



Houston industrial market report

Q4 2024

**AVISON
YOUNG**

Houston industrial market trends

20.8 msf

Positive net absorption signals strong and healthy demand

Overall absorption for 2024 declined by 12.8% to 20.8 million square feet (msf), compared to 23.9 msf in 2023. While annual net absorption slowed, Q4 2024 saw a strong finish with 4.9 msf absorbed. A key driver of this activity was the retail giant Target's 1.2 msf occupancy into a build-to-suit distribution facility in the South submarket. Other notable absorption gains include Lecangs occupying a 509k sf distribution facility in the Southwest and H Mart, an owner-user, purchasing a 362k sf distribution center in the North submarket.

11.5 msf

The supply of new industrial buildings has normalized

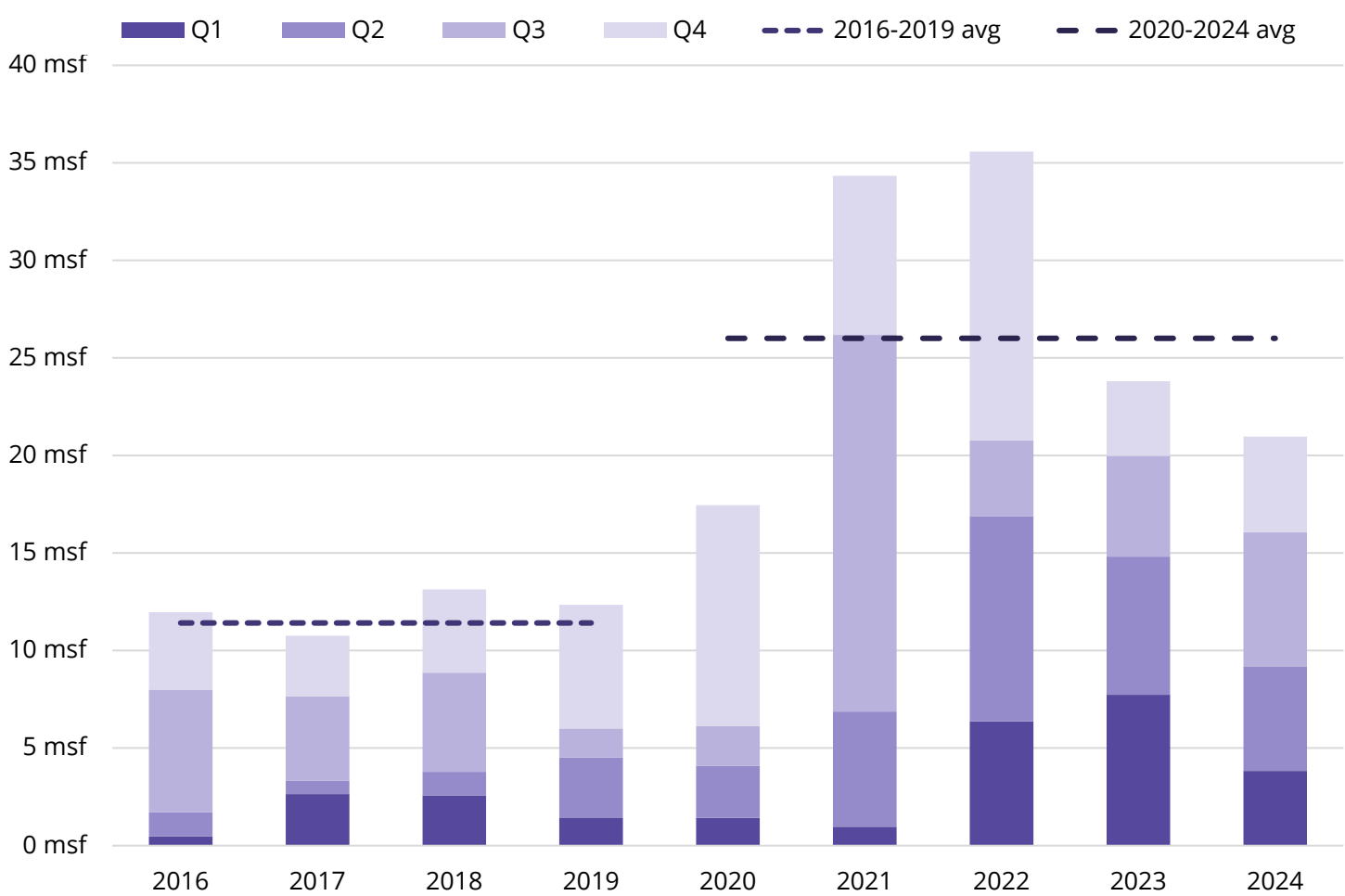
The Houston industrial construction pipeline stands at 11.5 msf across 55 projects at year-end 2024, with an additional 11.2 msf slated for delivery in 2025. Builders are prioritizing the completion of existing development projects. This adjustment reflects builders' sensitivity to market conditions, including high inflation and interest rates. Despite a slight demand slowdown, strong net absorption continues to outpace supply, underscoring the need for continued development to meet future tenant space requirements.

34.4 msf

Leasing remains strong despite stabilizing demand

Leasing activity peaked in 2022, averaging 41.4 msf over the past five years, a nearly 50% increase from the pre-pandemic average of 27.7 msf. However, leasing activity in 2024 was down 34% from the 2022 peak as demand decelerates and normalizes from the pandemic boom. In 2024, leasing activity was primarily driven by logistics, distribution, and parcel delivery companies, which accounted for 31.4% of the market share, followed by energy-related companies at 10.5%.

