

Houston's industrial leasing activity decreases 42.7% over the quarter - vacancy rate remains under 5.0%

Lisa Bridges Director of Market Research | Houston

During the third quarter, 1.6M SF of Houston's industrial inventory was absorbed, substantially less than the 2.7M SF absorbed in the previous quarter. Industrial leasing activity declined as well, dropping to 2.8 SF, a decrease of 42.7% from the 4.9M SF leased in Q2 2015. Much of the decline in absorption and leasing activity is due to a lack of available space as Houston still has a 4.8% vacancy factor. The 2.9M SF of new inventory delivered in the third quarter is approximately 27.0% leased. Further, 9.6M SF of inventory is under construction and is 64.4% pre-leased.

Houston's average industrial vacancy rate increased slightly from 4.6% to 4.8% between quarters. The average citywide quoted industrial rental rate increased 2.4% between quarters from \$6.80 to \$6.96 per SF NNN. The average rental rate has increased 9.3% on a year-over-year basis from \$6.37 per SF NNN. Rental rates are not expected to change much, if any, in the near-term.

The Houston metropolitan area created 38,400 jobs between August 2014 and August 2015, an annual increase of 1.3%. Sectors creating most of the jobs contributing to the annual increase include Legal Services and Accommodation & Food Services. Employment sectors that lost the most jobs over the year include Durable Goods Manufacturing and Real Estate & Rental and Leasing.



Market Indicators Relative to prior period	Annual Change	Quarterly Change	Quarterly Forecast*
VACANCY	■	▲	▲
NET ABSORPTION	▼	▼	■
NEW CONSTRUCTION	▲	▲	▲
UNDER CONSTRUCTION	▲	▲	▼

*Projected

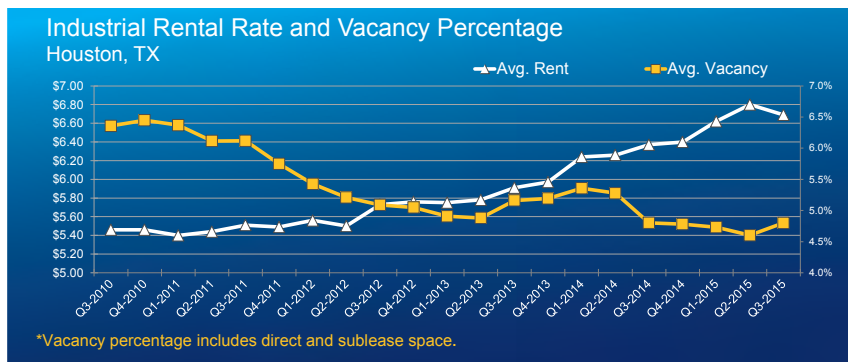
Summary Statistics Houston Industrial Market	Q3 2014	Q2 2015	Q3 2015
Vacancy Rate	4.8%	4.6%	4.8%
Net Absorption (SF)	3.9M	2.7M	1.6M
New Construction (SF)	1.3M	1.9M	2.9M
Under Construction (SF)	5.6M	10.6M	9.6M

Asking Rents Per Square Foot Per Year	Q3 2014	Q2 2015	Q3 2015
Average	\$6.37	\$6.80	\$6.96
Warehouse/Distribution	\$5.83	\$6.22	\$6.37
Flex/Service	\$10.21	\$11.24	\$12.61
Tech/R&D	\$11.17	\$11.51	\$12.76

Vacancy & Availability

Houston's average industrial vacancy rate decreased 20 basis points from 4.6% to 4.8% over the quarter, and remained unchanged from Q2 2014. At the end of the third quarter, Houston had 24.5M SF of vacant industrial space. Among the major industrial corridors, the Northeast Corridor has the lowest vacancy rate at 1.4%, followed by the South and Southeast Corridors, both at 3.1%. The largest concentration of vacant space is located in the North Corridor which has an 8.2% vacancy rate.

Houston's industrial construction pipeline had 9.6M SF of projects underway at the end of the third quarter, about 3.1M SF being spec development. The largest project under construction is a 4,000,000-SF build-to-suit engineering, manufacturing and logistics campus for Daikin Industries, an HVAC equipment manufacturer consolidating its operations at a site located on Kermier Rd and Hwy 290 in Waller County. A list of buildings currently under construction can be found on Page 3 of this report.



Absorption & Demand

Houston's industrial market posted 1.6M SF of positive net absorption in the third quarter, with the North Corridor submarket contributing the largest amount at 697,369 SF, followed by the Northwest Corridor which posted 526,656 SF of absorption. The Southeast Corridor posted 198,879 SF, and the South and Southwest Corridors contributed 125,146 SF and 94,622 SF of absorption, respectively.

