

HOUSTON  
**MARKET REPORT**

*Second Quarter 2021*



**BELVOIR**

REAL ESTATE GROUP, LLC

*Going Places*

BROKERAGE / DEVELOPMENT / MANAGEMENT / INVESTMENT

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

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The Lone Star State has a well-earned reputation for its business friendly climate and as a place where people come to start new businesses and grow their careers. For years, and accelerating in 2020, there has been a ramp up in Texas-based expansion activity and relocation projects – In fact, more than 90 companies have recently announced plans to relocate their corporate headquarters or manufacturing operations to Texas. Lower housing costs, competitive tax rates, and less red tape bureaucracy have helped drive and sustain a growing cadence of business and worker relocations across Houston, Dallas, and Austin.

For example, global real estate firm CBRE and multinational financial services company Charles Schwab relocated their headquarters from California to the Dallas area in recent months, while Hewlett Packard's corporate headquarters is headed to Houston. Texas has also attracted wealthy individuals and a wide range of their associated business interests, including Joe Rogan, Elon Musk, Dropbox CEO Drew Houston and Palantir co-founder Joe Lonsdale. Wealthy individuals and business owners are only one small component of the migration trends, evidenced by the fact that in 2020, Texas added more residents than any other state.<sup>1</sup>

Most industrial markets around the country saw surprisingly stable performance in 2020, with accelerating activity through the beginning of 2021. Houston's transaction volume, in particular, was up 70% through the year's first five months and includes some of the following deal highlights: Living Spaces Furniture Co. leased 685,000 square feet at the Air 59 Logistics Center in Humble in June, the WebstaaurantStore took down 645,000 square feet at 4725 E. Grand Parkway S. in Baytown in May, FedEx signed for 535,000 square feet at 505 Aldine Bender Road in North Outer Loop in April and Custom Goods transacted 355,000 square feet at the Bay Area Business Park in Pasadena in June.<sup>2</sup>

Even higher levels of real estate activity in Texas industrial markets will likely result from high growth rates in the auto-part manufacturing industry that supply both conventional and electric vehicles. Companies continue to set up operations along the I-35 corridor to support Tesla in Austin and Toyota in San Antonio. In fact, Simwon, a Tesla supplier, recently announced that it would be taking nearly 500,000 square feet in Kyle, Texas, creating about 400 jobs. Texas' trajectory as a hub for both tech development and its business friendly environment has spurred discussion about Texas becoming a technology business hub that could rival and complement Silicon Valley.<sup>3</sup>

Texas continues to shine as a job-centric juggernaut, providing both business and employees with significant advantages over other competing locations. This activity has supported a white-hot industrial real estate market, with the four major Texas markets accounting for over 13% of the total industrial leasing activity in the country.

CNBC <sup>1</sup> | Costar News <sup>2</sup> | Costar News <sup>3</sup>

# INDUSTRIAL MARKET SNAPSHOT

## LEASING

Leasing volume in 21Q2 was double the quarterly leasing volume a year prior. And leasing activity has rocketed back significantly from 20Q2 lows at the onset of the pandemic. Driving this significant rebound in leasing activity was the surge in e-commerce activity experienced during the pandemic, led by Amazon. In addition to Amazon, thirdparty logistics providers such as 4PX Express and Awesung, which provide overseas e-commerce solutions, dominated leasing. Houston's industrial market ranked in the top 10 U.S. markets in terms of net absorption over the past year, it ranked second only to Dallas-Fort Worth in terms of new deliveries. And it is the only U.S. industrial market out of all 390 markets that CoStar tracks that posted rent declines over the past year.

## RENT

Houston industrial rents declined by 1.6% over the past year. Out of the 390 markets that CoStar tracks, this placed Houston last. Houston also has the dubious distinction of being one of only three industrial markets in the U.S. that saw rent declines over the past year, along with Minneapolis and Rapid City, South Dakota. Looking ahead, CoStar forecasts that rents should start to materially improve by the end of next year before beginning a sharp rebound.

