



Houston industrial market report

Q4 2022

**AVISON
YOUNG**

Houston industrial market trends

28.0 msf

Occupier demand remains strong going into 2023

The industrial market ended the year with solid absorption gains totaling 28.0 million square feet (msf), slightly below 2021's record absorption pace, which has helped push the overall vacancy rate down 100 basis points year-over-year.

Our take on this trend...

Vacancy and availability rates have trended downward over the past two years but remained unchanged during the quarter as new supply additions slightly outpaced demand for the second straight quarter with 5.3 msf being completed in the fourth quarter and 23.4 msf of new product delivered in 2022.

31.3 msf

Developers keep building at a record pace to satisfy demand

Developers continued expanding their product offerings with record-level construction even with slower levels of absorption and leasing activity in 2022. The construction pipeline has expanded to an all-time high of 31.3 msf.

Our take on this trend...

The industrial development pipeline has kept pace with the current levels of absorption and leasing activity. With a large wave of new construction deliveries expected in 2023, the pace of speculative construction starts could level off in 2023, especially if leasing activity begins to slow down.

12.9%

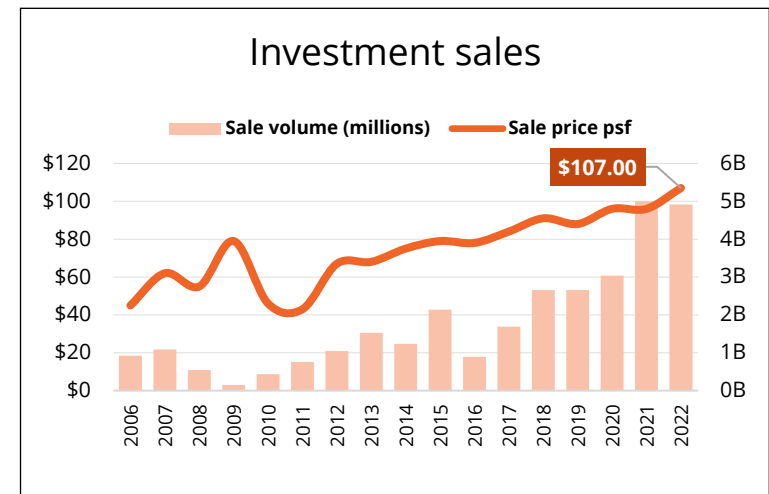
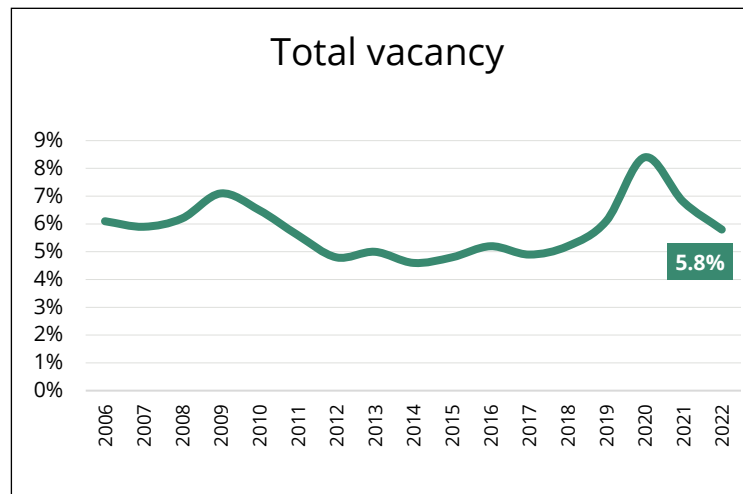
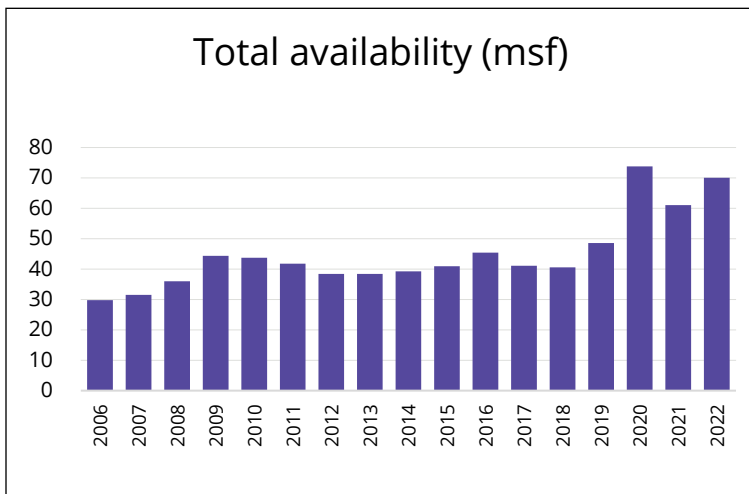
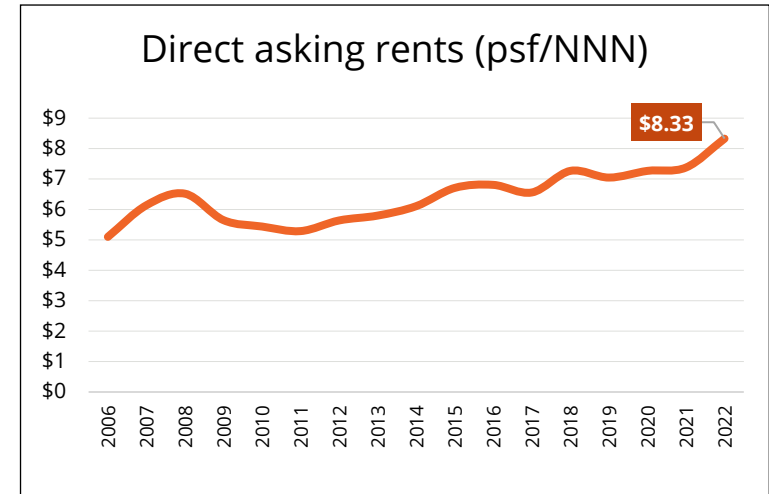
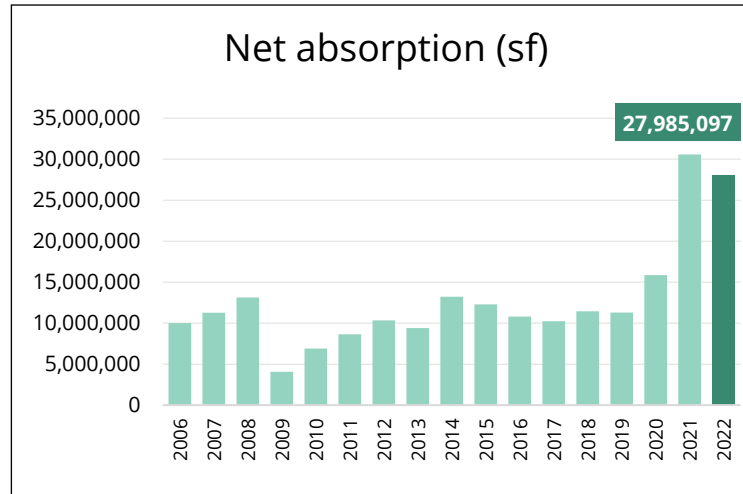
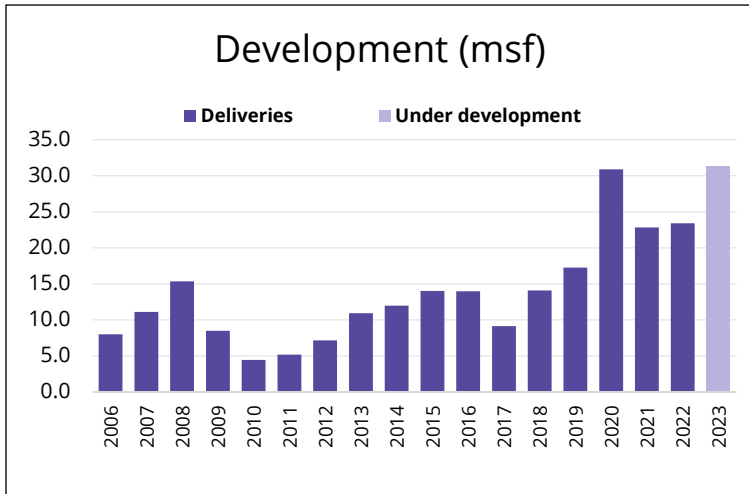
Solid rent growth has pushed lease rates to a record high

