

Houston



Quick Stats

79,800

Jobs created during the 12 months ending May 2019

3.2%

May unemployment rate in Houston, down from 4.1% in May 2018

13

msf of industrial space under construction

5.5%

Direct vacancy in Houston's industrial market

29

projects delivered 5.6 msf during second quarter

Vacancy rates are edging up in Houston's industrial sector as record-level new and mostly speculative construction delivers to the market, expanding opportunities for e-commerce and retailers. Completions during second quarter totaled more than 5.6 million square feet (msf), almost double the first quarter's 3 msf. Overall, about 50% was available as it came on the market, resulting in a vacancy rate increase of 30 basis points to 5.5% from first-quarter's 5.2% rate. Total net absorption and leasing activity remained steady in second quarter, with absorption increasing from the first quarter and keeping pace with the first half of last year.

Continuous expansion in Houston's commercial real estate market could potentially result in an overbuilt industrial market. However, developers remain confident as they announce new projects, noting the overall market historically has remained in the 5% vacancy range for the last 8 years, keeping supply and demand relatively equal. With this year's deliveries surpassing mid-year's total from last year by more than 75%, and construction levels consistently topping

double-digit numbers each consecutive quarter since early 2018, concerns of an overbuilt industrial market are warranted.

Port Houston remains one of the key driving forces of the robust industrial market, as the Southeast sector records the highest net absorption for both the quarter and the year. There is an upward trend of all activities at Port Houston. In the 12 months ending May 2019, \$236.6 billion in goods and commodities passed through the Houston-Galveston Customs District, up 14.5% over a comparable period ending May 2018. Imports are up 8.4%, while exports have climbed 18.7% during the same period. Houston is ranked first in tonnage and sixth in value among U.S. customs districts during the first five months of 2019, and Houston has held the top spot as the busiest district in tonnage in seven of the past 10 years.

Together with Port Houston's increased activity, local employment growth continues its positive economic trend. May's unemployment rate plunged to 3.2% – the second lowest in history – from 4.1% year-

over-year. Data from the Bureau of Labor Statistics reported this 0.9% drop is among the largest decreases in unemployment rates for large metros. For the 12 months ending May 2019, the Houston metro area added 79,800 jobs, a 2.6% increase year-over-year, according to Texas Workforce Commission statistics. The leading job growth sectors were professional, scientific and technical services (18,000); durable goods manufacturing (13,300); health care (9,100); and other services (6,800).

Population growth has also contributed to the healthy industrial market by fueling e-commerce and retailers' warehouse and distribution facilities. The Houston metro area had the third largest population growth in the country between April 2010 and

July 2018, according to the U.S. Census Bureau. It added more than one million residents to its population between 2010 and 2018, growing at a rate of 18.2%.

Absorption and Demand

Positive net absorption kept pace with the first quarter, extending an eight-year positive trend with almost 1.9 msf recorded and keeping pace with last year. Warehouse/distribution space accounted for 97% of net absorption in the second quarter, with manufacturing properties recording 94,269 sf while flex space countered with a negative 32,342 sf.

Four of the largest occupancies this quarter were split between the North and Southeast sectors and included C&S Grocer's 727,600-sf project at 15515 Woodham and Conn's HomePlus building of 656,658 sf at 1401 Rankin Road, both in the North. In the Southeast, Plastic Bagging & Packaging, Inc. moved into 519,224 sf in Cedar Port Business Park, and Unis occupied its new 248,240-sf

building in Bayport South Business Park.

The Southeast submarket recorded the largest direct net absorption during the first quarter with more than 1.2 msf, followed closely by the North submarket at just under 1.2 msf. Three other submarkets recorded positive absorption while the remaining two submarkets took a downward turn due to several relocations.

Leasing activity of 9.5 msf at midyear represents a 33% drop compared to mid-year 2018's 14.3 msf. However, as large deals such as the recent 770,640-sf Home Depot lease in Hines' new Grand National Business Park in the Northwest continue to occur, developers will remain confident and optimistic. This is the largest deal to-date this year; based on the escalating construction activity and the nearly 200 proposed buildings, developers anticipate more of the same.

Available sublease space decreased marginally to 4.3 msf, a positive sign after reporting consecutive increases for the last five quarters. The North sector offers 1.8 msf of sublease, 40% of the total available. The Northwest sector has almost 1 msf available, down from 1.5 msf last quarter. The two sectors represent more than 76% of all available sublease space in the market. Available sublease space could be a new indicator to monitor as the current availability represents 60.7% more square footage than reported last year at this time.

