

HOUSTON INDUSTRIAL | Q2 2022

QUARTERLY MARKET REPORT

The construction of new distribution centers is accelerating at a rapid pace in an effort to reduce delivery times.

JULY 2022

EXECUTIVE SUMMARY

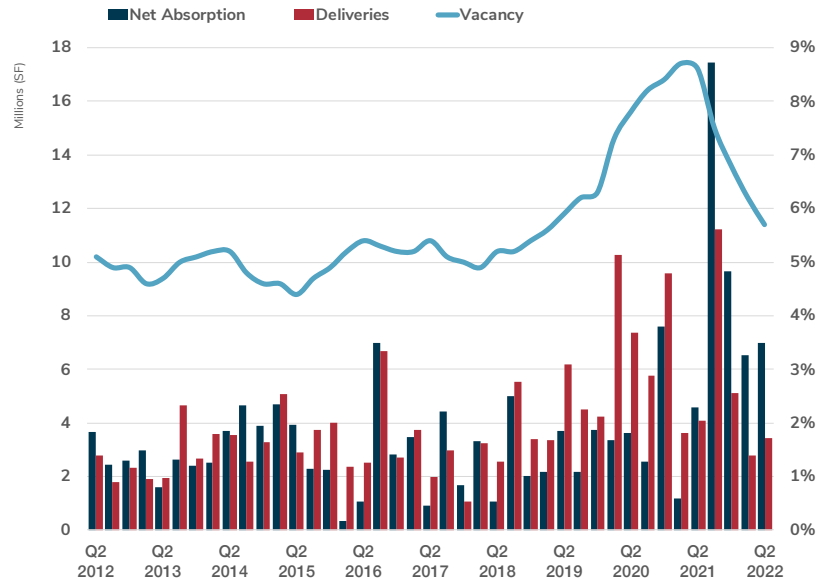
HOUSTON INDUSTRIAL DEMAND REMAINS STRONG

Q2 2022 marks the fifth consecutive quarter that demand for industrial space, represented by net absorption (7.0 million sq. ft.), outpaced supply (3.4 million sq. ft.) in the Houston metro—a quarterly demand streak not seen since Q4 2012. Leasing was also again strong, with Houston recording its seventh quarter of more than 10 million sq. ft. of activity. For context, the quarterly average leasing activity for the five years before the current run was 7.6 million sq. ft. With 6.2 million sq. ft. delivered in the first half of 2022, 22 million sq. ft. under construction, and another 4.4 million sq. ft. proposed through 2022, the demand for industrial real estate may continue to outpace supply.

OIL PRICES HIT LEVELS NOT SEEN SINCE APRIL

Oil prices have tumbled in the past two weeks reflecting investors' growing concerns about a U.S. recession that could curb oil demand. U.S. West Texas Intermediate crude for August delivery opened at \$96.39 a barrel on July 15. Experts say a drop to \$95 a barrel would not be a cause of concern for the long-term trend, although a drop in WTI below \$85 a barrel would be a game-changer. The dollar has risen and strengthened recently as the Federal Reserve has raised interest rates in response to 40-year-high inflation. Meanwhile, The Baker Hughes U.S. weekly rig count, a leading indicator of demand for oil products, increased by 2 to 599 in the week ending July 15, 2022, hitting a high in March of 2020.

SUPPLY & DEMAND



KEY INDICATORS

	CURRENT Q2 2022	PRIOR QUARTER Q1 2022		PRIOR YEAR Q2 2021	
Vacant Total	5.7%	6.2%	↓	8.6%	↓
Vacant Direct	5.4%	5.9%	↓	8.3%	↓
Available Total	9.3%	9.7%	↓	10.5%	↓
Available Direct	8.8%	9.0%	↓	9.8%	↓
Net Absorption (SF)	7,005,204	6,542,310	↑	4,593,573	↑
Leasing Activity (SF)	10,010,662	14,174,285	↓	15,315,049	↓
Construction (SF)	22,126,398	20,972,868	↑	23,317,490	↓
Deliveries (SF)	3,434,831	2,798,482	↑	4,071,166	↓
Avg Asking Rent (NNN/MO)	\$0.70	\$0.65	↑	\$0.62	↑
Inventory (SF)	685,624,937	682,194,526	↑	663,031,575	↑

