

# Houston Industrial

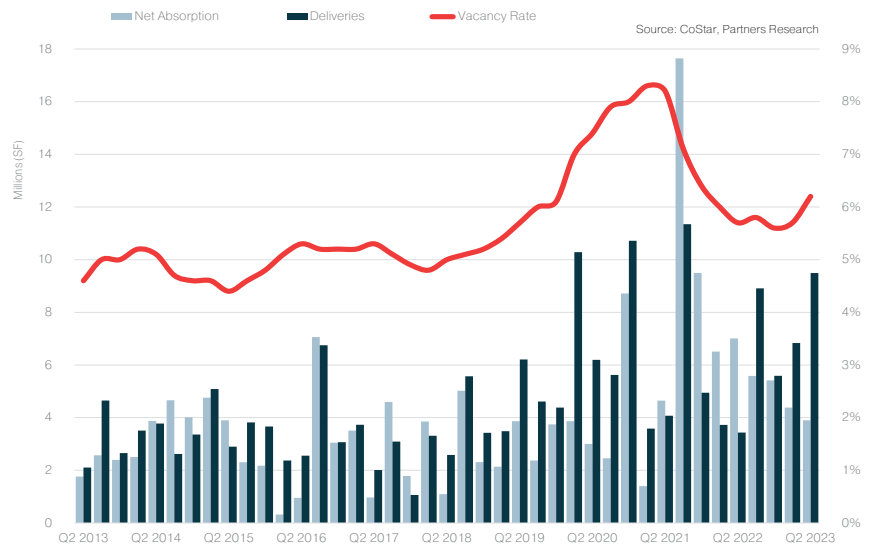
## Q2 2023

## Rent growth in Houston Industrial market continues upward trend despite deliveries tripling.

### Q2 In Review

By the end of Q2 2023, the overall vacancy rate in the Houston industrial market rose by 50 basis points quarter-over-quarter, from 5.7% to 6.2%. This rise was partially due to the increase in delivery activity reported throughout the past year. In Q2 2022, deliveries were at 3.4 million sq. ft., and by Q2 2023 deliveries reached 9.4 million sq. ft.—tripling year-over-year. Construction remains strong with 29.4 million sq. ft. in the pipeline by the end of the second quarter. Net absorption continued its streak—marking 56 straight quarters of positive absorption—at 3.8 million sq. ft. in Q2 2023. Leasing activity decreased 22% quarter-over-quarter from 9.3 million sq. ft. in Q1 2023 to 7.2 million sq. ft. in Q2 2023. Rent growth has remained on an upward trend in the Houston industrial market with the average monthly rental rate standing at \$0.76 per sq. ft. as of Q2 2023—increasing from \$0.74 per sq. ft. in Q1 2023.

### Supply & Demand



### Houston Economic Update

Houston's unemployment rate increased to 4.4% in May 2023, ticking up from 4.0% in April 2023. The metro's jobless rate beat the state's and the nation's rates at 4.1% and 3.5%, respectively. Year-to-date, Houston has gained 33,496 jobs in the first five months of 2023, reflecting 2.5% annual growth. Service-providing industries experienced the most growth in May. Specifically, trade, transportation, and utilities (5,300 jobs, 0.8%), leisure and hospitality (4,600 jobs, 1.3%), and education and health services (3,000 jobs, 0.7%).

