

Houston



The second quarter of 2020 marked the first full quarter in which the industrial market faced pressure from COVID-19, a national recession and yet another energy downturn.



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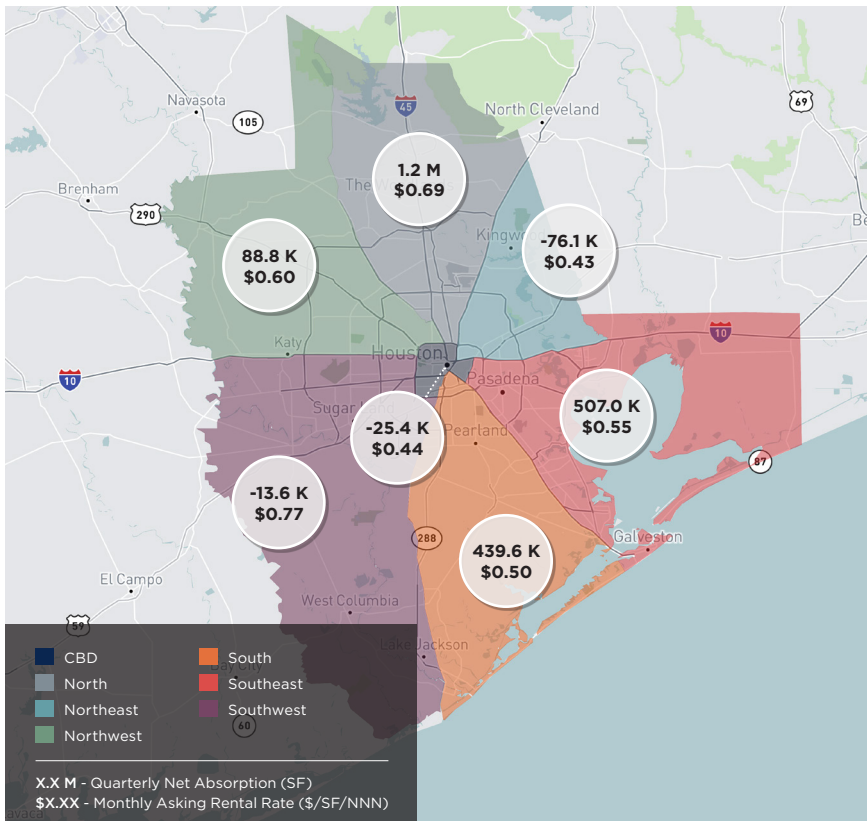
The inherently diversified nature of the tenant base in industrial real estate has helped lessen the blow to the Houston industrial market when compared to other asset classes as the current economic and social conditions are obstacles for some users and opportunity for others. In fact, VGXI, Inc., a biopharmaceutical manufacturer that was selected to produce a coronavirus vaccine, signed the largest lease in the second quarter, committing to 240,000 square feet (sf) at Deison Technology Park. Other large notable leases include China Manufacturers Alliance which leased 183,000 sf in the Southeast submarket, A&R Logistics with a 133,000 sf lease in Southeast Houston and NACC Disaster Service which leased 114,000 sf in the north submarket.

The vacancy rate, now at 8.5%, increased both on a quarterly and yearly basis, increasing 50 basis points from Q1 2020 and 210 basis points from Q2 2019 respectively. Despite

KEY STATISTICS

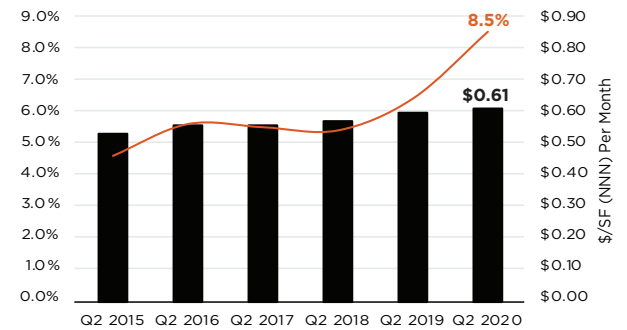
	Q2 2019	Q2 2020	y-o-y Change
Inventory	513.1 MSF	534.8 MSF	▲
Vacancy Rate	6.40%	8.50%	▲
Net Absorption	2.5 MSF	2.1 MSF	▼
Under Construction	13.1 MSF	15.8 MSF	▲
Overall Monthly Asking Rent (NNN)	\$0.59	\$0.61	▲

increasing vacancy rates, net absorption was still positive 2.1 million square feet (msf) with the highest levels of net absorption observed in the North submarket, which saw the delivery of Five Below's 860,000 sf warehouse, the Southeast submarket with 507,000 sf of positive net absorption, and the South submarket with 440,000 sf. Consumer behavior is undergoing a significant change and has been catalyzed by temporary and permanent retail closures that have sent buyers online to acquire their goods, building robust demand for warehouse/distribution facilities that are likely to be a driving force behind near- and mid-term absorption.



