



Houston industrial market report

Q2 2023

**AVISON
YOUNG**

Houston industrial market trends

9.4 msf

Positive net absorption remains robust

The Houston industrial market gained 9.4 million square feet (msf) of positive net absorption during the first half of 2023. Although occupiers absorbed 3.7 msf in Q2 2023, net absorption is down 32.9% compared to the previous quarter and 61.6% from the prior year. The slowdown over the past year comes on the heels of the record pace achieved as consumers drove demand for e-commerce fueling an increase in construction and a leasing boom. Looking ahead, demand is expected to relax and normalize to pre-pandemic levels but will remain strong, driven by population growth.

6.5%

Vacancy rate rises as new product comes online

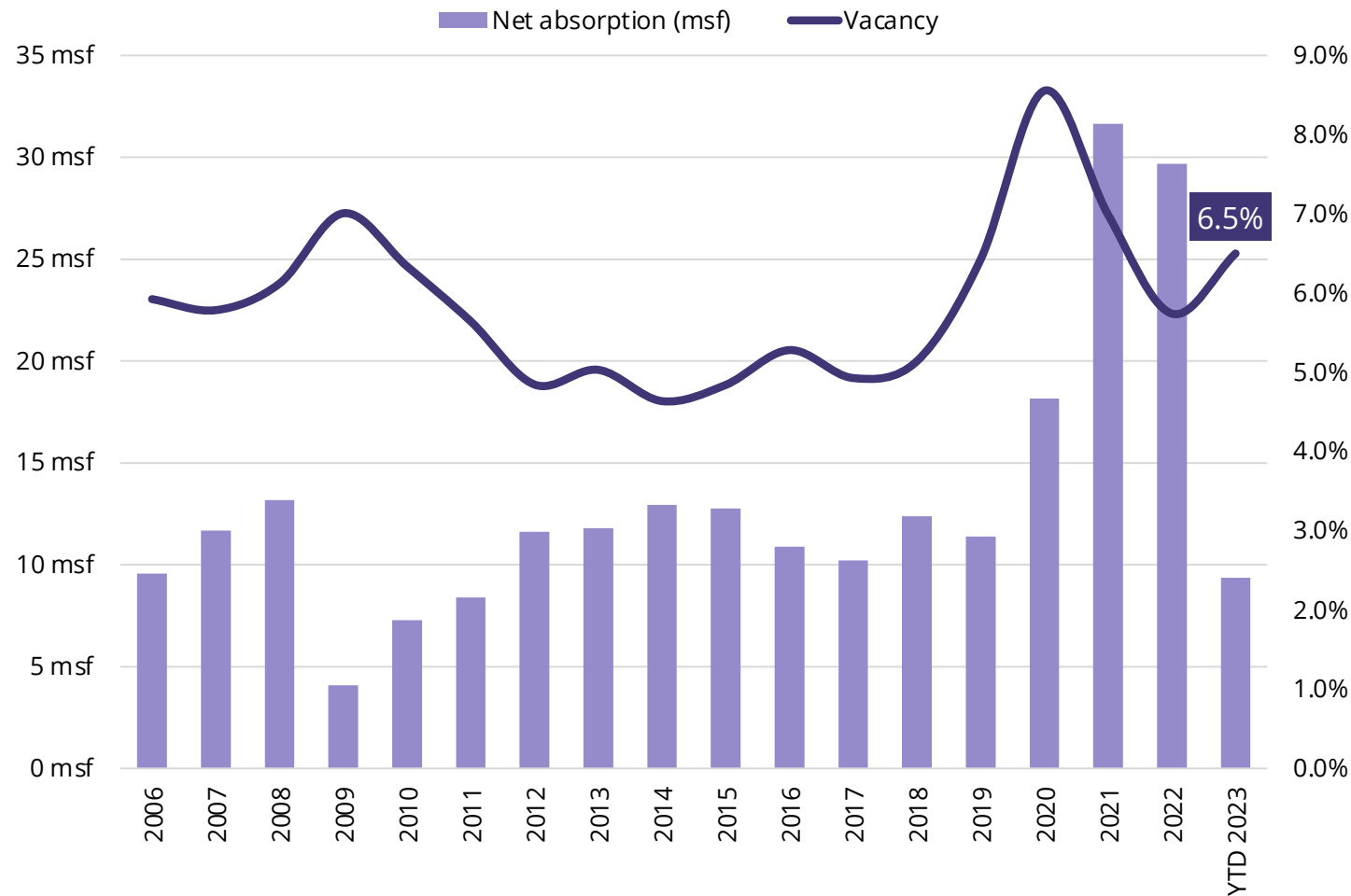
The market-wide vacancy rate increased 60 basis points (bps) quarter-over-quarter to 6.5% as new construction deliveries outpaced demand and are still actively marketed. Despite the quarterly spike in vacancy, Houston's industrial market fundamentals remain strong, as vacancy remains 250 bps below its peak recorded early in 2021. Meanwhile, the total availability rate also increased 20 bps to 10.8% during the second quarter. Even though occupier demand appears to have slowed down a bit, the pace of new construction deliveries remains strong as developers continue to build speculative space in anticipation of sustained demand.