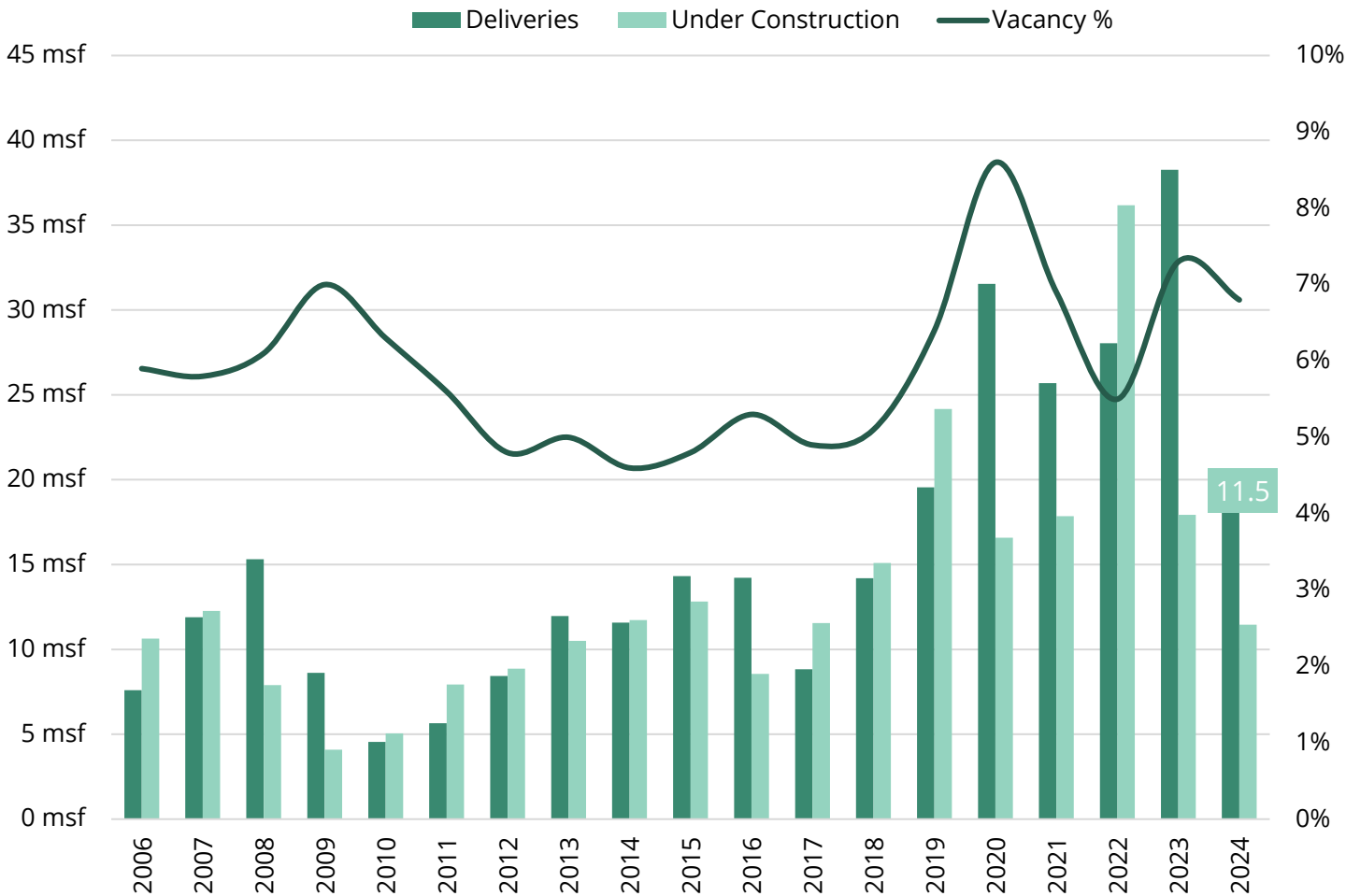
Houston industrial market demand



The industrial real estate market continues to cool off a bit. Things were booming thanks to e-commerce, with way more space getting snapped up than usual.

Before the pandemic, the market experienced around 11.4 msf of net absorption per year. But the last five years have been exponential, averaging around 26 msf per year. And even though things are slowing down, demand remains strong and well above the pre-pandemic average.

Houston industrial construction activity

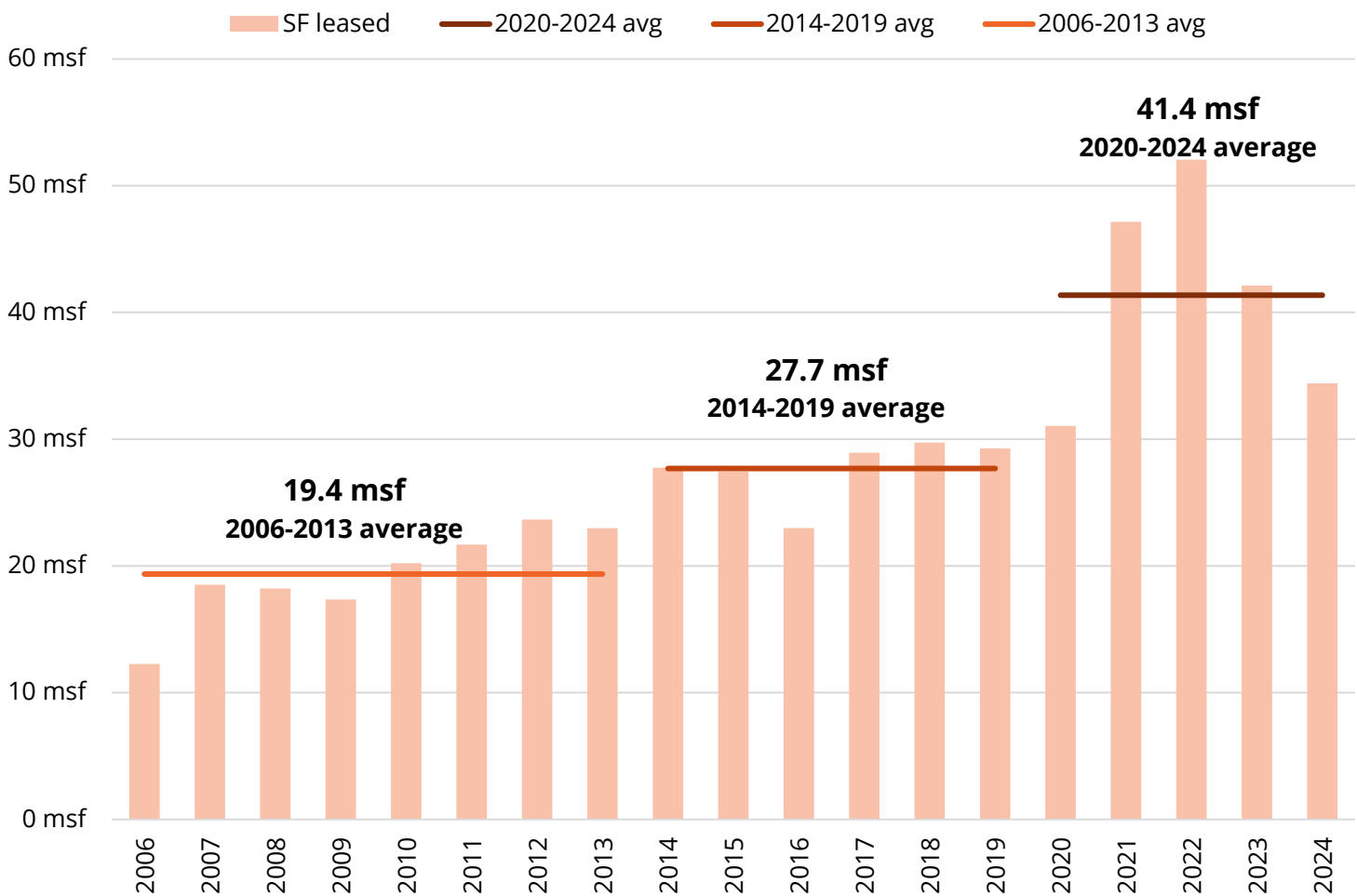


In 2024, 18.1 msf of new industrial space entered the market, with an additional 11.2 msf slated for delivery in 2025.

