
1Q24

Houston Industrial Market Overview

NEWMARK

Market Observations

Economy

- The Houston market’s unemployment rate ticked up by 12 basis points year over year to 4.0% but remains well below the five-year average of 5.5%.
- Job growth has slowed compared with recent highs to 2.6% year over year, and is trending toward pre-pandemic levels, with 2019 growth averaging only 2.3%.
- All sectors, except information, reported employment growth, with education and health leading job gains at 5.6% over the past 12 months.
- All industrial-using job sectors in the market reflected yearly growth, with manufacturing, trade/transportation/utilities, and mining and construction, reflecting growth of 3.5%, 1.4% and 0.4%, respectively.

Major Transactions

- Solar Plus signed the quarter’s largest lease, taking the entire 567,140 SF of 6115 Greens Rd. in the North submarket.
- United Airlines signed in the Northeast submarket, leasing 509,600 SF at 17440 Highway 59 for the second largest lease transaction of the quarter.
- Three of the five largest leases of the quarter were in the North submarket, highlighting the desirability for tenant proximity to the market’s major thoroughfares and airport.

Leasing Market Fundamentals

- The market realized 2.1 MSF of positive absorption in the first quarter of 2024, a decrease of 47.5% quarter over quarter as demand begins to slow.
- Overall rental rates grew 4.9% year over year to \$9.19/SF but declined 0.9% from the previous quarter.
- The construction pipeline is shifting toward pre-pandemic levels with 15.6 MSF under construction and 6.0 MSF delivered in the first quarter of 2024.
- Supply outpaced demand for the fifth consecutive quarter, with new supply pushing vacancy up to 7.5%, an increase of 200 basis points year over year.

Outlook

- The Houston industrial market will likely see an influx of supply on the market in the near term, due to 2.1% of the current market’s inventory being under construction. New supply, which is 38.8% pre-leased, will outpace demand in the near-term.
- Vacancy rates are projected to increase in the near term as supply is expected to outpace occupancies.
- Asking rents will likely continue to increase, due to elevated inflation and a large pipeline of quality new product commanding higher pricing coming online.

1. Economy
2. Leasing Market Fundamentals

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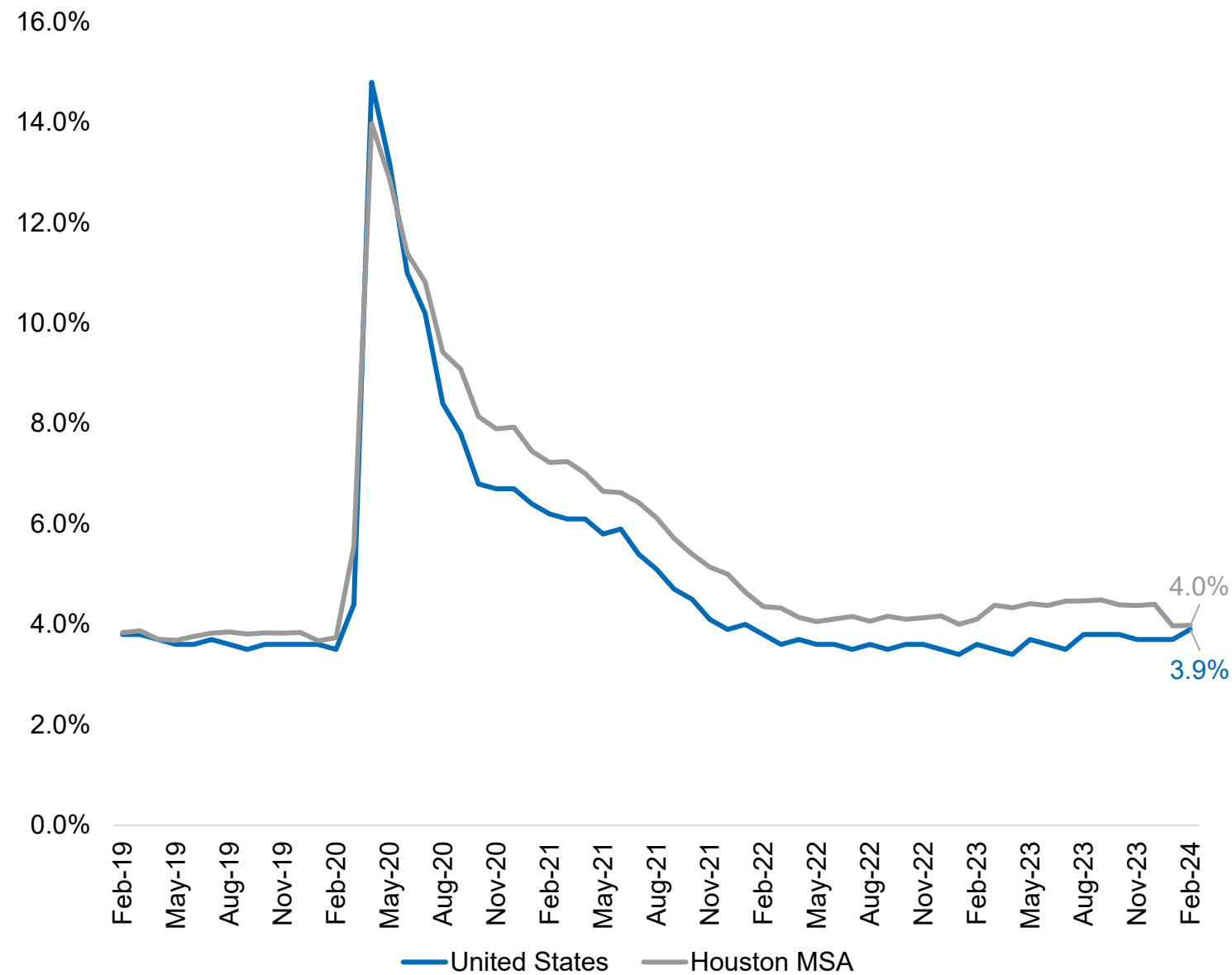
Economy



