



Houston industrial market report

Q1 2024

**AVISON
YOUNG**

Houston industrial market trends

3.2 msf

Strong absorption despite cooling demand

The Houston industrial market shows continued resilience in Q1 2024, with net absorption surpassing 3.2 million square feet (msf). While demand has moderated from its post-pandemic peak, it remains healthy and sits slightly above the pre-pandemic average (2016–2019). This sustained activity is driven by a diversified tenant base, including logistics, distribution, and parcel delivery companies alongside wholesalers and industrial equipment machinery businesses. This highlights the market's strength beyond just e-commerce, positioning it for future growth.

13.7 msf

Under construction pipeline continues to slowdown

Industrial construction boomed in 2022, keeping pace with the surge in e-commerce, and is now adjusting to meet long-term demand. Construction activity is currently at its lowest point since 2016, with just 985k sf breaking ground in Q1 2024 compared to the pre-pandemic average of 4.2 msf per quarter.

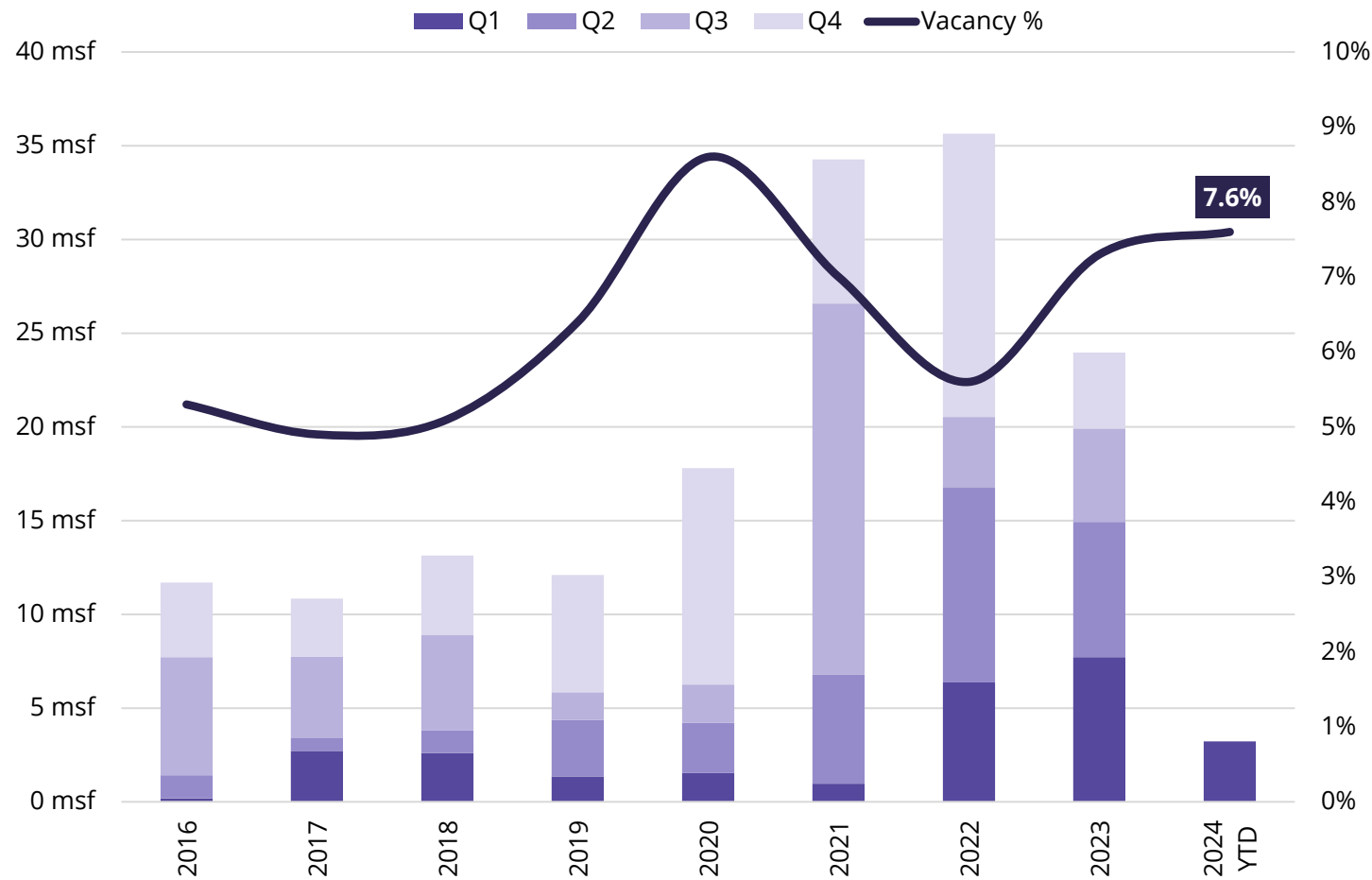
This dramatic slowdown, coupled with completions exceeding starts, has reduced the development pipeline. However, this decline signals a healthier market in the long run, as the pace of construction is returning to more sustainable levels.

7.6%

Vacancy rate nudges higher as new supply outpaces demand

While construction activity has slowed, a substantial 5.6 msf of new product has come online, adding to the record-breaking volume delivered in 2023. This influx has pushed vacancy rates up, 190 basis points higher year-over-year and 30 basis points above the prior quarter. However, the new space that has been delivered since the beginning of 2023 is still in lease-up. While market activity has normalized, occupier demand remains robust, with expectations that occupancy will eventually catch up, albeit at a slower pace.

