

# 2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



CBRE

# Houston



Houston's pro-business environment, favorable real estate conditions and nation-leading growth continue to drive its thriving industrial market. Houston has an undeniable track record of resiliency, with consistent population and job growth despite challenging economic downturns, natural disasters and an ongoing pandemic. Recent demand for space has been led by e-commerce, logistics and building-supply companies."

– Peter Mainguy, Senior Managing Director





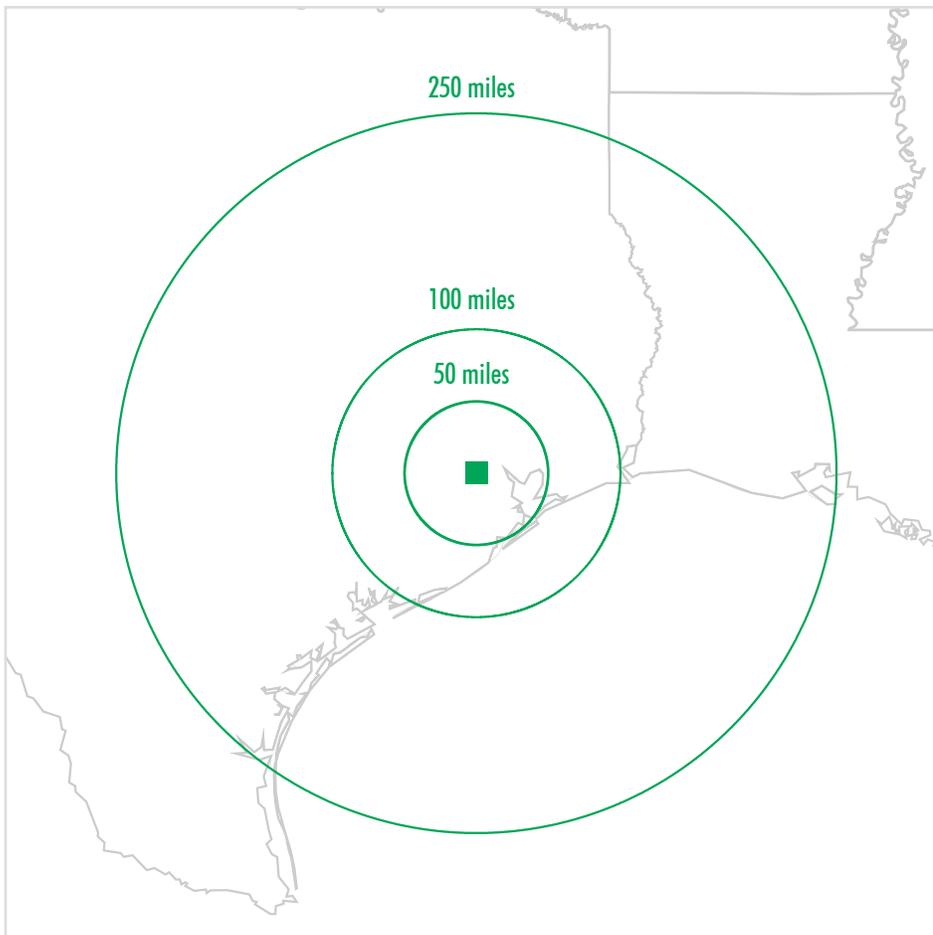
# Houston

## Demographics

More than 7 million people live within 50 miles of the market core, with 9.7% expected growth over the next five years. Nearly 26 million people live within 250 miles, with expected growth of 7.9%. The 18-to-34 age group comprises 25% of the population.

According to [CBRE Labor Analytics](#), Houston's warehouse labor force of 92,437 is expected to grow by 10% in the next decade, providing ample available labor for the burgeoning big-box market. The average wage for a non-supervisory employee is \$13.59 per hour, 3.4% lower than the national average.

**Figure 1: Houston Population Analysis**



Distance from Downtown Houston	2020 Total Population	5 Year Growth
50 miles	7,147,316	9.7%
100 miles	8,342,565	8.9%
250 miles	25,549,540	7.9%

Source: CBRE Location Intelligence.

**Figure 2: Houston Warehouse & Storage Labor Fundamentals**

Source: CBRE Labor Analytics.