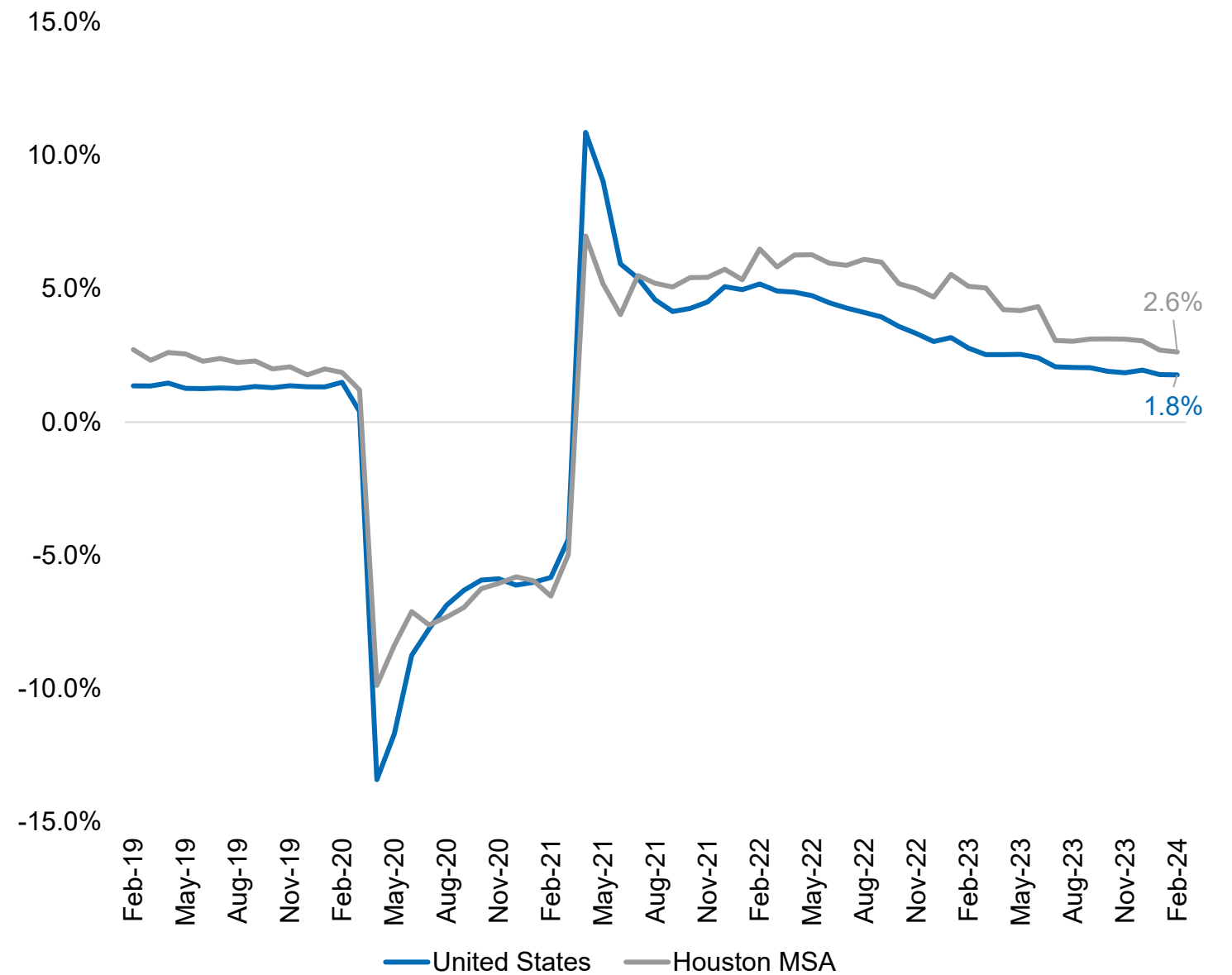
Metro Employment Trends Continue Slow Growth

The Houston market has generally reported higher unemployment rates compared with the national average, while outperforming in employment growth. Recent national economic headwinds have pushed the region's unemployment rate and the national average to converge, at 4.0% and 3.9%, respectively. Houston's unemployment rate decreased by 12 basis points year over year, while the employment year-over-year growth rate slowed by 246 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

