



Houston industrial market report

Q1 2023

**AVISON
YOUNG**

Houston industrial market trends

6.4 msf

Quarterly absorption remains strong

Occupiers slightly exceeded the prior quarter's absorption pace by 5.3% from fourth quarter 2022. Total availability rates increased 10 basis points during the quarter and have moved up 120 basis points higher over the prior year. Demand continues to be strong and more so in the Northwest submarket as it gained 2.4 million square feet (sf) of absorption. Overall, the Houston industrial market remains resilient.

5.9%

Vacancy rate remains relatively stable

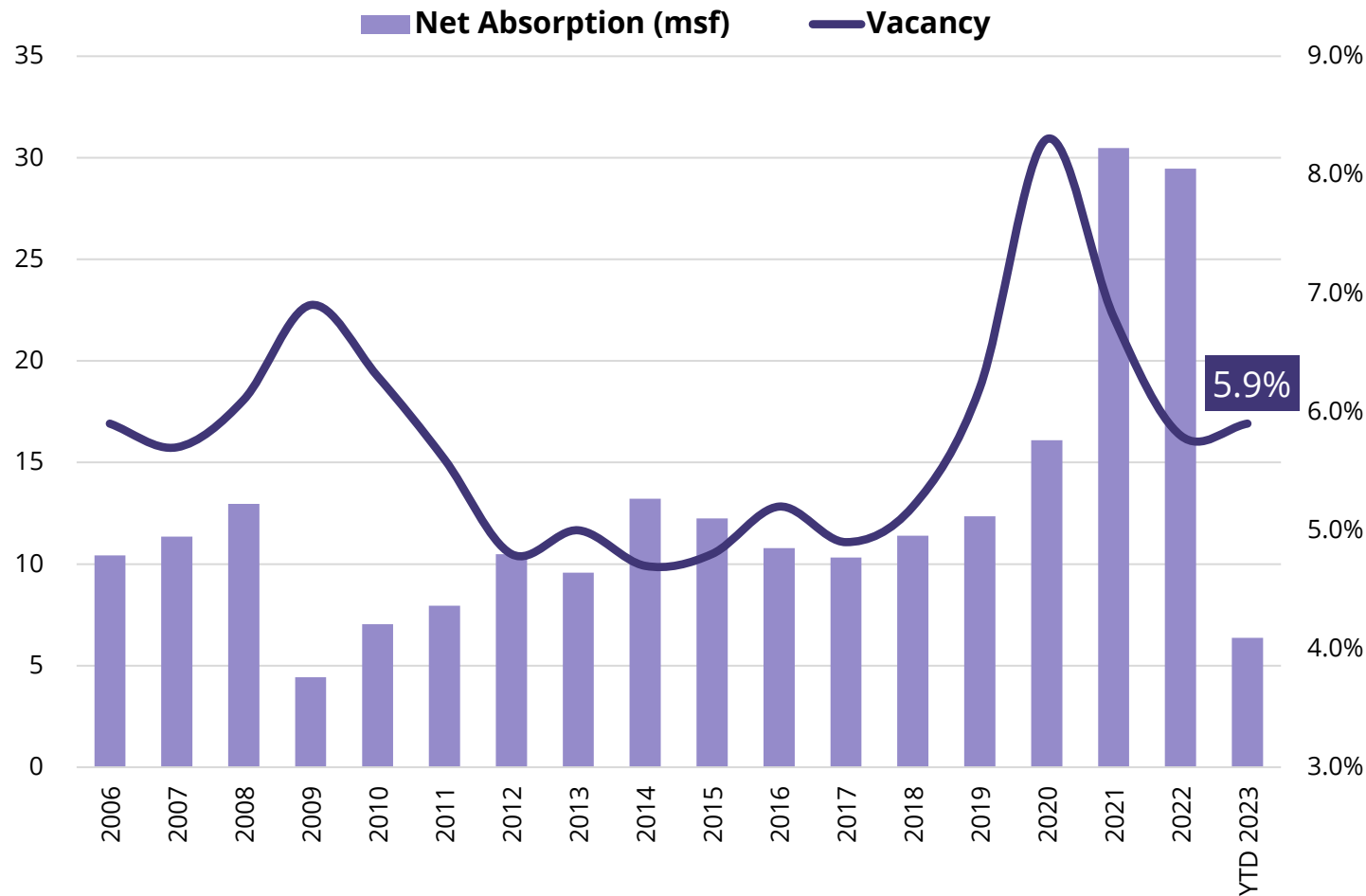
The vacancy rate remains relatively flat, increasing 10 basis points quarter-over-quarter as new construction deliveries slightly outpaced strong demand, a sign that the market fundamentals are well balanced. The slight increase in availability and vacancy rates indicate supply is beginning to outpace demand. Nevertheless, the current vacancy rate remains 30 basis points below last year.

