Houston Industrial

Q1 2025

QUARTERLY MARKET REPORT

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Quarterly Market Report

Houston Industrial Market Shows Resilience with Increased Leasing and Manufacturing Demand Amid Tariff Concerns

Executive Summary

Q1 in Review

Houston's industrial market exhibited resilience in Q1 2025, buoyed by a significant uptick in leasing activity and positive net absorption, despite a slight rise in vacancy and a moderated construction pipeline. Quarterly leasing velocity surged by 26% to 8.8 million sq. ft. from 7 million sq. ft. in Q4 2024, driven by heightened demand for warehouse/distribution and manufacturing space. Warehouse/distribution properties continued to dominate, while manufacturing requirements increased notably in Q1, likely spurred by tariffs and onshoring trends. Flex space saw minimal absorption, reflecting a stable but less dynamic segment.

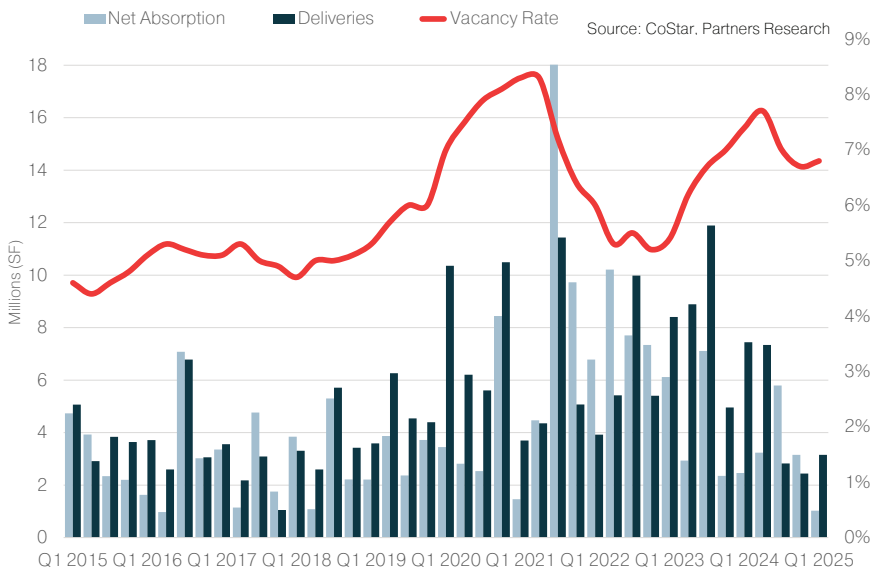
Net absorption for the quarter totaled 1.02 million sq. ft., a decline from Q4 2024's 3.15 million sq. ft., yet still marking 62 consecutive quarters of positive absorption since 2009. The overall vacancy rate edged up slightly to 6.8% from 6.7%, reflecting a balance between demand and new deliveries of 3.57 million sq. ft. The construction pipeline grew by 25% quarter-over-quarter to 16.7 million sq. ft., though the lack of entitled properties in the greater Houston MSA continues to keep industrial supply in check, supporting market stability. Rental rates rose modestly to $0.81 per sq. ft., a 2.5% increase from Q4 2024 and a 5.2% jump year-over-year, hitting a new record high.

Investment activity remained strong, with industrial sales trends continuing upward. Election trepidation has shifted to concerns over changing tariffs, influencing occupier and investor strategies alike. Houston's industrial market remains a steady performer, underpinned by robust leasing, controlled supply, and growing manufacturing demand.

