

FIGURES | HOUSTON INDUSTRIAL | Q4 2022

Houston industrial sets new market records in 2022 with highest year-end absorption

▼ 3.8%

Vacancy Rate

▼ 6.2M

SF Net Absorption

▲ 33.5M

SF Under Construction

▼ 4.0M

SF Delivered Construction

Note: Arrows indicate change from previous quarter.

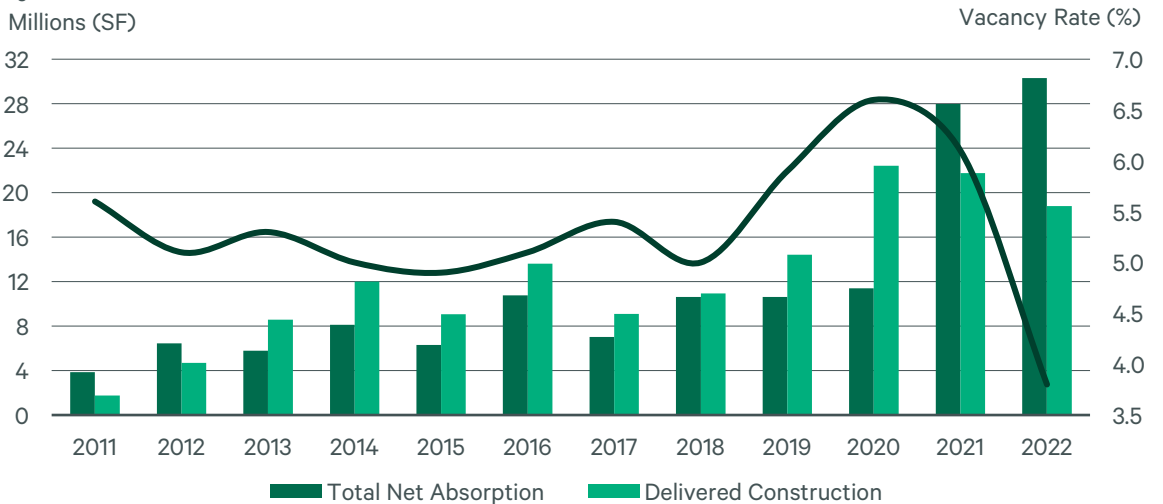
MARKETWIDE OVERVIEW

- 30.3 million sq. ft. was absorbed in 2022, Houston's largest year-end total
- The development pipeline grew for the seventh consecutive quarter to 33.5 million sq. ft.
- Industrial vacancy declined, closing out the fourth quarter at 3.8%

Houston cruised through the fourth quarter with strong tailwinds that resulted in a record-breaking year-end absorption, historic low vacancy and rising rental rates. Heading into 2023, the market is well-positioned to weather future economic uncertainty thanks to population growth, unprecedented demand at the Port and heightened tenant reliance on safety stock.

Container volume at Port Houston grew by 11% in the month of November year-over-year, reaching 348,950 TEUs. This represented the fourth-largest month on record at the Barbours Cut and Bayport container terminals. Year-to-date through November 2022, Houston handled 3,682,874 TEUs, representing a 17% increase compared to the same period last year. Port volume growth is expected to continue, as retailers look to invest in Houston-based distribution operations that serve the Texas Triangle, driving significant investment in port infrastructure. Petrochemical commodity exports continue to rebound alongside secular growth in the energy industry, bolstering dollar value trade volumes and Houston's economy in general.

Figure 1: Houston Industrial Market (Annual)
Millions (SF)



Source: CBRE Research, Q4 2022.

Lease Rates

A space constrained market drove asking rental rates to record highs in the fourth quarter. Furthermore, prices should continue to climb due to the heightened occupier demand and lack of move-in ready space on the ground. Class A warehouse/distribution gross asking rates increased by 5.3% in Q4 2022, now averaging \$0.79 per sq. ft./month, a 17.9% increase over the Q4 2021 rate of \$0.67 per sq. ft./month.

Net Absorption

The quarter ended with a robust total of 6.2 million sq. ft. of positive net absorption in Houston. Comparatively, record-breaking net absorption in Q4 2021 totaled just 20,590 sq. ft. higher. Looking back at the prior 15 fourth quarter absorptions, Q4 2022 surpassed the historical average by roughly 3.9 million sq. ft.

