

TEEL
VALUATION GROUP

ECONOMIC OUTLOOK

September 2026

Two Metros, Two Distinct Commercial Real Estate Products:
Houston Office & Dallas Retail

In collaboration with John E. Silvia, Ph.D.

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ABOUT TEEL VALUATION GROUP



- Founded in 1983 by Gerald A. Teel, built on rigorous analysis, independence, and high professional standards
- Over 40 years of growth from a local practice to a regional firm with national coverage
- Serves a diverse client base across the U.S.
  - Financial institutions
  - Attorneys
  - Government agencies
  - Estates and trusts
  - Corporations
  - Private investors

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Commercial Real Estate Valuation & Advisory

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ABOUT JOHN E. SILVIA, Ph.D.



- Over two decades as Senior Economist for the U.S. Senate Joint Economic Committee and the U.S. Senate Banking Committee
- Founder of Dynamic Economic Strategy and former chief economist for Wells Fargo, where he led global economic research and strategy for two decades
- Recognized by Bloomberg and Focus Economics as one of the nation's top forecasters. Known for his accurate and accessible assessment of growth, inflation, and interest-rate trends

John E. Silvia, Ph.D.
Dynamic Economic Strategy | Former Chief Economist, Wells Fargo

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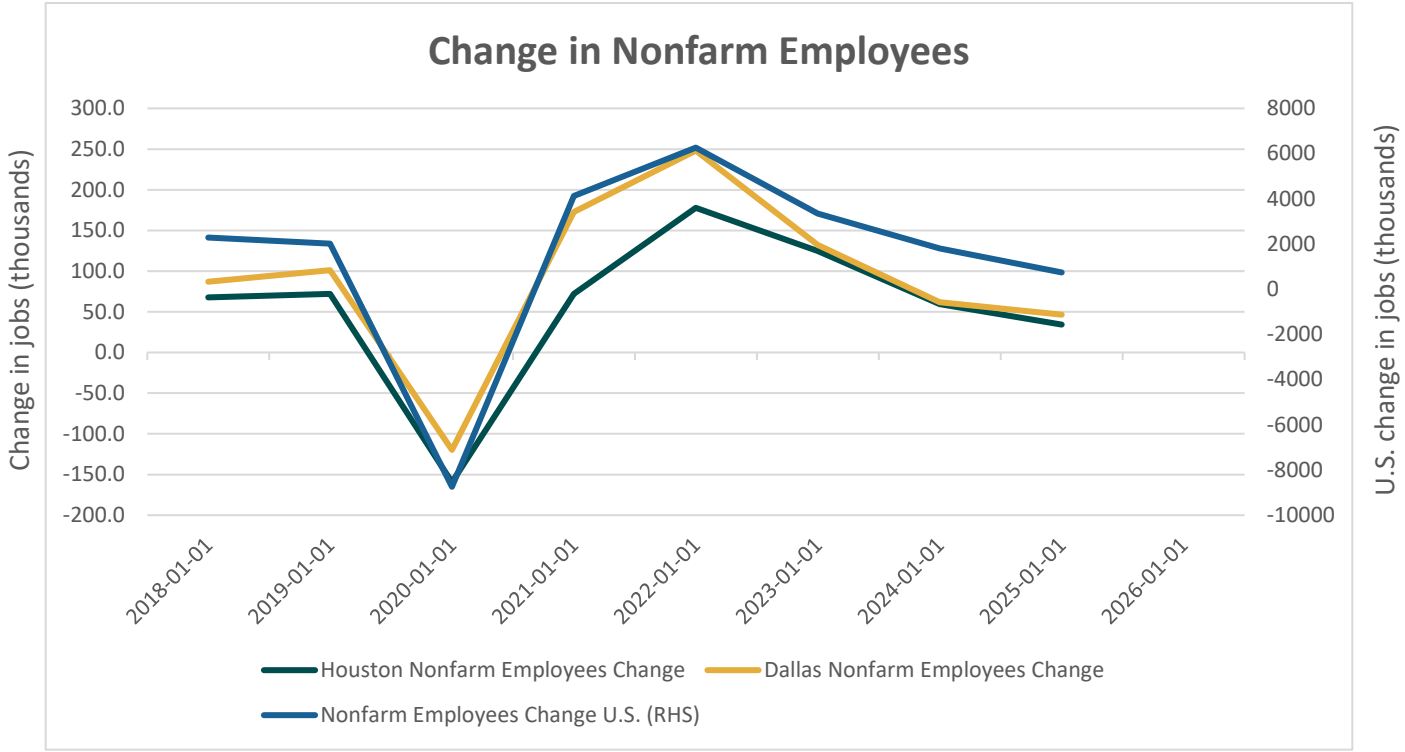
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DR. SILVIA'S KEY TAKEAWAYS

- Houston and Dallas employment cycles tracked the national COVID-era pattern, but rebounded with more amplitude than the U.S. overall
- Houston office asking rents are growing again at a 2.2% pace, tracking employment, while vacancy gains among 4- and 5-star buildings have started to moderate
- Net absorption and price-per-square-foot recovery in Houston office concentrate in top-tier buildings; 1- and 2-star space continues to post negative absorption
- Houston office cap rates have moved higher since the pandemic and remain above pre-COVID levels across every property class
- Dallas retail performance varies widely by format: general retail and power centers show the deepest, most stable occupancy, while malls have outperformed but show an early uptick in vacancy
- Net absorption across most Dallas retail categories remains positive, though the pace has slowed as rent growth has cooled

