



Houston industrial market report

Q4 2023

**AVISON
YOUNG**

Houston industrial market trends

19.5 msf

Positive net absorption cools off, but remains robust

Total net absorption for 2023 registered 19.5 million square feet (msf), a 39% decline from the 2021 peak, reflecting a return to pre-pandemic levels. While the fourth quarter of 2023 saw a steeper decline of 58% compared to Q3, this trend shouldn't raise alarm bells. Instead, it signifies a welcome correction after the extraordinary pandemic e-commerce-driven surge. This stabilization suggests a healthy and sustainable trajectory for the industrial sector, laying the groundwork for long-term growth built on solid fundamentals.

32.4 msf

Record completions overshadow market cool down

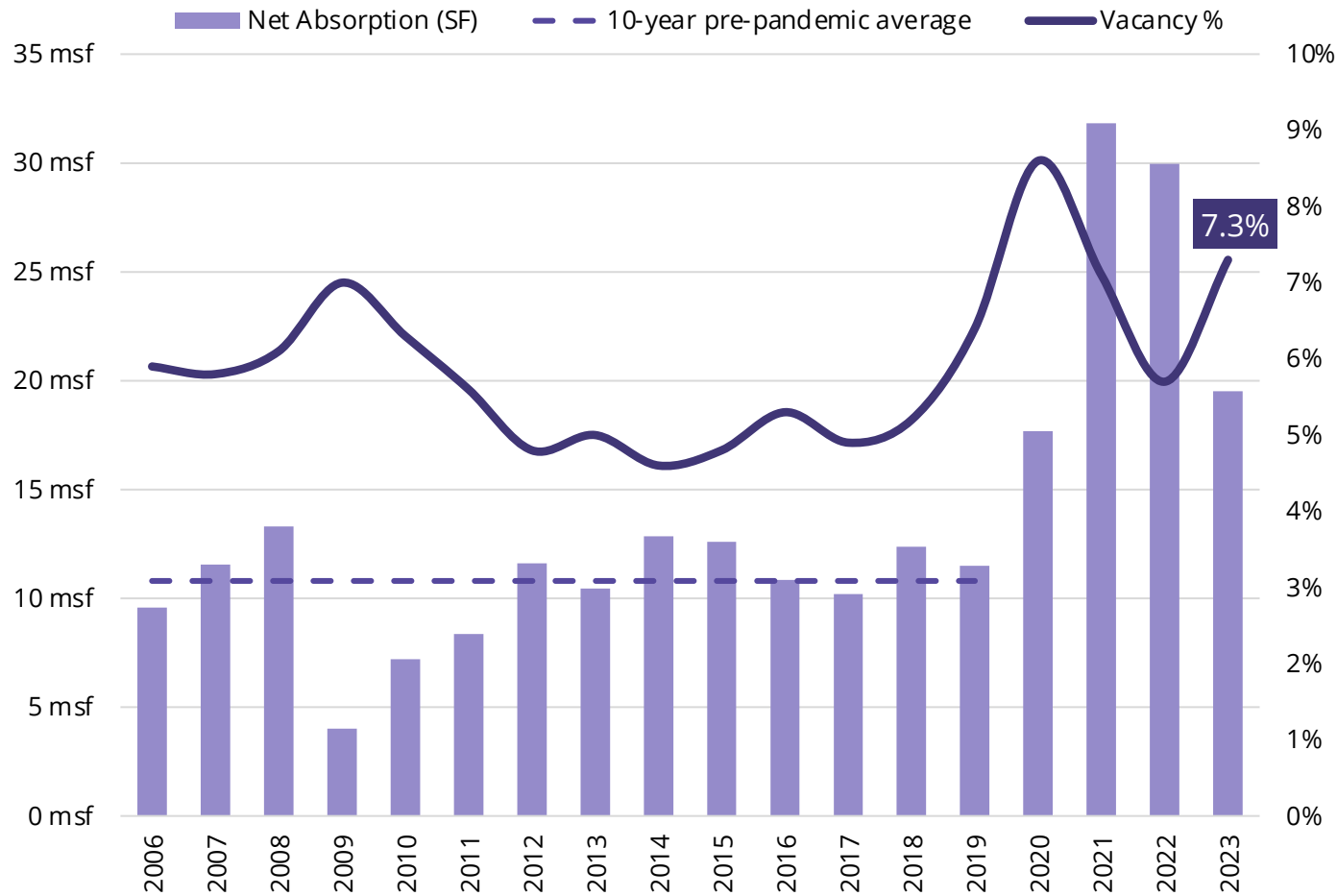
In 2023, construction activity experienced a dramatic surge, with project completions soaring by a staggering 41% compared to 2022. This resulted in a record-breaking 32.4 msf of new space added in 2023, slightly surpassing the previous record set in 2020 by only 8k sf. However, this period of intense activity has decreased the under-development pipeline, which now stands at 20 msf. With slower occupier demand, this trend is expected to continue, with some projects likely being placed on hold for future development.

7.3%

New product completions push vacancy higher

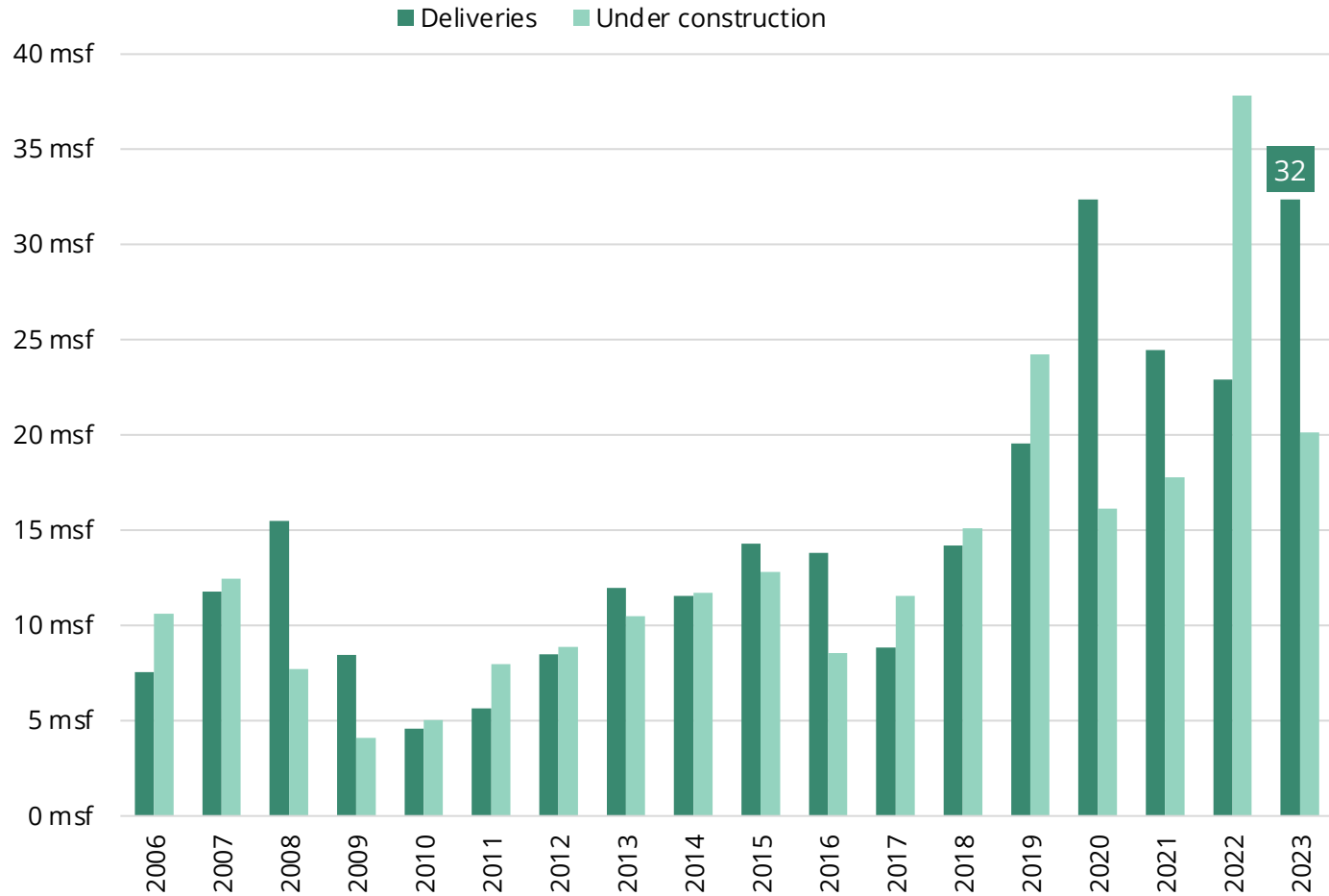
The significant influx of new industrial construction deliveries has pushed the total vacancy rate up 170 basis points year-over-year to 7.3% but remains below its peak in 2020. Leasing activity has moderated but remains robust with over 37 msf leased in 2023. This strong leasing, coupled with sustained job and overall population growth, underscores the market's underlying health and indicates strong potential for future absorption as new construction comes online to meet future demand for industrial space.

