

FIGURES | HOUSTON INDUSTRIAL | Q2 2024

Houston industrial market continues to cook

▼ 6.2%

Vacancy Rate

► 8.3%

Availability Rate

▲ 5.8M

SF Positive Net Absorption

▼ 11.2M

SF Under Construction

▼ 4.1M

SF Delivered Construction

Note: Arrows indicate change from previous quarter.

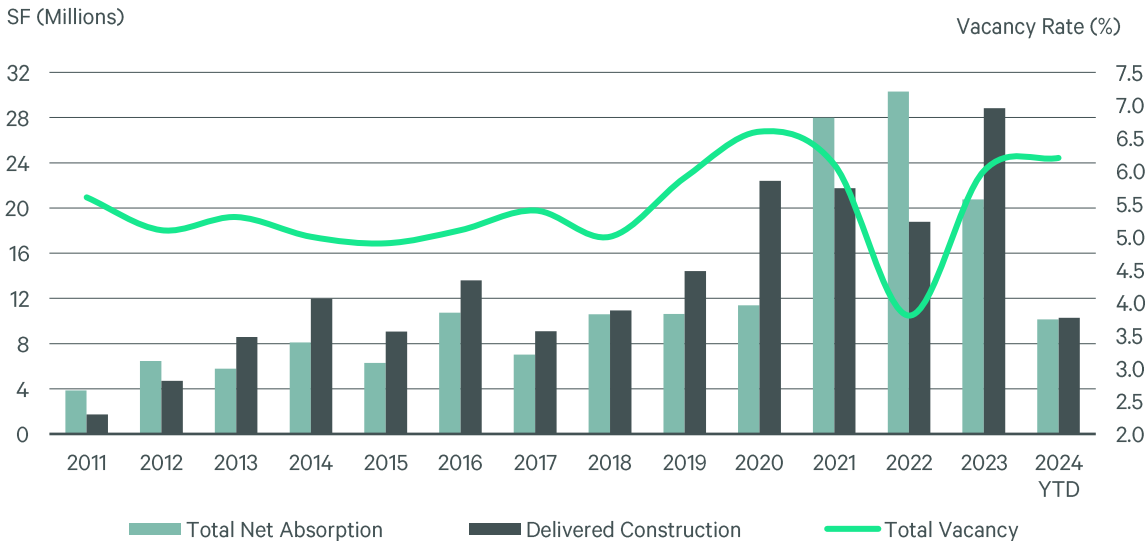
Market Overview

- Q2 2024 had a positive absorption of 5,760,154 sq. ft., contributing to a year-to-date net absorption of 10,132,245 sq. ft.
- Approximately 11.2 million sq. ft. of product is underway at 33.6% pre-leased
- 4.1 million sq. ft. of projects were delivered with 22.3% pre-leased

The Houston Industrial market remains robust, with a strong performance in the second quarter resulting in a positive net absorption of 5.8 million sq. ft. This has led to a slight decrease in vacancy by 10 basis points (bps) to end Q2 off at 6.2%. Looking ahead, Houston's solid infrastructure and diverse tenant demands positions the market well for the remainder of the year.

In May, the Port of Houston handled 364,866 twenty-foot equivalent units (TEUs), reflecting a 21% year-over-year growth from the same month last year. Despite ongoing challenges in the global supply chain, cargo volumes continue to rise steadily. The development of new warehouses and distribution centers in recent years has also contributed to the increase in imported goods.

Figure 1: Houston Industrial Market (Annual)



Source: CBRE Research, Q2 2024.

Vacancy & Availability

Demand in the market remains strong, as occupiers continue to move their business efforts into the area. This has led to a slight decrease in vacancy by 10 basis points, with the availability rate holding steady at 8.3% in Q2 2024. In the Northeast region, approximately 1.9 million square feet of new product delivered this quarter at 0% pre-leased, causing the vacancy rate in the submarket to increase to 10.1%, up 350 basis points from Q1 2024.

Net Absorption

Nearly 5.8 million square feet of positive net absorption was recorded, bringing the year- to-date total to 10.1 million square feet. North Houston took the lead in net absorption with Integra Mission Critical subleasing Wayfair's 1.2 million square foot built-to-suit warehouse at Prologis Presidents Park. Additionally, Wisenbaker moved into a 409,795 square foot space at North Central Distribution Center contributing to the total absorption of 2.5 million square feet. Other notable tenant move ins include LeChangs and Western Port occupying a total of 521,600 square foot building in Wesier Business Park in Northwest Houston.

