

HOUSTON  
**INDUSTRIAL  
MARKET REPORT**

*Third Quarter 2019*



**BELVOIR**

REAL ESTATE GROUP, LLC

*Going Places*

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## *A Message from Matthew Goldsby, Belvoir Managing Director*

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Houston's industrial market enjoyed low vacancy for over two years before growing to a 6.6% vacancy rate, which is not surprising considering all the new construction deliveries through the third quarter of 2019. However, investors and owners are still bullish on the industrial sector, for example:

- Stonelake Capital Partners bought an 85KSF industrial complex in Austin;
- Boston-based TA Realty sold its approximately 14.6MSF portfolio to The Blackstone Group and AEW Capital Management, with 1.9MSF in Houston, 2.4MSF in Austin and 4.2MSF in Dallas; and
- Enterprise Production Partners announced the expansion of its LPG and PGP divisions, with crude oil facilities by 1.3M BPP at its port facility expected to be completed by 20Q4.

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# INDUSTRIAL MARKET SNAPSHOT

## LEASING

Houston's structurally low vacancy rate of 6.6% is below the 20-year historical average and is in line with its peer set, although it is still underperforming the national average. The vacancy rate is also up nearly 150 basis points since a cyclical low of 4.7% in 15Q2. Meanwhile, strong trailing 12-month net absorption of approximately 6,300,000 SF ranked Houston in the top 10 U.S. industrial markets as of 19Q3. 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 create the need 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 2.4% this year. Cumulatively, rents have grown more than 20% this cycle or about 2% per year.

## CONSTRUCTION

There was approximately 17,000,000 SF of industrial buildings under construction as of Q3 2019, which was near a record for the metro, ranking it fifth among US metros after Dallas-Fort Worth, the Inland Empire, Chicago and Atlanta. 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, e-commerce and plastics growth.

## SALES

Industrial transaction activity in Houston remains red-hot, similar to what is happening 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 19Q3, with \$1.2 billion in confirmed trades. However, this figure should be taken with a grain of salt, as Texas is a non-disclosure state, and the amount is likely much higher. Over 500 industrial deals have traded in Houston so far in 2019. More than half of the top 40 properties by size 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.

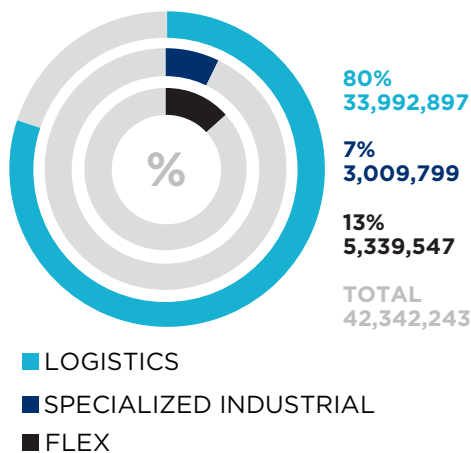
Source: CoStar Property®



Market	Existing Inventory		Vacancy		YTD Net Absorption	12 Month Deliveries	Under Const SF	Asking Rent (SF)
	# Blds	SF (000)	SF	Vac %				
Downtown Houston	914	31,953	1,138,394	3.6%	(376,767)	0	-	\$5.53
East-Southeast Far	2,250	78,380	6,207,989	7.9%	3,537,051	5,618	4,276	\$7.44
Hwy 290/Tomball Pky	674	25,823	2,619,209	10.1%	180,594	1,375	1,652	\$7.67
Hwy 59/Hwy 90 (Alt)	1,046	26,071	1,068,211	4.1%	406,504	60	1,152	\$7.74
North Fwy/Tomball Pky	962	28,899	3,333,212	11.5%	160,659	1,111	2,353	\$7.87
North Hardy Toll Road	864	38,401	2,770,430	7.2%	1,505,081	2,096	1,715	\$7.53
North Outer Loop	1,095	24,957	1,033,857	4.1%	(89,047)	149	876	\$6.94
Northeast Hwy 90	653	21,577	1,627,341	7.5%	251,867	1,288	413	\$7.29
Northwest Inner Loop	1,797	64,120	4,696,949	7.3%	(616,169)	114	180	\$7.20
Northwest Near	834	20,092	1,101,834	5.5%	(35,924)	32	21	\$6.99
Northwest Outliers	647	28,153	2,061,757	7.3%	1,792,463	1,889	2,447	\$8.44
South Hwy 35	1,793	40,020	2,104,077	5.3%	(839,556)	94	153	\$6.82
Sugar Land	517	22,935	815,505	3.6%	172,664	337	509	\$7.92
The Woodlands/Conroe	1,184	22,445	2,063,313	9.2%	(152,232)	323	248	\$9.42
West Outer Loop	840	27,815	1,398,005	5.0%	530,808	205	-	\$7.74

