



Houston Industrial Market

Industrial Market Continues to Operate From a Position of Strength in 2021

Houston's industrial market saw a continued return to positive momentum during the second quarter of 2021. As the second half of the year begins, Houston's industrial market is slated to outperform other sectors of the overall commercial real estate landscape as the economy continues to rebound and vaccines make a return to a new normal more realistic. A continued demand for oil and oil derivatives and the economic rebound that has triggered on a national level has pushed WTI pricing north of \$70/bbl and likewise has produced increased demand in the industrial sector. Also, consumers' changing demand and spending habits for food and grocery delivery continue to evolve in 2021 and even after a return to normal, continued demand for cold storage and last mile distribution will be key to a stabilized industrial market in Houston. Further demand for industrial space has seen an increase in owners and developers looking at conversion opportunities of existing big box retail locations into distribution centers in order to help attract users looking to meet consumer demands. The metrics overall for the Houston industrial market in the second quarter show continued strength within the market with a forecast of continued growth in H2 2021.

Current Conditions

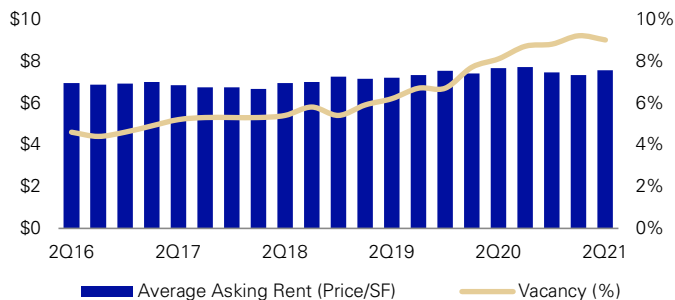
- Quarterly absorption of 3.39 MSF marks 8th quarter out of past 12 with 2.0 MSF or greater absorption
- Sublease space falls to lowest mark since pre-COVID
- Rental rates remain flat and north of \$7.00/SF
- Leasing across all industrial property types crosses 12M SF for the quarter, an all time market high and double that of Q2 2020.

Market Summary

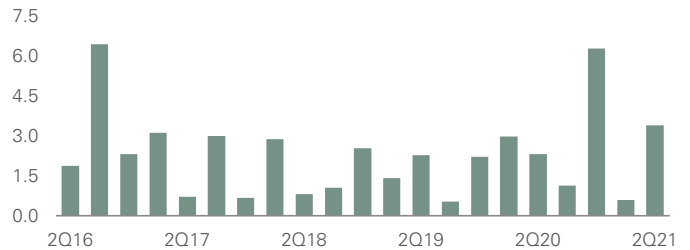
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	647.7 MSF	644.4 MSF	625.2 MSF	↑
Vacancy Rate	9.0%	9.2%	8.0%	↓
Quarterly Net Absorption (SF)	3.39 MSF	590,951	4.38 MSF	↑
Average Asking Rent/SF	\$7.54	\$7.31	\$7.24	↑
Under Construction (SF)	15.0 MSF	15.3 MSF	17.9 MSF	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Analytics Show a Rebounding Industrial Sector

COVID-19’s impact can most readily be seen in the trends currently underway in the Houston industrial market. In terms of overall leasing demand in the Houston market, the metrics during the quarter showed a market that still sees strong demand and activity. Just over 12.5 million square feet of new leases took place across 564 transactions. Overall transaction size of just over 22,000 SF represented the 8th out of 10 quarters where the transaction size grew against the prior quarter. This metric shows the continued growth that tenants in the market are experiencing as well as the demand that the market has continued to see despite any economic or pandemic related downturns. Overall, the market saw nearly 110 total transactions greater than 40,000 square feet in nature, and more than 45 over 75,000 square feet each. The largest 3 leases of the quarter totaled more than 2.0 MSF and the overall leasing data for the second quarter represents an all time high for the Houston industrial market. The overall leasing demand since the “start” of the COVID pandemic, or March 1st, 2020 for the industrial sector in Houston has now topped more than 50 MSF of transactions, with nearly 120 total transactions in that time period being greater than 100,000 SF in nature. As repeatedly highlighted, COVID-19 sparked a large scale demand by purchasers for same day or immediate fulfillment of purchases, ranging from every day consumer goods to groceries to home goods, and as a result, potential tenants will be looking to meet these demands by being closer and closer to rooftops with their new locations. Additionally, as consumer purchasing habits continue to shift away from brick and mortar experiences during the COVID pandemic, industrial space that has a strong cold storage component will continue to see increases in both demand and development. With such retail giants as Amazon, Wal-mart and others, as well as grocers such as HEB, Krogers and Albertsons