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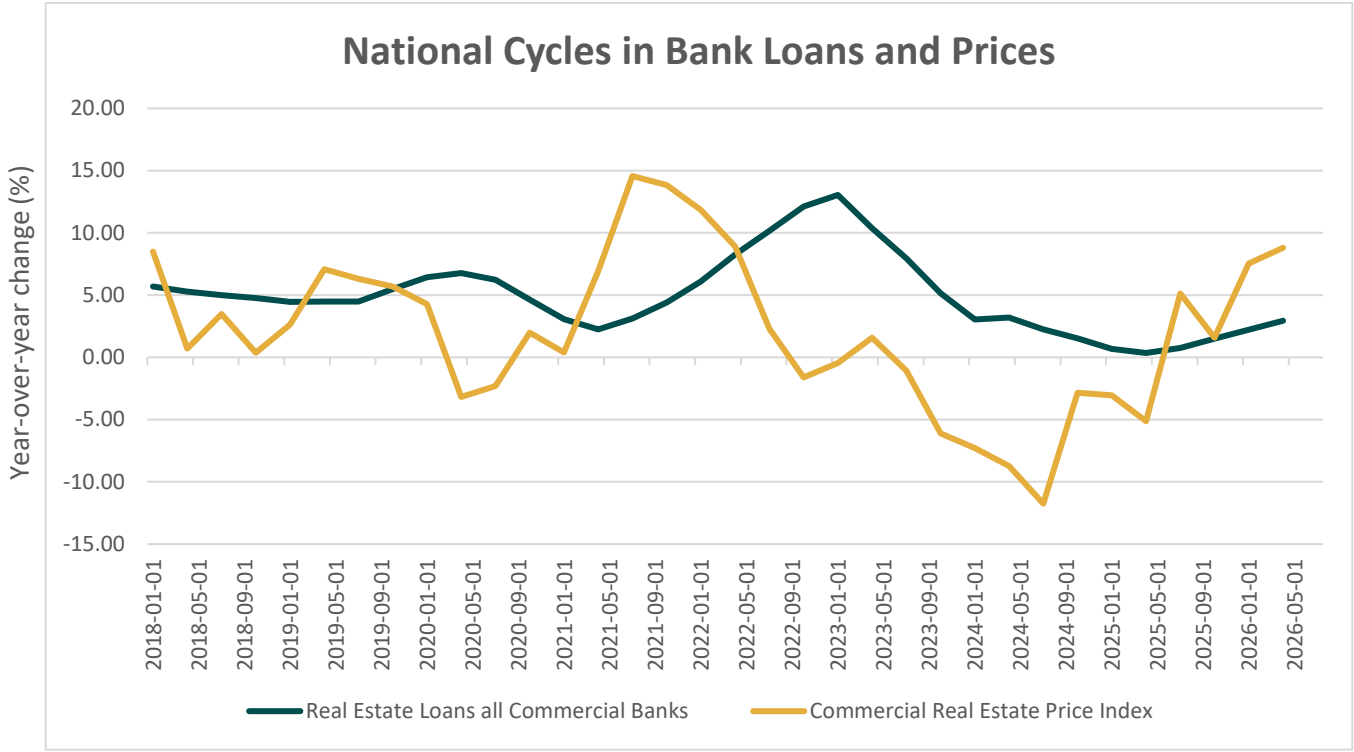
CHANGE IN NONFARM EMPLOYEES: HOUSTON, DALLAS & U.S.



The COVID/state-shutdown shock and rebuilding cycle shows up nationally and in Texas alike. Houston and Dallas employment followed the same cyclical pattern as the U.S., but the amplitude of their recovery has exceeded the national rebound.

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THE IMPORTANCE OF CREDIT

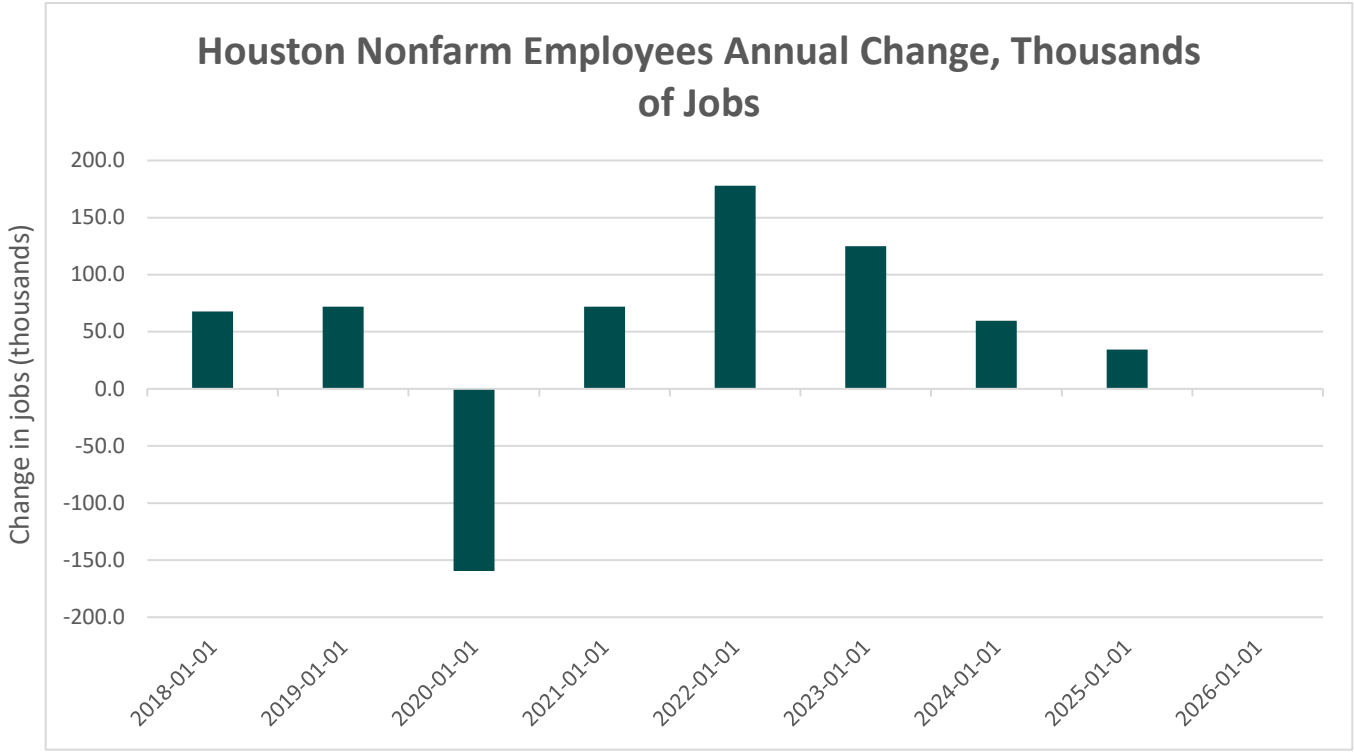


Source: Federal Reserve; Dynamic Economic Strategy. The weights are based on nominal structures from the BEA.

