

FIGURES | HOUSTON INDUSTRIAL | Q1 2024

Houston industrial market persists amidst shifting construction trends

▲ 6.3%

Vacancy Rate

▲ 8.3%

Availability Rate

▼ 4.4M

SF Positive Net Absorption

▼ 12.2M

SF Under Construction

▲ 6.3M

SF Delivered Construction

Note: Arrows indicate change from previous quarter.

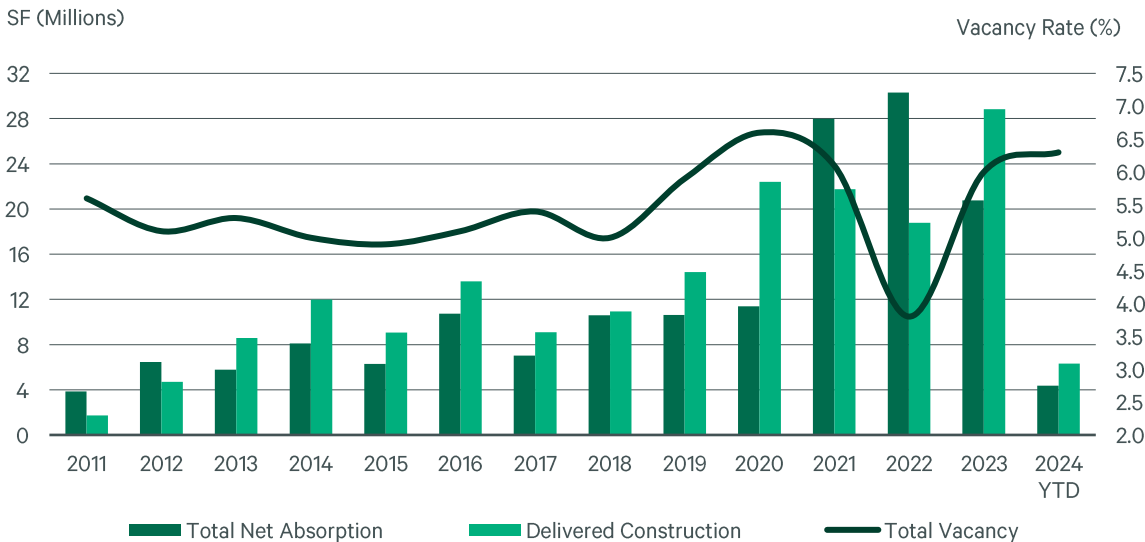
Market Overview

- Over 4.4 million sq. ft. of positive net absorption was recorded in Q1 2024.
- Approximately 6.3 million sq. ft. of industrial product delivered, with a pre-leasing rate of 36.1%.
- 41 projects totaling 12.2 million sq. ft. are currently underway, with roughly 3.8 million sq. ft. of the pipeline already pre-leased.

Houston had a promising start to the first quarter of 2024, with positive net absorption of 4.4 million sq. ft and 6.3 million sq. ft. of newly delivered inventory. Construction initiations moved at a modest pace, with groundbreakings totaling just under three million sq. ft. this quarter. Although there has been momentum in construction starts, the total amount of construction underway is down 57.4% year-over-year. Due to this reduced pipeline, there may be an increase in competition from occupiers in future quarters as the availability of newly delivered space in the market becomes more limited.

The initial two months of the new year showcased a remarkable beginning at Port of Houston where container volumes totaled 708,926 Twenty Equivalent Units (TEUs), marking a 12% year-over-year increase. Notably, container imports saw a 3.0% rise in January, driven by shipments from China ahead of the Lunar New Year. According to port authorities, the rise in activity observed in the Houston Ship Channel establishes a strong basis for a positive outlook for the rest of the year.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q1 2024.

Asking Rates

Gross Class A distribution asking rents remained steady, ending the quarter at \$0.83 per square foot. Monthly gross rates stayed consistent across the market at \$0.80 per sq. ft. Due to a tightened construction pipeline, asking rents for distribution space is anticipated to rise as supply becomes limited.

Vacancy & Availability

The market saw an increase in vacancy and availability, which is largely attributed to industrial projects delivering unleased. As of Q1 2024, 63.9% of total deliveries were unleased. The quarter ended with a vacancy rate of 6.3%, up by 30 basis points (bps) from last quarter. Market-wide availability also rose to 8.3%, reflecting a 20-bps increase from Q4 2023. The Southeast and Southwest submarkets contributed to the slight increase in vacancy and availability due to projects delivering unleased. The Southeast submarket recorded 1.4 million sq. ft. of delivered product with no deals inked, while the Southwest submarket recorded 1.3 million sq. ft. of completions, with nearly 66.0% unleased.

