

Houston's industrial market continues to expand, adding 4.4M SF of inventory in the third quarter

Lisa Bridges Director of Market Research | Houston

Houston's industrial market continues to expand, adding 4.4M SF to its inventory in the third quarter, an increase of 158.8% over the quarter. There is another 10.3M SF under construction which is scheduled to deliver over the next two quarters. Some of the tenants that have or will be occupying the new inventory include Grocers Supply, Best Buy, and Conn's HomePlus, to name a few. Not all of the new construction is pre-leased which will increase the vacancy rate, but Houston's industrial market is healthy and the vacancy rate increased by only 40 basis points over the quarter from 5.3% to 5.7%. Year-to-date, 85 industrial buildings have been completed adding over 9.5M SF to Houston's industrial inventory.

Houston's net absorption jumped significantly over the quarter, increasing 157% from 0.7M SF to 1.8M SF. A vast majority of the leasing activity can be attributed to an expanding population driven by job growth which increases consumer spending and demand for logistics and distribution hubs.

Houston's job growth increased by 3.7% over the year according to recent data released by the US Bureau of Labor Statistics. The Houston MSA created 101,200 jobs (not seasonally adjusted) between August 2017 and August 2018, growing faster than Texas and the U.S. during the same period. Employment sectors with the most substantial growth include construction which grew by 13.5% over the year, and professional and business services which increased by 7.2%.

Market Indicators

Relative to prior period

Annual
Change

Quarterly
Change

Quarterly
Forecast*

VACANCY



NET ABSORPTION



NEW CONSTRUCTION



UNDER CONSTRUCTION



*Projected

Summary Statistics

Houston Industrial Market

Q3 2017

Q2 2018

Q3 2018

Vacancy Rate

5.2%

5.3%

5.7%

Net Absorption (SF)

4.2M

0.7M

1.8M

New Construction (SF)

3.1M

1.7M

4.4M

Under Construction (SF)

4.2M

12.3M

10.3M

Asking Rents

Per Square Foot Per Year (NNN)

Average

\$6.90

\$7.03

\$7.32

Warehouse/Distribution

\$6.54

\$6.73

\$6.87

Flex/Service

\$10.14

\$9.89

\$9.67

Tech/R&D

\$11.27

\$10.72

\$10.69



Vacancy & Availability

Houston's average industrial vacancy rate increased 40 basis points from 5.3% to 5.7% over the quarter. At the end of the third quarter, Houston had 31.1 million SF of vacant industrial space for direct lease, and an additional 1.6 million SF of vacant sublease space. Among the major industrial corridors, the Northeast Corridor had the lowest vacancy rate at 3.0%, followed by the South Corridor at 3.6%. The submarket with the largest percentage of vacant space is the North Corridor which had a 6.9% vacancy rate.

Absorption & Demand

Houston's industrial market posted 1.8 million SF of positive net absorption in the third quarter, a huge increase from the 0.7 million SF of positive absorption recorded in the previous quarter. Some of the tenants that relocated or expanded include DXP Enterprises, Utopia Fulfillment, Vinmar International, Western Post USA, Kuraray America and General Electric.

The majority of third quarter positive net absorption occurred in the Southeast Corridor which recorded 1.4M SF of space absorbed. The North, Northwest, Southwest and South Corridors also recorded positive net absorption in third quarter 2018. The submarket with the highest amount of negative absorption was the Inner Loop Corridor, which posted 482,120 SF of negative net absorption.

Rental Rates

According to CoStar, our data service provider, Houston's citywide average quoted industrial rental rate for all product types increased from \$7.03 per SF NNN to \$7.32 per SF NNN over the quarter. According to Colliers' internal data, actual lease transactions are in the \$4.68 – \$5.16 per SF NNN range for newer bulk industrial spaces, while flex rates range from \$7.20 to \$10.80 per SF depending on the existing improvements or the allowance provided for tenant improvements and the age and location of the property.

