

Houston Industrial

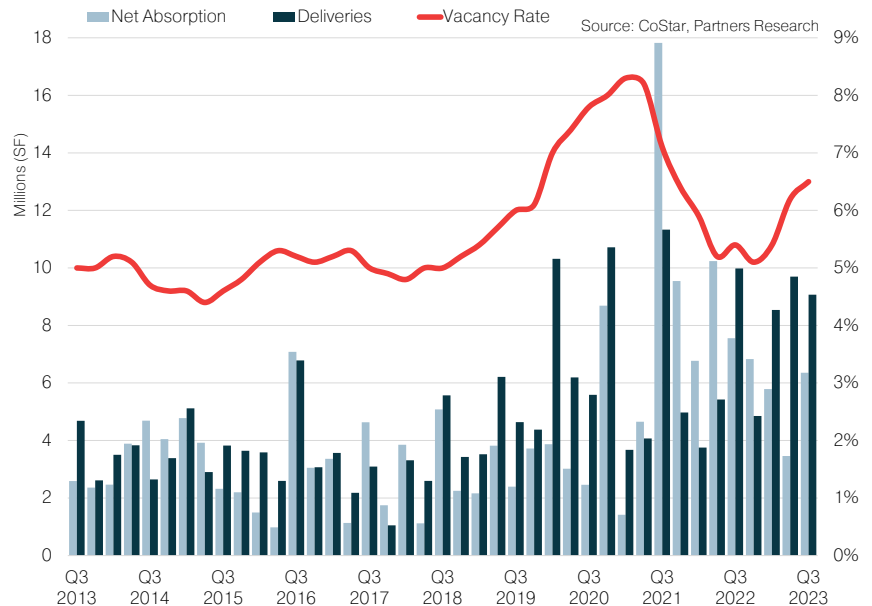
Q3 2023

Warehouse and Distribution centers continue to drive Houston Industrial absorption

Q3 In Review

By the end of Q3 2023, the overall vacancy rate in the Houston industrial market rose 30 basis points quarter-over-quarter, from 6.2% to 6.5%. Net absorption is at 6.3 million sq. ft., nearly doubling from 3.4 million sq. ft. in Q2 2023. Macy's move-in contributed 903,853 sq. ft. to the quarter's positive net absorption. Houston's industrial construction pipeline decreased 27% to 22.0 million sq. ft. from 30.1 million sq. ft. in Q2 2023, as developers battle elevated interest rates, construction costs, and aggressive equity. Leasing activity is at 9.1 million sq. ft., up 11% from 8.2 million sq. ft. in Q2 2023. Lastly, the average monthly rental rate increased slightly quarter-over-quarter, currently standing at \$0.77 per sq. ft.

Supply & Demand



Houston Economic Update

Houston's unemployment rate increased to 4.9% in August 2023 (up from 4.8% in July 2023). The metro's jobless rate lagged the state's and the nation's rates at 4.5% and 3.9%, respectively. Houston's employment stood at 3.3 million in August 2023. The largest job gains by sector included: other services (+3,900 jobs, 3.3%), leisure and hospitality (+3,400 jobs, 1.0%), and financial activities (+1,800 jobs, 1.0%). The largest job declines by sector included: professional and business services (-3,300 jobs, -0.6%), construction (-2,300 jobs, -1.0%), and trade, transportation, and utilities (-600 jobs, -1.0%).

