

Industrial rental rates continue to trend upward with strong demand leading to record highs

Since 2020, Houston's industrial market exhibited greater resiliency compared to other asset types, as tenant demand stayed strong among e-commerce, material distributors and third-party logistics users. Amid national and global supply chain disruptions, the Port of Houston showed signs of strengthening with trade volumes, as measured by twenty-foot equivalent units (TEUs), up 37% over the past year. The port has become a benefactor of the current situation as shipping containers rerouted to the Gulf Coast to avoid congestion on the West Coast. With high demand reflected by strong quarterly leasing activity and net absorption, developers continue to be bullish building new product to meet market demand.

Construction pipeline remains above 5-year average

Overall asking rents in the Houston industrial market rose steeply in the first quarter of 2022 to \$0.63 per square foot (psf) per month triple net – an increase of 3.1% from the previous quarter. Additionally, asking rates have risen 8.1% year over year, while the vacancy rate dropped significantly by 230 basis points (bps) year over year to 6.8%. The Houston MSA construction pipeline remains active, with nearly 19 million square feet (msf) under construction in the first quarter, above the 5-year average of 15.6 msf.

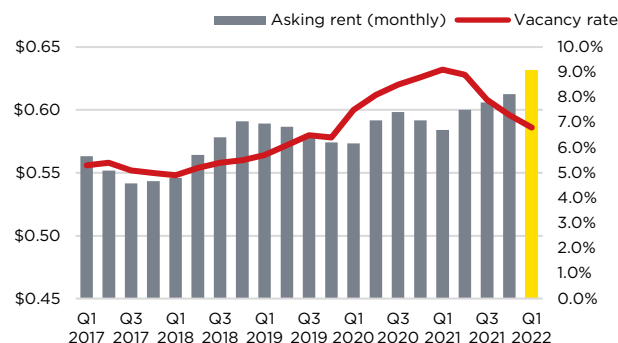
Energy sector reacts to recent increasing global tensions

With Russia's further invasion of the Ukraine on February 24, the WTI crude oil price spiked above \$100 per barrel on March 1st, 2022 – a level not seen since July 2014. As a result, U.S. retail gasoline and diesel prices have increased substantially to \$4.32 and \$5.25 per gallon, respectively, as of mid-March. According to the U.S. Energy Information Administration (EIA), this would be the first time that gasoline prices exceeded \$4.00 per gallon since July 2008. While the price outlook is still uncertain, the EIA predicts oil consumption will correlate strongly with economic activity, especially as travel expenditures and the supply chain react to the increased global tensions. While rising transportation costs are a headwind for industrial occupiers, space demand is expected to stay strong as tenants continue to build supply chain resiliency.

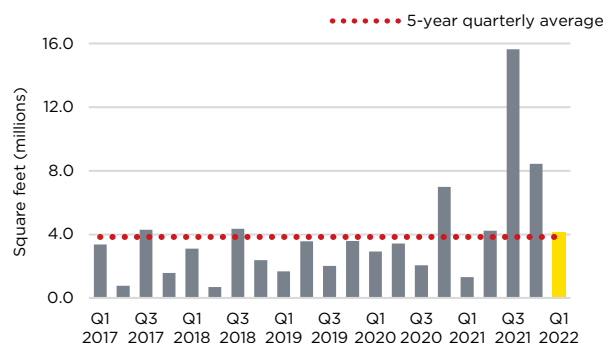
KEY STATISTICS

	Q1 2021	Q1 2022	y-o-y Change
Inventory	582.1 MSF	602.8 MSF	▲
Vacancy Rate	9.1%	6.8%	▼
Quarterly Net Absorption	1.3 MSF	4.1 MSF	▲
Under Construction	19.9 MSF	18.9 MSF	▼
Deliveries	3.5 MSF	1.6 MSF	▼
Asking Rental Rate (Monthly)	\$0.58	\$0.63	▲

