

Houston



Quick Stats

12.4

Msf of industrial space under construction

7.9%

Direct vacancy in Houston's industrial market

5.4

Msf of industrial space delivered during fourth quarter

8.9%

November 2020 unemployment rate in metro Houston, up from 7.7% in October 2020

The industrial market in Houston closes out the year as the dominant commercial real estate sector – just like it has been throughout the last 12 months. Record-level construction including large spec properties has been at the forefront to fulfill the rising demand for online shopping brought on by the global pandemic.

Despite the lingering challenges spurred by the pandemic and oil price lows that energy firms and oil field services face, increased activity during the last half of the year at the Port of Houston has generated confidence for a recovering economy. Rated again as the top port in terms of total waterborne tonnage, foreign waterborne tonnage and number of vessel transits, the Port of Houston moved more than 47 more million tons of cargo than any other U.S. port. The almost 285 million tons moved through the Port in 2019 represented a 6% increase compared to the previous year.

Online shopping remains strong, benefiting Houston's industrial sector and creating demand for both new distribution centers and warehouses along with last-mile facilities to get closer to the consumer.

Large national retailers along with Amazon and other delivery firms are busy expanding their presence in the region; several larger deals are in properties near the Port.

Metro Houston has recovered about half of all jobs lost during the pandemic as of October with a backdrop of potential layoffs in the energy sector. The region's November unemployment rate jumped to 8.9% from 7.7% in October, according to the Texas Workforce Commission.

The Greater Houston Partnership (GHP) predicts the region will experience its usual seasonal job losses through January. The group's employment forecast reported projected growth of 35,000 to 52,000 new jobs, with most growth resuming in the second half of the year. Every sector will register job growth except energy and retail, the GHP noted, with the following sectors creating the most jobs: administrative support services, health care and social assistance, manufacturing and professional services.

Absorption & Demand

Direct net absorption surged back to 3 msf

during fourth quarter, almost tripling the third quarter's absorption and extending a multi-year positive trend. For the year, direct net absorption totaled 10.8 msf, the largest annual amount since 2016 and 23% more than 2019.



Two facilities in Katy in the Northwest sector topped the list for largest completed during fourth quarter. Medline's 1.3 msf in Pederson Distribution Park is the healthcare manufacturer's new distribution center, using 70% of the facility and offering 390,000 sf for lease. Amazon opened its latest 805,601-sf distribution center in Clay 99 Business Park also in Katy, while Katoen Natie occupied its new 604,800-sf property in the Southeast.

The two largest properties completed resulted in the Northwest sector recording the highest absorption, 1.7 msf, during the fourth quarter, followed by 688,354 sf of positive absorption in the Southeast and 655,653 sf in the Southwest.

Industrial leasing activity jumped to 6.3 msf during the fourth quarter, ending the year with 24.1 msf, slightly below the previous year's 29.5 msf. The largest deal of the quarter is Lowe's 1.5-msf lease for a regional distribution center in New Caney in the Northeast. Two larger deals in the Southeast include Dunavant Distribution Group's 784,000-sf consolidation deal at Bay Area Business Park and Costway's new 402,648 sf in Underwood Port Logistics Center. HEB rounded out the top four with a renewal of 401,280 sf at 4501 Blalock in the Northwest.

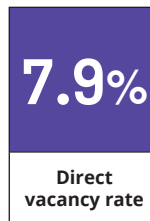
Vacancy & Availability

The large number of unoccupied deliveries has been responsible for the vacancy rate hikes during the year, but fourth quarter's direct vacancy rate of 7.9% remained

constant although higher than the 5.9% year-over-year. Vacancy rates for warehouse/distribution space dropped marginally to 8.8% from 8.9% last quarter, but up from 6.4% year-over-year. Both manufacturing and flex space remained within 20 basis points, with manufacturing space increasing to 3.5% and flex decreasing to 9% in fourth quarter. Of the submarkets, the CBD/Inner Loop sector is boasting the lowest vacancy of 4.3% while the North is currently posting the highest vacancy of 9.5%.

