

# Houston

## Strong occupier demand continues to outpace new supply additions

- Net absorption far exceeded deliveries (27.5 m.s.f. vs. 20.8 m.s.f.), pushing vacancy down to 2019 levels at 5.9%
- Rent growth significantly accelerated over the year, driving an 18.3% increase in achieved starting rents between 2H 2021 and 2H 2022
- Leasing activity topped 10 million s.f. in the final quarter for an annual total of nearly 50 million s.f. of deal volume
- The year's chart-topping 36 million s.f. of ground-breakings led to a new construction high of 29 million s.f. underway in Q4

Houston's prominence in regional, national and global supply chain networks was undeniable in 2022. Q4's nearly six million s.f. of net absorption pushed the 2022 total to a record 27.5 million s.f. of occupancy gains. The five largest Q4 move-ins occurred in the Southeast and West submarkets, the most notable being a one-million-s.f. new-to-market tenant at Empire West. The market's 20.8 million s.f. of annual completions failed to keep pace with demand, driving vacancy down 50 basis points quarter-over-quarter and 160 basis points year-over-year to 5.9%. Of the major submarkets, vacancy remained the tightest by far in the Southeast, where it fell to 3.7%.

Another 10.2 million s.f. of leases were signed in the final quarter, led by four big-box deals, for a grand total of 49.2 million s.f. of leasing activity. Many of these deals have yet to commence, taking occupancy as new projects deliver, and setting up 2023 for continued strong net absorption. Starting rents grew markedly, especially in the second half of the year, climbing 18.3% from the same period in 2021. While rate increases have given some tenants pause, it has not stopped them from transacting, and competition for space remained fierce.

More than 36 million s.f. of new supply kicked off this year to meet the demands of the region's diverse and expanding tenant base. Q4 ended with 29 million s.f. under construction, still led by activity in the Southeast and West, and the total pipeline was 34.8% preleased. A large retailer's new 1.4-million-s.f. build to suit kicked off in the Northeast submarket and now marks the largest project underway in Houston.

### Outlook

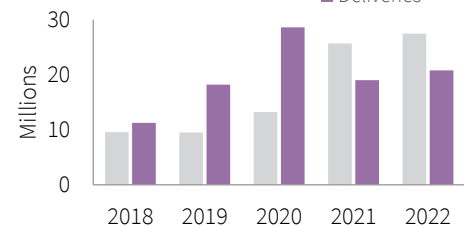
A growing population, successful port, and proximity to other major Texas markets are expected to keep Houston at the forefront of leasing and investment decisions. Additionally, rent growth and annual escalations will likely carry significant momentum into 2023, while construction activity should sharply decelerate in response to financing challenges. All of this leaves Houston well-positioned to navigate potential headwinds and maintain strong performance in the year ahead.

### Fundamentals

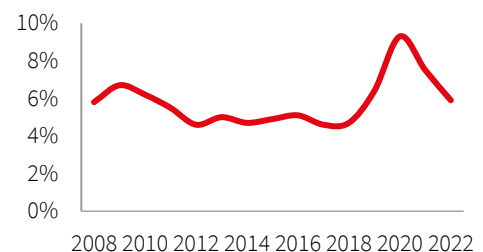
Forecast

YTD net absorption	27,464,367 s.f.	▲
Under construction	29,035,468 s.f.	▼
Total vacancy	5.9%	▼
Sublease vacancy	1,435,279 s.f.	►
Direct asking rent	\$0.55 p.s.f.	▲
Sublease asking rent	\$0.49 p.s.f.	▲
Concessions	Stable	►

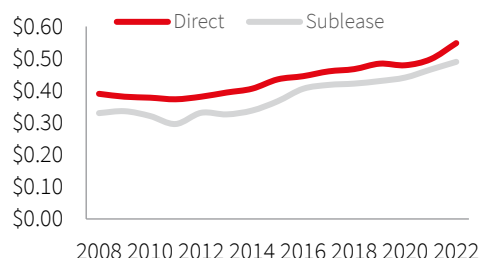
### Supply and demand (s.f.)