Net absorption vs. vacancy



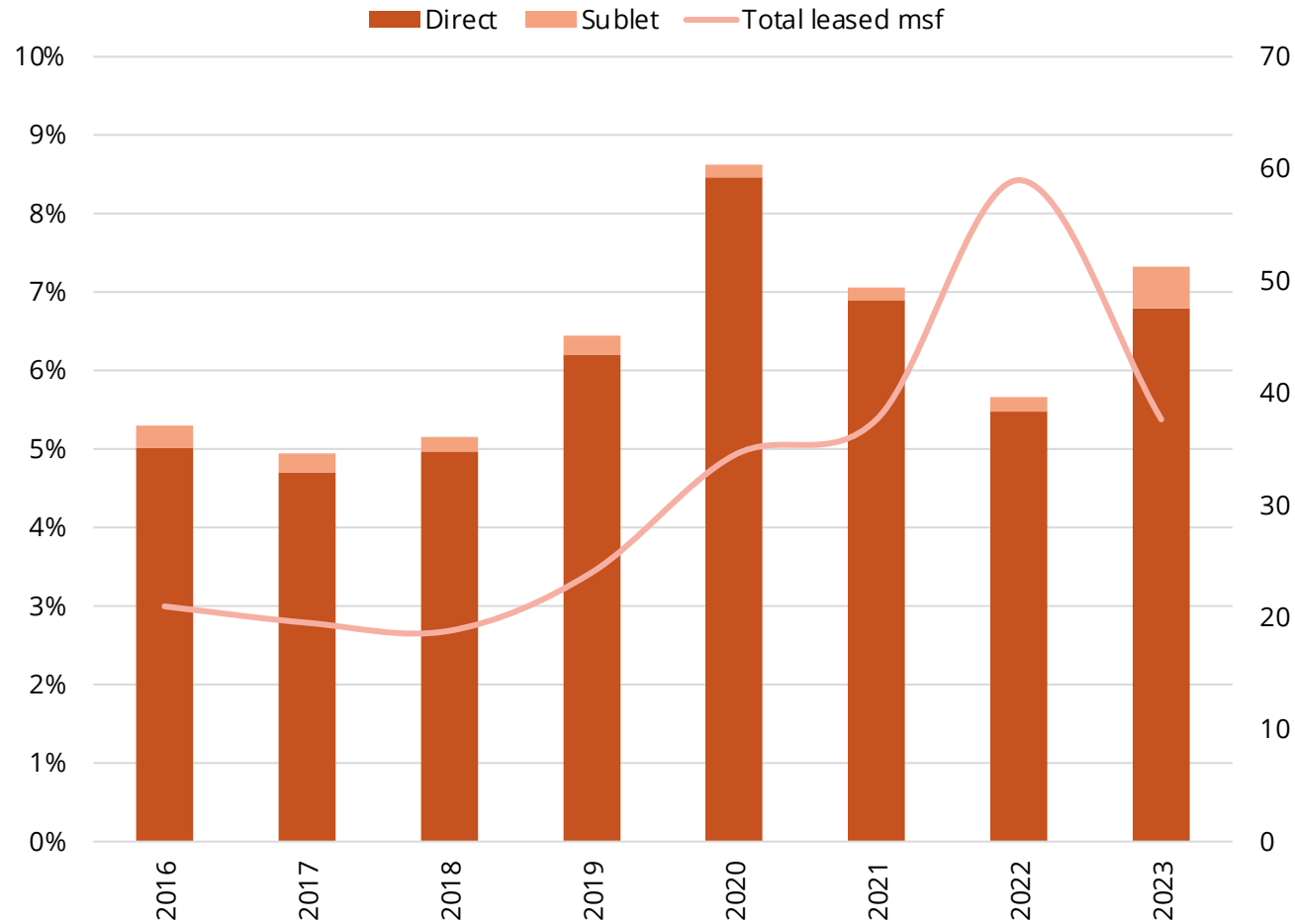
Even though occupier demand has cooled down over the past two years, net absorption remains robust well above the 10-year pre-pandemic average.

Record-breaking deliveries



The industrial construction pipeline continues to recede with the delivery of 4.6 msf in Q4, bringing the year-end total to a record-high 32.4 msf.

Construction deliveries push vacancy higher



The total vacancy rate has risen 170 basis points since year-end 2022, due to a substantial influx of newly completed construction projects.

