

# HOUSTON INDUSTRIAL MARKET

— Q4 2024 —

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The Houston industrial sector has demonstrated remarkable resilience and growth in the fourth quarter of 2024. With robust demand and strategic developments, the market is poised for continued success. This report provides an in-depth analysis of key trends, absorption rates, construction activities, and economic drivers shaping the industrial landscape in Houston.

### ECONOMIC CONTEXT

The final quarter of 2024 brought significant developments to Houston's industrial real estate landscape, marking the culmination of a year characterized by fluctuating demand, evolving vacancy rates, and shifting construction patterns. This comprehensive report delves into the key metrics, emerging trends, and future outlook for the Houston industrial market, providing stakeholders with actionable insights to navigate this dynamic sector.

As we analyze the data from Q4 2024, it becomes evident that the industrial real estate segment in Houston continues to demonstrate resilience and adaptability in the face of economic uncertainties. From absorption rates to rental trends, each facet of the market tells a story of an industry in transition, responding to both local and global economic forces.

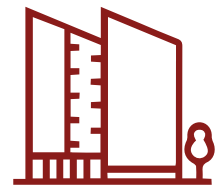
This report aims to equip investors, developers, and industry professionals with a nuanced understanding of the Houston industrial market's current state and its trajectory moving into 2025. By examining factors such as vacancy rates, construction activity, and port performance, we offer a holistic view of the market's health and potential investment opportunities.



### MARKET OVERVIEW AND KEY INDICATORS

The Houston industrial market closed out 2024 with a mix of encouraging signs and areas for cautious optimism. The fourth quarter saw notable shifts in key performance indicators, reflecting the market's ongoing adjustment to broader economic trends and local demand dynamics.

**Net Absorption** Absorption figures for Q4 2024 painted a picture of sustained demand, albeit at a more moderate pace compared to previous years. The quarter registered positive net absorption of 3.2 million square feet, contributing to a year-end total that, while robust, reflected a cooling from the peak levels seen in recent years. This moderation in absorption rates aligns with broader trends of economic caution and reassessment of space needs by industrial tenants.



**Vacancy Rates:** A crucial barometer of market health, vacancy rates are settled at 6.7% by the end of Q4 2024. This figure represents a marginal improvement from the previous quarter, indicating a gradual stabilization of the market after experiencing fluctuations earlier in the year. The current vacancy rate, while higher than the five-year low of 5.0% observed in Q4 2022, suggests a market that is finding its equilibrium amidst changing economic conditions.

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The availability of industrial and warehouse space in Houston remained substantial, with 72.9 million square feet on the market at the close of Q4. This figure encompasses a variety of space types, including vacant units, occupied spaces available for lease, sublease opportunities, and future availabilities. The ample supply provides options for businesses looking to expand or relocate within the Houston market, while also presenting challenges for property owners seeking to maintain high occupancy levels.

### CONSTRUCTION ACTIVITY AND PIPELINE

The construction landscape in Houston's industrial sector underwent significant changes throughout 2024, with Q4 marking a continuation of trends observed earlier in the year. As of the quarter's end, 13.4 million square feet of industrial space was under construction, a notable decrease from the peak of 36.0 million square feet recorded in Q4 2022.

This contraction in construction activity can be attributed to a confluence of factors, including rising interest rates, more stringent lending criteria, and a moderation in absorption rates. Developers and investors have adopted a more cautious stance, carefully evaluating market conditions before committing to new projects. The result is a more measured approach to new development, with a focus on quality and strategic location rather than sheer volume.



Despite overall slowdown in construction, certain submarkets within Houston continue to see targeted development activity. Areas with strong logistics infrastructure, proximity to major transportation hubs, or emerging industrial clusters remain attractive for new projects. This selective approach to development reflects a market that is becoming increasingly discerning about where and how new industrial space is added to the inventory.

The reduction in construction activity is expected to have a stabilizing effect on the market in the coming quarters. With fewer new deliveries in the pipeline, existing properties may see improved absorption rates and potentially firmer rental rates, particularly for well-located, high-quality assets.



