

HOUSTON

INDUSTRIAL MARKET REPORT

First Quarter 2020



BELVOIR

REAL ESTATE GROUP, LLC

Going Places

BROKERAGE / DEVELOPMENT / MANAGEMENT / INVESTMENT

713.332.8202 / belvoir.net

A Message from Matthew Goldsby, Belvoir Managing Director

Over the past few years, Houston's industrial market has been the city's best performing property sector, driven by significant growth components in e-commerce, Port of Houston, and a blazing homebuilding and construction material pipeline. Even though the fracking bust of 2015 and 2016 crimped growth throughout much of the metro, Houston's industrial sector remained relatively untouched — a testament to a material shift away from historical oil dependence and new growth drivers for Houston's economy.

Among the major property types, Houston's industrial sector should continue to remain at or near the top in terms of performance. Despite a large quarter-over-quarter jump in vacancy due to a saturated construction pipeline of institutional product, a surge in demand for last-mile distribution and logistics product should reinforce the market against the global volatility ahead. During this period, year-over-year demand is expected to remain positive, although vacancy is expected to rise as newly delivered spec projects are absorbed by the market.

There was 2.2M square feet absorbed in the first quarter: 1M square feet in Pinto Business Park in North Fwy/Tomball submarket; 770K square feet in Grand National Business Par in Hwy 290/Tomball submarket; and, 219K square feet in the EADO submarket. There were several significant transactions in this market, including:

- TA Realty – purchased East Belt Business Park, a 4-building, Class A project totaling 385K square feet.
- Dunavant Distribution Group – leased 137,280-square-foot building at 10619 Red Bluff Road, Pasadena
- Kalidwal Investment – leased 81,250 square feet at 4545 Eastpark Drive, Eastwood Industrial Park
- United Equities – will start 82,550 square feet in Phase II of Beltway-225 Business Park, Pasadena
- Vigavi Pasadena Blvd LLC – purchased two industrial properties on 9.73 acres and 4116 and 4222 Pasadena Blvd., Pasadena
- Johnson Controls – leased 29,954 square feet of industrial property at 4111 Greenshadow, Pasadena

The statistics on rents and more detailed information on new construction are included in the analytic report enclosed.

As the impacts surrounding the ongoing COVID-19 pandemic continue to develop, we expect a clearer picture of the effects of the shutdown to become more apparent in the second and third quarters of this year. As we navigate these unprecedented conditions, we remain hyper-focused on how best to position real estate in the current market and into the future, and how to share these insights with our clients in an actionable way.

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INDUSTRIAL MARKET SNAPSHOT

LEASING

Houston's industrial vacancy rate has risen from sub-5% in 2014 to nearly 7.6% today. Houston has the third-most industrial space under construction in the U.S. after Dallas-Fort Worth and the Inland Empire, and the metro ranked third for new deliveries last year. Trade, transportation and utilities tenants comprised more than two-thirds of leasing activity last year, suggesting that population-driven, e-commerce and logistics activities drove demand in the market. The recent oil price crash and coronavirus pandemic pose serious downside risks to Houston's industrial market, although these effects may be mitigated by a surge in e-commerce activity for certain retailers, especially for essential items.

RENT

Rent growth, albeit positive over the past year for many Houston submarkets, appeared to be slowing even prior to the coronavirus pandemic and recent oil price crash, given the onslaught of new spec supply. Houston industrial may experience declining rent growth in the coming months, as the market deals with serious economic and social headwinds. The submarkets that boasted the highest rent growth as of 20Q1 were areas where a lot of new speculative supply had come online in recent years. This is due to the fact that landlords were generally able to charge higher rents for new product, at a time when vacancies were low.

