

FIGURES | HOUSTON INDUSTRIAL | Q3 2024

# Houston industrial market conditions positive as Longshoremen strike averted

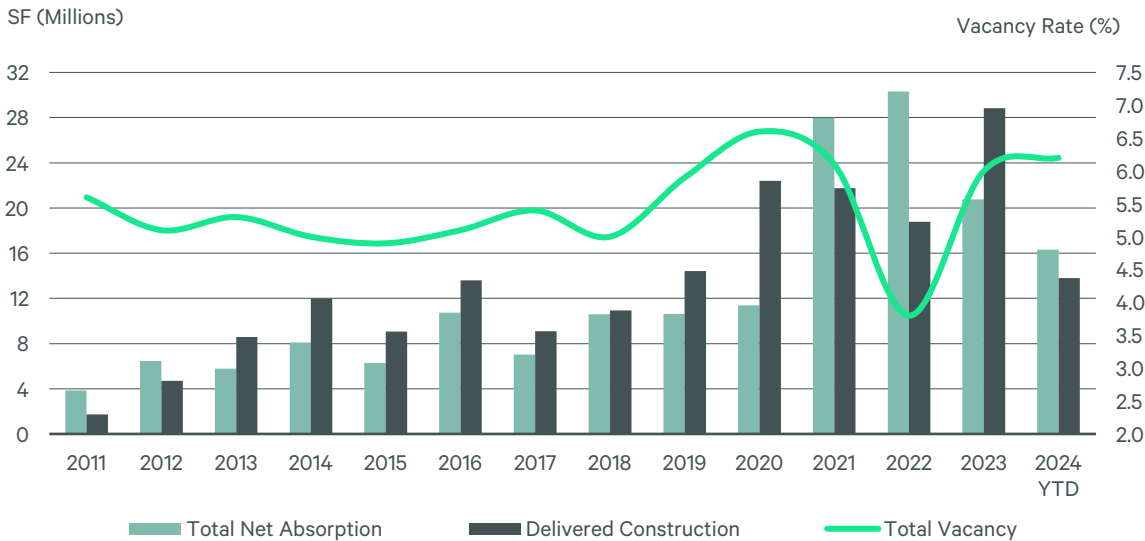


Note: Arrows indicate change from previous quarter.

Need to Know:

- The Houston industrial market posted another consecutive quarter of strong net absorption driven by steady tenant demand. Absorption reached nearly 6.2 million sq. ft. for the quarter, bringing the year-to-date total to 16.3 million sq. ft., a 4% increase over last year.
- The development pipeline tightened slightly with 11.1 million sq. ft. underway while 3.3 million sq. ft. of new product came online. The pipeline continues to contract due to capital conditions, which may portend a more competitive landscape for industrial space on the horizon if the inventory of new product diminishes.
- In what is very good news for the local and national economy, the Longshoremen strike at the Port of Houston and other Gulf and East Coast Ports ended as quickly as it started. The Maritima Alliance and the ILA Union came to terms within 72 hours of the strike activation. Despite the brief interruption, the Port of Houston should see another record-breaking year as it recorded a 20% YoY increase in twenty-foot equivalent units (TEUs), reaching 367,653 TEU's.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q3 2024.

Vacancy & Availability

Despite occupancy growth, vacancy rates held steady at 6.2% over last quarter, due to new product coming online. Availability fell 50 bps from the previous quarter however, dropping to 7.8%. The Houston market continues to experience strong tenant demand accompanied by less new product coming online than last year, which is leading to tighter space conditions. The tightened development pipeline suggests a further decline in both vacancy and availability assuming consistent levels of demand. Overall, market dynamics indicate a healthy leasing environment.

Net Absorption

The third quarter wrapped with 6.2 million sq. ft. of positive absorption, resulting in a YTD total of 16.3 million sq. ft. The North submarket saw the most net absorption, with 1.9 million sq. ft., which included a few significant move-ins like Broadrange Logistics (1.2 million sq. ft.) and Solar Plus (567,140 sq. ft.). Additionally, Target’s occupancy of 1.2 million sq. ft. and Palmer Logistics’ move into their build-to-suit contributed to a large portion of the positive absorption seen this quarter.