Deliveries during fourth quarter increased to 24 properties with 5.4 msf added to the existing market, a slower pace than first-quarter's record-breaking 10 msf. Completed in all of 2020 was 26.5 msf of industrial space, a record level 42% more than last year's previous record of 15.4 msf. All 160 deliveries during 2020 are collectively 49% available and 57% vacant at year-end.

Available space is also up; this category includes all space that could be leased but may or may not be vacant. Overall direct availability is at 12.9%, up from 12.3% last quarter and up from 8.4% during the same period last year.



Available sublease space increased minimally to 5.6 msf from 5.4 msf the previous quarter. Three sectors are offering more than 1 msf each representing 76.6% of all sublease space available. The North sector has 1.7 msf available, the Northwest has 1.4 msf available and the Southeast 1.2 msf.

Construction

Although decreasing to 12.4 msf in 57 buildings, Houston's construction pipeline remains larger than many cities after posting record starts in fourth quarter 2019. The metro has been cited for its large new supply, averaging 13.3 msf of construction

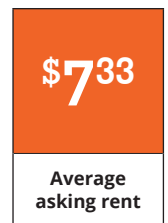
during the last six years.

Two of the three largest projects underway are build-to-suit (BTS) representing about 25% of the total. Ross Distribution Center in the Southwest is the largest BTS project at 2.2 msf and is scheduled for completion in February 2021. Amazon's latest 850,000-sf project in Richmond is scheduled for completion in April 2021.

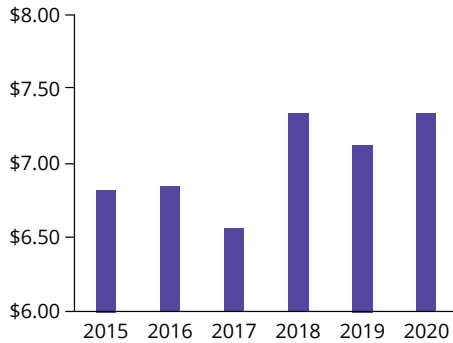
The two submarkets with the most square footage underway account for 69% of the total: the Southwest with 6.2 msf and the Southeast with 2.3 msf. The Northwest sector has 1.8 msf and the North has 1.5 msf underway.

Asking Rents

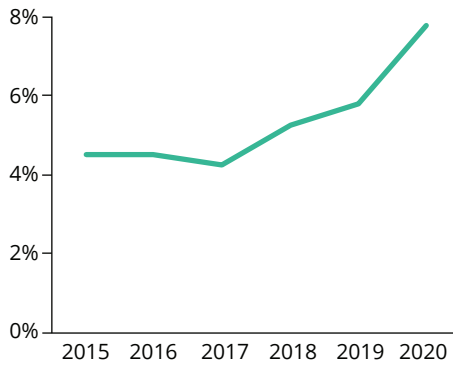
The overall asking average rental rate for all industrial space during fourth quarter decreased to \$7.33 per square foot (psf) triple net (NNN) from \$7.50 psf last quarter, which is the highest average recorded. Depending on asset quality, institutional distribution space is often quoted at \$5.40 psf triple net. Flex space rents range from \$8.40 to \$12.00 psf triple net and manufacturing from \$7.00 to \$8.40 psf triple net. 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.



