



Houston industrial market report

Q3 2023

**AVISON
YOUNG**

Houston industrial market trends

5.5 msf

Positive net absorption ticks up, but pace of growth slows

While absorption in Q3 2023 was 3.4 million square feet (msf) higher than in Q3 2022, it is important to note that net absorption has been trending downward after its peak in 2020 and has dipped by 9% year-to-date. This indicates a moderation in the pace of demand, as 2021–22 saw exceptionally high and record-breaking absorption driven by e-commerce. The Southeast submarket leads in absorption, followed by the Northwest, with 1.4 msf and 1.3 msf, respectively.

21.8 msf

Construction starts decline as supply outpaces demand

Construction has slowed down significantly, with new construction starts down 87% from their peak in 2022. Despite the slowdown, there is still 21.8 msf underway, with 12.6 msf expected to be completed by the end of 2023.

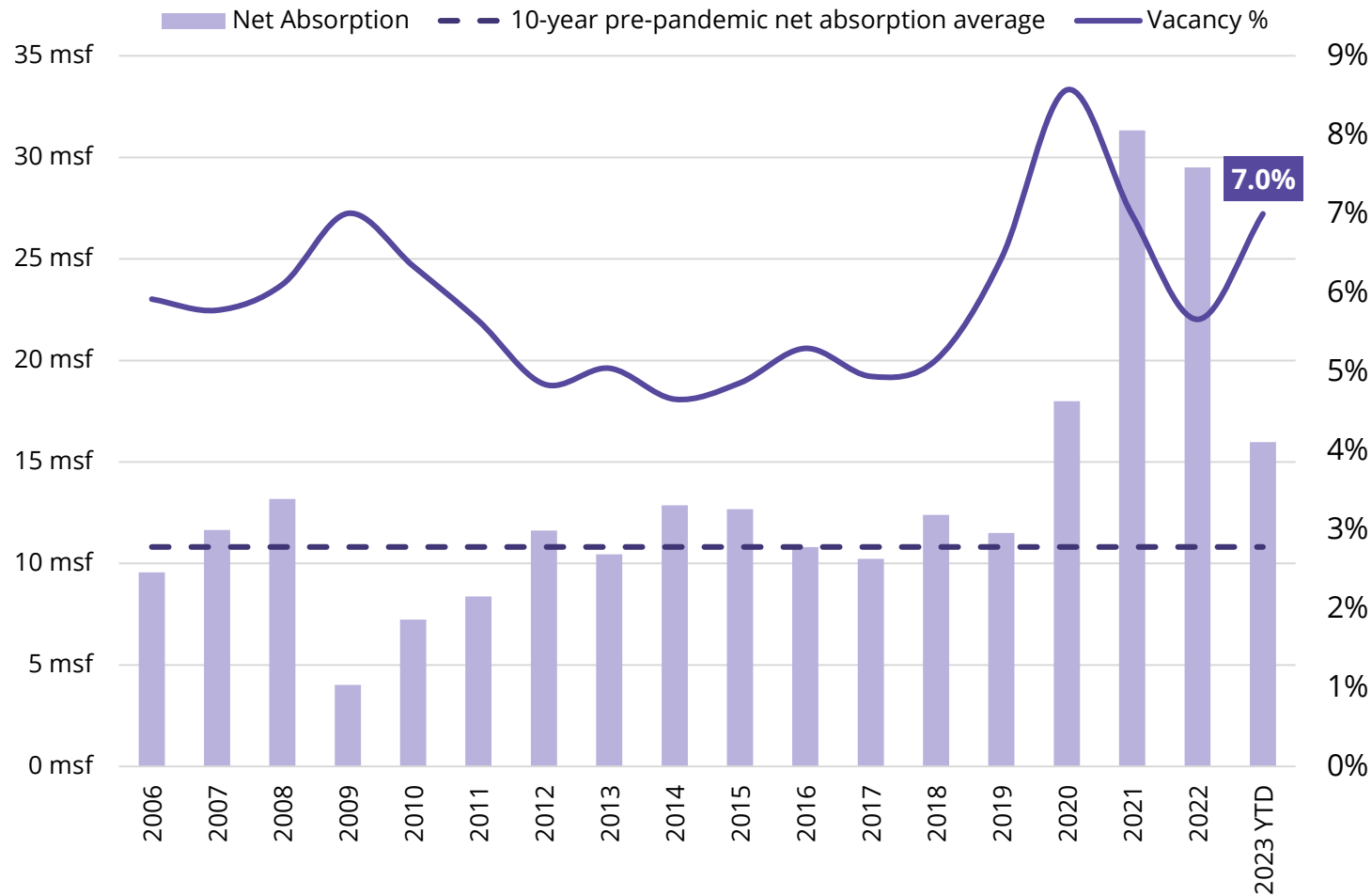
The largest share of projects currently underway are buildings over 750k sf, accounting for 37% of the pipeline. Buildings between 250k and 500k sf account for another 25% of the pipeline. The largest delivery in Q3 2023 was the speculative distribution building TGS Cedar Port DC 4 at over 1.2 msf.

