

Houston Industrial Market

Houston Leads in Demand as Port Activity Breaks Records

The second quarter of 2022 closed a four-quarter period of record-high demand in the Houston industrial market with 40.4 million square feet of net absorption. The market closed the quarter with 6.9 million square feet of positive absorption, with only the Central Business District submarket realizing negative absorption. Vacancy continues to trend downward, dropping 290 basis points year-over-year to a current rate of 5.7%. Total availability decreased for the sixth consecutive quarter and is 9.3% market-wide. New construction and heightened demand continue to drive rental rate hikes. Total asking rent increased by 8.6% year-over-year and stands at \$8.32/SF.

While demand for industrial space in the Houston market remains high, increasing inflation and decreased consumer spending are expected to curtail expansion heading into 2023. Economic expansion Houston slowed in June, as indicated by the Houston Purchasing Managers Index. The Houston PMI was at 55.5 in June, a drop from 57.5 in May. WTI prices averaged \$114.84/bbl in June, up from \$71.38/bbl in June 2021, an increase of 60.9% year-over-year. Port Houston continues to break records with annualized growth of 18.0%. Year-to-date, Port Houston has handled almost 2 million TEUs. Container volume at Port Houston

Current Conditions

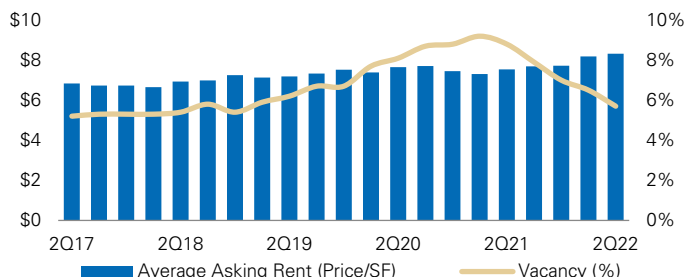
- The market realized 6.9 million square feet of positive absorption in the second quarter of 2022.
- Rental rates have reached a record high at \$8.32 per square foot.
- Leasing across all industrial property types totaled 10.0 million square feet.
- Vacancy dropped 290 basis points year-over-year and stands at 5.7%.
- The Houston Purchasing Managers Index was 55.5 in June.

Market Summary

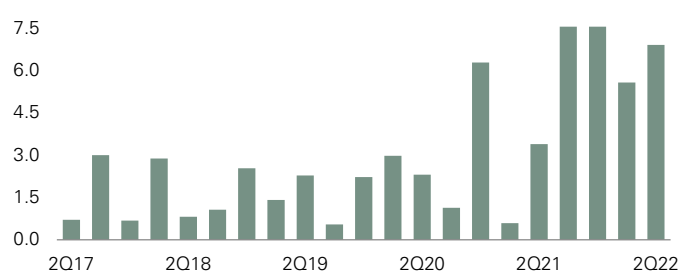
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	684.5 M	681.1 M	661.9 M	↑
Vacancy Rate	5.7%	6.2%	8.6%	↑
Quarterly Net Absorption (SF)	6.9 M	6.6 M	4.6 M	↑
Average Asking Rent/SF	\$8.32	\$7.97	\$7.66	=
Under Construction (SF)	22.1 M	20.9 M	21.3 M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q2 2022

totaled 323,823 TEUs in June, an 11.0% increase from the same month last year. Steel imports were up 33.0% in June, supported by drilling operations and capital projects from energy companies.

