

1Q25

Houston Industrial Market Overview

NEWMARK

Market Observations

Economy

- The Houston market’s unemployment rate rose 12 basis points year over year to 4.3% but remains below the five-year average of 5.6%.
- Job growth fell by 60 basis points year over year to 1.3%, dropping below pre-pandemic levels, with February 2020 growth at 1.8%.
- All sectors, except information and financial services, reported employment growth, with other services leading job gains at 3.1% over the past 12 months.
- All industrial-using job sectors in the market reflected yearly growth, with manufacturing, mining/construction, and trade/transportation/utilities, reflecting growth of 0.4%, 1.1% and 1.5%, respectively.

Major Transactions

- Tesla signed the quarter’s largest lease, renewing and expanding for a total of 1.7 MSF at Buildings 9 and 10 at Empire West Business Park in the Northwest submarket.
- Daikin renewed its lease for 494,800 SF in 9626 Fallbrook Pines Dr. in the Northwest submarket for the second largest lease transaction of the quarter.
- Four of the quarter’s five-largest deals occurred in the Northwest submarket, highlighting the desirability for occupiers to be in proximity to the market’s major transportation corridors.

Leasing Market Fundamentals

- The market realized 875,142 SF of positive absorption in the first quarter of 2025, a decrease of 77.8% quarter over quarter, and could not keep pace with deliveries.
- Overall rental rates grew 6.5% year over year to \$9.69/SF, reaching a new all-time high for the fourth consecutive quarter.
- Construction deliveries rose to 3.5 MSF in the first quarter of 2025, while the pipeline grew to 16.7 MSF under construction.
- As deliveries significantly outpaced demand, the vacancy rate rose by 30 basis points quarter over to quarter to 6.8%.

Outlook

- The Houston industrial market is experiencing cautious activity in early 2025, influenced by escalating trade tensions and uncertainty surrounding tariffs. Investment activity in Houston's industrial sector is subdued, as investors await clarity on trade policies and their effects on imports and construction costs.
- The market will likely see an influx of supply on the market in the near term due to 2.1% of the current market’s inventory being under construction. New supply, which is only 19.6% pre-leased, will likely cause vacancy rates to rise in the first half of 2025.
- Asking rents are expected to continue rising, but at a more moderate pace, due to a large pipeline of quality new product commanding higher pricing coming online.

1. Economy
2. Leasing Market Fundamentals

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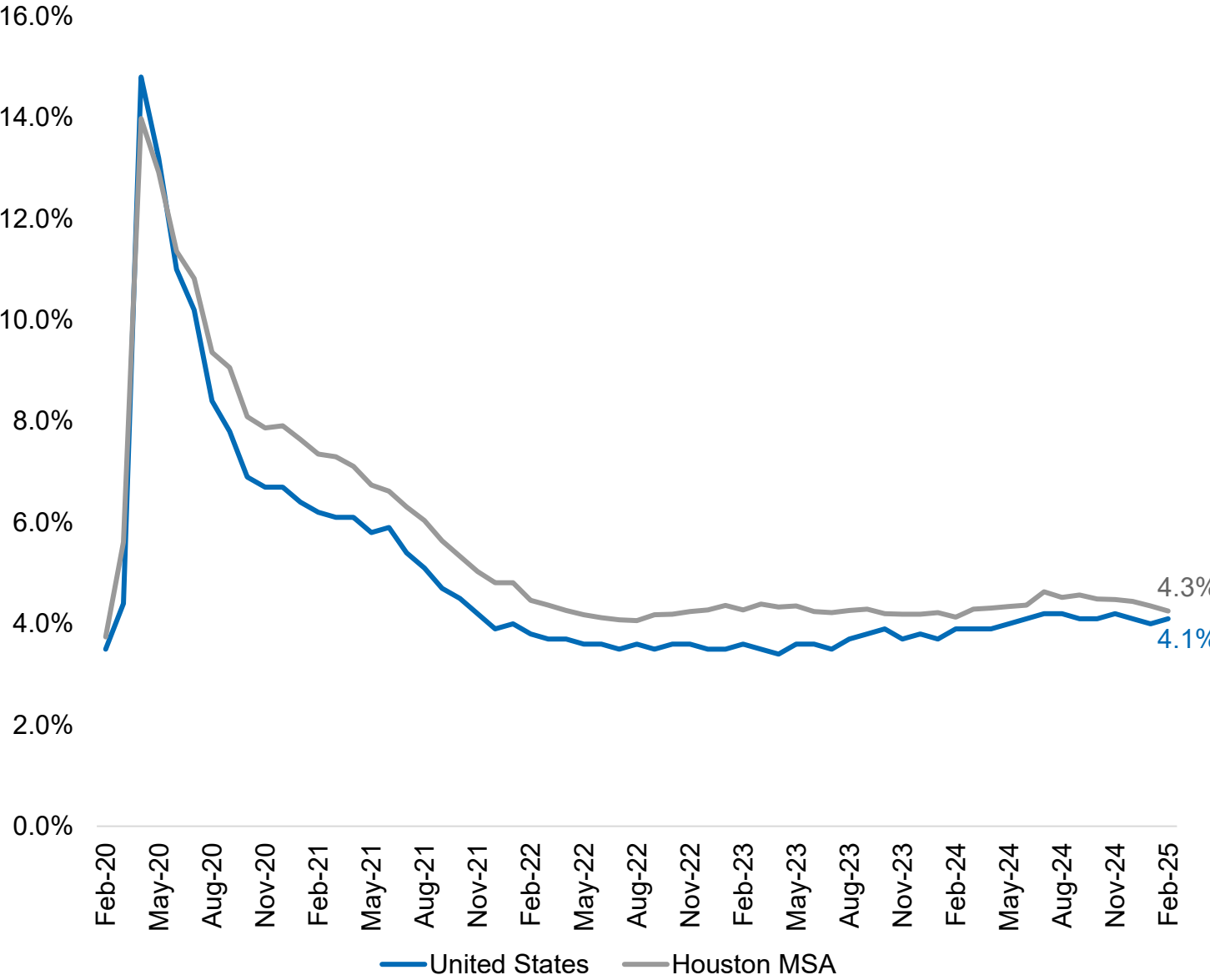
Economy