\*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

## Location Incentives

Over the past five years, there have been 12 economic incentives deals totaling more than \$88 million at an average of \$33,516 per new job in the Houston metropolitan area, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs offered in Houston is the Texas Enterprise Fund (TEF), commonly referred to as a “deal-closing” grant. TEF awards discretionary cash grants to companies considering a new project for which a Texas site is competing against other viable out-of-state options.

Award amounts are determined based on an analytical model that factors in the average wage of new employees, the hiring timeline and a company's total capital investment.

Another incentive program available in Houston is the Skills Development Fund, which provides job training grants to community and technical colleges for customized training programs that support Texas businesses. This job training program is designed to upgrade the skill levels of new or existing employees, as well as increase wages of the Texas workforce.

**Figure 3: Houston Top Incentive Programs**

Program	Description
Texas Enterprise Fund	Discretionary cash grant
Skills Development Fund	Job training fund, which averages \$1,800 per employee with a max of \$500,000 per business
Enterprise Zone Program	Sales and use tax refund of \$2,500, \$5,000 or \$7,500 per job depending on capital investment and jobs created
Chapter 380 Economic Development Grant	Local grants, abatement or refund on taxes based on capital investment, new job creation and economic impact
Property Tax Abatements	Discretionary abatement of real estate taxes and personal property taxes

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

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## Logistics Driver

Houston offers an impressive array of distribution channels. Its central location makes it easy to reach both coasts within hours. The [Port of Houston](#) is the largest container port on the Gulf Coast and has been instrumental in the city's development of international trade. The market is home to the nation's largest petrochemical complex and the second largest in the world. Carrier services on all major trade lanes link Houston to all international

markets. The shipping channel also intersects a very busy barge traffic lane, the Gulf Intracoastal Waterway.

The region's extensive highway system is well-integrated with the Houston Airport System, four deep-water seaports and the mainline railroads serving the city. Houston is at the crossroads of Interstate Highways 10, 45 and 69. I-69 is known as the "NAFTA superhighway," which links Canada, the U.S. industrial Midwest, Texas and Mexico.

## Capital Markets



Houston's logistics market is one of the most desirable investment targets in the South Central region of the U.S. for both domestic institutional capital and foreign investors. Annual sales volume totaled \$1.2 billion in 2018, \$900 million in 2019 and \$1.7 billion in 2020. Investors are pricing product aggressively based on growth opportunities. Cap rates for Class A product compressed by 20 to 50 bps in the second half of 2020, especially for assets with good credit and lease terms."

– Jonathan Bryan, Executive Vice President

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	4.25% - 5.00%	5.25% - 6.50%
2019	4.50% - 5.00%	5.25% - 6.00%

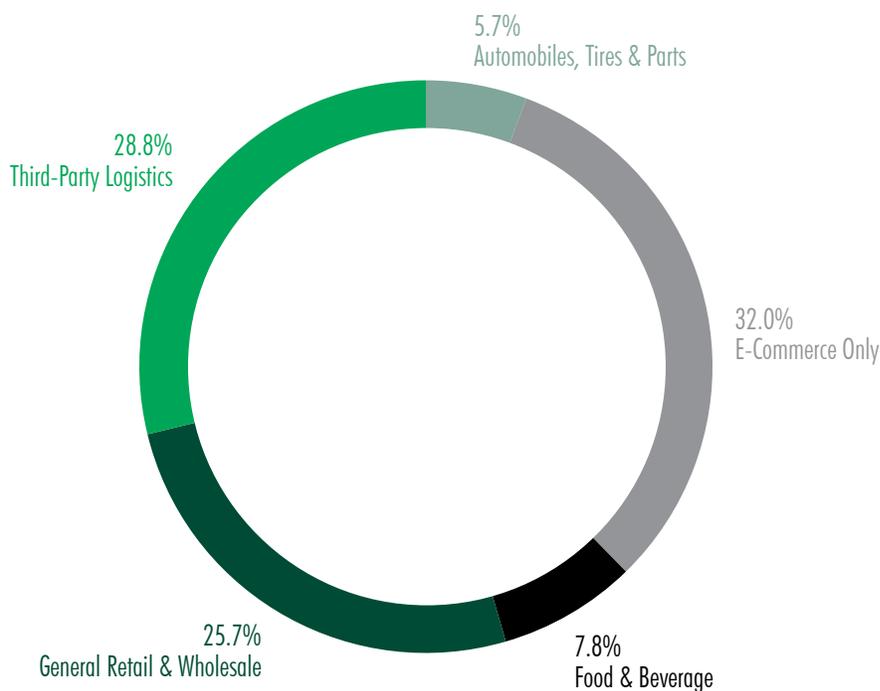
Source: CBRE Research.