7.0%

Vacancy rises with new product and slower demand

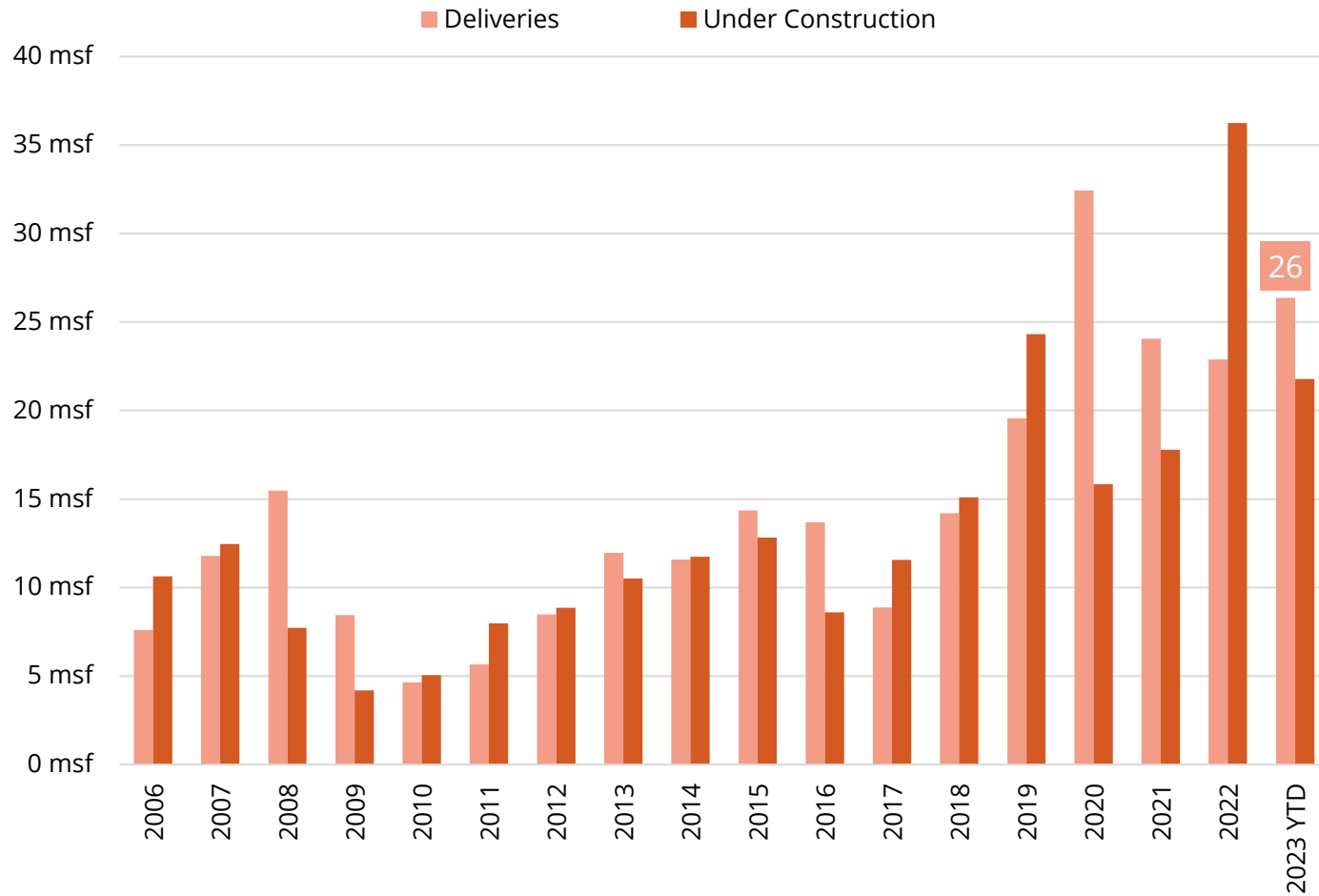
With 9.8 msf of new product added in 3Q 2023 and demand returning to pre-pandemic levels, vacancy rates have risen. Total vacancy remains well below its 2020 peak of 8.6% but is 90 basis points above the 10-year average. Buildings between 500k and 750k sf have the smallest share of inventory yet the highest vacancy rate, while buildings between 50k and 100k sf have the lowest. The absorption of the new space will be gradual, as the pace of demand is influenced by increased financing costs from inflation and high interest rates.

Net absorption vs. vacancy



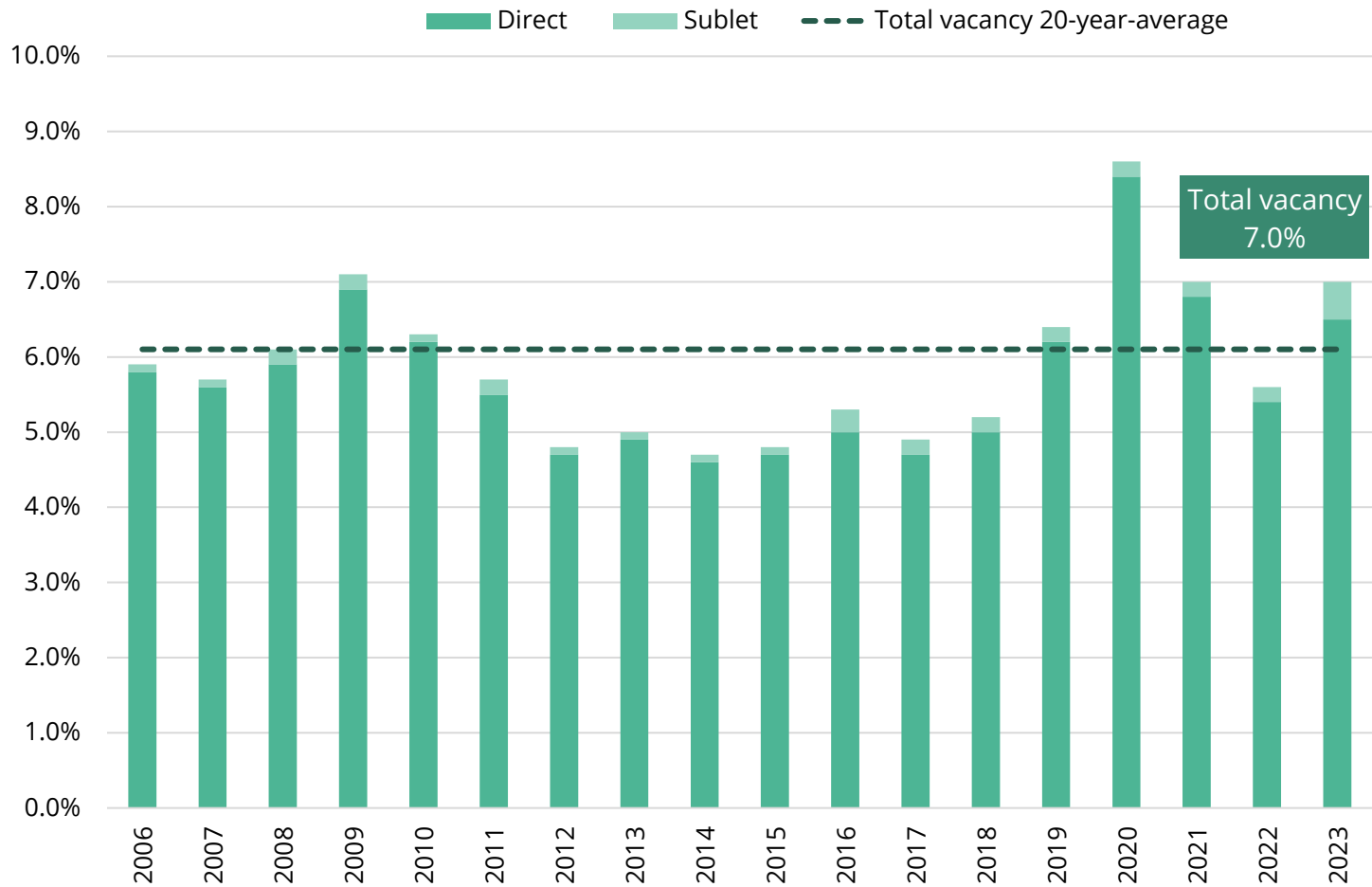
Amid rising interest rates, tightening lending standards, and cooling leasing demand, net absorption is slowing down to pre-pandemic levels.

Construction slows, but outpaces demand



The industrial construction pipeline has receded with the delivery of 10 msf in Q3, with an additional 12.6 msf slated to be completed by the end of 2023.

