

Houston



Quick Stats

81,900

Jobs created during the 12 months ending August 2019

3.9%

August unemployment rate in Houston, down from 4.4% in August 2018

16.2

msf of industrial space under construction

5.6%

Direct vacancy in Houston's industrial market

21

projects delivered 3.0 msf during third quarter

The industrial sector remains Houston's leading asset class with the current vacancy rate at 5.6%, up a marginal 10 basis points from last quarter. Completions during the third quarter totaled more than 3 million square feet (msf), matching first quarter's total but down from second quarter. Overall total net absorption and leasing activity decreased in third quarter from both earlier quarters, with absorption dropping to about a third of the absorption recorded during the same time frame last year.

The year-long dip in absorption and leasing has been partially due to a general economic slowdown in global trade at Port Houston in conjunction with slower, but incremental population growth in the metro. The Greater Houston Partnership (GHP) also cites a recent study alluding to slower growth forecasts in 18 of the world's 20 largest economies.

Port Houston remains one of the key driving forces of the industrial market even as tariffs dampen trading with Mexico and China, who are traditionally the metro's largest trade partners. Exports are slightly up with several other countries taking up the slack although

imports are slightly down, according to the GHP.

Together with Port Houston's increased activity, local employment growth continues its positive economic trend. The metro's unemployment rate improved to 3.9% from 4.0% in July and from 4.4% in August last year. For the 12 months ending August 2019, the Houston metro area added 81,900 jobs, a 2.7% increase year-over-year, according to Texas Workforce Commission (TWC) statistics. The leading job growth sectors were professional, scientific and technical services (18,000); durable goods manufacturing (11,500); other services (9,700); transportation, warehousing and utilities (8,600); and health care and social assistance (8,200).

Population growth has also contributed to the healthy industrial market by fueling e-commerce and retailers' warehouse and distribution facilities. According to recent U.S. Census reports, that growth rate has reduced in the last two years. However, Houston

had the third largest gain of a U.S. metro area in 2018, and each of the nine counties recorded larger populations.

Absorption and Demand

Positive net absorption decreased during third quarter compared to previous quarters this year but extended an eight-year positive trend with almost 1.2 msf. This total is almost half of each of the previous two quarters and about a third of the absorption recorded during third quarter last year. Warehouse/distribution space continues to dominate, representing 96% of net absorption in the third quarter and 87% of the total 5.6 msf year-to-date.



The three largest occupancies this quarter were split between the Southeast and Southwest sectors. American Furniture Warehouse's occupied 350,000 sf and Snapp USA moved into 134,680 sf, both in the Southeast. Accredo Packaging expanded into 200,000 sf in its Sugar Land campus in the Southwest.

Leasing activity declined during the third quarter, with 4 msf recorded compared to 5.4 msf last quarter and 8.5 msf in third-quarter 2018. Year-to-date, the 13.9 msf noted represents a 35% drop compared to last year's 23 msf recorded through third quarter. However, more space has been leased than delivered each quarter this year.

The two largest deals during third quarter occurred in the Northwest and included Rooms To Go's renewal of 373,860-sf in Mason Ranch Building 1 at 2244 N. Mason in Katy and COE Distribution's new lease of 251,753 sf in Highland Grove Business Park at 10620 Telge Road.

Available sublease space increased to almost 5 msf during third quarter after dropping slightly last quarter. The North sector offers almost 2 msf of sublease, 40% of the total available. The Northwest and Southeast sectors each have available 1.2 msf and 1.1 msf, respectively. These three sectors represent more than 86% of all available sublease space in the market. Available sublease space could become a new indicator to monitor as the current availability represents 73% more square footage than reported last year at this time.

Vacancy & Availability

Vacancy rates have held steady around 5% since 2012 and are now inching up each quarter. The direct vacancy rate increased 10 basis points to 5.6% from 5.5% during the third quarter, with all industrial types seeing a slight increase.

The largest buildings delivered 100% preleased this quarter include American Furniture Warehouse's 350,000-sf project at 21501 Gulf Freeway and Snapp USA's 134,680 sf, both in the Southeast, along with Accredo Packaging's 200,000-sf expansion in the Southwest.

The amount of available space, which includes all space that could be leased but may or may not be vacant, has jumped this year. Overall direct availability is now at 11%, up from 9.5% last quarter and up from 7.2% during the same period last year. Overall availability rates have ranged from 7% to 8.3% since 2012 prior to this year.

