

FIGURES | HOUSTON INDUSTRIAL | Q3 2023

# Supply and demand balance out as rental rates peak for Houston industrial



Note: Arrows indicate change from previous quarter.

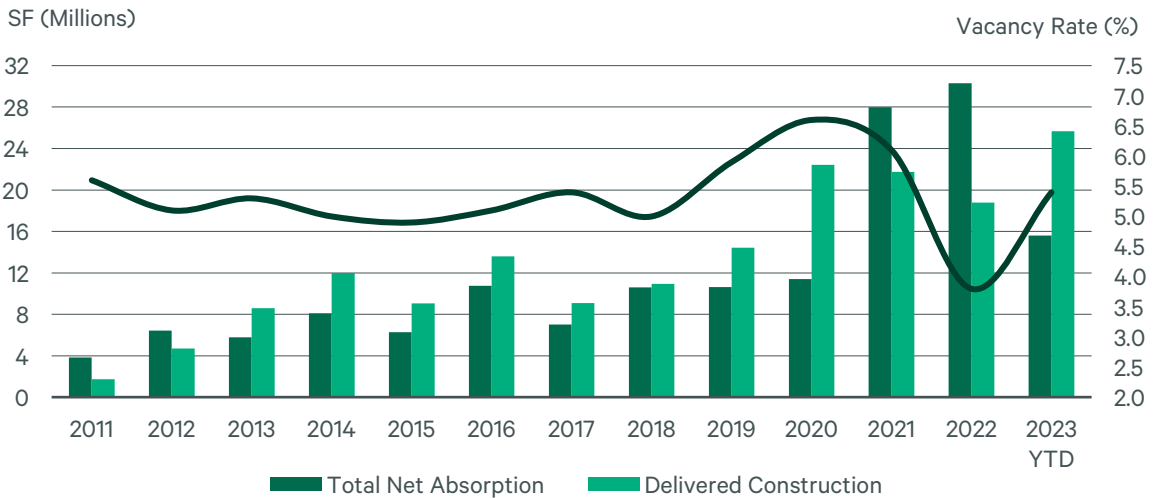
## MARKETWIDE OVERVIEW

- Q3 2023 recorded 3.5 million sq. ft. of positive net absorption – 15.6 million sq. ft. YTD
- Development activity still robust with 15.6 million sq. ft. underway at 40.4% preleased
- Strong tenant demand fostered by 10.5 million sq. ft. of newly delivered industrial product

Key fundamentals for the Houston industrial market were positive this quarter as 2023 remains the third best year on record, and is trending toward a soft landing in 2024. The ample supply of new industrial product continues to be fueled by tenant demand from a broad user profile. Overall, Houston has responded well to the higher rental rates as short-term supply has tightened. Moreover, in light of the 10.5 million sq. ft. of new construction added in Q3 2023, of which was predominantly spec, total vacancy remains healthy.

TEU (twenty-foot equivalent unit) volume for the Port of Houston is thus far on par with last year with the port experiencing its highest July volume at a total of 344,163 TEUs, reflecting a 5% increase compared to July 2022. This growth can be primarily attributed to one strongly demanded commodity – the export of resin. In terms of infrastructural progress, Port Houston announced both the addition of three Ship-to-Shore (STS) cranes at the Bayport Container Terminal, and the newly established Wharf 6 in Q3 2023.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q3 2023.

Lease Rates

The coming of new construction in North and Southeast, alongside interchange between supply, demand, and economic factors in real estate pushed rates up once again in Q3 2023. The rise in average asking rates continued upward to \$0.80/sq. ft. on a monthly, gross basis, reflecting a 1.3% increase quarter-over-quarter. The inventory of Class A Warehouse/Distribution has spiked since 2020, driving annual growth by 1.2% to \$0.83/sq. ft.

Vacancy & Availability

The challenge posed by the supply/demand imbalance across Houston’s industrial sector shows to be moderating with vacancy at levels last reported in Q1 2022, when the rate was 5.1%. In terms of availability, the 8.3% reported in Q3 2023 lined up with the availability rate posted in Q4 2021. This indicates the record-breaking demand and development phase for Houston’s industrial market has begun settling as the spread between vacancy and availability returned to a measure seen at the apex of the pandemic.

