

Houston Industrial

Q1 2024

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Quarterly Market Report

Resilience continues to define Houston's Industrial real estate market

Executive Summary

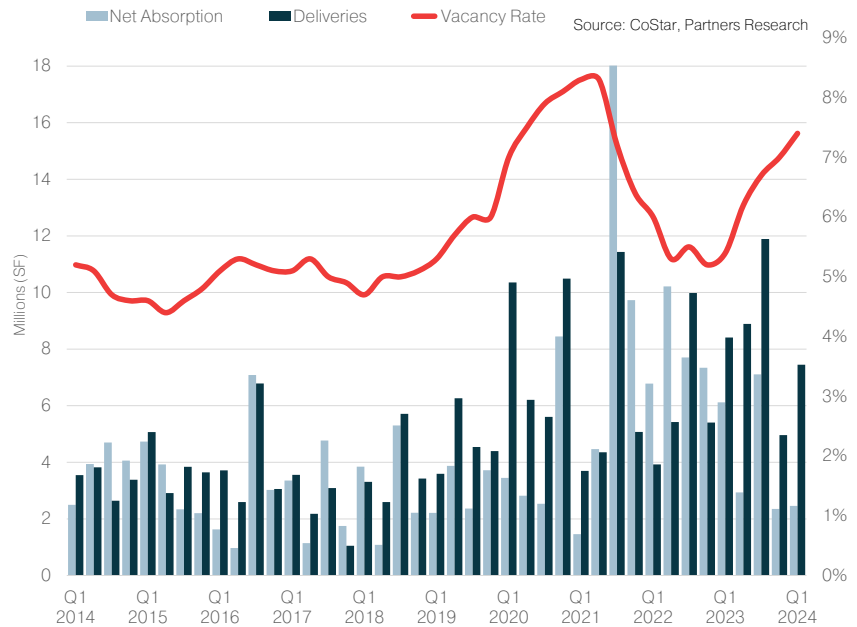
Q1 in Review

By the end of Q1 2024, the overall vacancy rate in the Houston Industrial market rose 170 basis points year-over-year, from 5.7% to 7.4%. Net absorption is at 2.5 million sq. ft., 44% down from the prior year's 4.4 million sq. ft. With a sub 8% total vacancy rate, the overall market remains landlord favorable with overall asking rates up 7.4% over the past year. This resulted in the overall market reaching a new record-high average monthly rental rate (NNN) of \$0.79 per sq. ft.

Houston Economic Update

Houston's unemployment rate has held steady over the past few months and remains at 4.4% as of December 2023. Houston employment grew 0.8%, annualized, from September through December 2023, a net increase of 6,517 jobs. Education and health services led growth, rising 6.7% (7,405 jobs) and offsetting declines in other sectors. Overall, the decline in trade, transportation and utilities, professional and business services, leisure and hospitality, and manufacturing amounted to a loss of 4,342 jobs in the fourth quarter. Since the pandemic spike, Houston unemployment has been higher than both the state and nation, likely due to the slower recovery of oil and gas jobs and strong labor force growth. Among the major sectors, oil and gas is one of three that remained below January 2020 employment levels in Texas in December 2023 (the others are construction and manufacturing). Houston's labor force has grown by 3.8% since attaining its pre-pandemic level of employment in April 2022, aided by migration to the region. By comparison, labor force growth was 3.8% in Texas and 2.2% nationally since April 2022.

Supply & Demand



Key Market Indicators

	CURRENT Q1 2024	PRIOR QUARTER Q4 2023		PRIOR YEAR Q1 2023	
Vacant Total	7.4%	7.0%	▲	5.7%	▲
Vacant Direct	6.6%	6.6%	▬	5.3%	▲
Available Total	9.6%	9.7%	▼	10.3%	▼
Available Direct	8.8%	8.8%	▬	9.3%	▲
Net Absorption (SF)	2,460,187	2,353,573	▲	4,384,173	▲
Leasing Activity (SF)	7,950,366	9,351,408	▲	9,355,393	▲
Construction (SF)	16,396,500	21,480,795	▼	37,311,354	▲
Deliveries (SF)	7,447,011	4,960,617	▲	6,835,894	▲
Avg Asking Rent (NNN)	\$0.79	\$0.78	▲	\$0.74	▼
Inventory (SF)	759,144,257	748,861,282	▲	712,650,015	▼

Market Overview

Leasing Down 15% Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 8 million sq. ft.—down 15% from 9.4 million sq. ft. in both Q4 2023 and Q1 2023, respectively. Recently signed deals include Solar Plus signing a lease for 567,140 sq. ft. at Nexus North Logistics Park, United Airlines signing a lease for 509,600 sq. ft. at 59 Logistics Center and Amazon signing a 206,333 sq. ft. new lease at Hardy Industrial Center.