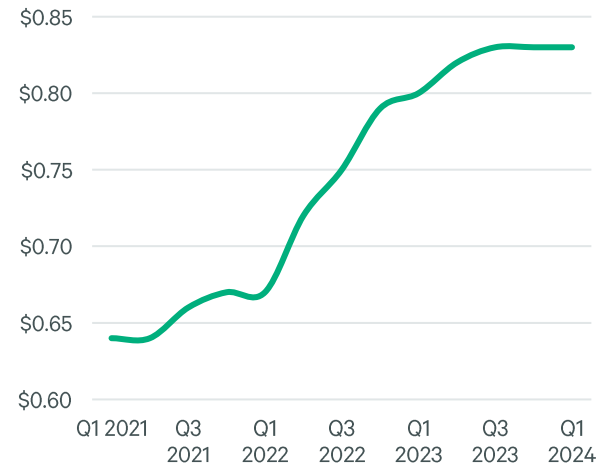
Net Absorption

Houston concluded the quarter with slightly over 4.4 million sq. ft. of positive net absorption. Notable occupancies from the quarter included Target’s move into its one million-sq.-ft. built-to-suit project located along West Lake Houston Parkway off the Northeast Beltway, and Distribution Alternatives 855,610-sq.-ft. occupancy at Kingsland Ranch Logistics Park in West Houston. Deals ranging between 500,000-700,000 sq. ft. are becoming increasingly common across various user types, including full service fulfillment centers, renewable energy, power generation, and food manufacturing.

Construction Underway

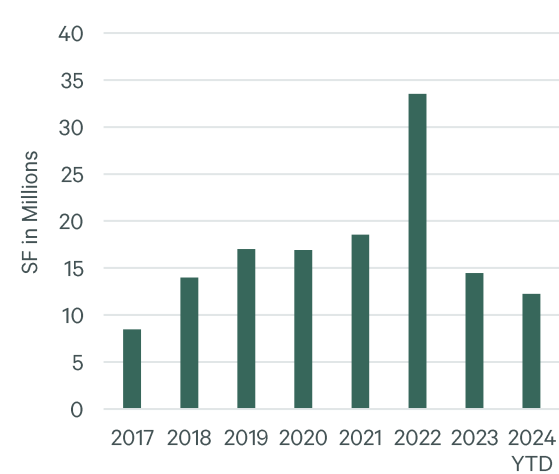
Construction currently underway tightened to 12.2 million sq. ft., which can be attributed to a surge in project completions this quarter that amounted to 6.3 million sq. ft., more than double the figure from the previous quarter. Despite observing a slowdown in construction, roughly 2.9 million sq. ft. of new industrial product broke ground by the end of the quarter.

FIGURE 2: Class A Warehouse/Distribution Asking Rates



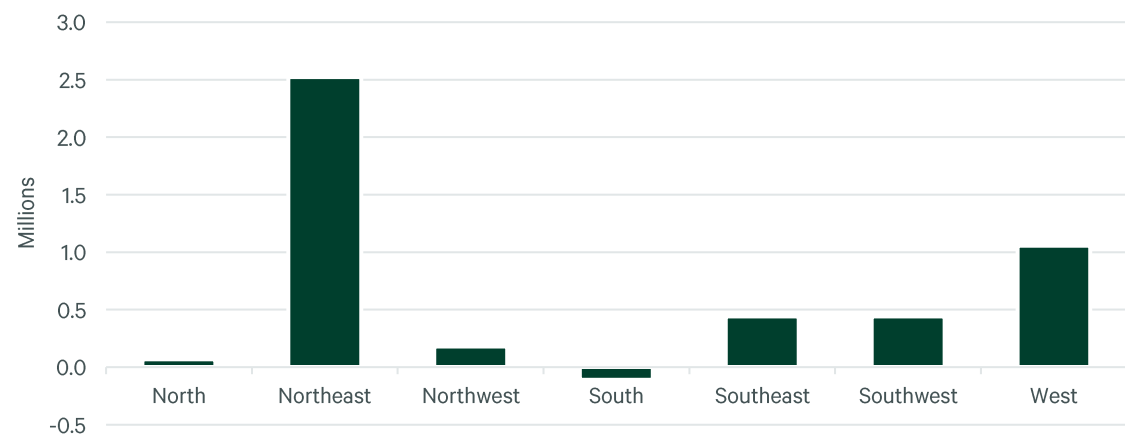
Source: CBRE Research, Q1 2024.

