

HOUSTON
**INDUSTRIAL MARKET
REPORT**

Second Quarter 2020



BELVOIR

REAL ESTATE GROUP, LLC

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A Message from Matthew Goldsby, Belvoir Managing Director

In mid-March 2020, the City of Houston and Harris County jointly announced their pandemic guidelines, which have persisted through the second quarter. Despite the ensuing lockdown, the industrial market has continued to flourish with both leasing activity and new construction deliveries.

In the overall market, the vacancy rate hovers around 8% based on total rentable building square footage of 659.9 million SF. Vacancy rates vary within each major industrial sector: logistics – 13.4%; specialized – 5.4%; and flex – 13.9%, with the majority of new activity in distribution centers and the specialized industrial sector. While the first quarter's net absorption was a robust 2.6 million SF, net demand dropped to 1.5 million SF during the second quarter. Most of the activity was absorbed by largescale institutional projects: the primary beneficiaries of leasing demand were Pinto Business Park, Conroe Park North Industrial Park and Grand National Business Park.

Seven major transactions totaled 878,712 SF, ranging from 108,576 SF to 183,289 SF per lease. CoStar reports 17 million SF in 161 construction projects currently underway. In the second quarter, five new construction projects broke ground, totaling 1.7 million SF of new starts. These projects range in sizes between 108,000 SF and 806,000 SF with a 46% preleased rate. Sale volumes declined, with an average sale price of \$89 per SF and an average cap rate of 8.2%. Complete and detailed statistics are provided in the attached report.

Rents have remained stable through this quarter, but a rising vacancy rate due to new construction deliveries is expected to put downward pressure on rents in late-2020 into early-2021. Following this period of elevated deliveries, a waning construction pipeline may lead to a spike in rental rates toward the end of 2021, particularly as pent-up pandemic related demand begins to fully unleash. These rent and vacancy trends are expected given the record levels of cyclical spec development that have taken place over the past two years.

While the energy sector has slowed with the decrease in oil prices and global demand, distribution (especially in build-to-suits), e-commerce, and PPE in healthcare and technology has picked up much of the slack. With the new spike in coronavirus cases in Texas, Florida and California, healthcare concerns and shutdowns will continue to play a role through the back half of the year. However, even during this period of volatility, industrial has remained and is expected to continue being a strong performing asset class both locally and nationally.

INDUSTRIAL MARKET SNAPSHOT

LEASING

Houston's industrial vacancy rate has risen from sub-5% in 2014 to nearly 8.0% today. Houston's industrial sector could see vacancies rising to be over 10% this year in CoStar's baseline forecast scenario before gradually recovering. The good news is that Houston's leasing activity last year was near a record high, and the metro ranked fifth in the U.S. last year for net absorption. 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.

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. Under the baseline forecast scenario, Houston could see a year of negative rent growth beginning in 20Q2, and year-over-year negative rent growth could surpass -10% by early 2021.

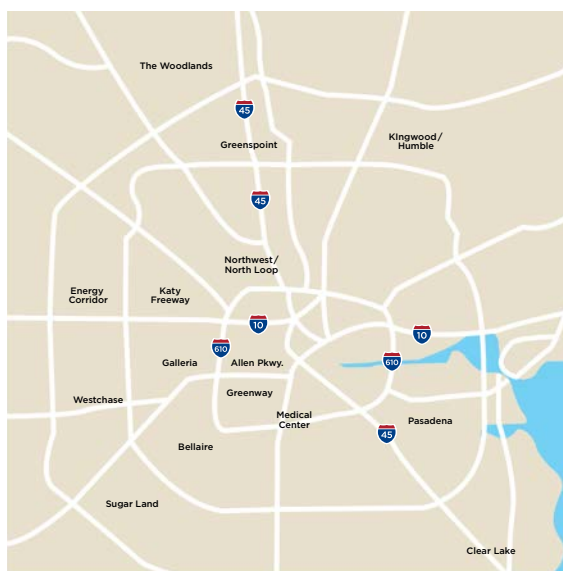
CONSTRUCTION

There were 17.1 million SF of new industrial developments under construction in Houston in 20Q2, a near 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. This new construction is occurring all over the metro, especially around the Beltway 8 and Grand Parkway loops. Build-to-suits represent some of the largest new developments.

