3Q24

Houston Industrial Market Overview

NEWMARK

Market Observations

Economy

- The Houston market's unemployment rate rose 19 basis points year over year to 4.4% but remains below the five-year average of 5.5%.
- Job growth fell by 77 basis points year over year to 2.3%, trending toward pre-pandemic levels, with August 2019 growth at 2.2%.
- All sectors, except information, reported employment growth, with other services leading job gains at 8.0% over the past 12 months.
- All industrial-using job sectors in the market reflected yearly growth, with trade/transportation/utilities, manufacturing, and mining/construction reflecting growth of 0.7%, 2.2% and 5.3%, respectively.

Leasing Market Fundamentals

- The market realized 5.7 MSF of positive absorption in the third quarter of 2024, an increase of 26.5% quarter over quarter as demand outpaced deliveries.
- Overall rental rates grew 4.5% year over year to $9.45/SF, reaching a new all-time high.
- Construction deliveries fell to 2.8 SF in the third quarter of 2024, while the pipeline grew to 14.4 MSF under construction.
- Demand reversed course as absorption outpaced new supply, leading vacancy rates to contract by 40 basis points quarter over quarter to 7.1%.

Major Transactions

- BroadRange Logistics signed the quarter's largest lease, taking 1.2 MSF at Northport Logistics Center in Conroe. The building is the largest speculatively-built warehouse to be leased in the Houston market.
- Lecangs leased 509,975 SF for the second largest lease transaction of the quarter.
- Each of the five largest deals of the quarter occurred in different submarkets, indicating the market's broader strength in accommodating the complexity of occupier needs.

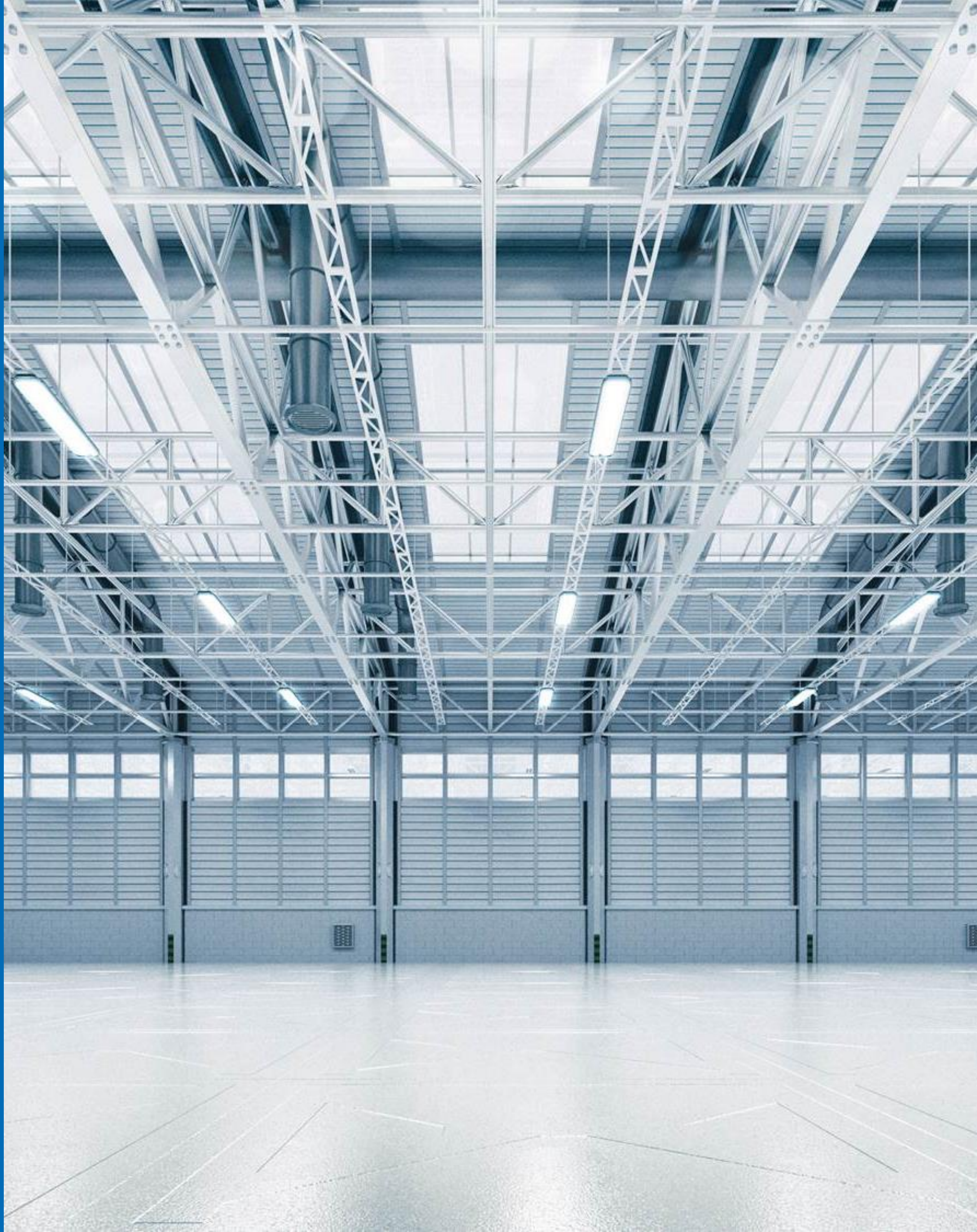
Outlook

- The Houston industrial market will likely see an influx of supply on the market in the near term, due to 1.9% of the current market's inventory being under construction. New supply, which is 23.0% pre-leased, will outpace demand in the near-term.
- Vacancy rates are projected to increase in the near term as supply is expected to outpace occupancies.
- Asking rents will likely continue to increase, but at a slower pace, due to elevated inflation and a large pipeline of quality new product commanding higher pricing coming online.

