

HOUSTON

INDUSTRIAL MARKET REPORT

Second Quarter 2018



BELVOIR

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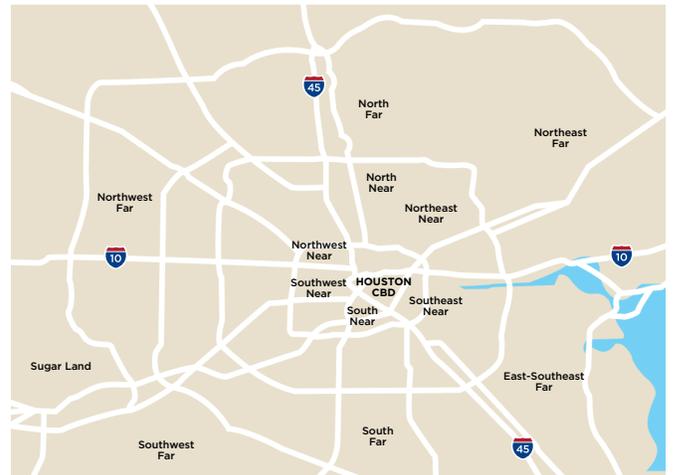
A Message from Matthew Goldsby, Belvoir Managing Director

Houston's industrial and flex space continued to move positively during the second quarter. The softer retail CRE market has pushed investors toward industrial properties as possible acquisition targets. At the end of Q2, 137 projects totaling 12,670,385 sf were in some phase of development. The SW Corridor Industrial and the NW Corridor Industrial account for about 75% or 9.5 million sf of that construction. Those properties were 37% preleased as of the end of the quarter.

Among the most significant activity in the Houston industrial sector were Amazon's Distribution Center at 1M sf in Katy, Plastipak moving into 274,417 sf at Carson Bayport 2 and Unis LLC moving into 257,835 sf in Pasadena, which was also one of the largest leases signed this year.

EXECUTIVE SUMMARY

The Houston Industrial market ended the second quarter 2018 with a vacancy rate of 5.6%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (290,969) square feet in the second quarter. Vacant sublease space increased in the quarter, ending the quarter at 1,971,280 square feet. Rental rates ended the second quarter at \$7.23, an increase over the previous quarter. A total of 32 buildings delivered to the market in the quarter totaling 1,713,288 square feet, with 12,678,385 square feet still under construction at the end of the quarter.



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INDUSTRIAL MARKET SNAPSHOT

ABSORPTION

Net absorption for the overall Houston Industrial market was negative (290,969) square feet in the second quarter 2018. That compares to positive 3,046,386 square feet in the first quarter 2018, positive 1,062,142 square feet in the fourth quarter 2017, and positive 3,825,836 square feet in the third quarter 2017.

VACANCY

The Industrial vacancy rate in the Houston market area increased to 5.6% at the end of the second quarter 2018. The vacancy rate was 5.2% at the end of the first quarter 2018, 5.2% at the end of the fourth quarter 2017, and 5.3% at the end of the third quarter 2017.

LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2018 included:

- the 257,835-square-foot lease signed by Unis, LLC at 10535 Red Bluff Rd in the Southeast Corridor market;
- the 217,440-square-foot deal signed by Lowes at Gateway Southwest Industrial Park - Building 2 in the Southwest Corridor market; and
- the 154,000-square-foot lease signed by Accelerated Process Systems at 24310 State Highway 249 in the North Corridor market.

SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market increased to 1,971,280 square feet by the end of the second quarter 2018, from 1,831,265 square feet at the end of the first quarter 2018. There was 1,654,264 square feet vacant at the end of the fourth quarter 2017 and 1,341,903 square feet vacant at the end of the third quarter 2017.

RENTAL RATES

The average quoted asking rental rate for available Industrial space was \$7.23 per square foot per year at the end of the second quarter 2018 in the Houston market area.

This represented a 3.9% increase in quoted rental rates from the end of the first quarter 2018, when rents were reported at \$6.96 per square foot.

DELIVERIES AND CONSTRUCTION

During the second quarter 2018, 32 buildings totaling 1,713,288 square feet were completed in the Houston market area. This compares to 41 buildings totaling 2,961,914 square feet that were completed in the first quarter 2018, 19 buildings totaling 686,383 square feet completed in the fourth quarter 2017, and 2,216,150 square feet in 25 buildings completed in the third quarter 2017.

INVENTORY

Total Industrial inventory in the Houston market area amounted to 609,179,265 square feet in 19,786 buildings as of the end of the second quarter 2018. The Flex sector consisted of 52,499,604 square feet in 2,151 projects. The Warehouse sector consisted of 556,679,661 square feet in 17,635 buildings. Within the Industrial market there were 3,570 owner-occupied buildings accounting for 161,320,786 square feet of Industrial space.

SALES ACTIVITY

Tallying industrial building sales of 15,000 square feet or larger, Houston industrial sales figures fell during the first quarter 2018 in terms of dollar volume compared to the fourth quarter of 2017.

