



Houston industrial market report

Q2 2024

**AVISON
YOUNG**

Houston industrial market trends

7.3 msf

Net absorption remains above pre-pandemic average

The Houston industrial market absorbed 3.6 million square feet (msf) in Q2 2024, bringing the mid-year total to 7.3 msf. While total net absorption during the first half of 2024 fell by 51.1% compared to the same period last year, it remains 21% above the healthy pre-pandemic average from 2016-2019. This slowdown is impacting new construction deliveries more significantly, but the space is expected to be absorbed at a slower pace as the market returns to normalcy.

11.5 msf

Construction pipeline drops to lowest level since 2017

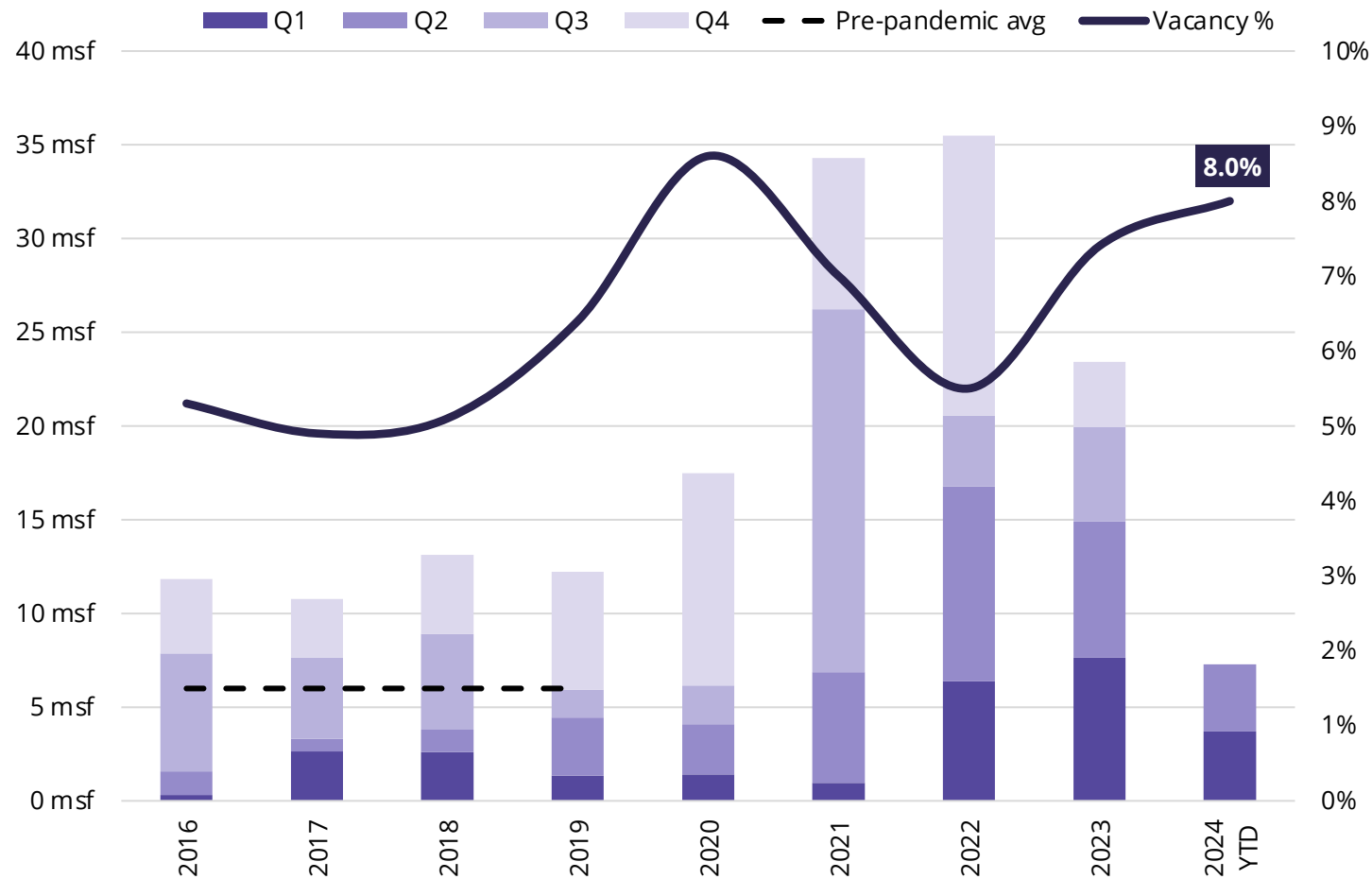
Developers delivered nearly 6.0 msf of new industrial space in the Houston market in Q2 2024, almost double the pre-pandemic average of 3.8 msf. This has helped reduce the construction pipeline to 11.5 msf, with 8.7 msf of new product slated to deliver by year-end. However, elevated interest rates are pushing up costs, causing builders and occupiers to adopt a wait-and-see approach after the elections, hoping for a more favorable business climate.

