

Houston closes the year on a high note: Net absorption outpaces deliveries by 5 million sq. ft

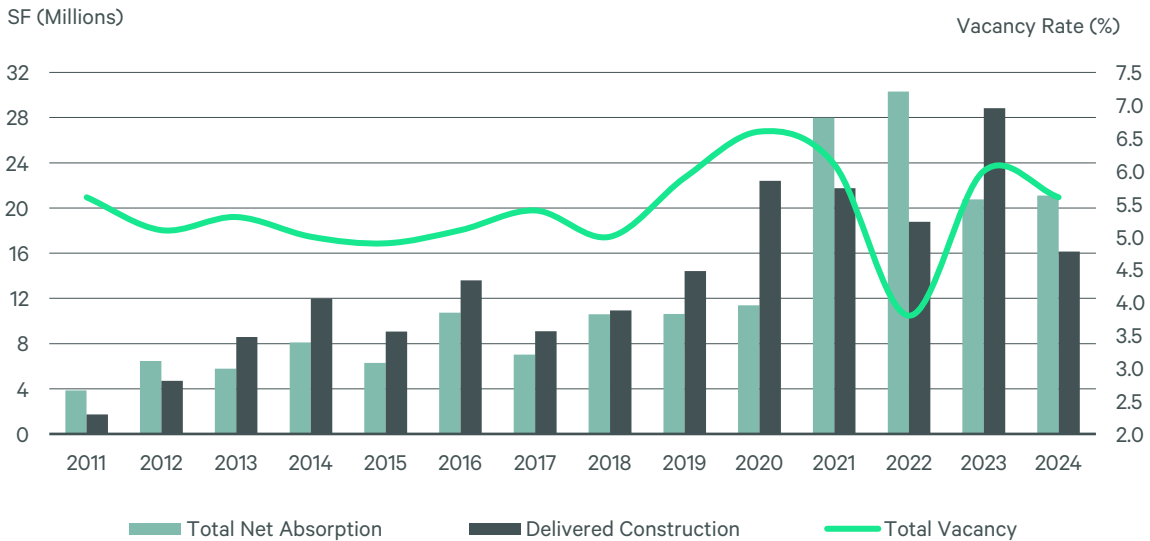


Note: Arrows indicate change from previous quarter.

Key Highlights

- Houston closed out Q4 with 4.8 million sq. ft. of positive net absorption, contributing to a year-end total of 21 million sq. ft. of net new occupancy. With this strong tenant demand, vacancy dropped to 5.6% and is now in line with historical averages.
- For the year, absorption outpaced deliveries by 5 million sq. ft, which helped drive vacancy down. This reversed, by a significant margin, the trend seen in 2020 and 2023.
- The construction pipeline remains constrained, with 11.3 million sq. ft. underway and 2.4 million sq. ft. delivered, 70% of which is preleased. Economic uncertainty, land prices, and capital costs have tempered activity as only 1.5 million sq. ft. broker ground this quarter.
- The Port of Houston is set to close 2024 as one of its strongest years yet, handling 3,799,573 twenty-foot equivalent (TEUs) through November, a 9% increase year-over-year. November’s performance stood out with a volume of 369,261 TEUs, reflecting a remarkable 24% year-over-year growth.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q4 2024.

Vacancy & Net Absorption

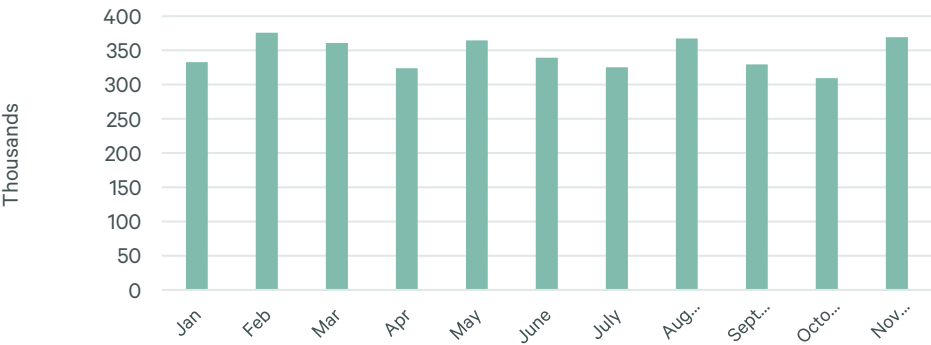
The Houston industrial real estate market experienced a shift this quarter, driven by supply becoming limited and increasing tenant demand. The vacancy rate dropped by 60 basis points (bps) from the previous quarter, ending the year at 5.6%. Additionally, the availability rate decreased by 40 bps to 7.4%