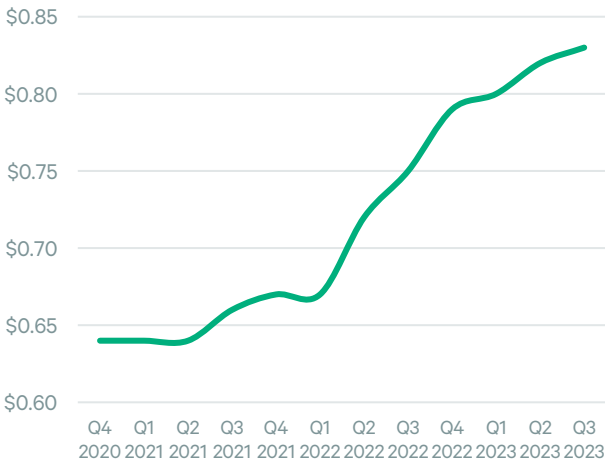
Net Absorption

Recording more than 15.6 million sq. ft. of occupancy growth since the start of 2023, Southeast has captured nearly one-third of net absorption year-to-date – just under 4.5 million sq. ft. in total. By contrast, Northwest reported roughly 2.8 million sq. ft., trailing the darling of submarkets. The largest tenant move-in for Q3 2023 was Cargill for 511,000 sq. ft., backfilling Article’s sublease space at TGS Cedar Port DC 8. Following closely behind in the North submarket was Sungrow USA Corp. and Umoja Supply, for a combined 356,236 sq. ft. at Rankin 45 Distribution Center.

Industrial Development

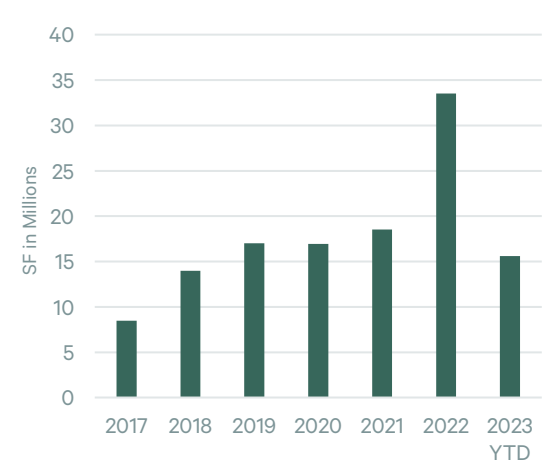
In Q3 2023, Houston posted 10.5 million sq. ft. of deliveries with an anticipated 15.6 million sq. ft. underway that will imminently enter the market. The growth of big box deliveries is particularly evident with five 1.0 million sq. ft. developments currently under construction. Most notably, the Northeast and Southeast submarkets are leading with Generation Park and Port 99, both of which are expected to come online in Q1 2024. However, amid unstable economic conditions, coupled with elevated and long-endured construction costs, developers are challenged to exercise caution. Following the ample amount of industrial product added to the Houston market over the past 2 years, there will be an inevitable slowdown in overall industrial development for the near-term.

FIGURE 2: Class A Warehouse/Distribution Asking Rates



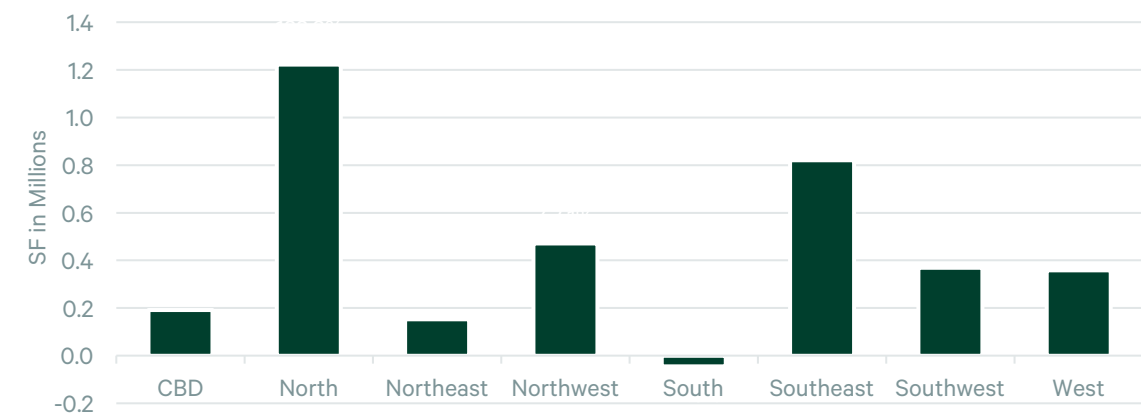
Source: CBRE Research, Q3 2023.