Houston Economic Update

The Houston unemployment rate improved to 4.2% in December 2024, down from 4.6% in November 2024, reflecting a positive shift after ticking up earlier in the year. Houston's labor market ended 2024 with below-trend employment growth of 1.4% year over year, adding 47,177 jobs, a slowdown compared

Supply & Demand



Key Market Indicators

	CURRENT Q1 2025	PRIOR QUARTER Q4 2024		PRIOR YEAR Q1 2024	
Vacant Total	6.8%	6.7%	▲	6.8%	—
Vacant Direct	6.5%	6.4%	▲	6.4%	▲
Available Total	9.6%	9.2%	▲	8.9%	▲
Available Direct	9.1%	8.5%	▲	8.1%	▲
Net Absorption (SF)	1,024,018	3,152,405	▼	2,353,573	▼
Leasing Activity (SF)	8,808,174	6,993,474	▲	9,451,500	▼
Construction (SF)	16,723,866	13,402,279	▲	13,476,505	▲
Deliveries (SF)	3,574,108	2,441,607	▲	7,280,395	▼
Avg Asking Rent (NNN/MO)	$0.81	$0.79	▲	$0.77	▲
Inventory (SF)	780,589,754	776,308,091	▲	764,933,207	▲

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to earlier momentum in the year.

That job growth was uneven across sectors. Oil and gas employment remained a standout, growing 9.7% year over year in 2024 (6,694 jobs), bolstered by increased Texas oil production in October and rising retail fuel prices into early 2025. Smaller sectors also showed resilience: financial activities grew an annualized 6.4% in the fourth quarter (2,838 jobs), and construction expanded 4.2% annualized (2,449 jobs). However, larger sectors struggled. Trade, transportation, and utilities, despite adding the most jobs year over year (14,220), grew at a modest annualized rate of 0.5% (920 jobs) from September to December. Professional and business services contracted 0.4% annualized, while education and health services saw a 0.2% annualized decline, combining for a loss of 693 jobs in the fourth quarter.

Market Overview

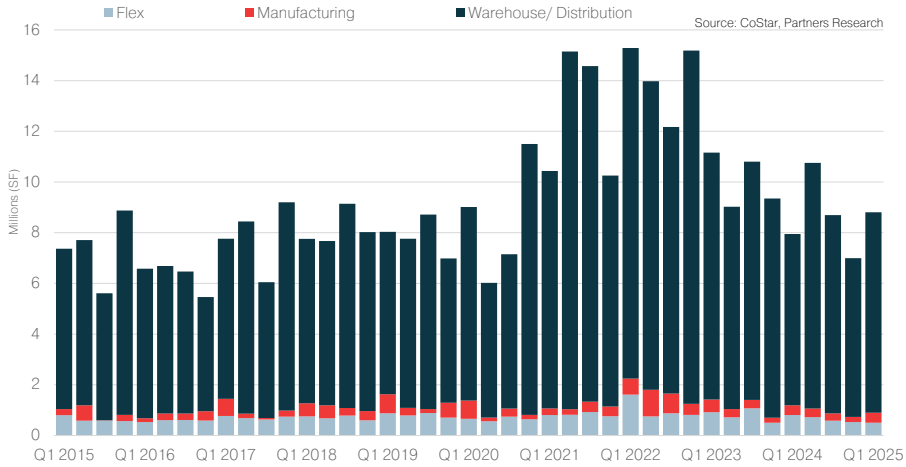
Leasing Up 26% Over Past Quarter

Quarterly leasing velocity—comprising new leases and renewals—climbed to 8.8 million sq. ft. in Q1 2025, a 26% increase from 7 million sq. ft. in Q4 2024. Warehouse/distribution properties led the charge with 7.91 million sq. ft. leased, while manufacturing space saw a notable uptick to 395,726 sq. ft., reflecting increased requirements due to tariffs and onshoring pressures. Flex space leasing remained steady at 501,455 sq. ft., showing resilience but limited growth. Notable leases signed in early 2025 include Telsa signing a lease to expand into 1,039,060 sq. ft. of sublease space at 111 Empire building 9 and into 616,463 sq. ft. of direct space at Empire West Business Park once construction is completed. Also, EDA International signed a lease for 373,860 sq. ft. at Mason Ranch.

