



# Houston industrial market report

Q3 2024

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**AVISON  
YOUNG**

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# Houston industrial market trends

## 5.7 msf

### Houston's industrial market maintains strong absorption

Houston's industrial market absorbed 5.7 million square feet (msf) in Q3 2024, a 9.6% increase from Q3 2023. Despite year-to-date absorption being down 27% from the same period last year, it remains above the quarterly pre-pandemic average. This growth is fueled by several major leases for Q3, including BroadRange Logistics occupying 1.2 msf in the North submarket, followed by Palmer Logistics at 616k sf, Gulf Coast Crating and Tigerhawk Logistics, moving into 432k sf and 328k sf, respectively, in the Southeast submarket.

## 10.3 msf

### Industrial development activity hits 7-year low

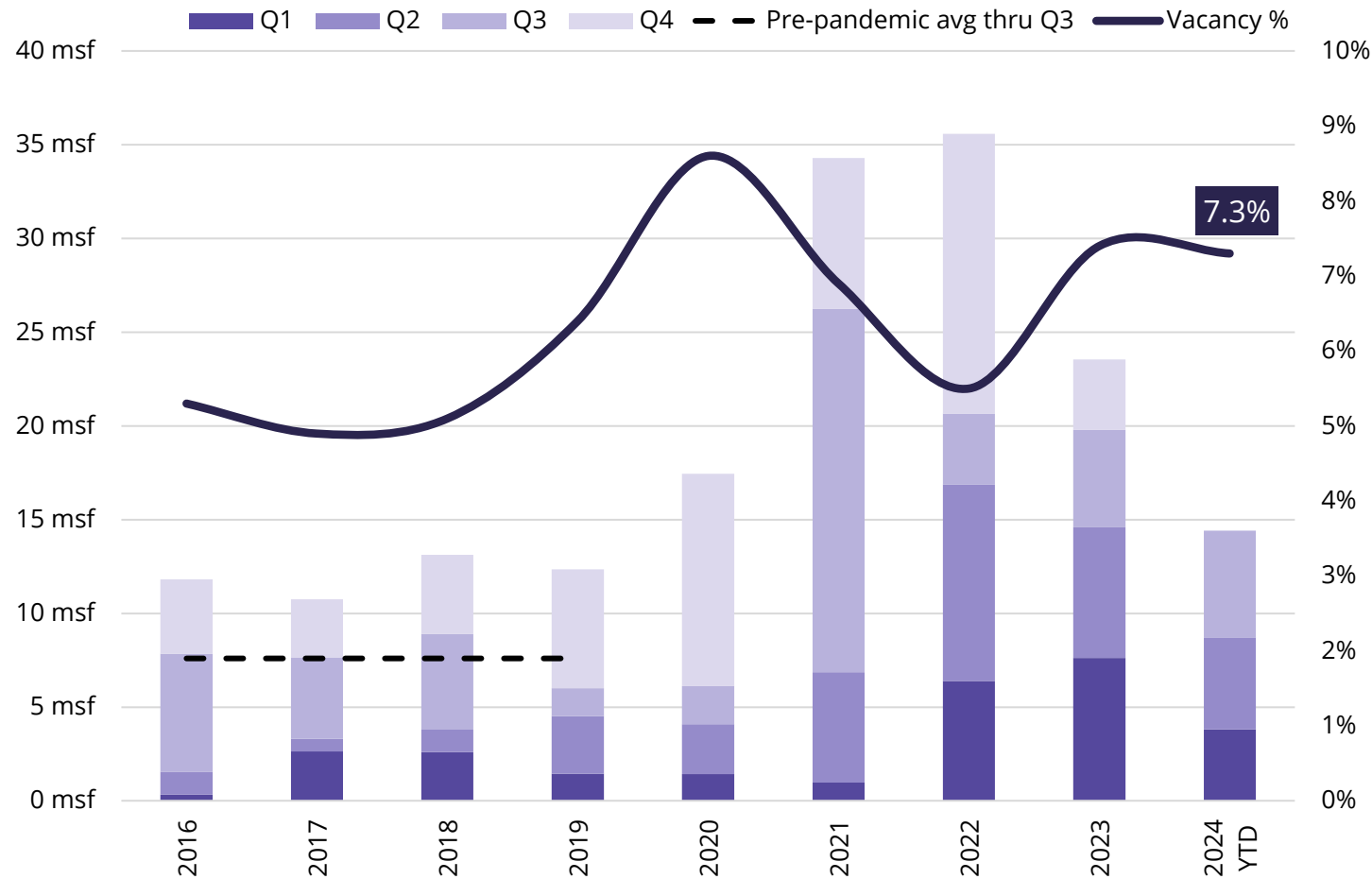
Houston's industrial construction activity has fallen to its lowest level since Q2 2017, with deliveries at 1.5 msf and the pipeline at 10.3 msf in Q3 2024. Construction starts have also declined to their lowest level since Q2 2017. The absorption of new industrial space has also slowed down as the market returns to normalcy following the pandemic-induced boom. However, with less product coming online and strong fundamentals, new space is being steadily absorbed, reducing the vacancy rate by 33 basis points from a year ago.

## 8.4 msf

### Industrial leasing activity outpaces pre-pandemic levels

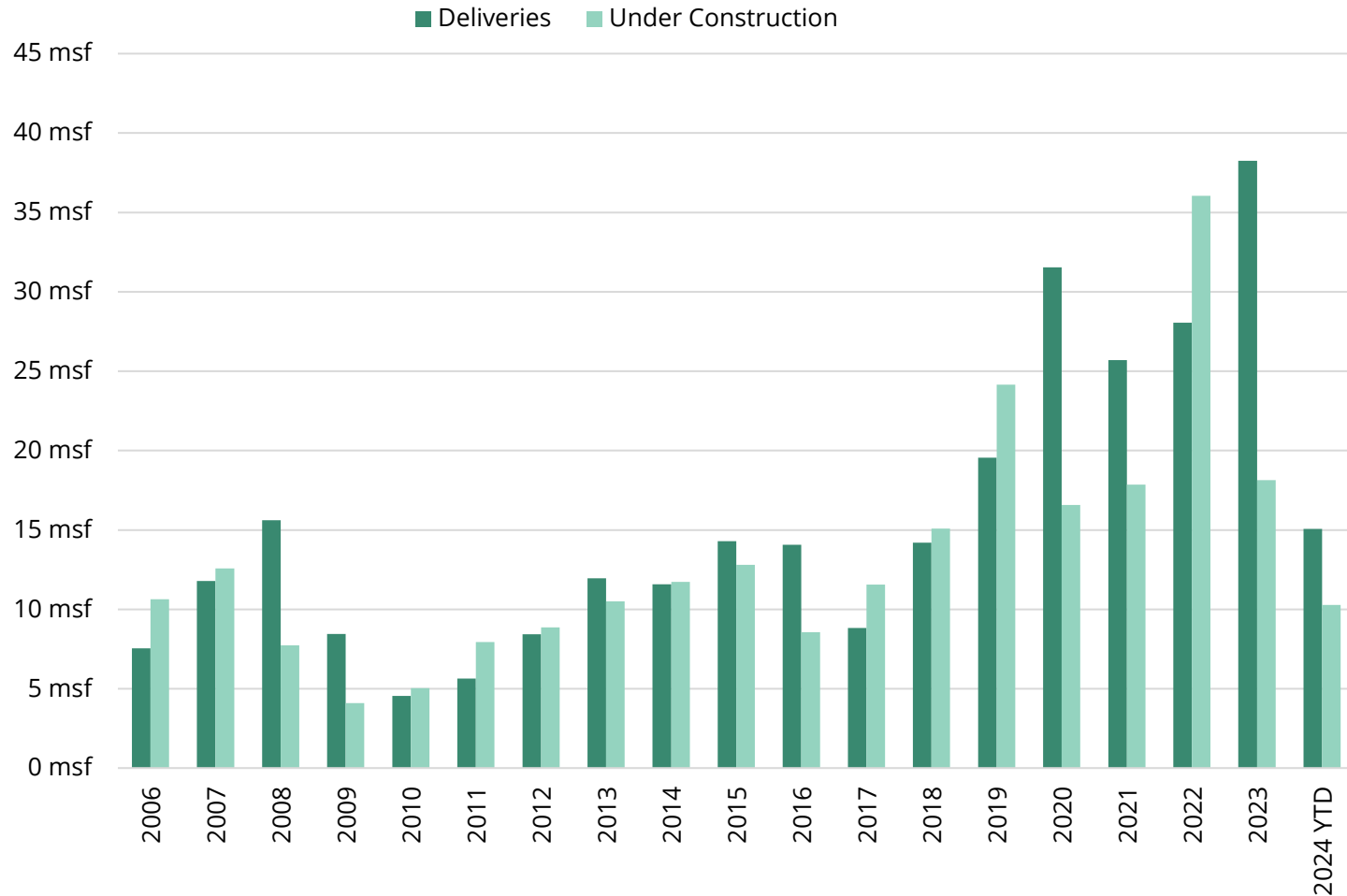
Despite the slowdown from its peak, industrial leasing activity remains strong. Leasing activity in Q3 2024 rebounded to near pre-pandemic levels, reaching 8.4 msf in new deals. This growth is mainly driven by occupiers in the logistics, distribution, and transportation industries. While year-to-date leasing demand has eased slightly by 9.7% compared to last year, it remains significantly above the pre-COVID average by 10.8%. This indicates the market is returning to a more sustainable level after experiencing a period of exceptional growth.

