

FIGURES | HOUSTON INDUSTRIAL | Q2 2023

# Industrial supply in play to make space for Houston expansion

▲ 4.8%

Vacancy Rate

▲ 7.2M

SF Positive Net Absorption

▼ 22M

SF Under Construction

▼ 7.4M

SF Delivered Construction

Note: Arrows indicate change from previous quarter.

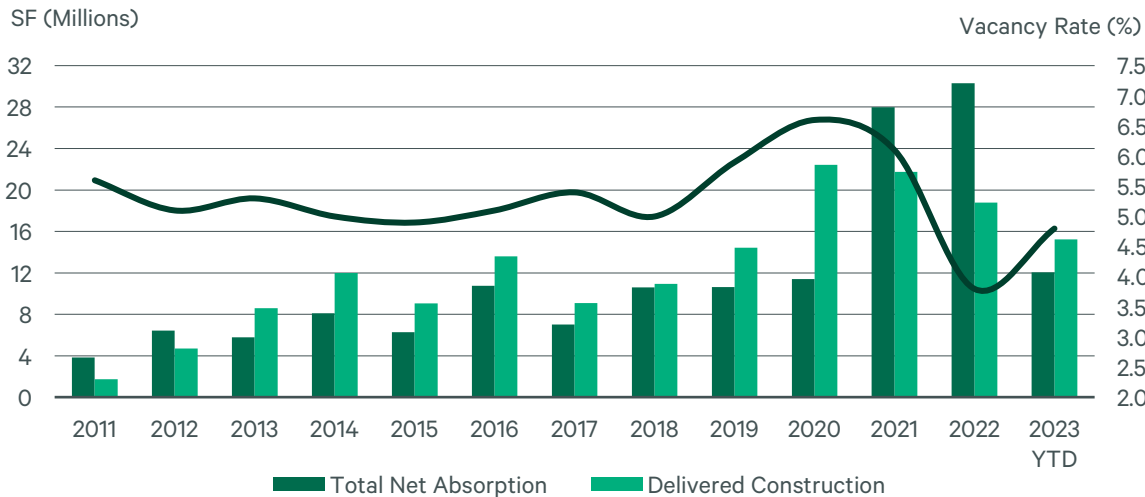
## MARKETWIDE OVERVIEW

- Q2 2023 recorded 7.2 million sq. ft. of positive net absorption – 12.0 million sq. ft. YTD
- Development activity softened with 22.0 million sq. ft. underway at 13.5% preleased
- Southeast led the market in new product with 2.8 million sq. ft. of the 7.4 million sq. ft.

The Houston industrial market notched another consecutive quarter of healthy fundamentals, although overall market conditions were a mixed bag this quarter. The market experienced a deceleration in the development pipeline and total leasing volume but posted a lofty 7.2 million sq. ft. of absorption. Year-to-date, occupancy gains are above 12.0 million sq. ft. across the market. Construction starts and deliveries slowed quarter-over-quarter, pointing to a tightening of the development pipeline. The change in pace was driven in part by both increased cost of capital and construction costs, impacting the bottom lines of developers and occupiers.

Also down from last quarter was Port Houston’s May container volume, which reported a 10.4% decrease compared to May of 2022. However, in the greater context of container volume, Houston still leads all other major U.S. ports in post-Covid gains. To that effect, at the beginning of June, Union Pacific launched a new service line at the Barbours Cut Container Terminal of Port Houston. This notable expansion of transportation capabilities, positions Houston to become long-term alternative to west coast ports.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q1 2023.

Lease Rates

New construction in the Southeast and Northeast submarkets, coupled with high-demand in South Houston, resulted in a small bump to average asking rates quarter-over-quarter. Overall rental rates grew to \$0.79/sq. ft. on a monthly, gross basis in Q2 2023, reflecting a 1.3% increase quarter-over-quarter. Space requirements for Class A Warehouse/Distribution inventory continued to drive annual rent growth by 13.9%, which increased to \$0.82/sq. ft.

