

Houston Industrial

Q4 2023

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Quarterly Market Report

14th straight year of positive net absorption for Houston Industrial market

Executive Summary

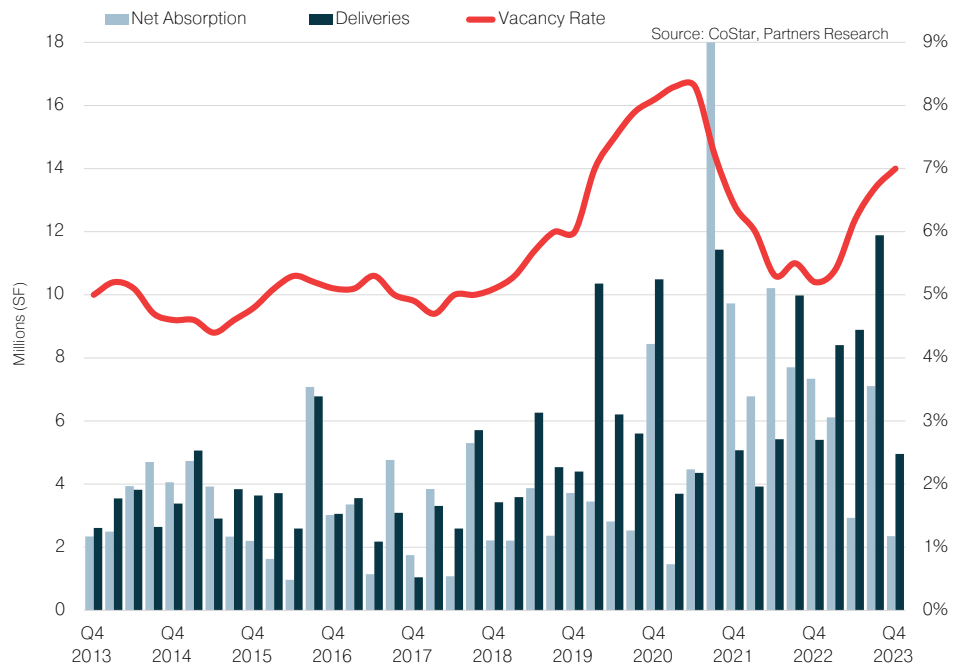
Q4 in Review

By the end of Q4 2023, the overall vacancy rate in the Houston Industrial market rose 180 basis points year-over-year, from 5.2% to 7.0%. Net absorption is at 2.3 million sq. ft., 68% down from the prior year's 7.3 million sq. ft. Year-to-date, net absorption is at 18.5 million sq. ft. Many tenants have reduced their need for Warehouse/Distribution space due to economic uncertainty and higher borrowing costs. During the fourth quarter, HRDC Shell Lubricants moved out of 9255 Railwood Drive, and Goodman Distribution moved out of 22533 Northwest Lake Drive, returning 300,000 sq. ft. and 231,839 sq. ft. of industrial space to the market, respectively. Leasing activity is at 9.3 million sq. ft., 38% down from 15.1 million sq. ft. last year. Lastly, the average monthly rental rate (NNN) reached \$0.78 per sq. ft.—a record-high for the metro's industrial sector.

Houston Economic Update

Houston's unemployment rate decreased to 4.4% in October 2023, slightly down from 4.7% in September 2023, according to the latest release of Houston's Economic Indicators. The metro's jobless rate beat the state and the national rates at 4.1% and 3.9%, respectively. Houston's employment reached 3.4 million in October 2023—growing an annualized 3.7% (30,474 jobs) in the three months ending in October. The largest job gains by sector included: leisure and hospitality (+8,899 jobs, 10.3%), government (+9,578 jobs, 9%), information and other services (+3,529 jobs, 9.2%). The largest job declines by sector included: construction (-4,417 jobs, -7.5%), professional and business services (-13,502 jobs, -2.4%), and oil and gas (-1,193 jobs, -1.7%).