33.8 msf

Developers stay the course in keeping up with demand

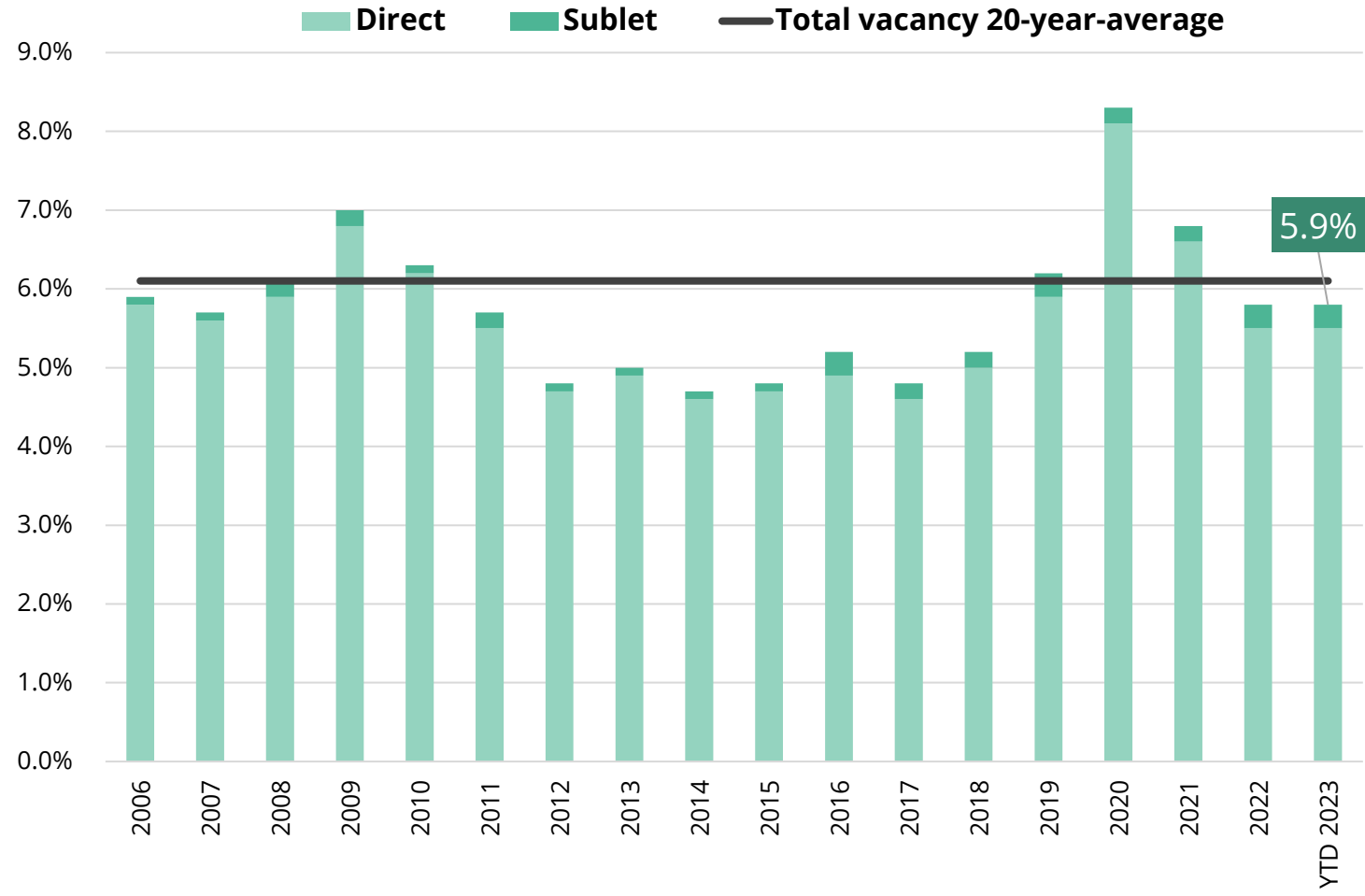
Developers kicked-off the year with over 33.8 msf in the construction pipeline, a little more from the prior quarter and once again hitting a record high. In addition, more than 6.9 msf delivered during Q1 2023, which exceeds the quarterly average of completions over the prior two years by 20.5%. With strong demand, developers are expected to deliver more than 30.3 msf by year-end, just 200k sf short of the record high deliveries experienced in 2022.

