

HOUSTON  
**INDUSTRIAL MARKET  
REPORT**

*Third Quarter 2020*



**BELVOIR**

REAL ESTATE GROUP, LLC

*Going Places*

BROKERAGE / DEVELOPMENT / MANAGEMENT / INVESTMENT

713.332.8202 / [belvoir.net](http://belvoir.net)

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

---

Navigating the business and consumer environments under pandemic guidelines seemed to have had minimal effect on Houston's industrial property market. Sale activity and the construction pipeline have continued to march on, reflected in the market's overall vacancy averaging 8.4% across the three property subsectors of logistics (9.3% vacancy), specialized industrial (3.5% vacancy) and flex space (9.8% vacancy).

Over the last 12 months, there were 20 major sales transactions totaling 8.1 million SF, equating to a total volume of \$635.2 million and an average sales price of \$78.56 per SF. Prices generally ranged from between \$58 per SF and \$118 per SF.

Over the same 12-month period, the construction pipeline totaled 17,441,000 SF, with four new projects breaking ground in the third quarter for a total of 1,102,367 SF new projects. Another 3,262,985 SF is expected to deliver in the fourth quarter of 2020, with a remaining 13 million SF expected to come online throughout 2021. Due to the heavy spec development pipeline, it is expected that vacancy rates will rise through 2021 as new deliveries are absorbed over time. Of the construction starts, 43.9% are preleased, leaving the remainder to be absorbed over the subsequent 12 months.

Leasing activity totaled 10.6 million SF of net absorption in the industrial sector, with major lease signings in the third quarter executed by DHL (254,160 SF), M/Tek (154,505 SF), Lawless Group (141,440 SF), and Niagra (107,390 SF). During this time, rental rates have remained largely stable, but fell slightly by 0.5% in the third quarter. Geographically, the majority of leasing activity transacted in the outlying submarkets.

In the near-term, the market will be bolstered by two technology centers being developed by Rice and the TMC. Rice is converting the former Sears store on Main (270,000 SF) in midtown as the hub of a 16-acre innovation district and has secured Chevron as the first company to sign a lease at The Ion. The other project, TMC3 in the Medical Center, will be a major competitor in the life sciences and biotechnology research. TMC3 is being developed on a two-mile stretch along Holcombe Blvd.

Across Houston's industrial sector, it is not difficult to find bright spots and new projects underway despite the global headwinds. Trade, transportation and utilities – a major employment sector driver of industrial demand has remained robust through the economic slowdown. Additionally, opportunities for Houston's relatively nascent e-commerce industry to make major strides have become apparent, as distributors and manufacturers adjust to logistical issues and changes throughout the supply chain.

# INDUSTRIAL MARKET SNAPSHOT

## LEASING

Despite the coronavirus pandemic, Houston's industrial market has remained resilient, seeing some of the best leasing activity in the nation and continued demand from life sciences companies and discount retailers. Houston recorded over 4 million SF of leases in the second quarter, enough to rank the Bayou City as seventh in the nation, behind only large distribution markets such as Dallas-Fort Worth, Chicago, Atlanta, Los Angeles, New York, and Southern California's Inland Empire. A wave of new construction in Houston, much of it spec, has outstripped demand and led to a rise in vacancies, which have climbed to more than 8%.

## RENT

The second quarter saw rents decline for the first time in a decade. In fact, Houston was one of the few markets nationally that saw rent declines. Rent growth, albeit positive over the past year for many Houston submarkets, appeared to be slowing even prior to the coronavirus pandemic and recent oil price crash, given the onslaught of new spec supply. Under the Base Case forecast scenario, Houston could see more than a year of negative rent growth beginning in 20Q2, and year-over-year negative rent growth could reach nearly 6% by early 2021.