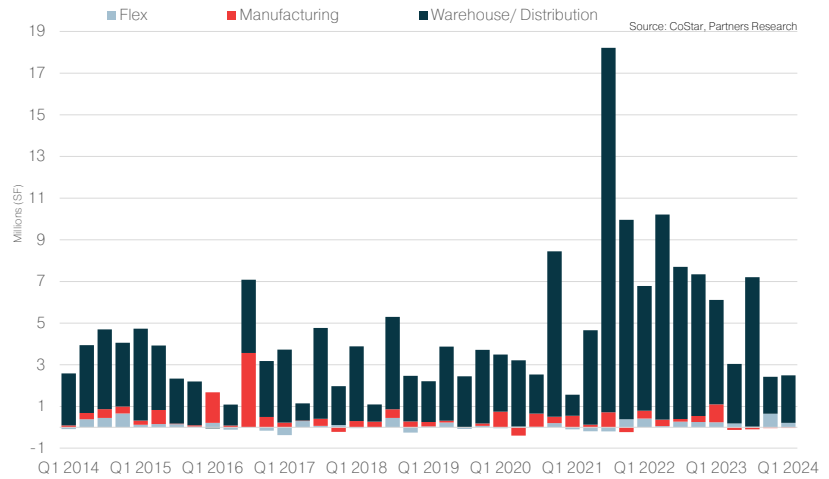
Positive Net Absorption Continues 14 Year Streak

Net absorption—move-ins minus move-outs—is at 2.5 million sq. ft., up 4.5% over the last quarter, but 44% down from the prior year's 4.4 million sq. ft. Despite the decrease, net absorption in Houston's industrial market has remained positive for over 14 years—or 58 consecutive quarters—dating back to 2.6 million sq. ft. in Q3 2009. Lease up time has increased slightly but is still very healthy at 5.2 months on average. Notable move-ins for early 2024 include Distribution Alternatives taking 855,610 sq. ft. at the Kingsland Ranch Logistics Park in Brookshire, Imperial Dade taking 293,715 sq. ft. at Lone Star Logistics Park and Dresser taking 248,240 sq. ft. at Bayport South Business Park.

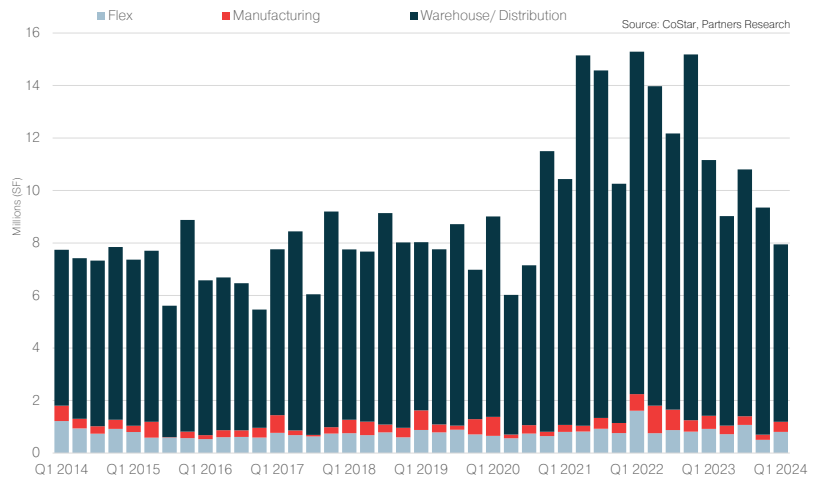
Vacancy Rate Increases to 7.4%

The overall vacancy rate in Houston's industrial market is at 7.4%. Quarter-over-quarter, the vacancy rate increased 40 basis points from 7.0%. Year-over-year, the vacancy rate increased 170 basis points from 5.7%. Flex, Manufacturing, and Warehouse/Distribution space had vacancy rates of 9.1%, 2.0%, and 8.1%, respectively. As new deliveries continue to outpace demand, the overall vacancy rate is forecasted to reach 8% by mid-2024.