Strong demand persists



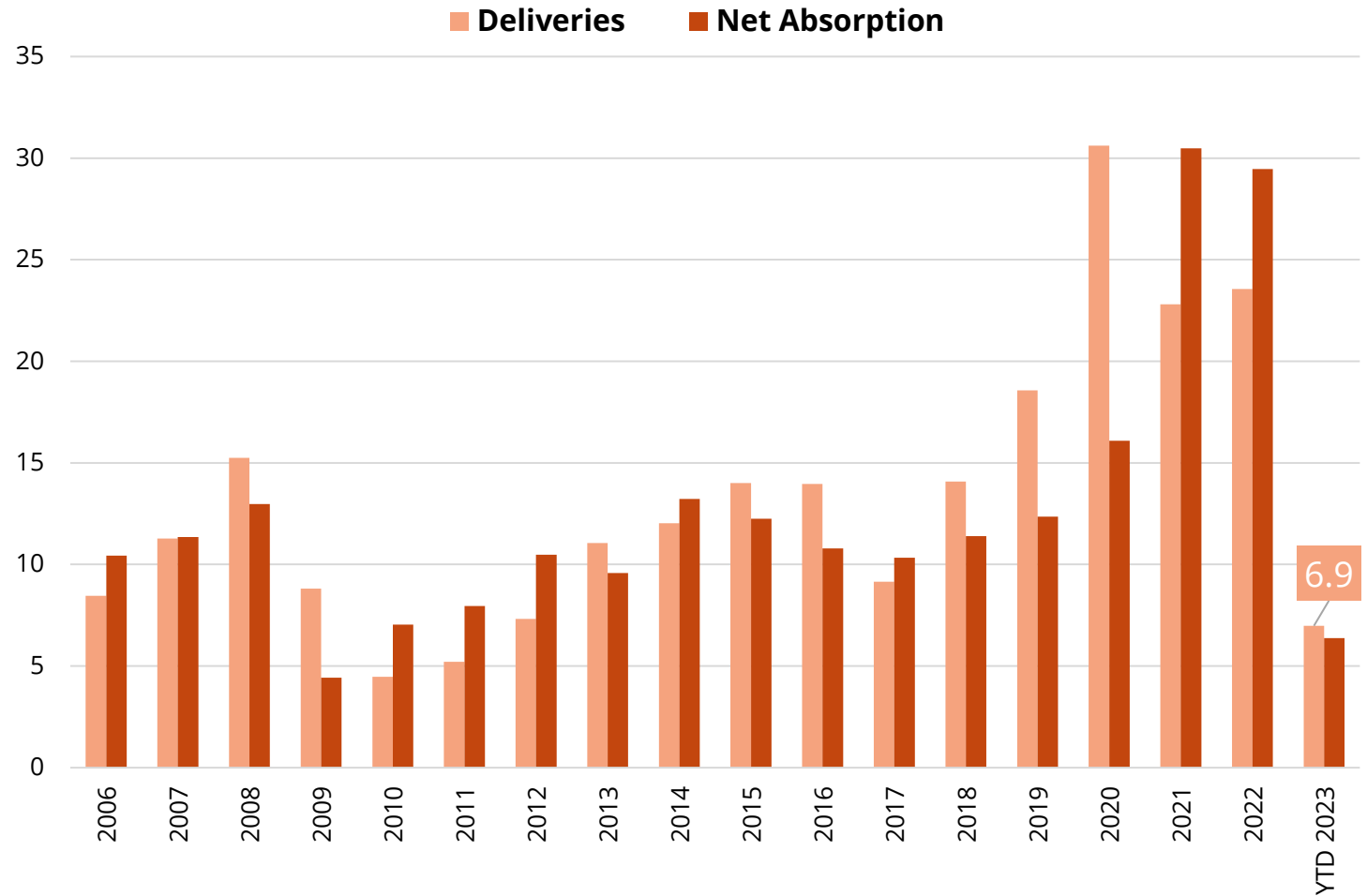
Strong positive net absorption continues to dominate, keeping vacancy rates steady, even with the addition of new inventory.