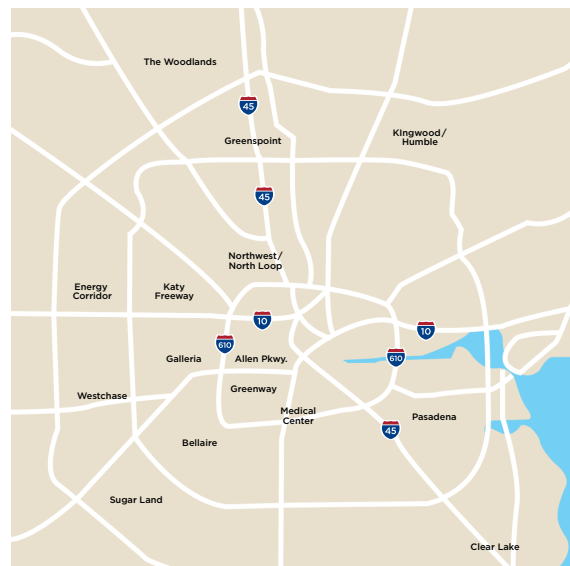
## CONSTRUCTION

There were 16.5 million SF of new industrial developments under construction in Houston in 2020's third quarter, a near record for the city. However, the coronavirus pandemic may lead to project delays or a slowdown in groundbreakings over the next few months as owners, lenders, and developers come to grips with the changing economic landscape both locally and nationally. The East-Southeast Far Submarket, where the Port of Houston is located, is seeing a large amount of spec development catering to the chemical industry. This level of activity is followed by the Northwest Outliers and Southwest Far submarkets, where localities like Brookshire and Rosenberg are seeing a few significant build-to-suits.

## SALES

As with the rest of the country, the coronavirus pandemic has rattled the financial markets and added ambiguity when pricing active transactions. Investors will need to reevaluate their projections for future cash flows and property performance, as the coronavirus-generated recession renders their projections increasingly unclear. Tenants are delaying renewal and new lease decisions. While transaction volume for the past 12 months was still up 17% from the prior year, second quarter transaction volume dropped to its lowest level since the first quarter of 2013. The same strength seen in leasing activity has not quite manifested on the investment side during this period of significant price discovery.

