

Houston



Quick Stats

14

Msf of industrial space under construction

7.9%

Direct vacancy in Houston's industrial market

3.5

Msf of industrial space delivered during first quarter

8.4%

February 2021 unemployment rate in Houston, up from 8.2% in January 2021

The industrial market in Houston ends the first quarter strong in leasing and construction activity – continuing its run as Houston's leading commercial real estate sector. Deliveries slowed to 20% of the previous quarter after the market recorded the most square footage both completed and under construction during one year in Houston's history.

Amazon is at the forefront of the logistics construction as six new facilities are announced in the north, northeast and southeast sectors of the region. Two additional facilities in the southwest sector are currently underway, which make up Amazon's estimated 7 million square feet (msf) in the Houston area, according to CoStar.

Activity at the Port of Houston has been solid despite challenges driven by the pandemic and the February Houston freeze. Congress recently authorized the Houston Ship Channel's widening and deepening construction project, which is another positive indication that the port will continue to be one of Houston's main economic drivers. The Port is consistently ranked as the top port in terms of total waterborne tonnage, foreign waterborne

tonnage and number of vessel transits.

Online shopping remains strong, benefiting Houston's industrial sector and creating demand for both new distribution centers and warehouses along with last-mile facilities. Large national retailers such as Lowe's, Home Depot and Floor & Décor are joining Amazon expanding their presence in the region; Floor & Décor recently broke ground on a 1.5-msf project in the Southeast near the Port. These retailers are capitalizing on the growing trend of home improvement as families continue to stay at home.

Employment

The region's February unemployment rate marginally increased to 8.4% from 8.2% in January, according to the Texas Workforce Commission (TWC), resulting in the creation of 6,900 jobs.

Based on February data, the Greater Houston Partnership (GHP) estimates metro Houston has recovered about 35% of all jobs lost during March and April of last year. However, since February power outages caused fewer employers to report the monthly numbers, the GHP suggests

other economic indicators including the Houston Purchasing Managers Index signal the economy is in better shape than these estimates show. The GHP reports 21,100 jobs are created monthly based on a 20-year average.



The TWC survey reported annual losses from 12.2% to 12.5% for the manufacturing, information and other services sectors. Mining, logging and construction along with leisure and hospitality sectors reported annual changes of a negative 15.3% and 15.2%, respectively.

Absorption & Demand

Direct net absorption remained positive during the first quarter but plunged to 301,109 square feet (sf), which reflects true market conditions as firms opt for newer space but also leave former spaces vacant. Dunavant Distribution represents one of the larger moves this quarter. The firm consolidated into 784,000 sf in Bay Area Business Park's Building 10, which was completed last June, but also left behind more than 605,000 sf of vacant space in two different locations.

Two of the larger and earlier first-quarter deals that also resulted in positive absorption was Awesung's 239,124 sf in Southwest Commerce Center and Averitt Express' 159,793 sf in Port Crossing Commerce Center. Texas Tissue represented the largest move into just-completed space in Conroe Park North Industrial Park's 402,300-sf building at 1101 Conroe West Park Drive.

Absorption totals soared in 2020 as several large retailers, including Dollar Tree with 1.2 msf and Ross with 2.2 msf, completed and occupied their new facilities. During 2020, the Houston region recorded net absorption of 14.7 msf and deliveries of 30.2 msf, both records for a single year.

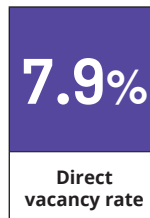
The two largest speculative buildings to be completed during the first quarter are Empire West Business Park's Building 3 at 750,775 sf and Park 505 at Hardy's 534,000 sf at 505 Aldine Bender. Of the 23 properties completed during first quarter, about 57% of the 3.4 msf had been leased.

Industrial leasing activity remained strong during the first quarter at almost 7 msf, which is comparable to the 7.4-msf average during the last two years. Last quarter's 9.3 msf set a record for any one quarter in Houston's history. The largest deal of the quarter is Amazon's 368,467 sf in Fallbrook Pines Business Park in the Northwest followed closely by 4PXS Express USA with 347,730 sf in Boulevard Oaks Business Park in the Southwest.

