

HOUSTON

INDUSTRIAL MARKET REPORT

First Quarter 2019



BELVOIR

REAL ESTATE GROUP, LLC

Going Places

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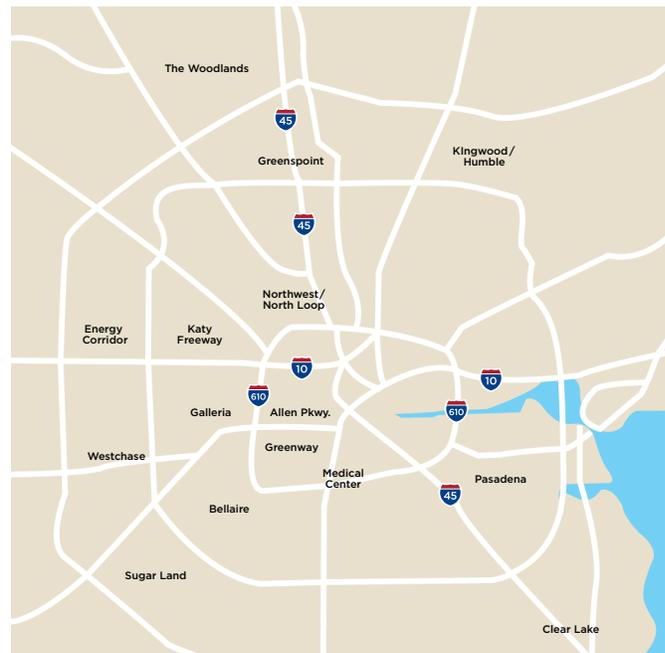
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A Message from Matthew Goldsby, Belvoir Managing Director

During the first quarter of 2019, Houston's industrial sectors demonstrated continued signs of strength with low vacancy rates and increased construction and trade activity. ExxonMobil has announced its \$1.5 billion plant expansion in Baytown while Celanese Chemicals is planning a \$425 million expansion of its Pasadena facility. Evidence of Houston's economic diversification is illustrated by Amazon's completion of a 1-million-SF facility last year, in addition to the e-commerce giant's existing distribution facility that was completed in 2017. With increased investor demand, industrial CRE activity is anticipated to remain strong throughout 2019.

EXECUTIVE SUMMARY

The Houston Industrial market ended the first quarter of 2019 with a vacancy rate of 5.9%, which is below the 20-year historical average. At 7.9 million SF, Houston ranked in the top 10 among U.S. metros in terms of trailing net absorption and inventory size. Rental rates ended the first quarter averaging \$7.30/SF, up 1.7%. A total of 17,200,00 SF of industrial buildings were still under construction at the end of the quarter.



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INDUSTRIAL MARKET SNAPSHOT

LEASING

Houston's structurally low vacancy rate of 5.9% is below the 20-year historical average and is in line with its peer set, although it exceeded the U.S. average by approximately 100 basis points in 19Q1. The vacancy rate is also up nearly 100 basis points after the height of the shale boom in mid-2015.

Meanwhile, strong trailing 12-month net absorption of approximately 7,900,000 SF ranked Houston in the top 10 U.S. industrial markets as of 19Q1. E-commerce growth has created significant demand for industrial space in Houston this cycle. Strong demand from port-related trade and exports, particularly petrochemicals and plastics, also continues to generate strong demand for industrial product in Houston.

RENT

Asking rents for industrial space in Houston continue to climb, and average about \$7.30 /SF, a record high for the metro. Among neighboring Texas markets, this rate trails both Austin and San Antonio, yet it is approximately \$1/SF above Dallas-Fort Worth's rate.

Overall, Houston ranks middle-of-the-pack among major U.S. metros in terms of asking rents, likely due to an abundance of land, a lack of zoning and a comparatively easy entitlement/permitting process that combine to create relatively low barriers to entry for new industrial development in Houston.

CONSTRUCTION

There is still approximately 17,200,000 SF of industrial buildings under construction, which is near the record amount under construction in 2015 (approximately 13.7 million SF), ranking Houston in the top five of U.S. metros for SF under construction. However, to put this into perspective, the nation's leading metro for new industrial construction, Dallas-Fort Worth, had nearly three times as much inventory under construction as Houston as of 19Q1.

SALES

Industrial transaction activity in Houston remains redhot, similar to what is being experienced in several large U.S. metros. A staggering 1,300 industrial transactions took place in 2018.