Leasing Activity

Leasing activity totaled over 10.0 million square feet of activity in the second quarter of 2022. Quarter-over-quarter, leasing activity fell roughly 30% but continues to stay elevated compared to levels seen prior to the pandemic. Across the Houston market, 511 deals took place, with an average deal size of 19,580 square feet. The Northwest and Southeast submarkets again contributed over half of the market's leasing activity, for a combined 4.6 million square feet of activity in the second quarter of 2022. In the Southeast submarket, Excargo Services leased 195,438 square feet at 4300 Malone Dr., and Gulf Stream Marine took 111,034 square feet at 4000 Cedar Blvd. in Baytown. Builders FirstSource renewed its lease at Port Northwest for 171,850 square feet, while Amerisa Global Logistics leased 111,135 square feet of distribution space at 7737 Cherokee Rd. in Katy, both in the Northwest submarket. Meiborg leased 392,480 square feet at 1211 Rankin Rd. in the North submarket. Grizzly Energy, a U.S. onshore energy company, is expanding its Texas operations with a new lease at 2201 N. Sam Houston Pkwy. The company will be the sole occupant of the 94,800 square foot industrial manufacturing building.

Development

Houston's industrial market is expected to see slower development through the end of 2022 and into 2023. Supply is likely to catch up with demand in the coming quarters, as the record-high pipeline begins to empty and consumer demand softens. In the Houston market, 34 buildings totaling 3.4 million square feet of industrial space were delivered in the second quarter of 2022. In the first half of 2022, more than 6.2 million square feet of new product delivered across the Houston market. Roughly 22.1 million square feet of space are currently under construction, with the bulk of development occurring in the Northwest submarket. An additional 45.7 million square feet is proposed for 2022 and 2023.

Construction began in June on Building 4 at South Belt Central Business Park in the South submarket. The building will total 603,780 square feet of warehouse space upon delivery in

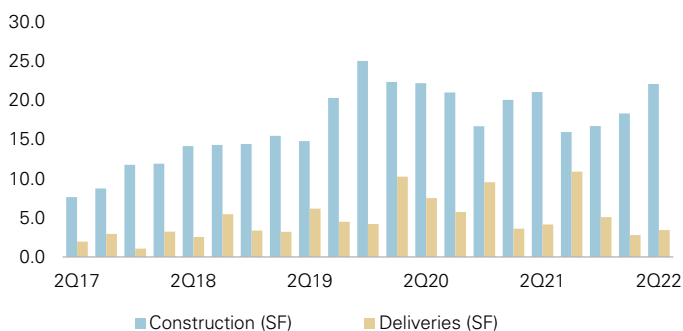
December 2022. Building 3 at the Port 10 Logistics Center also broke ground in the second quarter of 2022. Located in the Southeast submarket, Port 10 Logistics Center is being developed by Pontikes Development. Building 3 will add 451,000 square feet of warehouse space to the park upon completion in the fourth quarter of 2022. Principal Real Estate Investors and Stream Reality announced plans for a 1.0-million-square-foot speculative development at 4838 Borusan Rd. in Baytown. The development, Portside Logistics Center, will include a 760,000-square-foot cross-dock building and a 260,000-square-foot frontload building. Construction is set to wrap up early in the third 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. Set to deliver by year-end, The Northwest Houston Distribution Center broke ground in January and will total 313,137 square feet of distribution space. The property, located at Tanner Road and North Eldridge Parkway, is being developed by IDI Logistics.

Investment

Investment volume contracted in the second quarter of 2022, but cross-border investment accounted for a larger share of the total than in the previous quarter. The sales volume in the second quarter of 2022 totaled \$799.9 million, according to Real Capital Analytics. Year-over-year, investment sales in the market decreased by 40.0%. Roughly 32.1% of the total investment volume was due to cross-border investment, highlighting Houston's strength as a player in global trade. Investors continue to take advantage of opportunity in the Houston market as 179 properties totaling 19.8 million square feet of space changed hands in the second quarter of 2022. Notable sales during the quarter include Alterra Property Group's purchase of 2525 FM 1462 from 288 Industrial LLC for \$31.5 million and IKG USA LLC's sale of 1514 Sheldon Rd. to Broadstone Net Lease Inc. for \$16.2 million. One of the largest transactions of the quarter was Tratt Properties LLC's sale of the Academy Distribution Center in Katy to Mirae Asset. The 1.5 million-square-foot distribution center, located at 1800 N. Mason Rd., traded hands for \$190.0 million.

