

4Q23

Houston Industrial Market Overview

NEWMARK

Market Observations

Economy

- The Houston market’s unemployment rate ticked up by 25 basis points year over year to 4.4% but remains well below the five-year average of 5.5%.
- Job growth has slowed compared with recent highs to 2.3% year over year, and is trending toward pre-pandemic levels, with 2019 growth averaging only 2.3%.
- All sectors, except information and mining and construction, reported employment growth, with education and health leading job gains at 5.3% 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 2.6% and 2.7% year over year, respectively.

Major Transactions

- Amazon signed the largest lease of the quarter taking 400 trailer parking spaces totaling 696,960 SF at 30229 US Highway 90, near the company’s Brookshire distribution center.
- Waaree’s 546,000 SF lease at 2439 Discovery Hills Pkwy in the Southwest submarket was the second largest deal of the quarter, and marks the company’s first manufacturing location in the U.S.
- The five largest leases signed during the quarter were new leases, indicating there is still healthy appetite for space in the market.

Leasing Market Fundamentals

- The market realized 2.3 MSF of positive absorption in the fourth quarter of 2023, bringing annual totals to 18.4 MSF.
- Overall rental rates grew 9.0% year over year to \$9.39/SF, reaching a new historical high.
- The construction pipeline remains above pre-pandemic levels with 5.0 MSF of deliveries, with another 21.5 MSF under construction.
- Following yearly supply outpacing demand for the first time since 2020, vacancy increased in the fourth quarter of 2023 by 180 basis points year over year to 7.0%.

Outlook

- The Houston industrial market will likely see an influx of supply on the market in the near term, due to 2.9% of the current market’s inventory being under construction. The new deliveries will result in supply 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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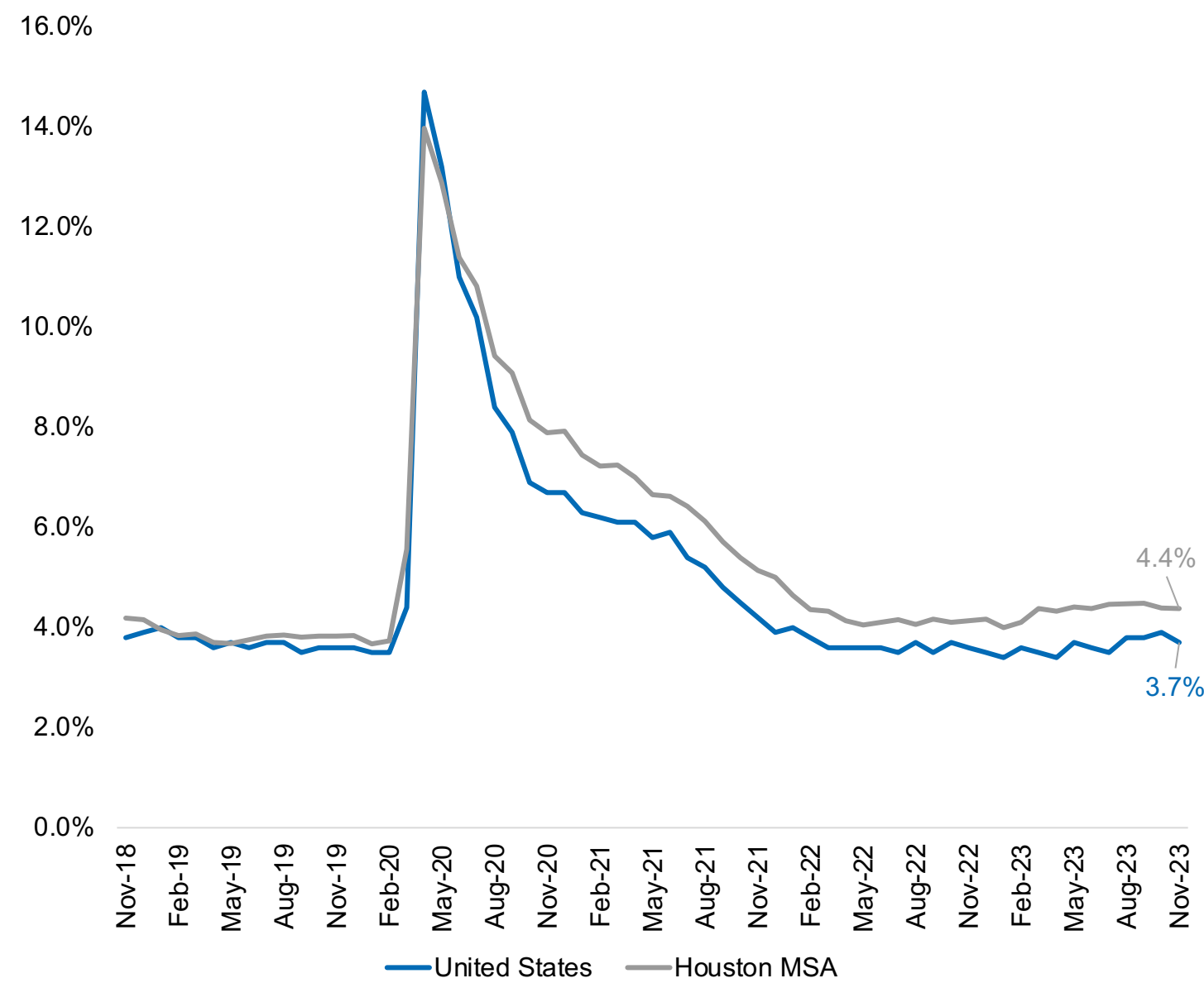
Economy



