

FIGURES | HOUSTON INDUSTRIAL | Q1 2023

Industrial supply in play to make space for Houston expansion



Note: Arrows indicate change from previous quarter.

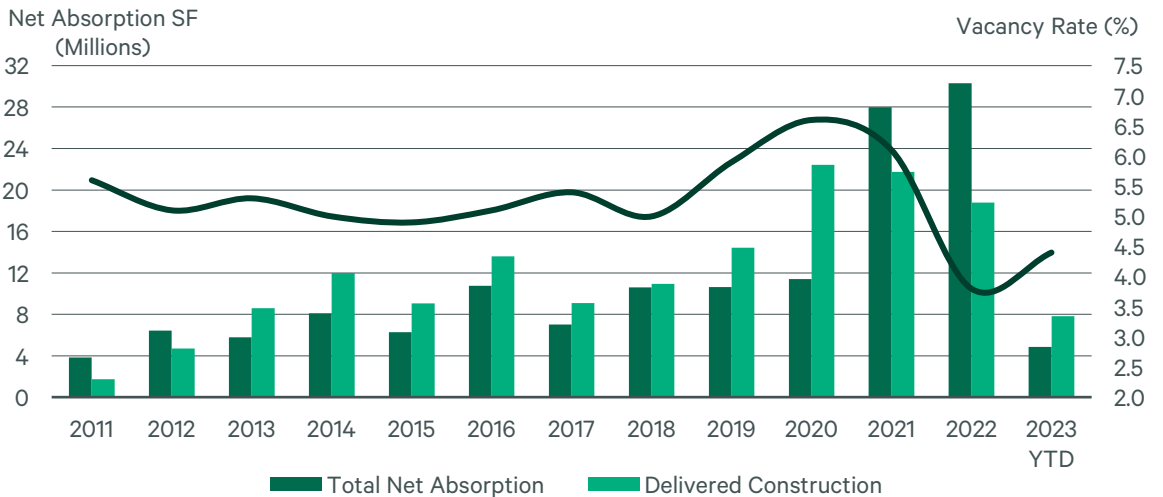
MARKETWIDE OVERVIEW

- West Houston submarket established following more than a year of record development
- Vacancy increased by 60 basis points (bps) as vacant spec product delivers to market
- Robust tenant demand drives 7.8 million sq. ft. in new deliveries

Following a record-breaking year, the Houston industrial market moderately cooled off with a slight slowdown in the development pipeline and pullback on total net absorption. To that end, market fundamentals remained strong, reporting a 4.4% vacancy rate, thanks to 7.8 million sq. ft. of newly delivered inventory. Industrial demand continues to be fueled by the expansion of suburban population centers, focus on nearshoring and ESG investment.

Notable progress toward infrastructural improvements was announced by the Port of Houston mid-quarter with completion on dredging the 11.5-mile segment stretching from Bolivar Roads to Redfish. Driven by increased capacity, the Port of Houston reported a 15% rise when compared to February of last year, posting 313,452 Twenty-Foot Equivalent Units (TEUs) of total volume. This now marks the highest February TEU level on record. The American consumer alone will sustain demand for logistics and manufacturing and as supply chains move away from the West Coast, Houston is poised to further advance with strong labor force and growing diversity across the MSA.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q1 2023.

Lease Rates

Over the last year, average rental rates have climbed to \$0.78/sq. ft. on a monthly, gross basis. This reflects a 19.4% increase compared to Q1 2022. In light of limited inventory and economic uncertainty, average lease rates leveled off. Quarter-over-quarter, asking rates remain highest in the Northwest, Southwest and North submarkets, averaging \$0.85/sq. ft. overall and \$0.79/sq. ft. for Class A Warehouse/Distribution space.

Vacancy & Availability

The boom of industrial demand pulled vacancy to long-term record lows last year, reflecting a 70-basis-point (bps) decrease year-over-year. The slight increase since Q1 2023 can be attributed to the vacant industrial inventory being delivered at the start of the year. Houston’s construction recorded minimal preleasing this quarter and physical occupancy has been delayed due to headwinds brought on by construction woes, all combined with economic concerns. Though the vacancy rate posted an increase of 60 bps this quarter, the supply-demand imbalance advanced, as the spread between vacancy and availability narrowed at the close of Q1 2023.

