Houston Industrial Real Estate Market Snapshot
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To describe where Houston's commercial/industrial real estate market sits mid-2016, I'll quote a famous author. "Rumors of my/our death have been greatly exaggerated". Without question, the low energy-pricing environment and related layoffs and closures have had a dramatic impact in certain areas, primarily west Houston office space. However the effects on the industrial market have been much milder.

Many oil service/manufacturing companies and their suppliers have scaled back or shuttered facilities, but their relative footprint in the overall industrial market is small. While many of the smaller service-related businesses didn't survive the downsizing during the last year, the fact they typically and only occupied 10,000-30,000 square feet per company did not add a ton of available inventory back to the market.

On the flip side, consumer-products consumption, internet retailing and businesses associated with construction materials are absorbing space. Coupled with explosive growth in petrochemicals and plastics manufacturing, there is a lot of absorption taking place. The city wide direct industrial vacancy has only increased from an average of 4.5% to 5.5% in the last 12 months.

We have seen availability of sublease space double to well over 3.5 million square feet. But subleases are tricky due to lease term, infrastructure requirements and other factors. In most cases the landlord is still receiving rent, at least for now, and they may not be in a position to contribute to a sublease deal. As these "shadow spaces" roll over the next few years we will see more of an impact on rental rates and direct availabilities.

There has no doubt been a slowdown in overall lease activity. Tenants are more cautious and deals take much longer. But let's not forget the upcoming presidential election, which has many tapping the breaks at the moment. Asking rental rates are holding fairly steady but the effective rates are declining when you factor in free rent or "above standard" tenant improvement packages. Much of this is due to new construction deliveries in the North and Northwest markets and institutional owners competing for tenants. Currently there is 12 million square feet under construction with about 60% of that being pre-leased or owner occupied.

There remains a scarcity of available owner-occupied facilities. Functional stand-alone buildings can still sell quickly with warehouse prices ranging from $65 to $80 per square foot. New construction is still expensive as is developable land if you can find it.

Few U.S. metro areas are growing faster than Houston and population growth is a primary driver for warehouse space. Add to that our deep water port and chemical manufacturing and I believe good times are ahead for Houston's industrial market.