

HOUSTON
**INDUSTRIAL
MARKET REPORT**

Fourth Quarter 2018



BELVOIR

REAL ESTATE GROUP, LLC

Going Places

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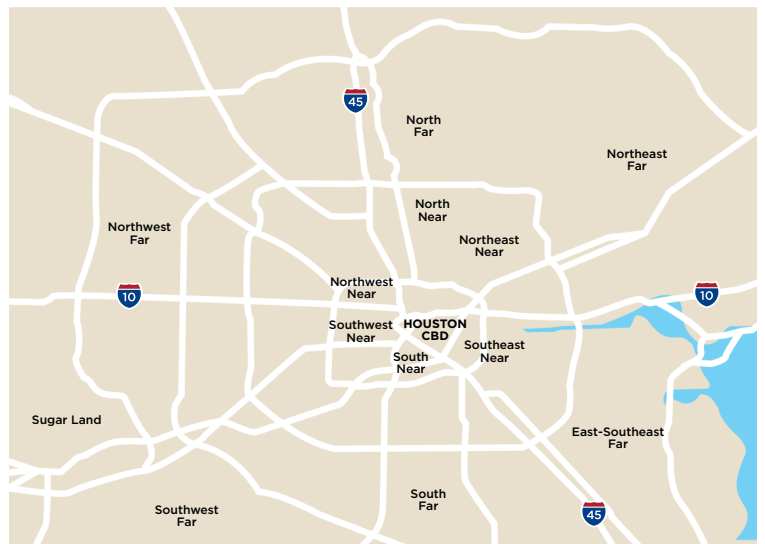
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A Message from Matthew Goldsby, Belvoir Managing Director

Houston's industrial sectors continued to strengthen as low vacancy rates (5.5%) helped to drive new development and acquisition by investors. 2018's investment activity was highlighted by Bahrain global investor Investcorp's Q3 acquisition of a \$300 million portfolio of US industrial properties, which included two multi-tenant class B industrial buildings. Although Hines canceled plans for its Pinal Crossing development, Clay Development broke ground on its Pederson Distribution Park between I-10 and Hwy 90. Distribution Center I will contain 621,920 SF on 31 acres, leaving one million SF still to be developed. The Finial Group broke ground on its spec industrial park in SW Houston, representing Finial's first development since the oil slump in 2014. Leasing continues at a very brisk pace, adding another positive indication of greater demand and stronger growth in Houston's industrial sector for 2019.

EXECUTIVE SUMMARY

The Houston Industrial market ended the fourth quarter 2018 with a vacancy rate of 5.5%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 2,577,450 square feet in the fourth quarter. Vacant sublease space increased in the quarter, ending the quarter at 1,657,649 square feet. Rental rates ended the fourth quarter at \$7.46, an increase over the previous quarter. A total of 41 buildings delivered to the market in the quarter totaling 1,668,189 square feet, with 1,940,852 square feet still under construction at the end of the quarter.



LET'S GO PLACES.

Belvoir's team of experts are ready to answer your commercial real estate and brokerage questions. Call us at **713.332.8202** or visit us online at **belvoir.net**.

INDUSTRIAL MARKET SNAPSHOT

ABSORPTION

Net absorption for the overall Houston Industrial market was positive 2,577,450 square feet in the fourth quarter 2018. That compares to positive 2,774,980 square feet in the third quarter 2018, positive 916,332 square feet in the second quarter 2018, and positive 3,155,738 square feet in the first quarter 2018.

VACANCY

The Industrial vacancy rate in the Houston market area decreased to 5.5% at the end of the fourth quarter 2018. The vacancy rate was 5.7% at the end of the third quarter 2018, 5.4% at the end of the second quarter 2018, and 5.2% at the end of the first quarter 2018.

LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2018 included:

- the 727,600-square-foot lease signed by Grocers Supply at 14803 Woodham Dr in the North Corridor market;
- the 656,658-square-foot deal signed by Conn's HomePlus at 1401 N Rankin Rd in the North Corridor market; and
- the 519,224-square-foot lease signed by Plastic Bagging & Packaging at 5055 E Grand Parkway S in the Southeast Corridor market.

SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market increased to 1,657,649 square feet by the end of the fourth quarter 2018, from 1,382,049 square feet at the end of the third quarter 2018. There was 1,554,707 square feet vacant at the end of the second quarter 2018 and 1,528,201 square feet at the end of the first quarter 2018.

RENTAL RATES

The average quoted asking rental rate for available Industrial space was \$7.46 per square foot per year at the end of the fourth quarter 2018 in the Houston market area. This represented a 1.6% increase in quoted rental rates from the end of the third quarter 2018, when rents were reported at \$7.34 per square foot.

DELIVERIES AND CONSTRUCTION

During the fourth quarter 2018, 41 buildings totaling 1,668,189 square feet were completed in the Houston market area. This compares to 51 buildings totaling 4,558,727 square feet that were completed in the third quarter 2018, 34 buildings totaling 1,841,859 square feet completed in the second quarter 2018, and 3,011,403 square feet in 52 buildings completed in the first quarter 2018.

INVENTORY

Total Industrial inventory in the Houston market area amounted to 620,406,250 square feet in 20,133 buildings as of the end of the fourth quarter 2018. The Flex sector consisted of 52,478,403 square feet in 2,206 projects. The Warehouse sector consisted of 567,927,847 square feet in 17,927 buildings. Within the Industrial market there were 3,469 owner-occupied buildings accounting for 158,371,698 square feet of Industrial space.

SALES ACTIVITY

Tallying industrial building sales of 15,000 square feet or larger, Houston industrial sales figures rose during the third quarter 2018 in terms of dollar volume compared to the second quarter of 2018.

Cap rates have been higher in 2018, averaging 7.26%, compared to the first nine months of last year when they averaged 7.23%. One of the largest transactions that has occurred within the last four quarters in the Houston market is the sale of 7909 Northcourt Rd in Houston. This 1,047,797-square-foot industrial building sold for \$99,900,000, or \$95.34 per square foot. The property sold on 9/28/2018.

Source: CoStar Property®

FLEX MARKET STATISTICS

Q4 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County Ind	2	2,654	1,454	1,454	54.8%	-1,454	0	0	\$0.00
CBD Ind	193	3,748,587	215,156	236,007	6.3%	25,037	0	0	\$13.11
Liberty County Ind	6	35,783	0	0	0.0%	14,100	0	0	\$0.00
North Corridor Ind	456	11,528,167	1,445,466	1,503,669	13.0%	25,767	73,466	219,710	\$10.13
Northeast Corridor Ind	78	834,660	96,981	96,981	11.6%	-26,066	2,400	0	\$10.86
Northwest Corridor Ind	604	17,458,724	1,555,943	1,630,527	9.3%	-115,721	0	9,586	\$8.17
San Jacinto County Ind	1	3,645	0	0	0.0%	0	0	0	\$0.00
Southeast Corridor Ind	239	3,306,205	288,256	288,256	8.7%	-62,698	0	12,000	\$11.61
Southern Corridor Ind	135	2,555,485	263,927	265,927	10.4%	110,231	0	32,900	\$8.25
Southwest Corridor Ind	492	13,004,493	890,686	915,191	7.0%	36,485	34,529	16,579	\$11.17
TOTALS	2,206	52,478,403	4,757,869	4,938,012	9.4%	5,681	110,395	290,775	\$9.89