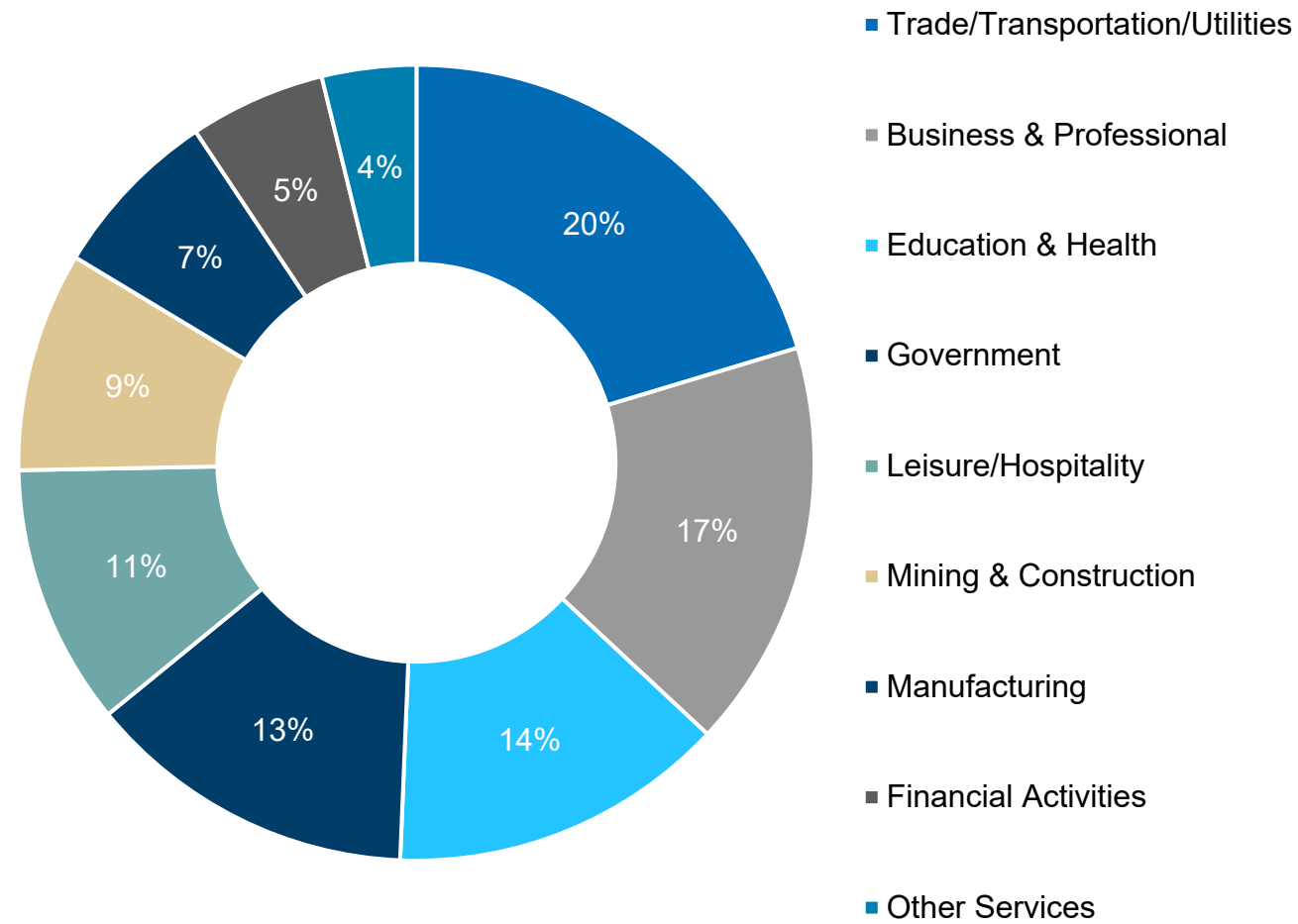


Source: U.S. Bureau of Labor Statistics, Houston MSA

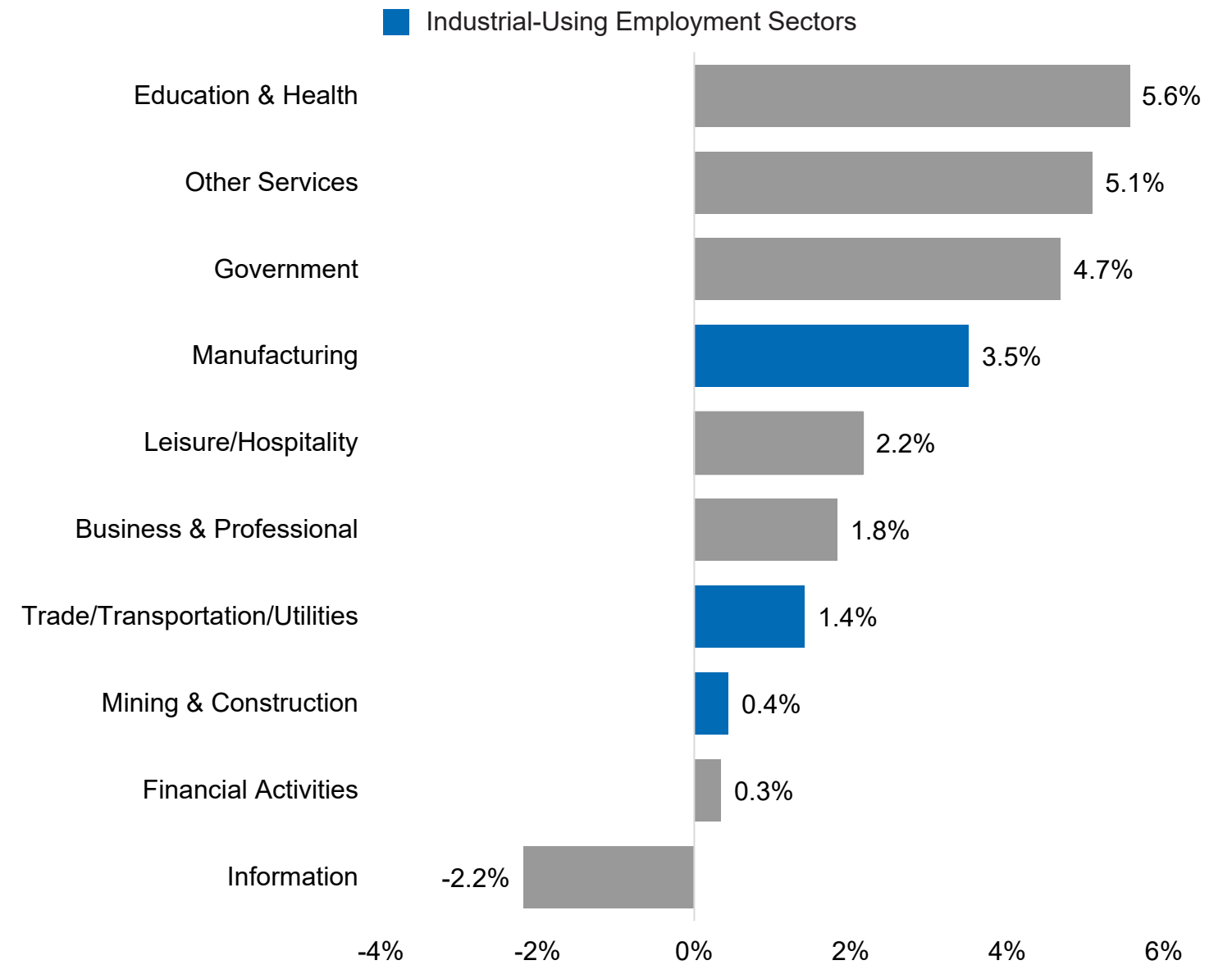
Employment Growth Continues Across All Industrial Sectors

Known for its energy sector, the Houston market's top two employment industries account for 36.6% of market share. The industrial-using employment's trade, transportation and utilities sector is the largest industry sector in the metroplex at 20.1%. All industries in the metro, except for information, reported growth with industrial-using industries reporting year-over-year gains ranging from 0.4% to 3.5%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

