



Houston Industrial Market

Rents Reach Record Highs as Port Activity Soars

The year opened to strong growth in the Houston industrial market, due in part to heightened demand for ecommerce, third-party logistics and increased activity in the Port of Houston. The market closed the quarter with 5.5 million square feet of positive absorption, with only the CBD submarket realizing negative absorption. Absorption is still higher than pre-pandemic levels but fell from 9.1 million square feet in the fourth quarter of 2021. The Southwest submarket had robust demand from occupiers, realizing 2.0 million square feet of absorption and 3.0 million square feet of leasing activity. Overall vacancy maintained its downward trend, dropping 220 basis points year-over-year to its current rate of 6.5%. Total availability is also trending toward pre-pandemic levels, ending the quarter at 9.6%, a 3.0% decrease from the prior quarter. Rental rates reached a new high, crossing over \$8.00/SF in the first quarter of 2022, driven up by new construction and elevated demand. Total asking rent increased by 9.3% year-over-year and stands at \$8.19/SF.

Expansion in the Houston industrial market, particularly for warehouse and distribution space, is being driven by ecommerce, increased consumer spending and rising oil prices incited by the Russian invasion of Ukraine and subsequent sanctions.

Current Conditions

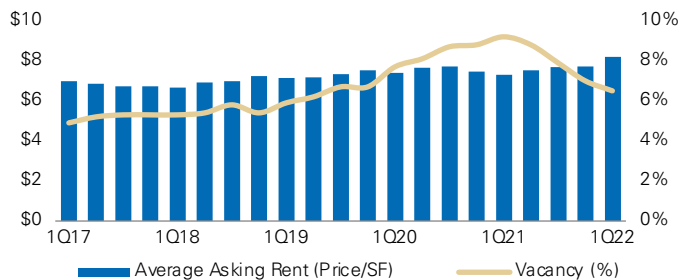
- The market realized 5.5 million square feet of positive absorption in the first quarter of 2022
- Rental rates have reached a record high at \$8.19 per square foot
- Leasing across all industrial property types totaled 11.1 million square feet
- Vacancy maintained its downward trend, ending the quarter at 6.5%
- The Houston Purchasing Managers Index was 58.5 in March

Market Summary

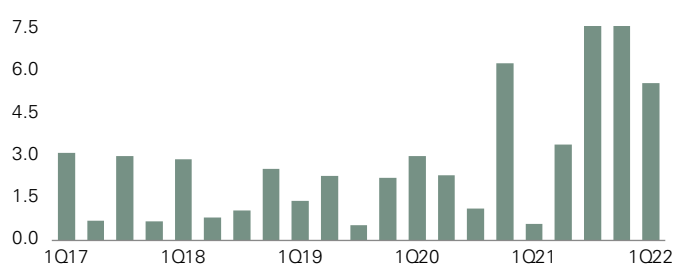
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	678.7 M	675.8 M	655.6 M	↑
Vacancy Rate	6.5%	6.9%	8.7%	↓
Quarterly Net Absorption (SF)	5.5 M	9.1 M	1.5 M	↑
Average Asking Rent/SF	\$8.19	\$7.75	\$7.49	↑
Under Construction (SF)	18.3 M	16.7 M	20.1 M	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q1 2022

WTI prices averaged \$108.50/bbl in March, up from \$62.23/bbl in March 2021, an increase of 42% year-over-year. Port Houston reported container volume in February was up 37.0% year-over-year with a total 271,399 TEUs. Steel imports were up 167% in February compared to the same month a year prior, a positive sign that energy companies are proceeding with capital projects. The Houston Purchasing Managers Index was at 58.5 in March, a drop from 59.5 in February. Demand for industrial space is expected to continue to outpace supply for the foreseeable future as developers rush to deliver new construction.

