

Houston Industrial | MarketView

Excerpts from First Quarter 2009 Houston Industrial MarketView by CB Richard Ellis



SOUTHEAST TEXAS

Quick Stats

	1009	Change from last Yr.	Qtr.
Vacancy	7.2%	↑	↑
Lease Rates	\$0.54	↑	↔
Net Absorption*	(66,917)	↓	↑
Under Construction	1.9 M	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Houston has been at the forefront of job growth over the past few years.
- Landlords are concerned about pressures to reduce rates.
- Houston hills toward buyer/tenant market.
- Nationwide financing constraints hinder investment activity.
- Tenants are putting off decisions due to economic volatility.

Over the past two years Houston led the country in job growth which contributed to a strong industrial real estate market with a year end occupancy rate of 93.7%. Currently, several economic analysts have optimistically predicted the turn-around to begin sometime near the end of this year with the expectation of recovery beginning in 2010. Houston was among the last of major metropolitan areas to experience recession pressures shielded by the diverse local economy and market fundamentals could place the city amongst the initial metropolitan areas to experience recovery.

With a slight increase in vacancy over last quarter to 7.2%, market conditions are still considered stable. Unfortunately, because of the inability to firmly define when the economy will recover, decisions are being put off by investors

and users causing overall slower activity in the commercial real estate market. In particular, distribution company leasing activity has been stagnant due to their ties to the national economy. However, active users can be found in the following industries tied to the local Houston economy such as Oil & Gas service, Food Service, Medical and Manufacturing.

Although overall asking lease rates have remained flat over the last quarter, lack of business confidence has caused users to ask for lower rates and shorter lease-terms. Landlords are concerned about soft demand leading to increased vacancy and reduced rents. In order to maintain occupancy, owners are offering concessions

to larger tenants, and only slight decreases in rent for smaller and local users. Pressure will continue to mount for rate reductions and concessions for distribution buildings as additional sublease space hits the market.

Absorption for the first quarter posted negative 66,917 sq.ft. while 2.2 million sq.ft. of new construction delivered this quarter. The good news is that Houston's Industrial market has not been overbuilt. While 1.9 million sq.ft. is currently under construction, financing constraints have caused the delay of speculative multi-tenant projects because of lack of ability to secure and/or maintain financing. These constraints have also made it harder to close new deals. The majority of deals have been lease renewals or investment purchases by buyers with cash.

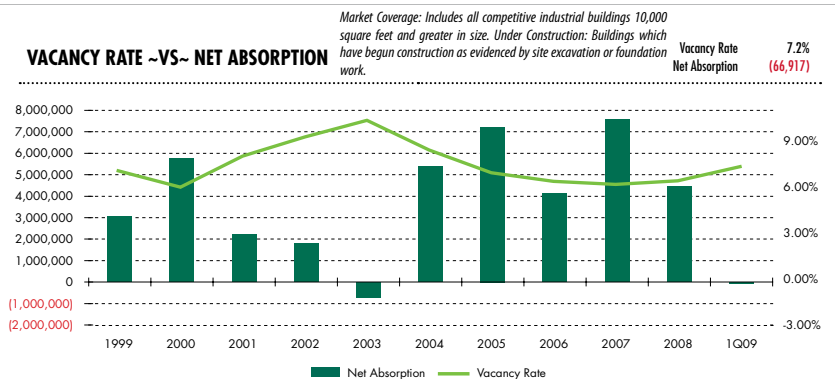
New construction delivered in first quarter added 2.2 million sq.ft. to Houston's Industrial base, an addition of 21 completed buildings. Ground was broken on 14 buildings this quarter, indicating that spec building

has slowed down in response to the economic environment. Under construction inventory levels total 1.9 million sq.ft. to be added through-out 2009. The highest concentration of delivered construction was in the Southwest and North submarkets, with 641,614 sq.ft. and 500,000 sq.ft., respectively. Tenants continue to gravitate toward locations along the Beltway due to easy access to major freeways for employees and customers.

Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
147,122	Osborne Hessey Logistic	713 North Park Central Dr., Suite 200
103,184	Overland Distribution	1701 S. 16th St.
98,750	LKQ Corporation	Aldine-Westfield at Farrell Rd.
81,450	Snider Tire	603 North Park Central
80,000	Sandvik	8716 W. Little York

VACANCY RATE -VS- NET ABSORPTION



Market Statistics

Market Coverage: Includes all competitive industrial buildings 10,000 square feet and greater in size. Under Construction: Buildings which have begun construction as evidenced by site excavation or foundation work.

Market	Rentable Area	Vacancy Rate %	Net Absorption SF	Under Construction SF	Average Asking Lease Rate \$ SF/MO	Availability Rate %
CBD	55,311,668	5.1%	(610,755)	0	\$0.30	6.4%
North	53,263,859	9.5%	366,203	710,320	\$0.58	11.0%
Northeast	27,672,442	4.0%	243,006	0	\$0.37	7.4%
Northwest	109,725,288	6.2%	(500,196)	740,684	\$0.62	8.1%
Southeast	65,224,016	10.4%	89,966	306,300	\$0.60	10.9%
South	35,793,825	4.1%	(14,383)	50,000	\$0.53	5.3%
Southwest	50,554,149	9.2%	359,242	120,000	\$0.64	10.1%
Totals	397,545,247	7.2%	(66,917)	1,927,304	\$0.54	8.7%

Construction