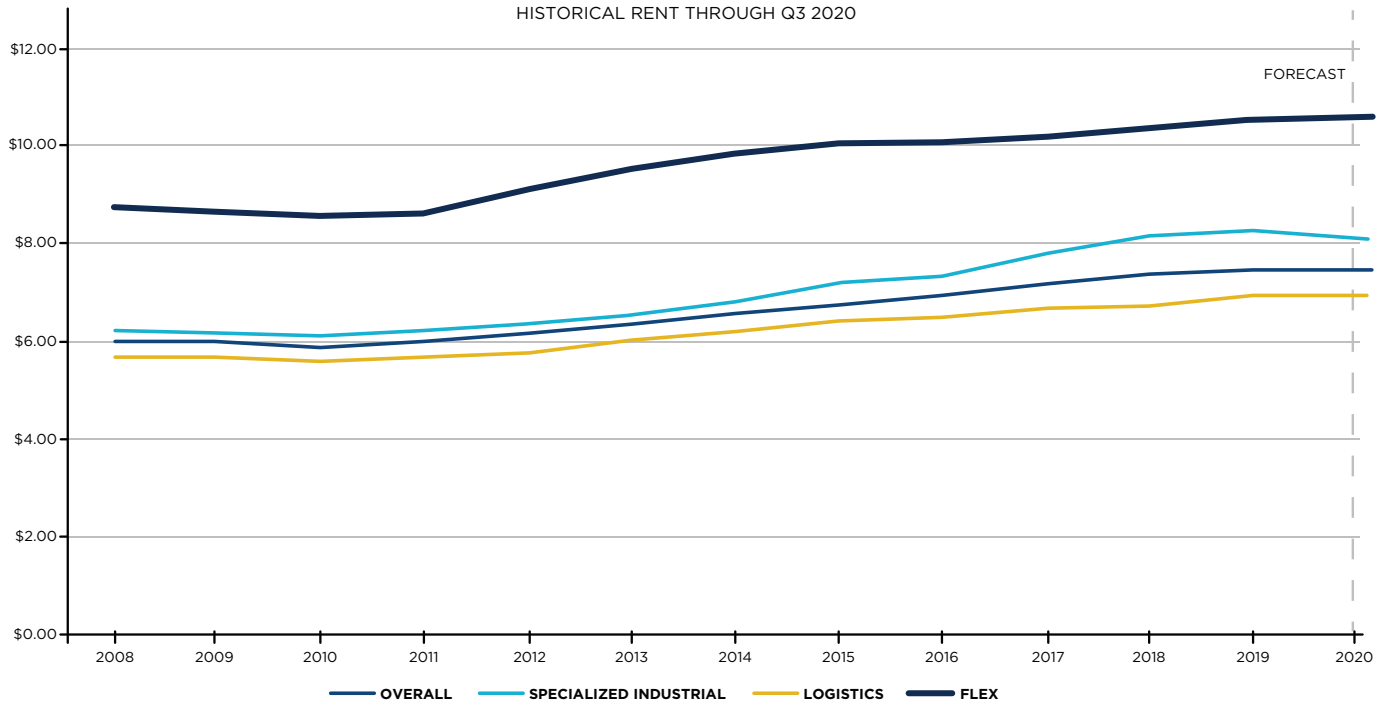
Source: CoStar Property®



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	907	32,538	1,780,316	5.5%	(707,489)	0	-	\$5.46
East-Southeast Far	2,363	85,237	8,967,303	10.5%	1,366,763	4,411	3,853	\$7.29
Hwy 290/Tomball Pky	710	29,183	4,423,205	15.2%	1,362,418	3,243	139	\$7.56
Hwy 59/Hwy 90 (Alt)	1,077	27,853	2,748,421	9.9%	(16,235)	1,602	596	\$7.76
North Fwy/Tomball Pky	1,035	33,670	4,358,258	12.9%	1,734,824	2,445	668	\$7.87
North Hardy Toll Road	911	40,645	4,000,868	9.8%	156,513	1,957	844	\$7.44
North Outer Loop	1,108	26,184	2,010,243	7.7%	16,253	1,021	957	\$6.89
Northeast Hwy 90	693	22,940	1,973,964	8.6%	294,729	789	649	\$7.21
Northwest Inner Loop	1,814	12,242	558,576	7.5%	(59,591)	221	-	\$7.24
Northwest Near	840	20,099	901,378	4.5%	85,243	21	-	\$6.95
Northwest Outliers	741	32,323	3,361,190	10.4%	2,705,408	3,555	3,500	\$8.35
South Hwy 35	1,855	40,777	1,559,860	3.8%	1,065,348	493	643	\$6.84
Sugar Land	556	24,087	1,037,165	4.3%	362,157	684	3,678	\$8.08
The Woodlands/Conroe	1,311	25,918	2,149,241	8.3%	886,575	1,347	181	\$9.35
West Outer Loop	859	28,655	1,725,652	6.0%	(91,131)	306	83	\$7.72

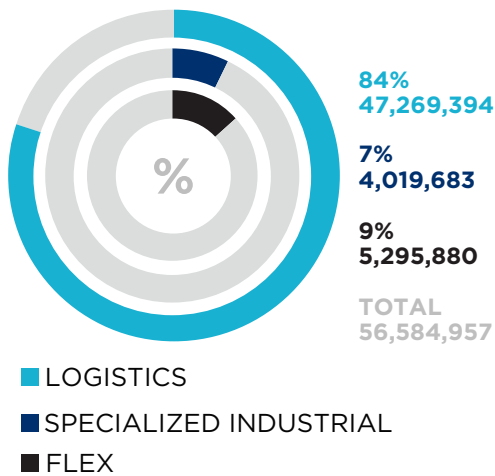
Source: CoStar Property®

# HISTORICAL AND FORECAST RENTAL RATES BY CLASS

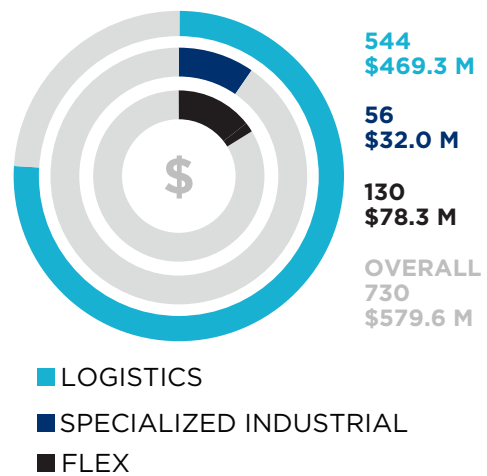


Source: CoStar Property®

## VACANCY BY CLASS



## SALES BY CLASS



LET'S GO PLACES.

Belvoir's team of experts are ready to answer your commercial real estate and brokerage questions. Call us at **713.332.8202** or visit us online at **belvoir.net**.