Institutional buyers now make up the majority of the buyer pool, at 38% in 2018, versus 33% for REIT/Public, 15% private, and 8% private equity. A majority of deals occurred for product at the lower end of the quality spectrum. The average rating for deals that traded in 2018 was 2 Star, and the average year built was 1988. Nearly two-thirds of the deals that traded were rated 1 & 2 Star, versus 23% for 3 Star and only 8% for 4 & 5 Star.

And nearly 20% of transactions took place in just two Houston submarkets: East-Southeast Far (near the Port of Houston) and Northwest Inner Loop (a hotbed of logistics activity near the growing population center).

Source: CoStar Property®

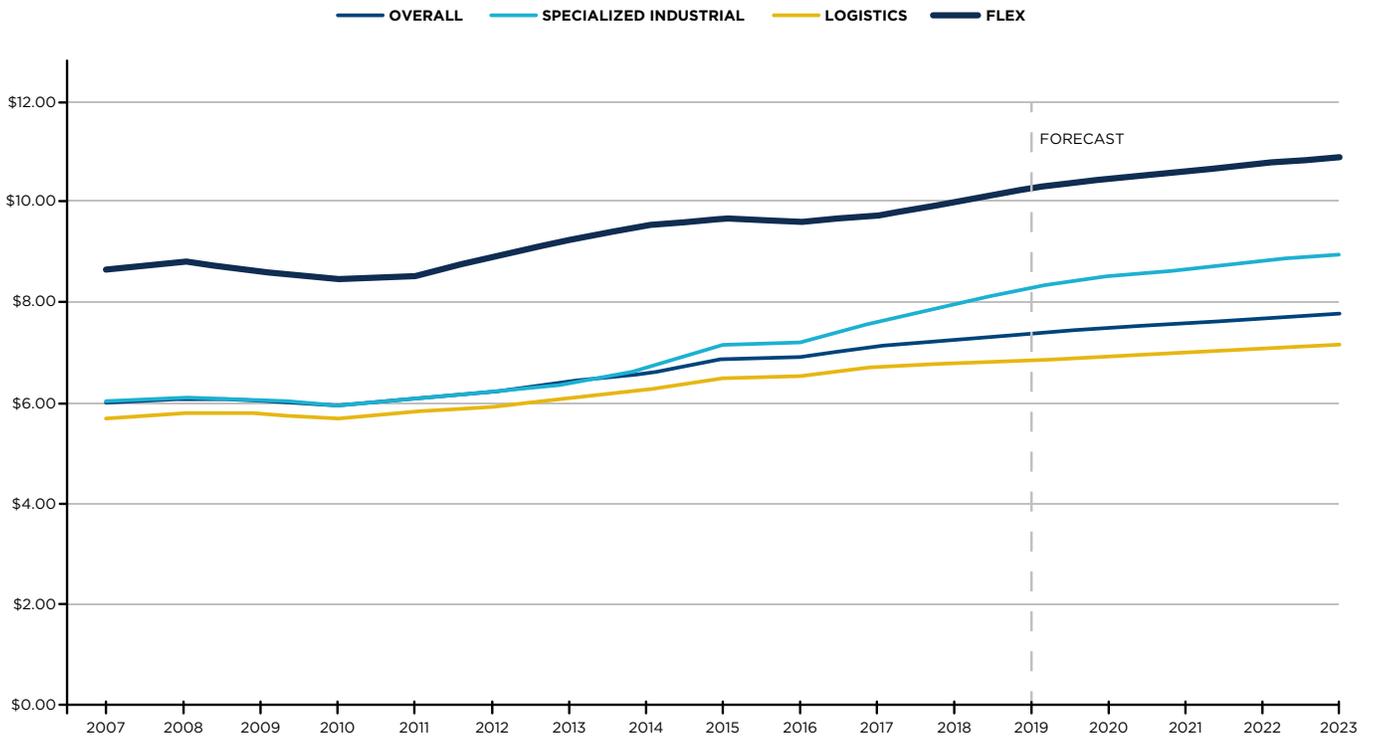
SUBMARKET STATISTICS

Q1 2019

Market	Existing Inventory		Vacancy		YTD Net Absorption	12 Month Deliveries	Under Const SF	Asking Rent (SF)
	# Blds	SF (000)	SF	Vac %				
Austin County	33	1,627	21,454	1.3%	553,272	0	-	\$8.65
CBD-NW Inner Loop	520	12,440	644,101	5.2%	(435,159)	0	-	\$7.90
Downtown Houston	905	32,418	1,409,799	4.3%	(219,373)	0	-	\$5.37
East I-10 Outer Loop	215	14,017	474,187	3.4%	(114,460)	10	-	\$5.83
East-Southeast Far	2,192	74,880	4,800,927	6.4%	3,914,844	4,948	5,425	\$7.28
Hwy 290/Tomball Pky	665	25,104	2,630,819	10.5%	(392,862)	1,147	369	\$7.57
Hwy 59/Hwy 90 (Alt)	1,044	26,135	910,479	3.5%	1,276,690	574	444	\$7.67
Liberty County	65	1,394	87,349	6.3%	295,445	0	-	\$7.05
North Fwy/Tomball Pky	947	28,191	2,272,236	8.1%	1,294,438	1,164	2,608	\$7.76
North Hardy Toll Road	852	36,682	2,270,140	6.2%	592,652	280	2,382	\$7.38