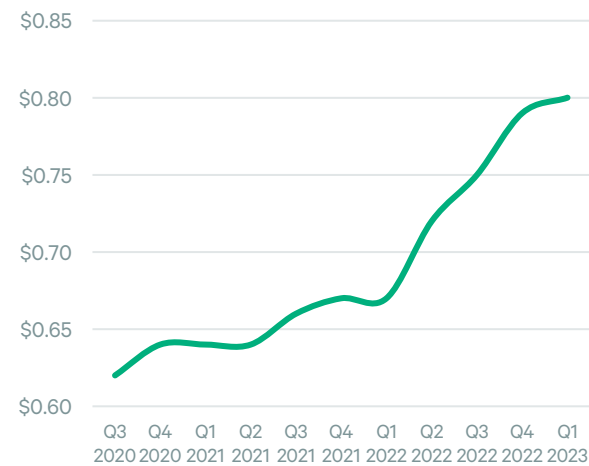
Net Absorption

The Houston industrial market posted 4.8 million sq. ft. of positive net absorption in Q1 2023 with notable tenant movement into the Southeast, West and North submarkets. Following a record-breaking year of occupancy gains, inventory constraints hampered the absorption volume that became familiar throughout 2022. The combination of strong tenant demand across logistics and manufacturing, coupled with 28.8 million sq. ft. underway has Houston’s industrial market positioned for notable absorption in upcoming quarters.

Industrial Development

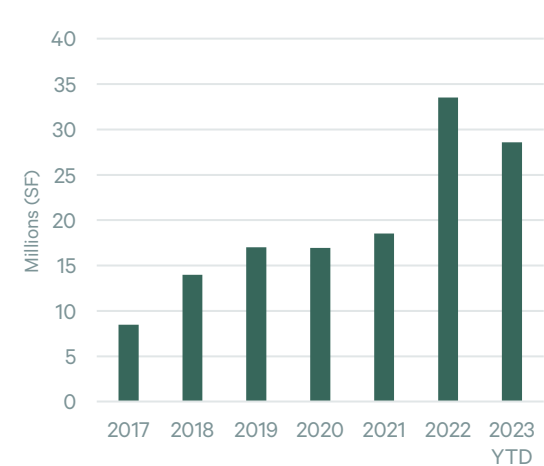
The industrial construction pipeline slightly tapered off following an unprecedented level of project starts throughout 2022. The capital markets environment has Houston faced with headwinds, while ongoing challenges posed by unfavorable construction costs and timelines continue. Despite these challenges, developers broke ground on nearly 3.1 million sq. ft. – contributing to the total of 28.8 million sq. ft. of reported construction in Q1 2023. The most active submarkets for building activity were the North, with 6.9 million sq. ft., and the Southeast at 6.2 million sq. ft. currently underway.

FIGURE 2: Class A Warehouse/Distribution Asking Rates



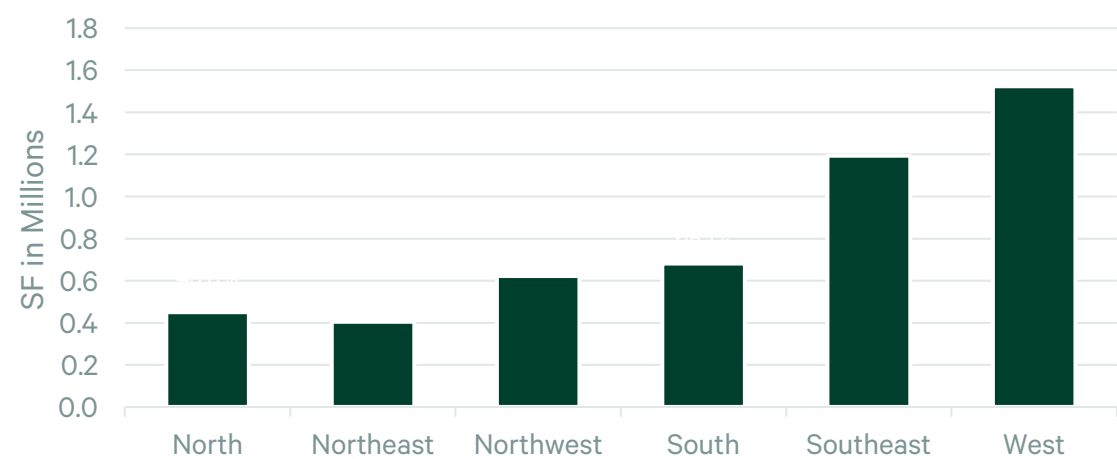
Source: CBRE Research, Q1 2023.

