

# Houston



## Quick Stats

**128,700**

Jobs created during the 12 months ending September 2018

**4.1%**

Unemployment rate in Houston, down from 4.8% in September 2017

**10.3**

Million square feet of industrial space under construction

**5.0%**

Direct vacancy rate in Houston's industrial market

The industrial market remains Houston's best-performing product type as expansion continues during the second half of 2018. Demand by big box retailers such as Best Buy and Conn's HomePlus is instrumental to development in this sector. Several large projects are scheduled to break ground in the fourth quarter, with 10.3 million square feet (msf) already underway.

During the third quarter, the metro area's leading commercial sector saw more than 4.2 msf new product delivered. This quarterly total is almost half, or 46%, of the total 9.2 msf delivered year-to-date. Preleased space in multiple completed buildings contributed to bring net absorption back on track, with total net absorption almost doubling the square footage recorded in the previous quarter.

Leasing activity remained strong with 246 deals contributing to 4.5 msf for the quarter, slightly below both the previous two quarters and the same quarter last year. Year-to-date leasing activity is more than 14.5 msf, which is why the direct vacancy rate is still a healthy 5.0%, increasing by only 50 basis points from second quarter even as several large spec buildings were completed without preleasing.

Houston has maintained a vibrant, diversified economy as the energy industry continues

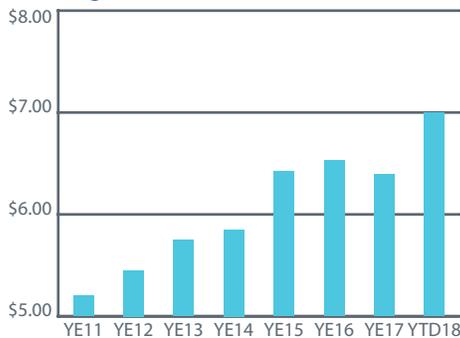
to bounce back. For the 12 months ending September 2018, the Houston metro area created 128,700 jobs, a 4.3% increase. That reflects the strongest 12-month pace since January 2015, when the economy had momentum from four previous years of frenetic growth, according to Texas Workforce Commission statistics reported by the Greater Houston Partnership (GHP). A word of caution: GHP notes that this near-record job growth is boosted by the Hurricane Harvey-related hiring surge. That being said, the construction sector has added a record-breaking 29,500 jobs over the past 12 months, a 13.8% increase. Other job sectors such as professional and business services and engineering have also seen positive job growth, which indicates a strong economy that bodes well for the commercial real estate market. This growth in engineering reflects the on-going recovery in oil and gas, according to the GHP.

### Absorption and Demand

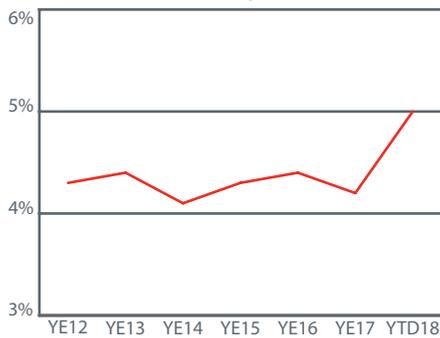
Net absorption for the third quarter totaled more than 1.5 msf, doubling the second quarter's total but not as high as the first quarter's 2.8 msf. Much of the absorption is concentrated in the Southeast, Northwest and North sectors, which combined for 2.1 msf of absorption while two sectors recorded



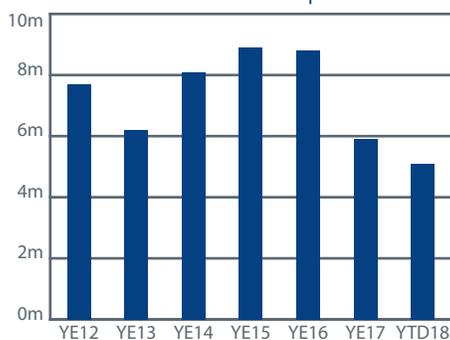
## Asking Rates



## Historical Vacancy Rate



## Historical Net Absorption



negative activity. Year-to-date totals are now 5.1 msf, which is slightly below last year's 5.8 msf recorded through the third quarter. Warehouse/distribution space accounts for 83% of the absorption total.