FIGURE 3: Under Construction



Source: CBRE Research, Q1 2024.

FIGURE 4: Net Absorption by Submarket



Source: CBRE Research, Q1 2024.

Deliveries

Of the 6.3 million sq. ft. of industrial product that delivered this quarter, 36.1% was pre-leased upon completion. The Northeast submarket held the lion’s share of construction completions this quarter, delivering roughly 1.7 million sq. ft., which included Target’s distribution center and Mesa Logistics Center, Buildings 1 & 2. The Southeast submarket followed suit, bringing a total of 1.4 million sq. ft. in speculative deliveries, stemming from Cedar Port Industrial Park and Port 10 Logistics Center, Building 3 & 4. The first quarter of 2024 witnessed nearly double the amount of square footage delivered compared to Q1 2023, consequently earning its place of being the third highest rank for delivered product in the first quarter since CBRE Research began tracking the Houston industrial market.

Q1 2024 Submarket Highlight – Southeast

The Southeast submarket has demonstrated remarkable growth and resilience, with 1.4 million sq. ft. of industrial product breaking ground in the first quarter, and an additional 4.0 million sq. ft. currently underway. Over the last 12 months, the Southeast submarket has added approximately 8.3 million sq. ft. of delivered industrial space, highlighting sustained demand and growth momentum in the area..

In response to the recent unfortunate collapse of the Francis Scott Key Bridge in Baltimore, the Port of Houston is prepared to offer necessary assistance. This incident serves as a poignant reminder of the importance of ongoing initiatives to expand the Houston Ship Channel, particularly through Project 11, which aims to improve safety and navigation. In an effort to enhance port infrastructure, the Paleisgracht General Cargo Vessel recently arrived at Barbours Cut, with seven new hybrid electric rubber-tired gantry (RTG) cranes. This arrival marks the first of many RTG deliveries scheduled for the terminal this year.

Broker Sentiment

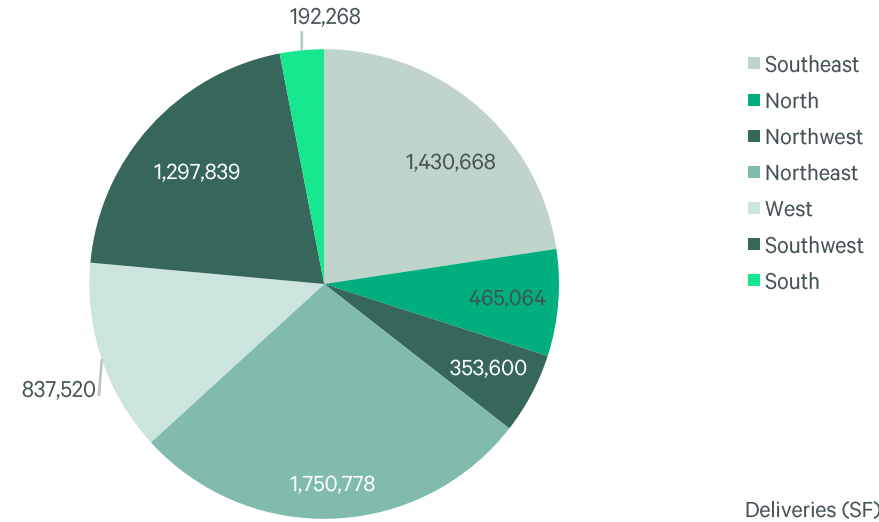
Although the construction pipeline is notably down from previous quarters, CBRE broker sentiment suggests that this decline can be viewed positively within the market. As construction underway tightens, available supply will gradually fill out, leading to lower vacancy and availability rates. As a result, rental rates are expected to rise as demand increases and supply decreases. The market boasts a diverse user base ranging from distribution and warehousing, food and beverage manufacturers, and power equipment manufacturers for solar and renewable energy sources. Under current market conditions, buildings that range below 350,000 sq. ft. have demonstrated a quicker leasing pace compared to buildings over 500,000 sq. ft. Although there is still demand for bulk industrial space over 500,000 sq. ft., it tends to lease at a slower rate. Nonetheless, Houston is poised to thrive owing to ongoing improvements at the Port, steady population growth, and the continuous evolution of infrastructure.