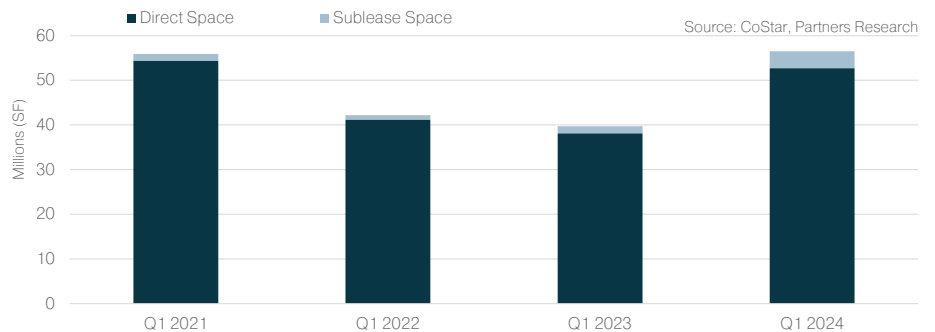
Leasing Activity



Net Absorption



Vacancy



Supply Cools Down Towards End of Year

Industrial projects currently under way have significantly decreased over the past year and are now below the ten-year average (18.2 million sq. ft.). By the end of Q1 2024, Houston's industrial construction pipeline decreased to 16.4 million sq. ft., 24% down from the prior quarter and 56% down from the prior year's 37.3 million sq. ft. Deliveries are at 7.4 million sq. ft., 15% down from the previous quarter's 9.4 million sq. ft. The North submarket led deliveries in the first quarter with just under 3 million sq. ft. completed, followed by the Northeast submarket at 682,896 sq. ft. Some notable deliveries in early 2024 include Logistics Center II, an 800,405-sq.-ft. distribution center in the Southeast submarket and Port 10 Logistics Center Building 3, a 450,873-sq.-ft. distribution center in Baytown.

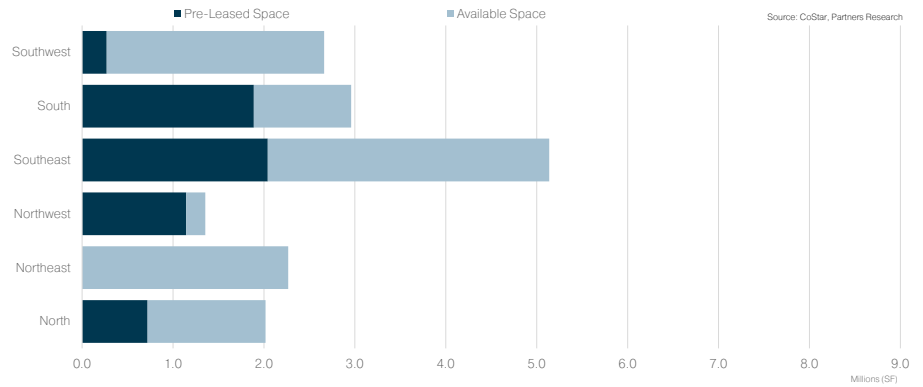
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q1 2024 at \$330 million, representing 21.6 million sq. ft. of industrial sales. Over the past year, 609 deals were completed in the Houston industrial market with an average transaction price of \$109 and an average cap rate of 7.7. Notable sales transactions in Q1 2024 include Sealy acquiring the Great 290 Distribution Center, a 500,2840-sq.-ft. industrial building occupied by Daikin Comfort Technologies, and Smart Supply Chain's purchase of 15005 E Hampton Circle, which they will fully occupy.