Company relocations contributing to this quarter's net absorption include Vinmar International's 500,006-sf building in East Houston, Kuraray America's 369,755-sf building in Bayport Logistics Park, and MS Warehousing's 142,791-sf expansion in Turning Basin Industrial Park.

Leasing activity is healthy, even with slight decreasing totals each consecutive quarter, with the year-to-date total of 14.5 msf slightly below last year's 14.6 msf recorded through third quarter. The largest lease signed during this quarter is Goodman Manufacturing's 411,442-sf lease in Northwest Logistic Center in the Northwest. Other significant lease deals include Global Stainless Supply, 210,850 sf at 8900 Railwood; Forward Air Solutions, 289,000 sf at 18727 Kenswick North; and Western Post USA's 122,200 sf at 11833 Cutten. RTIC and Wayfair also signed deals for space in Gateway Northwest Business Park's Building 3. Expansions and consolidations are both represented in the new leases, but they also reflect a continuing trend of moving into newer product with more efficient infrastructure and overall better designs, much like the flight-to-quality trend within the office industry.

Available sublease space increased slightly, staying within the 3.2 msf range during third quarter. The North sector offers the largest amount of sublease space at 1.0 msf, followed by the Northwest sector at 968,945 sf. This overall total represents an almost 18% drop from the same period last year when 3.9 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 direct vacancy increased by 50 basis points to 5.0% from the previous quarter's 4.5%. At this time last year, vacancy registered 4.9%. Despite Houston's industrial building boom, vacancy has remained at or below 5% since 2012. Vacancy rates rose slightly this quarter for warehouse/distribution space, up to 5.2% from

4.5%. Manufacturing space remained at 2.6% vacant, while vacancy for flex space dropped to 9.3% from 9.8% last quarter.

During the third quarter, 20 projects totaling over 4.2 msf delivered to the market, with the largest being Vinmar International's 500,006-sf building in Cedar Port Industrial Park. This third-quarter total represents 46% of the 9.2 msf of completed industrial buildings year-to-date, with another 10.3 msf in the pipeline.

## Asking Rates

After four quarters of steady average asking rates, the third quarter saw an increase of 2.8% to \$7.00 per square foot (psf), which is also higher than last year's third-quarter average of \$6.44 psf. Five of the seven submarkets recorded increases, with the North sector jumping 10.5%.

## Construction

Houston's construction pipeline continues its upward journey as developers fulfill the demands of e-commerce suppliers and business at the Port of Houston. The under-construction total jumped to more than 10.3 msf during the third quarter after 4.2 msf of the second-quarter's 10 msf total were completed. The 63 buildings primarily represent warehouse or distribution facilities and are currently 36.7% preleased. Houston's rapidly expanding consumer base continues to expect faster delivery times, and e-commerce suppliers are responding by leasing space in newer and more efficient buildings.

Speculative construction continues. Parc Air 59, a 685,400-sf project at Highway 59 and Will Clayton Parkway, is the largest spec project underway, while three of the four largest projects under construction are build-to-suit (BTS) representing 1.9 msf. The largest BTS projects include C&S Grocers' 727,600 sf at 14803 Woodham and Conn's HomePlus' 656,658-sf project, both in the North, and Best Buy's 550,000-sf building in the Southwest.

Three sectors contain the bulk of projects under construction. The Southeast offers 2.5 msf, the Northwest has 2.8 msf and the North has 2.9 msf. Petrochemical activity at the Port of Houston is driving most of the Southeast's projects while new development for e-commerce suppliers continues in the North and Northwest sectors.