Construction Underway

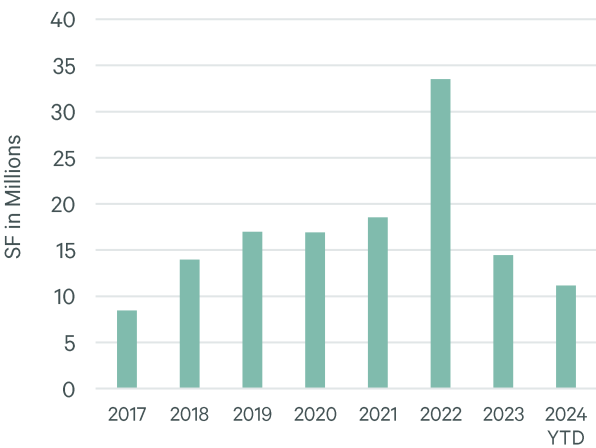
Houston ended the quarter with 11.2 million sq. ft. of construction underway, with 33.6% pre-leased and 2.4 million sq. ft. breaking ground. Compared to Q2 2023, there has been a 49% year-over-year decrease in the construction pipeline. The tightening of the pipeline can be attributed to the surplus of supply in the market waiting to be filled, as well as banks restricting funds due to market fundamentals such as inflation and the cost of capital.

Port of Houston

Houston's Port experienced a surge in imports due to recent construction of new distribution centers as well as regional consumer spending on items like furniture, hardware, and retail goods that are imported through the port. The port continues to be a key gateway for resin exports, holding a market share of 60%.

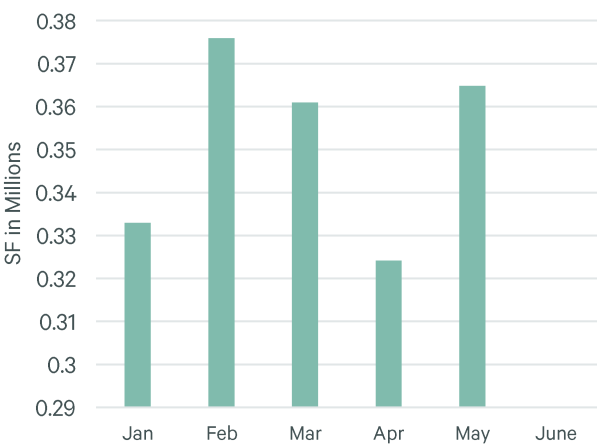
In efforts to take a step towards carbon neutrality by 2050, the port recently acquired an additional six hybrid-electric rubber-tired gantry cranes, bringing the total number of RTGs acquired since December 2023 to 26. The hybrid-electric cranes reduce greenhouse gas emissions, noise pollution, and fuel consumption compared to conventional diesel-powered cranes.

FIGURE 2: Under Construction



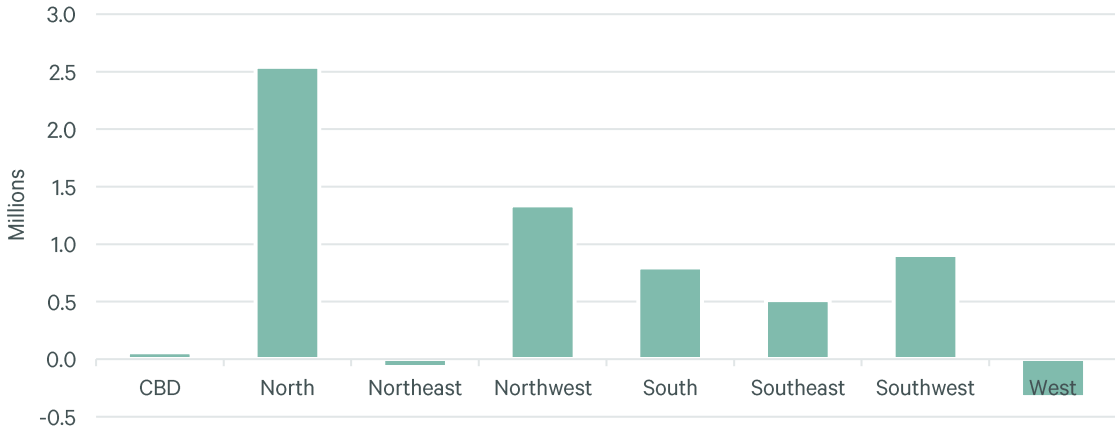
Source: CBRE Research, Q2 2024.

