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4Q24

# Houston Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The Houston market’s unemployment rate rose 38 basis points year over year to 4.5% but remains below the five-year average of 5.5%.
- Job growth fell by 127 basis points year over year to 1.8%, trending toward pre-pandemic levels, with November 2019 growth at 2.1%.
- All sectors, except business and professional and information, reported employment growth, with mining and construction leading job gains at 5.7% 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 1.0%, 1.3% and 5.7%, respectively.

## Major Transactions

- US Elogistics signed the quarter’s largest lease, taking 302,825 SF in Building 1 at Constellation Post Oak in the Southwest submarket
- COSCO Shipping leased 255,960 SF in Building 2 at Port 99 Logistics in the Southeast submarket for the second largest lease transaction of the quarter.
- The five largest deals of the quarter occurred in four different submarkets, indicating the market’s broader strength in accommodating the complexity of occupier needs.

## Leasing Market Fundamentals

- The market realized 2.9 MSF of positive absorption in the fourth quarter of 2024, a decrease of 63.0% quarter over but continued to outpace deliveries.
- Overall rental rates grew 2.9% year over year to \$9.50/SF, reaching a new all-time high for the third consecutive quarter.
- Construction deliveries fell to 2.4 SF in the fourth quarter of 2024, while the pipeline declined to 13.5 MSF under construction.
- Absorption narrowly outpaced deliveries, helping vacancy rates to contract by 10 basis points both quarter over quarter and year over year to 6.7%.

## Outlook

- Activity in the Houston industrial market could pick up as the financing environment improves due to interest rate reductions in the second half of 2024. The market may see subdued investment activity in the near-term until there is more certainty surrounding trade policy and the impact on imports.
- The market will likely see an influx of supply on the market in the near term due to 1.7% of the current market’s inventory being under construction. New supply, which is only 13.5% pre-leased, will likely cause vacancy rates to rise in the first half of 2025.
- 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.

1. Economy
2. Leasing Market Fundamentals

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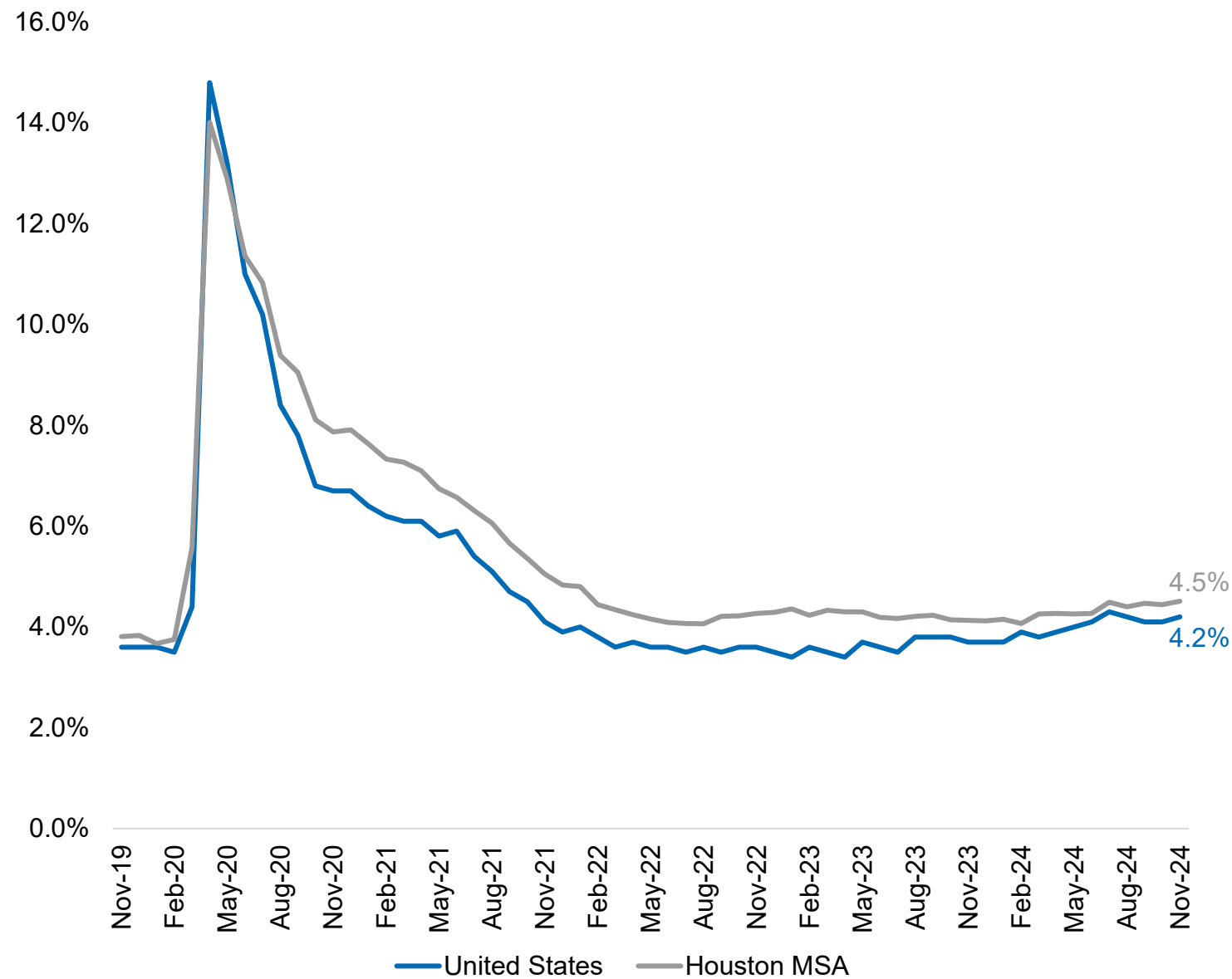
# Economy