Rising construction costs, inflation and low vacancy rates continue to drive rental rates upwards across the market. Overall asking rents rose by 1.3% during the fourth quarter and have increased by 12.9% year-over-year.

Our take on this trend...

Rental rates have been impacted by both increased demand and rising construction costs. If occupier demand begins to taper off while a wave of new supply comes online in the year ahead, asking rents could be impacted and may begin to stabilize.

Houston industrial market indicators

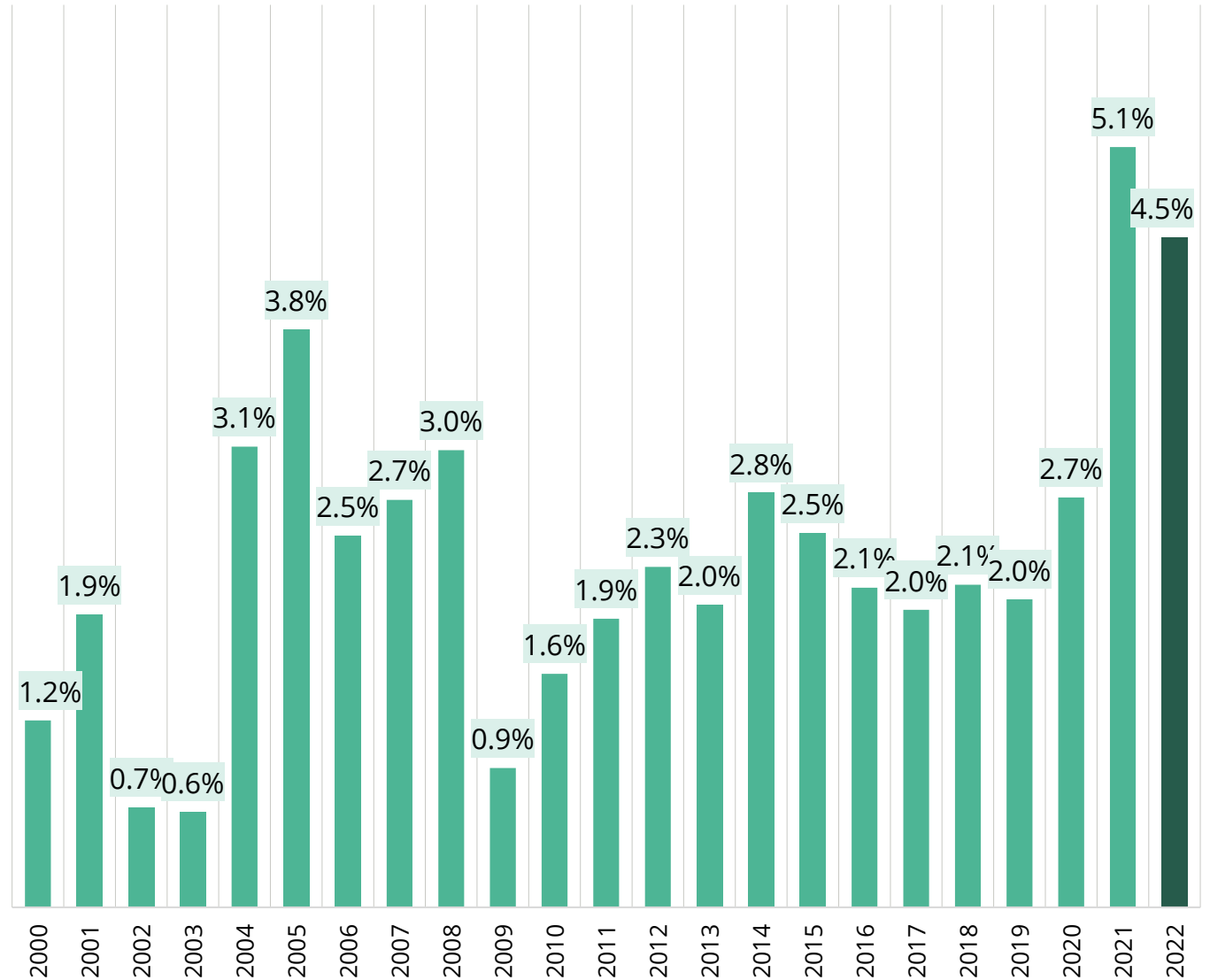


Net absorption as a share of inventory

4.5%

Occupier demand remains robust despite slight decline over prior year's record absorption level.

The industrial market closed the year with 4.9 msf of positive absorption, bringing the annual total up to nearly 28.0 msf. Warehouse/distribution space continues to dominate with strong demand accounting for 86% of the annual absorption gains but has slightly declined from its record absorption pace in 2021.