Supply & Demand



Key Market Indicators

	CURRENT Q4 2023	PRIOR QUARTER Q3 2023		PRIOR YEAR Q4 2022	
Vacant Total	7.0%	6.7%	▲	5.2%	▲
Vacant Direct	6.6%	6.5%	▲	5.1%	▲
Available Total	9.7%	10.0%	▼	9.4%	▲
Available Direct	8.8%	9.2%	▼	8.8%	▬
Net Absorption (SF)	2,353,573	7,110,201	▼	7,343,278	▼
Leasing Activity (SF)	9,351,408	10,796,682	▼	15,183,245	▼
Construction (SF)	21,480,795	24,372,780	▼	37,170,265	▼
Deliveries (SF)	4,960,617	11,891,360	▼	5,403,944	▼
Avg Asking Rent (NNN)	\$0.76	\$0.76	▲	\$0.72	▲
Inventory (SF)	748,861,282	743,900,665	▲	714,707,596	▲

Market Overview

Leasing Down 38% Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 9.3 million sq. ft.—down 38% from 15.1 million sq. ft. in Q4 2022. Year-to-date, leasing activity is at 40.3 million sq. ft., compared to the prior year-to-date figure of 56.6 million sq. ft. By year-end, 395 deals were signed, averaging 46,606 sq. ft., with notable exceptions from tenants such as ExxonMobil (525,000 sq. ft.) in October, and Wisenbaker Builder Services (409,795 sq. ft.) in November.

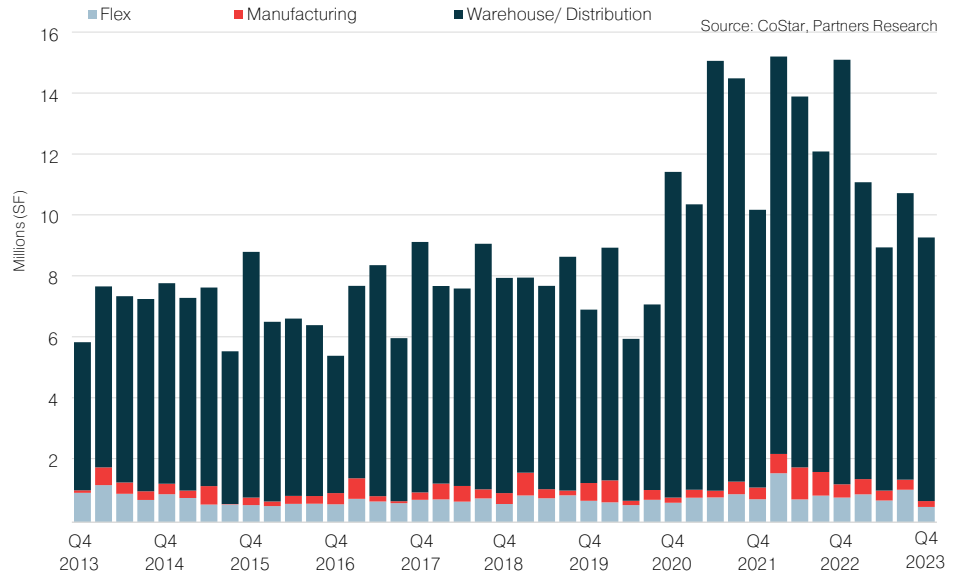
Positive Net Absorption Despite Slowing Demand

Net absorption—move-ins minus move-outs—is at 2.3 million sq. ft., 68% down from the prior year's 7.3 million sq. ft. Despite the decrease, net absorption in Houston's industrial market has remained positive for over 14 years—or 57 consecutive quarters—dating back to 2.6 million sq. ft. in Q3 2009. Following an active prior quarter (Q3 2023)—which tallied 7.1 million in sq. ft. of net absorption—Houston's industrial market cooled down towards the end of the year. This is partially due to the slowing demand for Warehouse/Distribution space. During the fourth quarter, HRDC Shell Lubricants moved out of 9255 Railwood Drive, and Goodman Distribution moved out of 22533 Northwest Lake Drive, returning 300,000 sq. ft. and 231,839 sq. ft. of industrial space to the market, respectively. Year-to-date, net absorption is at 18.5 million sq. ft. Despite the cooldown, Houston's industrial market remains resilient—the 12-month total for industrial space absorbed rose to second among the major metros in the U.S., according to CoStar Analytics.

