

Houston Industrial

Q2 2024

Houston Industrial | Q2 2024 Quarterly Market Report

Industrial Market Shifts Towards Neutral Conditions with Rising Vacancy and Decreasing Construction

Executive Summary

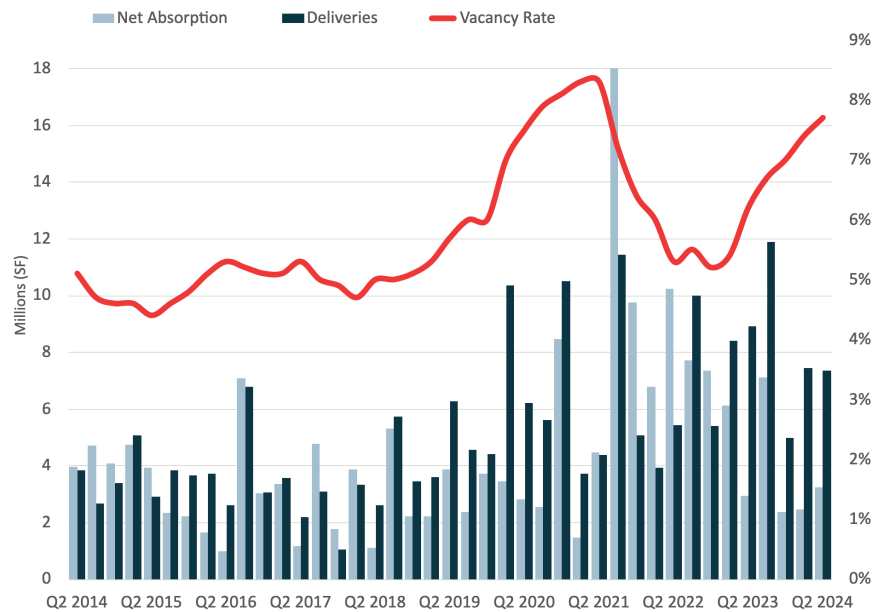
Q2 in Review

By the end of Q2 2024, the overall vacancy rate in the Houston Industrial market rose 30 basis points over the past quarter, from 7.4% to 7.7%. Net absorption was a healthy 3.2 million sq. ft., up 32% from the previous quarter's 2.5 sq. ft. Year to date, net absorption is at 5.7 million sq. ft. Both leasing activity and net absorption increased over the past quarter by 26% and 32%, respectively. Rates remained unchanged over the past quarter but remain 3.9% higher than one year ago. The construction pipeline has been decreasing over recent quarters (down 60% from one year ago), but currently outpaces demand, making it likely that the market will move from a landlord market to more neutral conditions (8% to 10%) vacancy in the latter half of 2024. Still, there is little to no indication of a significant reduction in asking rates for most submarkets for the foreseeable future as overall market fundamentals remain healthy.

Houston Economic Update

Houston's labor market growth was strong and broad. In the energy sector, production jobs declined year over year while growth has been concentrated in mining-related services. Exports of energy goods through the Port of Houston ticked down in March. Inflation slowed in April, and real wages were up year over year. Houston added jobs at a strong pace in April. Annualized total nonfarm job growth from March to April was 4.3% (or 12,110 jobs). Annualized employment growth was 2.0% (17,163) from January through April. The strongest gains were in education and health services (4.2%), leisure and hospitality (3.7%) and financial activities (3.6%). Education and health services added 4,700 jobs while leisure and hospitality added 3,273. Trade, transportation and utilities was the only sector to shed jobs during that same period, declining 0.7% (-1,217 jobs).