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MARKET OVERVIEW

NET ABSORPTION UP OVER 50% COMPARED TO THIS TIME LAST YEAR

The industrial market's momentum continued past the halfway mark of 2022, with the second quarter marking 52 straight quarters—equal to 13 years—that Houston industrial recorded overall positive net absorption. Moreover, the net absorption (7.0 million sq. ft.) that took place throughout the greater Houston market during Q2 2022 outpaced the supply delivered (3.4 million sq. ft.) by 104% and increased over 50% from Q2 2021. The Houston industrial market recorded 33 million sq. ft. of absorption during 2021—its highest annual total ever, ranking fifth in the nation for net absorption—the difference between move-ins versus move-outs.

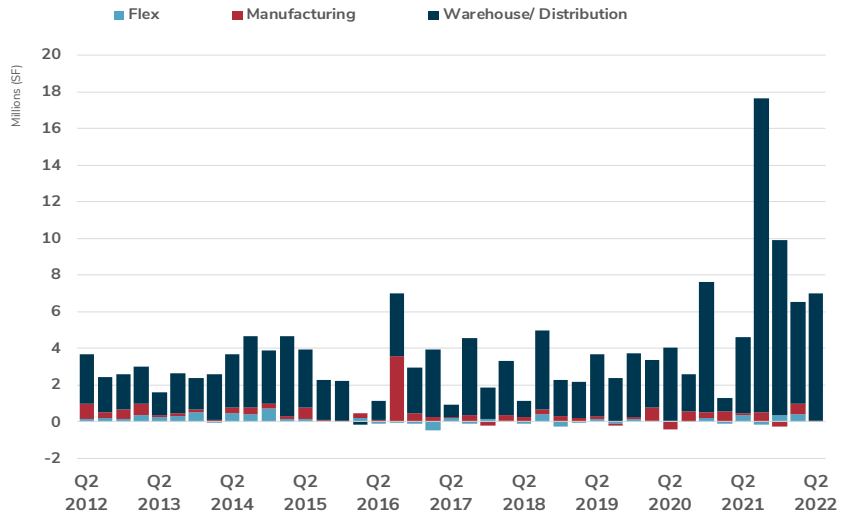
INDUSTRIAL LEASING

Year-over-year leasing volumes comprised of new leases and renewals in Q2 2022 compared to Q2 2021 were down 35%. The volume of signed lease transactions during the second quarter was 10.0 million sq. ft.—down from the previous quarter's 14.2 million sq. ft. and a year ago at 15.3 million sq. ft. Notable transactions that were signed in Q2 include: 736,000 sq. ft. at Port 10 Logistics Center—Building 2 in Baytown; Meiborg's signed lease for 392,480 sq. ft. in Fairway North Logistics Park—Building 2 in the North Hardy Toll Road submarket; Supply Chain Warehouse inked a deal for 306,980 sq. ft. at Cedar Crossing Business Park—Building C in Baytown; and Cubeworks leased 199,978 sq. ft. in Sugar Land Crossroads —Building 2.