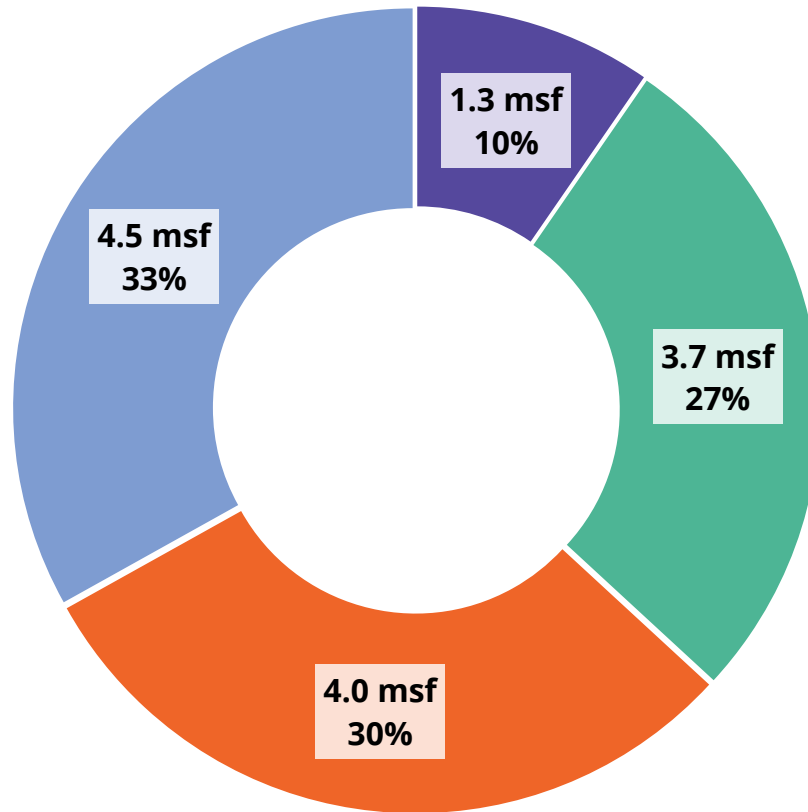
Occupier market conditions

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



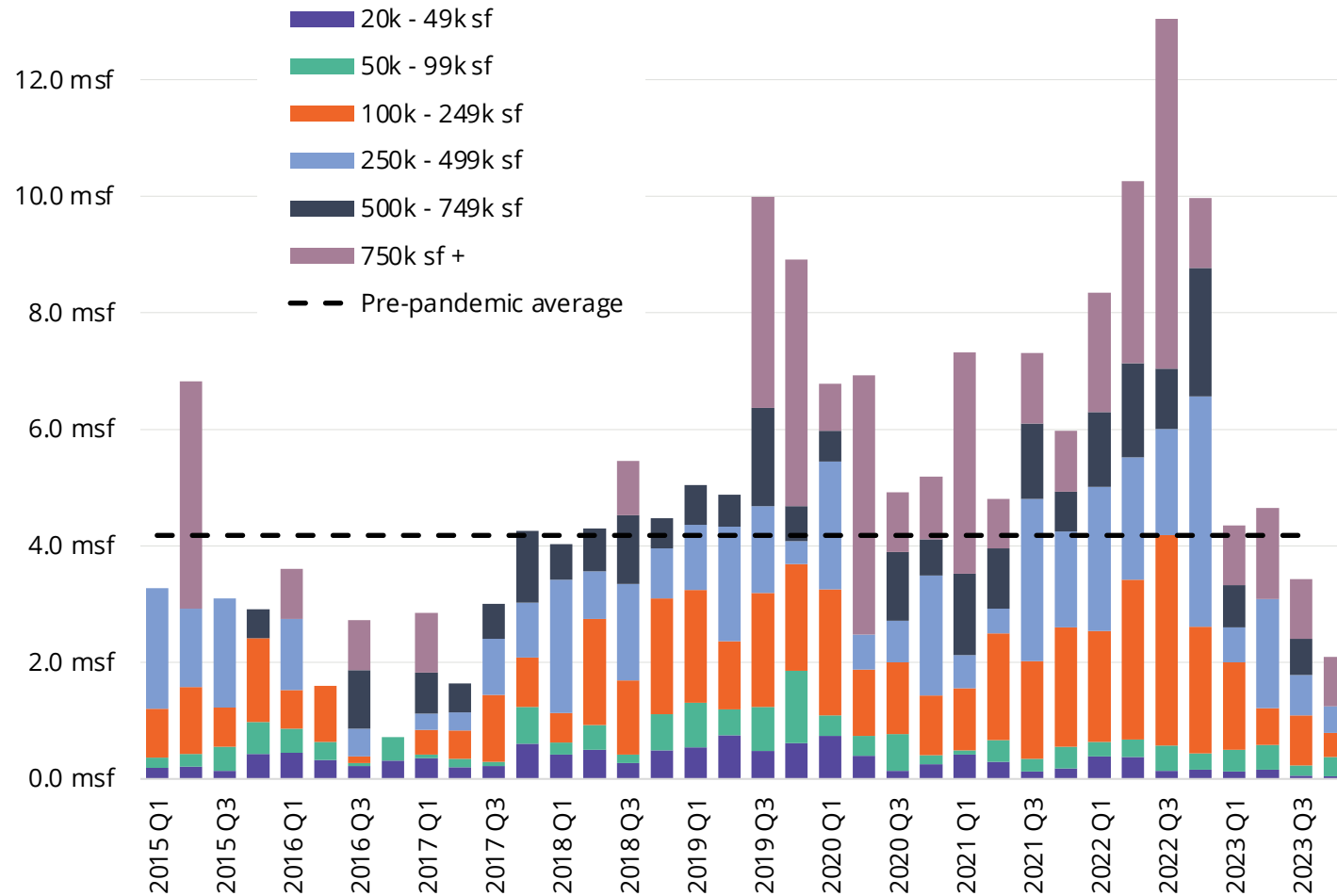
Under construction by building size

■ under 100k sf ■ 100k-199k sf ■ 200k-499k sf ■ 500k+



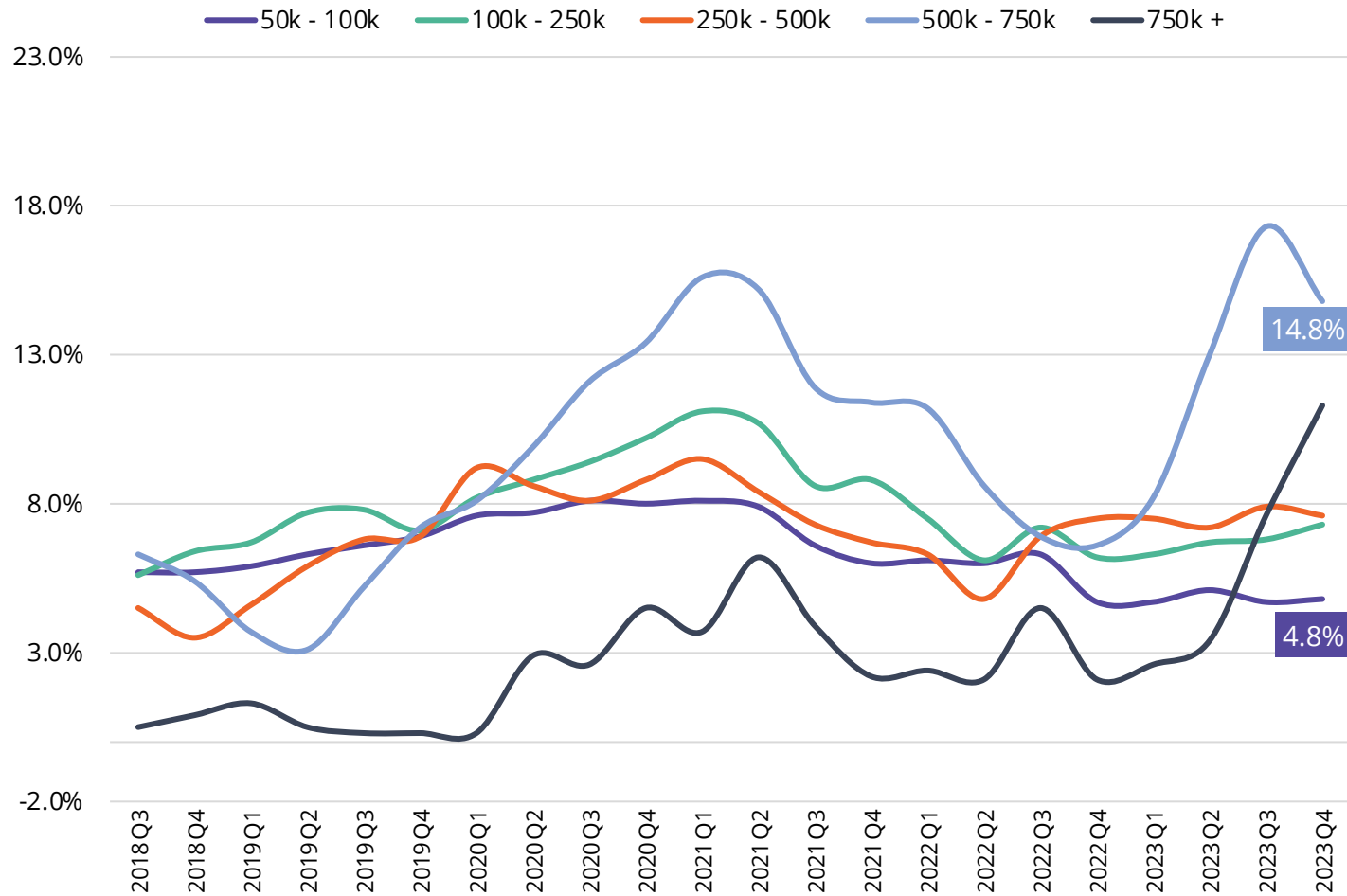
Pandemic-fueled mega-developments mask a potential future shortage of newly constructed spaces under 100k sf limiting the options for small to medium-sized tenants in 12 to 18 months.