Construction

Houston's construction pipeline is steadily expanding as developers fulfill

the demands of e-commerce suppliers, retailers and business at Port Houston. The under-construction total jumped to record levels of 16.2 msf during the third quarter, up from 13 msf at second quarter.



The 107 buildings, with 14.2 msf or 88% representing warehouse or distribution facilities, are collectively 25% preleased.

The bulk of projects under construction is concentrated in the North, Northwest, Southeast and Southwest submarkets. The largest project underway is the 1-msf facility for Coca Cola in Pinto Business Park in the North. Two of the largest spec projects include Air 59 Logistics Center, a 685,400-sf project in the Northeast scheduled for completion in fourth quarter, and Bayport South's 642,994-sf facility in the Southeast. Another large design-build, Costco's 548,519-sf distribution center in Katy, is scheduled for completion in fourth quarter.

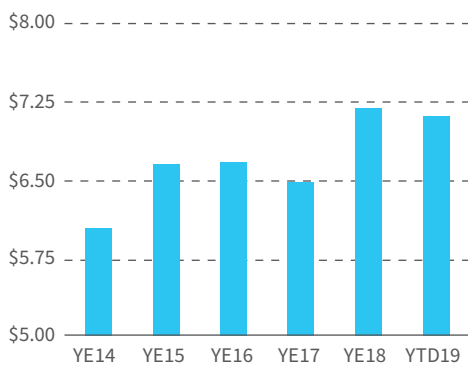
Asking Rates

After slowly climbing for the last two years, overall asking NNN rental rates slipped to \$7.14 per square foot (psf) during third quarter from \$7.22 last quarter. Rent averages for each submarket range from a low of \$5.14 psf in the Northeast to a high of \$8.11 in the North. By type, warehouse/distribution facilities report an average \$6.94 psf, up from \$6.79 last quarter, flex properties are leasing at an average \$8.65 psf while manufacturing facilities are at \$6.76 psf and reporting the largest decrease.

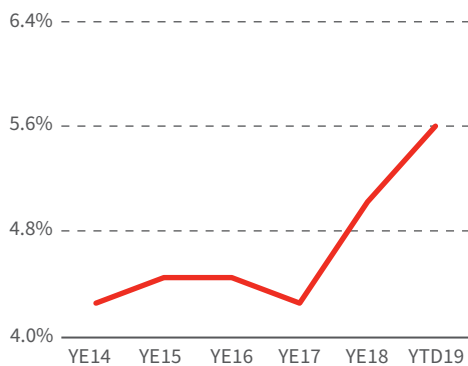




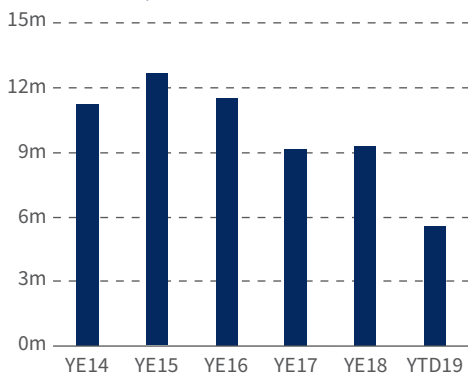
Asking Rates



Vacancy Rates



Net Absorption



Third-Quarter Highlights

- **Rooms To Go*** renewed 373,860-sf at Mason Ranch Building 1 at 2244 N. Mason in the Northwest. This renewal tops the third-quarter largest deal list and is second largest for the year.
- **COE Distribution**, a nationwide office furniture distributor, leased 251,753 sf in Highland Grove Business Park at 10620 Telge Road.
- **CRI Inc.*,** a Houston-based furniture supplier, signed a 50,000-sf lease in Navigation Business Center at 3401-3403 Navigation Boulevard, joining **VEE Express,*** who renewed and expanded to 188,000 sf in the project.
- **ProBuild** renewed 171,850 sf in Building 6 at Port Northwest at 16245 Port Northwest in the Northwest submarket.
- **Boral Windows** will be moving into 154,661 sf in Building D at 6410 Langfield in Northwest Crossing Industrial Park, also in the Northwest.
- **American Cross-Dock and Storage LLC*** leased 102,866 sf in Bayport North Logistics Center I at 9701 New Decade Drive in Pasadena. The newly completed property is in the Southeast.
- **Toshiba International Corporation*** leased 83,200 sf at 10420 Okanella Street in West-by-Northwest Industrial Park.