Houston saw more international companies moving into the market, attracted by its strategic location and economic opportunities. This influx is further fueled by a push for foreign products entering the market due to the implementation of tariffs. The net absorption for Q4 was an impressive 4.8 million sq. ft., bringing the total for the year to 21 million sq. ft.

Several major tenants occupied their spaces this quarter, including Builders First Choice, which moved into their 843,360 sq. ft. build-to-suit space at Grand Central West Industrial Park, and Lecangs, which occupied 509,975 sq. ft. at Anserra Distribution Center. Northwest Houston led the region in absorption, with 2 million sq. ft. taken up this quarter. Key tenants in this area included Builders First Choice, Foxconn, and Avangard Innovative, further driving the market's growth.

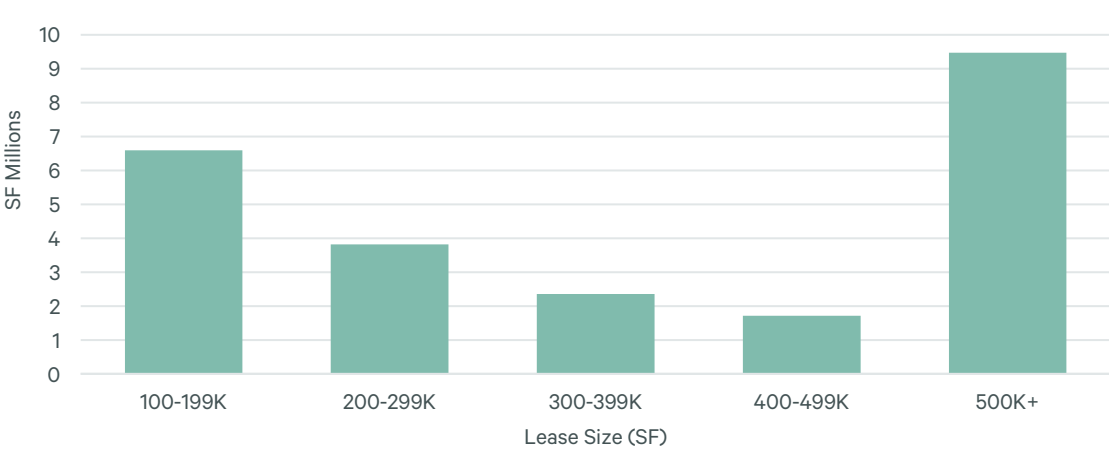
Looking ahead, there is a considerable amount of pent-up demand in the market. The trend of mega builds is becoming more active, with several large deals expected to come online in the first quarter of 2025. This anticipated activity suggests that the Houston industrial market will continue to thrive, supported by both local and international tenant demand and the ongoing development of new industrial spaces.

FIGURE 3: Port of Houston TEU's



Source: PortHouston.com, CBRE Research, Q4 2024.

FIGURE 2: 2024 Leasing Activity by Size



Source: CBRE Research, Q4 2024.

FIGURE 4: Net Absorption by Submarket



Source: CBRE Research, Q4 2024.