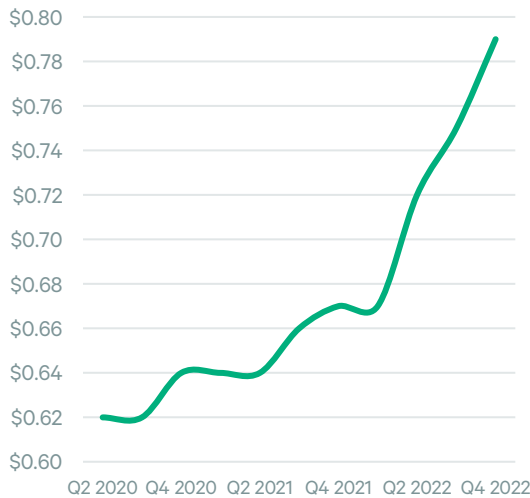
Across the market, 30.3 million sq. ft. of industrial space was absorbed in 2022. This eclipsed the record as the largest year-end absorption in Houston’s history, surpassing last year’s unprecedented total by 2.3 million sq. ft. Additionally, 2022 demand totaled nearly three times the 10-year average.

The most active submarkets in the fourth quarter were the Northwest, with 3.1 million sq. ft. of net absorption, and Southeast, which reported 1.1 million sq. ft. During Q4, there were several sizeable tenant move-ins. Warefor occupied 374K sq. ft. and HEB moved into 333K sq. ft., both of which occurred in the West Houston district within the Northwest submarket. In addition, Metropolitan Furniture took 310K sq. ft. in Northeast Houston. Houston’s West and Northwest submarkets remain a prime destination for companies seeking both consumer and port access.

Under Construction

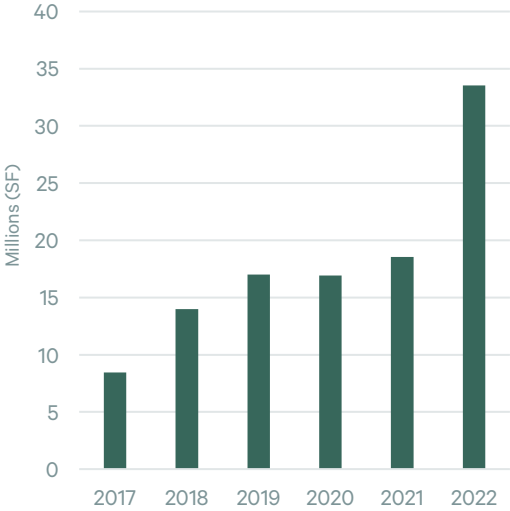
Houston’s industrial development pipeline expanded for the seventh consecutive quarter, reaching 33.5 million sq. ft. with 6.4 million sq. ft. of project starts during Q4 2022. The most dynamic submarkets for construction activity were the Southeast, with 8.4 million sq. ft., and the Southwest, with 6.8 million sq. ft. of projects underway. Approximately 18.7% of the construction pipeline’s rentable area has been pre-leased. Despite uncertainty in the macro-economic picture, strong demand from large occupiers is expected to sustain through 2023 based on leasing and occupier activity.

FIGURE 2: Class A Warehouse/Dist. Gross Asking Rates



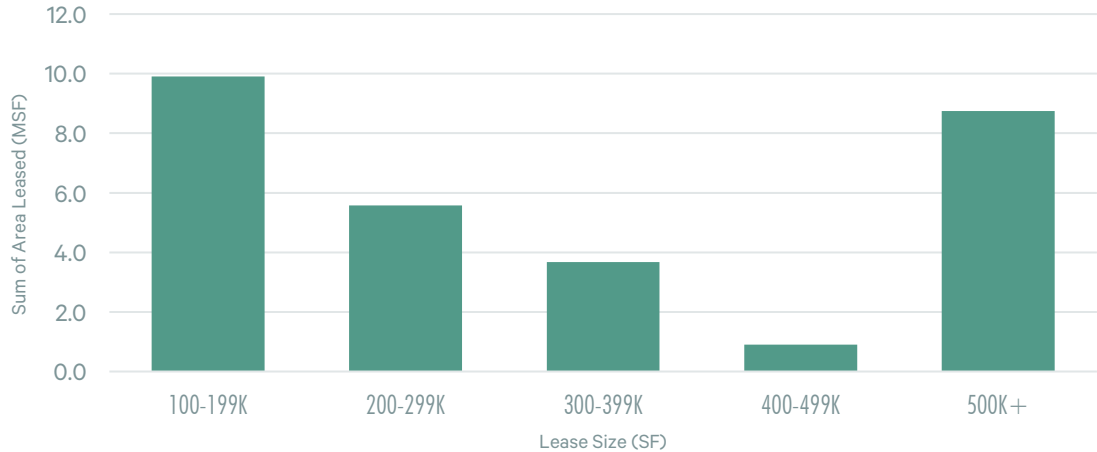
Source: CBRE Research, Q4 2022.