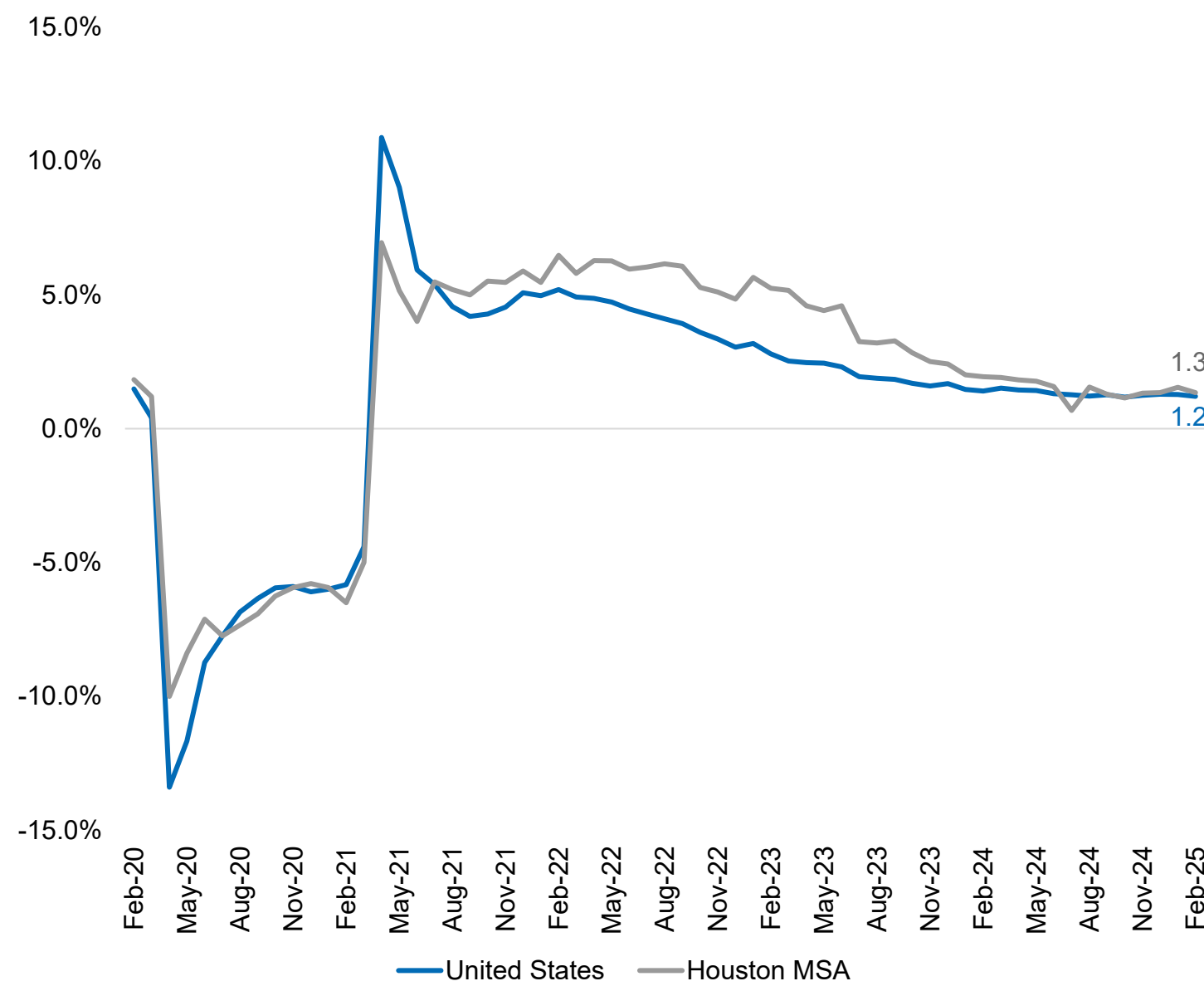
Slower Growth Continues for Metro Employment

The Houston market has generally reported slightly higher unemployment rates compared with the national average, while outperforming in employment growth. Recent national economic headwinds have pushed the local market's unemployment rate and the national average to converge, at 4.3% and 4.1%, respectively. Houston's unemployment rate increased by 12 basis points year over year for February 2025, while the employment year-over-year growth rate slowed by 60 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