Vacancy & Availability

For Houston industrial, minor increases were reported for both vacancy and availability quarter-over-quarter. Up by 40-basis-point (bps), total vacancy came in at 4.8% while availability reported an increase of 60 bps at 7.0% compared to Q1 2023. New construction, rather than tenant move-outs, drove the bump in vacancy rates - 7.4 million sq. ft. delivered in Q2 2023, of which was 32.4% preleased. Vacancy rates were elevated in the North and West submarkets relative to other submarkets, at 6.1% and 16.0%, reflecting a healthy spec delivery pipeline.

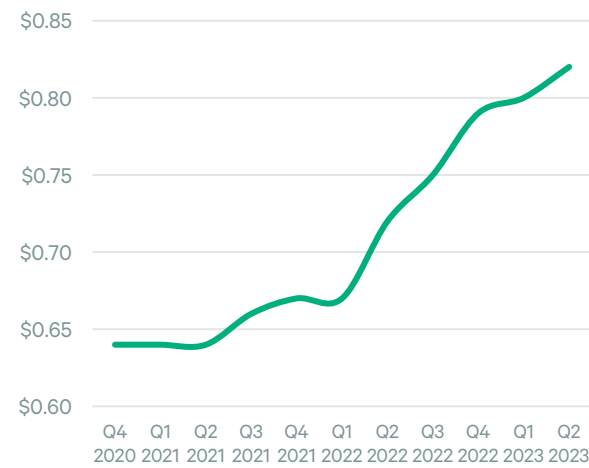
Net Absorption

Occupancy growth continued across the Houston industrial market this quarter, with just over 7.2 million sq. ft. of positive net absorption. Of Houston’s seven submarkets, the Southeast was in lead again for total net absorption, reporting more than 2.7 million sq. ft. in Q2 2023. Two of the three largest Q2 contributors were in the Southeast – Quantix at AmeriPort for 1.2 million sq. ft., and Safavieh for 599,510 sq. ft. (originally set to be over 1.0 million sq. ft.). In the Northwest, Macy’s at Interchange 249 commenced on their build-to-suit for 908,853 sq. ft.

Industrial Development

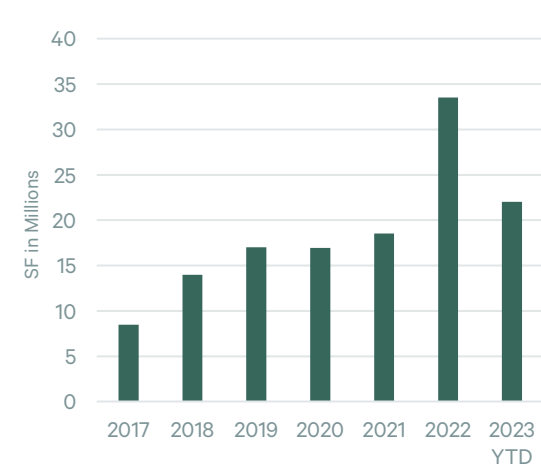
As 7.4 million sq. ft. of inventory delivered to the market this quarter, Houston still has an additional 22.0 million sq. ft. preparing to come online. Over the last two years, industrial developments have grown increasingly in size, evidenced by the five projects over 1.0 million sq. ft. in size, that are currently underway. Upwards of half of the current construction pipeline is in the North and Southeast submarkets, including Prologis Presidents Park, NorthPort Logistics Center and TGS Cedar Port DC4. Houston’s industrial pipeline has now contracted for a second consecutive quarter following an unprecedented level of construction starts throughout 2022. Moreover, the already challenging capital markets environment has progressively impacted the appetite for developers across the board.

