

MARKETBEAT

Houston, Texas

Industrial Q2 2019



HOUSTON INDUSTRIAL

Economic Indicators

	Q2 18	Q2 19*	12-Month Forecast
Houston Employment	3,074k	3,147k	▲
Houston Unemployment	4.4%	3.9%	▲
U.S. Unemployment	3.9%	3.6%	▼

*Based on the latest available data, BLS, Moody's Analytics, Cushman & Wakefield Research.

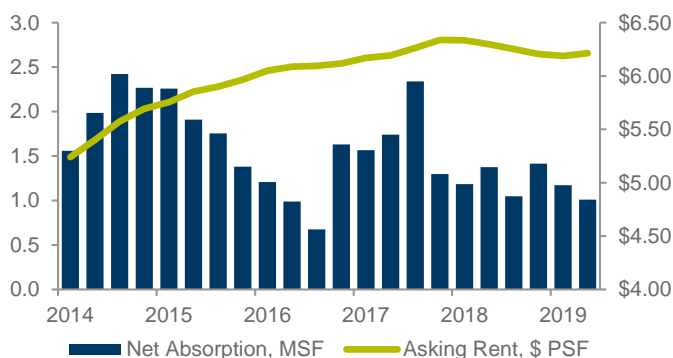
Market Indicators (Overall, All Property Types)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	6.2%	7.3%	▲
YTD Net Absorption (SF)	2.4M	779k	▲
Under Construction (SF)	7.0M	18.1M	▼
Average Asking Rent*	\$6.13	\$6.23	▲

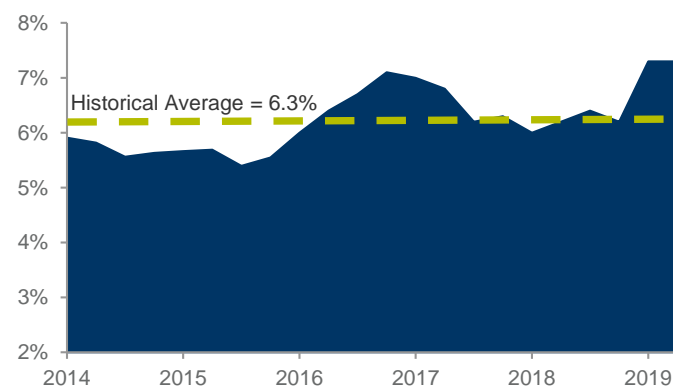
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Metro Houston created 79,800 jobs in the 12-month period ending May 2019, a 2.6% annual increase, according to the Texas Workforce Commission. The sectors with the strongest job growth include the professional, scientific, and technical services; durable goods manufacturing; and health care. Employment losses were reported in retail; employment services; and information. The industrial market continues to benefit from strong job growth in the durable goods manufacturing sector which had a 6.0% annual increase. Economists are forecasting 68,000 to 73,000 new jobs in 2019 with economic growth at an above-average pace.

Market Overview

Houston's industrial vacancy rate increased 110 basis points to 7.3% year-over-year, as more than 12.1 million square feet (msf) of new development delivered in the last twelve months ending June 2019. Strong demand continues from eCommerce and port-related business, including petrochemicals and plastics production, which led to 778,692 sf of overall absorption year-to-date. Nearly 7.0 msf of new product, which command a higher rental rate, delivered in the first half of 2019, pushing citywide asking rents up slightly to \$6.23 per square foot. Two of the largest deliveries this year were warehouse/distribution facilities, including a 727,600 sf build-to-suit for Grocers Supply in the North-Far submarket and a 519,224 sf build-to-suit for Plastic Bagging & Packaging in the Southeast-Far submarket.

New development continued to climb in the second quarter 2019; ninety-five properties totaling nearly 18.1 msf was under construction at the second quarter 2019, including 17.0 msf of warehouse/distribution facilities. As expected, the highest demand for new development is in the Southeast submarket, near The Port of Houston, followed by the North submarket, near Bush Intercontinental Airport. The North-Far and the Southeast-Far each have nearly 5.0 msf under construction. The North-Far submarket has the largest facility under construction, a 1.0 msf build-to-suit manufacturing facility for Coca Cola. The high demand for new facilities will continue to put pressure on owners with older product to lower rates, upgrade their property or repurpose the facility. Several warehouse facilities have been repurposed for mixed-use properties, including restaurants and coworking spaces.

