Houston Industrial | Q4 2022
Quarterly Market Report

January 2023

Houston industrial market records it's ninth consecutive quarter of over 10 million-sq.-ft. of leasing activity.

Executive Summary

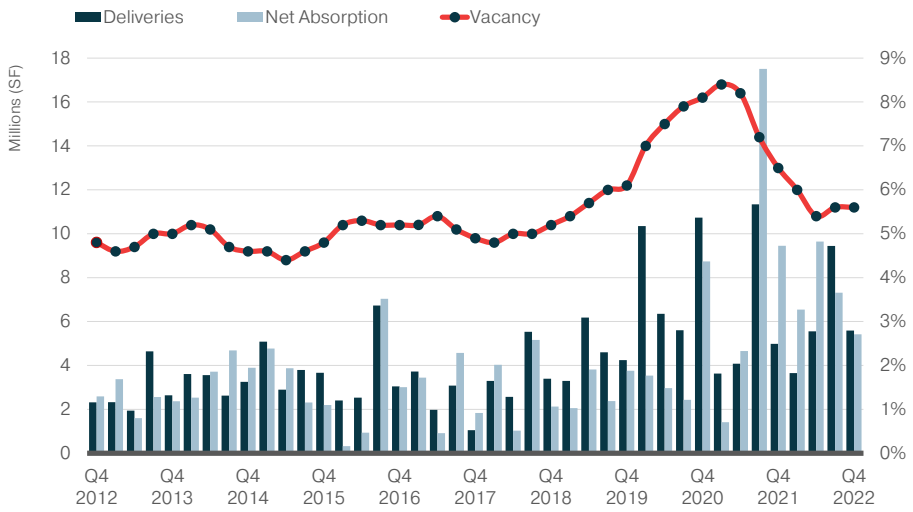
Balanced supply and demand in Q4 2022

The supply of industrial space, represented by deliveries (5.58 million sq. ft.), paced demand, represented by net absorption (5.41 million sq. ft.) in the Houston metro during Q4 2022. Leasing remained strong, with Houston recording its ninth consecutive 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 7.5 million sq. ft. 24.2 million sq. ft. was delivered in 2022 (33% available), 33.5 million sq. ft. is under construction—the highest amount ever recorded— (84% available), and 17 million sq. ft. is proposed in 2023. There are no signs of demand letting up anytime soon.

Oil prices fall on global economy concerns

Oil prices fell for a second day on January 4 on worries about the strength of the global economy and surging Covid-19 infections in China. West Texas Intermediate, the U.S. standard, declined 2.2% to $75.23 a barrel. Contracts fell more than 4% on Tuesday, the first trading day of the year. According to Baker Hughes, the number of active U.S. rigs drilling for oil is at a current level of 618, down from 621 last week and up from 480 one year ago. This is a change of -0.48% from last week and 28.75% from one year ago.

Supply & Demand



Source: CoStar, Partners Research

Key Market Indicators

	CURRENT Q4 2022	PRIOR QUARTER Q3 2022	PRIOR YEAR Q4 2021
Vacant Total	5.6%	5.6% ▬	6.5% ▼
Vacant Direct	5.3%	5.3% ▬	6.3% ▼
Available Total	10.4%	10.3% ▲	9.4% ▲
Available Direct	9.7%	9.8% ▼	8.7% ▲
Net Absorption (SF)	5,415,314	7,314,935 ▼	9,449,402 ▼
Leasing Activity (SF)	10,656,859	11,643,062 ▼	10,271,475 ▲
Construction (SF)	33,525,497	31,838,052 ▲	19,711,210 ▲
Deliveries (SF)	5,589,844	9,439,846 ▼	4,980,915 ▲
Avg Asking Rent (Gross)	$0.72	$0.71 ▲	$0.64 ▲
Inventory (SF)	704,780,677	699,190,833 ▲	680,539,991 ▲

partners
PARTNERSREALESTATE.COM

Independently written, researched, edited, and produced in-house by Partners.