National cycles in bank loans and commercial real estate prices followed the path set by the COVID shock and the recovery that followed. What makes the Houston and Dallas story interesting is how their commercial real estate markets diverged from there.

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HOUSTON OFFICE: EMPLOYMENT BASELINE

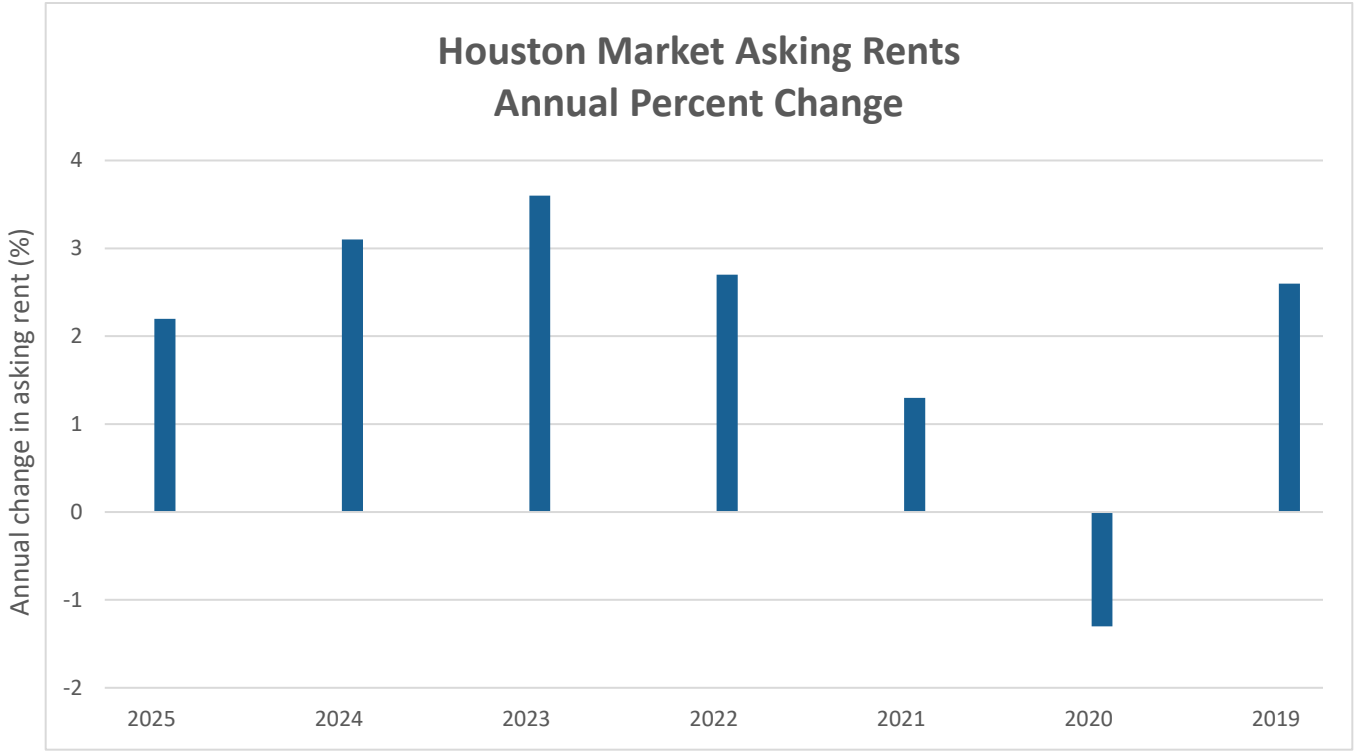


Source: BLS; Dynamic Economic Strategy, Annual Absolute Change in the Number of Jobs

Houston metro employment follows the national cyclical pattern, but the amplitude of its swings exceeds the average U.S. metro, including Philadelphia and Atlanta specifically. Over the last three years, Houston's employment growth has outpaced both of those metros.

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HOUSTON OFFICE: MARKET ASKING RENTS