8.0%

Vacancy rate nudges higher due to new space completions

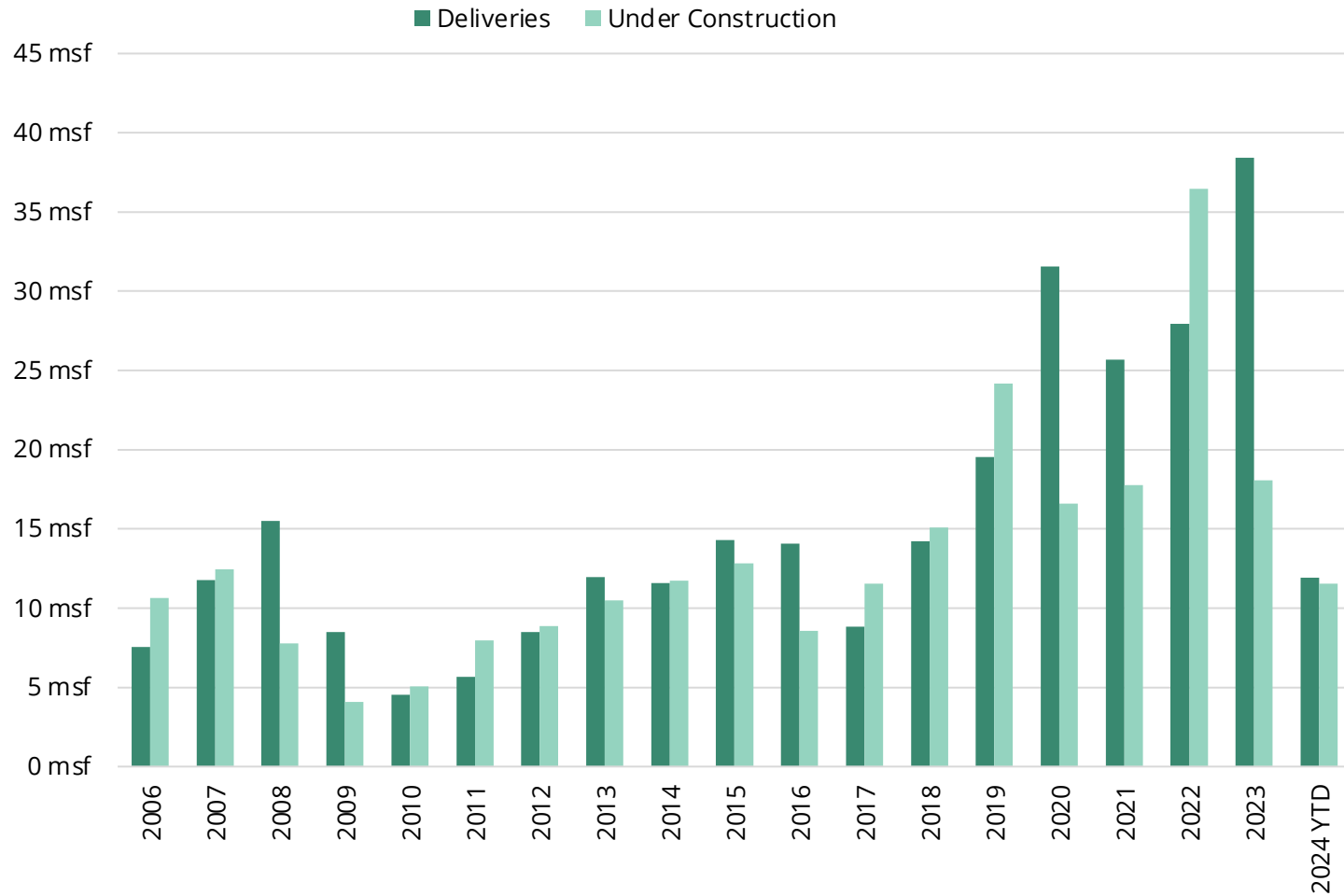
While Houston's construction pipeline has considerably declined to its lowest level since 2017, industrial space completions outpaced demand for the sixth straight quarter, pushing vacancy rates up 30 basis points (bps) from the prior quarter and a substantial 180 bps year-over-year. Although occupier demand remains strong, leasing velocity is slowing down, meaning it's taking longer to fill vacant spaces, particularly those delivered recently following a record-breaking year in 2023.

Net absorption vs vacancy



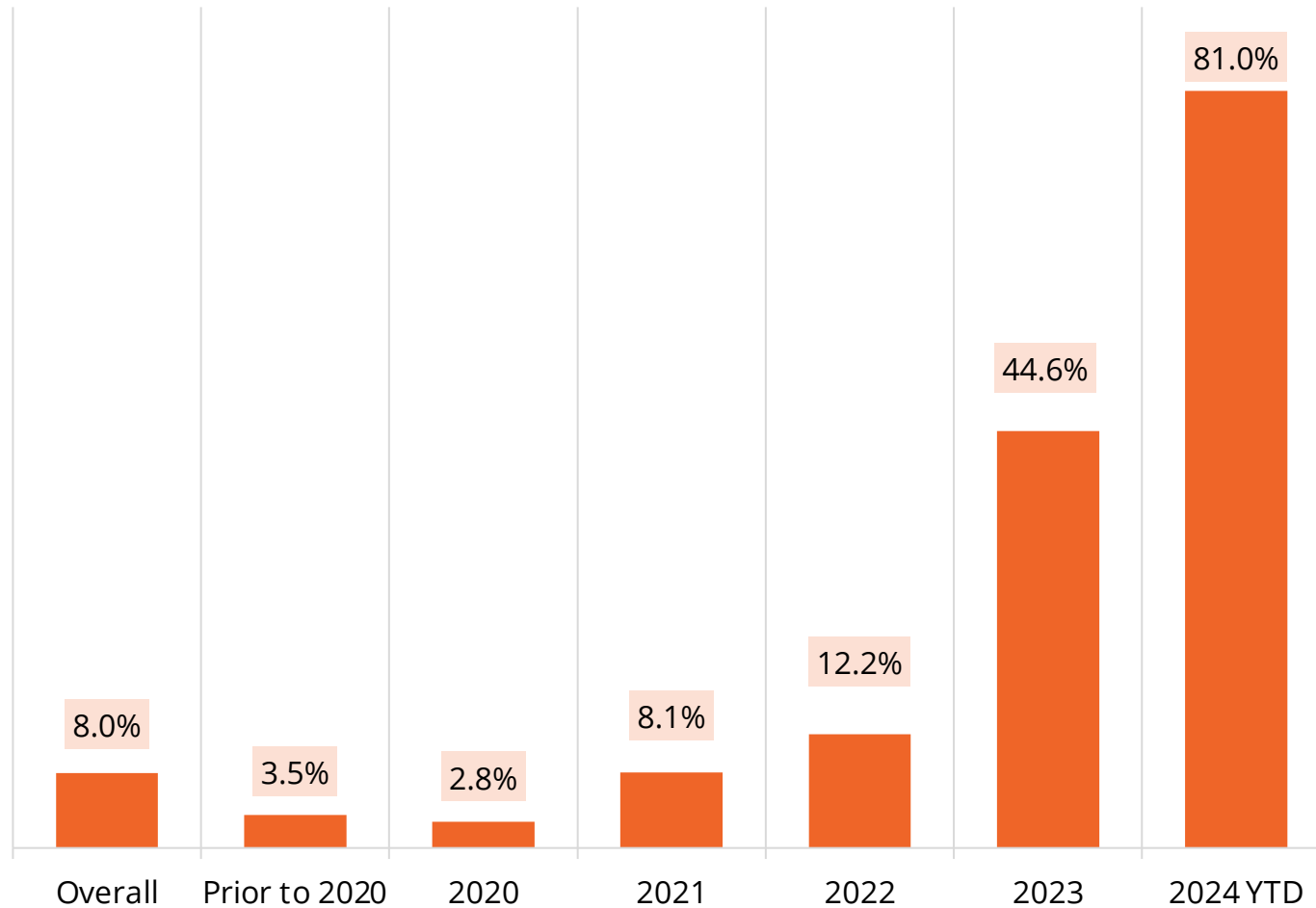
Even though occupier demand has considerably slowed down from its record-setting pace in previous years following the COVID-19 pandemic, total net absorption during the first half of 2024 remains strong and above the pre-pandemic average.

Construction activity slowing down



Houston's industrial construction pipeline continues to contract, with nearly 6.0 msf of new product delivered in Q2, bringing the year-to-date total up to 11.9 msf, with an additional 8.7 msf slated to deliver by year-end.