# Houston's net absorption vs vacancy



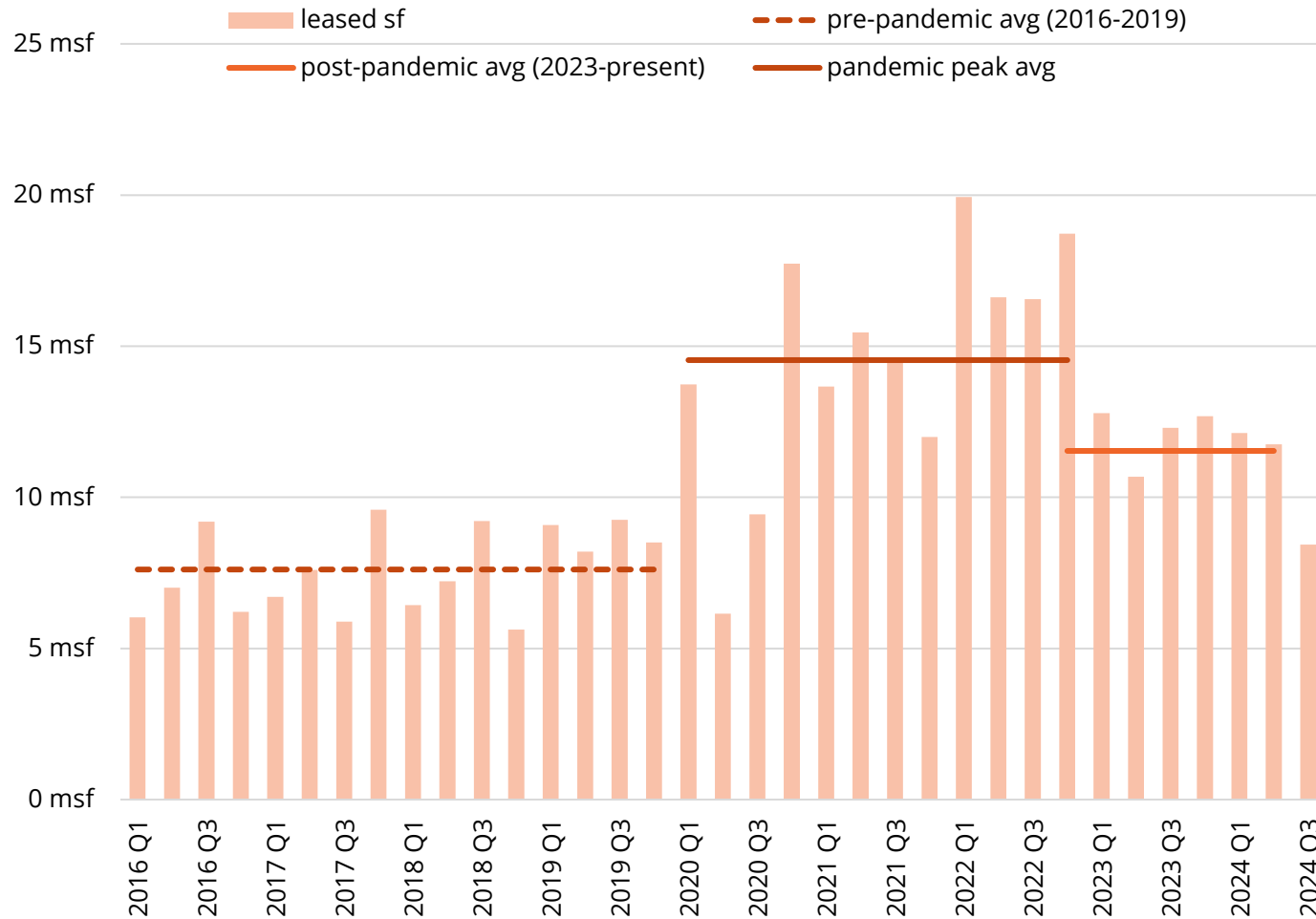
Even as occupier demand has cooled from its pandemic-fueled peak, it remains notably stronger than pre-pandemic levels. This indicates a healthy market that is effectively absorbing the influx of new construction brought on by the surge in e-commerce demand during the pandemic.

# Construction activity slows



Houston's industrial construction pipeline continues to shrink, reaching its lowest level since Q2 2017 with fewer projects breaking ground and delivering in Q3. An additional 5.7 msf is slated to deliver by year-end, which could reduce the pipeline to its lowest level since 2010.