Vacancy trends upward with new product



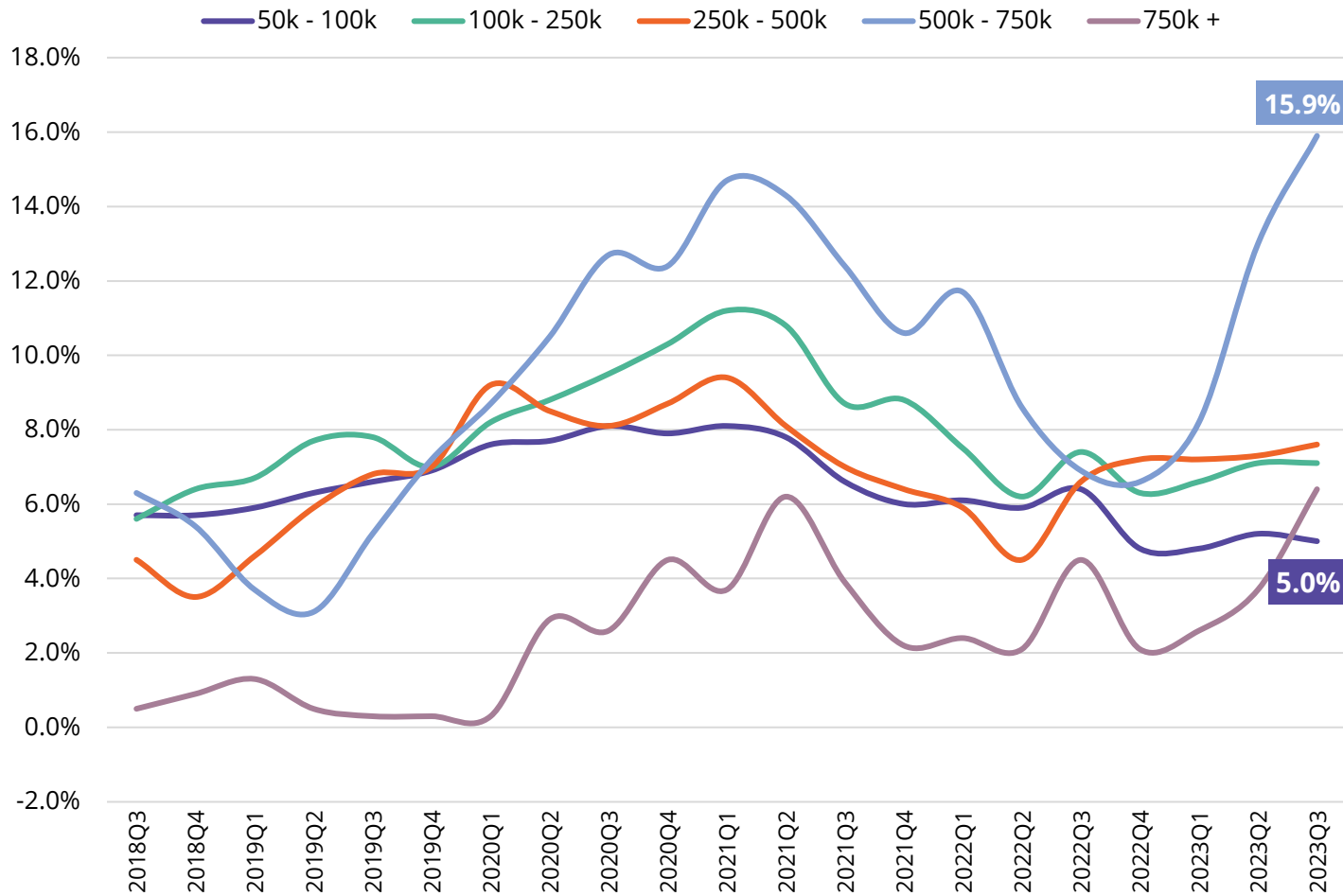
The total vacancy rate has risen 140 basis points since year-end 2022, due to a substantial influx of newly completed construction projects.

Occupier market conditions

The Market Pulse: Tracking Employment, Industrial Vacancy, and activity at the Houston Port

