

Houston Industrial Market

Demand Slows in 4Q22 as Rents Continue to Climb

The Houston industrial market's construction pipeline expanded while demand softened in the fourth quarter of 2022. The market closed the quarter with 4.5 million square feet of positive absorption. Absorption for the year totaled 28.0 million square feet, a 15.0% decrease from 2021 totals. The vacancy rate dropped slightly to 5.6%, maintaining its downward trend. Although absorption slowed in the fourth quarter of 2022, vacancy continues to decrease, dropping 90 basis points year over year. Rental rates have increased 11.0% year over year, driven by new product commanding higher pricing and sustained demand. Overall asking rents rose to \$8.58/SF, an increase of 0.7% quarter over quarter. Rental rates remain the highest in the Southwest submarket, at \$10.32/SF.

In recent years, industrial tenant demand was driven largely by the elevated demand for warehouse and distribution space from retailers as e-commerce spiked. While e-commerce needs have mostly stabilized, logistics and parcel delivery space are still responsible for the bulk of demand. The increase in advanced manufacturing, including electric vehicles, batteries and semiconductors, remains a prominent demand driver as well. Heading into 2023, demand in the Houston market could begin to cool due to anticipated decreases in consumer spending and economic headwinds.

Current Conditions

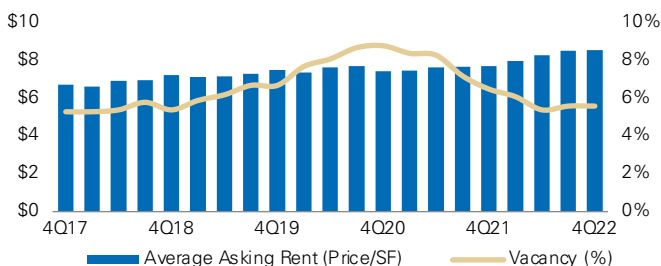
- The market realized 4.5 million square feet of positive absorption in the fourth quarter of 2022 and closed the year at 28.0 million square feet.
- Overall rental rates grew 11.0% year over year and are \$8.58/SF at the end of the fourth quarter of 2022.
- Leasing across all industrial property types slowed in the fourth quarter of 2022, totaling 9.7 million square feet, a 5.5% decrease year over year.
- Vacancy fell by 90 basis points year over year and ended at 5.6%.

Market Summary

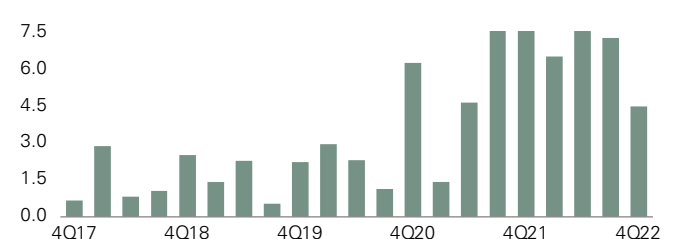
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	703.2M	698.7M	680.2M	↑
Vacancy Rate	5.6%	5.6%	6.5%	↔
Quarterly Net Absorption (SF)	4.5M	7.3M	9.5M	↑
Average Asking Rent/SF	\$8.58	\$8.52	\$7.73	↑
Under Construction (SF)	33.9M	30.8M	19.7M	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q4 2022

Economic activity in Houston continues to expand but slowed slightly in December 2022, as indicated by the Houston Purchasing Managers Index. The Houston PMI was at 53.8 in December, down from 54.7 the month prior. WTI prices also fell in December, with an average of \$76.44/bbl. Port Houston recorded its best year in 2022, with a 14.0% increase in annual container volume. Port Houston handled over almost 4.0 million TEUs in 2022, besting 2021 volume by 492,526 TEUs. Softening demand led to a 12.0% year over year decrease in volume in December. Steel imports jumped 25.0% in December and 49.0% for the year. Port Houston will likely see elevated volumes for the near term as goods continue to be diverted from West Coast ports.