FIGURE 3: Under Construction



Source: CBRE Research, Q3 2023.

FIGURE 4: Absorption by Submarket



Source: CBRE Research, Q3 2023.

Deliveries

Completion volume was up by more than 3.0 million sq. ft. this quarter, with the West submarket accounting for 22.0% of the 10.5 million sq. ft. delivered. Anserra Distribution Center at 510,000 sq. ft., coupled with Kingsland Ranch Logistics Park, placed the West submarket in the lead for Q3 2023, with Buildings 3 and 4 as two of the three largest developments completed this quarter. Collectively, the four-building project added 1.6 million sq. ft. to the West, bringing total stock to 31.3 million sq. ft. in the newly established submarket. Trailing with a total of 2.2 million sq. ft. new industrial product, was the Southeast submarket with TGS Cedar Port DC 4 for 1.2 million sq. ft. and Portside Logistics Center at 760,406 sq. ft., both of which sit 100% vacant and available.

The shift in capital markets since the start of the year continues to pose headwinds on developers and thereby occupiers, placing downward pressure on tenant demand and preleased levels upon completion. Of the 29 industrial projects delivered in Q3 2023, two were built-to-suit and 27 completed as spec, contributing to the elevated vacancy rate of new stock.

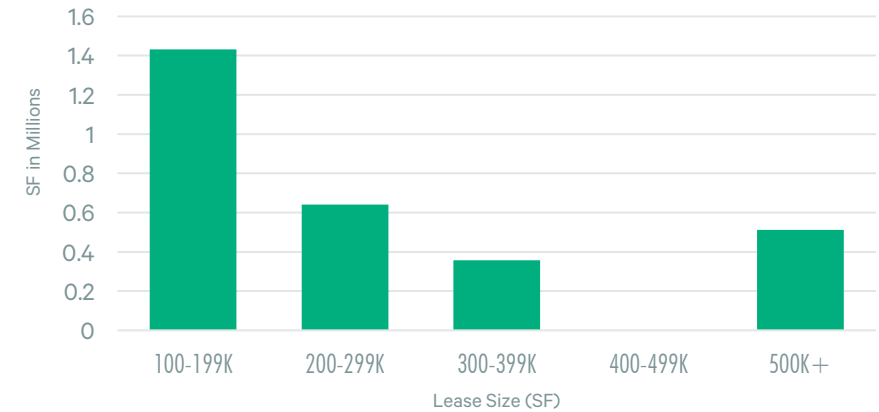
Q3 2023 Submarket Highlight – Southeast

While Southeast is second in deliveries for Q3 2023, the positive highlight is the 4.4 million sq. ft. under way that is more than 50.0% preleased. Comparing the Southeast industrial submarket’s footprint from Q3 2021 to Q3 2023, there has been a sizable increase to total inventory - a lofty 17.6 million sq. ft. has come online in the submarket over the past eight quarters. Recent additions of three new Ship-to-Shore (STS) cranes at the Bayport Container Terminal and the newly established Wharf 6, met with substantial progress on Project 11 has Southeast positioned to thrive, despite the overall market cooling off. Further, Texas Transportation Commission’s approval of \$240 million toward fortifying Port Houston’s infrastructure will aid increased trade, enhanced port safety, all fostering a strengthened supply chain for the expanding complex.