Construction Underway

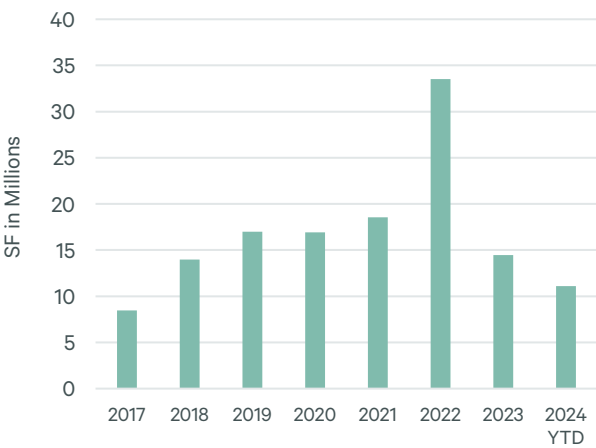
The construction pipeline fell to 11.1 million sq. ft. underway, with 20.3% of this space preleased. 3.3 million sq. ft. of new construction broke ground this quarter. Compared to the same period last year, there was a noticeable shift in project size starts. The average size of new construction has decreased over the past year – in Q2 2023 six projects exceeded 800,000 sq. ft., while none exceed that size today. This trend indicates a cooling of appetites for mega bulk warehouses in favor of more modestly sized bulk facilities. Additionally, there has been a 29% reduction in the total square footage under construction compared to this time last year.

Port of Houston

The Port of Houston is experiencing another remarkable year, with 20% growth in twenty-foot equivalent units (TEUs) in August YoY, reaching 367,000 TEUs for the month. Year-to-date, the total volume climbed to 2,791,000 TEUs, reflecting an 11% increase over the same period in 2023. At this pace, Port Houston is poised for another record-breaking year, even despite the short-lived strike. The International Longshoremen Association (ILA) strike, kicked off on the first day of the fourth quarter, lasted only three days. It would have upended supply chains and wrought havoc on the economy had it continued.

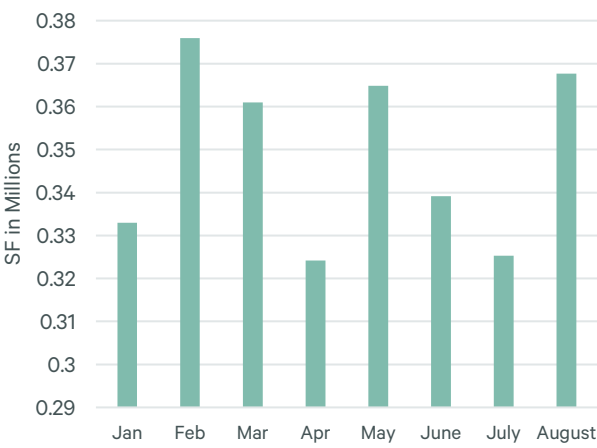
Looking back at the Port and regional infrastructure, three new ship-to-shore (STS) electric cranes have been installed at the Bayport Terminal, bringing the total to 18 STS cranes. Project 11 – the widening of the Houston Ship Channel– continues to make significant progress, with the end goal of enhancing both efficiency and safety along the waterway.

FIGURE 2: Under Construction



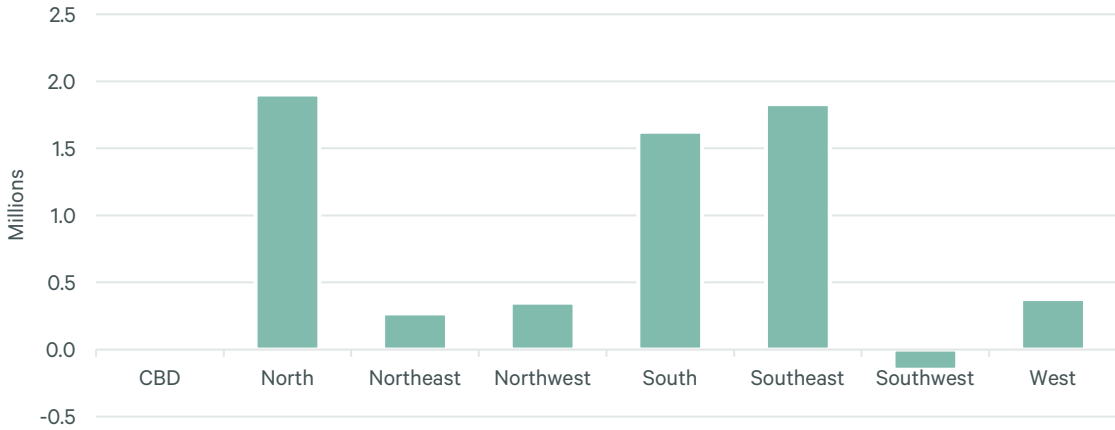
Source: CBRE Research, Q3 2024.

