



## **Houston Industrial Market Outlook: Reigning In, Locking Down and Accessing Profitability**

**By Lang Motes, President**

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As everyone settles in from a long, year-end vacation, many are strapping in for the rollercoaster ride of 2009. The question for the Houston area is will this be merely a kiddy ride or the next Texas Giant? How many times will our stomach's turn before the brakes lock down and we slide back into the station to see a return to profitability?

Overall, the Houston market is holding its own against the rest of the country, but economic indicators are now showing continued softening in store for 2009. Prudent industrial users are strategizing to save money by consolidating locations, eliminating unprofitable business units and carefully negotiating the most favorable lease situations possible. The shift from buying to leasing is underway, with fewer users borrowing to invest in real estate. Sales are still being posted, but at a lower frequency and volume than in years past. A continuing fall in the price of oil is beginning to put pressure on the local economy, while jobs are becoming a growing concern as we head into the year.

Most business owners are locking down spending to focus on pushing through the downturn. Between the challenges of financing and the lack of a typical, robust market growth, new speculative industrial space in Houston will be minimal and industrial build-to-suit starts will continue to decrease as projects started in 2008 are nearing completion. The north and northwest submarkets led Houston in new construction deliveries last quarter with over two million square feet between them. However, new construction deliveries citywide in 2009 will emulate the mid-to-late 1990's when new projects were few and far between. On the bright side, industrial vacancies should remain steady as the supply pipeline eased up mid-year 2008. The largest vacancies still remain in the southeast and north Houston submarkets. This will cause lease rates to remain steady citywide, while forcing landlords to get creative with concessions to solidify deals.

The Port of Houston container traffic along with rail and truck traffic has continued to grow creating the need for intermodal centers to process goods for regional distribution. The Texas Department of Transportation (TxDOT) is reviewing the Trans-Texas Corridor plan, making changes to the necessary alternate transportation outlets and morphing it back to the existing local highway names. Over 2,800 acres of industrial use land in Fort Bend County is planned for intermodal use by Union Pacific and Kansas City Southern/CenterPoint. Fort Bend's newest industrial projects are landing more tenants than buyers with over 600,000 square feet of product currently still under construction. Lakeview Business Park, Stafford Distribution Center and Freeport Ninety are among the newest project starts in the county. A 340 acre international business park with foreign trade zone status is also in the planning stages.

In summary, the good news is the Houston industrial market is not over supplied. We are now dealing with known quantities of worldwide financial business challenges and everyone is accessing profitability from top to bottom. In 2008, the Texas market led the nation in employment gains due in substantial part to the price of oil, natural gas and exports. However, 2009 reports will not be so kind with drilling now ramping down. Outside pressures from the global slowdown are finally knocking on Texas and Houston's doorstep and are soon going to take a toll on the economy at all levels. Consumer hyper spending is finally getting in check and if we are fortunate, Houston will be back to business as usual in 2010. Be aware though, any number of hard turns between now and then could deter that landing and easily spill over into 2011. The reality is Houston will hold its own, but without the substantial gains from oil and gas in 2009. We are facing the hard reality that all things must come back into balance before true market stability will exist again in the US. Let's pray the Houston region is spared from the gut wrenching, local economic turmoils that are being experienced around the rest of the country.