

MARKETBEAT

Houston, Texas

Industrial Q1 2019



HOUSTON INDUSTRIAL

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Houston Employment	3,055k	3,127k	▲
Houston Unemployment	4.6%	4.1%	▼
U.S. Unemployment	4.1%	3.8%	▼

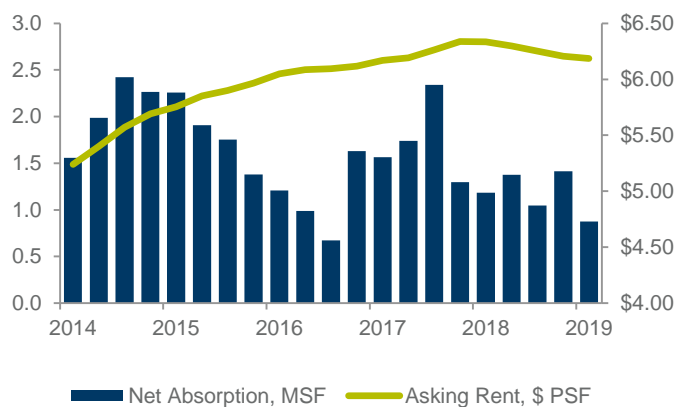
Market Indicators (Overall, All Property Types)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	6.0%	7.3%	▲
YTD Net Absorption (SF)	845k	-1.3M	▲
Under Construction (SF)	6.5M	11.9M	▼
Average Asking Rent*	\$6.22	\$6.15	▼

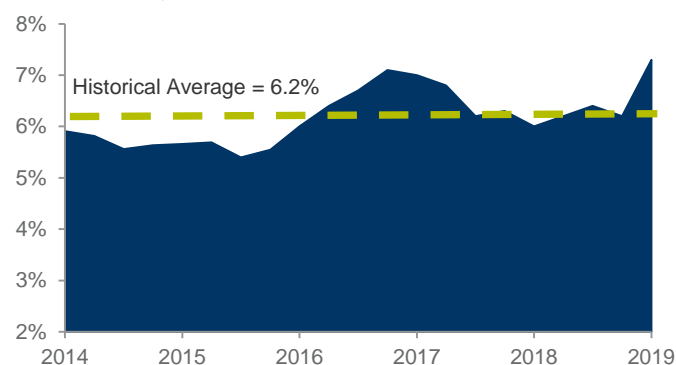
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Metro Houston created 73,300 jobs in 2018, a 2.4% annual increase, according to the Texas Workforce Commission (TWC). Although the oil and gas industry continued to recover, it remains 32,400 jobs below its peak in December 2014. Oilfield services, which is primarily an industrial-occupying sector, added 4,100 jobs while the exploration and production sector lost 800 jobs. Employment is expected to grow in all sectors, with industrial-occupying sectors, including construction and manufacturing, to be among the top performers. Economists are forecasting 70,000 to 85,000 new jobs in 2019, with economic growth at an above-average pace.

Market Overview

Strong demand from eCommerce and port-related business, including petrochemicals and plastics production, continues to drive demand for industrial product in Houston. A record-breaking 11.9 million square feet (msf) was under construction in first quarter 2019, almost double the 6.5 msf under construction one year ago. More than 4.0 msf of new development delivered in the first quarter 2019, with 25.7% preleased. New deliveries added nearly 3.0 msf of vacant space to the inventory which helped push overall vacancy up 130 basis points (bps) year-over-year to 7.3%. Demand for new development is strongest near Bush Intercontinental Airport located in the North submarket, and The Port of Houston located in the Southeast submarket. Not far behind is the Northwest submarket, driven by logistics activity along the Grand Parkway and includes Bridgeland, one of the fastest growing residential areas in Houston. Although asking rates in new product have seen an increase, citywide overall rates are trending downward. Flight to quality is actually pushing overall rental rates down; as tenants move into new developments, they leave behind less expensive, second generation space. Although first quarter reported negative absorption, it should trend upward as new developments deliver and tenants begin to occupy the space.

