

2Q23

Houston Industrial Market Overview

An aerial photograph of an industrial facility, likely a refinery or chemical plant. The image shows several large, rectangular storage tanks or processing units arranged in a grid-like pattern. The tanks are light-colored, possibly white or light blue, and have a series of dark, horizontal slats or louvers on their sides. The perspective is from a high angle, looking down at the facility, which creates a strong sense of scale and repetition in the industrial structures.

NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 36 basis points year over year to 4.4%, but remained well below the five-year average of 5.5%.
- Although job growth pace has slowed compared with recent highs to 3.7% year over year, employment growth continues to significantly outpace pre-pandemic levels, with 2019 growth averaging only 2.3%.
- All sectors, except other services and construction, reported employment growth, with mining and logging leading job gains at 6.1% over the past 12 months.
- Industrial-using jobs in the market continued to reflect yearly growth, with trade/transportation/utilities jobs and manufacturing jobs growing by 4.3% and 3.5% year over year, respectively.

Major Transactions

- The United States Postal Service signed the largest lease of the quarter for 440,014 SF in Park 8Ninety's Building 11.
- The bulk of the largest leases signed were new leases, indicating there is still healthy appetite for space in the market.
- All the largest new leases signed in the second quarter of 2023 were in buildings built within the last five years.

Leasing Market Fundamentals

- The market realized 3.6 MSF of positive absorption in the second quarter of 2023, bringing year-to-date totals to 8.4 MSF.
- Overall rental rates grew 9.6% year over year to \$9.17/SF, reaching a new historical high.
- Construction pipeline remains strong with 9.5 MSF of deliveries, with another 28.9 MSF under construction.
- Following yearly supply outpacing demand for the first time since the pandemic, as of the end of the second quarter of 2023, vacancy increased by 100 basis points year over year to 6.3%.

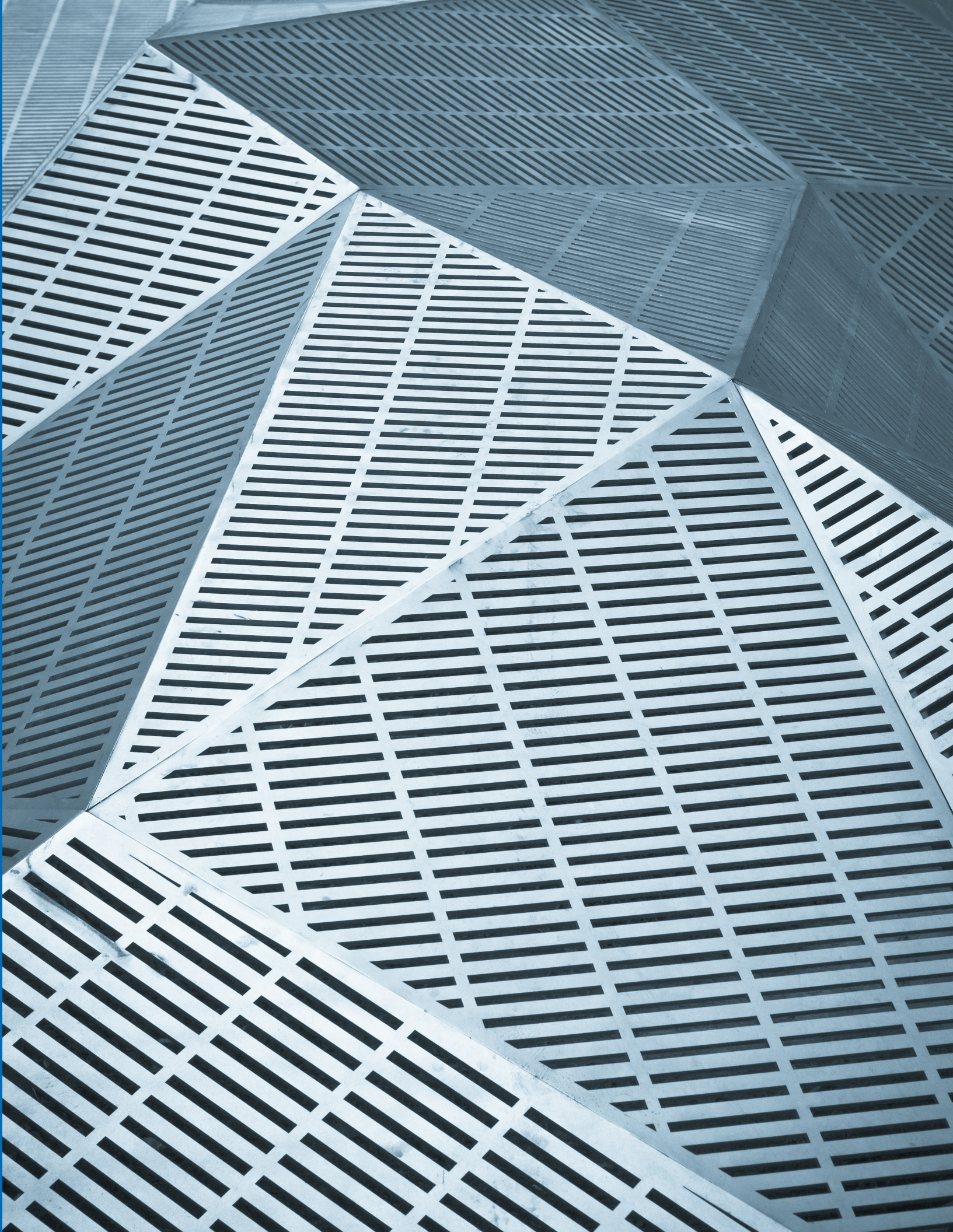
Outlook

- The Houston industrial market will likely see an influx of supply on the market in the near term, due to 4.0% of the current market's inventory being under construction. The new deliveries will result in outpacing demand in the near term.
- Vacancy rates are expected 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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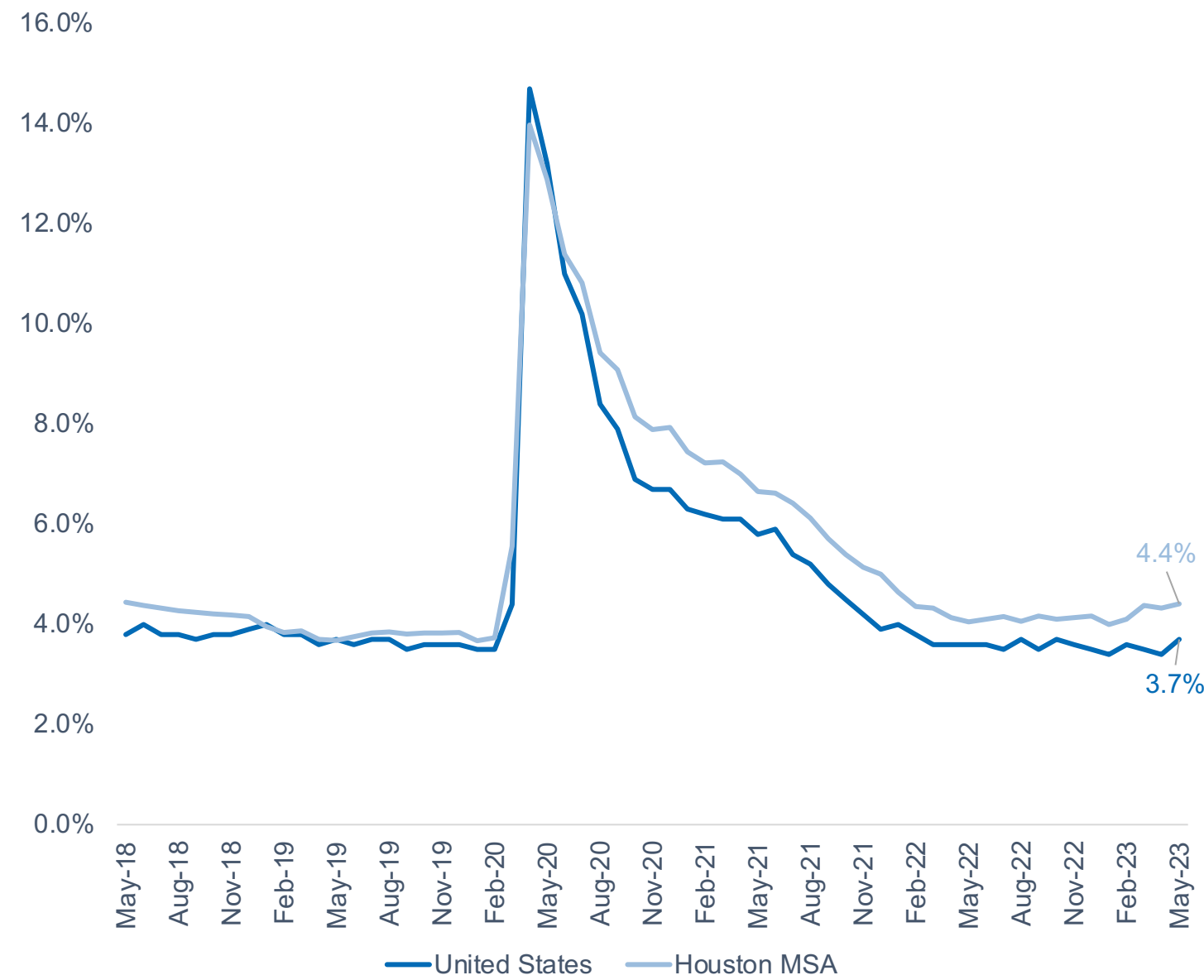
Economy



