

INVESTMENT FORECAST

Industrial
Houston

IPA

INSTITUTIONAL
PROPERTY
ADVISORS






2022

Plethora of Tailwinds Propel Industrial Performance; Well-Capitalized Buyers Target Transport Hubs

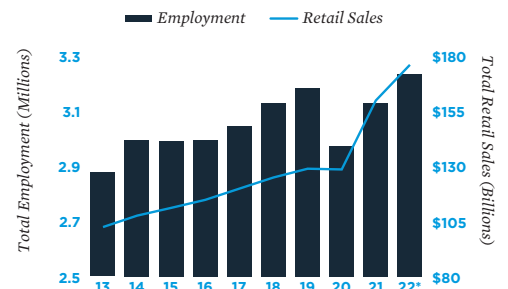
Port of Houston and rising energy costs drive leasing boom. Houston's economic momentum has been robust, with the population growing almost three times as fast as the U.S., and the median household income rising at the quickest pace of the major Texas markets last year. Additionally, the expanding e-commerce segment, in concert with global supply chain uncertainty, has led firms to emphasize keeping goods closer to consumers. Heightened e-commerce sales have also led the Port of Houston to report a rise in activity in 2021, pointing toward continued tenant interest for industrial space in 2022. Supporting the expanding customer pool in Houston and South Texas has required firms to grow local footprints, driving net absorption over 27 million square feet and producing a 160-basis-point drop in vacancy in 2021. Beyond distributors, the energy sector facilitates additional demand in Houston. With oil prices climbing to the highest level since 2008, energy producers are expanding rig counts and operations in the metro.

Institutions eagerly grow Houston portfolios. The market's wide array of offerings and surging tenant demand have resulted in more transactions recently, especially assets priced above \$15 million. This increase is a result of growing interest from institutions and foreign buyers, as yields in the metro sit at 7 percent, higher than those in similar metros like Dallas and Miami. Southeastern submarkets report the most trades, often involving newer assets larger than 50,000 square feet, as investors here benefit from tenant demand created by the port. The Interstate 10 passage spanning the energy corridor west to Katy recorded sizable sales activity as well, involving even larger boxes. Submarkets along Hardy Toll Road, north of the CBD, also had a large jump in sales, usually for sub-50,000-square-foot buildings proximate to George Bush Intercontinental Airport.

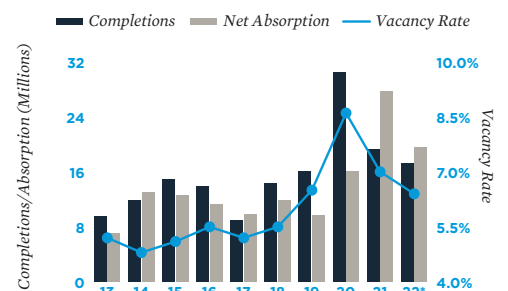
2022 Market Forecast

- Employment** up 3.4%  The metro is set to surpass the pre-COVID-19 employment count this year, as 105,000 positions are created in Houston.
- Construction** 17 million sq. ft.  Developers are projected to slow inventory growth slightly this year, after nearly 50 million square feet of industrial space was completed between 2020 and 2021.
- Vacancy** down 60 bps  Net absorption is expected to outpace completions by more than 2 million square feet in 2022, contracting vacancy to 6.4 percent after last year's 160-basis-point retreat.
- Rent** up 5.5%  Asking rents are primed to continue on an upward trend, climbing to a mean of \$7.85 per square foot by the end of 2022. This will be the third consecutive year of at least 4 percent growth.
- Investment**  National firms are leasing facilities with automation capabilities. Investors frequently target assets occupied by such users, suggesting more trades may occur involving modern facilities.

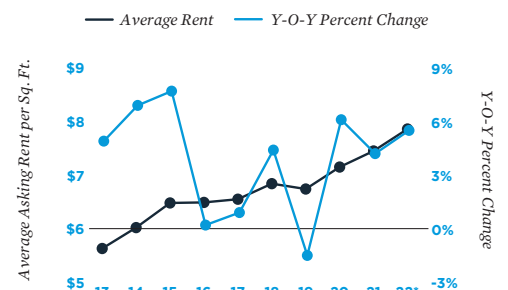
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.