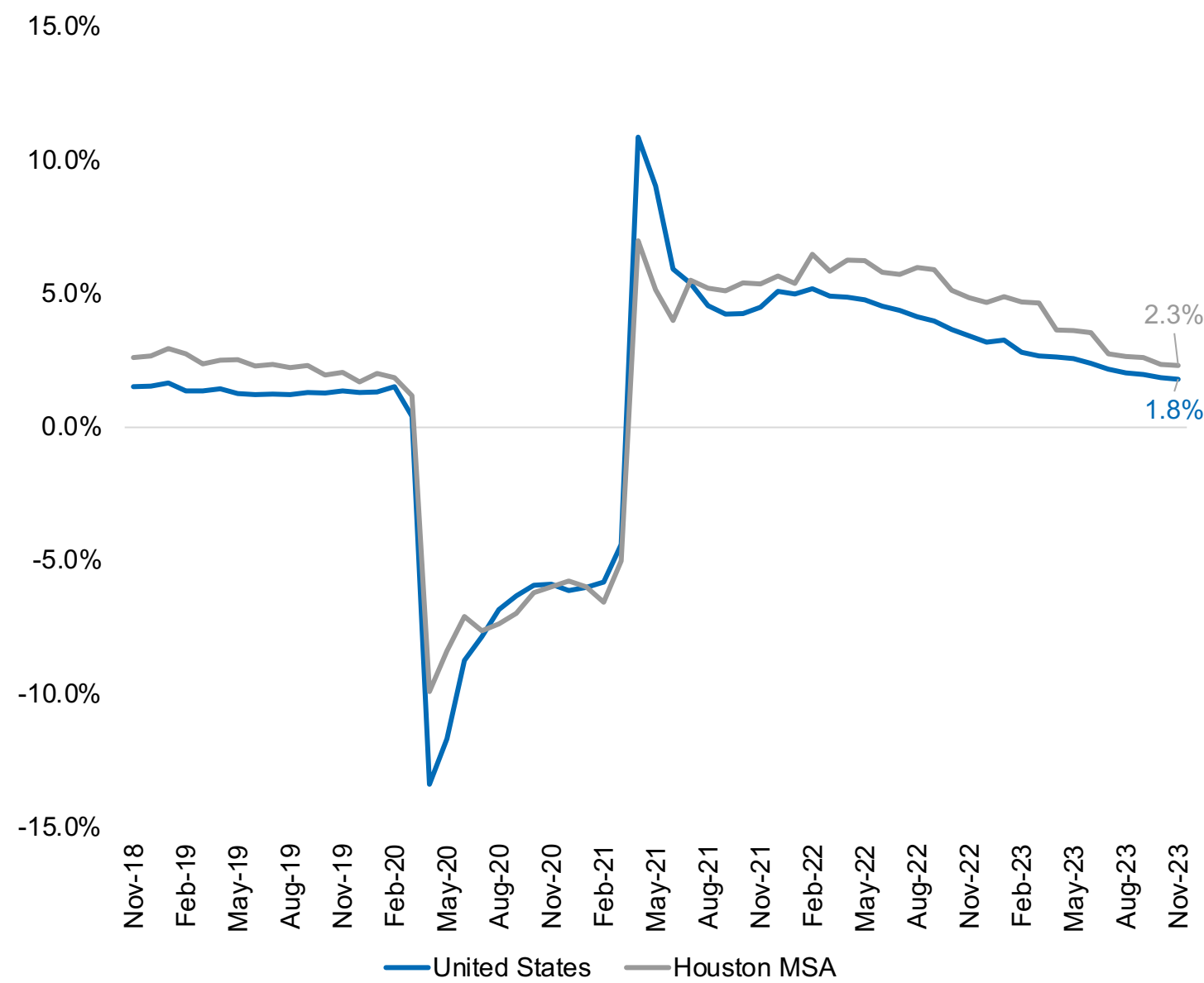
Metro Employment Trends Signal a Slowing Economy

The Houston market has generally reported higher unemployment rates compared with the national average, while outperforming in employment growth. Recent national economic headwinds have pushed the region's unemployment rate to increase by 25 basis points year over year, while the employment year-over-year growth rate slowed by 253 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