Vacancy & Availability

The vacancy rate increased marginally to 7.9% from 7.8% last quarter, having slowly risen from 7% a year ago; however, the rate has vaulted from the 5.2% two years ago. The large number of unoccupied deliveries during the last few years has resulted in the climbing vacancy rates, although the many large single-tenant and owner-occupied projects helped to slow the vacancy rate hikes.

Deliveries during first quarter fell to 23 properties with 3.5 msf, a 40% drop from the 8.7 msf delivered during fourth quarter. All 2021 properties were 57% leased at the end of the quarter. As mentioned, 2020 recorded the largest amount of completed space of 30.2 msf in 186 buildings.

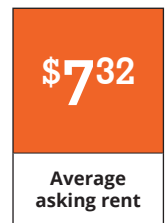


Available space decreased from the previous quarter; this category includes all space that could be leased but may or may not be vacant. Overall direct availability is at 11.9%, down from 12.3% last quarter and up from 9.7% during the same period last year.

Available sublease space increased minimally to 5.6 msf from 5.3 msf the previous quarter. Three sectors are offering more than 1 msf each representing 69% of all sublease space available. Both the North and Southeast sectors have 1.3 msf available while the Northwest sector has 1.2 msf available.

Construction

Houston's construction pipeline increased 28% from last quarter's 11 msf to almost 14 msf in 55 buildings. The metro has averaged 13 msf of construction during each of the last five years.

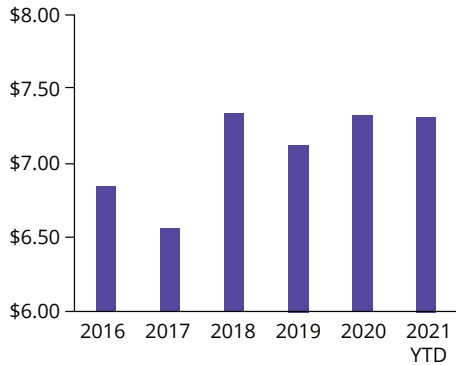


The two largest projects underway represent consumer goods: Lowe's has 1.5 msf in New Caney to the north and Floor & Décor has a 1.5-msf project underway in the Southeast. Rounding out the projects larger than 1 msf is Amazon's 1.1-msf project in Missouri City and a 1-msf spec project in Cedar Port. The southwest sector boasts 42% of all space underway with 5.9 msf in 21 buildings.

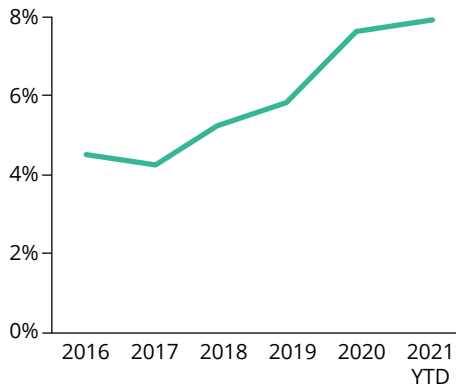
Asking Rents

The overall asking average rental rate for all industrial space during first quarter marginally decreased to \$7.32 per square foot (psf) triple net (NNN) from \$7.33 psf last quarter. Depending on asset quality, institutional distribution space is often quoted at \$5.40 psf with an effective rate 10% to 20% lower. Flex space rents range from \$8.40 to \$12.00 psf and manufacturing from \$7.00 to \$8.40. Concession packages are being offered more frequently with up to 10-month rent abatements on long-term deals along with allowances covering the major cost of tenant improvements.