Net absorption vs vacancy



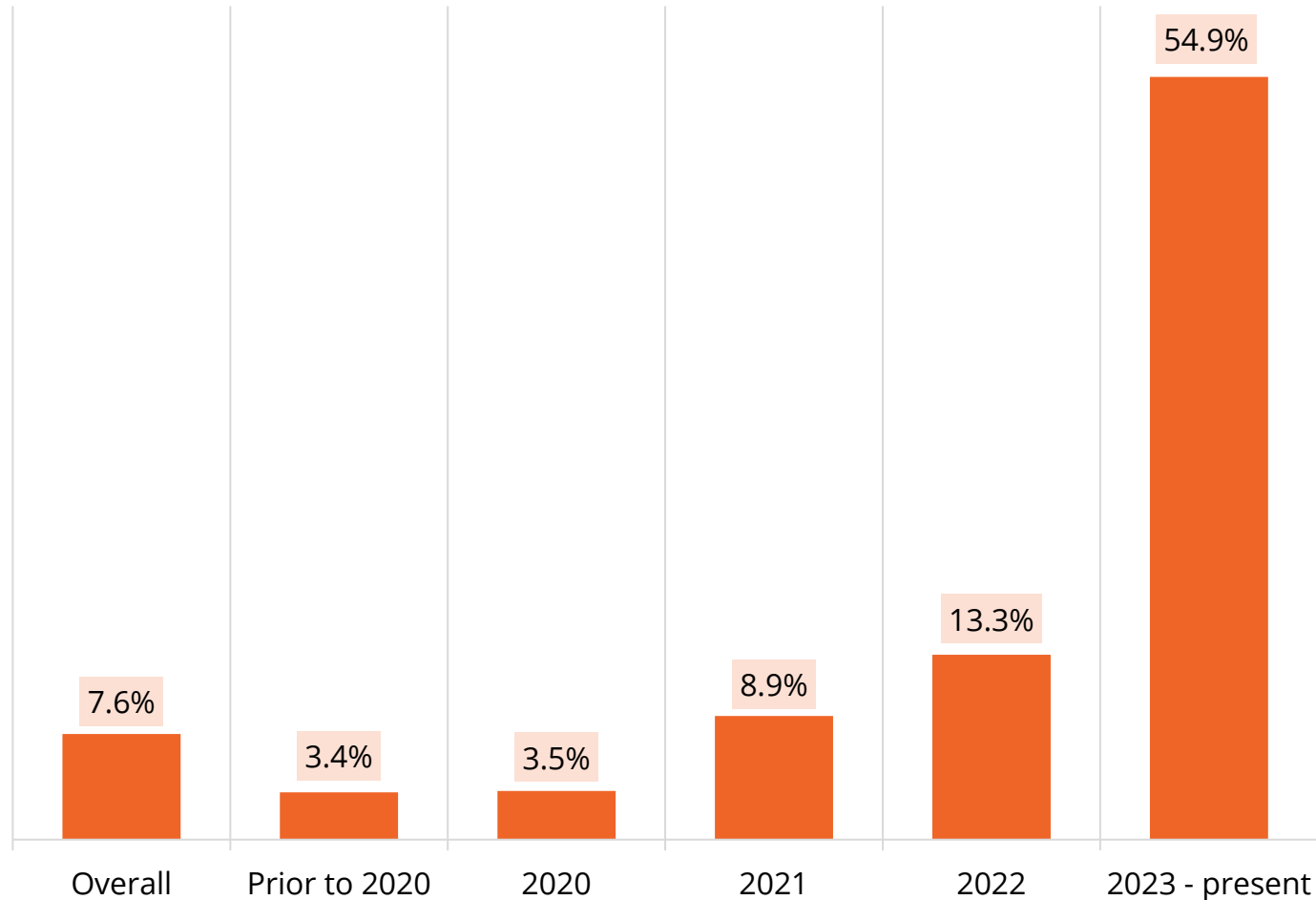
Houston's vacancy rate is up due to a surge in new available spaces, but this is likely temporary. Development is slowing, and vacancy rates are expected to stabilize.

Construction activity slowing down



The industrial construction pipeline continues to thin out as 5.6 msf of new product delivered in Q1, with an additional 13.7 msf slated to deliver by year-end.

Houston industrial vacancy by year built



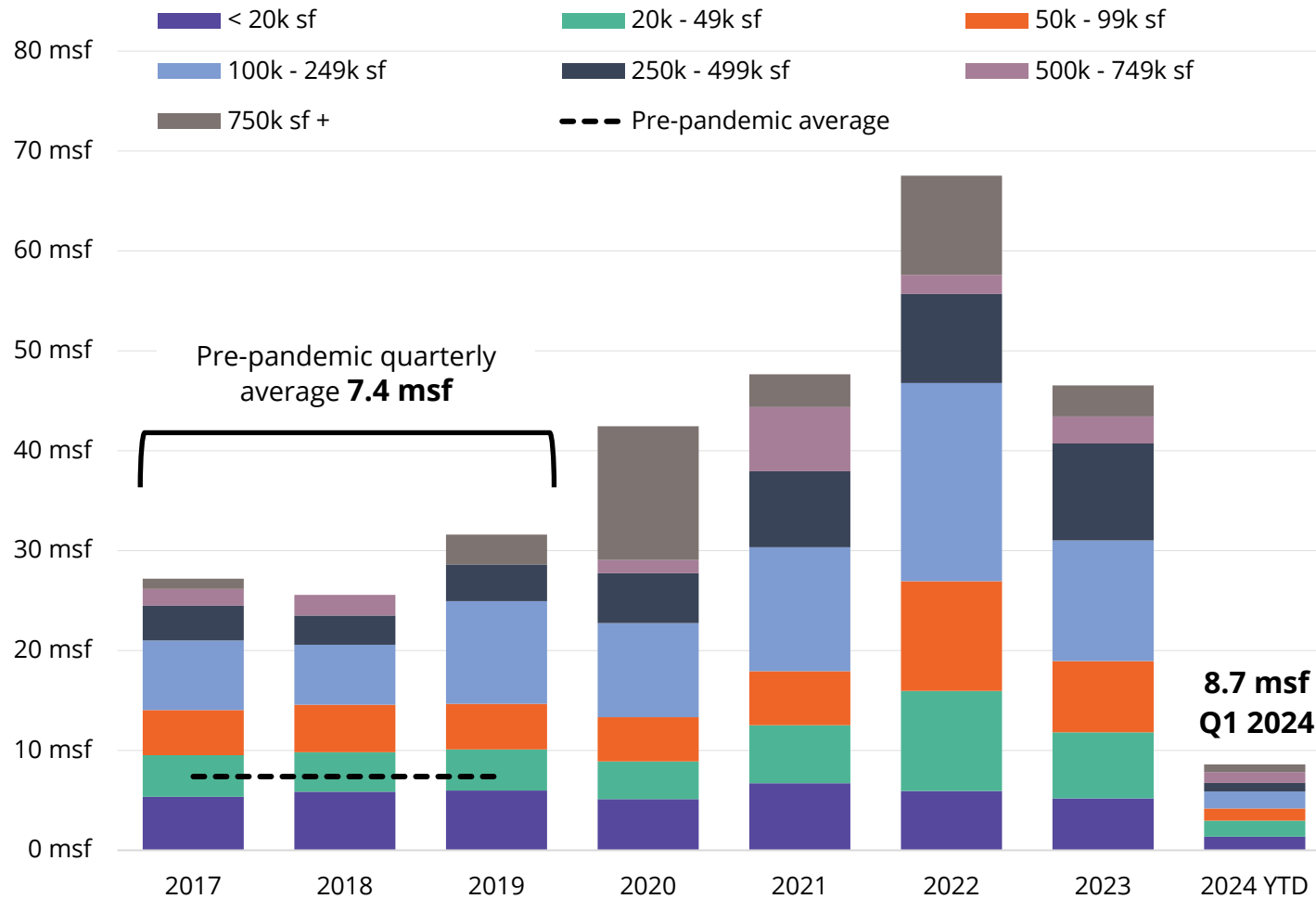
The recent surge in construction completions from 2023 to Q1 2024 has pushed vacancy rates up 190 basis points year-over-year.