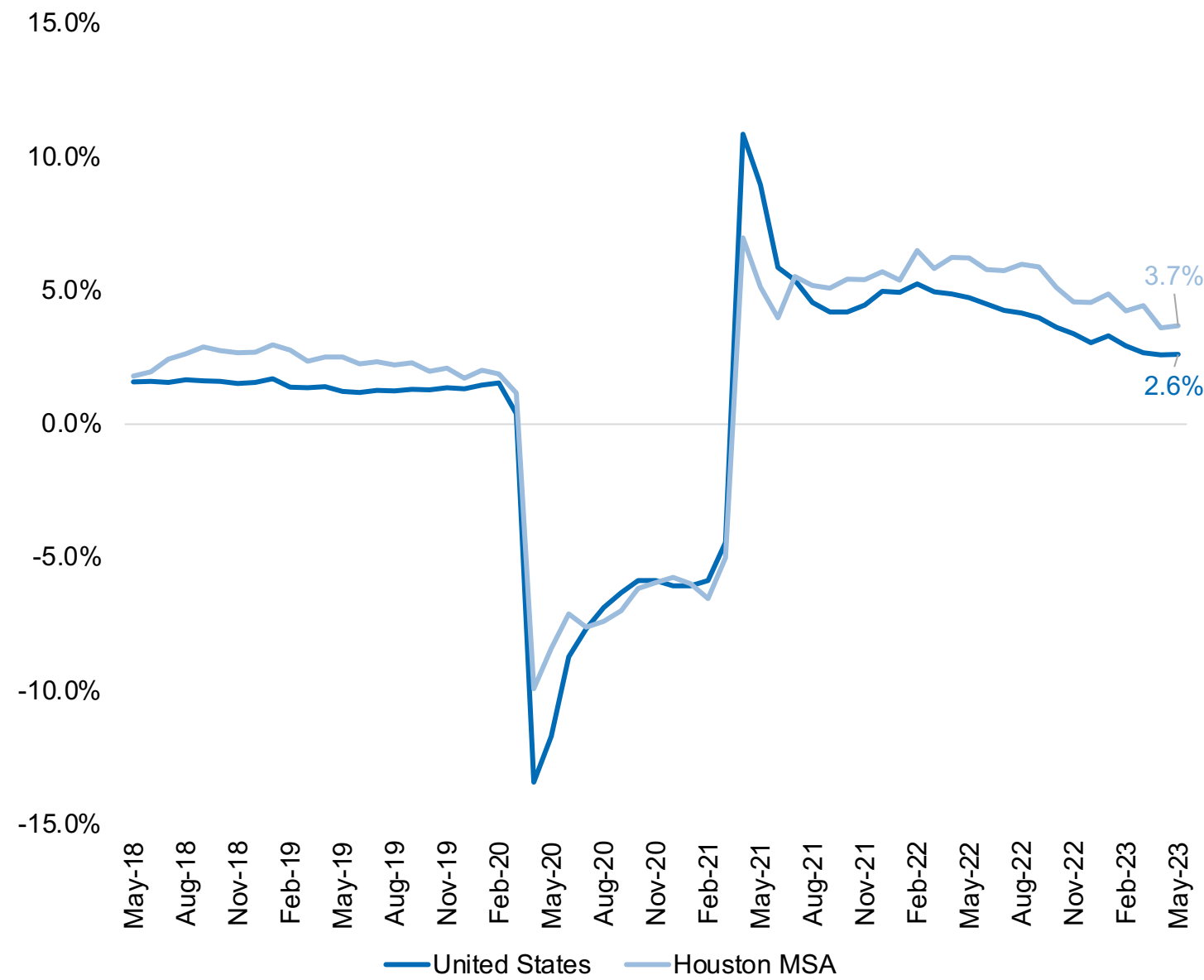
Metro Employment Trends Signal a Slowing Economy

The Houston market has generally reported higher unemployment rates compared with the national average, while being an outperformer in employment growth. Recent national economic headwinds have pushed the region’s unemployment rate to increase by 36 basis points year over year, while the employment year-over-year growth rate slowed by 255 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