Broker Sentiment

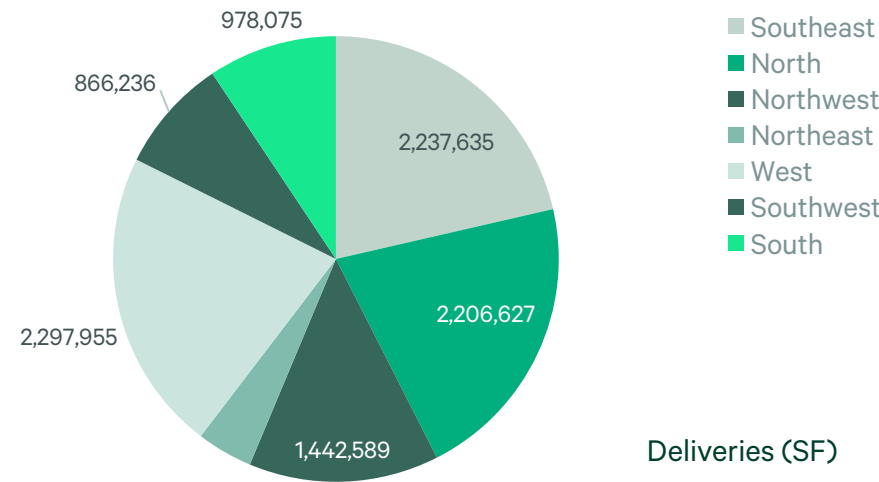
CBRE Broker sentiment suggests that given the dynamics such as macroeconomic fluctuations, we are to anticipate a deceleration in big box leasing activity and the development pipeline. As demand continues to increase for available space, we are witnessing a parallel rise in asking rates. Taking the market’s position into consideration, landlords are demonstrating a heightened sense of confidence resulting in increased average asking rates. The Houston market remains robust, and given the recent surge of new supply tapering off, we are now concentrating on optimizing existing available space. Given the economic shift, Houston’s industrial market is in high demand and will remain so throughout the next quarter.

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



Source: CBRE Research, Q3 2023.

FIGURE 6: Q3 Deliveries by Submarket



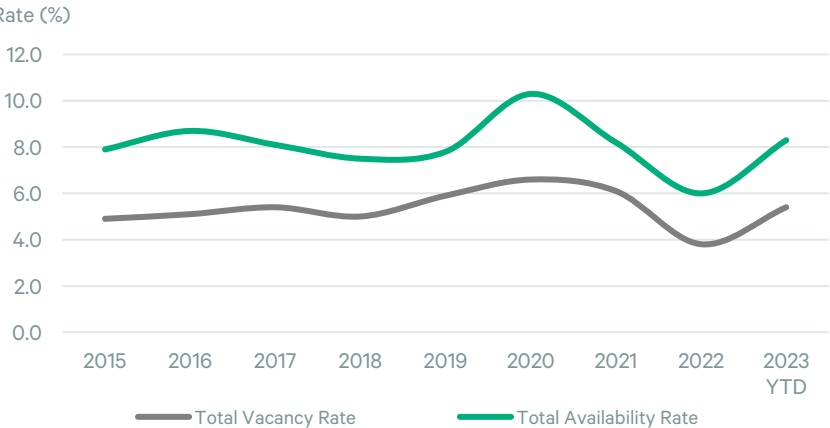
Source: CBRE Research, Q3 2023.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q3 2023 Net Absorption (SF)	Q3 2023 Vacancy (%)	Q3 2023 Starts (SF)	Q3 2023 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, Gross (\$/SF/Mo)
CBD	50,873,522	191,720	2.1%	0	0	\$0.84
North	114,199,468	1,222,508	6.5%	134,778	2,263,912	\$0.81
Northeast	40,495,988	152,704	4.3%	0	3,126,488	\$0.81
Northwest	147,770,033	470,569	5.3%	192,641	1,350,890	\$0.84
Southeast	112,577,631	820,138	4.3%	1,027,490	4,428,496	\$0.88
South	36,053,364	(44,663)	4.3%	0	1,542,958	\$0.83
Southwest	86,378,393	368,588	4.4%	0	1,994,354	\$0.83
West	31,341,060	358,436	16.9%	767,520	911,470	\$0.80
HOUSTON TOTAL	619,689,459	3,540,000	5.4%	1,987,651	15,618,568	\$0.83