According to CoStar, the average quoted NNN rental rates by property type are as follows: \$6.87 per SF for Warehouse Distribution space; \$9.67 per SF for Flex/Service space; with Tech/R&D space averaging \$10.69 per SF.



Job Growth & Unemployment

(not seasonally adjusted)

UNEMPLOYMENT	8/17	8/18
HOUSTON	5.1%	4.3%
TEXAS	4.4%	3.9%
U.S.	4.5%	3.9%

JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	3.7%	101.2K
TEXAS	3.2%	386.9K
U.S.	1.7%	2.4M

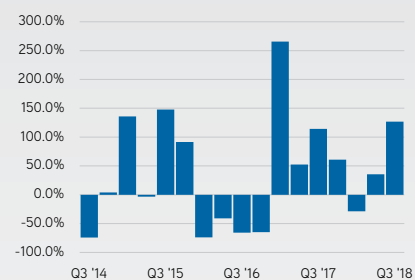
Sales Activity

Source: Real Capital Analytics

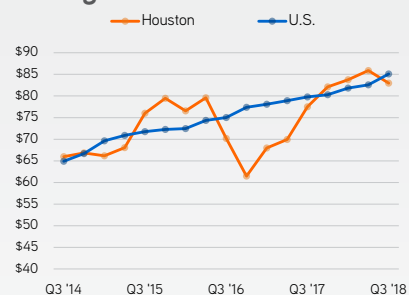
Q3 2018

NO. OF PROPERTIES:	64
TOTAL SF:	7.9M
AVERAGE \$/SF:	\$83
AVERAGE CAP RATE:	6.2%

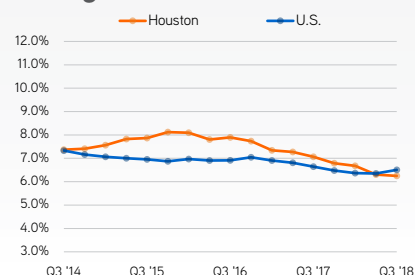
Change in Sales (Year over Year)



Average Price Per SF



Average CAP Rate



Leasing Activity

Houston's industrial leasing activity decreased 17% over the quarter from 6.0M SF in Q2 2018 to 5.0M SF in Q3 2018. Most of the transactions consisted of leases for 75,000 SF or less; however, there were several larger deals that occurred. The table below highlights some of the larger transactions that closed in Q3 2018.

Q3 2018 Industrial Lease Transactions over 50,000 SF				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
Northwest Logistics Center - 6751 N Eldridge Pky	West Outer Loop	411,460	Goodman Manufacturing ¹	Aug-18
18727 Kenswick Dr	North Hardy Toll Rd	289,200	Forward Air Solutions ¹	Aug-18
2015 Turning Basin	Southeast Outer Loop	143,000	MS Warehousing ²	Aug-18
Cutten Road Business Park - 11833 Cutten Rd	North Fwy/Tomball Pky	122,200	Western Post USA ¹	Aug-18
Gateway Northwest Business Park - 20510 Hempstead Rd Bldg 3	Northwest Hwy 6	103,635	RTIC ¹	Aug-18
Gateway Northwest Business Park - 20510 Hempstead Rd Bldg 3	Northwest Hwy 6	103,635	Wayfair ¹	Aug-18
6818 FM 2855	Northwest Outliers	82,960	CAM Integrated Solutions ^{1, 3}	Aug-18

¹Direct/New

²Renewal/Extension

³Colliers International Transaction

Under Construction

Currently 10.3M SF of industrial space is under construction in Houston and 38% of this space is pre-leased. The largest project under construction is a 727,600-SF BTS distribution warehouse for Grocers Supply Company which is being developed by Liberty Property Trust. Below is a partial list of buildings currently under construction.