# Houston's industrial leasing demand



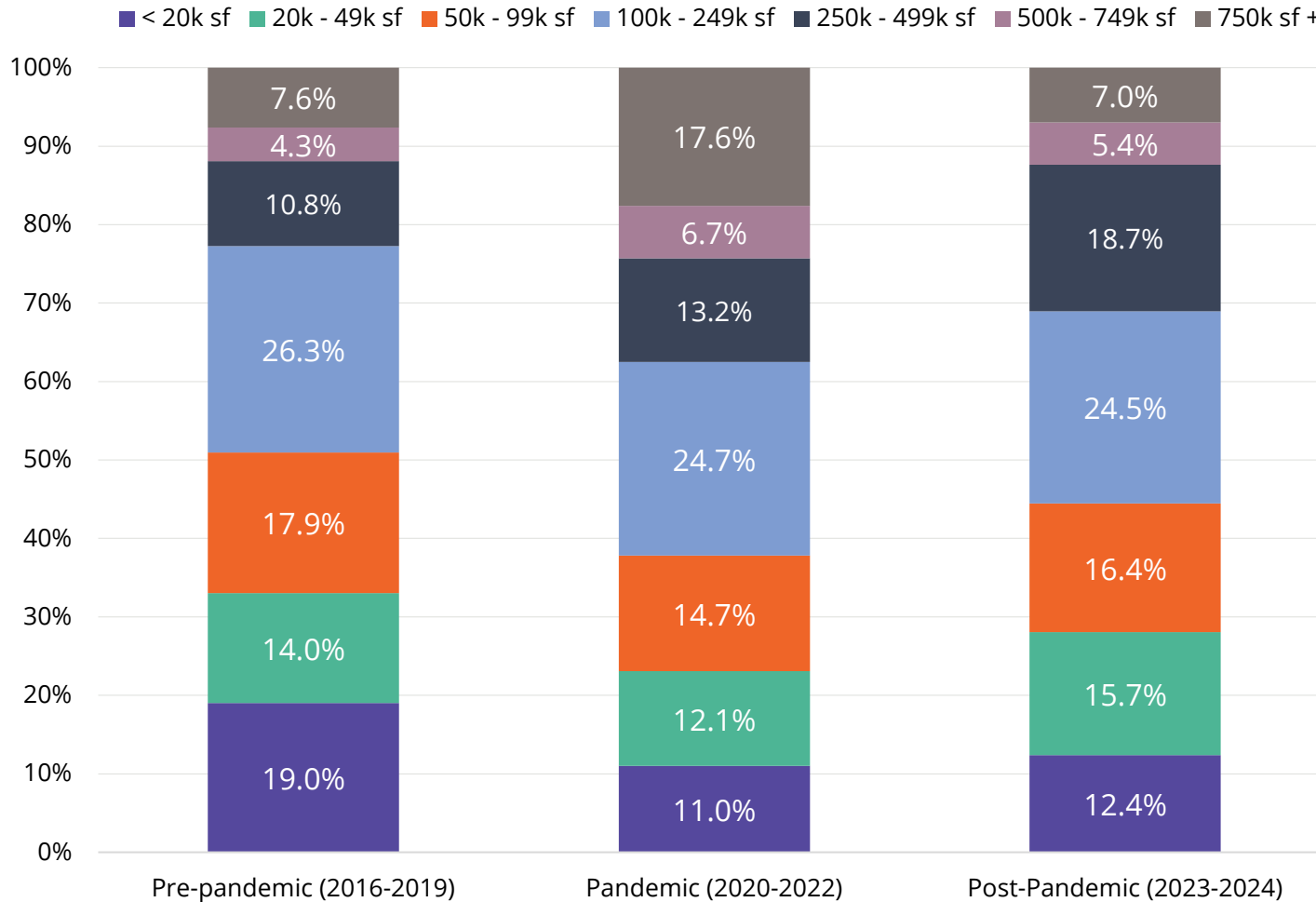
Houston's industrial leasing activity remains strong with 8.4 msf leased in Q3 2024. Despite a gradual decline from record leasing activity fueled by an e-commerce boom, industrial space demand persists at a healthy level, exceeding pre-pandemic quarterly averages by 10.8%.

# Occupier market conditions

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

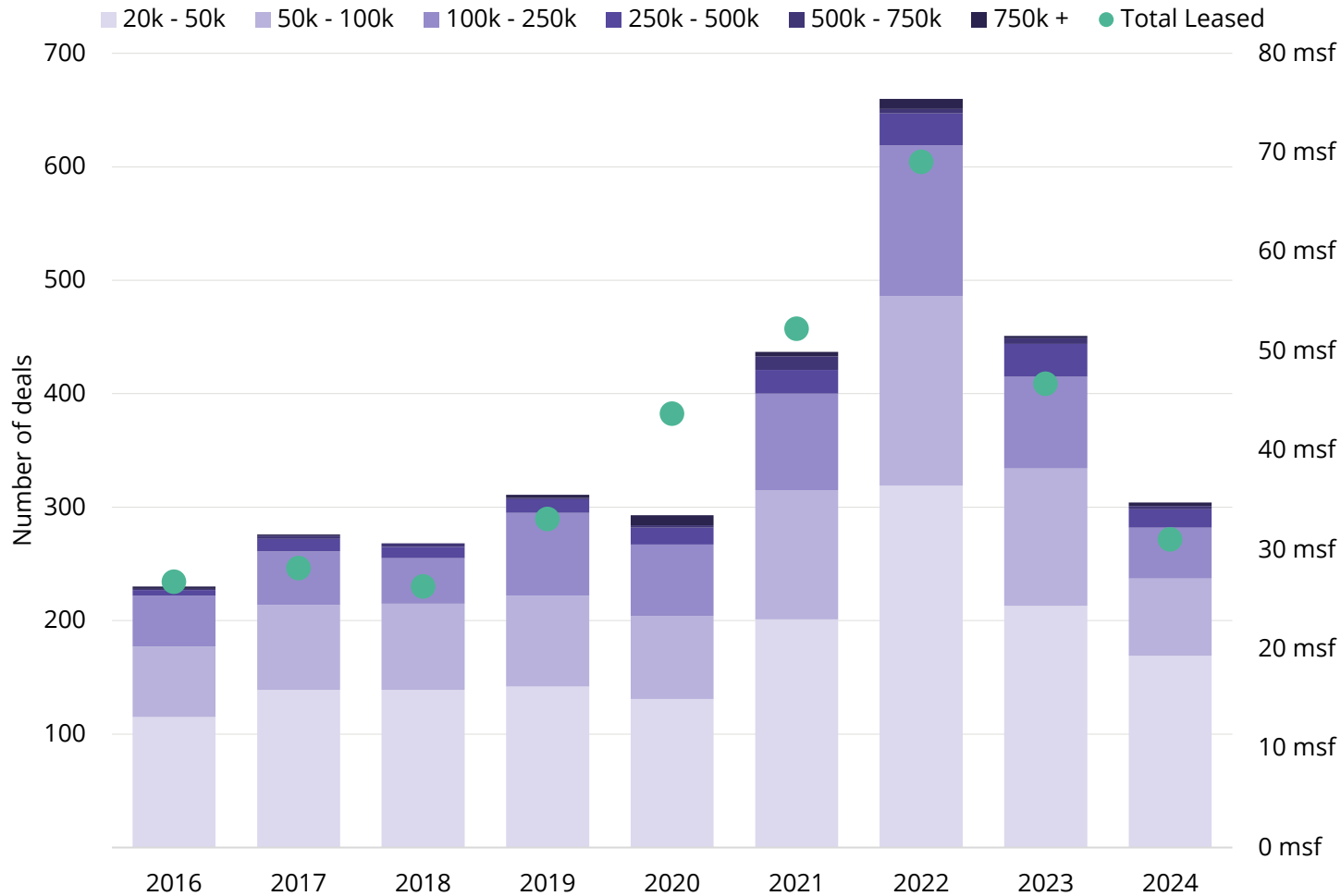


# Leasing volume by premises size



Post-pandemic, smaller deals under 250k sf account for a substantial 69.1% of total leasing volume, with deals under 100k sf making up 44.1% of the market. While larger deals (250k sf and above) saw a surge during the pandemic, their leasing volume has since declined by 5.5%.