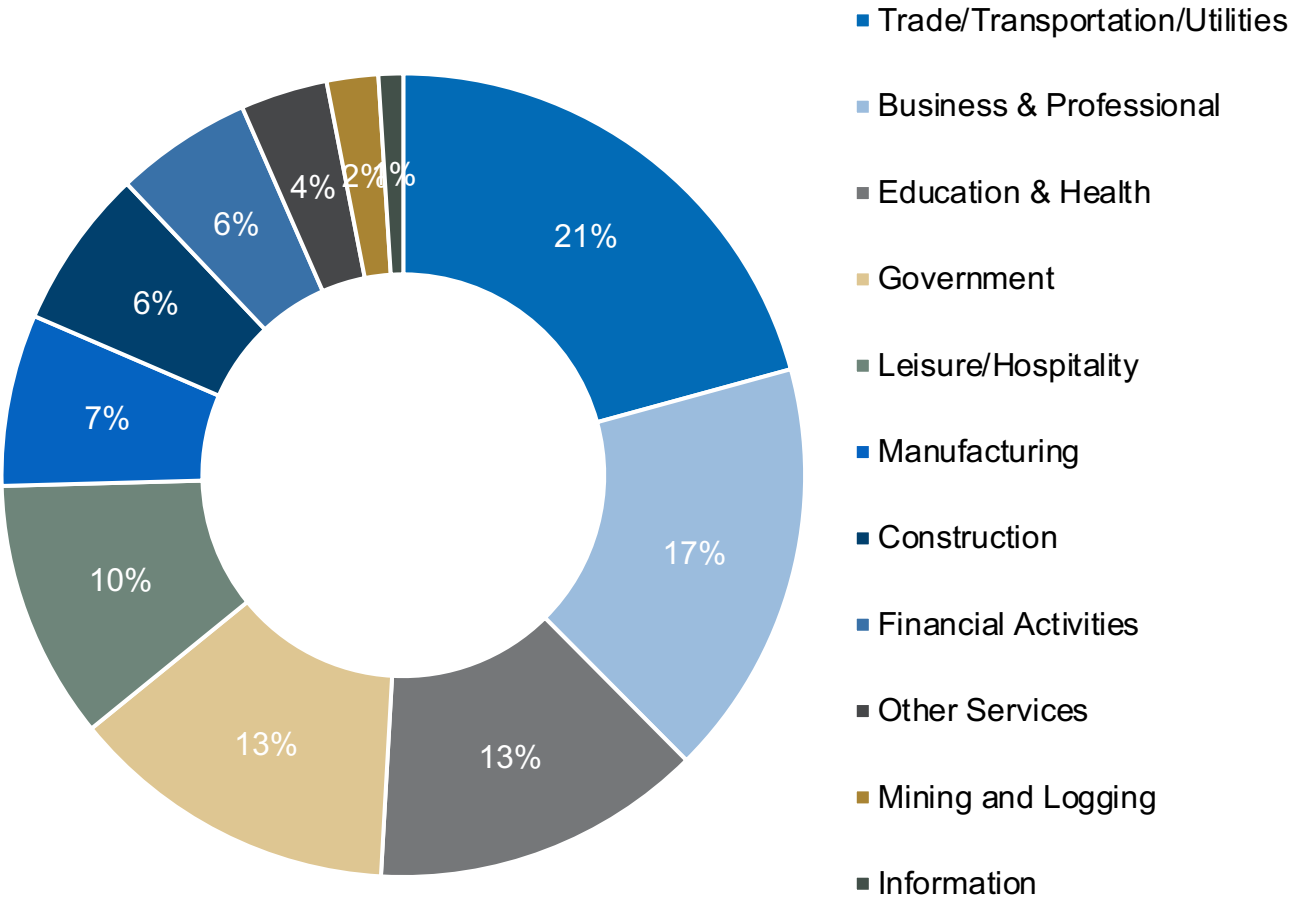


Source: U.S. Bureau of Labor Statistics, Houston MSA

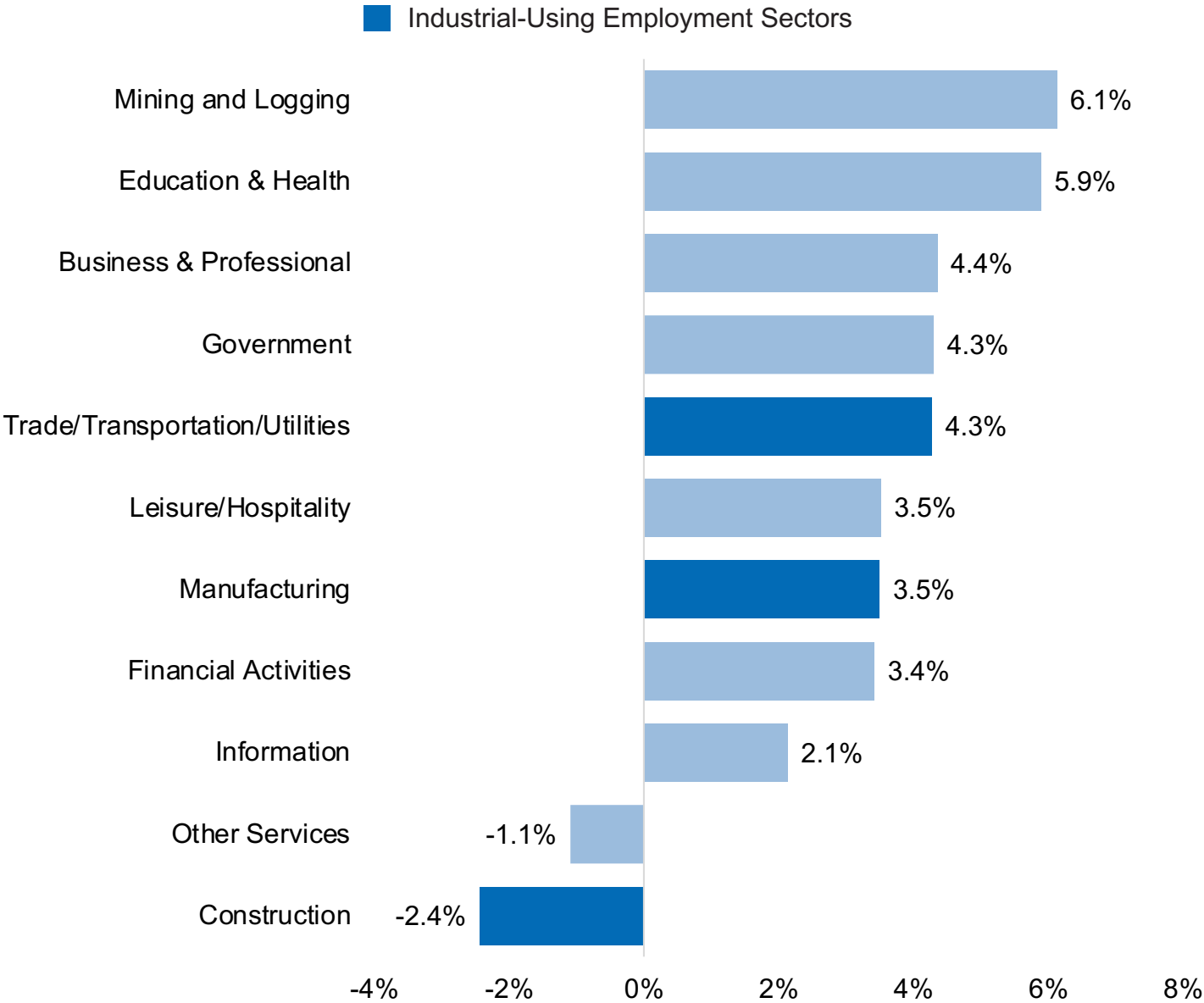
Employment Growth Continues for Bulk of Industrial-Using Sectors

Known for its energy sector, the Houston market's top two employment industries account for 37.6% of market share. The industrial-using employment's trade/transportation/utilities sector is the largest industry sector in the metroplex at 20.7%. All industries, except for other services and construction, in the metroplex reported growth, with industrial-using industries reporting year-over-year growth ranging from a decrease of 2.4% to an increase of 4.3%.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

