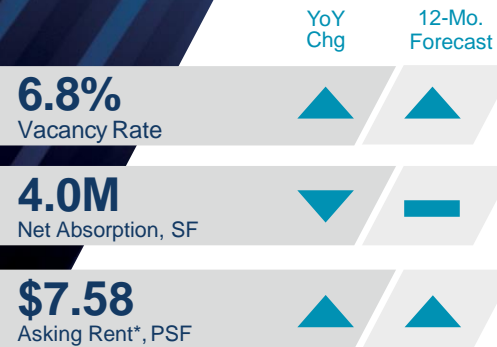


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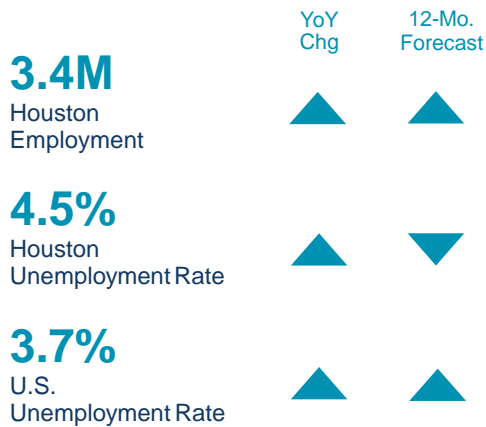


Industrial Q3 2023



(Overall, All Property Classes)
* Rental rates reflect net asking \$psf/year

ECONOMIC INDICATORS Q3 2023



Source: BLS, Moody's Analytics

ECONOMY

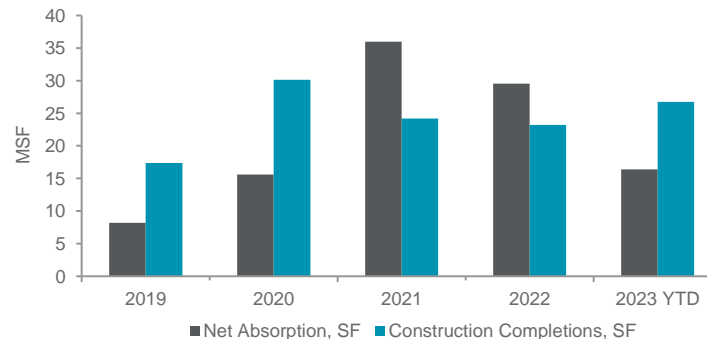
Total employment stood at 3.4 million in Houston's metro area (MSA) at the end of Q3 2023, representing a 2.4% year-over-year (YOY) increase. While Houston's job growth continues to slow, the 2.4% increase surpassed the 2.0% YOY growth experienced nation-wide. Among the 10 U.S. markets with the largest labor forces, Houston's 2.4% YOY growth ranked fourth, behind Dallas/Fort Worth (3.9%), Philadelphia (2.7%), and Boston (2.6%). Houston's unemployment rate increased to 4.5%, 40 basis points (bps) higher than this time last year. The region's industrial-using employment totaled 928,686 jobs as of Q3 2023, representing a 3.4% YOY rise. Industrial-using roles are described as positions that fall within manufacturing and trade, transportation, and utilities.

SUPPLY

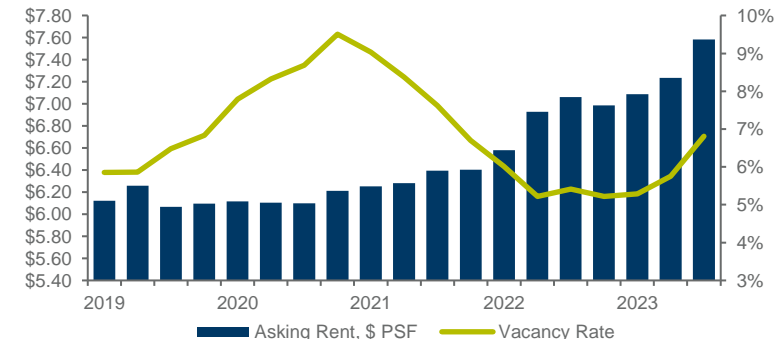
Following an unprecedented period of industrial development, 4.2 million square feet (msf) of industrial product started construction during Q3 2023. While this is an increase in new construction starts from the 2.6 msf that broke ground in Q2 2023, it is a 67.1% decrease YOY. Developers are facing ongoing challenges triggered by cooling demand, adverse construction costs, and skepticism amidst economic uncertainty. Despite these challenges, the Houston industrial market has delivered 26.8 msf of new inventory year-to-date (YTD), including 10.6 msf during Q3 2023. The newest developments delivered this quarter were primarily in outlying submarkets—more than half of deliveries were in the Southeast-Far (3.2 msf) and Northwest-Far (2.9 msf) submarkets. Of the 10.6 msf of industrial developments delivered during the quarter, just 1.4 msf (13.6%) delivered leased. Houston currently has 20.6 msf under construction, 13.2 msf of which is set to deliver by the end of the year.