Leasing Activity

Leasing activity kicked off the year on a high note, with over 11.1 million square feet of activity in the first quarter of 2022. Quarter-over-quarter, leasing activity rose 12.8% while year-over-year in the Houston industrial market is up 5.7%. Leasing activity remains elevated compared to levels seen prior to the pandemic. Across the Houston market, 550 deals took place, with an average deal size of 22,059 square feet. The Northwest and Southeast submarkets again contributed over half of the market's leasing activity, for a combined 6.2 million square feet of activity in the first quarter of 2022. Macy's leased 908,853 square feet in the Northwest submarket in February in what is likely the largest transaction of the first quarter of 2022. Furniture retailer Article signed on for 507,225 square feet at 7525 Sutton Dr., a proposed property set to break ground in May with an expected delivery in November. Supply Chain Warehouse took 306,980 square feet at 4000 Cedar Blvd. in Baytown, while Overland Distribution Inc. renewed its lease for 206,369 square feet at 1701 S. 16th St. in La Porte and took an additional 92,533 square feet at 625 Independence Pkwy.

Development

Houston's industrial market is expected to see heightened development through 2022 and into 2023. Nationwide, industrial supply lags behind demand, particularly in warehouse and distribution space. In the Houston market, 36 buildings totaling 2.8 million square feet of industrial space was delivered in the first quarter of 2022. Roughly 18.3 million square feet of space is currently under construction, with most of that development located in the Northwest submarket. In 2021, 23.8 million square feet of space delivered across the Houston market. An additional

52.7 million square feet is proposed for 2022 and 2023.

Construction began in January on the Pederson Logistics Center, a 343,700-square-foot speculative warehouse at 574 Pederson Rd. in Katy. The building is being developed by Triten Real Estate Partners and is expected to deliver in October.

The Northwest Houston Distribution Center broke ground in January and is set to delivery by year's end. The property, located at Tanner Road and North Eldridge Parkway, is being developed by IDI Logistics and will total 313,137 square feet of distribution space.

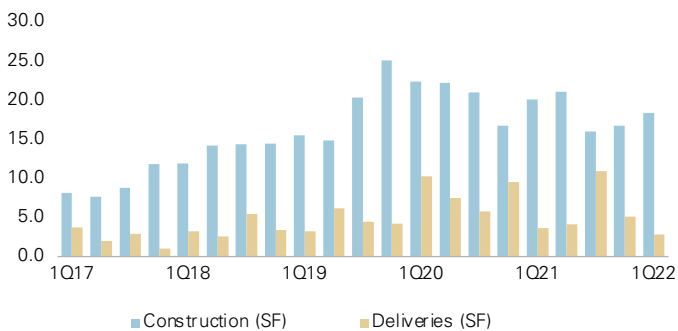
Construction is set to wrap up in the second quarter of 2022 on two spec buildings in the TGS Cedar Port Industrial Park near Baytown. TGS Cedar Port DC 1 is a 1.2-million-square-foot distribution building, while TGS Cedar Port DC 2 is 496,421 square feet of cross-dock space that can be expanded to 917,172 square feet. TGS Cedar Port Industrial Park spans 15,000 acres and includes tenants such as Ikea, Home Depot, Walmart, Floor & Décor and Ravago. In June, construction began on Phase I of Cedar Port Logistics Center, a dual-rail-service facility within the TGS Cedar Port Industrial Park development. Plastic Express Inc., a Los Angeles-based packaging and logistics company, will be the sole occupant of the 800,405-square-foot Phase I building.

Investment

Houston's industrial market continues to see record levels of investment volume. The sales volume in the first quarter of 2022 totaled \$1.2 billion, according to Real Capital Analytics. Year-over-year, investment sales in the market have increased by 102.6%. Roughly \$14.8 million of the total investment volume was due to cross-border investment, highlighting Houston's strength as a player in global trade. Investors have taken advantage of the increasing demand for industrial space and potential for substantial returns as 314 properties totaling 47.4 million square feet of space changed hands in the first quarter of 2022. Notable sales during the quarter include Elizabeth Investments LLC's purchase of IDV Katy West from Investment and Dev Ventures for \$16.9 million and Tesco Assets LLC's sale of 1318 Bammel Rd. to MiTek USA Inc. for \$10.7 million. Mapei purchased Sheldon Distribution Center, a 214,300-square-foot warehouse from Clay Development for an undisclosed amount. Triten Real Estate Partners acquired a 100-acre industrial service facility in the Northeast submarket for an undisclosed amount.