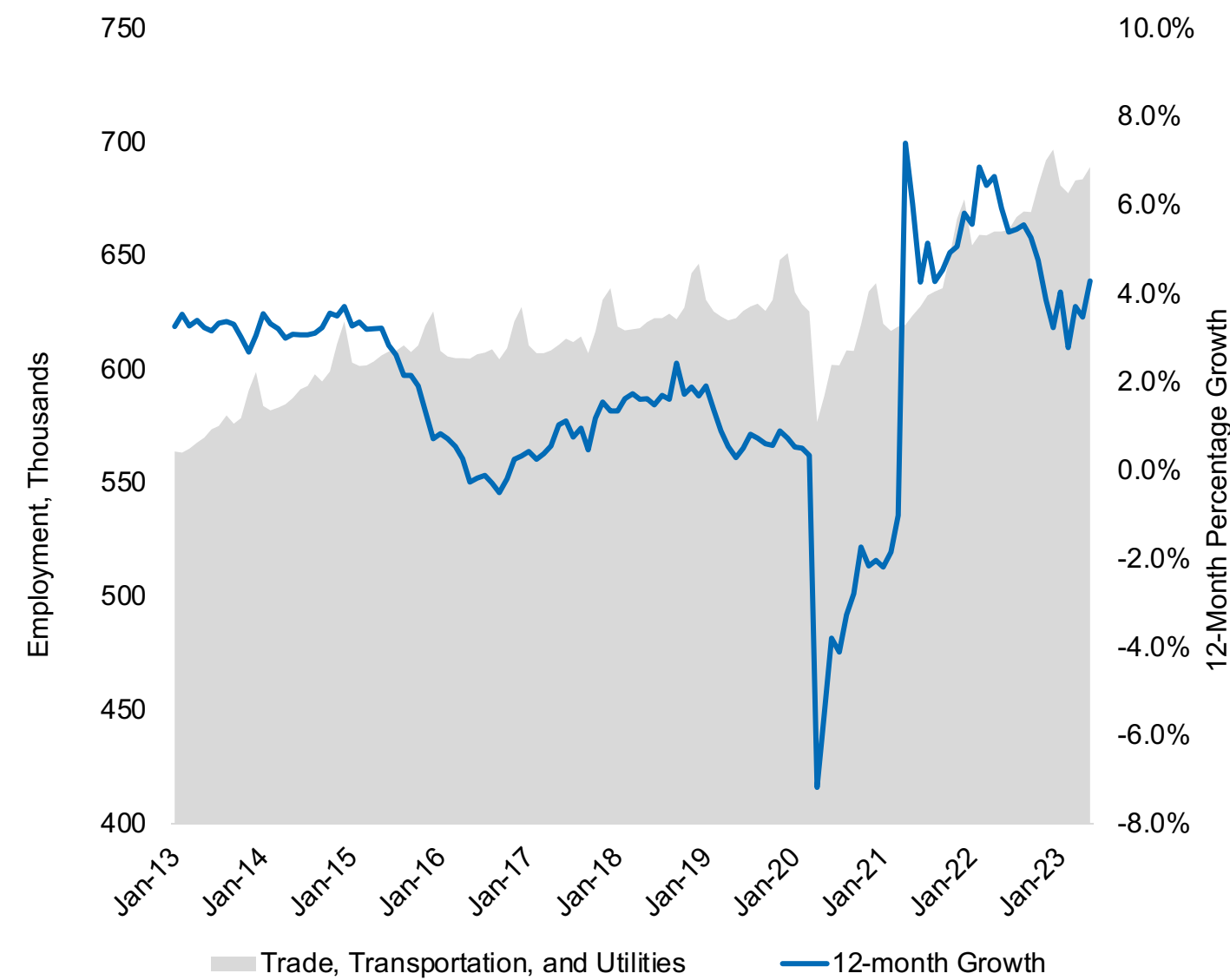


Source: U.S. Bureau of Labor Statistics, Houston MSA

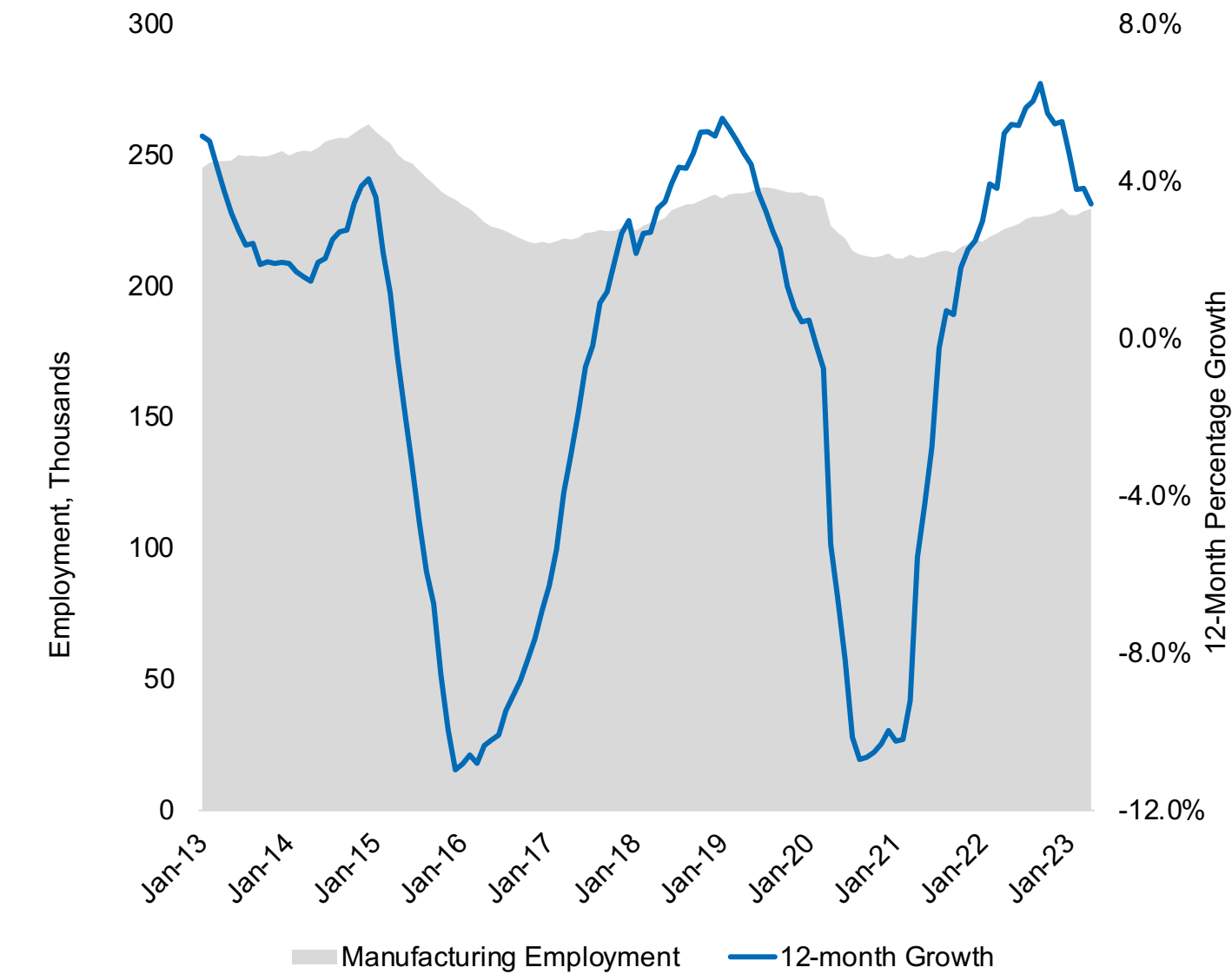
Industrial Employment Strong with Continued Positive Growth

Trade/transportation/utilities employment is currently at its third highest levels historically, with the highest levels reached towards the end of 2022. Manufacturing employment reached a recent high following the pandemic. 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