29.7 msf

Future construction pipeline slowdown

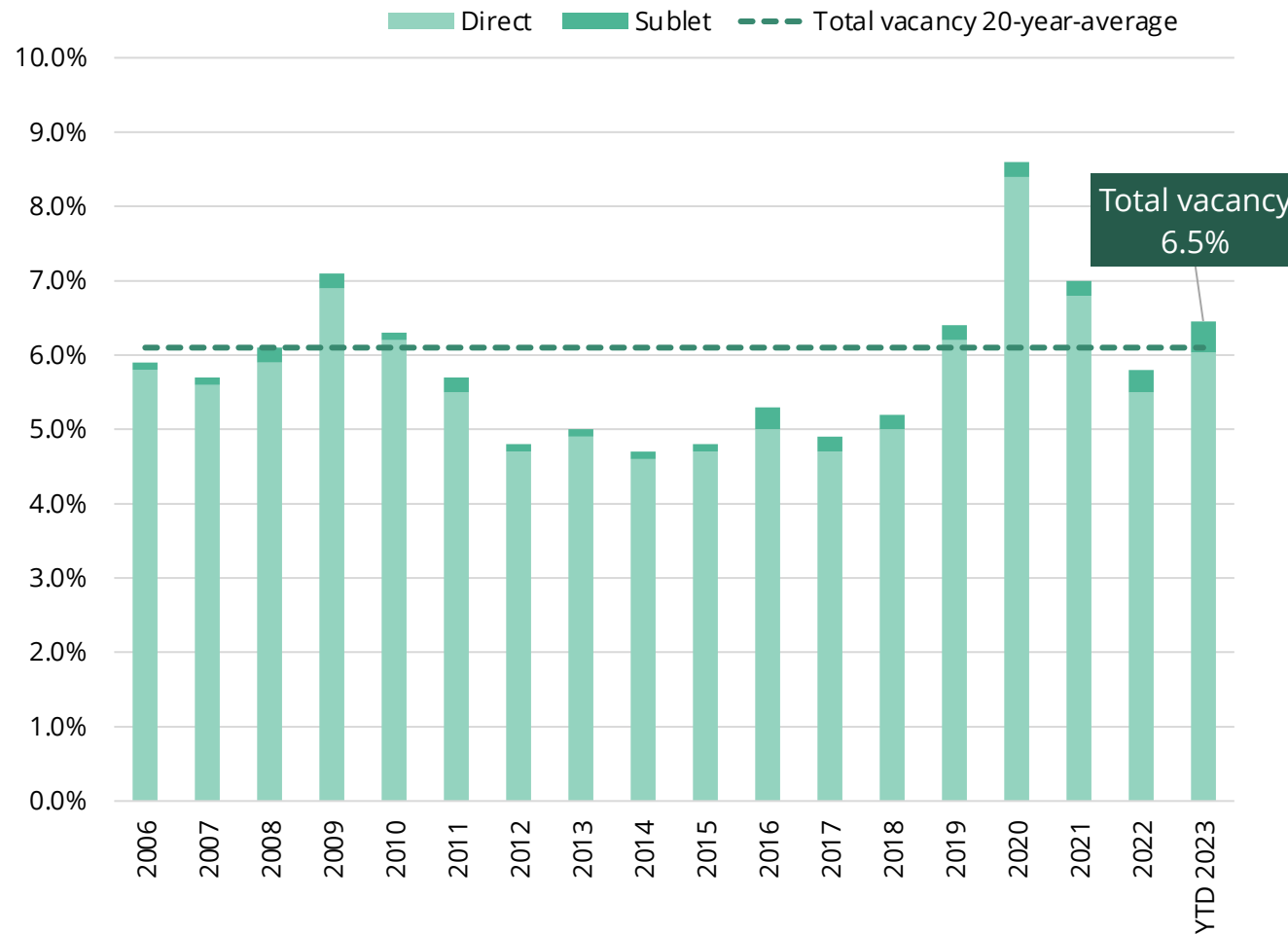
Construction activity is slowing in response to easing occupier demand and some financing challenges. The industrial construction pipeline declined by 12.8% in Q2 2023 and has fallen by 18.1% since it peaked at 36.2 msf at year-end 2022. Developers completed nearly 7.9 msf of new projects in Q2 2023, bringing the year-to-date delivery total to 14.8 msf. However, there remains 29.7 msf of new product underway, of which developers are expected to deliver at least 24.8 msf by year-end 2023.

