

# Houston



First-quarter fundamentals in the Houston industrial market continued to exhibit some resiliency even as economic uncertainty brought on by COVID-19 and oil market volatility spread through the region.

*Given the evolving nature of the COVID-19 situation, information is changing day by day. All data in this report is as of March 31st 2020, with the majority of information recorded prior to the pandemic onset and resulting disruption. This does not reflect any current or potential impact stemming from recent events.*



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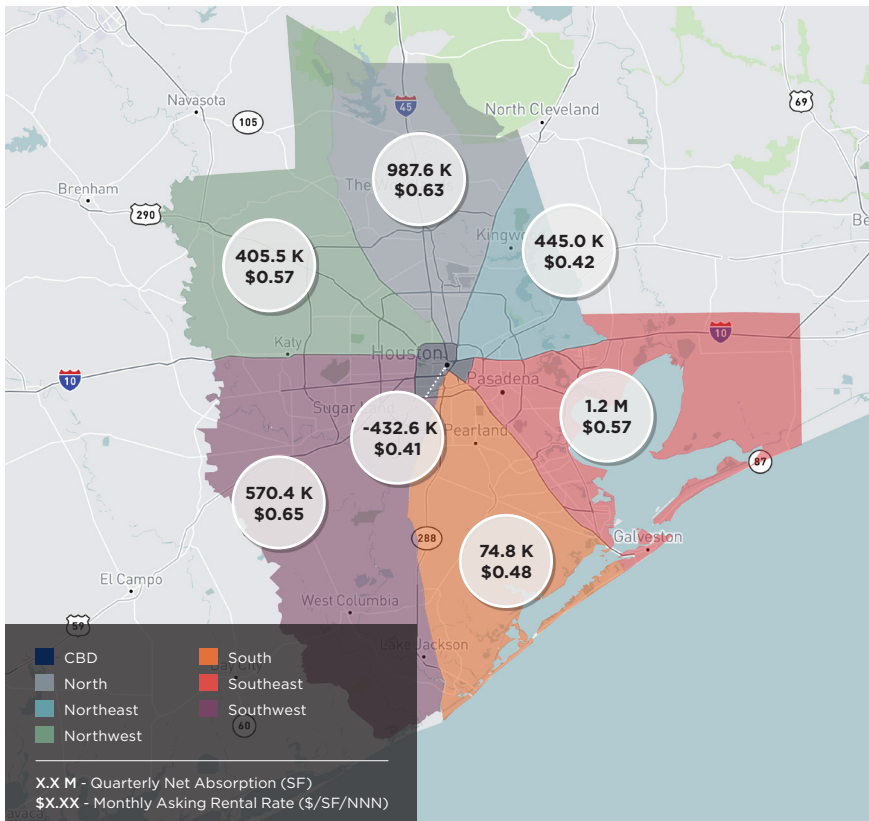
The first quarter saw a handful of large leases, including Amazon's 806,000-square-foot (sf) build-to-suit lease on Clay Road in the Northwest submarket and Palmer Distribution's 297,000-sf build-to-suit in the Ameriport Industrial Park. Net absorption totaled 3.3 million square feet (msf), up from 2.3 msf in Q1 2019, as Coca-Cola Southwest's 1.0-msf distribution facility, and Home Depot's 770,000-sf facility, were delivered. The market saw 9.8 msf of both new deliveries and construction starts in the quarter, however activity is likely to taper off in the near-to medium-term as developers begin take a more bearish approach toward speculative builds. The market is showing signs of an oversupply via high vacancy rates, at 8.0% in Q1 2020, and rent stagnation as rates dropped \$0.02 year over year to \$0.57 per square foot (psf).

A significant uptick in digital grocery sales and E-commerce activity, as a result of COVID-19, has caused

## KEY STATISTICS

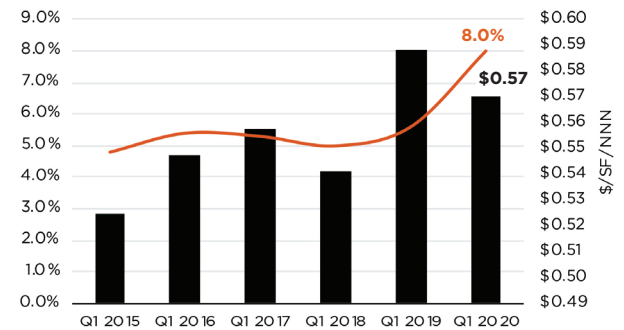
	Q1 2019	Q1 2020	y-o-y Change
Inventory	503.1 MSF	<b>530.8 MSF</b>	▲
Vacancy Rate	5.6%	<b>8.0%</b>	▲
Net Absorption	2.3 MSF	<b>3.3 MSF</b>	▲
Under Construction	14.3 MSF	<b>17.2 MSF</b>	▲
Overall Monthly Asking Rent (NNN)	\$0.59	<b>\$0.57</b>	▼

large-scale distribution users to adjust their supply-chain strategies. Moreover, key cold storage demand drivers, such as online grocery sales, are being catalyzed and fortified as the era of social distancing and self-quarantine has resulted in a considerable uptick in curbside grocery pick-up and front-porch delivery via third party services. Prior to COVID-19, online grocery sales were poised to reach \$100 billion by 2022, however that figure will likely need to be revised upward as would-be late adopters have been utilizing online ordering in the wake of current events, and will be more likely to continue enjoying the convenience of online grocery shopping once current public health measures have been lifted.