FIGURE 2: Class A Warehouse/Distribution Asking Rates



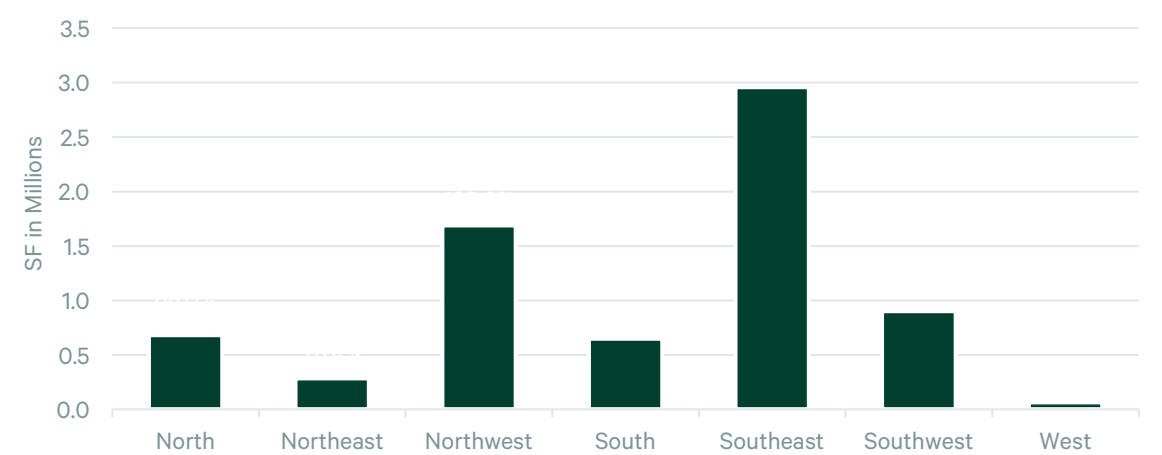
Source: CBRE Research, Q2 2023.

FIGURE 3: Under Construction



Source: CBRE Research, Q2 2023.

FIGURE 4: Absorption by Submarket



Source: CBRE Research, Q2 2023.

Deliveries

Including the 7.4 million sq. ft. of new industrial product that came online in Q2 2023, inventory has reported annual growth of approximately 27.4 million sq. ft. Unlike the timing challenges that developers were faced with over the last two years, the shift in capital markets has posed new headwinds. Occupiers and developers alike are taking a more cautious approach to their respective operational and investment decisions, hampering prelease levels across new inventory. To that end, the investment that has been fueled into Houston is still being realized with a healthy vacancy rate of 4.8% and moderating construction.

Thanks to progress and thereby expanded capacity at Port Houston, the Southeast has been a continued factor toward overall market demand, leading with completion volume of 2.8 million sq. ft in Q2 2023. Major projects added to industrial inventory include AmeriPort – Quantix (1.2MSF), Ameriport – Safavieh (1.1MSF) and I-10 Commerce Center (609KSF). Across the 12 developments that boosted inventory this quarter, two were built-to-suit and 10 delivered as spec.

Q2 2023 Submarket Highlight – Southeast

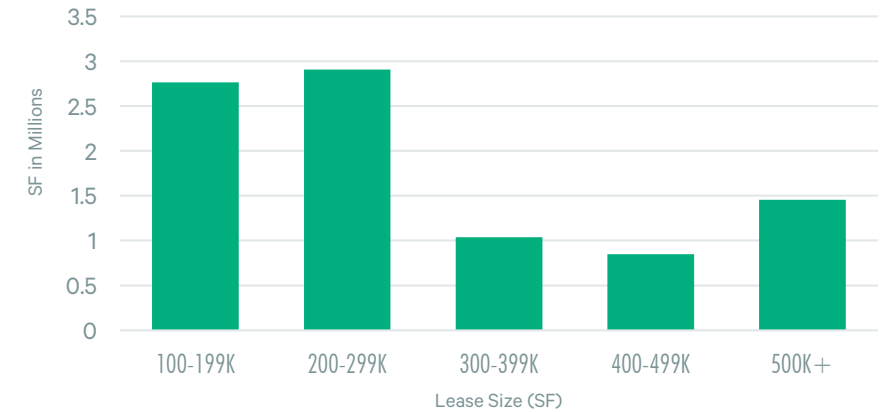
The Southeast submarket has steadily benefited from the infrastructural improvements at the Port of Houston. From Project 11 with its multiphase expansion of the ship channel, to the recent launch of Union Pacific’s rail service expansion that will transport to a network including Salt Lake City, Oakland, Denver, Los Angeles and El Paso. These two projects alone have the potential to be significant drivers of future occupier demand in the submarket.