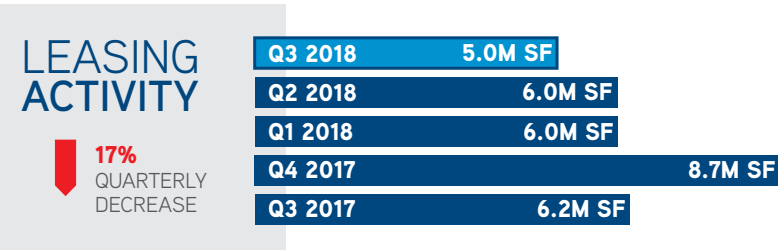
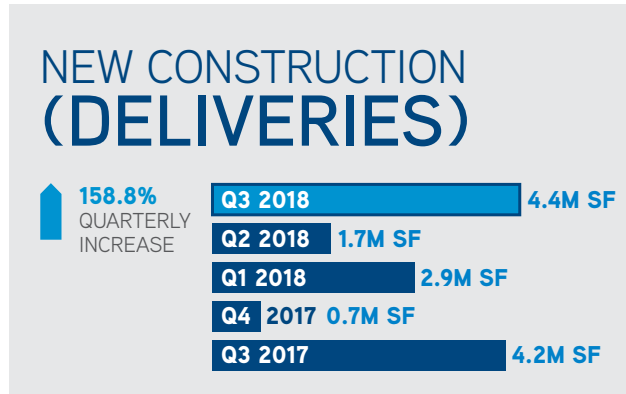
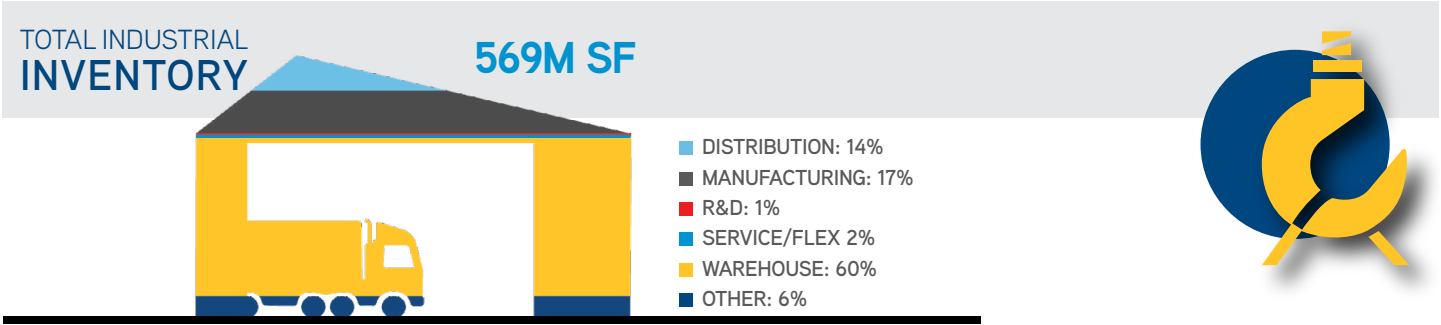
Q3 2018 Industrial Under Construction - 250,000 SF or greater						
BUSINESS PARK/ADDRESS	SUBMARKET	RBA	% LEASED	DEVELOPER/CONTRACTOR	DELIVERY DATE	BUILDING DESCRIPTION
14803 Woodham Dr	North Hardy Toll Rd	727,600	100%	Liberty Property Trust	Apr-19	BTS for Grocers Supply
Parc Air 59 - 18250 Hwy 59 N	Northeast Hwy 90	677,040	0%	Archway Advisors LLC	Dec-18	Spec Distribution
1401 N Rankin Rd	North Hardy Toll Road	656,658	100%	Liberty Property Trust	Jun-19	BTS for Conn's HomePlus
1302 Wharton Weems Blvd - B2	East-Southeast Far	600,360	0%	Liberty Property Trust	Oct-18	Spec Distribution
636 Hwy 90	Hwy 59/Hwy90	550,000	100%	Seefried Properties, Inc.	Oct-18	BTS for Best Buy
Underwood Port Logistics Center - 4600 Underwood Rd	East-Southeast Far	404,160	0%	Triten Real Estate Partners Carlyle Group	Feb-19	Spec Distribution
Fallbrook Pines Business Park	Hwy 290/Tomball Pky	368,467	0%	TrammellCrowCompany	Oct-18	Spec Warehouse
Victory Commerce Center	East-Southeast Far	349,050	0%	Crow Holdings Industrial	Mar-19	Spec Distribution
North Houston Logistics Center Bldg G	North Outer Loop	345,240	0%	IDI Logistics		Spec Distribution
Point North Three	North Hardy Toll Road	337,700	0%	Duke Realty Corporation	Nov-18	Spec Warehouse
22806 Northwest Lake Dr	Northwest Outliers	320,000	100%	Kingham Dalton Ltd.	Dec-18	BTS for AIV Inc.
Port 10 Logistics Center - Bldg 1	East-Southeast Far	294,323	0%	Pontikes Development	Oct-18	Spec Distribution
Fallbrook Pines Business Park	Hwy 290/Tomball Pky	291,606	0%	TrammellCrowCompany	Oct-18	Spec Distribution
Mason Ranch Bldg 2	Northwest Outliers	282,880	100%	Exeter Property Group	Nov-18	BTS for Vertiv
Thompson 10 Logistics Center	East-Southeast Far	260,148	0%	Investment & Development Ventures LLC	Mar-19	Spe Warehouse
11770 N Gessner Rd	Hwy 290/Tomball Pky	257,909	100%	Alston Construction	Oct-18	BTS for UPS