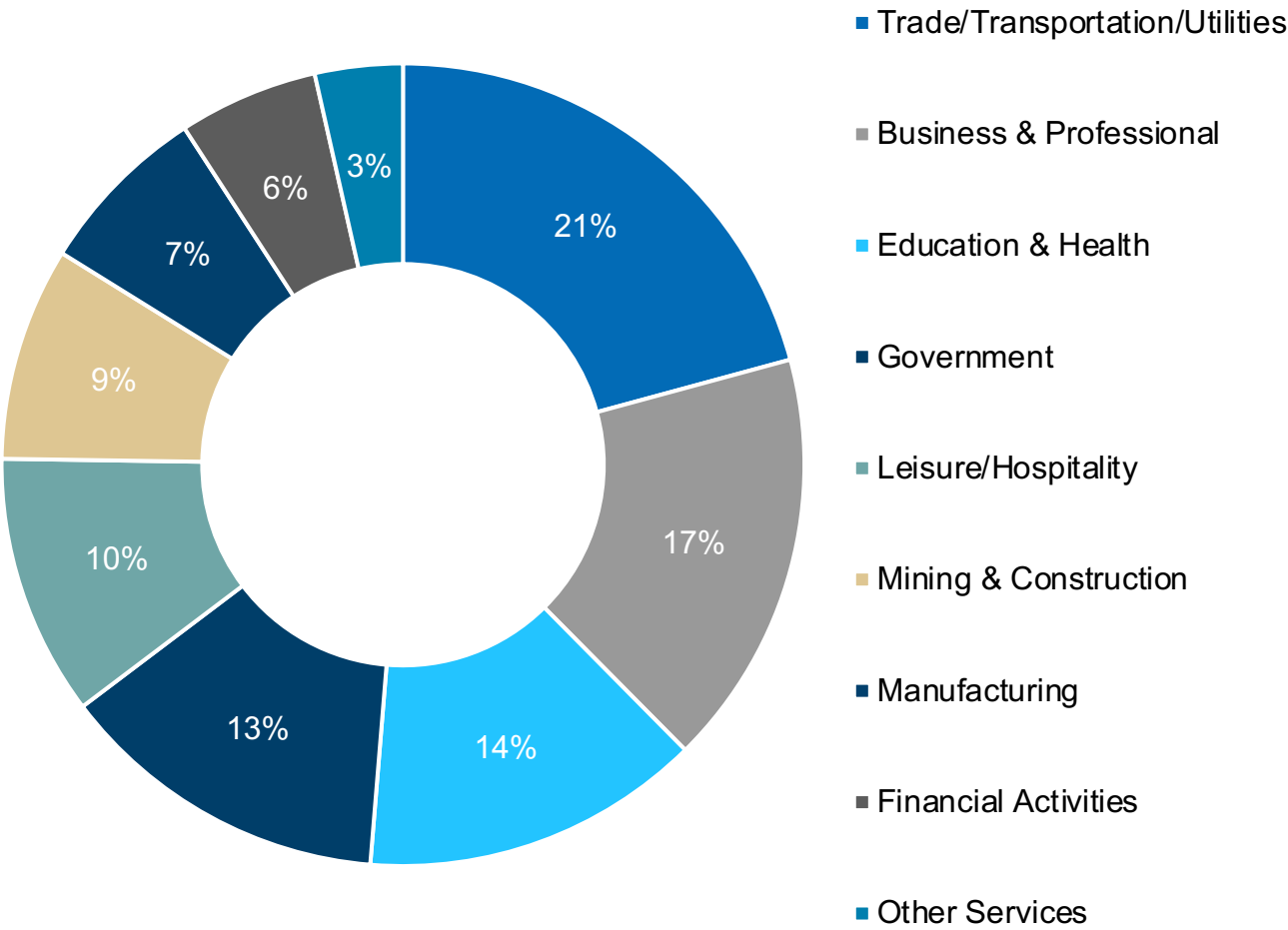


Source: U.S. Bureau of Labor Statistics, Houston MSA

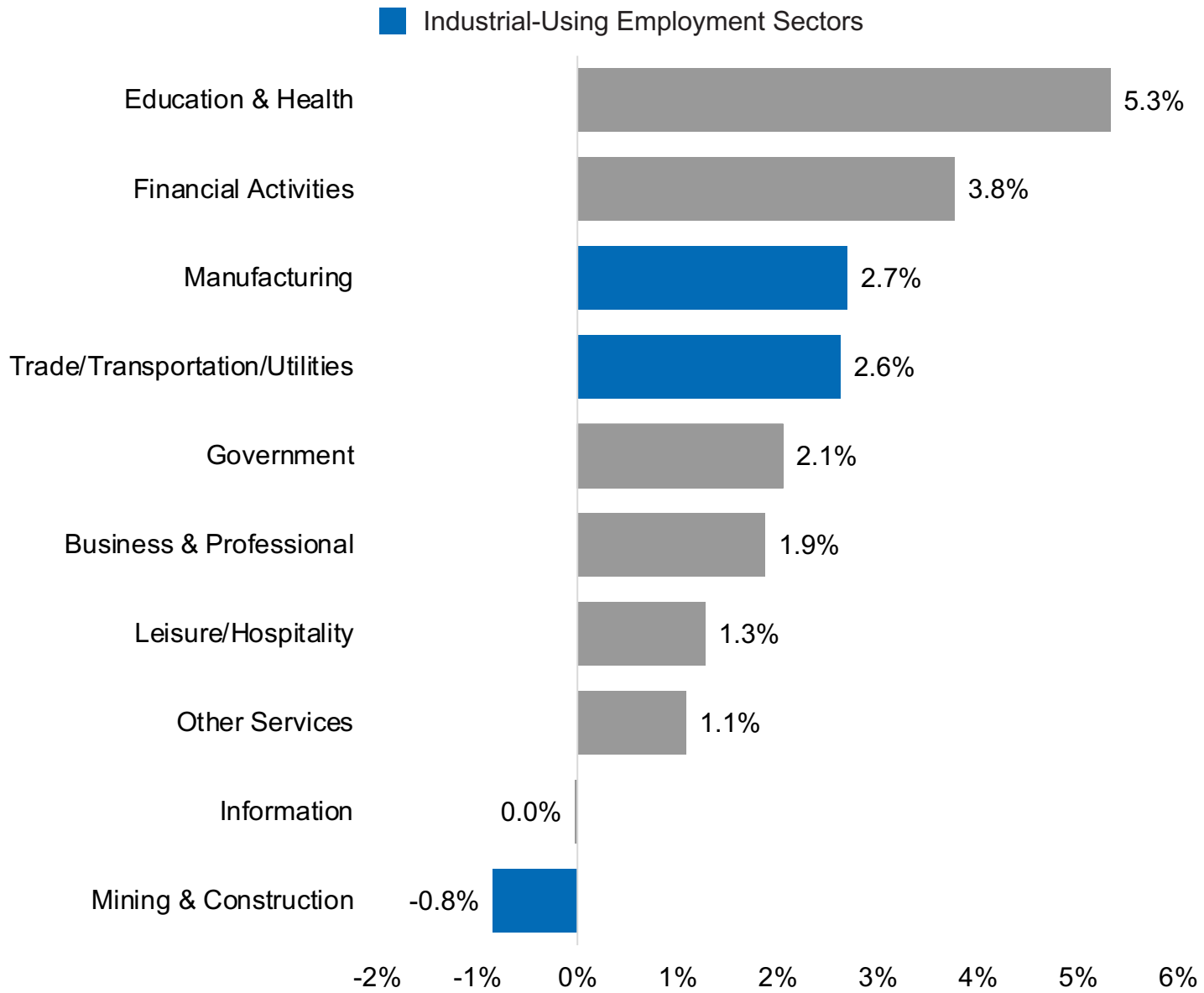
Employment Growth Continues Across Most Industrial Sectors

Known for its energy sector, the Houston market’s top two employment industries account for 37.2% of market share. The industrial-using employment’s trade, transportation and utilities sector is the largest industry sector in the metroplex at 20.6%. All industries in the metro, except for information and mining and construction, reported growth with industrial-using industries reporting year-over-year gains ranging from 2.6% to 2.7% with the mining and construction sector reporting a 0.8% contraction.

