

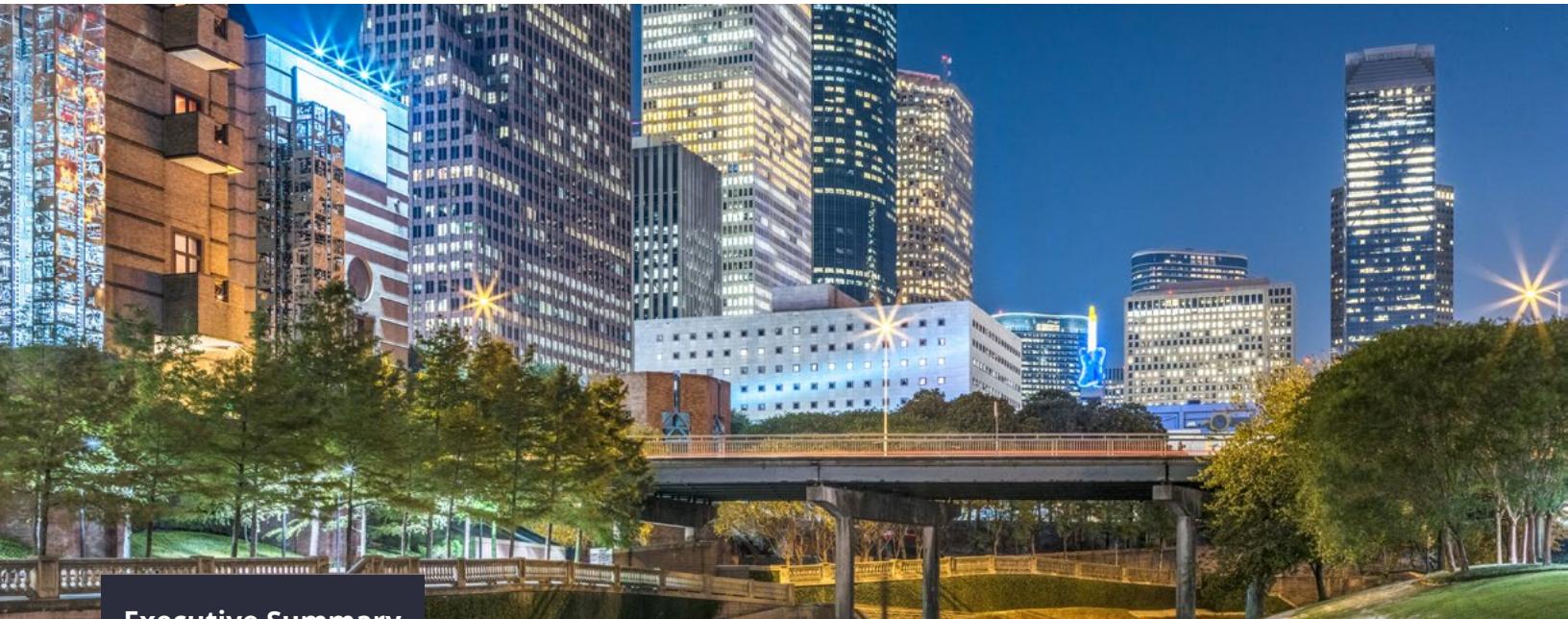
Forecast 2021



Houston

**AVISON
YOUNG**

Houston



Executive Summary

- Houston's commercial real estate market has been significantly disrupted by effects of the global pandemic.
- The industrial market dominates with record construction due to rising online shopping demand.
- Houston has recovered about half of all jobs lost but energy layoffs continue.

Houston's 2021 commercial real estate market outlook is challenging as effects from the pandemic play out amid increasing infection rates and preparations for the distribution of vaccines. Despite global trade disruptions, trade activity at the Port of Houston has increased and the soaring online shopping experience continues to drive companies to seek warehouse/distribution space near the Port and throughout the metro.

Houston's recovering economy highlights several areas as bright spots shining through the downturn. Innovation combined with technology is prompting new research facilities for healthcare, technology start-ups and business incubators, with venture capitalists onboard to fund the new groups. The aerospace industry is thriving as the region expands the commercial space sector and finds new ways to adapt innovative solutions to life science.

