

HOUSTON
**INDUSTRIAL MARKET
REPORT**

Fourth Quarter 2020



BELVOIR

REAL ESTATE GROUP, LLC

Going Places

BROKERAGE / DEVELOPMENT / MANAGEMENT / INVESTMENT

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A Message from Matthew Goldsby, Belvoir Managing Director

Through the fourth quarter of 2020, Houston's industrial market continued to show growth in leasing, development and sales, without as much as a pandemic-related hiccup. The market's vacancy climbed to 8.6%, reflective of the 31.4 million SF added to the market's inventory during the active construction cycle, with rental rates holding through the year.

Leasing activity totaled 14.1 million SF, with second-generation properties representing the majority of leases and renewals signed. Large new distribution centers did not lag far behind, with the 1.5 million-SF Ross Distribution Center opening in this fourth quarter, followed by Amazon's 1,081,292-SF distribution center. This is Amazon's second large distribution center in the Houston area.

There has been 8,203,000 SF of new construction projects started in 2020, of which 2,203,000 SF (27% on the overall) is pre-leased. Due to the relatively high ratio of speculative projects, a longer lease up time is anticipated for some of the larger new builds.

There were 20 major sales in 2020, most of which occurred in the first half of the year. These 20 transactions totaled 5,749,390 SF at a sales volume of \$499,241,045 (86.82/SF average). Recently, a Home Depot was sold at 7703 Sam Houston Parkway West for \$74.6 million, one of the largest transactions of the year.

In the near-term, the industrial sector will be bolstered by the Port of Houston, which leads the nation in handled tonnage, increasing the need for more distribution centers and infrastructure surrounding the port area. The energy sector will also play a key role in manufacturing and industrial growth as oil prices continue to recover and energy firms invest in the development of new technologies. Chevron was the first major producer to aim for "net zero" emissions, while ConocoPhillips announced it plans to eliminate climate-damaging pollution from its operations. BP and Royal Dutch Shell have announced heavy investment in renewables energy technology as well as carbon recapture plants in its fracking operations. Tax incentives and policy initiatives are expected to continue facilitating the development of the industry while supporting its recovery through additional investment.

INDUSTRIAL MARKET SNAPSHOT

LEASING

Houston's industrial market absorbed 1.5 million square feet in the third quarter, dropping it to 15th in the nation from its second quarter ranking of fifth. Meanwhile, leasing volumes this year have held up remarkably well. Over two-thirds of the approximately 1,400 new leases signed so far in 2020 took place since the pandemic began. More than 500 leases were signed since the third quarter began, with more than half of those services and logistics firms. While net absorption and leasing activity have held up recently, the metro's vacancy rate continues to rise. Houston's vacancy rate stands at 8.6%, up from roughly 6.6% at the end of last year.

RENT

It is estimated that rents declined over the past two quarters for the first time since the Great Recession. In fact, Houston was one of the few markets nationally that saw rent declines. Houston industrial rents declined by 0.5% over the past year. This is likely due to the recent surge in new construction, which has far outpaced demand over the past few quarters. By contrast, industrial rents grew 3.4% nationally. Otherwise, rent growth in Houston had been steady ever since the global financial crisis and even through the recent oil downturn. This is indicative of how globally and nationally oriented Houston's economy and particularly its industrial sector have become.