Construction and Deliveries

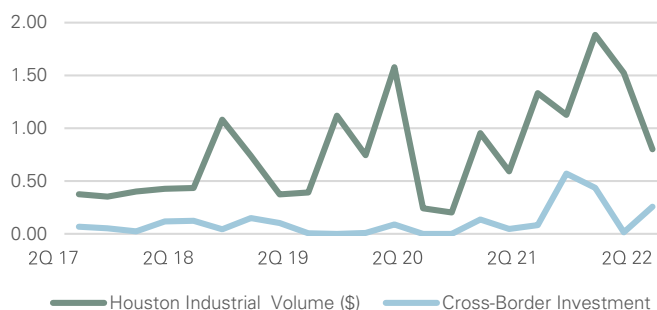
SQUARE FEET, MILLIONS



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	51,964,341	159,085	5.0%	-119,167	-265,675	\$6.40	-	\$6.40
North	130,010,977	3,639,624	5.9%	1,380,912	2,723,532	\$8.84	\$7.03	\$8.72
Northeast	44,098,907	1,893,480	4.0%	1,229,182	1,651,511	\$5.67	-	\$5.67
Northwest	193,201,626	8,464,077	6.0%	1,335,630	3,076,821	\$8.77	\$8.48	\$8.75
South	50,717,087	86,000	2.5%	550,073	704,346	\$7.79	\$7.67	\$7.78
Southeast	120,320,602	5,635,535	6.0%	1,958,906	4,138,631	\$8.54	\$10.76	\$8.61
Southwest	94,250,581	2,258,997	7.1%	569,862	1,521,042	\$10.30	\$5.78	\$10.16
Market	684,564,121	22,136,798	5.7%	6,905,398	13,550,208	\$8.34	\$7.94	\$8.32

Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Meiborg	North	1211 Rankin Rd.	Direct – New	392,480
Excargo Services	Southeast	4300 Malone Dr.	Direct – New	195,438
Builders FirstSource	Northwest	Port Northwest	Direct – Renewal	171,850
Amerisa Global Logistics	Northwest	7737 Cherokee Rd.	Direct – New	111,135
Gulf Stream Marine	Southeast	4000 Cedar Blvd.	Direct – New	111,034
Grizzly Energy	North	2201 N. Sam Houston Pkwy	Direct – New	94,800

Sales Transactions

Buyer/Seller	Market	Building	Sale Price	Price/SF
Mirae Asset/ Tratt Properties LLC	Northwest	Academy Distribution Center	\$190,000,000	\$127
Alterra Property Group/ 288 Industrial LLC	South	2525 FM 1462	\$31,500,000	\$2,132
Broadstone Net Lease Inc/ IKG USA LLC	Northeast	1514 Sheldon Rd	\$16,200,000	\$128
Lone Star Real Estate II LLC/ ZHISU Houston 2 LLC	Northwest	7436 Fairbanks N Houston Rd	\$3,490,000	\$93