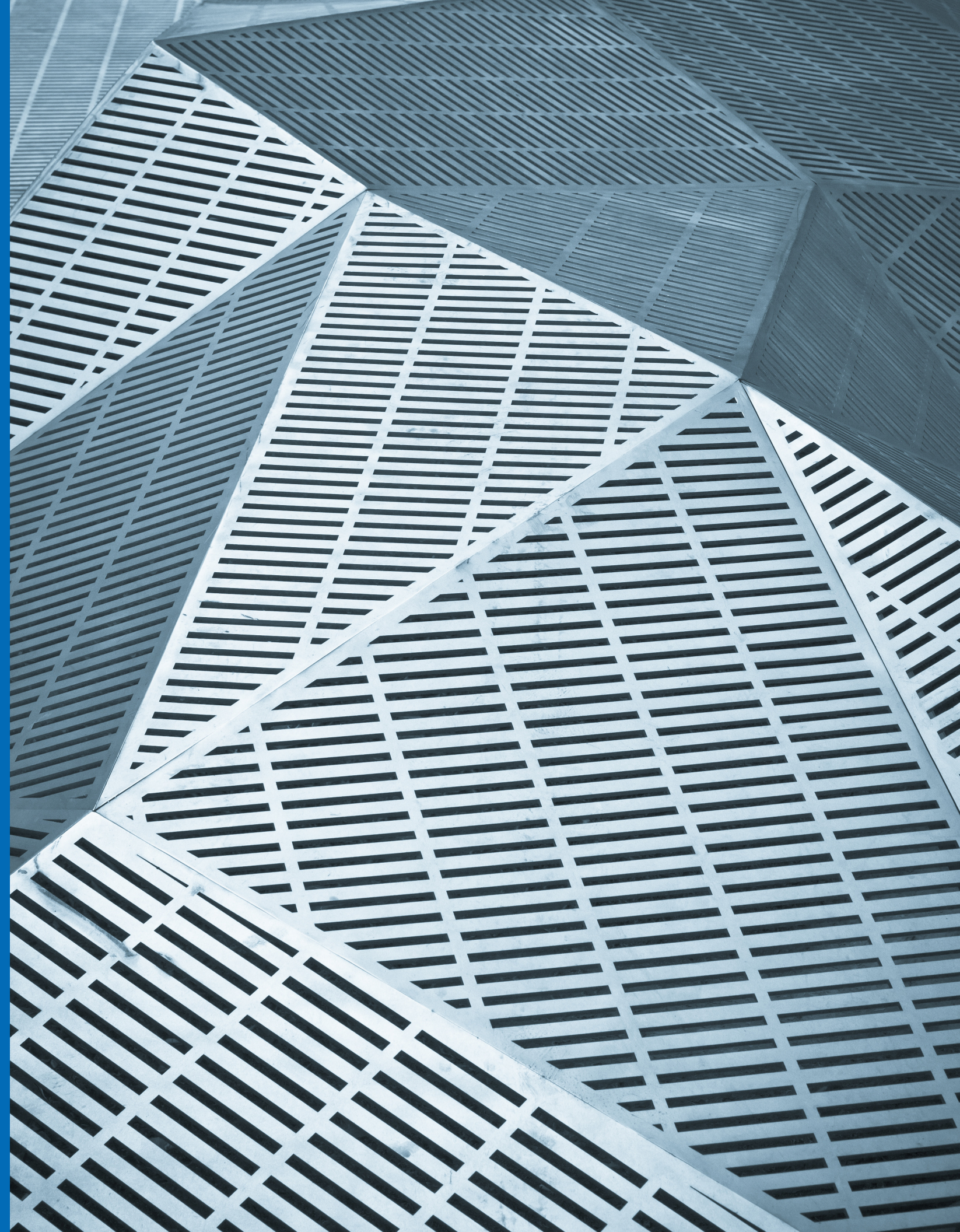
Total Employment and 12-Month Growth Rate, Manufacturing



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

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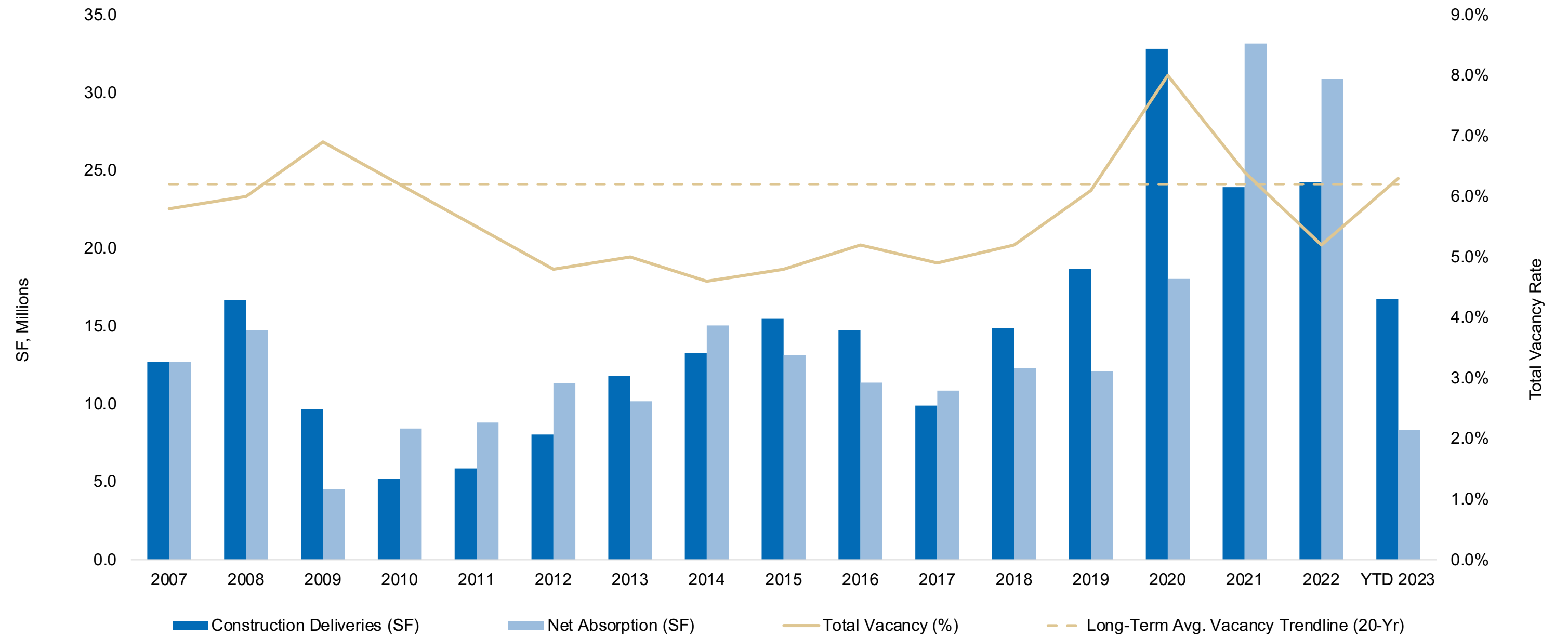
Leasing Market Fundamentals



Supply Outpaces Demand

The Houston industrial vacancy rate increased by 100 basis points year over year to 6.3% in the second quarter of 2023, with supply outstripping demand for the first time since the pandemic. Deliveries continue to remain strong in the market, with new supply added in the first half of 2023 already outpacing all yearly new construction volumes reported prior to 2019. Despite national economic headwinds, demand continues to remain positive for industrial space in the Houston market.