The dynamic Southeast submarket delivered just over 2.8 million sq. ft. at 64.2% preleased, simultaneously capturing 27.7% of the 4.2 million sq. ft. of leasing activity signed across Houston’s industrial market in Q2 2023. Moreover, occupancy gains were up from 1.2 million sq. ft. in Q1 2023, with the Southeast posting 1.8 million sq. ft. of positive absorption this quarter.

Broker Sentiment

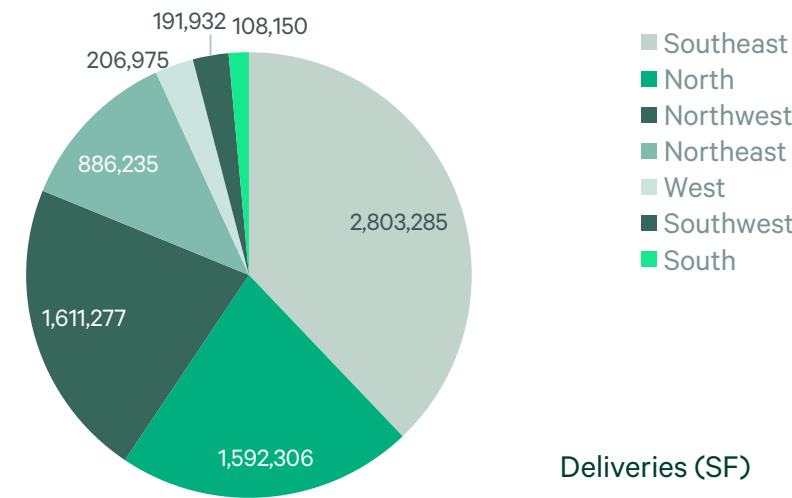
CBRE Broker sentiment suggests that new deliveries will continue to place modest upward pressure on vacancy levels in the near-term. At the same time, new starts are expected to lag due to a number of development challenges, tightening the pipeline throughout the remainder of the year. The decrease in leasing volume can largely be attributed to longer execution times in addition to macroeconomic uncertainty and where we are in the business cycle. While Houston industrial demand remains healthy, there is the challenge of managing expectations set by the combination of rental growth, tenant demand and cost pressures.

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



Source: CBRE Research, Q2 2023.

FIGURE 6: Q2 Deliveries by Submarket



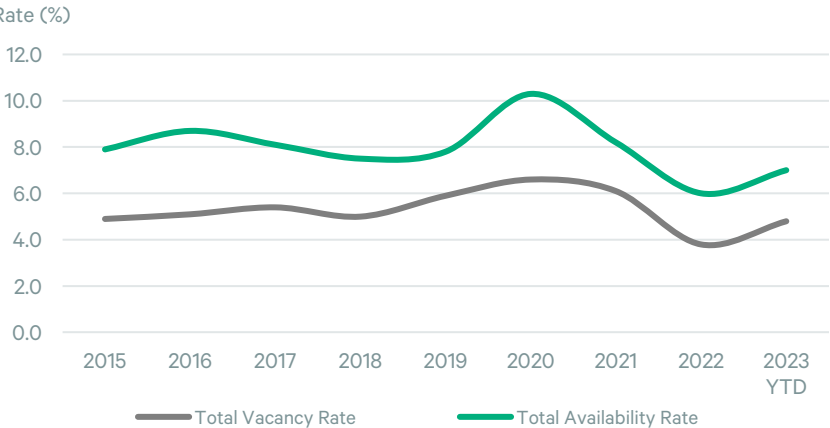
Source: CBRE Research, Q2 2023.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q2 2023 Net Absorption (SF)	Q2 2023 Vacancy (%)	Q2 2023 Starts (SF)	Q2 2023 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, Gross (\$/SF/Mo)
CBD	50,937,407	-10,430	3.0%	0	0	\$0.84
North	111,922,649	680,169	6.1%	134,778	4,650,297	\$0.80
Northeast	39,821,145	284,130	4.3%	358,191	2,414,176	\$0.80
Northwest	145,775,409	1,689,633	4.6%	0	3,177,000	\$0.84
Southeast	110,129,868	2,959,725	3.7%	1,149,337	4,489,295	\$0.85
South	35,041,072	649,247	2.6%	1,383,108	2,423,697	\$0.81
Southwest	85,488,267	901,471	3.5%	100,080	2,420,190	\$0.81
West	29,043,105	61,671	16.0%	0	2,441,905	\$0.80
HOUSTON TOTAL	608,158,922	7,215,616	4.8%	3,125,494	22,016,560	\$0.82