# Leasing volume by number of deals

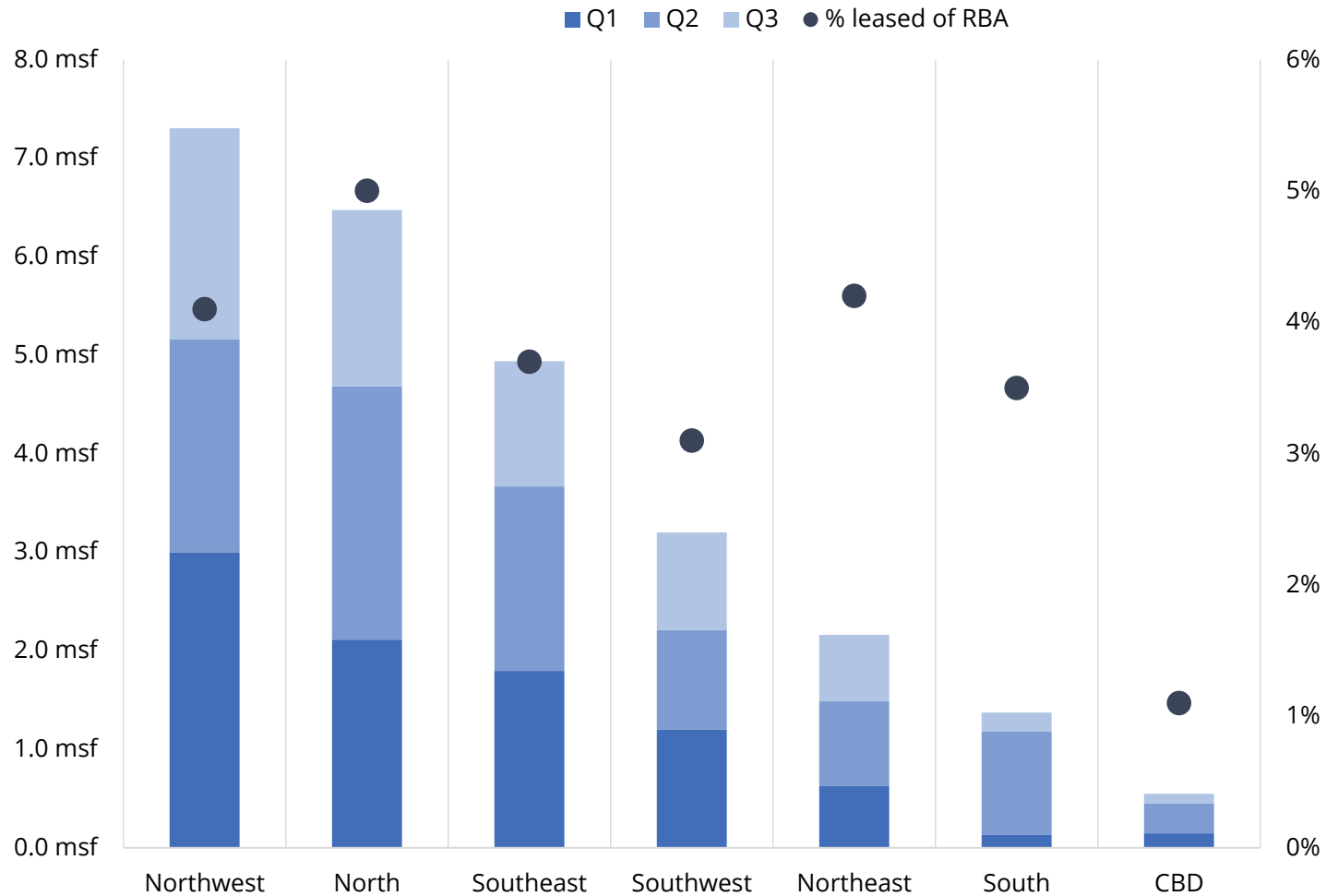


Historically, deals for 250k sf and smaller have comprised 99% of the total number of transactions. While larger deals exceeding 250k sf do occur, they account for a small margin of the overall market, rising from 1% of deals pre-pandemic to only 3% today.

As leasing demand normalizes, the frequency of these larger deals has also declined, reaffirming the dominance of small to medium sized deals in the market, primarily driven by local and regional players.

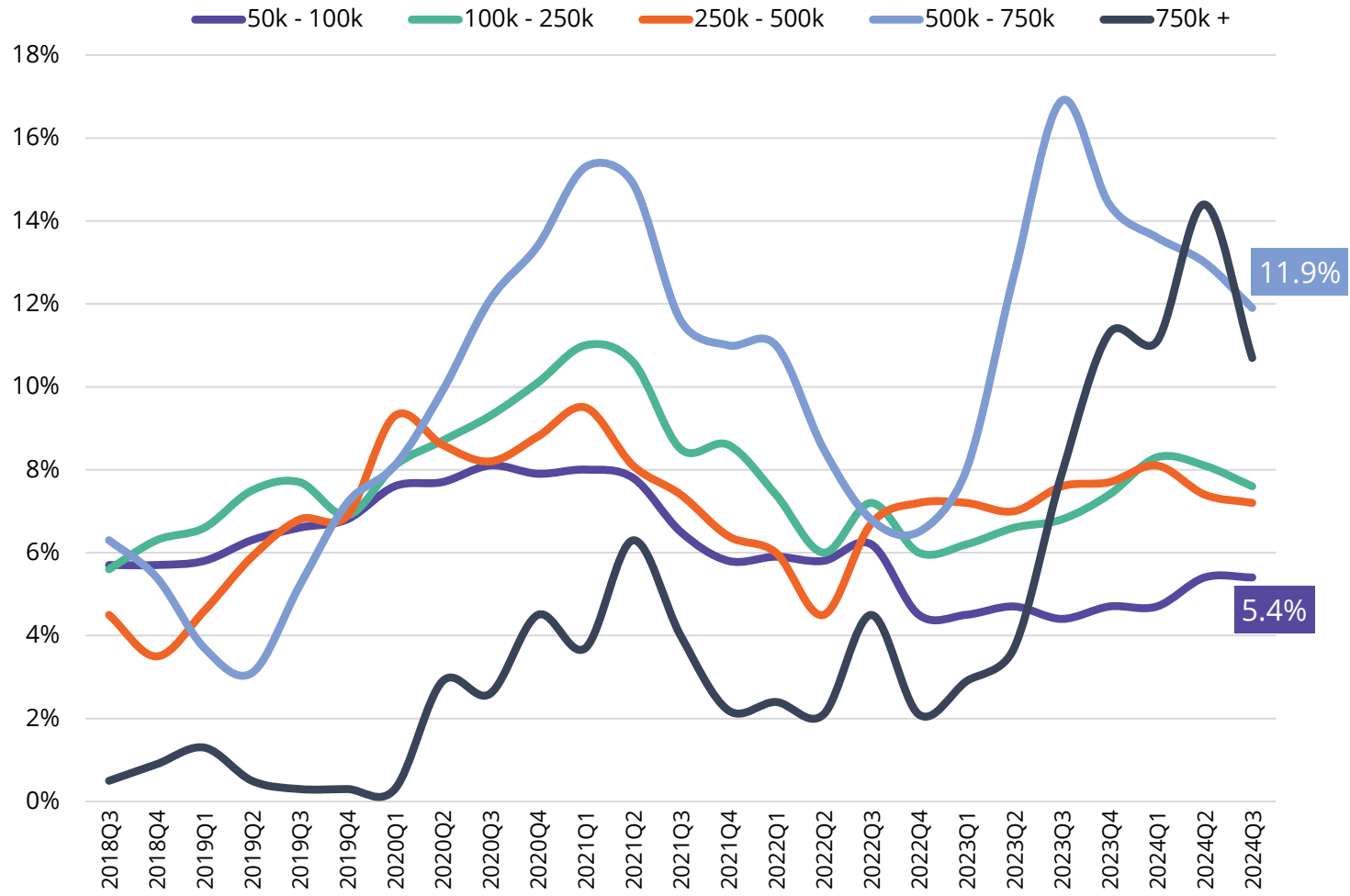


# Leasing volume by submarket



Northwest Houston continues to record the highest leasing activity, with a total of 7.3 msf leased year-to-date. However, the North submarket leads with 5% of its inventory leased year-to-date. Strong demand in the top four submarkets has been primarily driven by logistics and distribution center occupiers.