Market Overview

Net absorption registers record levels of demand

The industrial market's momentum continued throughout 2022, with 29 million sq. ft. of positive net absorption to end the year. Several trends maintain this activity, including continuing e-commerce growth, returning petro-chemical activity, record container volumes at the Houston Ship Channel, and nation-leading population and housing supply growth in the Texas Triangle.

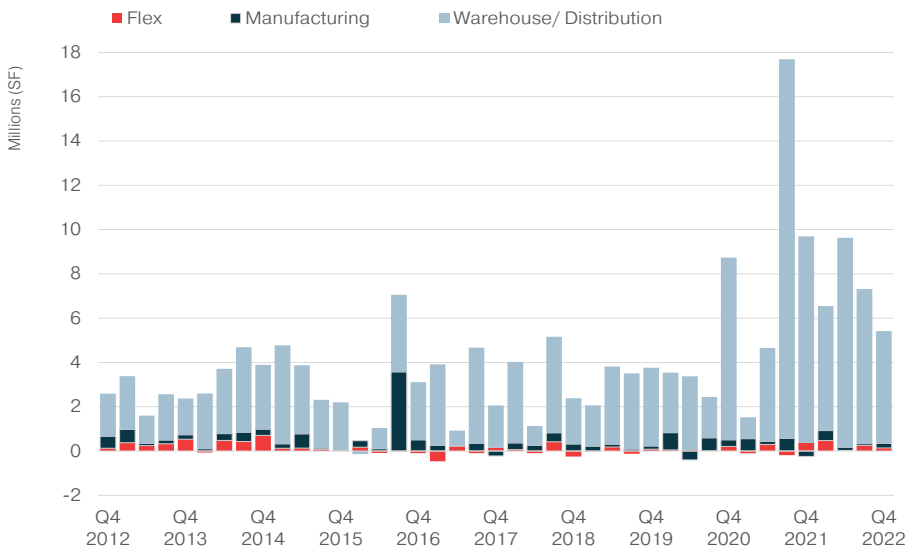
Industrial construction at an all-time high

Houston continues to experience record amounts of industrial product under construction, with the current volume at 33.5 million sq. ft.—most of it encompassing warehouse/ distribution space except for 391,000 sq. ft. of flex space and 130,000 sq. ft. of manufacturing space. On a percentage basis, the Northwest submarket represents 25% of all space under construction at 8.3 million sq. ft., followed by the Southeast submarket at 7.5 million sq. ft., representing 23%. In 2021, the Houston metro saw 24 million sq. ft. in deliveries as developers worked to keep up with demand driven by e-commerce, homebuilding, and population growth, all the while withstood the previous two years of battling COVID-19.

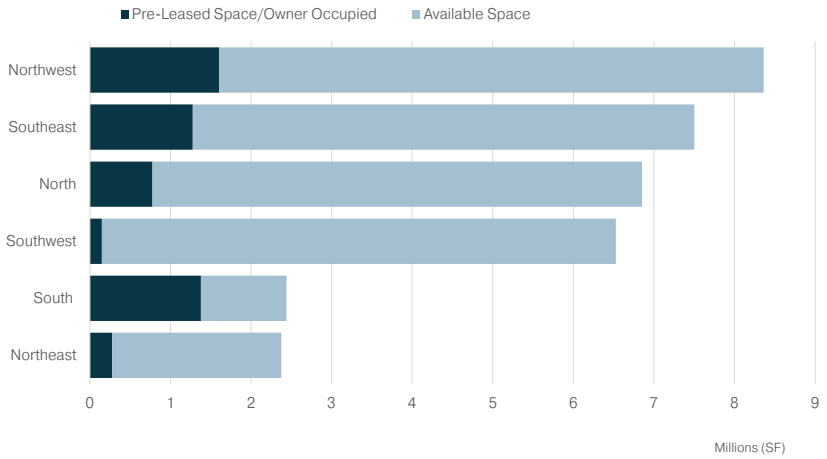
Port Houston surpasses 3.5 million TEU

In November, container volume at Port Houston grew by double digits, again, up 11% compared to November 2021. It was the fourth-highest month ever for containers at Port Houston's Barbours Cut and Bayport container terminals. General cargo at Port Houston's facilities grew by 45% year-to-date compared to the same time last year. Auto imports were up 141% for November 2022 and 14% year-to-date compared to 2021. Steel imports took a dip in November; however, this year's steel volume has been substantial, making 2022 the best year for steel tonnage in more than five years.