New construction ground-breakings



New industrial construction starts have plummeted 74% from their peak in 2022, and new projects are likely to be delayed or cancelled.

Total vacancy rate by building size

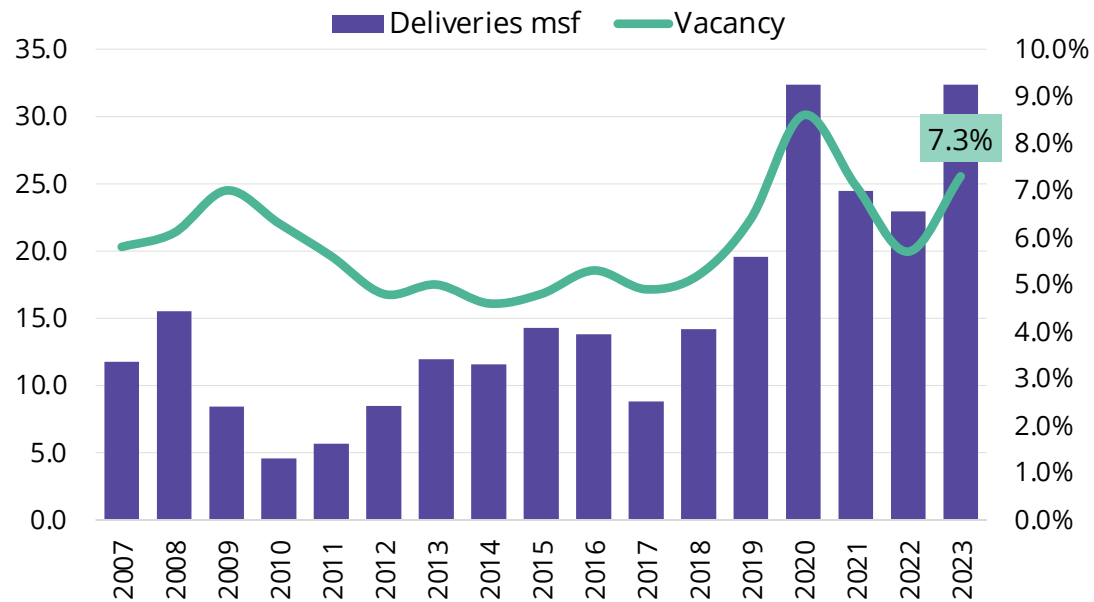


Vacancy rates remain the highest in larger buildings with 500k to 750k sf at 14.8% and lowest in smaller buildings with 50k to 100k sf at 4.8%.

New construction drives vacancy higher

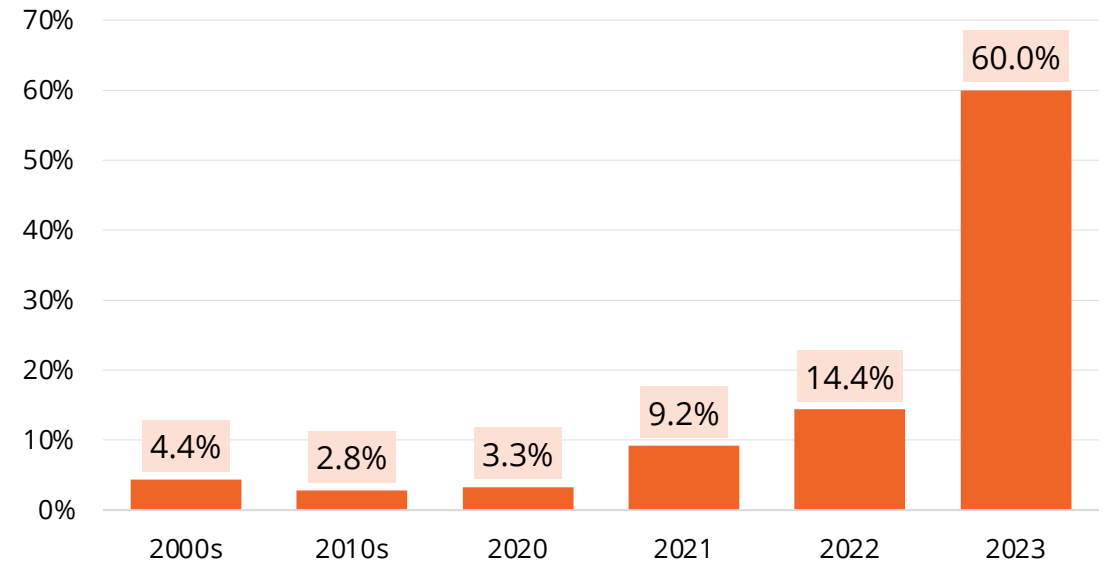
7.3%

Vacancy has climbed due to the lag and slower lease-up of deliveries but remains below its peak in 2020.