Employment by Industry, November 2023



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

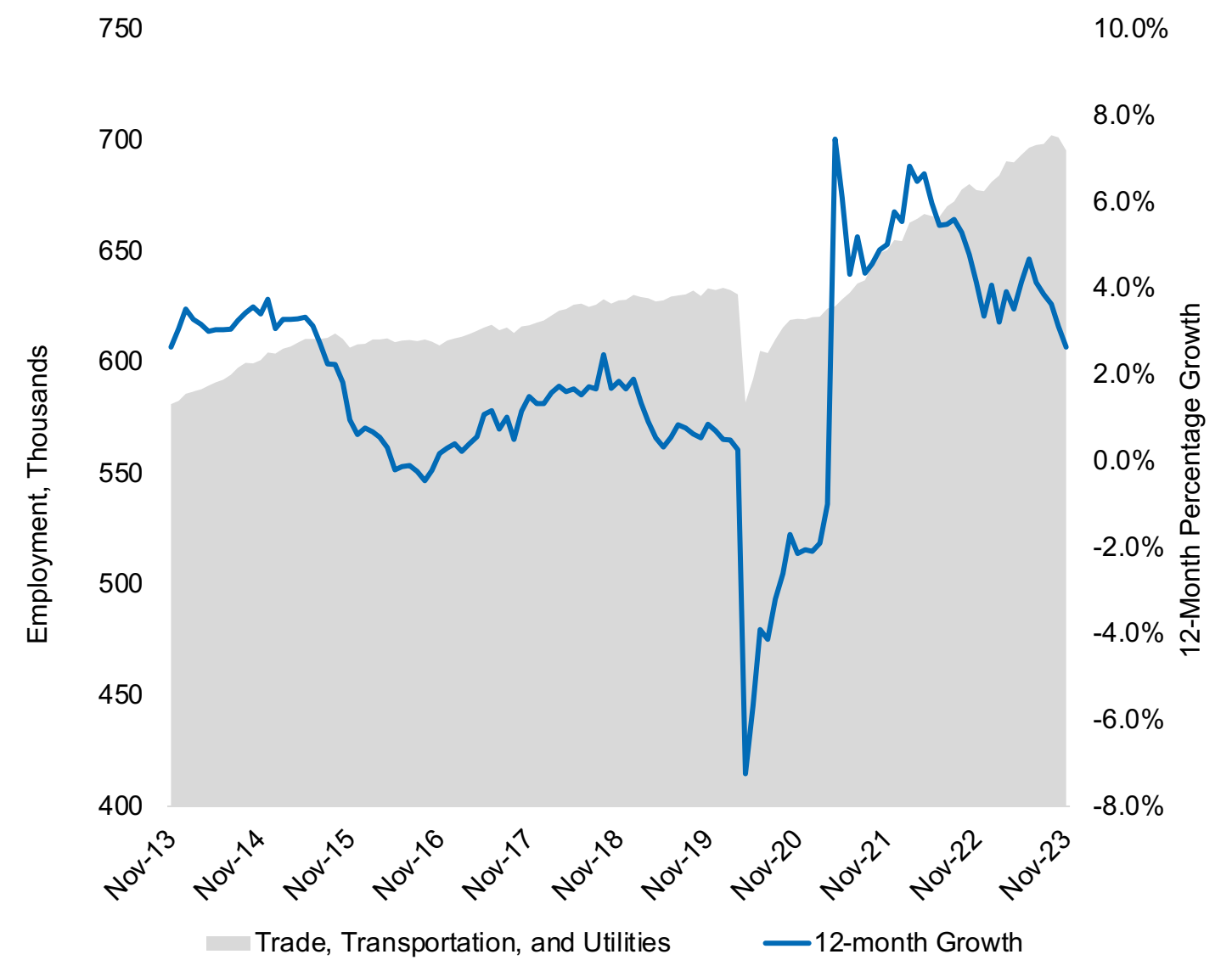


Source: U.S. Bureau of Labor Statistics, Houston MSA

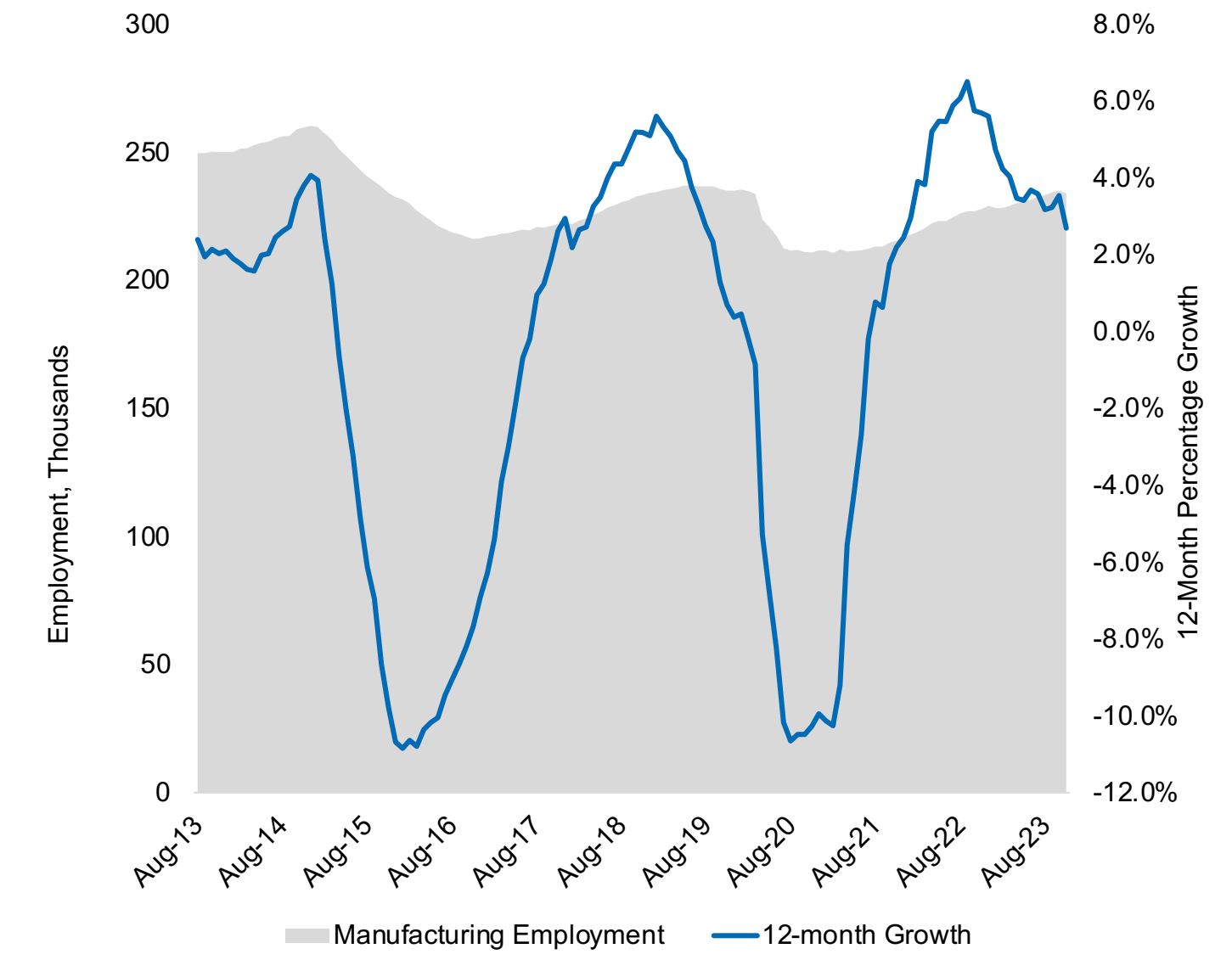
Industrial Employment Maintains Positive Growth