TABLE OF CONTENTS

3Q24

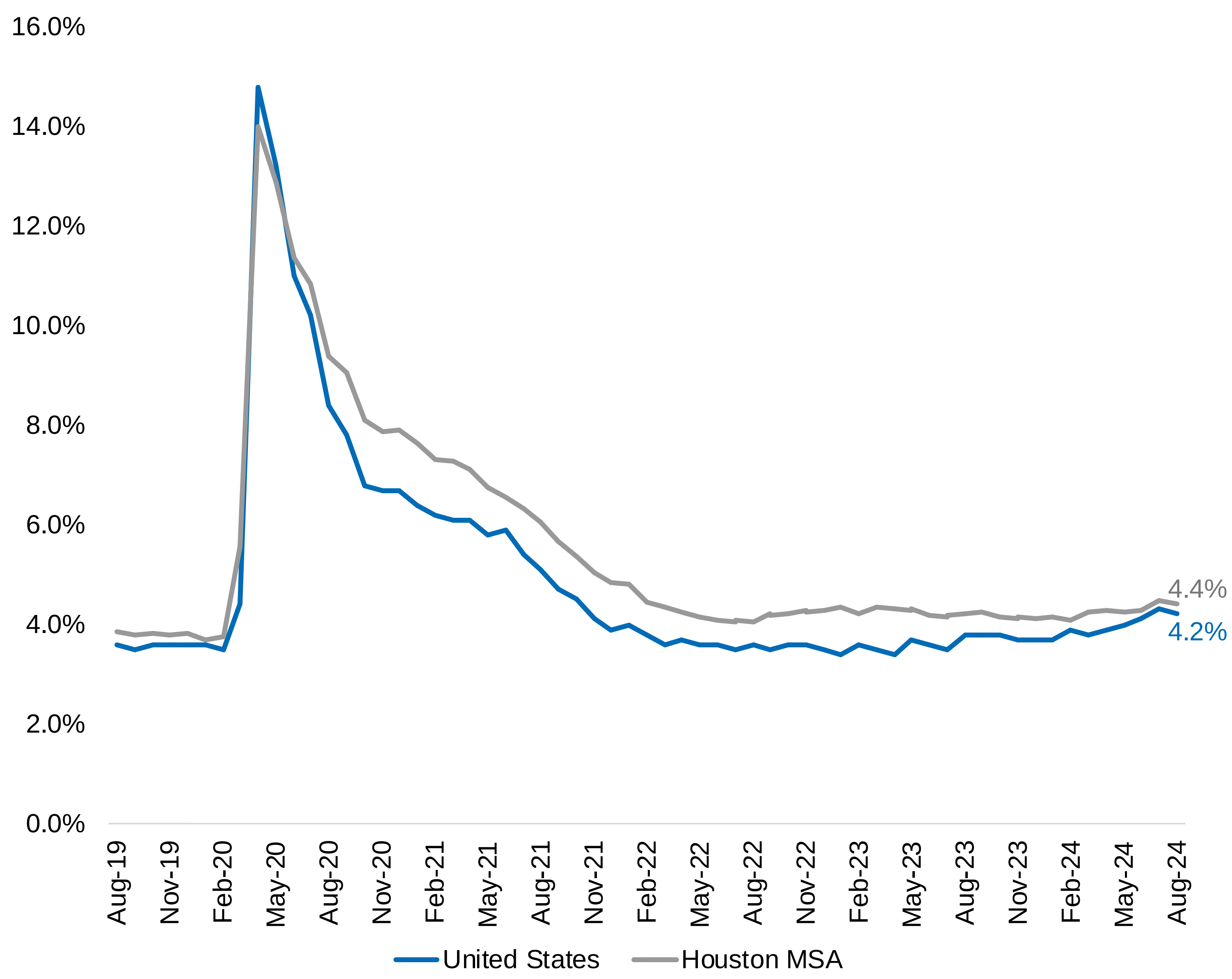
Economy



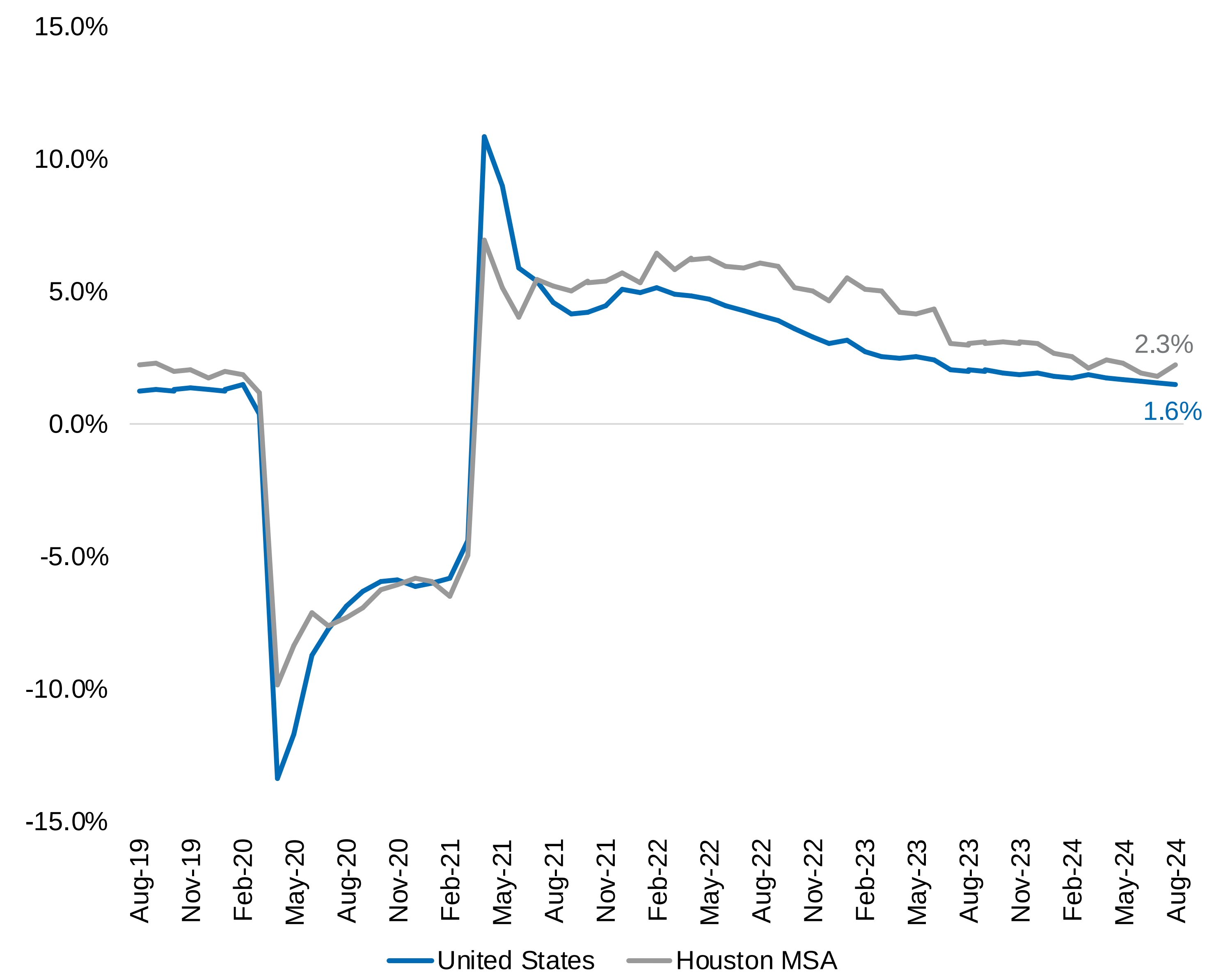
Metro Employment Trends Continue Slow Growth

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 market's unemployment rate and the national average to converge, at 4.4% and 4.2%, respectively. Houston's unemployment rate increased by 19 basis points year over year, while the employment year-over-year growth rate slowed by 77 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