Houston industrial vacancy by year built



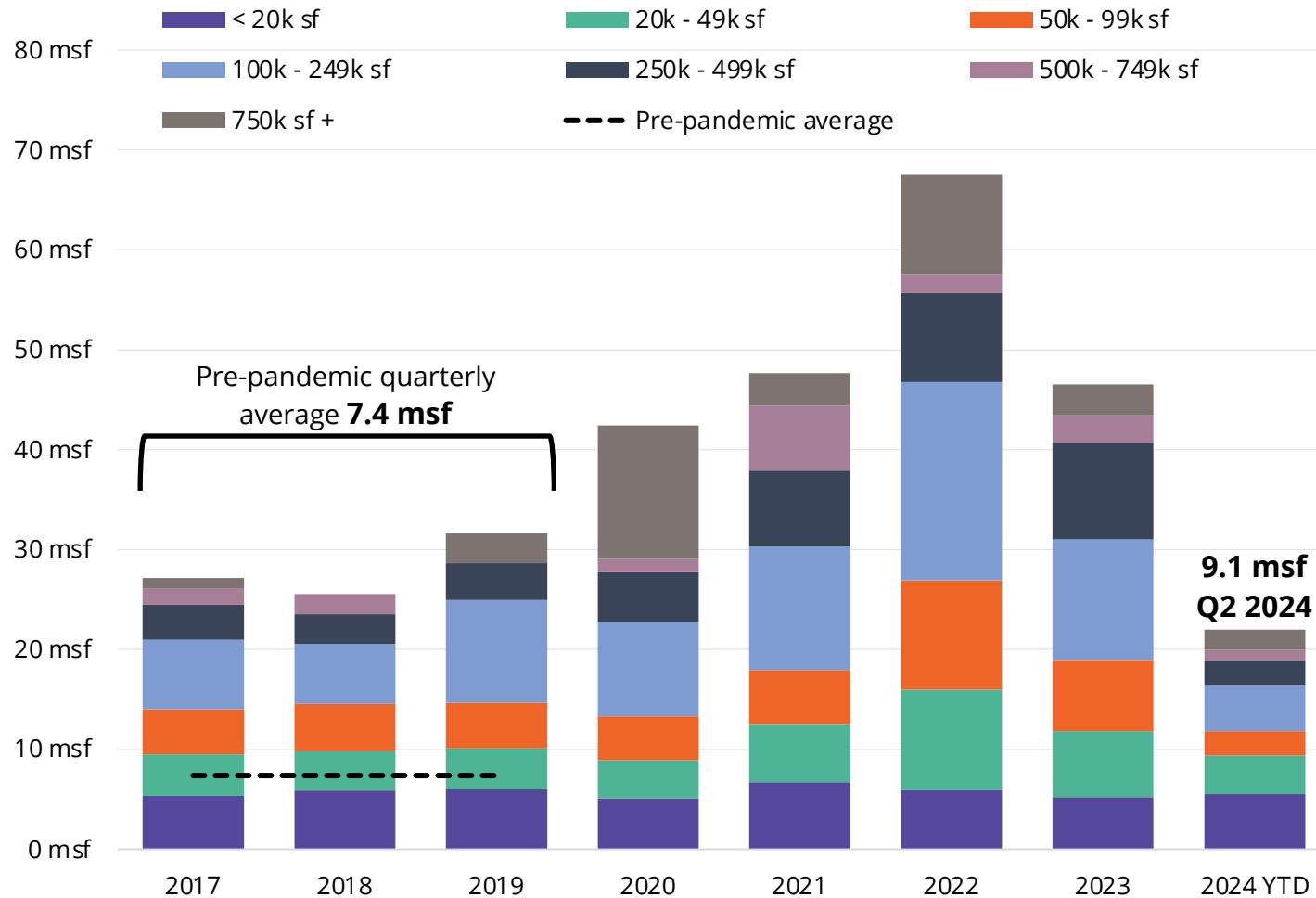
Lease-up times for new construction are lengthening as occupier demand continues to stabilize from the e-commerce boom caused by the pandemic. However, the development slowdown offers opportunities for occupiers to secure available space, setting the stage for a gradual decrease in vacancies in 2025.

Occupier market conditions

The Market Pulse: Tracking Employment, Industrial Vacancy, and activity at the Houston Port

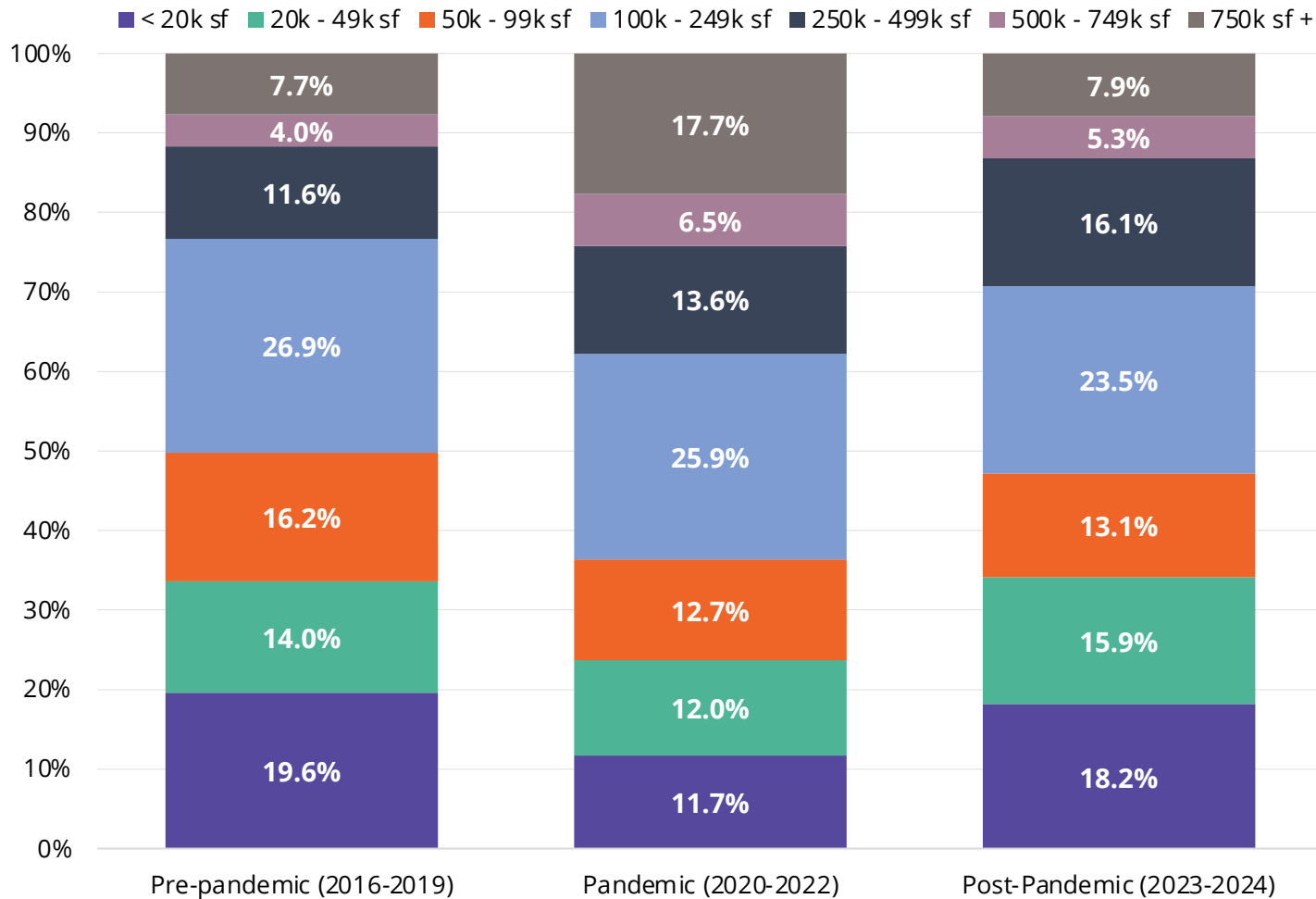


Leasing volume by deal size



Despite a gradual decline from record leasing activity fueled by an e-commerce boom, industrial space demand persists at a healthy level, exceeding pre-pandemic quarterly averages by 23.7%. Notably, smaller deals are capturing a larger share of leasing activity post-pandemic.