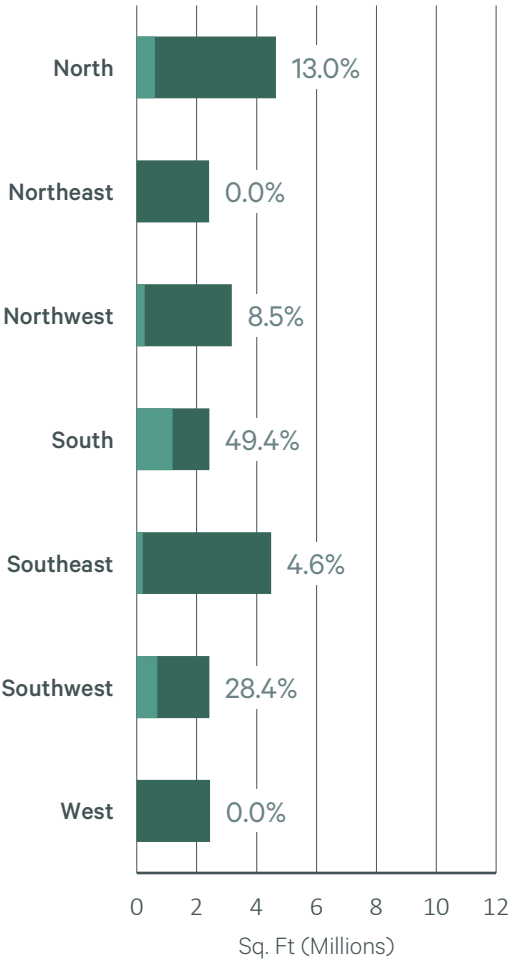
Source: CBRE Research, Q2 2023

FIGURE 9: Historical Vacancy & Availability



Source: CBRE Research, Q2 2023.

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



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

Source: CBRE Research, Q2 2023.

FIGURE 10: Largest Q2 2023 Tenant Move-ins

Total SF	Submarket	Building	Tenant
1,200,000	Southeast	Ameriport – Quantix	Quantix
908,853	Northwest	Interchange 249	Macy's
599,510	Southeast	Ameriport – Safavieh	Safavieh

Source: CBRE Research, Q2 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)	9,598
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.47	0.51	0.53	0.60	0.56	0.60	0.72	0.72
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	3.0
NORTH								
Absorption (Net, SF)	105,225	2,356,887	1,436,375	2,413,089	2,341,390	6,393,260	4,814,780	1,130,159
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	2,095,298
Vacancy Rate (%)	8.8	8.1	7.3	8.6	8.3	6.3	4.8	6.1
NORTHEAST								
Absorption (Net, SF)	329,543	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	689,334
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.53	0.53	0.55	0.53	0.49	0.53	0.63	0.68
Delivered Construction (SF)	408,825	20,088	164,500	1,005,400	429,500	649,600	2,425,032	886,235
Vacancy Rate (%)	2.1	2.9	2.8	3.9	3.1	4.3	3.1	4.3
NORTHWEST								
Absorption (Net, SF)	5,690,058	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339	2,312,654
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	2,340,116
Vacancy Rate (%)	4.9	5.8	6.1	6.1	7.8	6.3	4.4	4.6