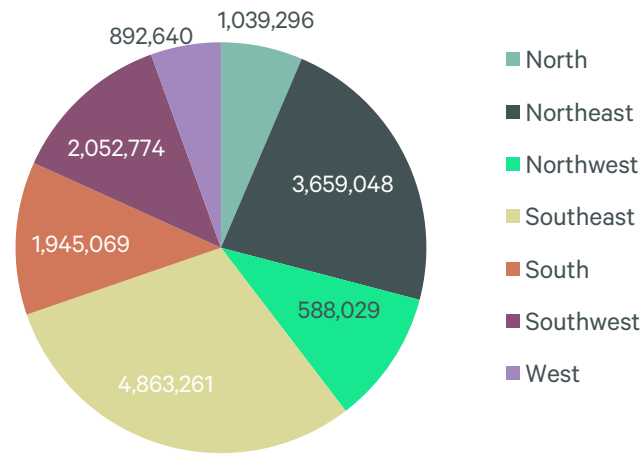
Construction

The construction pipeline remains constrained with 38 projects currently underway, collectively total 11.3 million sq. ft., of which 8.3% is preleased. This quarter saw the groundbreaking of approximately 1.5 million sq. ft., including the notable IDV project at Patriot Business Park. However, compared to last year, there has been a 21% decrease in the overall construction pipeline largely due to rising land and capital costs and the increasing difficulty of securing loans for construction.

Deliveries

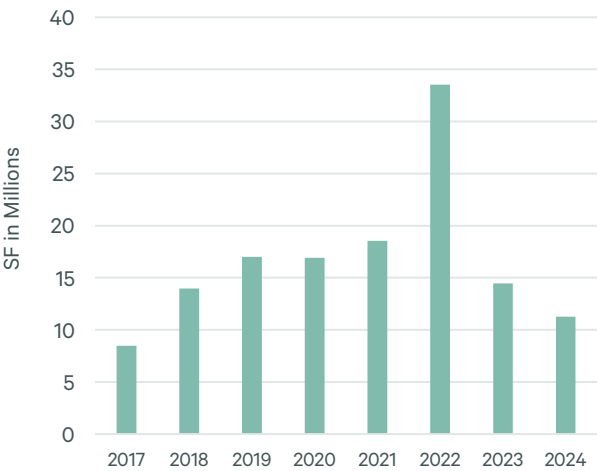
In Q4 2024, a total of eight projects came online, delivering 2.4 million sq. dt. of space, with 70.7% of this space already preleased. However, the pace of delivery has been slower due to increased labor costs, rising construction expenses, and the limited availability of materials. Among the major projects that came online this quarter was the Builders First Choice build-to-suit at Grand Central West Industrial Park, which alone consisted of 843,360 sq. ft.