FIGURE 3: Under Construction



Source: CBRE Research, Q1 2023.

FIGURE 4: Large Absorption by Submarket



Source: CBRE Research, Q1 2023.

Completions

Construction obstacles that developers were faced with at the beginning of last year are hardly as prevalent going into 2023. Substantial investment into Houston’s industrial market has delivered 23.5 million sq. ft. over the last year, including more than 7.8 million sq. ft. added in Q1 2023. In comparison, Q1 2022 reported 3.1 million sq. ft. of completions. The West submarket expansion captured the lion’s share of new product with Southeast trailing it at 2.5 million sq. ft, largely driven by Port Houston expansion.

Of the inventory added to Houston this quarter, 6.9 million sq. ft. delivered as spec. The I-10 West Trade Center was the largest completion, delivering more than 1.0 million sq ft. to the West submarket. Only two build-to-suit projects came on board, with the caveat of Article.com giving back a half-million sq. ft. of space which hit sublease availability in Q1 2023. Collectively, the new industrial product was 30.3% preleased by quarter-end.

West Houston Update

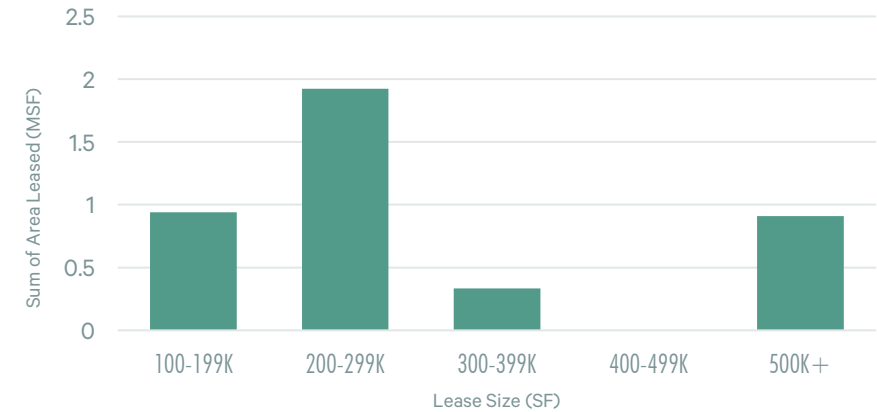
West Houston development left an impression on the industrial landscape, breaking out 25.4 million sq. ft. from the Northwest and Southwest submarkets. The newly established boundary alone has contributed the most to total net absorption this quarter – a total of 1.5 million sq. ft. with notable move-ins by Igloo for 550,000 sq. ft. at Woods Road Business Park and H-E-B for 333,330 sq. ft. of expansion space at Empire West – building 4. The West submarket delivered 3.5 million sq. ft. in Q1 2023 and currently has 2.7 million sq. ft. underway making it increasingly viable for further growth.

Broker Sentiment

CBRE Broker sentiment entailed focus on the expanding ecosystem of suppliers continuing to support large manufacturers entering the market. New leasing and expansion by major players in manufacturing and distribution will drive strong leasing velocity going into 2023. Houston will benefit from ESG initiatives, namely solar energy and electric automotive sectors, further driving investment into the business-friendly MSA. The Port of Houston expansion will foster growth along the ship channel in the Southeast; meanwhile the West submarket that has come on the scope and is well-positioned by master planned community development and increasing consumerism.

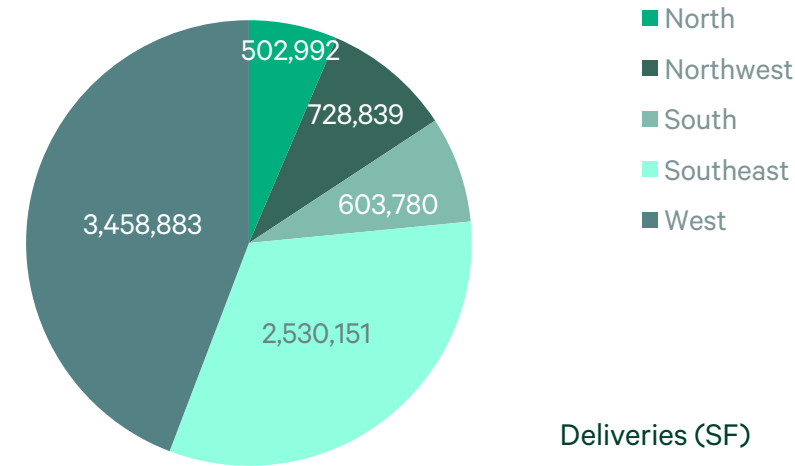
The Houston industrial market will see a reduction in the pipeline leading up to 2024, primarily due to changes in capital markets. Following a year of press-worthy sized deals, brokers anticipate fewer requirements nearing the million-square-foot mark in the near-term. Logistics and distribution remain key drivers for industrial demand, while manufacturing and new energy projects will expand occupier types.