# Total vacancy by building size

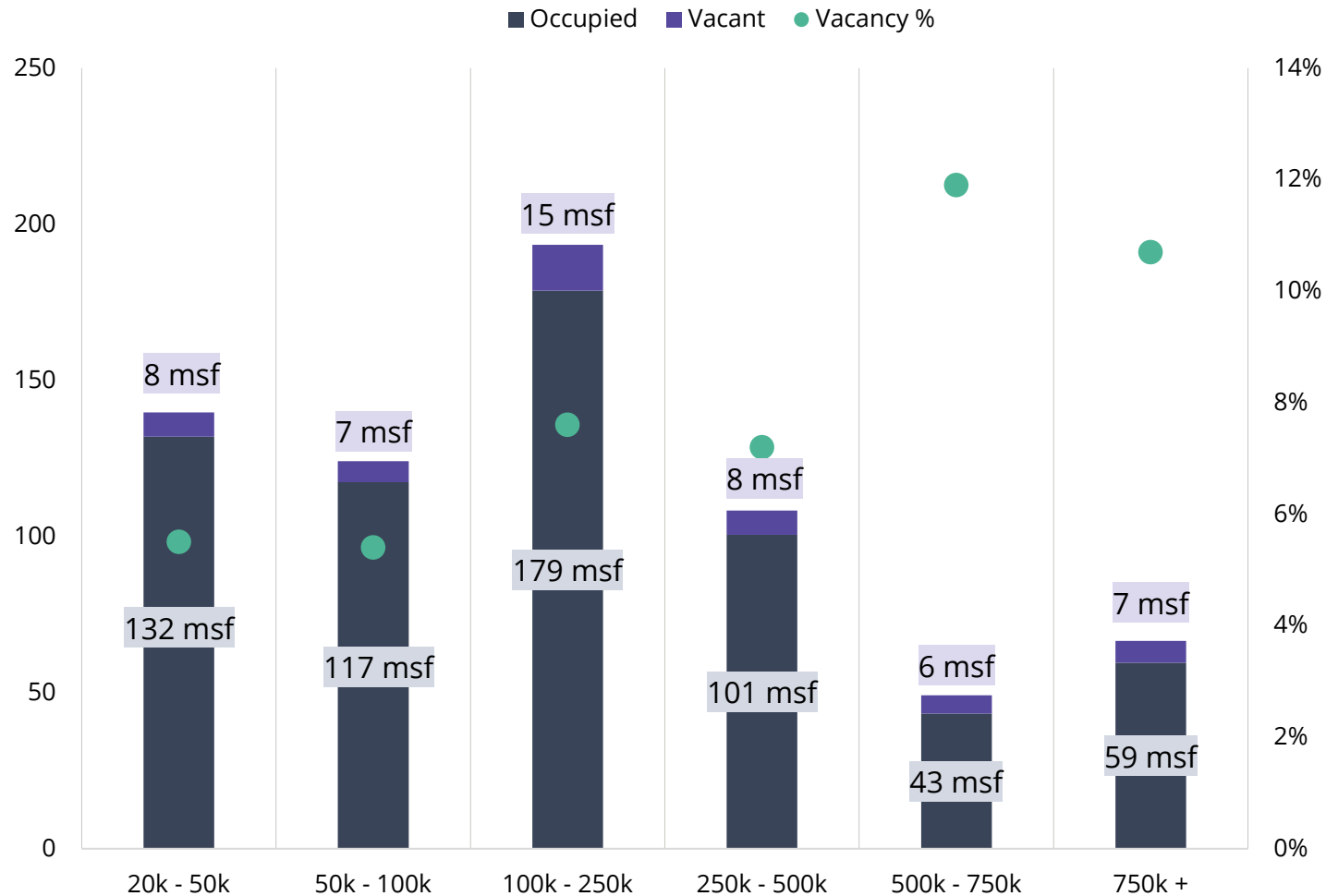


The Houston industrial market has seen a slight improvement in vacancy rates, decreasing by 33 basis points year-over-year. This decline is primarily due to a slowdown in new construction as absorption catches up.

While larger buildings (500k sf and up) still have the highest vacancy rate at 11.2%, the vacancy rate for buildings between 500k and 750k sf experienced a large decline.

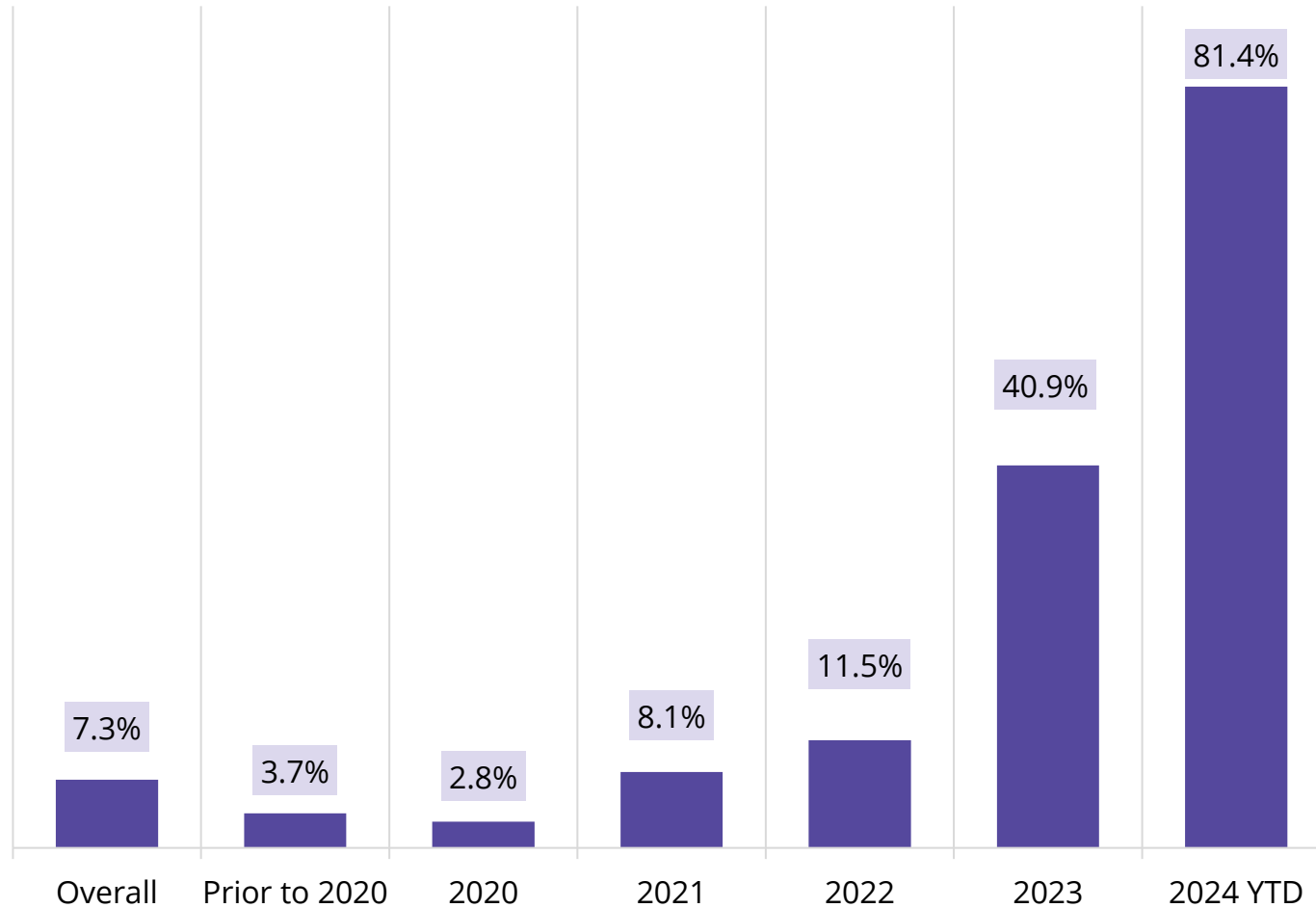
This is partially attributed to the surge in new construction during the pandemic, driven by the e-commerce boom. However, as demand has moderated, it is taking longer for buildings larger than 500k sf to lease up.

# Industrial building size inventory & vacancy



While the Houston industrial market continues to gradually lease and absorb the supply influx from the pandemic, buildings between 20k and 100k sf remain in high demand compared to those larger than 500k sf. These mid-sized buildings have the lowest vacancy rates, reflecting stronger occupier demand as the market normalizes.