Cap rates have been higher in 2018, averaging 7.75%, compared to the first three months of last year when they averaged 6.74%. One of the largest transactions that has occurred within the last four quarters in the Houston market is the sale of Cedar Port Distribution Centre in Baytown. This 996,482-square-foot industrial building sold for \$63,500,000, or \$63.72 per square foot. The property sold on 4/6/2017, at a 6.78% cap rate.

Source: CoStar Property®

FLEX MARKET STATISTICS

Q2 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	1	1,200	0	0	0.00%	0	0	0	\$0.00
CBD Ind	184	3,757,947	228,046	248,897	6.60%	5,674	0	0	\$13.95
Liberty County Ind	4	29,215	11,300	11,300	38.70%	0	0	\$0.00	\$0.00
North Corridor Ind	445	11,552,935	1,414,766	1,467,509	12.70%	-138,033	37,866	288,610	\$10.45
Northeast Corridor Ind	74	714,563	92,120	92,120	12.90%	-28,205	2,400	0	\$11.14
Northwest Corridor Ind	592	17,516,667	1,670,178	1,815,536	10.40%	-275,594	0	6,000	\$8.86
San Jacinto County Ind	0	0	0	0	0.00%	0	0	0	\$0.00
Southeast Corridor Ind	233	3,252,204	296,396	296,396	9.10%	-68,413	0	0	\$10.43
Southern Corridor Ind	130	2,542,807	262,548	262,548	10.30%	113,610	0	0	\$6.32
Southwest Corridor Ind	488	13,132,066	1,052,245	1,091,674	8.30%	10,153	0	3,181	\$11.14
TOTALS	2,151	52,499,604	5,027,599	5,285,980	10.10%	-380,808	40,266	297,791	\$9.93

Source: CoStar Property®

WAREHOUSE MARKET STATISTICS

Q2 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	572,616	572,616	34.90%	6,200	0	0	\$9.71
CBD Ind	1,891	55,481,996	2,083,164	2,114,505	3.80%	100,274	0	14,250	\$5.87
Liberty County Ind	55	1,317,254	354,349	354,349	26.90%	-63,661	0	0	\$8.35
North Corridor Ind	3,430	97,340,115	6,325,799	6,830,991	7.00%	1,150,137	1,187,086	1,742,531	\$7.40
Northeast Corridor Ind	1,007	37,231,984	857,963	893,058	2.40%	219,820	207,454	1,003,690	\$6.36
Northwest Corridor Ind	4,380	152,273,759	7,858,361	8,260,507	5.40%	807,768	1,704,513	4,413,115	\$7.33
San Jacinto County Ind	5	40,459	0	0	0.00%	0	0	0	\$0.00
Southeast Corridor Ind	2,506	97,345,647	3,925,145	4,391,145	4.50%	1,121,746	1,302,082	4,523,805	\$6.21
Southern Corridor Ind	2,008	50,411,784	1,658,697	1,800,828	3.60%	-239,709	91,020	82,365	\$6.33
Southwest Corridor Ind	2,321	63,597,120	3,190,002	3,320,996	5.20%	33,650	142,781	600,838	\$7.48
TOTALS	17,635	556,679,661	26,826,096	28,538,995	5.10%	3,136,225	4,634,936	12,380,594	\$6.89

