Q2
2017

MARKET REPORT | HOUSTON **INDUSTRIAL**

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Trending Now

While it is far from a full recovery, increased drilling activity has the energy sector heading in a better direction. Headlines announcing employee layoffs from the likes of Haliburton and Schlumberger are far less frequent. Oil prices held above $50 per barrel in the opening months of the year, then fell sharply again due to persistent worldwide oversupply, but managed to make a modest rebound late in the second quarter. Active rig count has been on the rise, especially in the Permian Basin and domestic oil production has moved higher in response to OPEC's production cuts. Still, oil prices are well below levels that will end current energy sector woes, and oil companies are looking to become more efficient in anticipation of pricing holding near current levels for a while longer.

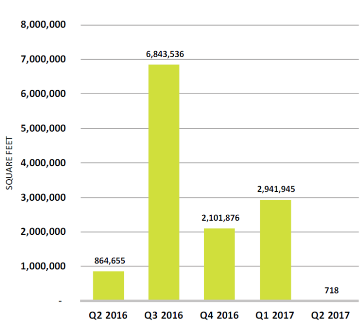
Lower oil prices continue to benefit the downstream petrochemical companies that have been enjoying the lower cost of feedstock. The resulting expansion of the petrochemical companies has helped to offset the damage to the other components of the industrial market. Ethylene and polypropylene refining on the Gulf Coast is still the catalyst for increasing deal volume. Manufacturers, 3PLs and other service companies that cater to the plastics refining sector are becoming more active in response to an estimated $60 billion in petrochemical construction projects in the Houston area either underway or recently completed to meet rising worldwide demand for plastics.

Manufacturing space was particularly hard hit as the brakes on oil production were applied after the precipitous pricing decline that began in the middle of 2014. That may be turning around now that domestic drilling activity is on the mend. Even though one of Houston's largest crane-served park remains roughly 30% vacant, activity in the 15,000 to 40,000-square-foot range is heating up. Steel companies and other specialized manufacturers are also becoming more active. However, recent lease comps are still 10% to 20% below what was market when a barrel of oil was over $80.

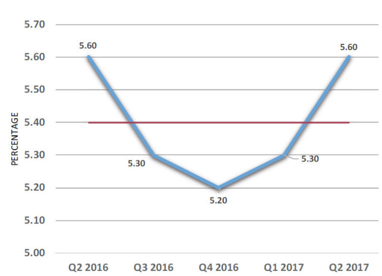
Bulk distribution properties continue to benefit from a steady fl ow of large transactions from a broad base of big box users, including e-commerce and shipping companies. Houston is one of the nation's largest metro areas and big online retailers are working on "last mile" delivery capabilities to speed up delivery times. DHL, FedEx and Amazon Fresh, among others have recently made big moves in Houston. Very large distribution deals, not generally associated with the Houston market, have been instrumental in mitigating declines in occupancy associated with the energy sector.

The vacancy rate for the Houston market has been relatively stable considering the area's dependence on the fossil fuels industry. In the past year, the overall vacancy rate has risen by just 30 basis points, despite adding roughly 15 million square feet of new deliveries. Total inventory for the Houston area hit 586.1 million square feet after adding nearly 1.7 million square feet of new industrial space in Q2. Another 4.4 million square feet remains under construction. Net absorption was fl at during the second quarter, but has been steady in positive territory for many years. The average asking lease rate declined by $.06 in Q2 to end the period at $6.74, but that is still $.16 higher year-over-year. Of note is the fact that rents in the lowest vacancy submarkets are moving up much faster. Tenants are pushing back on landlords for termination options and shorter lease terms, as flexibility has become a higher priority.

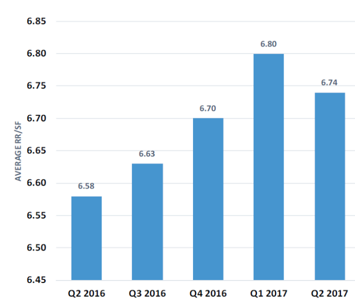
Net SF Absorption



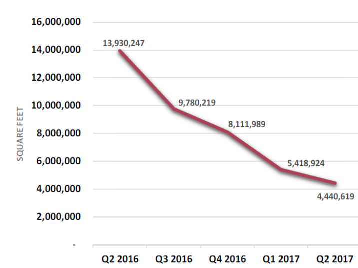
Vacancy Rate



Average SF Rental Rates



SF Under Construction



Numbers at a Glance

5.6%	$6.74	718	586,162,279	4,440,619
Vacancy ▲	Avg. SF Rental Rates ▼	Net SF Absorption ▼	SF Inventory ▲	SF Under Construction ▼