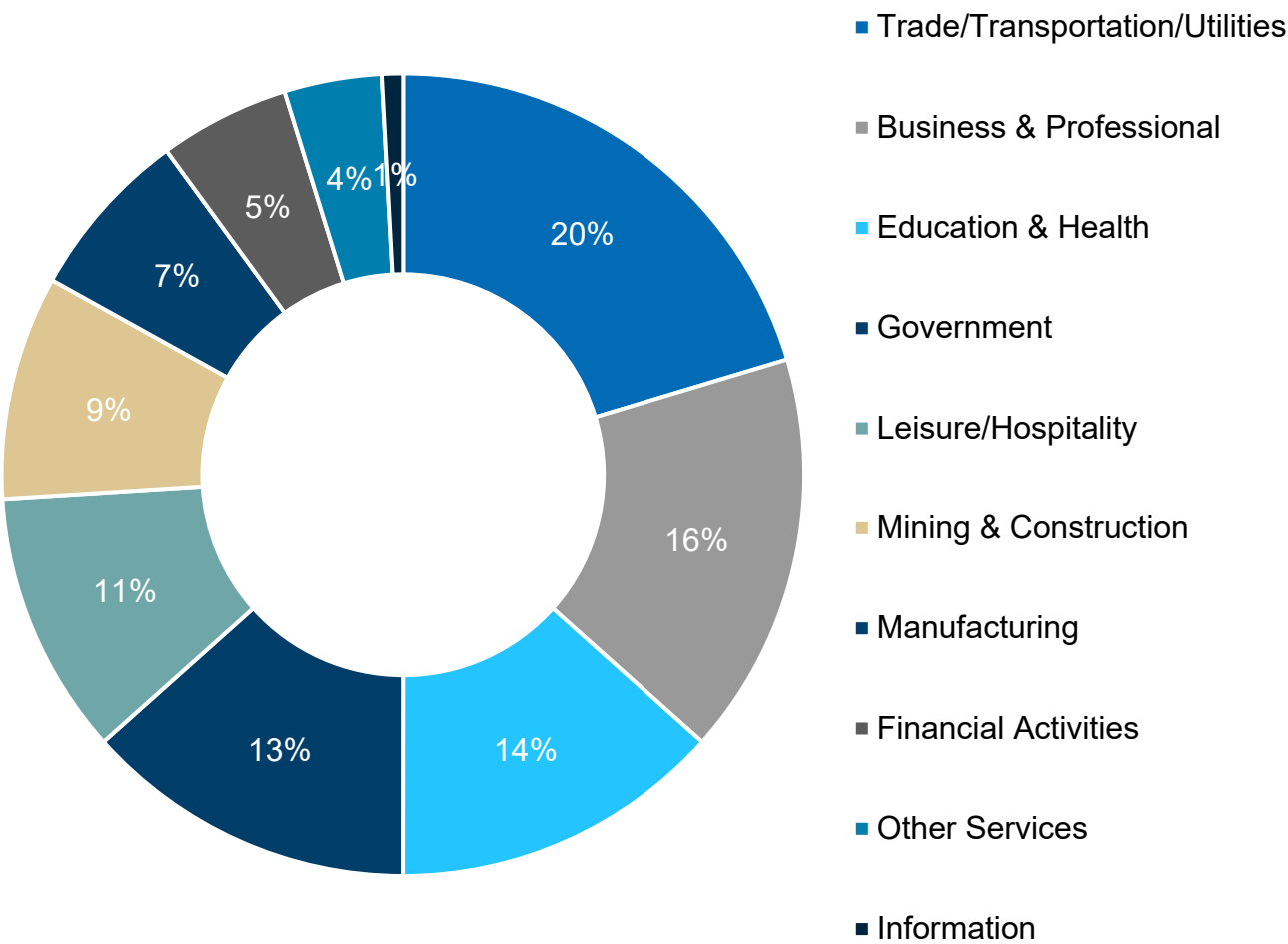


Source: U.S. Bureau of Labor Statistics, Houston MSA

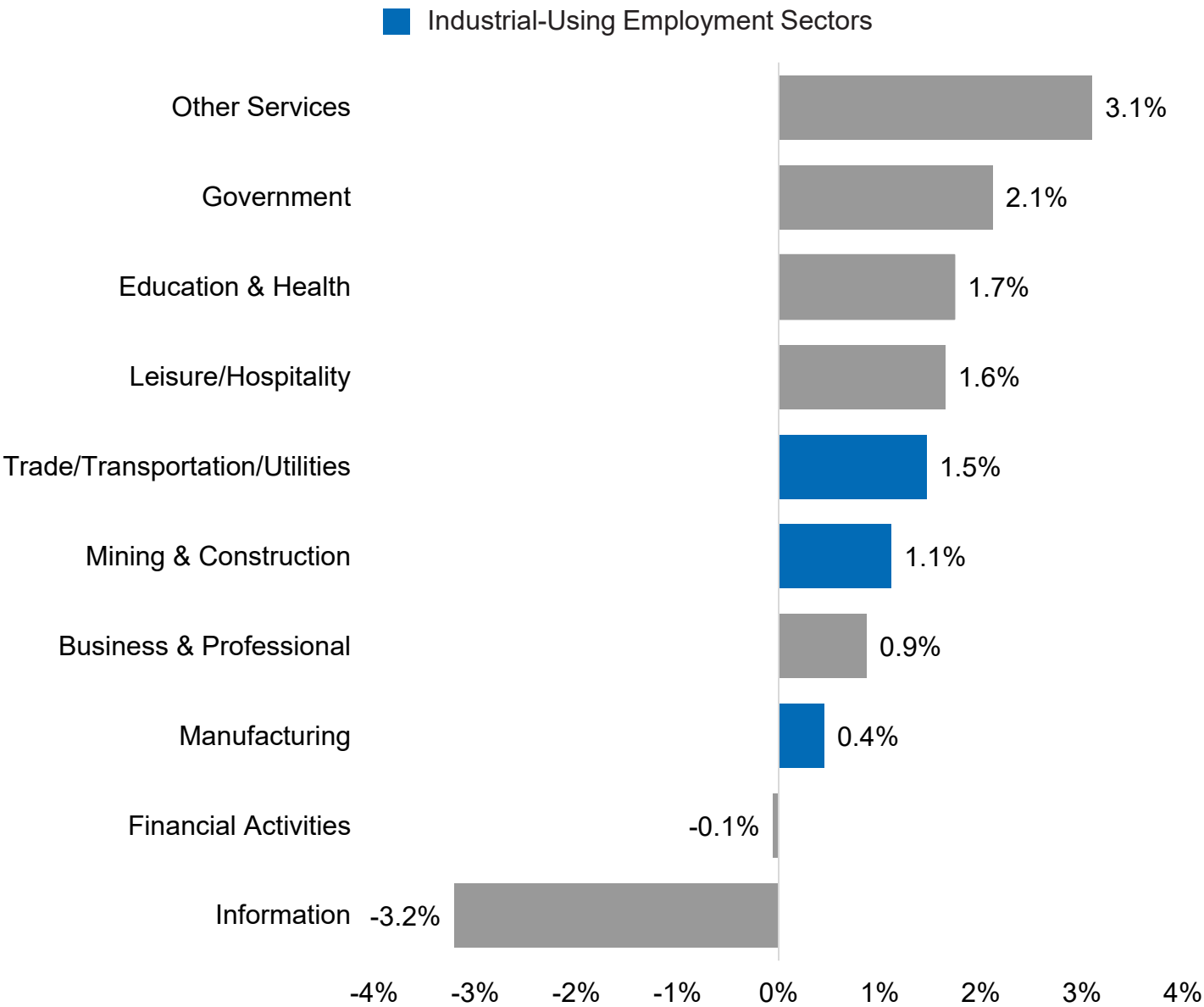
Employment Growth Across All Industrial Sectors

Known for its energy sector, the Houston market’s top two employment industries account for 36.6% of market share. The industrial-using employment’s trade/transportation/utilities sector is the largest industry sector in the metroplex at 20.4%. While most industries in the metro continued reporting growth, the financial activities and information sectors contracted. Industrial-using industries reported moderate year-over-year growth ranging from 0.4% to 1.5%, with trade, transportation and utilities leading annual employment gains.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