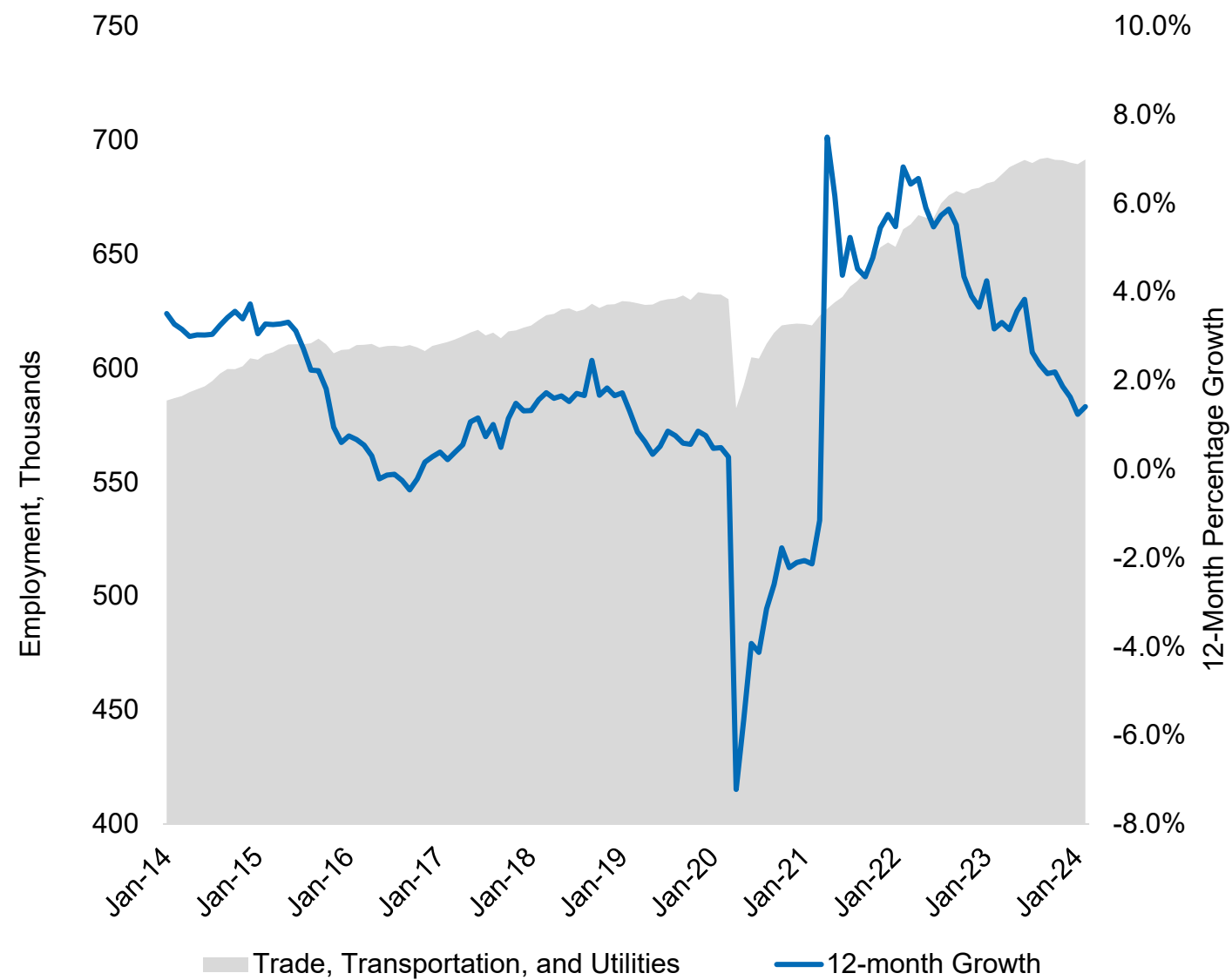


Source: U.S. Bureau of Labor Statistics, Houston MSA

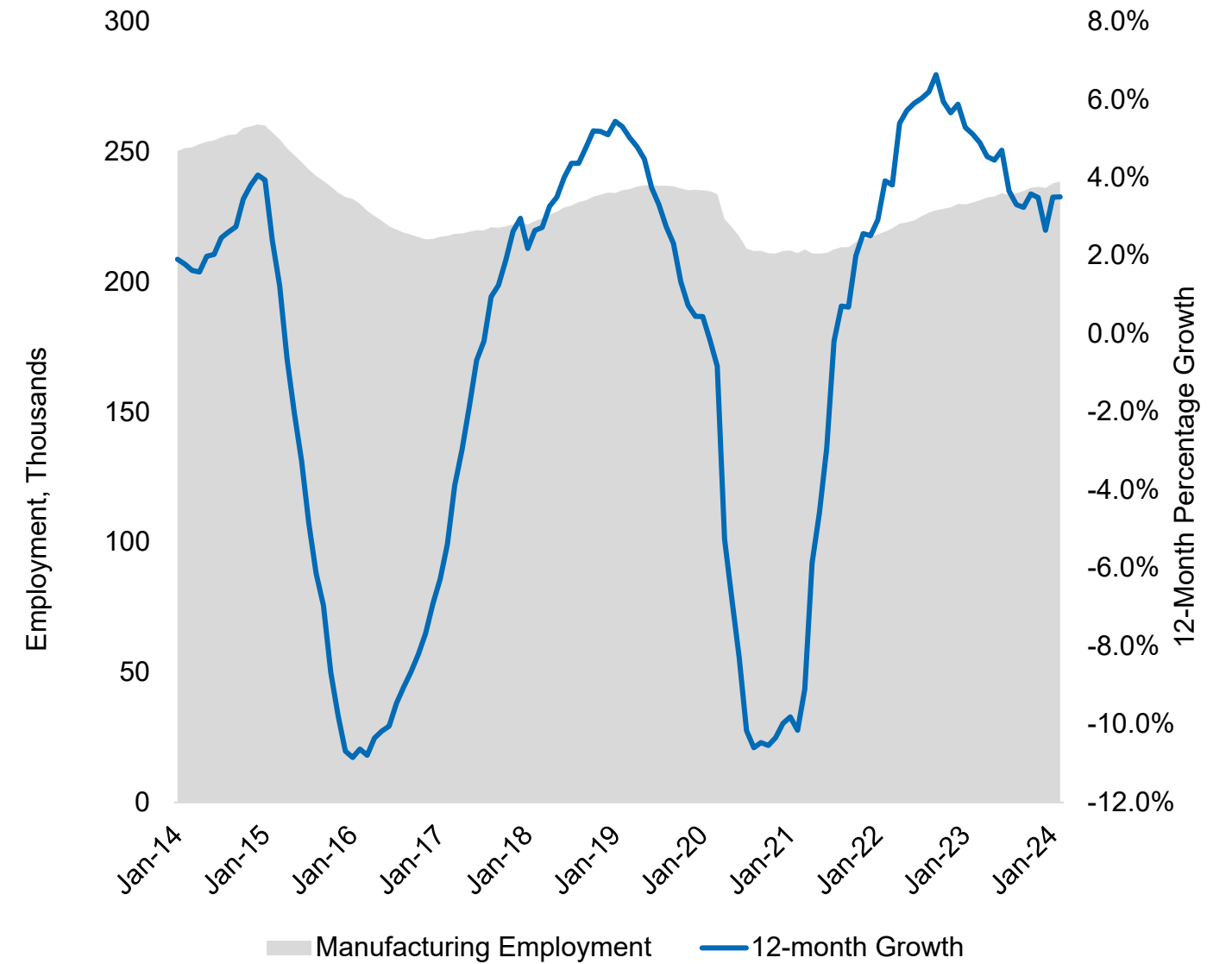
Industrial Employment Maintains Positive Growth

Trade/transportation/utilities employment has tapered slightly from the historically high levels reported in September 2023. In February 2024, trade/transportation/utilities employment totaled 691,440 employees. Manufacturing employment grew 3.5% year over year, reaching a new recent high of 238,466 employees in February 2024. Industrial-using employment continues to show yearly growth, albeit at a slower pace than before, reflecting a slowing economy.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Houston MSA