## CONSTRUCTION

Over the past year, only Dallas-Fort Worth delivered more new industrial product than Houston did. And over the past five years, only Dallas, the Inland Empire, and Chicago experienced more new deliveries. There is currently 15.3 million SF under construction, and 21.3 million SF delivered over the past year. Houston's supply pipeline has slowed, yet there is still a lot of product for the market to work through.

## SALES

Transaction volumes rebounded sharply over the past two quarters, as investors worked their way out of a period of price discovery in the second and third quarters last year, caused by the onset of the pandemic. Houston's industrial market is currently outperforming just about every other property type in the city besides, perhaps, multifamily, as significant tailwinds make "sheds and beds" increasingly attractive to tenants and investors alike. Prior to the onset of the pandemic, 20Q1 set a record for transaction volume thanks to national portfolio deals. By year end, Houston experienced over \$3 billion in transaction volume, as it did in the prior two years. Of the 10 largest deals that sold last quarter, a disproportionate amount was either fully leased or owner-occupied.

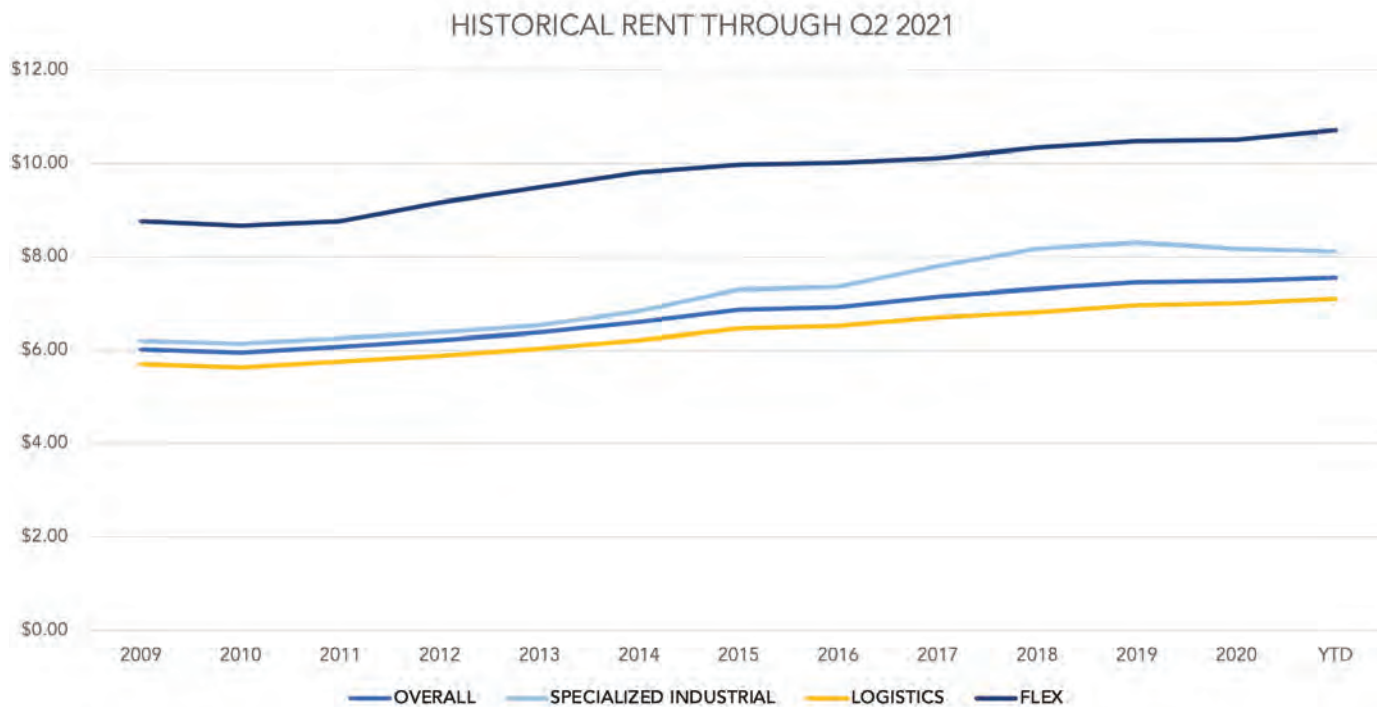
