

The logo for RifleCRE, featuring the word "Rifle" in a bold, sans-serif font and "CRE" in a smaller, spaced-out font, all in white. The background is a large industrial warehouse with a high ceiling, metal beams, and several large roll-up doors. Two people are standing near one of the doors on the left side of the frame.

RifleCRE

# HOUSTON INDUSTRIAL MARKET

— Q2 2024 —

## INTRODUCTION

The Houston Industrial Market has shown resilience in the second quarter of 2024, reflecting a complex interplay of demand, supply, and economic factors. This report delves into the key trends and developments that have shaped the market landscape, providing stakeholders with a comprehensive overview of the current state and future outlook of industrial real estate in Houston.

## MARKET OVERVIEW

The Houston Industrial Market has experienced a notable shift in dynamics as of Q2 2024. The overall vacancy rate has risen, signaling a transition towards more neutral market conditions. This section explores the key metrics that define the current landscape, including **VACANCY RATES, NET ABSORPTION, AND LEASING ACTIVITY.**



### VACANCY RATE

As of the end of Q2 2024, the vacancy rate in the Houston Industrial Market increased to 7.7%. This marks a 30 basis point rise from the previous quarter, reflecting the ongoing adjustments in the market.

- **Quarterly Comparison:** The rise from 7.4% to 7.7% indicates a gradual increase in available industrial space.
- **Yearly Trends:** Year-over-year, the vacancy rate has risen by 150 basis points, up from 6.2% in the same period last year.



### LEASING ACTIVITY

Leasing activity surged in Q2 2024, with a total of 10.8 million square feet leased, marking a significant 48% increase compared to the same quarter last year.

- **New Leases:** Notable transactions included large leases by Integra Mission Critical and eFulfill, indicating strong demand for industrial space.
- **Renewals:** Existing tenants are also renewing leases, further reflecting confidence in the market.



### NET ABSORPTION

Despite the increase in vacancy rates, net absorption remains positive. The Houston market recorded a net absorption of 3.2 million square feet during Q2 2024, representing a 32% increase from the previous quarter.

- **Cumulative Performance:** Year-to-date net absorption stands at 5.7 million square feet, showcasing the market's ability to attract new tenants.
- **Historical Context:** This positive absorption trend has persisted for nearly 15 years, with the market maintaining a healthy balance between supply and demand.

## ECONOMIC INFLUENCES

The economic backdrop plays a crucial role in shaping the Houston Industrial Market. Various sectors have demonstrated growth, while others have faced challenges. This section examines the economic factors influencing the industrial landscape.

### JOB GROWTH

Houston's labor market has shown robust growth, particularly in sectors such as education, health services, and leisure.



- **Sector Performance:** The education and health services sectors saw an annualized job growth of 4.2%, while leisure and hospitality grew by 3.7%.
- **Overall Employment:** The total nonfarm job growth from March to April was 4.3%, indicating a strong labor market that supports industrial demand.



### ENERGY SECTOR DYNAMICS

The energy sector, traditionally a backbone of Houston's economy, has experienced mixed outcomes.

- **Production Jobs:** There has been a decline in production jobs within the energy sector, although mining-related services have seen growth.
- **Exports:** Energy exports through the Port of Houston have fluctuated, impacting the industrial supply chain.

## CONSTRUCTION TRENDS

The construction landscape in Houston's industrial market is evolving, with a noticeable decrease in new developments. This section highlights the current state of construction activity and future projections



### CURRENT CONSTRUCTION PIPELINE

The construction pipeline has seen a significant reduction, with new deliveries totaling 7.3 million square feet in Q2 2024.

- **Year-over-Year Comparison:** This figure is 23% lower than the same period last year, indicating a cooling in new supply.
- **Pre-Leasing Rates:** Approximately 33.6% of the current pipeline is pre-leased, suggesting cautious optimism among developers.



### FUTURE DEVELOPMENTS

Looking ahead, the construction pipeline continues to stabilize, with only 3.3 million square feet started in Q3 2024.

- **Submarket Insights:** The Southeast and Northwest submarkets remain the most active, with substantial space currently under construction.
- **Market Balance:** The reduction in new construction is expected to help balance supply and demand, potentially leading to more stable vacancy rates.

## RENTAL RATES

Rental rates in the Houston Industrial Market have remained steady, demonstrating resilience amid changing market conditions. This section examines the current rental landscape and its implications for tenants and landlords.