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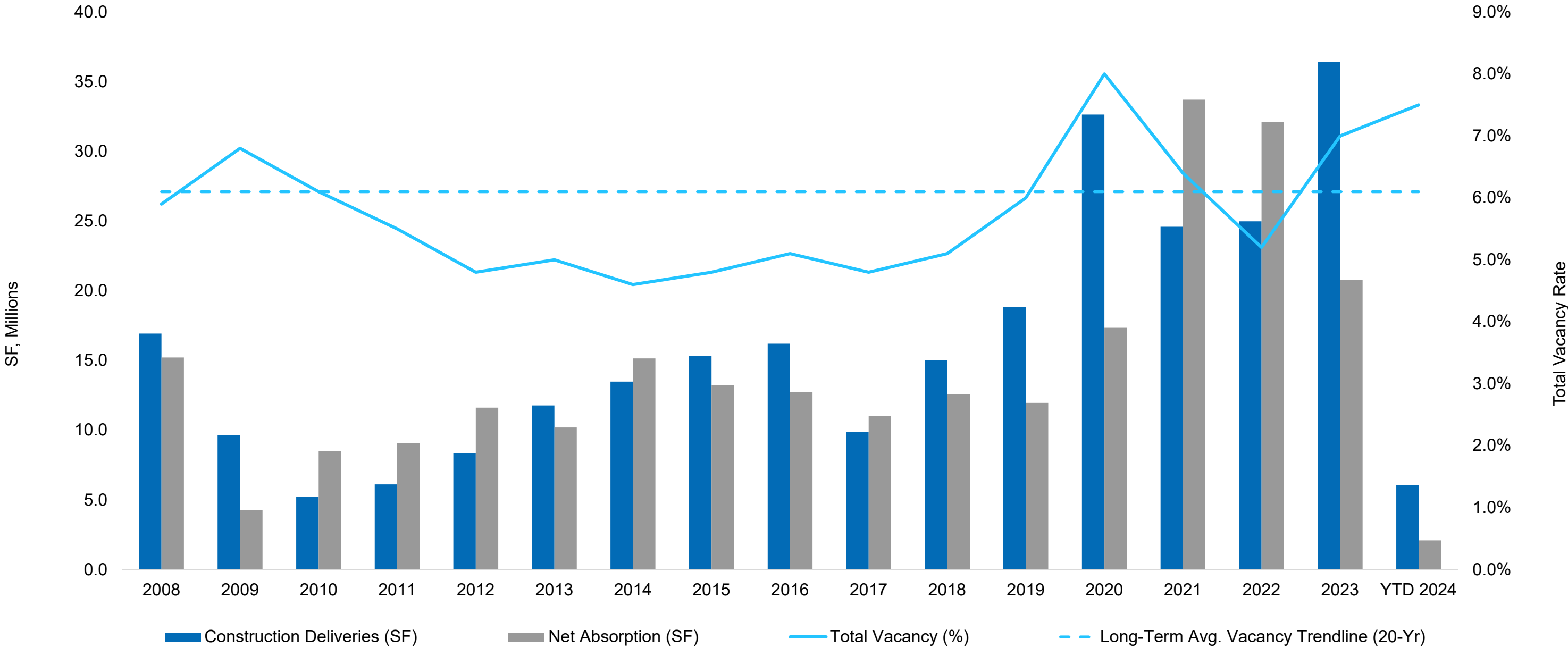
Leasing Market Fundamentals



Supply Continues to Outpace Demand, Pushing Vacancy Rates Up

The Houston industrial vacancy rate increased by 200 basis points year over year to 7.5% in the first quarter of 2024. Deliveries continue to remain strong in the market, with new supply totaling 6.0 MSF and outpacing absorption by 4.0 MSF in the first quarter of 2024. Demand continues to remain positive for industrial space in the Houston market but has begun to slow, mirroring trends seen nationally due to economic headwinds.

Historical Construction Deliveries, Net Absorption, and Vacancy

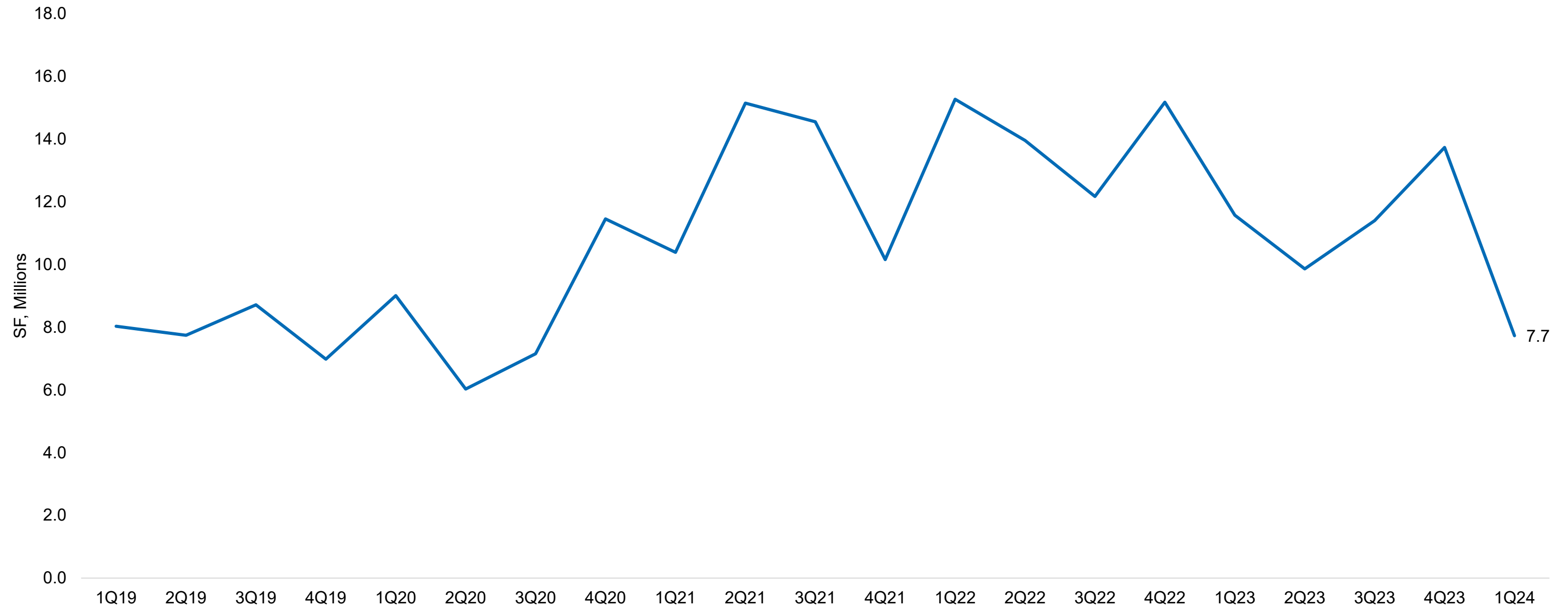


Source: Newmark Research, CoStar

Industrial Leasing Activity Decelerates

In the first quarter of 2024, leasing activity decreased by 43.7% quarter over quarter and 33.2% year over year to 7.7 MSF. Despite slowing leasing activity likely resulting from national economic headwinds, demand continues to remain positive in the market with net absorption of 2.1 MSF in the first quarter of 2024.