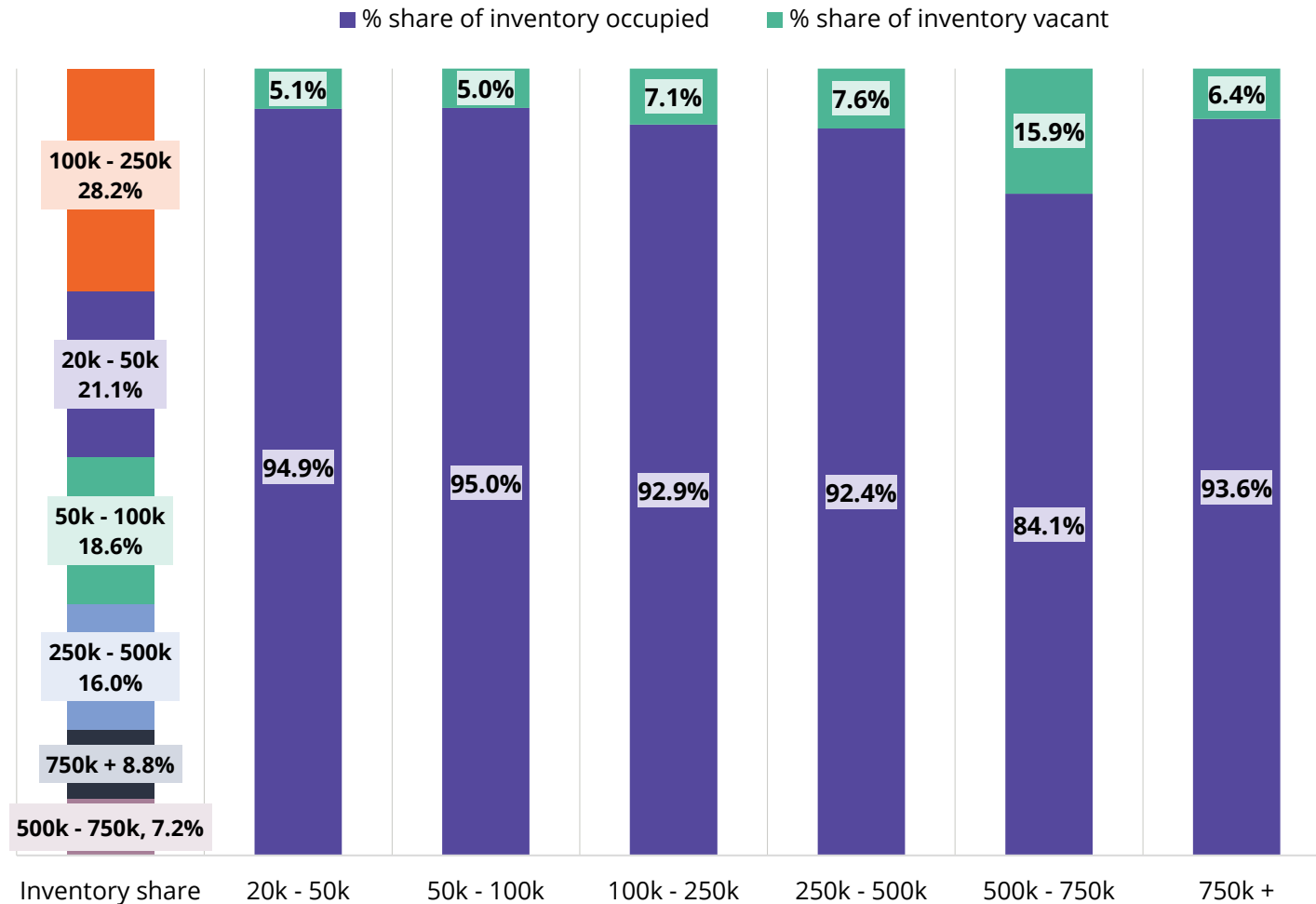


Total vacancy rate by building size



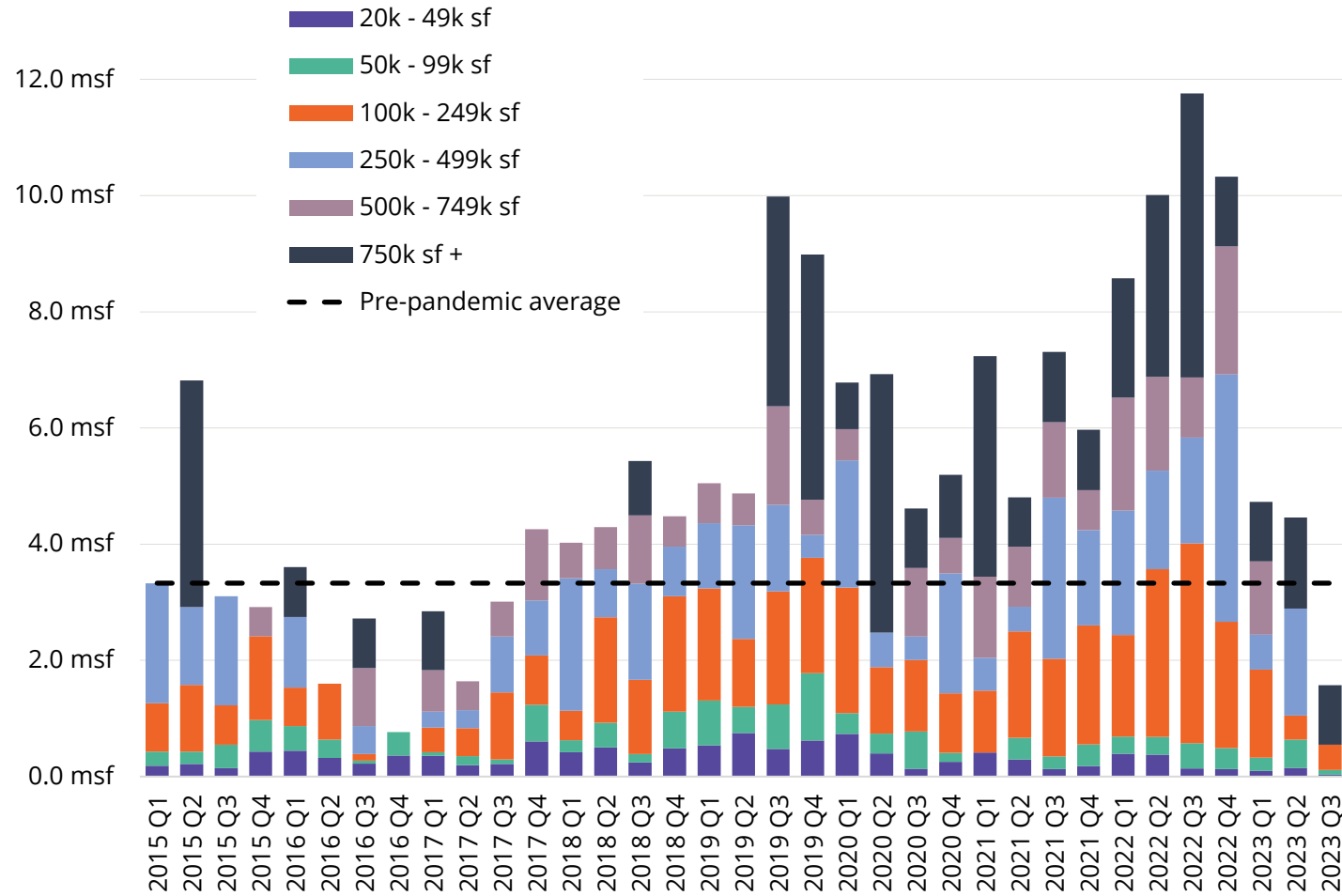
Vacancy rates are highest in buildings with 500k to 750k sf at 15.9% and lowest in smaller buildings with 50k to 100k sf at 5%.

Building size and vacancy



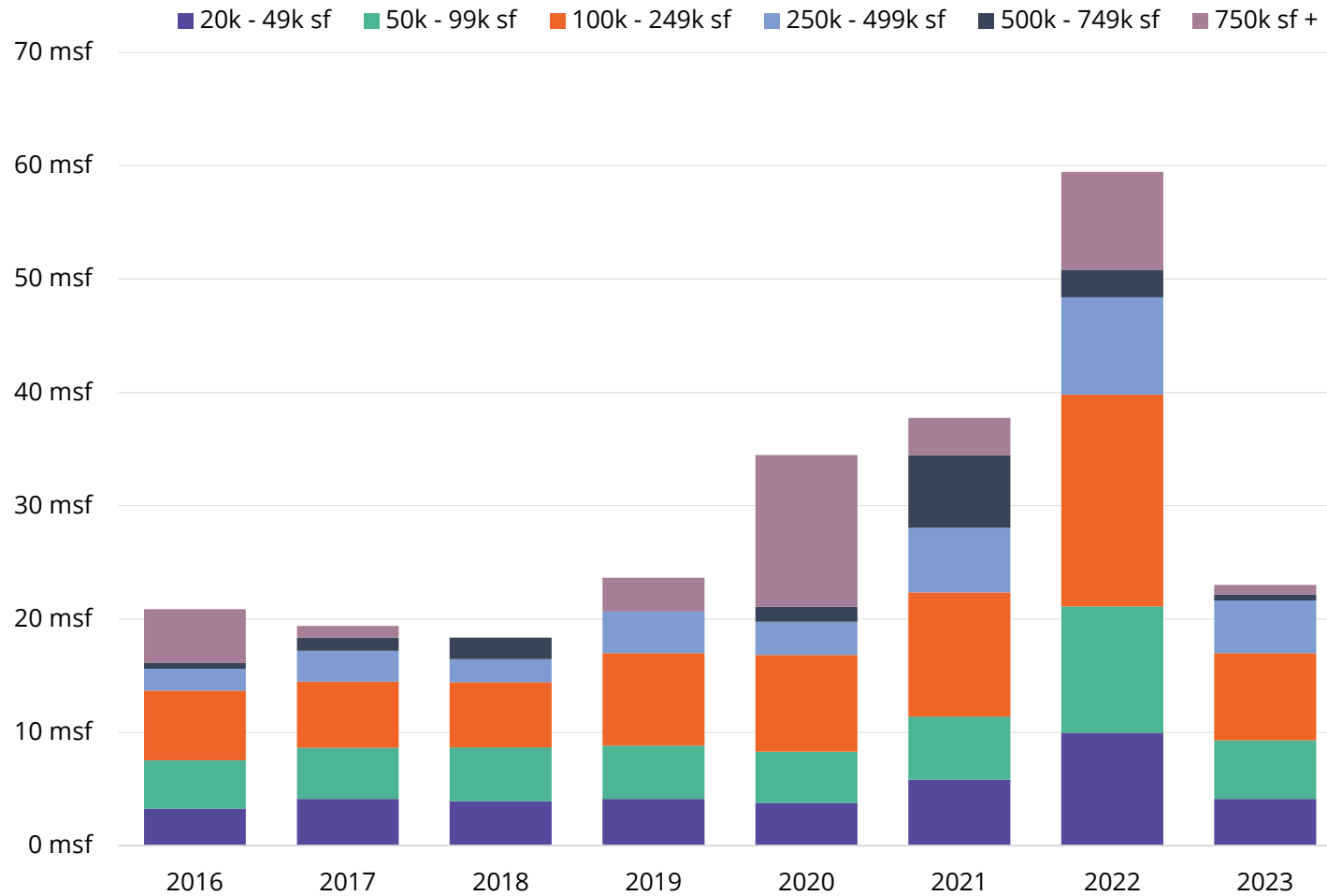
Buildings over 500k sf make up just 16% of the market inventory, and account for 16% of all vacant space, largely due to new construction.