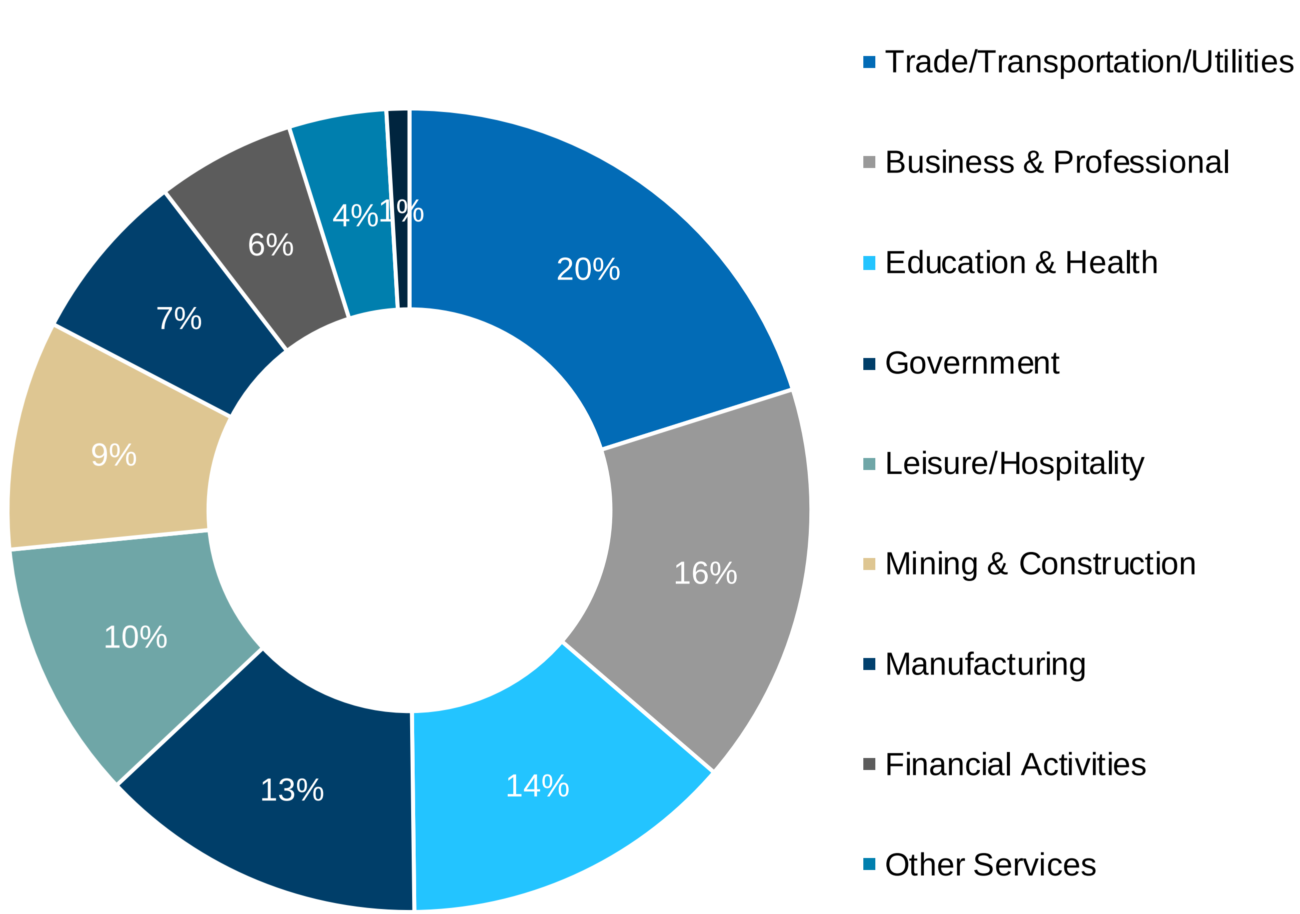


Source: U.S. Bureau of Labor Statistics, Houston MSA

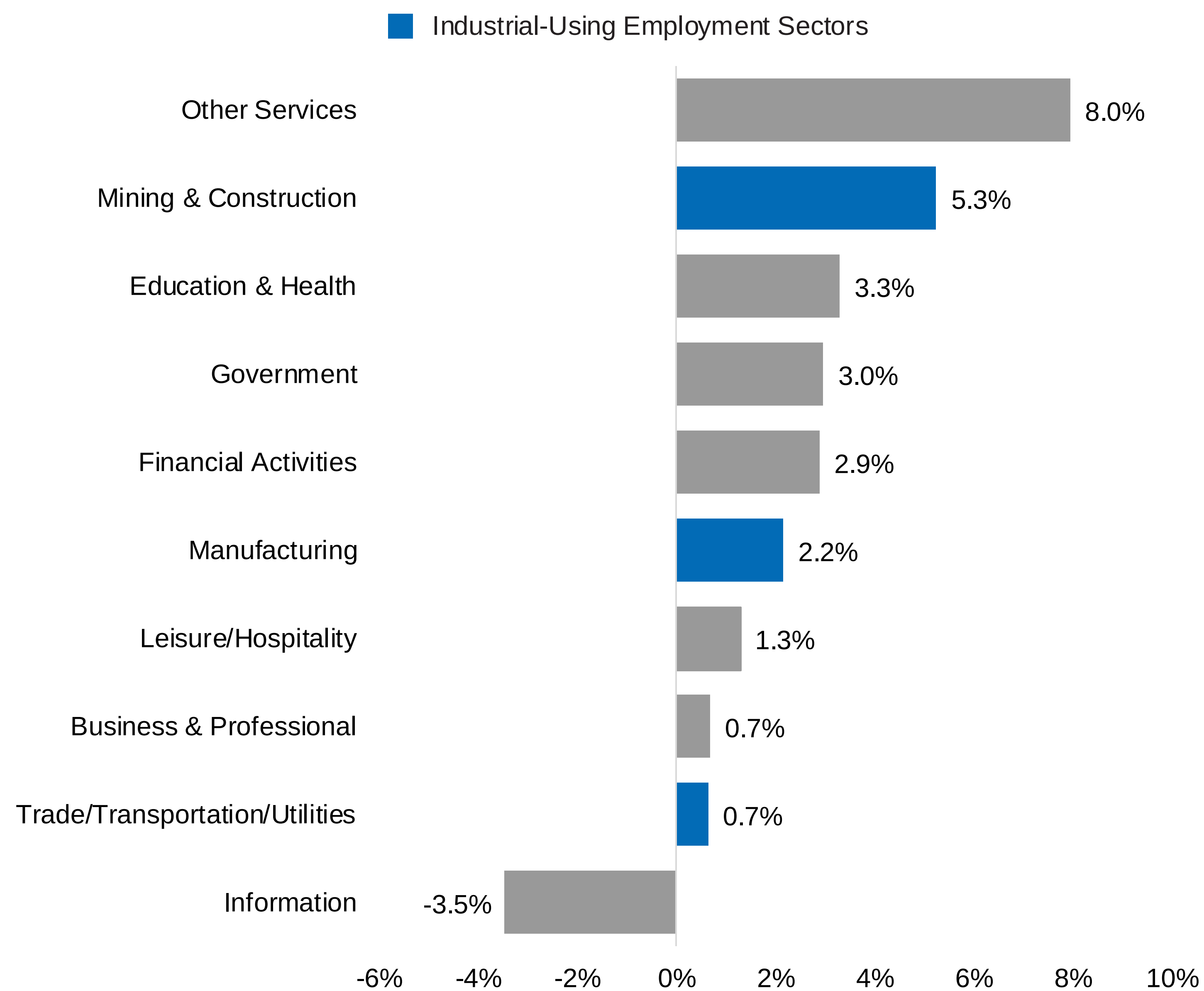
Employment Growth Continues Across All Industrial Sectors

Known for its energy sector, the Houston market's top two employment industries account for 36.3% of market share. The industrial-using employment's trade, transportation and utilities sector is the largest industry sector in the metroplex at 20.1%. All industries in the metro, except for information, reported growth with industrial-using industries reporting year-over-year gains ranging from 0.7% to 5.3%.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