While total sublease space availability decreased 4.8% quarter-over-quarter (QOQ), the Houston industrial market continues to register an influx of sublease availabilities. The decrease in sublease availability can be attributed to Article Furniture's 511,000 square feet (sf) sublease availability at Cedar Port Industrial Park that was subleased by Cargill this quarter. This large sublease nullifies the space added in the overall sublease availability rate. Regardless, Houston's overall sublease availability represents less than 1% of the total industrial market.

SPACE DEMANDS / DELIVERIES



OVERALL VACANCY & OVERALL ASKING RENT



DEMAND

Following several years of immense industrial growth in Houston, demand continues to remain at a sustainable level as the market rebalances. Houston recorded 9.2 msf of new leasing activity in Q3 2023, a 48.4% surge QOQ, bucking the trend of decreasing activity during the past two quarters. Deal volume jumped for the first time in two quarters as well, ending Q3 2023 with 17.2% more new leases than the previous quarter. New deals in Q3 2023 were larger on average than the previous quarter, fueled by four leases inked greater than 500,000 sf in size, compared to zero in Q2 2023. The North market outperformed all markets in Q3 2023 with 2.5 msf of new leasing activity, followed by the Southeast market (2.2 msf).

Houston's industrial market recorded 4.0 msf of positive net absorption in Q3 2023, with most of the absorption taking place in the Northwest (1.3 msf) and North (850,776 sf) markets. While the total is a slight drop from the 4.7 msf recorded in Q2 2023, it is still well above the growth Houston yielded During the pre-pandemic industrial expansion. Of the 83 industrial markets tracked by Cushman & Wakefield nation-wide, Houston was one of only four markets that recorded more than 4 msf of positive absorption during Q3 2023.

Overall vacancy ended the quarter at 6.8%, 100 bps higher QOQ. This increase can be partly attributed to the high amount of newly available space added to the market as speculative construction buildings delivered vacant. Vacancy currently remains in line with the historical average but will likely continue to climb throughout the remainder of the year as more speculative deliveries are anticipated.

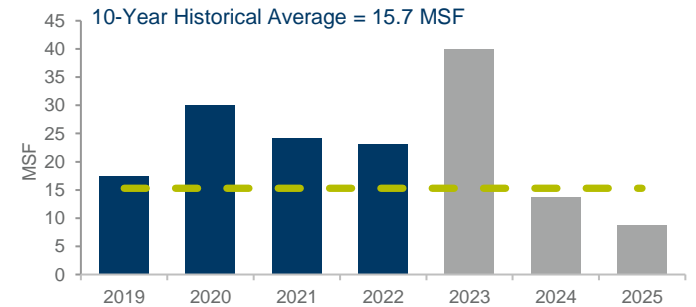
PRICING

New speculative projects priced well above market averages continue to deliver, thus causing average rental rates to rise. Overall average asking rents closed Q3 2023 at \$7.58 per square foot (psf), a 4.8% increase QOQ from \$7.24 in Q2 2023, and a 7.2% rise YOY from \$7.06 in Q3 2022. The West and South led all markets with the highest asking rates, closing Q3 2023 at \$8.26 psf and \$8.03 psf, respectively. For warehouse/distribution, the bulk of the industrial market, asking rates ticked 7.3% higher QOQ to \$7.32 psf.

OUTLOOK

- Healthy leasing activity, driven by logistics and warehousing demand, will support gradual and sustainable growth as Houston continues to outperform many other major metros.
- Without increased demand, much of the 20.6 msf currently under construction will continue to deliver vacant within the next year, causing Houston's vacancy rate to rise further.
- Rental rates are expected to remain elevated as the next wave of new premium-priced product delivers over the next year.