Occupier market conditions

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

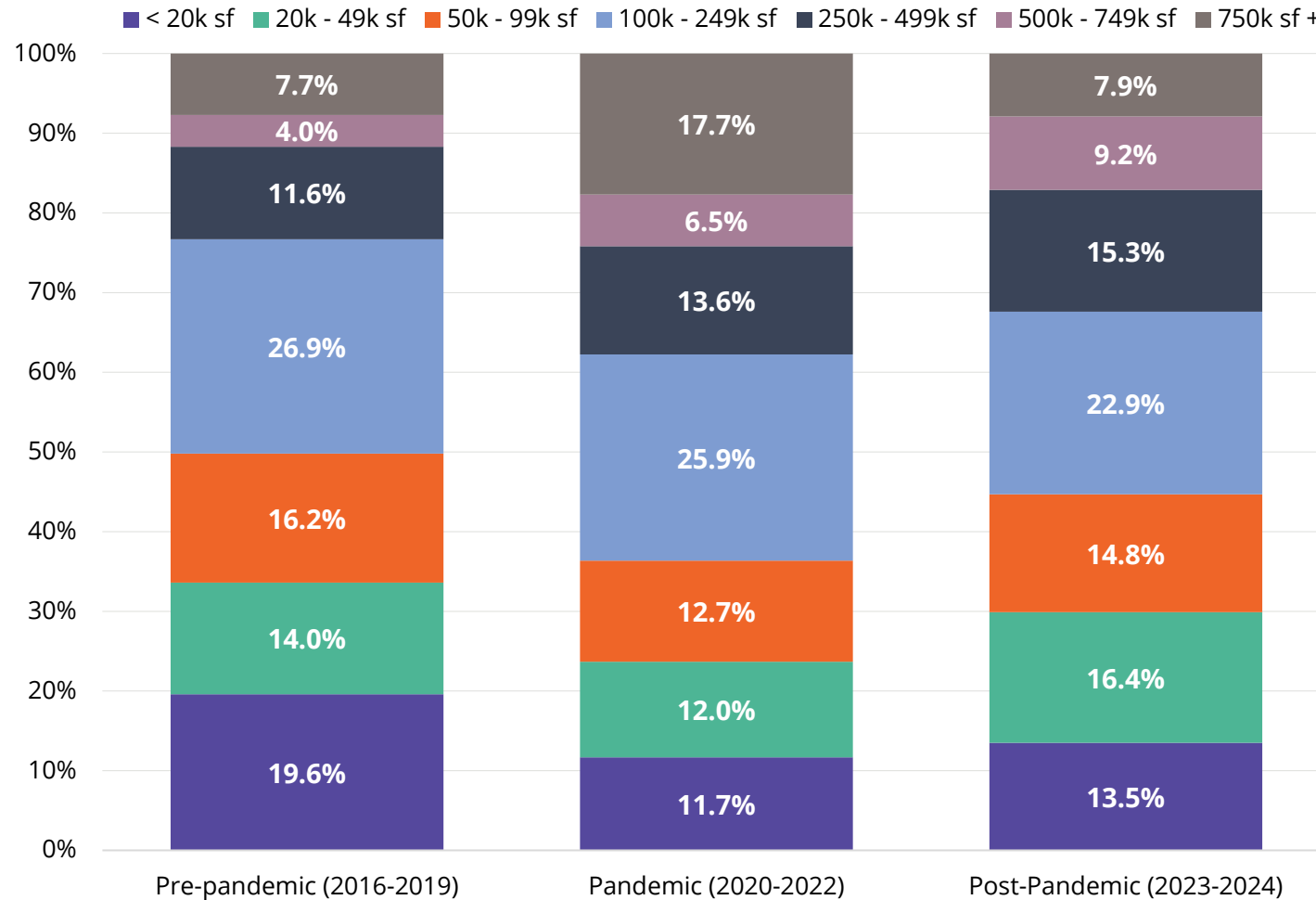


Leasing volume by deal size



Leasing demand cools from record highs fueled by e-commerce but remains robust at 18.5% above the pre-pandemic quarterly average.

Leasing volume share by size

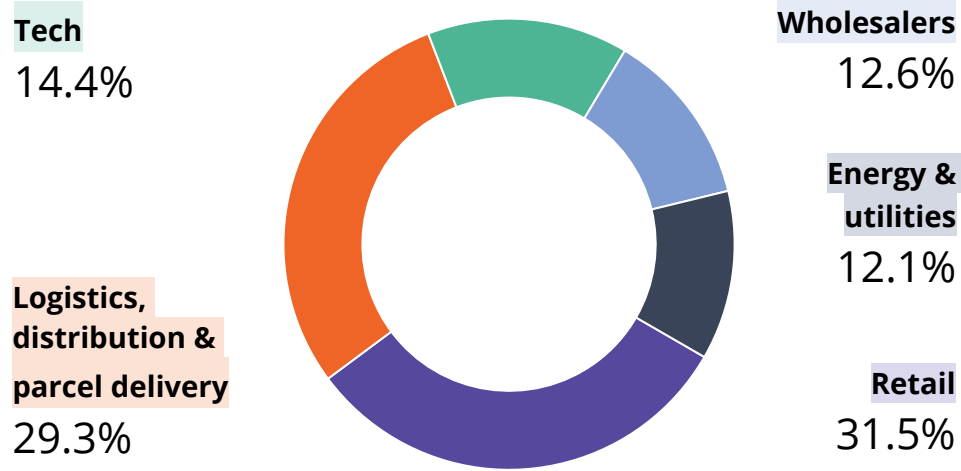


Deals between 100k-249k sf dominate but deals 500k sf and larger surged post-pandemic due to e-commerce. These large deals are now declining as the market normalizes.