Market Summary

Q3 2018 Houston Industrial Market Statistical Summary											
MARKET	RENTABLE AREA	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLET VACANT SF	SUBLET VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	3Q18 NET ABSORPTION	2Q18 NET ABSORPTION	3Q18 COMPLETIONS	SF UNDER CONSTRUCTION
Houston Total	569,112,113	31,086,781	5.5%	1,601,726	0.3%	32,688,507	5.7%	1,849,583	733,097	4,460,988	10,326,525
CBD-NW Inner Loop	11,619,311	783,385	6.7%	25,755	0.2%	809,140	7.0%	(279,464)	99,834	0	0
Downtown	31,475,086	1,109,822	3.5%	29,437	0.1%	1,139,259	3.6%	(149,554)	237,557	0	0
North Inner Loop	4,863,439	281,892	5.8%	0	0.0%	281,892	5.8%	(4,920)	33,722	0	0
Southwest Inner Loop	6,991,484	315,441	4.5%	0	0.0%	315,441	4.5%	(48,182)	(108,629)	0	0
INNER LOOP CORRIDOR TOTAL	54,949,320	2,490,540	4.5%	55,192	0.1%	2,545,732	4.6%	(482,120)	262,484	0	0
North Fwy/Tomball Pky	25,492,145	2,435,020	9.6%	149,581	0.6%	2,584,601	10.1%	304,716	513,475	75,900	512,270
North Hardy Toll Rd	34,293,005	2,102,003	6.1%	147,051	0.4%	2,249,054	6.6%	245,084	(736)	10,125	1,752,083
North Outer Loop	22,036,993	665,421	3.0%	64,300	0.3%	729,721	3.3%	(46,003)	252,342	12,000	0
The Woodlands/Conroe	17,849,692	1,249,179	7.0%	104,449	0.6%	1,353,628	7.6%	(35,470)	46,098	46,500	48,000
NORTH CORRIDOR TOTAL	99,671,835	6,451,623	6.5%	465,381	0.5%	6,917,004	6.9%	468,327	811,179	144,525	2,312,353
Northeast Hwy 321	1,463,216	0	0.0%	0	0.0%	0	0.0%	51,600	(600)	0	0
Northeast Hwy 90	18,517,464	504,935	2.7%	0	0.0%	504,935	2.7%	(149,450)	(89,282)	0	997,040
Northeast I-10	4,091,145	69,972	1.7%	6,195	0.2%	76,167	1.9%	(5,060)	38,370	0	0
Northeast Inner Loop	11,681,548	480,038	4.1%	22,500	0.2%	502,538	4.3%	(202,050)	55,955	0	0
NORTHEAST CORRIDOR TOTAL	35,753,373	1,054,945	3.0%	28,695	0.1%	1,083,640	3.0%	(304,960)	4,443	0	997,040
Hwy 290/Tomball Pky	22,940,695	1,595,633	7.0%	27,054	0.1%	1,622,687	7.1%	(249,274)	(279,965)	57,996	1,320,416