Key Market Indicators

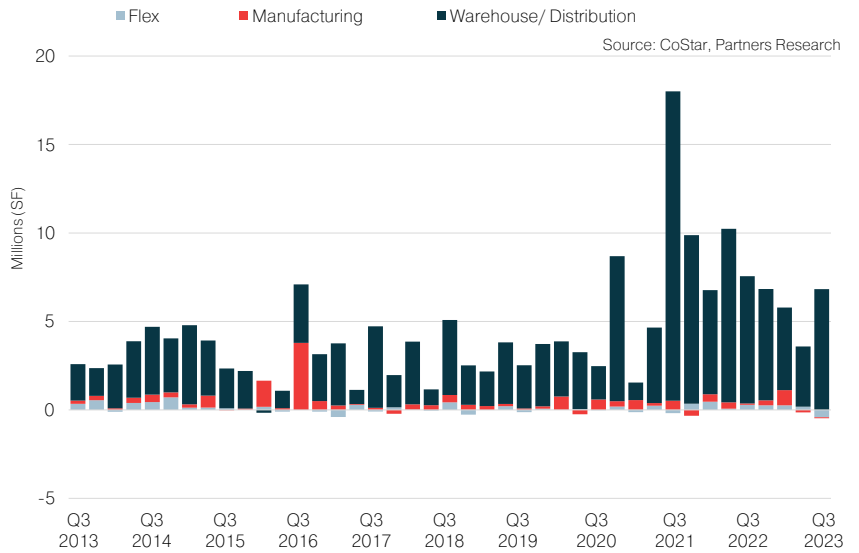
	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	6.5%	6.2%	▲	5.4%	▲
Vacant Direct	6.0%	5.9%	▲	5.3%	▲
Available Total	10.0%	10.3%	▼	9.8%	▲
Available Direct	9.0%	9.3%	▼	9.2%	▼
Net Absorption (SF)	6,355,935	3,458,934	▲	7,556,830	▼
Leasing Activity (SF)	9,187,692	8,294,696	▲	12,226,929	▼
Construction (SF)	22,057,374	30,163,655	▼	32,532,360	▼
Deliveries (SF)	9,068,921	9,696,651	▼	8,536,357	▼
Avg Asking Rent (NNN/MO)	\$0.77	\$0.76	▲	\$0.71	▲
Inventory (SF)	739,383,691	730,314,770	▲	707,230,430	▲

01

Warehouse and Distribution Center Move-Ins Boost Net Absorption

Net absorption—move-ins minus move-outs—increased to 6.3 million sq. ft., nearly doubling from 3.4 million sq. ft. in Q2 2023. Year-to-date, net absorption totaled 15.6 million sq. ft. Of that total, 6.8 million sq. ft. was comprised of Warehouse/Distribution space. Flex space and Manufacturing space recorded absorption of -416,803 sq. ft. and -53,377 sq. ft., respectively. Macy’s occupied a 903,853-sq.-ft. distribution center at 19201 Hamish Road in July, marking one of the largest contributors to positive net absorption in Q3 2023. In addition, Professional Packing Systems, LLC filled a 229,150-sq.-ft. warehouse in Brookshire, and Hotline Logistics absorbed a 209,592-sq.-ft. distribution center in Humble in September.