FIGURE 3: Port of Houston TEU's



Source: PortHouston.com, CBRE Research, Q2 2024.

FIGURE 4: Net Absorption by Submarket



Source: CBRE Research, Q2 2024.

Deliveries

The industrial supply in Houston increased by 4.1 million sq. ft., with 22.3% of it pre-leased to occupiers upon completion. The Northeast submarket contributed 1.9 million sq. ft. of space, including a notable delivery at Generation Park of approximately 1 million sq. ft., a spec development. As construction continues at a steady pace in the Houston market, there is still a significant amount of supply ready to be occupied.

Q2 2024 Submarket Highlight – Southeast

Southeast Houston continues to show strong growth and development, with 11 projects currently under construction totaling 4.6 million sq. ft. of space, of which 29.3% is already pre-leased. This quarter, 630,266 sq. ft. of space was delivered, bringing the year-to-date total to 2.1 million sq. ft. of product.

Over the last few quarters, there has been a surge in activity in this region, with a high demand for industrial space. Despite a slowdown in the overall construction market, the demand for space in the southeast submarket remains strong, driven by the thriving port industry. Businesses in this area benefit from the strategic location and easy access to transportation networks, making it a prime location for companies looking to expand their operations.

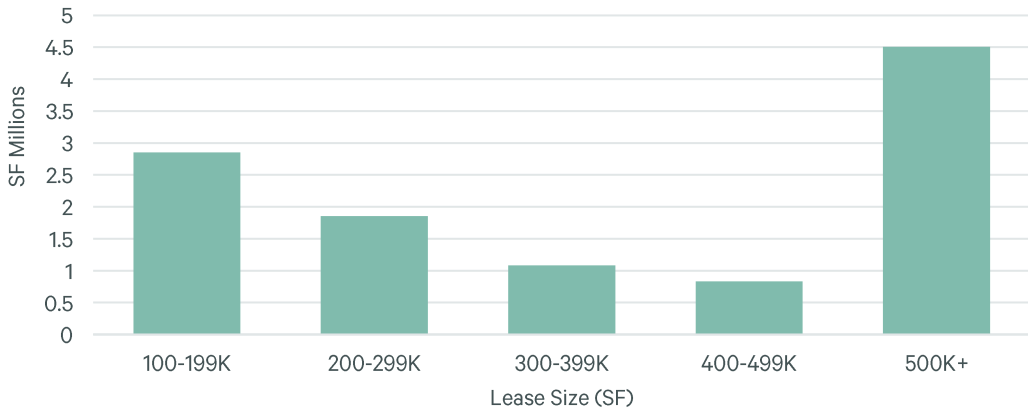
Broker Sentiment

CBRE broker sentiment indicates that user demand is expected to remain strong through 2024. The Houston market is attracting various industries such as 3PL, food and beverage, manufacturing, and solar companies, highlighting its diversity. The demand for buildings in the 100K-350K range remains robust, with smaller tenants showing increased interest.

Although construction activity is slowing down, the market is responding positively to the limited pipeline, leading to a rise in rental rates as space becomes scarcer. This increase in rental rates does not signify an unhealthy market; rather, it demonstrates the market's ability to adapt and respond effectively to changing conditions.