Northwest Hwy 6	11,281,843	820,864	7.3%	0	0.0%	820,864	7.3%	327,393	54,233	410,932	103,640
Northwest Inner Loop	60,437,506	3,462,411	5.7%	167,338	0.3%	3,629,749	6.0%	53,407	(705,766)	0	42,166
Northwest Near	18,379,647	919,811	5.0%	49,350	0.3%	969,161	5.3%	53,649	101,367	0	0
Northwest Outliers	23,716,399	1,891,509	8.0%	36,348	0.2%	1,927,857	8.1%	185,576	79,529	685,780	1,838,310
West Outer Loop	26,132,283	1,689,328	6.5%	168,200	0.6%	1,857,528	7.1%	(13,555)	25,705	433,042	0
NORTHWEST CORRIDOR TOTAL	162,888,373	10,379,556	6.4%	448,290	0.3%	10,827,846	6.6%	357,196	(724,897)	1,587,750	3,304,532
South Highway 35	35,308,430	1,125,697	3.2%	68,500	0.2%	1,194,197	3.4%	137,617	(18,852)	0	97,765
South Inner Loop	12,564,984	523,701	4.2%	20,295	0.2%	543,996	4.3%	(19,321)	(111,506)	0	0
SOUTH CORRIDOR TOTAL	47,873,414	1,649,398	3.4%	88,795	0.2%	1,738,193	3.6%	118,296	(130,358)	0	97,765
East I-10 Outer Loop	13,460,500	315,168	2.3%	0	0.0%	315,168	2.3%	36,000	(20,413)	0	10,000
East-Southeast Far	66,322,090	4,546,700	6.9%	383,000	0.6%	4,929,700	7.4%	1,048,201	649,221	2,687,875	2,615,210
Southeast Outer Loop	17,437,496	413,204	2.4%	0	0.0%	413,204	2.4%	338,847	(155,582)	0	0
SOUTHEAST CORRIDOR TOTAL	97,220,086	5,275,072	5.4%	383,000	0.4%	5,658,072	5.8%	1,423,048	473,226	2,687,875	2,625,210
Highway 59/Highway 90	23,008,673	1,340,247	5.8%	72,626	0.3%	1,412,873	6.1%	127,261	122,294	0	550,000
Southwest Far	13,058,742	940,682	7.2%	9,117	0.1%	949,799	7.3%	(47,142)	39,046	0	439,625
Southwest Outer Loop	13,270,168	839,698	6.3%	5,991	0.0%	845,689	6.4%	31,521	(46,617)	13,198	0
Sugar Land/Ft Bend Co	21,418,129	665,020	3.1%	44,639	0.2%	709,659	3.3%	158,156	(77,703)	27,640	0
SOUTHWEST CORRIDOR TOTAL	70,755,712	3,785,647	5.4%	132,373	0.2%	3,918,020	5.5%	269,796	37,020	40,838	989,625



Q3 Houston Industrial 2018 Highlights



FOR MORE INFORMATION

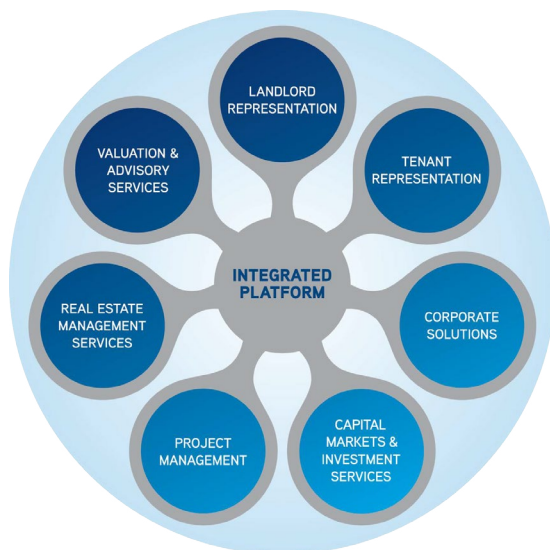
Lisa Bridges
 Director of Market Research | Houston
 +1 713 830 2125
lisa.bridges@colliers.com