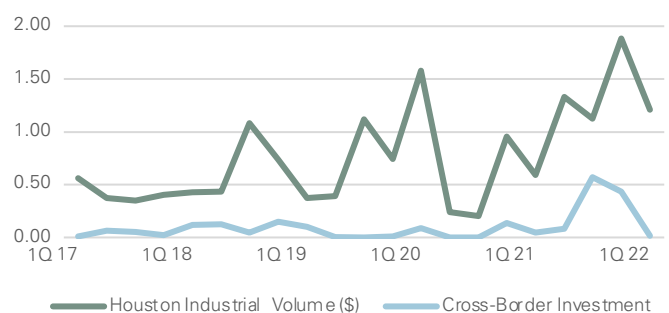
Construction and Deliveries

SQUARE FEET, MILLIONS



Industrial Investment Sales

SALES VOLUME (\$, BILLIONS)



Source: Real Capital Analytics

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	52,027,737	159,085	4.8%	-167,472	-167,472	\$9.86	-	\$9.86
North	128,606,269	3,026,059	6.6%	911,927	911,927	\$8.47	\$6.62	\$8.35
Northeast	42,828,950	2,033,527	6.4%	107,715	107,715	\$6.02	-	\$6.02
Northwest	191,787,349	6,475,798	6.5%	1,482,574	1,482,574	\$8.64	\$8.01	\$8.60
South	50,422,538	86,000	3.8%	207,413	207,413	\$6.71	\$9.76	\$6.94
Southeast	120,042,894	4,209,089	8.1%	2,082,932	2,082,932	\$8.20	\$10.21	\$8.26
Southwest	93,228,524	2,384,042	6.9%	949,600	949,600	\$9.12	\$6.24	\$9.03
Market	678,721,316	18,373,600	6.5%	5,574,689	5,574,689	\$8.20	\$7.97	\$8.19

Lease/User Transactions				
Tenant	Market	Building	Type	Square Feet
Macy's	Houston – Northwest	000 Interchange 249	Direct – New	908,853
Article	Houston – Southeast	7525 Sutton Dr	Direct – New	507,225
N F I	Houston – Southeast	5335 Cedar Port Pkwy	Direct – New	341,000
Supply Chain Warehouses	Houston – Southeast	4000 Cedar Blvd	Direct – New	306,980
Overland Distribution	Houston – Southeast	1701 S 16 th St	Direct – Renewal	206,369
Showcase Windows	Houston – Southwest	S Sam Houston Pkwy W	Direct – Renewal	137,366

Sales Transactions				
Buyer/Seller	Market	Building	Sale Price	Price/SF
Robin Trub/ Petag Corp	Houston – Southeast	120 N Munger St	\$7,500,000	\$273
Rapid Industrial Plastics/ Adkisson Development	Houston – North	1031 Goodnight Trail	\$5,400,000	\$44.32
Zurich Alternative Asset Mgmt/ Tumi Raise Boring	Houston – North	2438 Greens Rd	\$4,500,000	\$117
LSH Properties LLC/ Mexssub International LLC	Houston – Northwest	21245 FM 529	\$2,175,000	\$145