### CURRENT RATES

The average monthly rental rate for industrial space in Houston has held steady at \$0.79 per square foot, a record high for the market.

- **Yearly Growth:** This rate reflects a 3.9% increase from the previous year, indicating sustained demand.
- **Submarket Variations:** Different property types command varying rates, with flex space averaging \$0.91 per square foot.



### FUTURE PROJECTIONS

While rental rates have remained stable, the potential for future fluctuations exists.

- **Market Dynamics:** As the market transitions towards neutral conditions, landlords may need to adjust their pricing strategies.
- **Tenant Opportunities:** Tenants may find opportunities for negotiation, especially in submarkets with higher vacancy rates.

## INVESTMENT ACTIVITY

Investment activity in the Houston Industrial Market has been robust, with a variety of transactions reflecting the ongoing interest in industrial properties. This section explores recent investment trends and their implications.

### SALES VOLUME

The cumulative sales volume for Q2 2024 reached \$335 million, with 553 deals completed over the past year.



- **Average Transaction Price:** The average transaction price stood at \$114 per square foot, with a cap rate of 7.8%.
- **Notable Transactions:** Key transactions included significant purchases by Cabot Properties and Sealy & Company, highlighting investor confidence.



### FUTURE INVESTMENT TRENDS

As the market evolves, investment trends are expected to shift.

- **Focus on Quality:** Investors are increasingly focusing on high-quality assets, particularly in well-located submarkets.
- **Long-Term Strategies:** Many investors are adopting long-term strategies, anticipating a gradual recovery in rental rates and occupancy levels.

## SECTOR-SPECIFIC INSIGHTS

Different sectors within the industrial market are experiencing unique challenges and opportunities. This section delves into sector-specific trends that impact the overall landscape.

### LOGISTICS AND DISTRIBUTION

The logistics and distribution sector continues to drive demand for industrial space.

- **E-Commerce Growth:** The rise of e-commerce has led to increased demand for warehouse and distribution facilities.
- **Supply Chain Resilience:** Companies are seeking to bolster their supply chains, further fueling demand for logistics space.



### MANUFACTURING SECTOR

The manufacturing sector has shown mixed results, with some areas experiencing growth while others face challenges.

- **Quality Facilities:** There is a growing demand for high-quality manufacturing facilities, particularly those that can accommodate advanced technologies.
- **Build-to-Suit Opportunities:** Developers are increasingly focusing on build-to-suit projects to meet specific tenant needs.

## CHALLENGES AHEAD

While the Houston Industrial Market shows promising signs, several challenges could impact future growth. This section outlines potential hurdles that stakeholders should be aware of.



### ECONOMIC UNCERTAINTY

Economic fluctuations, including inflation and interest rate changes, could pose challenges for the industrial sector.

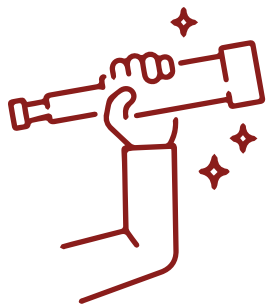
- **Impact on Leasing:** Economic uncertainty may lead to cautious leasing decisions as companies reassess their space needs.
- **Investment Hesitation:** Investors may adopt a wait-and-see approach, impacting overall market activity.



### SUPPLY CHAIN DISRUPTIONS

Ongoing supply chain disruptions could affect the availability of construction materials and labor.

- **Construction Delays:** Delays in construction timelines could hinder the delivery of new industrial facilities.
- **Increased Costs:** Rising material costs may impact project budgets, leading to potential project cancellations.



## FUTURE OUTLOOK

Looking ahead, the Houston Industrial Market is poised for a period of stabilization. As supply and demand reach a more balanced state, stakeholders can expect a more predictable environment. Key trends to watch include:

### CONTINUED JOB GROWTH

Sustained job growth in key sectors will support industrial demand.



### EVOLVING TENANT NEEDS

As businesses adapt to changing market conditions, their space requirements may evolve, presenting new opportunities for landlords and developers.



By staying informed and responsive to market dynamics, stakeholders can position themselves for success in the Houston Industrial Market.



## CONCLUSION


The Houston Industrial Market in Q2 2024 reflects a landscape of both challenges and opportunities. While vacancy rates have risen and construction activity has cooled, strong leasing activity and positive net absorption indicate a resilient market. Stakeholders should remain vigilant and adaptable as they navigate the evolving landscape, leveraging insights and data to make informed decisions.




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