FIGURE 3: Port of Houston TEU's



Source: PortHouston.com, CBRE Research, Q3 2024.

FIGURE 4: Net Absorption by Submarket



Source: CBRE Research, Q3 2024.

Deliveries

In Q3 2024, industrial supply increased with an additional 3.3 million sq. ft. coming online. This includes a notable built-to-suit development for Target, in South Houston, marking the retailer’s second, million square foot development this year. In the Southeast market, another million sq. ft. building was delivered in Port 99 Logistics Park. Compared to a year ago, there has been a 69% decrease in development starts, although it should be noted that the vacancy rate increased by 80 basis points (bps) over the same period.

Q3 2024 Submarket Highlight – Southeast

Southeast Houston continues to experience occupancy growth with 1.8 million sq. ft. of positive absorption in Q3. Notable move-ins include Palmer Logistics at Ameriport Industrial Park, occupying 616,700 sq. ft., and Hinton Lumber Products leasing 450,000 sq. ft. at Independence Logistics Park. Leading the way in new developments across Houston submarkets, the area currently has 3.8 million sq. ft. under construction with a 24.6% prelease rate.

As mentioned previously, the 3-day strike by longshoremen led to a brief shutdown of operations at the Bayport and Barbours Cut container terminals. The strike, which included ports from Texas to Maine, would have caused significant disruptions in imports and shortages during the upcoming holiday season. Resolving this strike was essential for maintaining the Port’s operational efficiency and supporting the broader supply chain.

Broker Sentiment

CBRE broker sentiment suggests that the market will continue to demonstrate strong demand and leasing activity. There is sustained demand for 100K – 500K sq. ft. of industrial space in industries such as 3PLs, solar, and food & beverages. The Houston market is also seeing a tempered increase in activity amongst bulk users, albeit at a measured pace.

The development pipeline today is slower than usual. Challenges in the capital markets have made financing for both debt and equity more difficult to secure, impacting the pace of new projects. Longer permitting processes have also contributed to construction delays, further slowing the overall development timeline. Overall, Houston is well-positioned for growth, with ongoing efforts to improve infrastructure strategic location near highways and major airports, and the Port, making it an attractive destination for business growth.

FIGURE 5: YTD Leasing Activity by Size

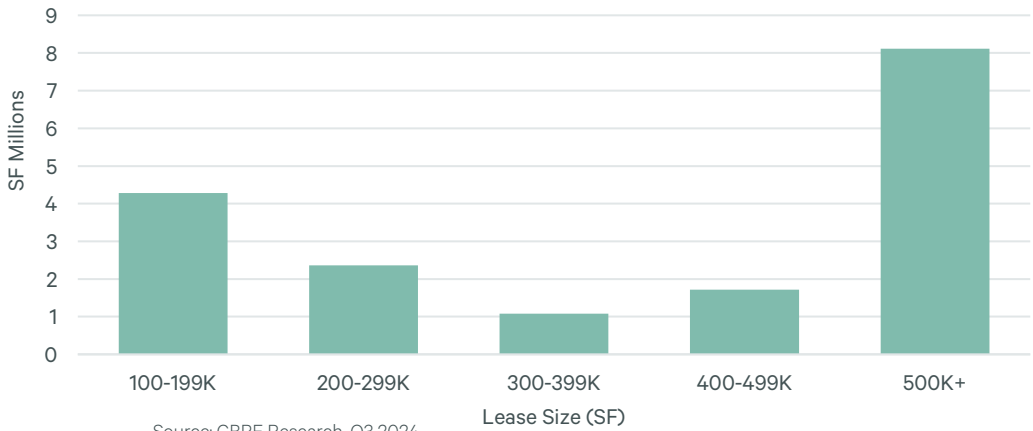
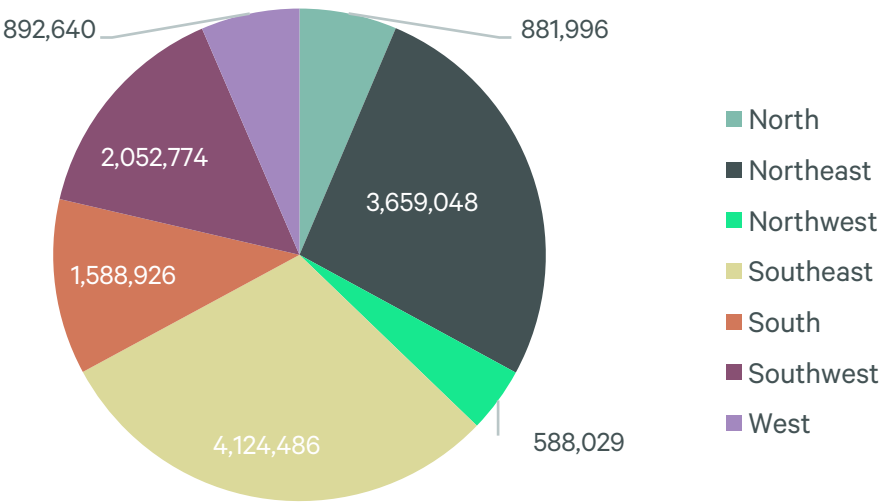