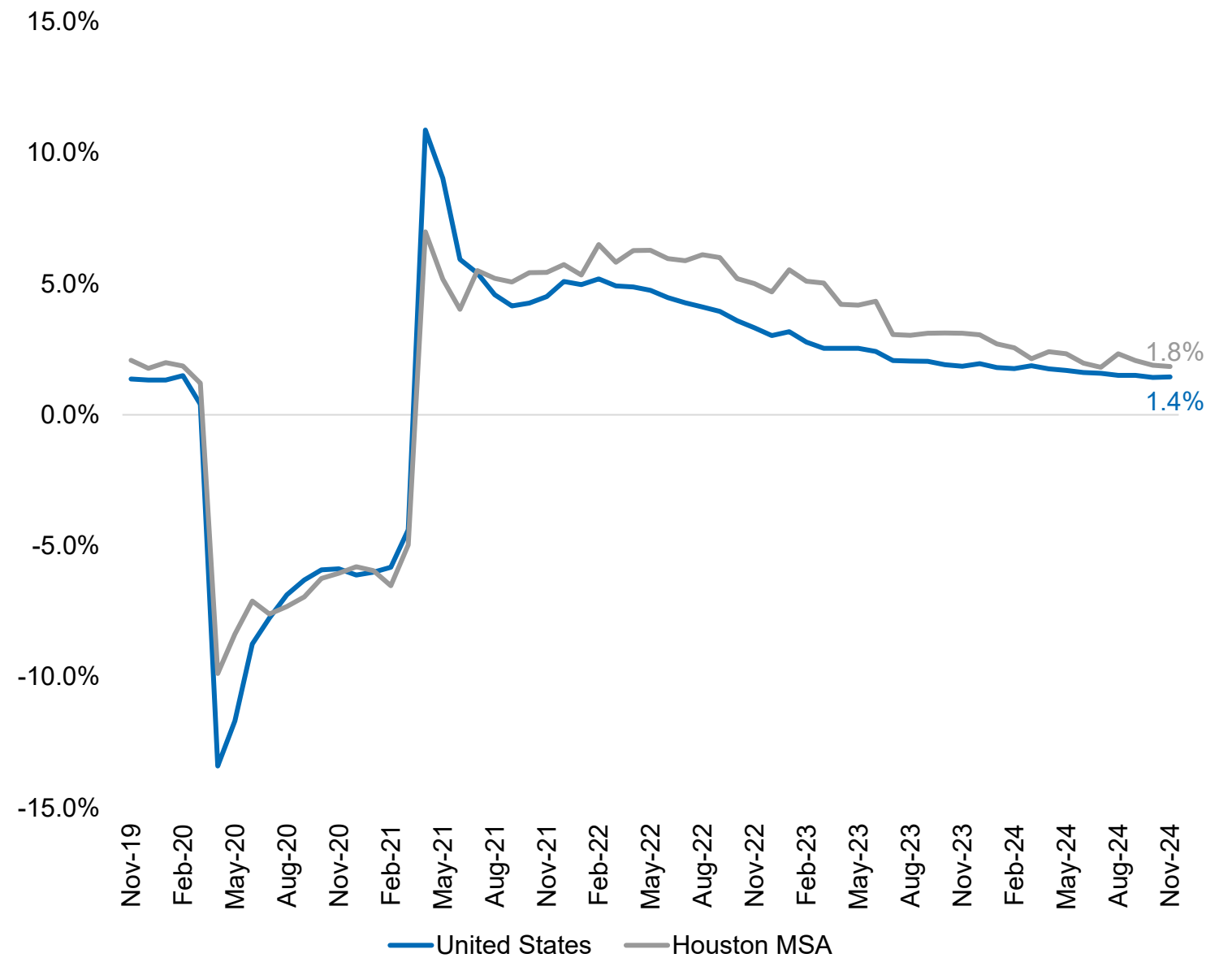
# Metro Employment Trends Continue Slow Growth

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 4.5% and 4.2%, respectively. Houston's unemployment rate increased by 38 basis points year over year, while the employment year-over-year growth rate slowed by 127 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