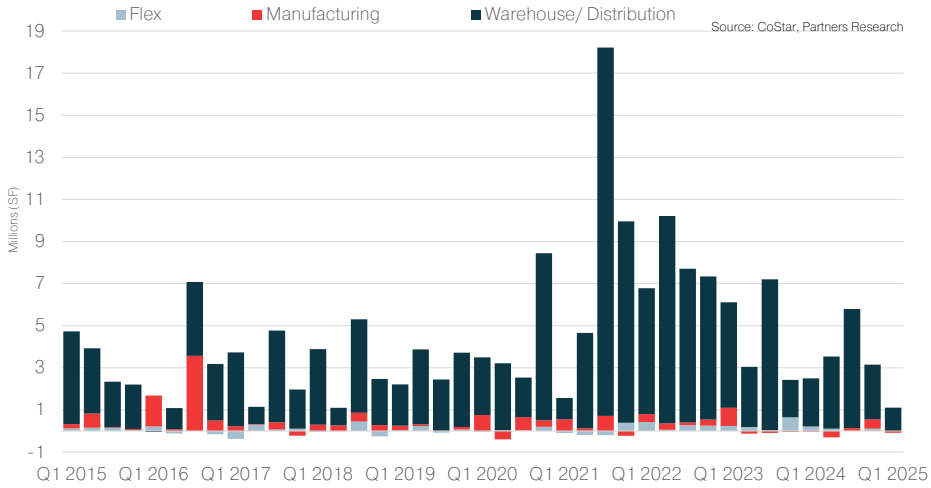
Positive Net Absorption Continues, Though Down from late 2024 Levels

Net absorption reached 1.02 million sq. ft. in Q1 2025, down 68% from 3.15 million sq. ft. in Q4 2024, yet extending Houston's 15-year streak of positive absorption. Warehouse/distribution space absorbed 1.11 million sq. ft., offsetting a manufacturing decline of -86,616 sq. ft. and a near-flat flex absorption of 1,570 sq. ft. Key submarkets like Northwest (399,533 sq. ft.) and Northeast (310,774 sq. ft.) drove gains, while manufacturing's dip suggests short-term adjustments amid tariff-related shifts (specific move-ins to be updated). Notable deals include Midstream Valve Partners taking 173,544 sq. ft. at Interchange 249 and Deugro taking 164,640 sq. ft. at the truck terminal at 2828 FM 1405 in Baytown.

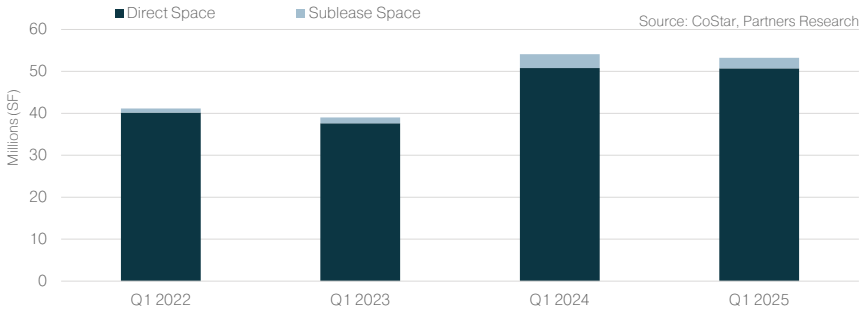
Leasing Activity



Net Absorption



Vacancy



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Vacancy Rate Increases Slightly to 6.8%

The overall vacancy rate rose to 6.8% in Q1 2025, up 10 basis points from 6.7% in Q4 2024, and flat compared to Q1 2024's 6.8%. Flex space vacancy held at 8.8%, manufacturing stayed tight at 2.4%, and warehouse/distribution increased to 7.3%. Total availability climbed to 9.6%, reflecting new deliveries outpacing absorption this quarter.

Construction Pipeline Up 25%, Deliveries Rise 46%

The construction pipeline expanded to 16.7 million sq. ft., a 25% increase from 13.4 million sq. ft. in Q4 2024, with 3.57 million sq. ft. delivered—up 46% from the prior quarter's 2.44 million sq. ft. However, year-over-year deliveries dropped 51% from 7.28 million sq. ft. in Q1 2024. The lack of entitled properties in the greater Houston MSA continues to constrain supply growth, maintaining market equilibrium despite rising demand.