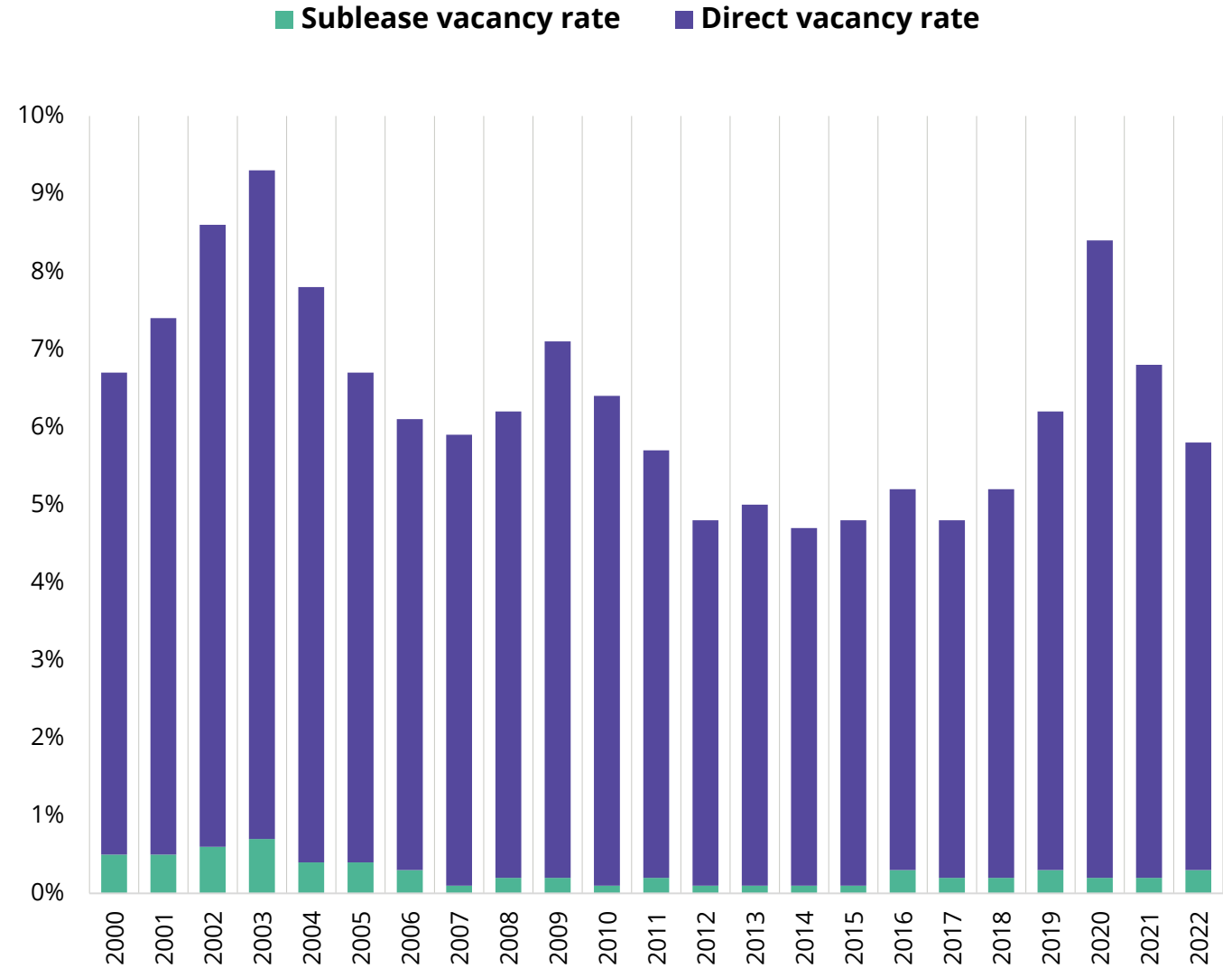
Source: AVANT by Avison Young, CoStar

Industrial market vacancy rate

5.8%

Vacancy declines further as strong demand for industrial space outpaces new supply additions.

Houston's industrial market ended the year with an overall vacancy rate of 5.8%, unchanged from the prior quarter, but has fallen 100 basis points year-over-year as demand outpaced new supply additions. Vacancy showed signs of stabilization as new construction deliveries outpaced demand for the second consecutive quarter.