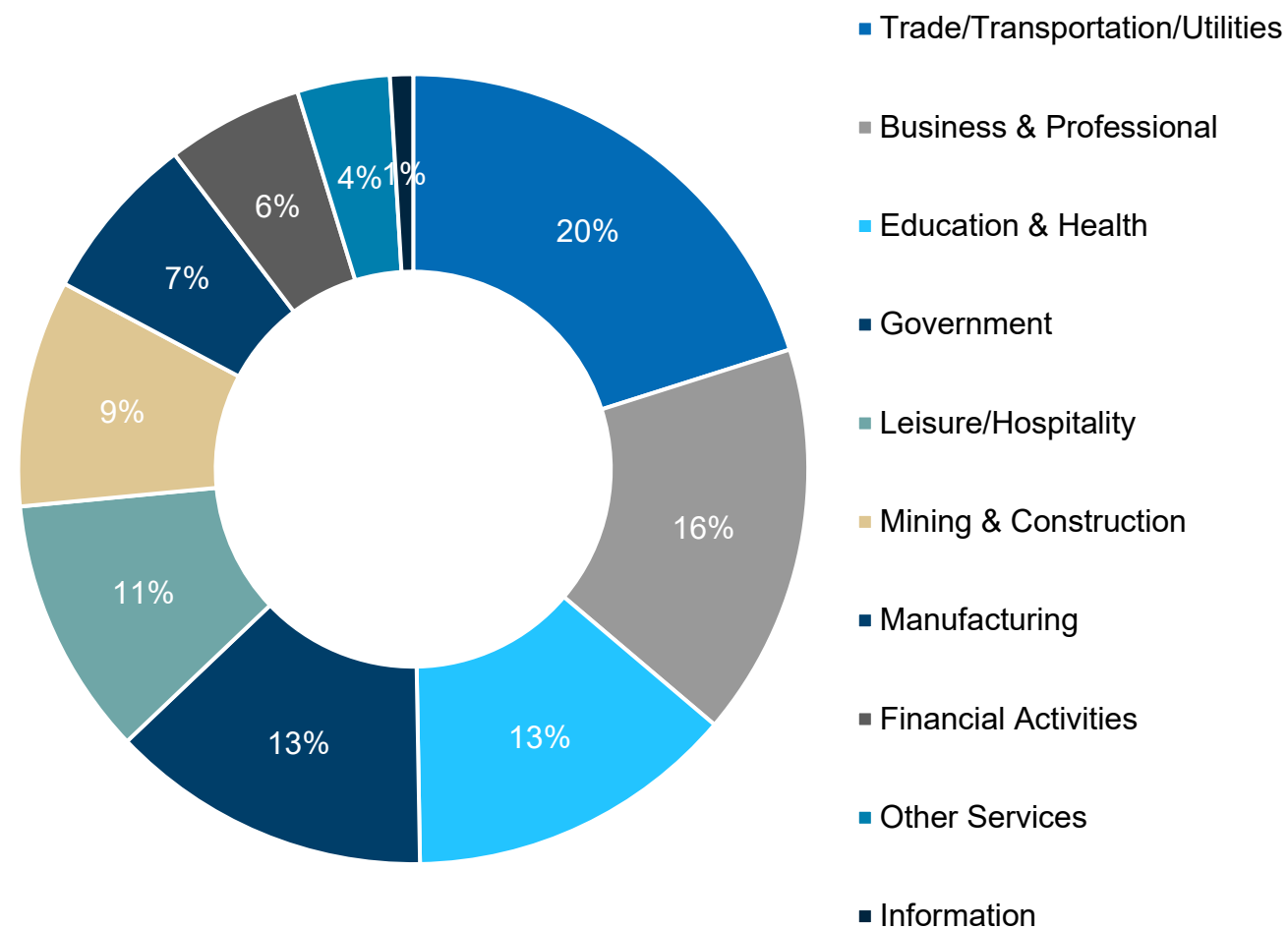


Source: U.S. Bureau of Labor Statistics, Houston MSA

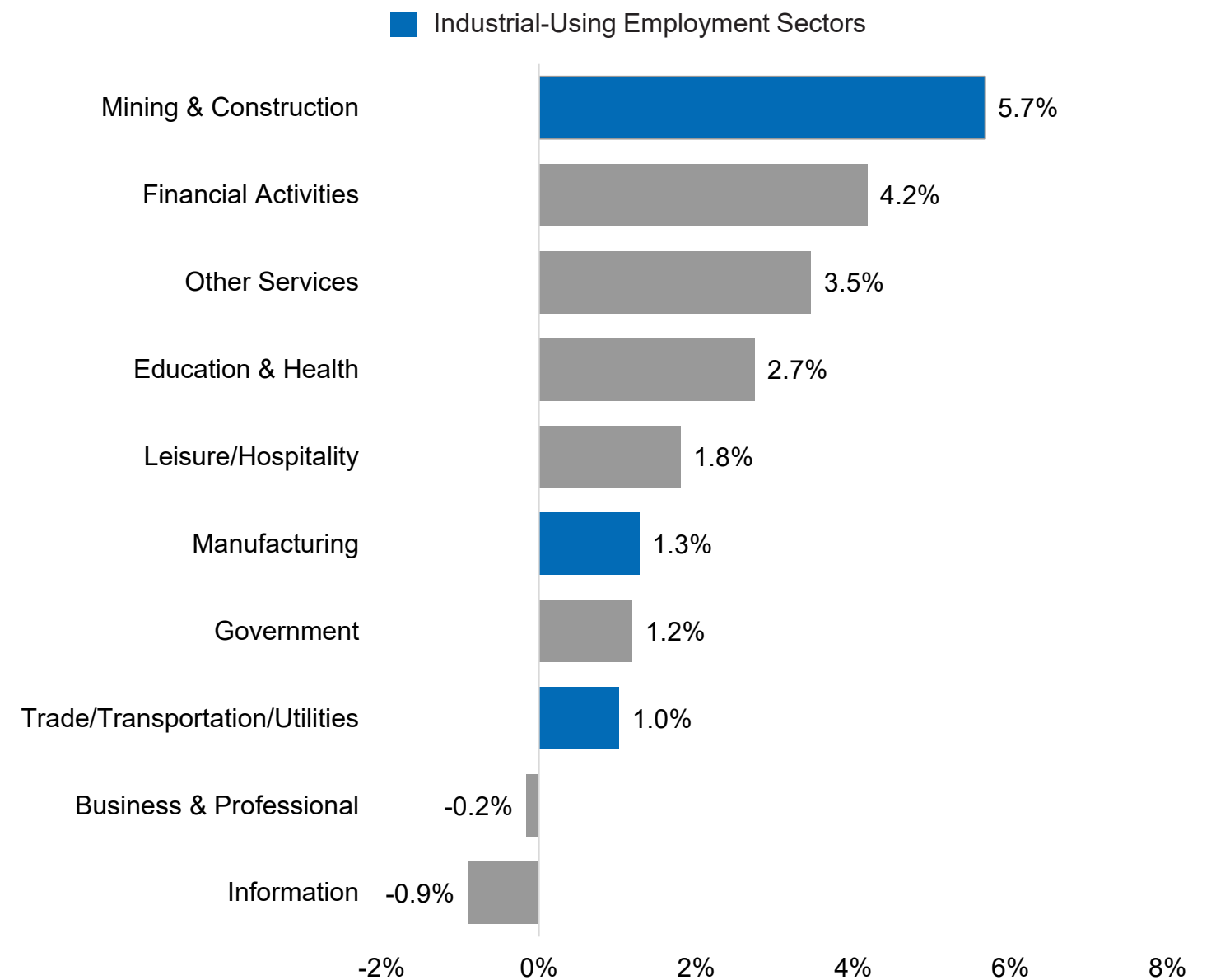
# Employment Growth Across All Industrial Sectors

Known for its energy sector, the Houston market's top two employment industries account for 36.2% of market share. The industrial-using employment's trade/transportation/utilities sector is the largest industry sector in the metroplex at 20.1%. While most industries in the metro continued reporting growth, the business and professional and information sectors contracted. Industrial-using industries reported year-over-year growth ranging from 1.0% to 5.7%, with mining and construction leading annual employment gains.