Supply & Demand



Key Market Indicators

	CURRENT Q2 2024	PRIOR QUARTER Q1 2024		PRIOR YEAR Q2 2023	
Vacant Total	7.7%	7.4%	▲	6.2%	▲
Vacant Direct	7.3%	6.6%	▲	5.9%	▲
Available Total	9.2%	9.6%	▼	10.5%	▼
Available Direct	8.6%	8.8%	▼	9.4%	▼
Net Absorption (SF)	3,234,932	2,460,187	▲	3,899,810	▼
Leasing Activity (SF)	10,755,074	7,950,366	▲	7,270,058	▲
Construction (SF)	12,061,967	16,396,500	▼	29,898,251	▼
Deliveries (SF)	7,327,123	7,447,011	▼	9,491,266	▼
Avg Asking Rent (NNN)	\$0.79	\$0.79	▬	\$0.76	▲
Inventory (SF)	767,757,757	759,144,257	▲	724,801,663	▲

Market Overview

Leasing Up 48% Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 10.8 million sq. ft.—up 48% from 7.3 million sq. ft. in Q2 2023. Year to date, leasing activity is at 19.3 million sq. ft., compared to the prior year-to-date figure of 16.5 million sq. ft. Notable new leases in Q2 2024 include Integra Mission Critical subleasing 1.2 million sq. ft. at North Hardy Toll Road Building 4, eFulfill leasing 368,099 sq. ft. at Post Oak Logistics Park, and Lecangs leasing 204,597 sq. ft. at Northwest Hwy 6 in Cypress. Renewals included Fredrick Trucking at Bayport North Logistics Center 1 and World Trade Distribution at Eastport 1.

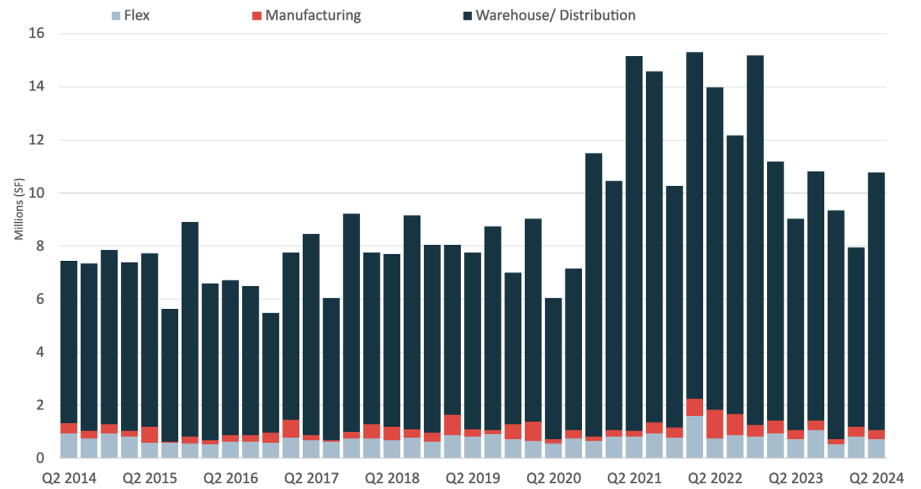
Positive Net Absorption Despite Slowing Demand

Net absorption—move-ins minus move-outs—is at 3.2 million sq. ft., 17% down from the prior year’s 3.9 million sq. ft. Despite the fluctuations in absorption, Houston’s industrial market has remained positive for almost 15 years—or 59 consecutive quarters—dating back to 2.6 million sq. ft. in Q3 2009. Notable move-ins for Q2 2024 include Tigerhawk Logistics taking 328,048 sq. ft. at 4388 Borusan Rd in Baytown, RPM Warehouse taking 291,459 sq. ft. at 6462 Northdale St, and Keen Transportation taking 273,480 sq. ft. at 7561 S Sam Houston Pkwy E.