Leasing Activity

Leasing activity totaled 9.7 million square feet in the fourth quarter of 2022, falling by 16.7% quarter over quarter. For the year, Houston's industrial leasing activity totaled 48.1 million square feet, down slightly from 2021 totals. Across the Houston market, 389 deals took place, with an average deal size of 24,940 square feet. The Northwest and Southeast submarkets again carried the bulk of leasing activity, with 3.6 million square feet and 2.9 million square feet, respectively. Tesla's 1.0-million-square-foot lease at Empire West in Brookshire, in the Northwest submarket, was one of the largest leases of both the quarter and the year. It is believed the electric-car manufacturer will utilize the facility for battery storage, but details of the lease have not been confirmed. The deal marks Tesla's entrance to the Houston industrial market. The South submarket attracted large-scale tenants Targe and Penske in the fourth quarter of 2022, as the submarket offers lower rates than the Southeast and Northwest submarkets and allows for relative proximity to Port Houston and major highways. Target expanded its market presence by leasing 1.2 million square feet of warehouse and distribution space at Building 1 in Beltway66 Logistics Park. Construction on the building will start in January with a completion in the second quarter of 2023. Penske took 603,780 square feet at 4851 Sam Houston Pkwy., which is currently under construction and has an expected completion in the first quarter of 2023.

Development

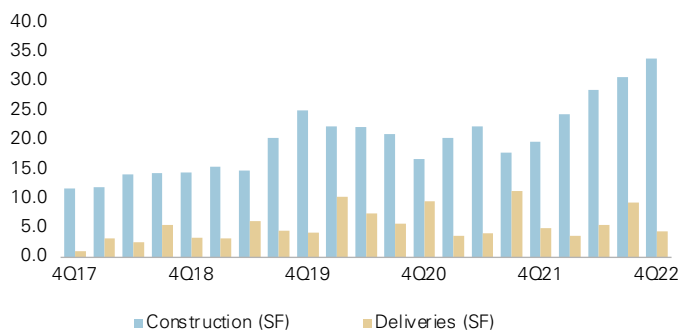
Over the past several years, the market's inventory could not keep pace with the boom in demand, but the gap is beginning to close. Demand narrowly outpaced new supply in the fourth quarter of 2022, as 4.4 million square feet of industrial product delivered. For the year, over 23.0 million square feet of new inventory has been added to Houston's industrial market, while 28.0 million square feet has been absorbed. Houston's industrial pipeline grew 72.0% year over year and currently has almost 34 million square feet under construction. There are 213 buildings under construction across the Houston market, with an emphasis on speculative builds. In the coming quarters, supply is expected to catch up with demand as the record-high pipeline begins to empty and consumer demand softens. Increasing costs of financing could lead to a slowdown in projects breaking ground, further helping the market to balance itself. The Northwest submarket has the largest share of space under construction at 8.3 million square feet, followed by the Southeast submarket at 7.5 million square feet. In the fourth quarter of 2022, industrial construction starts totaled 5.8 million square feet.

Market Outlook

The outlook for Houston's industrial market remains positive, as a strong development pipeline and decreasing vacancy indicate that tenant demand persists, despite softening in recent quarters. Activity from occupiers such as Tesla, Target, and Penske, which encompass the market's major demand drivers of advanced manufacturing, e-commerce, and logistics, underscores the diversity within Houston's industrial market. Houston's central location and expanding operations at Port Houston will continue to serve the market well in the coming quarters. Despite anticipated decreases in consumer spending and economic headwinds, the Houston industrial market can sustain healthy fundamentals.