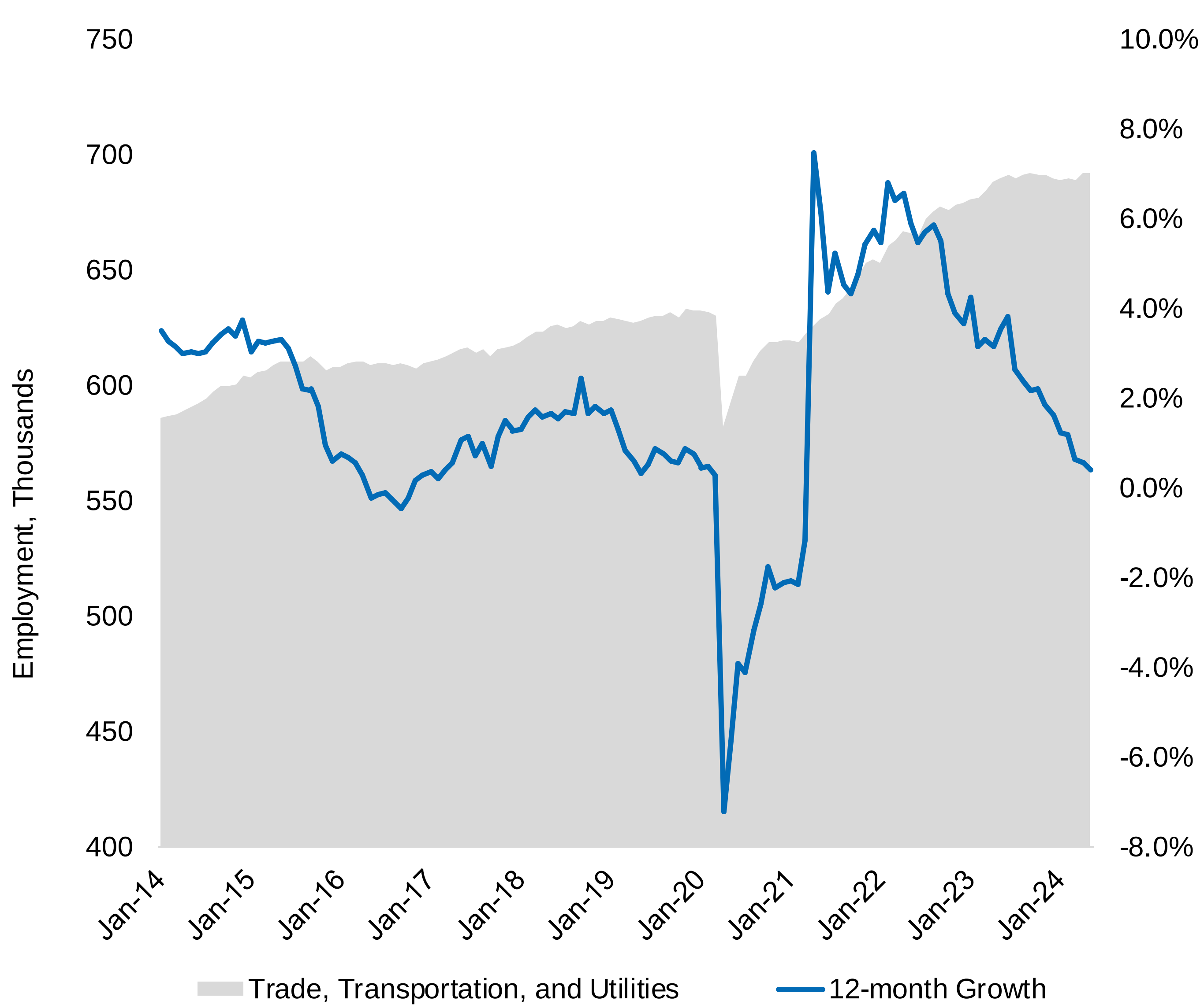


Source: U.S. Bureau of Labor Statistics, Houston MSA

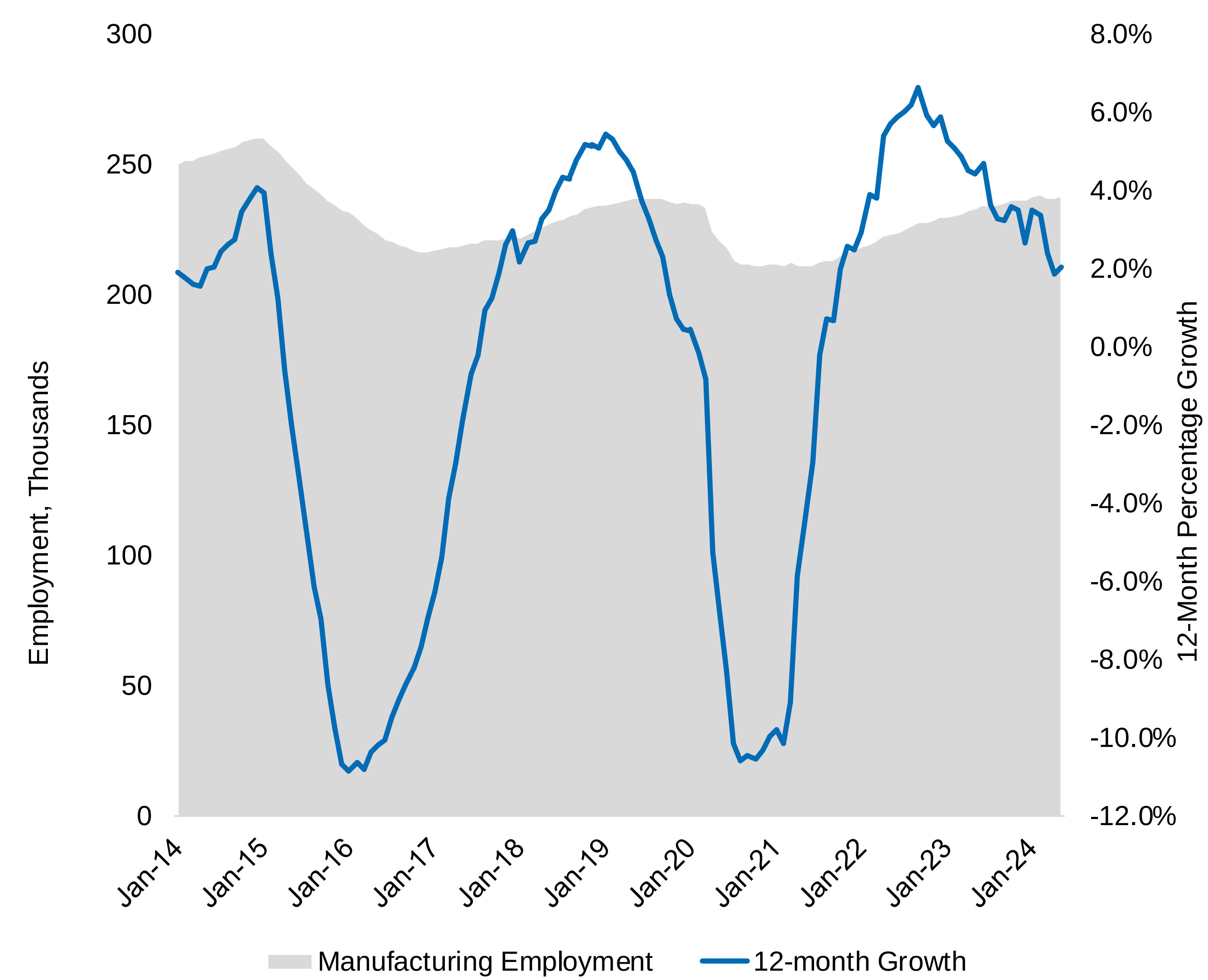
Industrial Employment Maintains Positive Growth

Trade/transportation/utilities employment picked up in the third quarter of 2024 to reach a new, all-time high. As of August 2024, trade/transportation/utilities employment grew by 0.7% annually to 696,183 employees. Manufacturing employment growth also accelerated, reaching a new recent-high of 239,068 employees in August 2024, reflecting a 2.2% increase year over year. 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