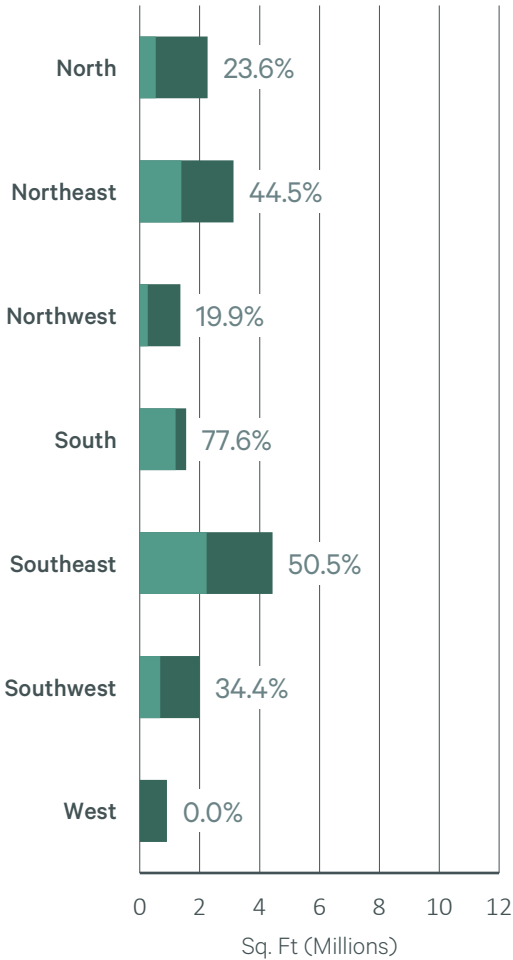
Source: CBRE Research, Q3 2023

FIGURE 9: Historical Vacancy & Availability



Source: CBRE Research, Q3 2023.

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



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

Source: CBRE Research, Q3 2023.

FIGURE 10: Largest Q3 2023 Tenant Move-ins

Total SF	Submarket	Building	Tenant
511,000	Southeast	TGS Cedar Port DC 8	Cargill
224,640	West	Twinwood Business Park	Elin Energy
209,592	North	Compass Logistics Center	Hotline Delivery Systems

Source: CBRE Research, Q3 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)	201,318
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.47	0.51	0.53	0.60	0.56	0.60	0.72	0.84
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	2.1
NORTH								
Absorption (Net, SF)	105,225	2,356,887	1,436,375	2,413,089	2,341,390	6,393,260	4,814,780	2,352,667
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.62	0.63	0.64	0.70	0.66	0.70	0.85	0.81
Delivered Construction (SF)	1,966,546	1,536,106	1,103,471	4,593,607	5,351,157	4,027,984	2,835,442	4,301,925
Vacancy Rate (%)	8.8	8.1	7.3	8.6	8.3	6.3	4.8	6.5
NORTHEAST								
Absorption (Net, SF)	329,543	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	842,038
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.53	0.53	0.55	0.53	0.49	0.53	0.63	0.81
Delivered Construction (SF)	408,825	20,088	164,500	1,005,400	429,500	649,600	2,425,032	1,310,639
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	2,783,223
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.63	0.62	0.64	0.60	0.56	0.71	0.85	0.84
Delivered Construction (SF)	5,245,749	1,559,726	4,141,124	2,754,334	7,012,821	2,389,980	6,475,649	3,782,705
Vacancy Rate (%)	4.9	5.8	6.1	6.1	7.8	6.3	4.4	5.3