continuing to see increased demand via on line channels for grocery purchase and delivery, they will need larger warehouses with a significant cold storage component in order to keep up with this demand. Developers and owners will be looking to build new locations and build-out existing space to meet this demand in the next 12 months and beyond. Additionally, cold-storage demand is expected to grow as a result of the multiple vaccines coming on line in the next 12 months throughout the US and beyond. The vaccine demand drive will be impacted the further reaches of the Houston industrial market as medical development companies from College Station to Galveston

Rental rates remained fairly flat, but saw a 23 basis point rise to \$7.54 per square foot on a quarter-over-quarter basis. Both total vacancy at 9.0% and total availability at 11.1% for the quarter represent decreases from the beginning of 2021 as market conditions begin to tighten for occupiers. Unlike the prior quarter, the metrics show the full impact of the COVID crisis has cycled through the industrial sector and can be seen as an indicator that 2021 should be a more promising year.

In the construction pipeline, the market currently holds 15.0 MSF of space under construction, with nearly 9 MSF of that total in the Southwest and North submarkets as developers continue to follow rooftops and distribution arteries. This tracks with the continued rise in demand for last mile, 3PL and fulfillment sites closer to the roof tops to where everyone can be reached in a day. However, the fact that more than 40% of the under construction product is being developed on a speculative basis, combined with almost 30 MSF of deliveries in the past 18 months has caused availability rates to spike and concerns that supply may soon exceed demand if developers are not more wary of the type of stock being built.

Asking Rent by Submarket			
ASKING RENT	2Q2021	2Q2020	
Southwest	\$9.19/SF	\$9.20/SF	↓
North	\$8.41/SF	\$8.48/SF	↓
Northwest	\$8.14/SF	\$7.57/SF	↑
CBD	\$5.43/SF	\$5.87/SF	↓
South	\$6.35/SF	\$5.95/SF	↑

Vacancy Rate by Submarket			
VACANCY RATE	2Q2021	2Q2020	
North	10.3%	9.4%	↑
Northwest	9.4%	8.7%	↑
Southwest	7.5%	7.2%	↑
Southeast	10.7%	8.9%	↑
CBD	6.4%	5.8%	↑

Capital Markets Recovery Continues in 2021

Houston's industrial market began to show signs of re-emergence during the past 3 quarters as investors began to cautiously come back to the value-driven "3rd coast". Transaction volume during the second quarter of 2021 continued the slow and steady climb that was seeing in the second half of 2020. The number of transactions overall taking place in the market during the past 90 days slowed from the first quarter in overall volume, but in terms of dollars spent, the industrial sector saw in excess of \$400 million dollars of transactional volume. While the amount of powder being deployed appears to be less than the prior quarters' marks, the amount of activity taking place gives confidence to investors as the year continues and the state begins to return to normalcy from the pandemic. Additionally, as both the pandemic and oil prices return to a new normal, forecasts show a continued rebound tied largely to a return spike of oil prices within the market in 2021 and 2022. As always, Houston remains the "Energy Capital of the World" and industrial commercial real estate will feed off of that in a large way despite inroads made by additional demand drivers. A key subset to watch over the next 12 to 18 months is investor demand for new product with cold-storage and grocery capabilities as more and more consumers begin to get their grocery and staple goods via online rather than in-person shopping.