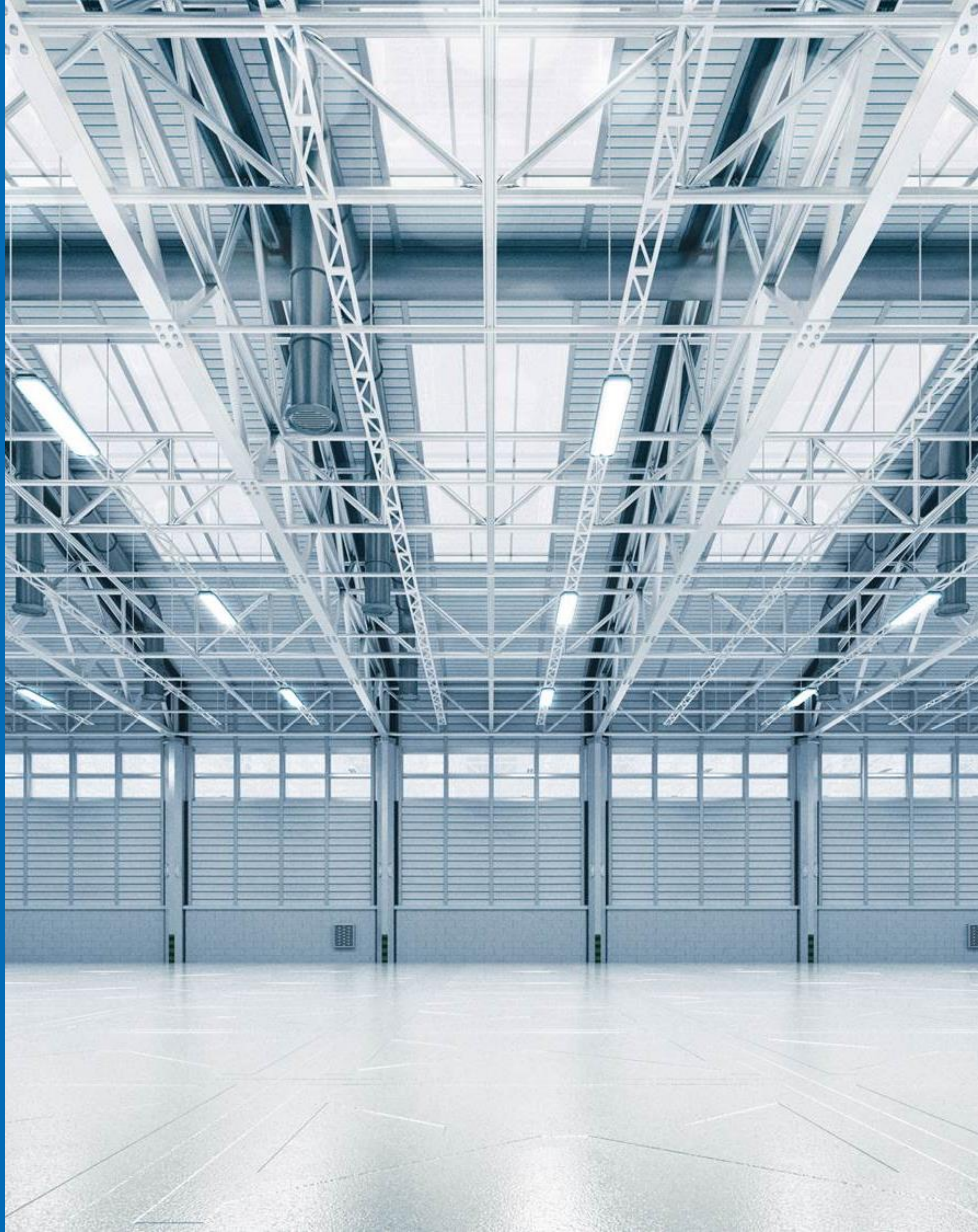
Total Employment and 12-Month Growth Rate, Manufacturing



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

3Q24

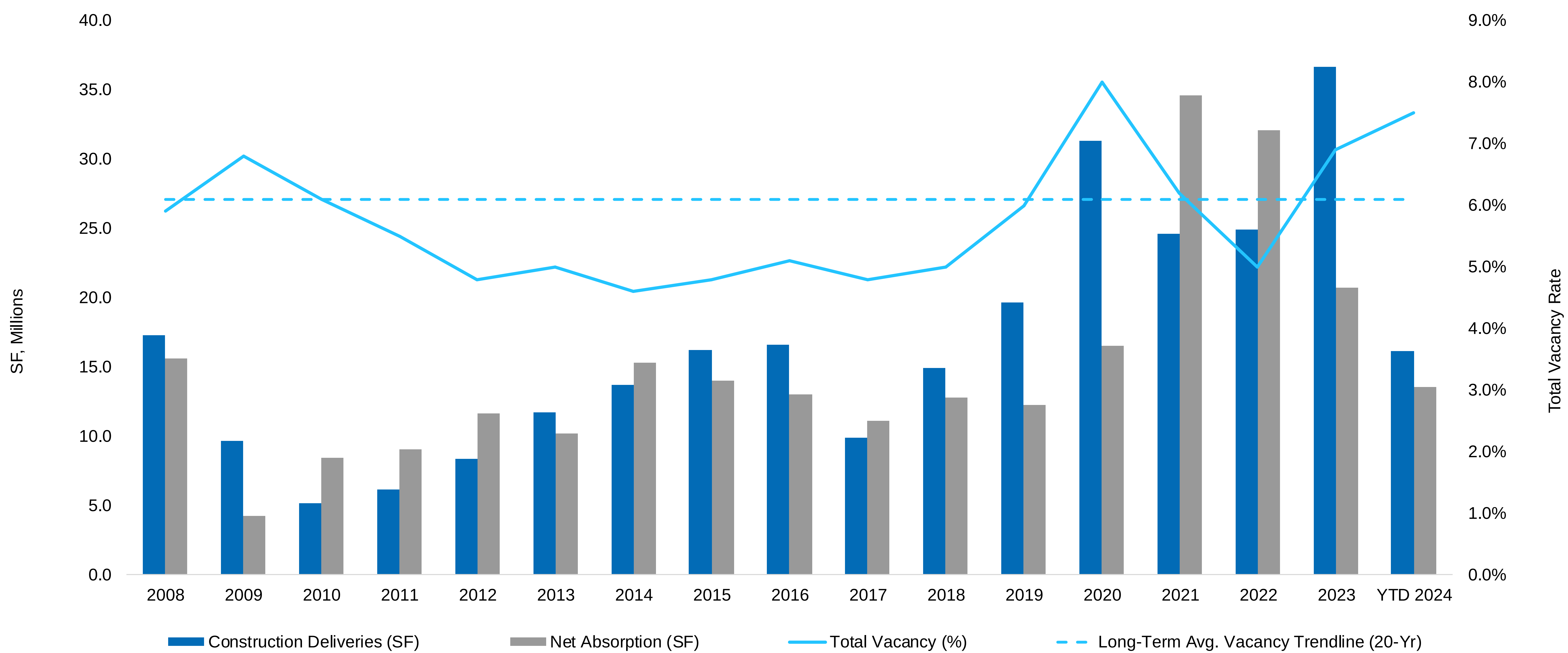
Leasing Market Fundamentals



Demand Outpaces Supply as New Deliveries Ease

The Houston industrial vacancy rate increased by 50 basis points year over year to 7.1% in the third quarter of 2024. Absorption was greater than new supply, after six quarters of supply outpacing demand. Absorption grew by 26.5% quarter over quarter to 5.7 MSF while deliveries fell to 2.8 MSF. Construction velocity continues to slow, with 16.1 MSF of space delivered year to date, well below the 29.4 MSF delivered in the first three quarters of 2023.