Source: CoStar Property®



Market	Existing Inventory		Vacancy		Net Absorption	12 Month Deliveries SF(000)	Under Const SF (000)	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Downtown Houston	897	32,264	2,013,745	6.20%	(540,725.00)	-540,725	-	\$5.62
East-Southeast Far	2,453	89,332	8,861,882	9.90%	2,816,286.00	2,816,286	2,620	\$7.43
Hwy 290/Tomball Pky	717	29,809	4,644,636	15.60%	225,286.00	225,286	1,238	\$7.67
North Fwy/Tomball Pky	1,245	36,780	3,669,955	10.00%	2,630,210.00	2,630,210	195	\$8.17
North Hardy Toll Road	948	42,529	5,357,456	12.60%	(330,343.00)	-330,343	112	\$7.60
North Outer Loop	1,130	27,446	2,446,774	8.90%	535,901.00	535,901	-	\$7.11
Northeast Hwy 90	715	24,511	2,661,250	10.90%	126,014.00	126,014	526	\$7.43
Northeast Inner Loop	198	12,280	639,403	5.20%	(162,988.00)	-162,988	-	\$5.33
Northwest Near	847	20,358	922,782	4.50%	37,759.00	37,759	-	\$7.12
Northwest Outliers	767	36,762	4,375,563	11.90%	3,421,864.00	3,421,864	634	\$8.64
South Hwy 35	1,893	42,243	2,147,833	5.10%	596,414.00	596,414	231	\$7.01
Sugar Land	578	26,500	1,350,789	5.10%	2,364,475.00	2,364,475	2,617	\$8.02
The Woodlands/Conroe	1,378	27,219	1,621,605	6.00%	1,077,648.00	1,077,648	3,379	\$9.45
West Outer Loop	896	29,372	1,702,261	5.80%	422,151.00	422,151	-	\$7.86