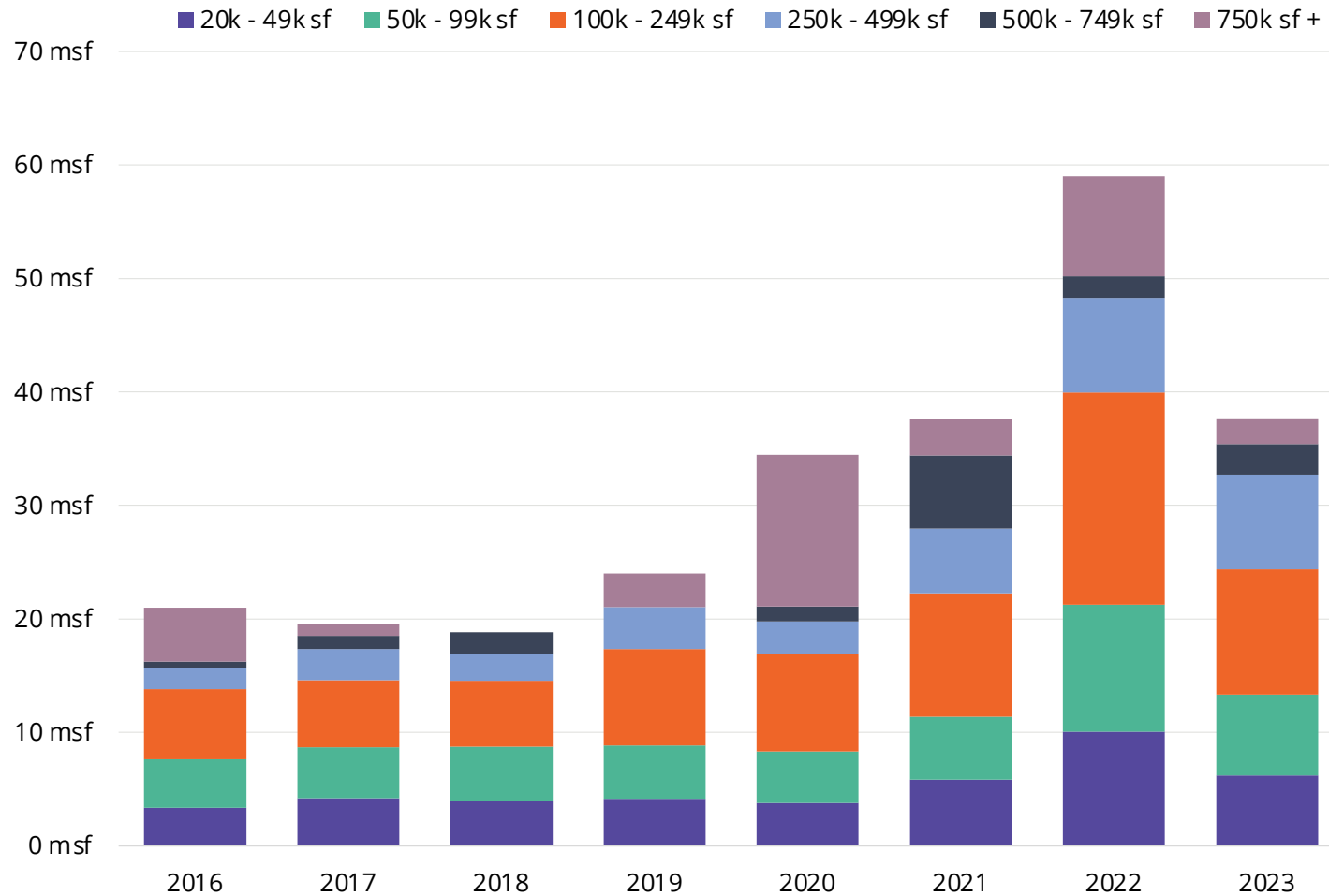


60%

Newly constructed industrial assets are operating at 60% vacancy while assets built prior to 2020 are below 5%.

