

Q4 2017

Industrial Insight

Healthy fundamentals spur new development

- Big-box groundbreakings help reverse six quarter decline in construction volume.
- Leasing activity dominated by consumer goods and logistics companies expanding in the market.
- A quiet period for deliveries coupled with major move-outs results in lower net absorption in the fourth quarter.

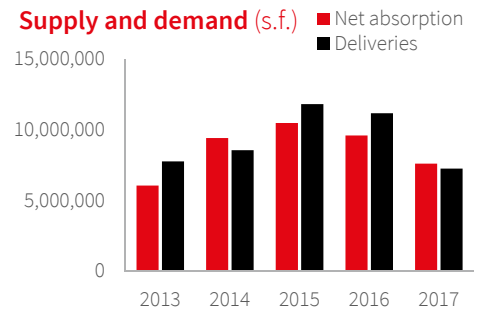
As vacancy and availability remain tight, large blocks of existing space are limited, and major users are having to start the site selection process with land searches. To this end, construction activity reversed course in the fourth quarter with five new buildings breaking ground and 4.6 million square feet currently under construction. Two of the projects are over half a million square feet in size - a 674,000-square-foot speculative building in the Northwest submarket and a 500,000-square-foot build-to-suit for Vinmar International near the Port. Consumer goods and logistics companies continue to drive much of the demand for Houston industrial product. The industries accounted for close to half of the 3.4 million square feet of leasing activity at year-end, with tenants signing long-term deals and expanding footprints across Houston.

After outpacing move-ins for three of the last four years, deliveries are almost completely in balance with absorption for 2017. The 690,990 square feet in deliveries at year-end represents the lowest quarterly total since 2011, a product of the smaller development pipeline. In addition, several large move-outs created an unusually weak quarter for net absorption. Most notably, Randalls closed a 700,644-square-foot distribution center in the Northwest submarket as part of a consolidation of operations to Fort Worth.

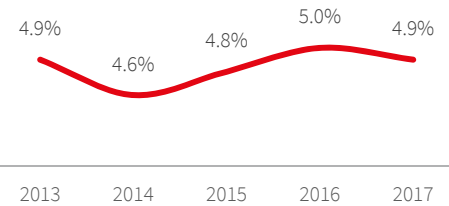
Outlook

Changes in supply chain planning are beginning to put Houston on the radar for regional distribution facilities and fulfillment centers, driving demand for larger industrial buildings. There are 12 big-box warehouse/distribution projects either underway or delivered in 2017, a 20 percent increase year-over-year and a 140 percent increase from 2015. As tenants remain confident and developers disciplined, the Houston market is poised for another strong year in 2018.

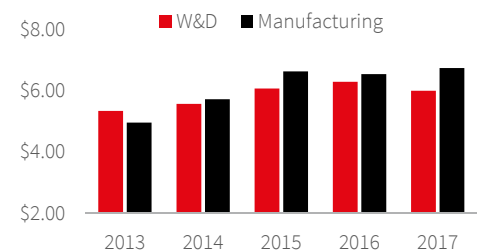
Fundamentals	Forecast
YTD net absorption	7,607,173 s.f. ▶
QTD net absorption	239,374 s.f. ▲
Under construction	4,614,698 s.f. ▶
Total vacancy	4.9% ▶
Average asking rent (NNN)	\$6.15 p.s.f. ▶
Tenant improvements	Stable ▶



Total vacancy



Average asking rents (\$/s.f.)



For more information, contact: Rachel Alexander | rachel.alexander@am.jll.com

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Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
Warehouse & Distribution	342,132,356	985,731	7,868,315	2.3%	5.3%	8.9%	\$6.00	690,990	7,196,639	4,576,278
Manufacturing	83,134,514	-746,357	-261,142	-0.3%	3.2%	7.3%	\$6.74	0	61,750	38,420
Totals	425,266,870	239,374	7,607,173	1.8%	4.9%	8.6%	\$6.15	690,990	7,258,389	4,614,698
Submarkets										
CBD										
Warehouse & Distribution	34,475,450	57,624	-109,029	-0.3%	4.9%	9.4%	\$4.52	0	0	0
Manufacturing	10,433,537	-138,581	18,203	0.2%	2.7%	10.3%	\$7.02	0	0	0
Totals	44,908,987	-80,957	-90,826	-0.2%	4.4%	9.6%	\$4.69	0	0	0
Northwest										
Warehouse & Distribution	96,377,584	-644,899	1,063,273	1.1%	5.6%	9.4%	\$6.69	0	1,064,125	800,035
Manufacturing	22,475,130	-122,212	39,527	0.2%	3.4%	7.9%	\$6.32	0	61,750	38,420
Totals	118,852,714	-767,111	1,102,800	0.9%	5.2%	9.1%	\$6.58	0	1,125,875	838,455
North										
Warehouse & Distribution	56,806,886	784,100	2,269,115	4.0%	8.1%	11.4%	\$6.73	0	1,019,968	934,706
Manufacturing	12,115,125	-3,421	12,833	0.1%	4.9%	8.0%	\$6.00	0	0	0
Totals	68,922,011	780,679	2,281,948	3.3%	7.6%	10.8%	\$6.60	0	1,019,968	934,706
Northeast										
Warehouse & Distribution	23,852,276	-172,513	-216,511	-0.9%	3.4%	7.2%	\$4.81	0	0	143,500
Manufacturing	6,389,222	-25,170	120,794	1.9%	0.9%	1.8%	\$6.00	0	0	0
Totals	30,241,498	-197,683	-95,717	-0.3%	2.9%	6.0%	\$4.89	0	0	143,500
Southeast										
Warehouse & Distribution	62,772,516	1,160,460	4,151,135	6.6%	4.4%	8.8%	\$5.58	578,490	4,446,846	2,626,444
Manufacturing	16,623,307	-582,293	-458,793	-2.8%	3.5%	6.5%	\$10.75	0	0	0
Totals	79,395,823	578,167	3,692,342	4.7%	4.2%	8.3%	\$6.43	578,490	4,446,846	2,626,444
South										
Warehouse & Distribution	27,737,537	-134,965	402,504	1.5%	2.7%	4.4%	\$4.85	0	274,800	71,593
Manufacturing	8,102,985	114,384	46,150	0.6%	0.4%	4.0%	\$4.50	0	0	0
Totals	35,840,522	-20,581	448,654	1.3%	2.2%	4.3%	\$4.74	0	274,800	71,593
Southwest										
Warehouse & Distribution	40,110,107	-64,076	307,828	0.8%	5.6%	8.2%	\$6.55	112,500	390,900	0
Manufacturing	6,995,208	10,936	-39,856	-0.6%	4.9%	9.9%	\$7.46	0	0	0
Totals	47,105,315	-53,140	267,972	0.6%	5.5%	8.5%	\$6.74	112,500	390,900	0