Steady vacancy rates



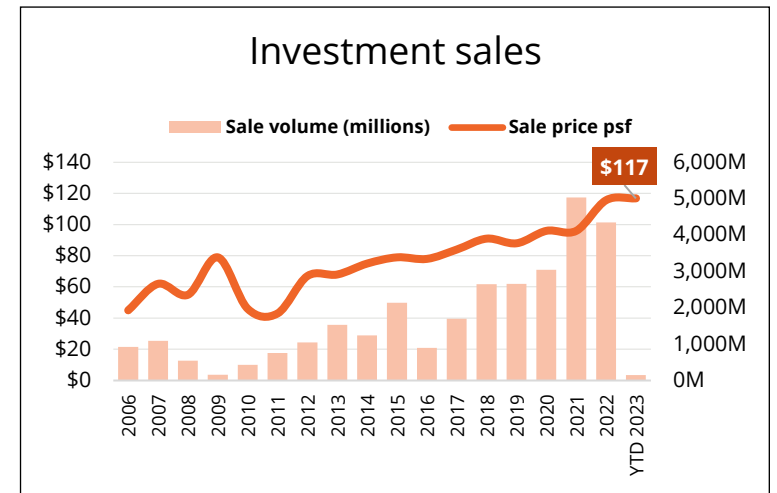
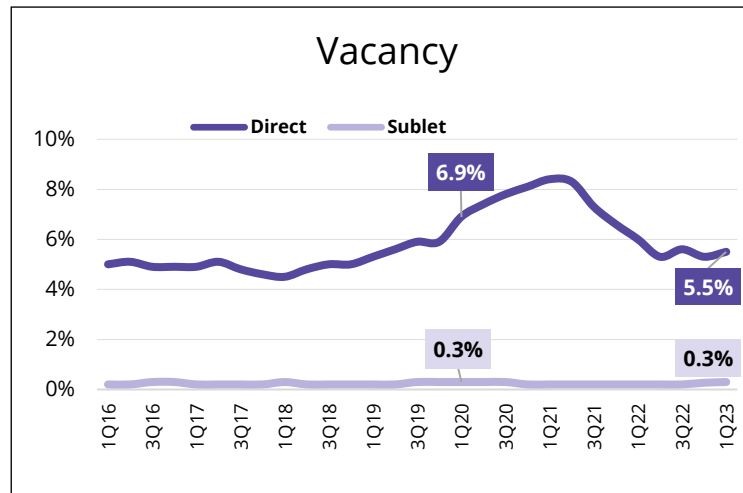
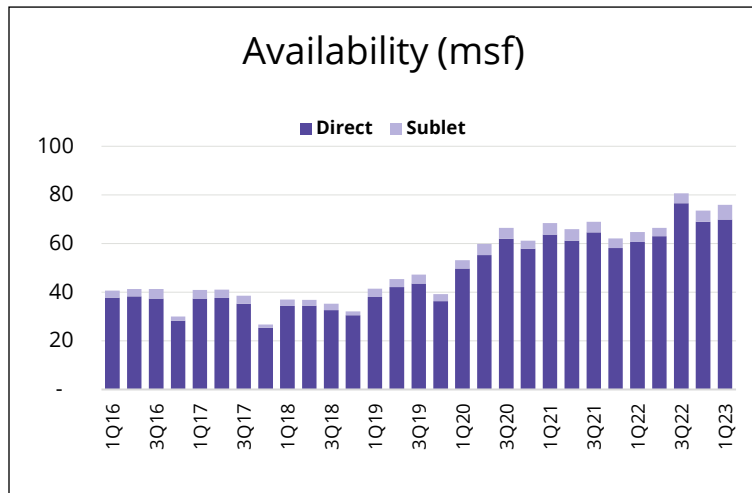
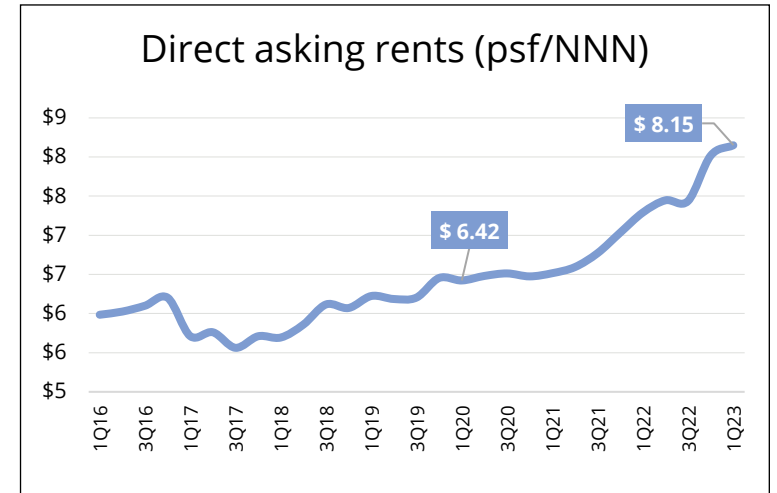