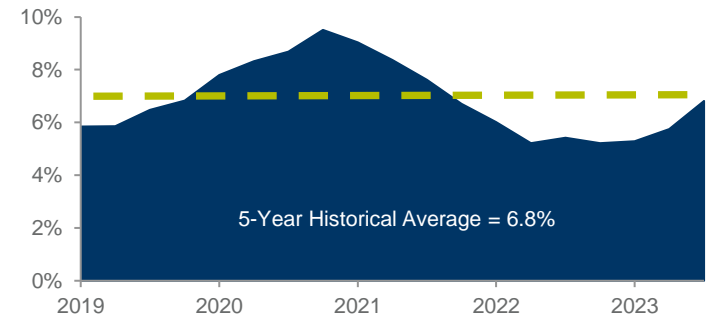
NEW SUPPLY (MSF)



OVERALL NET ABSORPTION / OVERALL ASKING RENT



OVERALL VACANCY



MARKETBEAT HOUSTON



Industrial Q3 2023

OVERALL MARKET STATISTICS

*Rental rates reflect weighted net asking \$psf/year

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)*	OVERALL WEIGHTED AVG NET RENT (OS)*	OVERALL WEIGHTED AVG NET RENT (W/D)*
CENTRAL BUSINESS DISTRICT	179,109	0	0.0%	0	0	0	0	N/A	N/A	N/A
North-Near	7,444,651	630,906	8.5%	-26,729	73,543	0	424,404	\$4.41	\$6.54	\$6.22
North-Mid	14,896,108	655,361	4.4%	51,905	341,728	114,786	0	\$9.00	N/A	\$5.76
North-Far	56,993,029	5,643,859	9.9%	759,716	1,774,266	1,996,625	2,743,712	\$12.00	\$8.12	\$7.10
North-Montgomery County	13,154,952	373,610	2.8%	65,884	40,247	1,398,503	0	\$9.00	\$18.14	\$8.85
NORTH	92,488,740	7,303,736	7.9%	850,776	2,229,784	3,509,914	3,168,116	\$7.87	\$10.06	\$6.93
Northeast-Near	20,962,666	436,888	2.1%	95,304	-57,301	1,115,871	0	\$6.24	\$9.03	\$5.11
Northeast-Far	12,159,624	1,772,512	14.6%	-256,599	881,784	2,759,726	1,142,106	\$4.20	\$20.75	\$6.33
NORTHEAST	33,122,290	2,209,400	6.7%	-161,295	824,483	3,875,597	1,142,106	\$5.33	\$11.44	\$6.19
Northwest-Near	26,205,961	885,840	3.4%	-30,266	-359,775	0	0	\$10.72	\$11.75	\$8.86
Northwest-Far	118,077,120	9,522,692	8.1%	1,303,505	2,173,109	1,015,768	5,918,701	\$5.40	\$10.21	\$6.00
NORTHWEST	144,283,081	10,408,532	7.2%	1,273,239	1,813,334	1,015,768	5,918,701	\$8.35	\$10.75	\$7.35
South-Near	23,518,576	1,015,869	4.3%	-143,341	245,342	0	388,795	N/A	\$11.74	\$7.06
South-Far	17,466,055	1,293,684	7.4%	862,122	1,910,709	2,910,458	2,545,479	\$5.85	\$16.20	\$7.81
SOUTH	40,984,631	2,309,553	5.6%	718,781	2,156,051	2,910,458	2,934,274	\$5.85	\$12.00	\$7.51
Southeast-Near	37,172,572	996,360	2.7%	-105,468	444,676	0	332,064	\$7.09	N/A	\$6.52
Southeast-Mid	16,345,385	525,203	3.2%	-14,283	360,433	169,677	403,066	\$6.00	N/A	\$7.02
Southeast-Far	76,003,801	6,817,750	9.0%	568,001	3,496,245	4,617,099	7,207,450	\$11.89	\$9.63	\$7.65
SOUTHEAST	129,521,758	8,339,313	6.4%	448,250	4,301,354	4,786,776	7,942,580	\$9.31	\$9.63	\$7.42
Southwest-Near	4,495,703	71,275	1.6%	-46,110	-68,855	0	0	\$9.12	\$10.00	N/A
Southwest-Far	60,615,573	2,061,429	3.4%	663,858	1,924,653	1,823,491	1,122,092	\$6.89	\$9.60	\$7.44
SOUTHWEST	65,111,276	2,132,704	3.3%	617,748	1,855,798	1,823,491	1,122,092	\$7.22	\$9.60	\$7.44
West-Far	32,215,049	1,625,961	5.0%	80,793	219,514	100,000	931,820	\$8.63	\$10.91	\$7.43
West-Waller County	24,353,958	3,971,872	16.3%	182,682	2,969,184	2,617,555	3,601,928	N/A	N/A	\$7.61
WEST	56,569,007	5,597,833	9.9%	263,475	3,188,698	2,717,555	4,533,748	\$10.72	\$11.75	\$7.95
HOUSTON TOTALS	562,259,892	38,301,071	6.8%	4,010,974	16,369,502	20,639,559	26,761,617	\$7.83	\$10.74	\$7.32