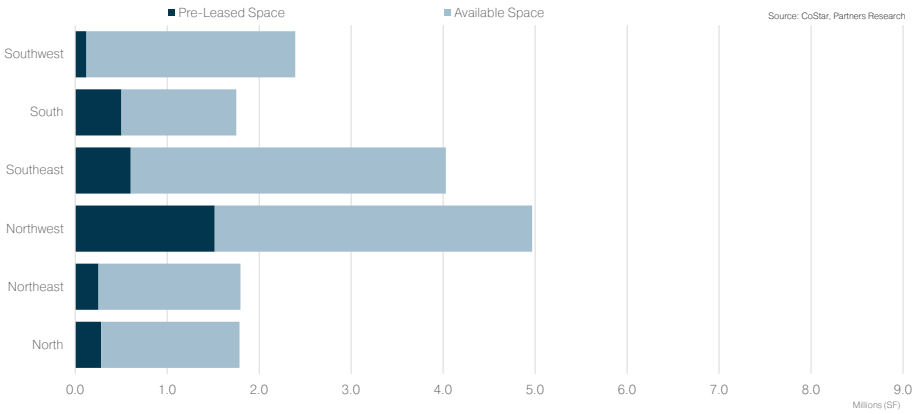
Rates Climb to Record $0.81 per Sq. Ft.

The average monthly rental rate (NNN) reached $0.81 per sq. ft., up 2.5% from $0.79 in Q4 2024 and 5.2% from $0.77 in Q1 2024. Flex space led at $0.95 per sq. ft., followed by warehouse/distribution at $0.79 and manufacturing at $0.73. The Southwest submarket posted the highest rate at $0.93 per sq. ft., with Northeast and North close behind at $0.87 and $0.83, respectively.

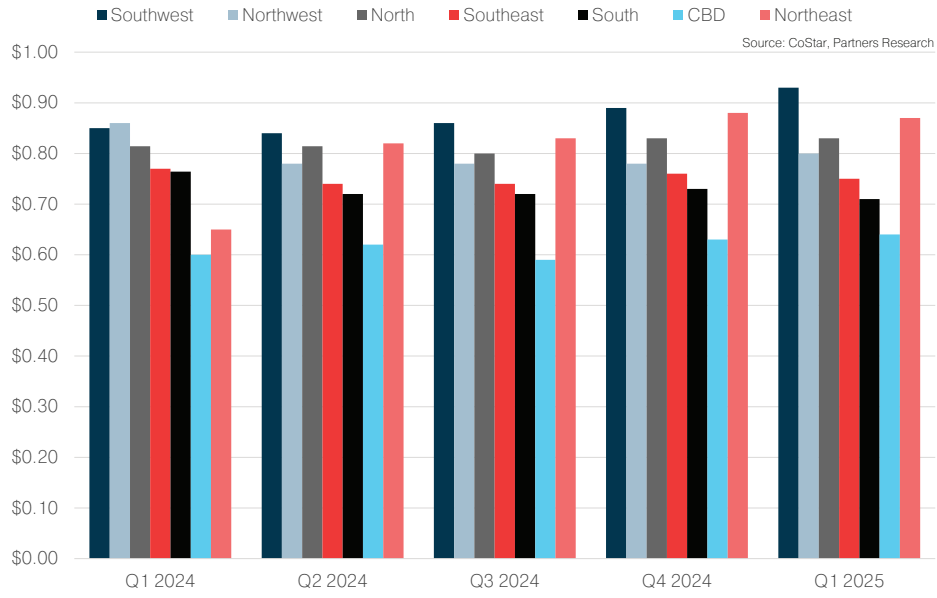
Investment Sales Trends

In the first quarter of 2025, 138 Industrial and Flex properties sold for a total 6.5 million sq. ft. of aggregate volume. The average price per sq. ft. was $197 and had a 7.0% average cap rate. Notable sales transactions in early 2025 include Northpoint Development sold the three-building, 1.4 million sq. ft. industrial park at Houston Tradeport to Eaton Vance Real Estate Investment Group. The properties were 100% leased at the time of the sale. Also, Americold Realty Trust acquired the 297,640 sq. ft. cold storage building (6330 Nita Way) from a Blackline Cold Storage and Artemis Real Estate Partners JV for $108 million or $363 per sq. ft.