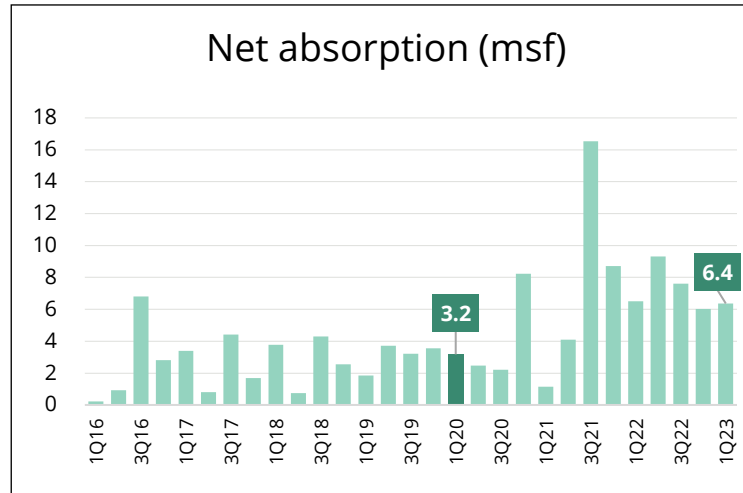
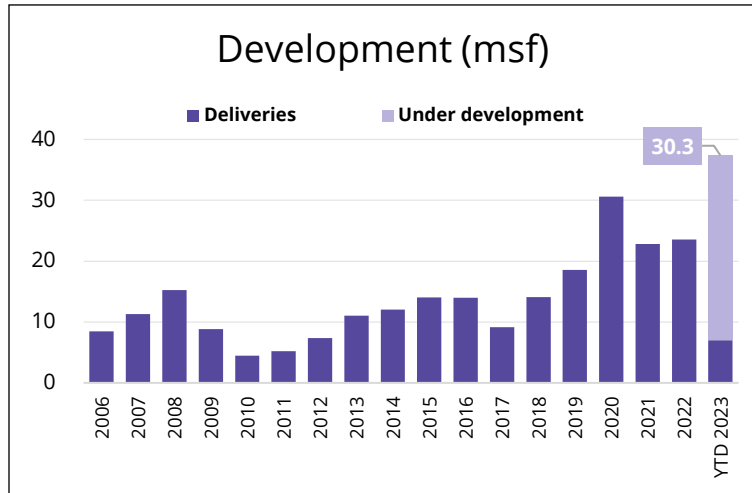
Despite a slight increase from Q4 2022, the overall vacancy rate remains 20 basis points below the 20-year average.