FIGURE 3: Year-End Under Construction



Source: CBRE Research, Q4 2022.

FIGURE 4: Year-to-date Leasing Activity by Size



Source: CBRE Research, Q4 2022.

Vacancy & Availability

The Houston industrial vacancy rate fell by 60-basis points (bps) in the fourth quarter, ending the year at 3.8%. This represented a 230 bps decline from 2021's year-end vacancy of 6.1%. In addition, year-to-date vacancy dropped by 130 bps from the beginning of 2022. The fourth quarter tightening was driven by 22 occupier move-ins of 100K sq. ft. or more, with only two tenant move-outs in that size segment.

As a result of net space demand outpacing new supply, availability continued its downward trajectory. During the fourth quarter, overall industrial availability decreased from 6.6% to 6.0%. Over the course of 2022, year-to-date availability fell by 90 bps from 6.9% at the start of the year.

Completions

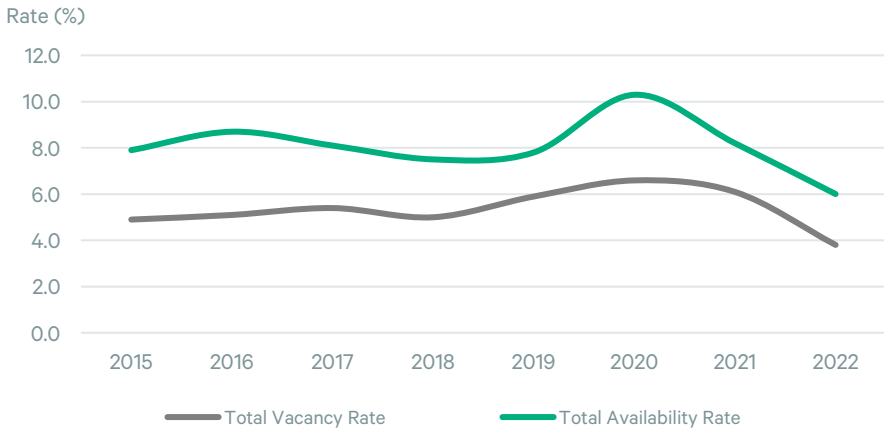
Nearly 4.0 million sq. ft. of construction delivered during the fourth quarter, with 24.6% pre-leased. Of the projects completed, 1.5 million sq. ft. landed in the Northwest submarket, bringing the Houston market's year-end total to 18.8 million sq. ft. of new construction. Compared to last year, 2022 new construction deliveries came in 3.0 million sq. ft. short of the 21.8 million sq. ft. reported in 2021.

Broker Sentiment

CBRE broker sentiment indicates that user demand will show no signs of tapering in early 2023, as evidenced by strong fourth quarter activity across user sizes and industries. Businesses will likely continue to diversify their product sourcing as a mitigation tactic against potential future supply chain disruptions. U.S. corporations are seeking less reliance on global suppliers, benefiting Texas in both manufacturing and supply chain capacities. Many large retailers, occupiers and third-party logistics (3PL) companies continue to proceed with growth plans despite lingering global economic uncertainty, striving to support robust consumer growth.

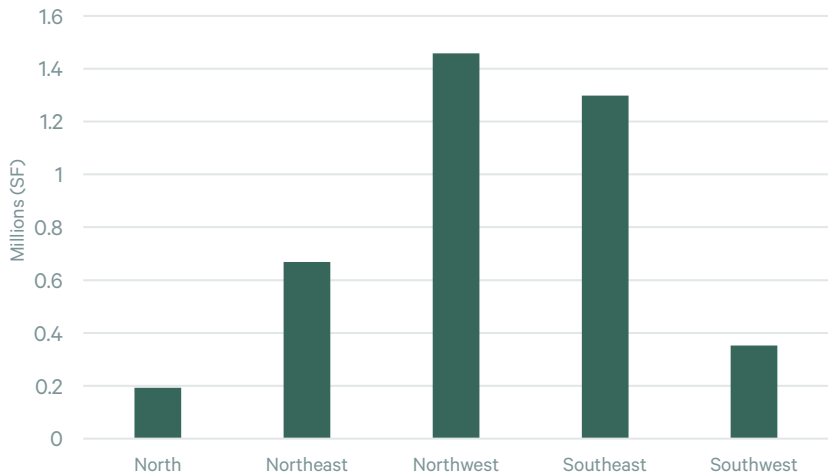
Historically, Houston has lagged major markets across the country in rent growth; however, historically low availability and a narrowing development pipeline could sustain higher rates of rent growth through the coming year. E-commerce growth, supply chain transformation and location network optimization are factors that will continue to drive demand for Houston industrial space in 2023 and beyond.