SALES

As with the rest of the country, the coronavirus pandemic has rattled the financial markets and added ambiguity when pricing active transactions. During past periods of volatility, investors and lenders took pause to reassess pricing. This is likely already the case in Houston, as buyers revise underwriting assumptions. More than 380 Houston industrial transactions took place leading up to April. Nearly half were portfolio or multi-property sales, and nearly half were national trades, indicating a strong appetite for industrial assets nationally in key industrial markets.

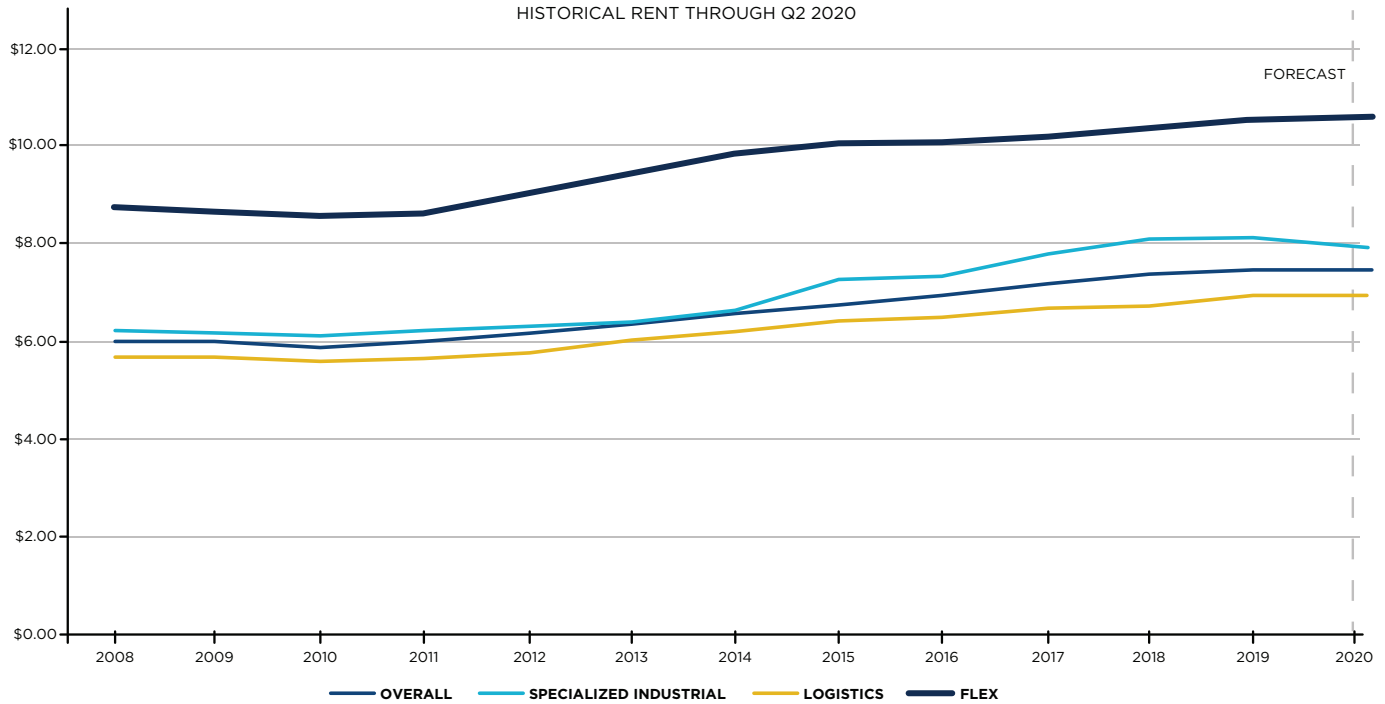
Source: CoStar Property®



Market	Existing Inventory		Vacancy		YTD Net Absorption	12 Month Deliveries SF(000)	Under Const SF (000)	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Downtown Houston	911	32,627	1,580,762	4.8%	(574,032)	0	-	\$5.44
East-Southeast Far	2,336	83,786	7,645,217	9.1%	2,396,163	4,552	2,686	\$7.25
Hwy 290/Tomball Pky	701	28,494	4,205,265	14.8%	1,027,787	2,798	623	\$7.49
Hwy 59/Hwy 90 (Alt)	1,070	27,441	2,252,451	8.2%	(136,575)	1,124	965	\$7.76