### RENTAL TRENDS AND PRICING DYNAMICS

In an interesting contrast to the moderation seen in absorption and construction activity, rental rates for industrial space in Houston continued their upward trajectory through Q4 2024. The average industrial rent reached \$9.51 per square foot per year, marking an increase from \$9.24 in Q4 2023 and \$8.55 in Q4 2022. This persistent rise in rental rates, even in the face of elevated vacancy rates and slowing absorption, speaks to the underlying desirability of Houston's industrial market.



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### FACTORS CONTRIBUTING TO RENTAL TRENDS

**Quality of available space:** Newer, more efficient industrial facilities command premium rents, pulling the average upward.

**Location premiums:** Well-situated properties near key transportation corridors or urban centers continue to see strong demand and rental growth.

**Inflationary pressures:** Broader economic inflation has contributed to increased operational costs for property owners, which are partially passed on through higher rents.

**Long-term confidence:** Despite short-term fluctuations, there remains a strong belief in the long-term viability and growth potential of Houston's industrial sector.

It's important to note that the quoted rental rates are typically on a triple net (NNN) basis, meaning tenants are responsible for their share of building expenses, including taxes, maintenance, utilities, and security. This structure allows for a more accurate comparison of base rents across different properties and submarkets.

The continued rise in rental rates, representing a 30% increase over the past five years, underscores the resilience of Houston's industrial market. However, it also raises questions about affordability and competitiveness, particularly for smaller tenants or businesses in cost-sensitive industries.



### SUBMARKET ANALYSIS AND PERFORMANCE

Houston's industrial market is diverse, with distinct submarkets exhibiting varying performance metrics and trends. Understanding these submarket dynamics is crucial for investors, developers, and tenants seeking to make informed decisions in this complex landscape.

#### North/Northwest Submarket

The North/Northwest submarket remained a powerhouse within Houston's industrial sector throughout 2024. Known for its strategic location along major transportation corridors and proximity to growing residential areas, this submarket continued to attract significant tenant interest and investment activity.

#### Key highlights for the North/Northwest submarket include:

- Vacancy rates below the market average, hovering around 6.2%
- Strong absorption figures for modern distribution centers
- Continued development, more than recent years
- Rental rates trending above average, reflecting the desirability

#### Southeast/Port Houston Submarket

The Southeast submarket, encompassing the crucial Port Houston area, saw robust activity in Q4 2024, driven by the port's record-breaking performance. This submarket plays a vital role in Houston's industrial ecosystem, serving as a gateway for international trade and a hub for logistics and distribution activities. ●●●

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### Notable trends in the Southeast/Port Houston submarket include:

- Heightened demand for port-proximate warehousing facilities
- Lower vacancy rates compared to the overall market, averaging around 5.8%
- Steady flow of new development projects, particularly those for e-commerce and third-party logistics providers
- Premium rental rates for properties with direct port access or specialized features

### Southwest Submarket

The Southwest submarket presented a mixed picture in Q4 2024, with pockets of strength offset by areas facing challenges. This diverse submarket caters to a wide range of industrial users, from small-scale manufacturers to large distribution operations.

### Key observations for the Southwest submarket include:

- Slightly higher vacancy rates than average, around 7.1%
- Moderate absorption levels, with a focus on quality over quantity in leasing activity
- Limited new construction, developers taking a cautious approach
- Competitive rental rates, offering value opportunities for cost-conscious tenants

### Northeast Submarket

The Northeast submarket continued its evolution in Q4 2024, benefiting from improved infrastructure and growing interest from industrial users seeking alternatives to established areas.



### Key highlights for the Northeast submarket include:

- Gradually improving vacancy rates, towards the market average
- Increasing absorption, particularly for larger industrial facilities
- Selective new development, focused on meeting specific tenant requirements
- Attractive rental rates, positioning the submarket as a value proposition for expanding businesses

## PORT OF HOUSTON PERFORMANCE AND IMPACT

The Port of Houston's performance in 2024 played a significant role in shaping the broader industrial market dynamics. As one of the busiest ports in the United States, its activity levels serve as a barometer for both local and national economic health.



Through November 2024, the Port of Houston handled an impressive 3,799,573 twenty-foot equivalent units (TEUs), marking a 9% increase compared to the same period in the previous year. This robust growth underscores the port's critical role in global trade networks and its importance to Houston's industrial real estate market.