Vacancy & Availability

The direct vacancy rate increased 30 basis points to 5.5% from 5.2% during the second quarter. Despite Houston's industrial building boom, vacancy has hovered around 5% since 2012 and is now inching up each quarter.

Vacancy rates increased this quarter for warehouse/distribution space to 5.9% from 5.4%. Manufacturing space vacancy marginally increased to 1.9% from 1.8%, while vacancy for flex space remained 9.4% vacant, the same as last quarter. The largest buildings delivering 100% preleased include C&S

Grocer's 727,600-sf building and Conn's HomePlus 656,658-sf building, both in the North submarket.

Construction

Houston's construction pipeline is steadily expanding as developers fulfill the demands of e-commerce suppliers, retailers and business at Port Houston. The under-construction total dropped marginally to 13 msf during the second quarter. The 95 buildings, with 11.6 msf or 89% representing warehouse or distribution facilities, are collectively 34% preleased.

The bulk of projects under construction is concentrated in the North, Southeast and Southwest submarkets. The largest project underway is the 1-msf facility for Coca Cola in Pinto Business Park in the North. The largest spec projects include Parc Air 59, a 685,400-sf project at Highway 59 and Will Clayton Parkway in the Northeast, and Ella Logistics Center, a 358,567-sf facility in the North at the Beltway and I-45.

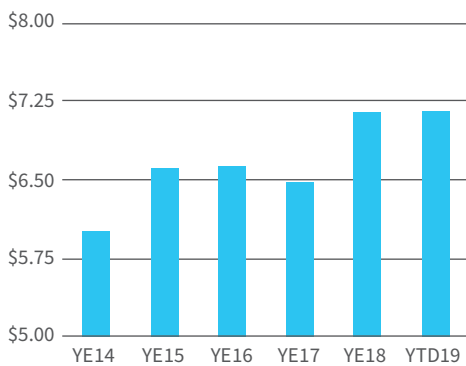
Asking Rates

Asking rental rates have slowly climbed each quarter for the past two years with the current net rate at \$7.21 per square foot (psf), which represents a 10% increase year-over-year, but a 1-cent drop from first quarter. Rent averages for each submarket range from a low of \$4.49 in the Northeast to a high of \$8.16 in the Southeast.

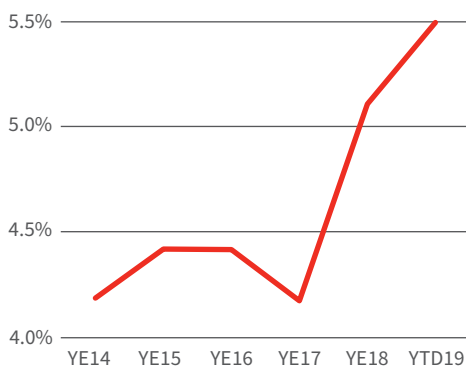




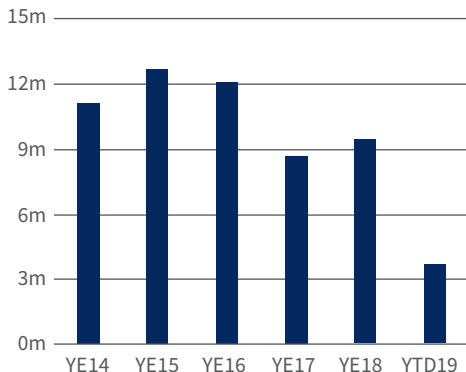
Asking Rates



Vacancy Rate



Net Absorption



Second-Quarter Highlights

- **Distribution International** renewed 171,000 sf at 9000 Railwood in the Northeast submarket. This renewal tops the second-quarter largest deal list. This company also leased an additional 80,000 at 9040 Railwood along with 25,000 sf of office space at KBR Tower, 600 Jefferson.
- **CSAT Solutions** leased 105,711 sf in Legacy Center Business Park at 8802-8824 Fallbrook in the Northwest with November move-in plans.
- **ZXP Technologies*** leased 89,445 sf at Port 10 Logistics Center Bldg.1, 2700

East Freeway in Baytown, for an October move in the Southeast submarket.

- **Katoen Natie Gulf Coast Inc.*** leased 100,000 sf at 2902 E. 13th in Deer Park, also in the Southeast.
- **Toshiba International Corporation*** leased 70,000 sf at 10333 Papalote in the Northwest submarket.
- **Cinch Kit LLC*** will be moving into 53,565 sf at 15002 Sommermeyer, also in the Northwest.