Positive net absorption remains robust



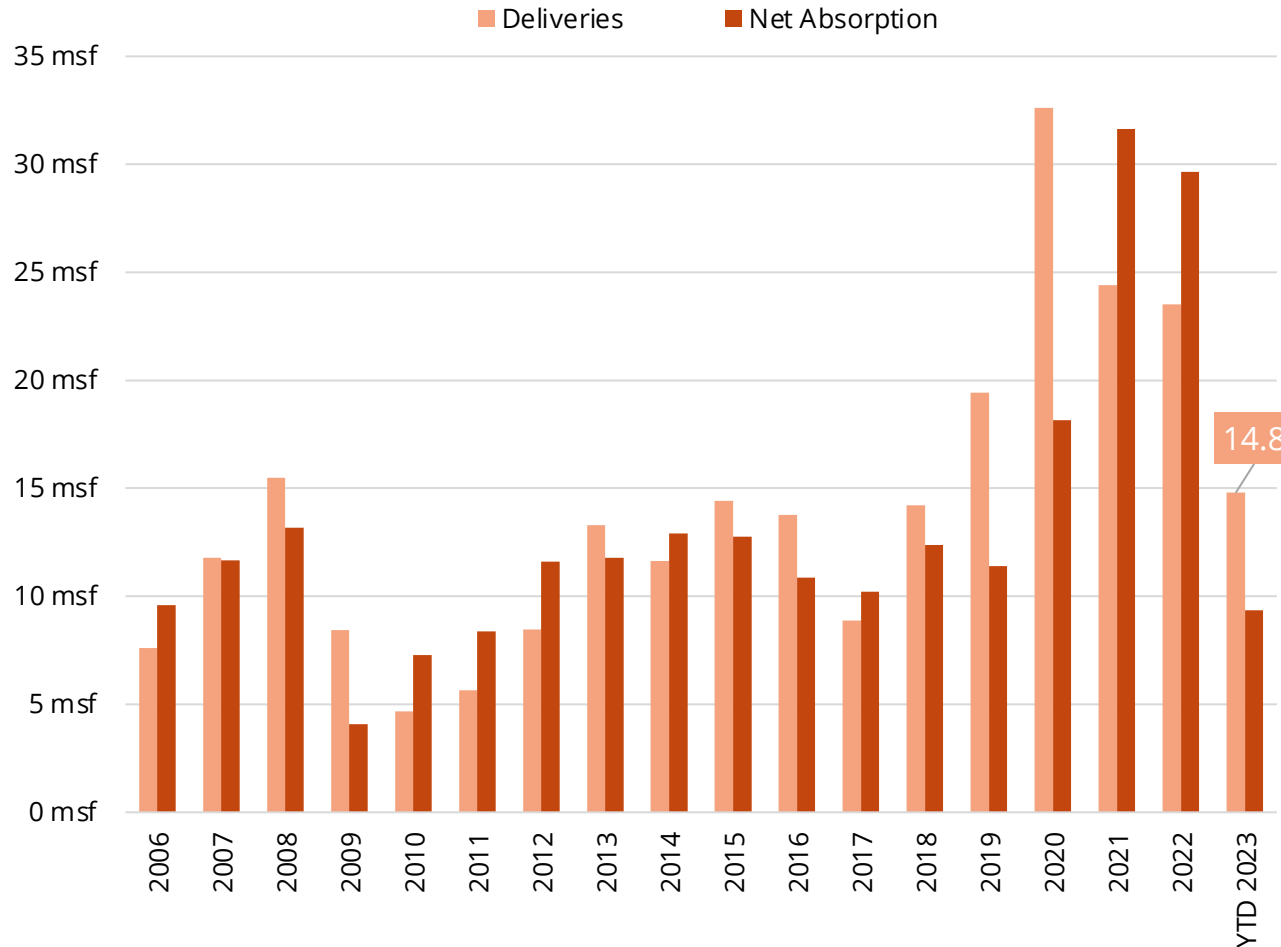
The Houston industrial market gained 9.4 msf of positive net absorption during the first half of 2023 and is returning to normal pre-pandemic levels.