Leasing volume share by size

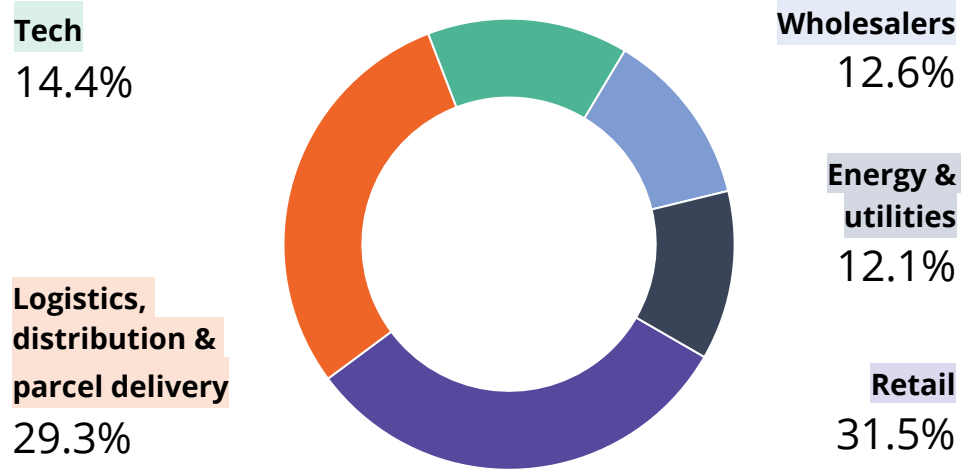


Mid-sized deals (100k-249k sf) continue to dominate the market, but post-pandemic, we've seen a 10.8% rise in smaller deals under 100k sf and a 2.5% increase in activity for those in the 250k-499k sf range. Conversely, big-box deals exceeding 500k sf have experienced an 11% decline in their volume share since the pandemic.