Tenant industry leasing composition

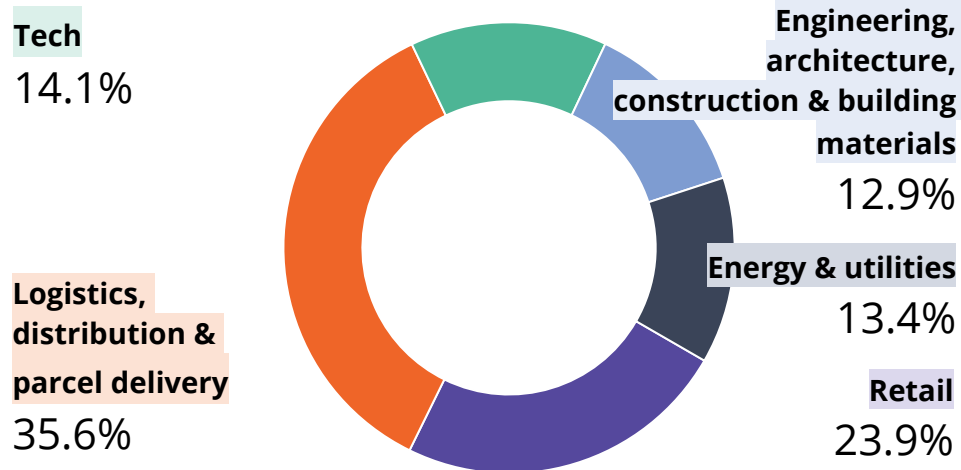
Pre-COVID

2018 to March 2020



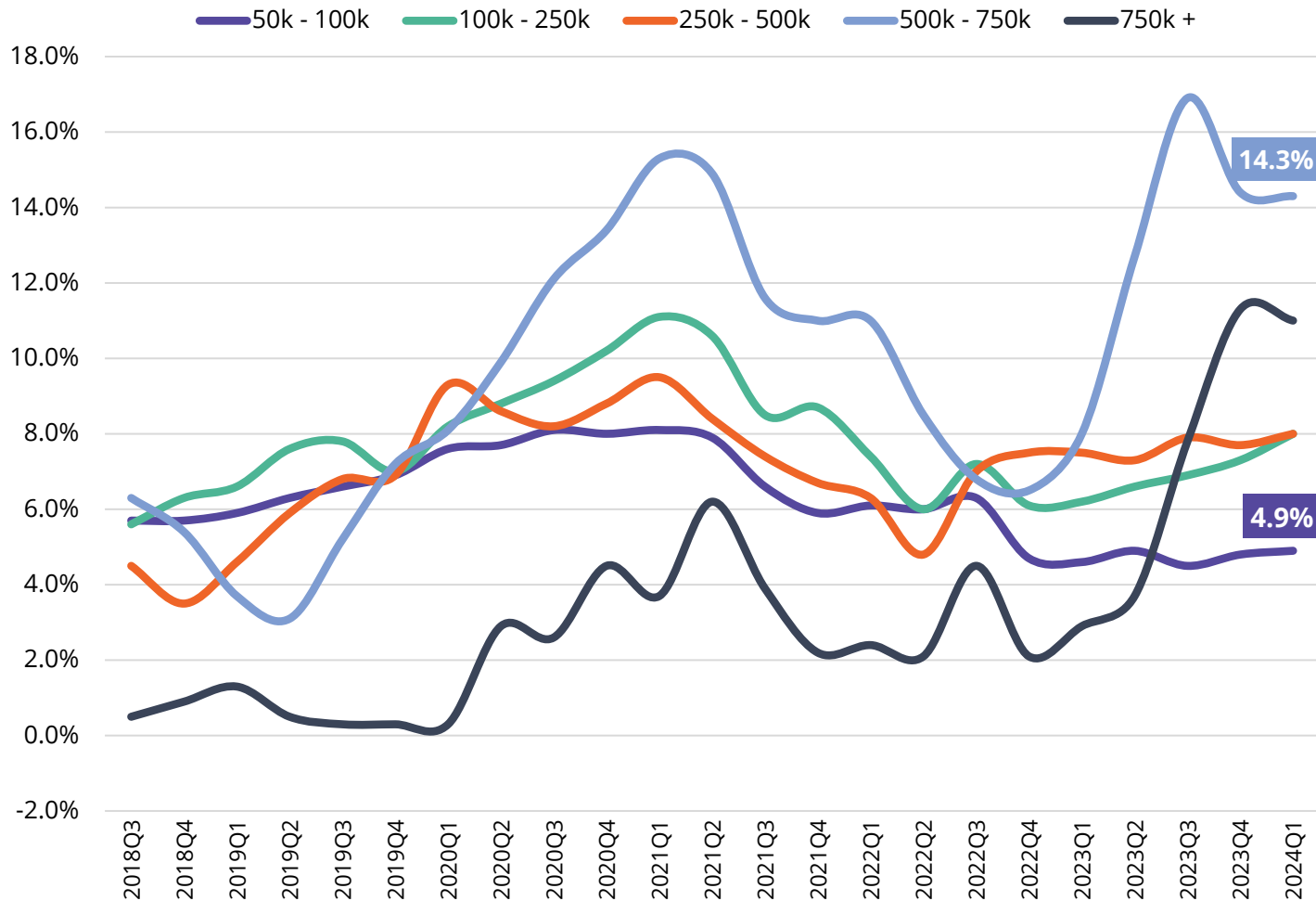
Post-COVID

April 2020 to Present



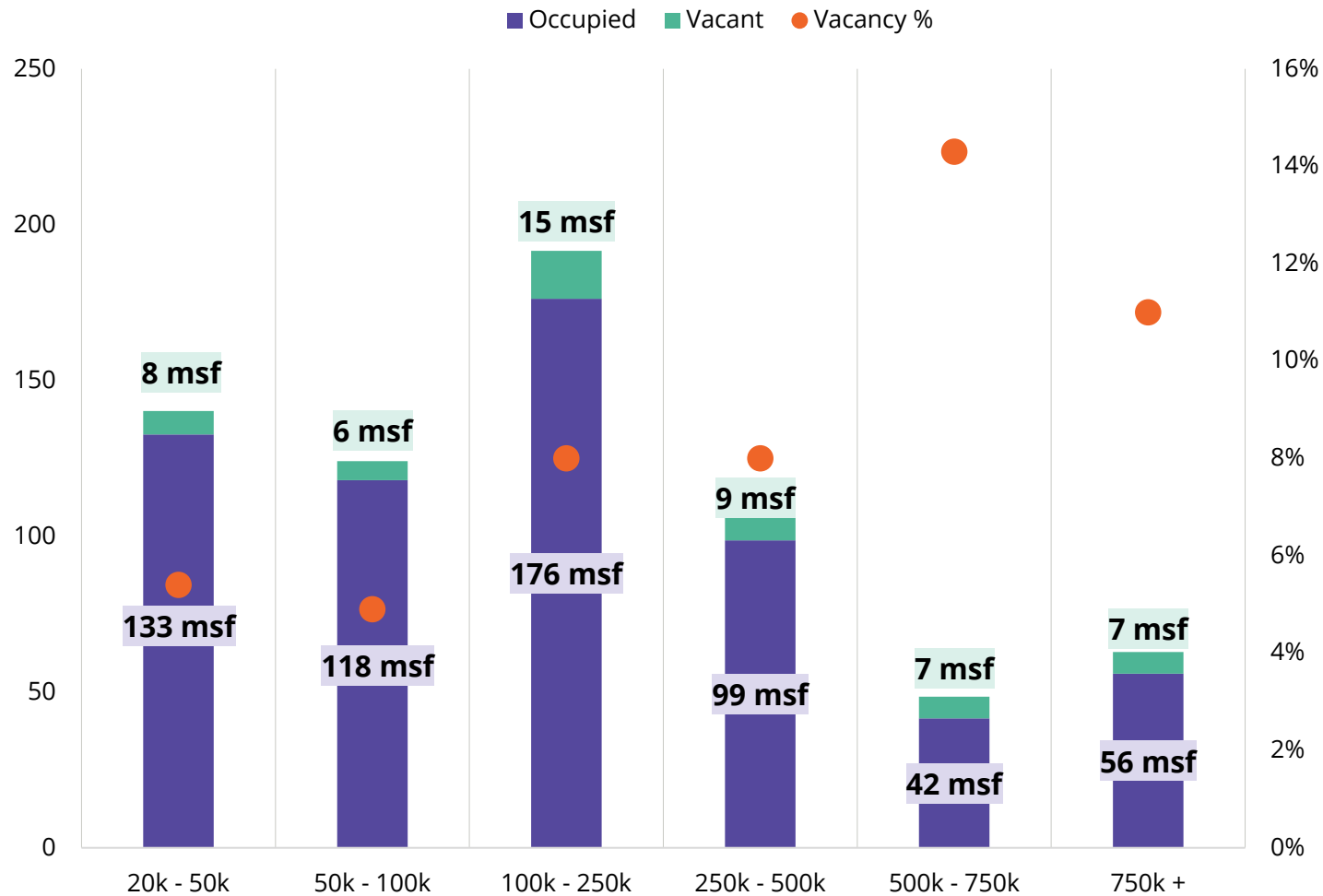
Occupiers in the logistics, distribution & parcel delivery industry have dominated