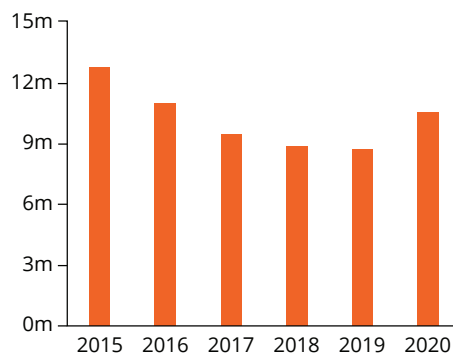
Asking rents



Vacancy rates



Net absorption



Fourth quarter 2020 highlights

- **Medline's** 1.3-msf facility was the largest property completed in fourth quarter. The healthcare manufacturer will occupy 70% of the facility and currently has the additional space on the market.
- **Amazon** expanded its presence in the area as it occupied an 805,601-sf warehouse at 22525 Clay Road in the Northwest and announced a 1-msf facility planned for Missouri City in 2021. Amazon also has an 850,000-sf facility at 10507 Harlem in the Southwest scheduled for completion in April 2021.
- **Lowe's** signed the largest deal during the fourth quarter for a new 1.5-msf regional distribution facility in New Caney. Three additional larger leases include two in the Southeast: **Dunavant Distribution** with 784,000 sf at Bay Area Business Park and **Costway** with 402,648 sf in Underwood Port Logistics Center. **HEB** rounds out the top four leases by renewing its 401,280 sf at 4501 Blalock in the Northwest.
- Construction levels have declined to 12.4 msf at year-end after reporting record-level totals during the last five quarters. During fourth quarter, two properties broke ground in the Southwest: The Upland's Twinwood Distribution Center 1 with 737,630 sf and Jordan Ranch Distribution Center with 498,231 sf.
- Completion of 24 properties totaling 5.4 msf during fourth quarter helped break the record for the largest square footage completions during a single year. The metro recorded 160 properties totaling 26.5 msf as completed during 2020, breaking last year's record of 15.4 msf total as the most industrial square footage delivered during one year in Houston's history.

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 \$49 in early December, recording record-level lows earlier in the year due to an oil trade war coupled with effects from the pandemic.



Employment

Employees are still losing jobs, with the unemployment rate increasing to 8.9% during November 2020 from 7.7% in October 2020.

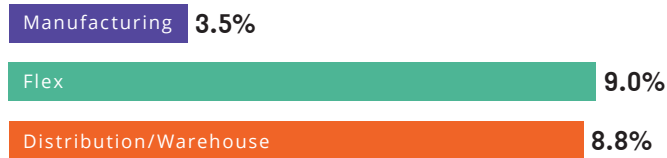


Purchasing

The Purchasing Manager's Index (PMI) registered 52.4 in November 2020, slightly down from 53.2 in October. This is the fourth consecutive reading above 50, which signals expansion in Houston's goods-producing sector.