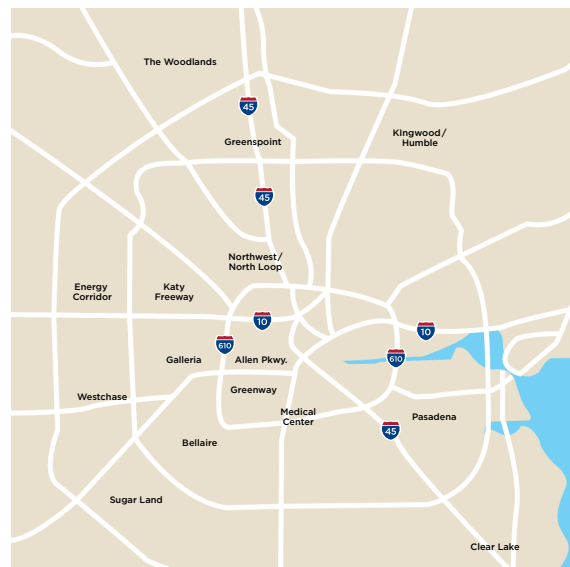
CONSTRUCTION

There were 19.7 million SF of new industrial developments under construction in Houston in 20Q1, a record for the city. However, the coronavirus pandemic may lead to project delays or a slowdown in groundbreakings over the next few months, as owners, lenders and developers come to grips with the changing economic landscape both locally and nationally. The new projects under construction were about 40% preleased as of 20Q1. However, when excluding the build-to-suits, that figure falls to below 15%.

SALES

Capital investment into Houston industrial had been expanding in recent years, tracking the national trend, and this trend showed no signs of letting up until the coronavirus pandemic and oil price war. However, in past period of volatility, investors and lenders took pause to reassess pricing, which is likely to occur in Houston. The metro ranked in the top 15 U.S. markets for transaction activity last year, with an estimated volume of \$2.2 billion. However, this figure should be taken with a grain of salt, as Texas is a non-disclosure state, and the amount is likely much higher. Last year was yet again marked by large portfolio trades, a trend also experienced nationally. This is mostly the result of large institutional investors chasing the sector's general e-commerce-driven outperformance this cycle.

