This is in spite of headwinds such as escalating construction costs, flood-plain issues and tariffs. Continued growth across all shopping center classes is expected, as more landlords are pushing for annual rent increases. The standard 5-10-year lease term remains unchanged.

Key Takeaways

FOR OWNERS & DEVELOPERS

- Rising operating expenses, driven by increases in insurance, taxes, rent and COGS (Cost Of Goods Sold) are putting pressure on retail tenants, particularly Houston-based independents whose margins cannot easily absorb these increases amid flat or declining sales.
- Operational efficiency will be a key differentiator in maintaining competitiveness for tenants in 2026. Tenants can achieve this through lean operations in staffing numbers and smaller footprints in design layouts.
- Underperforming spaces may remain vacant, as tenants are becoming more selective in their expansion plans to minimize risk. This year will be an opportunity for landlords to replace weaker tenants with better brands, operational experience and rent.

FOR TENANTS

- Quality space will remain limited, and tenants seeking prime locations must act decisively and plan strategically to secure space. This year will see across-the-board increases in rent and operating expenses given absorption, inflation and macro trends being seen in the market. Asking rents are forecast to increase by only 0.6% across all classes, though higher-end spaces in urban and mixed-use centers will come in higher.
- Tenants planning to build out space should be prepared for lengthening permit wait times, which currently average 180 days. Timelines can be even longer for complicated buildouts like restaurants, big boxes, fitness and building from shell. Unit growth is expected in the suburbs following the addition of rooftops in new master-planned communities.

Multifamily Market Outlook

01

LIMITED DEVELOPMENT PIPELINE POSITIONS HOUSTON FOR HEIGHTENED ABSORPTION AND RENT GROWTH AS CONCESSIONS BURN OFF

Houston moves into 2026 with supply overhang from a spike in recent construction completions, with more than 34,000 units coming online since 2024. This, however, will have a shorter-term impact, given that the pipeline moving into 2026 is diminished.

The same interest rate spike that froze the capital markets has a silver lining: it also made development more expensive, thereby slowing its pace in Houston. Moving into 2026, the market's most significant tailwind is the slowing development pipeline. It will diminish to its lowest point since the pandemic over the next 24 months, with an average annual delivery over the next five years of ~10,000 units.

The lack of development equity will continue to suppress development pipelines for 2026 and 2027. The absence of new supply will help absorption rates improve via reduced competition and allow concessions to burn off, both of which will support rent growth later in the year.

While demand for apartments nationally is forecast to be strong throughout 2026 (in part due to affordability issues for new homebuyers), Houston's recovery may be slightly moderate in comparison given net migration and immigration challenges which have recently emerged. Nevertheless, rents are forecast to increase minimally (0.2%) in 2026 and return to more typical gains in 2027 and 2028 (1.6% and 2%, respectively).

02

INSTITUTIONAL CAPITAL SEES OPPORTUNITY AS TRANSACTION VOLUME EXPECTED TO EXCEED 2025

Thanks to moderation of interest rates and buckets of dry powder on the sidelines, investment activity in Houston is positioned for growth, pending an anticipated strengthening of supply/demand fundamentals in 2026. Institutional investors believe now is the right time to deploy capital while remaining disciplined. Urban-core-plus assets with strong replacement cost stories will attract the most attention, as cap rates are expected to remain flat through 2026.

Key Takeaways

FOR OWNERS

- Expect occupancy trends seen in 2025 to continue into 2026: that is, slow absorption of units, heightened renewal probabilities, diminishing concessions and mildly strengthening rents. Vacancy will decrease slowly throughout the year.
- Given the weak development pipeline, competition will be curtailed over the next few years, though the wave of new deliveries seen in recent quarters will continue to moderate near-term absorption gains.
- Operators in 2026 should focus on capital strategies and operational efficiency to position for recovery as fundamentals continue to stabilize in quarters to come. Rents will slowly improve, averaging 1.6% annual appreciation over the next five years.

Capital Markets Outlook

01

IMPROVING DEBT MARKETS AND DECLINING INTEREST RATES POSITION HOUSTON FOR TRANSACTION GROWTH IN 2026

Capital Markets enter 2026 with improving momentum as the bank lending market thaws and interest rates decline, providing much-needed clarity after years of uncertainty. This improved visibility is narrowing the bid-ask spread that has plagued transactions, as distressed sellers can no longer defer difficult decisions, and some lenders are forcing liquidations in certain situations. Nationally, commercial real estate investment activity is forecast to grow 12%, with Houston positioned to participate in this broader recovery trend driven by pent-up demand. Transaction volume is anticipated to increase significantly in 2026, with most expecting volumes greater than both 2024 and 2025 levels (\$12.2B and \$15.0B, respectively).

02

HOUSTON'S DIVERSIFIED ECONOMY WILL CONTINUE TO PROVIDE STABILIZING FORCE DESPITE MACRO CHALLENGES, BOTH REGIONALLY AND GLOBALLY

The Houston region is positioned for steady job growth and moderate increases in real estate values supported by Houston's economic diversity. However, legacy overleveraged deals present ongoing challenges, requiring additional equity as interest rates haven't fallen as quickly as cap rates have adjusted. Immigration policy and slowing job growth uncertainty adds complexity for apartment fundamentals. Macroeconomic and fiscal concerns are a notable potential headwind moving into 2026.

03

CAP RATES EXPECTED TO COMPRESS MODESTLY, ALIGNING WITH NATIONAL TRENDS OF 10-15 BASIS POINTS

Cap rates are anticipated to remain stable or compress slightly through 2026, as interest rates are expected to stay flat or trend down modestly, aligning with national expectations. The active buyer pool in 2026 will be heavily weighted by local investors, regional players, institutional buyers and owner-users.

Price per square foot is generally expected to slightly increase -- particularly in the office sector as the market continues to recover from prolonged weakness following Covid. The empty supply pipeline across most sectors should provide fundamental support to pricing, though full transparency into price discovery will remain elusive in the immediate new year given overall lower volume.

Key Takeaways

FOR BUYERS

- Expect increased competition for properties hitting the market across most asset classes, which will improve exits. Institutional buyers, regional investors and owner-users are all active moving into 2026 and will pursue well-positioned and well-leased assets. Core Office may begin to see life, particularly those within more reasonable acquisition ranges. Opportunistic and Value-Add funds are growing and investors eager to place capital in a recovering CRE market will supercharge 2026 demand for such properties. Overall, the thawing lending market and increased liquidity point to a more active sales landscape in 2026.

FOR SELLERS

- For sellers, improving capital-market conditions signal a more stable environment to sell into. Sellers should anticipate that moderating interest rates will result in a broader range of buyers for assets coming to market. Expect more unsolicited requests to sell assets, particularly those which are cash-flowing well. From a vintage perspective, the lack of new supply across most sectors will provide fundamental support for values, creating an environment conducive to strategic dispositions and refinances.

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