New construction ground-breakings



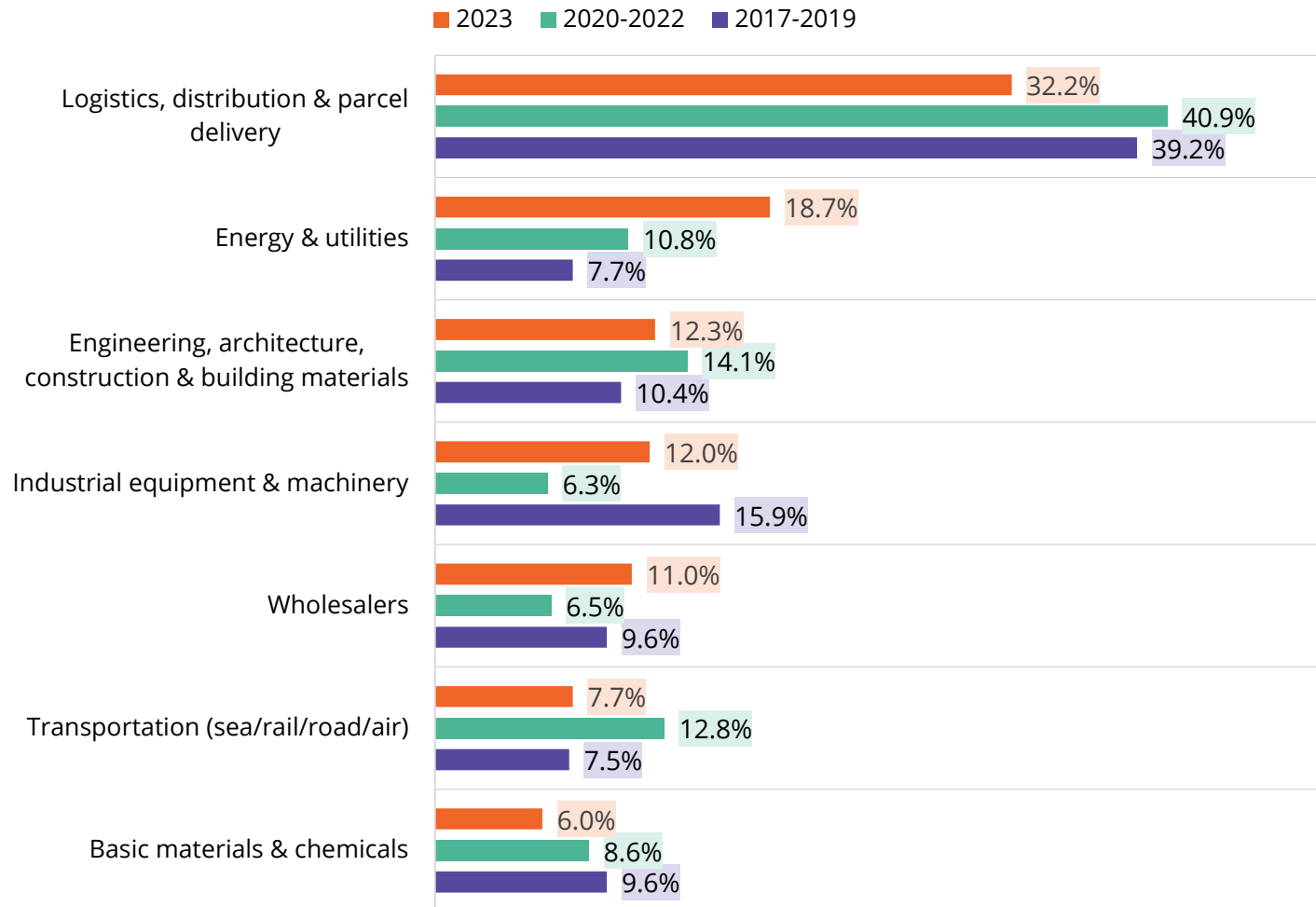
New industrial construction starts have plummeted 87% from their peak in 2022, and new projects are likely to be delayed or cancelled.