Source: CoStar Property®

WAREHOUSE MARKET STATISTICS

Q4 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County Ind	32	1,639,543	584,620	584,620	35.7%	-5,804	0	0	\$10.23
CBD Ind	1,892	55,780,760	2,607,787	2,712,652	4.9%	-634,527	0	0	\$6.77
Liberty County Ind	56	1,322,354	79,749	79,749	6.0%	212,939	0	0	\$8.58
North Corridor Ind	3,510	98,428,451	5,922,089	6,300,915	6.4%	2,238,402	1,516,460	3,427,552	\$7.66
Northeast Corridor Ind	1,022	37,487,748	1,176,615	1,216,710	3.2%	-96,132	201,125	345,000	\$5.69
Northwest Corridor Ind	4,474	156,649,119	8,195,416	8,657,776	5.5%	3,248,024	4,080,107	2,857,051	\$7.33
San Jacinto County Ind	6	46,751	0	0	0.0%	0	0	0	\$0.00
Southeast Corridor Ind	2,564	101,094,023	4,798,185	5,087,435	5.0%	3,267,345	4,325,662	3,973,229	\$6.70
Southern Corridor Ind	2,028	50,688,997	1,670,084	1,743,171	3.4%	-146,101	117,620	45,765	\$6.31
Southwest Corridor Ind	2,343	64,790,101	2,694,565	2,823,588	4.4%	1,334,673	728,809	1,001,480	\$7.65
TOTALS	17,927	567,927,847	27,729,110	29,206,616	5.1%	9,418,819	11,650,077	11,650,077	\$7.11

Source: CoStar Property®

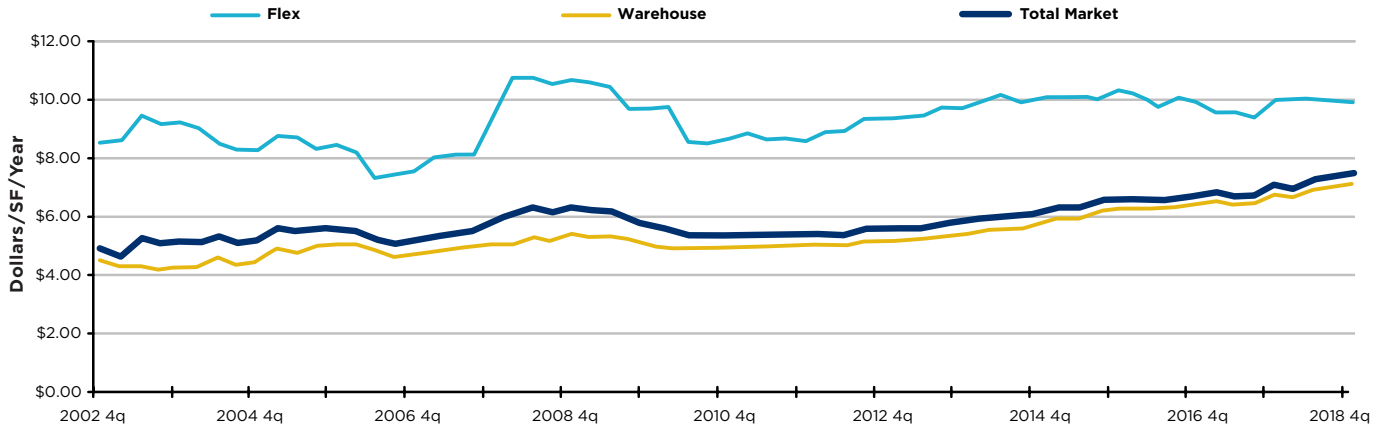
TOTAL INDUSTRIAL MARKET STATISTICS

Q4 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County Ind	34	1,642,197	586,074	586,074	35.7%	-7,258	0	0	\$10.23
CBD Ind	2,085	59,529,347	2,822,943	2,948,659	5.0%	-609,490	0	0	\$7.19
Liberty County Ind	62	1,358,137	79,749	79,749	5.9%	227,039	0	0	\$8.58
North Corridor Ind	3,966	109,956,618	7,367,555	7,804,584	7.1%	2,264,169	1,589,926	3,647,262	\$8.11
Northeast Corridor Ind	1,100	38,322,408	1,273,596	1,313,691	3.4%	-122,198	203,525	345,000	\$5.90
Northwest Corridor Ind	5,078	174,107,843	9,751,359	10,288,303	5.9%	3,132,303	4,080,107	2,866,637	\$7.46
San Jacinto County Ind	7	50,396	0	0	0.0%	0	0	0	\$0.00
Southeast Corridor Ind	2,803	104,400,228	5,086,441	5,375,691	5.1%	3,204,647	4,325,662	3,985,229	\$7.03
Southern Corridor Ind	2,163	53,244,482	1,934,011	2,009,098	3.8%	-35,870	117,620	78,665	\$6.43
Southwest Corridor Ind	2,835	77,794,594	3,585,251	3,738,779	4.8%	1,371,158	763,338	1,018,059	\$8.24
TOTALS	20,133	620,406,250	32,486,979	34,144,628	5.5%	9,424,500	11,080,178	11,940,852	\$7.46