Employment by Industry, November 2024



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

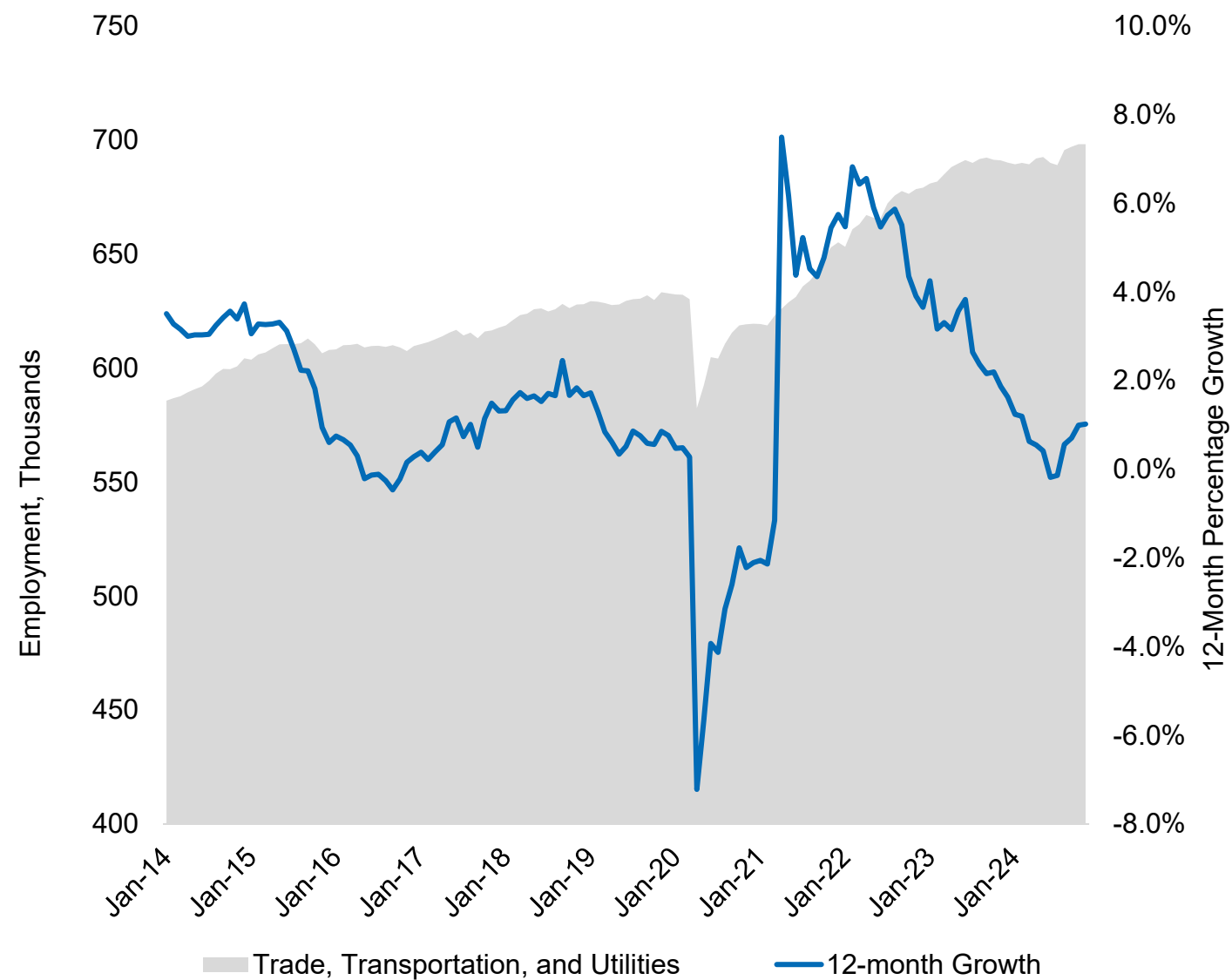


Source: U.S. Bureau of Labor Statistics, Houston MSA

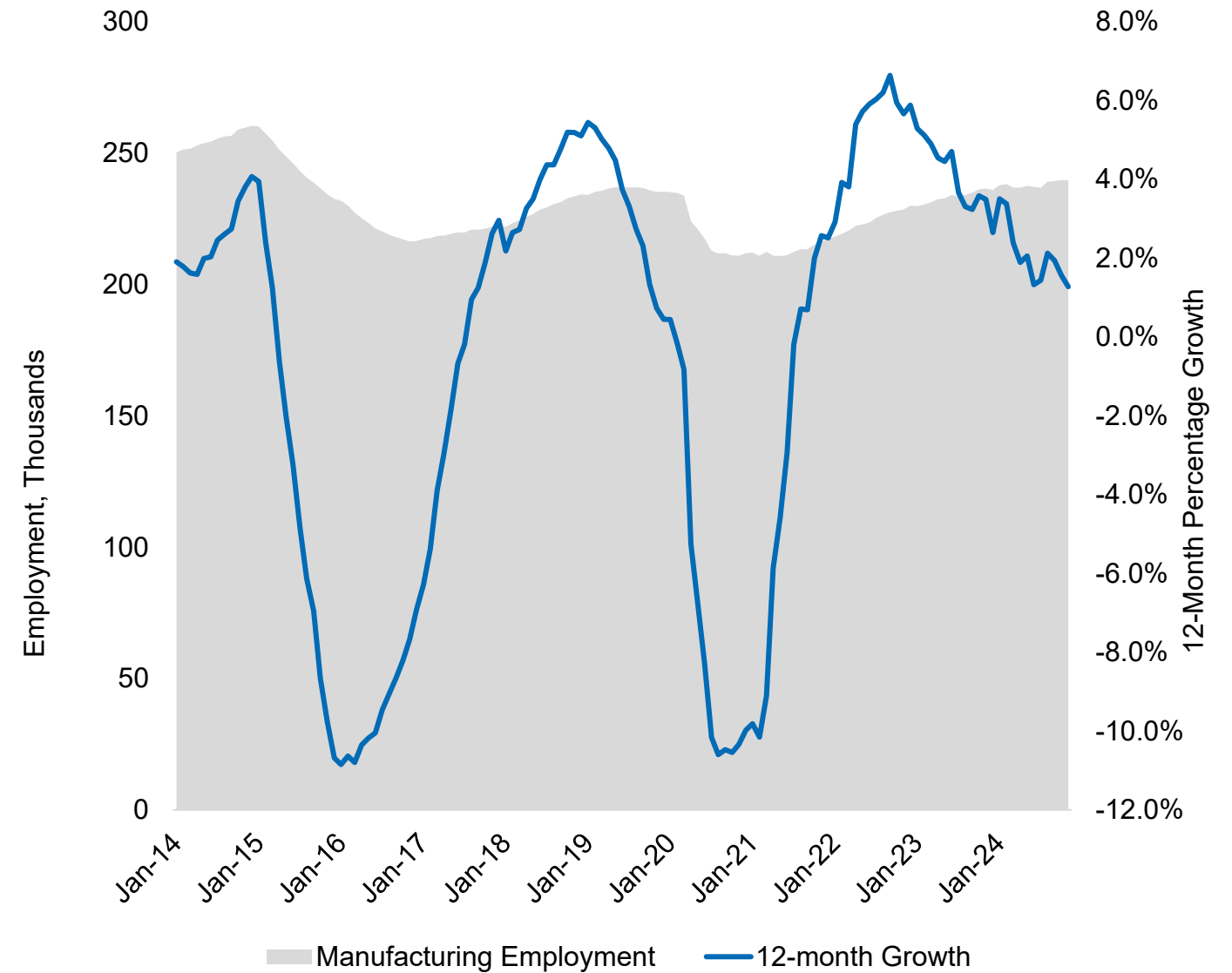
# Industrial Employment Maintains Positive Growth

Trade/transportation/utilities employment picked up in the fourth quarter of 2024 to reach a new, all-time high, growing by 1.0% annually to 698,140 employees. Manufacturing employment growth also accelerated, reporting annual growth of 1.3% with 239,480 employees as of November 2024. 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