Vacancy rises amid brisk deliveries



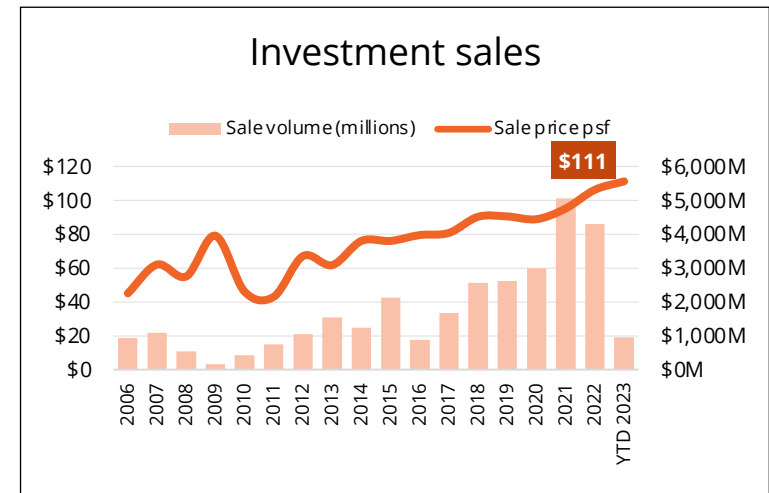
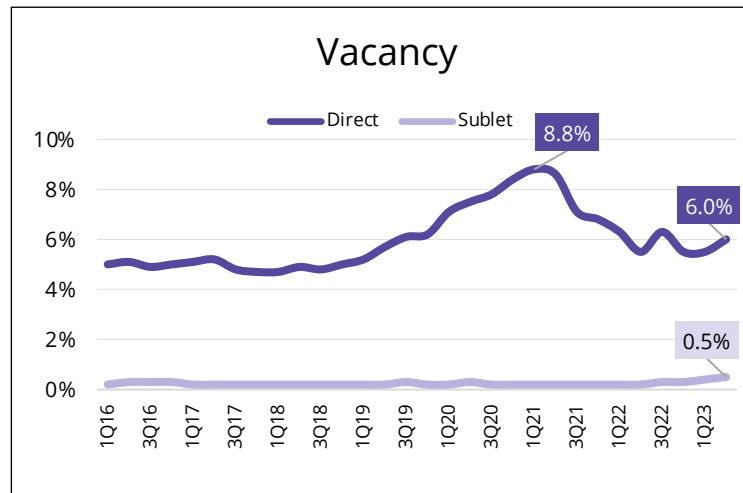
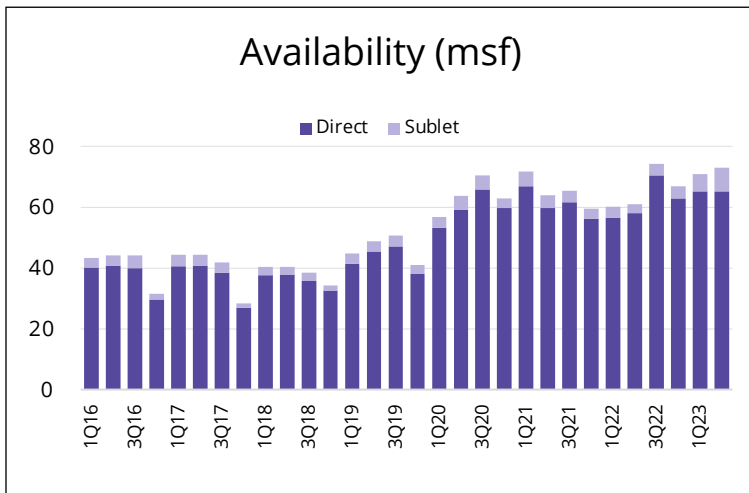
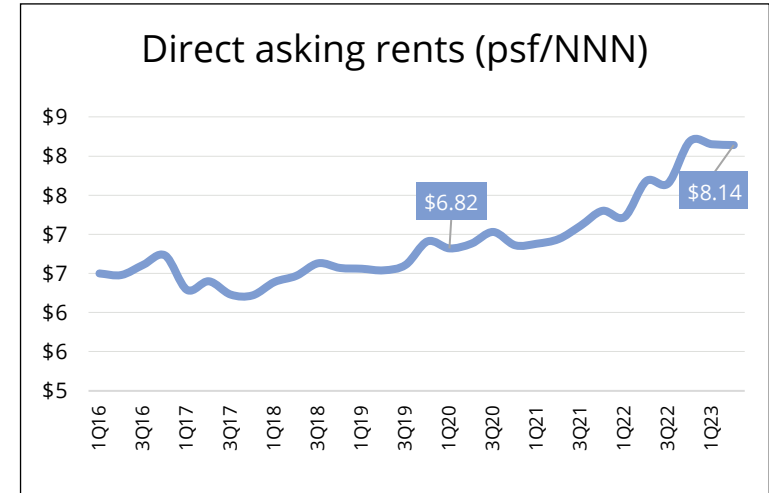