Historical Construction Deliveries, Net Absorption, and Vacancy

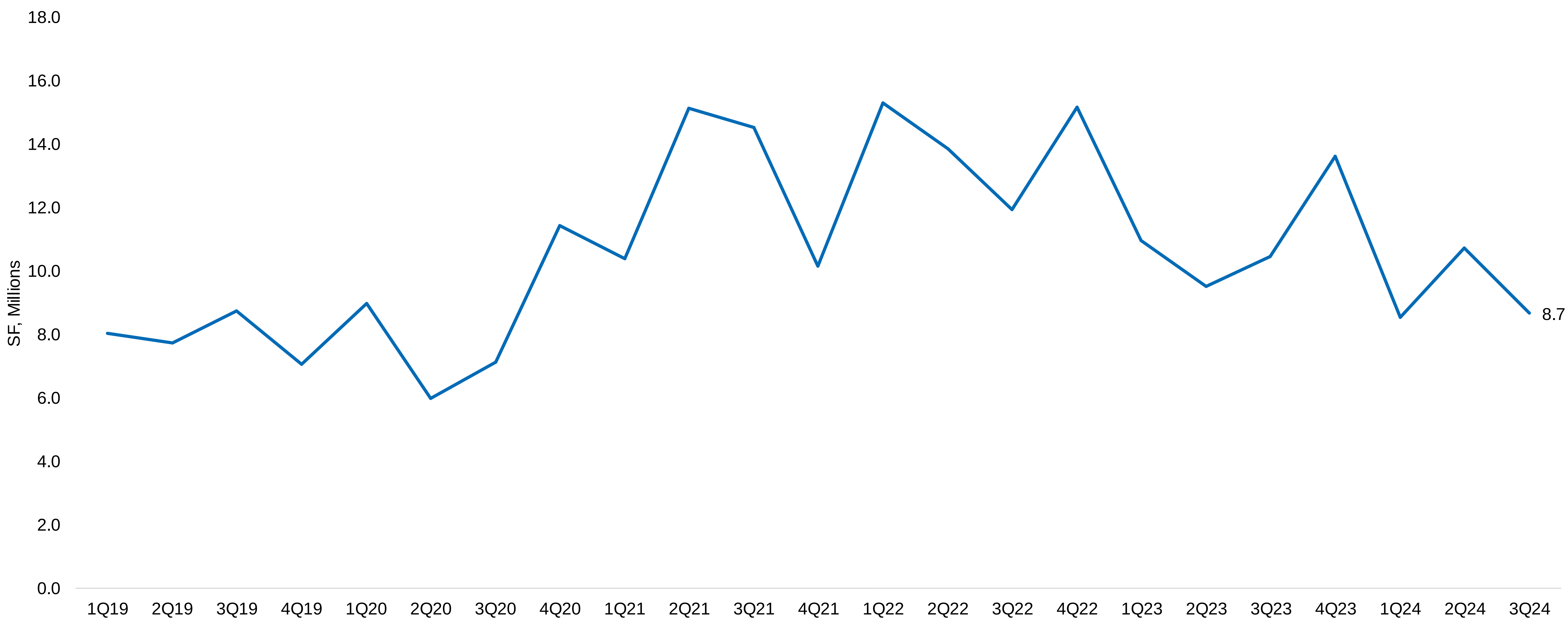


Source: Newmark Research, CoStar

Industrial Leasing Activity Slows

In the third quarter of 2024, leasing activity declined, falling 19.3% quarter over quarter and 17.0% year over year to 8.7 MSF. Since 2019, third quarter deal volume has averaged 10.6 MSF, with the third quarter of 2024 falling well below the quarterly average.

Total Leasing Activity (SF)

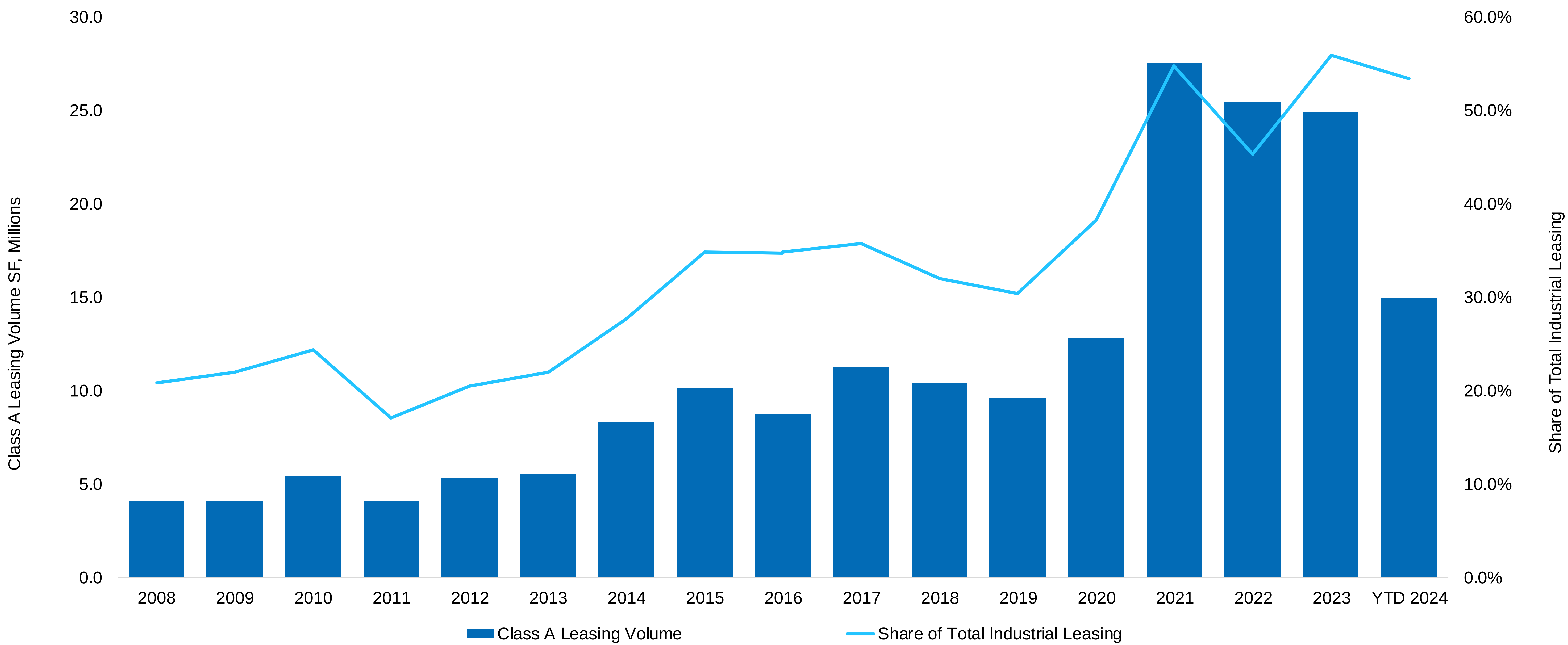


Source: Newmark Research, CoStar

Class A Warehouse Leasing Remains above Long-Term Average

Class A warehouse space leasing activity continues to decrease from the historic high of 9.0 MSF reported in the second quarter of 2021 to 5.1 MSF in the third quarter of 2024. The decline in leasing activity is likely due to an influx of high-quality supply delivering, with a record amount of Class A warehouse delivered in 2023. Class A warehouse leasing represented 58.3% of activity in the third quarter of 2024, on par with levels seen a year ago, and well above the quarterly pre-pandemic average of 27.6% from 2008 to 2019.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

