Intelligent Investment

2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

HOUSTON

CBRE RESEARCH
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Office Market Outlook

01

Flight-to-quality accelerating amid strengthening occupier demand, with mid-sized requirements concentrating in core submarkets.

Leasing activity through H2 2026 should concentrate in the 10,000-50,000 sq. ft. range within primary submarkets, as maturing return-to-office mandates have tenants prioritizing amenities, workforce proximity, and building quality. In Q1, 96% of leases over 10,000 sq. ft. were signed in Class A buildings. The flight-to-quality trend is apparent as tenants leave older space for newer product, which has resulted in increased competition among occupiers for prime space but could provide opportunities for cost conscience tenants going forward. This dynamic should persist through year-end, with lease expirations across older space becoming the dominant demand driver into 2027

02

Trophy landlords are maintaining pricing power while lower-tier owners rely on elevated concessions to compete.

The bifurcation between top- and lower-tier assets is expected to deepen through H2 2026. While overall vacancy was 23.8% in H1 2026, CBD trophy vacancy stood at just 5.4%. Limited new trophy supply and continued demand concentration at the top of the market are expected to sustain this divergence. Class A vacancy was 23.2%, but spill over demand and lease expirations in Class B space will drive demand to this segment and help improve the vacancy picture. Overall, Houston has virtually no new office development in the pipeline, and CBRE EA expects a slow but steady 30-bps decline in overall vacancy by year end.

03

Net absorption has turned positive, marking an inflection point for Houston's office recovery.

Overall net absorption turned positive in Q2 at 320,000 sq. ft., the clearest signal yet that demand is re-emerging and reinforcing the flight-to-quality trend. The 510,000 sq. ft. of positive Class A absorption was offset by negative absorption in Class B, where tenants gave back 189,000 sq. ft. CBRE EA expects the overall market to show a positive absorption trend that builds momentum through year-end and into 2027. Spillover demand from the tight prime market will help fundamentals in the Class A market, though rent growth is unlikely in 2026 until the market absorbs more available stock. If absorption momentum holds through H2 2026, Houston is on track to post its strongest annual demand figures since before the pandemic, laying the groundwork for more meaningful rent growth alongside decreasing availability.

Key Takeaways

For Owners & Investors

— Prime and Class A landlords should review rollover schedules now and engage tenants early, demand for top-tier space will remain strong and competition is intensifying. Lower-tier owners should prioritize transaction activity to preserve cash flow as the performance gap with Class A widens. For investors, well-leased Class A assets will attract the deepest buyer pools and most competitive pricing as activity builds through H2 2026.

For Occupiers

— Competition for trophy and Class A space in the CBD, Galleria, The Woodlands, and Energy Corridor is expected to intensify through year-end. Occupiers with near-term expirations should begin their search early, top-tier blocks are being absorbed quickly, and waiting will narrow options. Elevated concessions remain available for those willing to relocate, but this window is expected to close as Class A vacancy continues to tighten.

Industrial Market Outlook

01

Manufacturing, nearshoring, and logistics demand are sustaining strong leasing velocity.

Houston's industrial market recorded approximately 10 million sq. ft. of net absorption year-to-date through mid-2026, driven by continued strength from manufacturing, nearshoring, 3PLs, and e-commerce users. Demand is expected to remain robust through H2 2026, as a pipeline of with large occupiers will continue to drive leasing and positive absorption.

02

Absorption is outpacing new development, tightening large-block options and reinforcing landlord-favorable conditions through year-end.

Availability within the industrial market remains tight at 8.7%. Houston has seen industrial inventory growth of 1.8% through H1 2026, double the national pace. Despite this growth, the pipeline has not kept pace with large block demand, which will tighten available options for tenants seeking space above 100,000 sq. ft. through the remainder of 2026. Limited land availability in prime locations further constrains the pipeline.

03

Asking rents remained stable at mid-year, with forecasts calling for continued growth through year-end leasing demand remains strong.

Industrial asking rents are up approximately 8% year-over-year as of Q2 2026, roughly four times CBRE's Triple net asking rents grew at mid-year, with average rates reaching $9.49 per sq. ft. and only modest growth anticipated over the remainder of 2026. CBRE EA projects rental growth will keep pace through the end of the year, with another 1.8% increase. Although a significant amount of new product remains under construction, steady leasing demand is expected to keep rent growth above inflation. Investment activity is also projected to increase throughout the second half of the year, supported by strong fundamentals and sustained interest from both institutional and private capital.