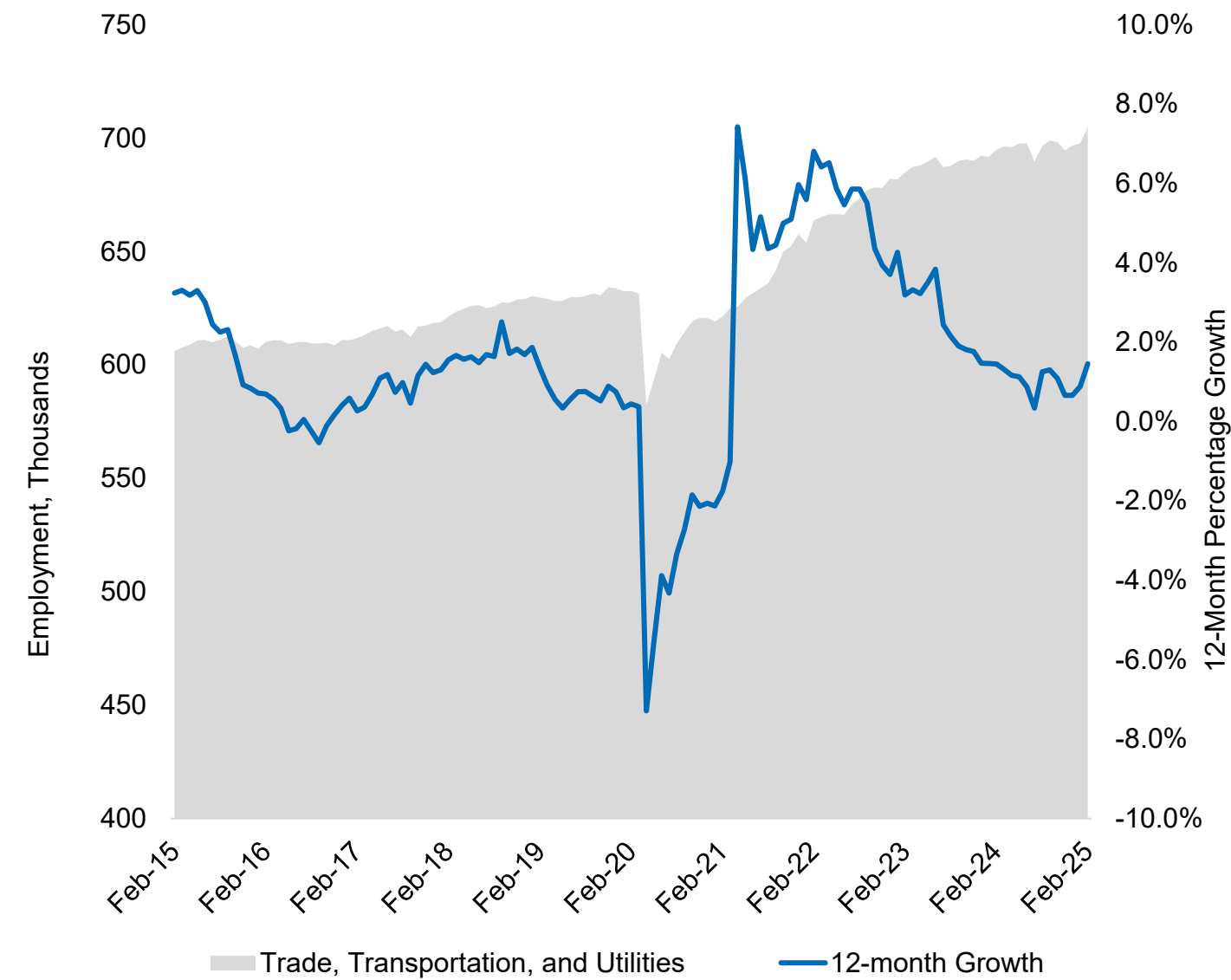


Source: U.S. Bureau of Labor Statistics, Houston MSA

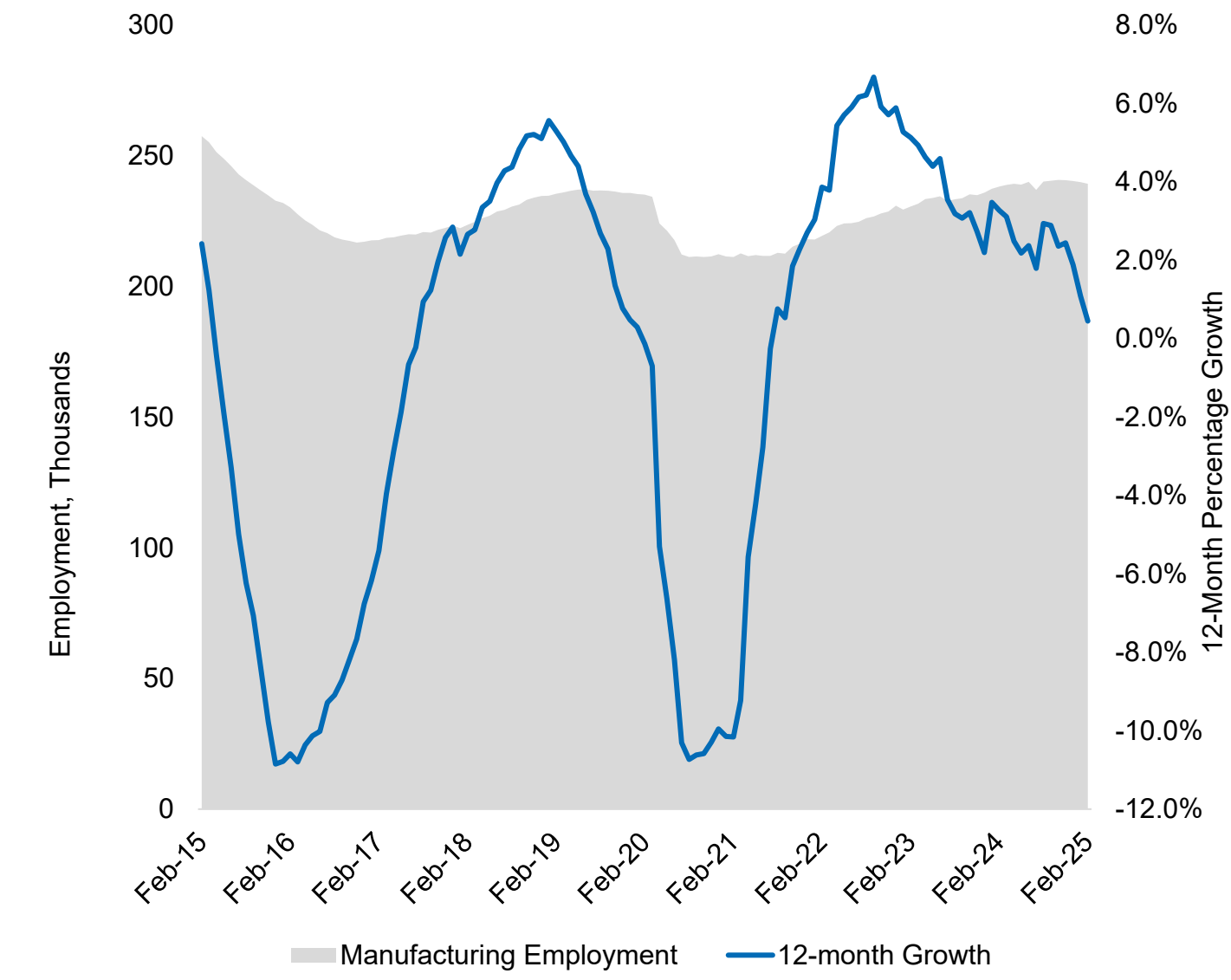
Industrial Employment Maintains Positive Growth

In February 2025, trade/transportation/utilities employment reached a new high of 704,963 employees, an annual growth rate of 1.5%. Manufacturing employment saw marginal annual growth of 0.4% to 239,160 employees, falling 0.6% below the peak reported in October 2024. Overall industrial-using employment continues to show yearly growth, albeit at a slower pace than before, reflecting broader economic conditions.

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

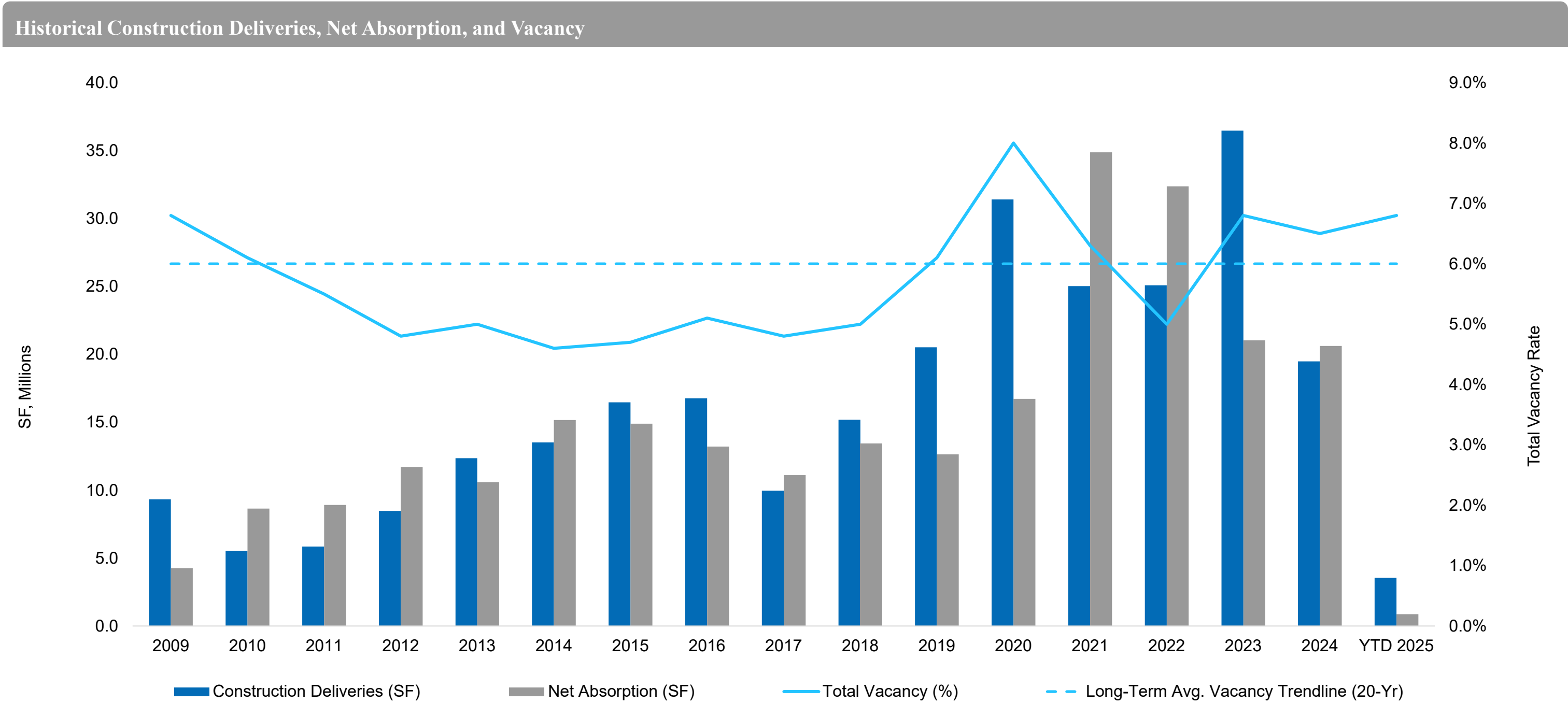
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Leasing Market Fundamentals