Construction and Deliveries

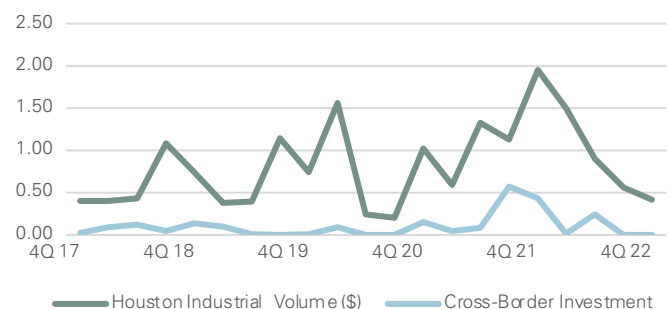
SQUARE FEET, MILLIONS



Industrial Investment Sales

SALES VOLUME (\$, BILLIONS)

Source: Real Capital Analytics



RESEARCH Q4 2022

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	51,608,510	0	5.0%	-10,666	-371,161	\$7.11	\$13.00	\$7.15
North	133,749,506	6,984,979	5.7%	653,194	4,690,478	\$9.35	\$5.52	\$9.05
Northeast	46,567,027	1,951,427	6.2%	133,520	2,571,856	\$6.05	-	\$6.05
Northwest	197,737,831	8,328,100	6.1%	1,845,296	8,339,160	\$9.11	\$6.97	\$8.78
South	50,656,939	2,439,561	3.1%	-246,817	428,781	\$8.36	\$4.92	\$8.18
Southeast	126,789,722	7,501,540	5.0%	1,133,579	8,830,157	\$8.53	\$8.50	\$8.52
Southwest	96,090,453	6,691,811	6.6%	992,870	3,513,554	\$10.40	\$8.56	\$10.32
Market	703,199,988	33,897,418	5.6%	4,500,976	28,002,825	\$8.72	\$6.83	\$8.58

Lease/User Transactions				
Tenant	Market	Building	Type	Square Feet
Target	South	Beltway66 Logistics Park – Bldg 1	Direct	1,200,000
Tesla	Northwest	Empire West Building Park – Bldg 9	Direct	1,039,060
Penske Logistics	South	South Belt Central Business Park – Bldg 4	Direct	603,780
RoadOne IntermodalLogistics	Southeast	Bay Area Business Park – Bldg III	Direct	480,480
TAS Energy	South	Carson 288 – Bldg B	Direct	413,718

Sales Transactions				
Buyer/Seller	Market	Building	Sale Price	Price/SF
LBA Realty / Dayton Street Partners	Northeast	5800 Mesa Dr	\$81.5 M	\$199
High Street Logistics Properties / CenterPoint Properties	Northeast	1200 Lathrop St, 7411 Mesa Dr, 9005 Spikewood Dr, 9033-9055 Spikewood Dr	\$66.1 M	\$88
DRA Advisors / CenterPoint	Northeast	Railwood industrial Park	\$51.6 M	\$101
Hines / Griffin Partners	North	Pinto 23	\$32.5 M	\$115
Brookfield / Urban Companies	North	IAH West Distribution Center	\$29.1 M	\$92

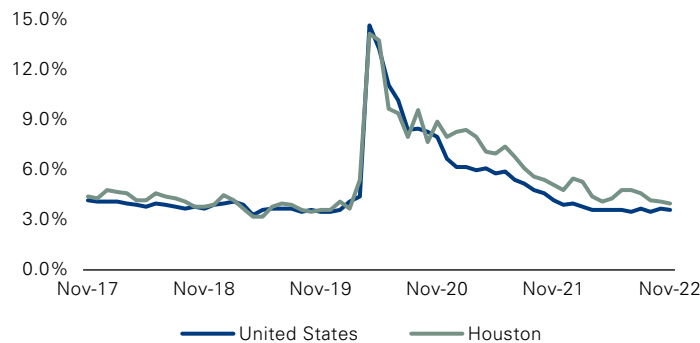
Economic Indicators

Houston's economy continues to outpace the nation due to job growth, declining unemployment, and a PMI that has been in expansion for two years. In December, the average price of gasoline in Houston was \$2.61 per gallon, compared with \$3.21 per gallon nationwide; WTI prices averaged \$76.44 per barrel. In the year period ending in October, consumer prices increased by 7.1% nationwide and 7.6% for Houston. Core inflation increased by 6.3% over the same period. In November, the unemployment rate in Houston fell marginally to 4.0% and is down 110 basis points year over year. The Greater Houston Partnership forecasts the addition of 60,000 jobs in the Houston Metro in 2023. All the industries tracked by the BLS for the region showed 12-month gains in employment growth in November, except for other services, which contracted 2.6%. The mining/logging and construction industries both had strong growth at 12.4% and 8.6%, respectively.