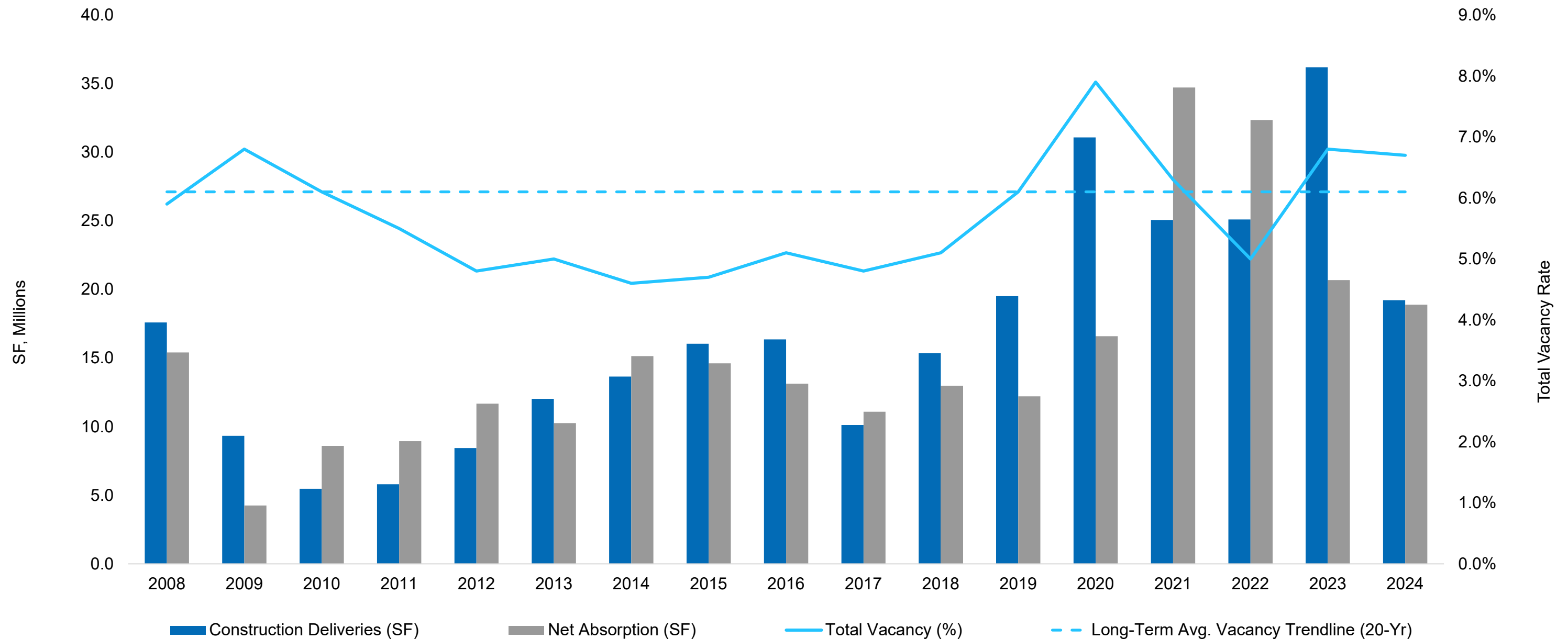




# Absorption Drops but Manages to Outpace New Deliveries

The Houston industrial vacancy rate fell slightly, dropping 10 basis points both year over year and quarter over quarter to 6.7% in the fourth quarter of 2024. 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. Despite outpacing supply, absorption decreased by 63.0% quarter over quarter to 2.9 MSF while deliveries fell to 2.4 MSF. Construction velocity continues to slow, with 19.2 MSF of space delivered in 2024, roughly half the 2023 annual total of 36.2 MSF.

## Historical Construction Deliveries, Net Absorption, and Vacancy

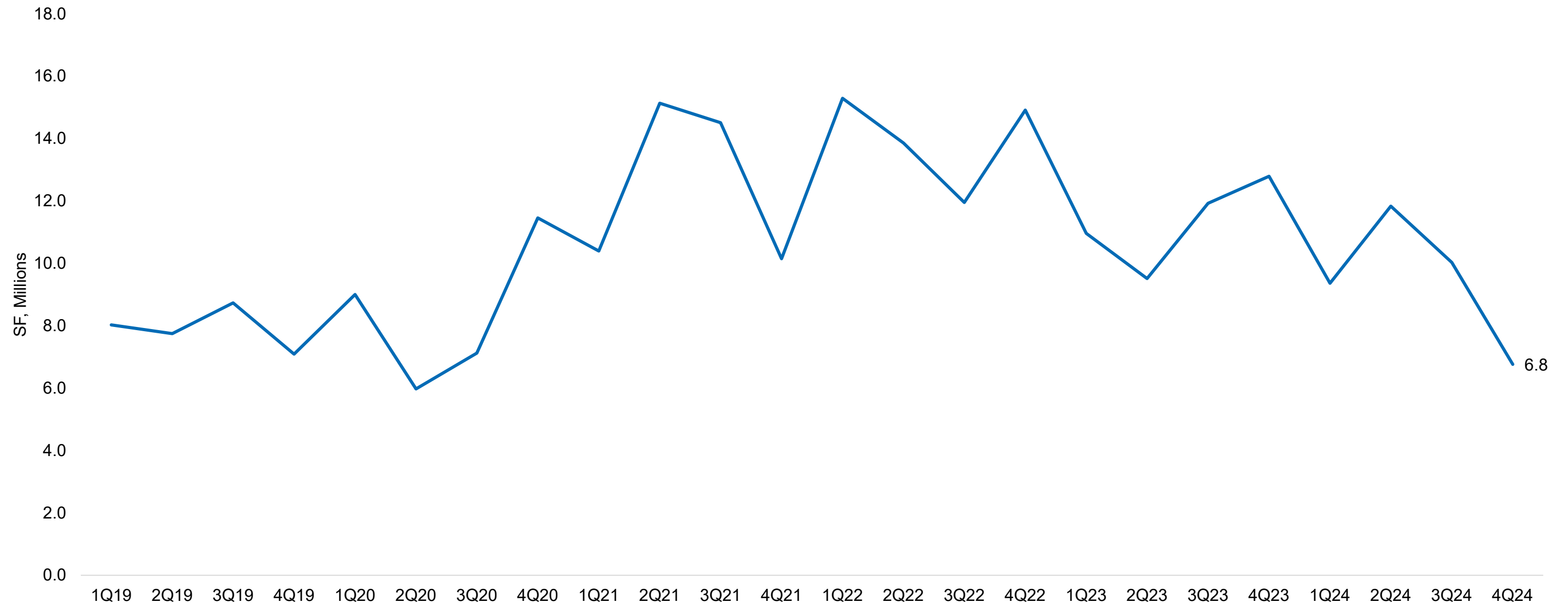


Source: Newmark Research, CoStar

# Industrial Leasing Activity Continues to Slow

In the fourth quarter of 2024, leasing activity declined further, falling 32.6% quarter over quarter and 47.1% year over year to 6.8 MSF. Quarterly leasing activity below 7.0 MSF has not occurred in the market since the second quarter of 2020 when activity totaled 6.0 MSF. Since 2019, fourth quarter deal volume has averaged 11.3 MSF, with the fourth quarter of 2024 falling well below the quarterly average.

