

HOUSTON

INDUSTRIAL MARKET REPORT

Second Quarter 2019



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A Message from Matthew Goldsby, Belvoir Managing Director

Houston's industrial market reflects two distinct growth areas: energy and e-commerce/distribution. Overall, Q2's vacancy edged up to 6.1% vs. 5.9% in Q1. Lease transactions totaled 9.9M SF over the last 12 months, with the largest being Home Depot for 770,640 SF in Q1. While leasing activity in Q2 lagged behind that of Q1 (496,606 SF vs. 2.24M SF), construction of new facilities took up the slack. As of the beginning of Q2, there was a record 17.3 M SF under construction, putting Houston third behind Dallas-Fort Worth and the Inland Empire. The bulk of industrial construction occurred in the North Fwy/Tomball Pky, Northwest Outliers and Southwest Far submarkets.

Pipelines, petroleum and plastic chemical plants continued or announced expansions, including:

- Chevron's new Pasadena refinery
- LyondellBasell's petrochemical plant's \$2.4B expansion
- Phillips 66 plans new pipelines totaling \$4.1B in value
- ExxonMobil and its partner, SABIC, are proceeding with construction of a \$10B petrochemical plant near Corpus Christi

While the Port of Houston still plays a major role in Houston's growth, it will see competition from Corpus Christi with the announcement of LNG terminals in its port area.

With increased investor demand, industrial CRE activity is anticipated to remain strong throughout 2019.

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INDUSTRIAL MARKET SNAPSHOT

LEASING

Houston's structurally low vacancy rate of 6.1% 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 9,800,000 SF ranked Houston in the top 10 U.S. industrial markets as of 19Q2. 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 Houston industrial real estate.

RENT

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. Asking rents have grown by approximately 2.9% this year. Cumulatively, rents have grown more than 20% this cycle.

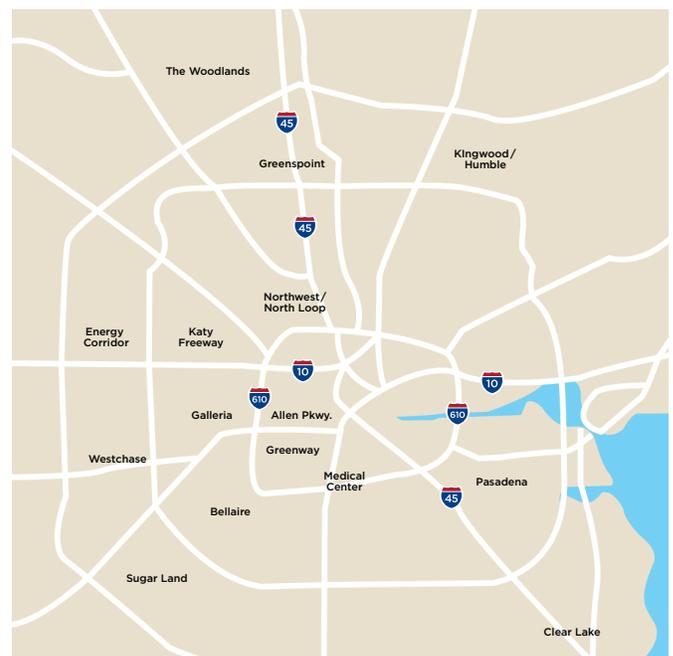
CONSTRUCTION

There was approximately 13,774,000 SF of industrial buildings under construction as of Q2 2019, which was a record for the metro, ranking it in third among US metros after Dallas-Fort Worth and the Inland Empire. Deliveries continue to outstrip demand, particularly speculative developments. As a result, the vacancy rate could continue to climb steadily, despite generally positive tailwinds in the industrial sector. Those include Houston's stable and recovering economy and ecommerce growth.

SALES

Industrial transaction activity in Houston remains red-hot, similar to what is being experienced in several large U.S. metros. Houston ranked in the top 20 among U.S. metros for trailing 12-month industrial investment sales volume as of 19Q2, with \$16 billion in confirmed trades. However, this figure should be taken with a grain of salt, as Texas is a non-disclosure state, and this amount is likely much higher. Of the 35 largest trades in Houston this past year, 25 (approximately three-fourths) were part of portfolio deals. This comes as institutional investors are seeking to increase their industrial allocations in a major way across the U.S. by acquiring portfolios.