Outlook

New development is expected to slow down next year as more than 20.5 msf is expected to deliver throughout 2019. Vacancy is expected to increase as these developments deliver, which are currently 26.4% preleased, and could add another 15.1 msf, or 3.3% to overall vacancy. Demand for newer product will continue while older product could be repurposed or become obsolete. Expansion in manufacturing, transportation and distribution is expected to continue throughout 2019, which should result in healthy leasing activity and continue to drive demand for modern, state-of-the-art warehouse/distribution facilities.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)*	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS	OVERALL WEIGHTED AVG. NET RENT* (MF)	OVERALL WEIGHTED AVG. NET RENT* (OS)	OVERALL WEIGHTED AVG. NET RENT* (W/D)
CENTRAL BUSINESS DISTRICT	32	795,191	0	0.0%	0	0	0	N/A	N/A	N/A
North-Near	150	7,880,980	21,592	6.8%	-2,460	0	0	\$5.16	\$5.10	\$3.08
North-Mid	222	8,452,898	48,000	4.6%	-214,760	0	0	\$7.09	\$2.66	\$6.65
North-Far	680	44,342,072	23,253	10.3%	-60,348	3,987,659	775,800	N/A	\$7.78	\$5.71
North-Montgomery Co.	116	6,026,903	0	9.3%	-1,220	0	0	N/A	\$8.38	\$9.59
NORTH	1,168	66,702,853	92,845	9.1%	-278,788	3,987,659	775,800	\$6.91	\$7.57	\$5.66
Northeast-Near	217	19,108,456	0	8.0%	-362,039	0	0	N/A	N/A	\$4.50
Northeast-Far	133	7,309,983	57,158	3.4%	-16,826	364,100	0	N/A	N/A	\$3.38
NORTHEAST	350	26,418,439	57,158	6.7%	-378,865	364,100	0	N/A	N/A	\$4.36
Southeast-Near	649	37,940,189	64,541	4.2%	-170,387	702,295	0	\$3.84	\$4.10	\$3.54
Southeast-Mid	211	13,260,475	0	2.7%	221,114	194,656	0	\$5.88	N/A	\$7.93
Southeast-Far	416	49,093,797	0	7.3%	596,798	2,795,637	1,309,650	\$9.92	\$9.50	\$6.10
SOUTHEAST	1,276	100,294,461	64,541	5.5%	647,525	3,692,588	1,309,650	\$5.25	\$8.42	\$5.63
South-Near	480	25,253,602	25,200	3.9%	7,107	0	0	\$6.22	\$8.06	\$8.68
South-Far	261	12,447,697	15,256	6.3%	-142,115	0	0	\$4.94	N/A	\$6.83
SOUTH	741	37,701,299	40,456	4.7%	-135,008	0	0	\$5.39	\$8.06	\$7.80
Southwest-Near	176	5,977,744	0	1.1%	-33,100	0	0	N/A	\$9.46	\$6.82
Southwest-Far	831	42,873,457	156,300	7.2%	320,075	902,697	951,977	\$7.57	\$9.37	\$6.11
SOUTHWEST	1,007	48,851,201	156,300	6.4%	286,975	902,697	951,977	\$7.57	\$9.38	\$6.11
West-Far	577	28,781,256	51,461	7.8%	-165,996	556,315	131,954	N/A	\$6.31	\$6.43
Northwest-Near	575	31,075,822	0	5.0%	-91,348	0	0	\$5.75	\$6.89	\$5.97
Northwest-Far	1,573	92,726,326	57,500	10.2%	-1,153,923	1,768,553	529,728	\$7.44	\$6.31	\$6.24
Waller County	43	7,117,865	0	5.8%	-34,220	664,420	327,440	N/A	N/A	\$5.62
NORTHWEST	2,768	159,701,269	108,961	8.5%	-1,445,487	2,989,288	989,122	\$7.25	\$6.37	\$6.18
HOUSTON TOTALS	7,342	440,464,713	520,261	7.3%	-1,303,648	11,936,332	4,026,549	\$6.41	\$7.21	\$5.93

*Rental rates reflect asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Grand National Business Park	770,640	Home Depot	New	Northwest - Far
5623 Ameriport Drive	337,040	Plantgistics	New	Southeast - Far

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
5901 Griggs Road	343,158	Sears Holding Corp./ESL Investments Inc.	Undisclosed	South - Near
4023 Westhollow Park	215,330	Colony Industrial/Nuveen Real Estate (TIAA)	Undisclosed	Southwest - Far

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