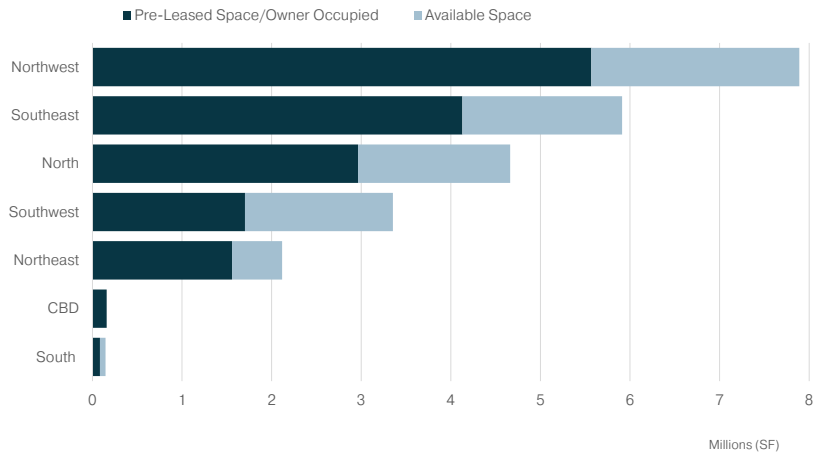
Net Absorption



Under Construction



Deliveries



Investment sales trends

Real Capital Analytics data reports quarterly industrial sales volume for Q4 2022 in the Greater Houston area at $418 million, down 79% from Q4 2021 at $2 billion. The primary capital composition for buyers in 2022 was made up of 53% private investors, 30% institutional, and 8% REIT/listed. For sellers, the majority were 44% private investors and 37% REIT/listed. In a recent significant transaction, Fort Capital secured a $72 million loan to acquire a seven-property industrial portfolio in the greater Houston area that comprises 23 buildings and 711,399 sq. ft of space. The combined properties have 126 lease commitments to tenants in the automotive, construction, energy, healthcare, and technology industries. The portfolio has a 76% in-place occupancy, according to Fort Capital.

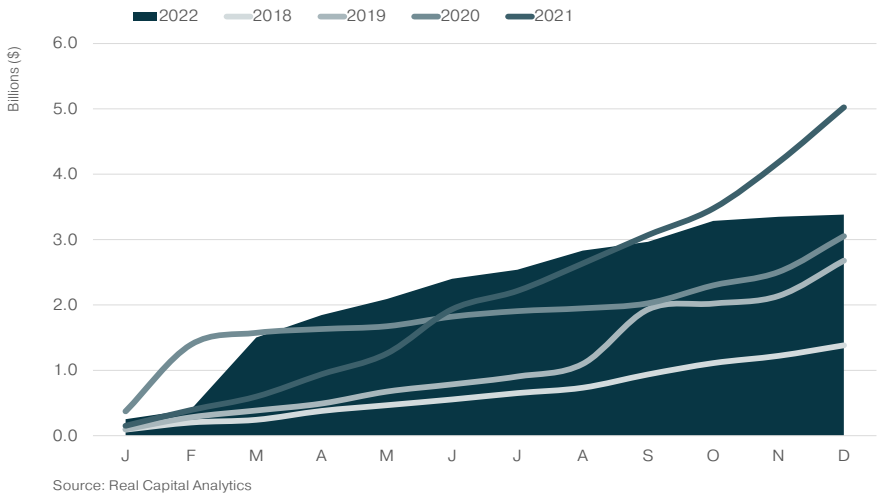
Leasing activity

The volume of signed lease transactions during the fourth quarter was 10.7 million sq. ft. compared to the previous quarter's 11.6 million sq. ft. and a year ago at 10.3 million sq. ft. Leasing volume year-to-date in the Houston metro reached 36.3 million sq. ft. Notable transactions contributing to the above-average activity in 2022 include Walmart, leasing the entire 1,021,440-sq.-ft. industrial building at 4633 Borusan Road in Baytown; Macy's 908,853-sq.-ft. relocation of its distribution and fulfillment center to the proposed Interchange 249 Business Park; Chewy moving into 687,902 sq. ft. in NorthPoint 90 Logistics Center; and Warehouse Services 663,821 sq. ft. renewal in Citypark East Industrial.