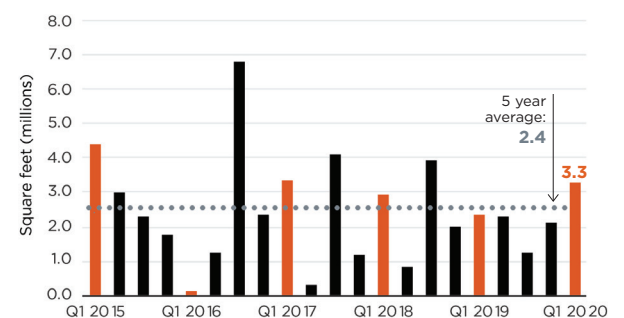
## VACANCY AND ASKING RENT TRENDS

Houston



## NET ABSORPTION

Houston



“Stress placed on supply chains due to changes in consumer behavior during the pandemic will lead to long-term supply chain adjustments, increasing the demand for distribution space.”

- John McWilliams, Research Manager

**SUBMARKET OVERVIEW**

20,000 SF and up (owner occupied included)

Submarket	Existing Inventory		Vacancy			Q1 2020 Net Absorption (SF)	Q1 2020 Deliveries (SF)	Under Construction (SF)	Overall Monthly Asking Rent (NNN)
	# Bldgs	Total (SF)	Direct (SF)	Total (SF)	Vac %				
<b>CBD</b>	700	45,449,315	2,347,024	2,435,025	5.2%	(432,603)	0	0	\$0.41
<b>North</b>	1,363	96,566,592	8,992,315	9,434,249	9.3%	987,632	2,890,966	2,937,590	\$0.63
<b>Northeast</b>	439	33,978,624	1,969,281	2,012,801	5.8%	445,009	190,200	323,500	\$0.42
<b>Northwest</b>	2,092	151,276,674	11,893,249	12,529,312	7.9%	405,536	3,167,562	4,628,904	\$0.57
<b>South</b>	634	40,569,822	2,352,724	2,614,545	5.8%	74,838	140,000	162,208	\$0.48
<b>Southeast</b>	928	98,143,048	8,242,592	8,724,155	8.4%	1,213,128	2,075,788	3,756,697	\$0.57
<b>Southwest</b>	1,006	64,836,770	4,644,753	4,747,584	7.2%	570,380	1,320,856	5,378,430	\$0.65

**MAJOR TRANSACTIONS**

Sales

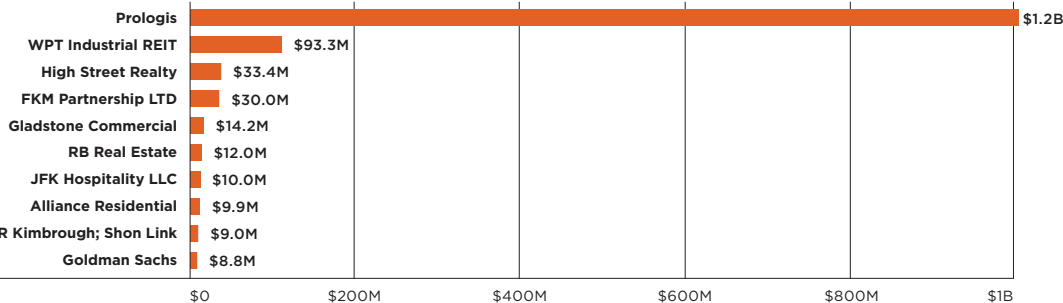
Owner/Buyer	Seller	Date	Address	Square Feet	Built	Land Area (acres)	Price	Submarket
<b>High Street Realty</b>	TIAA-CREF	Jan-20	971 N Sam Houston Parkway E	352,680	2015	25.8	Undisclosed	North
<b>FKM Partnership LTD</b>	Clay Development	Mar-20	11941 Cutten Road	293,280	2018	4.8	Undisclosed	North
<b>Arrow Glass Industries</b>	Oaktree Capital Management	Jan-20	9700 Gulf Bank Road	245,319	1982	22.4	Undisclosed	Northwest
<b>Priority Wire &amp; Cable, Inc.</b>	Hadassah Realty	Jan-20	10203 Wallisville Road	201,128	1998	8.1	Undisclosed	Northeast
<b>JFK Hospitality LLC</b>	Mark Chloupek	Feb-20	4140 World Houston Parkway	159,840	2002	16.1	Undisclosed	North

Leases

Tenant	Square Feet	Address	Transaction Type	Submarket	Landlord
<b>Amazon</b>	805,601	22525 Clay Road	New	Northwest	Duke Realty Corporation
<b>Amazon</b>	443,520	16225 Tomball Parkway	New	Northwest	Panattoni Development Company
<b>H-E-B</b>	401,280	4501 Blalock Road	New	Northwest	Prologis
<b>Wholesome Sweeteners</b>	349,050	2851 E Pasadena Boulevard	New	Southeast	Trammel Crow
<b>Palmer Distribution Services Inc.</b>	297,180	Ameriport Industrial Park	New	Southeast	National Property Holdings LP

**TOP BUYERS**

Q1 2020



Source Savills Research

**Market Trends**



**Container Activity Up 11% year over year to \$215.5 B**

However, March 2020 totals experienced a decline when compared to March 2019



**Multiple Large-User Build-To-Suits Currently Underway**

for occupiers such as: Ross - **2.2 MSF**; Medline - **1.3 MSF**; Dollar Tree - **1.2 MSF**



**17.2 MSF Industrial Product Under Construction**

Including projects larger than 20,000 SF, and is spread across more than **80** individual projects

Savills industrial specialists integrate advanced analytics, strategic planning, corporate finance, supply chain and operations strategy with real estate to ensure decisions are aligned with business goals. We provide a full range of services including comprehensive financial, logistics, brokerage and occupancy solutions to industrial space users across all industries.

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