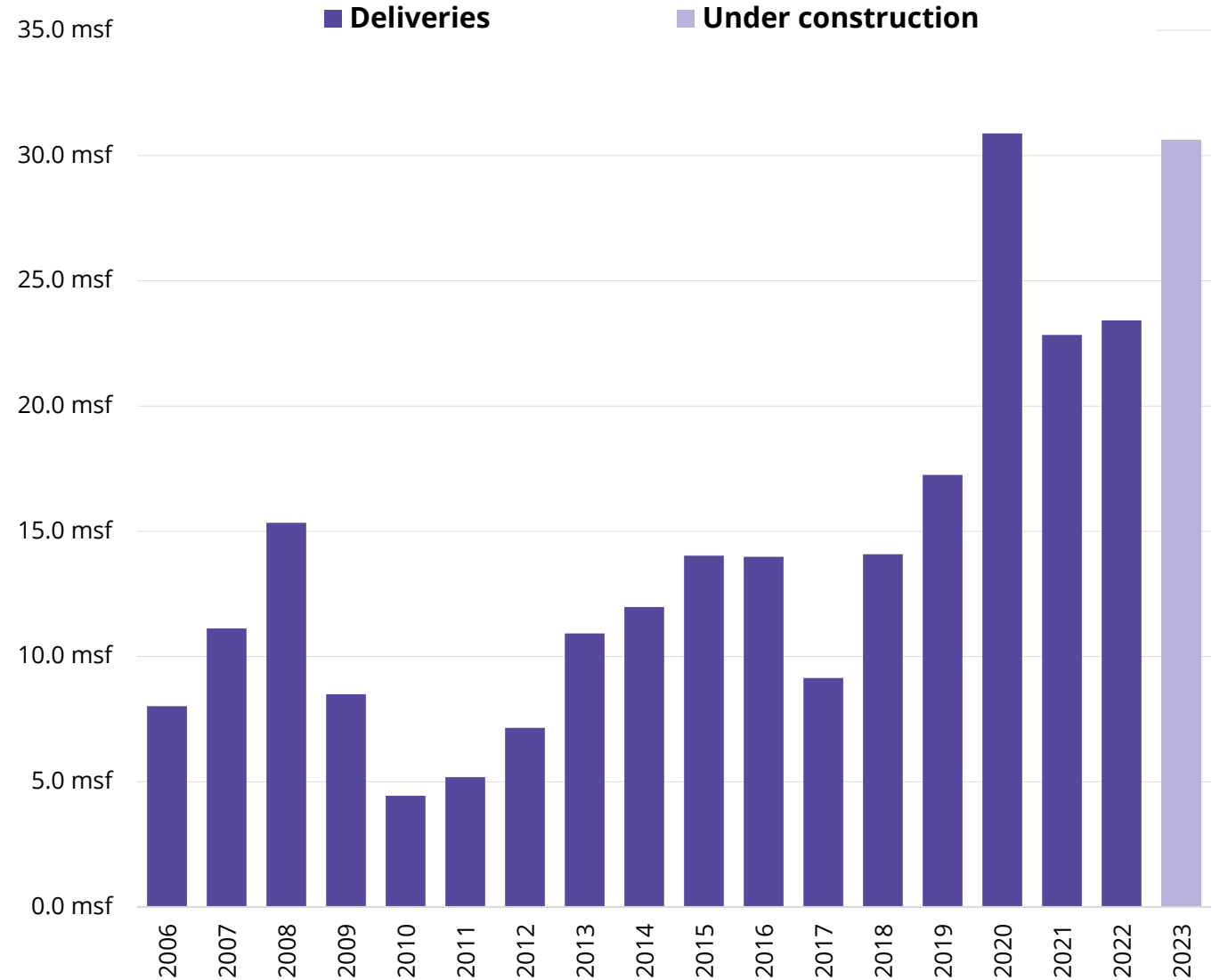
Source: CoStar

Houston development activity

31.3 msf

Robust occupier demand has caused construction levels to reach an all-time high.

Developers delivered nearly 5.4 msf of new product throughout Houston during the fourth quarter of 2022, bringing the annual total to 23.4 msf. With just over 30 msf of new product slated to come online in 2023, vacancy could begin to climb especially if leasing activity slows down.