FIGURE 5: 2024 Deliveries by Submarket



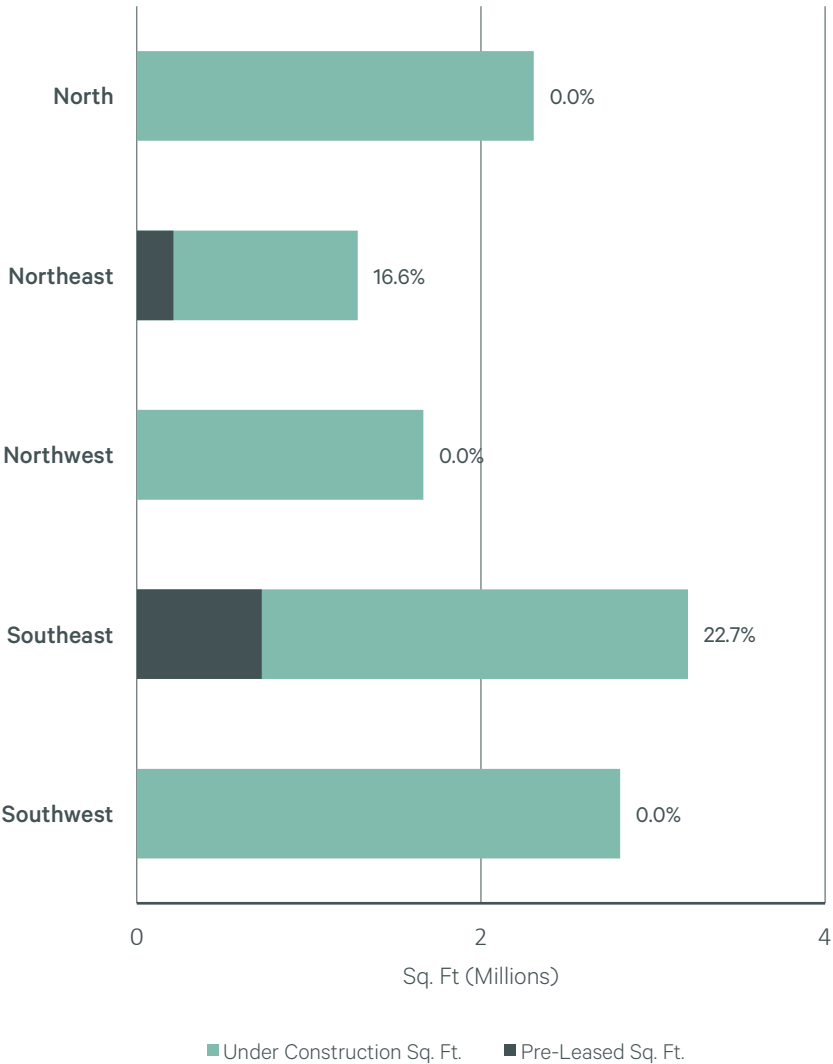
Source: CBRE Research, Q4 2024

FIGURE 6: Under Construction



Source: CBRE Research, Q4 2024.

FIGURE 7: Houston Industrial Market Under Construction and Pre-Leased



Source: CBRE Research, Q4 2024.

FIGURE 8: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q4 2024 Net Absorption (SF)	Q4 2024 Vacancy (%)	Q4 2024 Starts (SF)	Q4 2024 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, NNN (\$/SF/Mo)
CBD	50,577,685	(228,199)	3.1%	0	0	\$0.61
North	116,660,459	(180,183)	5.6%	633,543	2,307,472	\$0.59
Northeast	44,633,973	534,980	8.5%	425,264	1,283,864	\$0.58
Northwest	148,651,265	2,007,804	4.7%	280,960	1,664,515	\$0.61
Southeast	118,230,442	632,953	6.4%	161,700	3,202,589	\$0.65
South	38,539,917	535,755	3.4%	0	0	\$0.60
Southwest	88,946,793	597,643	3.9%	0	2,808,695	\$0.60
West	32,375,900	888,991	13.0%	0	0	\$0.57
HOUSTON TOTAL	638,616,434	4,789,744	5.6%	1,501,467	11,267,135	\$0.60