There were several major tenant move-ins contributing to net absorption gains in the third quarter including Delta Companies Group (252,720 SF), DB Schenker (150,000 SF), Alfa Laval AB (105,800 SF), Dawn Food Products (89,710 SF), Freudenberg Oil and Gas Technology (86,722 SF), Top Co Oil Site Products (64,675 SF), Black Horse Carriers (54,524 SF), Voestalpine (52,270 SF), Woodfield Distribution (48,600 SF), and Dahill (32,725 SF).

Rental Rates

According to CoStar, our data service provider, Houston's citywide average quoted industrial rental rate for all product types increased 2.4% from \$6.80 per SF NNN in the second quarter, to \$6.96 per SF NNN in the third quarter. According to Colliers' internal data, actual lease transactions are in the \$4.56 – \$5.04 per SF NNN range for newer bulk industrial spaces, while flex rates range from \$7.20 to \$10.80 per SF depending on the allowance provided for tenant improvements and the location of the property.

By property type, the average quoted NNN rental rates are as follows: \$6.37 per SF for Warehouse Distribution space; \$4.56 per SF for Bulk Logistics space; \$12.61 per SF for Flex/Service space; with Tech/R&D space averaging \$12.76 per SF, according to CoStar.

Job Growth & Unemployment

(not seasonally adjusted)

UNEMPLOYMENT	08/14	08/15
HOUSTON	5.1%	4.6%
TEXAS	5.3%	4.4%
U.S.	6.3%	5.2%

JOB GROWTH	Annual Change	# of Jobs Added
HOUSTON	1.3%	38.4K
TEXAS	1.8%	212.4K
U.S.	2.1%	3.1M

Sales Activity

Sources: Real Capital Analytics

	Q3 2015
NO. OF PROPERTIES:	27
TOTAL SF:	4.7M
AVERAGE \$/SF:	\$87
AVERAGE CAP RATE:	8.3

8201 & 8211 La Porte Fwy



Duma Land purchased a 2-building, 110,000 SF industrial/warehouse property from United Stevedoring Corp in August 2015. The buildings sit on 6.5 acres of land located at 8201 and 8211 La Porte Freeway.

16310 Hollister Rd



Liberty Property Trust purchased a 3-building, 921,196 SF industrial distribution portfolio, which included 130 additional acres for future development, from ML Realty for \$93M. The portfolio is 100% leased. The property is situated in close proximity to both the Bayport Container Terminals and the Barbour's Cut Terminal.

Leasing Activity

Houston's industrial leasing activity, which includes renewals, decreased by 42.7% on a quarterly basis, and by 62.1% on an annual basis, recording 2.8M square feet in Q3 2015. The decrease in activity is partly due to a lack of available space, as the citywide vacancy rate is 4.8%.

Q3 2015 Top Industrial Lease Transactions

BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
DCT Northwest Crossroads	Hwy 290/Tomball Pky	189,000	Sunny Sky Products	Jul-15
801 Seaco Ct	East-Southeast Far	135,200	Valassis Communications, Inc.	Sep-15
3009 Highway 225	East-Southeast Far	102,500	Abrasive Products	Aug-15
2902 E 13th St	East-Southeast Far	100,000	Slay Industries	Jul-15
10420 Okanella St	Northwest Inner Loop	83,200	Visual Comfort	Aug-15
300 Airtex Dr	North Fwy/Tomball Pky	80,000	Source Logistics	Jul-15
10410 Papalote St	Northwest Inner Loop	72,000	Mason Road Sheet Metal	Sep-15
16727 Park Row	Northwest Outlier	65,000	FDT	Oct-15
12505 Reed Rd	Sugar Land	49,960	Maintenance Supply Headquarters	Sep-15
2434 Holmes Rd	South Hwy 35	33,000	Polynt Composites USA Inc ¹	Aug-15
12233 Robin Blvd	South Hwy 35	24,175	Proportional Technologies, Inc. ⁵	Jul-15
16501 Central Green Blvd	North Hardy Toll Road	24,171	Manuli Hydraulics Inc.	Jul-15