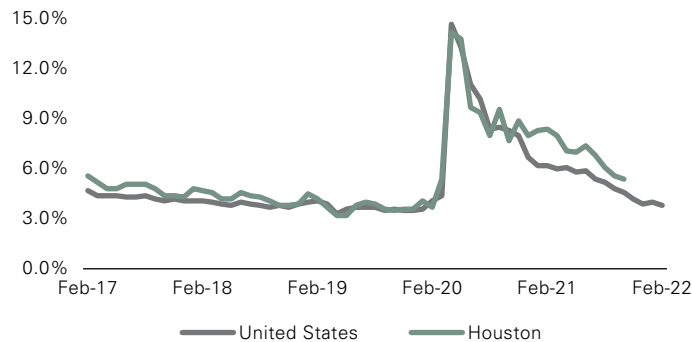
Economic Indicators

Houston remains in the recovery phase of the business cycle but is on track to recover the jobs lost during the pandemic by June 2022. While the rebounding oil and gas sector benefits the region, area consumers are hampered by record-setting fuel prices. Since January, a gallon of regular gasoline has risen by \$0.88 per gallon; by mid-March, the average price was \$3.97 per gallon. In February, WTI prices surged past \$90 per barrel due to increased demand and pressure on the global supply given the Russo-Ukrainian War. The Greater Houston Partnership is anticipating gains of 75,500 jobs in 2022. In February, GHP reported 45,500 jobs had been created in the Houston Metro, marking the highest February on record. The Houston region is expected to outpace national growth in 2022, and the overall outlook for the Houston economy is positive.

In the year period ending in February, consumer prices increased by 7.9% nationwide. Core inflation increased by 6.8% over the same period. In the Houston Metro, the Consumer Price Index was at 7.8% for February, and the unemployment rate in Houston rose slightly in January to 5.5% month-over-month but was down from 7.9% a year prior. All the industries tracked by the BLS for the region showed 12-month gains in employment growth in February, with financial activities gaining the largest share at 15.1%.

Unemployment Rate

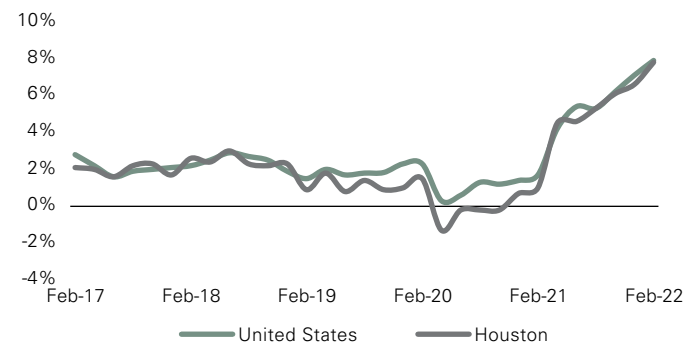
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, March 2022

Consumer Price Index (CPI)

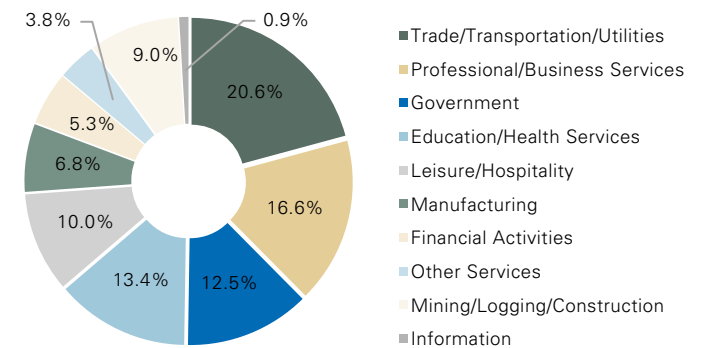
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022

Employment By Industry

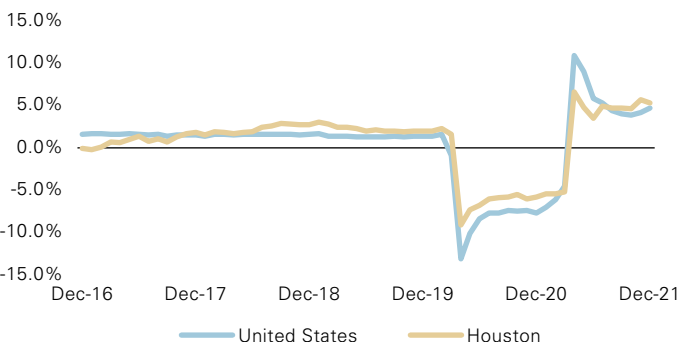
TOTAL NONFARM, NOT SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, March 2022

