



# Industrial Market

HOUSTON

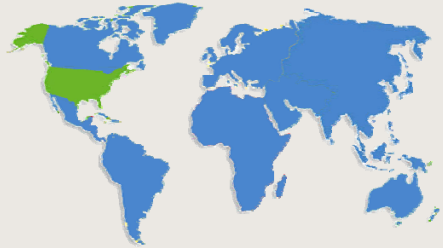
MARKET RESEARCH | SECOND QUARTER | 2009



*Our Knowledge is your Property*

# Industrial Market

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## MARKET INDICATORS

Q2-08	Q2-09	
Quarterly Net Absorption		
2.1 Million SF	(220,439) SF	↓
Overall NNN Rental Rate		
\$5.80 psf	\$5.48 psf	↓
Overall Vacancy		
5.8%	6.9%	↑
Deliveries		
2.8 Million SF	1.4 Million SF	↓
Under Construction		
8.6 Million SF	2.6 Million SF	↓

## JOB GROWTH & UNEMPLOYMENT

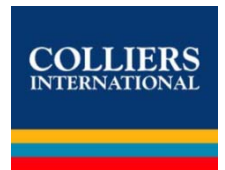
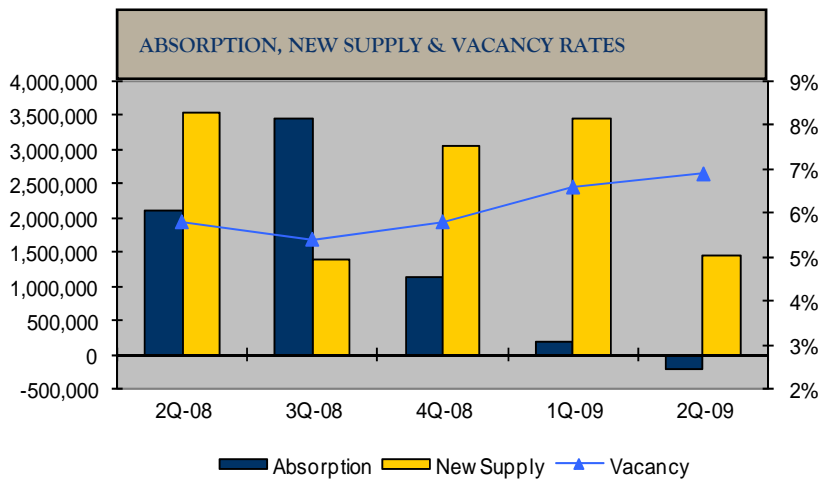
	May-08	May-09
HOUSTON	-2.2% Job Growth 56,300 jobs lost	
Unemployment	4.4%	6.9%
TEXAS	-2.1% Job Growth 222,400 jobs lost	
Unemployment	4.5%	6.9%
U.S.	-4.0% Job Growth 5,523,000 jobs lost	
Unemployment	5.2%	9.1%

## Houston Industrial Market's Gradual Contraction Continues

At midyear 2009, Houston's industrial market continued the gradual contraction that began in the first quarter of this year. While the downward shift from activity levels one year ago is significant, the slowdown has been cushioned by the relatively contained quarterly decreases posted to date. Citywide, occupancy remained above 90%, with all major industrial corridors recording positive net absorption in the second quarter. In contrast, Houston's secondary industrial markets continued to bear the brunt of the economic slowdown with vacancy spikes and negative net absorption in the Inner Loop, Northeast and South markets contributing to the overall decrease citywide.

Developers' disciplined curtailment of any new speculative construction projects - with 2.6 million sq. ft. under construction at midyear, compared to 8.6 million sq. ft. underway at this time last year - is a positive trend and will benefit the absorption of existing space on the market. Still, increased supply levels this year are expected to exert downward pressure on industrial occupancy - and by extension, rental rates - over the next six to twelve months. New industrial deliveries through the end of the second quarter reached 5.8 million sq. ft., and together with the 2.6 million sq. ft. under construction, will total 8.3 million sq. ft. of new industrial space by year's end.