Trade/transportation/utilities employment has tapered slightly from the historically high levels reported earlier in September 2023. In November 2023, trade/transportation/utilities employment totaled 695,140 employees. Manufacturing employment also remains near the 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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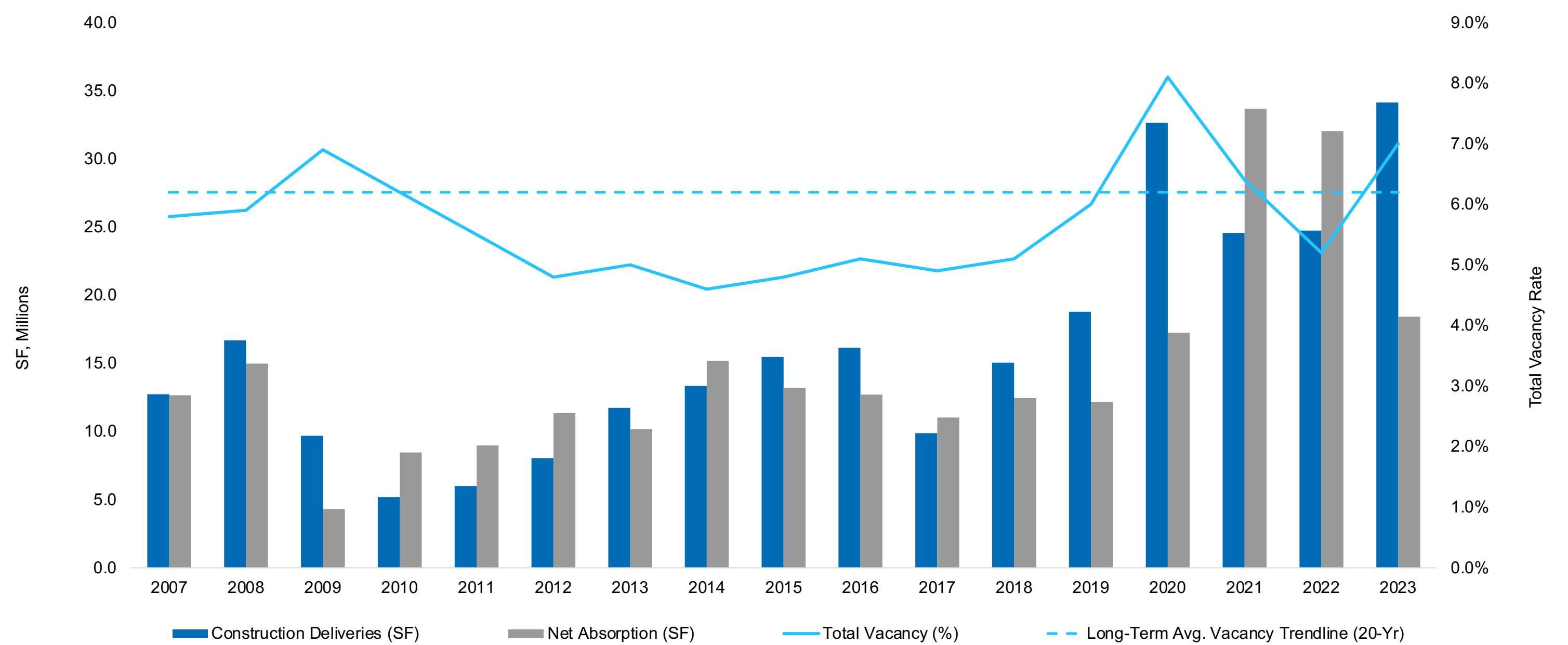
Leasing Market Fundamentals



Supply Outpaces Demand, Pushing Vacancy Rates Up

The Houston industrial vacancy rate increased by 180 basis points year over year to 7.0% in the fourth quarter of 2023. Deliveries continue to remain strong in the market, with new supply totaling 34.2 MSF in 2023, outpacing all annual new construction volumes reported. 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.

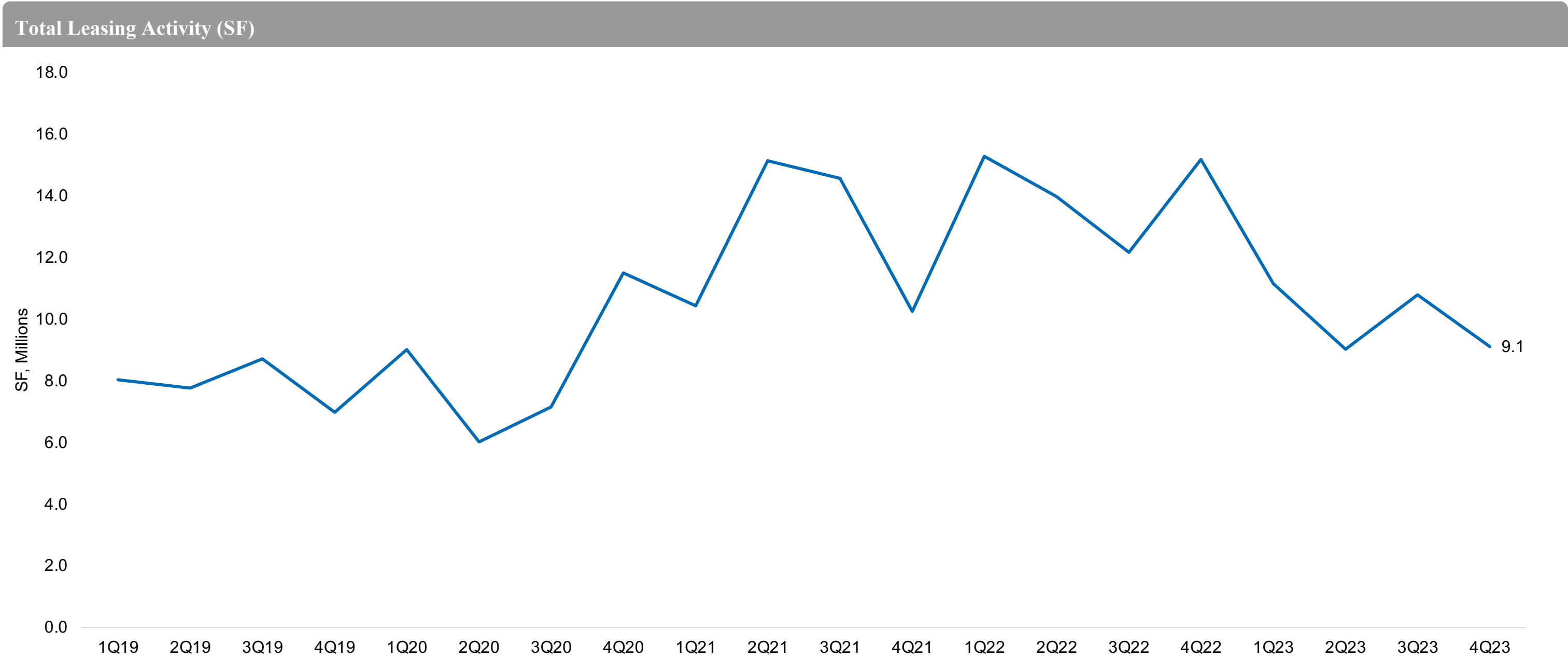
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Industrial Leasing Activity Continues to Decelerate