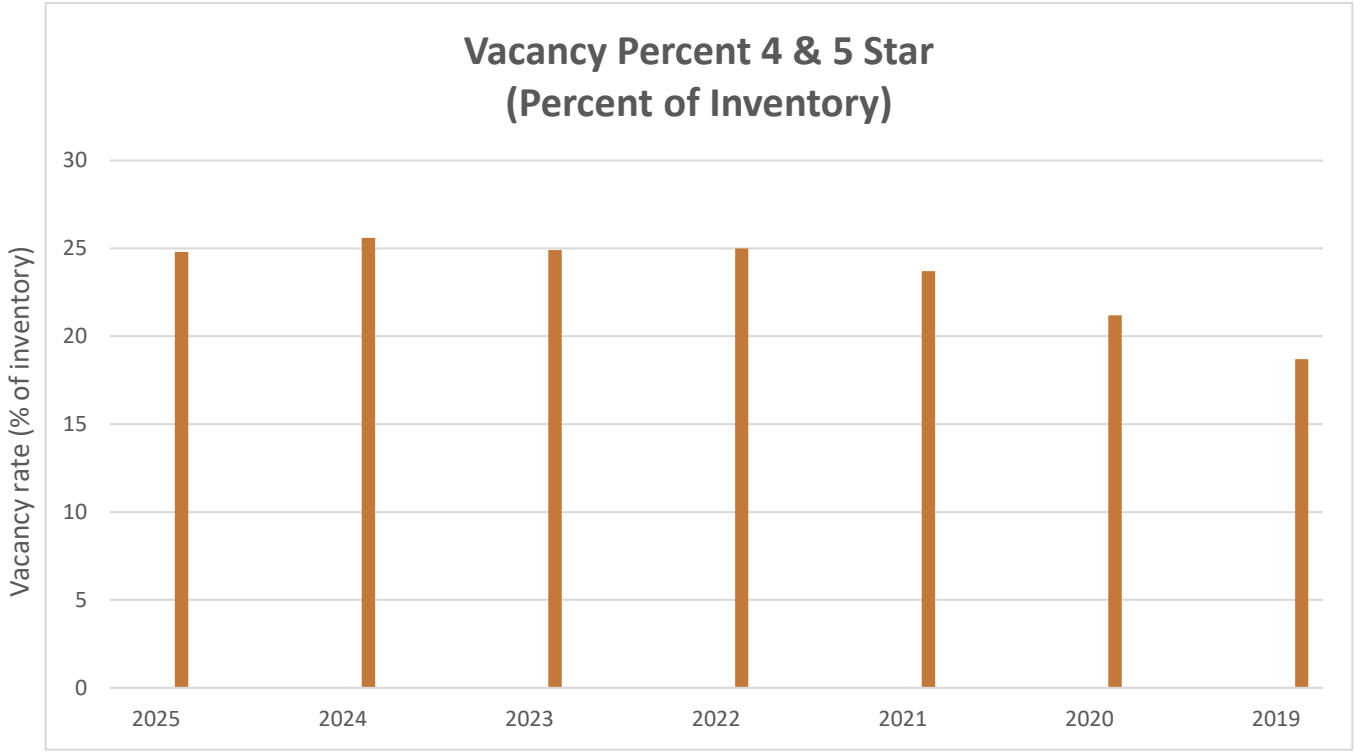


Source: CoStar Houston, TX USA, Office Market Report, Dynamic Economic Strategy

Asking rents in the Houston office market have rebounded from the COVID/state-shutdown shock, tracking the employment pattern. The current asking rent growth pace of 2.2% looks like a reasonable planning baseline for a slower-than-typical job growth environment.

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HOUSTON OFFICE: VACANCY RATES

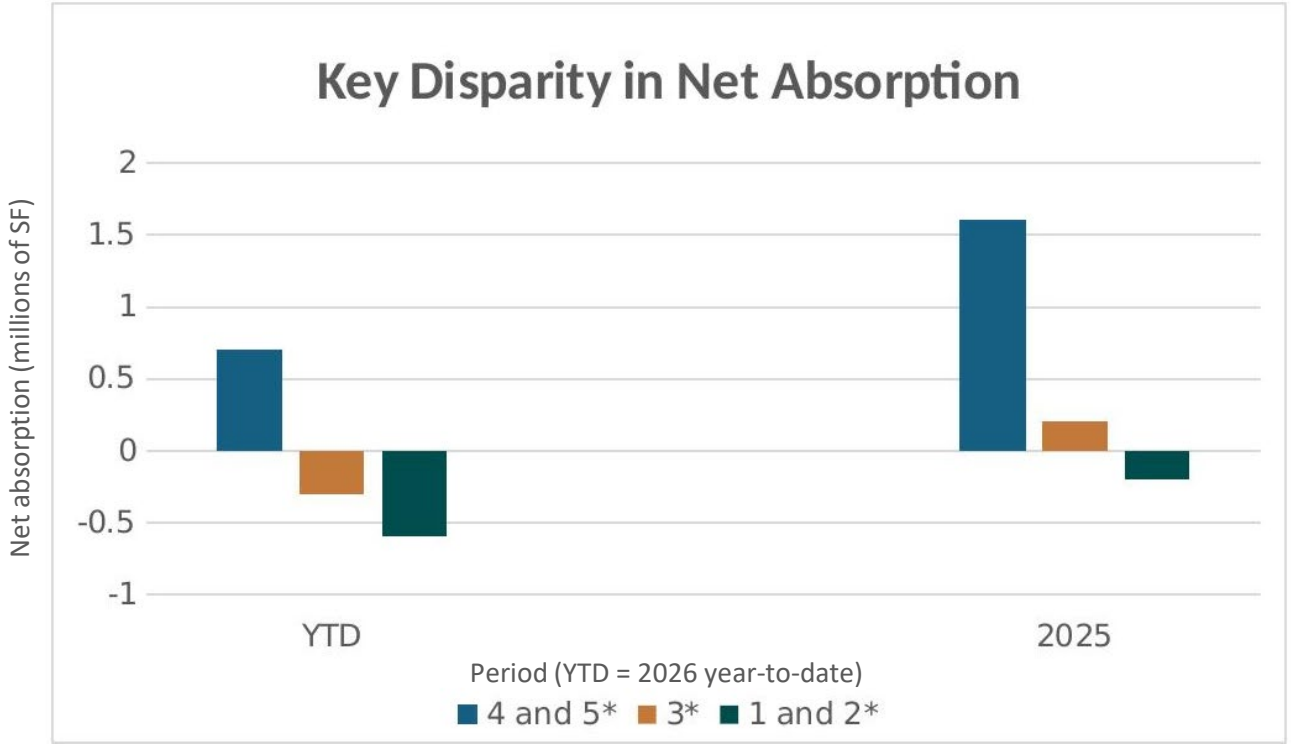


Source: CoStar Houston, TX USA, Office Market Report, Dynamic Economic Strategy

Vacancy rates for Houston's 4- and 5-star office properties rose through 2024 and moderated in 2025 and year-to-date. The COVID/state-shutdown shock has passed, and while the vacancy response continues, that rise has slowed.