Rental rates continue to increase

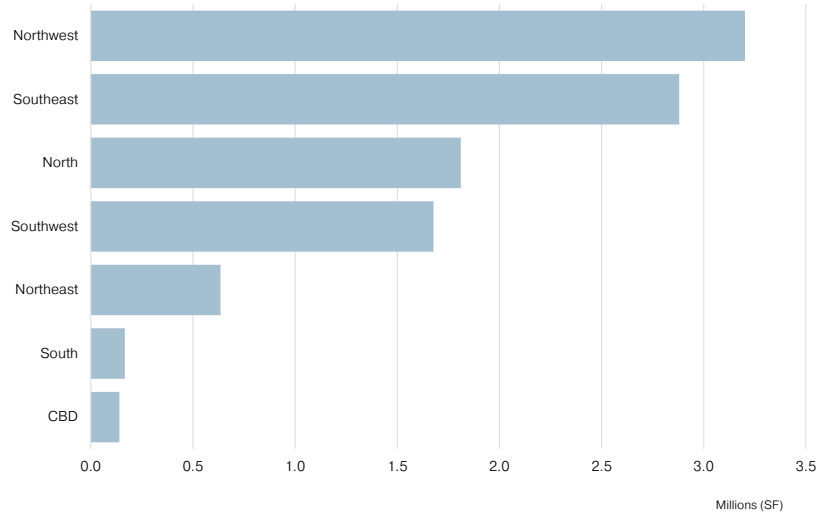
The average asking monthly rental rate for the overall Houston market was $0.72 per sq. ft. as of the end of 2022, up quarter-over-quarter at $071 per sq. ft. and up from $0.64 per sq. ft. year-over-year. The monthly average asking rate for Flex space is $0.99 per sq. ft., manufacturing rates are $0.65, and warehouse/distribution space sits at $0.68. The Southwest ($0.88 PSF) and North ($0.75 PSF) submarkets currently have the highest monthly overall average asking rate, followed by the Northwest ($0.73). As demand has increased, industrial developers are paying significantly more for well-positioned land than a few years ago.