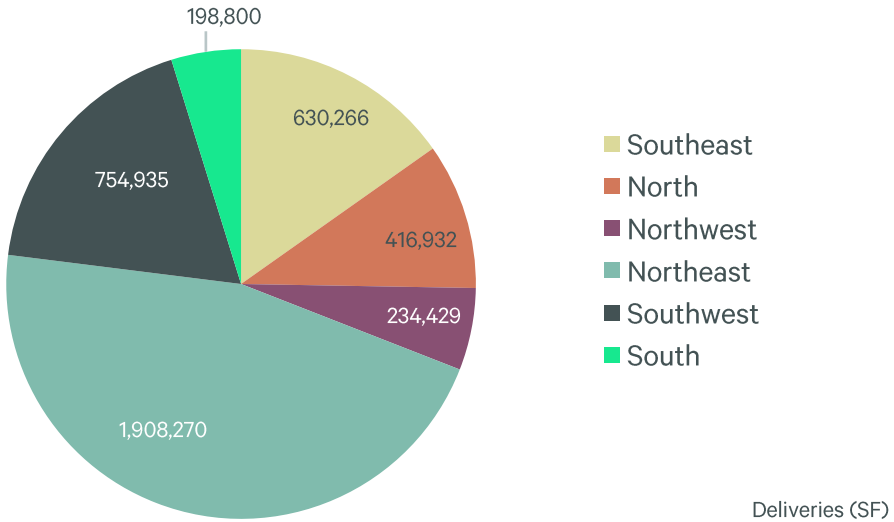
The port’s continuous improvements paired with Houston’s business-friendly atmosphere and infrastructure will continue to draw occupiers to the market, supporting its continuous growth. Demand shows no signs of waning, as tenants continuing to seek space in the Houston market.

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



Source: CBRE Research, Q2 2024.

FIGURE 6: Q2 Deliveries by Submarket



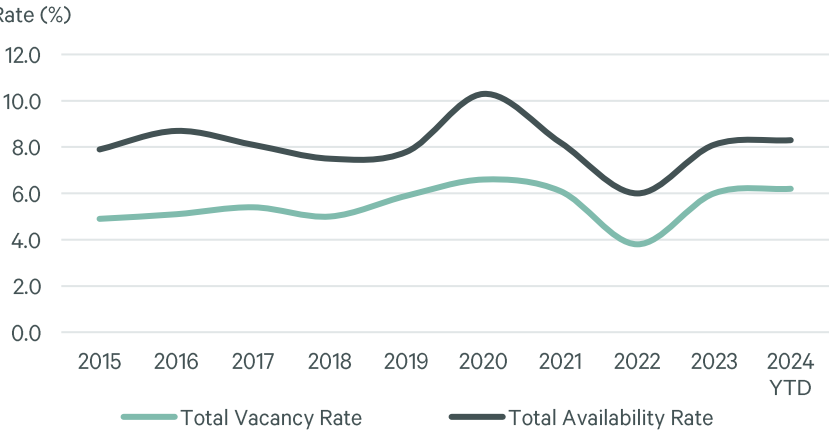
Source: CBRE Research, Q2 2024.

FIGURE 7: Houston Market Snapshot

Submarket	Net Rentable Area (SF)	Q2 2024 Net Absorption (SF)	Q2 2024 Vacancy (%)	Q2 2024 Starts (SF)	Q2 2024 Under Construction (SF)	Class A Warehouse/Dist. Asking Rate, Gross (\$/SF/Mo)
CBD	50,802,300	60,579	3.1%	0	0	\$0.84
North	116,421,106	2,542,440	5.9%	728,080	1,022,551	\$0.81
Northeast	44,502,176	(67,339)	10.1%	591,560	858,600	\$0.81
Northwest	147,445,023	1,338,581	5.6%	0	1,649,535	\$0.84
Southeast	115,342,889	514,122	5.7%	294,850	4,574,431	\$0.88
South	36,914,666	796,995	5.4%	139,000	1,554,001	\$0.83
Southwest	89,077,971	905,362	4.5%	661,680	1,446,818	\$0.83
West	32,483,924	(330,586)	17.6%	0	55,120	\$0.80
HOUSTON TOTAL	632,990,055	5,760,154	6.2%	2,415,170	11,161,056	\$0.83