Absorption is No Match for New Supply

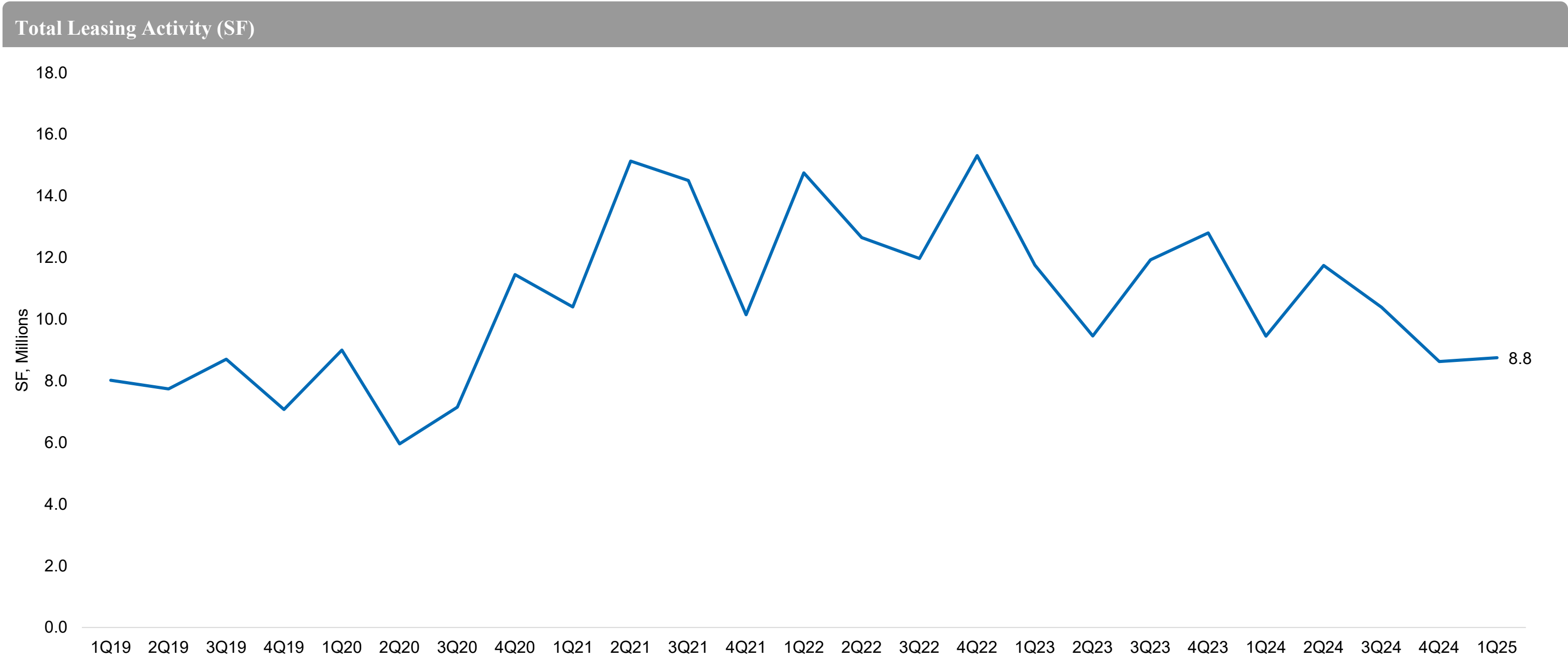
The Houston industrial vacancy rate rose slightly, increasing by 30 basis points quarter over quarter to 6.8% in the first quarter of 2025. Supply outpaced demand for six consecutive quarters from the start of 2023 to mid-year 2024, but in the second half of 2024 the trend reversed as the construction pipeline significantly decreased. In the first quarter of 2025, supply again outpaced demand, as absorption fell to 875,142 SF, its lowest point since the third quarter of 2016, while deliveries totaled 3.5 MSF.