Total Leasing Activity (SF)

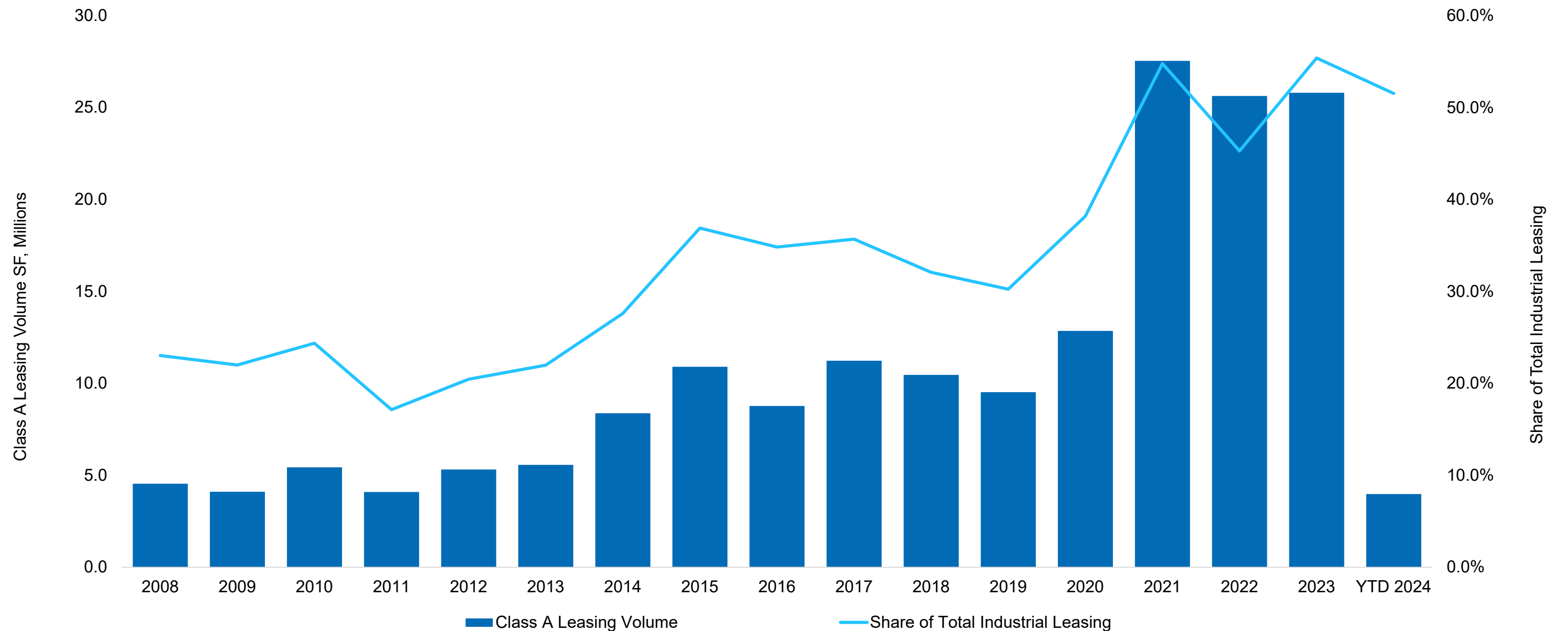


Source: Newmark Research, CoStar

Class A Warehouse Leasing Remains above Long-Term Average

Class A warehouse space leasing activity continues to decrease from the historic high of 9.0 MSF reported in the second quarter of 2021 to 4.0 MSF in the first quarter of 2024. The decline in leasing activity is likely due to an influx of high-quality supply delivering, with a record amount of Class A warehouse delivered in 2023. Class A warehouse leasing represented 51.5% of activity in the first quarter of 2024, down from 55.4% the previous year and well above the pre-pandemic average of 27.2% from 2008 to 2019.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

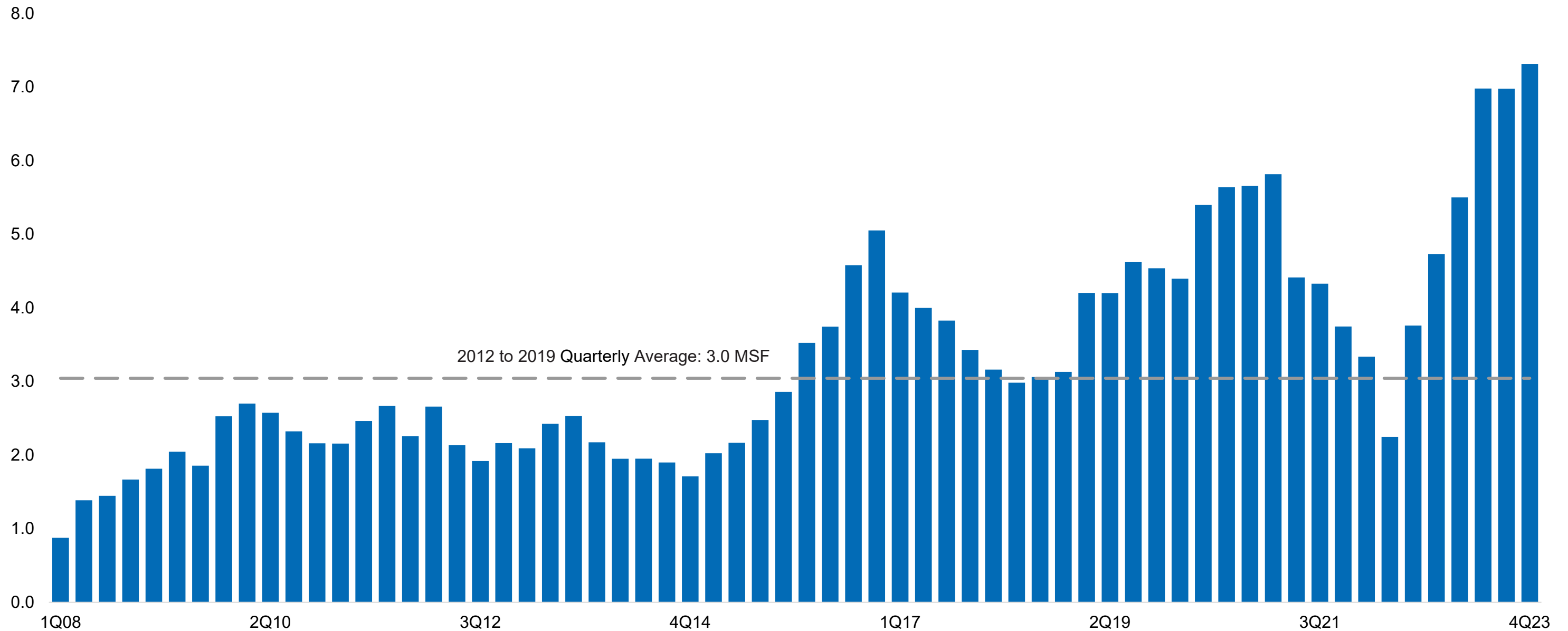


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains above Long-Term Average

As of the end of the first quarter of 2024, sublease space available is at 7.4 MSF, well above the pre-pandemic quarterly average of 3.0 MSF from 2012 to 2019. The rate at which subleases were added to the market has accelerated since the second half of 2022, increasing 34.8% year over year. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)