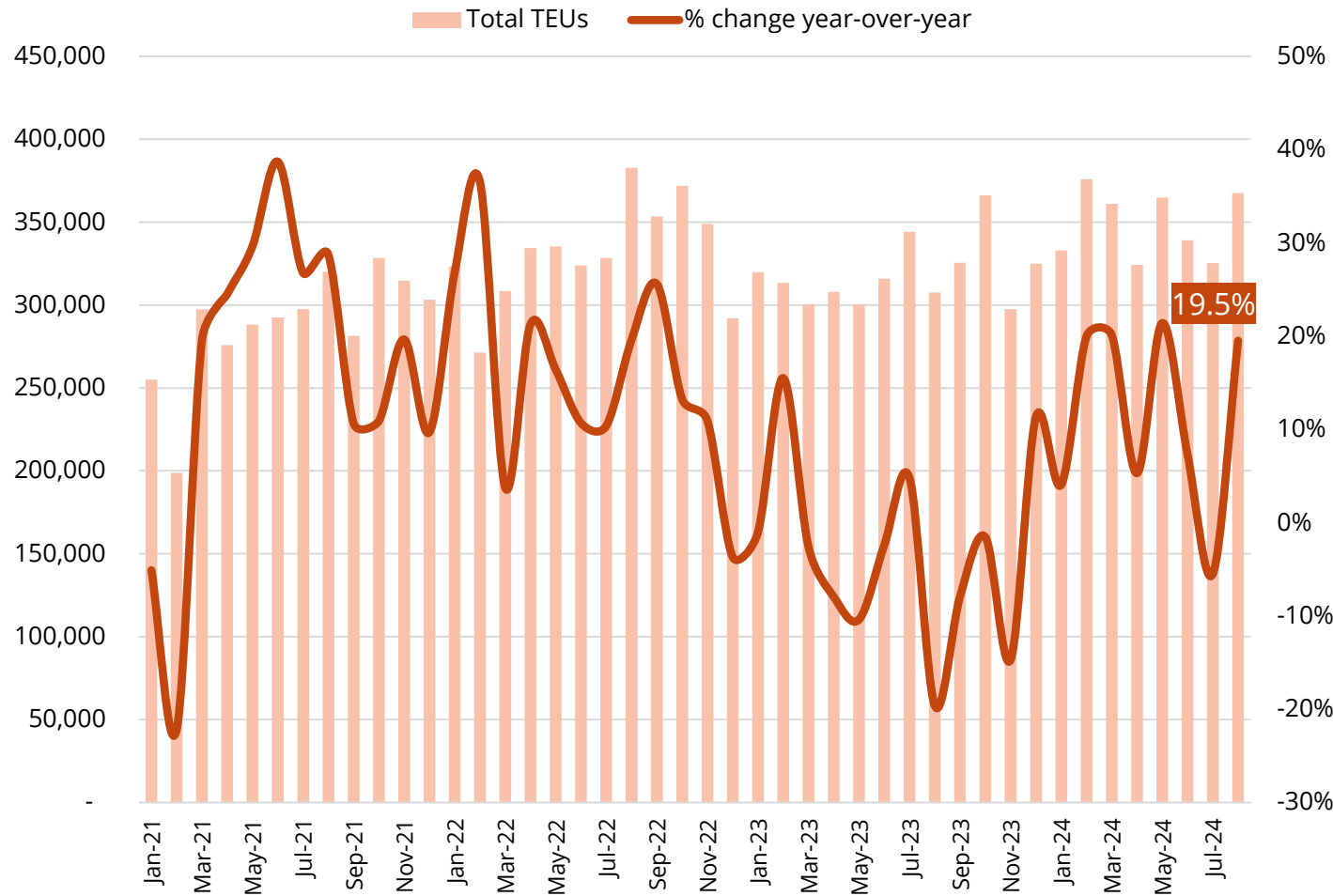
# Total vacancy by year built



The overall industrial vacancy rate in Houston has decreased, indicating a healthy market adjustment. Currently, vacancies are primarily concentrated in newer properties that have come online due to the surge in construction during the pandemic.

This past quarter, the industrial market witnessed the lowest construction activity in seven years, providing occupiers with a chance to absorb the new inventory. Lease-up times for new construction remain steady as occupier demand stabilizes.

# Houston port activity

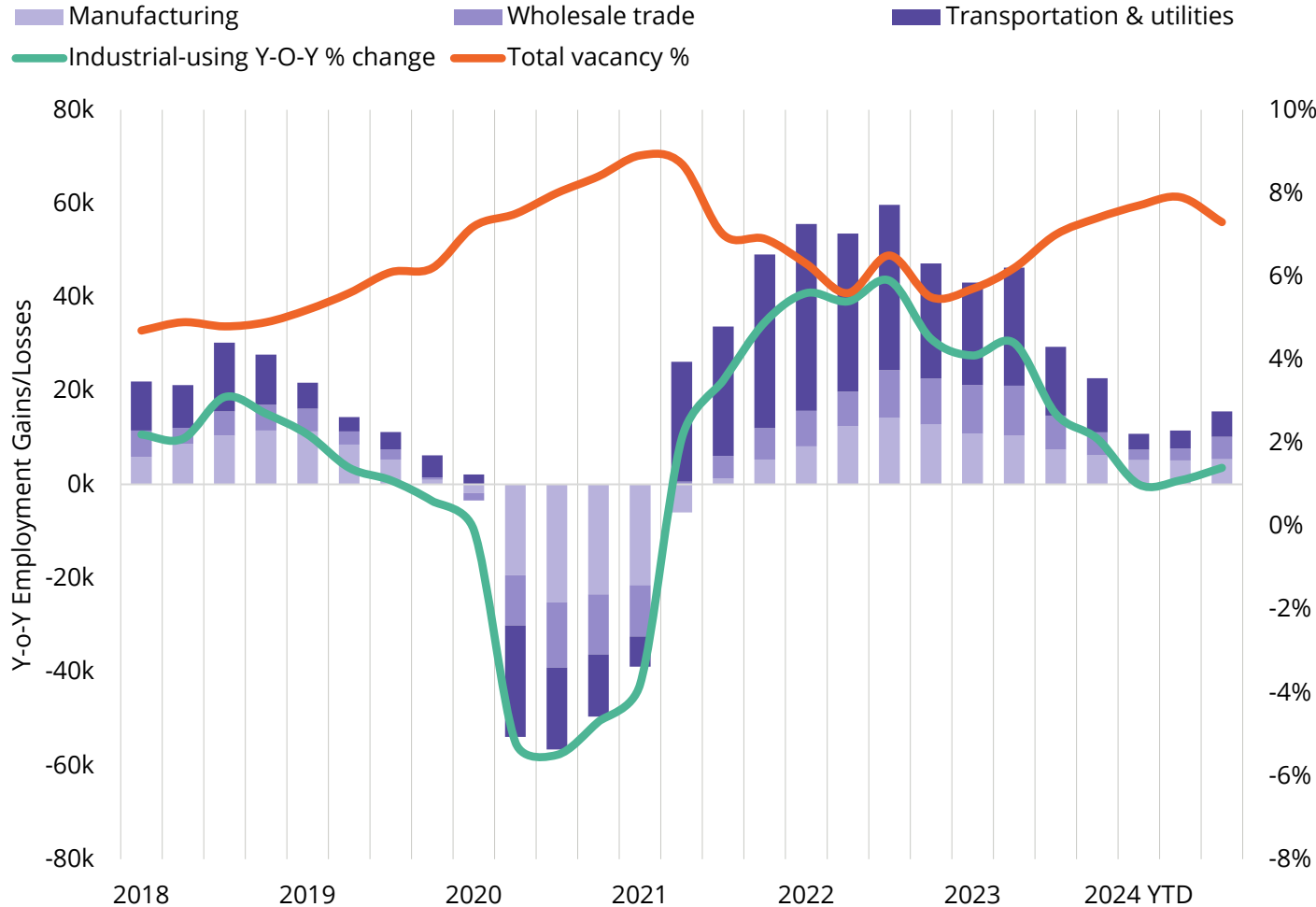


Source: AVANT by Avison Young, Houston Port Authority, Federal Reserve Bank of Dallas.  
 Note: twenty-foot equivalent units (TEUs).