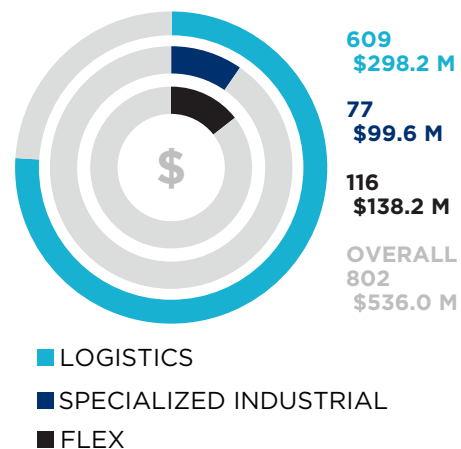
Source: CoStar Property®

VACANCY BY TYPE



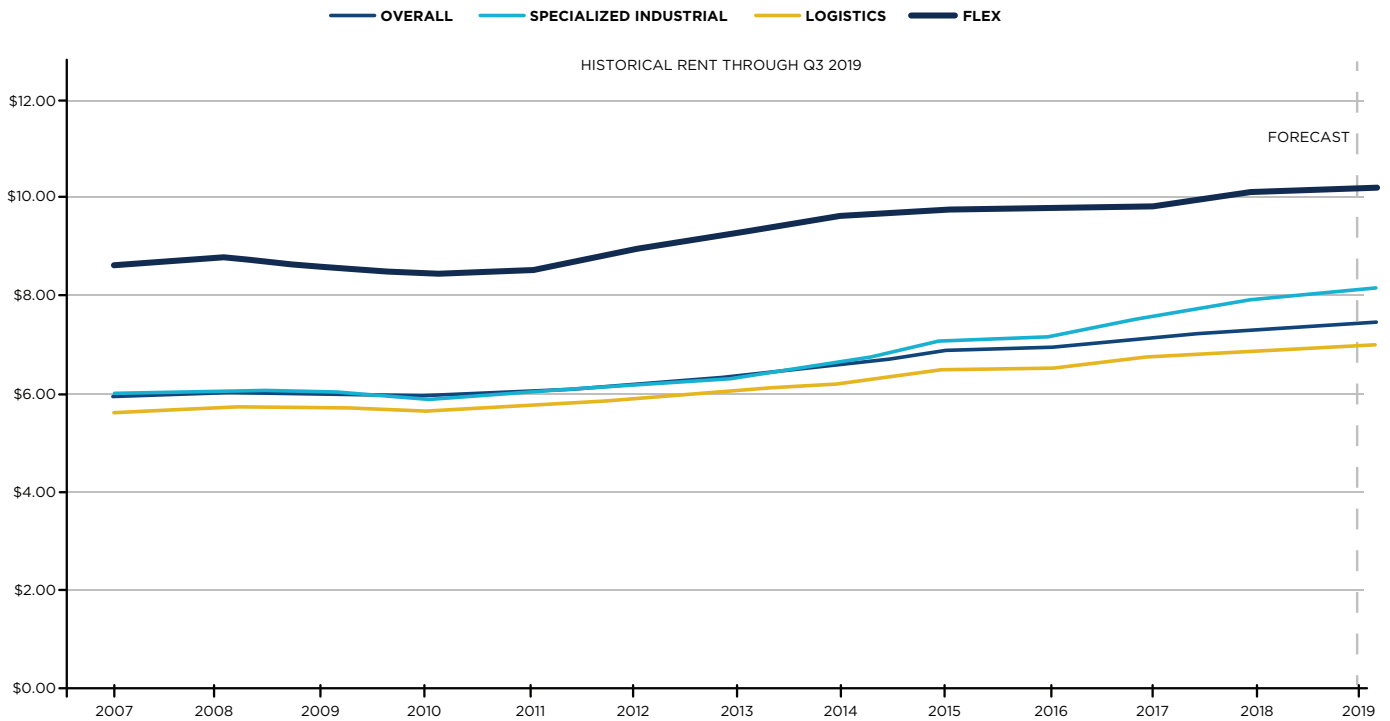
Source: CoStar Property®

SALES BY TYPE



Source: CoStar Property®

# HISTORICAL AND FORECAST RENTAL RATES BY TYPE



Source: CoStar Property®

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