A Look Ahead

- Gross leasing activity should increase in low vacancy submarkets as tenants scramble to secure declining supply of quality product
- Net absorption will be moderate as tenants vacate existing space to move into new projects, especially in the Southeast submarket
- Vacancy will remain under 6% for through the next several quarters
- Lease rates will continue to increase in the NW bulk distribution sector, and begin recovering in the manufacturing sector
- Construction activity will be highest in the Southeast submarket with 5 ground-up projects due to get underway soon
- Build-to-suit transaction volume to remain active in larger SF deals

Q2 2017 Houston Industrial Market Stats

Market	Existing Inventory		Vacancy			"YTD Net Absorption"	"YTD Deliveries"	"Under Const SF"	"Quoted Rates"
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County Ind	29	1,624,285	582,616	582,616	35.9%	8,604	0	0	$9.65
CBD-NW Inner Loop In.	533	12,894,163	617,337	674,542	5.2%	(133,650)	0	14,250	$9.43
Downtown Houston	902	32,697,194	1,768,889	1,777,889	5.4%	(119,116)	0	0	$5.16
East I-10 Outer Loop.	198	13,921,807	103,866	103,866	0.7%	(47,856)	0	0	$7.61
East-Southeast Far I.	2,007	65,196,058	4,272,151	4,299,191	6.6%		3,683,340	1,686,075	$6.42
Hwy 290/Tomball Pky .	601	21,995,419	1,639,264	1,884,583	8.6%	437,790	247,300	38,329	$7.08
Hwy 59/Hwy 90 (Alt) .	1,016	24,924,902	1,529,639	1,624,755	6.5%	144,818	98,200	6,020	$7.30
North Fwy/Tomball Pk.	862	24,684,730	2,622,258	2,731,432	11.1%	460,477	340,814	1,007,000	$7.88
North Hardy Toll Roa.	786	34,591,906	3,503,416	3,791,333	11.0%	(137,244)	93,715	32,350	$6.52
North Inner Loop Ind	190	5,267,777	242,669	242,669	4.6%	(17,222)	0	0	$3.62
North Outer Loop Ind	1,036	22,388,609	1,248,849	1,281,060	5.7%	(148,424)	35,000	23,645	$7.32
Northeast Hwy 321 In.	90	1,554,851	49,045	49,045	3.2%	7,502	0	6,075	$7.54
Northeast Hwy 90 Ind	594	19,425,978	343,773	343,773	1.8%	(47,441)	20,088	21,000	$5.13
Northeast I-10 Ind	169	4,203,492	94,040	94,040	2.2%	(24,207)	0	0	$6.47
Northeast Inner Loop.	189	11,709,100	389,388	412,227	3.5%	215,739	0	0	$4.32
Northwest Hwy 6 Ind	336	10,374,443	573,287	573,287	5.5%	(213,233)	66,250	54,170	$5.93
Northwest Inner Loop.	1,753	62,962,874	2,501,288	2,679,411	4.3%	(337,135)	10,360	19,000	$6.57
Northwest Near Ind	819	19,674,622	564,134	576,134	2.9%	238,290	0	0	$7.53
Northwest Outliers I.	521	21,566,260	1,310,721	1,332,515	6.2%	472,778	165,586	1,083,750	$7.26
San Jacinto County I.	4	34,464	0	0	0.0%	0	0	0	$0.00
South Hwy 35 Ind	1,678	38,340,591	1,181,066	1,186,266	3.1%	317,499	287,270	80,383	$6.05
South Inner Loop Ind	396	13,122,007	598,620	598,620	4.6%	(147,667)	0	0	$5.59
Southeast Outer Loop.	410	17,756,036	440,970	575,970	3.2%	(53,819)	0	0	$4.43
Southwest Far Ind	549	13,501,702	1,215,581	1,226,581	9.1%	360,301	150,500	243,072	$7.56
Southwest Inner Loop.	448	8,463,304	142,271	142,271	1.7%	(45,255)	0	0	$12.27
Southwest Outer Loop.	685	14,754,196	691,628	691,628	4.7%	(246,855)	0	5,000	$9.23
Sugar Land Ind	489	21,872,936	587,428	600,987	2.7%	32,361	61,000	0	$6.44
West Outer Loop Ind	794	26,462,143	1,406,127	1,495,055	5.6%	(360,991)	40,263	63,500	$7.36
Woodland/Conroe Ind	991	20,196,430	1,211,547	1,263,293	6.3%	(74,296)	94,913	57,000	$8.37
Totals		586,162,279	31,431,868	32,835,039	5.6%		5,394,599	4,440,619	$6.74

Source: CoStar Group Inc.

About This Report

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The Houston Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties in the Houston Area.

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