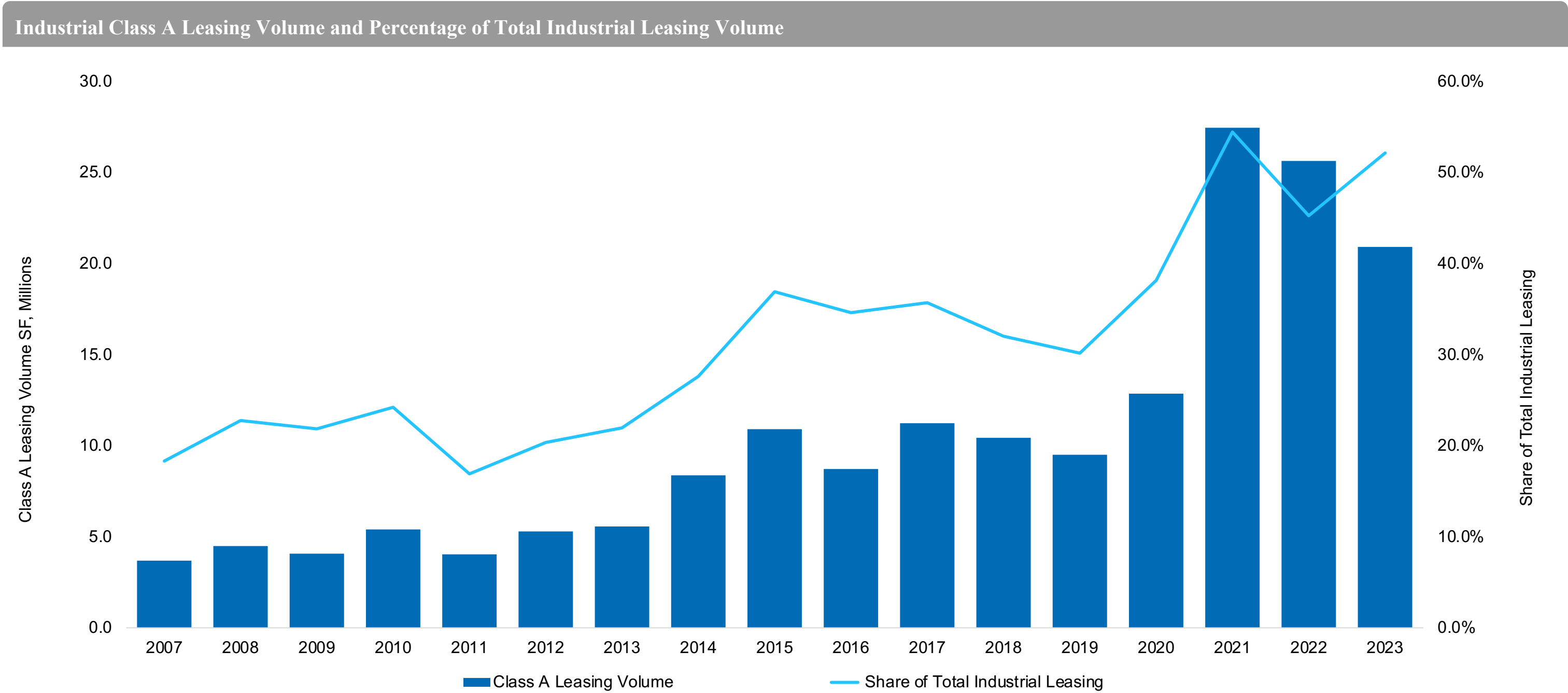
Leasing activity in the market decelerated from historical highs reported post pandemic, decreasing by 40% year over year to 9.1 MSF in the fourth quarter of 2023. Despite slowing leasing activity likely resulting from national economic headwinds, demand continues to remain positive in the market with net absorption of 2.3 MSF in the fourth quarter of 2023.



Source: Newmark Research, CoStar

Class A Warehouse Leasing above Long-Term Average

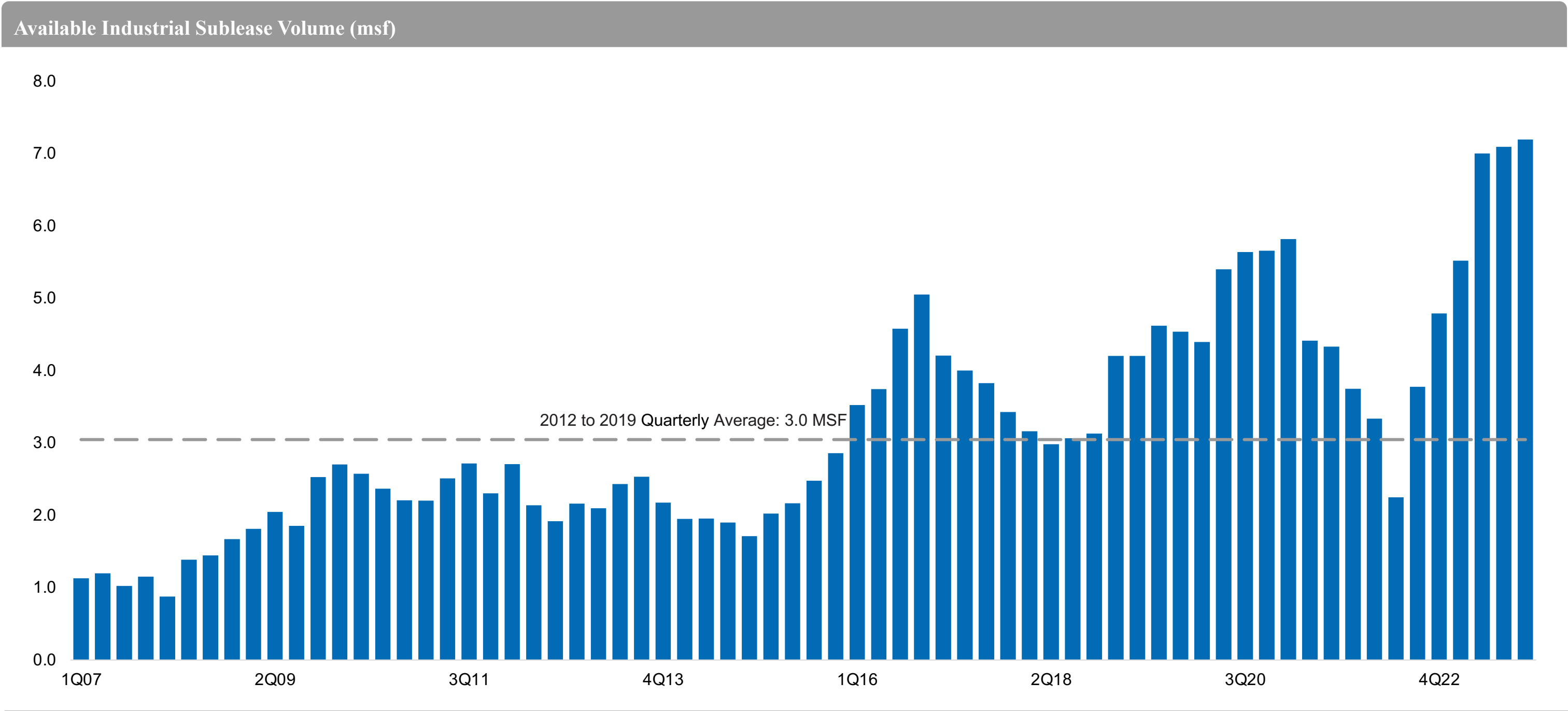
Class A warehouse space leasing activity continues to decrease from historic highs following the pandemic. This is also due to an influx of high-quality deliveries that have hit the market during this same period, with a record high of Class A warehouse space delivered in 2023. Class A warehouse leasing represented 52.1% of overall activity in 2023, up from 45.3% from the previous year and well above the pre-pandemic average at 26.4% from 2007 to 2019.