North Fwy/Tomball Pky	1,016	33,010	4,364,090	13.2%	1,424,948	3,044	1,007	\$7.86
North Hardy Toll Road	904	39,692	3,949,915	10.0%	27,374	2,074	636	\$7.45
North Outer Loop	1,110	26,203	2,006,841	7.7%	53,180	1,063	342	\$6.88
Northeast Hwy 90	686	22,517	1,731,354	7.7%	333,099	1,311	280	\$7.21
Northwest Inner Loop	193	64,112	4,973,062	7.8%	(400,594)	225	22	\$7.22
Northwest Near	838	20,040	856,939	4.3%	584,979	53	-	\$6.93
Northwest Outliers	724	31,193	2,921,938	9.4%	2,300,120	2,629	4,583	\$8.44
South Hwy 35	1,842	40,604	1,778,792	4.4%	414,073	200	289	\$6.84
Sugar Land	549	23,747	1,017,617	4.3%	637,096	837	2,279	\$8.14
NASA/Clear Lake	1,305	26,109	2,076,548	8.0%	958,778	1,322	86	\$9.35
West Outer Loop	857	28,542	1,752,793	6.1%	97,615	406	83	\$7.80

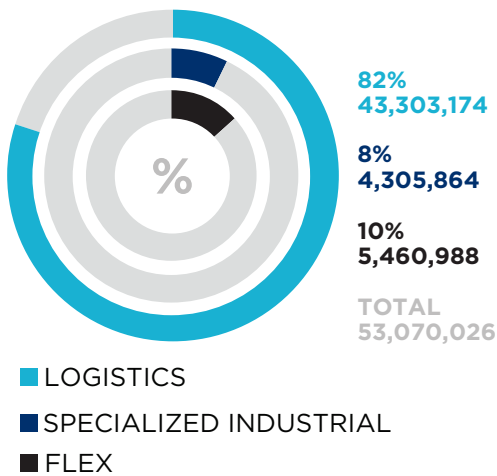
Source: CoStar Property®

HISTORICAL AND FORECAST RENTAL RATES BY CLASS

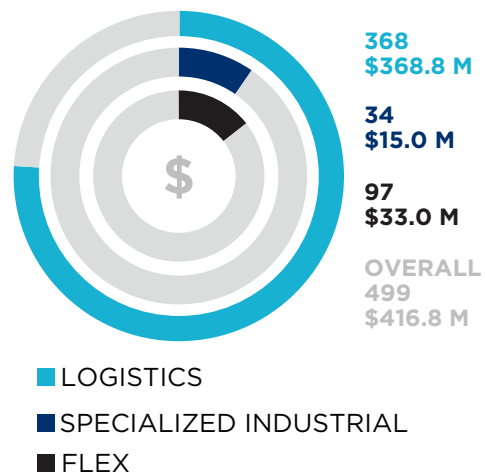


Source: CoStar Property®

VACANCY BY CLASS



SALES BY CLASS



LET'S GO PLACES.

Belvoir's team of experts are ready to answer your commercial real estate and brokerage questions. Call us at **713.332.8202** or visit us online at **belvoir.net**.