Houston's Port continues to experience strong growth, with container traffic increasing by 19.5% year-over-year, handling 4.1 million TEUs in the past 12 months.

However, the ongoing labor dispute between the International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) remains a concern. If a permanent agreement is not reached by January 15th, the port could face further disruptions and delays, impacting the flow of goods. While most oil, gas, and liquid chemical exports are expected to remain unaffected, other types of cargo could experience delays, increased costs, and other disruptions.

# Houston industrial employment



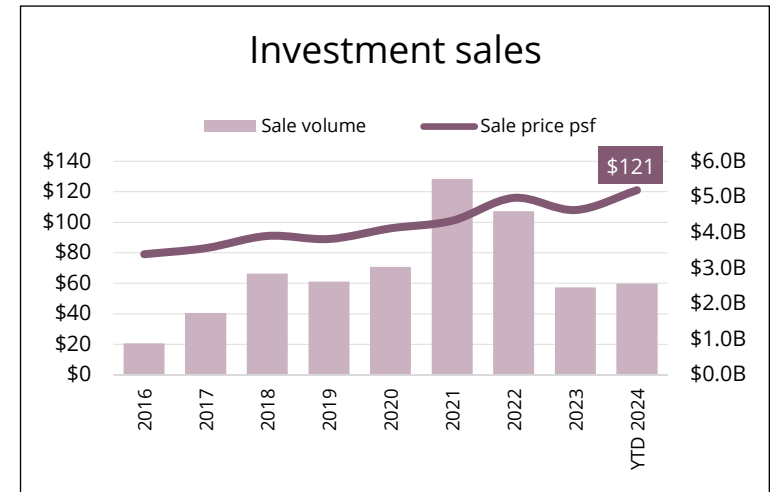
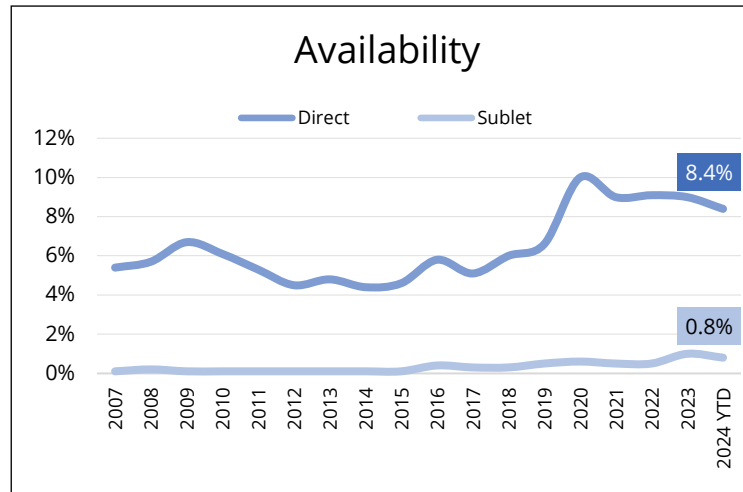
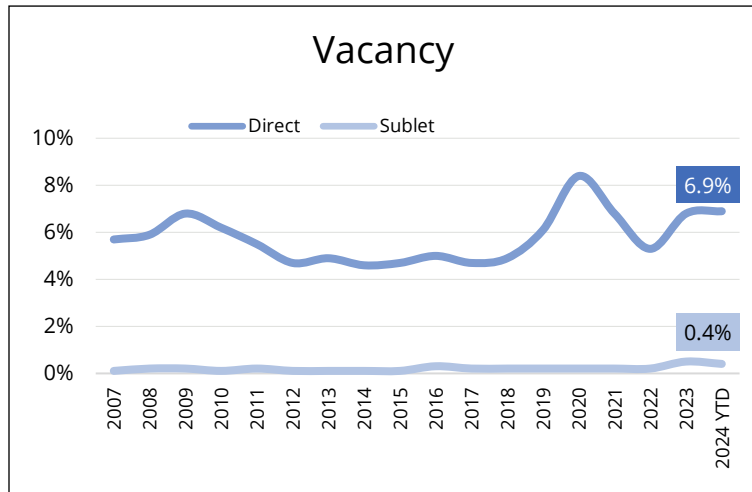
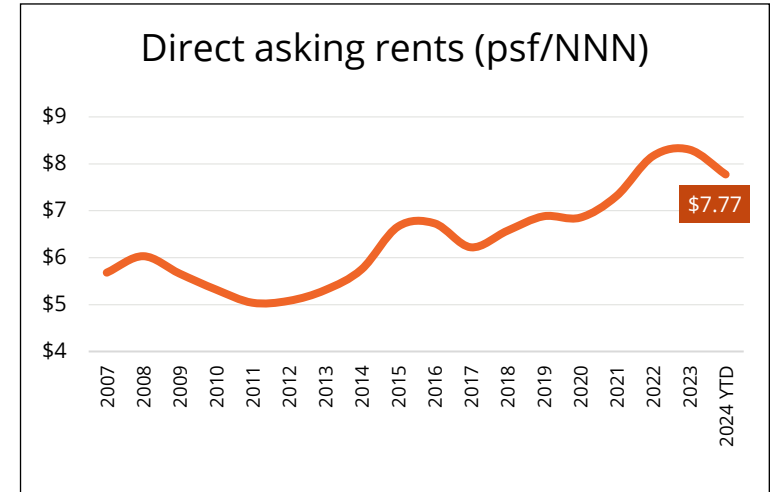
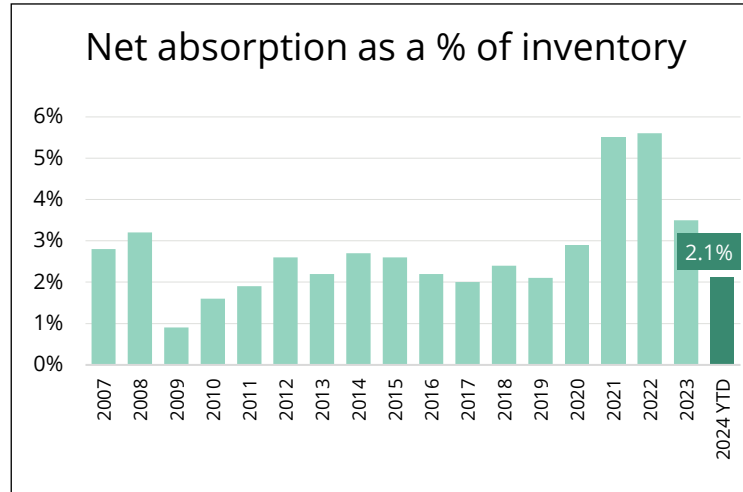
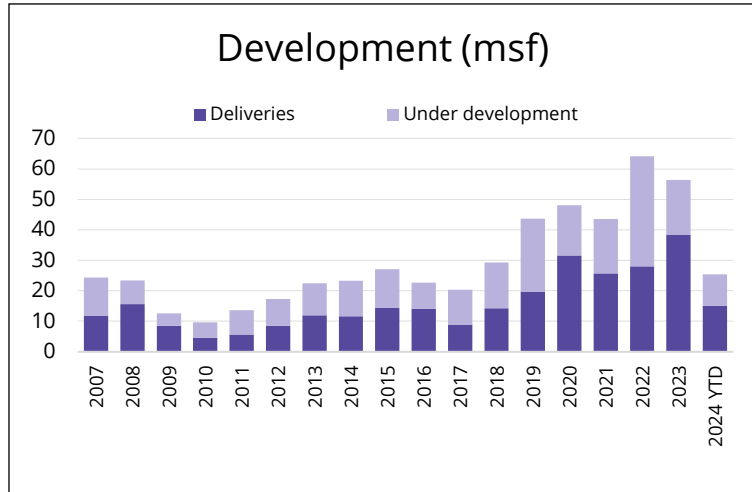
Houston's industrial employment levels have moderated to pre-pandemic levels, growing 1.4% year-over-year.