Despite the recent cooling, strong net absorption continues to outpace supply. This dynamic necessitates increased construction activity in the near future to ensure adequate space options for future occupiers.

However, new immigration policies are prompting builders to carefully assess their next moves.

Houston industrial leasing activity



Since its peak in 2022, industrial leasing activity has been declining at a rate of 19.0% per year. Leasing activity in Q4 2024 totaled 5.9 msf, marking the lowest level since the second half of 2020.

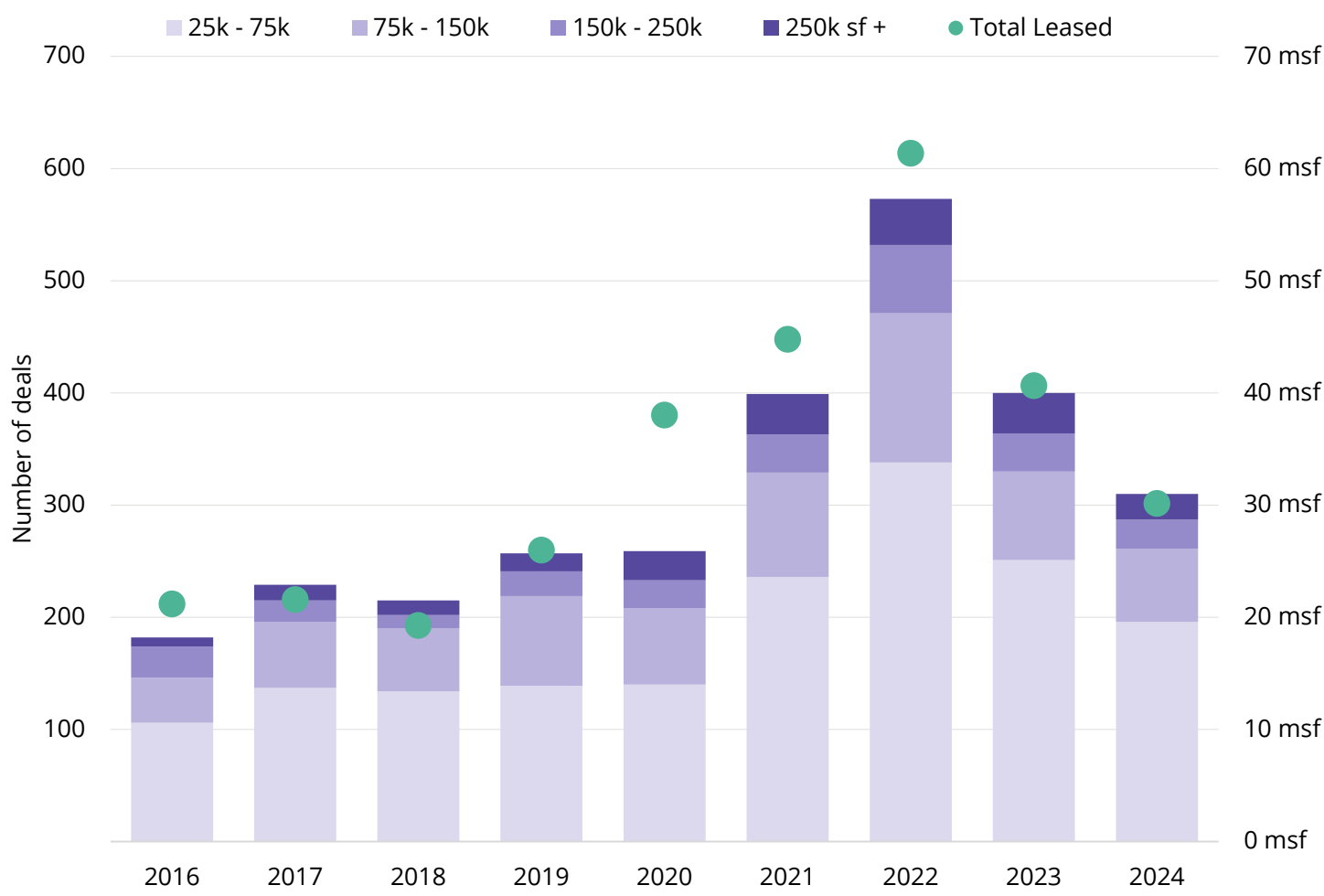
As a leading indicator of occupier demand, leasing activity offers a more immediate perspective by capturing deals as they are signed, even if tenant move-ins occur later. While net absorption is a lagging indicator measuring the actual physical occupancy when tenants or owner-users move in and out.