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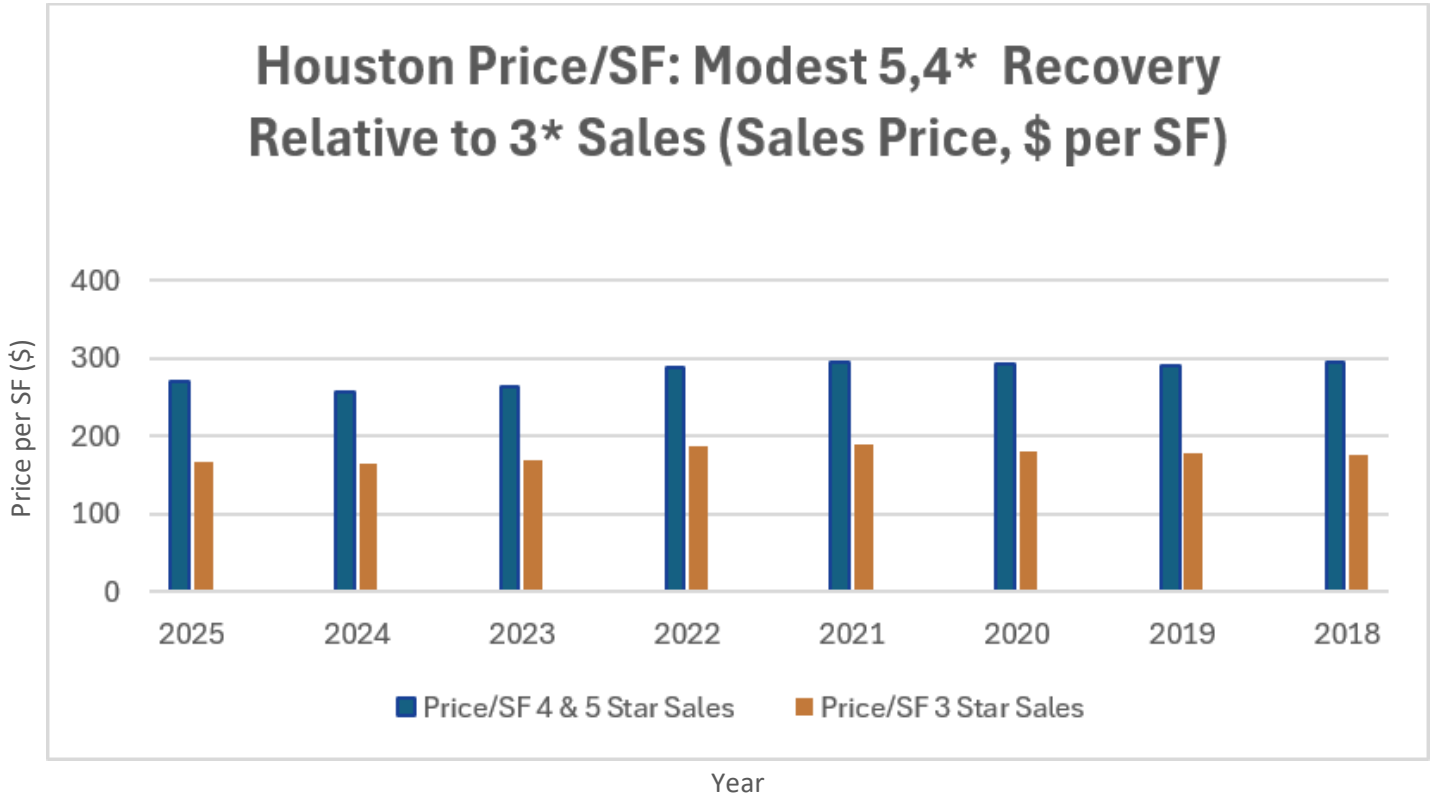
A DISTINCTION THAT MAKES A DIFFERENCE FOR INVESTORS



Net absorption differs sharply by office property class. Four- and five-star buildings have held up well, while one- and two-star properties have posted negative net absorption for all of 2025 and year-to-date; three-star sits in between.

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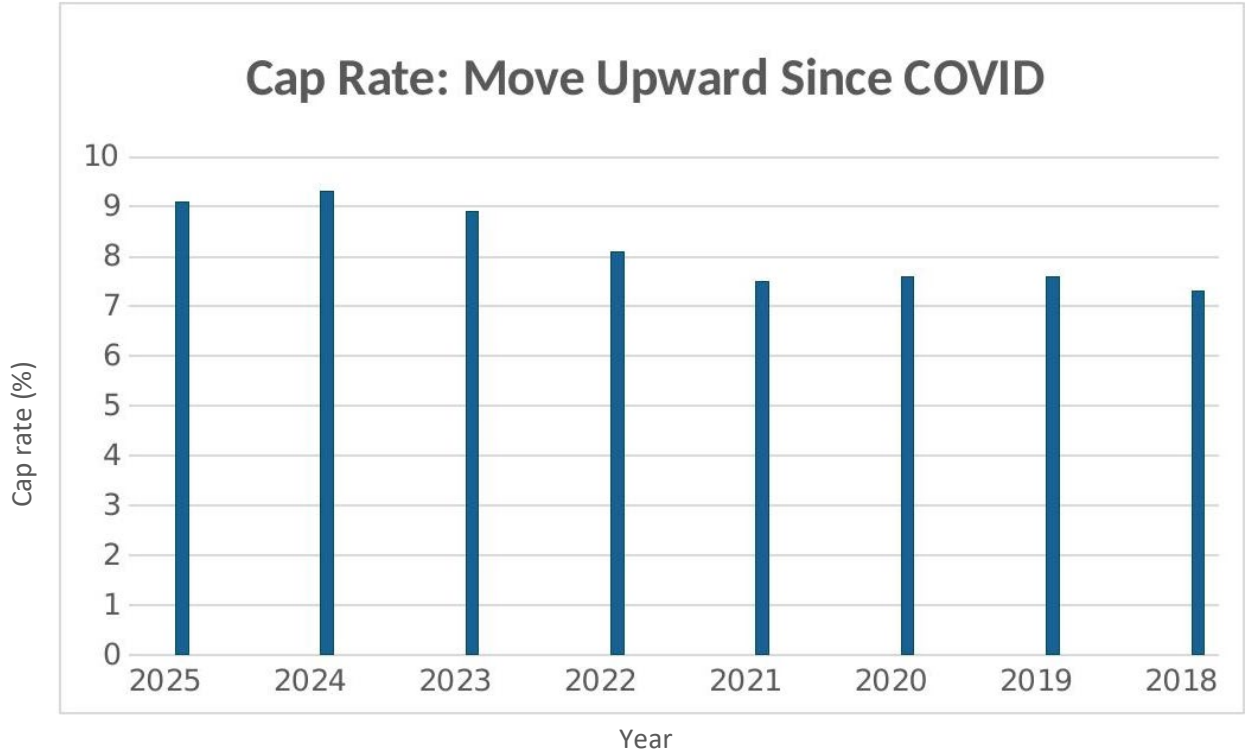
PRICING: FOUR- AND FIVE-STAR PROPERTIES HOLDING THEIR OWN