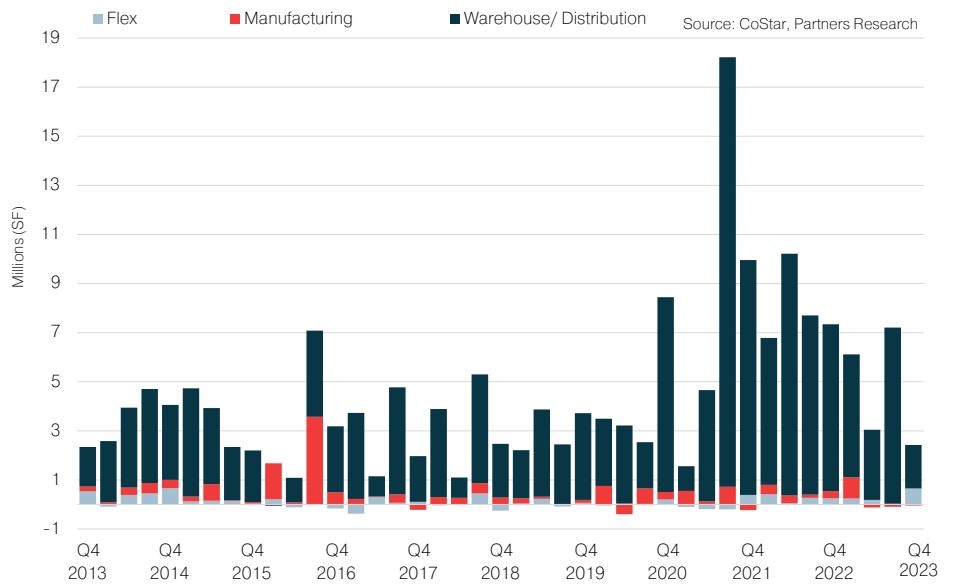
Vacancy Rate Increases to 7.0%

The overall vacancy rate in Houston's industrial market is at 7.0%. Quarter-over-quarter, the vacancy rate increased 30 basis points from 6.7%. Year-over-year, the vacancy rate increased 180 basis points from 5.2%. Flex, Manufacturing, and Warehouse space have vacancy rates of 8.8%, 1.8%, and 7.7%, respectively. Warehouse/Distribution space was the only product line to experience an increase in its vacancy rate (240 basis points) year-over-year. As new deliveries continue to outpace demand, the overall vacancy rate is forecasted to reach 8% by mid-2024.

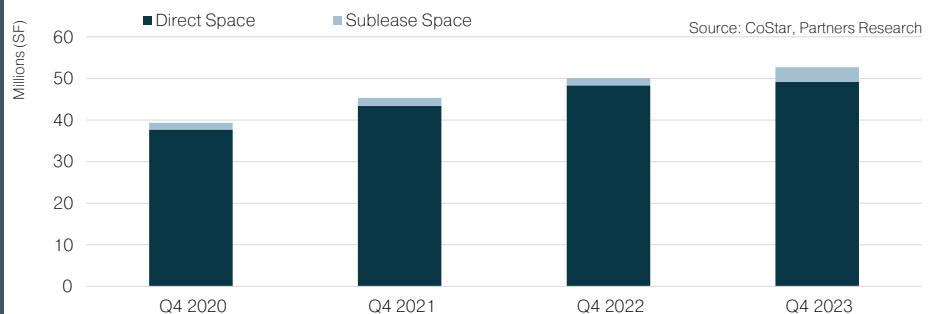
Leasing Activity



Net Absorption



Vacancy



Supply Cools Down Towards End of Year

Elevated borrowing costs have continued to reduce the onset of new supply within Houston's industrial market in recent months. By the end of Q4 2023, Houston's industrial construction pipeline had decreased to 21.4 million sq. ft., 12% down from the prior quarter's 24.3 million sq. ft., and 42% down from the prior year's 37.1 million sq. ft. Deliveries are at 4.9 million sq. ft., 58% down from the previous quarter's 11.8 million sq. ft., and 8% down from the previous year's 5.4 million sq. ft. However, year-to-date deliveries registered at 34.1 million sq. ft., 38% up from 24.7 million sq. ft. last year. The Southeast submarket led year-to-date deliveries at 8.6 million sq. ft. (25%), followed by the Southwest submarket at 7.1 million sq. ft. (21%). Some of the most notable deliveries in 2023 included a 1.2 million-sq.-ft. distribution center at 7505 Fisher Road (TGS Cedar Port DC4) in September, and 1.2 million-sq.-ft. warehouse (Building 4) at 15550 Milner Road in December.