FIGURE 6: YTD Deliveries by Submarket



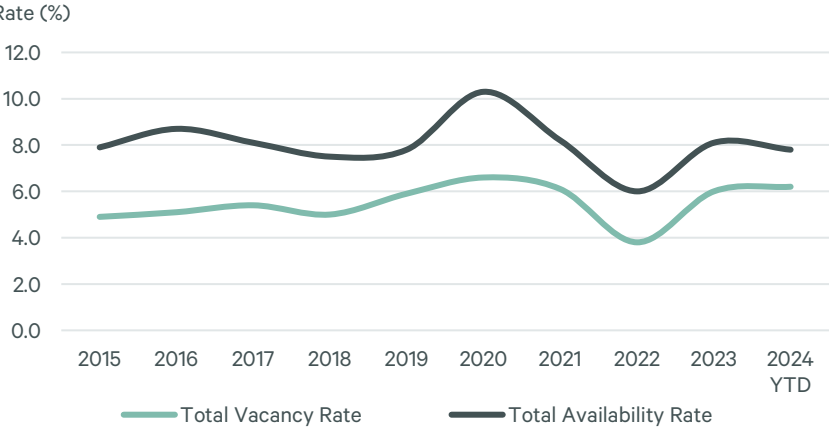
Source: CBRE Research, Q3 2024.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q3 2024 Net Absorption (SF)	Q3 2024 Vacancy (%)	Q3 2024 Starts (SF)	Q3 2024 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, NNN (\$/SF/Mo)
CBD	50,646,171	(12,044)	3.0%	0	0	\$0.61
North	116,482,100	1,901,677	5.1%	378,980	1,401,531	\$0.59
Northeast	44,502,176	269,374	9.6%	0	858,600	\$0.58
Northwest	147,432,105	349,784	5.4%	244,500	1,894,035	\$0.61
Southeast	117,406,230	1,829,970	6.1%	1,370,975	3,779,664	\$0.65
South	38,112,524	1,624,325	4.6%	0	356,143	\$0.60
Southwest	89,076,696	(150,739)	4.8%	1,350,559	2,808,695	\$0.60
West	32,539,044	376,740	19.5%	0	0	\$0.57
HOUSTON TOTAL	636,197,046	6,189,087	6.2%	3,345,014	11,098,668	\$0.60