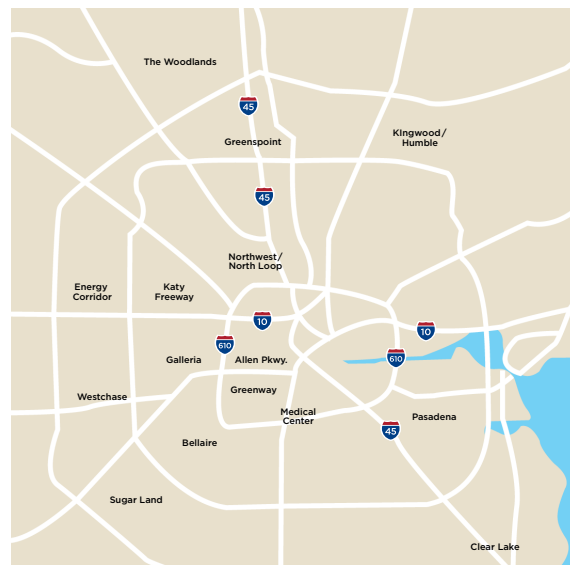
CONSTRUCTION

About 30.6 million SF delivered over the past year in Houston, second only to Dallas-Fort Worth. And the metro still has 8.2 million square feet under construction today, which ranks fifth in the U.S. Some of the largest developments under construction are in Houston's outlying counties, particularly Waller and Chambers. And of the new projects that delivered or are under construction in 2020, more than three-quarters of them are rated 4- and 5-star. This raises some concerns, since most of the leasing activity this year has occurred in 1- to 3-star product. Thus, it is likely that developers overshot speculative demand for 4 and 5 Star recently prior to the pandemic.

SALES

In the third quarter, large portfolio trades were precariously absent in the Houston market. Prior to the pandemic, large-scale national trades involving several million square feet of Houston assets were common. As with the rest of the country, the coronavirus pandemic has rattled the financial markets and added ambiguity when pricing active transactions. During past periods of volatility, investors and lenders took pause to reassess pricing. This is likely already the case in Houston, as buyers revise underwriting assumptions. Houston posted record transaction volume in the first quarter – in which an estimated \$1.8 billion in trades took place. Much of this was the result of Houston's share of national portfolio deals, like Blackstone's acquisition of Global Logistic Properties' U.S. portfolio and Prologis' acquisition of Liberty Property Trust, which both featured Houston-based industrial assets. In the subsequent two quarters, transaction volume fell by more than half over the same period last year.