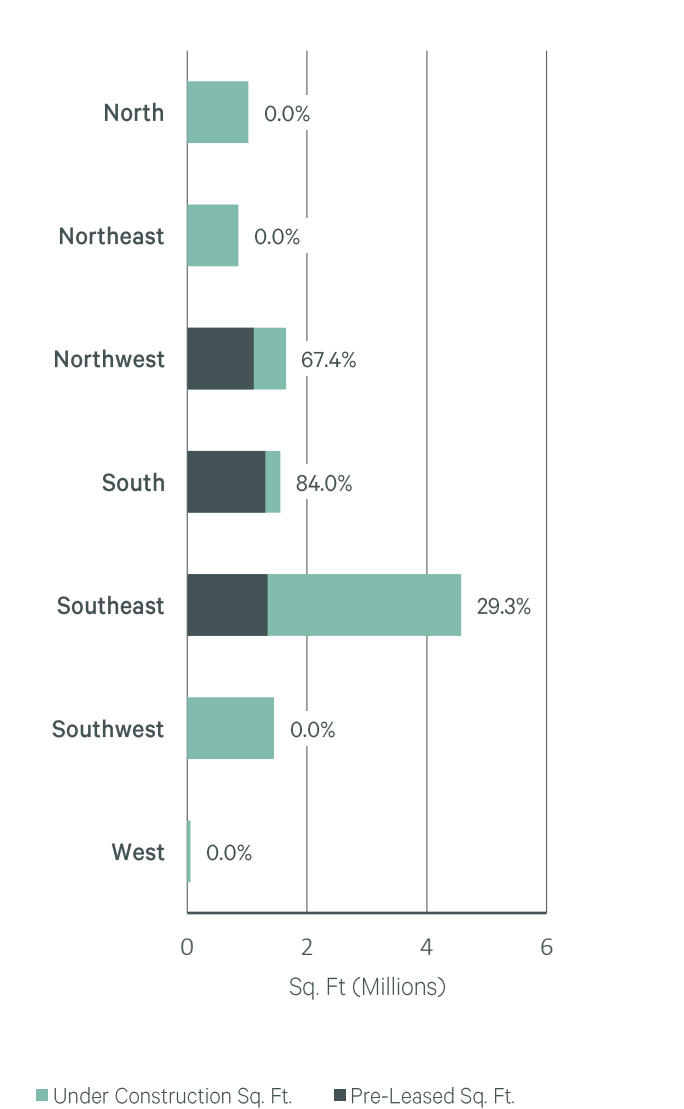
Source: CBRE Research, Q2 2024

FIGURE 9: Historical Vacancy & Availability



Source: CBRE Research, Q2 2024.

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



Source: CBRE Research, Q2 2024.

FIGURE 10: Largest Q2 2024 Tenant Move-ins

Total SF	Submarket	Building	Tenant
1,229,532	North	Presidents Park	Integra
409,795	North	North Central Distribution Center	Wisembaker
385,902	Northwest	Interchange 249	Imperial Solar

Source: CBRE Research, Q2 2024.

