

# Houston Industrial | Q3 2022

## Quarterly Market Report

October 2022

20.1 million sq. ft. of space has been positively absorbed in Houston's record-breaking industrial market.

### Executive Summary

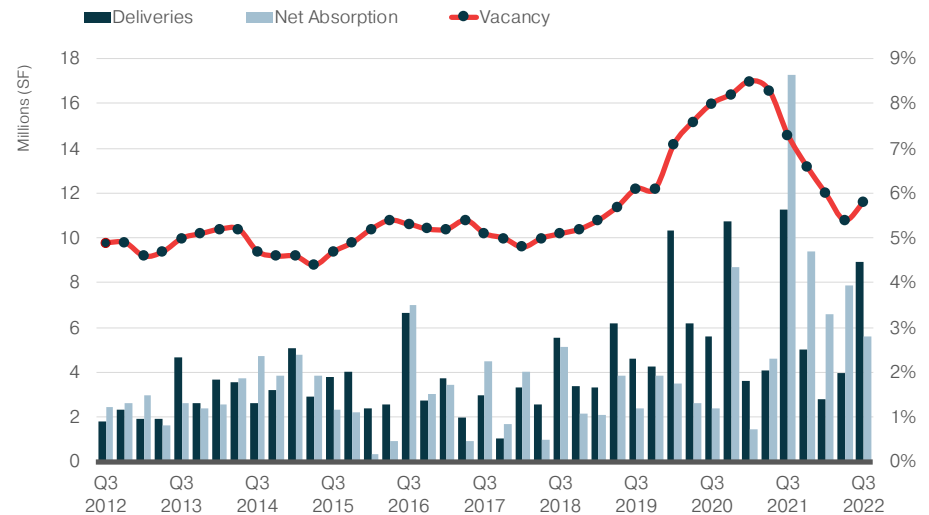
#### Houston industrial supply outpaced demand in Q3 2022

Q3 2022 marks the first quarter since Q1 2021 that the supply of industrial space, represented by deliveries (8.9 million sq. ft.), outpaced demand, represented by net absorption (5.6 million sq. ft.) in the Houston metro. Leasing was again strong, with Houston recording its eighth 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 7.6 million sq. ft. With 15.7 million sq. ft. delivered in the first nine months of 2022 (43% available), 27.6 million sq. ft. under construction (80% available), and another 800,000 sq. ft. proposed through 2022 (87% available). The supply of industrial real estate may outpace demand through the end of 2022. Although if recent leasing trends continue, this new supply should not have much of an effect on fundamentals.

#### Global oil demand remains resilient despite slowing economies

U.S. benchmark West Texas Intermediate crude for November delivery added \$1.24, or 1.4%, to settle at \$87.76 a barrel as of October 5, 2022. Major oil producers agreed to reduce their collective crude production levels by 2 million barrels a day starting next month, but that's not a guarantee that prices will continue to climb. The number of active U.S. rigs drilling for oil rose by two to 604 as of September 30, reported Baker Hughes. That followed increases in each of the past two weeks. In the third quarter, drillers added rigs for the eighth quarter in a row, but the addition of 12 rigs was the smallest increase since September 2020.

### Supply & Demand



Source: CoStar, NAI Partners Research

### Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q1 2022		PRIOR YEAR Q3 2022	
Vacant Total	5.8%	5.4%	▲	7.3%	▼
Vacant Direct	5.6%	5.2%	▲	7.1%	▼
Available Total	10.1%	9.5%	▲	10.2%	▼
Available Direct	9.6%	9.0%	▲	9.4%	▲
Net Absorption (SF)	5,584,797	7,874,409	▼	17,296,398	▼
Leasing Activity (SF)	10,337,952	11,382,946	▼	14,598,626	▼
Construction (SF)	27,324,377	26,628,930	▲	15,984,026	▲
Deliveries (SF)	8,907,551	3,968,073	▲	11,271,213	▼
Avg Asking Rent (Gross)	\$0.71	\$0.69	▲	\$0.64	▲
Inventory (SF)	692,990,106	684,082,555	▲	672,309,287	▲

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# Market Overview

Net absorption registers record levels of demand

The industrial market’s momentum continued through Q3 2022, with over 20 million sq. ft. of positive net absorption, it was more than likely to beat the recorded 33 million sq. ft. of absorption during 2021—the highest annual total . Several trends maintain this activity, including continuing e-commerce growth, returning petrochemical activity, record container volumes at the Houston Ship Channel, and nation-leading population and housing supply growth in the Texas Triangle.