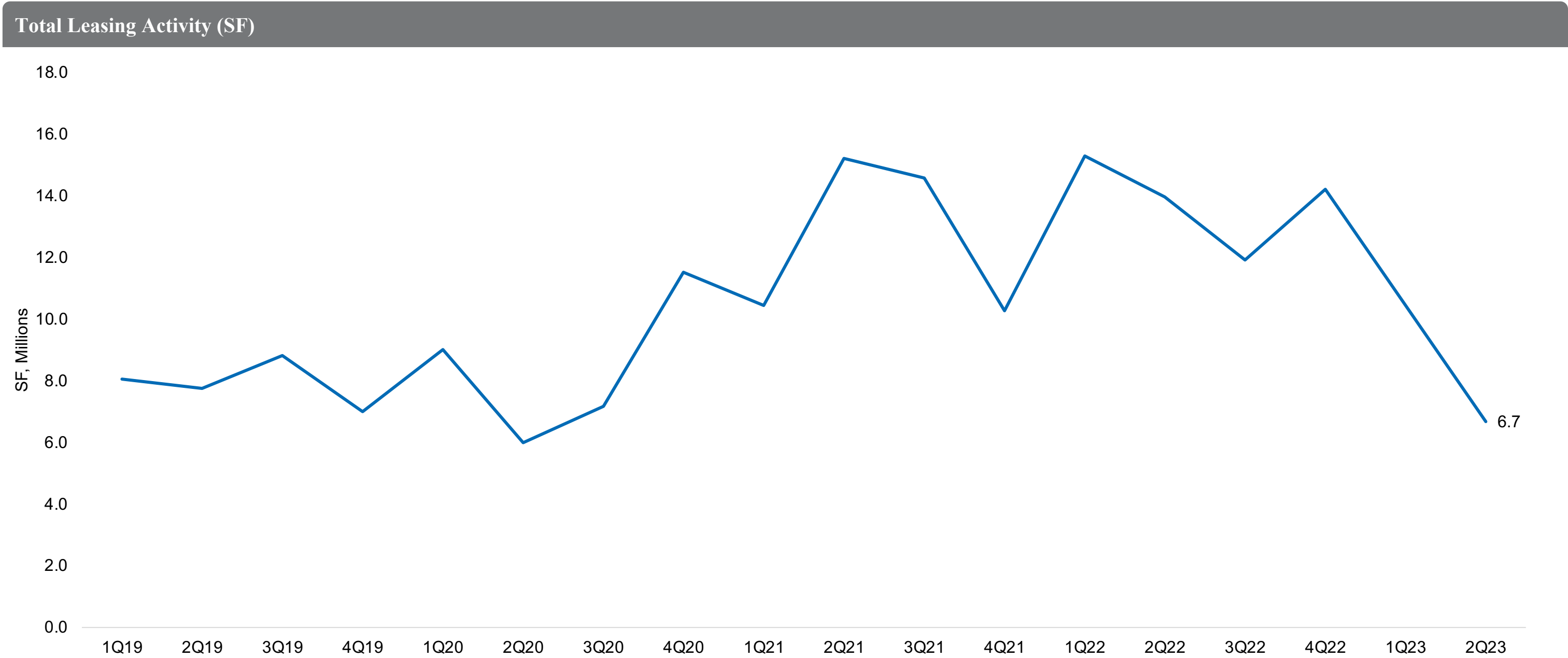
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Industrial Leasing Activity Decelerates to Pre-Pandemic Levels

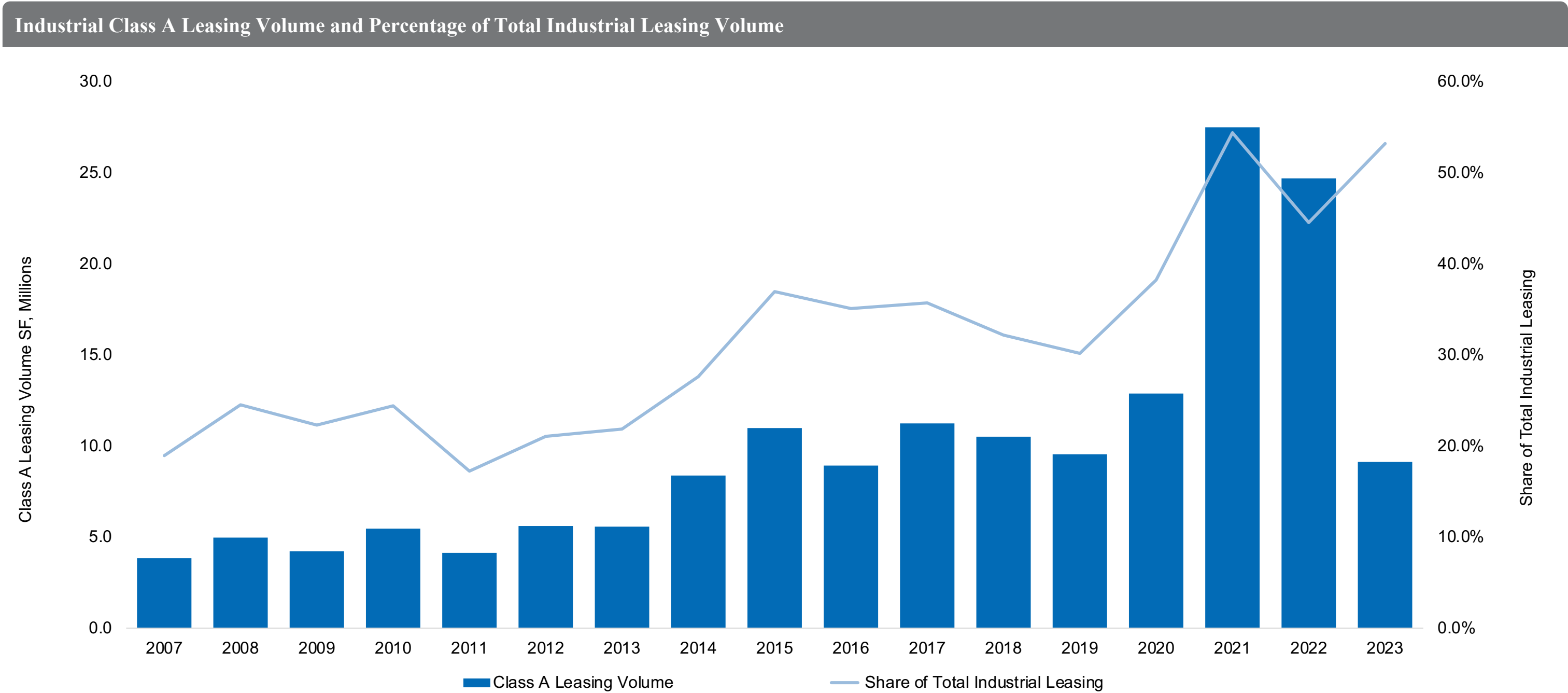
In the second quarter of 2023, leasing activity decelerated from historical highs reported post pandemic, ending the quarter at 6.7 MSF. Despite slowing leasing activity likely resulting from national economic headwinds, demand continues to remain positive in the market.



Source: Newmark Research, CoStar

Class A Warehouse Leasing Above Long-Term Average

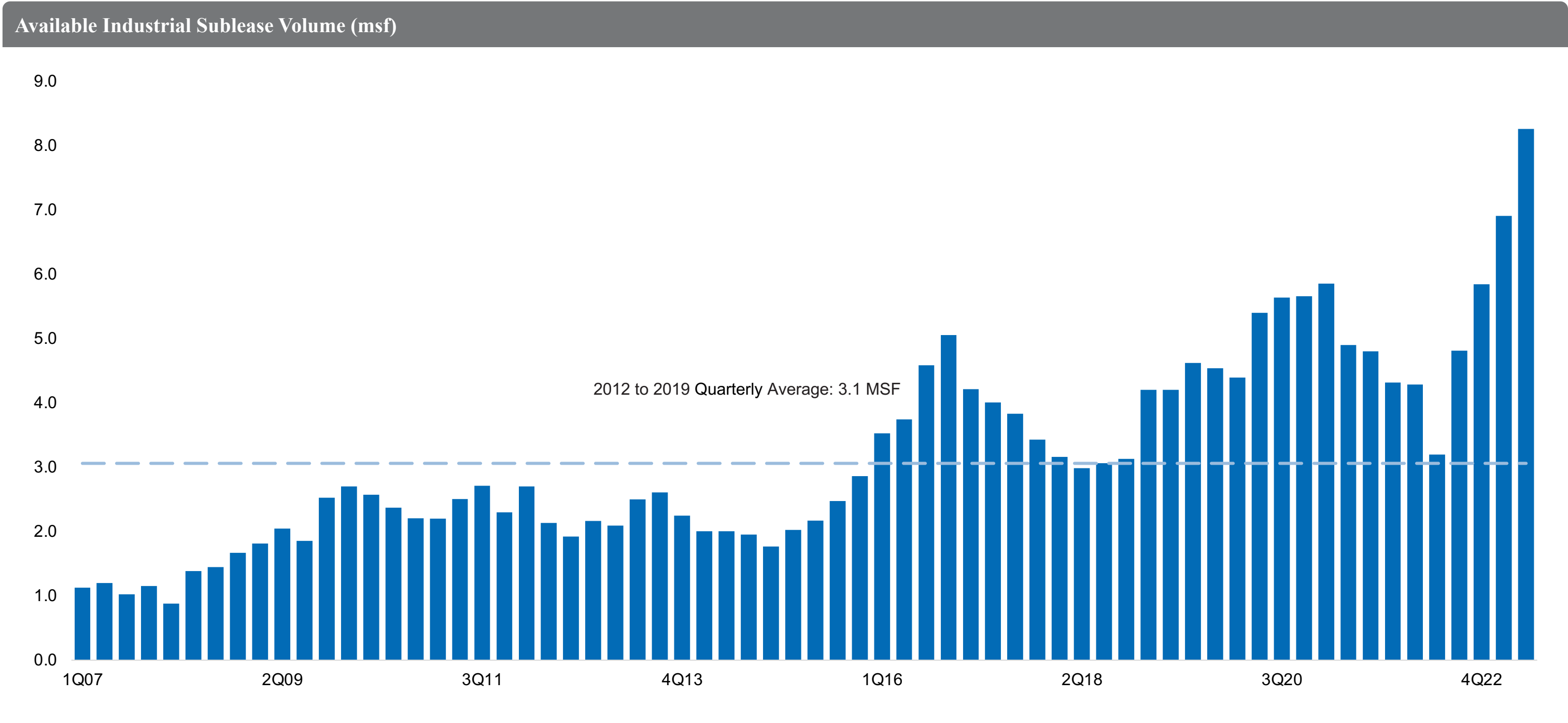
Class A warehouse space leasing activity has decreased from historic highs following the pandemic. This is also due to an influx of high-quality deliveries that have hit the market during this same time period, with Class A warehouse deliveries also reaching historical highs following the pandemic. Class A warehouse leasing represented 53.2% of overall activity so far in 2023, up from 44.5% from the previous year and well above the pre-pandemic average at 26.8% from 2007 to 2019.



Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

Sublease volume has continued increasing in the market since the second quarter of 2022. Currently, as of the end of the second quarter of 2023, sublease space available is at 8.3 MSF. The rate at which subleases were added to the market has accelerated since the second half of 2022. 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.

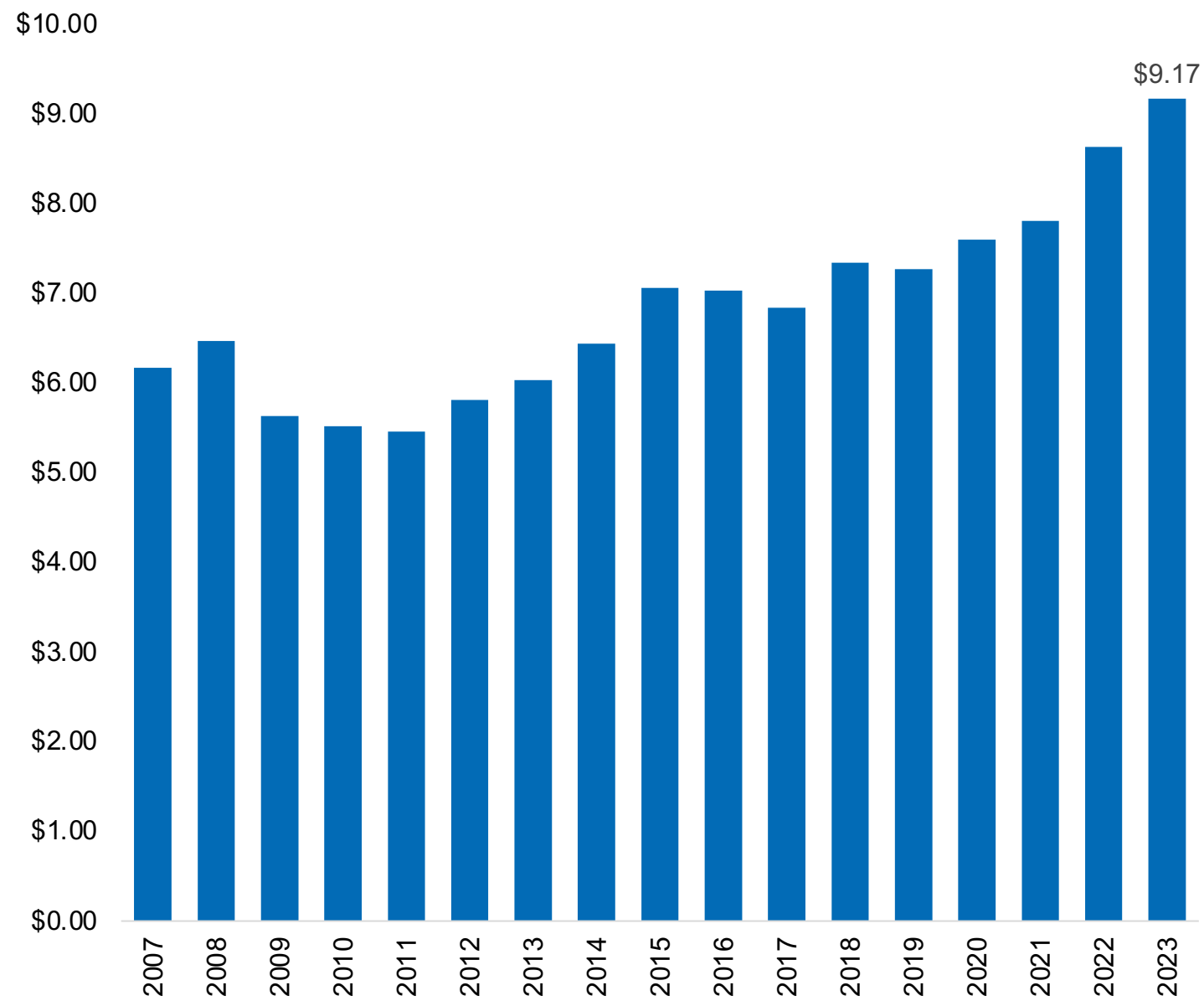


Source: Newmark Research, CoStar

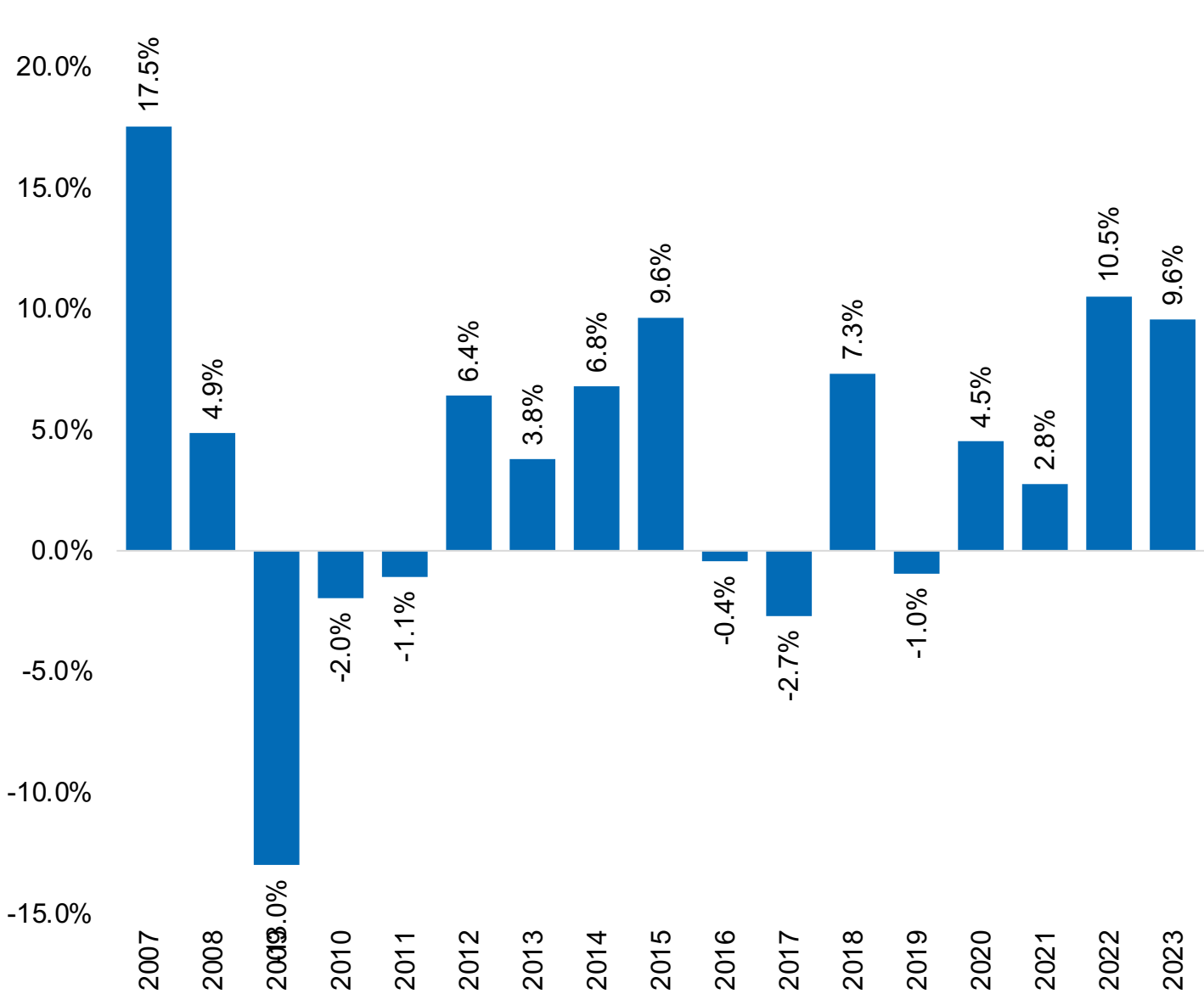
Asking Rents Reach New Historical High

Industrial average asking rents reached a new high at \$9.17/SF as of the end of the second quarter of 2023, increasing by 9.6% year over year. Rent growth is expected to continue increasing as new, higher-quality assets continue delivering.

Industrial Average Asking Rent, \$/SF, NNN



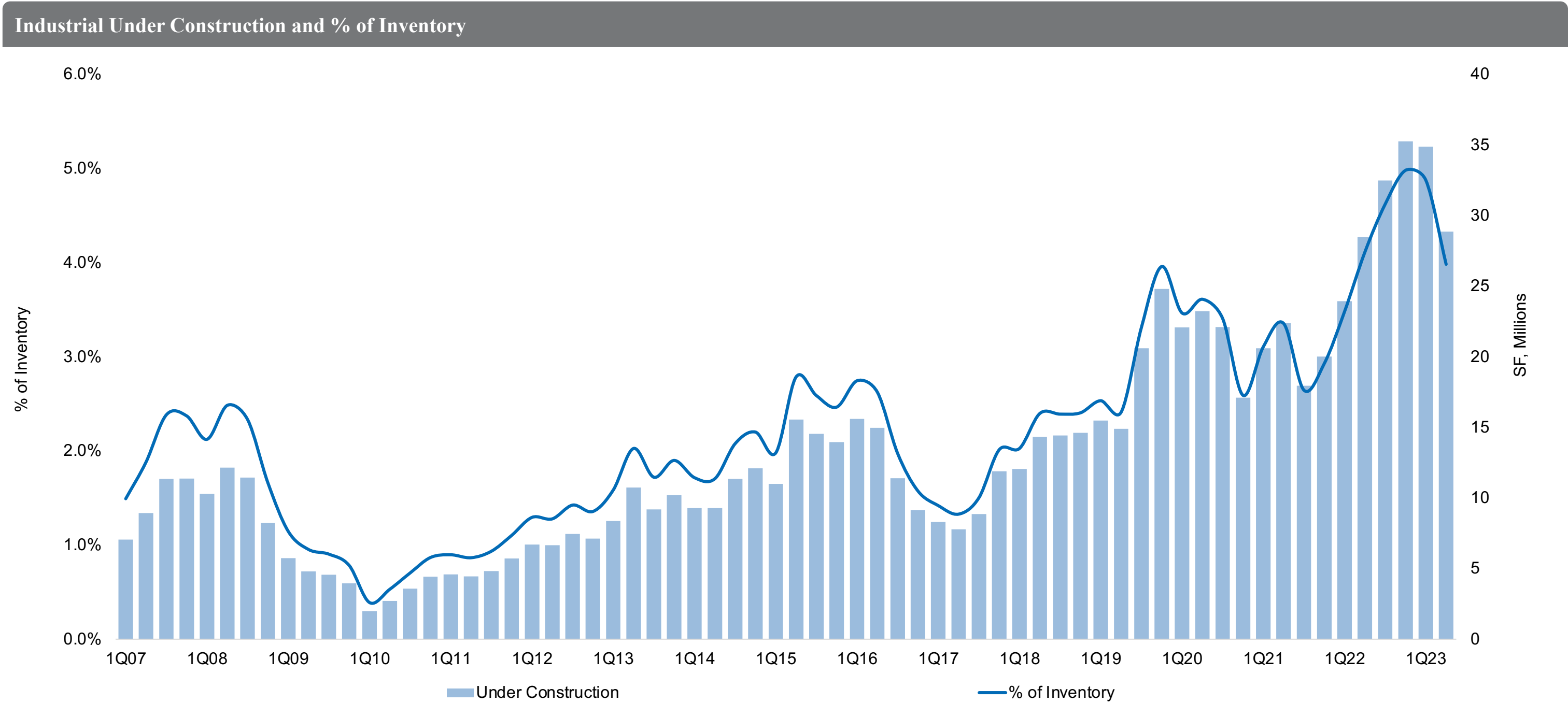
Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Industrial Supply Pipeline Eases from Historic Highs

The construction pipeline trended downward for the second consecutive quarter after reaching a historic high of 35.3 MSF in the fourth quarter of 2022. Many developers are pausing new development amid slowing leasing activity and a challenging financing environment for new construction. The construction pipeline will continue to decelerate throughout 2023, creating a possibility for potential supply constraints as economic conditions improve in 2024 and 2025.