leasing activity, capturing a larger share of the demand since pre-Covid.

Total vacancy rate by building size



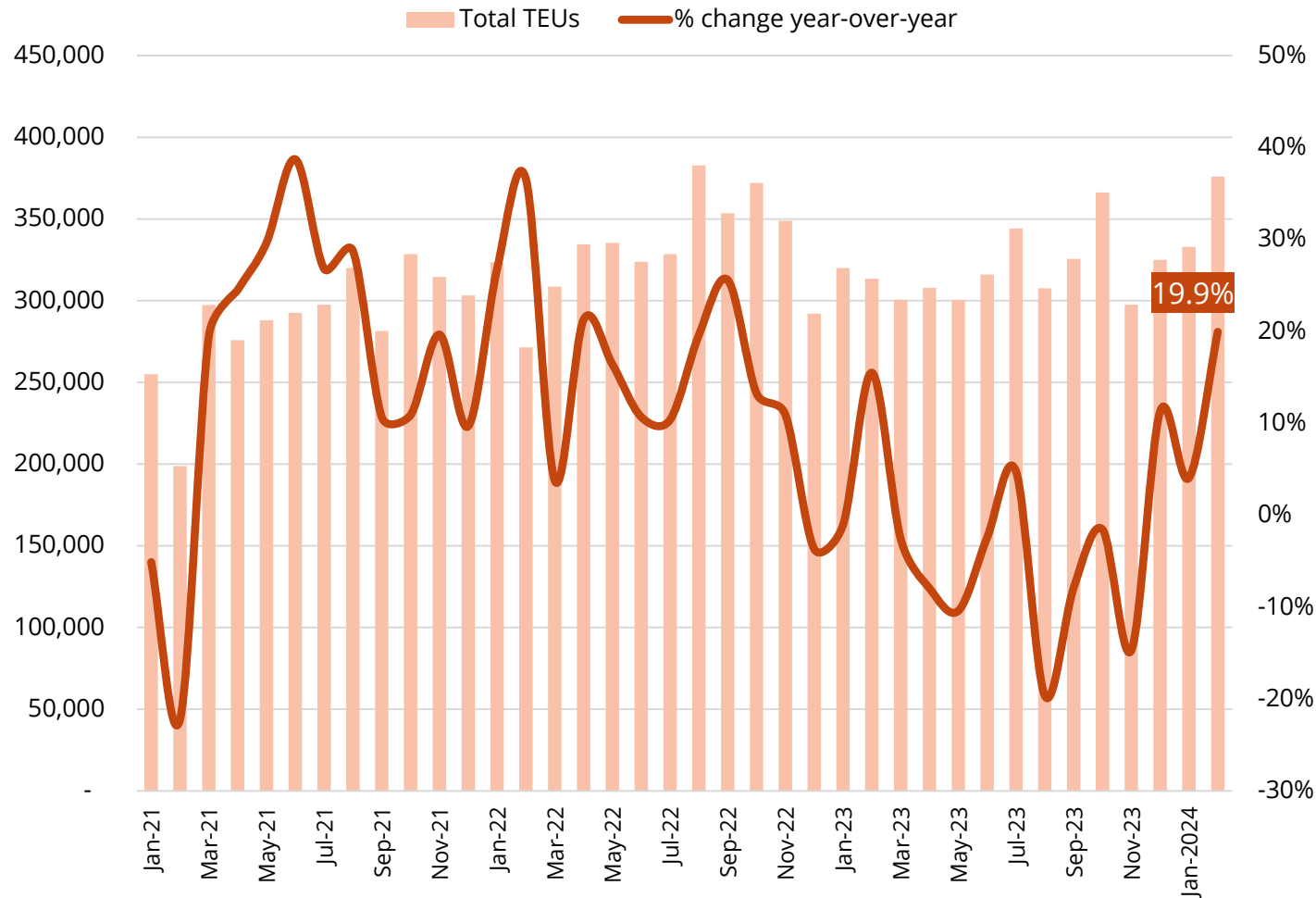
Vacancy rates continue to be the highest in 500k to 750k sf buildings at 14.3% and remain the lowest in smaller buildings between 50k to 100k sf at 4.9%.