*Avison Young transaction

Trends to Watch

With its central location within the U.S. and the Americas, Houston is an important industrial base. The following are regional updates for key economic indicators.



Oil

The price of oil has fluctuated between \$50 to \$65 recently after a high in the \$70s in October 2018.



Employment

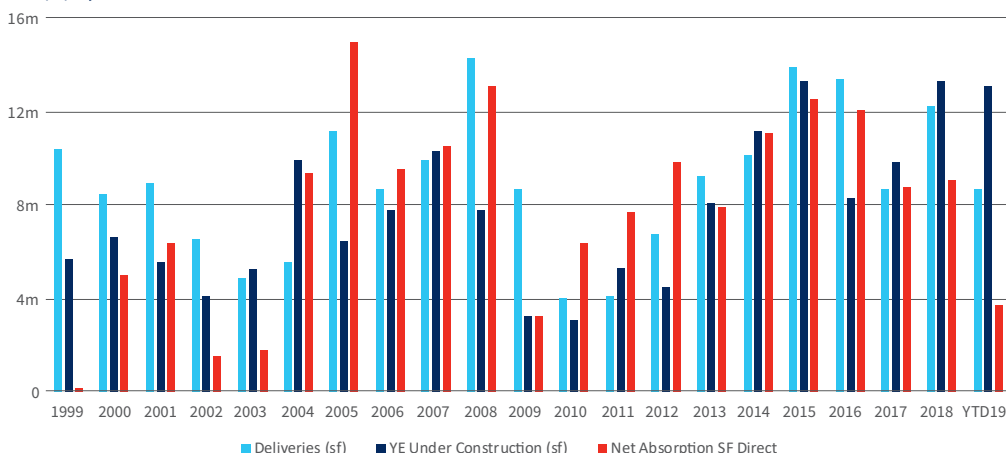
Employment grew 2.6% year-over-year, creating 79,800 jobs for the 12 months ending May 2019.



Purchasing

The Purchasing Manager's Index (PMI) registered 51.2 in June 2019, down from 52.7 in May, indicating short-term economic expansion in Houston.

Supply & Demand



Select Second-Quarter Under Construction

Building Name	Building Address	Building Size (sf)	% Preleased	Projected Delivery	Submarket
Coca-Cola Southwest Beverages	Fallbrook Drive (Pinto Park)	1,000,000	100%	February 2020	North
Air 59 Logistics Center	U.S. Highway 59 & Will Clayton Parkway	685,400	0%	November 2019	Northeast
10591 Red Bluff	10591 Red Bluff Road	643,000	100%	April 2020	Southeast
Costco Wholesale Distribution	Highway 90	548,519	100%	October 2019	Northwest
Ella Logistics Center	Beltway 8 and Interstate Highway 45 North	358,567	0%	January 2020	North
American Furniture Warehouse	Interstate Highway 45 North	355,000	100%	September 2019	Southeast
Park 8Ninety Phase II, Bldg 9	631 Buffalo Lakes Drive	352,769	44%	August 2019	Southwest
Cedar Port Phase III Business Park Bldg 4	Highway 99 & Fisher Road	352,559	0%	January 2020	Southeast
North Houston Logistics Center Bldg G	30 Esplanade Boulevard	351,400	0%	October 2019	North

Select Second-Quarter Deliveries

Building Name	Building Address	Building Size (sf)	% Preleased	Submarket
C&S Grocers	15515 Woodham Drive	727,600	100%	North
Conn's HomePlus	1401 N. Rankin Road	656,658	100%	North
PBP Building	5055 E. Grand Parkway S.	519,224	100%	Southeast
Southwest Commerce Center	611 S. Cravens Road	477,355	0%	Southwest
Underwood Port Logistics Center	4600 Underwood Road	402,648	0%	Southeast
Thompson 10 Logistics Center Bldg 2	1770 East Freeway	260,148	0%	Southeast
Bayport South Business Park III/Unis	10565 Red Bluff Road	248,240	100%	Southeast
Bayport North Logistics Center II	4100 Malone Drive	233,190	0%	Southeast
Interstate Commerce Center Bldg 3	2031 Cypress Station Drive	225,600	0%	North
Highland Grove Industrial Park Bldg 5	10610 Telge Road	203,060	0%	Northwest


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Properties



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