FIGURE 5: Year-to-date Leasing Activity by Size



Source: CBRE Research, Q1 2023.

FIGURE 6: Q1 Deliveries by Submarket



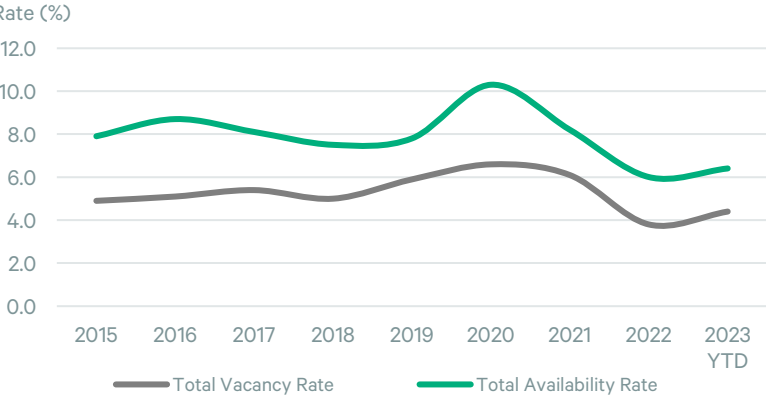
Source: CBRE Research, Q1 2023.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q1 2023 Net Absorption (SF)	Q1 2023 Vacancy (%)	Q1 2023 Starts (SF)	Q1 2023 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, Gross (\$/SF/Mo)
CBD	51,129,147	20,028	3.1%	0	0	\$0.84
North	109,715,572	449,990	4.9%	62,234	6,853,851	\$0.78
Northeast	39,103,335	405,204	2.9%	349,440	3,244,670	\$0.78
Northwest	143,131,244	623,021	4.1%	535,849	5,716,672	\$0.81
Southeast	106,995,551	1,193,390	3.7%	336,675	6,244,155	\$0.83
South	34,241,892	680,934	2.4%	589,280	1,853,114	\$0.81
Southwest	84,658,282	-47,596	3.7%	894,196	2,201,940	\$0.78
West	28,836,130	1,524,336	15.7%	0	2,669,215	\$0.78
HOUSTON TOTAL	597,911,153	4,849,307	4.4%	2,767,674	2,767,674	\$0.80

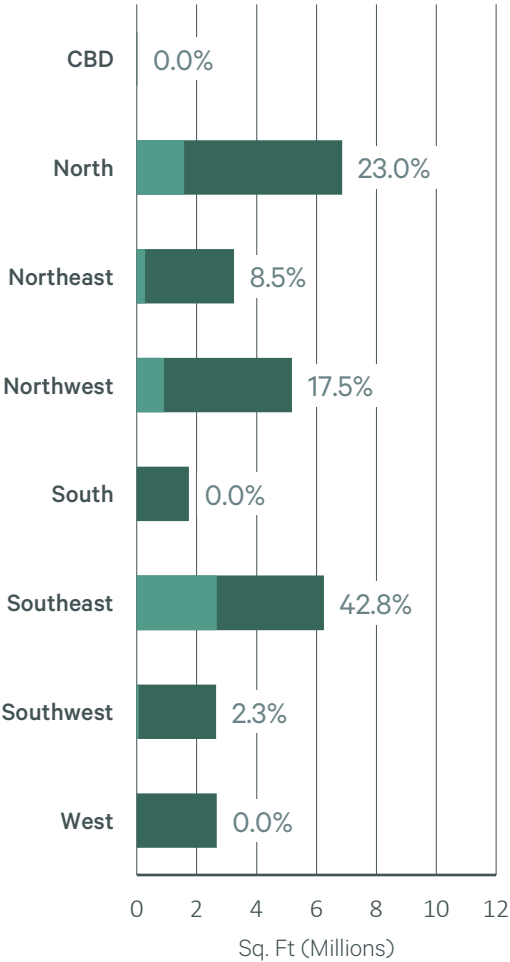
Source: CBRE Research, Q1 2023

FIGURE 9: Historical Vacancy & Availability



Source: CBRE Research, Q1 2023.