### Key Market Indicators

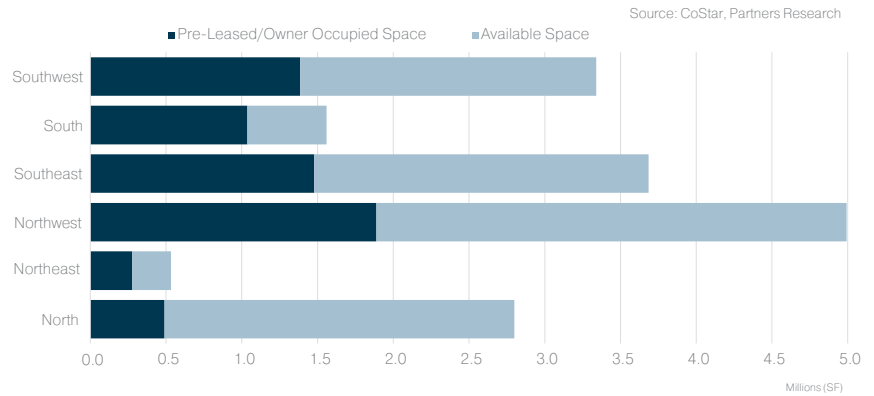
	CURRENT Q2 2023	PRIOR QUARTER Q1 2023		PRIOR YEAR Q2 2022	
Vacant Total	6.2%	5.7%	▲	5.7%	▲
Vacant Direct	5.9%	5.3%	▲	5.4%	▲
Available Total	10.5%	10.3%	▲	9.3%	▲
Available Direct	9.4%	9.3%	▲	8.8%	▲
Net Absorption (SF)	3,899,810	4,384,173	▼	7,005,204	▼
Leasing Activity (SF)	7,270,058	9,355,393	▼	10,010,662	▼
Construction (SF)	29,898,251	37,311,354	▼	22,126,398	▲
Deliveries (SF)	9,491,266	6,835,894	▲	3,434,831	▲
Avg Asking Rent (NNN/MO)	\$0.76	\$0.74	▲	\$0.70	▲
Inventory (SF)	724,801,663	712,650,015	▲	685,629,357	▲

## 01

### Deliveries Triple Year-Over-Year

By the end of Q2 2023, deliveries in the Houston Industrial market reached 9.4 million sq. ft. Quarter-over-quarter, deliveries increased 39% from 6.8 million sq. ft. in Q1 2023. Year-over-year, deliveries tripled from 3.4 million sq. ft. in Q2 2022. Year-to-date, deliveries are at 16.9 million sq. ft.—with the Northwest and Southeast accounting for 29.5% and 21.8% of space delivered, respectively. The large volume of square footage delivered can be partially attributed to robust tenant demand—more than 30% of industrial properties in Houston were pre-leased in Q2 2023. Noteworthy projects that attributed to the Q2 2023 deliveries include a 1 million-sq.-ft. warehouse at 3200 South FM 565 Road in Baytown, a 908,853-sq.-ft. distribution center at 19201 Hamish Road in Tomball, and a 736,322-sq.-ft. distribution center at 19200 Hamish Road in Tomball. Houston’s industrial construction pipeline remains robust with a total volume of 29.8 million sq. ft., primarily consisting of 28.9 million sq. ft. in Warehouse/Distribution space and 926,645 sq. ft. in Flex space. The Southeast leads construction, with 9.0 million sq. ft.—or 30%—of all space under development, followed by the North with 5.5 million sq. ft. (or 19%).

### Deliveries

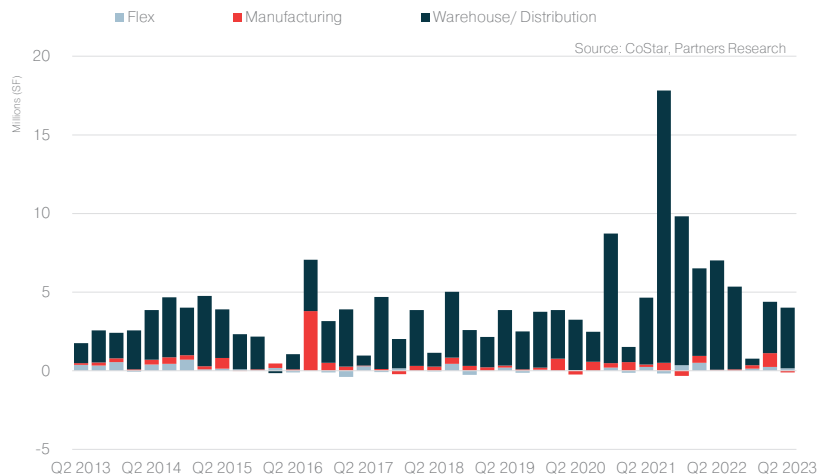


## 02

### High Positive Net Absorption Continues Through Q2 2023

Growth in Houston’s Warehouse/Distribution businesses coupled with a shifting supply chain attracting demand through the region has kept net absorption of industrial space high amid to the millions of square feet being constructed and delivered. The industrial market’s momentum continued into Q2 2023, with the second quarter marking 56 straight quarters—equal to over 14 years—that Houston recorded overall positive net absorption. Net absorption (3.8 million sq. ft.) remained positive, primarily due to the almost full allocation in Warehouse/Distribution space—31,932 sq. ft. less than total net absorption. Moreover, the market has yet to experience negative net absorption on the scale of Q2 2009, when it plummeted to negative 234,000 sq. ft.