THE Colliers ADVANTAGE

Colliers International Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 12,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of \$2.3 billion (\$2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than \$20 billion of assets under management from the world's most respected institutional real estate investors.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

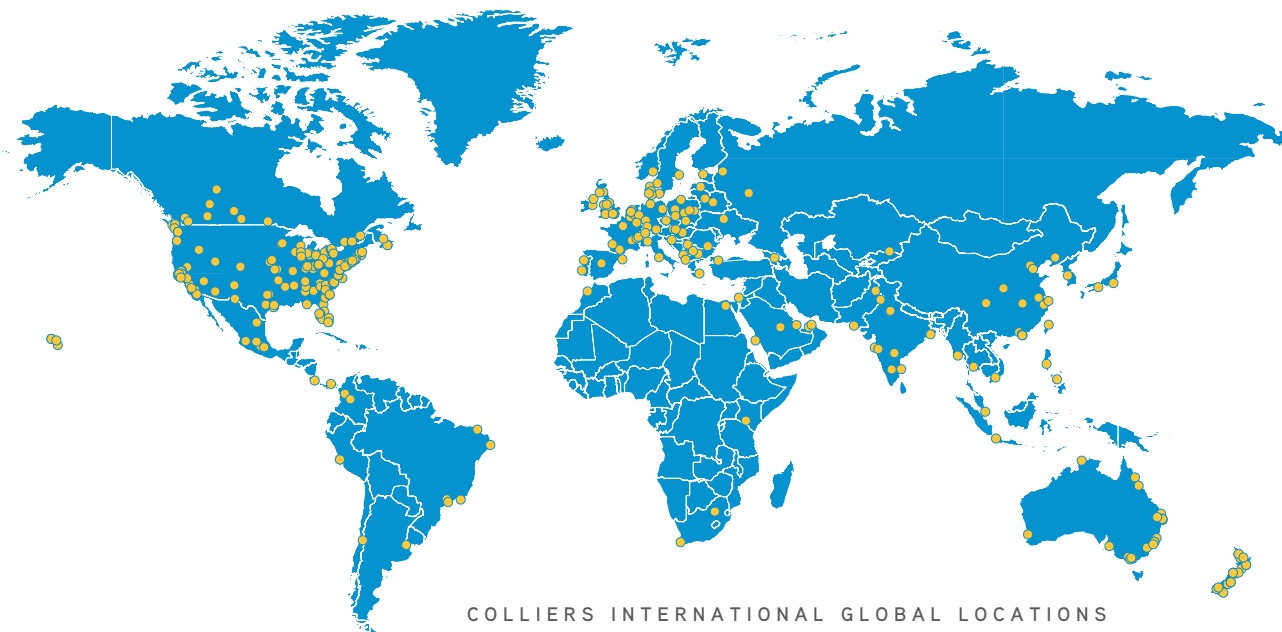
Colliers is led by an experienced leadership team with a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.



COMMERCIAL REAL ESTATE SECTORS REPRESENTED



Our philosophy revolves around the fact that the best possible results come from linking our global enterprise with local advisors who understand your business, your market, and how to integrate real estate into a successful business strategy.



COLLIERS INTERNATIONAL GLOBAL LOCATIONS

\$116B
TRANSACTION VALUE

2B
SF UNDER MANAGEMENT

\$2.7B
IN REVENUE

413
OFFICES

15,400
PROFESSIONALS

340
ACCREDITED MEMBERS

69
COUNTRIES