Total Leasing Activity (SF)

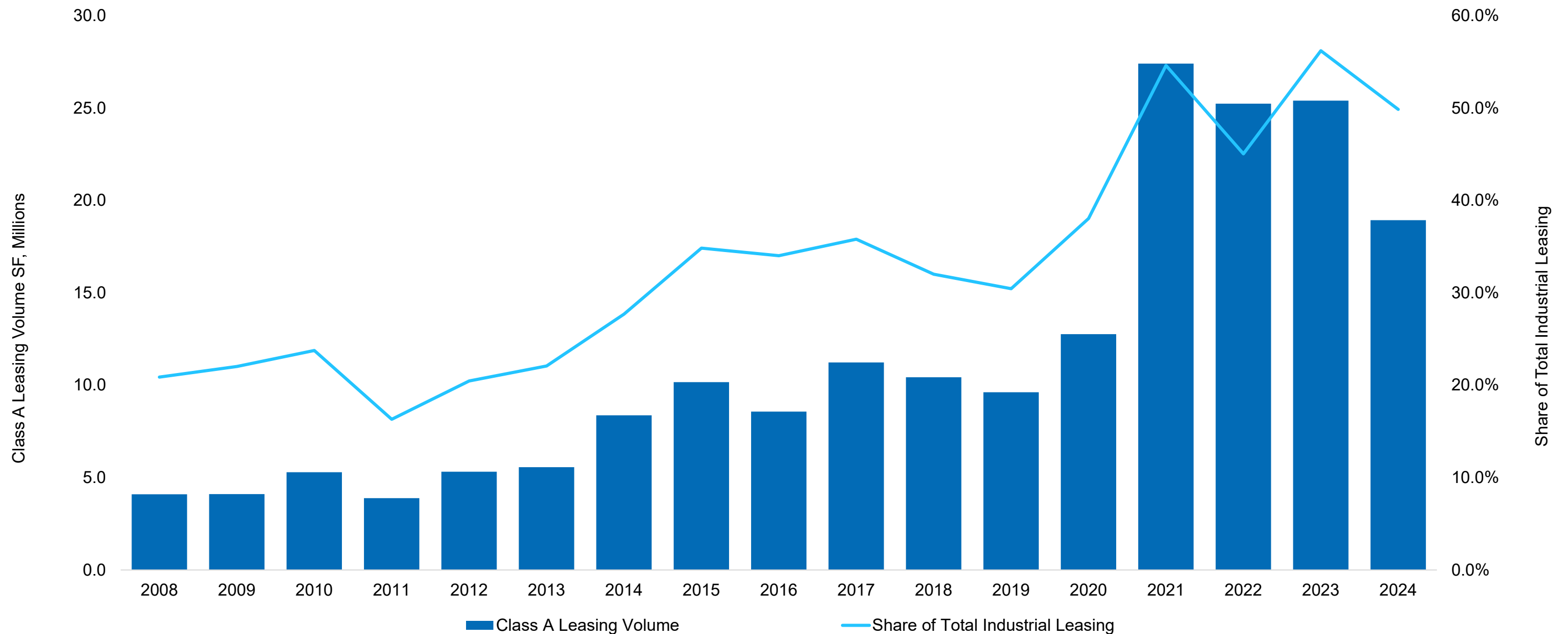


Source: Newmark Research, CoStar

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

Class A warehouse space leasing activity totaled 2.8 MSF in the fourth quarter of 2024, roughly 70% lower than the historic high of 9.0 MSF reported in the second quarter of 2021. Class A warehouse leasing accounted for 40.9% of activity in the fourth quarter of 2024, a 20% decrease from activity one year ago, and well above the quarterly pre-pandemic average of 27.4% from 2008 to 2019. Despite Class A leasing by square footage declining in 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.

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

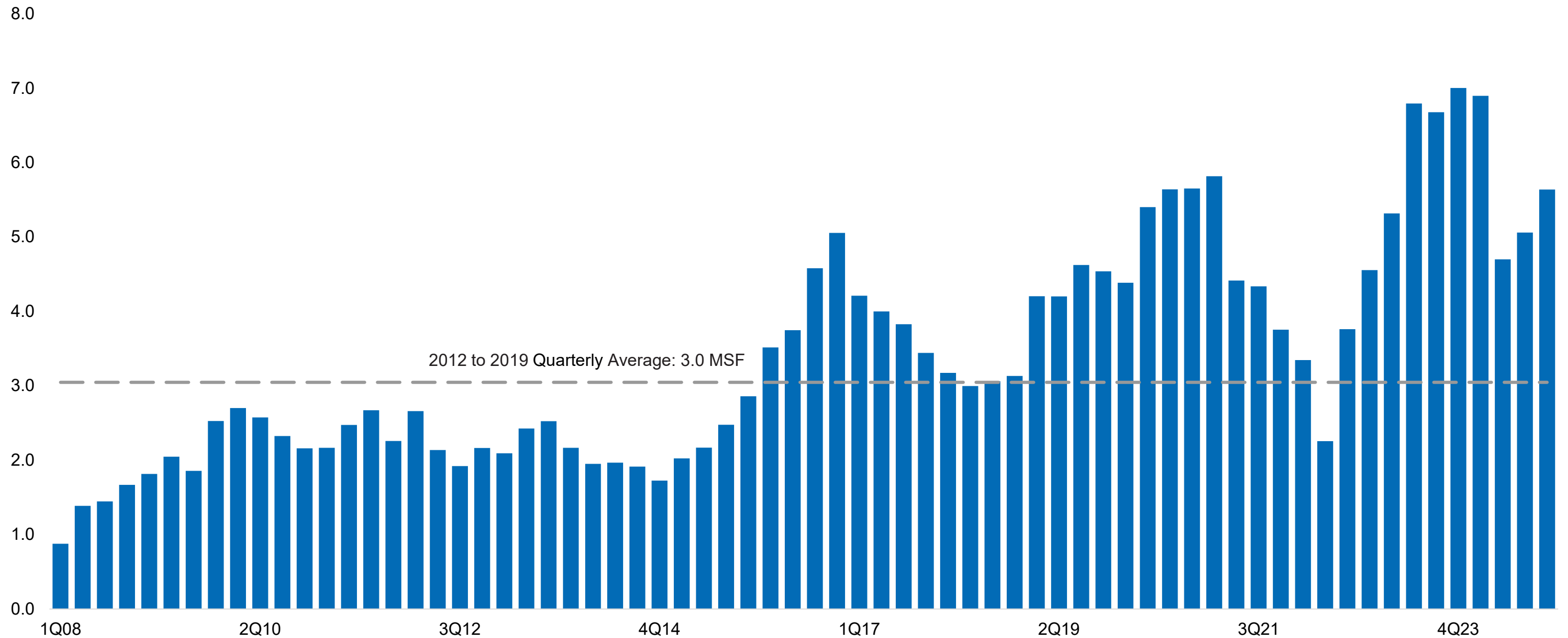


Source: Newmark Research, CoStar

# Year Over Year Sublease Availability Falls as Large Blocks are Leased

As of the end of the fourth quarter of 2024, sublease space available is at 5.6 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 11.4% quarter over quarter but decreased by 19.5% 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)