Deliveries



Average Monthly Rental Rate (NNN)



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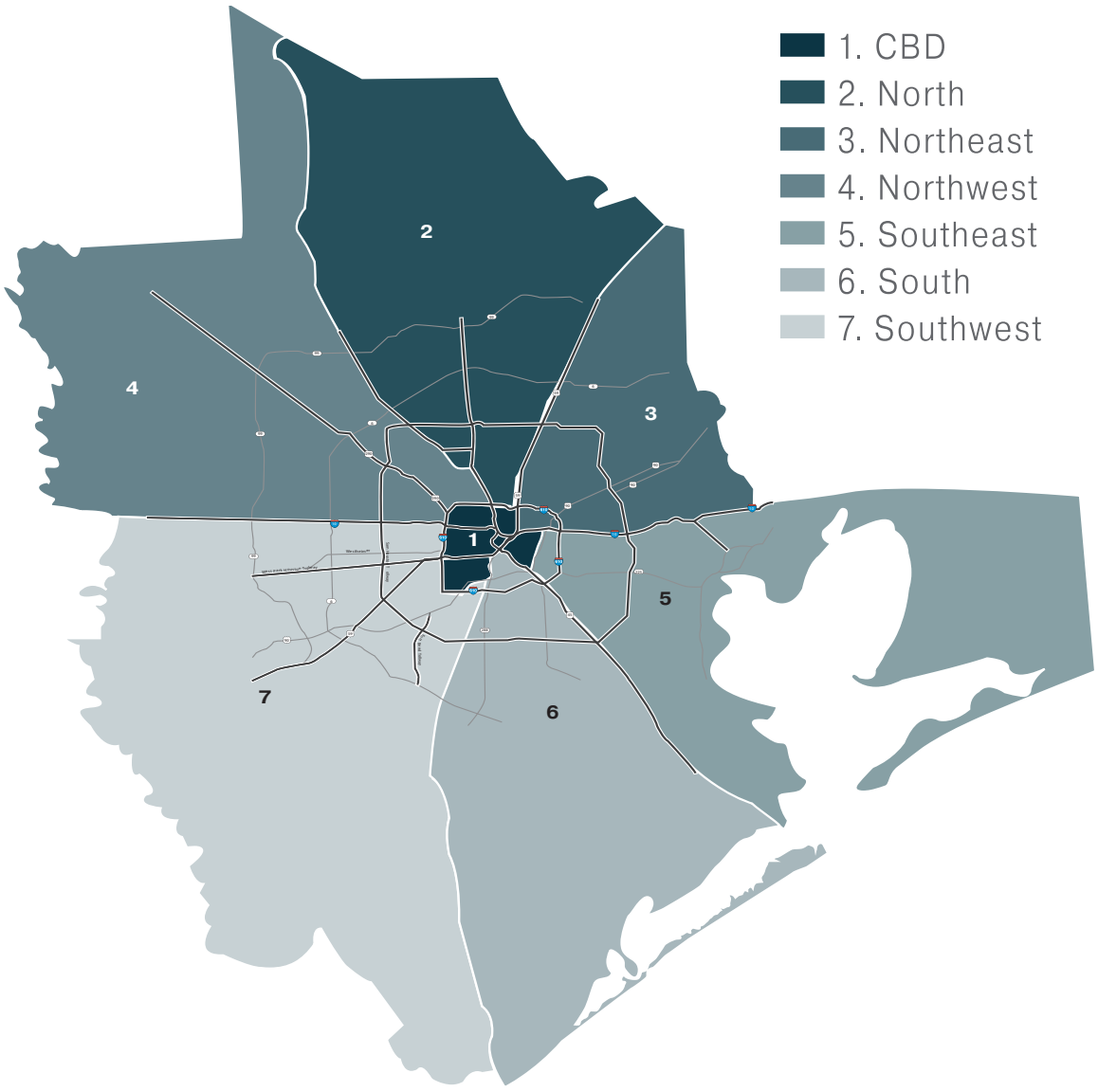
Market Overview
Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2025 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q1 2025 Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent ($/SF/MO/NNN)
Houston Market Total	**780,589,754**	**6.80%**	**9.60%**	**1,024,018**	**1,024,018**	**3,574,108**	**16,723,866**	**0.81**
Flex	55,229,999	8.80%	10.00%	1,570	1,570	137,796	283,226	0.95
Manufacturing	97,618,202	2.40%	5.40%	-86,616	-86,616	32,000	182,375	0.73
Warehouse/Distribution	627,741,553	7.30%	10.30%	1,109,064	1,109,064	3,404,312	16,258,265	0.79
CBD Total	**50,718,204**	**6.70%**	**9.30%**	**-76,050**	**-76,050**	**0**	**0**	**0.64**
Flex	3,071,345	9.90%	11.40%	22,405	22,405	0	0	0.89
Manufacturing	7,653,658	1.30%	8.30%	-4,722	-4,722	0	0	0.55
Warehouse/Distribution	39,993,201	7.40%	9.40%	-93,733	-93,733	0	0	0.65
North Total	**147,651,012**	**6.50%**	**8.60%**	**-71,246**	**-71,246**	**1,028,425**	**1,785,847**	**0.83**
Flex	13,125,451	10.00%	10.00%	-28,830	-28,830	47,871	88,835	0.92
Manufacturing	16,159,068	2.90%	4.30%	29,050	29,050	20,000	0	1.00
Warehouse/Distribution	118,366,493	6.60%	9.20%	-71,466	-71,466	960,554	1,697,012	0.81
Northeast Total	**55,108,034**	**7.00%**	**11.00%**	**310,774**	**310,774**	**0**	**1,796,638**	**0.87**
Flex	1,030,884	3.60%	14.70%	-105	-105	0	0	0.65
Manufacturing	11,141,227	2.90%	3.40%	28,000	28,000	0	19,075	0.60