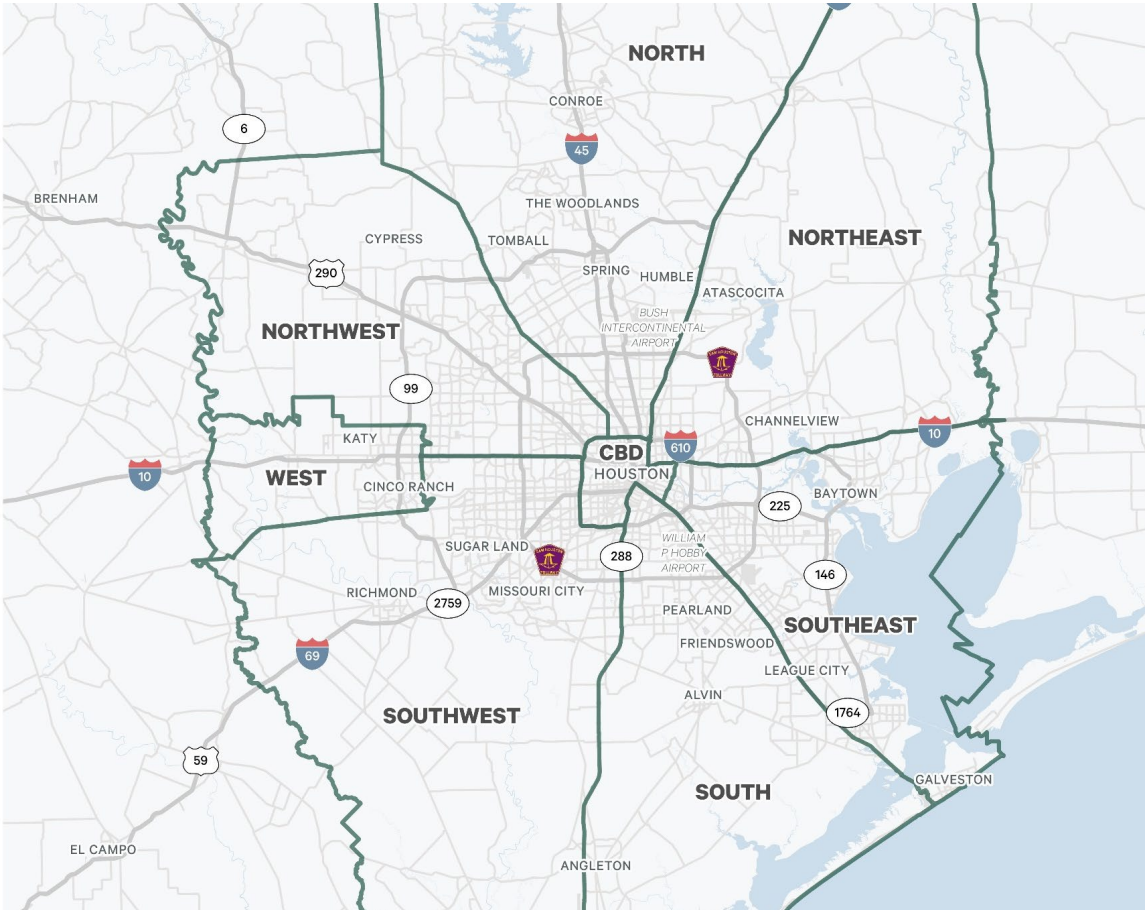
\*In 2022, it was determined that activity in and around the western side of the Houston market merited creation of a new submarket. The West submarket was added in Q1 2023, from portions of the Northwest and Southwest submarkets. Consequently, historical data is unavailable. Market totals remain unchanged.

	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	3,640,659
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.62	0.61	0.62	0.62	0.58	0.68	0.81	0.85
Delivered Construction (SF)	3,422,066	4,554,179	4,787,722	4,077,336	5,870,586	2,906,486	5,145,423	5,333,436
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	1,842,637
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.60	0.60	0.60	0.60	0.58	0.62	0.74	0.76
Delivered Construction (SF)	166,520	358,790	97,593	145,765	505,416	436,569	180,000	711,930
Vacancy Rate (%)	3.5	3.2	3.3	4.5	3.7	3.0	2.2	2.6
SOUTHWEST								
Absorption (Net, SF)	2,027,111	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	853,875
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	191,932
Vacancy Rate (%)	5.2	6.1	4.7	5.8	5.1	8.0	4.5	3.5
WEST*								
Absorption (Net, SF)								1,586,007
Overall Asking Rent (Gross Avg. Mthly \$/SF)								0.76
Delivered Construction (SF)								3,665,858
Vacancy Rate (%)								16.0
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	12,064,923
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	15,224,805
Vacancy Rate (%)	5.1	5.4	5.0	5.9	6.6	6.1	3.8	4.8

Source: CBRE Research, Q2 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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