Tenant industry leasing composition

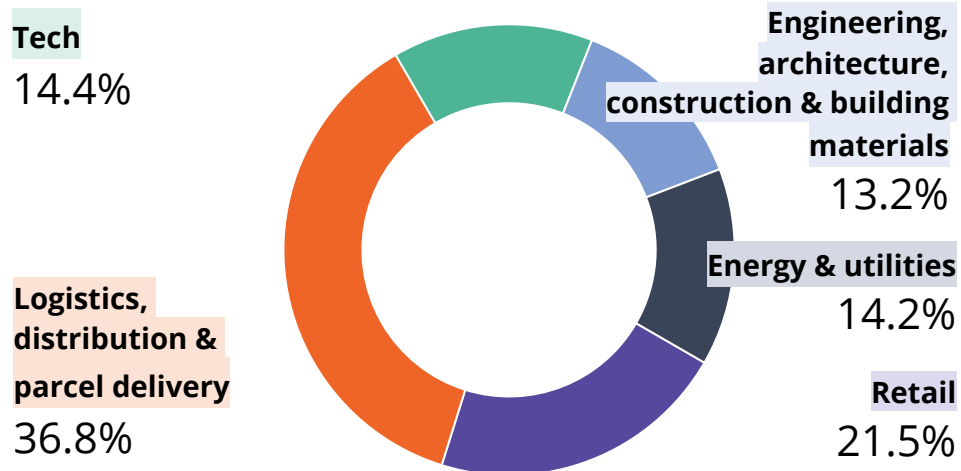
Pre-COVID

2018 to
March 2020



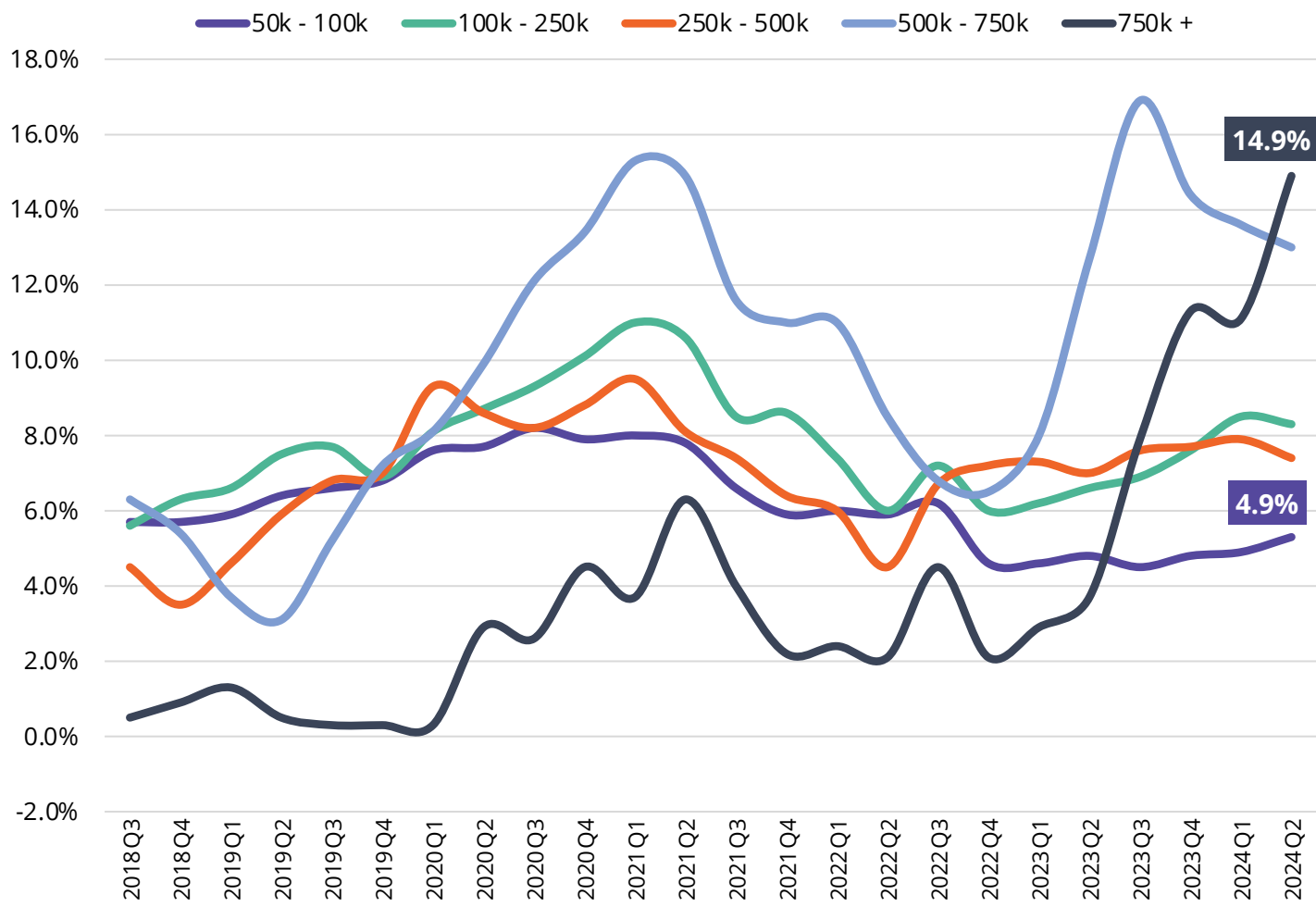
Post-COVID

April 2020 to
Present



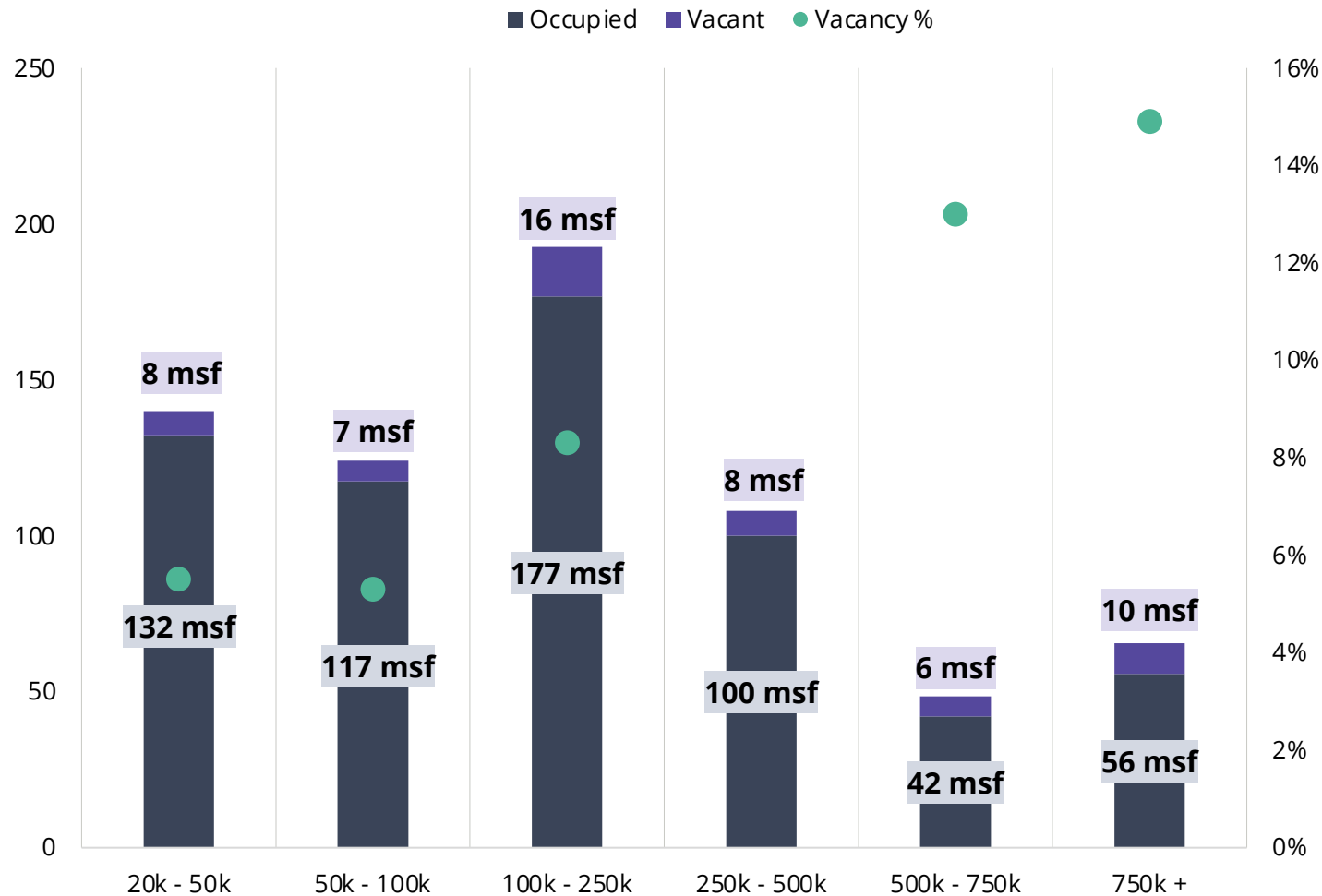
Logistics, distribution, and parcel delivery companies have continued to capture an increasing share of the leasing market since pre-Covid. Notably, engineering and construction-related industries are also experiencing significant growth, pushing their way into the top ranks of occupiers.

Total vacancy rate by building size



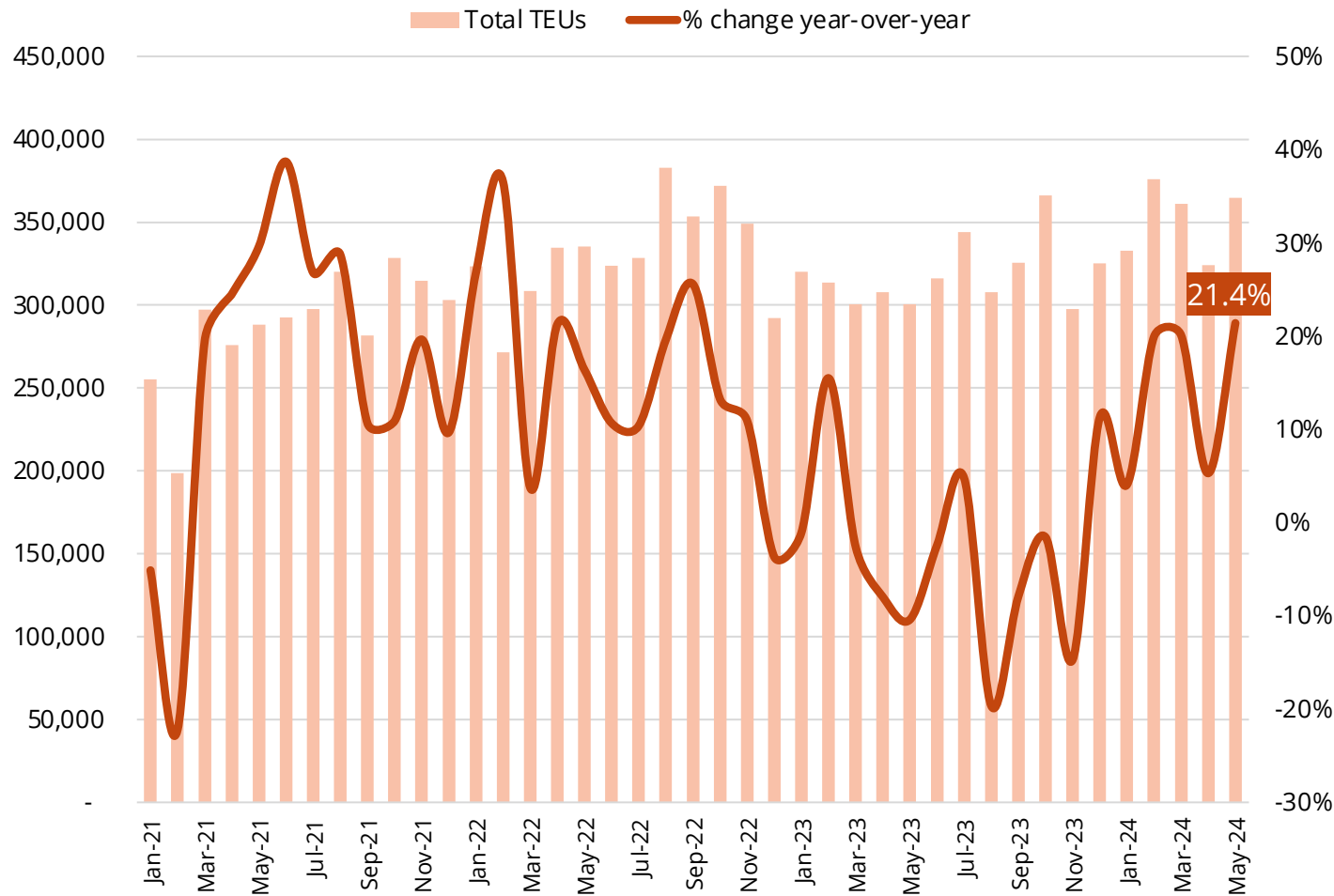
Vacancy rates increased 380 bps to 14.9% quarter-over-quarter for buildings larger than 750k sf largely due to recent deliveries. Meanwhile, vacancy remains the lowest in smaller industrial buildings between 50k to 100k sf, at 4.9%.

