

Q3 2018

Industrial Insight

# New supply eases tightness in the market

- Leasing activity remains focused on new construction and in the North and Northwest submarkets for the second consecutive quarter
- Vacancy and availability both climbed 50 basis points following 3.8 million square feet of new deliveries
- Asking rents trend upward amid consistent tenant demand and increased land pricing for new development

The industrial market is firing on all cylinders as both landlords and tenants expand their positions in Houston. Major occupiers continue to migrate into newer product, with eight of the top 11 deals transacting in new construction space. The North and Northwest submarkets again captured the lion's share of tenant demand in the third quarter, landing 66.7 percent of total deal volume. Largest transactions included Conn's for 656,658 square feet in the North and Goodman Manufacturing for 411,442 square feet in the Northwest.

Four quarters of robust construction activity came to fruition with 3.8 million square feet in deliveries, the largest supply infusion since the third quarter of 2016. Most projects have solid tenant commitments, and deliveries were 67.7 percent preleased this quarter. As some of the tenants have not taken occupancy of their new spaces yet, vacancy rose 50 basis points to 5.4 percent. Availability climbed to 8.5 percent over the same period.

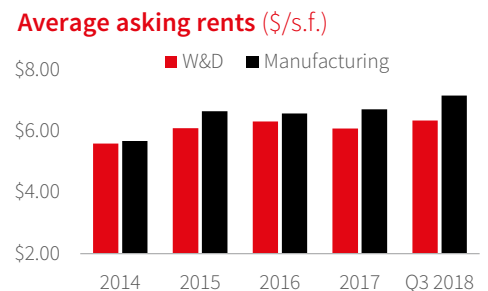
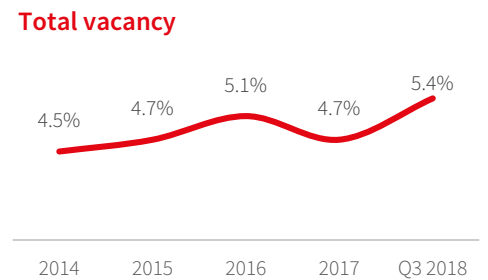
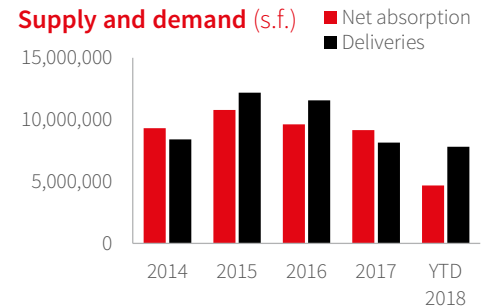
While asking rents are up 0.9 percent quarter-over-quarter, they have risen 4.9 percent in the last year, giving some tenants sticker shock upon entering the market. Despite a slight softening in occupancy this quarter, landlords are holding their positions and concessions remain stable, given the long-term strength of the industrial sector in Houston.

### Outlook

With construction activity easing off the gas this quarter and leasing activity consistent over the course of 2018, the market looks to remain in balance in the period ahead. Houston is increasingly competing with other major U.S. industrial markets for big-box distribution deals, which are aggressively being pursued by a growing field of investors ready to turn dirt. With further spec development poised to break ground before the end of the year, opportunities abound for Houston industrial players.

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Fundamentals	Forecast
Q3 net absorption	1,370,210 s.f. ▲
YTD net absorption	4,666,925 s.f. ▲
Under construction	8,332,231 s.f. ►
Total vacancy	5.4% ►
Average asking rent (NNN)	\$6.45 p.s.f. ▲
Tenant improvements	Stable ►