FIGURE 5: Vacancy & Availability



Source: CBRE Research, Q4 2022.

FIGURE 6: Q4 2022 Deliveries by Submarket



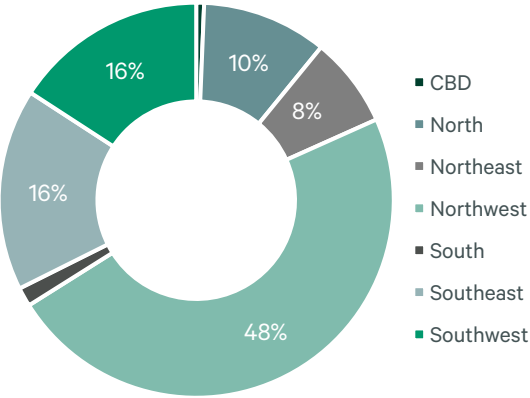
Source: CBRE Research, Q4 2022.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q4 2022 Net Absorption (SF)	Q4 2022 Vacancy (%)	Q4 2022 Starts (SF)	Q4 2022 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, Gross (\$/SF/Mo)
CBD	51,154,947	(41,574)	3.1%	-	-	\$0.84
North	109,113,806	662,465	4.8%	2,171,872	7,294,609	\$0.76
Northeast	39,076,273	477,937	3.1%	1,033,404	2,895,230	\$0.76
Northwest	161,402,938	3,085,282	4.4%	714,000	6,276,301	\$0.81
West Houston – North	19,117,518	1,951,150	8.5%	-	371,260	\$0.76
Southeast	104,401,761	1,068,329	2.4%	1,722,731	8,437,631	\$0.81
South	33,420,948	(100,564)	2.2%	656,795	1,867,614	\$0.76
Southwest	91,313,785	1,022,668	4.5%	61,688	6,761,757	\$0.76
West Houston - South	6,252,199	200,680	12.2%	-	5,756,838	\$0.76
HOUSTON TOTAL	589,884,458	6,174,543	3.8%	6,360,490	33,533,142	\$0.79

Source: CBRE Research, Q4 2022.
District subsets not included in overall totals

FIGURE 8: Absorption by Submarket



Source: CBRE Research, Q4 2022.

FIGURE 9: Largest Q4 2022 Tenant Move-ins

Total SF	Submarket	Building	Tenant
373,860	Northwest	Mason Ranch - Building 1	Warefor
333,030	Northwest	Empire West - Building 4	HEB
310,792	Northeast	Beltway 8 & E Little York Rd	Metropolitan Furniture

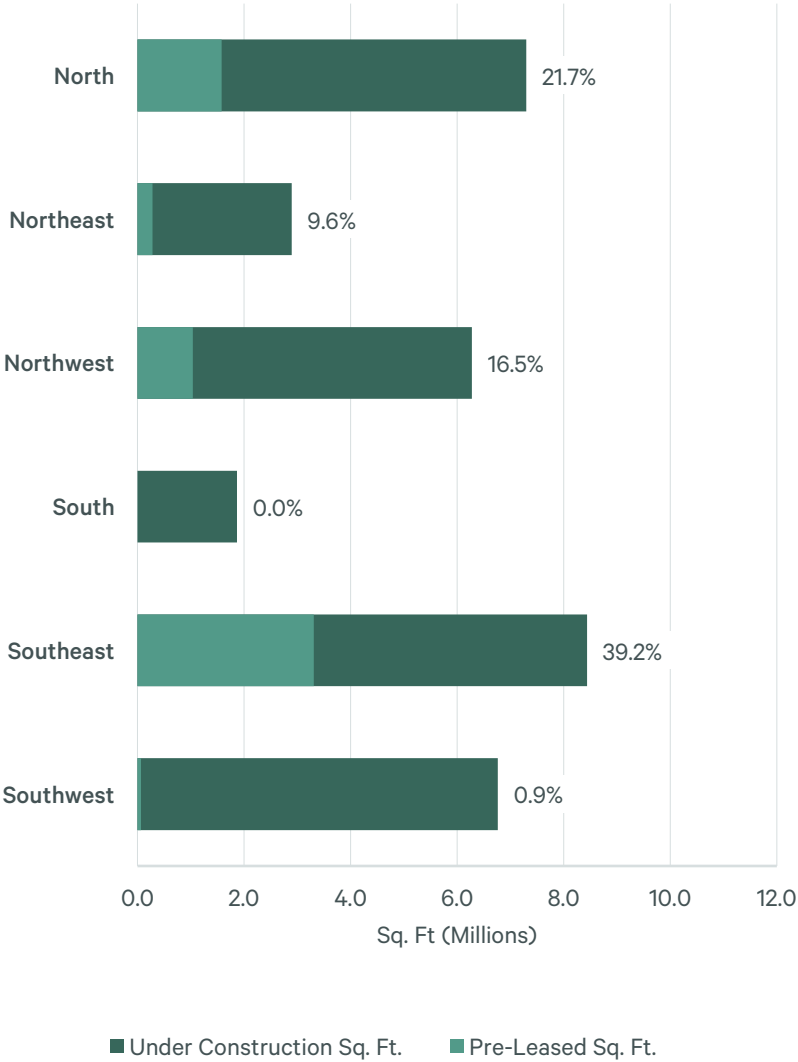
Source: CBRE Research, Q4 2022.