Flexibility will be a key to jump start leasing activity and assist companies to determine their current and future space needs. While some have added excess space to the sublease market, the overall totals are much smaller than the large amounts being marketed in other cities.

Flight to quality remains a factor. Recent closed deals involve class A landlords offering substantial concession packages in addition to overall building upgrades. Various levels of allowances will be offered throughout 2021 due to the large amounts of available space. However, office users from other states are attracted to Houston's lower cost of living, diverse talent base and friendly business climate and are making the move to the Bayou City. Hewlett Packard Enterprises recently reported plans to move its global headquarters from California to its new under-construction campus in North Houston.

Industrial continues to outperform all other asset types but higher vacancies and larger rent concessions will continue



"Online shopping is strong, and national retailers are building large distribution centers and last-mile facilities throughout the metro. Amazon is very active, leasing multiple under-construction facilities and contracting for several large build-to-suits."

in 2021 as the new supply outpaces immediate demand. Online shopping is strong, and national retailers are building large distribution centers and last-mile facilities throughout the metro. Amazon is very active, leasing multiple under-construction facilities and contracting for several large build-to-suits. The building boom will linger in 2021, following the recent start of the area's largest spec 1-msf project near the Port of Houston.

The industrial market is expected to remain solid in 2021. Lowe's recently reported a 1.5-msf regional distribution center underway in New Caney, northeast of Houston, and a couple other large deals have been announced. Online retailer Costway leased a newly completed 402,648-sf facility, while Dunavant Distribution expanded with a 784,000-sf lease to consolidate locations. Both properties are near the Port of Houston, which has reported rising trends in monthly cargo volume in recent months. The Port was once again ranked No. 1 in both total tonnage with a 6% increase year over year and in number of vessel transits, an average 50 deep-water vessels per day, for calendar year 2019.

Houston's retail market will continue to adapt to delivery and curbside pickup as restrictions limit in-person dining and shopping into 2021. Many have adapted to reduce exposure during the last year, and this process could produce a new "normal." Several new restaurants to the region have opened while some long-time favorites have shuttered and others continue to struggle.

Overall investor activity is down substantially in 2020 due to pandemic disruptions causing uncertainty for both sides. This uncertainty has dampened investors' outlook and interests in late 2020 and into 2021.

Trend watch



Hyperlocal

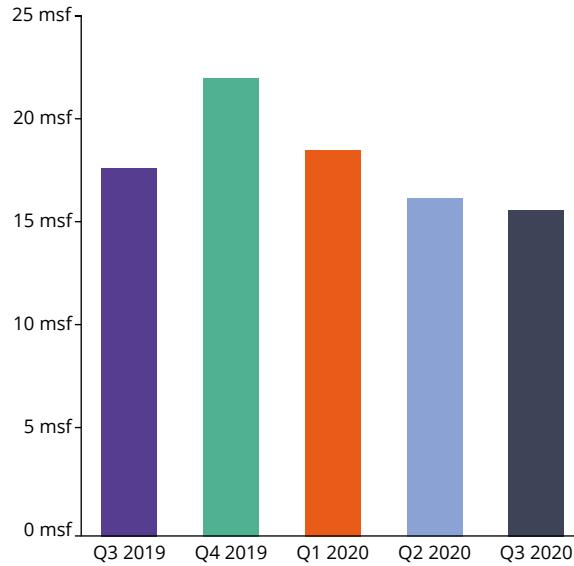
As the Houston metro moved into lockdowns, retailers scrambled to provide speedy and efficient delivery to a new customer group accustomed to in-store shopping, making the last-mile delivery the top priority



Workplace eXperience

Many employees are happy to utilize hours previously lost by commutes and continue working from home but would venture back into the office if the experience drives innovation and makes their job more rewarding.

[Click here for a complete list of Avison Young's Trends for 2021.](#)



Total Industrial Area Under Construction

Source: CoStar and Avison Young Research

Get more market information

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