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



Source: CBRE Research, Q1 2024.

FIGURE 6: Q1 Deliveries by Submarket



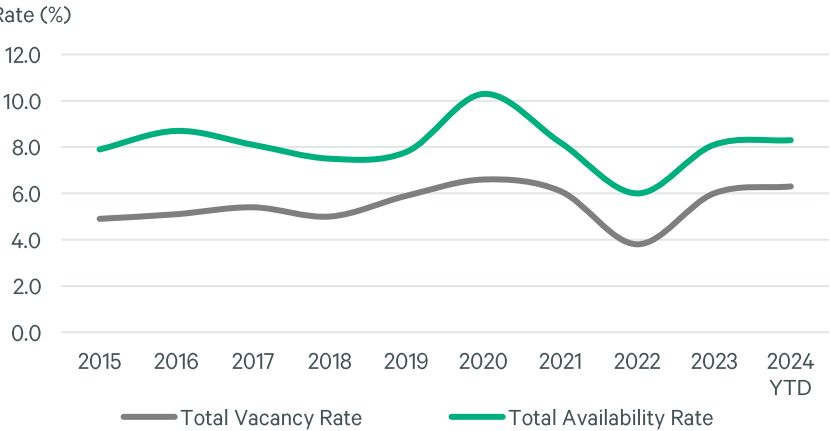
Source: CBRE Research, Q1 2024.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q1 2024 Net Absorption (SF)	Q1 2024 Vacancy (%)	Q1 2024 Starts (SF)	Q1 2024 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, Gross (\$/SF/Mo)
CBD	50,875,330	(227,056)	3.2%	0	0	\$0.84
North	115,977,183	69,017	7.9%	0	574,232	\$0.81
Northeast	42,593,906	2,523,403	6.6%	0	1,908,270	\$0.81
Northwest	146,727,207	178,861	5.5%	537,375	2,378,025	\$0.84
Southeast	115,299,323	441,408	6.0%	1,399,726	4,038,442	\$0.88
South	36,239,157	(110,886)	5.7%	217,143	1,799,051	\$0.83
Southwest	88,323,036	440,816	5.0%	785,138	1,540,073	\$0.83
West	32,483,924	1,056,528	13.5%	0	0	\$0.80
HOUSTON TOTAL	628,519,066	4,372,091	6.3%	2,939,382	12,238,093	\$0.83

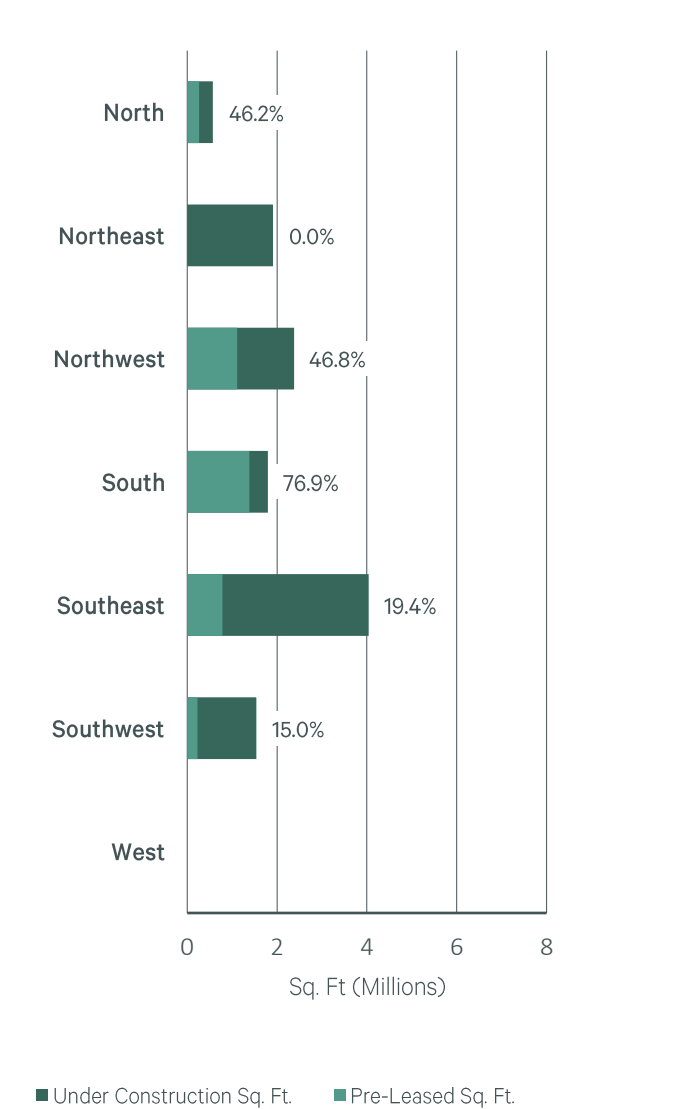
Source: CBRE Research, Q1 2024

FIGURE 9: Historical Vacancy & Availability



Source: CBRE Research, Q1 2024.