Leasing volume



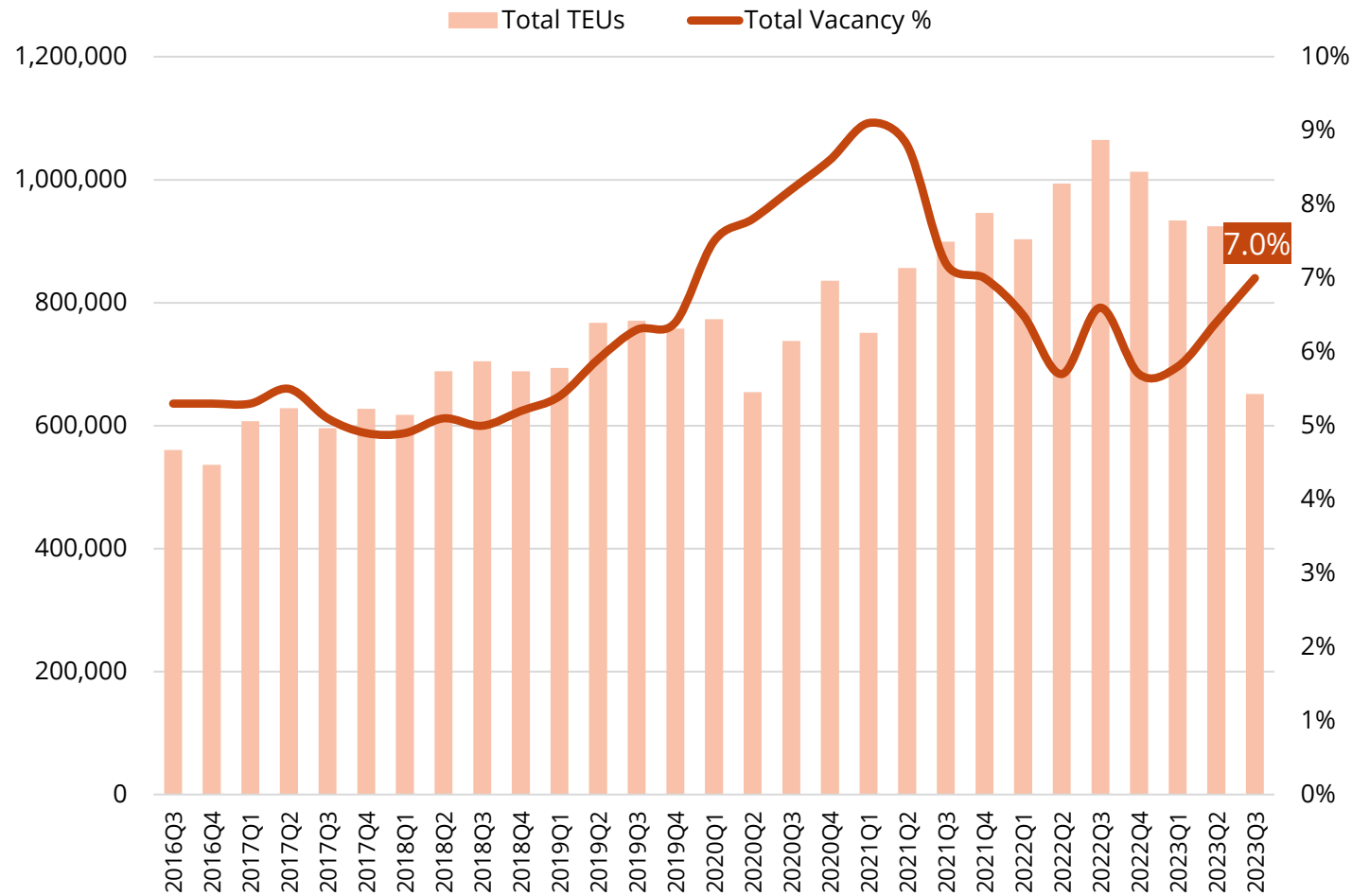
Leasing demand has plummeted 45% year-to-date in 2023, compared to record highs in 2022, as the market normalizes to pre-pandemic levels.

Leasing activity by industry sector



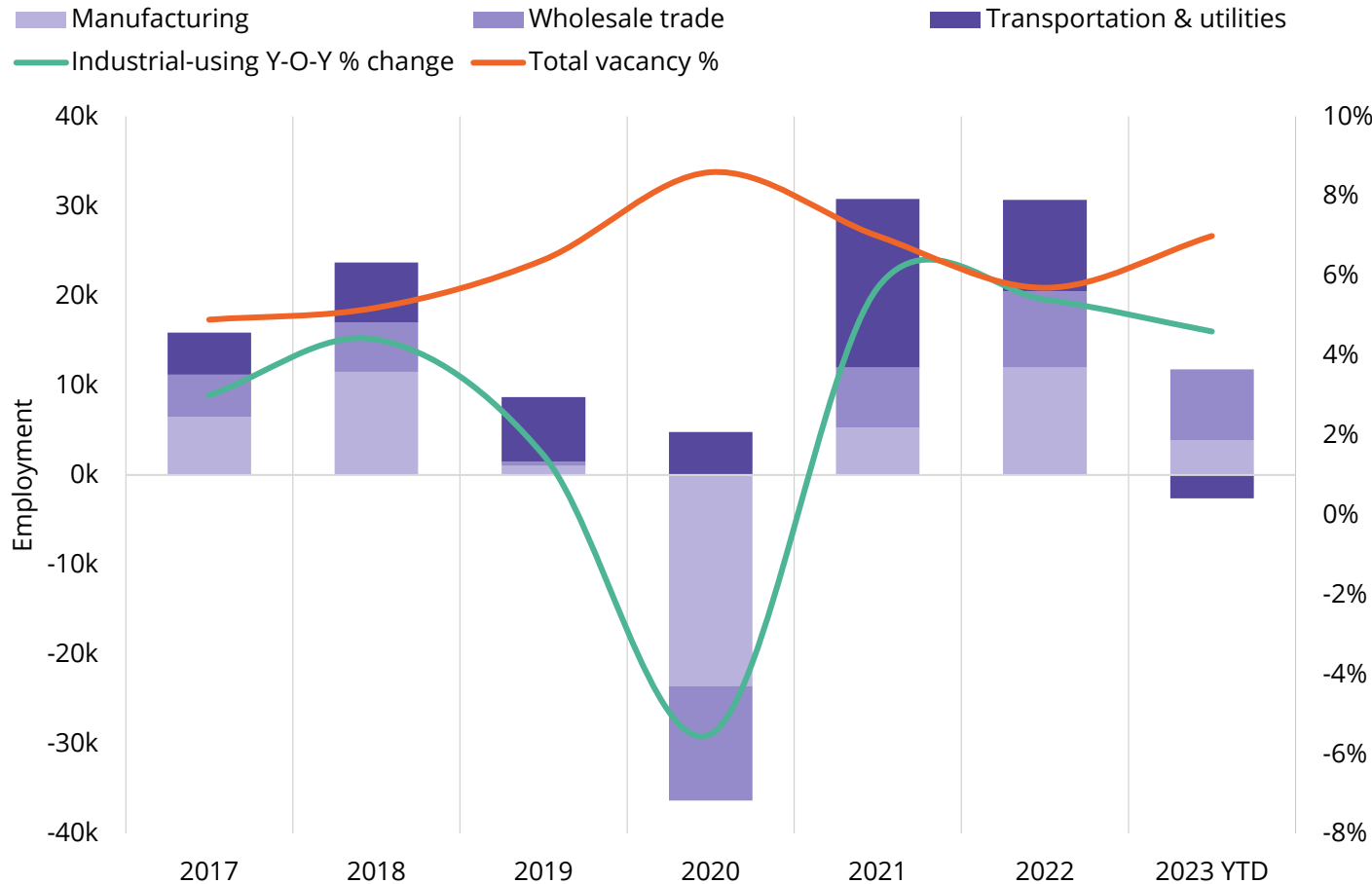
Logistics, distribution, and parcel delivery tenants account for 32% of the YTD leasing volume, followed by energy-related tenants with a 19% share.

Houston port activity and vacancy



Container traffic fell 20% from its record high last August, down just 4% from last year, largely due to a decline in empty container traffic.