Source: Newmark Research, CoStar

Industrial Sublease Availability Remains above Long-Term Average

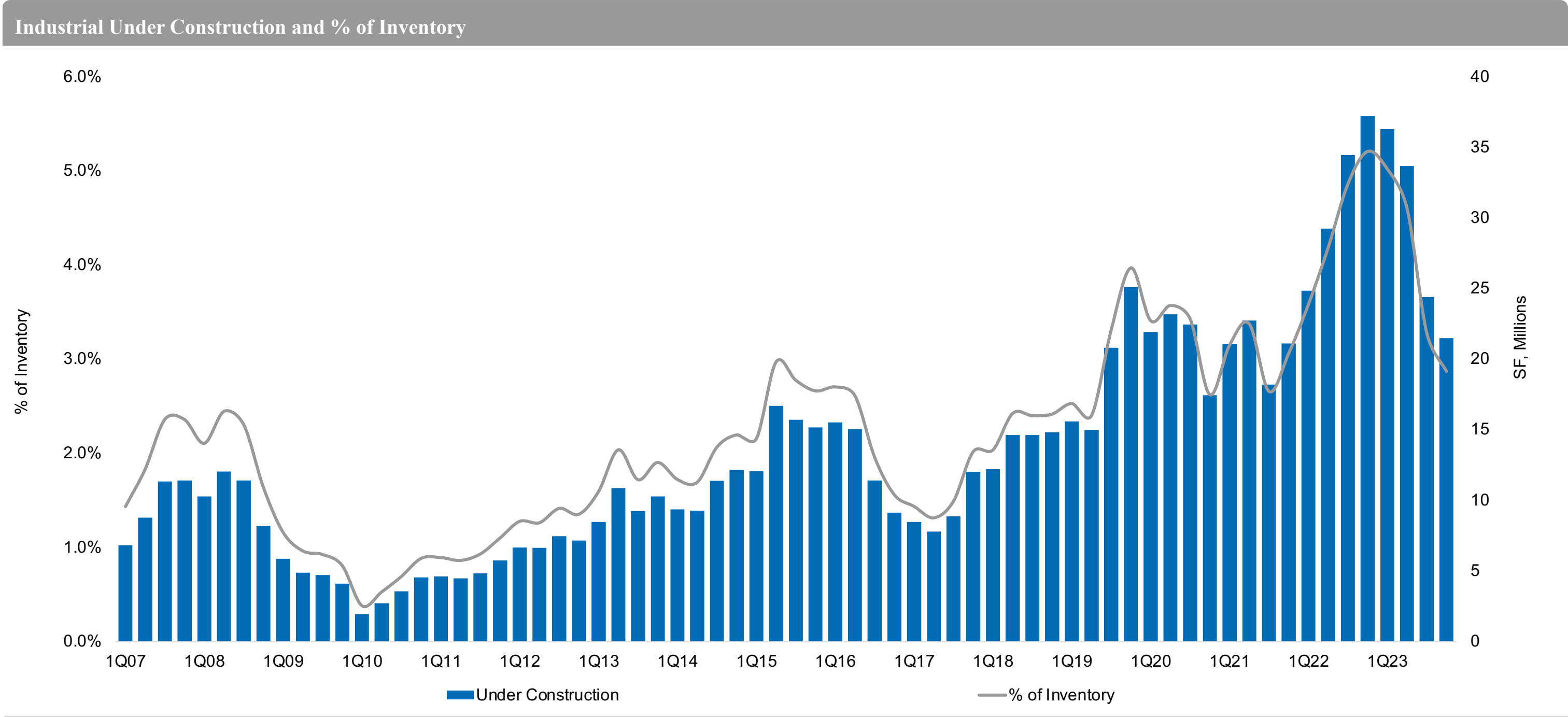
As of the end of the fourth quarter of 2023, sublease space available is at 7.2 MSF, well above the pre-pandemic quarterly average of 3.0 MSF. The rate at which subleases were added to the market has accelerated since the second half of 2022, increasing 50.1% year over year. Rising interest rates, an 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.



Source: Newmark Research, CoStar

Industrial Supply Pipeline Continues to Decrease from Historical Highs

The construction pipeline fell again in the fourth quarter of 2023 to 21.5 MSF, representing a decrease of 11.9% quarter over quarter. As of quarter end, deliveries totaled 5.0 MSF while the construction pipeline accounted for 2.9% of the market’s inventory, near levels reported throughout 2021. 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.