Source: CoStar Property®

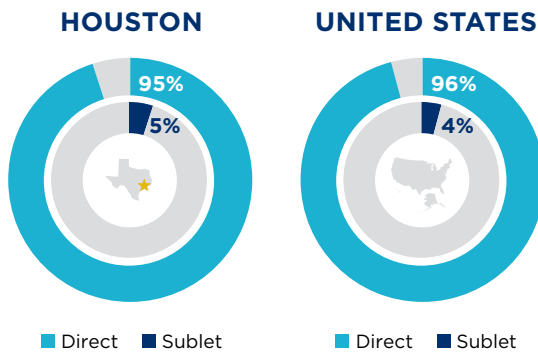
HISTORICAL RENTAL RATES (Based on Quoted Rental Rates)



Source: CoStar Property®

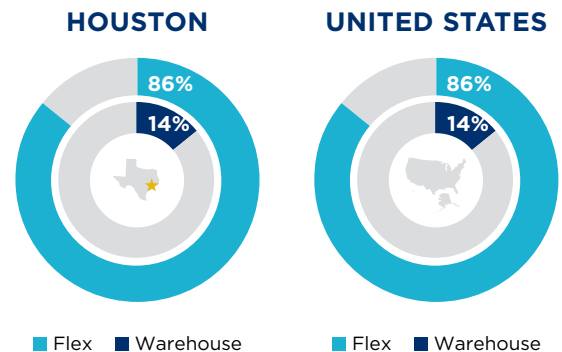
VACANCY PERCENTAGES

BY AVAILABLE SPACE TYPE



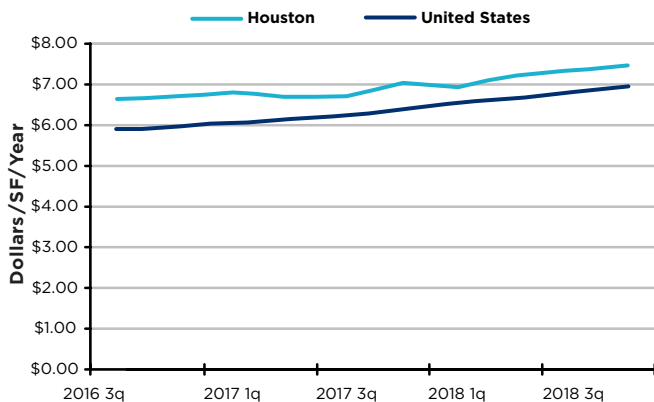
Source: CoStar Property®

BY BUILDING TYPE



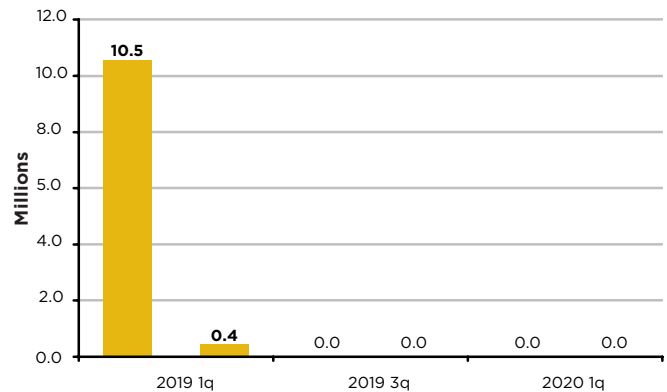
Source: CoStar Property®

U.S. RENTAL RATE COMPARISON (Based on Average Quoted Rental Rates)



Source: CoStar Property®

FUTURE SPACE AVAILABLE (Space Scheduled to be Available for Occupancy*)



*Includes Under Construction Space | Source: CoStar Property®