Outlook

Deliveries are outpacing demand and new development is anticipated to slow down as nearly 19.2 msf is expected to deliver in 2019, and another 13.5 msf in 2020. As these developments deliver, absorption should continue to trend upwards as tenants begin to occupy the space. In addition, overall vacancy is expected to increase as these developments deliver, which are currently 27.5% preleased.

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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 NET RENT* (MF)	OVERALL NET RENT* (OS)	OVERALL 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	7,771,133	21,592	9.4%	-190,653	0	0	\$5.16	\$5.10	\$3.23
North-Mid	222	8,452,898	48,000	4.2%	-188,648	0	0	\$6.69	\$2.63	\$6.87
North-Far	693	46,610,006	60,303	12.2%	329,867	4,853,830	2,237,914	N/A	\$8.12	\$5.92
North-Montgomery Co.	116	6,026,903	0	9.2%	-9,377	0	0	N/A	\$8.69	\$9.59
NORTH	1,181	68,860,940	129,895	10.6%	-58,811	4,853,830	2,237,914	\$6.48	\$7.90	\$5.71
Northeast-Near	218	19,118,456	0	7.9%	-351,009	10,800	0	N/A	N/A	\$4.66
Northeast-Far	133	7,309,983	57,158	3.1%	2,530	364,100	0	N/A	N/A	\$4.47
NORTHEAST	351	26,428,439	57,158	6.6%	-348,479	374,900	0	N/A	N/A	\$4.62
Southeast-Near	650	38,212,037	230,355	3.4%	31,200	702,295	0	\$4.27	\$4.31	\$3.41
Southeast-Mid	213	13,315,511	25,351	2.0%	281,965	170,456	12,100	\$5.88	N/A	\$8.99
Southeast-Far	420	50,353,106	0	7.4%	1,750,516	4,950,680	2,569,087	\$9.92	\$9.19	\$5.94
SOUTHEAST	1,283	101,880,654	255,706	5.2%	2,063,681	5,823,431	2,581,187	\$5.72	\$8.98	\$5.77
South-Near	480	25,259,990	53,200	4.5%	-133,707	0	0	\$5.78	\$8.37	\$8.32
South-Far	262	12,502,695	15,256	6.4%	-164,788	61,208	0	\$5.74	N/A	\$6.72
SOUTH	742	37,762,685	68,456	5.1%	-298,495	61,208	0	\$5.75	\$8.37	\$7.60
Southwest-Near	176	5,981,099	0	1.1%	-33,100	0	0	N/A	\$9.46	\$6.82
Southwest-Far	835	43,171,238	255,337	6.9%	675,108	1,183,528	1,240,556	N/A	\$9.50	\$6.20
SOUTHWEST	1,011	49,152,337	255,337	6.2%	642,008	1,183,528	1,240,556	N/A	\$9.50	\$6.21
West-Far	579	28,870,456	51,461	7.6%	-111,938	1,034,890	152,079	\$10.20	\$6.78	\$6.12
Northwest-Near	576	31,208,941	671,651	6.0%	-409,860	0	0	\$5.75	\$7.30	\$5.77
Northwest-Far	1,578	92,899,772	181,163	9.5%	-693,094	3,176,106	529,728	\$7.27	\$6.30	\$6.41
Waller County	43	7,117,945	0	5.4%	-6,320	1,545,420	327,440	N/A	N/A	\$5.62
NORTHWEST	2,776	160,097,114	904,275	8.3%	-1,221,212	5,756,416	1,009,247	\$7.21	\$6.51	\$6.24
HOUSTON TOTALS	7,376	444,977,360	1,670,827	7.3%	778,692	18,053,313	7,068,904	\$6.40	\$7.44	\$6.00

*Rental rates reflect asking \$psf/year

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

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
11711 Clay Road	275,600	Builders FirstSource	New	West - Far
971 North Sam Houston Parkway East	118,100	DB Schenker	New	North - Far

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1501 Seamist Drive	517,182	Goodman Manufacturing/Dickson Real Estate	Undisclosed	Northwest - Near
2425 Broad Street	204,604	Kodiak Building Partners/Stonelake Capital Partners	Undisclosed	South - Near

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