

Q1 2018

Industrial Insight

Further big-box spec development expected for 2018

- Houston’s ‘big three’ submarkets dominated first quarter leasing and construction activity
- Continued tight vacancy, coupled with a flight to quality, are driving many tenants to new development
- Opportunistic and bullish landlords are increasingly breaking ground on speculative product to capture pent up demand

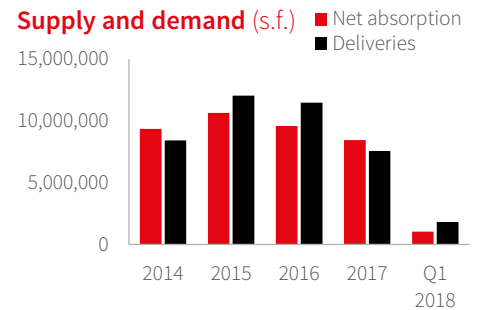
Houston’s top industrial submarkets, the Northwest, Southeast, and North, together accounted for over 77% of leasing activity and over 90% of construction activity to kick off the new year. UNIS Company was the largest deal signed by far, with the 3PL provider taking down 257,835 square feet in the newly constructed Bayport South Business Park in the Southeast for its first Houston area location. Nine of the top 10 projects under construction currently fall into one of these three submarkets, the only outlier being Best Buy’s 554,000-square-foot distribution center in the Southwest submarket. With vacancy sub-5% for the third consecutive quarter, tenants have a healthy appetite for new development and are seeking quality locations with modern features and amenities as existing leases roll.

With Best Buy’s groundbreaking, the metro’s five largest construction projects are now all over 500,000 square feet and include a mix of build-to-suit and speculative developments. As space constraints continue to challenge end-user growth, Houston has become a playing field for local developers and national investors alike with competition for land sites intensifying. The last two quarters have seen speculative construction activity hovering at around 70% of new development, up from 45% in 2016 and early 2017.

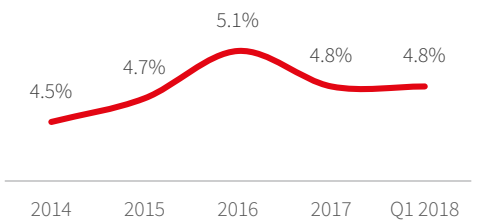
Outlook

With recent stability in the price of oil and strong job creation forecasted in the regional economy, further growth is expected for the Houston industrial market. Fundamentals remain strong, and tenants from a broad swath of industry types are actively in the market for space. The lack of existing options in some submarkets will provide opportunities for developers who can secure land and get quality product out of the ground quickly. Looking ahead, the construction pipeline will continue ramping up over the course of 2018 to capture tenant demand.

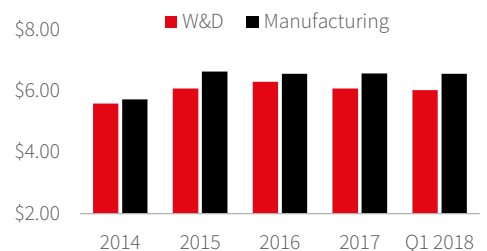
| Fundamentals | Forecast |
|---------------------------|------------------|
| YTD net absorption | 1,036,881 s.f. ▲ |
| QTD net absorption | 1,036,881 s.f. ▲ |
| Under construction | 6,665,102 s.f. ▲ |
| Total vacancy | 4.8% ▶ |
| Average asking rent (NNN) | \$6.10 p.s.f. ▶ |
| Tenant improvements | Stable ▶ |