FIGURE 8: Houston Industrial Market Under Construction and Pre-Leased



■ Under Construction Sq. Ft. ■ Pre-Leased Sq. Ft.

Source: CBRE Research, Q1 2023.

FIGURE 10: Largest Q1 2023 Tenant Move-ins

Total SF	Submarket	Building	Tenant
603,780	South	South Belt Central BP Building 3	Penske Logistics
550,000	West	Woods Road BP Building 1	Igloo
249,462	Southeast	225 Logistics Center	BlueTriton Brands

Source: CBRE Research, Q1 2023.

Figure 11: Houston Historical Market Statistics

	2016	2017	2018	2019	2020	2021	2022	2023 YTD
CBD								
Absorption (Net, SF)	(340,497)	(437,817)	(189,765)	440,564	(273,802)	533,448	(129,273)	20,028
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.47	0.51	0.53	0.60	0.56	0.60	0.72	0.84
Delivered Construction (SF)	0	0	0	0	0	0	0	0
Vacancy Rate (%)	5.1	4.7	4.6	4.3	4.5	3.6	3.1	3.1
NORTH								
Absorption (Net, SF)	105,225	2,356,887	1,436,375	2,413,089	2,341,390	6,393,260	4,814,780	449,990
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.62	0.63	0.64	0.70	0.66	0.70	0.85	0.85
Delivered Construction (SF)	1,966,546	1,536,106	1,103,471	4,593,607	5,351,157	4,027,984	2,835,442	502,992
Vacancy Rate (%)	8.8	8.1	7.3	8.6	8.3	6.3	4.8	4.9
NORTHEAST								
Absorption (Net, SF)	329,543	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	405,204
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.53	0.53	0.55	0.53	0.49	0.53	0.63	0.63
Delivered Construction (SF)	408,825	20,088	164,500	1,005,400	429,500	649,600	2,425,032	0
Vacancy Rate (%)	2.1	2.9	2.8	3.9	3.1	4.3	3.1	2.9
NORTHWEST								
Absorption (Net, SF)	5,690,058	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339	623,021
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.63	0.62	0.64	0.60	0.56	0.71	0.85	0.85
Delivered Construction (SF)	5,245,749	1,559,726	4,141,124	2,754,334	7,012,821	2,389,980	6,475,649	728,839
Vacancy Rate (%)	4.9	5.8	6.1	6.1	7.8	6.3	4.4	4.1