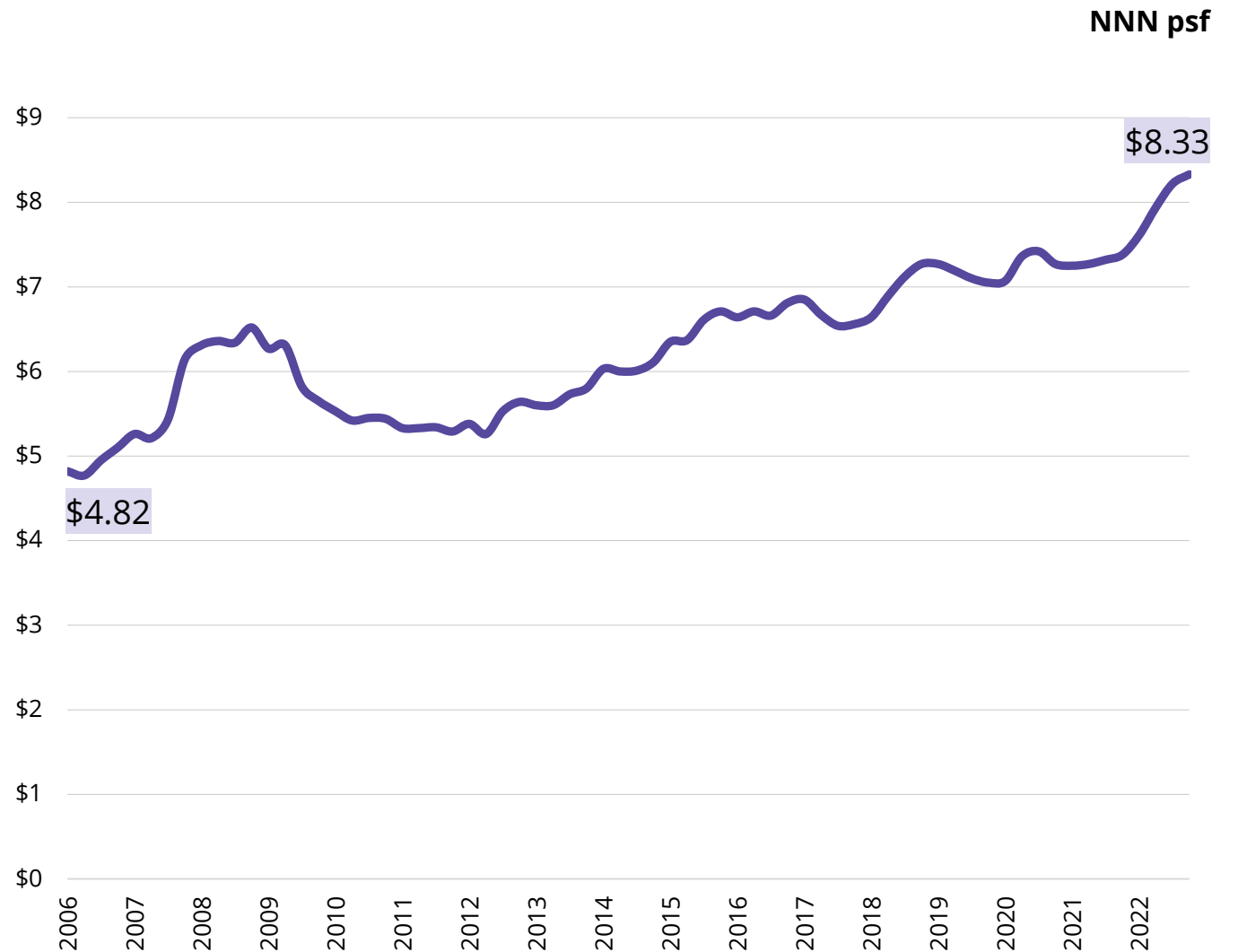
Source: AVANT by Avison Young, CoStar

Houston NNN asking rents

\$8.33 psf

Rental rates continue to climb, driven by elevated demand and the delivery of class A product.

Rising construction costs, inflation and low vacancy rates continue to drive rental rates upwards across the Houston market. Overall direct asking rents have substantially increased by 12.9% year-over-year to \$8.33 NNN. Warehouse/distribution product has seen asking rents climb 11.7% to \$7.85 NNN over the prior year.