Source: Newmark Research, CoStar

Annual Leasing Volume Dips as Average Deal Size Grows

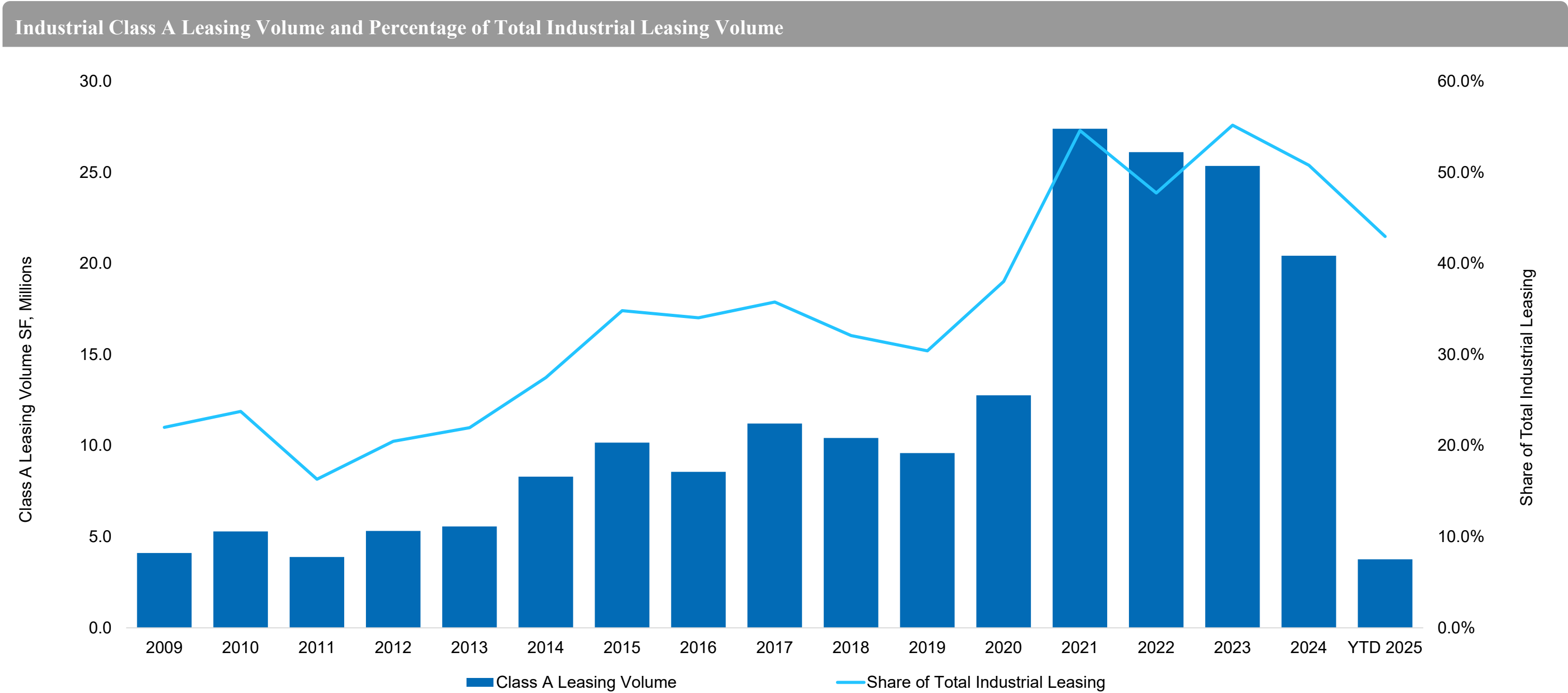
In the first quarter of 2025, leasing activity totaled 8.8 MSF, a quarter over quarter increase of 1.4% but a decrease of 7.4% year over year. Since 2019, first quarter deal volume has averaged 10.6 MSF, with the first quarter of 2025 falling 17.2% below the quarterly average. Despite lower leasing activity in the first quarter of 2025, the average deal size grew by 3.5% year over year to 18,007 SF, an indication that occupiers are still expanding across the market.



Source: Newmark Research, CoStar

Class A Warehouse Leasing Slows but Remains above Long-Term Average

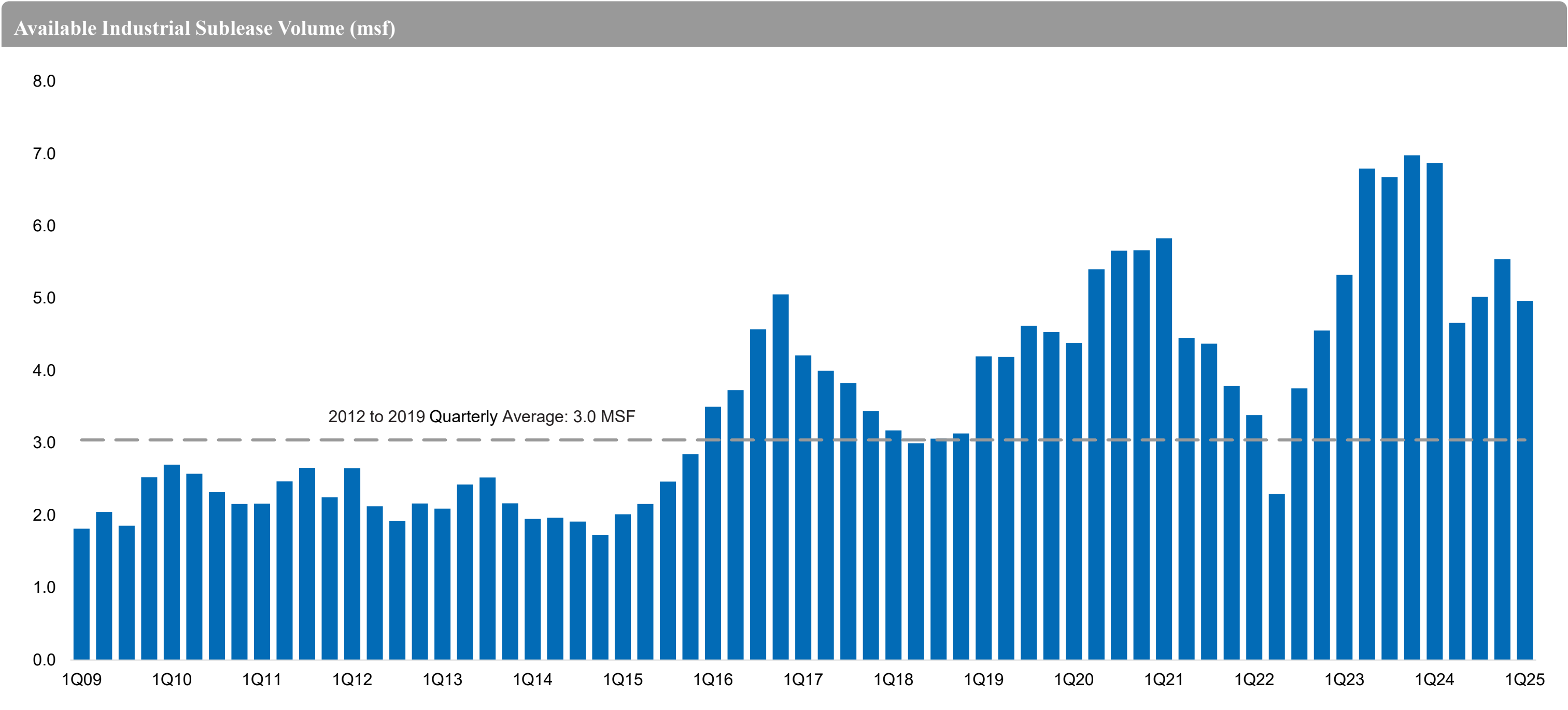
Class A warehouse space leasing activity totaled 3.8 MSF in the first quarter of 2025, roughly 58.5% lower than the historic high of 9.1 MSF reported in the fourth quarter of 2022. Class A warehouse leasing accounted for 43.0% of activity in the first quarter of 2025, a decrease of 450 basis points from activity one year ago, and well above the quarterly pre-pandemic average of 26.7% from 2008 to 2019. Despite Class A leasing by square footage declining during the quarter, the proportion of Class A leasing compared with total leasing continues to remain elevated, indicating that there is still appetite for quality assets in the market.