Occupier market conditions

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



Leasing volume by number of deals

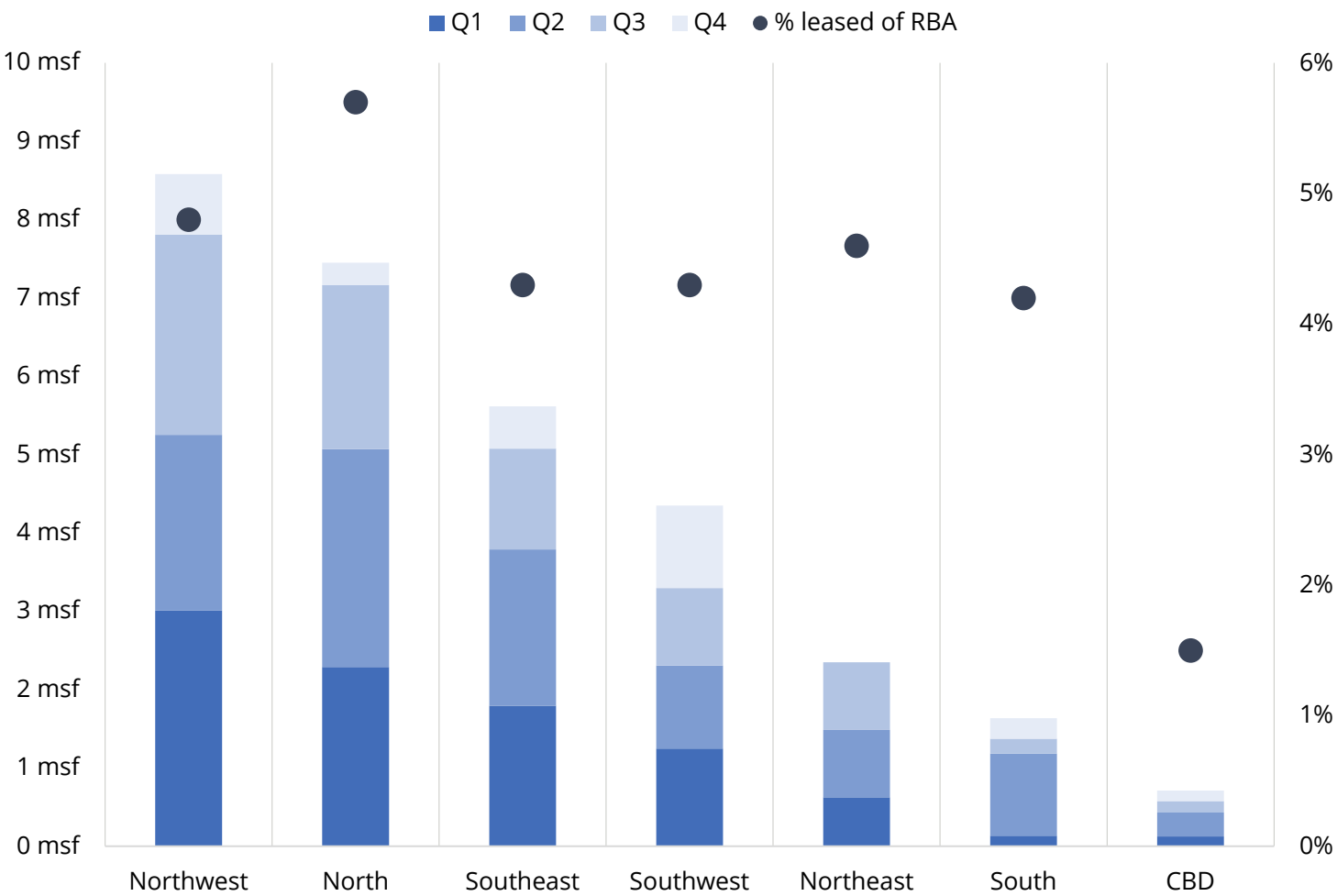


Bigger buildings usually have more space, but that doesn't mean there are more deals happening. In 2024, only 23 deals were for spaces over 250k sf, while there were 196 deals for spaces between 25k and 75k sf, and 65 deals for spaces between 75k and 150k sf.

Also, while we saw more leases for those larger buildings (over 250k sf) during the pandemic peak in 2022, that increase happened across the board – for all sizes of buildings and spaces in the Houston market.

Source: AVANT by Avison Young, CoStar
Note: only deals in buildings 20,000 sq. ft. and larger were analyzed.

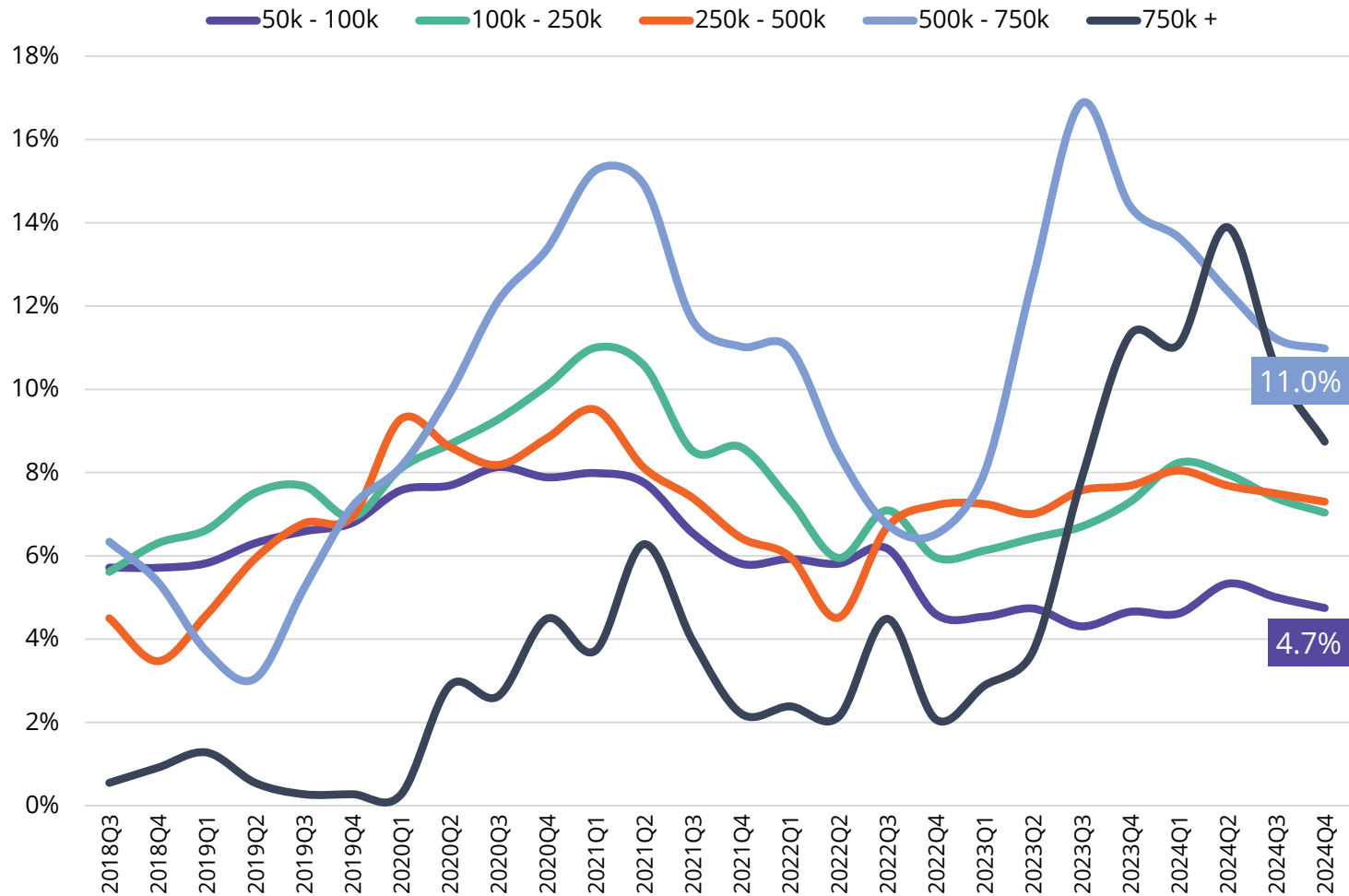
Leasing volume by submarket



In 2024, the industrial Northwest submarket led in leasing volume with 8.6 msf, driven by users in logistics, distribution, and parcel delivery, as well as industrial equipment and machinery.

Conversely, the North submarket had the highest leasing activity share, accounting for 5.8% of the total rentable building area. This was primarily driven by industries related to engineering, architecture, and construction.