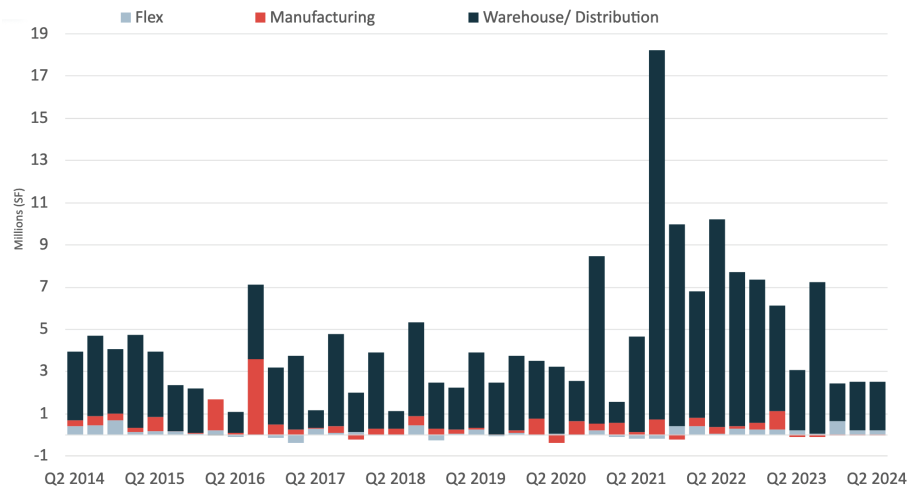
Vacancy Rate Increases to 7.7%

The overall vacancy rate in Houston’s industrial market is at 7.7%. Quarter over quarter, the vacancy rate increased 30 basis points from 7.4%. Year over year, the vacancy rate increased 150 basis points from 6.2%. Flex, Manufacturing, and Warehouse/Distribution space had vacancy rates of 9.0%, 2.4%, and 8.4%, respectively. Warehouse/Distribution space continues to see the biggest increase in vacancy, as very little flex and manufacturing space has been delivered over recent quarters. As new deliveries continue to outpace demand, the overall vacancy rate is forecasted to move the total vacancy rate into neutral territory (8% to 10%) in the second half of 2024.

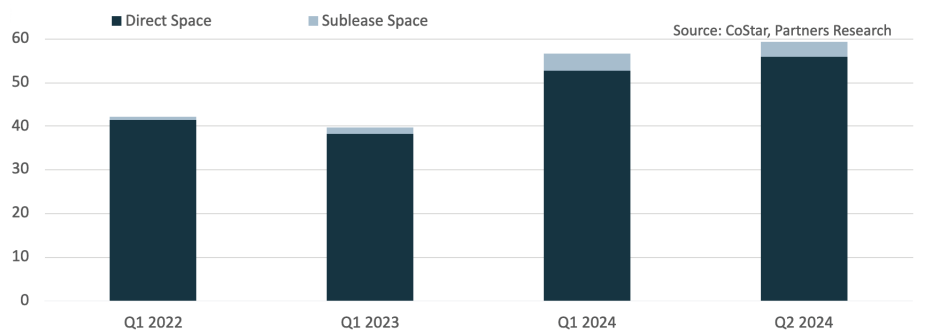
Leasing Activity



Net Absorption



Vacancy



New Supply Continues to Cool and the Pipeline Decreases Further

New deliveries for the quarter totaled 7.3 million sq. ft., this is only slightly down from last quarter's 7.5 million sq. ft. Still, this is 23% less than this time last year. The construction pipeline currently underway continues to decrease at an even faster pace; it is down 60% over the past year. On the submarket level, the Southeast and Northwest submarkets have the largest amounts of space currently under construction at 3.8 million sq. ft. and 2.6 million sq. ft., respectively.