Houston industrial employment

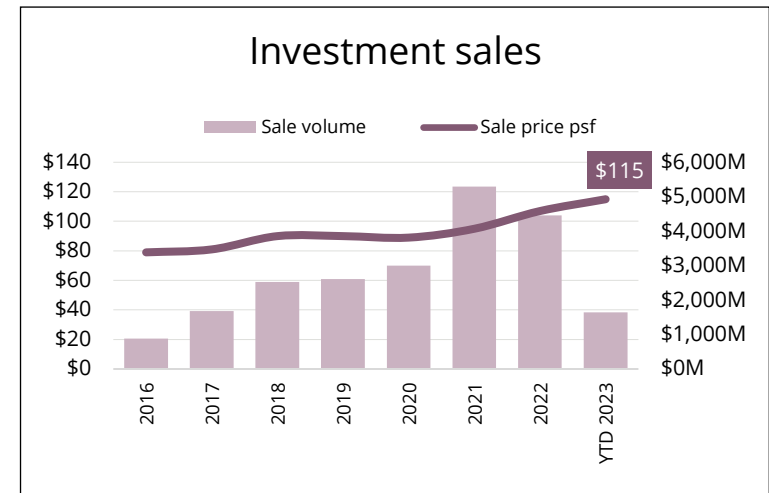
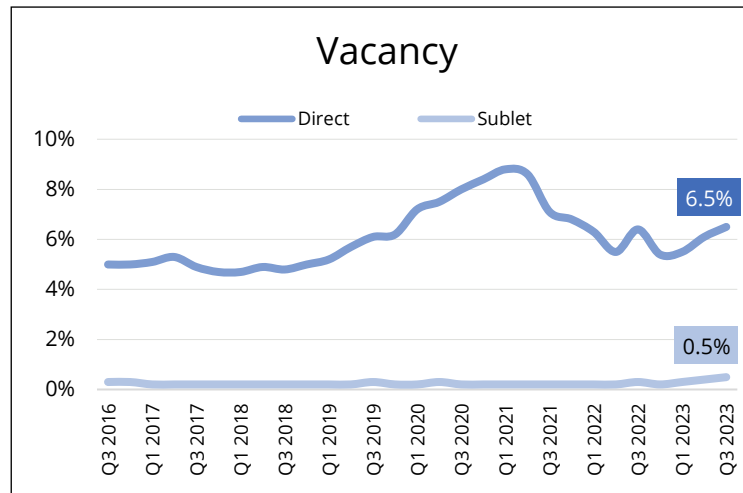
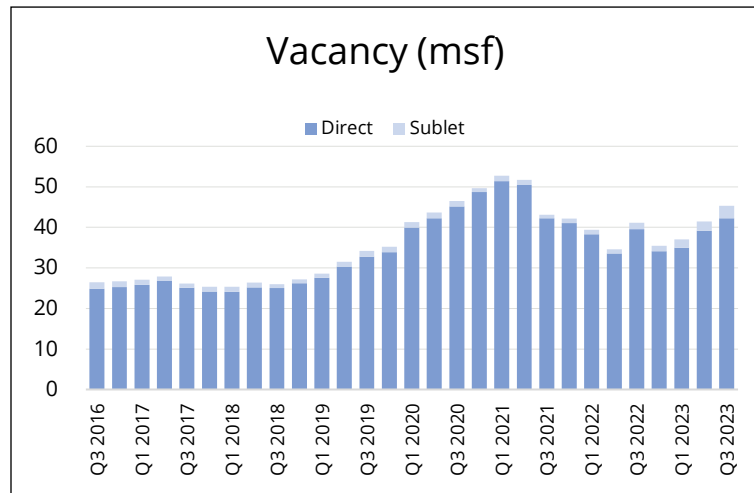
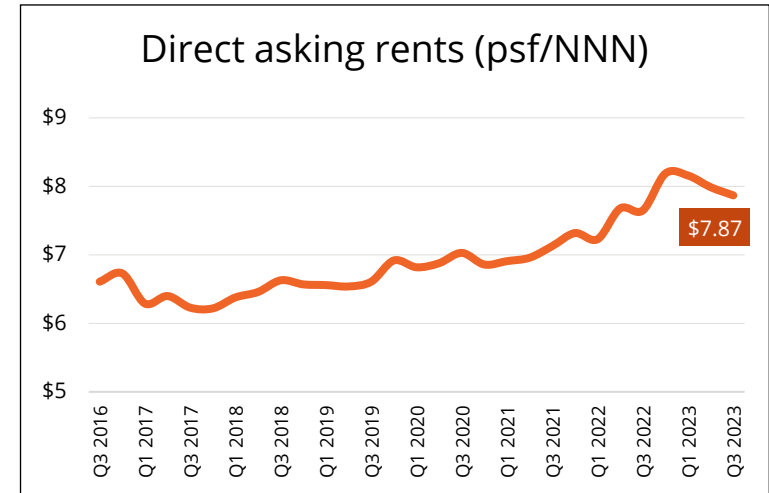
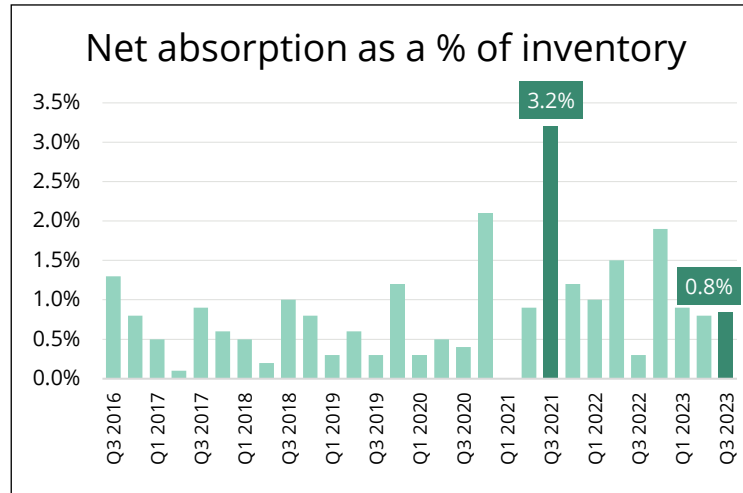
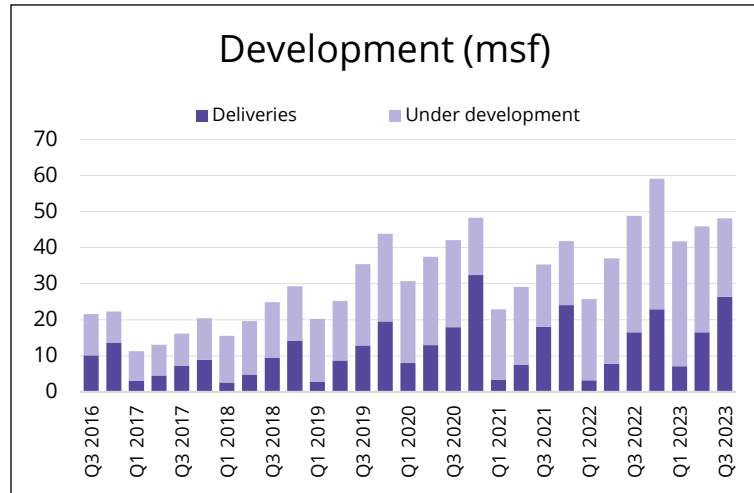


Houston industrial-using employment growth is returning to normal levels, while new product added to the market has pushed vacancy higher.