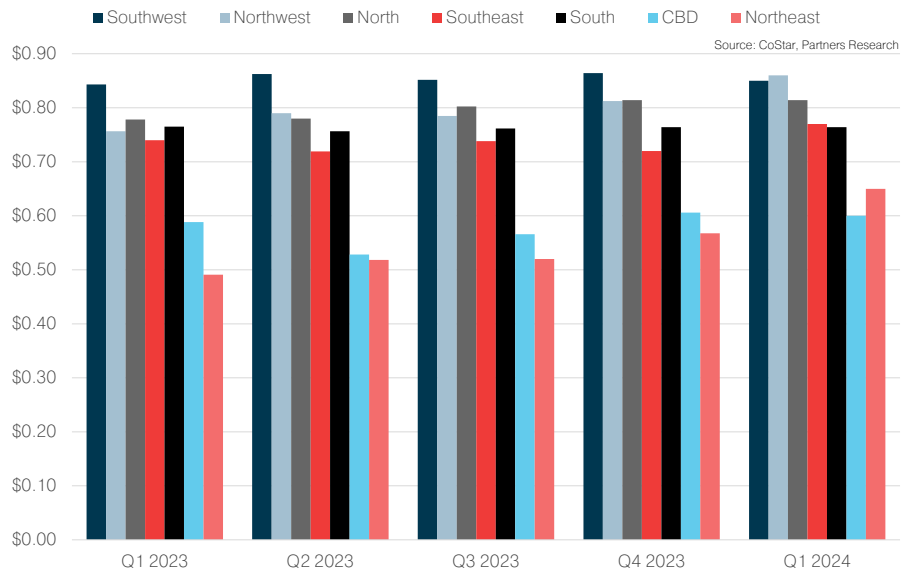
Record-High Rental Rate

The average monthly rental rate (NNN) for Houston's industrial market increased to \$0.79 per sq. ft.—a record-high for the metro's industrial sector—up 7.4% from the previous year's \$0.74 per sq. ft. The average monthly rate per square foot for Flex space stood at \$0.93 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were \$0.71 per sq. ft. and \$0.76 per sq. ft., respectively. The Northwest submarket commands the highest overall monthly average rate at \$0.86 per sq. ft., followed by the Southwest submarkets at \$0.85 per sq. ft.

Deliveries



Average Monthly Rental Rate (NNN)