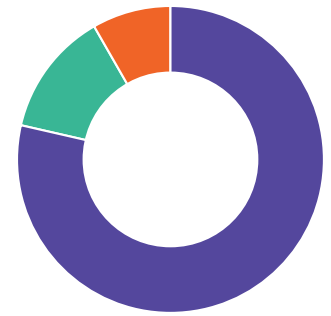


Average direct vacancy by type



Available sublease by type

Distribution/Warehouse **78.4%**
 Flex **13.2%**
 Manufacturing **8.3%**

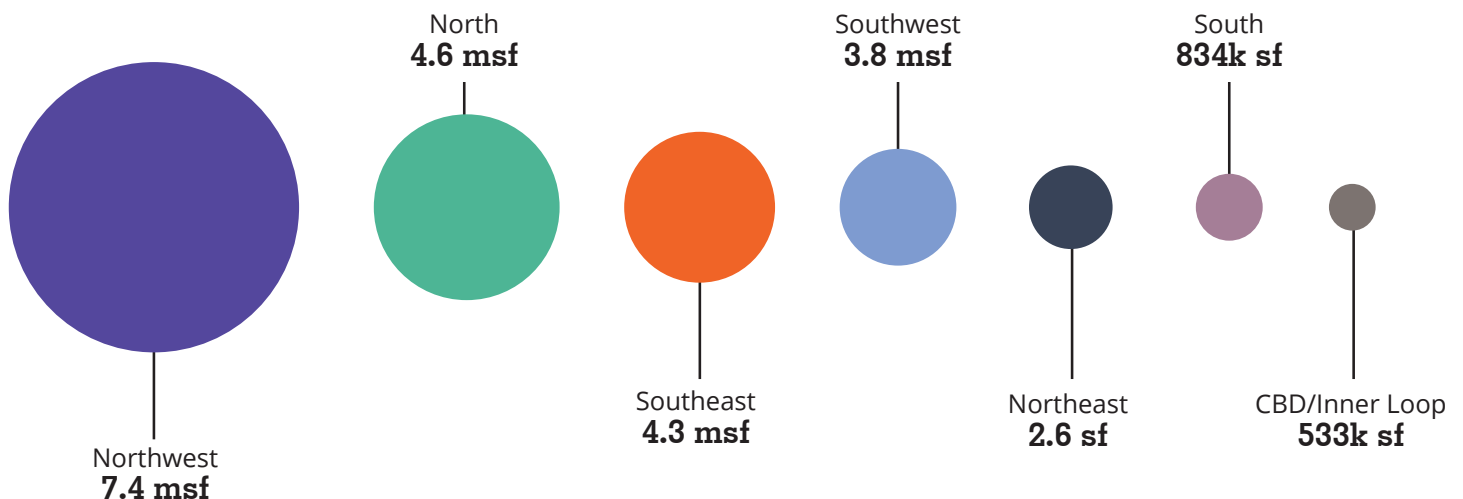


Market by the numbers

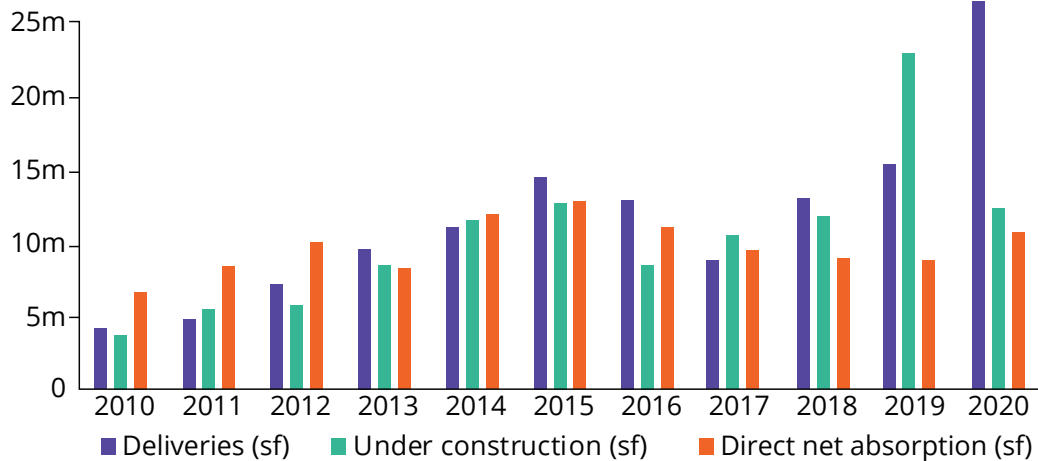
Type/ Submarket	Inventory (sf)	Direct Vacancy (%)	Total Vacancy (%)	Available Sublease (sf)	Direct Availability (%)	Total Availability (%)	Q4 2020 Direct Net Absorption (sf)	YE 2020 Direct Net Absorption (sf)	Average NNN Quoted Rents (\$/psf)	YE 2020 Leasing Activity (sf)	YE 2020 Deliveries (sf)	Under Construction (sf)
Totals by type												
Manufacturing	102,941,752	3.5%	3.5%	465,483	6.0%	6.5%	-58,906	1,629,052	\$6.81	1,322,460	2,348,444	288,934
Flex	40,558,969	9.0%	9.3%	737,616	12.6%	14.3%	150,650	66,866	\$10.43	1,829,006	143,877	156,884
Distribution/ Warehouse	416,650,899	8.8%	9.1%	4,378,329	15.1%	15.6%	2,912,333	9,143,449	\$6.85	20,935,645	24,014,942	11,933,140
Totals	560,151,620	7.9%	8.1%	5,581,428	13.2%	13.9%	3,004,077	10,839,367	\$7.33	24,087,111	26,448,099	12,378,958
Totals by submarket												
CBD/Inner Loop	45,779,603	4.3%	4.4%	83,430	10.9%	11.2%	91,027	-454,423	\$6.56	532,931	0	0
North	103,593,083	9.5%	9.6%	1,742,139	15.1%	16.7%	54,654	2,413,009	\$8.20	4,587,326	6,167,731	1,513,026
Northeast	36,791,279	7.6%	7.8%	116,667	10.9%	11.3%	-89,352	401,125	\$5.58	2,647,763	1,162,420	0
Northwest	160,342,431	8.2%	8.5%	1,362,977	12.4%	13.2%	1,670,426	3,824,446	\$7.40	7,353,702	8,452,184	1,833,815
South	40,928,098	4.6%	5.2%	513,453	8.5%	9.6%	-66,685	799,232	\$5.34	834,406	519,504	512,166
Southeast	103,530,374	8.7%	8.8%	1,168,621	14.9%	16.0%	688,354	1,421,985	\$7.03	4,322,194	5,750,338	2,284,193
Southwest	69,186,752	7.8%	7.9%	594,141	12.8%	13.6%	655,653	2,433,943	\$8.69	3,808,789	4,395,922	6,235,758