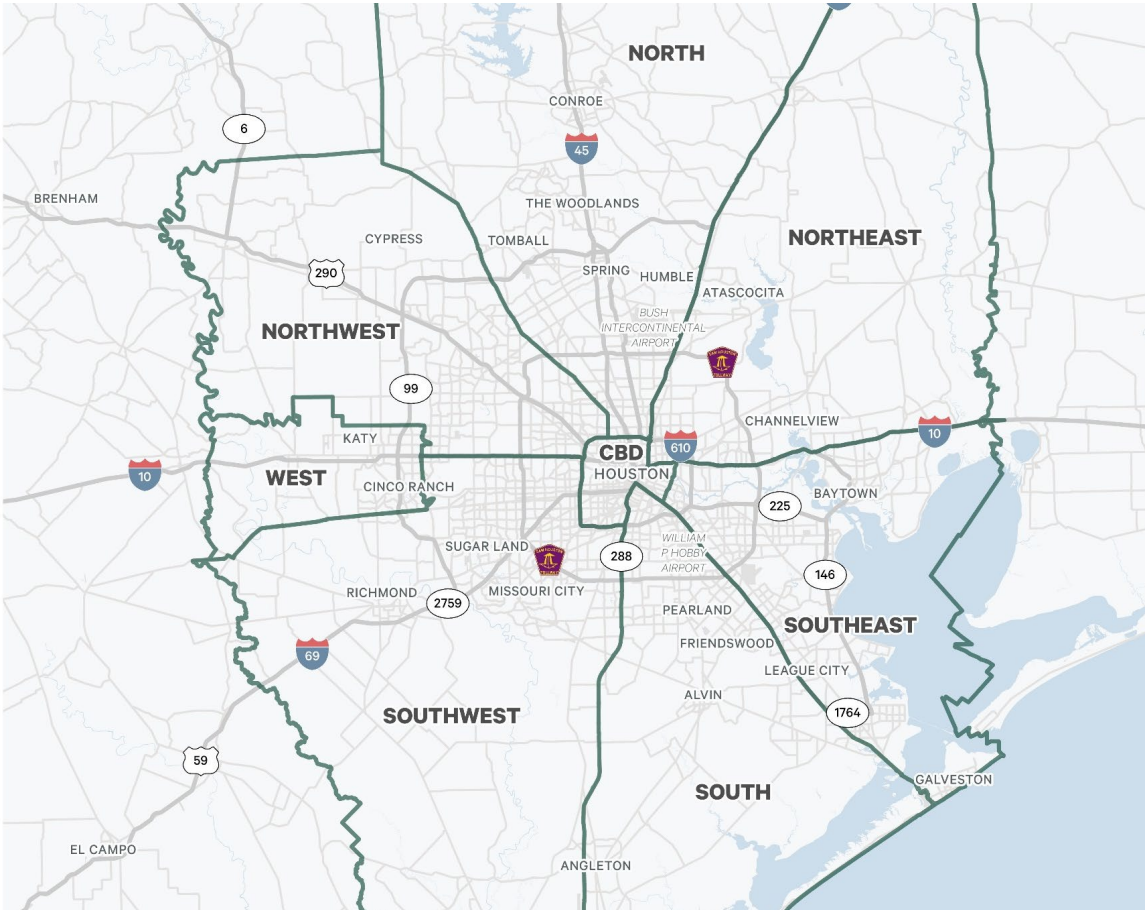
\*In 2022, it was determined that activity in and around the western side of the Houston market merited creation of a new submarket. The West submarket was added in Q1 2023, from portions of the Northwest and Southwest submarkets. Consequently, historical data is unavailable. Market totals remain unchanged.

	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	4,460,797
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.62	0.61	0.62	0.62	0.58	0.68	0.81	0.88
Delivered Construction (SF)	3,422,066	4,554,179	4,787,722	4,077,336	5,870,586	2,906,486	5,145,423	7,571,071
Vacancy Rate (%)	3.9	3.7	3.4	5.1	7.7	6.6	2.4	4.3
SOUTH								
Absorption (Net, SF)	(165,635)	191,813	(154,244)	91,664	84,756	606,785	275,295	1,797,974
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.60	0.60	0.60	0.60	0.58	0.62	0.74	0.83
Delivered Construction (SF)	166,520	358,790	97,593	145,765	505,416	436,569	180,000	1,690,005
Vacancy Rate (%)	3.5	3.2	3.3	4.5	3.7	3.0	2.2	4.3
SOUTHWEST								
Absorption (Net, SF)	2,027,111	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	1,222,463
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.65	0.65	0.65	0.70	0.66	0.71	0.85	0.83
Delivered Construction (SF)	2,390,192	1,073,500	650,476	1,842,258	3,246,393	11,350,051	1,730,092	1,058,168
Vacancy Rate (%)	5.2	6.1	4.7	5.8	5.1	8.0	4.5	4.4
WEST*								
Absorption (Net, SF)								1,944,443
Overall Asking Rent (Gross Avg. Mthly \$/SF)								0.80
Delivered Construction (SF)								5,963,813
Vacancy Rate (%)								16.9
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	15,604,923
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.60	0.61	0.62	0.62	0.59	0.65	0.77	0.83
Delivered Construction (SF)	13,599,898	9,102,389	10,944,886	14,418,700	22,415,873	21,760,670	18,791,638	25,678,326
Vacancy Rate (%)	5.1	5.4	5.0	5.9	6.6	6.1	3.8	5.4

Source: CBRE Research, Q3 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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