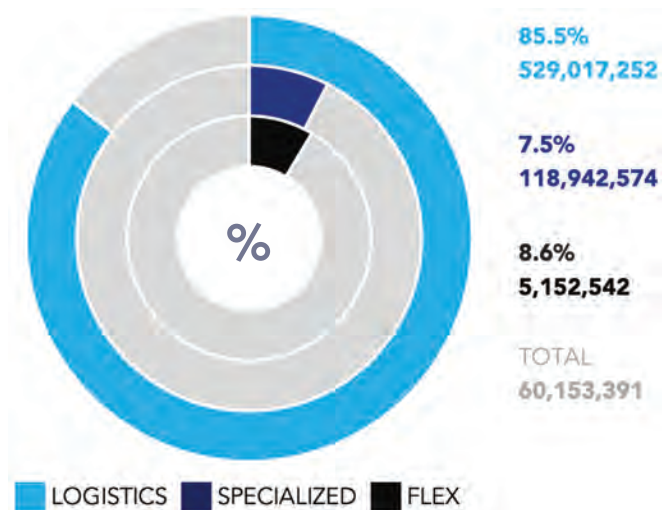
Source: CoStar Property®

## HISTORICAL AND FORECAST RENTAL RATES BY CLASS

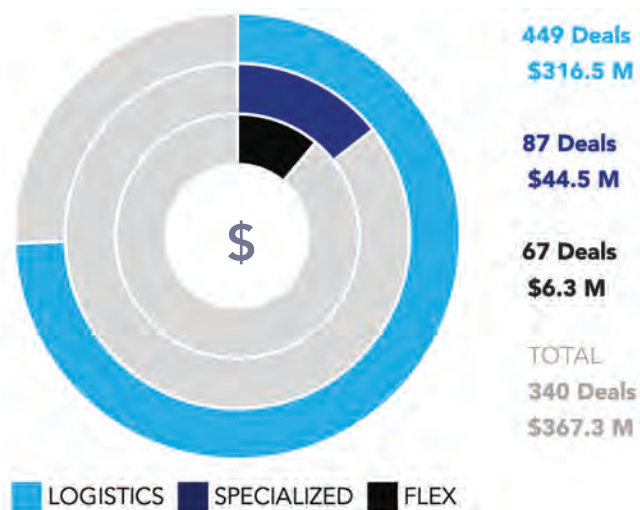


Source: CoStar Property®

## VACANCY BY CLASS



## SALES BY CLASS



# OFFICE MARKET SNAPSHOT

## LEASING

There was 8.2 million SF being marketed for sublease as of 21Q2, ranking Houston among the top 15 U.S. cities for sublease space. Houston's office market experienced -3.4 million of net absorption over the past 12 months as of 2021q3, following nearly 5 million SF of negative net absorption in 2020, which was the worst year on record — nearly double the previous record year of 1987. Out of all CoStar-tracked markets, Houston had the highest vacancy rate in the country as of 2021q3 — 19.0% . Nationally, office vacancies were about 12% as of 2021q3. CoStar forecasts that Houston's office vacancy rate will peak around 19% by early next year before beginning a modest and steady recovery.

## RENT

Houston asking office rents declined about 1.5% over the past year, which was about in line with the U.S. average. The pace of rent growth has also decelerated following each of the past three local downturns. The submarkets that are seeing positive rent growth are typically smaller submarkets that have not experienced much new supply or large-scale move-outs. Alternatively, the submarkets seeing the biggest rent declines are mostly the larger, institutional submarkets that have seen a recent wave of new supply and large move-outs, with few exceptions. Generous concession packages are also accompanying the rent discounts for tenants willing to make large commitments right now.

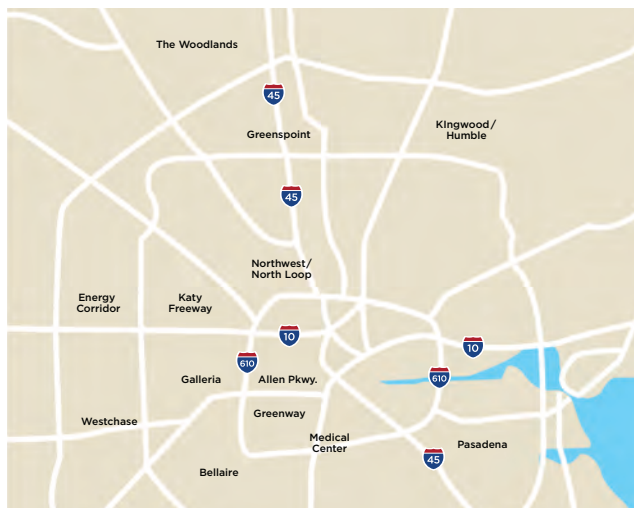
## CONSTRUCTION

Along with slower than normal leasing, the Houston market still has a sizable construction pipeline to contend with. Today there is 5.7 million SF under construction. Yet Houston's construction pipeline has wound down significantly, and the city recently fell out of the top 10 markets in terms of total new construction. What was under construction in Houston at the end of the first quarter was about one-third of the level under construction seen in 14Q2 — equal to less than 2% of Houston's total inventory. Compare that with next-door neighbor Austin, where an amount equal to 7% of total inventory is under construction — the highest rate among the largest U.S. cities.

## SALES

Transaction volumes cratered in Houston declined more than 60% year over year. Of the confirmed trades that did take place over the past year, half involved private and national buyers. This is unusual in Houston, which typically sees a large percentage of trades with institutional and foreign buyers. It is also indicative of a market that continues to find itself in a period of price discovery. For confirmed trades, cap rates held steady year over year, compressing by 30 basis points. And average sales price per square foot also held steady around \$200.