Industrial building size inventory & vacancy



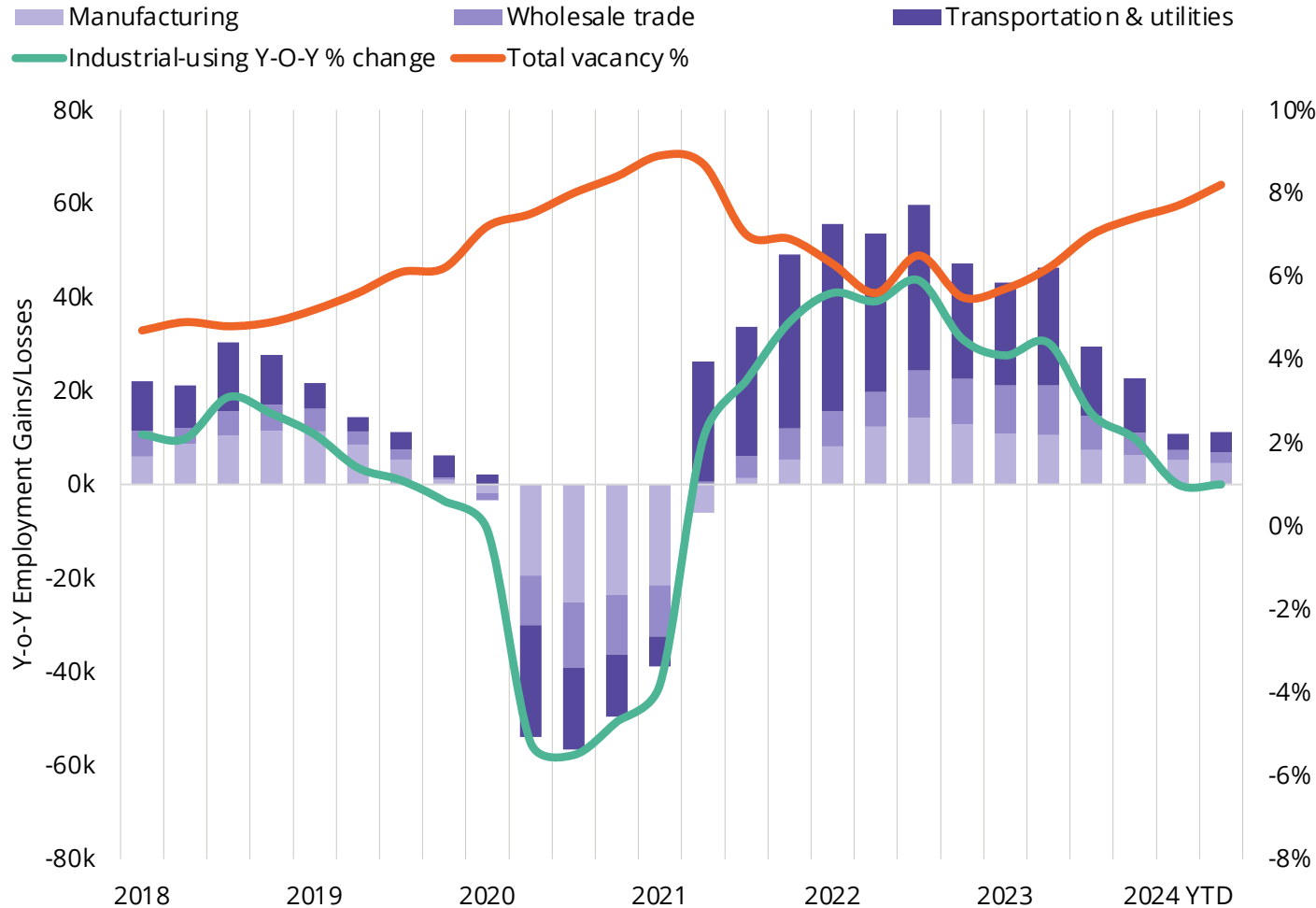
Houston's industrial market for mega-warehouses (over 500k sf) is currently experiencing a post-pandemic boom adjustment. Fueled by e-commerce growth, these spaces now face a temporary supply overhang, leading to longer leasing times.

Houston port activity and vacancy



Container traffic grew 21% year-over-year as of May 2024, handling 4.0 million TEUs in the past 12 months. The Port of Houston is actively working on the Houston Ship Channel Expansion – Project 11, to handle larger cargo volumes and improve efficiency, allowing the port to berth larger vessels.