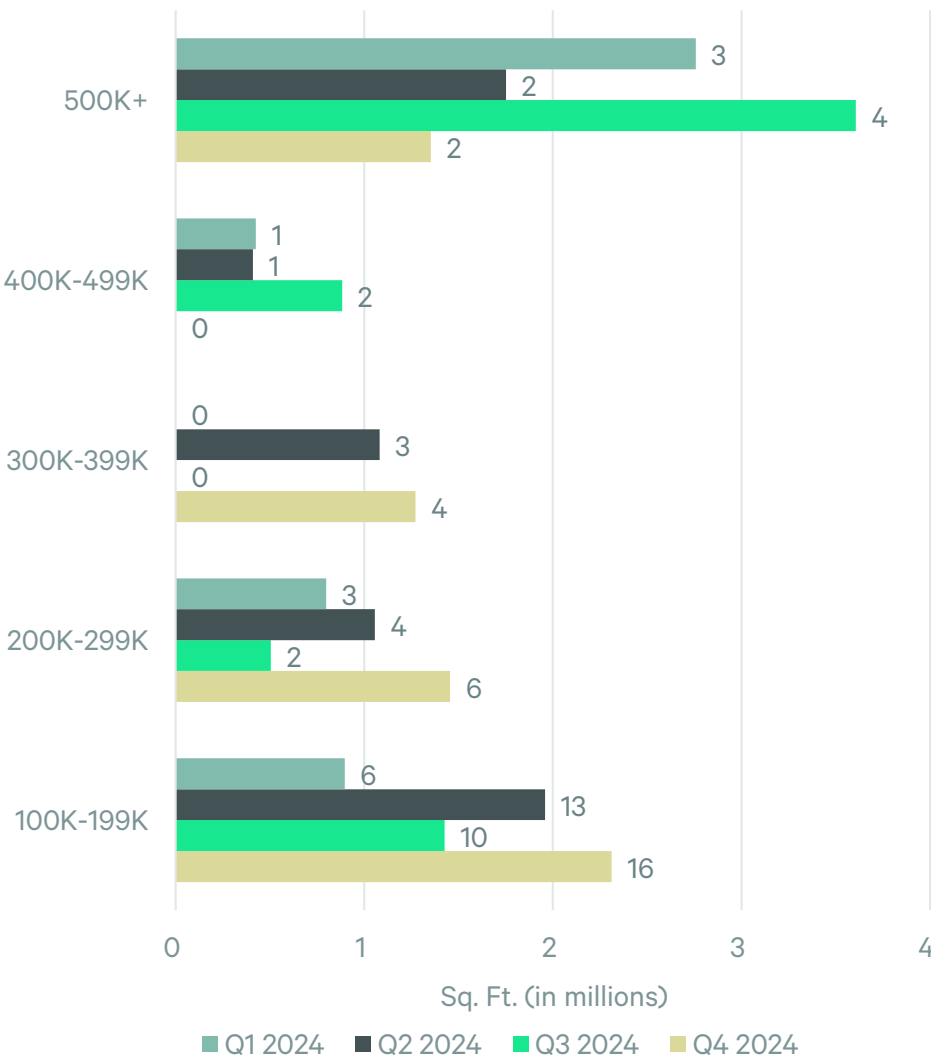
Source: CBRE Research, Q4 2024.

FIGURE 9: Houston Market Size Tranches

Tranches	Net Rentable Area (SF)	Q4 2024 Vacancy	Q4 2024 Vacancy Rate (%)	Q4 2024 Availability	Q4 2024 Availability Rate (%)
0-49,999	158,337,848	6,720,238	4.2%	8,836,746	5.6%
50,000-149,999	181,199,855	8,422,851	4.6%	12,676,579	7.0%
150,000-249,999	92,236,515	5,594,056	6.1%	7,222,888	7.8%
250,000-499,999	103,578,689	4,466,997	4.3%	7,501,403	7.2%
500,000+	103,263,527	10,256,094	9.9%	11,146,677	10.8%
HOUSTON TOTAL	638,616,434	35,460,236	5.6%	47,384,290	7.4%

Source: CBRE Research, Q4 2024.

Figure 10: Houston Leasing Activity by Size



Source: CBRE Research, Q4 2024.

Figure 11: Houston Historical Market Statistics

	2017	2018	2019	2020	2021	2022	2023	2024
CBD								
Absorption (Net, SF)	(437,817)	(189,765)	440,564	(273,802)	533,448	(129,273)	194,424	(406,720)
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	3.1
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	4,332,951
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	1,039,296
Vacancy Rate (%)	8.1	7.3	8.6	8.3	6.3	4.8	7.5	5.6
NORTHEAST								
Absorption (Net, SF)	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	803,868	3,260,418
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	8.5
NORTHWEST								
Absorption (Net, SF)	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339	4,041,473	3,875,030
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	1,700,189
Vacancy Rate (%)	5.8	6.1	6.1	7.8	6.3	4.4	5.3	4.7