Houston's economy is projected to have a relatively healthy response to a potential downturn, given the Metro's strong job growth in addition to fully recouping those lost in the pandemic. Industries heavily tied to interest rates and financing are likely to shed jobs but will be offset by growth in other sectors.

Unemployment Rate

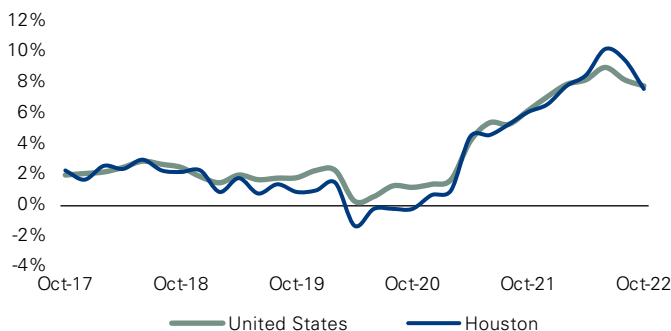
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, December 2022

Consumer Price Index (CPI)

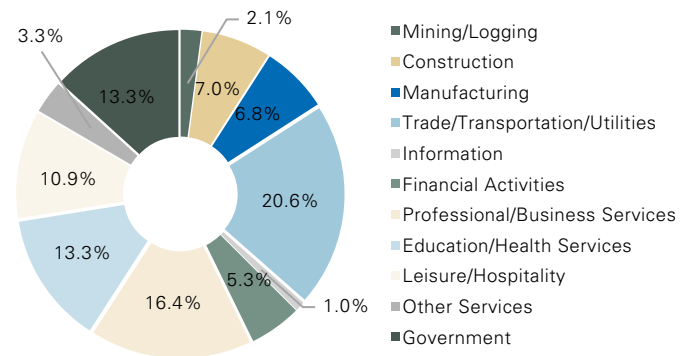
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, December 2022

Employment By Industry

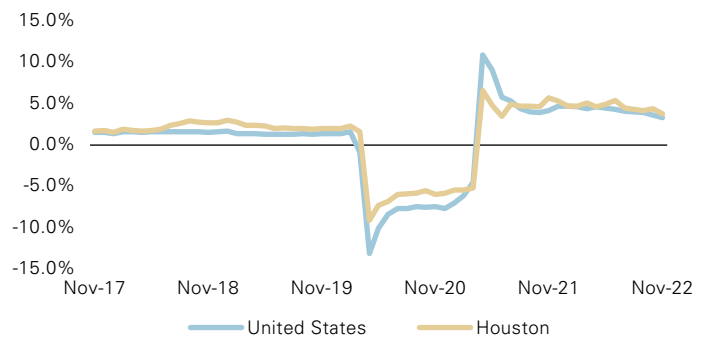
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, NOVEMBER 2022



Source: US Bureau of Labor Statistics, December 2022

Payroll Employment

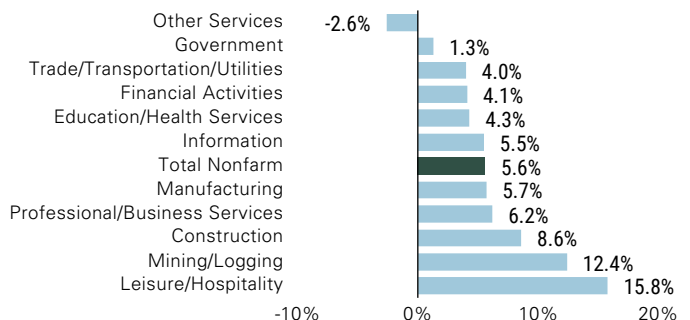
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: US Bureau of Labor Statistics, December 2022