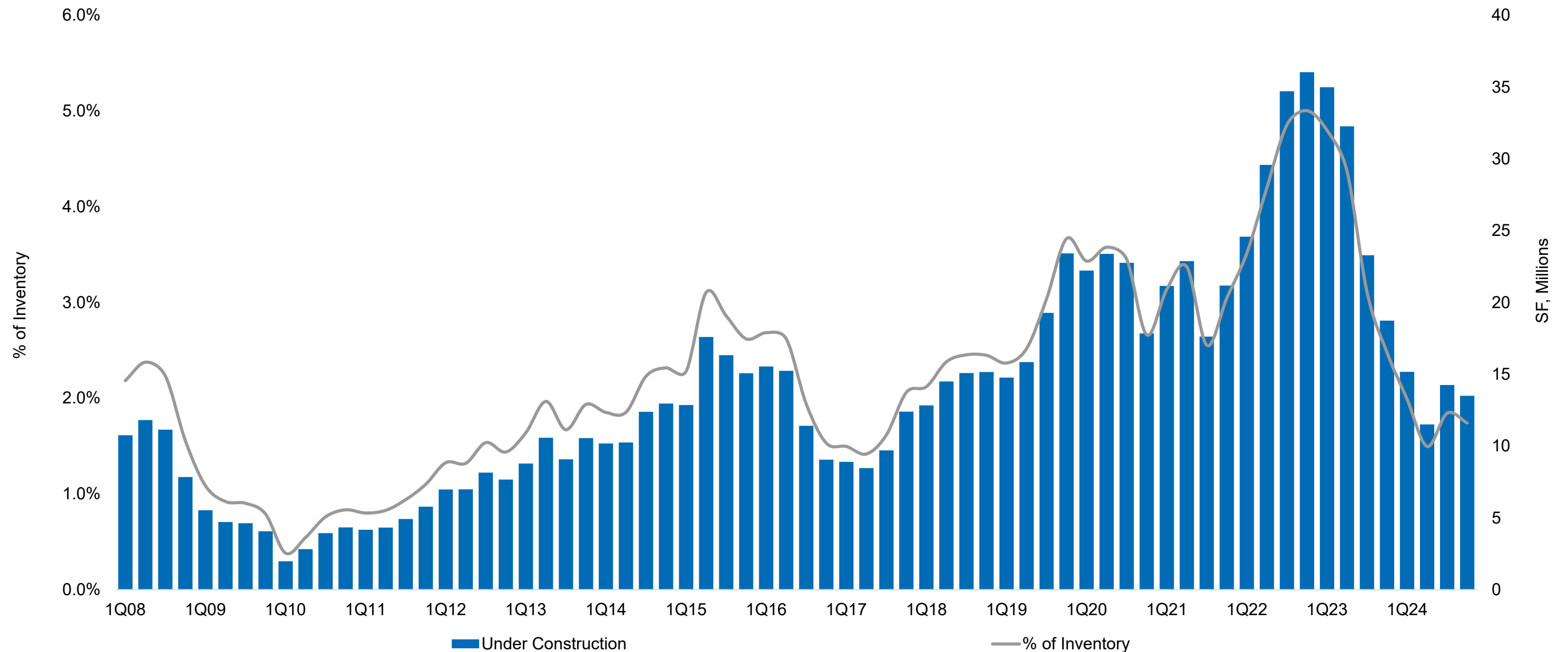


Source: Newmark Research, CoStar

# Industrial Supply Pipeline Maintains Momentum

The construction pipeline waned in the fourth of 2024, decreasing 5.3% quarter over quarter to 13.5 MSF under construction. As of quarter end, deliveries totaled 2.4 MSF while the construction pipeline accounted for 1.7% of the market's inventory. The increase in new construction starts in the second half of 2024 is likely due to a 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