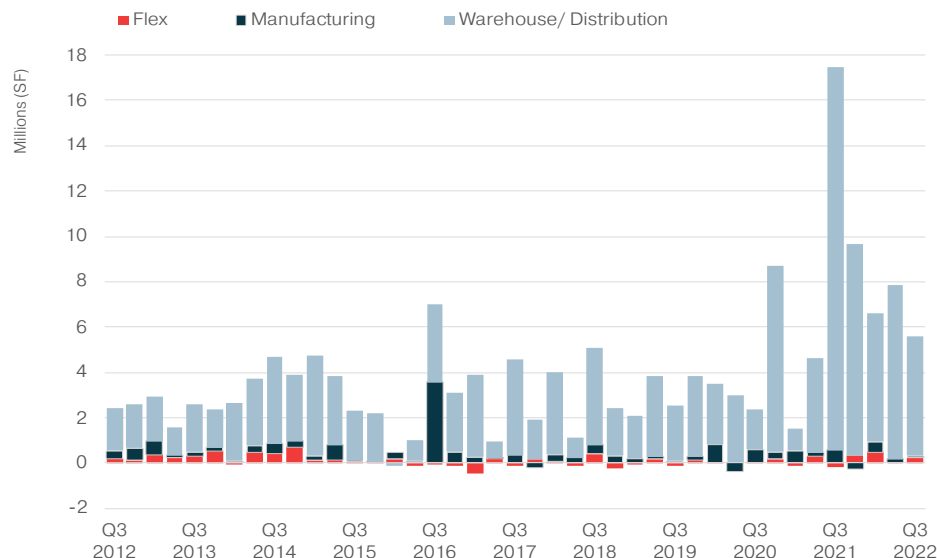
Industrial construction remains elevated

Houston continues to experience record amounts of industrial product under construction, with the current volume at 27.3 million sq. ft.—most of it encompassing warehouse/distribution space except for 202,000 sq. ft. of flex space and 276,000 sq. ft. of manufacturing space. On a percentage basis, the Southeast submarket represents 27% of all space under construction at 7.7 million sq. ft., followed by the Northwest submarket at 7.1 million sq. ft., representing 26%. In 2021, the Houston metro saw 24 million sq. ft. in deliveries as developers worked to keep up with demand driven by growth in e-commerce, homebuilding, and population growth, all the while having withstood the previous two years of battling COVID-19.

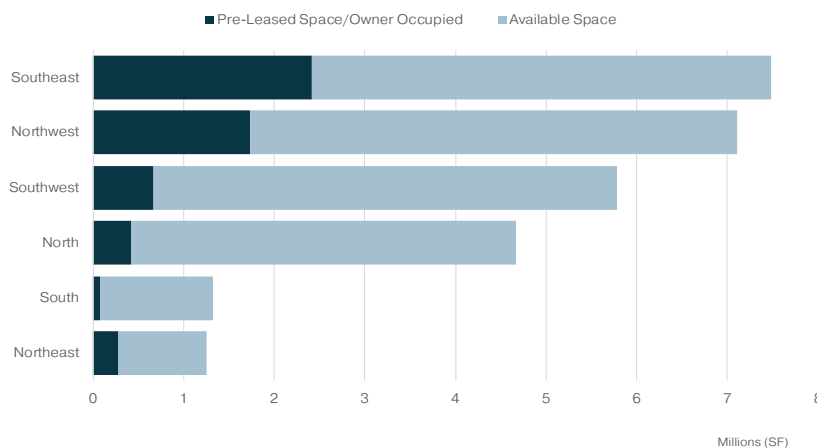
Container volume continues to break records at Port Houston

The Houston Ship Channel is home to Port Houston’s container facilities, which handle nearly 70% of all the U.S. Gulf Coast container traffic, as well as the nation’s premier petrochemical complex. In addition, Texas continues to rank as the #1 state in the U.S. for exports, with steadily increasing energy and manufacturing cargoes and record-level container activity at Port Houston. The most recent statistics for total tonnage at Port Houston’s facilities is up 24% for the year through August. Steel imports have been particularly strong this year and are up 83% year to date through August. Auto import tonnage was up 50% for August but remained down 9% for the year compared to last year.