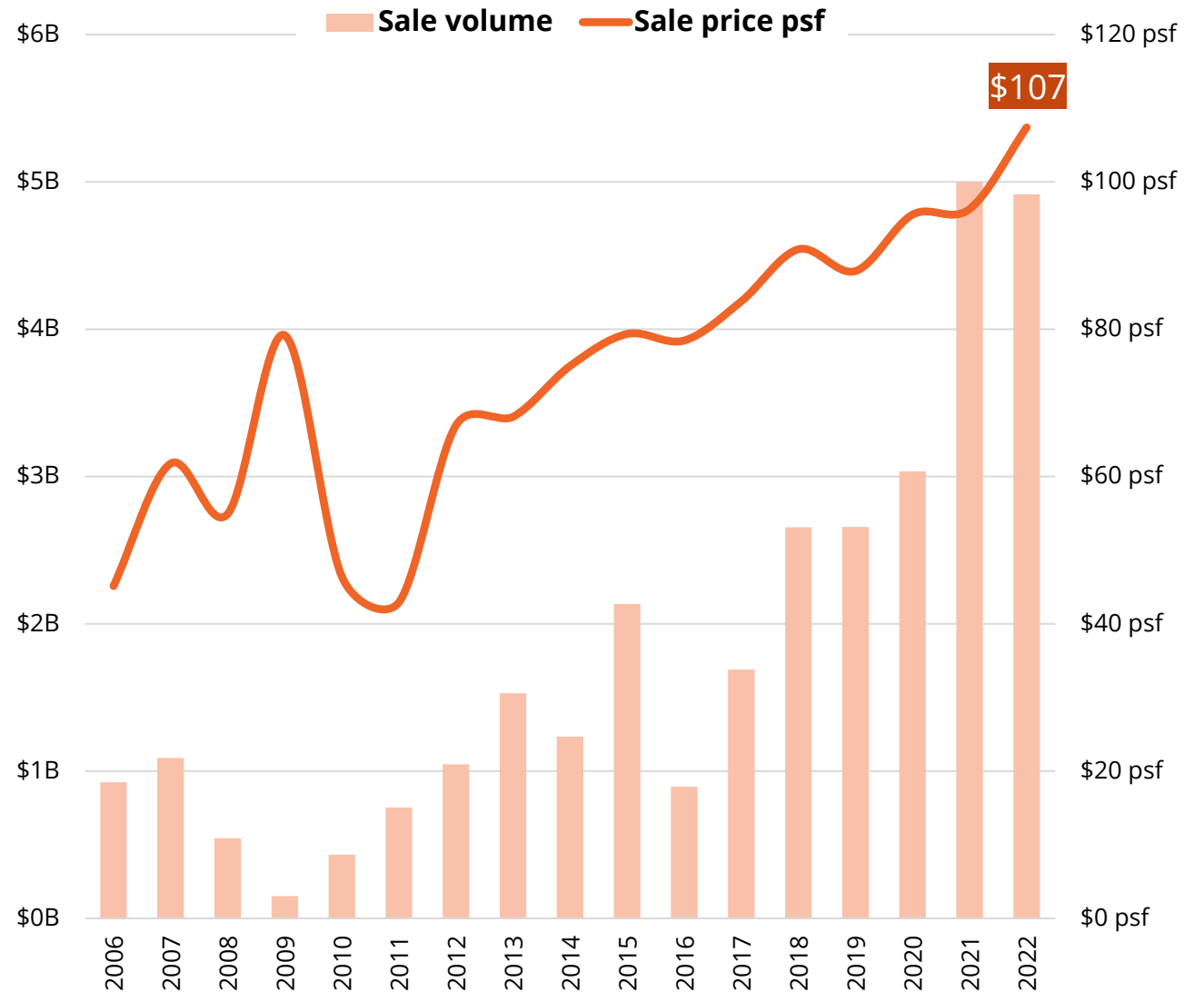
Source: AVANT by Avison Young

Houston investment sales activity and price

\$107 psf

Industrial property sales price per square foot continues upward climb to record high.

Houston's industrial investment sales volume ended the year at just over \$4.9 billion traded in 2022. Industrial property trades averaged \$107 per square foot, an average gain of \$11 per square foot year-over-year. Warehouse/distribution product accounted for the bulk of the sales activity at \$3.4 billion traded with acquisitions averaging \$104 per square foot.



Houston industrial market activity

Recent leasing activity

Tenant name	Building Name	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Tesla	Empire West Business Park Building 9	111 Empire Boulevard	October 2022	1,039,060	New	Direct	Northwest
Penske Logistics	South Belt Central Business Park Building 4	4851 South Sam Houston Parkway East	November 2022	603,780	New	Direct	South
RoadOne IntermodaLogistics	Bay Area Business Park Building 3	9501 Bay Area Boulevard	October 2022	480,480	New	Direct	Southeast
Warefor Logistics	Mason Ranch Building 1	2244 North Mason Road	November 2022	373,860	New	Direct	Northwest
H-E-B	Empire West Business Park Building 4	32302 US Highway 90 Business	October 2022	333,030	New	Direct	Northwest
Fresh Pak	290 Eight Distribution Center Building 1	12100 W Little York Road	October 2022	295,680	New	Direct	Northwest
Gulf Stream Marine	Cedar Crossing Business Park Building D	4000 Cedar Boulevard	November 2022	242,000	Renewal	Direct	Southeast
Frederick Trucking	Bayport South Business Park Building V	10549 Red Bluff Road	October 2022	187,983	New	Direct	Southeast
Daikin	Highland Grove Industrial Park Building 4	10650 Telge Road	October 2022	158,730	New	Direct	Northwest
Aeronet Worldwide	Fallbrook 1	600 Fallbrook Drive	November 2022	154,084	New	Direct	North