Appendix



Houston industrial market indicators



Houston industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Distribution Alternatives	30815 Kingsland Blvd	Southwest	August 2023	855,610	New	Direct
Technip	1777-1803 Gears Rd	North	July 2023	462,717	New	Sublease
Elin	2270 Twinwood Parkway	Southwest	July 2023	224,640	New	Direct
Hotline Logistics	9335 McKay Center Dr	North	July 2023	209,592	New	Direct
G&C Automotive Distributors	1111-1113 Gillingham Ln	Southwest	August 2023	171,000	New	Direct
Power Electronics	431 E Airtex Dr	North	August 2023	166,250	New	Direct
Packwell	9770 New Century Dr	Southeast	July 2023	156,250	Expansion	Direct
Lecangs	4660 S Sam Houston Parkway W	Southwest	August 2023	133,120	New	Direct
Weatherford	15450 Diplomatic Plaza Dr	North	August 2023	125,120	New	Direct
DSV	16605 Air Center Blvd	North	August 2023	114,400	New	Direct

Top projects under development

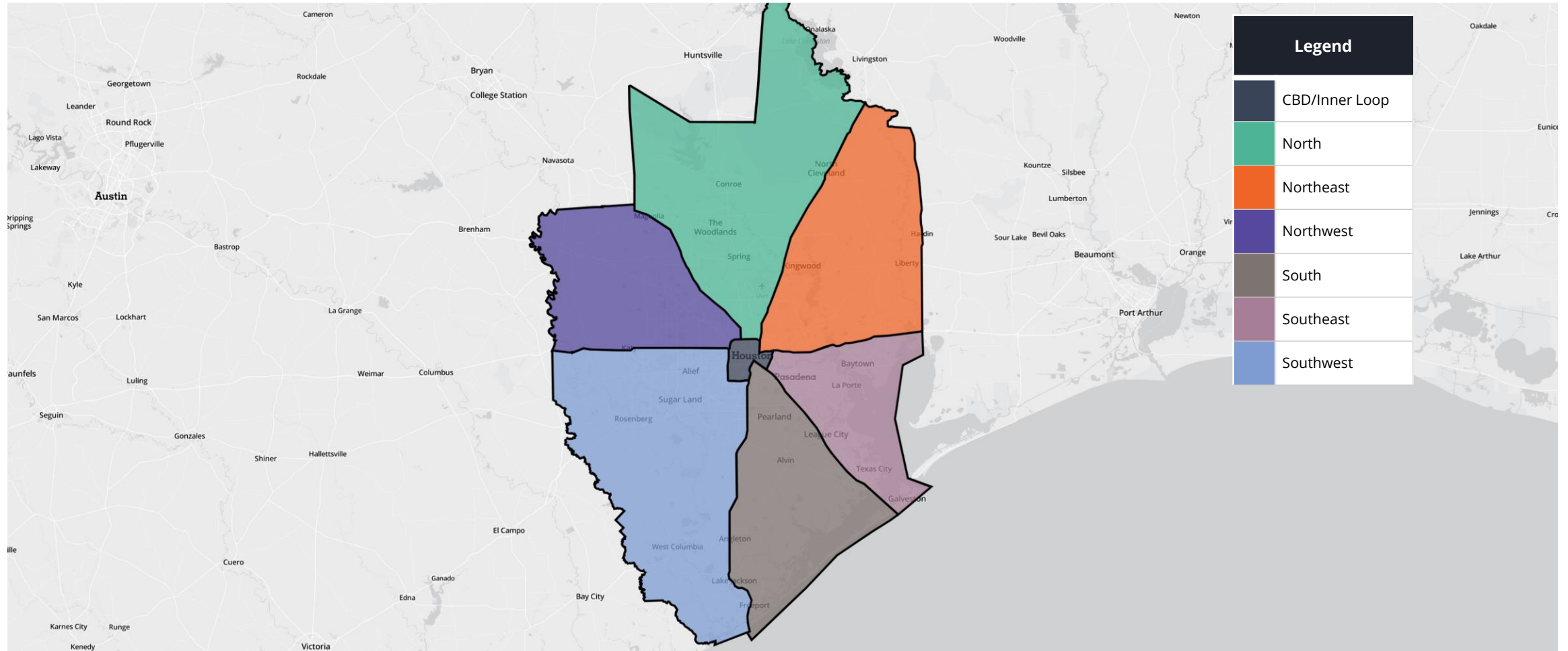
Project name	Submarket	Delivery date	Building size sf	% Preleased	Developer
NorthPort Logistics Center	North	November 2023	1,224,498	0%	Lovett Industrial
Prologis Presidents Park Building 4	North	December 2023	1,213,573	0%	Prologis
5805 South Sam Houston Parkway East	South	December 2023	1,200,000	100%	Hillwood
Port 99 Logistics Building 1	Southeast	July 2024	1,027,490	0%	Provident Realty Advisors, Angler Construction
Generation Park Lockwood Business Park	Northeast	October 2023	1,026,270	0%	Centris Industrial

Houston industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q3 2023)	Net absorption sf (YTD)	Annual direct asking rent psf NNN
CBD	49,302,005	-	192,710	4.1%	0.3%	4.3%	147,667	(70,837)	\$ 6.23
North	124,605,041	3,819,594	4,547,311	6.2%	0.6%	6.8%	452,344	1,904,877	\$ 8.03
Northeast	45,523,258	1,566,510	3,065,079	7.0%	0.1%	7.1%	242,913	670,548	\$ 5.44
Northwest	177,166,999	6,284,581	2,054,111	6.9%	0.3%	7.1%	1,281,566	4,939,183	\$ 9.29
South	34,798,113	2,176,862	2,594,705	3.6%	0.5%	4.1%	1,207,622	1,737,653	\$ 8.09
Southeast	123,758,917	7,393,683	5,286,015	6.3%	0.9%	7.1%	1,355,618	4,185,501	\$ 6.63
Southwest	97,679,998	5,122,103	4,035,969	8.4%	0.4%	8.8%	817,894	2,614,897	\$ 9.14
Market total	652,834,331	26,363,333	21,775,900	6.5%	0.5%	7.0%	5,505,624	15,981,822	\$7.87

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q3 2023)	Net absorption sf (YTD)	Annual direct asking rent psf NNN
General Warehouse	352,266,295	12,679,796	10,112,790	5.5%	0.5%	6.0%	4,002,844	8,602,309	\$8.00
Distribution	169,600,237	13,405,691	10,494,521	11.3%	0.4%	11.7%	1,982,523	7,385,530	\$6.42
Manufacturing	99,131,246	215,974	1,168,589	2.0%	0.1%	2.1%	67,185	463,294	\$8.61
Office Showroom	24,508,781	61,872	-	7.7%	2.6%	10.3%	(523,321)	(633,593)	\$9.62
R&D	7,327,772	-	-	5.0%	0.0%	5.0%	(23,607)	164,282	\$11.51
Market total	652,834,331	26,363,333	21,775,900	6.5%	0.5%	7.0%	5,505,624	15,981,822	\$7.87

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)

Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

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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Ariel Guerrero

Manager
Market Intelligence
+1 713 209 5704

Carol JeanLouis

Analyst
Market Intelligence
+1 713 209 5725

Wade Bowlin

Principal
Managing Director
+1 713 209 5753

Drew Coupe, SIOR

Principal
Occupier Solutions
+1 713 993 7832

Rand Stephens, SIOR

Principal
Occupier Solutions
+1 713 993 7810

Darrell L. Betts, CCIM

Principal
Capital Markets
+1 713 993 7704