

# MARKET REPORT

INDUSTRIAL  
Houston Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2H/19

## Construction Continues to Outpace Other Port Markets; Private Buyers Finding Numerous Opportunities

**Developers stay focused on select pockets.** Increased activity at the Port of Houston is supporting the metro's already-strong industrial sector and helping push construction volume to its highest mark in more than a decade. During the past five years, Houston's inventory growth exceeded 10 percent, in line with the nation's most prominent hub markets like Atlanta, Dallas/Fort Worth and the Inland Empire. Relative to other port markets, Houston has witnessed more rapid inventory expansion — a trend that will likely be sustained into the near future amid greater port activity and exceptional population growth across many areas of Texas. With 12.3 million square feet of industrial space already completed in 2019, developers have put a heavy emphasis on several areas of the metro including La Porte, Pasadena, northern suburbs adjacent to I-45 and the Highway 290 corridor. Vacancy in these areas has resultantly risen in recent months, supporting a substantial boost to the marketwide rate, driving the reading to 6.5 percent at the end of the third quarter. With the metro still attempting to reach equilibrium after receiving 61 million square feet since the start of 2015, vacancy will remain relatively elevated for the foreseeable future despite solid demand drivers.

**Strong yields pique interest from variety of buyers.** Strengthening investor interest and further compression of the buyer/seller expectation gap contributed to a 15 percent bump in transaction velocity over the past year. Northwest Houston remained a popular area for a variety of buyers due to the area's diverse inventory. For Class A assets in the 100,000- to 200,000-square-foot range, cap rates typically sat in the high-6 to low-7 percent span, while some smaller warehouses around 20,000 square feet captured first-year returns over 8 percent. Similar yield-driven investors scoured parts of south Houston, where buildings selling for roughly \$62 per square foot — \$30 below the market average — enticed many buyers. Neighborhoods in close proximity to George Bush Intercontinental Airport also witnessed strong trading activity as a couple of large portfolio deals and several smaller transactions materialized.

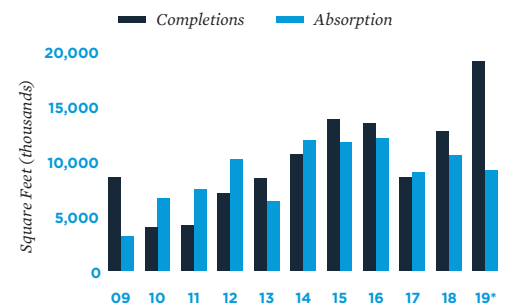
## 2019 Market Forecast

- Employment** up 3.2%  
Job creation will hit 101,000 in 2019, topping 100,000 for the first time since 2014. Professional and business services and the manufacturing sector will remain primary drivers of employment growth.
- Construction** 19.1 million sq. ft.  
Houston is expected to record its cyclical high this year by a significant margin amid a plethora of 500,000- to 700,000-square-foot completions. Northern sections of the metro will log a sizable portion of the new supply.
- Vacancy** up 160 bps  
With just 5.8 million square feet absorbed so far in 2019, market vacancy is on track to substantially climb, putting the reading at 7.0 percent by year end.
- Rent** up 1.9%  
The supply/demand imbalance will keep rent growth relatively subdued this year, expanding the average asking rent 1.9 percent to \$740 per square foot.
- Investment**  
Relatively affordable entry costs and favorable yields will remain drivers of buyer interest in the Bayou City moving forward, further expanding the out-of-state investor pipeline, particularly from the East Coast.

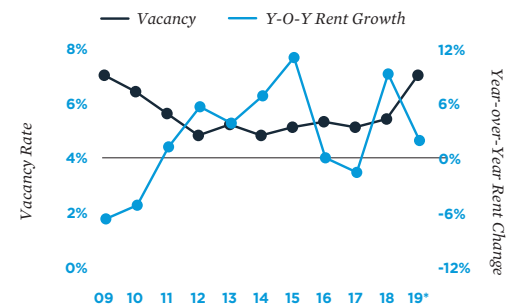
## Employment vs. Retail Sales Trends



## Industrial Completions



## Asking Rent and Vacancy Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third 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.