Net Absorption

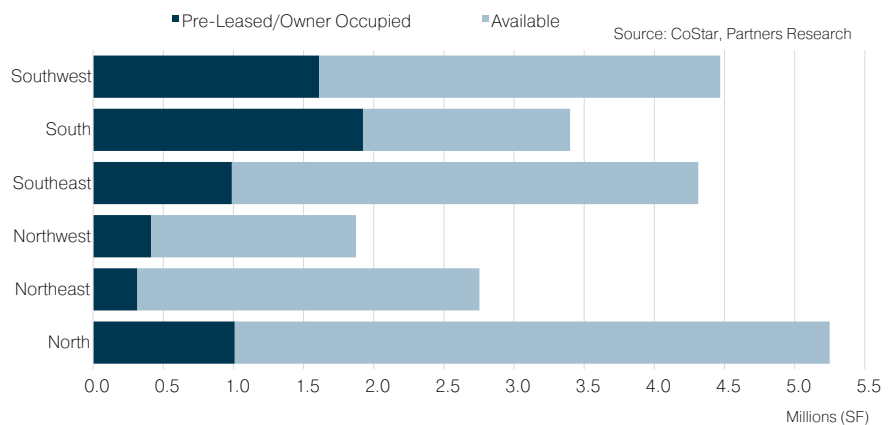


02

Construction Decreases 27% Quarter-Over-Quarter

Elevated interest rates have increased material and labor costs, reducing the onset of new industrial supply in recent months. By the end of Q3 2023, Houston’s industrial construction pipeline had decreased to 22.0 million sq. ft, 27% down from the prior quarter’s 30.1 million sq. ft. Construction starts in Q3 2023 included a 198,800-sq.-ft. warehouse at 4851 South Belt Central Drive, and a 126,428-sq.-ft. warehouse at 7473 Rankin Road. Deliveries decreased 7% to 9.0 million sq. ft. from 9.6 million sq. ft. in Q2 2023. Year-to-date, deliveries are at 27.3 million sq. ft.

Construction

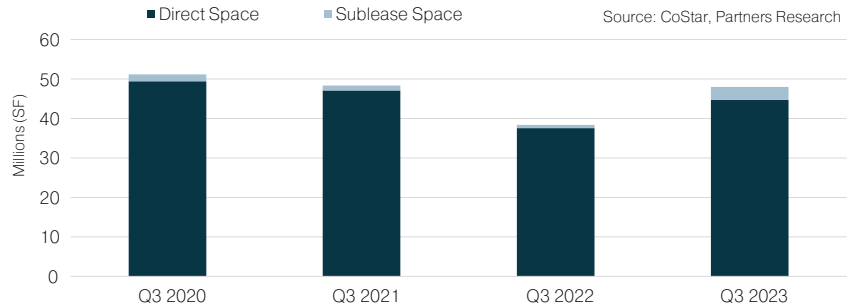


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Vacancy Rate Increases to 6.5%

The overall vacancy rate in Houston's industrial market rose to 6.5%, increasing 30 basis points from the prior quarter (6.2%). Only 55% of the year-to-date deliveries have been fully leased, contributing to the increase in the overall vacancy rate. Flex, Manufacturing, and Warehouse/Distribution space have vacancy rates of 8.6%, 1.8%, 7.1%, respectively.

Vacancy

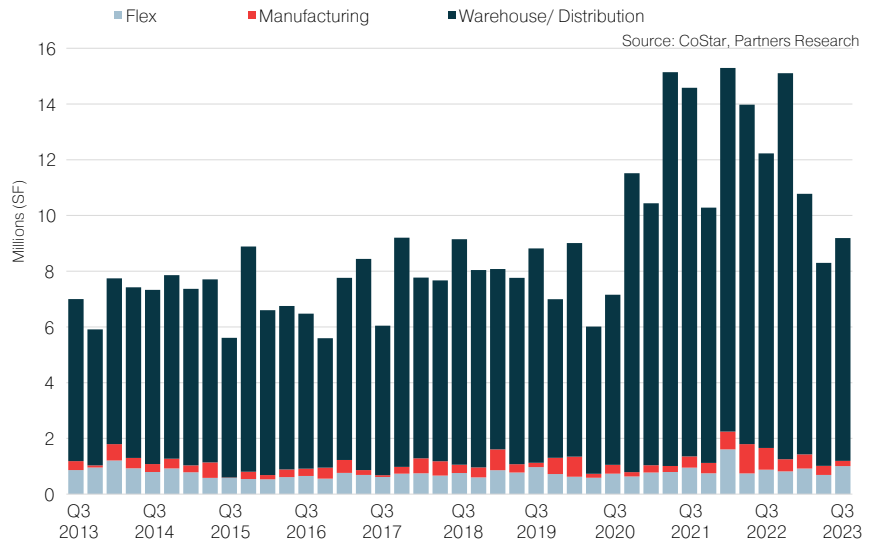


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Leasing Up 11% Quarter-Over-Quarter

Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 9.1 million sq. ft.—up 11% from 8.2 million sq. ft. in Q2 2023. Year-to-date, leasing activity registered at 28.2 million sq. ft. Notable transactions within Q3 2023 included Dream Harvest signing a lease for a 207,000-sq.-ft. distribution center at 12855 South Kirkwood Road in August 2023, and Packwell inking a deal for a 156,250-sq.-ft. distribution center at 9770 New Century Drive in July 2023.