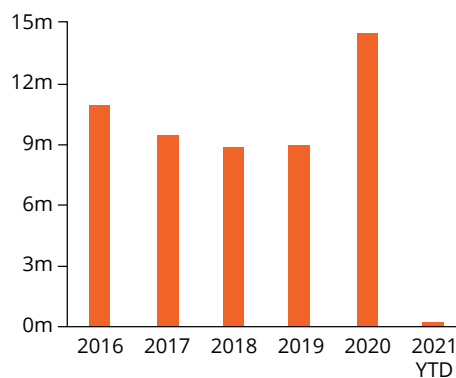
Asking rents



Vacancy rates



Net absorption



First quarter 2021 highlights

- Both **Lowe's Distribution Center** and **Floor & Décor** each have a 1.5-msf project underway, representing the largest properties under construction. **Lowe's** is in New Caney to the north and **Floor & Décor** is near the Port of Houston in the Southeast.
- Seven of the 10 largest projects under construction are 100% preleased and make up 64% of the 14 msf underway. Collectively, the 55 buildings are 47% preleased.
- **Amazon** signed the largest lease of the quarter at 368,467 sf in Fallbrook Pines Business Park in the northwest sector. The company continues expansion plans in the metro with delivery stations announced for several different sectors. Overall, the firm will be occupying an estimated 7 msf in the Houston area, according to CoStar. The largest projects to be completed this year are the 1.1-msf facility in Missouri City and an 850,000-sf facility in Richmond, both in the Southwest.
- After **Amazon**, these three different logistics and warehousing firms - **4PX Express USA**, **Awesung** and **Vee Express** - round out the top four largest leases signed in the first quarter. **4PX Express** has leased 347,730 sf in Boulevard Oaks Business Park in the Southwest, **Awesung** committed to 239,129 sf in the Southwest Commerce Center and **Vee Express** has taken 218,015 sf in CityPark East.
- Leasing activity remained strong during the first quarter, just a tad lower than the 7.4-msf average of the last five years.

Area trends to watch

With its central location within the U.S. and the Americas, Houston is an important industrial base. The following are regional updates for key economic indicators.



Oil

The WTI price of oil was up to almost \$61.48 in late March from \$48.35 in late December and \$20.50 a year ago. Record lows were seen in early 2020 due to an oil trade war coupled with effects from the pandemic.



Employment

Employees are still losing jobs, with the unemployment rate increasing to 8.4% during February 2021 from 8.2% in January 2021.

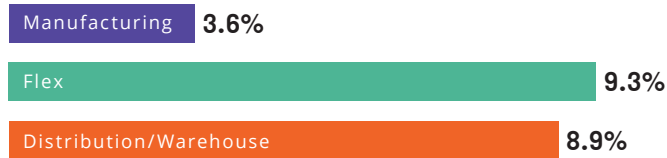


Purchasing

The Purchasing Manager's Index (PMI) registered 54.3 in February 2021, up from 52.6 in January 2021. This is the seventh consecutive reading above 50, which signals expansion in Houston's goods-producing sector.