Warehouse/Distribution	42,935,923	8.20%	12.90%	282,879	282,879	0	1,777,563	1.01
Northwest Total	**212,130,523**	**5.50%**	**8.50%**	**399,533**	**399,533**	**279,561**	**4,967,937**	**0.80**
Flex	16,889,309	10.30%	11.50%	98,090	98,090	60,525	50,000	0.83
Manufacturing	27,174,759	2.90%	8.60%	-96,887	-96,887	12,000	133,300	0.98
Warehouse/Distribution	168,066,455	5.50%	8.20%	398,330	398,330	207,036	4,784,637	0.79
Southeast Total	**144,893,953**	**8.40%**	**11.00%**	**295,186**	**295,186**	**767,134**	**4,029,282**	**0.75**
Flex	4,168,740	6.50%	8.00%	-19,805	-19,805	0	39,384	1.08
Manufacturing	18,287,269	1.00%	3.50%	-63,150	-63,150	0	0	0.98
Warehouse/Distribution	122,437,944	9.60%	12.10%	378,141	378,141	767,134	3,989,898	0.70
South Total	**61,331,588**	**5.40%**	**8.30%**	**-32,774**	**-32,774**	**661,680**	**1,751,302**	**0.71**
Flex	3,113,615	10.50%	14.00%	-99,380	-99,380	0	40,000	1.02
Manufacturing	9,882,854	2.20%	2.40%	10,000	10,000	0	30,000	0.68
Warehouse/Distribution	48,335,119	5.70%	9.10%	56,606	56,606	661,680	1,681,302	0.70
Southwest Total	**108,756,440**	**8.50%**	**11.70%**	**198,595**	**198,595**	**837,308**	**2,392,860**	**0.93**
Flex	13,830,655	6.10%	8.60%	29,195	29,195	29,400	65,007	1.11
Manufacturing	7,319,367	3.30%	4.30%	11,093	11,093	0	0	0.92
Warehouse/Distribution	87,606,418	9.30%	12.80%	158,307	158,307	807,908	2,327,853	0.87

Market Overview
Houston Industrial Submarkets



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