November 2024 stood out as a particularly strong month, with the port processing 369,261 TEUs, representing a remarkable 24% year-over-year increase. This surge in activity has several implications for the industrial real estate sector:

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- Increased demand for warehousing space near the port
- Potential for new development projects catering to port-related activities
- Upward pressure on rental rates strategically located properties
- Attractiveness of Houston as a logistics and distribution hub

The port's strong performance also highlights the resilience of global supply chains and the ongoing importance of maritime trade, despite challenges faced in recent years. As the Port of Houston continues to expand its capacity and improve its infrastructure, it is likely to remain a key driver of industrial real estate demand in the region.

### TENANT DEMAND AND LEASING ACTIVITY

Leasing activity in Houston's industrial market during Q4 2024 reflected a nuanced picture of tenant demand. While overall absorption remained positive, there were shifts in the types of spaces and locations sought by tenants.

#### Key trends in tenant demand and leasing activity included:

- Continued interest in modern, high-ceiling distribution centers
- Growing demand for last-mile fulfillment facilities to support e-commerce operations
- Selective appetite for specialized industrial spaces, such as cold storage and flex industrial units
- Increased focus on energy-efficient and sustainable industrial properties



#### Notable lease transactions in spanned various industries, including:

- A major e-commerce retailer leasing 500,000 square feet in the North submarket
- A third-party logistics provider expanding into 300,000 square feet near Port Houston
- A manufacturing company consolidating operations into a 250,000-square-foot facility in the Southwest submarket

These transactions highlight the diverse nature of Houston's industrial tenant base and the market's ability to accommodate a wide range of space requirements.

### INVESTMENT MARKET AND CAPITAL FLOWS

The investment landscape for Houston's industrial real estate remained active in Q4 2024, albeit with some shifts in investor preferences and strategies. The sector continued to attract capital from both domestic and international sources, drawn by the market's long-term growth potential and stability.

#### Key investment trends observed in Q4 2024 included:

- Strong interest in core assets with stable, long-term tenants
- Growing appetite for value-add opps in well-located submarkets
- Cautious approach to speculative development, with investors favoring pre-leased projects
- Increased focus on industrial properties with strong ESG (Environmental, Social, and Governance) credentials



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### Notable investment transactions in the quarter included:

- A \$150 million portfolio acquisition of three modern distribution centers by an institutional investor
- A \$75 million sale-leaseback deal for a manufacturing facility in the Southeast submarket
- A \$50 million forward purchase agreement for a build-to-suit logistics center near Port Houston

While overall transaction volume moderated compared to the peak levels seen in previous years, pricing for quality assets remained robust. Cap rates for prime industrial properties in Houston held steady, reflecting continued investor confidence in the market's fundamentals.



### ECONOMIC FACTORS AND MARKET DRIVERS



The performance of Houston's industrial real estate market in Q4 2024 was influenced by a complex interplay of local, national, and global economic factors. Understanding these drivers is crucial for anticipating future market trends and making informed investment decisions.

### Key economic factors impacting the market included:

- **Interest Rate Environment:** The Federal Reserve's monetary policy decisions continued to influence borrowing costs and investment strategies in the industrial sector.
- **Energy Sector Performance:** As a key driver of Houston's economy, the energy industry's health played a significant role in shaping industrial demand and investment patterns.
- **Global Trade Dynamics:** Ongoing shifts in international trade relationships and supply chain strategies affected the demand for industrial space, particularly in port-proximate areas.
- **E-commerce Growth:** The continued expansion of online retail and the need for efficient distribution networks supported demand for modern logistics facilities.
- **Manufacturing Trends:** The reshoring of certain manufacturing activities and the growth of advanced manufacturing sectors contributed to demand for specialized industrial spaces.
- **Population Growth:** Houston's steady population increase drove demand for consumer goods and, by extension, the industrial spaces needed to store and distribute these products.
- **Infrastructure Investments:** Ongoing improvements to Houston's transportation infrastructure enhanced the attractiveness of certain submarkets and corridors for industrial development.

These economic drivers interacted in complex ways, creating both opportunities and challenges for stakeholders in Houston's industrial real estate market. As we move into 2025, monitoring these factors will be crucial for anticipating market shifts and identifying emerging opportunities.