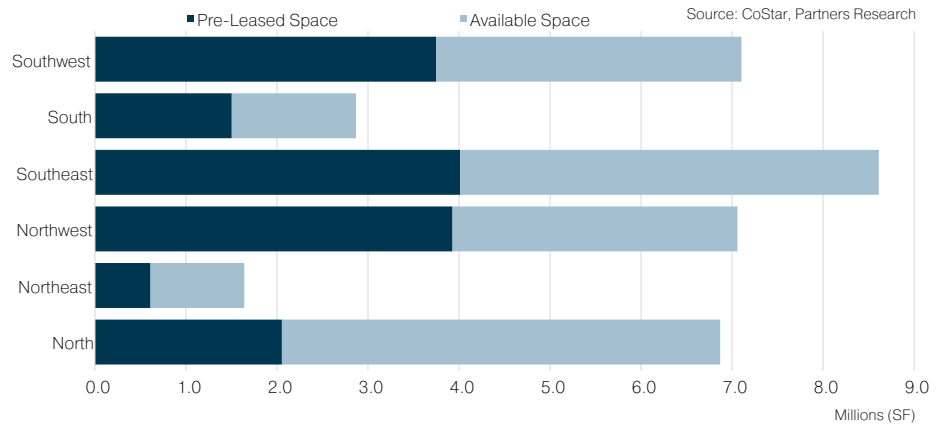
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q4 2023 at \$466 million, down 79% from \$2.1 billion in Q4 2022. By year-end, 985 deals were completed in the Houston industrial market with an average transaction price of \$106 and an average cap rate of 8.4. Notable sales transactions in 2023 included Bedrock Logistics acquiring a 277,235-sq.-ft. industrial building from Investment & Development Ventures at 7300 Thompson Road for \$29.5 million in July, and LFM Capital acquiring a 113,175-sq.-ft. distribution center from Bourguignon Family Trust for \$13.6 million in September.

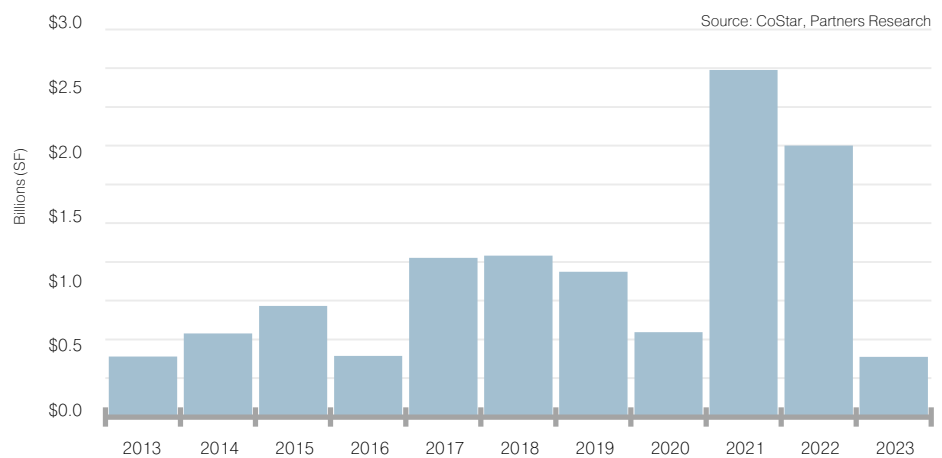
Record-High Asking Rent

The average monthly rental rate (NNN) for Houston's industrial market increased to \$0.78 per sq. ft.—a record-high for the metro's industrial sector—up 9% from the previous year's \$0.72 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 \$0.75 per sq. ft. and \$0.74 per sq. ft., respectively. The Southwest submarket commands the highest overall monthly average rate at \$0.86 per sq. ft., followed by the North and Northwest submarkets at \$0.81 per sq. ft.