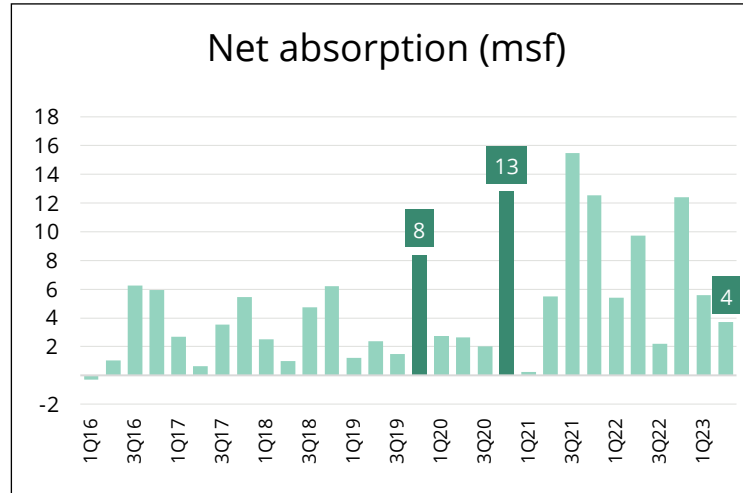
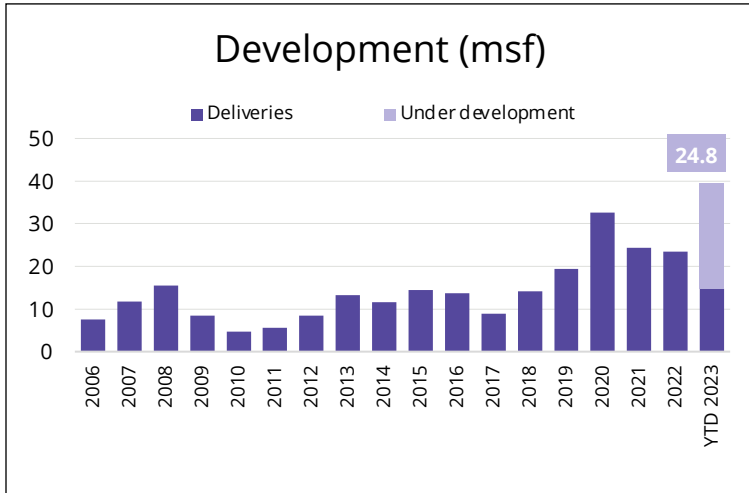
The vacancy rate increased 60 bps quarter-over-quarter as brisk construction deliveries outpaced demand but remains near its 20-year historical average.