Source: CoStar Property®



# SUBMARKET STATISTICS

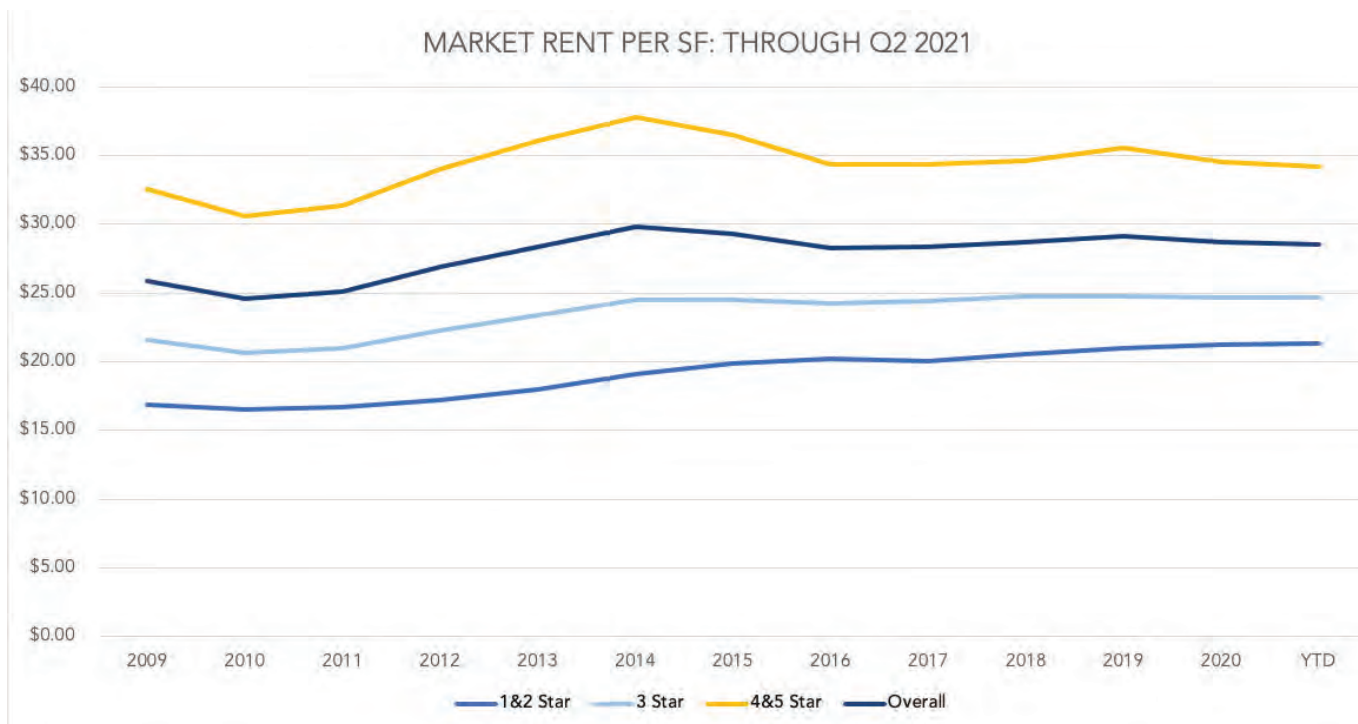
Q2 2021

Market	Existing Inventory		Vacancy		Net Absorption	12 Month Deliveries SF(000)	Under Const SF (000)	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Bellaire	93	5,322	635,346	11.90%	209,048	52	-	\$26.35
CBD	163	51,466	11,514,018	22.40%	-818,869	0	1,622	\$35.98
E Fort Bend Co/Sugar Land	465	10,472	1,626,224	15.50%	-26,484	200	40	\$28.25
FM 1960/Champions	312	4,594	674,961	14.70%	59,005	68	-	\$18.91
FM 1960/Hwy 249	504	10,265	1,624,466	15.80%	76,256	255	169	\$25.43
Greenspoint/IAH	58	3,283	765,858	23.30%	-10,479	0	-	\$19.62
Greenway Plaza	274	12,694	2,601,628	20.50%	-719,204	0	5	\$30.75
Gulf Freeway/Pasadena	674	8,364	895,933	10.70%	-22,297	0	89	\$22.16