Houston industrial market's resilience to date will continue to be tested by the ongoing local job losses expected to increase in the second half of 2009. In the twelve months ending in May 2009, Houston posted job losses totaling 56,300 or negative 2.2% job growth. Although energy prices are up from the start of the year, they remain well below the record-breaking levels recorded at midyear 2008, and until these stabilize Houston's job market is expected to remain weak. Economically challenged global markets contributing to depressed global trade activity and a severely battered manufacturing sector, are also major challenges negatively impacting industrial growth this year.



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## 2009 INDUSTRIAL LEASES

**B&G Foods, Inc.\***

Northwest Point Distribution Center  
Feb-09 151,966 SF

**Ozburn-Hessey Logistics (OHL)**

ProLogis NorthPark 8  
Jan-09 147,122 SF

**Cadeco Industries**

Portwall Distribution Center  
Jan-09 145,000 SF

**Integrated Airline Services**

10453 Okanella  
Jan-09 140,000 SF

**Sharps Compliance Corporation\*\***

2710 Reed Road  
Feb & May-09 131,406 SF

**Advance Platinum Solutions\***

West Little York Distribution Center  
Mar-09 110,000 SF

**Overland Distribution**

Port Crossing Commerce Center  
Jan-09 103,184 SF

**Snider Tire**

Port Crossing Commerce Center  
Apr-09 81,492 SF

**Sadvik Inc.**

Cole Creek Building 4  
Jan-09 80,000 SF

**ENGlobal Corporation\*\*\***

Portwall Distribution Center III  
Feb-09 80,800 SF

\*Renewal

\*\*Renewal and expansion of 66,035 sq. ft.

\*\*\*Renewal and expansion of 26,084 sq. ft.

## Occupancy &amp; Availability

Houston's industrial sector marked the third consecutive quarterly decrease in occupancy to 93.1% in the second quarter from 94.2% at this time last year. While demand for industrial space has weakened over the past twelve months, the effects on occupancy have been incremental to date, as evidenced by the market's consistently strong reading over the 90% equilibrium mark. Citywide occupancy is expected to fall below this level by year's end, although the market's resilience through midyear suggests the second half of 2009 will likely be characterized by a gradual contraction, rather than an immediate reversal of the remaining healthy indicators.

Helping to ease a potential sharp drop in occupancy due to increased supply, developers have done well to postpone any planned or proposed speculative construction projects until stronger economic conditions resume. The 2.6 million sq. ft. of new industrial space in the construction pipeline at midyear – all of which is slated for delivery by year's end – is a far cry from the 8.6 million sq. ft. underway at this time last year, and is expected to allow the market time to fill the 5.8 million sq. ft. of new (primarily speculative) industrial space added year-to-date.

## Rental Rates

Houston's average quoted industrial rental rate ended the first quarter at \$5.48 NNN per sq. ft., down from \$5.80 NNN per sq. ft. at this time last year. By property type, warehouse distribution space posted \$5.50 NNN per sq. ft. (down 3.5%); bulk space \$4.94 NNN per sq. ft. (down 3.9%); and flex space \$8.38 NNN per sq. ft. (down 1.6%). Until improved market conditions help strengthen tenant demand, industrial rental rates are expected to continue decreasing in the second half of 2009.

## Absorption &amp; Demand

Weak demand for Houston's industrial space was reflected in the negative net absorption of 220,439 sq. ft. recorded in the second quarter, significantly below the 2.1 million sq. ft. of positive net absorption posted in the second quarter last year. Even with the first quarter's net absorption revised up to 199,450 sq. ft. of gains, second quarter losses pushed Houston's year-to-date total to 20,989 sq. ft. of negative net absorption.

Notably, Houston's largest industrial corridors – including the North, Northwest, Southeast and South – all posted positive net absorption in the second quarter. These gains, however, were not enough to offset the negative net absorption recorded in the secondary markets of Inner Loop, Northeast and South corridors.

Major tenant move-ins contributing to absorption gains in the second quarter included Advantage Millwork's 140,000 sq. ft. lease at 10435 Okanella Street; Harris County Hospital District's 117,774 sq. ft. lease at Corporate Centre Kirby; and Snider Tire's 81,492 sq. ft. lease at ProLogis NorthPark Building 6.