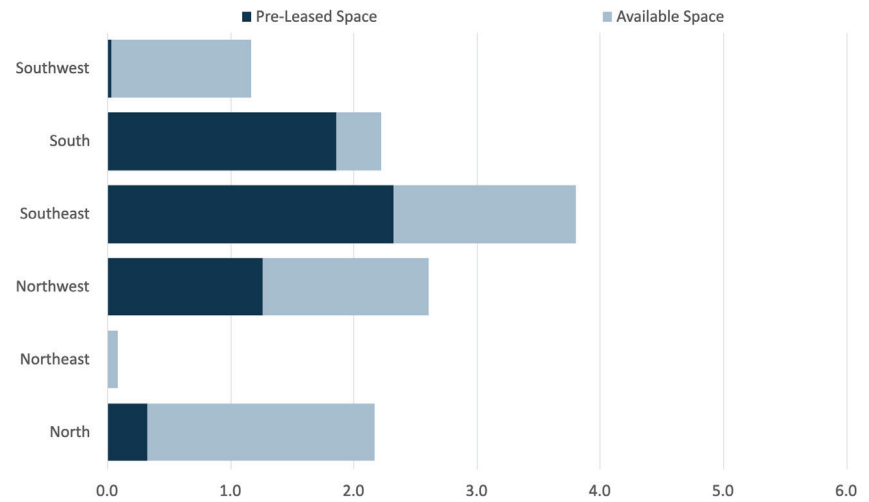
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q2 2024 at \$335 million. Over the past year, 553 deals were completed in the Houston industrial market with an average transaction price of \$114 and an average cap rate of 7.8. Notable recent sales transactions include Cabot Properties purchasing Rankin 45 Distribution Center, a 356,236-sq. ft. warehouse at 13800 North Freeway, Sealy & Company purchasing Pederson Logistics Center, a 343,760-sq. ft. distribution center in Katy, and O'Drill MCM (an owner-user) purchasing Union Crossing, a 231,839-sq. ft. warehouse at 22533 NW Lake Dr.

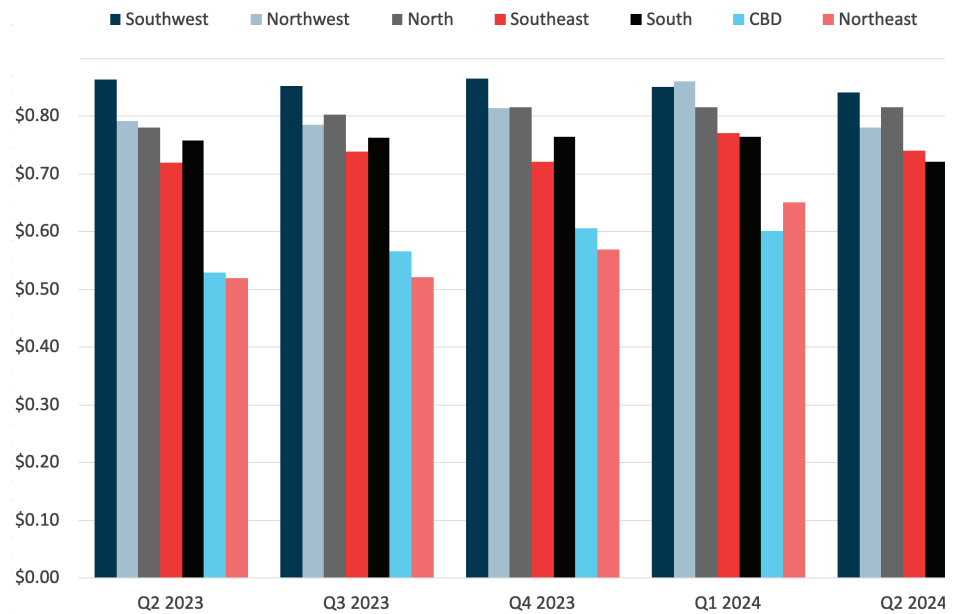
Record-High Rental Rate

The average monthly rental rate (NNN) for Houston's industrial market remained unchanged at \$0.79 per sq. ft.—a record-high for the metro's industrial sector—up 3.9% from the previous year's \$0.76 per sq. ft. The average monthly rate per square foot for Flex space stood at \$0.91 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were \$0.76 per sq. ft. and \$0.75 per sq. ft., respectively. The Southwest submarket commands the highest overall monthly average rate at \$0.84 per sq. ft., followed by the Northeast and North submarkets at \$0.82 and \$0.81 per sq. ft., respectively.