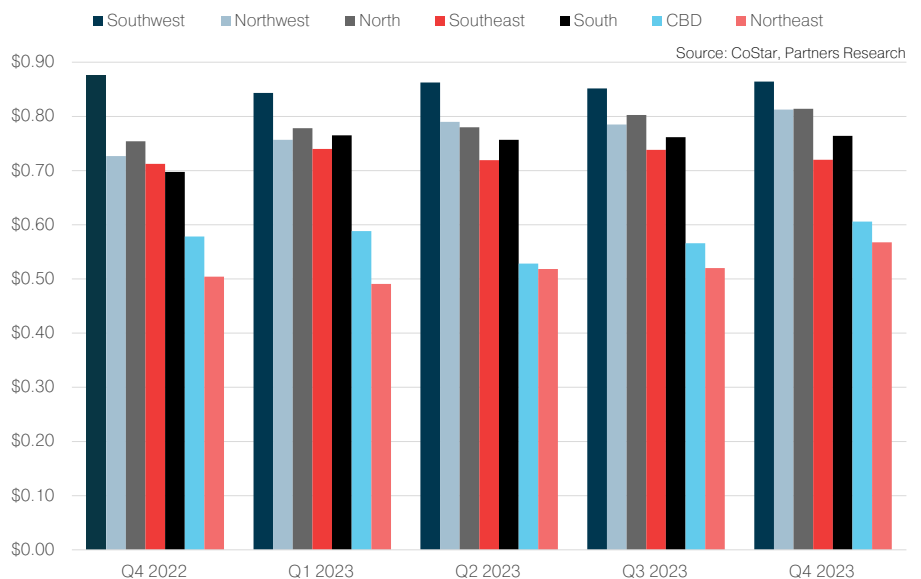
Deliveries



Cumulative Sales Volume



Average Monthly Rental Rate (NNN)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (NNN/MO)
Houston Market Total	748,861,282	7.0%	9.7%	2,353,573	18,515,808	4,960,617	21,480,795	0.78
Flex	52,485,081	8.8%	9.7%	654,534	1,112,836	867,298	471,315	0.96
Manufacturing	95,889,501	1.8%	3.3%	-42,317	598,732	23,400	383,189	0.75
Warehouse/Distribution	600,486,700	7.7%	10.7%	1,773,246	16,820,135	4,069,919	20,626,291	0.74
CBD Total	51,629,678	6.0%	9.0%	18,929	-1,094,562	0	0	0.61
Flex	3,029,678	6.8%	8.5%	20,099	-15,480	0	0	1.13
Manufacturing	8,166,580	1.0%	2.3%	200	-38,443	0	0	0.40
Warehouse/Distribution	40,433,420	7.0%	10.3%	-1,370	-1,040,639	0	0	0.59
North Total	142,147,842	8.3%	10.6%	545,740	2,748,676	2,975,255	2,833,552	0.81
Flex	12,368,310	11.1%	10.3%	30,340	30,174	0	249,047	0.82
Manufacturing	15,603,613	1.2%	2.5%	-114,399	-143,925	0	65,100	1.07
Warehouse/Distribution	114,175,919	9.0%	11.8%	629,799	2,862,427	2,975,255	2,519,405	0.81
Northeast Total	50,340,252	6.4%	11.9%	(307,913)	1,143,553	682,896	4,094,076	0.57
Flex	988,852	5.5%	6.6%	345,852	343,625	333,456	0	0.67
Manufacturing	10,566,926	0.3%	1.5%	18,677	-31,375	0	0	0.43
Warehouse/Distribution	38,784,474	8.0%	14.7%	-666,442	821,208	349,440	4,094,076	0.60
Northwest Total	206,924,543	6.2%	8.3%	994,677	5,842,742	308,092	2,421,704	0.81
Flex	16,161,254	9.9%	11.3%	-22,211	96,883	58,842	60,000	1.03
Manufacturing	26,548,560	3.0%	5.2%	45,692	340,560	23,400	0	0.78
Warehouse/Distribution	164,214,729	6.4%	8.5%	997,086	5,431,189	225,850	2,361,704	0.76