While a surge in new industrial space completions had previously pushed vacancy rates up, the recent slowdown in construction, coupled with increased occupier demand linked to employment growth, has led to a decrease in vacancy rates.

# Appendix



# Houston industrial market indicators





# Houston industrial market activity

## Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
BroadRange Logistics	00 Conroe Park Drive West	North	Aug 2024	1,224,498	New	Direct
Lecangs	28119 Katy Freeway	Southwest	Aug 2024	509,975	New	Direct
Gulf Coast Crating	4838 Borusan Road	Southeast	Jul 2024	432,316	New	Direct
Elogistek	28501 Us-90 Highway	Northwest	Aug 2024	420,000	New	Sublease
Starwood Global Logistics	3200 South Farm-to-Market 565 Road	Southeast	Jul 2024	298,632	New	Direct
Songwon	2818 Pasadena Freeway	Southeast	Jul 2024	153,604	New	Direct
Century Air Conditioning Supply	8785 Clay Road	Northwest	Jul 2024	146,340	New	Direct
Artisan Cabinetry	10000 West Sam Houston Parkway North	Northwest	Jul 2024	142,650	New	Direct
New Era Innovations	13393 South Main Street	Southwest	Aug 2024	133,640	New	Direct
Sunbelt Warehouse Corporation	8607 Citypark Loop	Northeast	Aug 2024	127,734	New	Direct

## Top projects under development

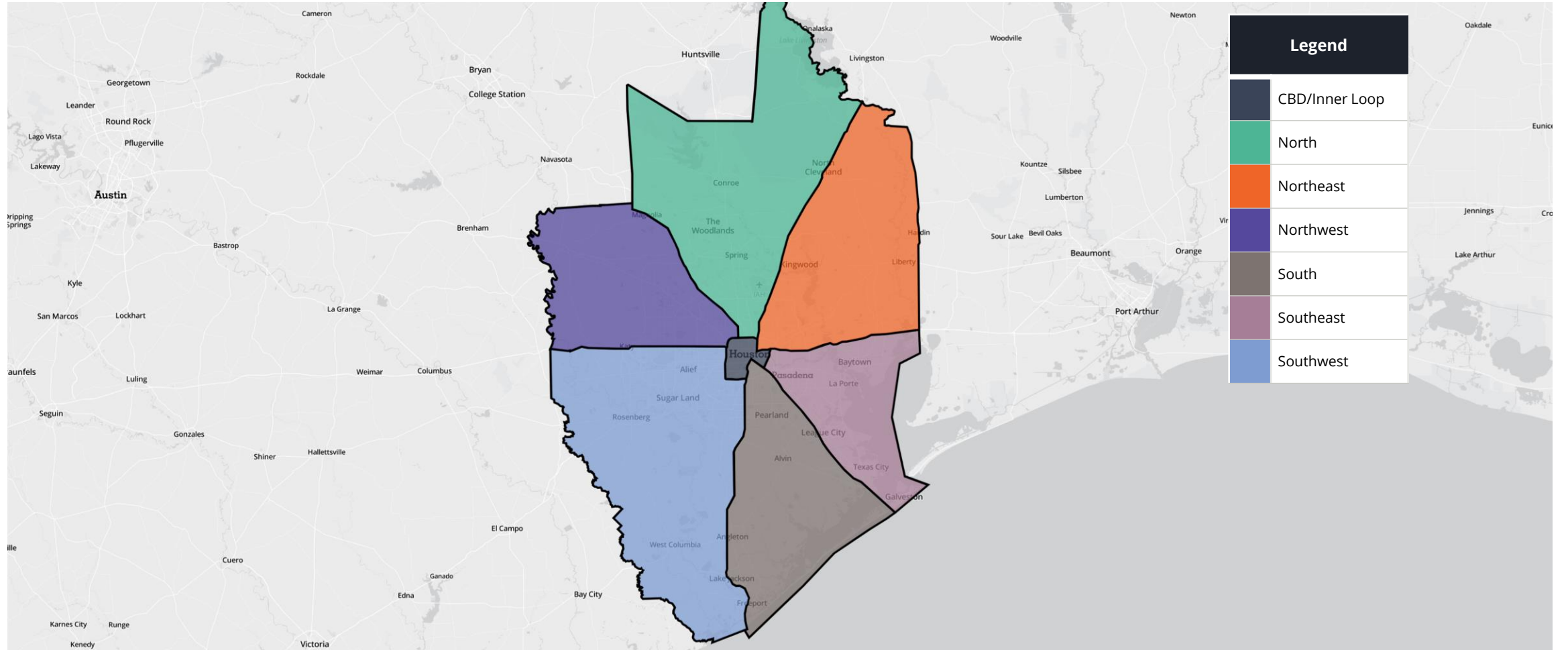
Property	Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Grand Central West Industrial Park Building 2	22206 Beckendorf Road	Northwest	Oct 2024	843,360	100%	Pinpoint Commercial
Carpenters Logistics Center Building 1	15600 Carpenters Logistics	Southeast	Jan 2025	752,134	0%	Crow 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
Constellation Eldridge	6401 North Eldridge Parkway	Northwest	Dec 2024	537,375	0%	Constellation Real Estate Partners

# Houston industrial market stats

	Existing inventory sf	Deliveries sf (Q3 2024)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q3 2024)	Net absorption (YTD)	Annual direct asking rent psf NNN
CBD	47,689,043	0	0	6.0%	0.5%	6.5%	(108,196)	(80,840)	\$8.14
North	129,517,813	90,388	1,783,519	5.9%	0.4%	6.3%	1,192,851	4,427,646	\$8.83
Northeast	51,275,651	0	832,800	9.2%	0.5%	9.7%	637,880	983,639	\$6.71
Northwest	179,388,379	0	1,709,260	6.4%	0.3%	6.8%	328,550	1,268,462	\$8.11
South	38,953,204	0	356,143	7.6%	0.5%	8.1%	63,501	749,642	\$8.71
Southeast	131,969,386	1,317,911	2,348,075	7.3%	0.4%	7.7%	2,846,148	4,095,192	\$ .76
Southwest	102,309,967	125,120	3,255,510	7.7%	0.2%	8.0%	737,564	3,051,501	\$8.29
<b>Market total</b>	<b>681,103,443</b>	<b>1,533,419</b>	<b>10,285,307</b>	<b>6.9%</b>	<b>0.4%</b>	<b>7.3%</b>	<b>5,698,298</b>	<b>14,495,242</b>	<b>\$7.77</b>

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General Warehouse	362,490,861	861,599	2,665,204	5.9%	0.3%	6.2%	1,382,371	3,944,838	\$8.06
Distribution	185,569,261	671,820	6,376,177	11.0%	0.5%	11.5%	4,434,102	10,393,279	\$6.65
Manufacturing	99,694,859	0	1,046,169	2.7%	0.1%	2.8%	(73,424)	387,447	\$7.86
Office Showroom	25,497,011	0	197,757	9.6%	1.0%	10.6%	(2,712)	(94,863)	\$13.35
R&D	7,851,451	0	0	5.2%	0.5%	5.7%	(42,039)	(135,459)	\$12.75
<b>Market total</b>	<b>681,103,443</b>	<b>1,533,419</b>	<b>10,285,307</b>	<b>6.9%</b>	<b>0.4%</b>	<b>7.3%</b>	<b>5,698,298</b>	<b>14,495,242</b>	<b>\$7.77</b>

# 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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