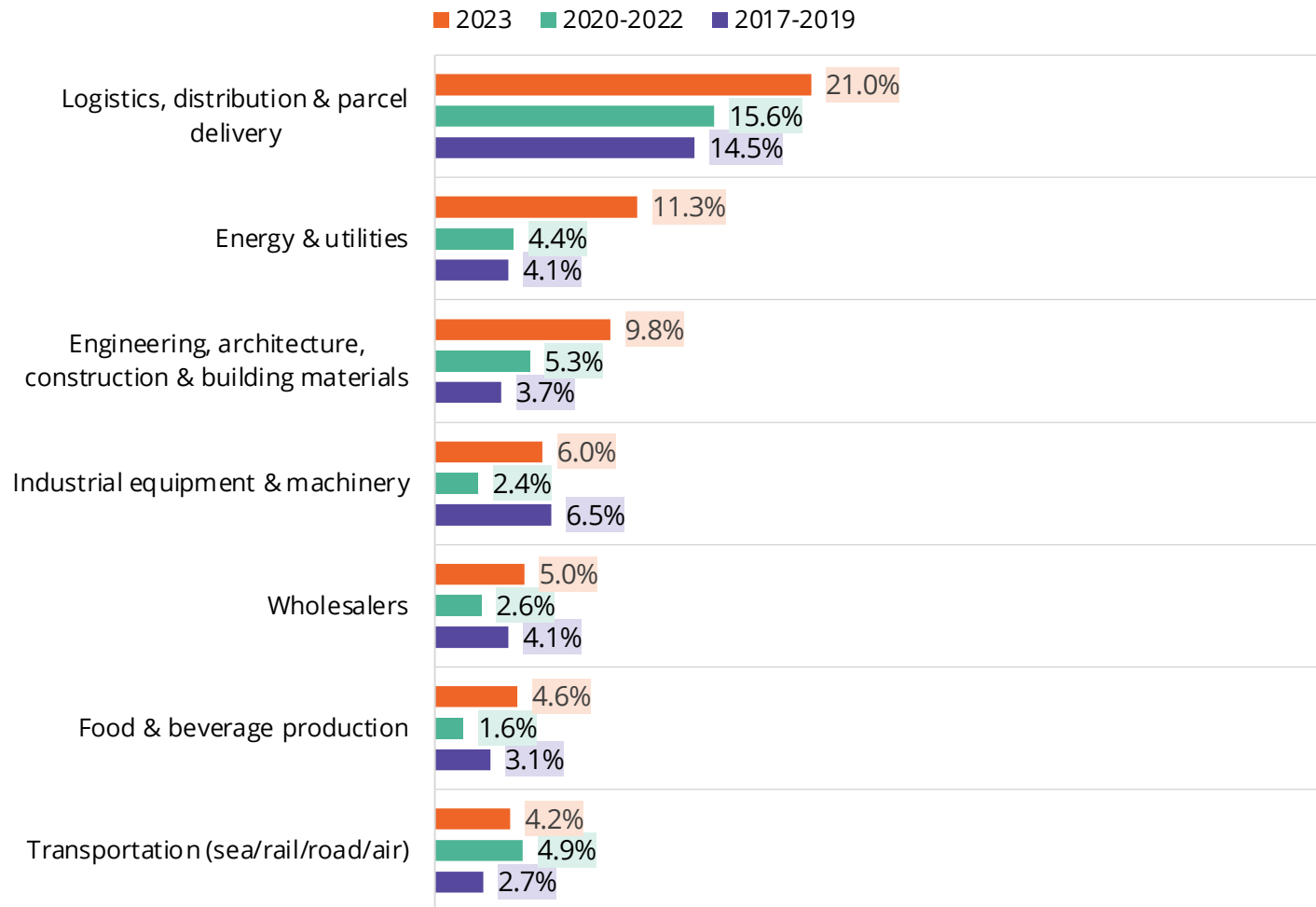


Leasing volume by deal size



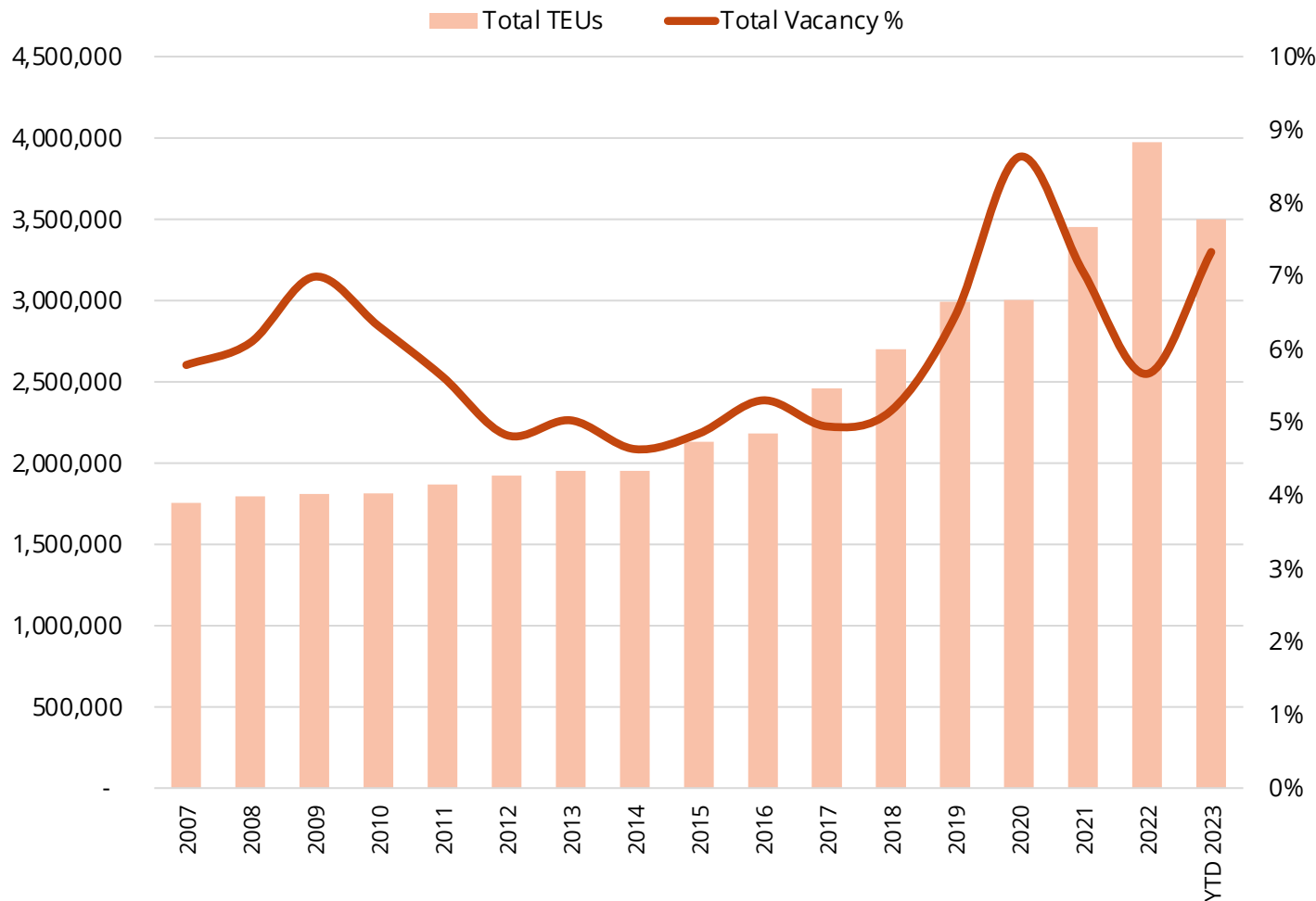
Leasing demand has dropped 36% in 2023, compared to record highs in 2022, as the market normalizes to pre-pandemic levels.

Leasing activity by industry sector



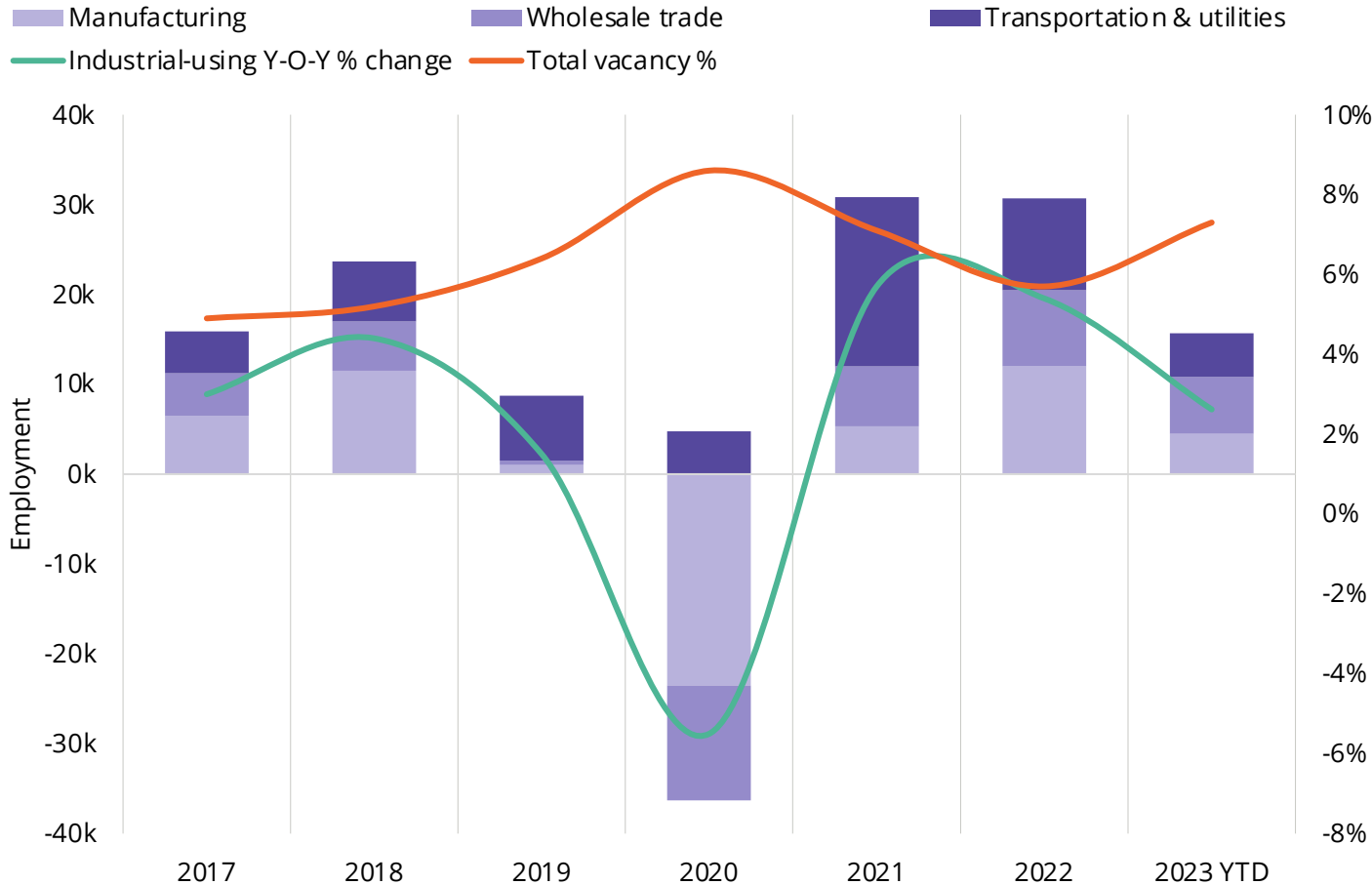
Logistics, distribution, and parcel delivery tenants account for 21% of the leasing volume in 2023, followed by energy-related tenants with a 11% share of deal volume.