Price per square foot for four- and five-star properties has recovered from its 2024 lows, and three-star pricing has recovered in a similar way.
That improvement lines up with the modest vacancy declines in both segments; one- and two-star vacancy has not improved year-to-date.

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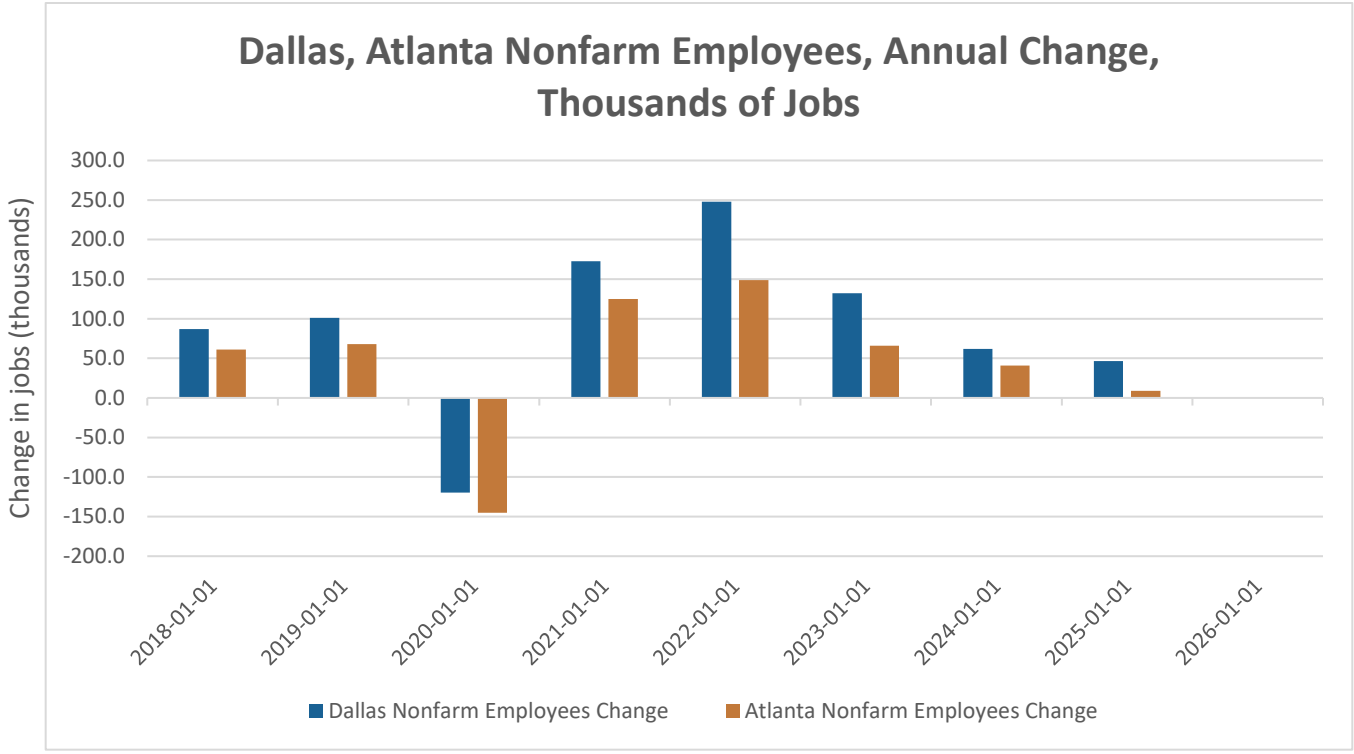
HOUSTON OFFICE: THE RISE IN CAP RATES



Cap rates have continued to move upward in recent years. For four- and five-star properties, the cap rate peaked at 9.3% in 2024. Three-star and one-/two-star cap rates have also declined year-to-date from 2025 peaks, with one- and two-star still above 10%; all categories remain above pre-COVID levels. (Only the four- and five-star series was tracked in the source chart.)