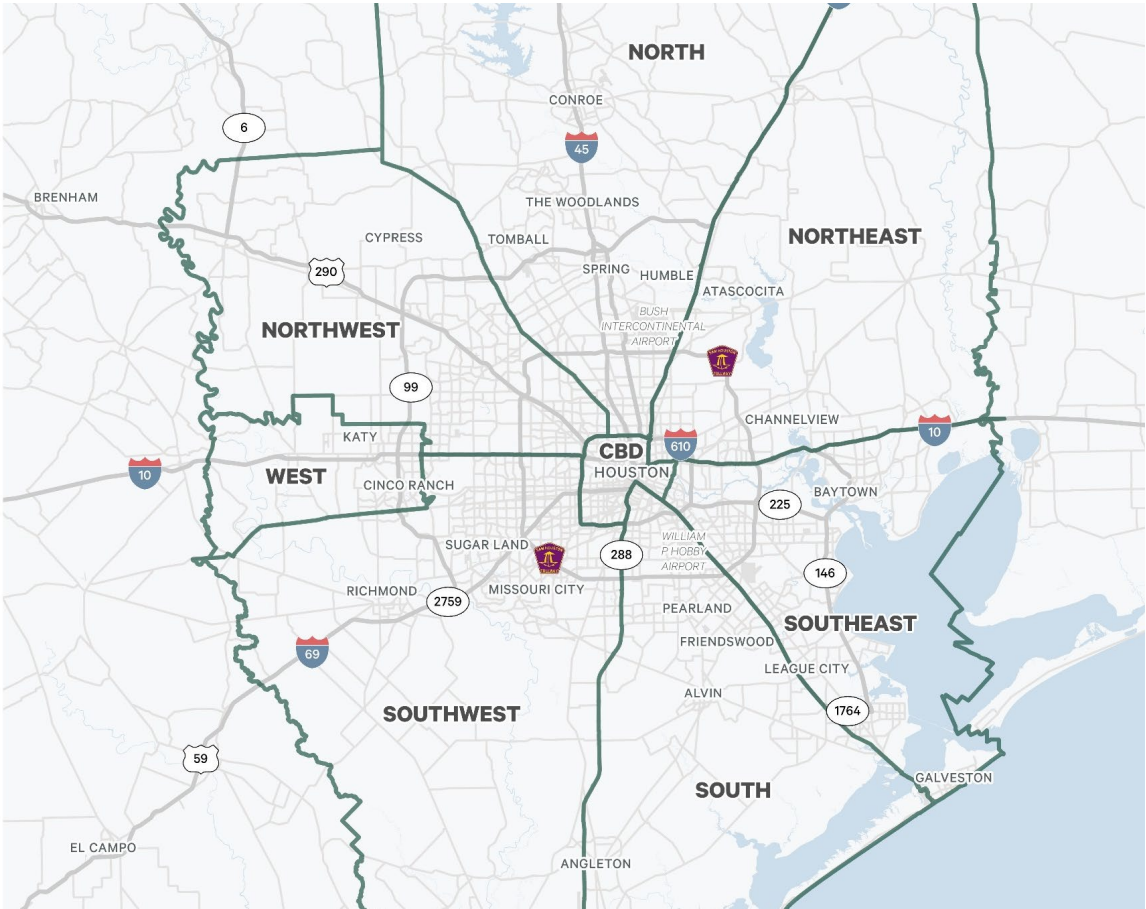
*In 2022, it was determined that activity in and around the western side of the Houston market merited creation of a new submarket. The West submarket was added in Q1 2023, from portions of the Northwest and Southwest submarkets. Consequently, historical data is unavailable. Market totals remain unchanged.

	2017	2018	2019	2020	2021	2022	2023	2024
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	3,418,453
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	4,863,261
Vacancy Rate (%)	3.7	3.4	5.1	7.7	6.6	2.4	5.7	6.4
SOUTH								
Absorption (Net, SF)	191,813	(154,244)	91,664	84,756	606,785	275,295	1,212,792	2,846,189
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	1,945,069
Vacancy Rate (%)	3.2	3.3	4.5	3.7	3.0	2.2	5.2	3.4
SOUTHWEST								
Absorption (Net, SF)	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	1,967,205	1,793,082
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	3.9
WEST*								
Absorption (Net, SF)							3,452,992	1,991,673
Overall Asking Rent (NNN Avg. Mthly \$/SF)							0.53	0.53
Delivered Construction (SF)							6,107,763	892,640
Vacancy Rate (%)							14.3	13.0
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	21,111,076
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	16,152,277
Vacancy Rate (%)	5.4	5.0	5.9	6.6	6.1	3.8	6.0	5.6

Source: CBRE Research, Q4 2024.

*Weighted NNN 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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