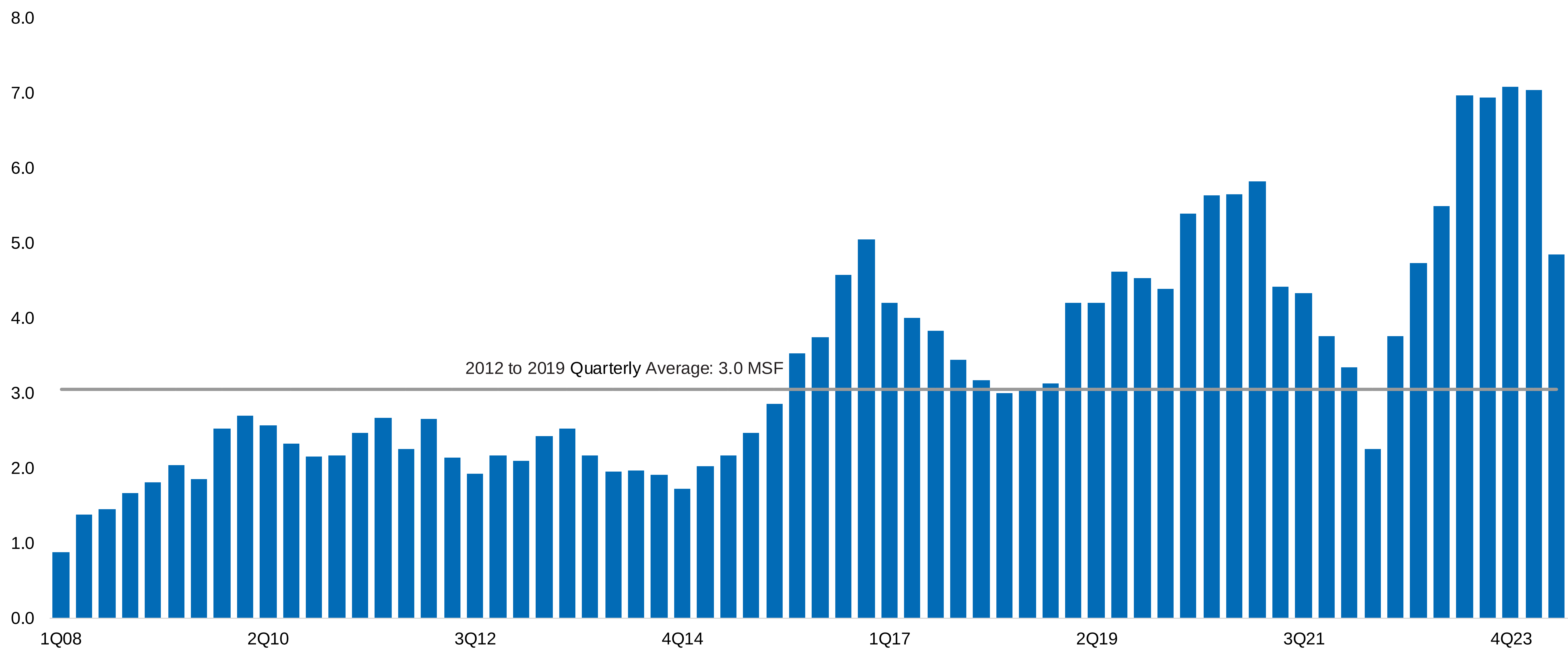


Source: Newmark Research, CoStar

Sublease Availability Falls as Large Blocks are Leased

As of the end of the third quarter of 2024, sublease space available is at 5.2 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 increased by 6.1% quarter over quarter but decreased by 25.8% year over year. The decline in available sublease space year over year was led by large sublease deals from Integra Mission Critical (1.2 MSF), Elogistek (420,000 SF), and Gulf Coast Crating (341,100 SF).

Available Industrial Sublease Volume (msf)

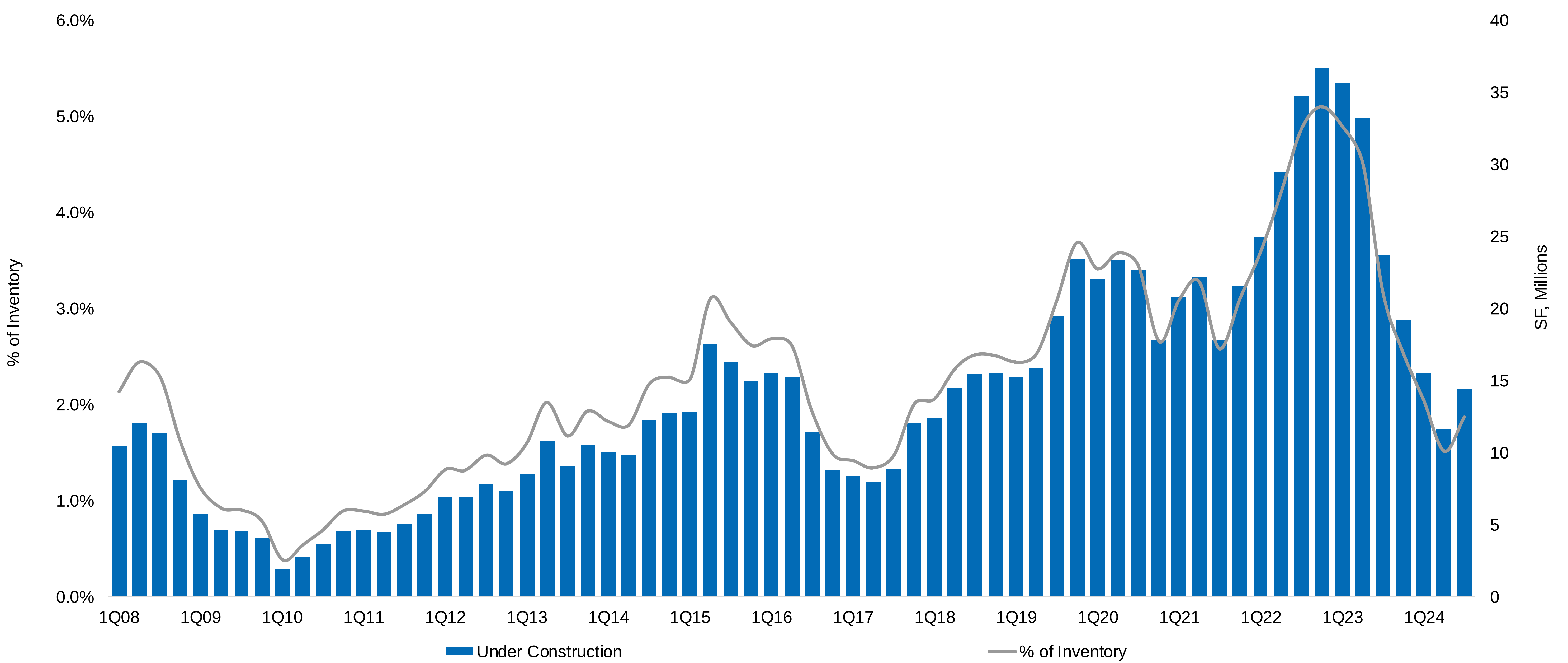


Source: Newmark Research, CoStar

Industrial Supply Pipeline Turns A Corner

The construction pipeline picked up in the third quarter of 2024, increasing 23.4% quarter over quarter to 14.4 MSF under construction. As of quarter end, deliveries totaled 2.8 MSF while the construction pipeline accounted for 1.9% of the market's inventory. The increase in new construction starts is likely due to a recently more favorable financing environment but overall, the market could still see potential supply constraints as conditions continue to improve in 2025.