Construction deliveries



Developers delivered 6.9 msf in Q1 2023 slightly outpacing demand and is expected to deliver over 30.3 msf by year-end.

Houston industrial market indicators



Houston industrial market stats

Recent leasing activity

Tenant Name	Building Name	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Igloo	Woods Road Business Park Building 1	1519 Woods Road	February 2023	524,000	New	Direct	Southwest
Imperial Dade	Lone Star Logistics Park Phase 1 Building C	2720 Reed Road	March 2023	293,715	New	Direct	Southwest
Jiangsu Zhenjiang New Energy Equipment Company	12001 N Houston Rosslyn Road	12001 N Houston Rosslyn Road	February 2023	262,612	New	Direct	Northwest
Cadeco Industries	1211 Kress Street	1211 Kress Street	January 2023	258,450	New	Direct	CBD
ABC/ACM	Cypress Preserve Logistics Center Building 1	21803 Cypress Slough Drive	March 2023	257,890	New	Direct	North
Bin To Bottle	225 Logistics Center	2818 Pasadena Freeway	February 2023	249,462	New	Direct	Southeast
Maxam Tire North America	Park 845 Crossing Building E	121 Esplanade Boulevard	January 2023	244,550	New	Direct	North
Proactive Group	Bayport Distribution	5803 Old Highway 146	March 2023	227,300	New	Direct	Southeast
Berlin Packaging	Westland Business Park	13788 West Road	February 2023	219,800	Renewal	Direct	Northwest
Shaw Industries Group	Prologis Park Jersey Village Building 3/4	7301-7401 Security Way	March 2023	201,600	New	Sublease	Northwest