## Supply & Demand

More than 12 million sq. ft of new development was completed in 2020, the fifth highest total in North America and the most as a percentage of total inventory at 7.3%. As a result, the direct vacancy rate increased by 70 bps to 7.4%. Transaction volume totaling 4.4 million sq. ft. in 2020 was up by 6.8% year-over-year, while net absorption was up by 5.9%.

E-commerce occupiers were most active in the market, accounting for 32% of all deals. 3PLs were second at 28.8%. While new development will keep vacancy rates above the national average, taking rents are expected be on par with 2020 for the foreseeable future.

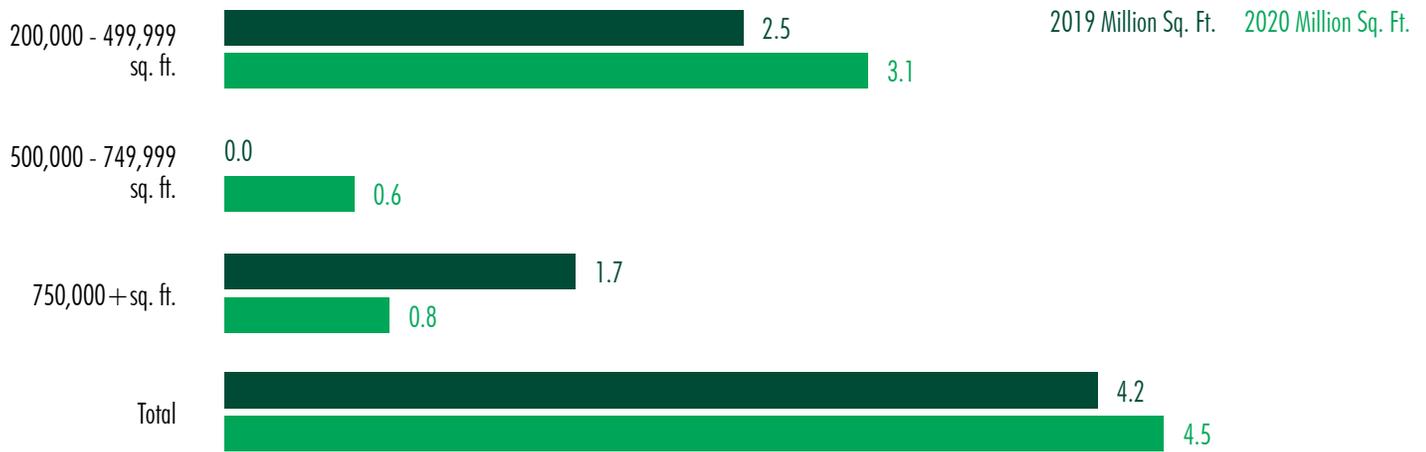
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

# Houston

**Figure 6: Transaction Volume**



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.  
Source: CBRE Research.

**Figure 7: Big Box Year-Over-Year Data Comparison**

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	371	108,136,234	7.9%	3,136,665	4,459,823	\$5.08
500,000-749,999 SF	50	29,558,020	8.7%	352,052	1,811,154	N/A
750,000+ SF	23	28,185,781	4.2%	3,905,640	5,914,640	N/A
<b>Total</b>	<b>444</b>	<b>165,880,035</b>	<b>7.4%</b>	<b>7,394,357</b>	<b>12,185,617</b>	<b>\$5.08</b>
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	334	90,342,543	8.0%	3,887,744	6,494,561	\$4.07
500,000-749,999 SF	40	24,142,781	7.1%	2,322,864	2,452,001	N/A
750,000+ SF	16	20,706,858	0.4%	770,640	-	N/A
<b>Total</b>	<b>390</b>	<b>135,192,182</b>	<b>6.7%</b>	<b>6,981,248</b>	<b>8,946,562</b>	<b>\$4.07</b>