North Inner Loop	196	5,315	405,940	7.6%	(4,677)	0	-	\$5.63
North Outer Loop	1,092	24,898	991,316	4.0%	126,242	118	354	\$6.94
Northeast Hwy 321	110	1,836	22,886	1.2%	84,007	7	-	\$9.39
Northeast Hwy 90	643	20,621	1,217,628	5.9%	(370,602)	493	850	\$7.29
Northeast I-10	171	4,447	271,564	6.1%	(152,243)	0	-	\$6.75
Northeast Inner Loop	191	12,150	702,363	5.8%	(348,377)	0	-	\$5.05
Northwest Hwy 6	415	12,832	1,175,337	9.2%	317,549	605	329	\$8.21
Northwest Inner Loop	1,782	64,292	4,550,441	7.1%	(1,291,045)	87	22	\$7.11
Northwest Near	827	20,115	984,831	4.9%	116,700	0	32	\$6.79
Northwest Outliers	619	26,961	2,042,215	7.6%	1,862,718	2,440	1,579	\$8.42
South Hwy 35	1,766	39,980	1,687,561	4.2%	(94,151)	141	42	\$6.66
South Inner Loop	406	13,339	498,652	3.7%	(38,847)	0	-	\$6.36
Southeast Outer Loop	424	18,061	596,658	3.3%	49,505	0	526	\$5.30
Southwest Far	594	14,223	813,817	5.7%	296,370	125	1,558	\$8.20
Southwest Inner Loop	450	8,281	269,416	3.3%	(82,881)	3	-	\$10.03
Southwest Outer Loop	696	14,879	973,776	6.5%	(74,922)	23	-	\$9.13
Sugar Land	514	22,831	897,357	3.9%	157,893	195	292	\$7.71
The Woodlands/Conroe	1,132	21,615	1,851,159	8.6%	155,906	538	277	\$9.40
West Outer Loop	823	27,420	1,486,233	5.4%	456,056	548	96	\$7.59

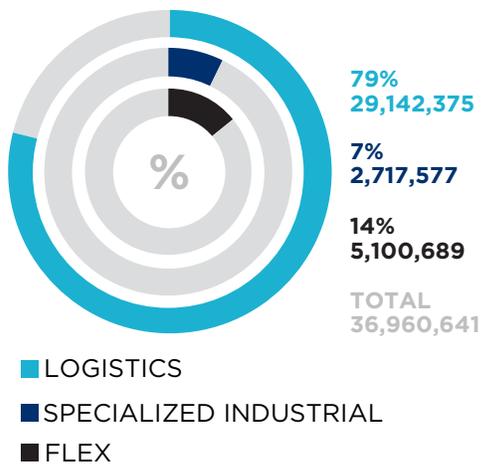
Source: CoStar Property®

HISTORICAL AND FORECAST RENTAL RATES BY TYPE



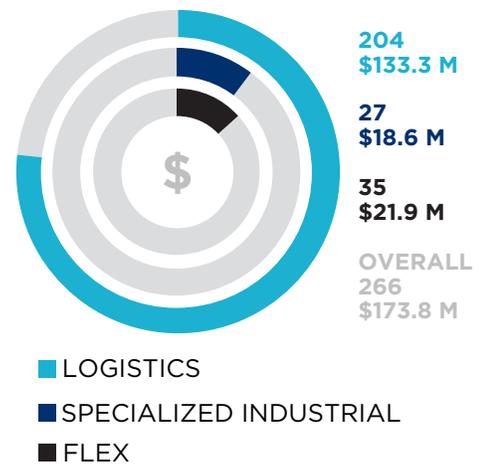
Source: CoStar Property®

VACANCY BY TYPE



Source: CoStar Property®

SALES BY TYPE



Source: CoStar Property®

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