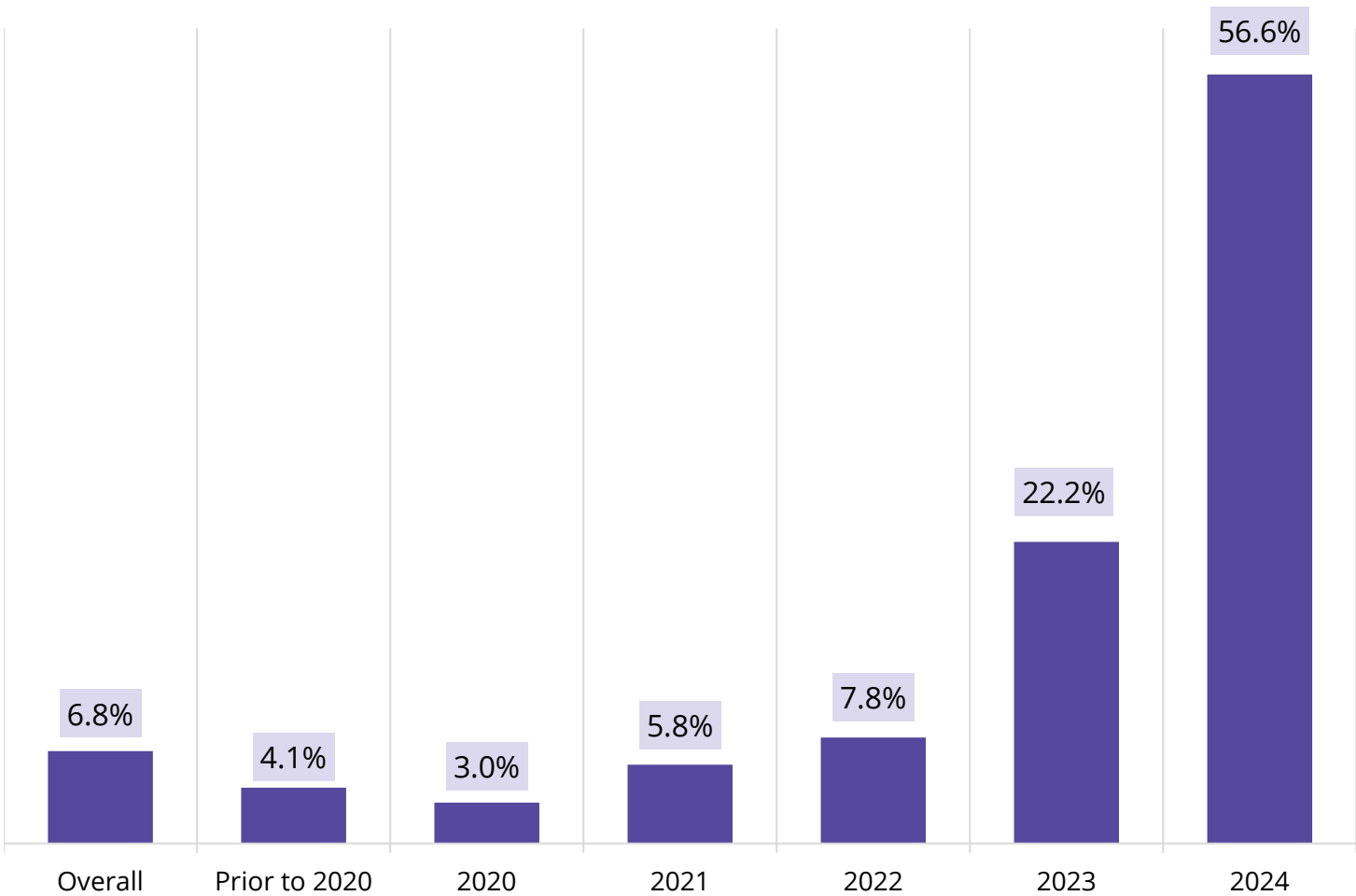
Total vacancy by building size



The Houston industrial market saw a modest 55-basis-point decline in vacancy rates over the past year to 6.8%. This improvement occurred amid cooling demand and slower construction starts, creating a supply-demand imbalance favoring absorption of recently completed buildings. While current activity has slowed, long-term demand remains robust, and the construction slowdown could lead to future space shortages.

Smaller buildings (between 50k and 100k sf) are highly sought after with a low 4.7% vacancy rate. In contrast, larger buildings over 500k sf are struggling a bit more, sitting at a 9.7% vacancy rate.

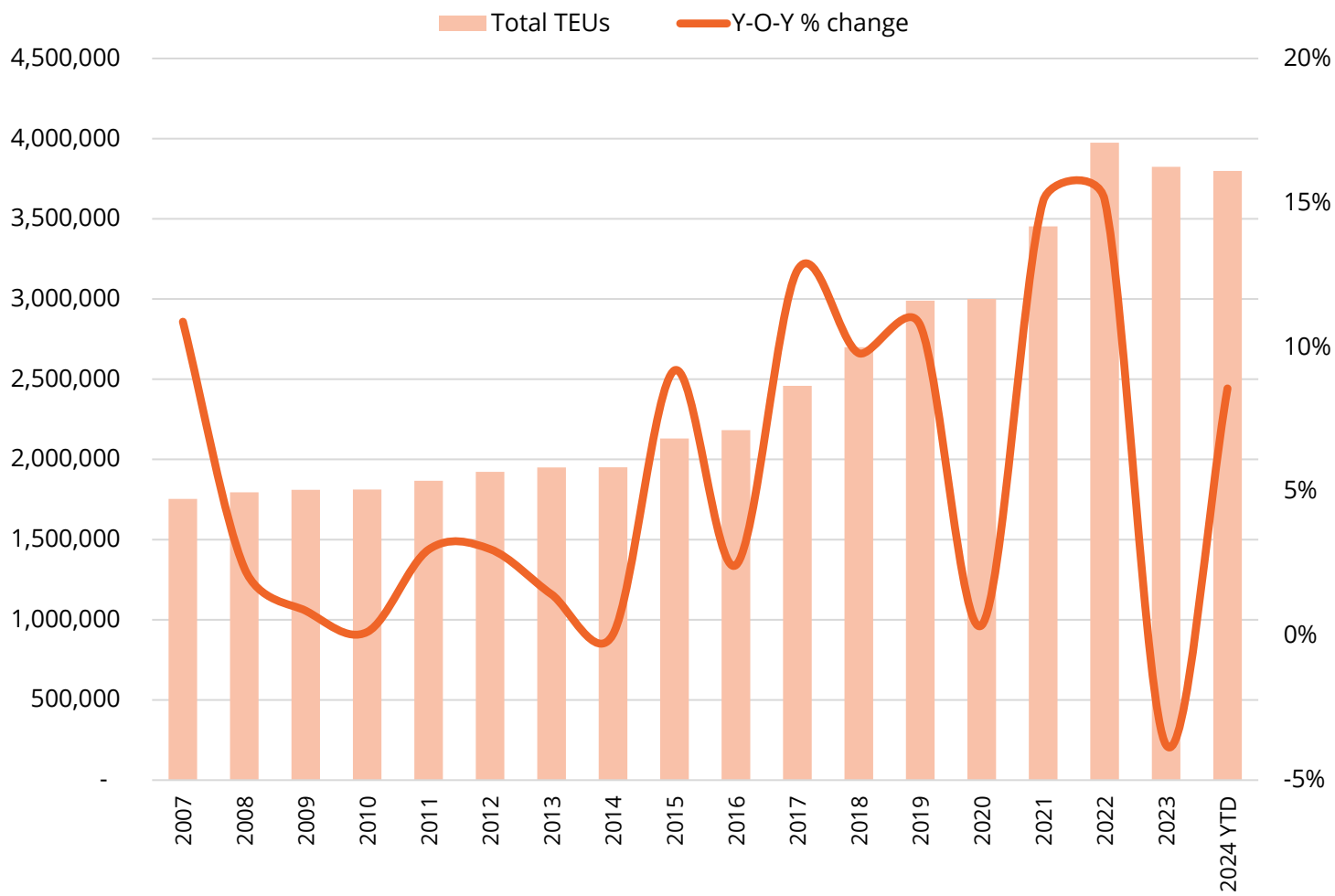
Total vacancy by year built



The overall industrial vacancy rate in Houston has decreased year-over-year, indicating a healthy market adjustment. Vacancies continue to be primarily concentrated in newer properties, specifically those completed within the last year.

