

## Industrial Market Trends | Houston

Excerpts from First Quarter 2009 Houston Industrial Market Trends by Grubb & Ellis



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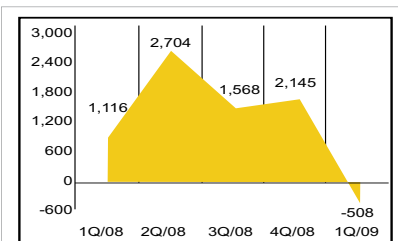
### Investment Overview

Houston's industrial investment market continues to feel the pinch of the global economic downturn as investment activity has fallen off substantially from levels witnessed in 2007. According to the Real Capital Analytics (RCA), private, public and institutional investors have spent nearly \$119 million throughout 30 transactions valued above the \$2.5 million price tag to acquire industrial properties throughout the Houston area thus far in 2009. This comes after 2008 saw investment activity fall off 42 percent from the previous year. Currently, average sales prices stand at \$70 per square foot, while average capitalization rates sit at 8 percent on all newly offered deals. In one of the more noteworthy deals, Chicago based industrial REIT, First Industrial Realty Trust Inc., sold the 38,950-square-foot and 31,540-square-foot flex buildings at 6925 and 6955 Portwest Drive to Houston's J.A. Billipp Co., for approximately \$5.9 million, or about \$83 per square foot. Both buildings were built in 1985 as part of the Westport Business Park. Their combined features include 14 loading docks, five drive-in bays and ceiling heights of between 16 and 18 feet. Also worth mentioning,

SNG Associates sold a 98,338-square-foot industrial property at 4902 Gulf Freeway to the University of Houston System. The asking price was approximately \$2.88 million, or about \$29 per square foot. The industrial building which was constructed in 1956 and is on five acres has 19,702 square feet of office space and is adjacent to the University of Houston Central Campus.

### Forecast

Houston's economy expanded at a moderate pace in 2008, outperforming most areas of the United States. However, things have turned in the Houston area with job growth hitting the brakes and unemployment rising, as the demand driven by the oil and gas services sector has diminished along with oil and gas prices. According to the latest estimates from the Texas Workforce Commission, the 10-county Houston-Sugar Land-Baytown Metropolitan Statistical Area lost 6,300 jobs from February 2008 to February 2009, representing a negative 0.2 percent over-the-year growth rate. Annual job growth peaked in June of 2007 at 4.6 percent, and has decreased slowly over the past 18 months. Even with slight job losses, the Houston area is still outperforming the nation as the national unemployment rate currently stands at 8.5 percent, the highest unemployment rate recorded since 1983, compared to 6.4 percent locally.



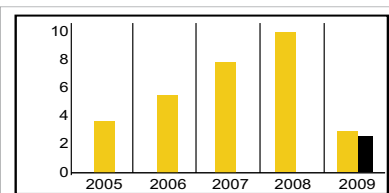
### Houston Industrial Absorption\*

Inventory includes multi-tenant, single tenant and owner-occupied buildings with at least 10,000 SF. \*In Thousands

Houston has been relatively insulated from the national economic recession which began officially but certainly not immune to the challenges affecting the rest of the country. Houston area manufacturers have witnessed a boom in activity in recent years thanks to the robust domestic and international demand for oil exploration equipment. However, with oil and gas prices sliding from record highs recorded last summer, all signs point to a slowdown in this sector as the global and national economic problems have trickled down into the local economy. According to the latest report from the National Association of Purchasing Management-Houston, the Houston Purchasing Managers Index, a short-term leading indicator of production in the Houston region, slipped to 39.0 in March, 0.6 index points below the previous record low reached in January and February. The Houston PMI can range between zero and 100, with 50 being neutral, and readings above that point indicate likely gains in production over the coming three to four months. In this cycle, the PMI dipped below 50 in November after 58 consecutive months in positive territory. The weakness in the March data indicates that production here is likely to decline further at least through the second quarter.

### Opportunities/Challenges

With leasing velocity coming to a halt during the first quarter and new construction deliveries continuing to pour into the pipeline, Houston has seen overall vacancy increase by 160 basis points since the same time last year when vacancy stood at a low 5.6 percent. The challenge facing landlords is that many of these new projects coming online are sitting with large chunks of vacant space, which has provided ample opportunities for tenants looking for space. However, the landlords' hands are tied as they



Completed

Under Construction

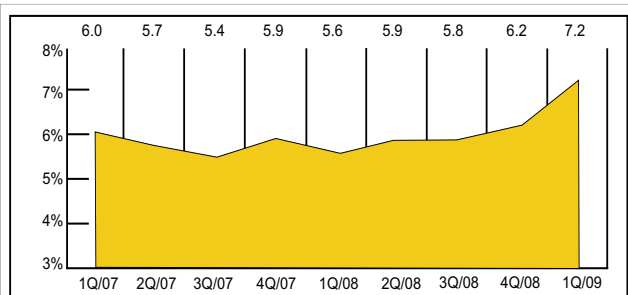
### Speculative Construction Houston

\*In Millions

can not afford to lower face rents too much as they must account for the high construction costs and land prices paid for these facilities. Therefore, owners find themselves in a precarious position, having to get creative in their deal-making efforts in order to remain competitive with existing older product leasing at much lower rents. Consequently, tenants now hold the upper hand in lease negotiations and landlords are more willing to increase concession packages in order to stimulate activity. On the bright side, the construction pipeline is thinning out which will allow the market to recover quicker and avoid an over-built scenario as the ongoing credit crisis has made it difficult for developers to obtain financing for new developments. This will allow the opportunity for Houston's industrial market to regain its footing with the equilibrium between supply and demand reaching a healthy balance by late 2009 or 2010.



SOUTHEAST TEXAS



### Industrial Vacancy Rate\*

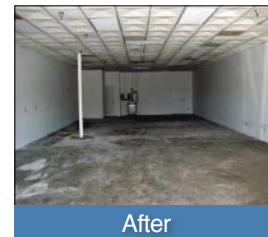
\* All Product Types

Inventory includes multi-tenant, single tenant and owner-occupied buildings with at least 10,000 SF.

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