## Select Q3 2018 Deliveries

**Vinmar International, 7601 Sutton**  
(500,006 sf) Southeast

**Goodman Manufacturing, 3751 N. Eldridge Parkway**  
(369,755 sf) Northwest

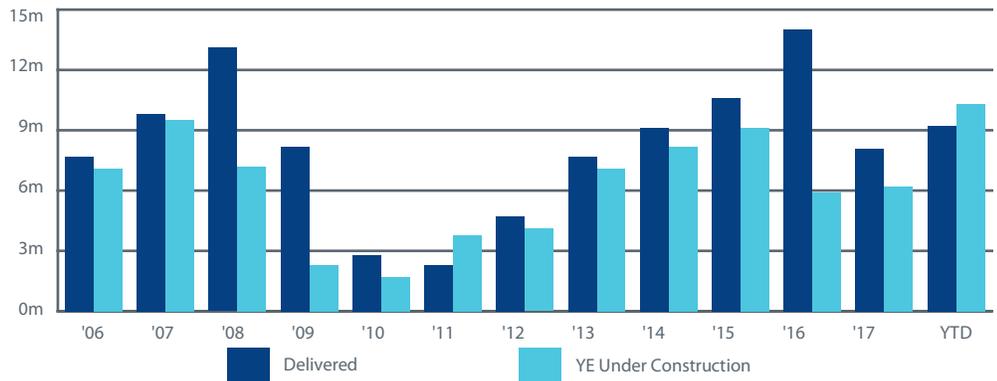
**Bayport Logistics Park Bldg. 2, 4925 Underwood Road**  
(257,835 sf) Southeast

**Gateway North Business Park Bldg. 3, 20510 Hempstead Road**  
(368,432 sf) Northwest

## Q3 2018 Highlights

- **Vinmar International**, a global marketing, distribution and project development company, started its move into its BTS, rail-served, 500,006-sf project located in Cedar Port Industrial Park. This project was the largest building completed during third quarter.
- Soon to join Vinmar at Cedar Park is **Plastic Bagging & Packing**, an international producer of plastic bagging materials and provider of packaging services, who committed to a new BTS, 519,224-sf distribution center to be completed in the summer of 2019.
- Dallas-based **Crow Holdings** will break ground in January on a 530,000-sf industrial project in north Houston's Greens Crossing Business Park called Layne Crossing, which will eventually contain six warehouse buildings that range from 56,400 sf to 174,000 sf.
- Houston-based **Triten Real Estate Partners** and **The Carlyle Group** broke ground in July on a 404,160-sf distribution center at 4600 Underwood. **Triten** also announced starting two buildings totaling more than 330,000 sf in Bayport North Logistics Center to deliver in early 2019.

## Construction Timeline



- More than 10 msf of industrial product is under construction while 4.2 msf was completed during the third quarter; 9.2 msf has been completed year-to-date.
- Houston-based **Hines**, which just started construction on a 1-msf office tower in downtown Houston, has announced plans to develop two different 1.5-msf projects: Pintail Crossing Business Park in west Houston and, Grand National Business Park, a 107-acre project in northwest Houston at Beltway 8 and Gessner.
- Houston-based **Clay Development and Construction** announced plans to break ground on a 349,440-sf spec distribution center, Cedar Port IV, in Baytown in October for delivery in the summer of 2019, and a 214,300-sf distribution center in Sheldon Business Park in December for completion in the second quarter of 2019.
- Houston-based **Wolff Cos.** bought more than 500 acres in Waller County off U.S. 290 and FM 362. A residential developer bought 270 acres; Wolff plans a mixed-used development including industrial, office, retail and multi-family on the remaining acreage.

## Trends to Watch



*The price of oil rose above \$70/ bbl for the first time since the downturn took hold in 2015.*



*Employment grew 4.3%, creating 128,700 jobs for the 12 months ending September 2018. All sectors reported growth except for Oil & Gas Extraction (-3.0%), Information (-1.3%), and Finance and Insurance (-0.3%). The largest increase was in Construction (13.8%).*



*The Purchasing Manager's Index (PMI) registered 61.2 in August, indicating short-term expansion in regional production.*

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