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SIMILAR CYCLE, DIFFERENT AMPLITUDE

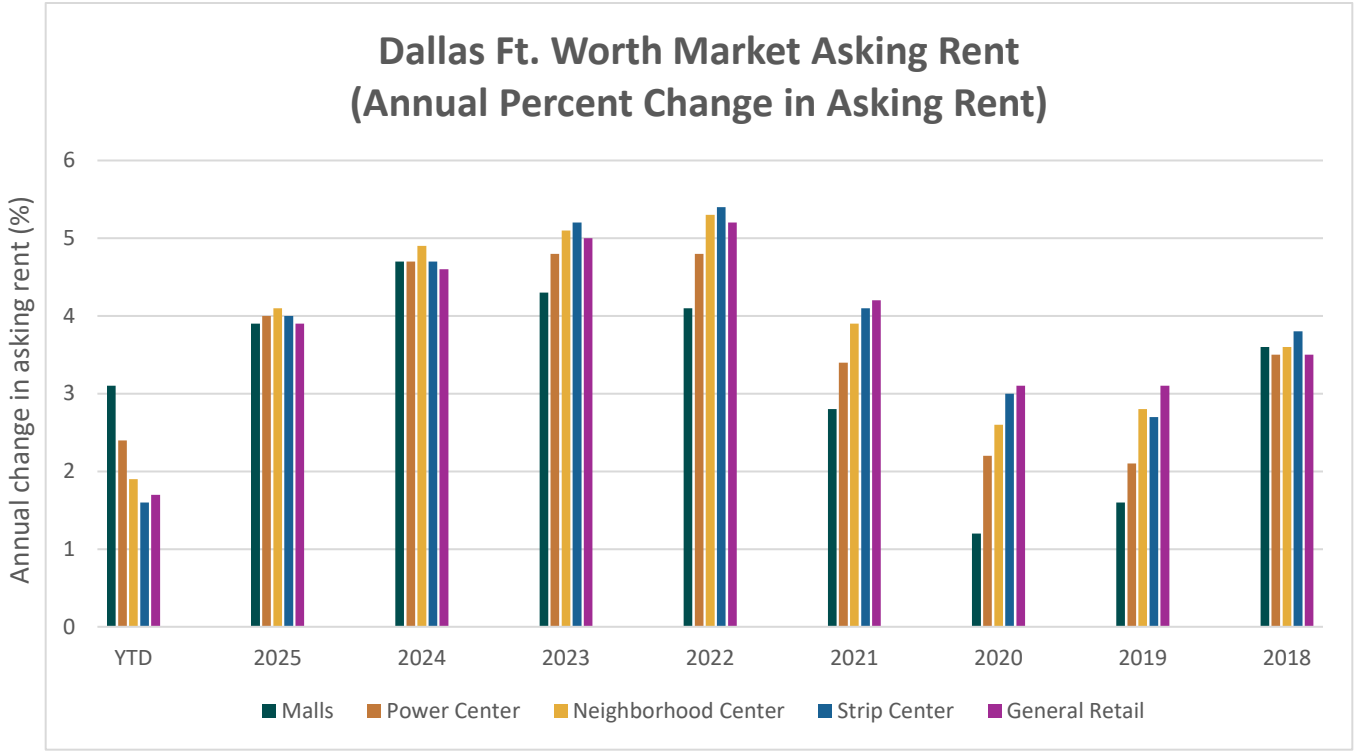


Source: BLS; Dynamic Economic Strategy, Annual Absolute Change in the Number of Jobs

For comparison with another Sunbelt metro, Dallas and Atlanta show a similar employment cycle, but Dallas has posted a higher amplitude of job gains throughout the recovery.

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DALLAS RETAIL: MARKET ASKING RENTS

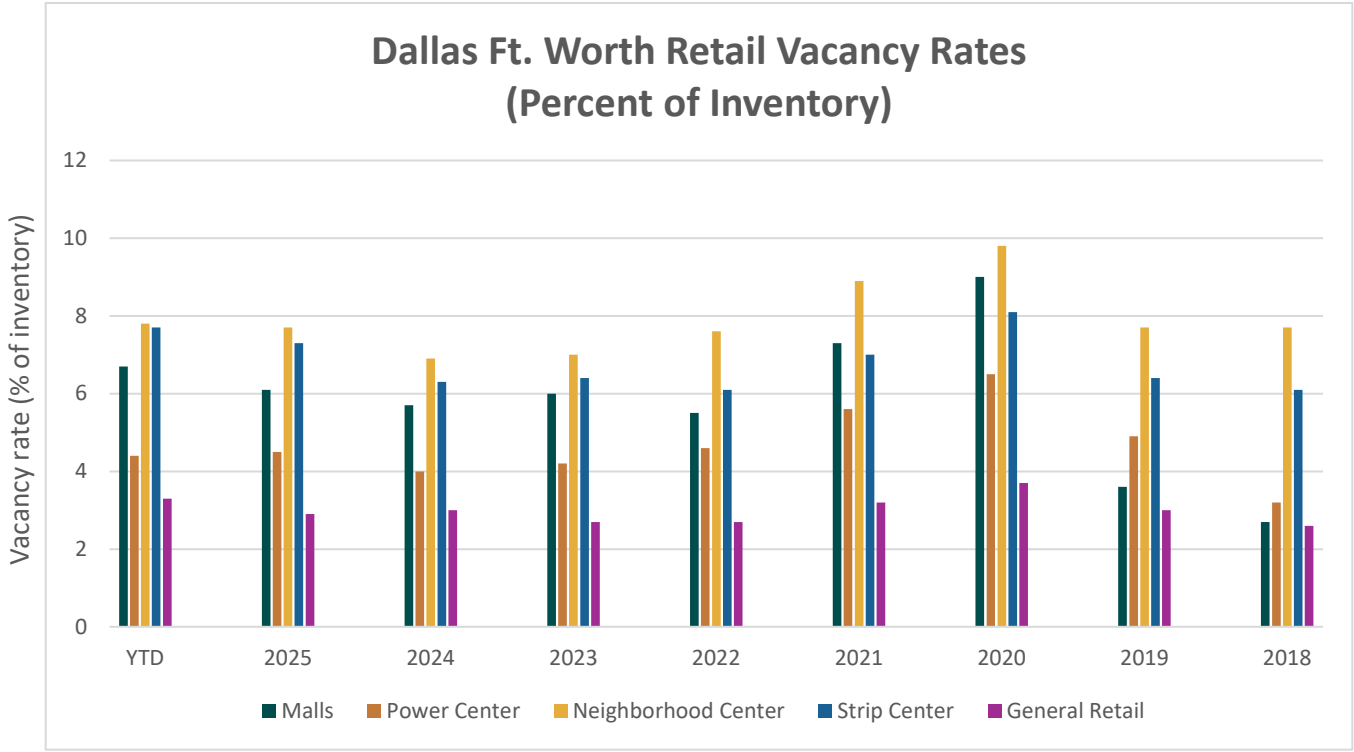


Source: Co Star Dallas-Ft. Worth-TX USA, Retail Market Report, Sep. 17, 2026.