### Net Absorption

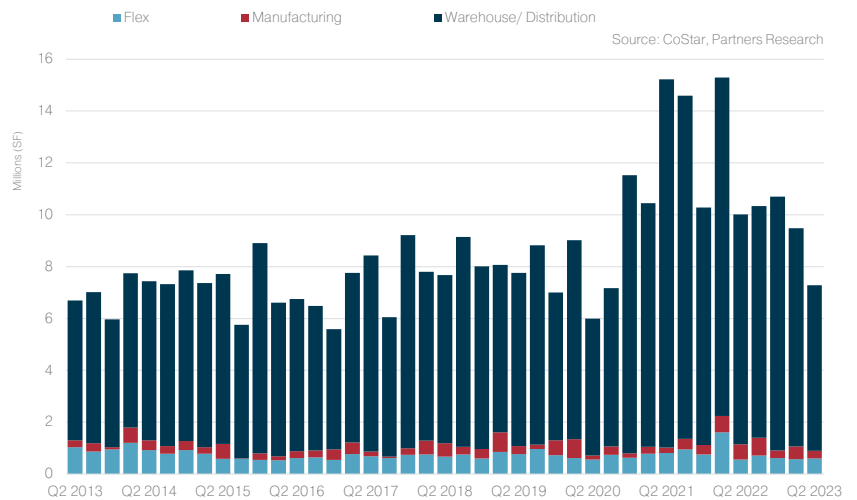


## 03

### Houston Industrial Leasing Down 22%

The volume of signed lease transactions during the second quarter—comprised of new leases and renewals—was 7.2 million sq. ft., 22% down from the previous quarter’s 9.3 million sq. ft., and 27% down from the previous year’s 10 million sq. ft. Notable leases signed within the Q2 2023 include DSI Logistics signing a lease for a 151,342-sq.-ft. warehouse at 10001 Fannin Street in May 2023, and WOW Design inking a deal for a 118,028-sq.-ft. warehouse at 12855 South Kirkwood Road in April 2023.

### Leasing Activity

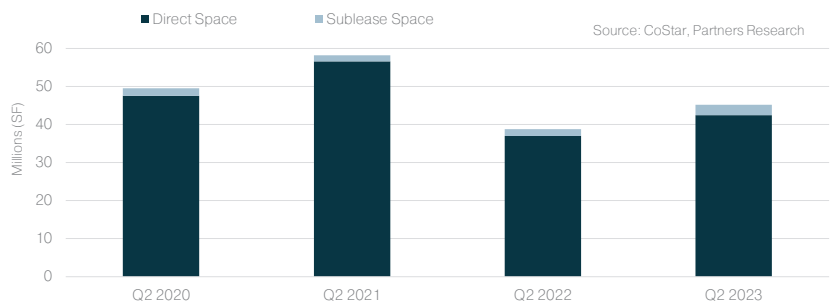


## 04

### Vacancy Rate Increases to 6.2%

The increase in delivery activity throughout the past year has contributed to the steady rise in the vacancy rate in the Houston industrial market in recent months. In Q2 2023, the vacancy rate increased 50 basis points to 6.2% from 5.7% in Q1 2023. Flex, Manufacturing, and Warehouse/Distribution space have vacancy rates of 7.7%, 1.7%, and 6.9%, respectively. In Q2 2023, Flex space has the highest vacancy rate amongst the three space types in the Houston industrial market.