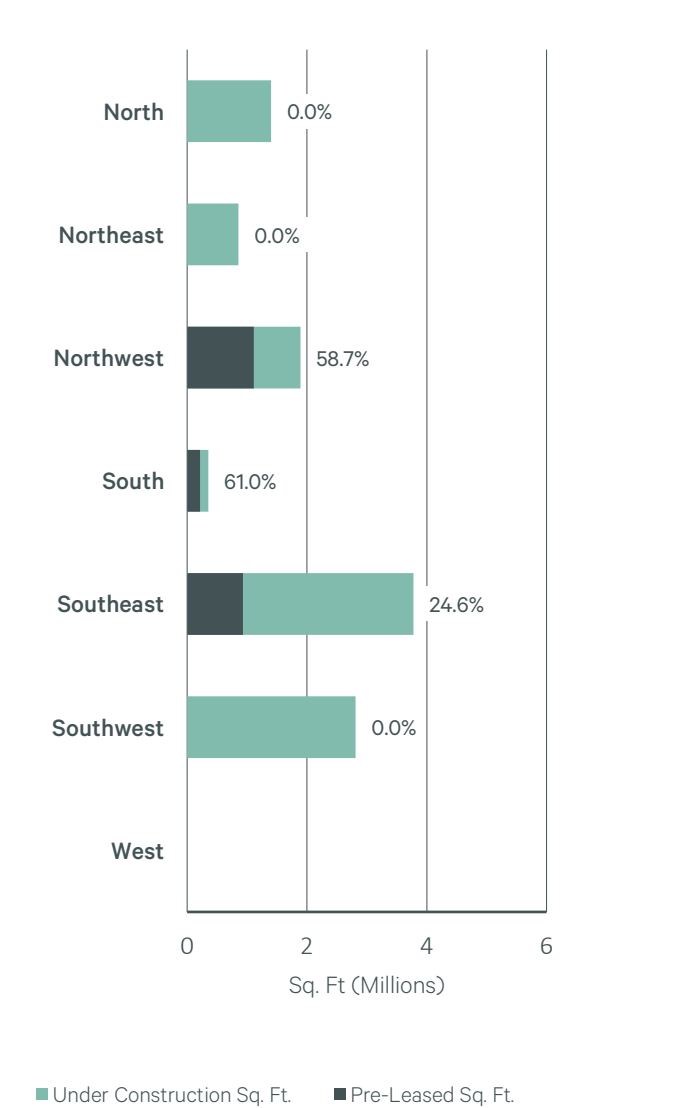
Source: CBRE Research, Q3 2024

FIGURE 9: Historical Vacancy & Availability



Source: CBRE Research, Q3 2024.

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



Source: CBRE Research, Q3 2024.

FIGURE 10: Largest Q3 2024 Tenant Move-ins

Total SF	Submarket	Building	Tenant
1,224,498	North	NorthPort Logistics Center	Broadrange Logistics
1,197,858	South	Beltway 66	Target
616,700	Southeast	AmeriPort	Palmer Logistics

Source: CBRE Research, Q3 2024.

Figure 11: Houston Historical Market Statistics

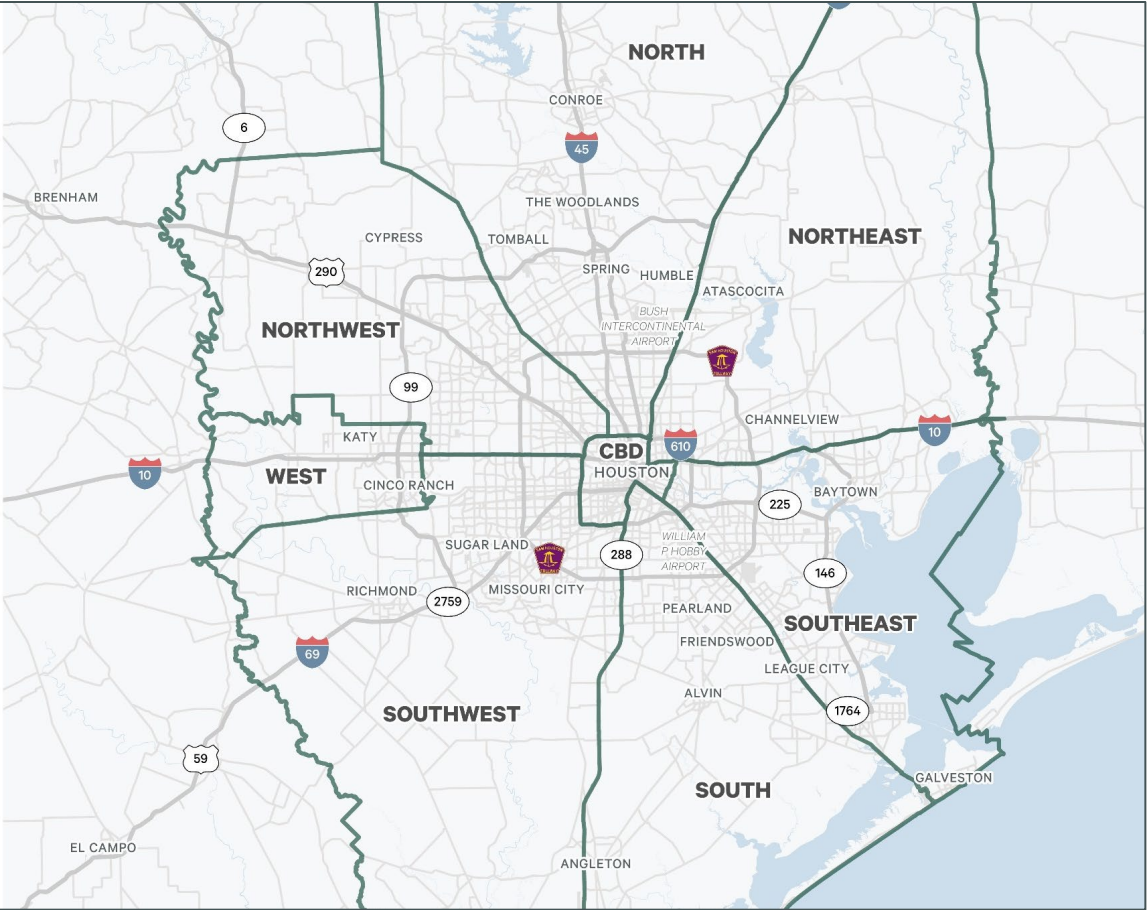
	2017	2018	2019	2020	2021	2022	2023	2024 YTD
CBD								
Absorption (Net, SF)	(437,817)	(189,765)	440,564	(273,802)	533,448	(129,273)	194,424	(178,521)
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.29	0.31	0.38	0.4	0.38	0.50	0.49	0.49
Delivered Construction (SF)	0	0	0	0	0	0	0	0
Vacancy Rate (%)	4.7	4.6	4.3	4.5	3.6	3.1	2.1	3.0
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	4,513,134
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.41	0.42	0.48	0.44	0.48	0.63	0.58	0.59
Delivered Construction (SF)	1,536,106	1,103,471	4,593,607	5,351,157	4,027,984	2,835,442	5,824,909	881,996
Vacancy Rate (%)	8.1	7.3	8.6	8.3	6.3	4.8	7.5	5.1
NORTHEAST								
Absorption (Net, SF)	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	803,868	2,725,438
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.31	0.33	0.31	0.27	0.31	0.41	0.52	0.52
Delivered Construction (SF)	20,088	164,500	1,005,400	429,500	649,600	2,425,032	1,660,079	3,659,048
Vacancy Rate (%)	2.9	2.8	3.9	3.1	4.3	3.1	7.6	9.6
NORTHWEST								
Absorption (Net, SF)	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339	4,041,473	1,867,226
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.40	0.42	0.38	0.34	0.49	0.63	0.61	0.62
Delivered Construction (SF)	1,559,726	4,141,124	2,754,334	7,012,821	2,389,980	6,475,649	3,782,705	588,029
Vacancy Rate (%)	5.8	6.1	6.1	7.8	6.3	4.4	5.3	5.4