Employment Growth By Industry

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



Source: US Bureau of Labor Statistics, December 2022

For more information:

Houston

1700 Post Oak Blvd
2 BLVD Place, Suite 250
Houston, TX
t 713-626-8888

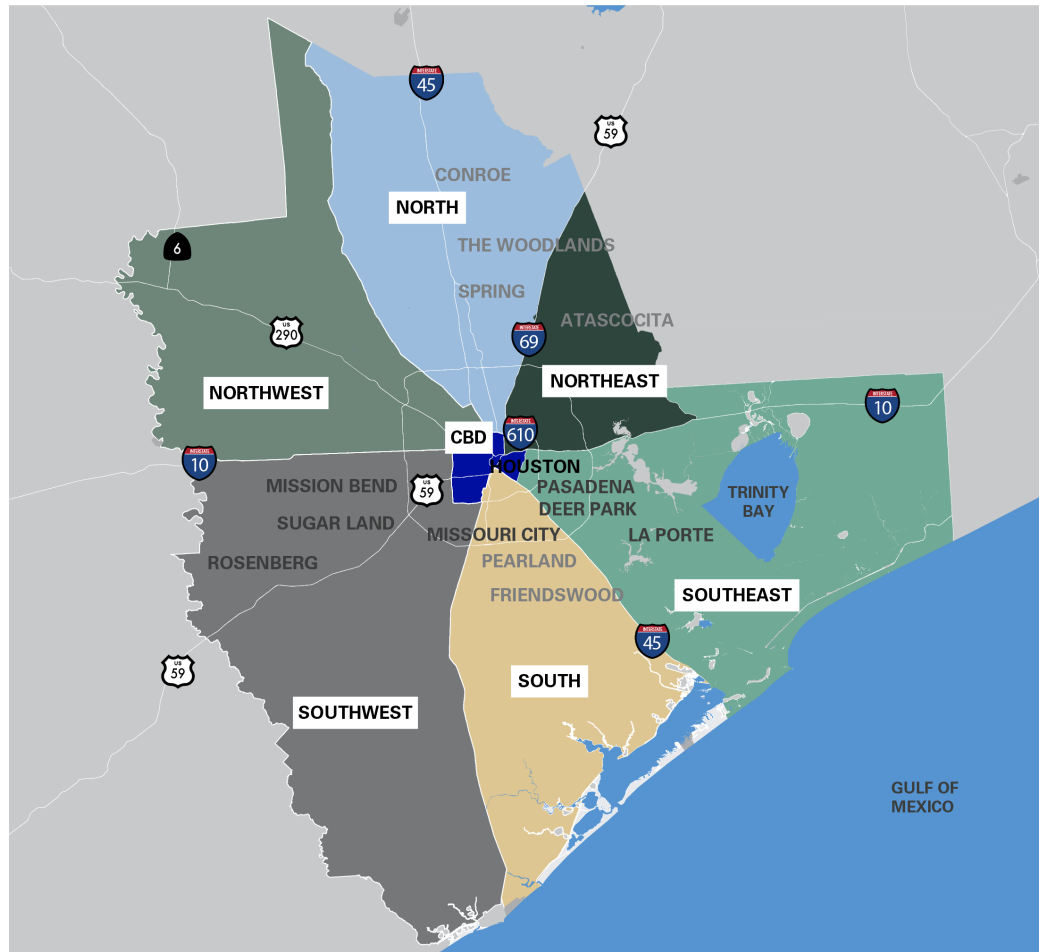
Ching-Ting Wang

*Regional Director, Texas &
Southeast*
chingting.wang@nmrk.com

Kirsten Kempf

Research Analyst, Texas
kirsten.kempf@nmrk.com

nmrk.com



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