Houston industrial employment

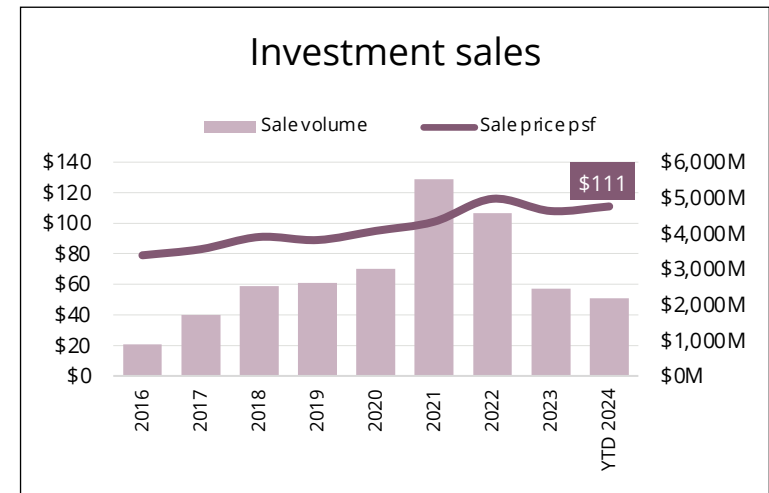
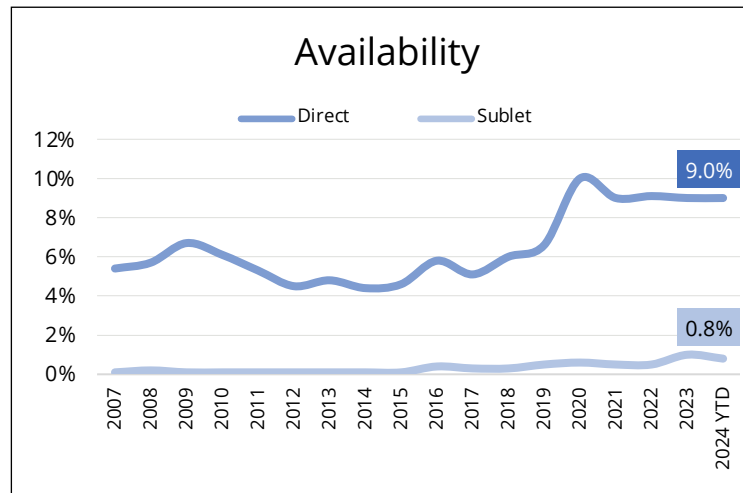
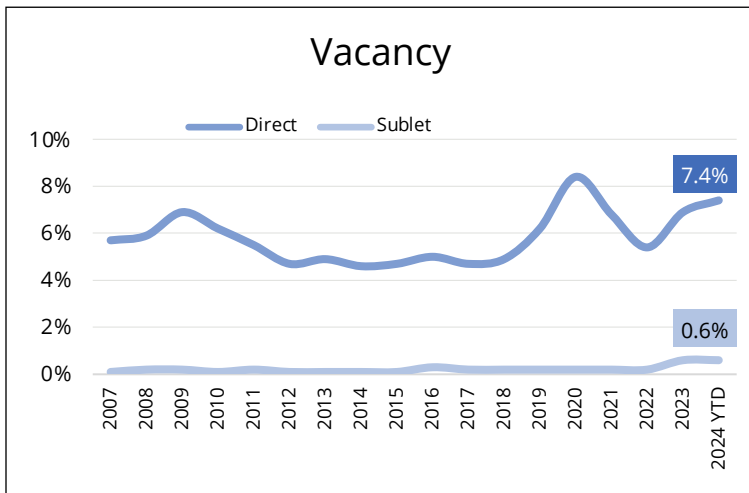
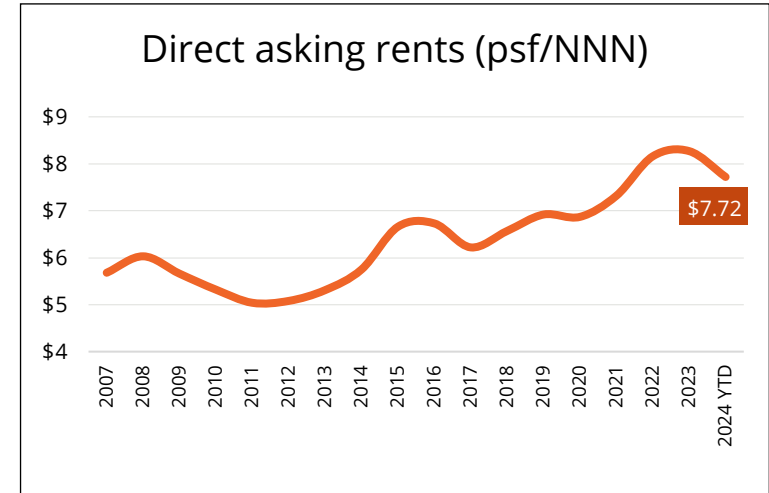
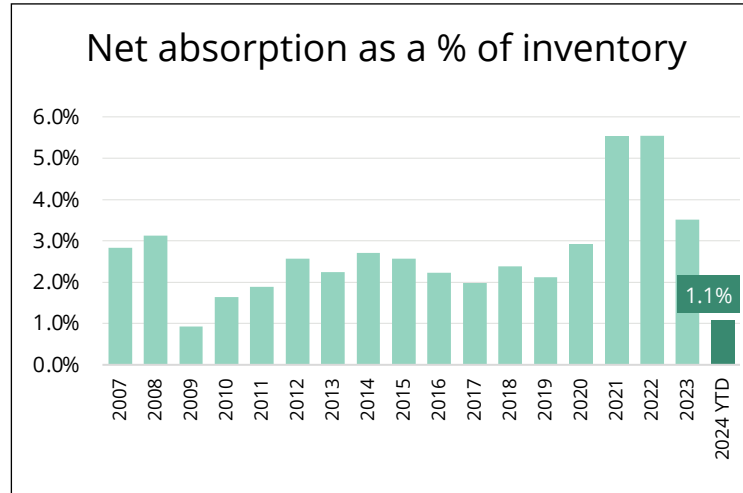
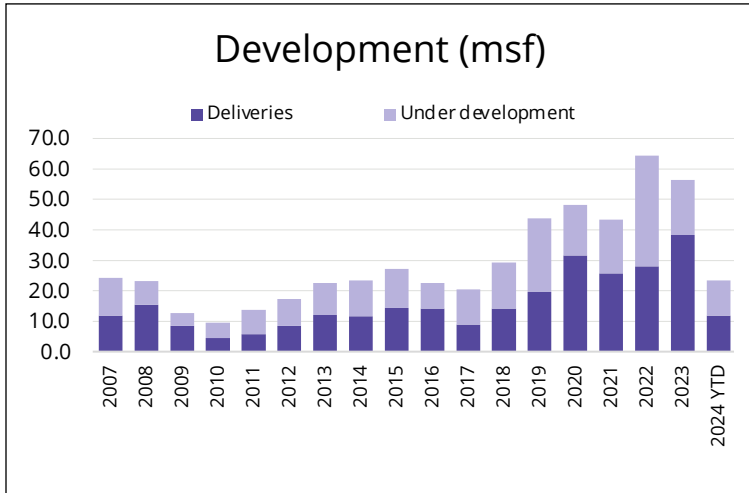


Houston's industrial-using employment levels have recovered to pre-pandemic levels, but a glut of new industrial space completions is pushing vacancy rates upward as leasing velocity has considerably cooled over the past year. This could temporarily place downward pressure on rental rates.