Payroll Employment

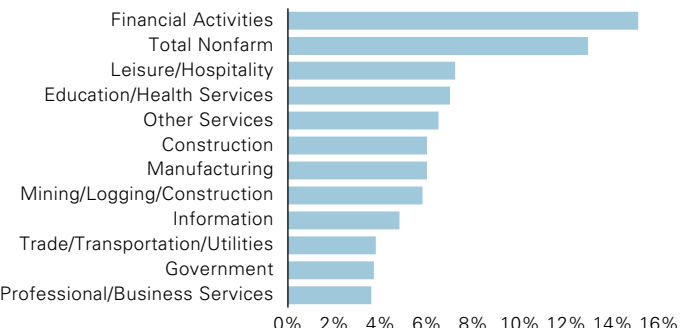
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, March 2022

Employment Growth By Industry

HOUSTON, FEBRUARY 2022, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022

For more information:

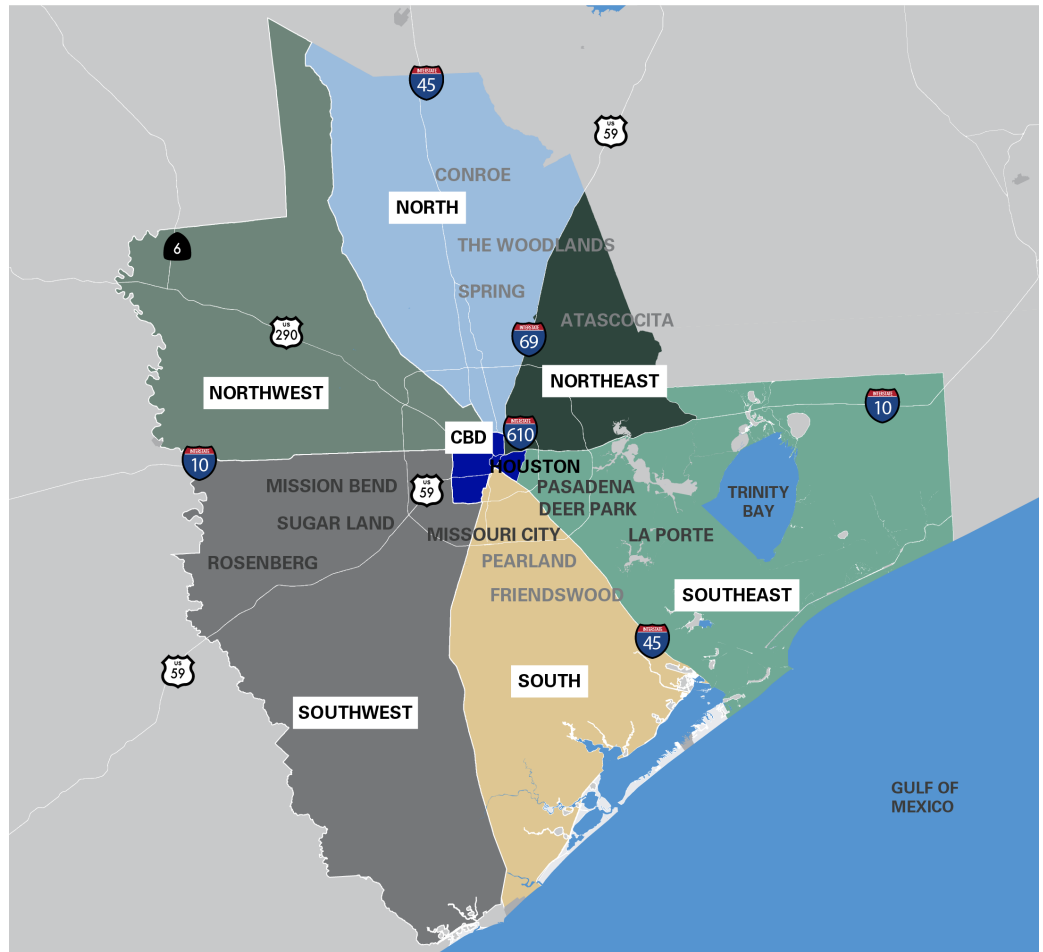
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