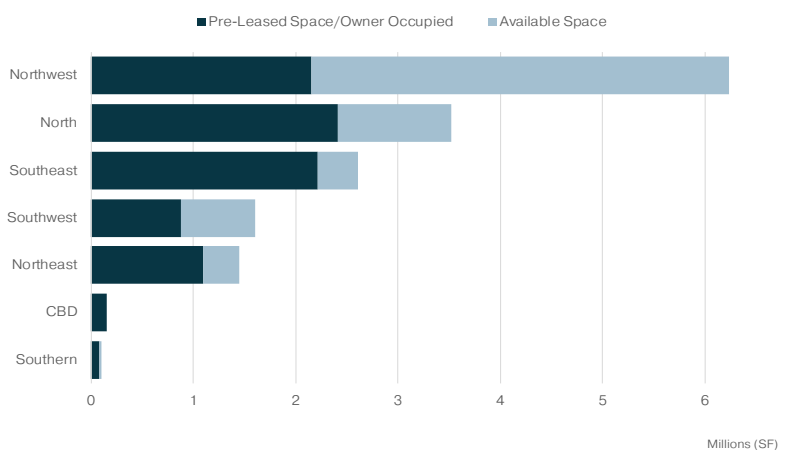
## Net Absorption



## Under Construction



## Deliveries



## Investment sales trends

Real Capital Analytics data reports quarterly industrial sales volume for Q3 2022 in the Greater Houston area at \$267 million, down 53% from Q3 2021 at \$565 million. The primary capital composition for buyers year-to-date 2022 was made up of 59% private investors, 19% cross-border, and 16% institutional. For sellers, the majority were 83% private investors and 11% user/other. 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.

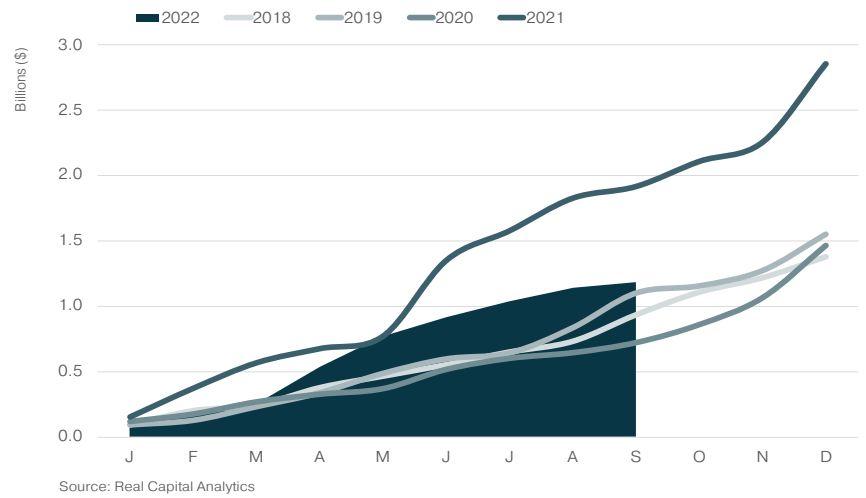
## Robust industrial leasing activity

The volume of signed lease transactions during the third quarter was 10.3 million sq. ft. compared to the previous quarter's 11.4 million sq. ft. and a year ago at 15.3 million sq. ft. During the first three quarters of the year, 79 leases were signed exceeding 100,000 sq. ft. Leasing volume year-to-date in the Houston metro reached 36.3 million sq. ft. Significant transactions that were signed in 2022: Macy's signed lease for 908,853 sq. ft. in Interchange 249 in Tomball; Warehouse Services inked a deal for 663,821 sq. ft. in Citypark East Industrial in the Northeast Highway 90 submarket; and Broadrange Logistics 648,720 sq. ft. in Generation Park in the Northeast Highway 90 submarket.