*\*In 2022, it was determined that activity in and around the western side of the Houston market merited the 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	2,785,500
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.39	0.40	0.40	0.36	0.46	0.59	0.62	0.62
Delivered Construction (SF)	4,554,179	4,787,722	4,077,336	5,870,586	2,906,486	5,145,423	8,077,423	4,124,486
Vacancy Rate (%)	3.7	3.4	5.1	7.7	6.6	2.4	5.7	6.1
SOUTH								
Absorption (Net, SF)	191,813	(154,244)	91,664	84,756	606,785	275,295	1,212,792	2,310,434
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.38	0.38	0.38	0.36	0.40	0.51	0.53	0.53
Delivered Construction (SF)	358,790	97,593	145,765	505,416	436,569	180,000	1,849,855	1,588,926
Vacancy Rate (%)	3.2	3.3	4.5	3.7	3.0	2.2	5.2	4.6
SOUTHWEST								
Absorption (Net, SF)	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	1,967,205	1,195,439
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.43	0.43	0.48	0.44	0.49	0.63	0.62	0.62
Delivered Construction (SF)	1,073,500	650,476	1,842,258	3,246,393	11,350,051	1,730,092	1,523,542	2,052,774
Vacancy Rate (%)	6.1	4.7	5.8	5.1	8.0	4.5	4.3	4.8
WEST*								
Absorption (Net, SF)							3,452,992	1,102,682
Overall Asking Rent (NNN Avg. Mthly \$/SF)							0.53	0.53
Delivered Construction (SF)							6,107,763	892,640
Vacancy Rate (%)							14.3	19.5
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	16,321,332
Overall Asking Rent (NNN Avg. Mthly \$/SF)	0.39	0.40	0.40	0.36	0.43	0.55	0.57	0.57
Delivered Construction (SF)	9,102,389	10,944,886	14,418,700	22,415,873	21,760,670	18,791,638	28,826,276	13,787,899
Vacancy Rate (%)	5.4	5.0	5.9	6.6	6.1	3.8	6.0	6.2

Source: CBRE Research, Q3 2024

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. 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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