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



Source: CBRE Research, Q1 2024.

FIGURE 10: Largest Q1 2024 Tenant Move-ins

Total SF	Submarket	Building	Tenant
1,392,587	Northeast	Target Distribution	Target
855,610	West	Kingsland Ranch Logistics Park	Distribution Alternatives
509,600	Northeast	59 Logistics Center	United Airlines

Source: CBRE Research, Q1 2024.

Figure 11: Houston Historical Market Statistics

	2017	2018	2019	2020	2021	2022	2023	2024 YTD
CBD								
Absorption (Net, SF)	(437,817)	(189,765)	440,564	(273,802)	533,448	(129,273)	194,424	(227,056)
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.51	0.53	0.60	0.56	0.60	0.72	0.72	0.72
Delivered Construction (SF)	0	0	0	0	0	0	0	0
Vacancy Rate (%)	4.7	4.6	4.3	4.5	3.6	3.1	2.1	3.2
NORTH								
Absorption (Net, SF)	2,356,887	1,436,375	2,413,089	2,341,390	6,393,260	4,814,780	2,747,813	69,017
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.63	0.64	0.70	0.66	0.70	0.85	0.85	0.85
Delivered Construction (SF)	1,536,106	1,103,471	4,593,607	5,351,157	4,027,984	2,835,442	5,824,909	465,064
Vacancy Rate (%)	8.1	7.3	8.6	8.3	6.3	4.8	7.5	7.9
NORTHEAST								
Absorption (Net, SF)	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	803,868	2,523,403
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.53	0.55	0.53	0.49	0.53	0.63	0.75	0.75
Delivered Construction (SF)	20,088	164,500	1,005,400	429,500	649,600	2,425,032	1,660,079	1,750,778
Vacancy Rate (%)	2.9	2.8	3.9	3.1	4.3	3.1	7.6	6.6
NORTHWEST								
Absorption (Net, SF)	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339	4,041,473	178,861
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.62	0.64	0.60	0.56	0.71	0.85	0.85	0.85
Delivered Construction (SF)	1,559,726	4,141,124	2,754,334	7,012,821	2,389,980	6,475,649	3,782,705	353,600
Vacancy Rate (%)	5.8	6.1	6.1	7.8	6.3	4.4	5.3	5.5