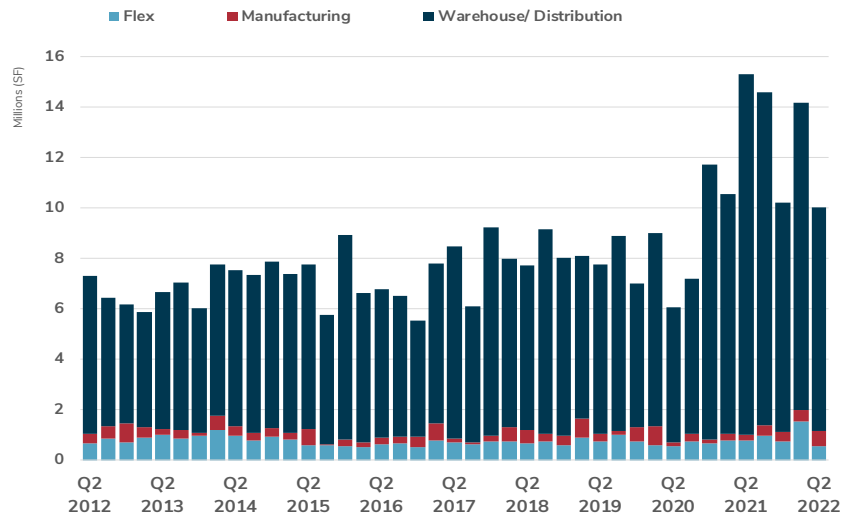
CONSTRUCTION

Houston continues to experience record amounts of industrial product under construction, with the current volume at 22.1 million sq. ft.—most of it encompassing warehouse/distribution space except for 254,000 sq. ft. of flex space. On a percentage basis, the Northwest submarket represents 38% of all space under construction at 8.5 million sq. ft., followed by the Southeast submarket at 5.6 million sq. ft., representing 25%. In 2021, the Houston metro saw 24 million sq. ft. in deliveries as developers worked to keep up with demand driven by growth in ecommerce, homebuilding, and population growth, all the while having withstood the previous two years of battling COVID-19.

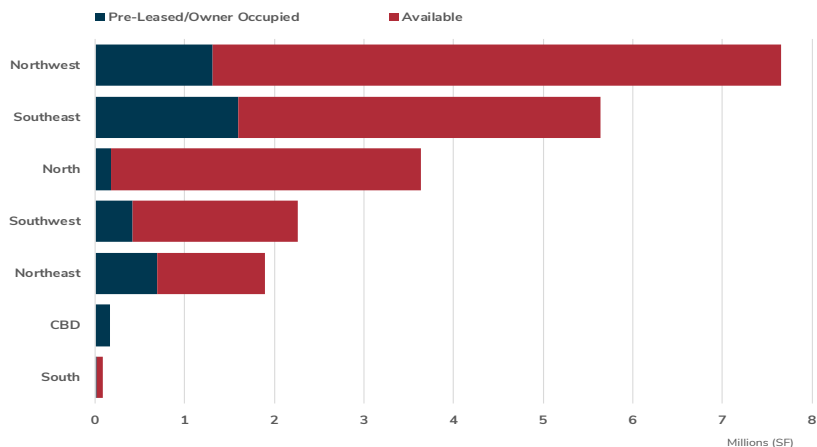
NET ABSORPTION



LEASING ACTIVITY



CONSTRUCTION



INVESTMENT SALES TRENDS

Real Capital Analytics data reports quarterly industrial sales volume for Q2 2022 in the Greater Houston area at \$439 million, down 90% from Q2 2021 at \$1.3 billion. The primary capital composition for buyers year-to-date 2022 was made up of 61% private investors and 31% institutional. For sellers, the majority were 52% REIT/listed investors, 25% private, and 19% institutional. In a recent significant transaction, Mirae Asset Global Investments acquired the 1.5 million-sq.-ft. distribution center and headquarters campus for Academy Sports + Outdoors at 1800 N. Mason Road in Katy for \$190 million. The property, situated on more than 93 acres, is occupied by Academy under a long-term, triple-net lease where the tenant pays the property expenses. It consists of 1.25 million sq. ft. of industrial warehouse space and 250,000 sq. ft. of office space.