Source: Newmark Research, CoStar

Notable 2Q23 Lease Transactions

Leasing activity slowed in the second quarter of 2023, with quarterly leasing activity at 6.7 MSF, below quarterly averages reported since 2010 at 8.1 MSF. Currently, projects under construction are 21.5% pre-leased.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
United States Postal Service <i>The United States Postal Service signed the largest lease of the quarter to occupy the entire Park 8Ninety's Building 11.</i>	Park 8Ninety – Building 11	Southwest	Direct New	440,014
Dresser <i>Dresser signed the second largest deal of the quarter, taking the entire cold storage building owned by Scout Cold Logistics.</i>	Bayport South Business Park	Southeast	Direct New	248,240
CSAT Solutions <i>CSAT Solutions renewed their space at Alamo Crossing Commerce Center, occupying approximately half of the building.</i>	Alamo Crossing Commerce Center	Northwest	Renewal	231,348
Professional Packaging Systems <i>Professional Packaging Systems leased Empire West Business Park's entire Building 5.</i>	Empire West Business Park – Building 5	Northwest	Direct New	229,150
Dream Harvest <i>Indoor farming company Dream Harvest is one of two tenants that signed a lease at Kirkwood Industrial's Building 2, fully leasing up the building.</i>	Kirkwood Industrial – Building 2	Southeast	Direct New	207,000

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