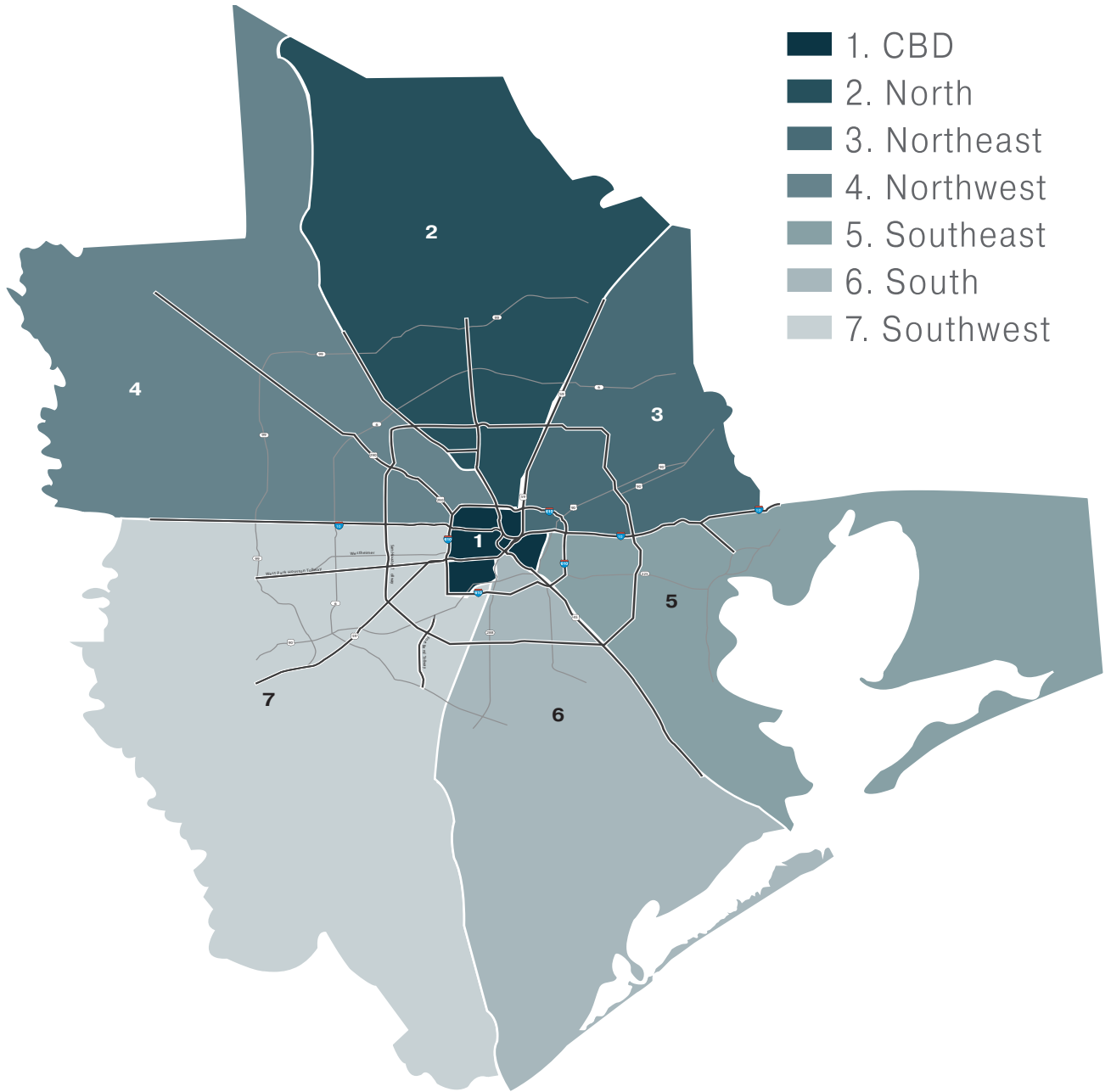
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Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (NNN/MO)
Southeast Total	137,828,937	7.2%	9.7%	283,236	4,504,599	430,000	5,589,245	0.72
Flex	3,899,153	6.4%	7.3%	377,830	412,251	400,000	0	0.86
Manufacturing	18,138,694	0.8%	2.9%	-15,600	510,190	0	0	0.77
Warehouse/Distribution	115,791,090	8.2%	10.8%	-78,994	3,582,158	30,000	5,589,245	0.70
South Total	55,720,491	4.9%	8.9%	(21,611)	1,922,501	216,004	3,519,390	0.76
Flex	2,689,930	7.1%	9.0%	10,053	-324	0	12,000	1.15
Manufacturing	9,476,800	2.3%	2.3%	-31,887	-38,509	0	318,089	0.61
Warehouse/Distribution	43,553,761	5.3%	10.3%	223	1,961,334	216,004	3,189,301	0.73
Southwest Total	104,269,539	8.7%	10.9%	840,515	3,448,299	348,370	3,022,828	0.86
Flex	13,347,904	7.0%	8.5%	-107,429	245,707	75,000	150,268	1.04
Manufacturing	7,388,328	4.0%	4.4%	55,000	234	0	0	1.00
Warehouse/Distribution	83,533,307	9.3%	11.8%	892,944	3,202,458	273,370	2,872,560	0.77

Market Overview

Submarket Stats



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