RENTAL RATES CONTINUE TO TREND UPWARD

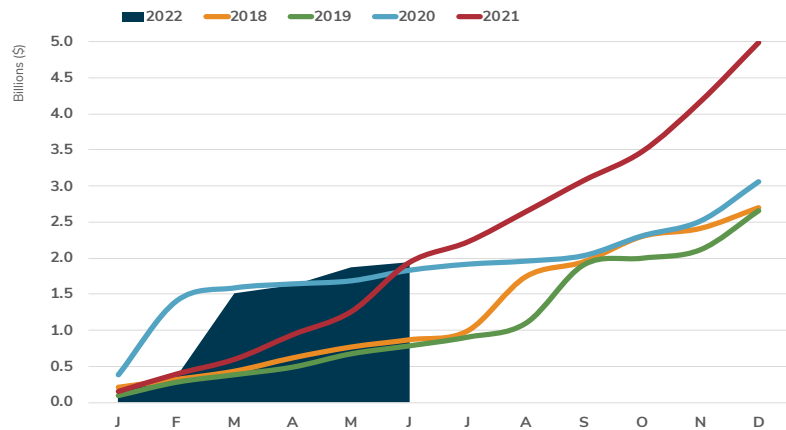
The average monthly rental rate for the entire Houston market was \$0.70 per sq. ft. as of the end of Q2 2022, up quarter-over-quarter at \$0.65 per sq. ft. and up from \$0.62 per sq. ft. year-over-year. The monthly average rate for Flex space is currently at \$0.89 per sq. ft., manufacturing rates are at \$0.67, and warehouse/distribution space sits at \$0.64. The Southwest (\$0.85 PSF) and Northwest (\$0.75 PSF) submarkets currently have the highest monthly overall average rate, followed by the North (\$0.73). As demand has ramped up, industrial developers are paying significantly more for well-positioned land than a few years ago. After years of slow growth, these costs may be passed down to tenants in the future.

RELENTLESS RECORD BREAKING AT PORT HOUSTON

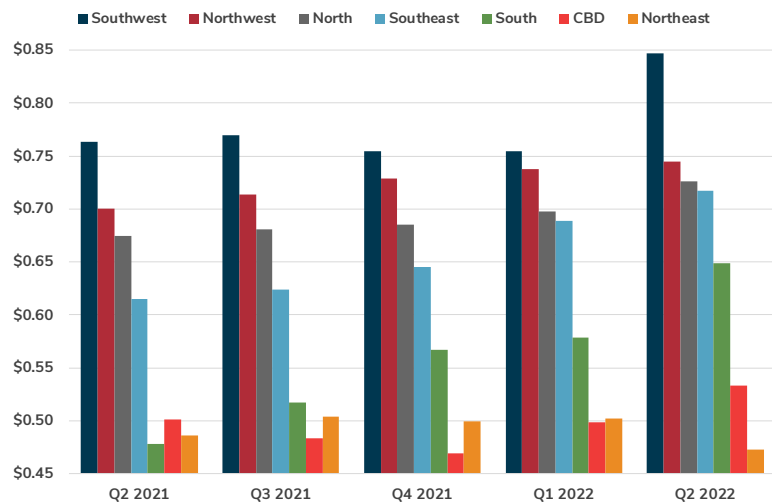
Record-breaking activity continues at Port of Houston public terminals. According to Port Houston, business remains strong for container and general cargo terminals, with 21.6 million tons handled through May. In particular, the container activity continued at record levels for the year and was 20% higher through May, with the 335,866 TEU total representing the best month in Port Houston history. In addition, there are no signs of imports backing off, and exports – especially resins – are beginning to rebound. General cargo volumes through the multi-purpose facilities are also up 116% for the year, with nearly 3.3 million tons recorded.