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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.)
<b>Houston Totals</b>										
Warehouse & Distribution	351,304,622	1,492,293	4,506,627	1.3%	5.7%	8.9%	\$6.33	3,724,018	7,015,276	8,012,231
Manufacturing	84,744,543	-122,083	160,298	0.2%	3.8%	6.5%	\$7.15	46,500	797,660	320,000
<b>Totals</b>	<b>436,049,165</b>	<b>1,370,210</b>	<b>4,666,925</b>	<b>1.1%</b>	<b>5.4%</b>	<b>8.5%</b>	<b>\$6.45</b>	<b>3,770,518</b>	<b>7,812,936</b>	<b>8,332,231</b>
<b>Submarkets</b>										
<b>CBD</b>										
Warehouse & Distribution	34,690,596	-390,451	-223,363	-0.6%	5.0%	8.8%	\$5.56	0	0	0
Manufacturing	10,476,170	456	27,224	0.3%	1.9%	8.6%	\$6.50	0	0	0
<b>Totals</b>	<b>45,166,766</b>	<b>-389,995</b>	<b>-196,139</b>	<b>-0.4%</b>	<b>4.2%</b>	<b>8.7%</b>	<b>\$5.78</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Northwest</b>										
Warehouse & Distribution	99,950,037	198,511	1,249,108	1.2%	7.1%	9.8%	\$6.58	1,453,659	2,856,159	2,255,651
Manufacturing	22,600,471	-140,999	-337,958	-1.5%	4.9%	6.5%	\$6.68	0	38,420	320,000
<b>Totals</b>	<b>122,550,508</b>	<b>57,512</b>	<b>911,150</b>	<b>0.7%</b>	<b>6.7%</b>	<b>9.2%</b>	<b>\$6.59</b>	<b>1,453,659</b>	<b>2,894,579</b>	<b>2,575,651</b>
<b>North</b>										
Warehouse & Distribution	57,562,938	479,028	1,649,846	2.9%	6.3%	10.3%	\$6.55	0	934,706	2,173,028
Manufacturing	12,447,547	30,767	-110,946	-0.9%	5.9%	8.1%	\$6.64	46,500	46,500	0
<b>Totals</b>	<b>70,010,485</b>	<b>509,795</b>	<b>1,538,900</b>	<b>2.2%</b>	<b>6.2%</b>	<b>9.9%</b>	<b>\$6.56</b>	<b>46,500</b>	<b>981,206</b>	<b>2,173,028</b>
<b>Northeast</b>										
Warehouse & Distribution	24,114,364	-393,393	-141,586	-0.6%	3.9%	7.9%	\$4.95	0	143,500	320,000
Manufacturing	6,551,987	33,000	67,070	1.0%	0.9%	2.6%	\$5.25	0	0	0
<b>Totals</b>	<b>30,666,351</b>	<b>-360,393</b>	<b>-74,516</b>	<b>-0.2%</b>	<b>3.3%</b>	<b>6.8%</b>	<b>\$4.98</b>	<b>0</b>	<b>143,500</b>	<b>320,000</b>
<b>Southeast</b>										
Warehouse & Distribution	66,194,229	1,402,437	1,776,063	2.7%	6.0%	9.6%	\$5.99	2,270,359	3,042,411	2,438,117
Manufacturing	17,499,459	0	690,740	3.9%	3.4%	4.3%	\$10.73	0	712,740	0
<b>Totals</b>	<b>83,693,688</b>	<b>1,402,437</b>	<b>2,466,803</b>	<b>2.9%</b>	<b>5.4%</b>	<b>8.5%</b>	<b>\$6.33</b>	<b>2,270,359</b>	<b>3,755,151</b>	<b>2,438,117</b>
<b>South</b>										
Warehouse & Distribution	28,187,614	-62,664	-255,430	-0.9%	3.6%	7.1%	\$4.93	0	38,500	35,765
Manufacturing	8,186,529	0	-48,125	-0.6%	1.0%	6.1%	\$5.03	0	0	0
<b>Totals</b>	<b>36,374,143</b>	<b>-62,664</b>	<b>-303,555</b>	<b>-0.8%</b>	<b>3.0%</b>	<b>6.9%</b>	<b>\$4.95</b>	<b>0</b>	<b>38,500</b>	<b>35,765</b>
<b>Southwest</b>										
Warehouse & Distribution	40,604,844	258,825	451,989	1.1%	4.3%	5.9%	\$6.07	0	0	789,670
Manufacturing	6,982,380	-45,307	-127,707	-1.8%	6.8%	10.4%	\$6.94	0	0	0
<b>Totals</b>	<b>47,587,224</b>	<b>213,518</b>	<b>324,282</b>	<b>0.7%</b>	<b>4.7%</b>	<b>6.5%</b>	<b>\$6.24</b>	<b>0</b>	<b>0</b>	<b>789,670</b>