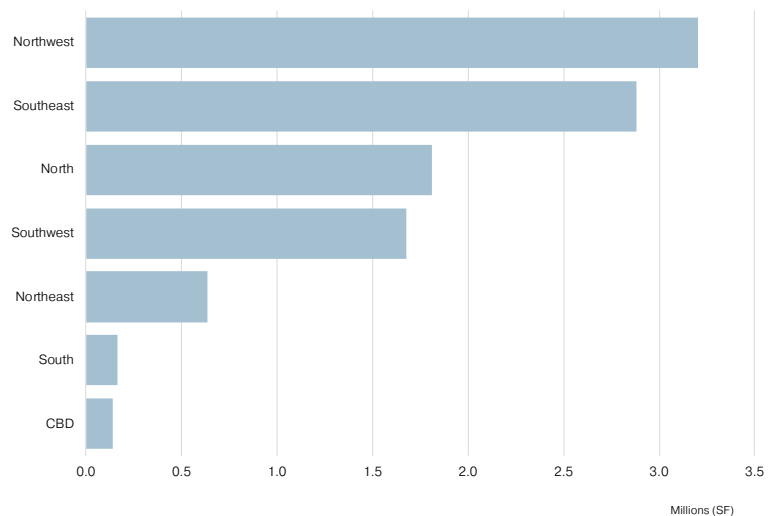
## Rental rates continue to increase

The average asking monthly rental rate for the overall Houston market was \$0.71 per sq. ft. as of the end of Q3 2022, up quarter-over-quarter at \$0.69 per sq. ft. and up from \$0.64 per sq. ft. year-over-year. The monthly average asking rate for Flex space is currently at \$0.92 per sq. ft., manufacturing rates are at \$0.65, and warehouse/distribution space sits at \$0.68. The Southwest (\$0.85 PSF) and North (\$0.77 PSF) submarkets currently have the highest monthly overall average asking rate, followed by the Southeast (\$0.75). As demand has increased, 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.

