

# Houston



## Quick Stats

**94,600**

Jobs created during the 12 months ending June 2018

**4.6%**

Unemployment rate in Houston, down from 5.6% in January 2017

**10**

Million square feet of industrial space under construction

**4.5%**

Direct vacancy rate in Houston's industrial market

## Summary Overview

The industrial market remains Houston's best-performing sector. This trend will likely continue throughout 2018, as demand increases for new facilities to serve as consumer product distribution and logistics hubs and support expansion in the petrochemical industry.

During the second quarter, the Houston metro area's leading commercial sector saw more new project announcements and groundbreakings as deliveries kept pace, creating more supply than demand, which resulted in a slowdown in net absorption.

More than 2.2 million square feet (msf) of new projects delivered during the second quarter, bringing the year-to-date total up to almost 5 msf. Emser Tile led the way, occupying its new 601,000-square-foot (sf) facility in Pinto Business Park, as the largest project to be completed during the second quarter. Net absorption slowed as several tenants moved into new spaces, consolidating overall space and leaving availability and vacancies at former facilities.

Leasing activity remained strong at 4.8 msf for the quarter but more than double that square footage is currently in the construction pipeline. About one-third of all projects underway are build-to-suit (BTS), and

overall, the under-construction projects are collectively 39.6% preleased. New projects continue to be announced.

Houston has maintained a vibrant, diversified economy despite a slowly recovering energy industry. The Greater Houston Partnership is forecasting Houston employment to pick up in 2018 due to the area's rising international investment and trade. For the 12 months ending June 2018, the Houston metro area created 94,600 jobs, a 3.1% increase. That reflects a significant jump from the 81,200 jobs created in the 12 months ending in May, according to Texas Workforce Commission statistics reported by the Greater Houston Partnership. Economic conditions in Houston are projected to improve and continue to diversify throughout the year.

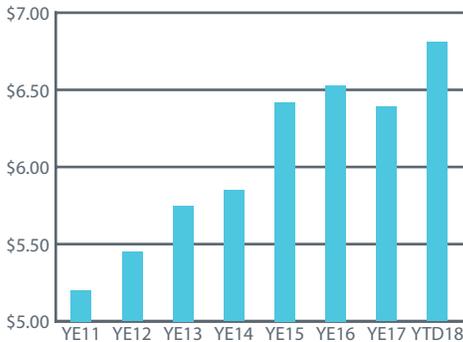
## Absorption and Demand

Net absorption for the second quarter dropped to 29% of the first quarter's total as demand equaled 796,638 sf, which is slightly under last year's second-quarter total of almost 949,791 sf. However, year-to-date totals exceed 2017 levels by 22%, or 806,180 sf.

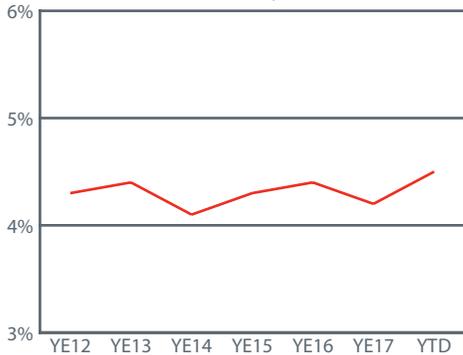
Leasing activity is still healthy, even with a 7.7% drop to 4.8 msf in second quarter compared to 5.3 msf in first quarter. This activity also surpasses the same 2017 year-to-date total of almost 9.2 msf. The largest lease signed during second



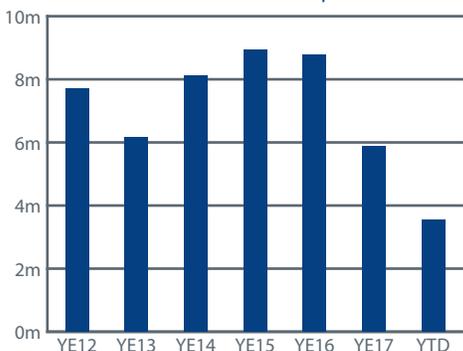
## Asking Rates



## Historical Vacancy Rate



## Historical Net Absorption



quarter is C&S Grocers' 727,600-sf, BTS in the North submarket. Other significant leases signed during second quarter include Hose Master's 140,000-sf deal at Gateway Southwest and B&H Bag Company's 186,306-sf deal at 800 Koomey in Brookshire. Expansions and consolidations are both represented in the new leases, but they also reflect a similar flight-to-quality progression as in the office market: moving into newer product with more efficient infrastructure and overall better designs.

E-commerce is driving the growth in Houston's industrial market, making the area a formidable distribution hub. The rapid increase in Houston's population has sparked the need for expansion in the consumer goods sector. To better serve their customers, major distributors including Amazon, FedEx, Ikea and Best Buy have either recently opened or are in the building stages of last mile distribution facilities.

Available sublease space had decreased for the last five consecutive quarters but remained in the 3.2-msf range for second quarter. This total does represent an almost 21% drop from the same period last year when 4 msf was reported. Since leasing activity has shifted away from existing product to new construction, much of the net absorption gains this year should coincide with the delivery timeline.

### Vacancy & Availability

Overall vacancy increased by 20 basis points from the previous quarter to 4.5% at the end of the second quarter. At this time last year, vacancy registered 5.1%. Despite Houston's industrial building boom, vacancy has remained below 5% since 2012. Vacancy rates for all space types rose slightly this quarter, with manufacturing space now 2.6% vacant, up from 2.2% in the previous quarter, and warehouse/distribution space at 4.5%, 10 basis points higher. Flex space has rose to 9.8% from 8.8% last quarter.