This past quarter, the industrial market witnessed the lowest construction activity in seven years, providing occupiers with a chance to absorb the new inventory. Lease-up times for new construction remain steady as occupier demand has shown signs of stabilization.

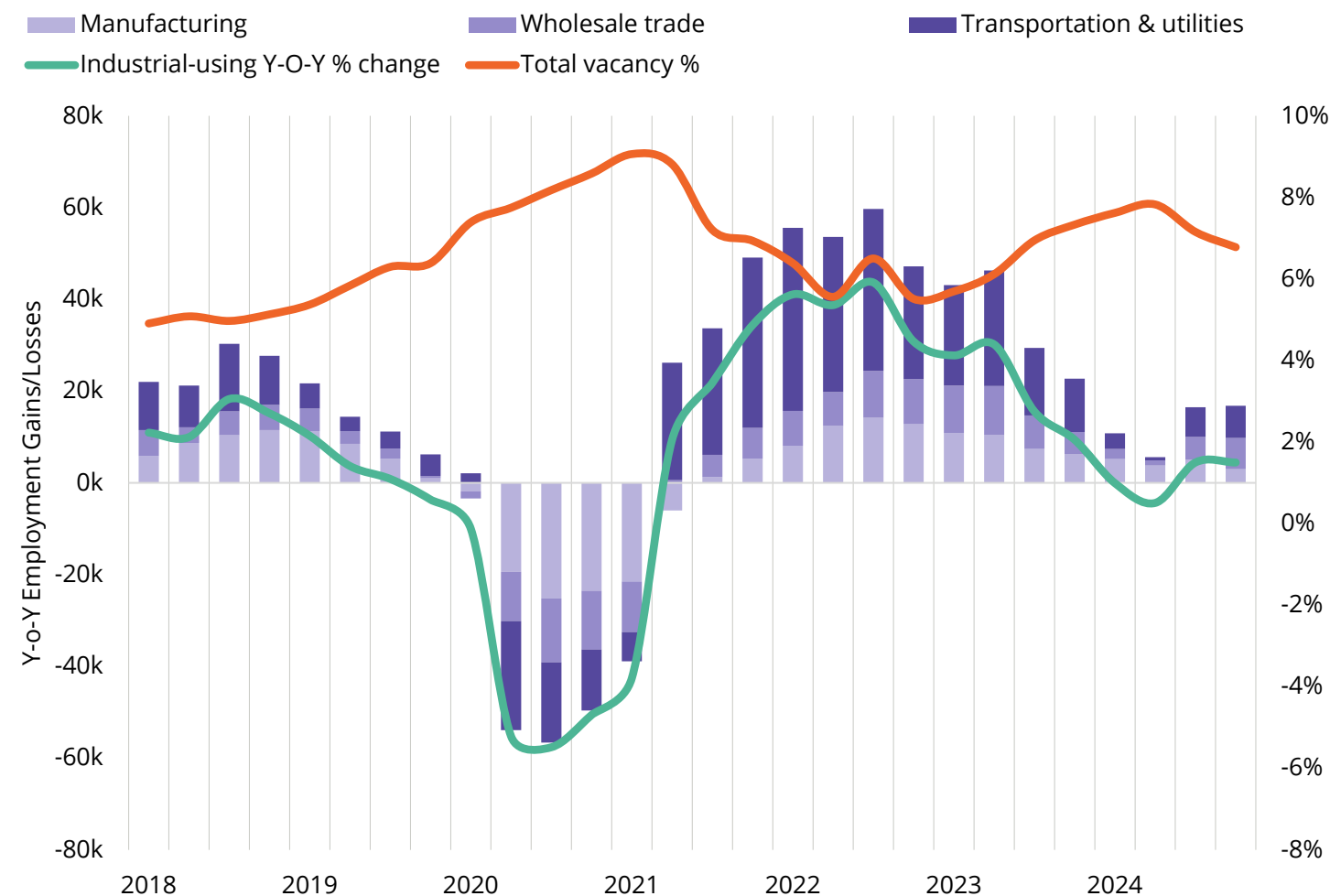
Houston port activity



Houston's Port demonstrates continued strong growth, with container traffic increasing by 8.8% year-over-year, handling 4.1 million TEUs in the past 12 months since November.

However, ongoing labor negotiations between the International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) pose a risk of disruptions if a permanent agreement is not reached by January 15th. Even with Hurricane Beryl and the ILA strike last year, Port Houston CEO Charlie Jenkins says the port maintained efficient operations, thanking the U.S. Army Corps of Engineers for channel maintenance.