Deliveries



Average Monthly Rental Rate (NNN)



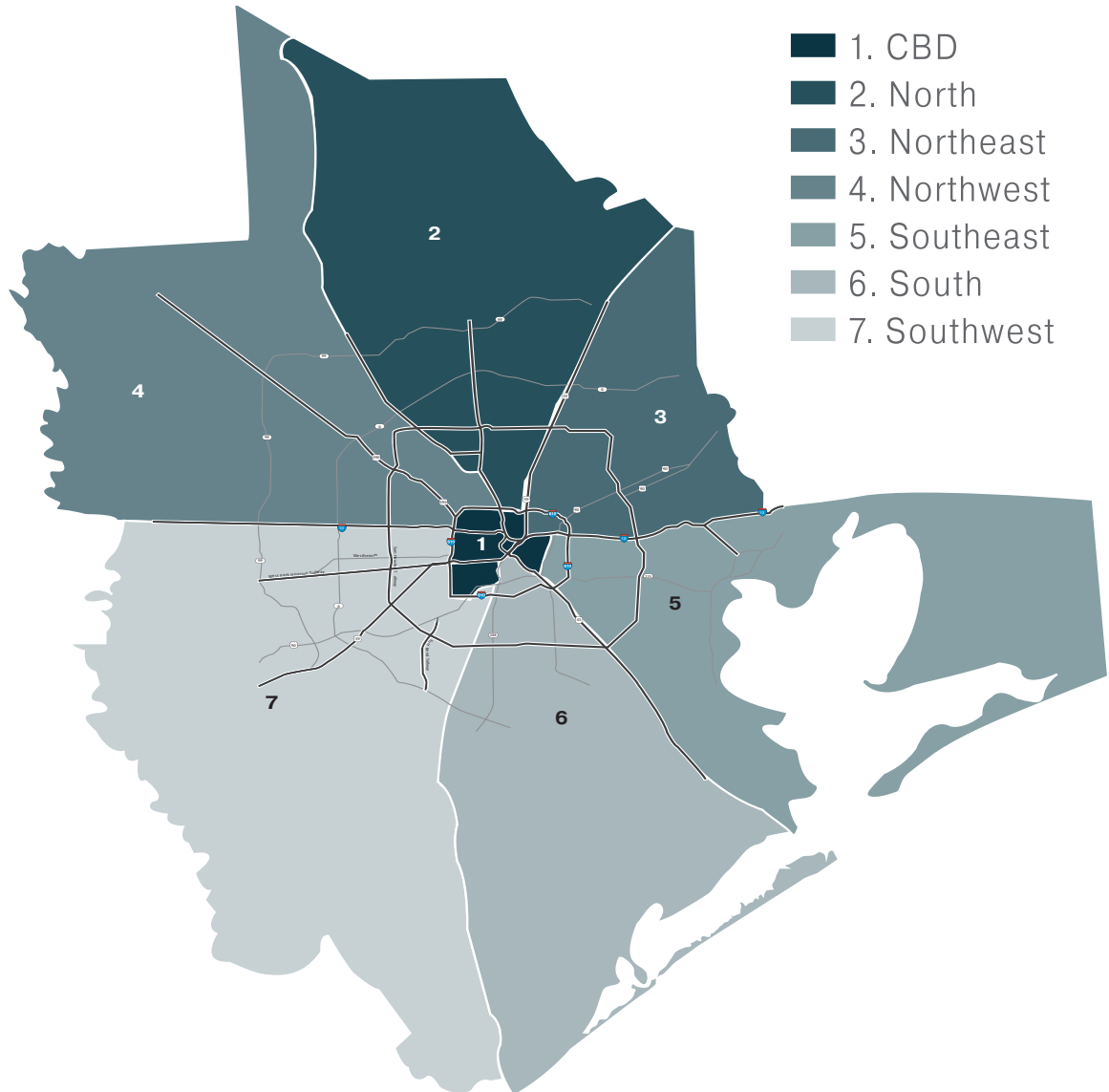
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q2 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (NNN/MO)
Houston Market Total	767,757,757	7.70%	9.20%	3,234,932	5,695,119	7,343,123	12,061,967	0.79
Flex	53,465,944	9.00%	9.70%	81,871	297,920	106,519	401,646	0.91
Manufacturing	95,305,165	2.40%	4.10%	-304,712	-341,452	39,400	1,133,244	0.76
Warehouse/Distribution	618,986,648	8.40%	9.90%	3,457,773	5,738,651	7,197,204	10,527,077	0.75
CBD Total	51,394,689	6.90%	9.20%	36,072	55,001	0	0	0.62
Flex	3,034,954	8.80%	10.60%	-56,574	-63,605	0	0	0.96
Manufacturing	7,688,688	1.50%	3.40%	-75,662	-28,824	0	0	0.55
Warehouse/Distribution	40,671,047	7.80%	10.20%	168,308	56,014	0	0	0.62
North Total	145,102,275	8.00%	9.20%	1,168,711	1,714,451	1,047,187	2,173,591	0.81
Flex	12,587,802	10.80%	10.80%	26,573	88,715	81,635	192,621	0.94
Manufacturing	16,042,026	2.30%	8.00%	-91,449	-120,973	16,000	728,080	1.00
Warehouse/Distribution	116,472,447	8.50%	9.40%	1,233,587	1,215,560	949,552	1,252,890	0.79
Northeast Total	54,305,570	10.00%	10.10%	-217,529	-525,442	2,266,461	87,075	0.82
Flex	999,852	5.50%	5.50%	-7,394	-847	0	0	0.67
Manufacturing	10,672,444	2.20%	3.90%	-126,952	-155,447	0	87,075	0.55
Warehouse/Distribution	42,633,274	12.00%	12.00%	-83,183	248,142	2,266,461	0	1.01
Northwest Total	208,791,884	6.10%	8.10%	866,885	1,861,562	128,280	2,612,088	0.78