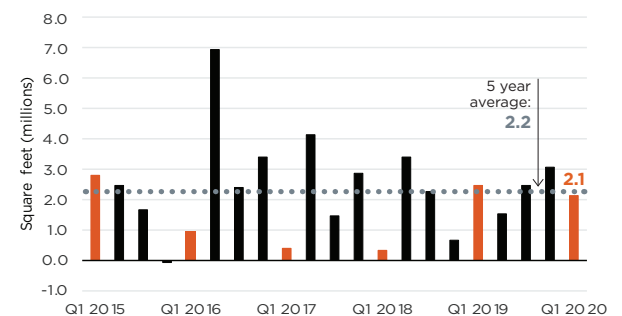
VACANCY AND ASKING RENT TRENDS

Houston



NET ABSORPTION

Houston



“Though currently well-positioned, the Houston industrial real estate market is likely to see vacancy continue its upward trend as exogenous market forces continue to weigh on the economy at large.”

- John McWilliams, Research Manager

SUBMARKET OVERVIEW

20,000 SF and up (owner occupied included)

Submarket	Existing Inventory		Vacancy			Q2 2020 Net Absorption (SF)	Q2 2020 Deliveries (SF)	Under Construction (SF)	Overall Monthly Asking Rent (NNN)
	# Bldgs	Total (SF)	Direct (SF)	Total (SF)	Vac %				
CBD	698	45,705,928	2,421,702	2,509,702	5.5%	-25,442	0	0	\$0.44
North	1,374	98,210,519	9,891,404	10,205,451	10.4%	1,221,340	1,478,636	1,794,117	\$0.69
Northeast	438	33,953,155	2,105,892	2,166,087	6.4%	-76,114	44,000	279,500	\$0.43
Northwest	2,102	152,578,329	13,732,274	14,410,437	9.4%	88,854	1,305,085	5,009,241	\$0.60
South	631	39,899,711	1,853,809	2,083,502	5.2%	439,541	0	162,208	\$0.50
Southeast	935	99,181,077	8,337,715	8,694,861	8.8%	507,026	1,606,227	3,052,935	\$0.55
Southwest	1,013	65,237,575	5,168,020	5,279,090	8.1%	-13,560	144,045	5,546,649	\$0.77

MAJOR TRANSACTIONS

Sales

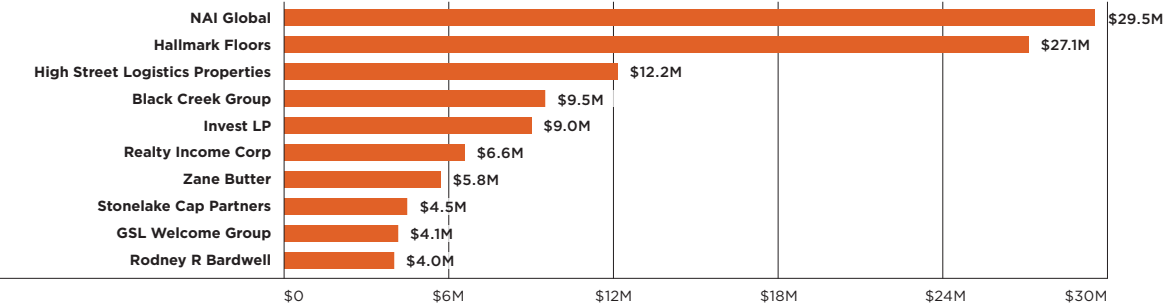
Owner/Buyer	Seller	Date	Address	Square Feet	Built	Land Area (acres)	Price	Submarket
NAI Partners Houston	Raith Capital Partners	May-20	3750 Greenbriar Drive	249,823	1996	14.55	Undisclosed	Southwest
Hallmark Floors	Vigavi Realty LLC	Jun-20	730 Genoa Red Bluff Road	170,476	2020	10.26	Undisclosed	Southeast
Black Creek Group	Clay Development	Apr-20	2020 North Highway 146	140,275	2020	11.70	\$9,500,000	Southeast
Stonelake Cap Partners	CenterPoint Properties	Jun-20	8786 Wallisville Road	136,928	1972	6.43	Undisclosed	Northeast
High Street Logistics Properties	American National, Mountain West Indl Props	May-20	3710 Cedar Boulevard	129,568	2007	7.36	Undisclosed	Southeast

Leases

Tenant	Square Feet	Address	City	Submarket	Landlord
VGXI Inc	240,000	Deison Technology Park	Conroe	North	Conroe Industrial Development Corp
China Manufacturers Alliance	183,289	4300 Malone Drive	Pasadena	Southeast	Carson Companies
A&R Logistics	133,333	703 Logistics Drive South	Baytown	Southeast	National Property Holdings
NACC Disaster Services	114,400	16605 Air Center Boulevard	Houston	North	Prologis, Inc.
Dunavant Distribution Group	114,400	10619 Red Bluff Road	Pasadena	Southeast	Principal Financial Group, Inc.

TOP BUYERS

Q2 2020



Source Savills Research

Market Highlights



Vacancy

Up **210 basis points** year over year, from 6.4% in Q2 2019.



\$0.61 PSF

Asking Rent Growth

Up **\$0.02 PSF** year over year, from \$0.59 in Q2 2019.



15.8 MSF

Under Construction

Up **2.7 MSF** year over year, from 13.1 in Q2 2019.

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