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## TECHNOLOGICAL ADVANCEMENTS AND INDUSTRY INNOVATIONS

The industrial real estate sector in Houston continued to evolve in response to technological advancements and industry innovations throughout 2024. These developments are reshaping tenant requirements, property management practices, and overall market dynamics.

### Key technological trends observed in Q4 2024 included:

- **Automation and Robotics:** Increased adoption of automated storage and retrieval systems (AS/RS) in modern warehouses, driving demand for higher clear heights and enhanced power infrastructure.
- **Internet of Things (IoT):** Growing implementation of IoT devices for inventory management, energy efficiency, and predictive maintenance in industrial facilities.
- **Sustainable Building Technologies:** Greater focus on energy-efficient building systems, renewable energy integration, and sustainable construction materials.
- **Data Analytics:** Enhanced use of big data and predictive analytics for site selection, demand forecasting, and operational optimization.
- **Last-Mile Innovation:** Emergence of micro-fulfillment centers and multi-story urban warehouses to support rapid delivery in densely populated areas.
- **Blockchain in Supply Chain:** Early adoption of blockchain technology for improved transparency and efficiency in supply chain operations.



These tech advancements are influencing both new development and the retrofitting of existing industrial properties. Tenants increasingly seek spaces that can accommodate these technologies, while investors and developers are factoring these trends into long-term strategies.



## SUSTAINABILITY AND ESG CONSIDERATIONS

Environmental, Social, and Governance (ESG) factors gained increased prominence in Houston's industrial real estate market throughout 2024, with Q4 seeing a continuation of this trend. Sustainability considerations are integral to investment decisions, development plans, and tenant preferences.

### Key ESG trends in the Houston industrial market included:

- **Green Building Certifications:** Growing number of industrial properties pursuing LEED, BREEAM, or other green building certifications.
- **Renewable Energy Integration:** Increased installation of solar panels and other renewable energy systems in industrial facilities.
- **Water Conservation:** Implementation of water-efficient landscaping and rainwater harvesting systems in industrial parks.
- **Sustainable Transportation:** Development of EV charging infrastructure and support for alternative transportation modes for warehouse employees.





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- **Community Engagement:** Greater focus on the social impact of industrial developments, including job creation and community outreach programs.
- **Transparency in Reporting:** Enhanced disclosure of ESG metrics by industrial REITs and property owners.

These ESG initiatives are increasingly seen as essential for long-term asset value preservation and tenant attraction. As we move into 2025, sustainability is expected to play an even more significant role in shaping Houston's industrial real estate landscape.



## FUTURE OUTLOOK AND MARKET PROJECTIONS

As we look ahead to 2025 and beyond, the Houston industrial real estate market is poised for continued evolution. While challenges remain, the market's fundamentals suggest a resilient and adaptive sector capable of navigating changing economic conditions.

### Key Projections for the coming year include:

- **Stabilizing Vacancy Rates:** Expected gradual decrease in vacancy rates as new supply moderates and absorption remains positive.
- **Selective New Development:** Continued focus on build-to-suit and pre-leased projects, with speculative development becoming more targeted.

- **Rental Rate Growth:** Moderate but steady increase in rental rates, particularly for high-quality, well-located assets.
- **Submarket Divergence:** Growing disparity between high-performing and challenged submarkets, creating opportunities for value-add strategies.
- **Technology Integration:** Accelerated adoption of smart building technologies and automation in industrial facilities.
- **Sustainability Focus:** Increased emphasis on developing and retrofitting industrial properties to meet evolving ESG standards.
- **Last-Mile Evolution:** Continued innovation in urban logistics solutions to meet the demands of rapid delivery expectations.
- **Port-Driven Growth:** Ongoing expansion and improvement of Port Houston facilities, driving demand for nearby industrial space.

While economic uncertainties and global trade dynamics may present challenges, Houston's diverse economy, strategic location, and robust infrastructure position its industrial market for long-term growth and resilience.





### CONCLUSION

Stakeholders in Houston's industrial real estate sector should remain vigilant to emerging trends, adaptive in their strategies, and focused on creating value in an evolving market landscape. By leveraging the insights provided in this report and staying attuned to market shifts, investors, developers, and tenants can navigate the opportunities that lie ahead in Houston's dynamic industrial real estate market.

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