Cumulative Monthly Sales Volume

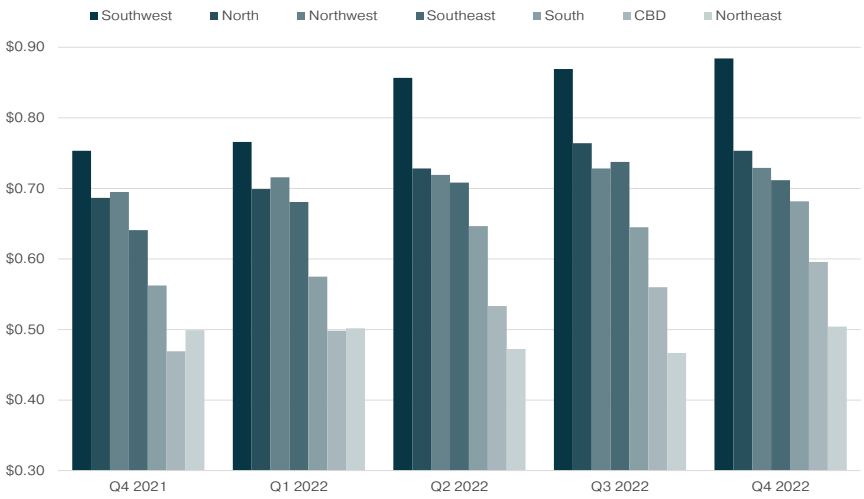


Source: Real Capital Analytics

Leasing Activity



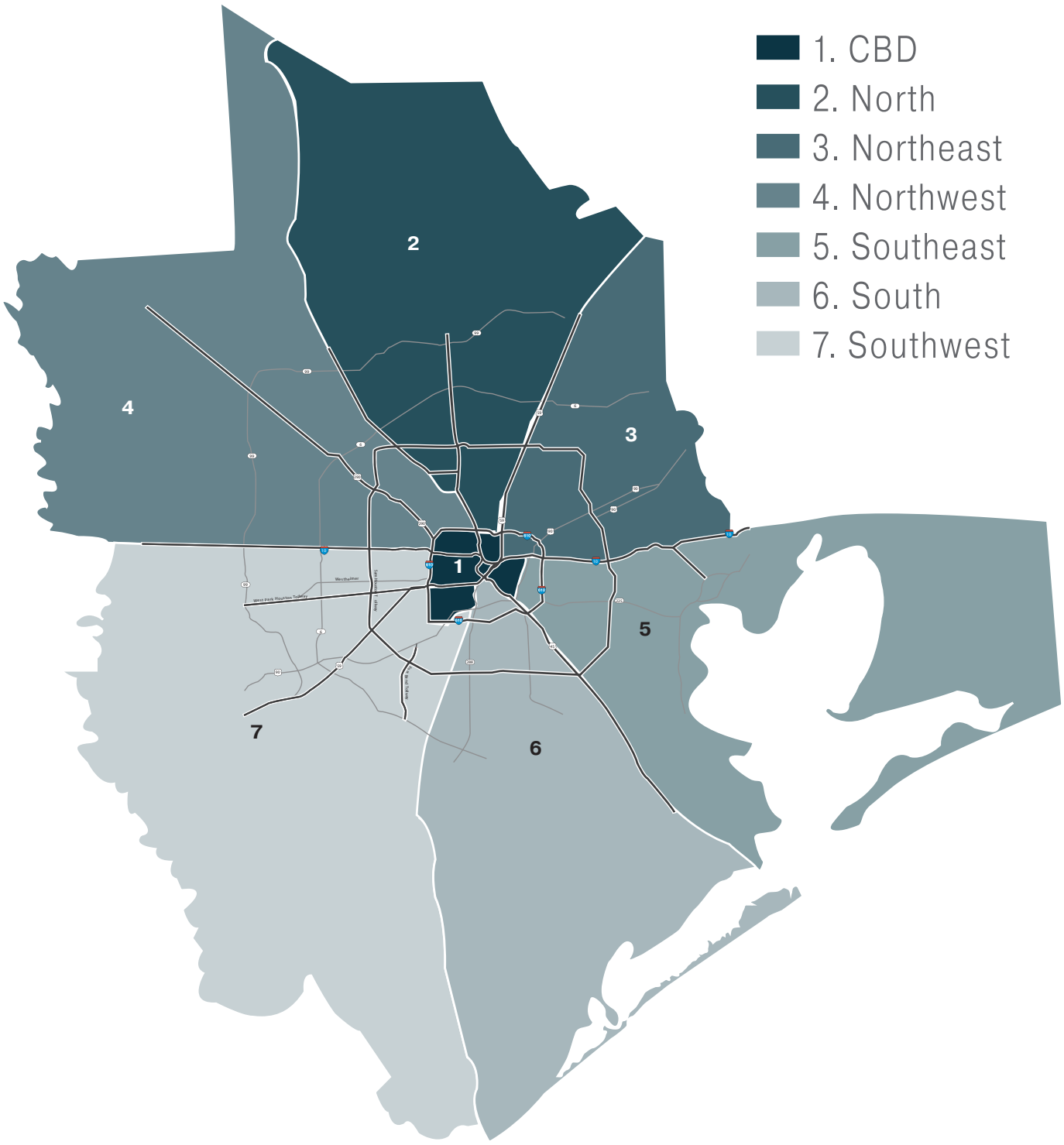
Overall NNN Asking Rent ($/PSF/MO)