¹Renewal

²Expansion

³Sublease

⁴Pre-lease/proposed or under construction

⁵Colliers International Transaction

Industrial Under Construction - 200,000 SF or greater

Q3 2015 Industrial Under Construction - 200,000 SF or greater

BUILDING ADDRESS	SUBMARKET	RBA	% LEASED	DEVELOPER	DELIVERY DATE	BUILDING DESCRIPTION
19001 Kermier	Northwest Hwy 6	4,000,000	100.0%	Prologis	Aug-16	BTS for Daikin Industries
777 Highway 90A W	Sugar Land	650,000	100.0%	Graycor Construction Company Inc.	Feb-16	BTS for Aldi
3013 Highway 225 - Bldg 4	East-Southeast Far	394,489	0.0%	Transwestern	Mar-16	Spec Warehouse
4300 Malone Dr	East-Southeast Far	365,727	0.0%	The Carson Companies	Nov-15	Spec Warehouse
9431 Bay Area Blvd - Bld V	East-Southeast Far	353,600	0.0%	Stream Realty Partners, LP	Sep-16	Spec Warehouse
28450 West Ten Blvd	Northwest Outliers	340,503	0.0%	Moody Rambin	Oct-15	Spec Distribution
616 Delta Pky	East-Southeast Far	252,720	100.0%	National Property Holdings, LP	Nov-15	BTS for Delta Companies Group
Fort Bend & Sam Houston Pky	Southwest Far	240,000	0.0%	Hines Real Estate Investment Trust, Inc.	Feb-16	Spec Distribution
3730 S Main St	South Hwy 35	225,000	100.0%	Unknown	Feb-16	BTS FloWorks International
Beltway 8 & US Hwy 90-A - Bldg 2	Hwy 59/Hwy 90 (Alt)	217,440	0.0%	Conor Commercial and USAA Real Estate	Nov-15	Spec Warehouse
1300 Greens Pky	North Fwy/Tomball Pky	213,218	0.0%	Prologis	Nov-15	Spec Distribution
9531 Bay Area Blvd - Bldg VI	East-Southeast Far	212,160	0.0%	Stream Realty Partners, LP	Sep-16	Spec Warehouse
8411 FM 1960	North Hardy Toll Road	205,608	47.3%	Duke Realty Corporation	Oct-15	Spec Distribution
3009 Highway 225	East-Southeast Far	205,015	50.0%	Transwestern	Mar-16	Spec Warehouse
10634 Tanner Rd	Northwest Inner Loop	204,070	0.0%	Crow Holdings	Nov-15	Spec Distribution