Houston port activity and vacancy



Container traffic at the Port of Houston has declined 5% compared to 2022's record-breaking year, handling 3.45 million TEUs as of November 2023.

Houston industrial employment

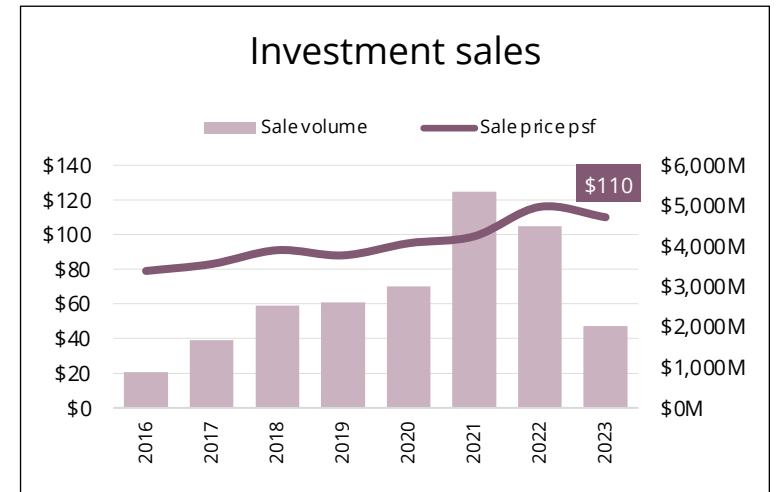
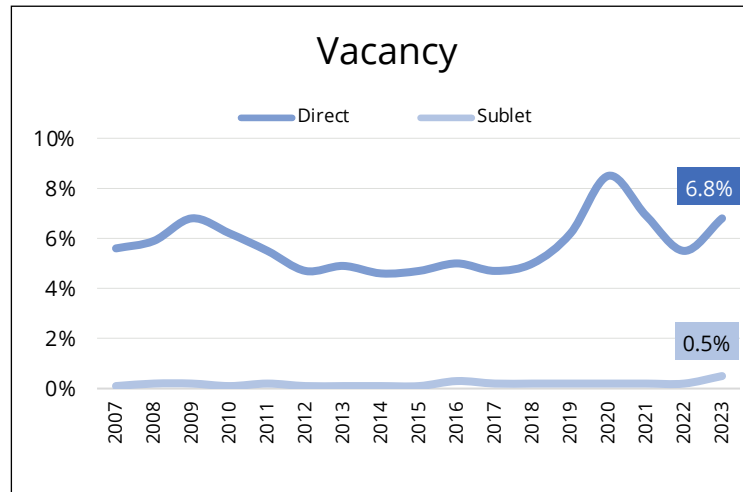
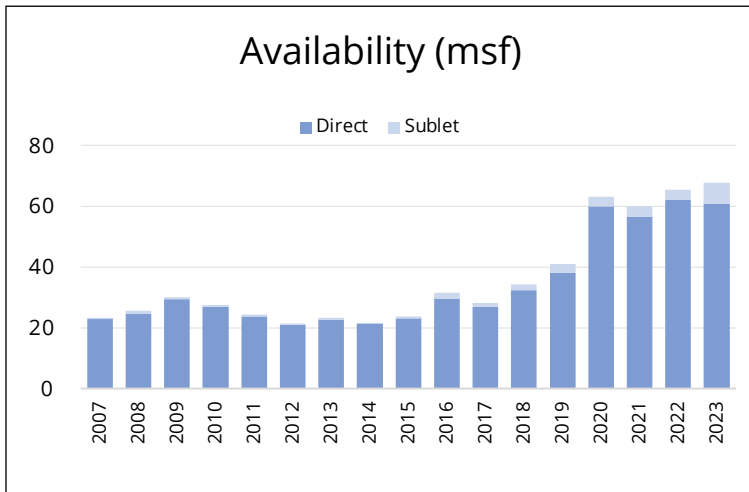
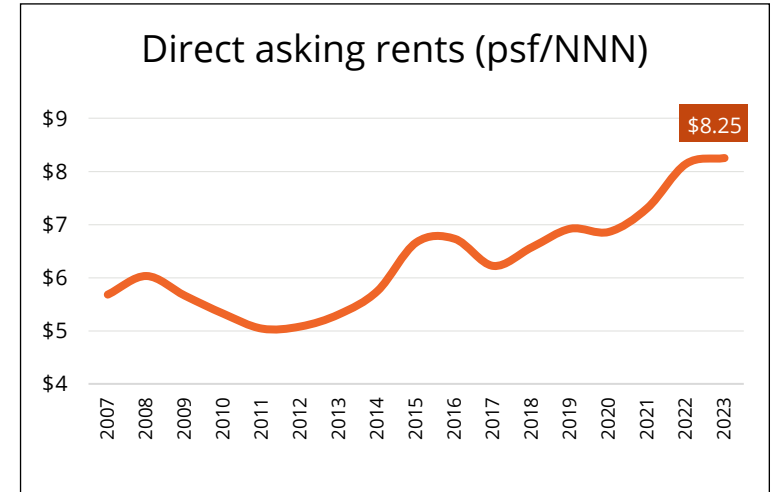
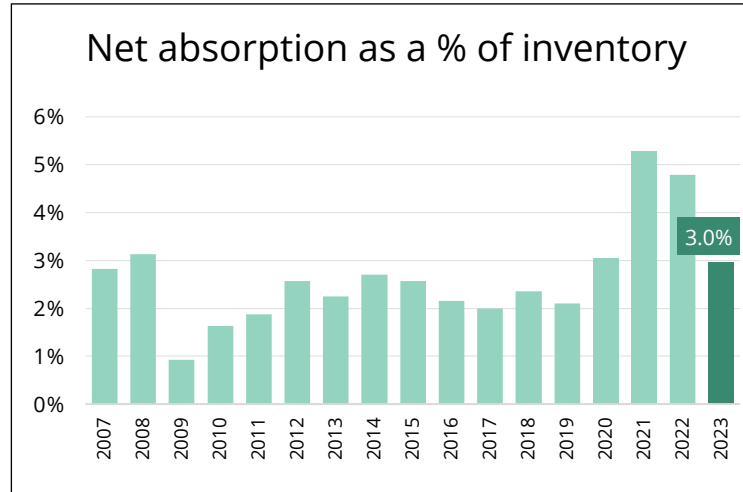
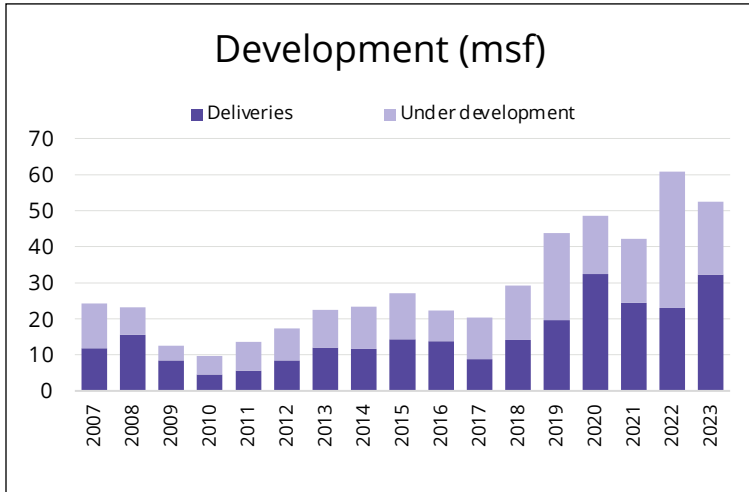


Houston industrial-using employment growth is returning to normal levels, while new product added to the market has pushed vacancy higher.