Market Overview
Submarket Stats

Submarket Statistics	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q4 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	2022 YTD Deliveries (SF)	Under Construction (SF)	NNN Avg Asking Rent ($/PSF)/ MO)
Houston Market Total	705,763,596	5.6	10.4	5,415,314	28,905,036	24,240,686	33,525,497	0.72
Flex	51,460,891	8.2	11.0	139,131	890,878	479,127	390,667	0.99
Manufacturing	93,960,057	2.6	4.0	203,510	874,812	442,350	130,000	0.65
Warehouse/Distribution	560,342,648	5.9	11.4	5,072,673	27,139,346	23,319,209	33,004,830	0.68
CBD Total	51,674,272	4.6	8.3	-10,447	-370,942	159,085	0	0.60
Flex	3,047,627	5.7	8.8	4,610	-81,262	0	0	1.30
Manufacturing	8,247,140	0.7	10.2	0	66,562	0	0	0.36
Warehouse/Distribution	40,379,505	5.3	7.9	-15,057	-356,242	159,085	0	0.59
North Total	134,258,422	5.9	12.1	913,348	4,950,632	4,662,539	6,852,654	0.75
Flex	12,407,148	7.7	13.2	-874	181,781	146,753	92,675	0.79
Manufacturing	15,571,476	1.3	4.0	28,967	173,442	240,000	0	0.71
Warehouse/Distribution	106,279,798	6.3	13.1	885,255	4,595,409	4,275,786	6,759,979	0.75
Northeast Total	46,696,283	6.1	9.7	133,520	2,571,856	2,117,010	2,375,831	0.50
Flex	654,698	9.9	9.3	435	14,421	0	0	0.68
Manufacturing	9,312,850	0.0	0.9	0	62,181	0	0	0.45
Warehouse/Distribution	36,728,735	7.6	11.8	133,085	2,495,254	2,117,010	2,375,831	0.50
Northwest Total	197,807,826	5.9	10.1	2,061,076	8,551,840	7,889,225	8,338,100	0.73
Flex	16,957,986	9.1	12.0	128,472	629,777	228,814	52,702	1.00
Manufacturing	25,764,608	3.8	4.3	209,660	113,862	0	130,000	0.57
Warehouse/Distribution	155,085,232	5.9	10.8	1,722,944	7,808,201	7,660,411	8,155,398	0.69
Southeast Total	127,776,290	4.9	9.7	1,183,895	8,882,973	5,911,956	7,501,540	0.71
Flex	3,184,455	8.8	10.7	818	-33,618	23,860	39,000	0.93
Manufacturing	18,217,947	3.6	2.4	32,005	359,384	146,350	0	0.83
Warehouse/Distribution	106,373,888	5.0	10.7	1,151,072	8,557,207	5,741,746	7,462,540	0.67
South Total	50,657,964	3.3	6.2	-304,878	359,193	146,900	2,439,561	0.68
Flex	2,527,135	4.5	10.6	1,520	16,305	0	83,000	0.98
Manufacturing	9,494,043	2.8	3.0	-91,353	59,720	56,000	0	0.58
Warehouse/Distribution	38,636,786	3.3	6.7	-215,045	283,168	90,900	2,356,561	0.68
Southwest Total	96,892,539	6.8	12.8	1,438,800	3,959,484	3,353,971	6,017,811	0.88
Flex	12,681,842	8.4	8.2	4,150	163,474	79,700	123,290	1.09
Manufacturing	7,351,993	4.0	5.3	24,231	39,661	0	0	1.03
Warehouse/Distribution	76,858,704	6.8	14.8	1,410,419	3,756,349	3,274,271	5,894,521	0.75

Market Overview
Houston Industrial Submarkets



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

Houston Industrial Quarterly Market Report

Q4 2022

Leta Wauson
Director of Research
leta.wauson@partnersrealestate.com
tel 713 275 9618

partners

HOUSTON
+ 713 629 0500
1360 Post Oak Blvd #1900
Houston, Texas 77056

PARTNERSREALESTATE.COM