Leasing Activity

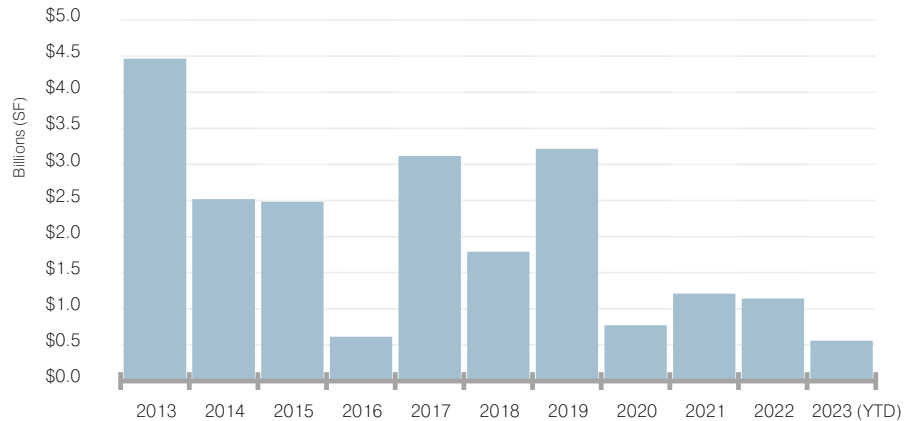


05

Investment Sales Trends

Year-to-date, CoStar Capital Markets Analytics reports the cumulative 12-month sales volume for 2023 at \$948 million in the Houston industrial market. With 758 deals completed thus far in 2023, the average transaction price currently stands at \$102 per sq. ft. with an average transaction cap rate at 8.5%. A notable transaction in Q3 2023 included two development companies, Lovett Industrial and PCCP, LCC closing on two industrial business parks (Claymoore Business Park and Northwest Business Park). Located in the Northwest submarket, this acquisition spans across 10 buildings, totaling 1.3 million sq. ft. The transaction price was not disclosed by the agent. This industrial portfolio was 100% leased at the time of sale and rosters 21 tenants.

Cumulative Sales Volume

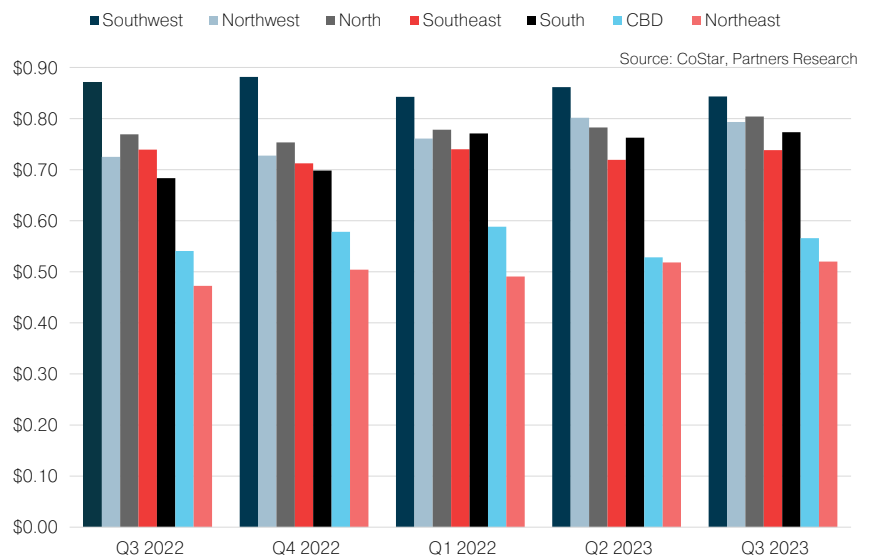


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Rental Rates Increase 9% Year-Over-Year

The average monthly rental rate for the Houston industrial market was \$0.77 per sq. ft. in Q3 2023, up 9% year-over-year from \$0.70 per sq. ft. The average monthly rate per square foot for Flex space stood at \$0.98 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were \$0.75 per sq. ft. and \$0.72 per sq. ft., respectively. The Southwest and North submarkets command the highest monthly average rates at \$0.84 per sq. ft. and \$0.80 per sq. ft.