### Vacancy

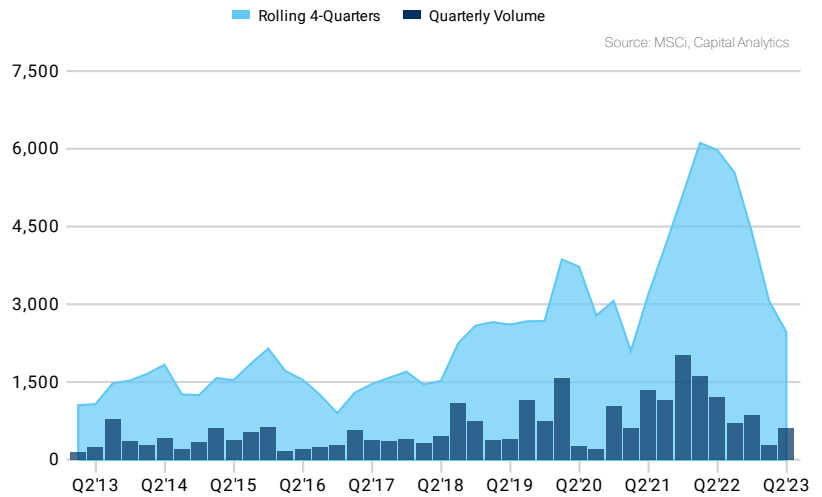


## 05

### Investment Sales Trends

Real Capital Analytics reports quarterly industrial sales volume for Q2 2023 in the Greater Houston area at \$605 million, down 49% year-over-year from \$1.2 billion in Q2 2022. The majority composition of buyers so far in 2023 was made up of 74% private and 24% institutional. For sellers, the majority composition was 42% institutional, 44% private, and 5% cross-border sellers (a transaction is defined as cross-border if the buyer or major capital partner is not headquartered in the same country where the property is located). MDH Partners, a real estate investment firm, was responsible for one of the largest industrial acquisitions of the quarter, securing a \$90 million loan for a 603,389-sq.-ft. industrial building, South Belt Central Building 4, in the South in June 2023.

### Cumulative Sales Volume

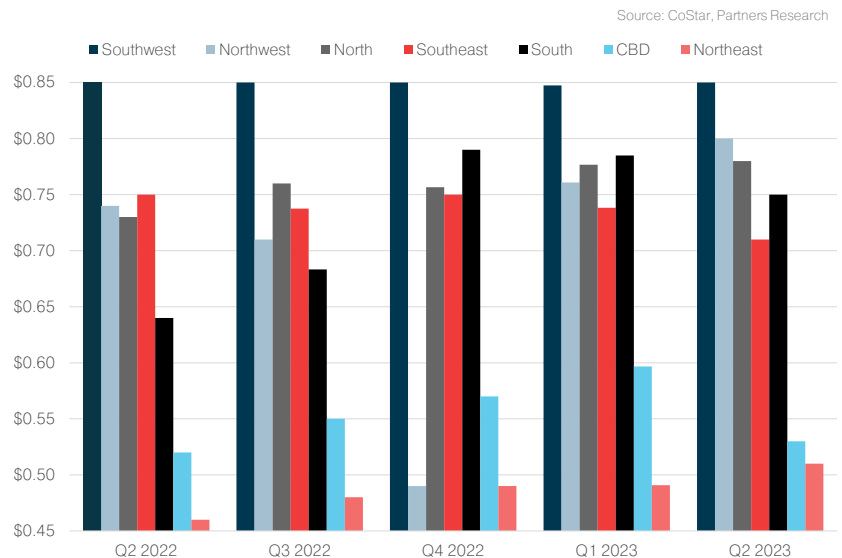


## 06

### Rental Rates Continue to Trend Upward

The average monthly rental rate for the Houston market was \$0.76 per sq. ft. as of the end of Q2 2023, up quarter-over-quarter from \$0.74 per sq. ft., and up year-over-year from \$0.70 per sq. ft. The average monthly rate per square foot for Flex space stood at \$0.96 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were \$0.73 per sq. ft. and \$0.71 per sq. ft., respectively. The Southwest and Northwest currently have the highest monthly overall average rate at \$0.86 per sq. ft. and \$0.80 per sq. ft., respectively. Overall, the Houston rental market continues to see an upward trend in rental rates, with Flex space commanding the highest rates.