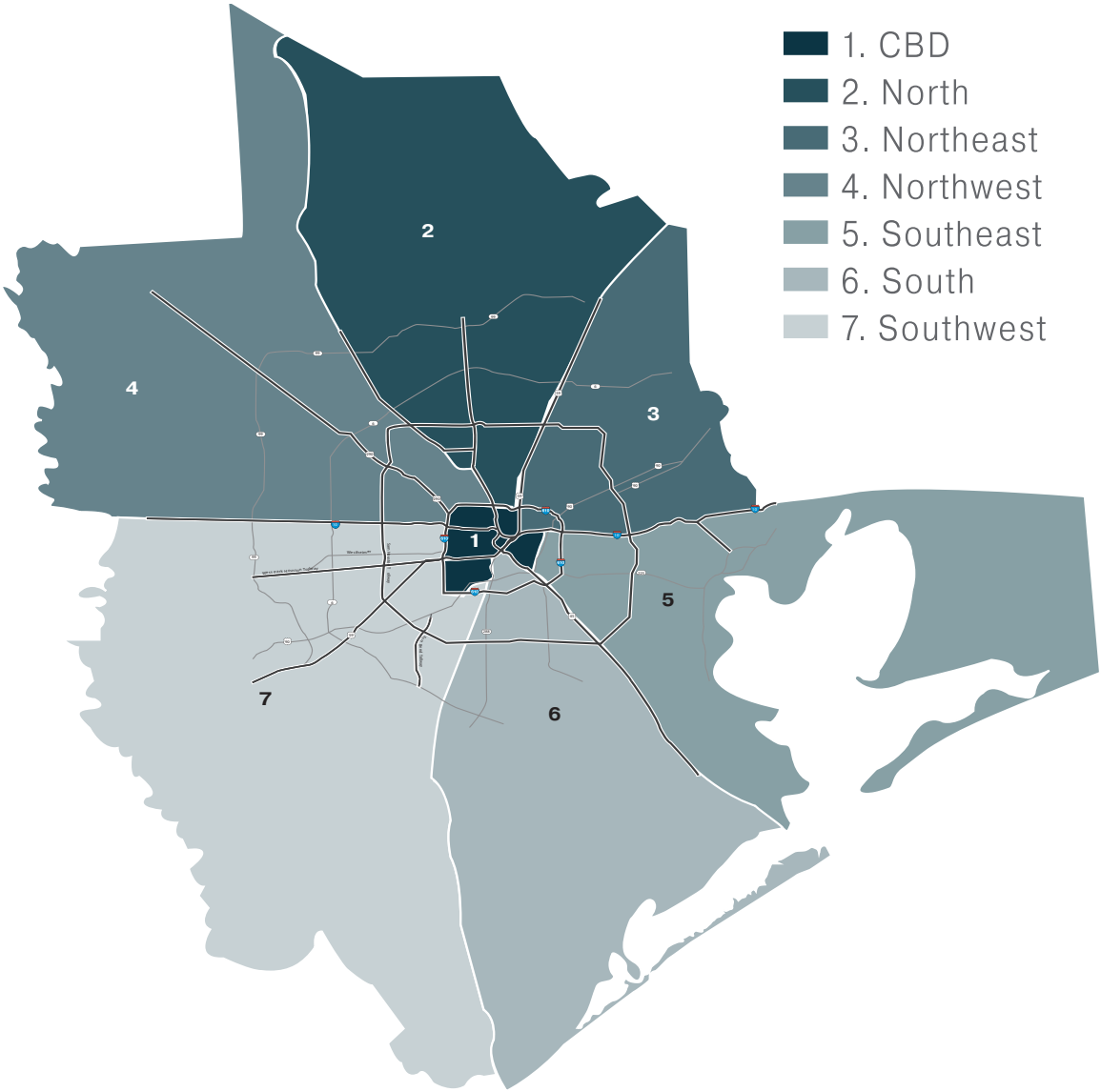
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q1 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (NNN/MO)
Houston Market Total	759,144,257	7.40%	9.60%	2,460,187	2,460,187	7,447,011	16,396,500	0.79
Flex	53,132,894	9.10%	10.00%	216,049	216,049	162,800	497,756	0.93
Manufacturing	95,045,007	2.00%	3.20%	-36,740	-36,740	0	23,400	0.71
Warehouse/Distribution	610,966,356	8.10%	10.50%	2,280,878	2,280,878	7,284,211	15,875,344	0.76
CBD Total	51,495,411	6.00%	9.00%	18,929	18,929	0	0	0.60
Flex	3,005,743	7.10%	9.00%	-7,031	-7,031	0	0	1.13
Manufacturing	7,703,767	0.50%	4.00%	46,838	46,838	0	0	0.40
Warehouse/Distribution	40,785,901	8.40%	10.80%	-112,294	-112,294	0	0	0.57
North Total	143,546,633	8.30%	10.60%	545,740	545,740	2,975,255	2,017,069	0.81
Flex	12,442,459	10.60%	10.60%	62,142	62,142	12,532	274,256	0.82
Manufacturing	15,818,578	1.50%	3.00%	-29,524	-29,524	0	0	1.07
Warehouse/Distribution	115,285,596	9.20%	11.20%	-18,027	-18,027	739,457	1,742,813	0.81
Northeast Total	51,989,391	6.40%	11.90%	-307,913	-307,913	682,896	2,266,461	0.65
Flex	988,852	4.80%	5.90%	6,547	6,547	0	0	0.67
Manufacturing	10,618,057	1.00%	1.90%	-28,495	-28,495	0	0	0.43
Warehouse/Distribution	40,382,482	6.90%	12.40%	331,325	331,325	1,400,000	2,266,461	0.60
Northwest Total	208,498,374	6.20%	8.30%	994,677	994,677	308,092	1,354,660	0.86
Flex	16,344,246	11.60%	12.50%	-20,970	-20,970	0	92,500	1.03
Manufacturing	26,267,362	3.10%	5.00%	-4,885	-4,885	0	23,400	0.78
Warehouse/Distribution	165,886,766	7.00%	7.90%	-513,389	-513,389	1,176,139	1,238,760	0.76
Southeast Total	140,669,833	7.20%	9.70%	283,236	283,236	430,000	5,137,166	0.77
Flex	3,917,653	5.60%	6.60%	29,460	29,460	0	0	0.86
Manufacturing	18,137,575	1.30%	2.90%	-28,737	-28,737	0	0	0.77
Warehouse/Distribution	118,614,605	9.10%	11.20%	789,258	789,258	1,686,483	5,137,166	0.70
South Total	56,856,438	4.90%	8.90%	-21,611	-21,611	216,004	2,959,379	0.76
Flex	2,651,454	10.30%	10.40%	-80,838	-80,838	0	12,000	1.15
Manufacturing	9,531,622	2.50%	2.60%	-18,117	-18,117	0	0	0.61
Warehouse/Distribution	44,673,362	6.30%	11.00%	460,036	460,036	1,016,692	2,947,379	0.73
Southwest Total	106,088,177	8.70%	10.90%	840,515	840,515	348,370	2,661,765	0.85
Flex	13,782,487	6.30%	7.70%	226,739	226,739	150,268	119,000	1.04
Manufacturing	6,968,046	3.90%	4.40%	26,180	26,180	0	0	1.00
Warehouse/Distribution	85,337,644	9.10%	12.10%	1,343,969	1,343,969	1,265,440	2,542,765	0.77

Market Overview

Houston Industrial Submarkets



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