Average Asking Monthly RRR Rent



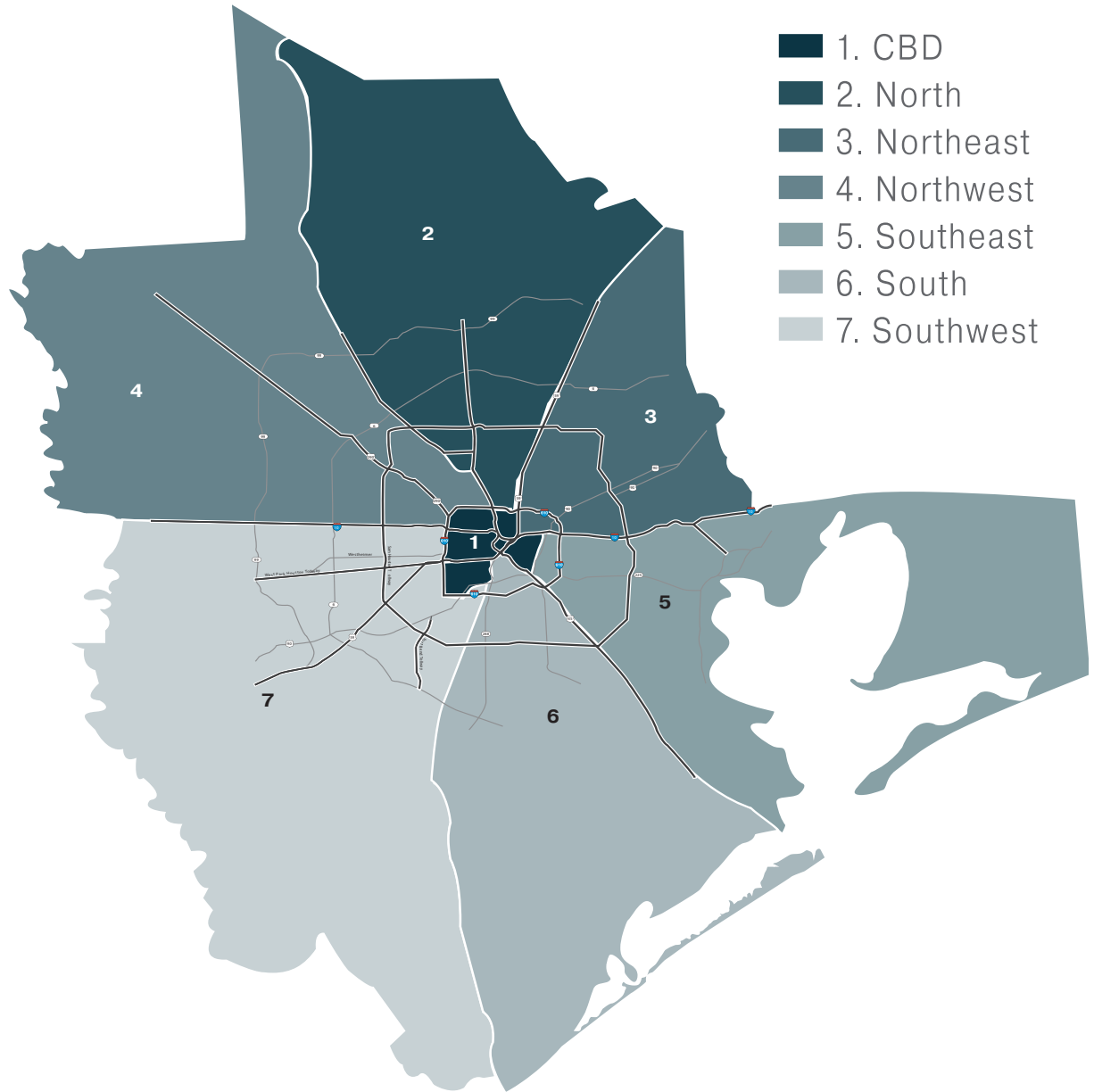
Market Overview

07

Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q3 2023 Deliveries (SF)	Under Construction (SF)	Overall Avg Asking Rent (NNN/MO)
Houston Market Total	739,383,691	6.5%	10.0%	6,355,935	15,586,822	9,068,921	22,057,374	0.76
Flex	51,130,437	8.6%	9.8%	-416,803	28,698	69,070	956,331	0.98
Manufacturing	95,776,937	1.8%	3.2%	-53,377	662,531	29,974	406,589	0.75
Warehouse/Distribution	592,461,317	7.1%	11.1%	6,823,637	14,895,593	8,969,877	20,694,454	0.72
CBD Total	51,347,767	4.2%	6.4%	95,809	-332,402	0	0	0.56
Flex	2,965,175	7.0%	8.7%	48,325	-41,710	0	0	1.15
Manufacturing	7,962,412	1.1%	1.2%	12,090	-29,666	0	0	0.60
Warehouse/Distribution	40,420,180	4.6%	7.3%	35,394	-261,026	0	0	0.53
North Total	138,908,430	6.2%	11.0%	1,049,569	2,135,421	959,966	5,248,955	0.80
Flex	12,427,388	11.5%	11.0%	-518,372	-446,461	0	256,765	9.90
Manufacturing	15,619,084	0.4%	2.6%	105,432	-14,901	29,974	65,100	1.01
Warehouse/Distribution	110,846,958	6.4%	12.1%	1,461,409	2,596,783	929,992	4,927,090	0.79
Northeast Total	49,470,698	5.2%	12.6%	282,521	1,062,250	424,404	2,753,037	0.52
Flex	655,396	10.2%	6.7%	927	-2,227	0	333,456	0.67
Manufacturing	10,524,561	0.5%	1.4%	0	-50,052	0	0	0.35