Source: Newmark Research, CoStar

Year Over Year Sublease Availability Continues to Fall

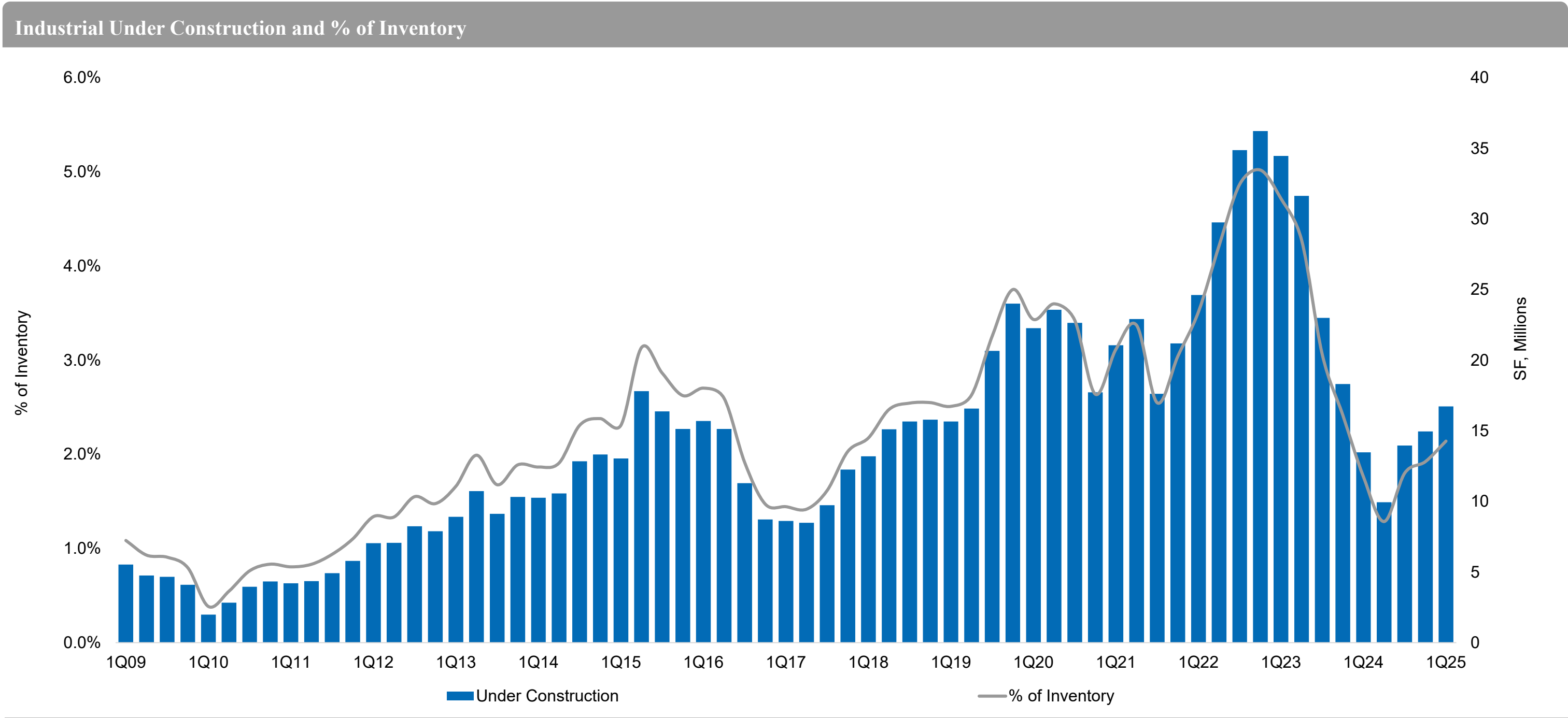
As of the end of the first quarter of 2025, sublease space available is at 5.0 MSF, well above the pre-pandemic quarterly average of 3.0 MSF from 2012 to 2019. The amount of available sublease space in the market fell by 10.4% quarter over quarter and by 27.7% year over year. The continuing decline in available sublease space year over year was accelerated by several sublease deals in early 2024, which removed a significant amount of sublease space from the market.