Katy Freeway East	272	12,117	1,424,179	11.80%	121,150	194	767	\$33.10
Katy Freeway West	267	28,102	6,524,111	23.20%	-693,610	8	2	\$29.30
Katy/Grand Parkway West	502	6,737	1,013,414	15.00%	124,493	306	66	\$29.37
Midtown	612	10,484	1,262,862	12.00%	-38,992	137	436	\$30.66
NASA/Clear Lake	550	10,365	1,211,479	11.70%	138,075	40	10	\$24.02
North Loop West	391	6,379	1,235,902	19.40%	-76,921	140	110	\$22.94
Post Oak Park	45	4,820	1,606,775	33.30%	-96,065	0	77	\$32.05

Source: CoStar Property®

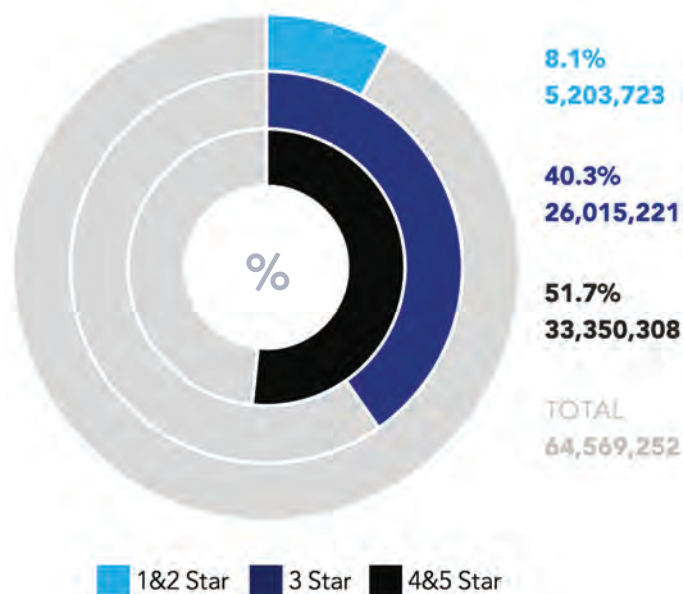


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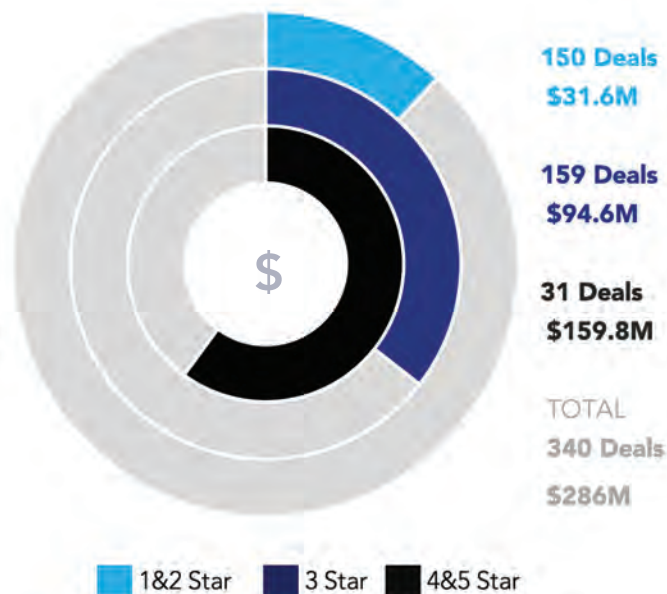


Source: CoStar Property®

## 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**.