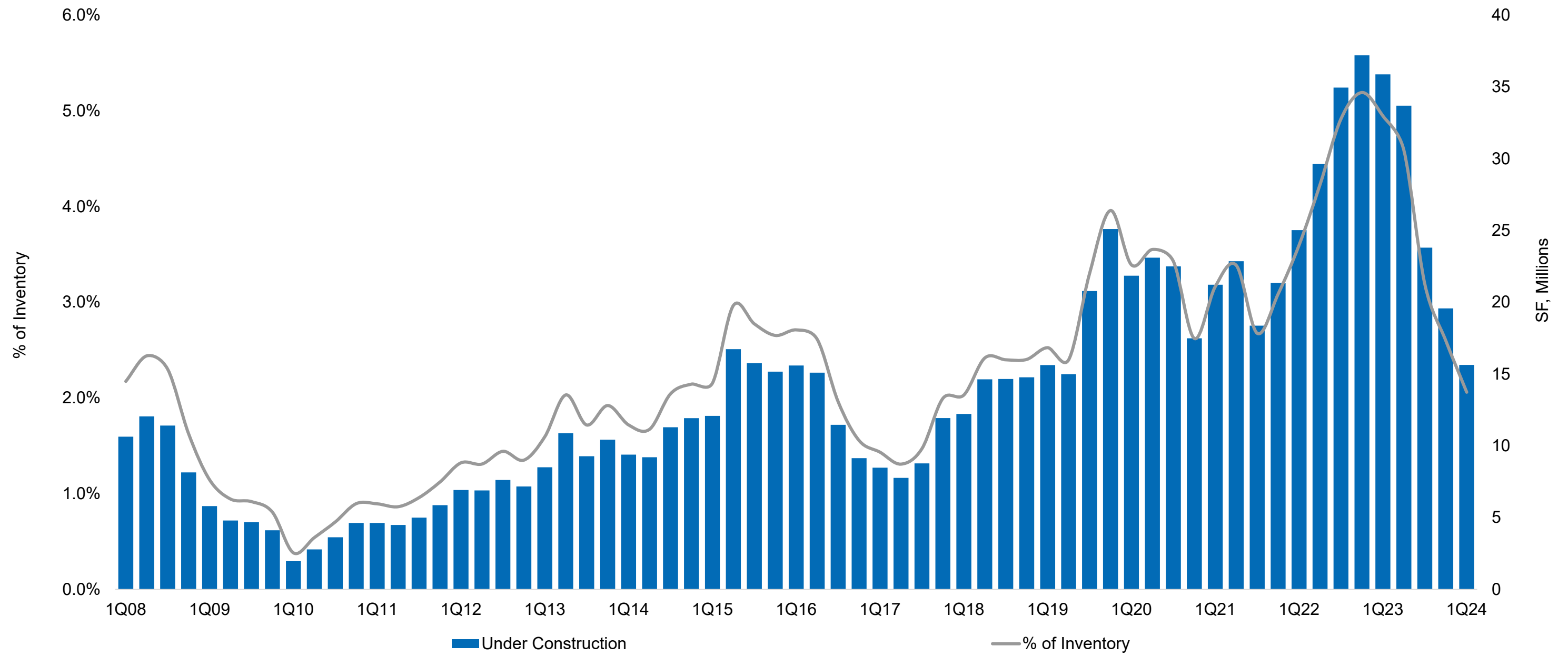


Source: Newmark Research, CoStar

Industrial Supply Pipeline Continues Decline from Historical Highs

The construction pipeline fell again in the first quarter of 2024 to 15.6 MSF, representing a decrease of 20.1% quarter over quarter. As of quarter end, deliveries totaled 6.0 MSF while the construction pipeline accounted for 2.1% of the market's inventory, well below levels reported in the second half of 2022. As developers pause new development amid slowing leasing activity and a challenging financing environment, the construction pipeline is likely to continue to decelerate in the near-term. Potential supply constraints could be possible as economic conditions improve in 2024 and 2025.