Flex	16,302,674	11.10%	12.80%	69,973	49,003	0	143,025	0.81
Manufacturing	26,279,864	2.90%	2.90%	95,449	90,564	23,400	0	0.81
Warehouse/Distribution	166,209,346	6.20%	8.50%	701,463	188,074	104,880	2,469,063	0.76
Southeast Total	142,713,304	9.20%	10.30%	-152,270	130,966	2,021,500	3,801,785	0.74
Flex	3,925,619	6.10%	6.80%	1,614	31,074	24,884	0	0.87
Manufacturing	18,171,745	1.60%	2.90%	-65,325	-94,062	0	0	0.91
Warehouse/Distribution	120,615,940	10.40%	11.50%	-88,559	700,699	1,996,616	3,801,785	0.71
South Total	57,395,250	5.50%	7.50%	958,465	936,854	483,250	2,222,108	0.72
Flex	2,806,443	6.90%	9.30%	53,142	-27,696	0	12,000	1.04
Manufacturing	9,472,007	2.70%	2.70%	-25,178	-43,295	0	318,089	0.75
Warehouse/Distribution	45,116,800	6.00%	8.50%	930,501	1,390,537	483,250	1,892,019	0.70
Southwest Total	108,054,785	8.90%	10.00%	574,598	1,415,113	1,396,445	1,165,320	0.84
Flex	13,808,600	6.30%	7.40%	-5,463	221,276	0	54,000	1.06
Manufacturing	6,978,391	4.10%	5.60%	-15,595	10,585	0	0	1.15
Warehouse/Distribution	87,267,794	9.70%	10.80%	595,656	1,939,625	1,396,445	1,111,320	0.77

Market Overview

Houston Industrial Submarkets



Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

Steve Triolet

SVP of Research and Market Forecasting

tel 214 223 4008

steve.triolet@partnersrealestate.com

partners

HOUSTON

+ 713 629 0500

1360 Post Oak Blvd #1900

Houston, Texas 77056

PARTNERSREALESTATE.COM