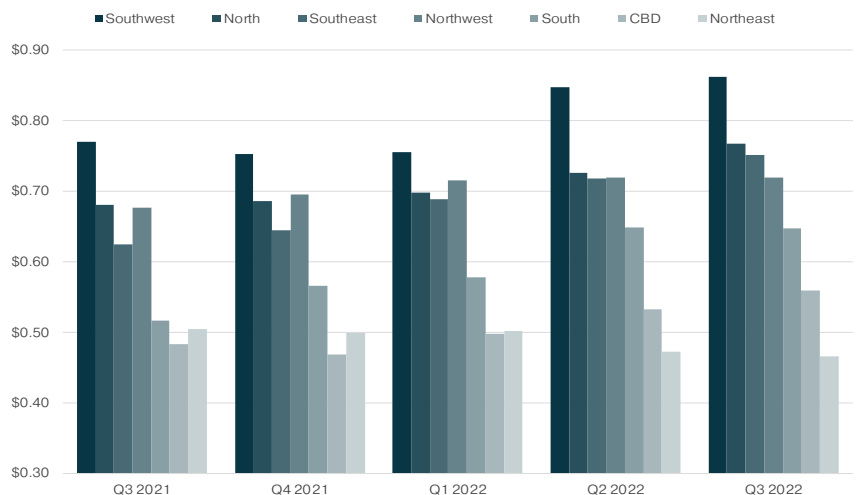
## Cumulative Monthly Sales Volume



## Leasing Activity



## Overall NNN Asking Rent (\$/PSF/MO)



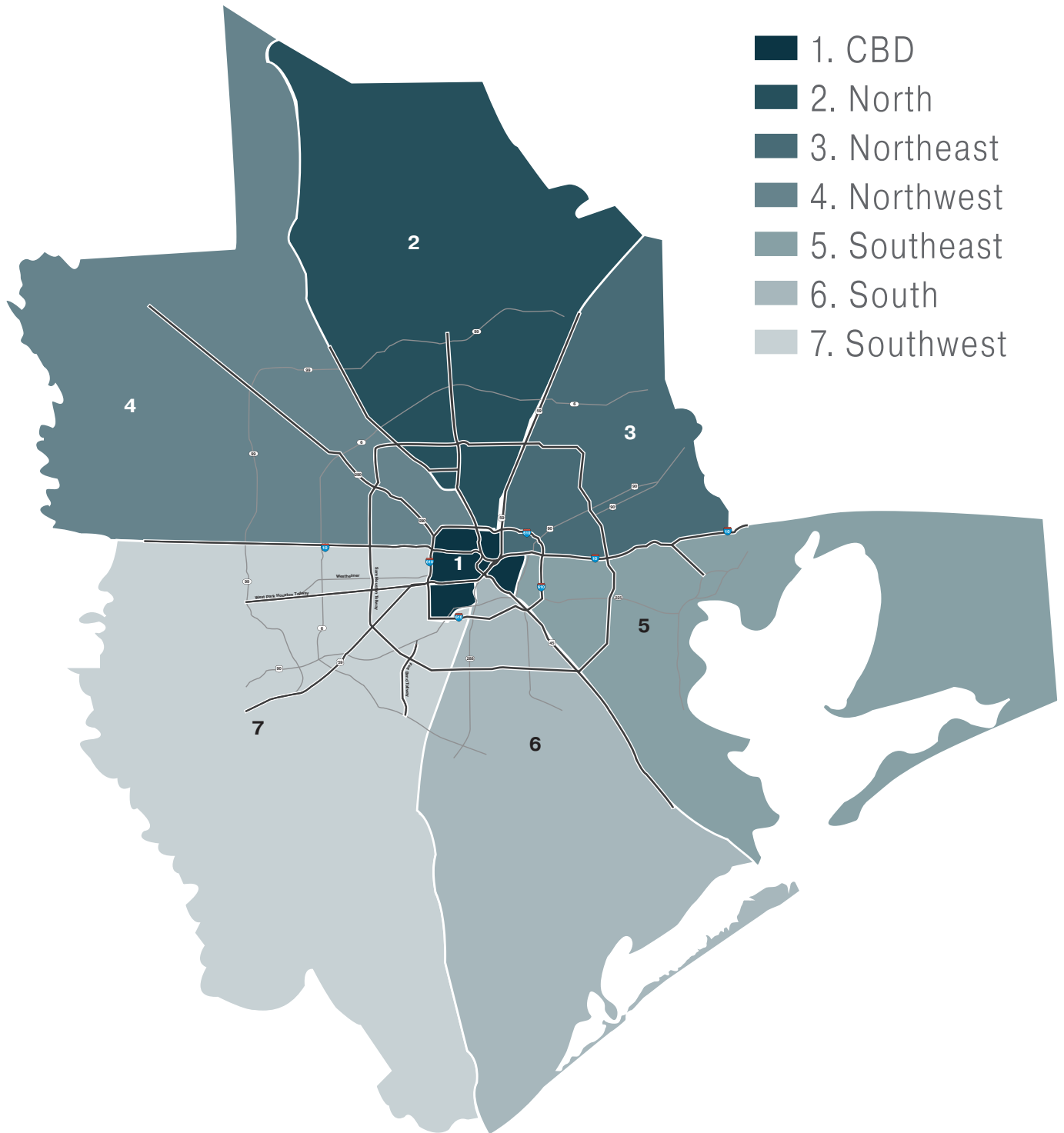
# Market Overview

## Submarket Stats

Submarket Statistics	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q3 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	2022 YTD Deliveries (SF)	Under Construction (SF)	NNN Avg Asking Rent (\$/PSF)/MO
<b>Houston Market Total</b>	<b>692,990,106</b>	<b>5.8</b>	<b>10.1</b>	<b>5,583,770</b>	<b>20,057,418</b>	<b>15,673,753</b>	<b>27,324,377</b>	<b>0.71</b>
Flex	51,272,827	8.3	11.6	236,460	748,722	407,933	201,984	0.92
Manufacturing	93,891,881	2.8	4.5	77,096	668,732	296,000	276,350	0.65
Warehouse/Distribution	547,825,398	6.1	10.9	5,270,214	18,639,964	14,969,820	26,846,043	0.68
<b>CBD Total</b>	<b>51,588,409</b>	<b>5.2</b>	<b>9.2</b>	<b>-116,384</b>	<b>-388,407</b>	<b>159,085</b>	<b>0</b>	<b>0.56</b>
Flex	3,061,280	6.5	9.7	-16,332	-94,672	0	0	1.20
Manufacturing	8,182,212	0.7	10.3	44,000	66,562	0	0	0.37
Warehouse/Distribution	40,344,917	6.0	8.9	-144,052	-360,297	159,085	0	0.55
<b>North Total</b>	<b>132,295,894</b>	<b>6.0</b>	<b>11.6</b>	<b>1,155,181</b>	<b>3,965,886</b>	<b>3,522,290</b>	<b>4,669,622</b>	<b>0.77</b>
Flex	12,215,299	8.0	13.8	53,923	182,655	146,753	71,670	0.85
Manufacturing	15,636,197	1.8	3.7	7,219	144,475	240,000	0	0.71
Warehouse/Distribution	104,444,398	6.3	12.4	1,094,039	3,638,756	3,135,537	4,597,952	0.76
<b>Northeast Total</b>	<b>45,586,502</b>	<b>5.2</b>	<b>7.7</b>	<b>634,776</b>	<b>2,415,636</b>	<b>1,448,249</b>	<b>1,248,425</b>	<b>0.47</b>
Flex	654,698	9.9	9.9	-6,438	13,986	0	0	0.67
Manufacturing	9,291,870	0.0	3.5	0	62,181	0	0	0.45
Warehouse/Distribution	35,639,934	6.4	8.7	641,214	2,339,469	1,448,249	1,248,425	0.47