Houston industrial employment



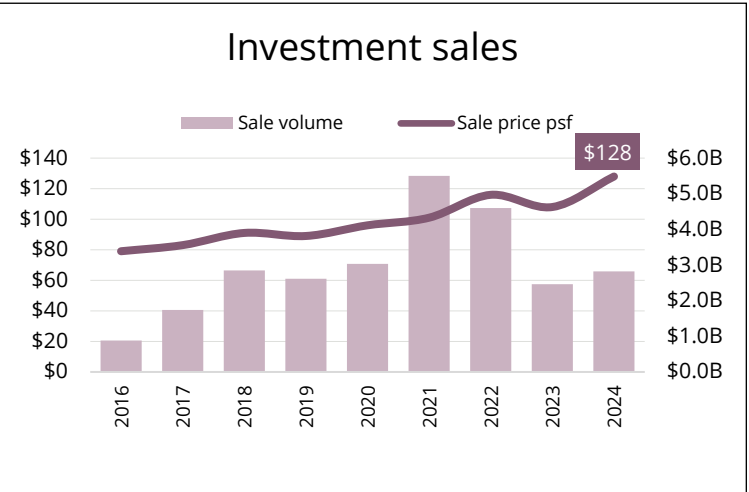
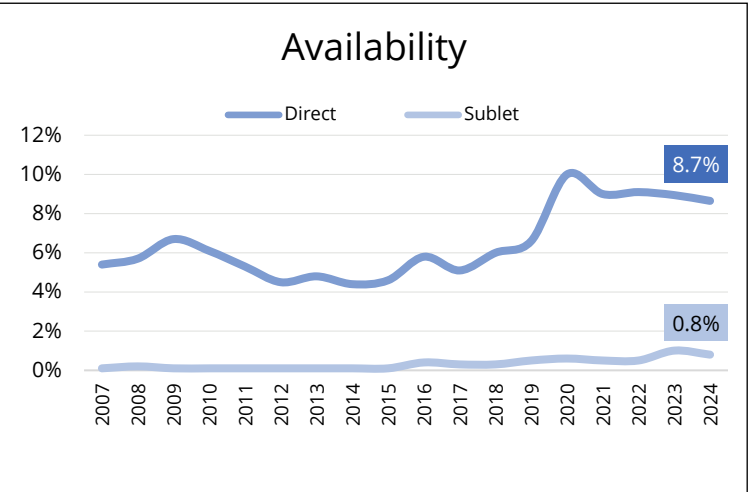
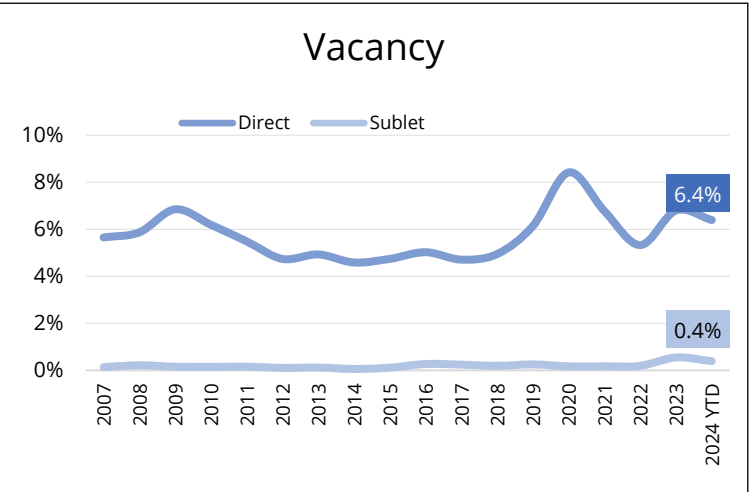
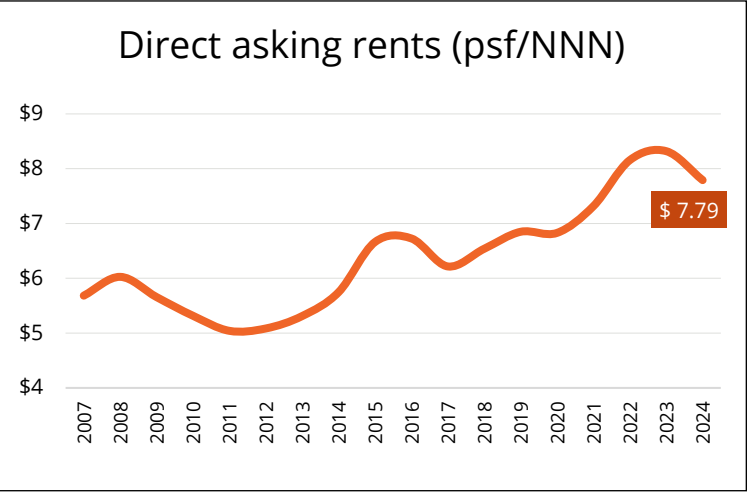
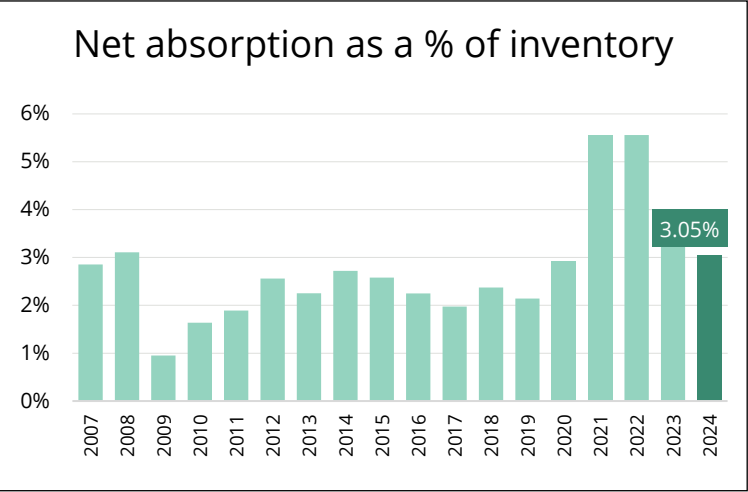
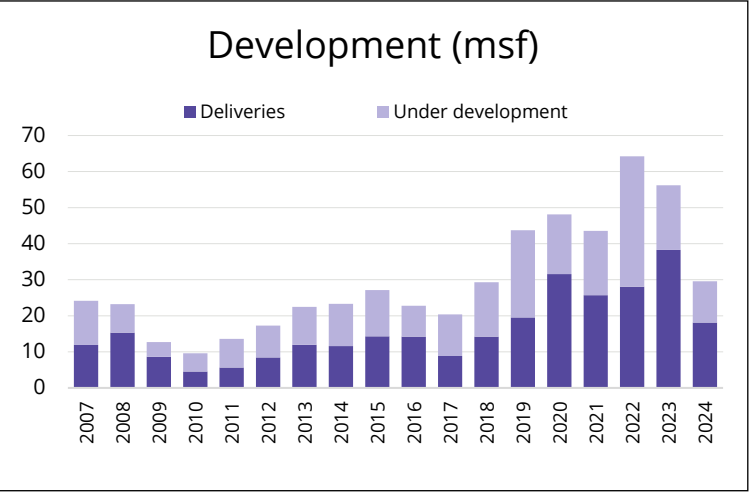
Houston's industrial employment base has significantly expanded by 9.9% since early 2020 but has shown signs of stabilization, returning to pre-pandemic levels with a modest 1.5% year-over-year growth.

While a surge in new industrial space completions initially drove up vacancy rates, the recent construction slowdown coupled with increased demand from industrial-using space employers has contributed to a decrease in vacancy rates.