Future construction pipeline slowing



Developers delivered 14.8 msf during the first half of 2023, outpacing demand and are expected to deliver an additional 24.8 msf by year-end.

Houston industrial market indicators



Houston industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
United States Postal Service	611 Highway 90 A	Southwest	May 2023	440,014	New	Direct
FreezPak	7818 Fisher Road	Southeast	April 2023	281,849	New	Direct
Professional Packaging	35209 US Highway 90	Northwest	April 2023	229,150	New	Direct
Dream Harvest	12855 S Kirkwood Road	Southwest	April 2023	207,000	New	Direct
KHD Group	9707 Fairbanks N Houston Road	Northwest	June 2023	156,483	New	Direct
DSI Logistics	10001 Fannin Street	Southwest	May 2023	151,342	New	Direct
Merih Logistics	3710 Cedar Boulevard	Southeast	May 2023	129,527	New	Direct
Polytex Fibers	4820 Blalock Road	Northwest	May 2023	121,685	Renewal	Direct
WOW Design	12855 S Kirkwood Road	Southwest	April 2023	118,028	New	Direct
ChemPak International	10225 Mula Road	Southwest	June 2023	111,540	Renewal	Direct

Top projects under development

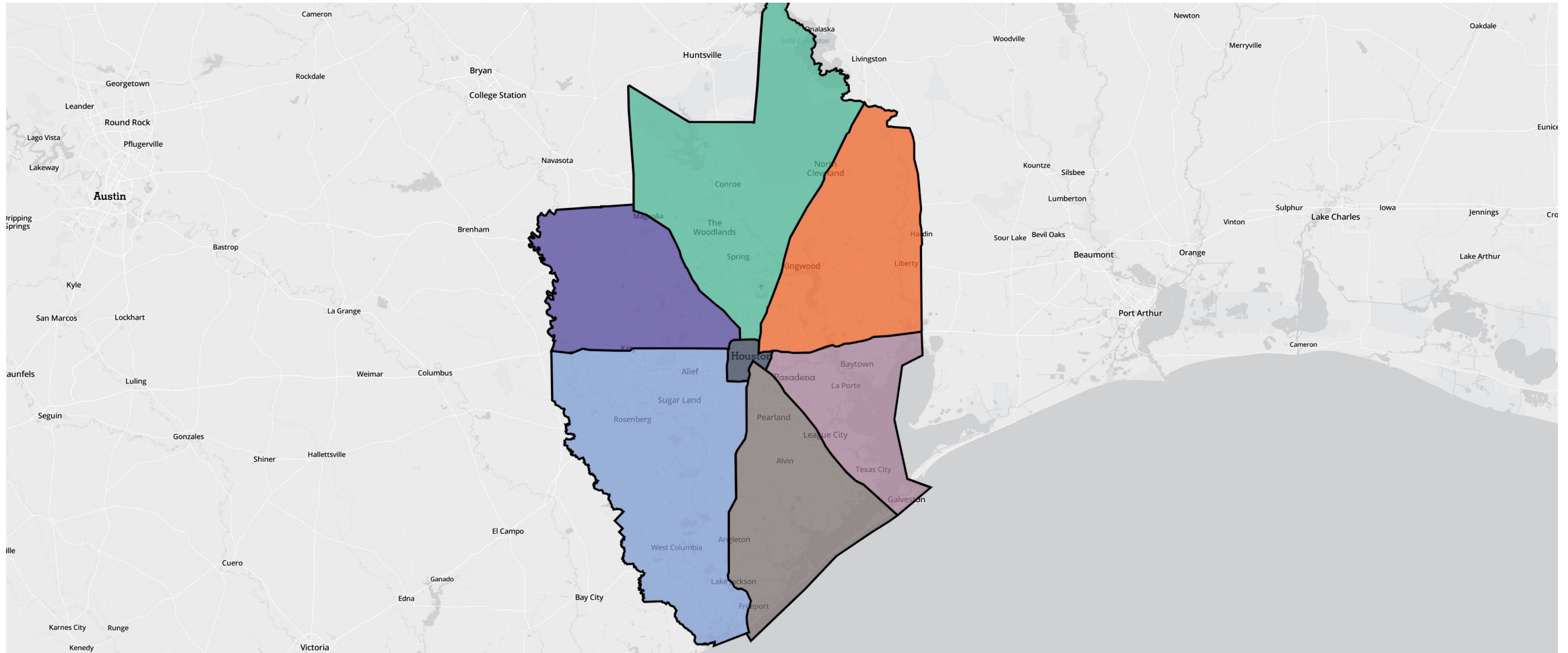
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Conroe Park Drive West	North	September 2023	1,224,498	0%	Lovett Industrial
7505 Fisher Road	Southeast	December 2023	1,218,956	0%	Trans-Global Solutions
1550 Milner Road	North	December 2023	1,213,573	0%	Prologis
5805 South Sam Houston Parkway East	South	December 2023	1,200,000	100%	Hillwood