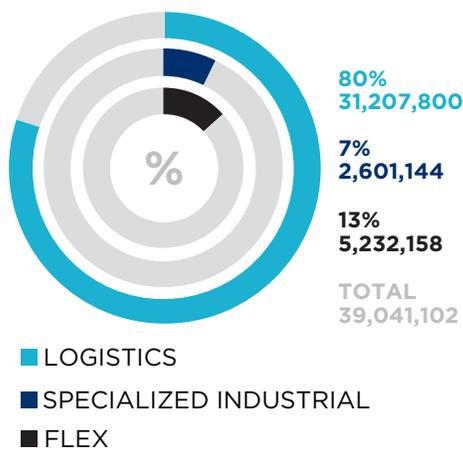
Source: CoStar Property®



Market	Existing Inventory		Vacancy		YTD Net Absorption	12 Month Deliveries	Under Const SF	Asking Rent (SF)
	# Blds	SF (000)	SF	Vac %				
Downtown Houston	909	32,447	1,172,528	3.6%	12,900	0	0	\$5.52
East-Southeast Far	2,219	76,946	5,396,037	7.0%	4,642,004	6,533	1,675	\$7.39
Hwy 290/Tomball Pky	668	25,219	2,632,954	10.4%	(89,055)	1,267	186	\$7.77
Hwy 59/Hwy 90 (Alt)	1,046	26,173	878,002	3.4%	1,255,190	615	1,111	\$7.80
North Fwy/Tomball Pky	951	28,399	2,642,052	9.3%	757,806	617	3,111	\$7.90
North Hardy Toll Road	856	38,249	2,094,740	5.5%	2,271,429	1,719	1,701	\$7.60
North Outer Loop	1,092	24,866	1,038,790	4.2%	(160,728)	120	374	\$7.04
Northeast Hwy 90	648	20,652	943,280	4.6%	(48,695)	469	1,000	\$7.27
Northwest Inner Loop	1,792	64,404	4,581,785	7.1%	(594,350)	117	22	\$7.25
Northwest Near	827	20,128	1,089,841	5.4%	(9,298)	13	32	\$6.95
Northwest Outliers	634	27,606	2,429,100	8.8%	1,790,636	2,553	1,473	\$8.65
South Hwy 35	1,782	40,111	1,851,742	4.6%	(385,027)	119	60	\$6.80
Sugar Land	517	22,837	982,718	4.3%	30,861	195	299	\$7.88
The Woodlands/Conroe	1,157	21,954	1,880,868	8.6%	94,027	404	357	\$9.39
West Outer Loop	826	27,504	1,404,129	5.1%	419,662	563	90	\$7.78

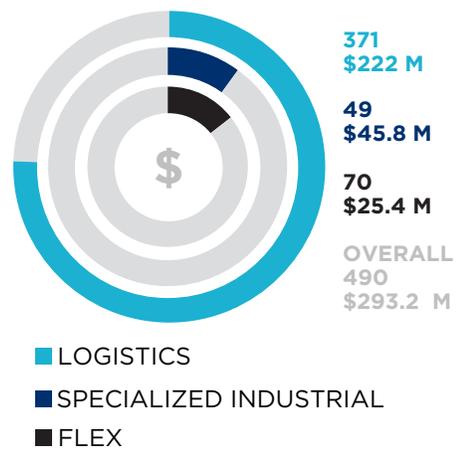
Source: CoStar Property®

VACANCY BY TYPE



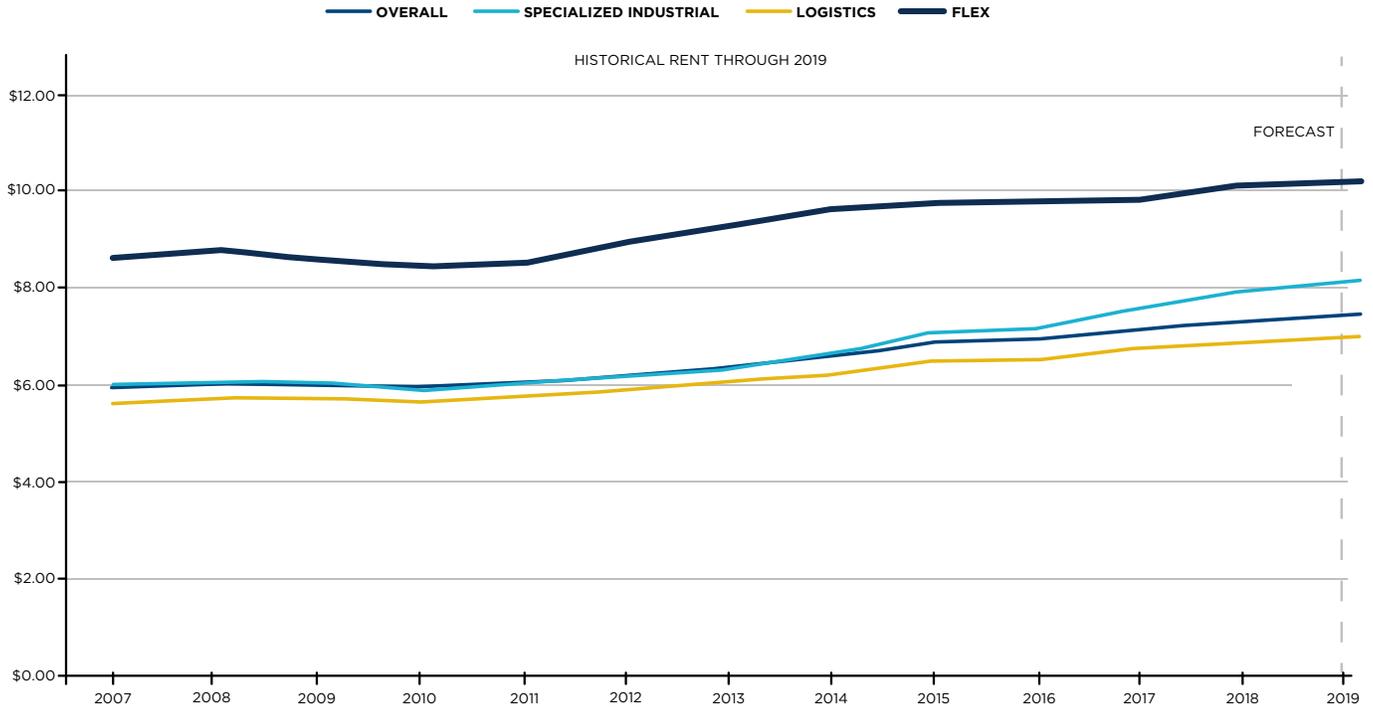
Source: CoStar Property®

SALES BY TYPE



Source: CoStar Property®

HISTORICAL AND FORECAST RENTAL RATES BY TYPE



Source: CoStar Property®

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