This quarter alone, 15 projects totaling more than 2.2 msf delivered to the market, with the largest being Emser Tile's 601,000 sf building in Pinto Business Park. The construction pipeline increased slightly to 10 msf from the first quarter, but the recent construction total is nearly double the 5.4 msf under construction at this time last year.

### Asking Rates

Average asking rates have remained steady during the last four quarters but increased 4.6% to \$6.81 per square foot (psf) during second quarter, which is higher than last year's second-quarter

average of \$6.51 psf. Five of the seven submarkets recorded slight increases. This nominal increase is noteworthy since stagnating rates have been an area of concern for Houston's best-performing product type during the past three years.

### Construction

Houston's construction pipeline continues to rise as developers look to satisfy the demands of e-commerce suppliers and business at the Port of Houston. The under-construction total jumped to more than 10 msf during the second quarter after maintaining an average 6-msf average throughout most of the previous year. The total remains more than 97% warehouse distribution facilities, and the 52 buildings are 39.7% preleased. Houston's rapidly expanding consumer base continues to expect faster delivery times, and e-commerce suppliers are responding by leasing more space in newer and more efficient buildings.

Speculative construction is climbing. Parc Air 59, a 677,040-sf project at 18250 Highway 59, is the largest spec project to break ground during second quarter and is reported 0% preleased. Other notable spec projects on track without preleasing include Oakmont West, a 673,785-sf project in the west; a 600,360-sf Building B2 in Port Crossing Commerce Center; Bayport South Business Park's 500,000-sf building; and a nearby 404,160-sf project at Underwood Port Logistics Center at 4600 Underwood. The largest BTS project is C&S Grocers, which broke ground in second quarter and totals 727,600 sf at 14803 Woodham in the North submarket. Best Buy broke ground on its new 550,000-sf warehouse in the Southwest, and Vinmar International has its new 500,000-sf facility under construction in the Southeast.

The bulk of projects under construction is concentrated in the Southeast, Northwest and North. The Port of Houston's increased petrochemical activity is responsible for the majority of the Southeast's projects while new development for e-commerce suppliers continues in other sectors. The Southeast currently has 4.4 msf, or 44% of the total square footage, underway. Recently, many new projects were initiated in the Northwest sector, resulting in almost 2.4 msf, or 24% of the total. This is the only other segment with multiple projects totaling 1.7 msf, representing 17% of the overall total.

## Select Q2 2018 Deliveries

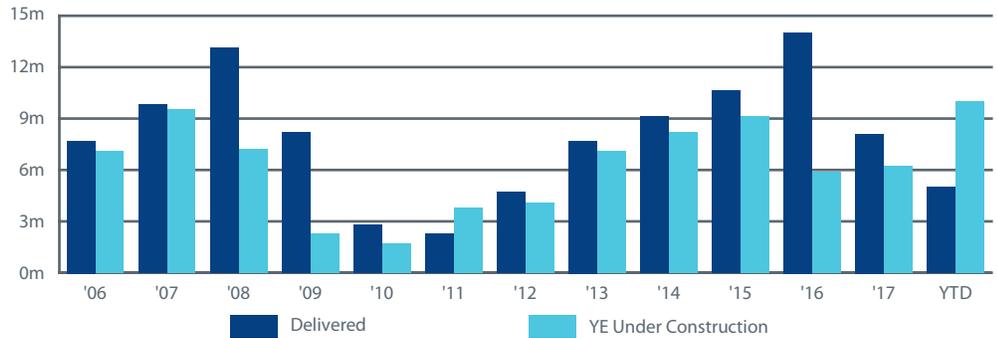
**Emser Tile, 10433 Ella Boulevard**  
(601,000 sf). North.

**11833 Cutten Road**  
(293,280 sf). Northwest.

**Unis, LLC, 10535 Red Bluff**  
(257,835 sf). Southeast.

**22533 Northwest Lake Drive**  
(231,839 sf). Northwest.

## Construction Timeline



## Q2 2018 Highlights

- American Furniture Warehouse**, based in Colorado, is planning two large warehouse and showroom projects, a 498,700-sf project in Katy and a 355,000-sf project in Webster.
- Evoqua Water Technologies** plans to expand to 107,000 sf at 15414 International Plaza in the World Houston Business Center. The company is planning to consolidate three Houston-area locations in the building during fourth quarter 2018.
- MS Warehousing** signed a lease extension to occupy a 143,000-sf building at 2015 Turning Basin. The tenant originally occupied 78,000 sf.
- Emser Tile** started moving into its new 601,000-sf BTS in Pinto Business Park. This facility is the largest completed in the second quarter. The company joins another new tenant in the park, North Carolina-based **Kitchen Cabinet Distribution**, which will open its first Houston-area distribution center in its 108,000-sf space.
- Man Diesel & Turbo** broke ground on its 137,434-sf BTS facility at 1986 Woods in Brookshire. The project will serve as the North American headquarters for the German company, which will occupy the first building in the new Twinwood Business Park.

## Trends to Watch



The price of oil rose above \$67/bbl, an increase since the downturn took hold in 2015.



Employment grew 3.1%, creating 94,600 jobs for the 12 months ending June 2018. All sectors reported growth except for Oil & Gas Exploration (-5.0%), Information (-4.0%), and Other Services (-0.9%).



The Purchasing Manager's Index (PMI) registered 55.5 in June, indicating short-term expansion in regional production.

## Contact Information:

Patsy Fretwell  
Research Manager  
713.993.7151  
patsy.fretwell@avisonyoung.com

4400 Post Oak Parkway  
Suite 1500  
Houston, TX 77027  
713.993.7700



avisonyoung.com