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Kingsland Ranch Logistics Park	West – Waller County	Distribution Alternatives	855,610	Warehouse/Distribution
Ameriport Industrial Park	Southeast - Far	Palmer Logistics	616,000	Warehouse/Distribution
Cedar Port Industrial Park	Southeast - Far	Cargill – Sublease (Article Furniture)	511,000	Warehouse/Distribution

KEY SALES TRANSACTIONS Q3 2023

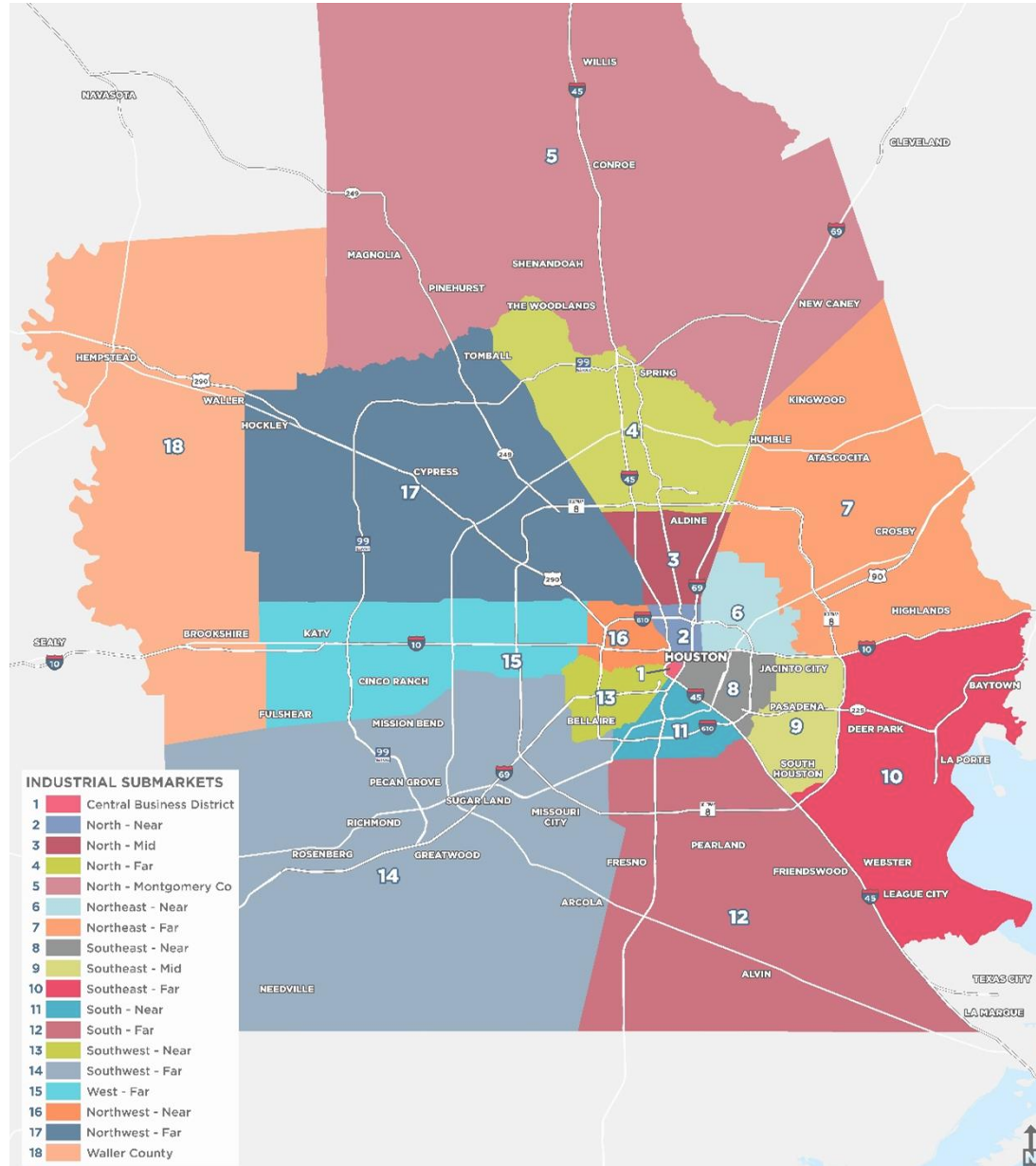
PROPERTY	SUBMARKET	SELLER BUYER	SF
Fairway North Logistics Park – Building 2	North - Far	Lovett Industrial Meiborg	392,480
Kirkwood Industrial Park – Building 2	Southwest - Far	Crow Holdings Industrial Cabot Properties	325,028
Fairbanks Logistics Park – Building 3	Northwest - Far	IDV Dalfen Industrial	287,470

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Industrial Q3 2023



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