Appendix



Houston industrial market indicators



Houston industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Integra Mission Critical	15550 Milner Road	North	May 2024	1,213,573	New	Sublease
EFulfill	South Post Oak Road	Southwest	Jun 2024	368,099	New	Direct
RPM Warehousing & Transportation	6462 Northdale Street	South	Apr 2024	291,459	New	Direct
Rowan Electric	13393 South Main Street	Southwest	May 2024	225,712	New	Direct
Safelite AutoGlass	28450 West Ten Boulevard	Northwest	May 2024	195,968	New	Direct
Cheniere Energy	13300 John F Kennedy Boulevard	North	Apr 2024	164,840	New	Direct
National Road Logistics	2828 Farm to Market 1405	Southeast	Apr 2024	164,640	New	Direct
Lee-Exco	3900 Harrisburg Boulevard	CBD	Apr 2024	160,000	New	Direct
Frederick Trucking	9701 New Decade Drive	Southeast	May 2024	102,863	New	Direct
World Trade Distribution	8979-8999 Market Street	Southeast	Jun 2024	94,155	Renewal	Direct

Top projects under development

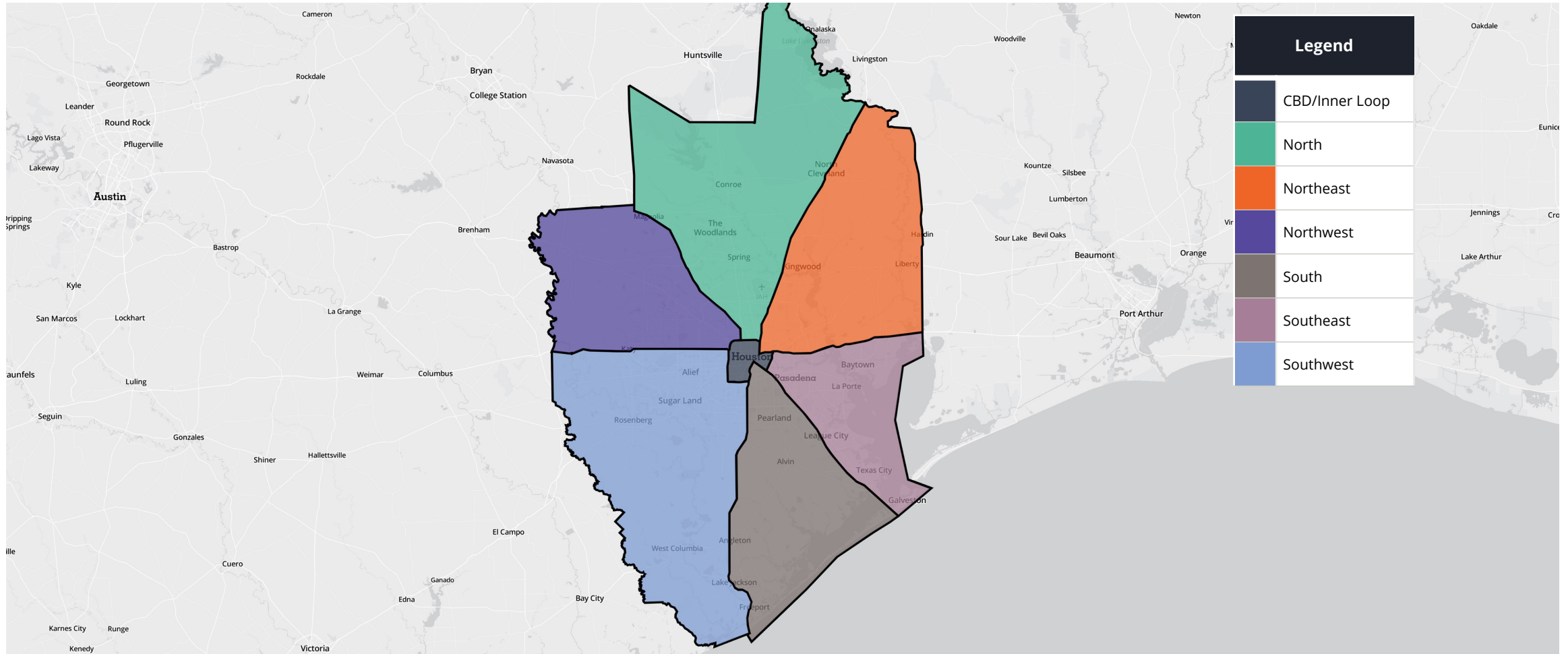
Property	Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Port 99 Logistics Building 1	16702 Farm to Market Road 2354	Southeast	Jul 2024	1,027,490	0%	Provident Realty Advisors
Grand Central West Industrial Park Building 2	22206 Beckendorf Road	Northwest	Oct 2024	843,360	100%	Pinpoint Commercial
Carpenters Logistics Center Building 1	15600 Carpenters Logistics	Southeast	Jan 2025	752,134	0%	Crow Holdings
Westpoint 45	410 West Road	North	Apr 2025	728,080	0%	Vigavi Realty
Packwell	00 Port Road	Southeast	Dec 2024	725,000	100%	Angler Construction

Houston industrial market stats

	Existing inventory sf	Deliveries sf (Q2 2024)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q2 2024)	Net absorption (YTD)	Annual direct asking rent psf NNN
CBD	47,718,514	0	0	5.9%	0.4%	6.3%	152,267	18,701	\$ 8.46
North	129,858,752	746,593	1,905,269	7.1%	1.3%	8.4%	1,452,291	1,795,204	\$ 8.94
Northeast	51,058,464	1,614,910	408,240	10.1%	0.4%	10.5%	(137,765)	329,154	\$ 6.87
Northwest	179,345,703	790,920	1,769,260	6.7%	0.3%	7.0%	340,043	870,663	\$ 8.89
South	39,193,597	1,590,919	406,143	8.0%	0.3%	8.3%	841,193	760,501	\$ 8.37
Southeast	129,583,475	534,424	4,965,116	7.3%	0.7%	8.1%	223,959	1,228,265	\$ 6.79
Southwest	102,132,128	693,247	2,092,852	8.4%	0.3%	8.7%	720,445	2,306,671	\$ 7.67
Market total	678,890,633	5,971,013	11,546,880	7.4%	0.6%	8.0%	3,592,433	7,309,159	\$7.72

	Existing inventory sf	Deliveries sf (Q2 2024)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q2 2024)	Net absorption (YTD)	Annual direct asking rent psf NNN
General Warehouse	360,466,091	1,338,150	4,344,789	5.7%	0.4%	6.1%	957,819	2,292,010	\$7.90
Distribution	184,945,224	4,458,102	5,841,765	13.2%	1.1%	14.3%	2,329,064	4,702,728	\$6.65
Manufacturing	99,798,700	148,900	1,046,169	2.6%	0.1%	2.7%	315,210	412,476	\$8.15
Office Showroom	25,829,167	25,861	314,157	9.6%	0.9%	10.6%	10,412	(4,635)	\$13.41
R&D	7,851,451	0	0	4.6%	0.5%	5.1%	(20,072)	(93,420)	\$12.05
Market total	678,890,633	5,971,013	11,546,880	7.4%	0.6%	8.0%	3,592,433	7,309,159	\$7.72

Houston submarket map



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship goods with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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