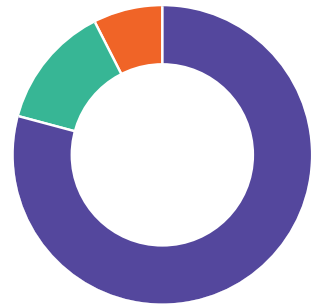


Average direct vacancy by type



Available sublease by type

Distribution/Warehouse **79.5%**
 Flex **13.3%**
 Manufacturing **7.3%**

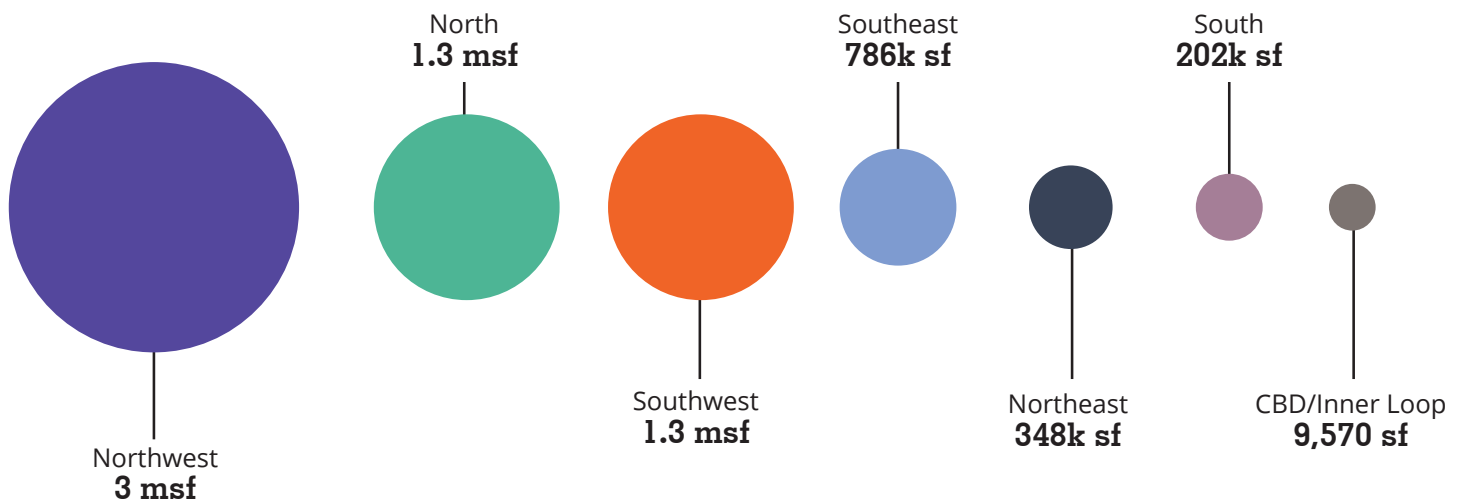


Market by the numbers

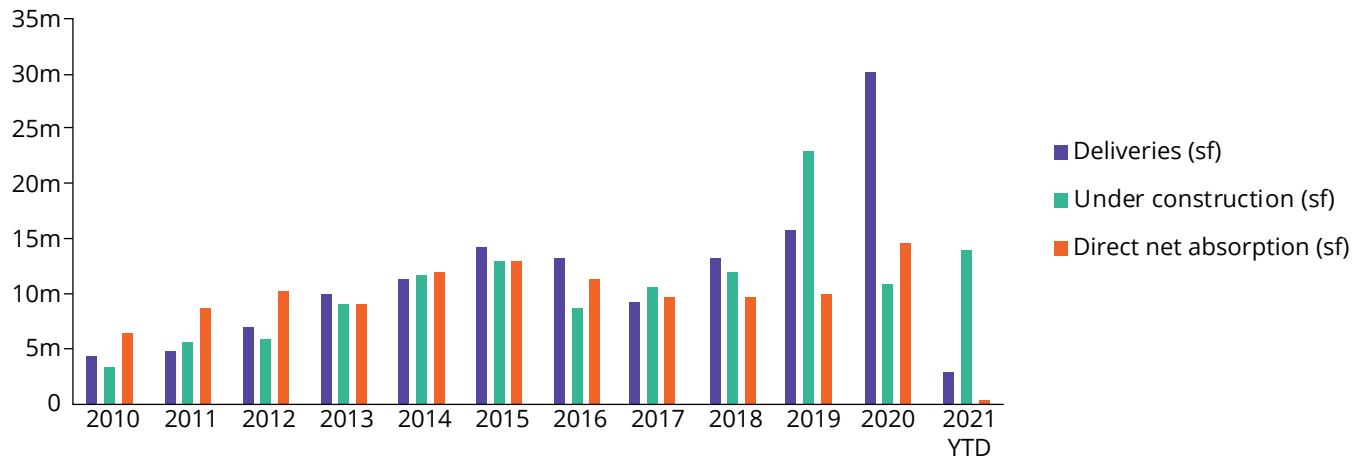
Type/ Submarket	Inventory (sf)	Direct Vacancy (%)	Total Vacancy (%)	Available Sublease (sf)	Direct Availability (%)	Total Availability (%)	Q1 2021 Direct Net Absorption (sf)	YTD 2021 Direct Net Absorption (sf)	Average NNN Quoted Rents (\$/psf)	YTD 2021 Leasing Activity (sf)	YTD 2021 Deliveries (sf)	Under Construction (sf)
Totals by type												
Manufacturing	104,310,953	3.6%	3.6%	404,423	6.3%	6.6%	341,071	341,071	\$6.64	185,030	592,600	816,662
Flex	41,000,603	9.3%	9.5%	738,257	12.3%	14.1%	(240,995)	(240,995)	\$10.19	497,342	76,734	41,166
Distribution/ Warehouse	424,440,283	8.9%	9.1%	4,425,103	13.8%	14.8%	201,033	201,033	\$6.87	6,280,527	2,811,104	13,121,434
Totals	569,751,839	7.9%	8.1%	5,567,783	12.3%	13.2%	301,109	301,109	\$7.32	6,962,899	3,480,438	13,979,262
Totals by submarket												
CBD/Inner Loop	46,050,474	5.1%	5.2%	323,243	9.5%	10.2%	(149,232)	(149,232)	\$5.56	9,570	0	0
North	106,725,722	10.1%	10.2%	1,335,463	14.1%	15.2%	353,822	353,822	\$8.10	1,341,875	1,581,007	3,167,628
Northeast	36,981,369	8.4%	8.6%	64,248	11.4%	11.6%	(499,440)	(499,440)	\$5.59	347,709	0	0
Northwest	162,192,795	7.9%	8.2%	1,172,841	11.9%	12.5%	(300,659)	(300,659)	\$7.55	2,968,019	1,249,757	1,710,458
South	41,222,711	4.6%	4.9%	714,708	7.9%	9.6%	128,653	128,653	\$5.11	201,723	207,150	460,212
Southeast	104,917,160	9.3%	9.5%	1,316,527	13.7%	14.8%	320,330	320,330	\$7.00	786,458	175,046	2,747,093
Southwest	71,661,608	6.4%	6.4%	640,753	13.5%	14.4%	447,635	447,635	\$8.81	1,307,545	267,478	5,893,871