Industrial Under Construction and % of Inventory

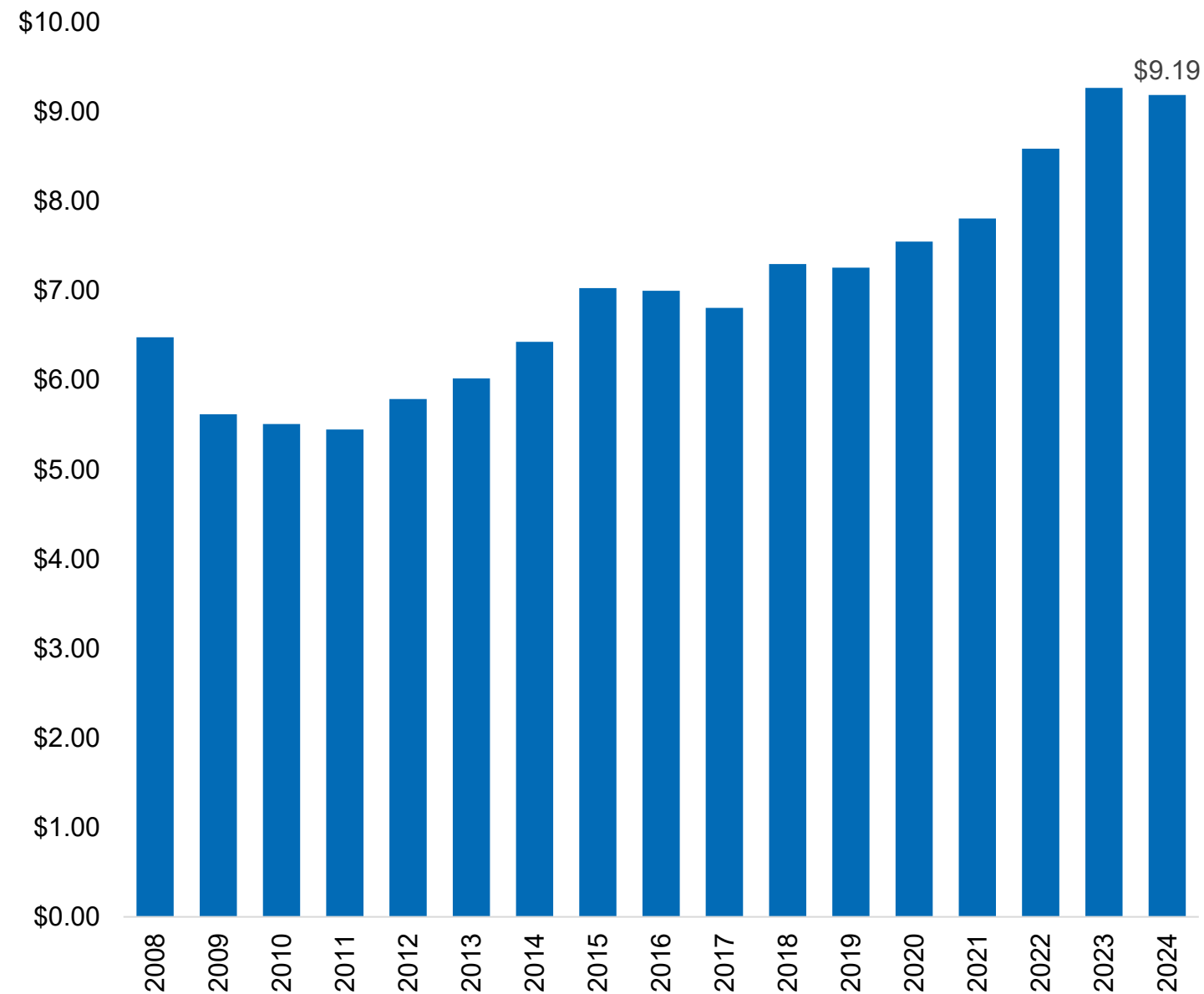


Source: Newmark Research, CoStar

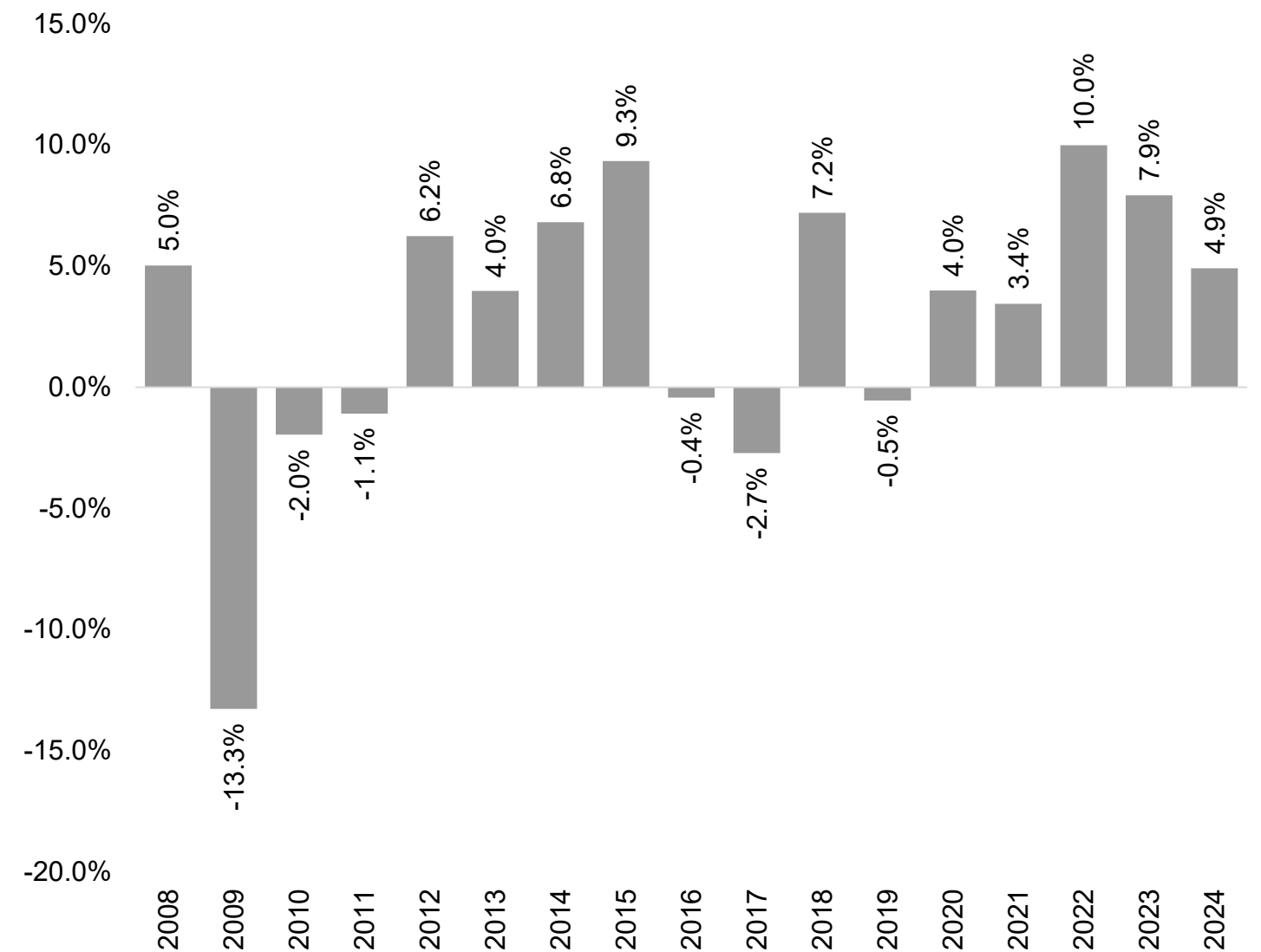
Asking Rents Fall from Historical High

After twelve quarters of consecutive growth, industrial average asking rents fell slightly in the first quarter of 2024 to \$9.19/SF but maintained a year over year increase of 4.9%. Rent growth is expected to continue increasing as new, higher-quality assets continue delivering.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 1Q24 Lease Transactions

Leasing activity slowed in the first quarter of 2024, with quarterly leasing activity at 7.7 MSF, and falling below quarterly averages reported since 2010 at 8.3 MSF. The bulk of the quarter's leasing activity centered around direct leases, which totaled 7.0 MSF, while sublease activity ended the quarter accounting for 695,680 SF. High-quality, Class A spaces continued to command the market, as leasing activity within the asset class accounted for 51.5% of total leasing transactions during the quarter.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Solar Plus <i>Renewable energy company, Solar Plus, leased the entirety of 6115 Greens Rd at 567,140 SF. The newly built building is located within Nexus North Logistics Park in the North submarket.</i>	6115 Greens Rd	North	Direct New	567,140
United Airlines <i>United Airlines signed a long-term lease for 509,600 SF at 59 Logistics Center in the Northeast submarket and is expected to occupy in Q3 2024.</i>	59 Logistics Center	Northeast	Direct New	509,600
Gulf Coast Crating <i>Gulf Coast Crating, a shipping supply provider, subleased the entire building at 5335 Cedar Port Parkway in the Southeast submarket, taking 341,100 SF.</i>	5335 Cedar Port Pky- Bldg 4	Southeast	Sublease	341,100
Undisclosed Tenant <i>An undisclosed tenant leased 273,480 SF at 7561 S Sam Houston Parkway E in the South submarket.</i>	7561 S Sam Houston Pky E- Bldg 2	South	Direct New	273,480
Harris County <i>Harris County municipal government leased the entire 253,180 SF of distribution space at 15600 Morales Rd. in the North submarket.</i>	15600 Morales Rd	North	Direct New	253,180
Amazon <i>E-Commerce giant Amazon signed for 206,333 SF at 1202 E FM 1690 Rd in the Hardy Industrial Center.</i>	Hardy Industrial Center	North	Direct New	206,333

Source: Newmark Research



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