Source: Newmark Research, CoStar

Industrial Supply Pipeline Maintains Momentum

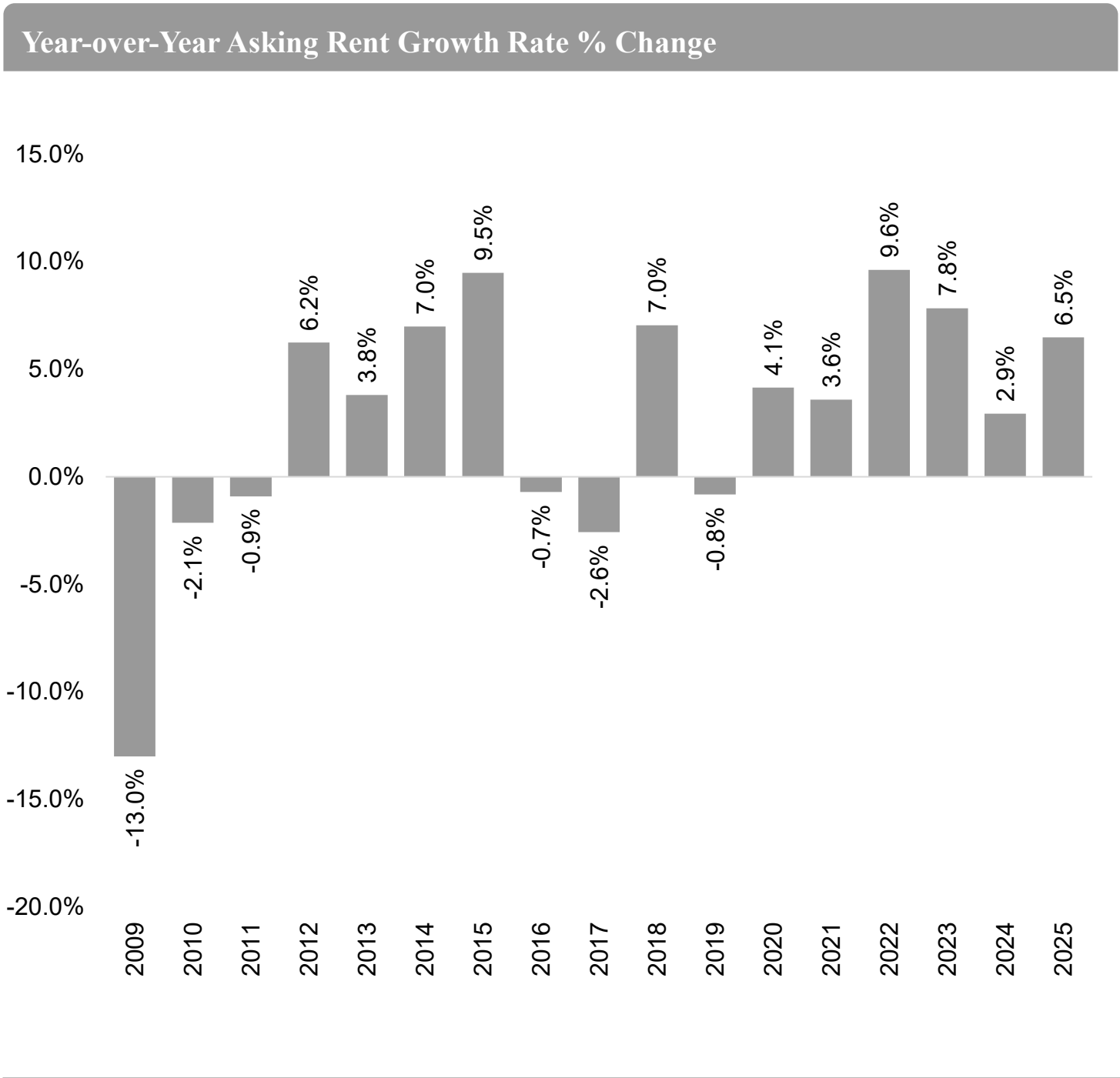
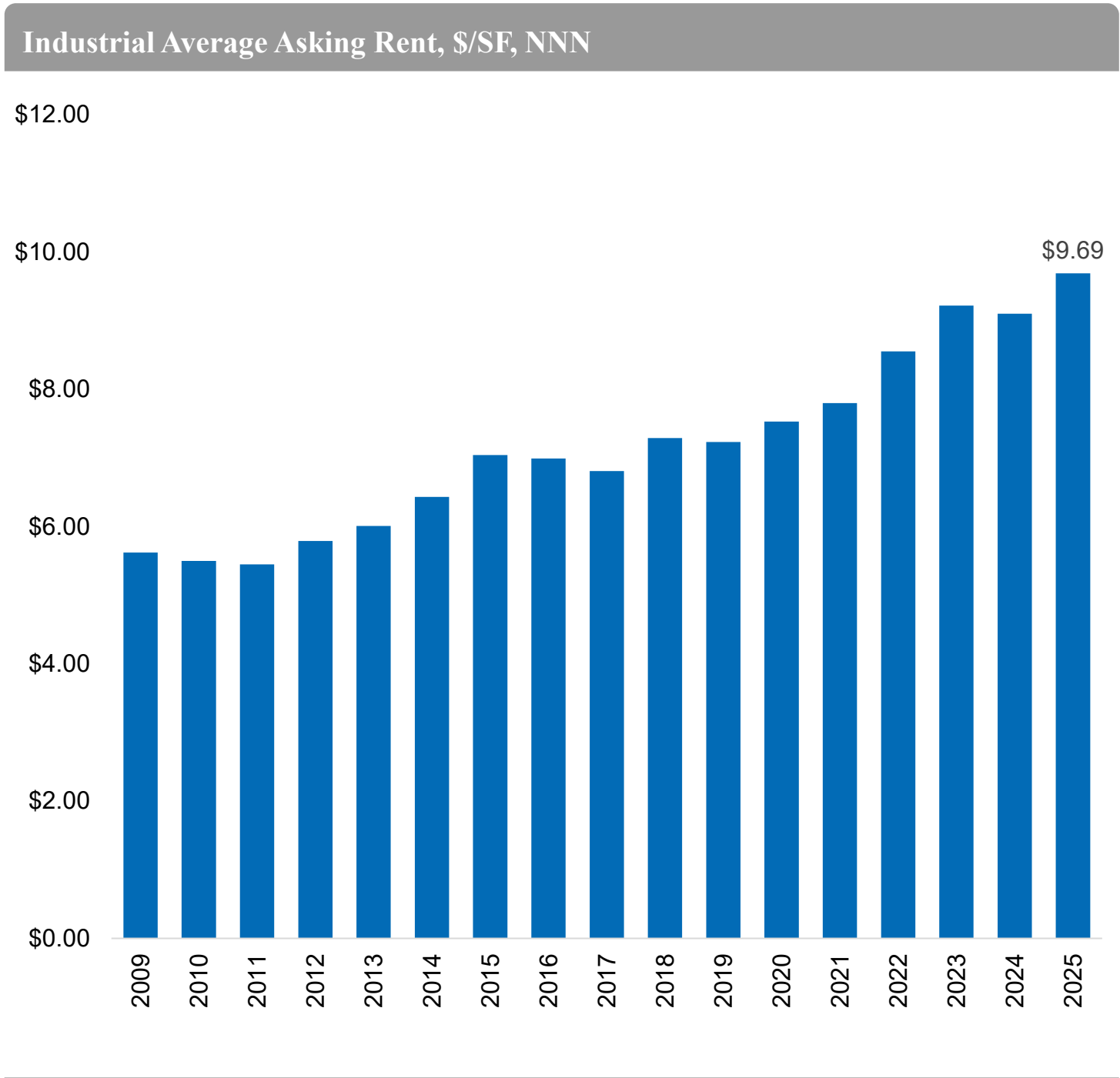
The construction pipeline expanded in the first quarter of 2025, increasing 11.9% quarter over quarter to 16.7 MSF under construction. As of quarter end, deliveries totaled 3.5 MSF while the construction pipeline accounted for 2.1% of the market’s inventory. The increase in new construction starts since mid-year 2024 is likely due to a more favorable financing environment but overall, the market could still see potential supply constraints moving in the mid-term.



Source: Newmark Research, CoStar

Recent Deliveries Push Asking Rents to New All-Time High

Industrial average asking rents reached a new peak in the first quarter of 2025 at \$9.69/SF, increasing by 6.5% year over year. Asking rents in the market are being driven up by the influx of new supply hitting the market in recent quarters, including 3.5 MSF in the first quarter of 2025. In the near-term, asking rents will likely continue to rise at a moderate pace as the market works through the current construction pipeline.



Source: Newmark Research, CoStar

Notable 1Q25 Lease Transactions

Leasing activity fell year over year in the first quarter of 2025, with quarterly leasing activity at 8.8 MSF, in line with quarterly averages reported since 2010 of 8.4 MSF. The bulk of the quarter’s leasing activity centered around direct leases, which totaled 7.1 MSF, while sublease activity ended the quarter accounting for 1.7 MSF. High-quality, Class A spaces continued to command the market, as leasing activity within the asset class accounted for 43.0% of total leasing transactions by square footage during the quarter. Currently, only 19.6% of space under construction is pre-leased.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Tesla <i>Electric vehicle manufacturer, Tesla, had the quarter’s largest lease for 1.7 MSF in Buildings 9 and 10 at Empire West Business Park in the Northwest submarket. Tesla signed an early renewal and expanded by an additional 616,463 SF.</i>	Empire West Business Park- Building 9 & 10	Northwest	Renewal & Expansion	1,655,523
Daikin <i>Daikin, the world’s largest air conditioner manufacturer, renewed its lease at 9626 Fallbrook Pines Dr for 494,800 SF.</i>	9626 Fallbrook Pines Dr	Northwest	Renewal	494,800
EDA International <i>EDA International, a food service equipment supplier, signed a new deal in Building 1 at Mason Ranch for 373,860 SF.</i>	Mason Ranch- Building 1	Northwest	Direct New	373,860
Undisclosed Tenant <i>An undisclosed tenant leased 298,200 SF at Building 6 in AmeriPort Industrial Park in the Southeast submarket.</i>	AmeriPort Industrial Park- Building 6	Southeast	Direct New	298,200
Francesca’s <i>Women’s clothing boutique, Francesca’s, renewed its lease for 217,869 SF at 8760 Clay Rd. in the Northwest submarket.</i>	8760 Clay Rd	Northwest	Renewal	217,869

Source: Newmark Research



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