Sources: CoStar and Avison Young Research

2020 leasing activity by submarket



Supply and demand



Select fourth quarter 2020 under construction

Building name	Building address	Building size (sf)	% Preleased	Projected delivery	Submarket
Ross Distribution Center	31207 Kingsland Boulevard	2,165,000	100%	February 2021	Southwest
Cedar Port Trade Center	4633 Borusan Road	1,021,440	0%	March 2021	Southeast
Amazon	10507 Harlem Road	850,000	100%	April 2021	Southwest
Empire West Business Park Building 3	100 Empire Boulevard	750,775	0%	February 2021	Northwest
The Uplands Twinwood Distribution Center 1	Twinwood Parkway & Woods Road	737,630	0%	September 2021	Southwest
Cedar Port Distribution Center 1	5400 E. Grand Parkway	638,760	0%	April 2021	Southeast
Park 505 at Hardy	505 Aldine Bender Road	534,000	0%	June 2021	North
Jordan Ranch Distribution Center	1006 Jordan Ranch	498,231	0%	March 2021	Southwest
Park 8Ninety Building 11	551 Buffalo Lakes	441,360	0%	March 2021	Southwest
Monument Business Park Building B	739 Independence Parkway	414,900	0%	October 2020	Southeast

Source: CoStar

Select fourth quarter 2020 deliveries

Building name	Building address	Building size (sf)	% Preleased	Tenant	Submarket
Medline	29895 Highway 90	1,300,000	70%	Medline	Northwest
Amazon (Clay 99 Business Park)	22525 Clay Road	805,601	100%	Amazon	Northwest
Generation Park	10100 W. Lake Houston Parkway	648,720	0%	TBD	Northeast
Katoen Natie Building 6	1919 FM 565 Road	604,800	100%	Katoen Natie	Southeast
Monument Business Park Building B	625 Independence Parkway	414,900	61%	S.I. Warehousing Co.	Southeast
Ella Logistics Center Building 1	Beltway 8 & I-45 North	358,567	56%	PSS Industrial Group	North
Rankin 45 Distribution Center	13800 North Freeway	356,236	0%	TBD	North
Market Street Building 1	15130 Market Street Road	316,172	0%	TBD	Southeast
Interwood Distribution Center Building 2	14720 John F. Kennedy Boulevard	235,845	0%	TBD	North

Source: CoStar

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market
information

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