MARKET IN MINUTES
Savills Research

Q3 2022 - Industrial

Houston

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Houston industrial market vacancy low despite increasing economic uncertainty

Although the economic outlook has weakened due to inflation and rising interest rates, the Houston industrial market continues to grow. Vacancies have trended downward after peaking at 9.6% in the second quarter of 2021 and average 5.7%, down 350 basis points (bps) year over year. Meanwhile, asking rates have risen over the past 12 months to $0.57 per square foot (psf). An uptick in construction deliveries during the third quarter of 2022 was met with equally strong net absorption of 8.4 million square feet (msf), well above the 5-year quarterly average of 4.3 msf.

Current development pipeline is the highest in history

Despite higher construction costs related to inflation and increases in transportation costs, more industrial product is under construction in Houston than ever before. During the third quarter of 2022, the under-construction pipeline reached 23.8 msf, a nearly 40% increase compared with the same period a year ago. The Southeast submarket has seen the highest development activity, totaling 6.8 msf and supported by strong leasing activity surrounding the Port of Houston. At the same time, the Northwest submarket continues its active streak, seeing three out of five top leases of the quarter, including American Wire Group at 29789 U.S. Highway 90, Foxconn at 10640 Windfern Road and HEB at 7301-7401 Security Way.

Energy and oil prices trend downward in response to recession fears

Growing economic concerns and weakening consumption trends are leading to a supply chain recovery. This in turn has caused a softening of energy markets, with the West Texas Intermediate (WTI) oil price now averaging below $100 per barrel quarter-to-date as of mid-September 2022. This trend could aid third-party logistics (3PL) and e-commerce occupiers who are sensitive to transportation costs and tend to base their real estate location strategies around minimizing these costs. However, an overall slowdown in consumer demand is also a concern for these same occupiers, given the consumption-driven nature of these businesses.

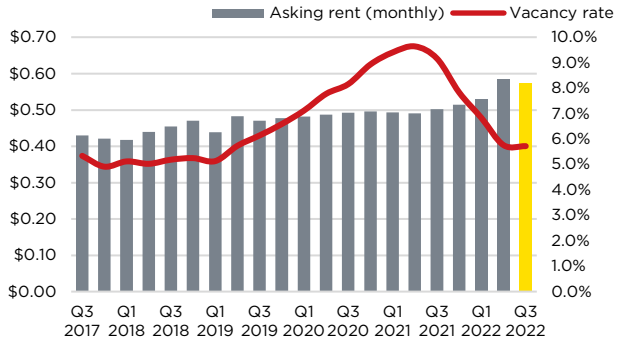
Outlook

- Investment in the port bodes well for industrial demand as the Port Commission authorizes more than $150 million for both infrastructure and operation of the Houston ship channel
- A combination of tight market fundamentals and growing economic uncertainty is making occupiers increasingly cautious about their real estate decision making
- The relative affordability of the Houston industrial market compared to other major port markets on the coasts will continue to support growth in demand

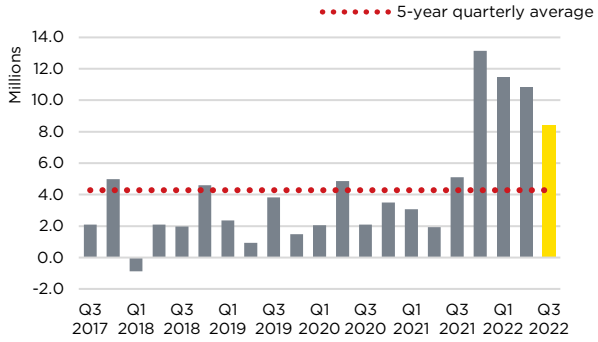
KEY STATISTICS

	Q3 2021	Q3 2022	y-o-y Change
Inventory	537.8 MSF	579.4 MSF	▲
Vacancy Rate	9.2%	5.7%	▼
Quarterly Net Absorption	5.0 MSF	8.4 MSF	▲
Under Construction	14.5 MSF	23.8 MSF	▲
Deliveries	3.1 MSF	8.4 MSF	▲
Asking Rental Rate (Monthly)	$0.50	$0.57	▲