Industrial building size inventory & vacancy



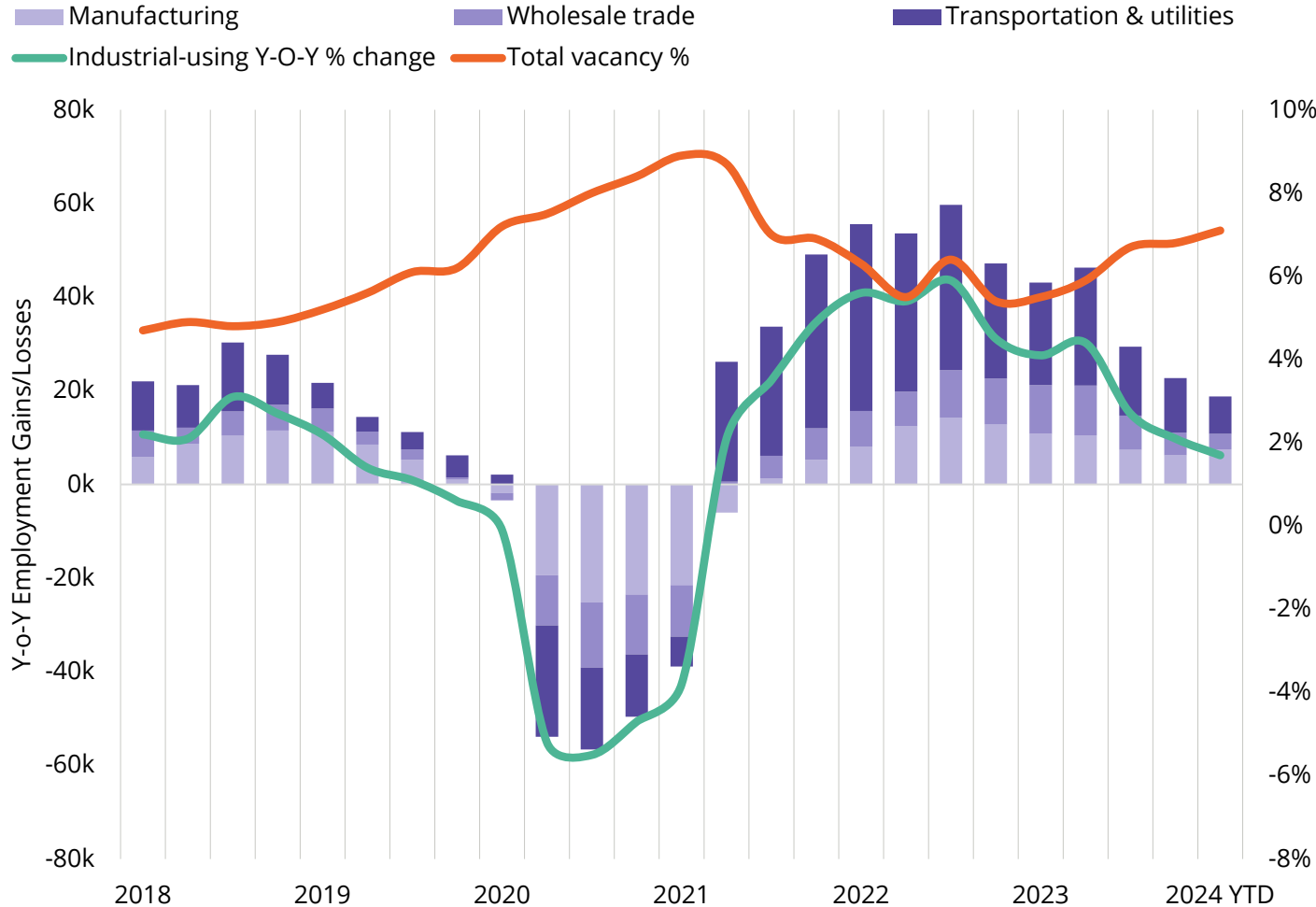
Although large industrial buildings over 500k sf account for a smaller share of the overall inventory, they currently hold the highest vacancy rates across the market.

Houston port activity and vacancy



Container traffic has seen a 20% year-over-year increase as of February 2024, handling 3.9 million TEUs in the past 12 months.

