Industrial Market Update: Staying Strong, Keeping Pace

By Lang Motes, Senior Vice President

The last time I gave an update on the Fort Bend County Industrial Market was almost a year ago so I will take this opportunity to update you on the state of the industrial market as we near the end of 2006 as well as take a brief look into what 2007 might hold.

Market Summary: Strong 3rd Quarter. The year 2006 has been an extremely active year with new business activity in almost every commercial real estate product type. In 2004 and early 2005 deals were harder to find and occupancy could not scratch its way up but right now no one hardly has free time to look back. Brokers and developers alike are working long days and often weekends to meet client demands. Landlords are providing creative solutions to accommodate tenants and many strong tenants are either completing construction on a new project investing their own money or are at least considering building while money is still relatively cheap.

Investment market is extremely hot. Money has been relatively inexpensive for several years now and everyone is doubling or tripling their holdings in commercial real estate. Baby boomers are putting more money into real estate in general including betting on housing price appreciation with many people trading up into nicer homes with higher price points. Cap rates on industrial properties are as low as 7% with some trading slightly lower. Good, quality product is in short supply for investors.

Vacancy is decreasing. The Houston, Texas industrial real estate market is fairing quite well. Houston's overall vacancy is low at 6.5% with tenants and users occupying 93.5% of space but the Fort Bend story is slightly different. The Southwest Houston submarket had the highest vacancy rate in Houston during 3rd quarter at 8.25%. Some Houston submarkets were helped by the demolition of functionally obsolescent properties being repositioned into higher and better uses.

Compared to all major U.S. markets Houston is still a top 10 market with respect to total square footage size. Average U.S. industrial vacancy is between 9% and 10%. Houston is also among the five markets with the lowest vacancy while cities like Atlanta are nearing the 20% mark.

Lease market is very good. Fort Bend and Houston area lease rates are trending upward slightly. This trend is predominately attributed to continuing increases in steel and concrete. The average lease rate 3rd quarter in Houston was $5.56 per square foot while Southwest Houston was $5.95 per square foot. We will probably see flexibility in lease rates in order to get occupancy up then expect rates to trail up and concessions get trimmed back.

Sale market is strong. In the last five years Houston has added almost 19 million square feet of new product on the ground. Currently Houston is on track to add approximately 2.5 million square feet in 2006. Just under 300,000 square feet of this new product will be added to the Southwest Houston submarket. Qualified tenants and users needing additional expansion space have kept new building construction and sales hopping. Building prices varies based on the exact perimeters of the facility and its unique characteristics but generally these prices are between $35.00 on a third generation buildings up to $140.00 per square foot for a new, somewhat specialized facility.

Keeping pace in 2007. Next year is upon us. In 2007 most commercial real estate markets will continue along the same path.

- Investment cap rates will stay strong until at least mid-year 2007
- Vacancy might slip some as 3.7 million square feet comes online
- Absorption will continues at its current pace, 1.5 million square feet 4th quarter 2006
- Lease rates will remain strong with increases after mid-year 2007

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- Building sales will continue to be popular and solid with continued price increases in 2007

If you are interested in learning more about office/warehouse, distribution space, service centers or manufacturing facilities please contact Lang at Indermuehle & Co.

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