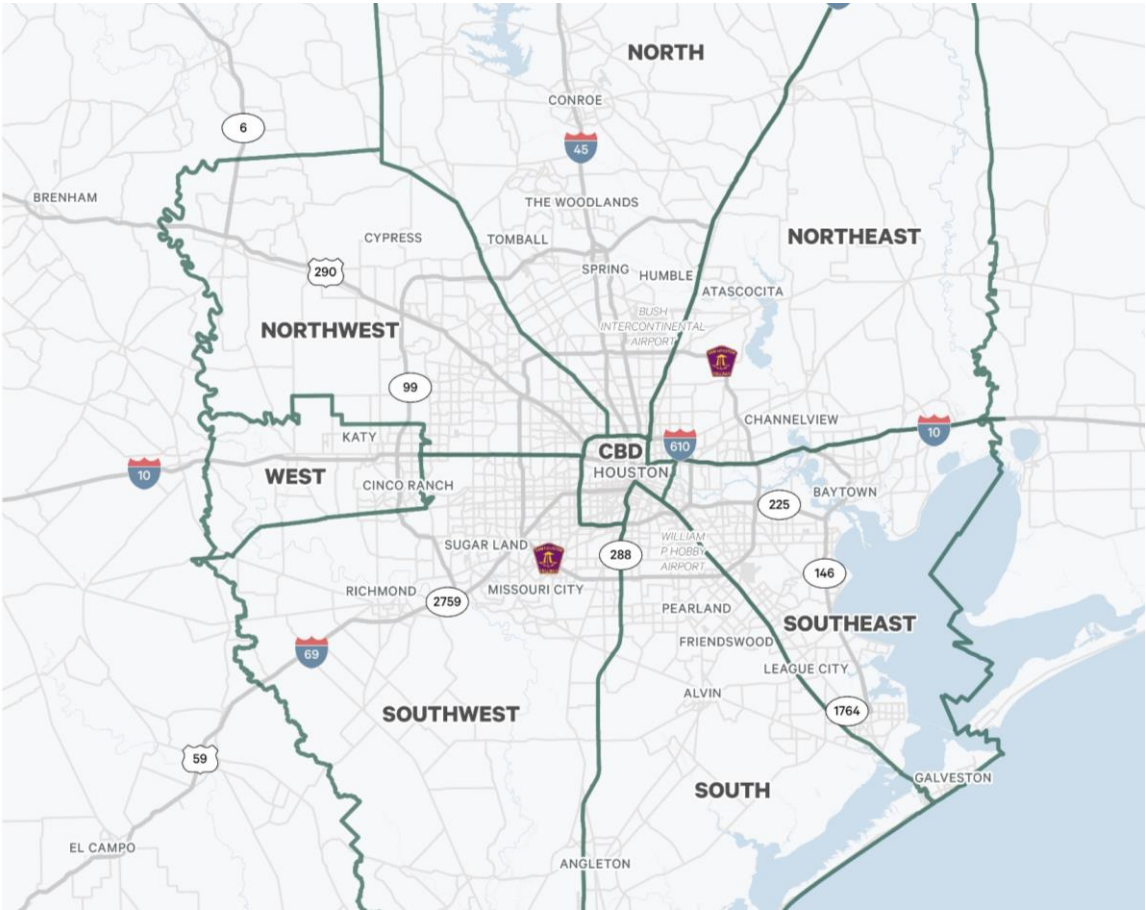
*In 2022, it was determined that activity in and around the western side of the Houston market merited creation of a new submarket. The West submarket was added in Q1 2023, from portions of the Northwest and Southwest submarkets. Consequently, historical data is unavailable. Market totals remain unchanged.

	2017	2018	2019	2020	2021	2022	2023	2024 YTD
SOUTHEAST								
Absorption (Net, SF)	4,845,236	3,261,976	2,026,786	3,431,143	4,945,311	9,425,658	6,327,027	441,408
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.61	0.62	0.62	0.58	0.68	0.81	0.85	0.85
Delivered Construction (SF)	4,554,179	4,787,722	4,077,336	5,870,586	2,906,486	5,145,423	8,077,423	1,430,668
Vacancy Rate (%)	3.7	3.4	5.1	7.7	6.6	2.4	5.7	6.0
SOUTH								
Absorption (Net, SF)	191,813	(154,244)	91,664	84,756	606,785	275,295	1,212,792	(110,886)
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.60	0.60	0.60	0.58	0.62	0.74	0.76	0.76
Delivered Construction (SF)	358,790	97,593	145,765	505,416	436,569	180,000	1,849,855	192,268
Vacancy Rate (%)	3.2	3.3	4.5	3.7	3.0	2.2	5.2	5.7
SOUTHWEST								
Absorption (Net, SF)	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	1,967,205	440,816
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.65	0.65	0.70	0.66	0.71	0.85	0.85	0.85
Delivered Construction (SF)	1,073,500	650,476	1,842,258	3,246,393	11,350,051	1,730,092	1,523,542	1,297,839
Vacancy Rate (%)	6.1	4.7	5.8	5.1	8.0	4.5	4.3	5.0
WEST*								
Absorption (Net, SF)							3,452,992	1,056,528
Overall Asking Rent (Gross Avg. Mthly \$/SF)							0.76	0.76
Delivered Construction (SF)							6,107,763	837,520
Vacancy Rate (%)							14.3	13.5
HOUSTON TOTAL								
Absorption (Net, SF)	7,014,323	10,606,134	10,550,411	11,399,584	27,984,953	30,302,889	20,747,594	4,372,091
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.61	0.62	0.62	0.59	0.65	0.77	0.80	0.80
Delivered Construction (SF)	9,102,389	10,944,886	14,418,700	22,415,873	21,760,670	18,791,638	28,826,276	6,327,737
Vacancy Rate (%)	5.4	5.0	5.9	6.6	6.1	3.8	6.0	6.3

Source: CBRE Research, Q1 2024.

*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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