<b>Northwest Total</b>	<b>195,770,818</b>	<b>6.8</b>	<b>10.5</b>	<b>1,673,982</b>	<b>5,281,202</b>	<b>6,227,926</b>	<b>7,110,783</b>	<b>0.72</b>
Flex	17,034,851	9.6	12.3	274,525	498,381	183,870	76,774	0.94
Manufacturing	25,634,627	4.7	5.1	5,700	-95,798	0	130,000	0.59
Warehouse/Distribution	153,101,340	6.9	11.2	1,393,757	4,878,619	6,044,056	6,904,009	0.70
<b>Southeast Total</b>	<b>122,213,055</b>	<b>5.3</b>	<b>9.4</b>	<b>1,287,306</b>	<b>5,508,762</b>	<b>2,612,474</b>	<b>7,477,863</b>	<b>0.75</b>
Flex	3,178,804	8.8	9.7	-12,682	-41,402	23,860	0	0.86
Manufacturing	18,386,520	2.9	3.8	15,460	324,879	0	146,350	0.86
Warehouse/Distribution	100,647,731	5.6	10.3	1,284,528	5,225,285	2,588,614	7,331,513	0.71
<b>South Total</b>	<b>50,675,958</b>	<b>2.4</b>	<b>6.9</b>	<b>36,525</b>	<b>764,071</b>	<b>101,800</b>	<b>1,037,468</b>	<b>0.65</b>
Flex	2,518,132	4.6	17.8	15,368	14,785	0	0	0.97
Manufacturing	9,478,045	1.8	1.8	-22,630	151,073	56,000	0	0.55
Warehouse/Distribution	38,679,781	2.5	7.4	43,787	598,213	45,800	1,037,468	0.65
<b>Southwest Total</b>	<b>94,859,470</b>	<b>6.6</b>	<b>11.5</b>	<b>912,384</b>	<b>2,510,268</b>	<b>1,601,929</b>	<b>5,780,216</b>	<b>0.86</b>
Flex	12,609,763	7.7	8.1	-71,904	174,989	53,450	53,540	0.97
Manufacturing	7,282,410	4.4	4.5	27,347	15,360	0	0	0.98
Warehouse/Distribution	74,967,297	6.6	12.7	956,941	2,319,919	1,548,479	5,726,676	0.80

# Market Overview

## Houston Industrial Submarkets



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# Houston Industrial Quarterly Market Report

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## Q3 2022

Leta Wauson

Director of Research

[leta.wauson@partnersrealestate.com](mailto:leta.wauson@partnersrealestate.com)

tel 713 275 9618

**partners**

**HOUSTON**

+ 713 629 0500

1360 Post Oak Blvd #1900

Houston, Texas 77056

**PARTNERSREALESTATE.COM**