Total vacancy



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



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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 | 344,591,291 | 1,436,482 | 1,436,482 | 0.4% | 5.1% | 8.8% | \$6.02 | 1,774,563 | 1,774,563 | 6,665,102 |
| Manufacturing | 85,492,009 | -399,601 | -399,601 | -0.5% | 3.7% | 7.2% | \$6.55 | 38,420 | 38,420 | 0 |
| Totals | 430,083,300 | 1,036,881 | 1,036,881 | 0.2% | 4.8% | 8.5% | \$6.10 | 1,812,983 | 1,812,983 | 6,665,102 |
| Submarkets | | | | | | | | | | |
| CBD | | | | | | | | | | |
| Warehouse & Distribution | 34,425,497 | -129,983 | -129,983 | -0.4% | 5.4% | 10.0% | \$4.21 | 0 | 0 | 0 |
| Manufacturing | 10,521,837 | -16,788 | -16,788 | -0.2% | 2.8% | 10.2% | \$7.02 | 0 | 0 | 0 |
| Totals | 44,947,334 | -146,771 | -146,771 | -0.3% | 4.8% | 10.1% | \$4.38 | 0 | 0 | 0 |
| Northwest | | | | | | | | | | |
| Warehouse & Distribution | 97,961,357 | 981,304 | 981,304 | 1.0% | 5.5% | 10.3% | \$6.48 | 1,170,661 | 1,170,661 | 1,899,744 |
| Manufacturing | 22,487,407 | -19,039 | -19,039 | -0.1% | 3.7% | 8.3% | \$6.32 | 38,420 | 38,420 | 0 |
| Totals | 120,448,764 | 962,265 | 962,265 | 0.8% | 5.1% | 9.9% | \$6.45 | 1,209,081 | 1,209,081 | 1,899,744 |
| North | | | | | | | | | | |
| Warehouse & Distribution | 56,662,706 | 419,182 | 419,182 | 0.7% | 6.8% | 10.3% | \$6.63 | 0 | 0 | 1,272,406 |
| Manufacturing | 14,086,604 | -29,533 | -29,533 | -0.2% | 4.4% | 5.8% | \$5.86 | 0 | 0 | 0 |
| Totals | 70,749,310 | 389,649 | 389,649 | 0.6% | 6.4% | 9.4% | \$6.49 | 0 | 0 | 1,272,406 |
| Northeast | | | | | | | | | | |
| Warehouse & Distribution | 24,065,776 | 71,854 | 71,854 | 0.3% | 2.9% | 5.5% | \$5.13 | 143,500 | 143,500 | 0 |
| Manufacturing | 6,514,961 | -54,220 | -54,220 | -0.8% | 2.8% | 3.7% | \$6.00 | 0 | 0 | 0 |
| Totals | 30,580,737 | 17,634 | 17,634 | 0.1% | 2.9% | 5.1% | \$5.27 | 143,500 | 143,500 | 0 |
| Southeast | | | | | | | | | | |
| Warehouse & Distribution | 63,239,766 | 12,549 | 12,549 | 0.0% | 4.7% | 9.1% | \$5.75 | 460,402 | 460,402 | 2,867,359 |
| Manufacturing | 16,783,307 | -138,921 | -138,921 | -0.8% | 4.3% | 5.3% | \$9.12 | 0 | 0 | 0 |
| Totals | 80,023,073 | -126,372 | -126,372 | -0.2% | 4.6% | 8.3% | \$6.32 | 460,402 | 460,402 | 2,867,359 |
| South | | | | | | | | | | |
| Warehouse & Distribution | 28,131,465 | -64,110 | -64,110 | -0.2% | 2.7% | 5.2% | \$4.65 | 0 | 0 | 71,593 |
| Manufacturing | 8,102,485 | 0 | 0 | 0.0% | 0.4% | 5.1% | \$4.42 | 0 | 0 | 0 |
| Totals | 36,233,950 | -64,110 | -64,110 | -0.2% | 2.2% | 5.2% | \$4.60 | 0 | 0 | 71,593 |
| Southwest | | | | | | | | | | |
| Warehouse & Distribution | 40,104,724 | 145,686 | 145,686 | 0.4% | 4.8% | 6.1% | \$6.66 | 0 | 0 | 554,000 |
| Manufacturing | 6,995,408 | -141,100 | -141,100 | -2.0% | 7.0% | 12.0% | \$7.47 | 0 | 0 | 0 |
| Totals | 47,100,132 | 4,586 | 4,586 | 0.0% | 5.1% | 7.0% | \$6.84 | 0 | 0 | 554,000 |