Top projects under development

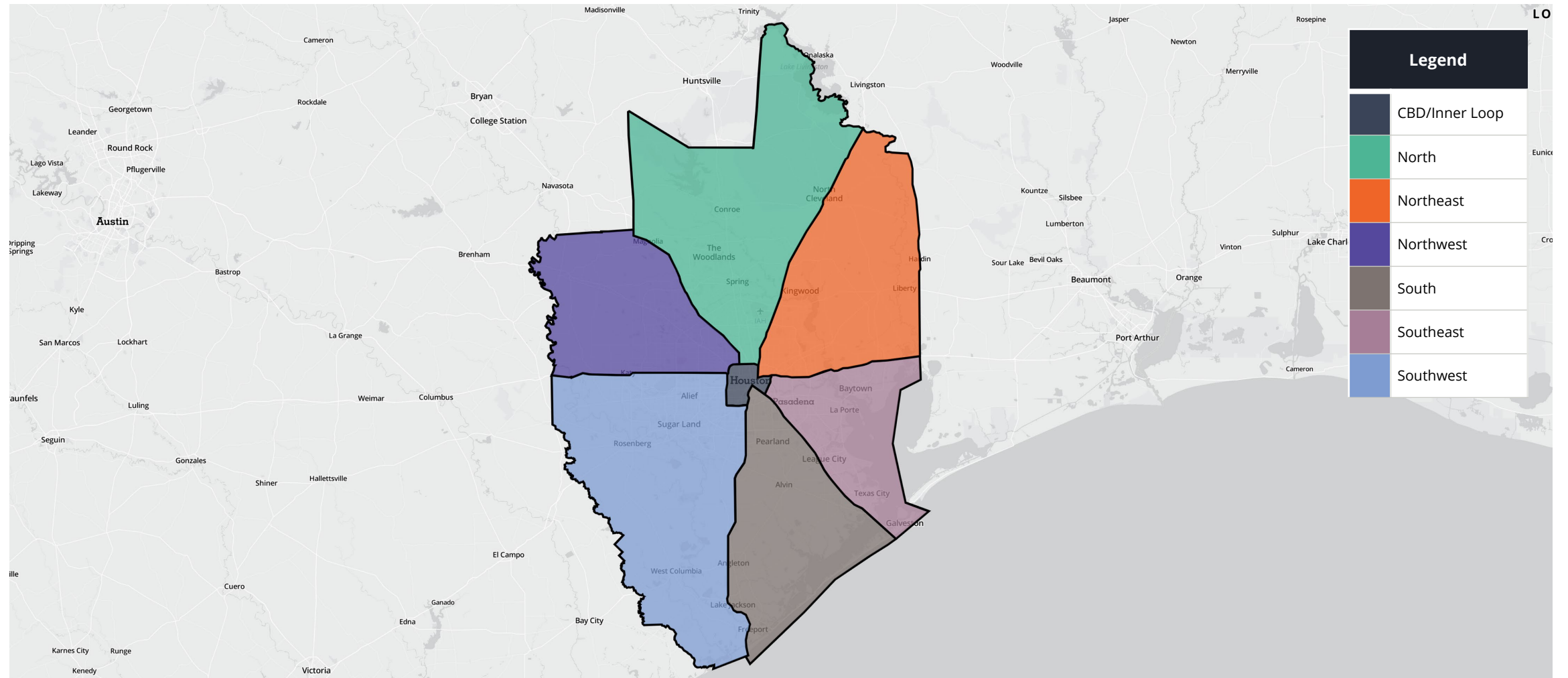
Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
Northport Logistics Center	Conroe Park Drive West	June 2023	1,224,498	0%	Lovett Industrial	North
TGS Cedar Port DC 4	7505 Fisher Road	January 2023	1,218,956	0%	Trans-Global Solutions Inc.	Southeast
Interchange 249 - Macy's	14640 Boudreaux Road	July 2023	908,853	100%	Lovett Commercial	Northwest
Kingsland Ranch Logistics Park Building 3	30815 Kingsland Boulevard	March 2023	855,610	0%	Falcon Commercial Development	Southwest
Grand Central West Industrial Park Building 2	22206 Beckendorff Road	March 2023	843,360	0%	PinPoint Commercial	Northwest

Houston industrial market stats

	Existing inventory sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Leasing Activity sf (YTD)	Deliveries sf (YTD)	Under development sf	Direct asking rent NNN
CBD/Inner Loop	45,051,803	3.9%	1.1%	5.0%	(11,919)	(296,793)	1,001,275	159,085	0	\$6.64
North	117,268,733	6.1%	0.1%	6.2%	712,178	4,431,198	8,131,809	4,304,407	6,414,415	\$8.45
Northeast	43,162,445	6.2%	0.0%	6.2%	154,030	2,623,455	3,983,929	2,117,010	2,073,381	\$5.91
Northwest	176,740,555	5.9%	0.3%	6.2%	1,973,884	8,192,134	13,654,555	7,569,065	7,588,790	\$8.73
South	42,833,705	3.0%	0.1%	3.1%	(336,685)	321,056	2,457,297	83,800	2,311,561	\$8.11
Southeast	117,340,761	4.7%	0.4%	5.1%	1,047,213	8,815,899	11,120,241	5,887,256	7,417,540	\$8.15
Southwest	86,026,682	7.0%	0.2%	7.2%	1,359,321	3,898,148	5,620,395	3,302,486	5,491,246	\$10.73
Overall	628,424,684	5.5%	0.3%	5.8%	4,898,022	27,985,097	45,969,501	23,423,109	31,296,933	\$8.33

	Existing inventory sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Leasing Activity sf (YTD)	Deliveries sf (YTD)	Under development sf	Direct asking rent NNN
Warehouse/distribution	475,079,535	5.9%	0.4%	6.3%	4,399,909	24,129,305	38,927,291	20,493,572	30,910,421	\$7.85
Manufacturing	110,705,276	2.8%	0.1%	2.9%	404,135	3,196,993	3,926,759	2,745,808	294,640	\$7.55
Flex	42,766,443	8.1%	0.2%	8.3%	93,978	658,799	3,115,451	183,729	91,872	\$11.55
Overall	628,424,684	5.5%	0.3%	5.8%	4,898,022	27,985,097	45,969,501	23,423,109	31,296,933	\$8.33

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)

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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Putting people and the planet first

There is a vital role for our sector to create healthy, productive workplaces for employees, cities that are centers of prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.

Global ESG Report



Manufacturing in motion

Reshoring and nearshoring are not new topics in the U.S., but they do have new life – and perhaps for good cause. In the past it's only produced inconsistent results across industries and is continuing to ebb and flow over time and within the American psyche.

U.S. reshoring and nearshoring



Tracking U.S. employment trends

Rising layoffs and declining job postings are also indicating that the economy is becoming distressed. Employment data and industries are analyzed across cycles for a real-time and historical look at economic conditions.

U.S. Employment Overview

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