Houston industrial employment

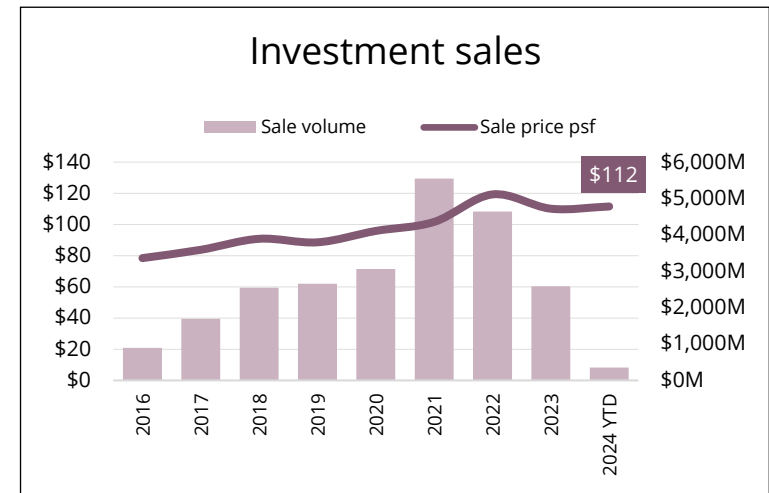
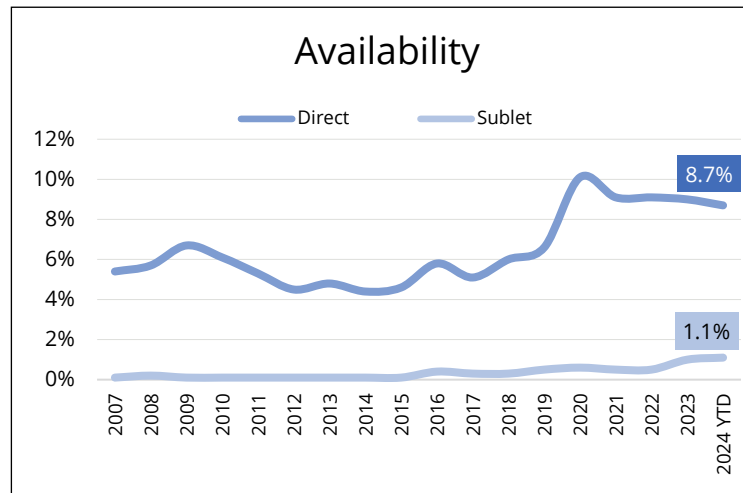
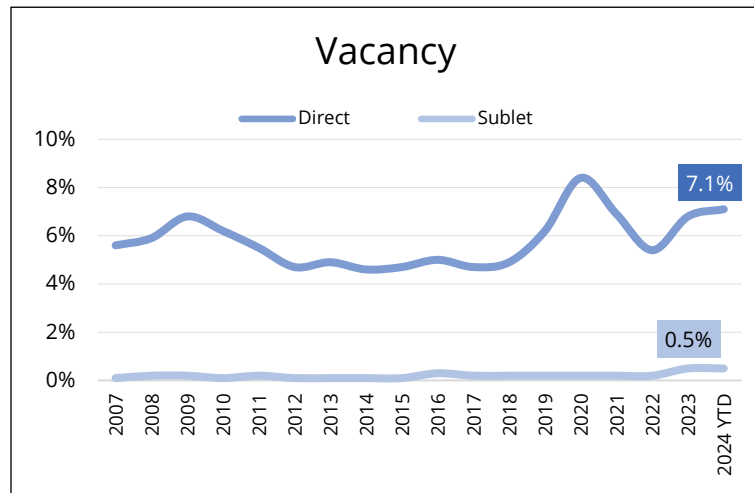
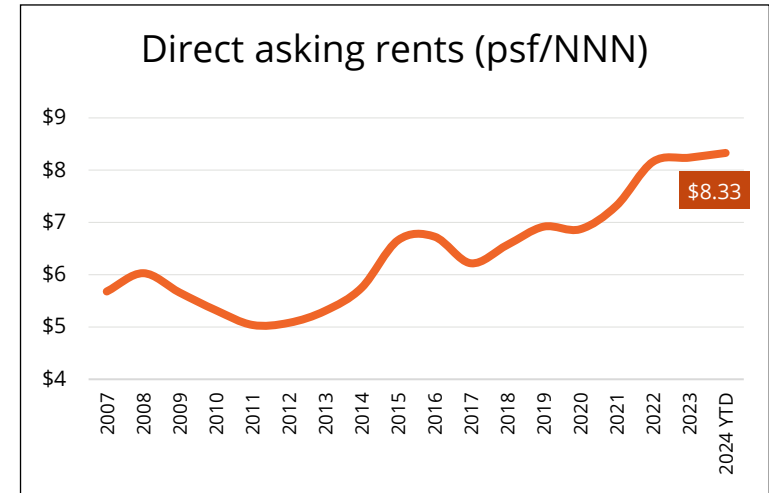
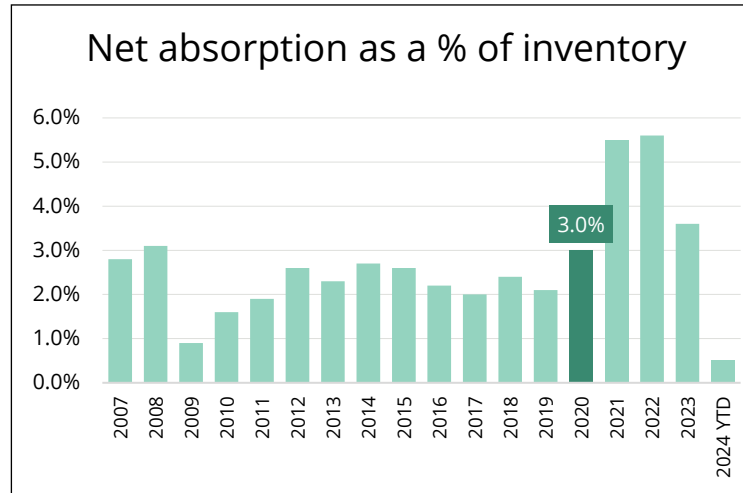
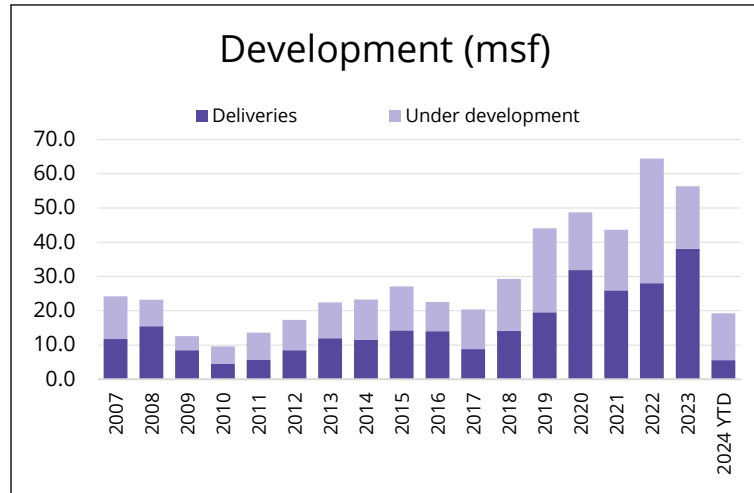


Houston's industrial-using job growth normalizes to pre-pandemic levels, but new supply additions continue to drive vacancy higher.