Key Takeaways

For Owners & Investors

— Large-block landlords are well-positioned to increase rents and reduce concessions through year-end as absorption continues to outpace new supply. Owners should take advantage of this window to improve lease terms and lock in longer-term commitments at favorable rates. For investors, strong fundamentals and sustained occupier demand are expected to support continued transaction activity, particularly for well-located assets in high-demand submarkets.

For Occupiers

— While Houston will offer a steady pipeline of new development, tenant demand is growing, and tenants with requirements of 100,000 sq. ft should act now to get ahead of increasing competition and potential price increases. Occupiers approaching lease expirations should begin evaluating renewal and relocation alternatives earlier than typical, as the negotiating window is narrowing. Those with labor-intensive operations should factor rising operating costs into location and lease decisions, particularly in the most active submarkets.

Retail Market Outlook

01

Freestanding and necessity-based tenants anchor leasing demand, concentrating activity in Houston's strongest trade areas.

Fitness, restaurant, and wellness tenants will likely lead leasing activity through H2 2026, as their needs-based demand profiles remain well-aligned with Houston's population trends. Flat projected sales growth and rising occupancy costs will pressure neighborhood, smaller operators and moderate overall leasing activity, but demand from big box retailers will continue to underpin activity in high-performing corridors and suburban submarkets. Tenants are increasingly selective, concentrating expansion plans in trade areas with the strongest fundamentals.

02

Retail fundamentals remain stable despite absorption slowdown.

Houston's retail market remained relatively stable in Q2, with availability holding at 5.8% despite negative net absorption during the quarter. New retail development continues to concentrate in suburban growth corridors, supported by ongoing population gains and residential expansion in master-planned communities. While leasing activity softened, asking rents remained resilient at approximately $21 per square foot, underscoring the market's overall stability. Performance varied by property type, with much of the negative absorption concentrated in neighborhood, community, and strip centers, while lifestyle retail, freestanding properties, and other experiential formats continued to attract tenant demand. Limited availability in many high-performing retail nodes should continue to support rental rates and help prevent significant increases in vacancy through the near term.

03

Rents are rising though macroeconomic headwinds are expected to keep leasing decisions measured in H2.

Average asking rents reached approximately $21.06 per sq. ft. at midyear, with rent growth expected to persist through year-end, particularly in higher-quality urban and mixed-use centers. CBRE EA expects growth to rise to approximately $22.30 by the end of 2026, as stable demand from service-oriented tenants supports continued occupancy gains. By 2031, 4 million sq. ft. of new supply and 800,000 sq. ft. of net absorption are projected, compared with 4.6 million sq. ft. of supply growth and 627,000 sq. ft. of absorption from 2021–2026. However, elevated interest rates, geopolitical uncertainty, and trade policy volatility are contributing to a cautious operating environment, and leasing decisions are expected to remain deliberate as tenant margins stay under pressure

Key Takeaways

For Owners & Investors

— Rising occupancy costs, including insurance, taxes, and operating expenses, are placing increasing pressure on independent and smaller-format tenants. Landlords should proactively monitor tenant health and prioritize lease structures that provide flexibility for strong performers while managing exposure to at-risk occupiers. Owners with well-located suburban assets in master-planned communities are positioned to benefit from continued population-driven demand through 2026. For investors, necessity-based and service-oriented retail assets with diversified tenant rosters offer relative stability in a mixed macro environment.

For Occupiers

— Tenants planning expansions should focus on high-performing trade areas with strong demographics and population growth, weaker locations face mounting pressure from rising costs and flat sales. Build in additional lead time for permitting and construction, as project timelines remain extended. Expect continued increases in both base rents and operating expenses through year-end; underwriting should reflect these escalating costs, especially for smaller operators with limited ability to absorb margin compression.

Multifamily Market Outlook

01

Renter demand remains concentrated in urban core submarkets, with well-located, amenity- rich product continuing to outperform.