■ Net absorption  
■ Deliveries


### Total vacancy (%)



### Average asking rent (\$ p.s.f.)



Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
Houston total										
Warehouse & Distribution	418,588,013	5,905,919	26,456,625	6.3%	6.6%	11.4%	\$0.55	3,772,404	20,405,626	28,884,468
Manufacturing	88,873,365	-42,173	1,007,742	1.1%	2.7%	4.8%	\$0.58	0	368,000	151,000
Overall Total	507,461,378	5,863,746	27,464,367	5.4%	5.9%	10.3%	\$0.55	3,772,404	20,773,626	29,035,468
North										
Warehouse & Distribution	74,761,225	451,385	4,403,855	5.9%	8.5%	13.7%	\$0.55	759,896	3,861,385	4,877,488
Manufacturing	15,324,347	-7,783	202,146	1.3%	2.2%	2.5%	\$0.68	0	240,000	21,000
Overall Total	90,085,572	443,602	4,606,001	5.1%	7.4%	11.9%	\$0.56	759,896	4,101,385	4,898,488
Northeast										
Warehouse & Distribution	28,780,746	113,927	2,248,236	7.8%	9.1%	8.1%	\$0.54	668,761	2,117,020	1,655,871
Manufacturing	7,094,346	0	22,181	0.3%	0.9%	2.3%	\$0.41	0	0	0
Overall Total	35,875,092	113,927	2,270,417	6.3%	7.5%	7.0%	\$0.53	668,761	2,117,020	1,655,871
Southeast										
Warehouse & Distribution	84,292,921	1,433,643	10,076,979	12.0%	4.1%	9.4%	\$0.54	1,055,072	6,457,981	7,745,952
Manufacturing	18,200,019	-111,034	547,659	3.0%	1.8%	2.6%	\$0.66	0	0	0
Overall Total	102,492,940	1,322,609	10,624,638	10.4%	3.7%	8.3%	\$0.54	1,055,072	6,457,981	7,745,952
CBD										
Warehouse & Distribution	28,511,727	4,044	-600,973	-2.1%	9.6%	13.0%	\$0.50	0	0	0
Manufacturing	8,461,480	-22,700	21,300	0.3%	0.8%	11.8%	\$0.44	0	0	0
Overall Total	36,973,207	-18,656	-579,673	-1.6%	7.6%	12.7%	\$0.47	0	0	0
West										
Warehouse & Distribution	27,785,384	1,934,246	4,219,287	15.2%	7.5%	21.5%	\$0.49	514,550	3,362,260	6,022,353
Manufacturing	3,010,443	0	-23,000	-0.8%	5.1%	1.4%	\$0.75	0	0	0
Overall Total	30,795,827	1,934,246	4,196,287	13.6%	7.3%	19.9%	\$0.49	514,550	3,362,260	6,022,353
Northwest										
Warehouse & Distribution	97,512,271	1,139,050	3,316,586	3.4%	6.0%	11.1%	\$0.58	774,125	3,235,084	5,445,379
Manufacturing	21,406,034	166,632	34,801	0.2%	4.3%	6.4%	\$0.63	0	0	130,000
Overall Total	118,918,305	1,305,682	3,351,387	2.8%	5.7%	10.3%	\$0.58	774,125	3,235,084	5,575,379
Southwest										
Warehouse & Distribution	49,340,353	1,003,491	2,357,180	4.8%	7.1%	8.3%	\$0.57	0	1,371,896	461,075
Manufacturing	7,233,128	70	123,570	1.7%	4.8%	9.1%	\$0.71	0	128,000	0
Overall Total	56,573,481	1,003,561	2,480,750	4.4%	6.8%	8.4%	\$0.58	0	1,499,896	461,075
South										
Warehouse & Distribution	27,603,386	-173,867	435,475	1.6%	4.0%	7.8%	\$0.56	0	0	2,676,350
Manufacturing	8,143,568	-67,358	79,085	1.0%	1.9%	1.8%	\$0.61	0	0	0
Overall Total	35,746,954	-241,225	514,560	1.4%	3.5%	6.5%	\$0.57	0	0	2,676,350