COVID-19 Impact Entering 2021 For Houston

While Houston has performed well in terms of overall job losses relative to other major US markets, the Covid-19 virus pandemic impact remains a stressor for all aspects of the Houston market. The latest forecast in terms of net new jobs for the Houston market in 2021 has been revised to show perhaps as many as 60,000 net new jobs returning to the market. However, in the short and mid-term, the COVID-19 pandemic dominates daily life in the city. Many companies have now pushed return-to-work plans to the second half of 2021. Additionally, as variants of the virus continue to spring up, state officials must be vigilant as the state returns to 100% openness. Understanding the long-term effect of this virus regarding the Houston market is something economists and researchers will be studying long after the virus is brought under control.

Despite the best efforts by local, regional, national, and international agencies, the COVID pandemic continues to impact all aspects of life. As a result, the economic forecast for the Houston region remains uncertain and bleak. Houston's economy is driven approximately 60 percent by the U.S. business cycle, 30 percent by oil markets, and 10 percent by long-term factors such as demographics. As COVID-19 is expected to remain a market driver for the remainder of 2021, Houston's economy is not fully forecast to recover from the current U-shape until early 2022.

Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Amazon	Houston – Northwest	100 Empire Blvd	Direct – New	750,775
Living Space Furniture	Houston – Northeast	18210 Easttex Freeway	Direct – New	685,400
WebstaurantStore	Houston – Southeast	4725 E Grand Parkway	Direct – New	643,940
FedEx	Houston – North	505 Aldine Bender	Direct – New	534,000
Custom Goods	Houston – Southeast	9431 Bay Area Blvd	Direct – New	353,600

Sales Transactions

Buyer/Seller	Market	Building	Price	Price/SF
SREIT/Hines	Houston – Southeast	Independence Logistics Park	\$195,000,000	\$77
Nuveen/Jackson Shaw	Houston – Northeast	Parc Air 59	\$58,800,000	\$98
Mapletree/Sila Realty	Houston – Northwest	13831 Katy Freeway	\$26,271,097	\$255 (*data center*)

Submarket Statistics (Combined Class A&B)								
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	52,723,984	159,085	9.3%	-305,729	-465,324	\$5.43	\$4.20	\$5.43
North	121,936,906	3,610,412	12.4%	1,050,552	1,881,234	\$8.59	\$6.11	\$8.41
Northeast	40,779,991	526,359	11.1%	328,439	-165,634	\$6.11	-	\$6.11
Northwest	184,241,407	1,949,863	10.5%	747,585	436,869	\$8.24	\$7.33	\$8.14
Southeast	115,020,649	2,596,813	12.7%	416,476	702,710	\$6.51	\$6.78	\$6.54
South	49,268,670	260,868	9.2%	-38,706	7,455	\$6.02	\$6.90	\$6.35
Southwest	83,178,619	5,965,382	11.4%	1,192,864	1,611,982	\$9.20	\$8.73	\$9.19
Market	647,150,266	15,068,782	11.1%	3,391,481	3,982,072	\$7.56	\$7.27	\$7.54

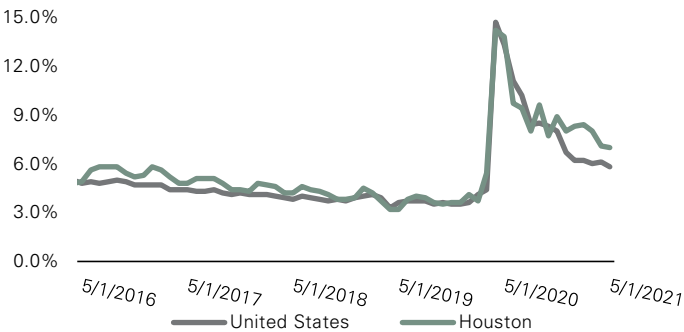
Economic Indicators

As the economy slowly begins to recover from the COVID slump, Houston has seen some semblance normalcy. Economic forecasts from earlier in the year seem to fit with a recovery driven first by recovery in the U.S. economy overall in 2021 and then by rising oil prices in 2022 and 2023. The Greater Houston Partnership has revised their most recent job growth numbers and is forecasting gains of at least 60,000 net new jobs in 2021.

