

Houston



Quick Stats

114,400

Jobs created during the 12 months ending November 2018

3.8%

Unemployment rate in Houston, unchanged from October but down from 4.4% in November 2017

11.3

msf of industrial space under construction

4.9%

Direct vacancy in Houston's industrial market

Market Overview

The industrial market remains Houston's best-performing product type as expansion continues during the latter half of 2018. Leasing activity slowed during the fourth quarter after recording an average of almost five million square feet (msf) in each of the first three quarters. The fourth quarter recorded 3.4 msf of leasing activity, bringing the year-to-date total to almost 18 msf, which is about 11% less square footage leased during 2017.

Deliveries also plunged to 1.6 msf during fourth quarter, which is a slowdown when compared to the 4.2 msf completed during the previous quarter. However, overall year-to-date shows 10.8 msf delivered, which represents more than a 20% increase from the 8.1 msf delivered in the previous year.

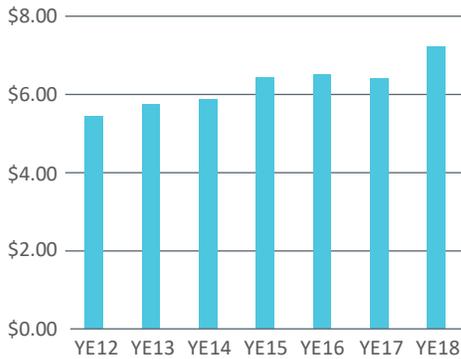
Local employment growth has been steady, with the unemployment rate dropping to 3.8% in November compared to last November's 4.4%. For the 12 months ending November 2018, the Houston metro area created 114,400 jobs, a 3.7% increase year-over-year, according to Texas Workforce Commission statistics reported by the Greater Houston Partnership (GHP). Five sectors, including construction and professional services, accounted for three-fourth of all job gains.

Absorption & Demand

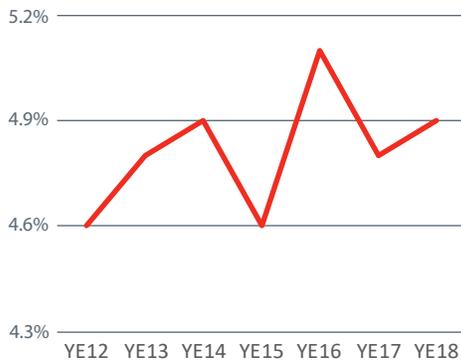
Direct net absorption jumped significantly during the fourth quarter to 2.6 msf, closing out the year with more than 7.7 msf of direct net absorption. This represents an increase when compared to the previous year's annual total of almost 5.9 msf of direct net absorption. Warehouse/distribution space accounted for more than 90% of net absorption in 2018 and resulted in a slightly improved vacancy rate. One of the largest and most recent deals reported during fourth quarter is Valvoline's 472,000-sf deal at Port Crossing Commerce Center.

Available sublease space increased slightly to 3.4 msf, up from the 3.2 msf range recorded during the last few quarters. The Northwest sector offers the largest amount of sublease space at 1.1 msf, followed by the North sector at 931,959 sf. This overall total represents a slight drop from the same period last year when 3.5 msf was reported. Since leasing activity has shifted away from existing product to new construction, much of the net absorption gains this year coincide with the delivery timeline.

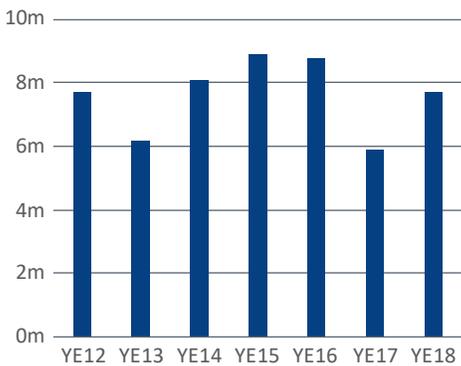
Asking Rates



Historical Vacancy Rate



Historical Net Absorption



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Vacancy & Availability

The direct vacancy rate decreased a marginal 10 basis points to 4.9% from 5% during fourth quarter. Despite Houston's industrial building boom, vacancy has hovered around 5% since 2012. Vacancy rates dropped slightly this quarter for warehouse/distribution space to 5.1% from 5.2%. Manufacturing space fell to 2.3% vacant, while vacancy for flex space rose to 9.7% from 9.3% last quarter.

During the fourth quarter, 22 projects totaling almost 1.6 msf delivered to the market. Year-to-date, 77 buildings totaling 10.8 msf were completed, with the largest being Amazon's 1-msf Distribution Center in Brookshire. Retailers also built new facilities, with the larger properties including Emser Tile, who occupied its new 601,000-sf facility in Pinto Park, and Best Buy, who completed a new 550,000-sf facility during the fourth quarter in Southwest Houston.

Construction

Houston's construction pipeline continues to climb as developers fulfill the demands of e-commerce suppliers and business at the Port of Houston. The under-construction total jumped to 11.3 msf during the fourth quarter. The 58 buildings primarily represent warehouse or

distribution facilities and are currently 38% preleased. Parc Air 59, a 685,400-sf project at Highway 59 and Will Clayton Parkway, is the largest spec project underway, while two of the three largest projects under construction are build-to-suit (BTS) representing almost 1.4 msf. The largest BTS projects and largest deals for 2018 include C&S Grocers' 727,600 sf at 14803 Woodham and Conn's HomePlus' 656,658-sf project, both in the North.

Asking Rates

After four quarters of steady average asking rates, the fourth quarter saw an increase of 2.9% to \$7.20 per square foot (psf), which is also higher than last year's fourth-quarter average of \$6.39 psf. Five of the seven submarkets recorded increases, with the largest jump of 16.6% for rates in the Southeast sector.

Select Fourth-Quarter 2018 Deliveries

Best Buy Distribution Center, 636 Highway 90
(550,000 sf) Southwest

UPS, 11770 N Gessner Road
(257,909 sf) Northwest

Q4 2018 Highlights

- Miami-based **Southern Glazer's Wine and Spirits** purchased and occupied a newly built spec distribution center in Katy. The 673,785-sf property in West Ten Business Park was developed by the Oakmont Industrial Group.
- **Ikea** reportedly has acquired 144 acres in McCord Development's master-planned Generation Park in Northeast Houston. Specific plans have not been announced.
- Chicago-based **Logistics Property Company** has announced plans to break ground in early 2019 on two of a possible seven buildings in a new 1.7-msf CityPark Logistics Center in Missouri City.
- **Lowes** moved into its new 217,440-sf distribution facility in the Southwest.

Trends to Watch



Employment grew 3.7%, creating 114,400 jobs for the 12 months ending November 2018. All but two sectors reported growth, according to the Texas Workforce Commission.



The Purchasing Manager's Index (PMI) registered 54.9 in November, down minimally from 55 in October, indicating short-term expansion in Houston's manufacturing sector.