Appendix



Houston industrial market indicators



Houston industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Dunavant Enterprises	10629 Red Bluff Road	Southeast	February 2024	784,000	Renewal	Direct
Solar Plus Technologies	6115 Greens Road	North	February 2024	567,140	New	Direct
United Airlines	17440 Highway 59	Northeast	March 2024	509,600	New	Direct
Gulf Coast Crating	5335 Cedar Port Parkway	Southeast	February 2024	341,000	New	Sublease
Averitt Express	1901 Wharton Weems Boulevard	Southeast	January 2024	252,924	Renewal	Direct
Amazon	1202 E FM 1960 Road	North	February 2024	206,333	New	Direct
GET Enterprises	7301-7401 Security Way	Northwest	February 2024	201,600	Renewal	Direct
Westore Frozen	2304 Reed Road	Southwest	February 2024	179,872	New	Direct
4Logic	5115 Shaver Street	Southeast	February 2024	169,677	New	Direct
Festival Trading	Highway 90 at South Post Oak Road	Southwest	March 2024	168,893	New	Direct

Top projects under development

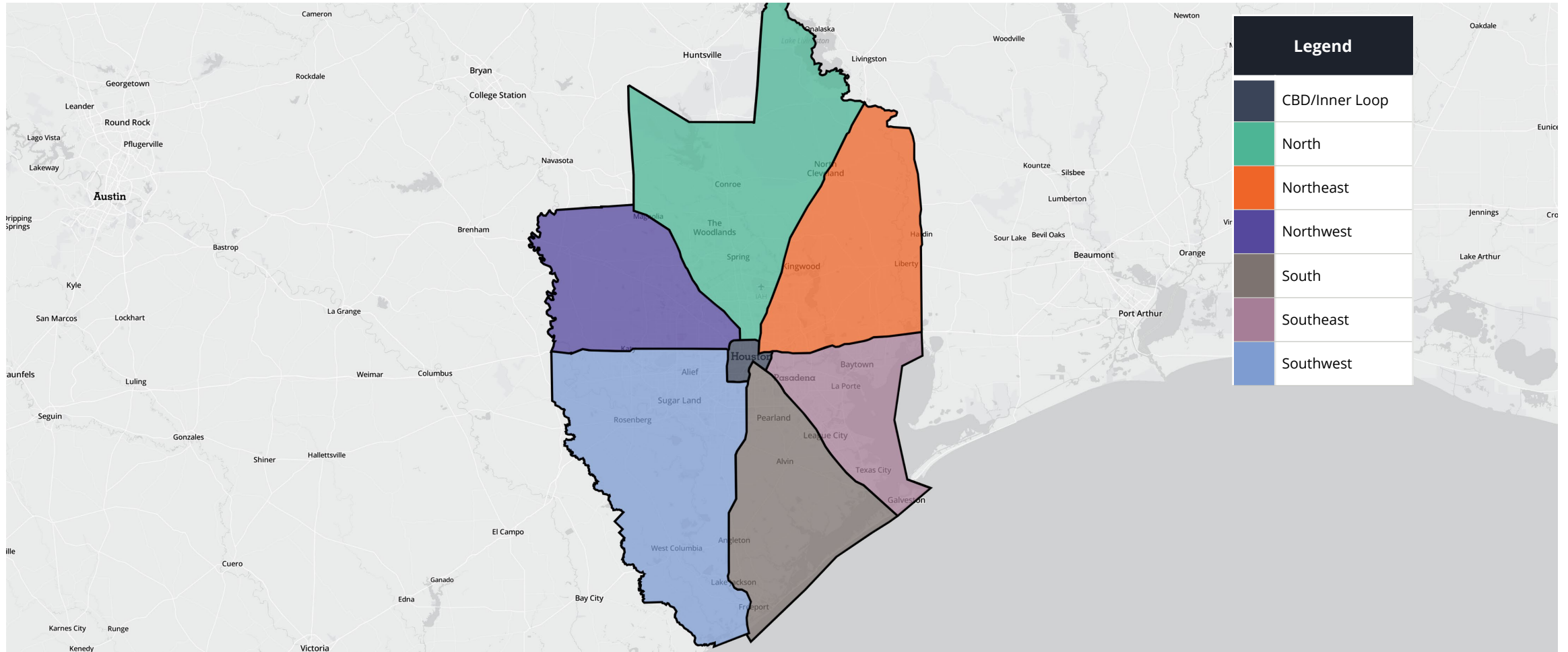
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
5805 South Sam Houston Parkway East	South	April 2024	1,200,000	100%	Hillwood
16702 FM 2354 Road	Southeast	July 2024	1,027,490	0%	Provident Realty Advisors, Angler Construction
Lockwood Rd & Generation Parkway	Northeast	April 2024	1,026,270	0%	CA Ventures
22206 Beckendorff Road	Northwest	October 2024	843,360	100%	Pinpoint Commercial
Twinwood Distribution Center III	Northwest	April 2024	767,520	0%	Clay Development & Construction

Houston industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2024)	Net absorption % of inventory (Q1 2024)	Annual direct asking rent psf NNN
CBD	48,826,088	-	-	6.1%	0.4%	6.5%	(130,895)	-0.3%	\$ 8.12
North	129,360,156	632,942	1,796,962	7.7%	1.3%	9.0%	119,742	0.1%	\$ 9.25
Northeast	49,058,921	180,000	1,973,101	7.6%	0.4%	8.0%	397,259	0.8%	\$ 7.73
Northwest	179,145,928	1,079,159	1,962,280	6.7%	0.2%	7.0%	294,230	0.2%	\$ 8.77
South	37,399,009	589,280	2,182,499	5.6%	0.4%	6.0%	(14,659)	0.0%	\$ 8.29
Southeast	128,590,285	1,631,320	4,131,170	6.8%	0.5%	7.3%	935,931	0.7%	\$ 6.36
Southwest	102,037,603	1,490,723	1,628,911	8.3%	0.2%	8.5%	1,624,836	1.6%	\$ 8.51
Market total	674,417,990	5,603,424	13,674,923	7.1%	0.5%	7.6%	3,226,444	0.5%	\$ 8.33

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2024)	Net absorption % of inventory (Q1 2024)	Annual direct asking rent psf NNN
General Warehouse	360,392,291	3,069,483	5,146,038	6.0%	0.3%	6.3%	620,996	0.0%	\$8.76
Distribution	180,573,424	2,374,265	7,929,639	11.9%	1.2%	13.0%	2,498,505	1.1%	\$5.90
Manufacturing	99,837,999	49,476	341,489	2.0%	0.1%	2.0%	124,292	0.1%	\$8.33
Office Showroom	25,762,825	110,200	257,757	9.8%	0.7%	10.5%	55,999	0.2%	\$9.23
R&D	7,851,451	-	-	4.3%	0.6%	4.9%	(73,348)	-0.9%	\$11.11
Market total	674,417,990	5,603,424	13,674,923	7.1%	0.5%	7.6%	3,226,444	0.5%	\$ 8.33

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 good 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

For more market insights and information visit **avisonyoung.com**

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