Appendix



Houston industrial market indicators



Houston industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Waaree Energies	2439 Discovery Hills Parkway	Southwest	November 2023	546,227	New	Direct
ExxonMobil	8235 Plummer Street	Southeast	November 2023	525,000	New	Direct
Wisembaker Builder Services	1020 Bammel Road	North	November 2023	409,795	New	Direct
Johnson Health Tech	574 Pederson Road	Northwest	October 2023	343,760	New	Direct
Western Post	14402 Fallbrook Drive	Northwest	October 2023	317,003	New	Direct
Staples	6400 Hollister Road	Northwest	November 2023	276,600	Renewal	Direct
U.S. Merchants	11411 Tanyard Creek Drive	Northwest	November 2023	227,229	New	Direct
Polytex Fibers	9455 W Wingfoot Road	Northwest	October 2023	201,624	Renewal	Direct
PrimeSource Building Products	3101 Eastveld Drive	North	November 2023	195,910	New	Direct
Empire Auto Parts	13612 Furman Road	South	November 2023	185,413	New	Direct

Top projects under development

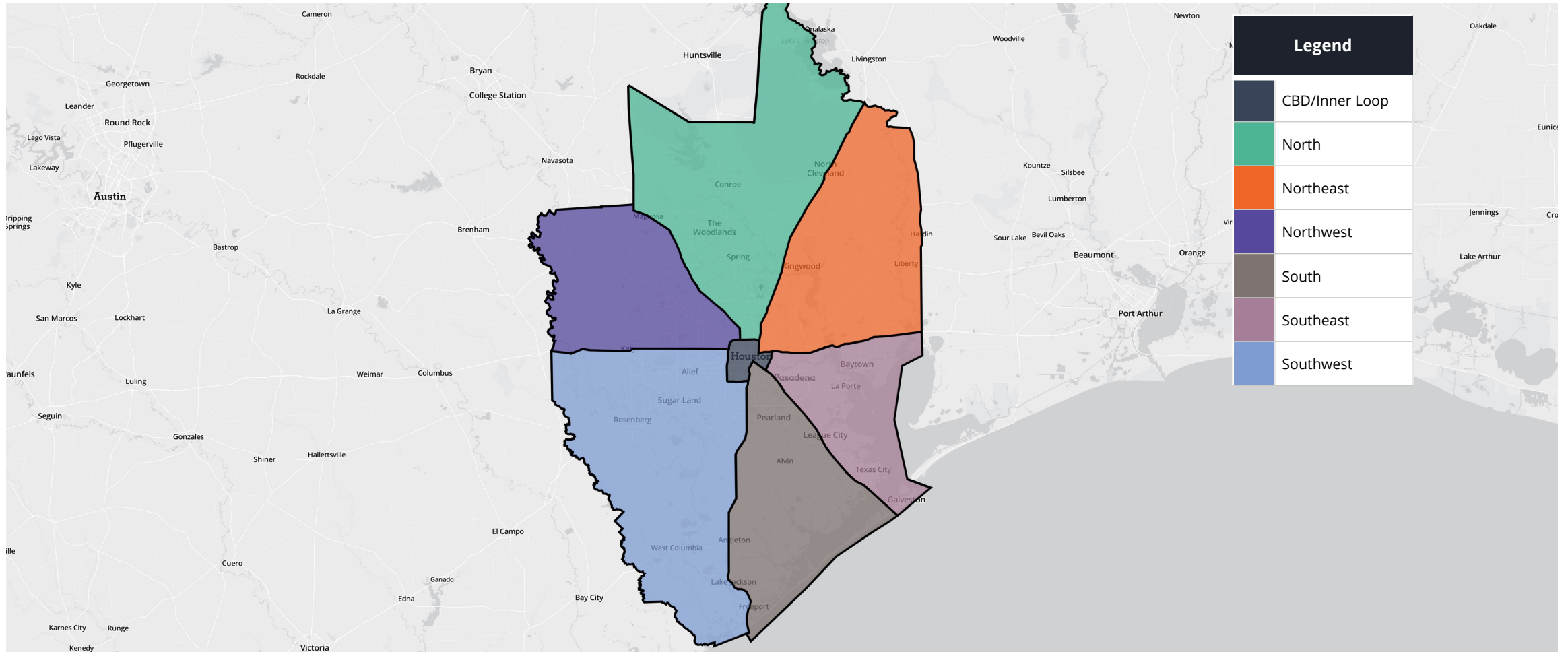
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Target Distribution 11750 Timber Forest Drive	Northeast	March 2024	1,400,000	100%	Panattoni Development
Beltway66 Logistics Park (Target) 5805 S Sam Houston Pkwy E	South	March 2024	1,200,000	100%	Hillwood
Port 99 Logistics - Bldg. 1 16702 FM 2354 Road	Southeast	July 2024	1,027,490	0%	Angler Construction, Provident Realty Advisors
Generation Park Lockwood Business Park	Northeast	January 2024	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 (Q4 2023)	Net absorption sf (YTD)	Annual direct asking rent psf NNN
CBD	48,818,568	-	-	5.2%	0.3%	5.5%	68,448	-496,637	\$6.80
North	127,367,261	6,619,742	2,513,004	7.3%	1.3%	8.6%	600,298	2,700,661	\$8.38
Northeast	46,628,615	2,249,406	4,412,349	7.9%	0.4%	8.3%	-150,545	893,124	\$5.24
Northwest	176,827,682	6,483,831	3,018,039	6.5%	0.2%	6.7%	661,195	5,881,624	\$9.26
South	34,930,171	1,919,962	2,415,636	4.0%	0.6%	4.6%	-85,315	1,299,038	\$7.92
Southeast	124,330,345	7,958,586	4,829,740	6.4%	0.6%	7.0%	238,300	4,915,906	\$6.49
Southwest	99,417,028	7,138,912	2,950,073	8.4%	0.2%	8.6%	905,198	4,305,475	\$10.70
Market total	658,319,670	32,370,439	20,138,841	6.8%	0.5%	7.3%	2,237,579	19,499,191	\$8.25

	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	352,644,283	13,678,120	8,231,584	5.4%	0.3%	5.7%	38,596	10,468,496	\$8.07
Distribution	173,942,823	17,967,073	11,200,918	12.2%	1.3%	13.4%	1,808,616	8,407,345	\$7.83
Manufacturing	99,082,400	239,374	443,589	1.9%	0.1%	2.0%	-40,978	658,840	\$8.74
Office Showroom	24,825,754	85,872	262,750	9.7%	0.7%	10.4%	-27,259	-658,376	\$9.59
R&D	7,824,410	400,000	-	3.8%	0.2%	4.0%	458,604	622,886	\$11.88
Market total	658,319,670	32,370,439	20,138,841	6.8%	0.5%	7.3%	2,237,579	19,499,191	\$8.25

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

For more market insights and information visit **avisonyoung.com**

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