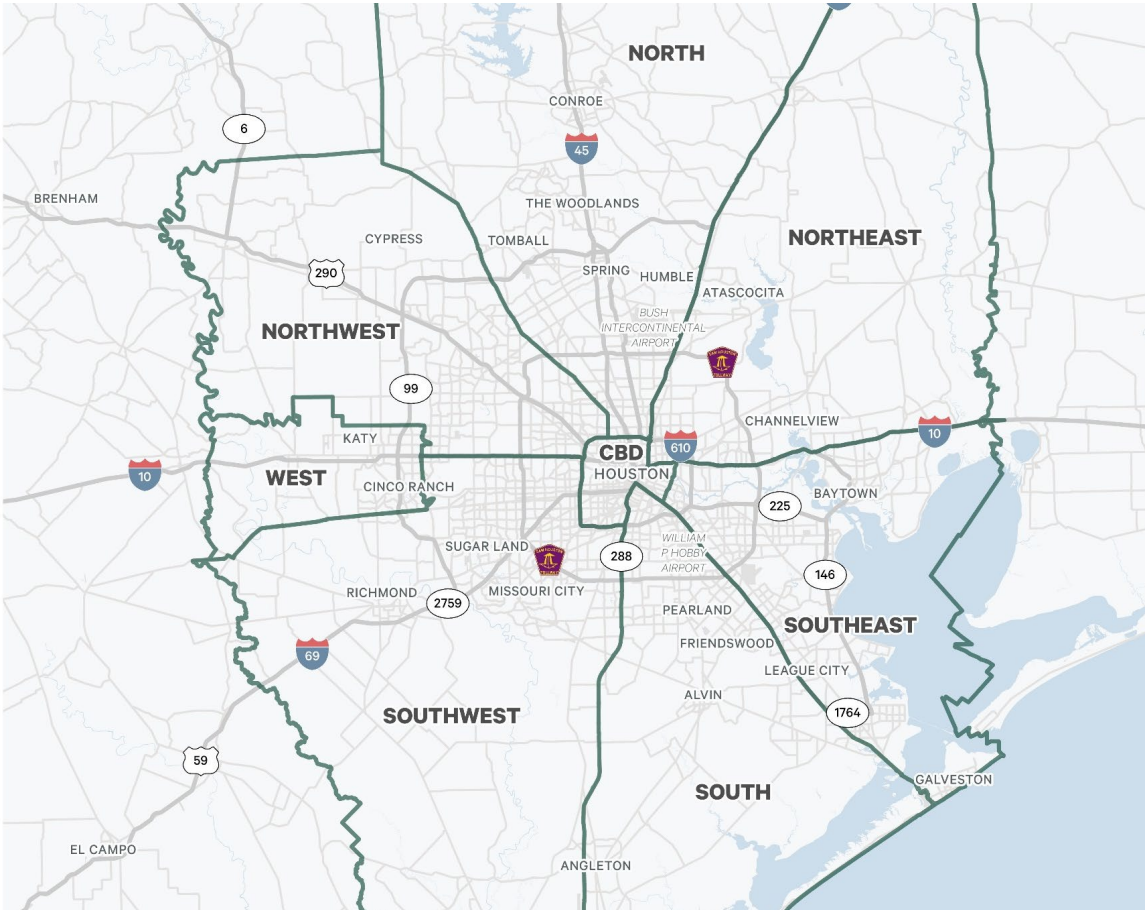
*In 2022, it was determined that activity in and around the western side of the Houston market merited creation of a new submarket. The West submarket was added in Q1 2023, from portions of the Northwest and Southwest submarkets. Consequently, historical data is unavailable. Market totals remain unchanged.

	2016	2017	2018	2019	2020	2021	2022	2023 YTD
SOUTHEAST								
Absorption (Net, SF)	3,101,164	4,845,236	3,261,976	2,026,786	3,431,143	4,945,311	9,425,658	1,193,390
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.62	0.61	0.62	0.62	0.58	0.68	0.81	0.81
Delivered Construction (SF)	3,422,066	4,554,179	4,787,722	4,077,336	5,870,586	2,906,486	5,145,423	2,530,151
Vacancy Rate (%)	3.9	3.7	3.4	5.1	7.7	6.6	2.4	3.7
SOUTH								
Absorption (Net, SF)	(165,635)	191,813	(154,244)	91,664	84,756	606,785	275,295	680,934
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.60	0.60	0.60	0.60	0.58	0.62	0.74	0.74
Delivered Construction (SF)	166,520	358,790	97,593	145,765	505,416	436,569	180,000	0
Vacancy Rate (%)	3.5	3.2	3.3	4.5	3.7	3.0	2.2	2.4
SOUTHWEST								
Absorption (Net, SF)	2,027,111	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	(47,596)
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.65	0.65	0.65	0.70	0.66	0.71	0.85	0.85
Delivered Construction (SF)	2,390,192	1,073,500	650,476	1,842,258	3,246,393	11,350,051	1,730,092	0
Vacancy Rate (%)	5.2	6.1	4.7	5.8	5.1	8.0	4.5	3.7
WEST*								
Absorption (Net, SF)								1,524,336
Overall Asking Rent (Gross Avg. Mthly \$/SF)								0.76
Delivered Construction (SF)								3,458,883
Vacancy Rate (%)								15.7
HOUSTON TOTAL								
Absorption (Net, SF)	10,746,008	7,014,323	10,606,134	10,550,411	11,399,584	27,984,953	30,302,889	4,849,307
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.60	0.61	0.62	0.62	0.59	0.65	0.77	0.79
Delivered Construction (SF)	13,599,898	9,102,389	10,944,886	14,418,700	22,415,873	21,760,670	18,791,638	7,824,645
Vacancy Rate (%)	5.1	5.4	5.0	5.9	6.6	6.1	3.8	4.4

Source: CBRE Research, Q1 2023.

*Weighted Gross Average

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all industrial buildings 50,000 sq. ft. and greater in size in Houston. Buildings which have begun construction as evidenced by site excavation or foundation work.

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