Source: CoStar Property®

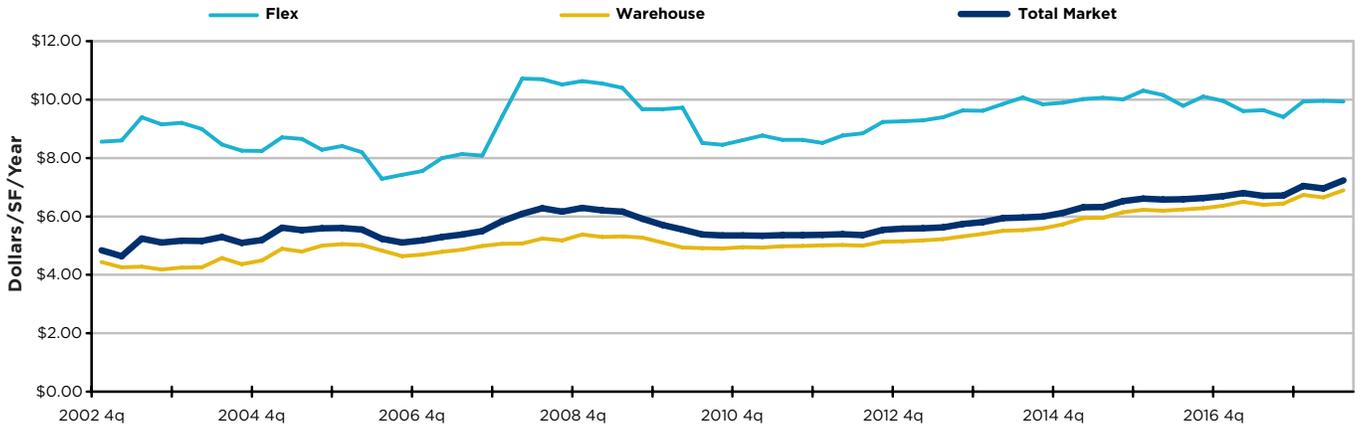
TOTAL INDUSTRIAL MARKET STATISTICS

Q2 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	33	1,640,743	572,616	572,616	34.90%	6,200	0	0	\$9.71
CBD Ind	2,075	59,239,943	2,311,210	2,363,402	4.00%	105,948	0	14,250	\$6.53
Liberty County Ind	59	1,346,469	365,649	365,649	27.20%	-63,661	0	0	\$8.35
North Corridor Ind	3,875	108,893,050	7,740,565	8,298,500	7.60%	1,012,104	1,224,952	2,031,141	\$7.82
Northeast Corridor Ind	1,081	37,946,547	950,083	985,178	2.60%	191,615	209,854	1,003,690	\$6.41
Northwest Corridor Ind	4,972	169,790,426	9,528,539	10,076,043	5.90%	532,174	1,704,513	4,419,115	\$7.60
San Jacinto County Ind	5	40,459	0	0	0.00%	0	0	0	\$0.00
Southeast Corridor Ind	2,739	100,597,851	4,221,541	4,687,541	4.70%	1,053,333	1,302,082	4,523,805	\$6.40
Southern Corridor Ind	2,138	52,954,591	1,921,245	2,063,376	3.90%	-126,099	91,020	82,365	\$6.33
Southwest Corridor Ind	2,809	76,729,186	4,242,247	4,412,670	5.80%	43,803	142,781	604,019	\$7.90
TOTALS	19,786	609,179,265	31,853,695	33,824,975	5.60%	2,755,417	4,675,202	12,678,385	\$7.23

Source: CoStar Property®

HISTORICAL RENTAL RATES (Based on Quoted Rental Rates)

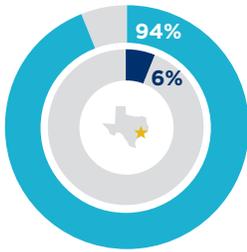


Source: CoStar Property®

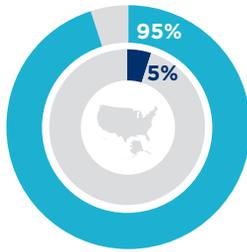
VACANCY PERCENTAGES

BY AVAILABLE SPACE TYPE

HOUSTON



UNITED STATES



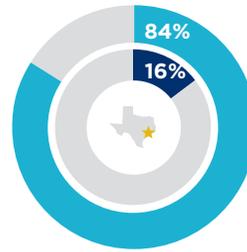
■ Direct ■ Sublet

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Source: CoStar Property®

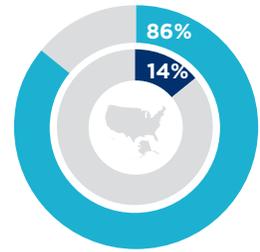
BY BUILDING TYPE

HOUSTON



■ Flex ■ Warehouse

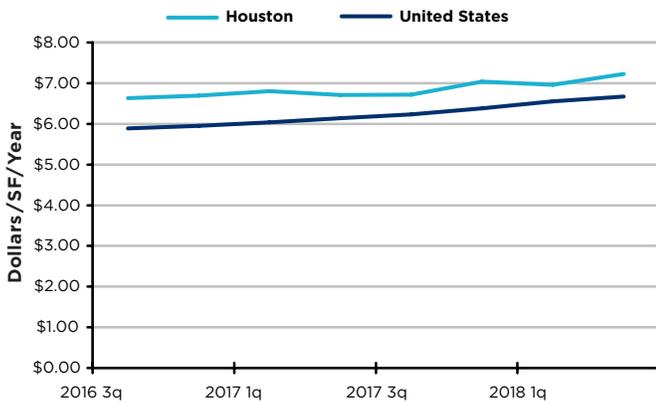
UNITED STATES



■ Flex ■ Warehouse

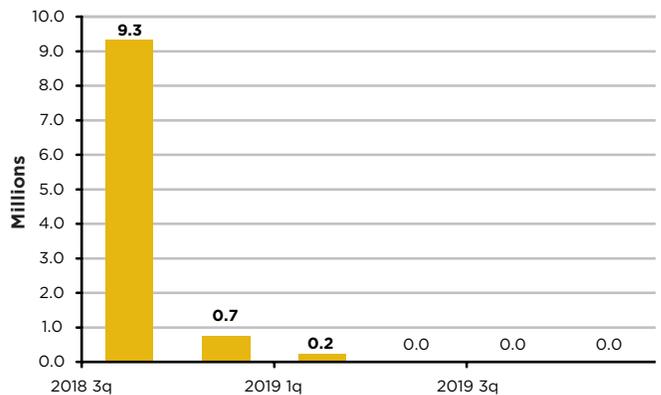
Source: CoStar Property®

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®