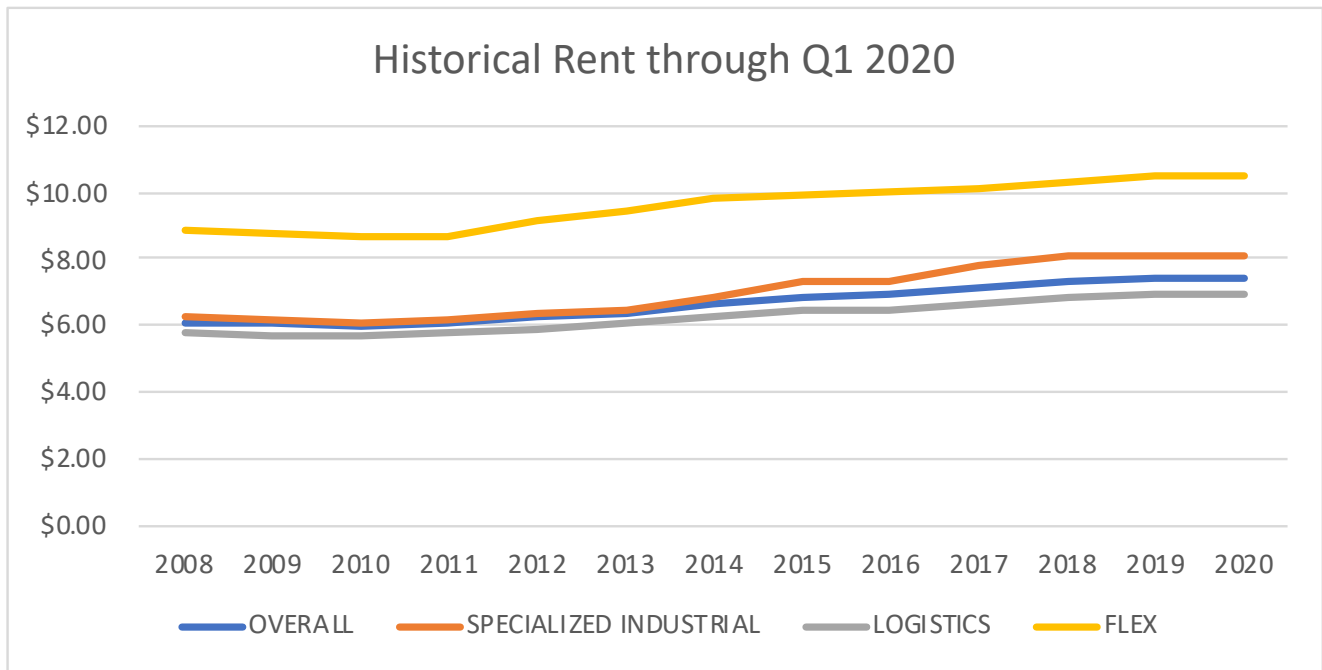
Source: CoStar Property®



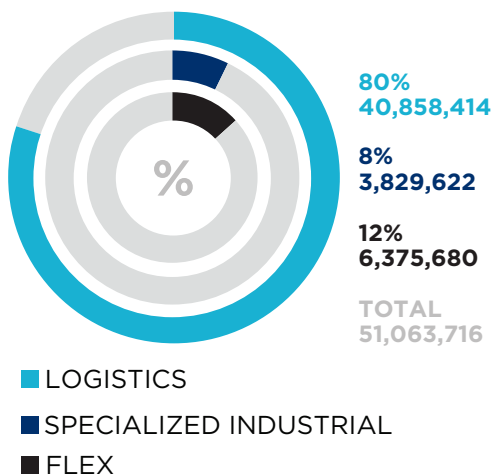
Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Downtown Houston	910	31,939	1,344,015	4.2%	(646,458)	0	-	\$5.47
East-Southeast Far	2,312	91,978	7,052,159	8.6%	2,873,267	4,608	4,158	\$7.34
Hwy 290/Tomball Pky	693	27,546	3,375,985	12.3%	764,214	1,996	1,388	\$7.59
Hwy 59/Hwy 90 (Alt)	1,068	27,401	2,212,576	8.1%	6,021	1,180	646	\$7.79
North Fwy/Tomball Pky	1,000	32,493	4,199,885	12.9%	1,326,624	2,735	1,247	\$7.80
North Hardy Toll Road	897	39,389	3,848,746	9.8%	1,719,144	3,438	627	\$7.41
North Outer Loop	1,105	36,034	1,875,000	7.2%	35,112	918	484	\$6.90
Northeast Hwy 90	682	22,501	1,671,455	7.4%	625,568	1,281	324	\$7.27
Northwest Inner Loop	1,800	64,113	4,962,450	7.7%	(493,463)	256	22	\$7.25
Northwest Near	834	20,015	818,111	4.1%	559,753	53	-	\$6.97
Northwest Outliers	706	30,924	3,021,260	9.8%	2,080,105	2,307	3,433	\$8.38
South Hwy 35	1,827	40,509	2,315,431	5.7%	(865,300)	159	372	\$6.85
Sugar Land	534	23,538	876,316	3.7%	760,703	804	2,348	\$8.08
The Woodlands/Conroe	1,228	23,132	1,864,997	8.1%	(61,732)	231	1,282	\$9.52
West Outer Loop	845	28,155	1,628,202	5.8%	(58,427)	153	-	\$7.85

Source: CoStar Property®

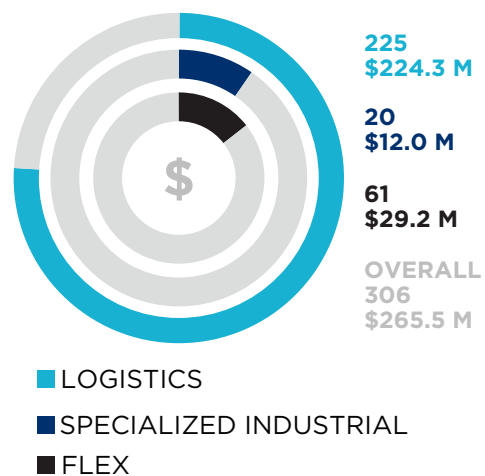
HISTORICAL AND FORECAST RENTAL RATES BY CLASS



VACANCY BY CLASS



SALES BY CLASS



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