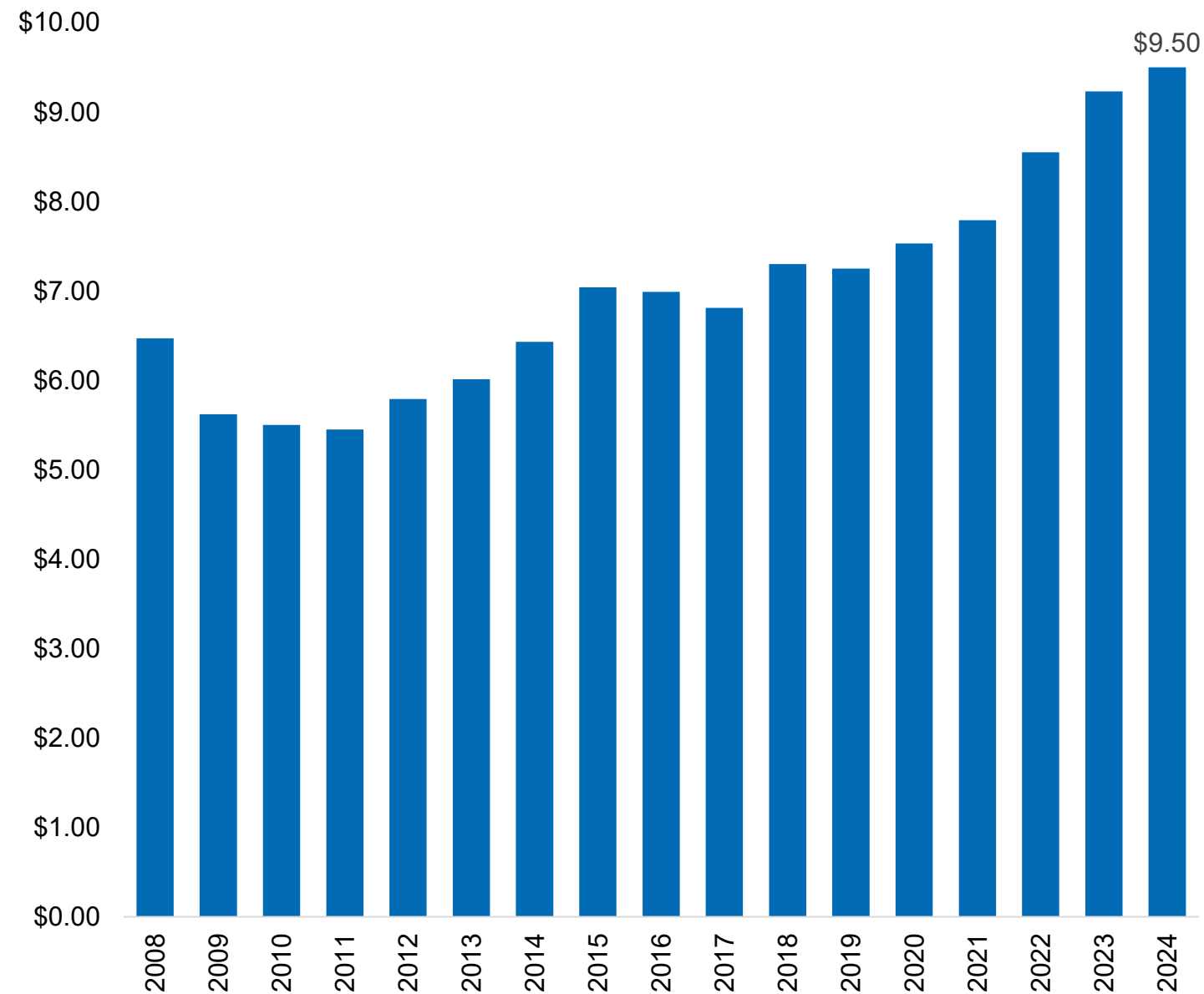


Source: Newmark Research, CoStar

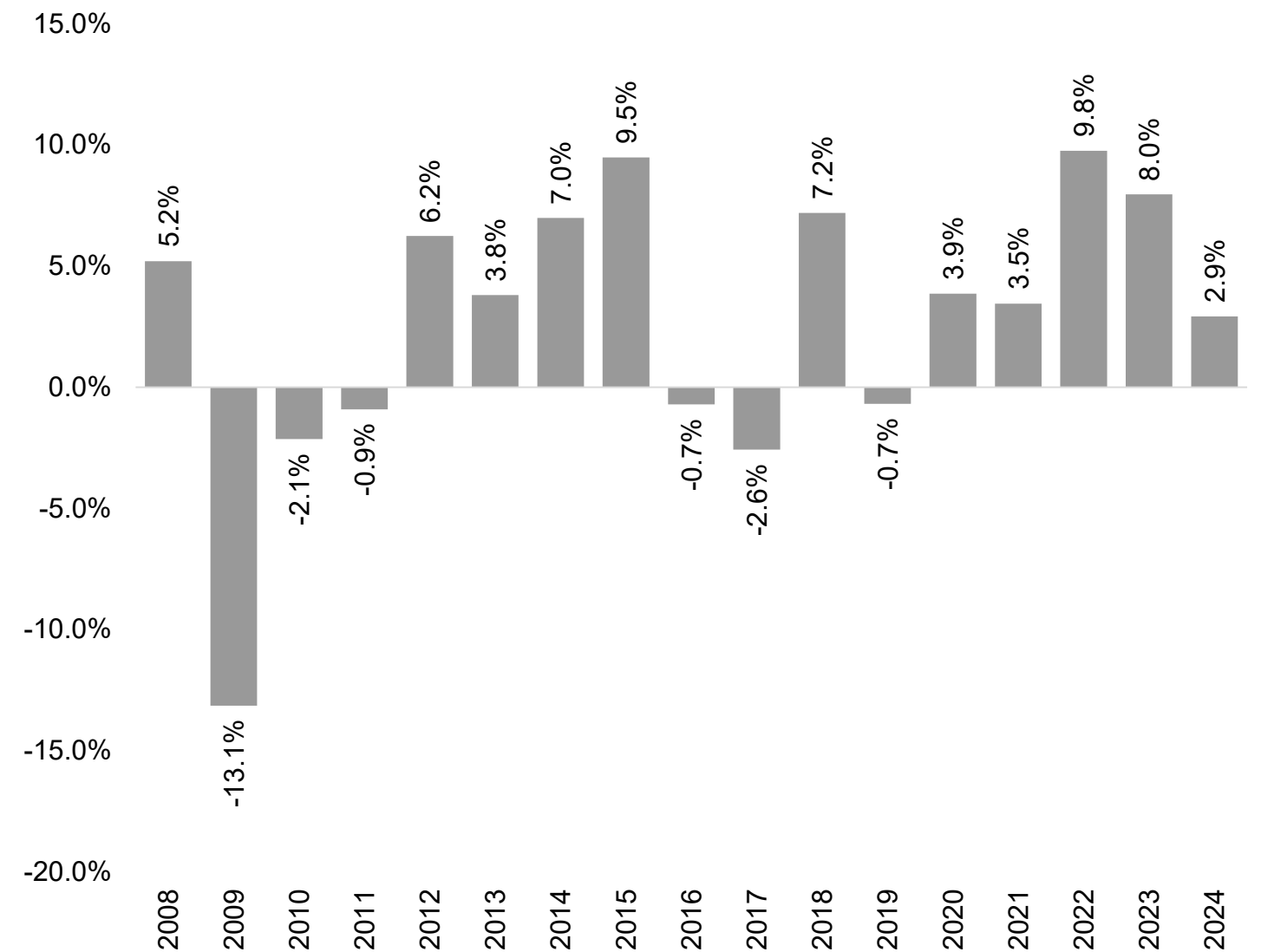
# Asking Rents Reach Another Historical High

Industrial average asking rents reached a new all-time high in the fourth quarter of 2024 at \$9.50/SF. Year over year, asking rents have grown by 2.9%, but the rate of growth will continue to 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 4Q24 Lease Transactions

Leasing activity dropped in the fourth quarter of 2024, with quarterly leasing activity at 6.8 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 6.4 MSF, while sublease activity ended the quarter accounting for only 328,779 SF. High-quality, Class A spaces continued to command the market, as leasing activity within the asset class accounted for 40.9% of total leasing transactions during the quarter. Currently, only 13.5% of space under construction is pre-leased.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
US Elogistics <i>US Elogistics, a New Jersey-based freight company, signed the quarter's largest lease for 302,825 SF in Building 1 at Constellation Post Oak in the Southwest submarket.</i>	Constellation Post Oak- Bldg 1	Southwest	Direct New	302,825
COSCO Shipping <i>COSCO Shipping, a global freight and supply chain company, leased 255,960 SF in Building 2 at Port 99 Logistics (16702 FM 2354) in the Southeast submarket.</i>	Port 99 Logistics-Bldg 2	Southeast	Direct New	255,960
United Imaging <i>Advanced medical imaging manufacturer United Imaging leased 216,004 SF at Lower Kirby in the South submarket, more than tripling its current manufacturing space.</i>	Lower Kirby	South	Direct New	216,004
Keen Transport <i>Keen Transport, a heavy equipment transportation provider, signed a new lease for 160,720 SF in Building 3 at Beltway 35 Business Park.</i>	Beltway 35 Business Park- Bldg 3	South	Direct New	160,720
Special Cargo <i>Dutch transportation company, Special Cargo, which specializes in dangerous materials, at 525 Century Plaza Dr. in the North submarket.</i>	525 Century Plaza Dr	North	Direct New	149,500

Source: Newmark Research



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