Retail asking rents picked up for all five Dallas retail categories after the COVID/state-shutdown hit.
Year-to-date, mall asking rents have held up notably well compared with the other four categories, consistent with the Wall Street Journal's September 14 report on malls as a top-performing commercial real estate category.

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DALLAS RETAIL: VACANCY RATES

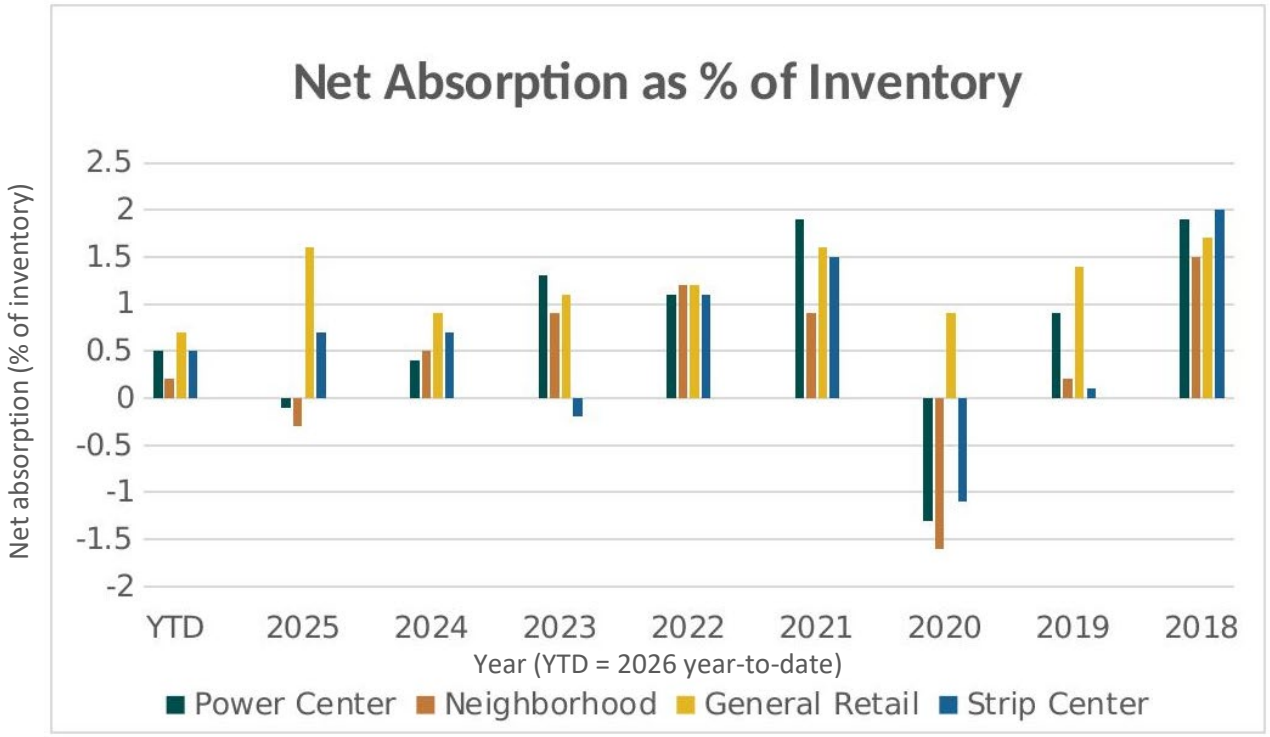


Source: Co Star Dallas-Ft. Worth-TX USA, Retail Market Report, Sep. 17, 2026.

Vacancy rates across Dallas retail categories have generally declined since the COVID/state-shutdown period, but the level and pattern vary widely.
General retail never saw a significant spike and now sits well below the other categories; power centers have held below 5% since 2022.
Malls have outperformed neighborhood and strip centers, though year-to-date vacancy has ticked back above 2024 and 2025 levels, a trend worth watching.

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DALLAS RETAIL: NET ABSORPTION



Net absorption has been positive across the four categories shown, suggesting little overbuilding of Dallas retail space, consistent with continued gains in asking rents.
The pace has slowed in recent years alongside smaller rent gains, a recent change in trend. Mall net absorption, not shown here to avoid distorting the scale with 2020's large negative reading, remains slightly negative.

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COMMERCIAL REAL ESTATE IMPLICATIONS

WHAT THIS MEANS FOR CRE

- Job growth influences demand across office, retail, hospitality, and specialized property sectors
- Industry performance varies significantly between metros
- Local employment trends provide important context for investment and valuation decisions
- Market-specific analysis remains essential as economic conditions shift

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HOW TVG PUTS THIS TO WORK

TVG translates macroeconomic context like Dr. Silvia's into defensible value conclusions through market-specific analysis grounded in observed evidence.

- Regional employment analysis tied to local market conditions
- Sector-level insights across office, retail, industrial, hospitality, and specialized property types
- Market-specific research supporting credible valuation conclusions
- Analysis grounded in observed economic data, not broad assumptions

Let's talk.

We welcome the opportunity to discuss what these trends mean for your portfolio, your assignment, or your market.

Schedule a virtual or in-person briefing with the TVG team and Dr. Silvia.

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The economic views expressed in this outlook are those of Dr. John E. Silvia and Dynamic Economic Strategy. They are general in nature, do not constitute a forecast adopted by Teel Valuation Group, and are not relied upon in any specific TVG valuation assignment. Each TVG appraisal reflects conditions as of its stated effective date.