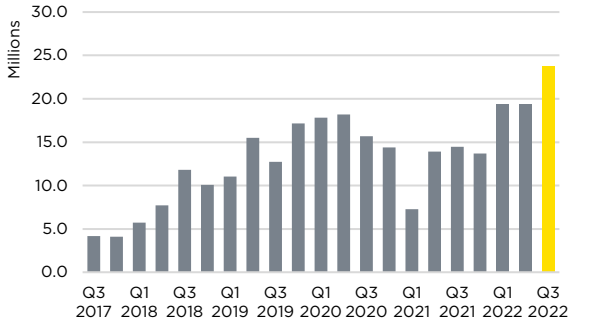
ASKING RENT AND VACANCY



NET ABSORPTION



UNDER CONSTRUCTION



BY THE NUMBERS

23.8M
square feet under construction

12.2%
asking rent growth over the past 12 months

$91.95
Q3 2022 average **WTI Price** (per barrel) as of 9/29/2022

TOP TRANSACTIONS

Leases

Tenant	Square Feet	Address	Transaction Type	Submarket	Landlord
Gateway Logistics	312,034	4000 Cedar Boulevard	Relocation	Southeast	Reich Brothers
American Wire Group	205,200	29789 US Highway 90	New	Northwest	EQT Exeter
FoxConn	201,240	10640 Windfern Road	Relocation	Northwest	Cabot Properties
Innovex Downhole Solutions	184,200	19120 Kenswick Drive	Relocation	Northeast	Prologis LP
HEB	161,099	7301-7401 Security Way	New	Northwest	Prologis LP

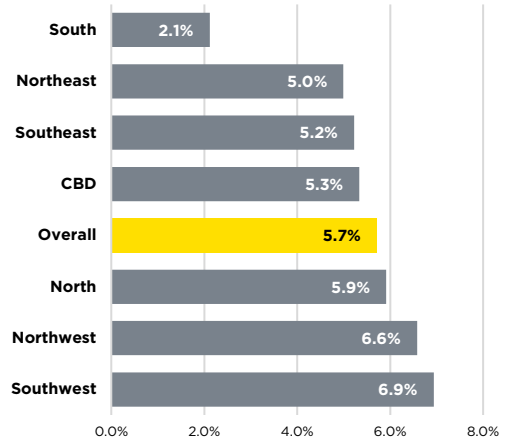
Sales

Owner/Buyer	Square Feet	Address	Price	Submarket	Seller
Fabco Properties VI LLC	390,222	1710 East Freeway Road	N/A	Southeast	Ledo Capital Group
Penske Truck Leasing Co	264,063	29335 Highway Boulevard	N/A	Southwest	JLC Katy 1 LLC
No More Entities LLC	199,340	8807 Liberty Road	N/A	Northeast	Plateplus Inc
Fort Capital	175,665	1718 Fry Road	N/A	Northwest	Fuller Realty
USCIF Pines Business Park LLC	145,200	600 Spring Hill drive	N/a	North	AEW Capital

Source: Savills Research

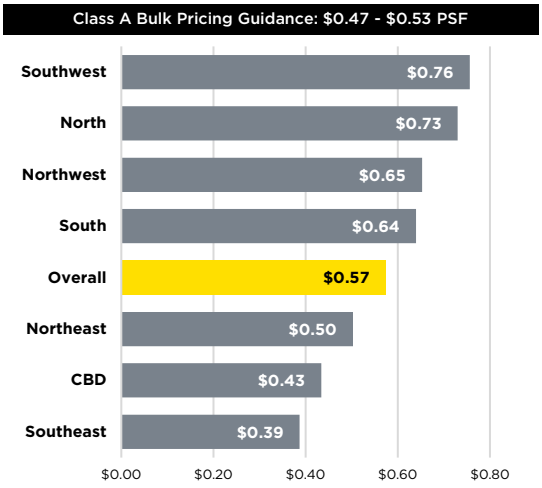
VACANCY RATE COMPARISON

Houston Industrial Submarkets



RENTAL RATE COMPARISON ($/SF)*

Houston Industrial Submarkets



*Based on all classes of available inventory

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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