Figure 11: Houston Historical Market Statistics

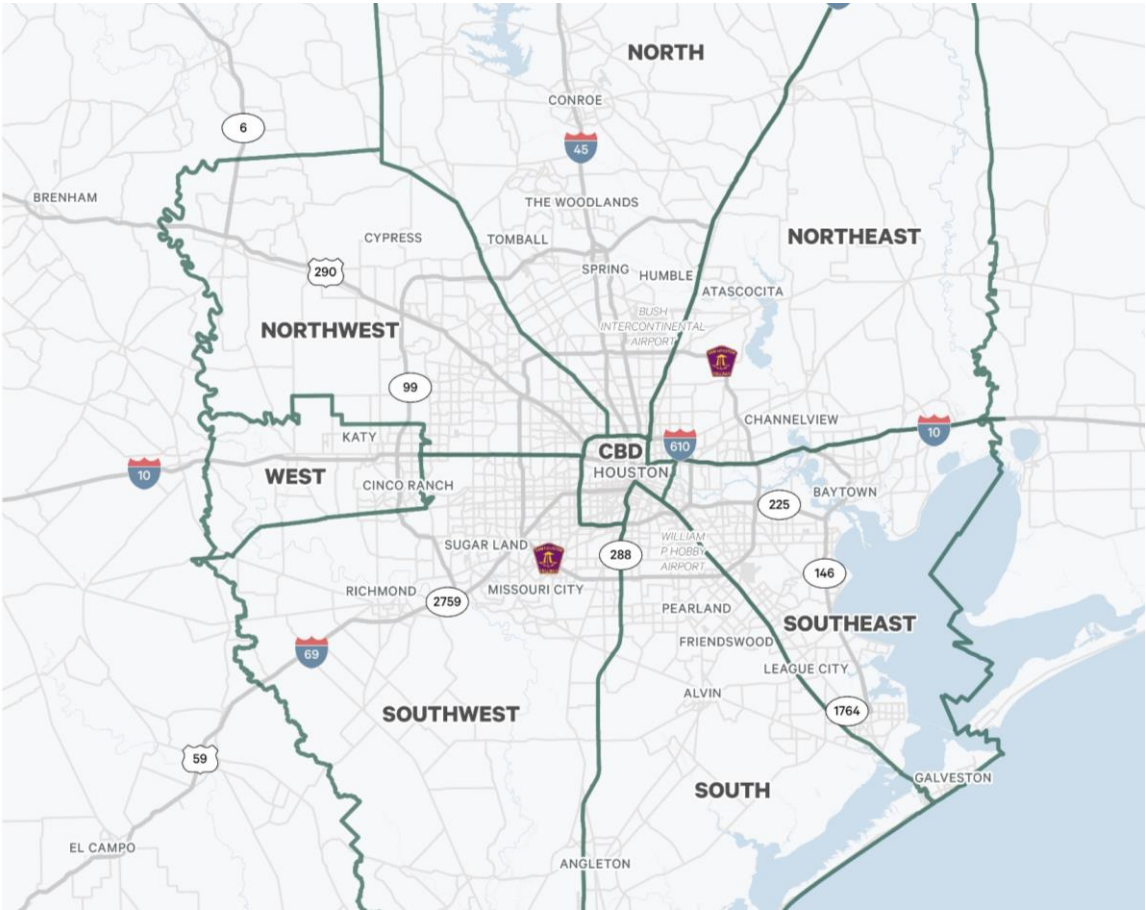
	2017	2018	2019	2020	2021	2022	2023	2024 YTD
CBD								
Absorption (Net, SF)	(437,817)	(189,765)	440,564	(273,802)	533,448	(129,273)	194,424	(166,477)
Overall Asking Rent (Gross Avg. Mthly \$/SF)	0.51	0.53	0.60	0.56	0.60	0.72	0.72	0.72
Delivered Construction (SF)	0	0	0	0	0	0	0	0
Vacancy Rate (%)	4.7	4.6	4.3	4.5	3.6	3.1	2.1	3.1
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	2,611,457
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	881,996
Vacancy Rate (%)	8.1	7.3	8.6	8.3	6.3	4.8	7.5	5.9
NORTHEAST								
Absorption (Net, SF)	(365,859)	(105,967)	749,781	725,411	1,193,561	3,463,858	803,868	2456064
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	3,659,048
Vacancy Rate (%)	2.9	2.8	3.9	3.1	4.3	3.1	7.6	10.1
NORTHWEST								
Absorption (Net, SF)	102,485	5,423,532	4,339,764	2,808,774	5,531,570	8,557,339	4,041,473	1,517,442
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	588,029
Vacancy Rate (%)	5.8	6.1	6.1	7.8	6.3	4.4	5.3	5.6

*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.

	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	955,530
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	2,060,934
Vacancy Rate (%)	3.7	3.4	5.1	7.7	6.6	2.4	5.7	5.7
SOUTH								
Absorption (Net, SF)	191,813	(154,244)	91,664	84,756	606,785	275,295	1,212,792	686,109
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	391,068
Vacancy Rate (%)	3.2	3.3	4.5	3.7	3.0	2.2	5.2	5.4
SOUTHWEST								
Absorption (Net, SF)	321,578	934,227	488,763	2,281,912	8,781,018	3,895,232	1,967,205	1,346,178
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	2,052,774
Vacancy Rate (%)	6.1	4.7	5.8	5.1	8.0	4.5	4.3	4.5
WEST*								
Absorption (Net, SF)							3,452,992	725,942
Overall Asking Rent (Gross Avg. Mthly \$/SF)							0.76	0.76
Delivered Construction (SF)							6,107,763	837,520
Vacancy Rate (%)							14.3	17.6
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	10,132,245
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	10,471,369
Vacancy Rate (%)	5.4	5.0	5.9	6.6	6.1	3.8	6.0	6.2

Source: CBRE Research, Q2 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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