FIGURE 10: West Houston Snapshot

Net Rentable Area (SF)	Net Absorption (SF)	Vacancy	Delivered Construction (SF)
25,369,717	2,151,830	9.4%	544,440

Source: CBRE Research, Q4 2022.

FIGURE 11: Houston Industrial Market Under Construction and Pre-Leased



Source: CBRE Research, Q4 2022.

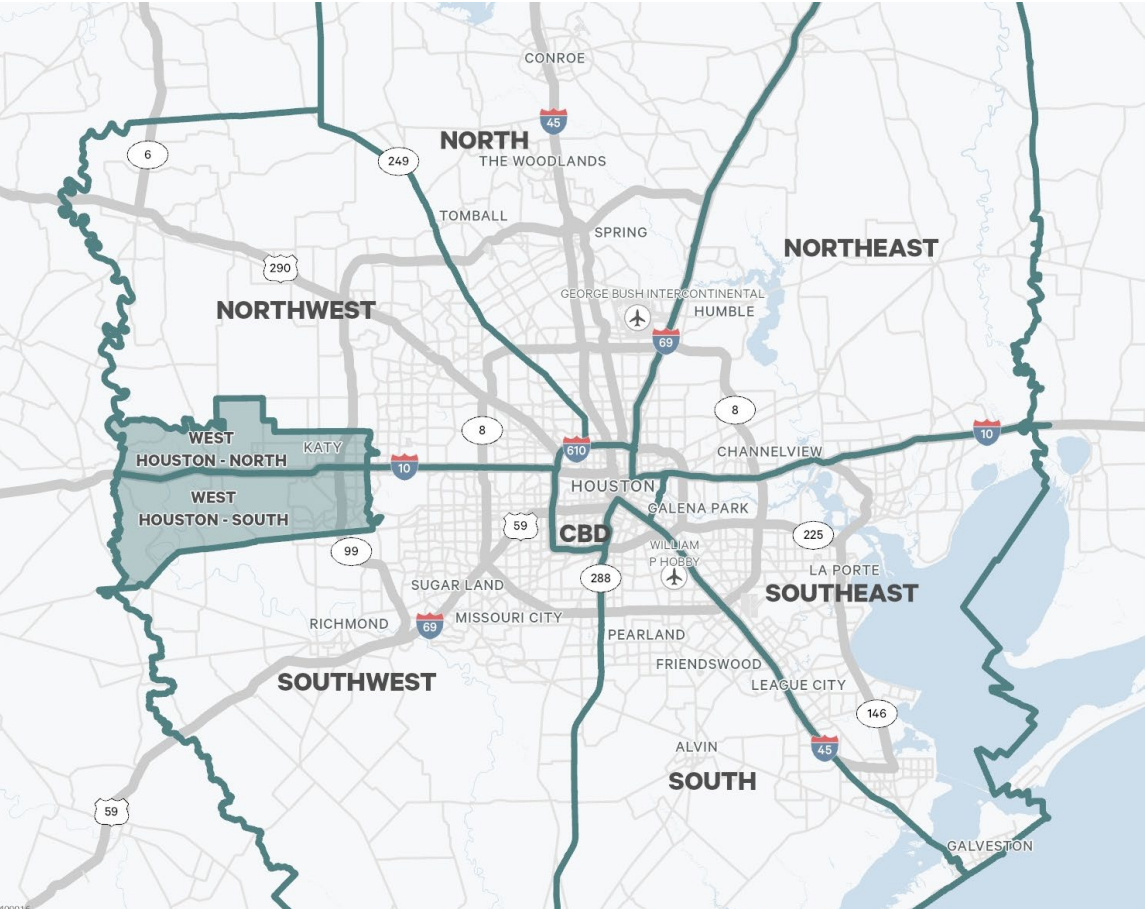
Figure 12: Houston Historical Market Statistics