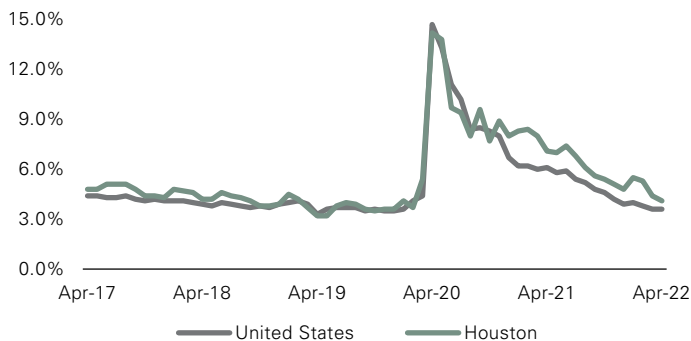
Economic Indicators

Houston remains in the recovery phase of the business cycle, but the index grew 7.5% for the three months ending in April 2022. In June, the average price of gasoline in the U.S. was \$4.93 per gallon and WTI prices averaged \$114.84/bbl. Global demand could be reduced by inflation, higher fuel prices and the current COVID-19 restrictions in much of China. In Houston, higher oil prices should trickle down to professional services as the demand for engineers and financial and IT personnel is likely to increase. The Greater Houston Partnership is anticipating gains of 75,500 jobs in 2022. In May, the GHP reported 31,000 jobs had been created in the Houston Metro. Per the GHP, job growth has exceeded pre-pandemic averages in nine of the past twelve months. 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 June, consumer prices increased 9.1% nationwide. Core inflation increased by 5.9% over the same period. In the Houston Metro, the Consumer Price Index was at 10.2% for June, which points toward stronger demand compared to the nation. The unemployment rate in Houston dropped slightly in April to 4.1% month-over-month but was down from 7.1% a year prior. All the industries tracked by the BLS for the region showed 12-month gains in employment growth in May, with mining/logging gaining the largest share at 11.4%.

Unemployment Rate

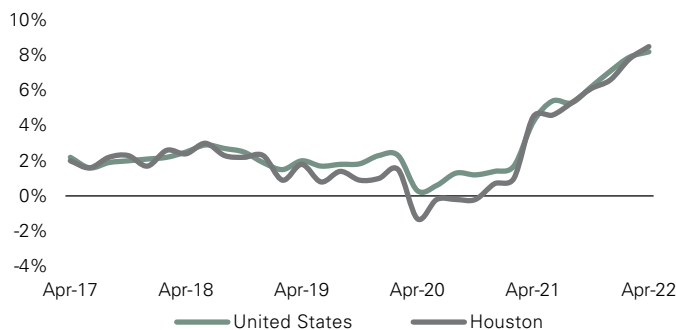
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, June 2022

Consumer Price Index (CPI)

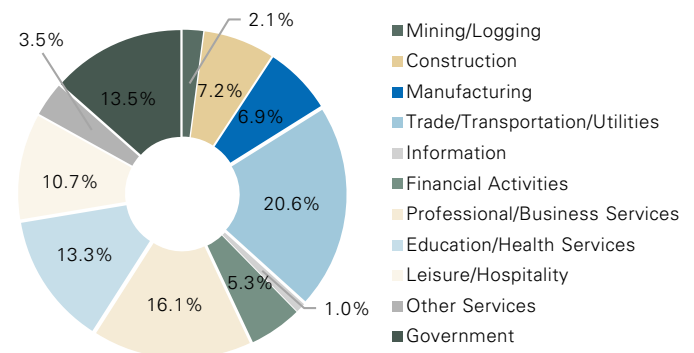
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



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

Employment By Industry

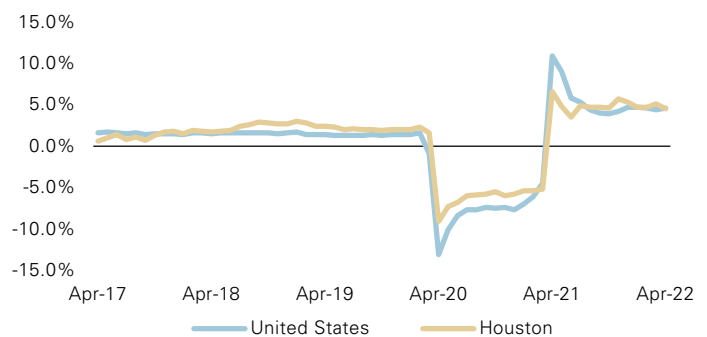
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, MAY 2022