CUMULATIVE MONTHLY SALES VOLUME

SOURCE: REAL CAPITAL ANALYTICS



AVERAGE ASKING MONTHLY NNN RENT



PORT HOUSTON

Greater Port of Houston Rankings:

- #1** U.S. port by foreign waterborne tonnage – 202 million metric tons
- #1** U.S. port in petroleum, steel and project cargo
- #6** U.S. container port by loaded TEUs
- #16** Busiest port in world by tonnage

MARKET OVERVIEW

SUBMARKET STATS

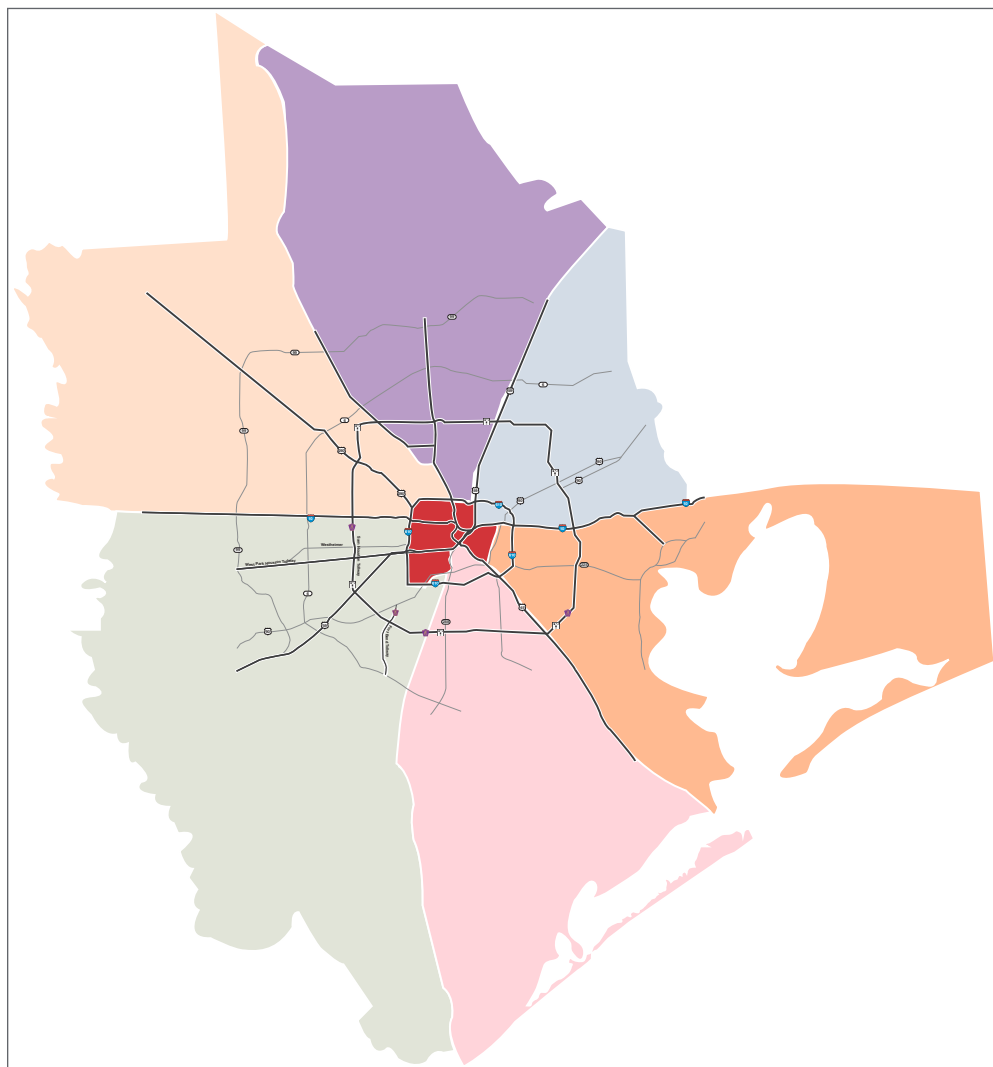
Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2022 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2022 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/SF/MO/NNN)
Houston Market Total	685,624,937	5.7	9.3	7,005,204	13,547,514	3,434,831	6,233,313	22,126,398	0.70
Flex	50,892,578	8.7	10.9	18,390	454,948	63,000	276,101	253,746	0.89
Manufacturing	94,538,406	3.1	4.4	37,644	575,019	122,453	362,453	0	0.67
Warehouse/Distribution	540,193,953	5.8	10.0	6,949,170	12,517,547	3,249,378	5,594,759	21,872,652	0.64
CBD Total	51,976,377	5.0	8.2	-119,167	-265,675	0	0	159,085	0.53
Flex	3,072,702	7.5	9.0	-9,337	-124,340	0	0	0	1.20
Manufacturing	8,496,399	1.2	6.9	-13,926	22,562	0	0	0	0.37
Warehouse/Distribution	40,407,276	5.6	8.5	-95,904	-163,897	0	0	159,085	0.53
North Total	130,011,627	5.9	10.2	1,378,218	2,720,838	1,499,264	1,943,684	3,639,624	0.73
Flex	12,100,452	8.5	13.8	17,784	107,071	0	140,166	59,675	0.81
Manufacturing	15,289,532	2.6	3.0	-208,778	119,309	66,453	306,453	0	0.67
Warehouse/Distribution	102,621,643	6.1	10.8	1,569,212	2,494,458	1,432,811	1,497,065	3,579,949	0.71
Northeast Total	44,156,643	4.0	8.3	1,229,182	1,651,511	134,454	134,454	1,893,480	0.47
Flex	654,698	9.0	9.5	-5,073	20,424	0	0	0	0.75