Warehouse/Distribution	38,290,741	6.5%	15.6%	281,594	1,114,529	424,404	2,419,581	0.53
Northwest Total	206,665,037	6.6%	9.1%	1,555,245	4,756,151	1,572,593	1,874,163	0.79
Flex	16,303,767	9.4%	11.2%	8,151	132,331	28,416	118,842	1.03
Manufacturing	26,537,212	3.1%	4.8%	-24,779	294,868	0	23,400	0.76
Warehouse/Distribution	163,824,058	6.9%	9.5%	1,571,873	4,328,952	1,544,177	1,731,921	0.74
Southeast Total	136,347,973	7.5%	10.3%	1,031,468	3,978,964	3,497,901	4,312,446	0.73
Flex	3,325,086	7.6%	8.6%	5,935	26,711	0	10,000	0.84
Manufacturing	18,116,180	0.7%	3.5%	-14,960	525,790	0	0	0.87
Warehouse/Distribution	114,906,707	8.6%	11.4%	1,040,493	3,426,463	3,497,901	4,302,446	0.70
South Total	54,559,546	4.5%	8.5%	1,705,257	1,976,903	1,091,230	3,399,240	0.77
Flex	2,645,278	6.9%	10.0%	3,770	94	13,364	12,000	1.18
Manufacturing	9,533,378	2.0%	1.9%	-3,552	-8,742	0	318,089	0.56
Warehouse/Distribution	42,380,890	4.9%	9.9%	1,705,039	1,985,551	1,077,866	3,069,151	0.74
Southwest Total	102,084,240	8.1%	11.2%	636,066	2,189,535	1,522,827	4,469,533	0.84
Flex	12,808,347	5.8%	7.6%	34,461	359,960	27,290	225,268	1.06
Manufacturing	7,484,110	4.7%	4.2%	-127,608	-54,766	0	0	1.00
Warehouse/Distribution	81,791,783	8.7%	12.4%	727,835	1,884,341	1,495,537	4,244,265	0.74

Houston Industrial Submarkets



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