Lockwood Road & Generation Parkway	Northeast	April 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 (Q2 2023)	Net absorption sf (YTD)	Annual direct asking rent psf NNN
CBD	49,310,212	-	-	4.6%	1.1%	5.6%	(204,593)	(330,776)	\$6.14
North	123,754,804	2,621,885	5,612,815	6.7%	0.2%	6.9%	760,893	1,469,324	\$7.66
Northeast	44,471,464	533,106	3,363,003	5.3%	0.0%	5.3%	341,163	465,765	\$5.63
Northwest	175,026,819	3,869,067	3,679,380	6.5%	0.3%	6.9%	874,050	3,208,615	\$9.75
South	33,764,714	1,100,725	2,949,290	5.6%	0.2%	5.8%	105,408	125,055	\$8.90
Southeast	120,269,310	3,521,454	8,429,854	4.7%	0.9%	5.5%	1,246,147	2,536,991	\$5.72
Southwest	95,713,456	3,147,406	5,624,418	7.3%	0.3%	7.6%	610,906	1,875,443	\$10.28
Market total	642,310,779	14,793,643	29,658,760	6.0%	0.4%	6.5%	3,733,974	9,350,417	\$8.14

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General Warehouse	348,307,646	7,986,195	13,069,407	5.4%	0.6%	6.0%	2,519,362	4,693,007	\$8.43
Distribution	163,124,819	6,636,448	15,688,007	9.5%	0.4%	9.9%	1,227,395	4,197,269	\$6.03
Manufacturing	99,145,011	130,000	880,474	2.0%	0.1%	2.1%	(48,317)	397,177	\$8.98
Office Showroom	24,405,531	41,000	20,872	7.8%	0.4%	8.2%	(85,489)	(124,925)	\$10.67
R&D	7,327,772	-	-	4.5%	0.2%	4.7%	121,023	187,889	\$12.03
Market total	642,310,779	14,793,643	29,658,760	6.0%	0.4%	6.5%	3,733,974	9,350,417	\$8.14

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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