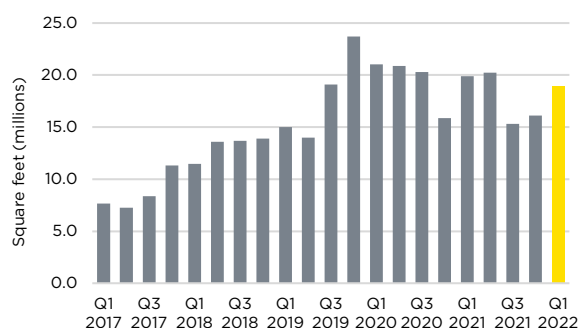
ASKING RENT AND VACANCY



NET ABSORPTION



UNDER CONSTRUCTION



Outlook

- With strong demand and construction activity amid supply chain disruptions, positive momentum in the Houston industrial market will be sustained for the medium to long term
- The construction pipeline is expected to remain active generating new opportunities for tenants who are migrating domestically and internationally due to the state's business friendly environment and supply chain disruptions
- Sales transaction volume is anticipated to rebound after lessening this quarter, as investors continue to show strong interest in the asset class and the Houston region

BY THE NUMBERS

\$0.63

Average asking rent psf (NNN), which is the highest on record

8.1%

Overall asking rent growth over the past 12 months

\$92.12

Average WTI oil price per barrel for Q1 2022 as of 3/20/2022

TOP TRANSACTIONS

Leases

Tenant	Square Feet	Address	Transaction Type	Submarket	Landlord
CyrusOne Inc.	640,000	11000 Corporate Centre Drive	New	Northwest	DataBank
Macy's	605,832	Interchange 249	New	Northwest	Clarion Partners
NFI	341,000	5335 Cedar Port Parkway	New	Southeast	EQT Exeter
Aurora Pollock	255,704	14611 Tomball Parkway	New	Northwest	Clarion Partners
WSS Distribution	219,534	15789 Aldine Westfield Road	New	North	EQT Exeter

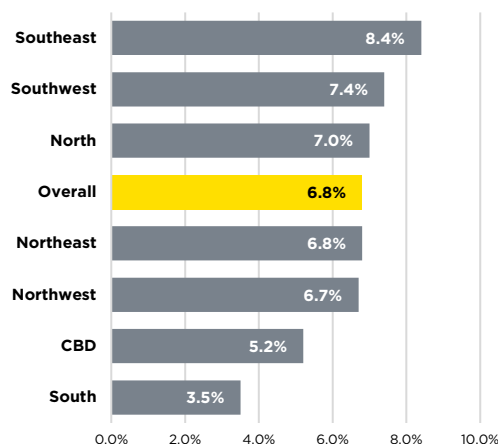
Sales

Owner/Buyer	Square Feet	Address	Price	Submarket	Seller
ILPT REIT	181,176	21200 Spring Plasa Drive	N/A	North	Monmouth REIT
BV Archway Real Estate	157,825	650 Gellhorn Drive	\$9,000,000	Northeast	BlueLinX
Berkeley Partners	149,005	15502 Old Galveston Road	N/A	Southeast	NAI Partners Capital
Equus Capital Partners	121,000	4525 Kennedy Commerce Drive	\$16,761,837	North	Prologis
Equus Capital Partners	118,736	1416 North Sam Houston Parkway	\$16,448,211	North	Prologis

Source: Savills Research

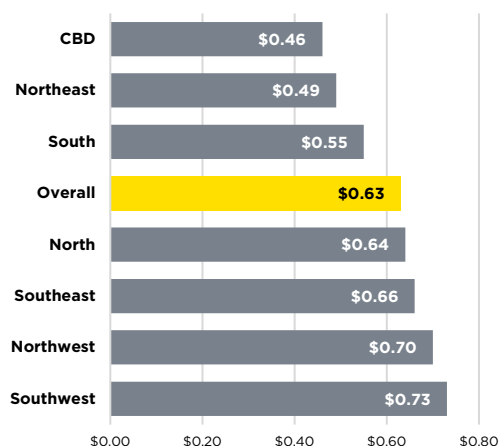
VACANCY RATE COMPARISON

Houston Industrial Submarkets



RENTAL RATE COMPARISON (\$/SF)

Houston Industrial Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking net (NNN) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical vacancy and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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