Source: US Bureau of Labor Statistics, May 2022

Payroll Employment

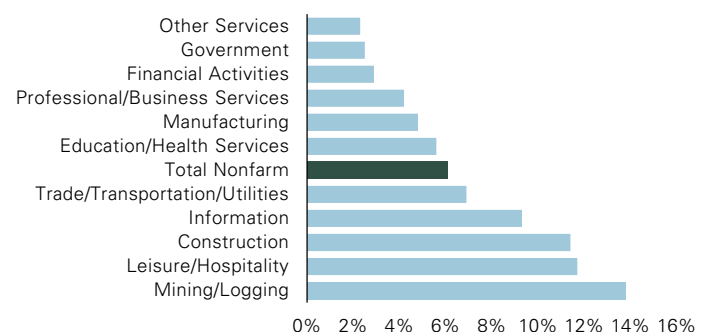
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Employment Growth By Industry

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



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

For more information:

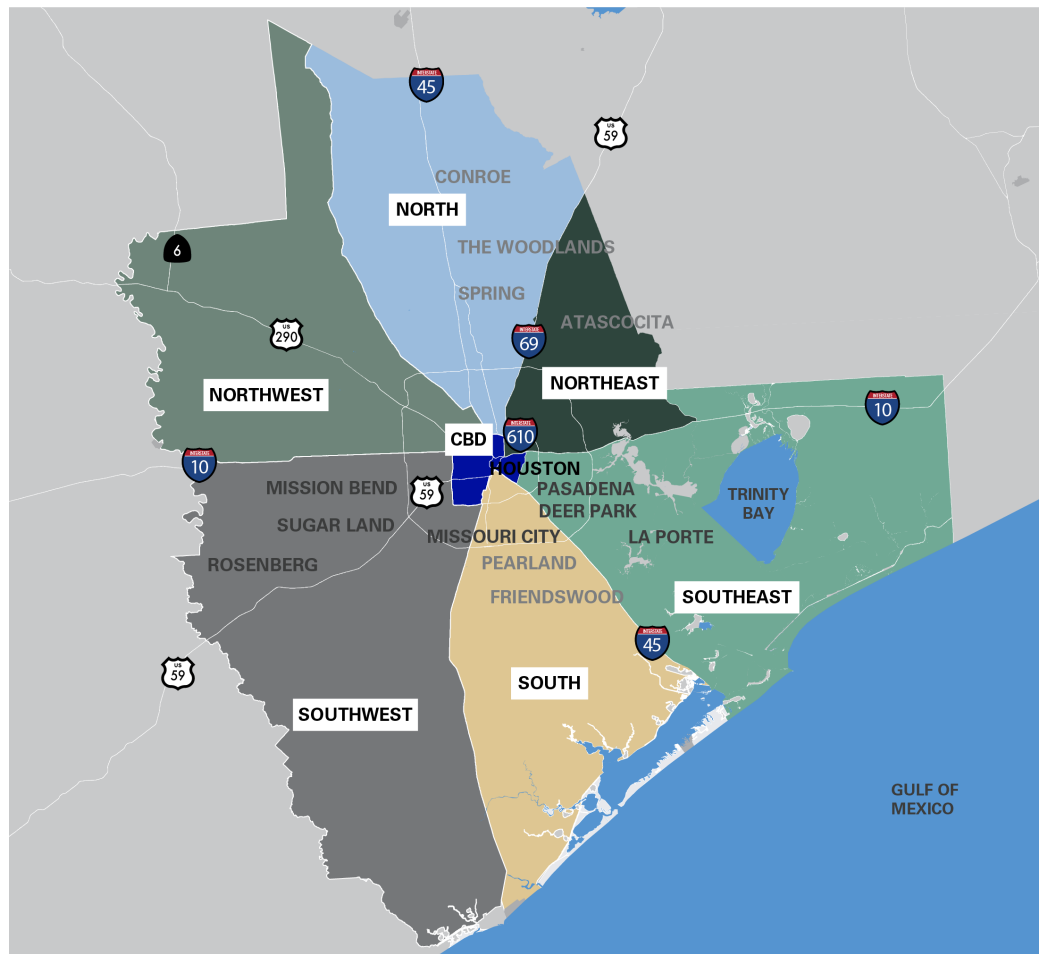
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