### Average Asking Monthly RRR Rent



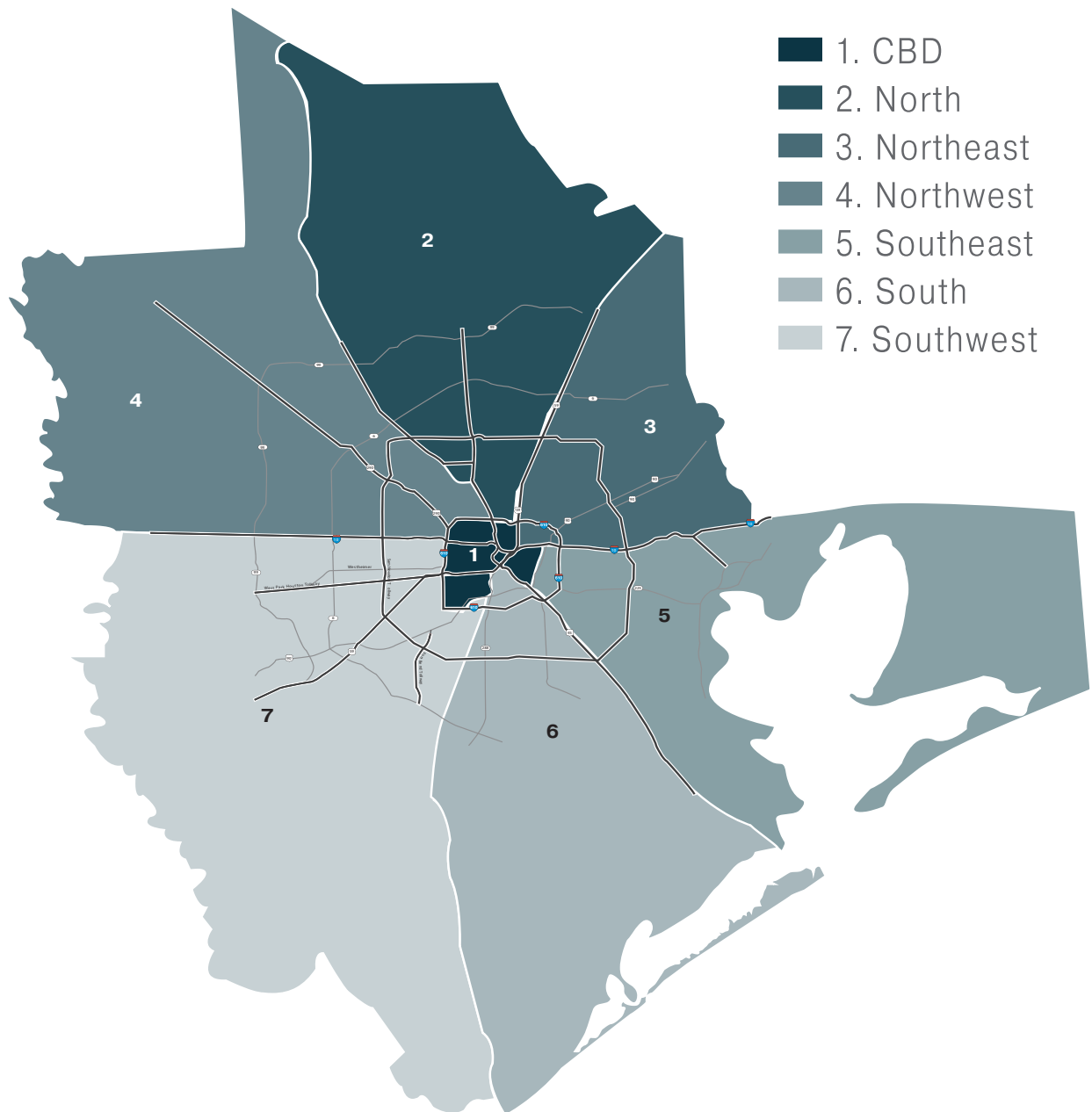
# Market Overview

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## Submarket Stats

Submarket Statistics Total reflects (Flex/Manf/WD)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q2 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q2 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Houston Market Total</b>	<b>724,801,663</b>	<b>6.2</b>	<b>10.5</b>	<b>3,899,810</b>	<b>8,716,651</b>	<b>9,491,266</b>	<b>29,898,251</b>	<b>0.75</b>
Flex	51,156,916	7.7	10.6	145,380	393,336	115,300	926,645	0.96
Manufacturing	93,921,376	1.7	3.1	-113,457	750,846	0	35,000	0.73
Warehouse/Distribution	579,723,371	6.9	11.6	3,867,887	7,579,469	9,375,966	28,936,606	0.71
<b>CBD Total</b>	<b>51,441,553</b>	<b>5.4</b>	<b>7.5</b>	<b>-185,046</b>	<b>-599,120</b>	<b>0</b>	<b>0</b>	<b>0.54</b>
Flex	3,003,935	8.7	9.6	-58,629	-96,260	0	0	1.14
Manufacturing	7,907,750	0.9	4.7	9,972	-16,618	0	0	0.73
Warehouse/Distribution	40,529,868	6.1	7.8	-136,389	-486,242	0	0	0.50
<b>North Total</b>	<b>137,496,403</b>	<b>6.5</b>	<b>11.8</b>	<b>748,573</b>	<b>944,089</b>	<b>2,189,548</b>	<b>5,613,576</b>	<b>0.78</b>
Flex	12,429,513	7.3	13.9	85,282	77,911	36,465	192,765	0.82
Manufacturing	15,578,580	0.9	2.5	-72,750	-119,633	0	35,000	0.98
Warehouse/Distribution	109,488,310	7.2	12.9	736,041	985,811	2,153,083	5,385,811	0.77
<b>Northeast Total</b>	<b>47,702,172</b>	<b>5.1</b>	<b>12.3</b>	<b>249,088</b>	<b>779,729</b>	<b>255,871</b>	<b>3,034,826</b>	<b>0.51</b>
Flex	655,396	10.3	6.8	1,507	-3,154	0	333,456	0.69