Demand has been strongest in Downtown, Montrose, River Oaks, and the East Inner Loop, where absorption gains have been most pronounced and renter preference for walkable, amenity-driven product remains durable. Strong resident retention and increasing cost-consciousness among renters are expected to support steady occupancy through H2 2026, particularly in assets with strong lifestyle access and proximity to employment centers. This concentration of demand is expected to persist, reinforcing the competitive advantage of well-located assets throughout the remainder of the year.

02

A disciplined development pipeline is moderating supply pressure, positioning the market to absorb existing inventory and stabilize fundamentals.

Like other Sunbelt cities, Houston is still working off the impact of supply over-expansion earlier in the cycle. After increasing noticeably through 2025, apartment vacancy dipped slightly in H1 2026 and is expected to tick up modestly to 6.9% by year end. The good news is that new deliveries in 2026 have been more measured compared to recent years, reflecting tighter financing conditions and a more cautious development environment. This moderation in supply is expected to allow the market to work through existing inventory more effectively. As new supply pressure eases through year-end, conditions should improve for stabilizing pricing fundamentals and concessions.

03

Rents are stabilizing with modest expected in H2, as investment activity signals continued market confidence.

Rent performance has remained stable across unit types, with concessions gradually declining as the market absorbs recent deliveries while vacancy rate is expected to be at 6.9% by the end of the year. Modest rent strengthening is expected in the latter part of 2026 though improvements will remain incremental rather than sharp. Investment activity surpassed $1.4 billion in H1 2026, signaling continued but selective investor demand for well-performing assets. As fundamentals stabilize, Houston's multifamily market is well-positioned for a more durable investment outlook heading into 2027.

Key Takeaways

For Owners & Investors

— Operators should remain focused on resident retention and expense management as the primary near-term levers, occupancy gains will be gradual and rent growth incremental through year-end. Assets in urban core submarkets are best positioned for recovery, as demand concentration there is expected to continue supporting occupancy and pricing. For investors, Houston's improving fundamentals and sustained transaction activity point to a more favorable entry environment as supply pressure eases heading into 2027.

Capital Markets Outlook

01

Houston's diversified economy is expected to provide relative growth amid ongoing macroeconomic headwinds.

The Houston region remains positioned for steady job growth and modest increases in real estate values, supported by the breadth of its economic base. Legacy overleveraged assets continue to present challenges, with many requiring additional equity due to a reset in values and interest rates remaining elevated. Despite these pressures, Houston's economic diversity is expected to buffer the market and support relative stability through H2 2026, even as broader macroeconomic and fiscal risks persist.

02

Capital availability remains broad-based, with retail and industrial continuing to attract deep lender interest.

Real estate capital remains widely available across Houston despite broader capital markets volatility, with lenders actively deploying across multiple asset classes. Retail assets continue to attract financing from a diverse mix of banks, insurance companies, private lenders, and CMBS sources. Industrial lender appetite has broadened beyond traditional logistics into manufacturing and industrial outdoor storage assets, signaling wider acceptance of non-core product types. This depth of capital across stabilized and niche asset categories underscores lenders' willingness to remain active in Houston, given its durable fundamentals.

03

Lender sensitivity persists in office, while multifamily seeks stability, lease-up potential, and sponsor quality.

Multifamily financing remains active across agency, bank, insurance, and private capital sources, with notable emphasis on bridge lending for assets in lease-up or stabilization. Office, by contrast, faces tighter underwriting standards; capital is largely concentrated on newer, well-occupied assets with limited near-term rollover risk. Older or underperforming office assets often require additional equity or creative structuring to transact. This bifurcation reflects a broader lender preference for income stability, asset quality, and sponsor strength amid ongoing uncertainty in leasing fundamentals and interest rate expectations.

Key Takeaways

For Sellers

— Assets with strong occupancy and limited near-term rollover, particularly newer office and stabilized retail and industrial assets, are best positioned to attract aggressive bidding and favorable execution. Older office properties or assets with leasing risk will face constrained financing options, likely requiring price adjustments, additional equity, or creative structuring to transact.

For Buyers

— Debt and equity remain widely available, particularly for retail and industrial assets, giving buyers multiple financing options. With lenders prioritizing performance and stability, well-leased assets in these sectors will attract deeper buyer pools and tighter pricing, limiting opportunities for discounted acquisitions as competition intensifies.

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