Top projects under development

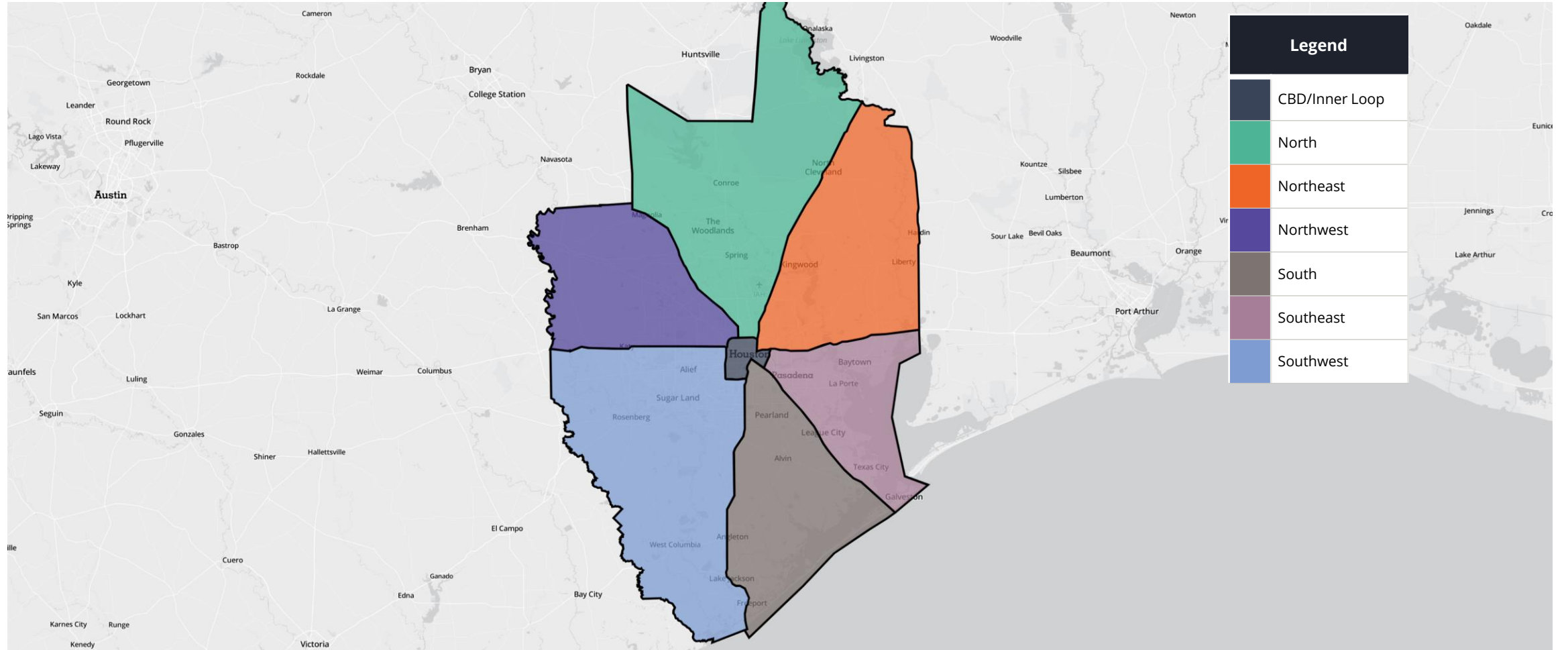
Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
NorthPort Logistics Center	Conroe Park Drive West	June 2023	1,224,498	0%	Lovett Industrial	North
TGS Cedar Port DC 4	7505 Fisher Road	April 2023	1,218,956	0%	Trans-Global Solutions	Southeast
Prologis Presidents Park Building 4	1550 Milner Road	December 2023	1,213,573	0%	Prologis	North
Beltway66 Logistics Park	5805 South Sam Houston Parkway East	December 2023	1,200,000	0%	Hillwood	South
Generation Park Lockwood Business Park	Lockwood Drive	April 2024	1,026,270	0%	Centris Industrial	Northeast

Houston industrial market stats

Submarket	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (YTD)	Direct asking rent NNN
CBD	49,896,361	-	115,450	5.1%	1.1%	6.1%	49,095	49,095	\$ 7.23
North	121,294,769	788,272	6,575,049	6.0%	0.1%	6.1%	756,005	756,005	\$ 7.01
Northeast	42,853,513	-	3,469,651	5.0%	0.0%	5.0%	(39,221)	(39,221)	\$ 5.59
Northwest	172,898,373	1,342,461	6,916,733	5.6%	0.2%	5.8%	2,474,573	2,474,573	\$ 9.18
South	32,605,013	61,688	4,347,534	2.9%	0.2%	3.0%	165,239	165,239	\$ 8.34
Southeast	119,592,376	1,731,130	7,631,568	4.4%	0.8%	5.3%	1,262,630	1,262,630	\$ 6.15
Southwest	92,116,822	3,059,478	4,835,967	7.7%	0.2%	7.9%	1,701,546	1,701,546	\$ 9.72
Market total	631,257,227	6,983,029	33,891,952	5.5%	0.3%	5.9%	6,369,867	6,369,867	\$8.15

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (YTD)	Direct asking rent NNN
Industrial	605,947,340	6,953,029	33,708,080	5.4%	0.4%	5.8%	6,241,763	6,241,763	\$8.52
Flex	29,303,927	30,000	183,872	7.6%	0.3%	7.9%	128,104	128,104	\$12.75
Market total	631,257,227	6,983,029	33,891,952	5.5%	0.3%	5.9%	6,369,867	6,369,867	\$8.15

Houston submarket map



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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