BENEATH THE SURFACE

Decoding Houston's Industrial Vacancy

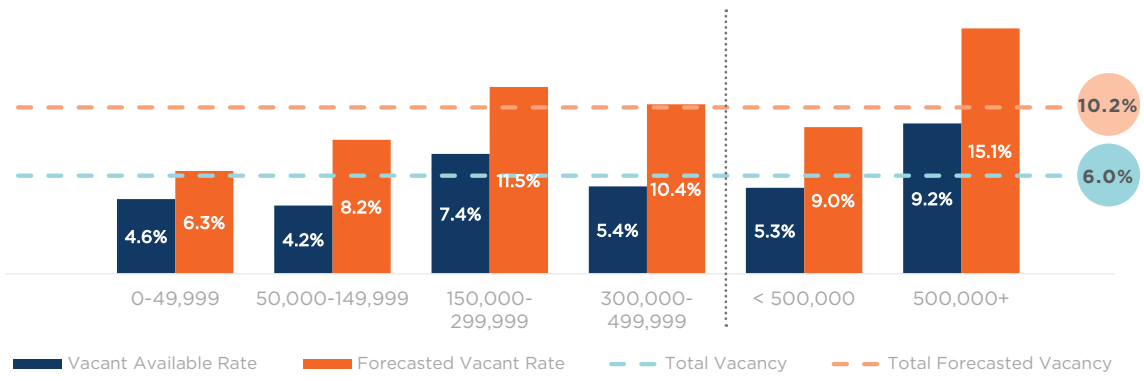
While vacancy will likely continue to rise in the Houston industrial market, it is not necessarily a true depiction of market conditions—increased vacancy is being driven by an influx of new inventory amidst a return to sustainable demand.

This study examines the composition of current market conditions and how vacancy could change if all product under construction delivered at current preleasing levels.

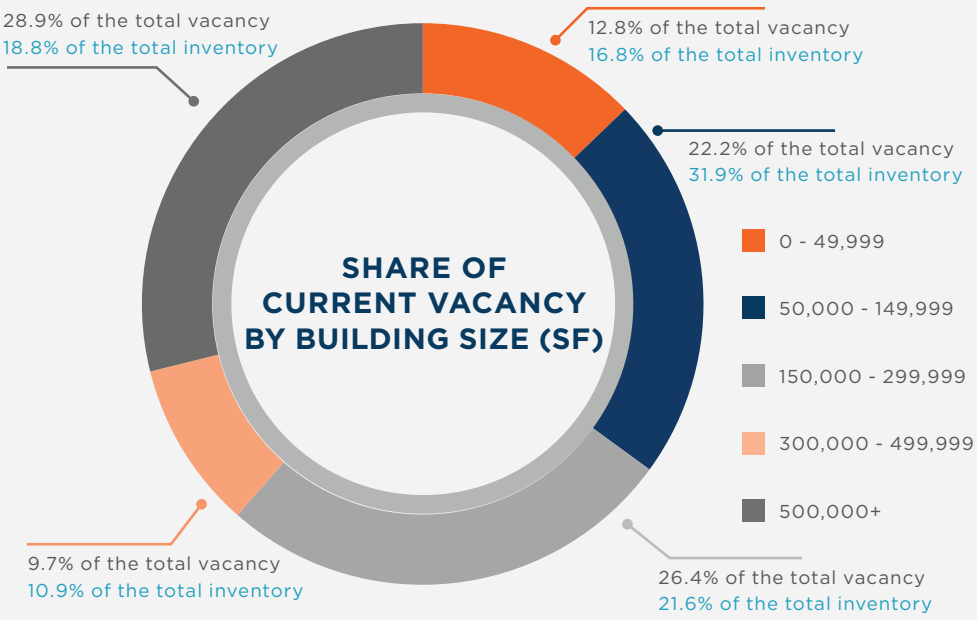
KEY TERMS

- **Current Vacancy**
  The total available product that is completely vacant, excluding spaces that have been leased by tenants who have not yet occupied.
- **Forecast Vacancy**
  The current vacancy, plus all space currently marketed as available in the near future (built and under construction). The forecast accounts for current preleasing in under construction and assumes no further leasing activity.