Sources: CoStar and Avison Young Research

YTD 2021 leasing activity by submarket



Supply and demand



Select first quarter 2021 under construction

Building name	Building address	Building size (sf)	% Preleased	Projected delivery	Submarket
Lowe's Distribution Center	18901 E. Industrial Parkway	1,500,000	100%	August 2021	North
Floor & Decor	Fisher Road (TGS Cedar Port)	1,500,000	100%	December 2021	Southeast
Amazon	2303 Hurricane Lane	1,081,292	100%	December 2021	Southwest
Cedar Port Trade Center	4633 Borusan Road	1,021,440	0%	April 2021	Southeast
Amazon	10507 Harlem Rd	850,000	100%	April 2021	Southwest
The Uplands Twinwood DC 1	Twinwood Parkway/Woods Road	737,630	0%	September 2021	Southwest
Home Depot	11333 N. Gessner Road	657,600	100%	December 2021	Northwest
1776 E. Davis Street	1776 E. Davis Street	600,000	100%	October 2021	North
Jordan Ranch Distribution Center	1006 Jordan Ranch Boulevard	498,231	0%	July 2021	Southwest
American Furniture Warehouse	River Plantation Drive	492,262	100%	February 2022	North

Source: CoStar

Select first quarter 2021 lease transactions

Tenant	Size (sf)	Type	Building name	Building address	Submarket
Amazon	368,467	New	Fallbrook Pines Business Park	9155 Derrington Road	Northwest
4PX Express USA	347,730	New	Boulevard Oaks Business Park Building 8	5880 W. Fuqua Sreet	Southwest
Awesung	239,124	New	Southwest Commerce Center	611 S. Cravens Road	Southwest
Vee Express	218,015	New	CityPark East	8711 Citypark Loop	Northeast
Amazon	180,000	New	Amazon	4975 Gulf Freeway	South
Soft-Tex	166,970	New	Sugar Land Business Park Building 2	1407 Gillingham Lane	Southwest
Averitt Express	159,793	New	Port Crossing Commerce Center Building 1	1901 Wharton Weems Boulevard	Southeast
Source Logistics	157,805	New	Cypress Preserve Logistics Center Building 2	22003 Cypress Slough Drive	North
Amazon	137,280	New	Bay Area Business Park Building VIII Phase III	10611 Red Bluff Road	Southeast
Air Express International USA	128,500	New	World Houston International Business Center Building 38	15894 Diplomatic Plaza Drive	North
Thermaflec	121,226	New	Ella Logistics Center Building 1	10507 Ella Boulevard	North

Source: CoStar

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information

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