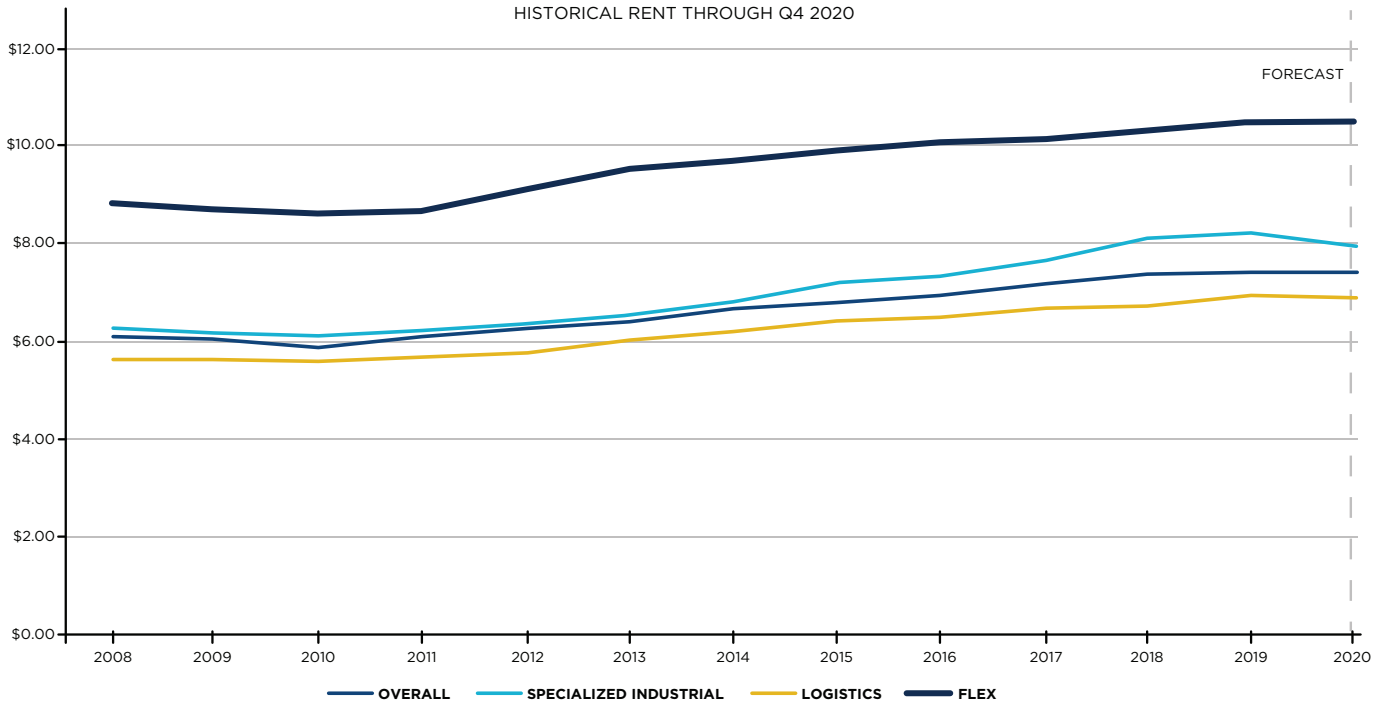
Source: CoStar Property®



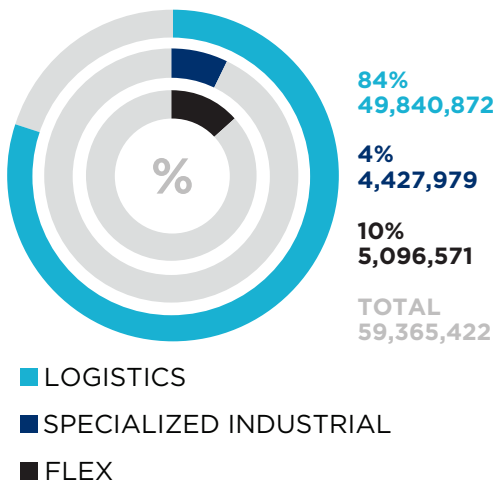
Market	Existing Inventory		Vacancy		YTD Net Absorption	12 Month Deliveries SF(000)	Under Const SF (000)	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Downtown Houston	905	32,368	1,597,509	4.9%	(418,179)	0	-	\$5.47
East-Southeast Far	2,402	87,643	9,686,744	11.1%	2,075,843	5,839	1,264	\$7.25
Hwy 290/Tomball Pky	715	29,772	4,479,283	15.0%	1,602,686	3,380	-	\$7.48
Hwy 59/Hwy 90 (Alt)	1,078	27,857	2,317,225	8.3%	485,659	1,360	523	\$7.68
North Fwy/Tomball Pky	1,043	34,266	4,479,283	15.0%	1,602,686	3,150	193	\$7.78
North Hardy Toll Road	917	41,173	4,556,825	11.1%	(255,753)	1,340	666	\$7.38
North Outer Loop	1,117	26,708	2,280,940	8.5%	338,832	1,113	534	\$6.87
Northeast Hwy 90	699	23,735	2,583,861	10.9%	392,771	1,183	649	\$7.25
Northwest Inner Loop	1,818	64,085	5,107,889	8.0%	(589,784)	192	-	\$7.18
Northwest Near	840	20,141	1,008,139	5.0%	(148,830)	1	135	\$6.93
Northwest Outliers	752	34,516	3,658,195	10.6%	3,128,074	4,924	1,077	\$8.21
South Hwy 35	1,866	41,183	1,751,469	4.3%	1,034,060	585	240	\$6.82
Sugar Land	563	26,317	1,025,470	3.9%	2,445,515	2,747	2,034	\$7.93
The Woodlands/Conroe	1,326	26,279	1,776,219	6.8%	1,294,310	1,432	586	\$9.36
West Outer Loop	861	28,772	1,722,373	6.0%	(261,745)	261	68	\$7.70

Source: CoStar Property®

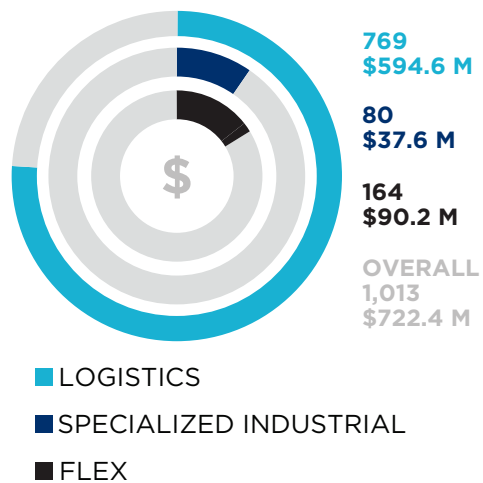
HISTORICAL AND FORECAST RENTAL RATES BY CLASS



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