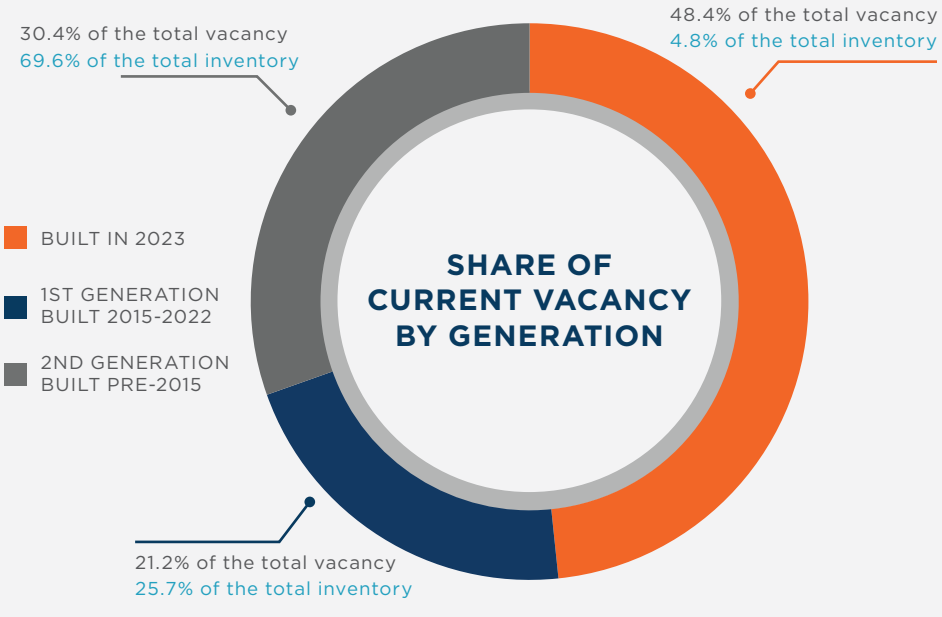
VACANCY BY BUILDING SIZE (SF)



The oversupply of new product becomes more apparent when analyzing properties by size range. Big-box product represents the only segment with a vacancy rate and forecast vacancy rate substantially higher than the market average. As demand has returned to normal, sustainable levels, the number of big-box leases has decreased—the Houston industrial market signed **16 new leases** of at least 500,000 sf in 2022, compared to **5 new leases** signed thus far in 2023.

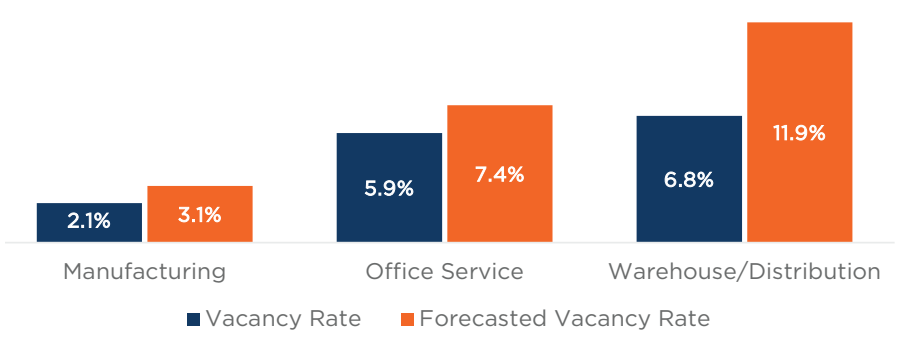


Based on size, big-box availabilities are the primary driver of the market's vacancy, making up **28.9%** of the total vacant space in the market, while accounting for just 18.8% of the total inventory. There are currently 17 big-box buildings with **8.8 msf** of vacant space available.



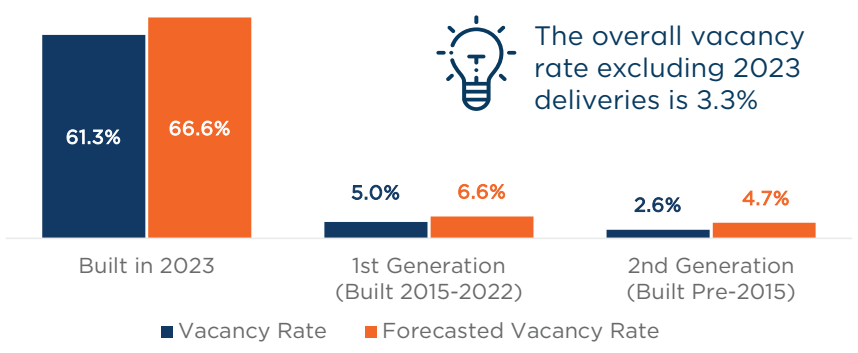
As new construction delivers and demand decreases, new buildings make up nearly half **(48.4%)** of the current vacancy. The influx of new deliveries is responsible for **doubling** the industrial market's total vacancy rate.

VACANCY BY BUILDING TYPE



With **20.6 msf** of W/D construction underway, and no other property types with major projects under development, the vast majority of the industrial market's rise in vacancy rates can be **attributed to W/D**.

VACANCY BY GENERATION



The overall vacancy rate excluding 2023 deliveries is 3.3%

Buildings delivered in 2023, by far, have the highest vacancy. Recent years of increased deliveries were met with increased demand. As demand normalized and new deliveries continued, **new construction** became the primary driver in increased vacancy.

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