Appendix



Houston industrial market indicators



Houston industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
US Elogistics	14942 South Post Oak Road	Southwest	Oct 2024	302,825	New	Direct
United Imaging	11550 North Spectrum Boulevard	Southwest	Oct 2024	216,004	New	Direct
Keen Transport	7551 South Sam Houston Parkway East	South	Oct 2024	160,720	New	Direct
Deluxe Home of USA	300 Airtex Drive	North	Nov 2024	136,809	New	Direct
LSI Industries	15420 Market Street	Southeast	Nov 2024	129,745	New	Direct
Borusan Mannesmann Pipe U.S.	4908 Borusan Road	Southeast	Dec 2024	122,963	New	Direct
Pro Parts Center	7810 Fairbanks North Houston Road	Northwest	Oct 2024	120,252	New	Direct
SLG Lighting	11325 Cash Road	Southwest	Oct 2024	114,819	New	Direct
Action Stainless & Alloys	10111 Houston Oaks Drive	Northwest	Nov 2024	105,300	New	Direct
A-1 Delivery	16333 Tomball Parkway	Northwest	Nov 2024	94,604	New	Direct

Top projects under development

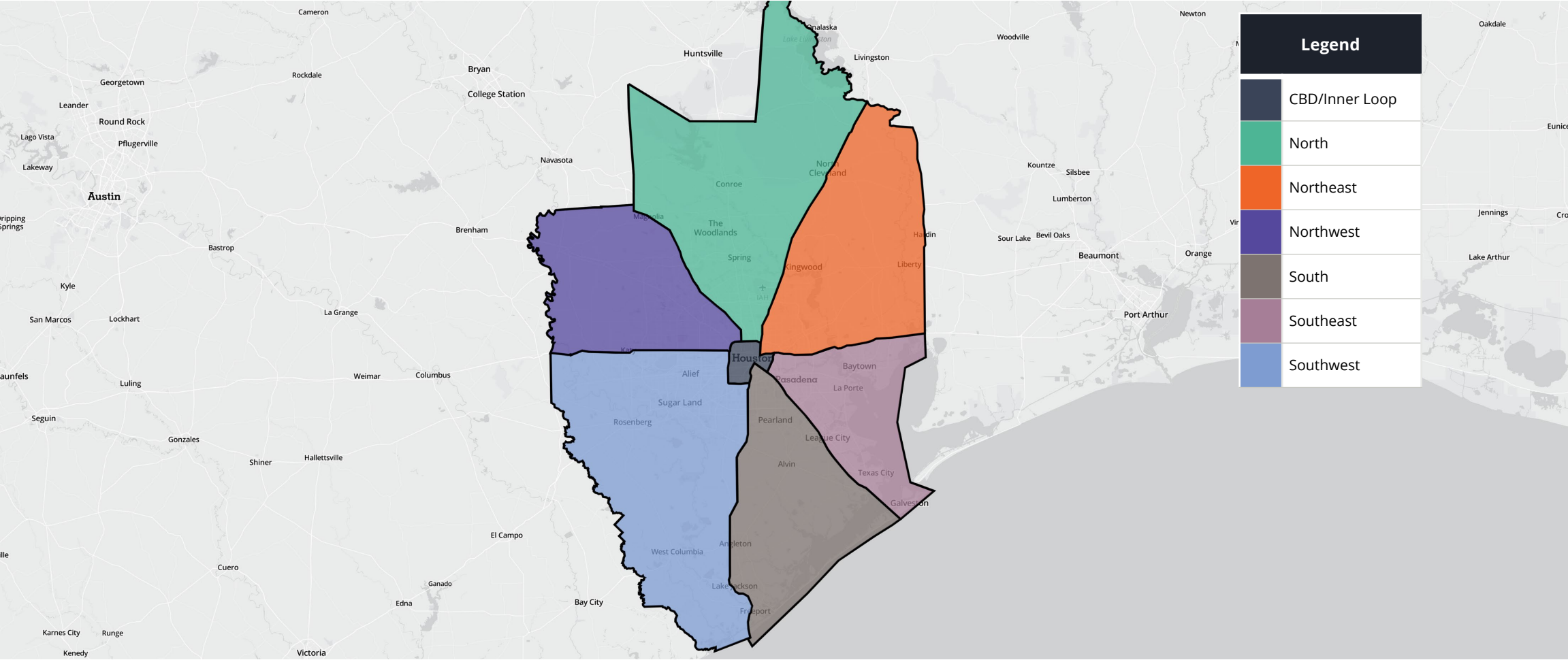
Property	Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Carpenters Logistics Center Building 1	610 Lockhaven Drive	Southeast	Jan 2025	752,134	0%	Crow Holdings
Westpoint 45	410 West Road	North	Apr 2025	728,080	0%	Vigavi Realty
Packwell	1105 Essex Court	Southeast	Feb 2025	725,000	100%	Angler Construction
East Belt Logistics Park Building 1	12330 Lockwood Road	Northeast	Nov 2025	591,560	0%	Transwestern
Constellation Eldridge	6401 North Eldridge Parkway	Northwest	Jan 2025	537,375	0%	Constellation Real Estate Partners

Houston industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2024)	Net absorption (YTD)	Annual direct asking rent psf NNN
CBD	47,575,146	0	0	6.5%	0.4%	6.9%	(174,697)	(238,537)	\$8.92
North	130,247,930	2,012,045	1,453,059	5.8%	0.3%	6.1%	359,023	5,078,031	\$8.09
Northeast	51,323,800	2,494,466	1,692,104	8.8%	0.2%	9.0%	218,575	1,251,674	\$7.04
Northwest	180,284,316	3,098,433	1,602,855	5.7%	0.6%	6.3%	1,189,070	3,271,016	\$7.52
South	39,283,547	2,536,342	0	3.6%	0.4%	4.0%	1,702,543	2,741,085	\$8.87
Southeast	131,637,830	5,233,600	3,603,017	7.6%	0.2%	7.8%	440,052	4,309,530	\$6.84
Southwest	101,844,984	2,747,367	3,102,541	6.6%	0.5%	7.2%	1,161,501	4,408,734	\$9.86
Market total	682,197,553	18,122,253	11,453,576	6.4%	0.4%	6.8%	4,896,067	20,821,533	\$7.79

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2024)	Net absorption (YTD)	Annual direct asking rent psf NNN
General Warehouse	361,803,201	6,906,501	3,290,782	5.4%	0.4%	5.8%	1,237,743	5,449,701	\$7.83
Distribution	186,806,158	10,624,676	7,008,657	10.1%	0.5%	10.7%	3,115,538	14,399,251	\$7.27
Manufacturing	100,269,466	565,215	811,380	2.4%	0.0%	2.4%	436,887	1,062,040	\$7.86
Office Showroom	25,517,787	25,861	342,757	8.9%	0.5%	9.4%	185,150	125,251	\$13.70
R&D	7,800,941	0	0	5.9%	0.6%	6.5%	(79,251)	(214,710)	\$13.33
Market total	682,197,553	18,122,253	11,453,576	6.4%	0.4%	6.8%	4,896,067	20,821,533	\$7.79

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 goods 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

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Ariel Guerrero

Regional Manager, Texas & Denver
Market Intelligence
ariel.guerrero@avisonyoung.com

Carol JeanLouis

Analyst
Market Intelligence
carol.jeanlouis@avisonyoung.com

Wade Bowlin

Principal
Managing Director
wade.bowlin@avisonyoung.com

Drew Coupe, SIOR

Principal
Occupier Solutions
drew.coupe@avisonyoung.com

Rand Stephens, SIOR

Principal
Occupier Solutions
rand.stephens@avisonyoung.com

Darrell L. Betts, CCIM

Principal
Capital Markets
darrell.betts@avisonyoung.com