Manufacturing	9,291,870	0.8	3.4	-29,486	-10,468	0	0	0	0.45
Warehouse/Distribution	34,210,075	4.7	9.6	1,263,741	1,641,555	134,454	134,454	1,893,480	0.47
Northwest Total	194,191,950	6.0	10.5	1,438,130	3,076,821	770,643	1,828,490	8,464,077	0.75
Flex	16,911,258	10.7	11.5	55,716	253,203	63,000	88,625	167,821	0.88
Manufacturing	26,026,315	5.0	5.6	-4,500	-101,498	0	0	0	0.66
Warehouse/Distribution	151,254,377	5.6	11.2	1,386,914	2,925,116	707,643	1,739,865	8,296,256	0.74
Southeast Total	120,320,602	6.0	9.1	1,958,906	4,138,631	132,600	1,244,040	5,635,535	0.72
Flex	3,139,066	9.0	11.5	14,656	-28,720	0	23,860	0	0.88
Manufacturing	18,399,706	3.0	4.8	162,121	309,419	0	0	0	0.90
Warehouse/Distribution	98,781,830	6.5	9.8	1,782,129	3,857,932	132,600	1,220,180	5,635,535	0.68
South Total	50,717,147	2.5	3.8	550,073	704,346	56,000	83,800	86,000	0.65
Flex	2,442,933	4.9	5.9	30,086	9,917	0	0	0	0.96
Manufacturing	9,654,423	1.5	0.8	141,213	173,703	56,000	56,000	0	0.54
Warehouse/Distribution	38,619,791	2.6	4.5	378,774	520,726	0	27,800	86,000	0.64
Southwest Total	94,250,591	7.1	9.7	569,862	1,521,042	841,870	998,845	2,248,597	0.85
Flex	12,571,469	7.2	8.5	-85,442	217,393	0	23,450	26,250	0.96
Manufacturing	7,380,161	4.7	5.2	-9,000	61,992	0	0	0	0.75
Warehouse/Distribution	74,298,961	7.3	10.4	664,304	1,241,657	841,870	975,395	2,222,347	0.79

MARKET OVERVIEW

HOUSTON INDUSTRIAL SUBMARKETS

HOUSTON INDUSTRIAL
QUARTERLY MARKET REPORT

Q2 2022



- 1. CBD
- 2. North
- 3. Northeast
- 4. Northwest
- 5. Southeast
- 6. South
- 7. Southwest

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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