Manufacturing	9,296,900	0.5	1.5	-50,052	-50,052	0	0	0.35
Warehouse/Distribution	37,749,876	6.2	15.0	297,633	832,935	255,871	2,701,370	0.53
<b>Northwest Total</b>	<b>203,687,767</b>	<b>6.7</b>	<b>8.8</b>	<b>913,203</b>	<b>3,068,382</b>	<b>3,401,515</b>	<b>3,164,375</b>	<b>0.80</b>
Flex	16,272,910	9.3	11.3	67,089	103,797	42,835	82,502	0.99
Manufacturing	26,179,332	3.0	3.9	-32,386	328,747	0	0	0.76
Warehouse/Distribution	161,235,525	7.1	9.4	878,500	2,635,838	3,358,680	3,081,873	0.76
<b>Southeast Total</b>	<b>131,305,833</b>	<b>5.0</b>	<b>11.0</b>	<b>1,863,326</b>	<b>2,943,618</b>	<b>1,805,324</b>	<b>9,066,128</b>	<b>0.71</b>
Flex	3,322,940	7.8	9.8	4,696	20,776	0	10,000	0.91
Manufacturing	18,088,501	0.6	2.6	20,192	540,750	0	0	0.82
Warehouse/Distribution	109,894,392	5.6	12.3	1,838,438	2,382,092	1,805,324	9,056,128	0.69
<b>South Total</b>	<b>52,925,121</b>	<b>6.0</b>	<b>8.6</b>	<b>126,045</b>	<b>109,192</b>	<b>1,559,443</b>	<b>3,840,173</b>	<b>0.75</b>
Flex	2,591,326	6.1	8.8	-17,984	367	15,000	55,364	1.18
Manufacturing	9,474,625	1.9	2.4	-5,383	-5,190	0	0	0.54
Warehouse/Distribution	40,859,170	7.0	9.8	149,412	114,015	1,544,443	3,784,809	0.75
<b>Southwest Total</b>	<b>100,242,814</b>	<b>7.6</b>	<b>12.6</b>	<b>184,621</b>	<b>1,470,761</b>	<b>279,565</b>	<b>5,179,173</b>	<b>0.87</b>
Flex	12,880,896	6.2	7.6	63,419	289,899	21,000	252,558	1.03
Manufacturing	7,395,688	3.0	3.9	16,950	72,842	0	0	1.02
Warehouse/Distribution	79,966,230	8.3	14.1	104,252	1,115,020	258,565	4,926,615	0.76

### Houston Industrial Submarkets



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