	2015	2016	2017	2018	2019	2020	2021	2022
CBD								
Absorption (Net, SF)	98,914	(340,497)	(437,817)	(189,765)	440,564	(273,802)	533,448	(129,273)
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.55	0.47	0.51	0.53	0.60	0.56	0.60	0.72
Delivered Construction (SF)	22,800	0	0	0	0	0	0	0
Vacancy Rate (%)	4.7	5.1	4.7	4.6	4.3	4.5	3.6	3.1
NORTH								
Absorption (Net, SF)	2,549,106	105,225	2,356,887	1,436,375	2,413,089	2,341,390	6,393,260	4,814,780
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.72	0.62	0.63	0.64	0.70	0.66	0.70	0.85
Delivered Construction (SF)	2,252,603	1,966,546	1,536,106	1,103,471	4,593,607	5,351,157	4,027,984	2,835,442
Vacancy Rate (%)	7.6	8.8	8.1	7.3	8.6	8.3	6.3	4.8
NORTHEAST								
Absorption (Net, SF)	(4,371)	329,543	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.61	0.53	0.53	0.55	0.53	0.49	0.53	0.63
Delivered Construction (SF)	100,560	408,825	20,088	164,500	1,005,400	429,500	649,600	2,425,032
Vacancy Rate (%)	1.5	2.1	2.9	2.8	3.9	3.1	4.3	3.1
NORTHWEST								
Absorption (Net, SF)	1,084,232	5,690,058	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.79	0.63	0.62	0.64	0.60	0.56	0.71	0.85
Delivered Construction (SF)	3,728,028	5,245,749	1,559,726	4,141,124	2,754,334	7,012,821	2,389,980	6,475,649
Vacancy Rate (%)	5.4	4.9	5.8	6.1	6.1	7.8	6.3	4.4

Source: CBRE Research, Q4 2022.

	2015	2016	2017	2018	2019	2020	2021	2022
SOUTHEAST								
Absorption (Net, SF)	1,819,134	3,101,164	4,845,236	3,261,976	2,026,786	3,431,143	4,945,311	9,425,658
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.71	0.62	0.61	0.62	0.62	0.58	0.68	0.81
Delivered Construction (SF)	1,996,822	3,422,066	4,554,179	4,787,722	4,077,336	5,870,586	2,906,486	5,145,423
Vacancy Rate (%)	3.4	3.9	3.7	3.4	5.1	7.7	6.6	2.4
SOUTH								
Absorption (Net, SF)	183,597	(165,635)	191,813	(154,244)	91,664	84,756	606,785	275,295
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.65	0.60	0.60	0.60	0.60	0.58	0.62	0.74
Delivered Construction (SF)	465,516	166,520	358,790	97,593	145,765	505,416	436,569	180,000
Vacancy Rate (%)	2.9	3.5	3.2	3.3	4.5	3.7	3.0	2.2
SOUTHWEST								
Absorption (Net, SF)	564,396	2,027,111	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.79	0.65	0.65	0.65	0.70	0.66	0.71	0.85
Delivered Construction (SF)	492,176	2,390,192	1,073,500	650,476	1,842,258	3,246,393	11,350,051	1,730,092
Vacancy Rate (%)	5.1	5.2	6.1	4.7	5.8	5.1	8.0	4.5
HOUSTON TOTAL								
Absorption (Net, SF)	6,295,008	10,746,008	7,014,323	10,606,134	10,550,411	11,399,584	27,984,953	30,302,889
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.69	0.60	0.61	0.62	0.62	0.59	0.65	0.77
Delivered Construction (SF)	9,058,505	13,599,898	9,102,389	10,944,886	14,418,700	22,415,873	21,760,670	18,791,638
Vacancy Rate (%)	4.9	5.1	5.4	5.0	5.9	6.6	6.1	3.8

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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