Market Summary

Q3 2015 Houston Industrial Market Statistical Summary

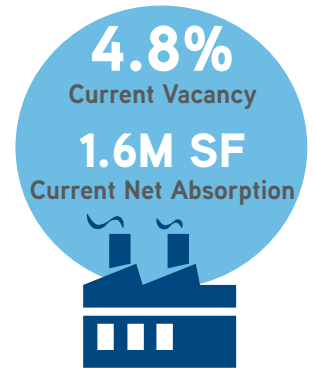
MARKET	RENTABLE AREA	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLET VACANT SF	SUBLET VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	3Q15 NET ABSORPTION	2Q15 NET ABSORPTION	3Q2015 COMPLETIONS	2Q15 COMPLETIONS	SF UNDER CONSTRUCTION
HOUSTON TOTAL	510,132,778	23,881,036	4.7%	573,810	0.1%	24,454,846	4.8%	1,584,323	2,650,421	2,935,791	1,874,708	9,583,467
CBD-NW Inner Loop	11,546,828	521,143	4.5%	22,200	0.2%	543,343	4.7%	(66,497)	(2,410)	-	-	-
Downtown	31,317,759	1,579,736	5.0%	20,000	0.1%	1,599,736	5.1%	3,656	(202,484)	-	-	-
North Inner Loop	5,033,051	372,814	7.4%	-	0.0%	372,814	7.4%	-	40,000	-	-	-
SW Inner Loop	7,585,048	25,500	0.3%	-	0.0%	25,500	0.3%	(10,500)	3,669	-	-	-
INNER LOOP CORRIDOR TOTAL	55,482,686	2,499,193	4.5%	42,200	0.1%	2,541,393	4.6%	(73,341)	(161,225)	-	-	-
North Fwy/Tomball Pky	19,975,462	2,010,126	10.1%	8,725	0.0%	2,018,851	10.1%	339,848	277,527	457,606	402,510	334,018
North Hardy Toll Rd	31,213,814	3,047,204	9.8%	41,417	0.1%	3,088,621	9.9%	487,848	117,203	594,550	186,950	401,233
North Outer Loop	15,023,480	891,319	5.9%	28,368	0.2%	919,687	6.1%	(155,719)	129,729	25,000	65,180	97,600
The Woodlands/Conroe	15,035,683	679,148	4.5%	24,768	0.2%	703,916	4.7%	128,429	(22,955)	-	62,568	-
NORTH CORRIDOR TOTAL	85,495,132	6,891,665	8.1%	129,673	0.2%	7,021,338	8.2%	697,369	691,443	1,077,156	654,640	832,851
Northeast Hwy 321	1,225,573	-	0.0%	-	0.0%	-	0.0%	0	0	-	-	-
Northeast Hwy 90	16,448,089	272,971	1.7%	-	0.0%	272,971	1.7%	40,700	65,356	70,000	20,000	-
Northeast I-10	3,850,085	63,962	1.7%	-	0.0%	63,962	1.7%	(16,508)	(2,649)	-	-	-
Northeast Inner Loop	11,303,802	107,993	1.0%	-	0.0%	107,993	1.0%	(9,200)	0	-	-	-
NORTHEAST CORRIDOR TOTAL	32,827,549	444,926	1.4%	-	0.0%	444,926	1.4%	14,992	62,707	70,000	20,000	-
Hwy 290/Tomball Pky	19,398,311	2,872,150	14.8%	11,263	0.1%	2,883,413	14.9%	156,722	153,281	707,462	602,383	134,600
Northwest Hwy 6	4,782,354	222,635	4.7%	-	0.0%	222,635	4.7%	(30,725)	427,362	35,000	-	4,000,000
Northwest Inner Loop	59,510,427	1,526,249	2.6%	126,788	0.2%	1,653,037	2.8%	118,165	248,955	66,420	88,000	204,070
Northwest Near	17,731,473	694,441	3.9%	113,146	0.6%	807,587	4.6%	70,769	25,905	220,528	89,060	-
Northwest Outlier	18,146,948	1,180,972	6.5%	11,880	0.1%	1,192,852	6.6%	211,224	33,200	404,060	16,875	471,629
West Outer Loop	24,497,116	753,778	3.1%	31,500	0.1%	785,278	3.2%	501	(74,532)	22,500	45,000	-
NORTHWEST CORRIDOR TOTAL	144,066,629	7,250,225	5.0%	294,577	0.2%	7,544,802	5.2%	526,656	814,171	1,455,970	841,318	4,810,299
South Highway 35	32,688,161	1,050,201	3.2%	23,600	0.1%	1,073,801	3.3%	36,092	179,044	-	180,000	225,000
South Inner Loop	12,203,237	314,903	2.6%	10,340	0.1%	325,243	2.7%	89,054	104,217	-	-	-
SOUTH CORRIDOR TOTAL	44,891,398	1,365,104	3.0%	33,940	0.1%	1,399,044	3.1%	125,146	283,261	-	180,000	225,000
East I-10 Outer Loop	13,317,134	26,347	0.2%	-	0.0%	26,347	0.2%	-	(3,347)	-	-	-
East-Southeast Far	50,944,527	2,130,084	4.2%	-	0.0%	2,130,084	4.2%	195,010	425,558	209,680	110,380	2,154,521
Southeast Outer Loop	17,638,725	416,297	2.4%	-	0.0%	416,297	2.4%	3,869	(17,374)	-	-	-
SOUTHEAST CORRIDOR TOTAL	81,900,386	2,572,728	3.1%	-	0.0%	2,572,728	3.1%	198,879	404,837	209,680	110,380	2,154,521
Highway 59/Highway 90	22,155,047	909,355	4.1%	28,239	0.1%	937,594	4.2%	9,011	94,496	83,985	-	445,546
Southwest Far	10,613,496	690,595	6.5%	16,000	0.2%	706,595	6.7%	19,794	118,206	39,000	68,370	452,500
Southwest Outer Loop	12,912,798	589,293	4.6%	-	0.0%	589,293	4.6%	(38,925)	86,692	-	-	12,750
Sugar Land/Ft Bend Co	19,787,657	667,952	3.4%	29,181	0.1%	697,133	3.5%	104,742	255,833	-	-	650,000
SOUTHWEST CORRIDOR TOTAL	65,468,998	2,857,195	4.4%	73,420	0.1%	2,930,615	4.5%	94,622	555,227	122,985	68,370	1,560,796



Q3 2015 Highlights

TOTAL
INDUSTRIAL
INVENTORY

510.1
Million SF



RENTAL RATES

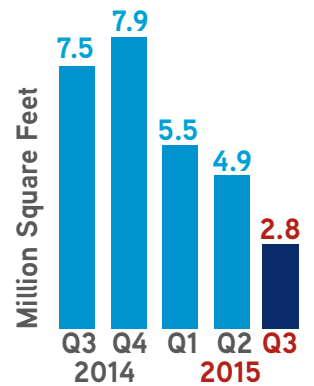
9.3%
Annually
2.4%
Quarterly



Q3 14	Q2 15	Q3 15
\$6.37	\$6.80	\$6.96

LEASING ACTIVITY

62.1%
Annually
42.7%
Quarterly



FOR MORE INFORMATION

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

Colliers International | Houston
1233 West Loop South, Suite 900
Houston, Texas 77027
+1 713 222 2111
colliers.com/texas/houston



Accelerating success.

Copyright © 2015 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