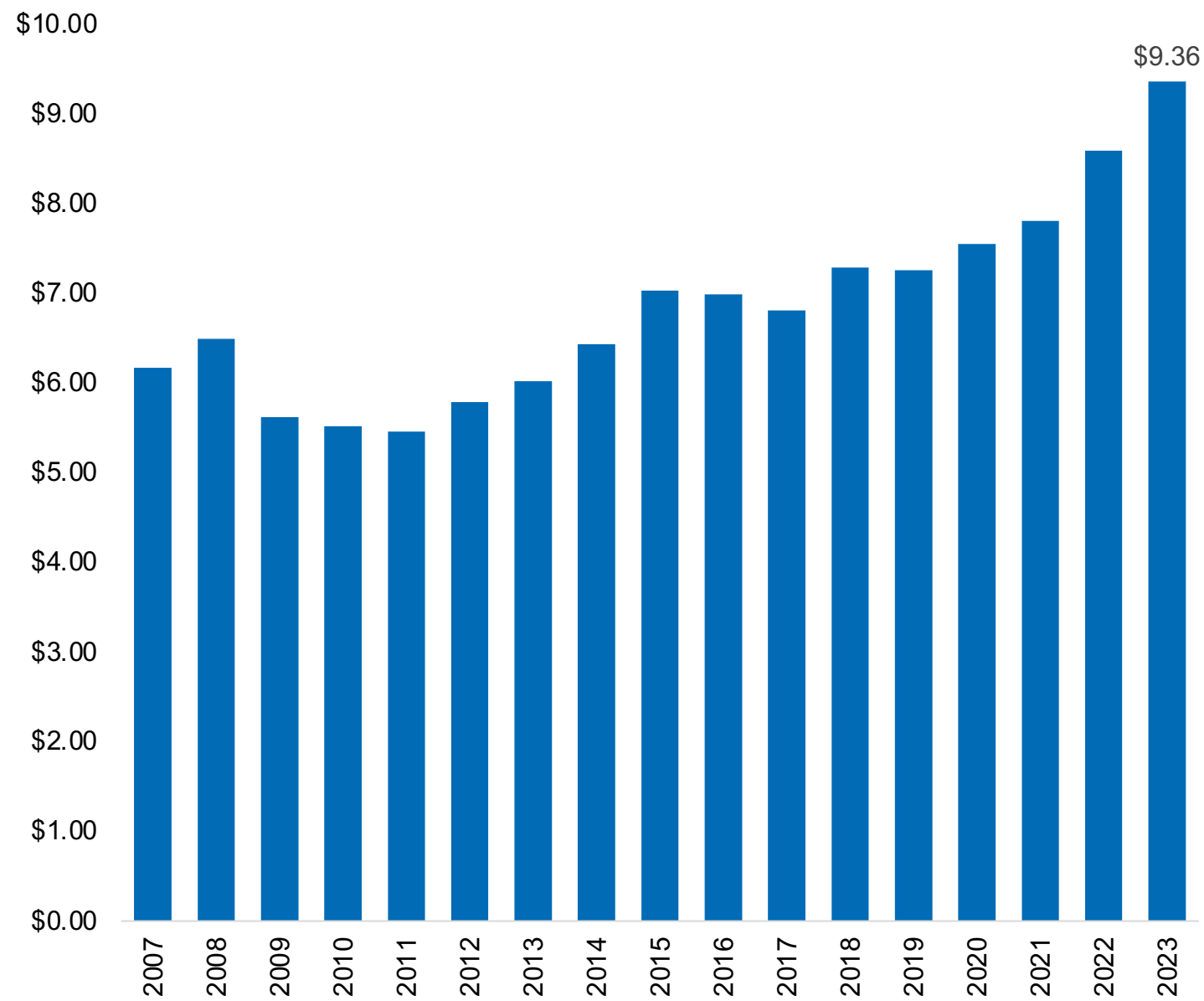


Source: Newmark Research, CoStar

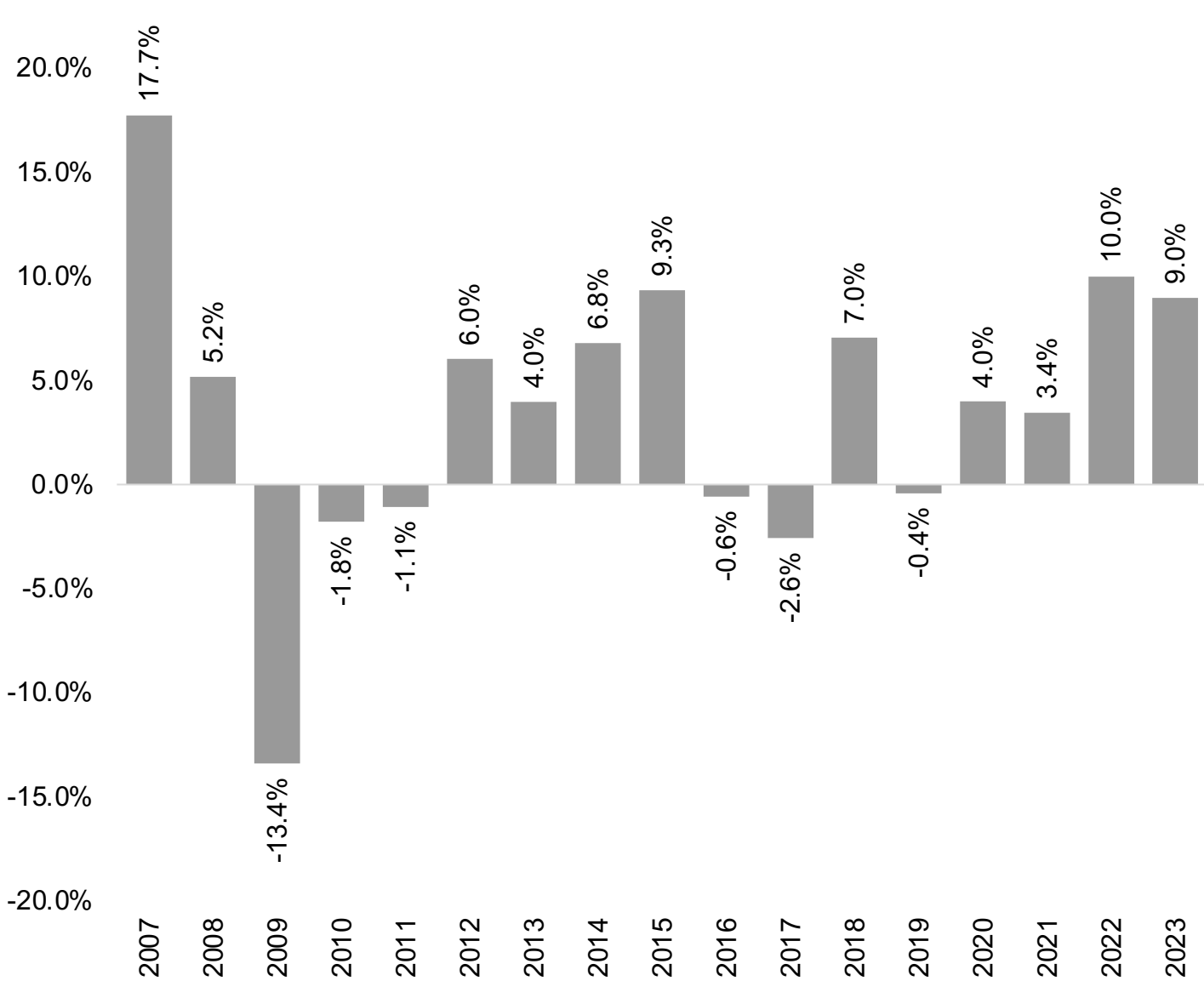
Asking Rents Reach New Historical High

Industrial average asking rents continue to accelerate, reaching a new high of \$9.36/SF as of the end of the fourth quarter of 2023, increasing by 9.0% 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

Notable 4Q23 Lease Transactions

Leasing activity slowed in the fourth quarter of 2023, with quarterly leasing activity at 9.1 MSF, but remains above quarterly averages reported since 2010 at 8.1 MSF. Currently, projects under construction are 32.9% pre-leased. The bulk of the quarter’s leasing activity centered around direct leases, which totaled 8.7 MSF, while sublease activity ended the quarter accounting for 381,796 SF.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Amazon	30229 US Highway 90 Business	Southwest	Direct New	696,960
Amazon signed a long-term lease for 400 trailer spots near its distribution center outside Brookshire. The outdoor parking and storage lot is owned by DryPort Capital.				
Waaree	2439 Discovery Hills Pkwy	Southwest	Direct New	546,000
India-based solar panel maker Waaree leased 546,000 SF at 2439 Discovery Hills Pkwy in Brookshire, establishing the company’s first manufacturing location in the U.S.				
ExxonMobil	8235 Plummer Rd	Southeast	Direct New	525,000
ExxonMobile signed a lease for 525,000 SF at 8235 Plummer Rd in the Houston Tradeport industrial park in the Southeast submarket.				
Wisembaker Builder Services	1020 Bammel Rd	North	Direct New	409,795
Wisembaker Builder Services, a global direct source construction supplier, signed for 409,795 SF of warehouse and distribution space at 1020 Bammel Rd.				
Imperial Star Solar	19200 Hamish Rd- Building 6	Northwest	Direct New	385,902
California-based renewal energy company Imperial Star Solar entered the Houston market with a 385,902 SF lease at 19200 Hamish Rd- Bldg 6 in the Northwest submarket.				

Source: Newmark Research



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