**Avison Young transaction*

Trends to Watch

With its central location within the U.S. and the Americas, Houston is an important industrial base. The following are regional updates for key economic indicators.



Oil

The price of oil averaged \$58 in late September, fluctuating between the low-\$50s and mid-\$60s during the year.



Employment

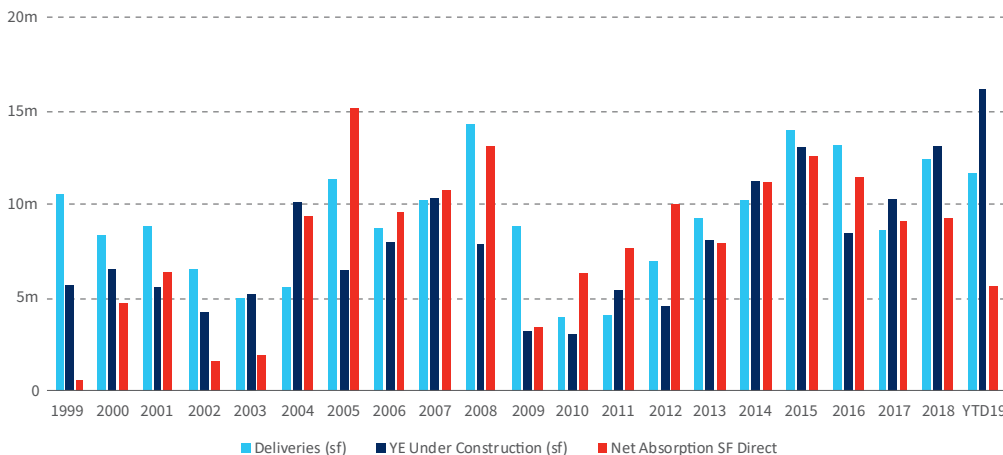
Employment grew 2.7%, creating 81,900 jobs for the 12 months ending August 2019.



Purchasing

The Purchasing Manager's Index (PMI) registered 51.6 in August 2019, slightly up from 51.4 in July, indicating short-term expansion in Houston's manufacturing sector.

Supply & Demand



Select Third-Quarter Under Construction

Building Name	Building Address	Building Size (sf)	% Preleased	Projected Delivery	Submarket
Coca-Cola Southwest Beverages	Fallbrook Drive (Pinto Business Park)	1,000,000	100%	February 2020	North
Air 59 Logistics Center	U.S. Highway 59 & Will Clayton Parkway	685,400	0%	November 2019	Northeast
Cedar Port Logistics	4725 E. Grand Parkway South	644,000	0%	May 2020	Southeast
Bayport South Business Park	10591 Red Bluff Road	642,994	0%	April 2020	Southeast
Costco Wholesale Distribution	Highway 90 (Katy)	548,519	100%	December 2019	Northwest
Houston Transport Building 3	8230 Stedman Street	526,094	0%	December 2020	Southeast
Kennedy Greens Distribution Center I	13300 John F. Kennedy Boulevard	524,160	0%	December 2020	North
American Furniture Warehouse	I-10 & Pin Oak Road (Katy)	498,700	100%	February 2020	Northwest
Sam Houston Distribution Center	Taub Road	494,800	0%	June 2020	Northwest
Clay 99 Building 5	3900 Peek Road (Katy)	433,200	0%	February 2020	Northwest

Select Third-Quarter Deliveries

Building Name	Building Address	Building Size (sf)	% Preleased	Tenant	Submarket
Park 8Ninety Building 9	631 Buffalo Lakes Drive	352,769	44%	N/A	Southwest
American Furniture Warehouse	21501 Gulf Freeway	350,000	100%	American Furniture Warehouse	Southeast
Point North Three	8221 Volta Drive	337,700	0%	TBD	North
Port Crossing Commerce Center B1	1901 Wharton Weems Boulevard	252,924	0%	TBD	Southeast
Pinto Business Park	10484 Greens Crossing Boulevard	239,814	0%	TBD	North
Sugar Land Business Park	12682 Cardinal Meadow Drive	200,000	100%	Accredo Packaging	Southwest
Carson 249	12202 Cutten Road	194,602	0%	TBD	North
West Little York Distribution Center	6401 W. Little York Road	153,188	50%	Action Box (76,444 sf)	Northwest
290 Northwest Business Center	21420 Northwest Freeway	136,651	0%	TBD	Northwest
Fairmont Point Business Center	11555 W. Fairmont Parkway	134,680	100%	Snapp USA	Southeast


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Properties