Industrial Under Construction and % of Inventory

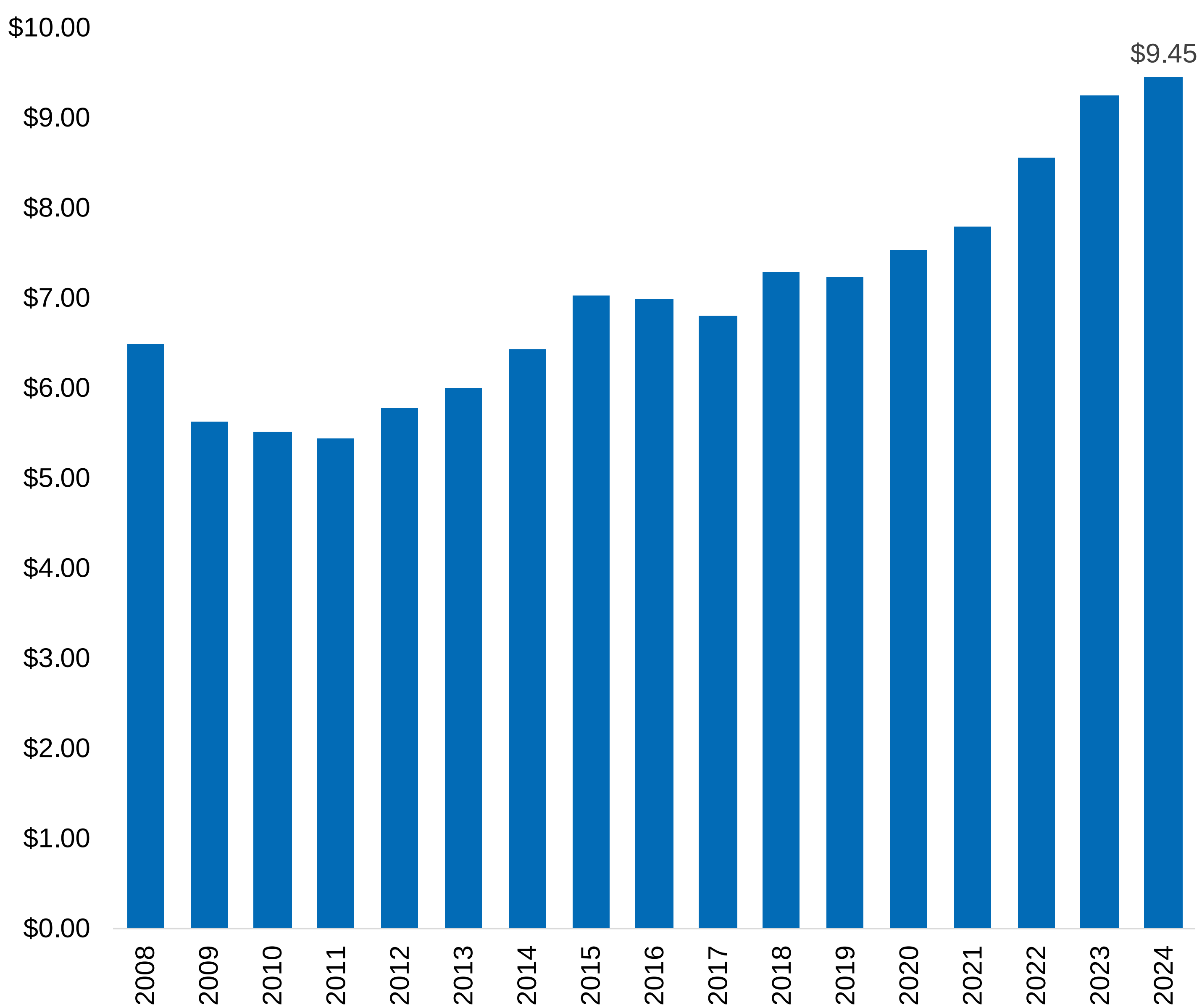


Source: Newmark Research, CoStar

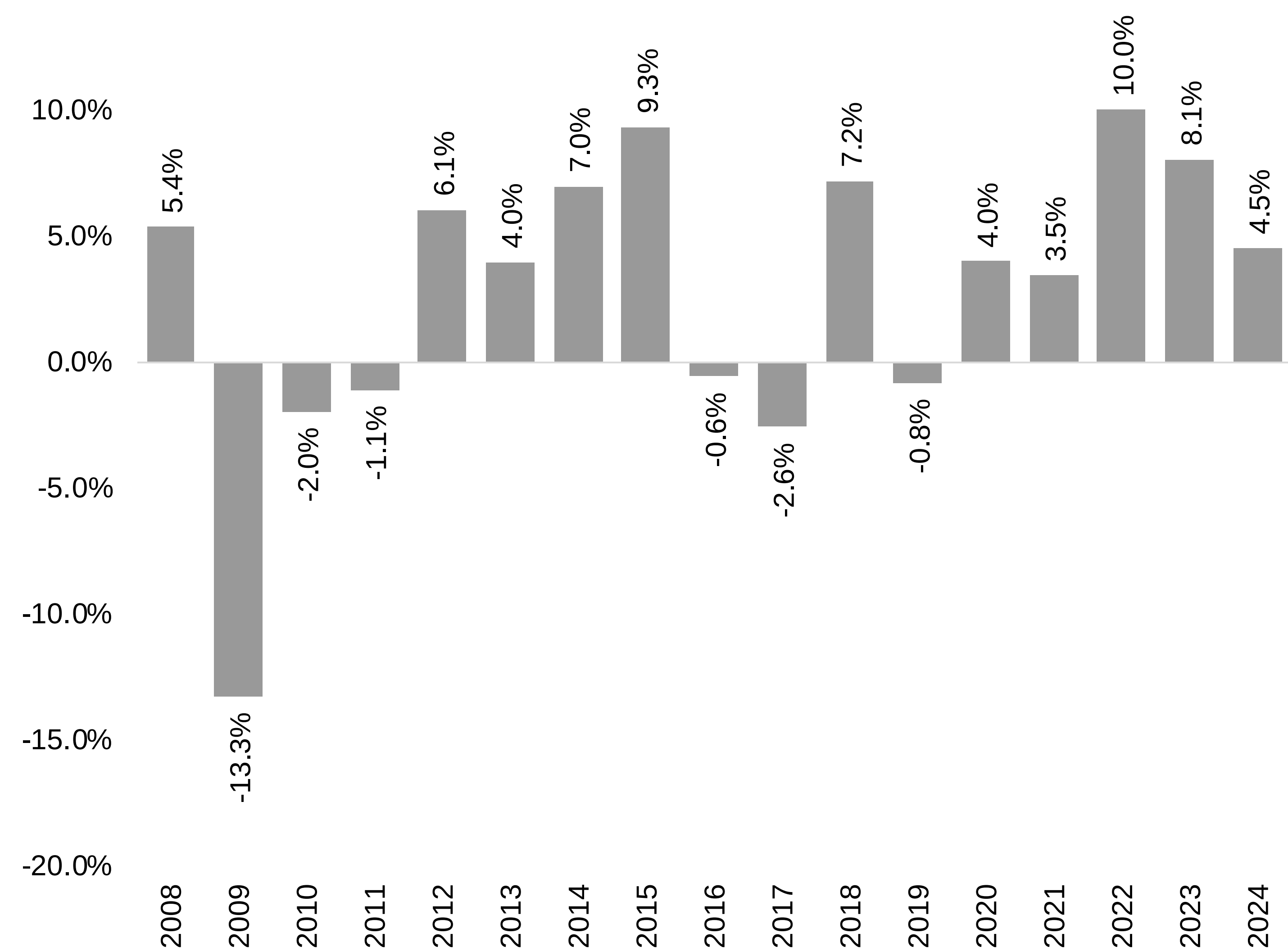
Asking Rents Reach New Historical High

Industrial average asking rents reached a new all-time high in the third quarter of 2024 at $9.45/SF. Year over year, asking rents have grown by 4.5%, but the rate of growth will likely slow as the market works through the current construction pipeline. Delivery of new, higher-quality assets is expected to continue pushing asking rents higher in the near-term.

Industrial Average Asking Rent, $/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 3Q24 Lease Transactions

Leasing activity dropped in the third quarter of 2024, with quarterly leasing activity at 8.7 MSF, in line with quarterly ave rages reported since 2010 of 8.3 MSF. The bulk of the quarter's leasing activity centered around direct leases, which totaled 7.6 MSF, while sublease activity ended the quarter accounting for 1.1 MSF. High-quality, Class A spaces continued to command the market, as leasing activity within the asset class accounted for 58.3% of total leasing transactions during the quarter. Currently, only 23.0% of space under construction is pre-leased.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
BroadRange Logistics	Northport Logistics Center	North	Direct New	1,224,498
End-to-end 3PL company BroadRange Logistics signed the quarter's largest deal, leasing 1.2 MSF at Northport Logistics Center in the North submarket. The building is the largest speculatively-built warehouse to ever be leased in the Houston market.				
Lecangs	28119 Katy Fwy	Southwest	Direct New	509,975
Lecangs, an ecommerce and logistics company, leased 509,975 SF at 28119 Katy Fwy in the Southwest submarket.				
Gulf Coast Crating	Portside Logistics Center- Building I	Southeast	Direct New	432,316
Houston-based Gulf Coast Crating signed a new lease for 432,316 SF in Building I at Portside Logistics Center.				
Elogistek	Portside Logistics Center- Building 1	Northwest	Sublease	420,000
Elogistek, a logistics company, sublet 420,000 SF from Igloo at 28501 US-90 Hwy in the Northwest submarket.				
nVntori	9255 Railwood Dr	Northeast	Direct New	300,000
nVntori, a Houston-based supply-chain services firm, leased 300,000 at 9255 Railwood Dr in the Northeast submarket.				

Source: Newmark Research

Please reach out to your
Newmark business contact for this information

For more information:

Kirsten Kempf
Senior Research Analyst
Kirsten.Kempf@nmrk.com

Ching-Ting Wang
Head of Southeast Research
ChingTing.Wang@nmrk.com

Houston
1700 Post Oak Blvd.
2 Blvd. Place, Suite 250
Houston, TX 77056
t 713-626-8888

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

NEWMARK