Positive momentum can be seen in most of the economic indicators of the past 90 days for the Houston region. Unemployment rates continue to fall and are below 7.0% for the region, and all but 3 of the industries tracked by the BLS for the region showed 12 month gains in employment growth in April 2021, with leisure and hospitality showing an almost 50% jump in new jobs as consumers begin to return to pre-COVID life.

Unemployment Rate

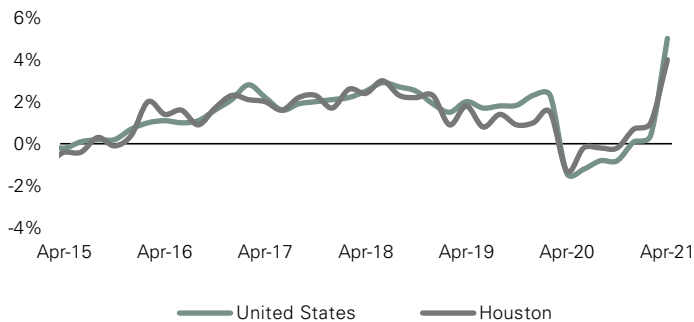
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Consumer Price Index (CPI)

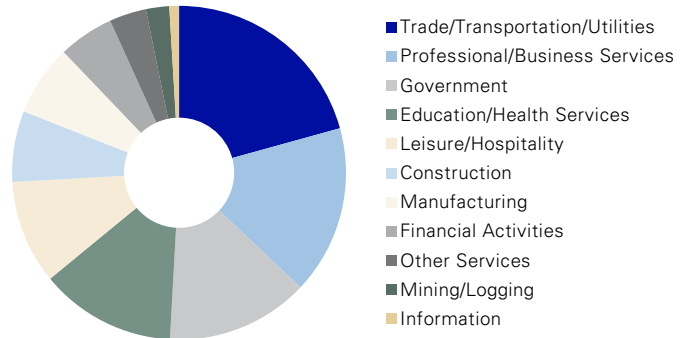
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

Employment By Industry

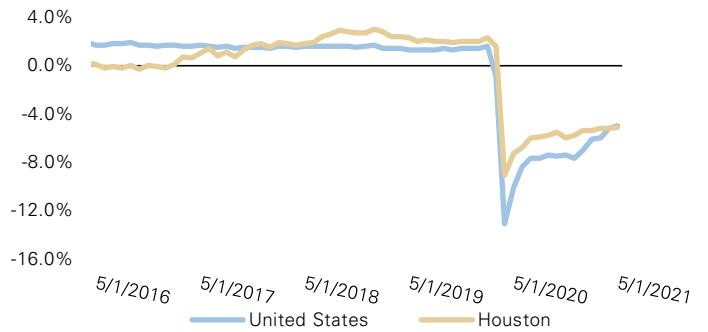
HOUSTON, May 2021



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

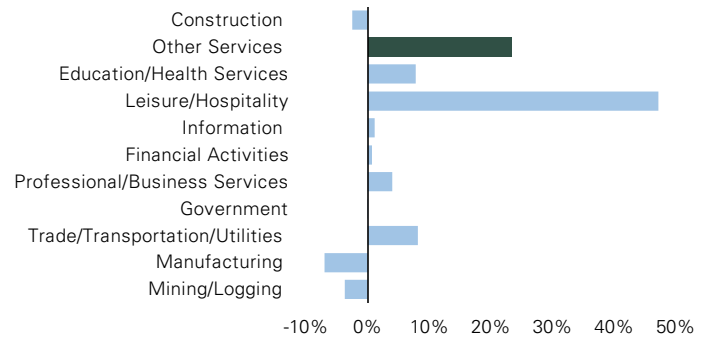
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2020

Employment Growth (Industry)

HOUSTON, APRIL 2021, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