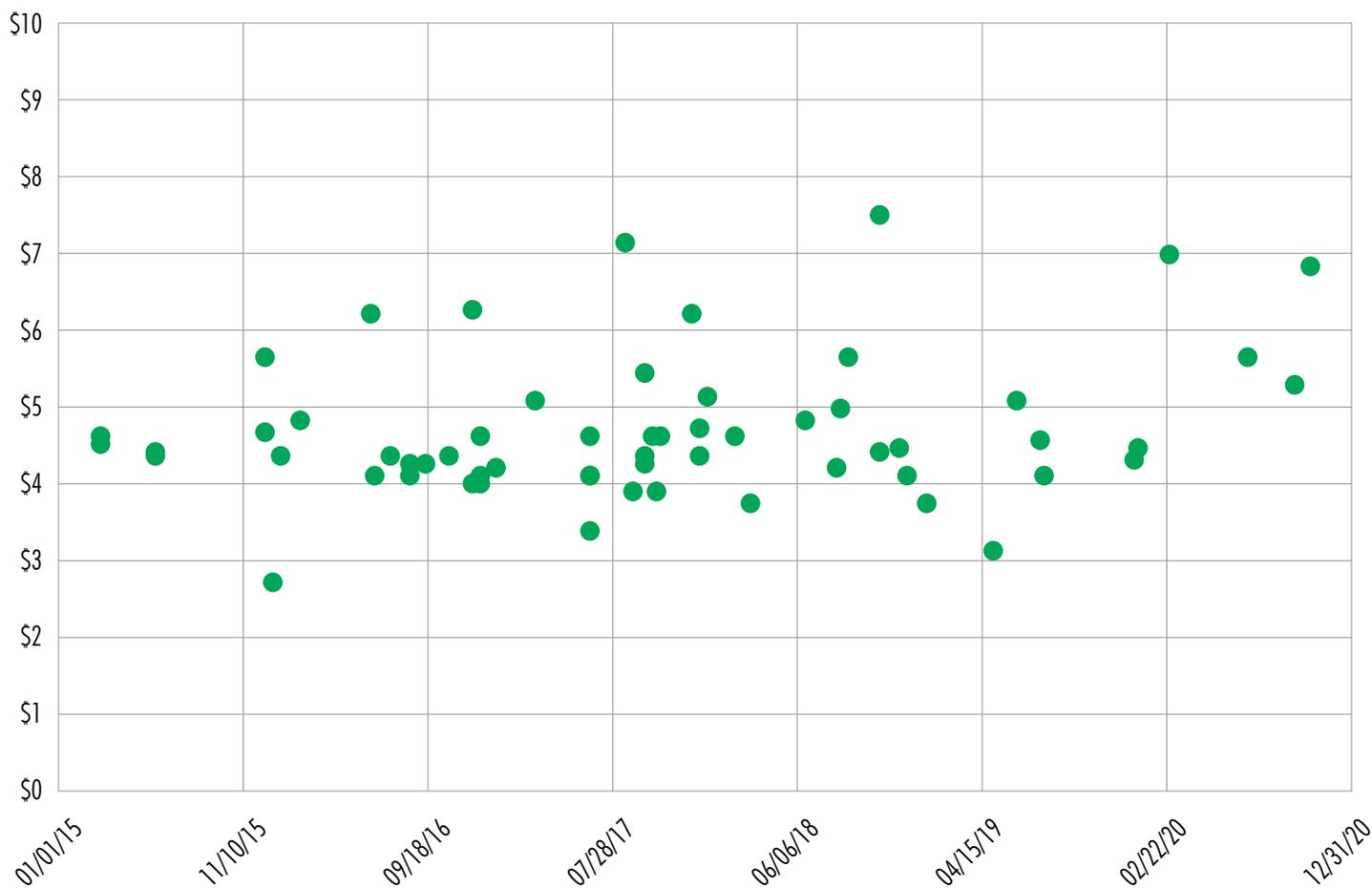
Source: CBRE Research.

**Figure 8: Under Construction & Percentage Released**

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	4,190,291	9.7%
500,000-749,999 sq. ft.	2,454,790	0.0%
750,000+ sq. ft.	6,416,100	88.3%
Total	13,061,181	46.5%

Source: CBRE Research.

**Figure 9: First Year Taking Rents (psf/yr)**



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.  
Source: CBRE Research.

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