## Leasing

Houston's industrial leasing activity reached 2.3 million sq. ft. in the second quarter, significantly below the 7.5 million sq. ft. recorded in the same quarter last year. Still, even as most tenants postponed leasing decisions given the economic slowdown, others undertook healthy expansion plans, including Sharp Compliance Corporation's 66,035 sq. ft. expansion at 2710 Reed Road; M&K Leasing's 55,621 sq. ft. expansion at 2720 Clinton Drive; and CFC's 28,800 sq. ft. expansion at 8000 Market Street. For the top industrial lease transactions signed year-to-date, please see the column at left.

Houston Industrial  
Year-to-date Investment Sales

2Qtr 2009

Total volume	\$618.7 (in millions)
# of properties:	64
Total Sq. Ft.:	8,803,208
Price/Sq. Ft.:	\$93
Average Cap:	10.1%

1Qtr 2009

Total volume	\$217.0 (in millions)
# of properties:	69
Total Sq. Ft.:	3,670,518
Price/Sq. Ft.:	\$98
Average Cap:	10.0%

Source: Costar Comps

## Sales Activity

Against the ongoing credit challenges keeping Houston industrial sales weak on a year-over-year basis, the second quarter marked a healthy increase for both the total dollar volume and square feet of industrial space traded compared to recorded activity in the first quarter.

Among the largest industrial transactions in the second quarter, Stockbridge Real Estate Partners acquired a 53-property portfolio from ProLogis for approximately \$561 million or \$112 per sq. ft. The U.S. portfolio included four Houston properties together totaling over 450,000 sq. ft. Stockbridge recently acquired an additional 9 million sq. ft. of industrial space in eleven markets from Prologis for an undisclosed amount.

The City of Houston acquired the 186,595-sq. ft. industrial flex property located at 1002 Washington Avenue in the second quarter for an undisclosed amount. The city's Permitting Office will fully occupy the property currently undergoing extensive renovations scheduled to be completed by 2010. Colliers International represented the seller in the transaction.

Following the close of the second quarter, American Realty Capital Trust acquired the 152,640-sq. ft. FedEx Freight distribution warehouse, located at 9010 Jackrabbit Road, from Pinpoint Commercial for approximately \$31 million or \$202 per sq. ft. The property is 100% leased to FedEx for a 15-year term that began in October 2008.

## HOUSTON INDUSTRIAL MARKET SUMMARY

Market	Rentable Area	Direct Vacant SF	Direct Vacancy Rate	Sublet Vacant SF	Sublet Vacancy Rate	Total Vacant SF	Total Vacancy Rate	2nd Qtr Net Absorption	YTD Net Absorption	2nd Qtr Completions	YTD Completions	SF Under Construction
<b>Greater Houston Total</b>	<b>474,031,834</b>	<b>31,592,418</b>	<b>6.7%</b>	<b>1,204,293</b>	<b>0.3%</b>	<b>32,796,711</b>	<b>6.9%</b>	<b>(220,439)</b>	<b>(20,989)</b>	<b>1,443,218</b>	<b>5,761,731</b>	<b>2,565,977</b>
NW Inner Loop	12,859,290	803,446	6.2%	16,034	0.1%	819,480	6.4%	(57,652)	(230,325)	-	-	-
CBD	36,191,855	2,062,301	5.7%	-	0.0%	2,062,301	5.7%	(25,968)	(350,182)	-	-	-
North Inner Loop	5,861,461	387,480	6.6%	-	0.0%	387,480	6.6%	-	(90,923)	-	-	-
SW Inner Loop	9,833,620	487,622	5.0%	13,164	0.1%	500,786	5.1%	(238,465)	(219,607)	-	-	-
<b>Total Inner Loop</b>	<b>64,746,226</b>	<b>3,740,849</b>	<b>5.8%</b>	<b>29,198</b>	<b>0.0%</b>	<b>3,770,047</b>	<b>5.8%</b>	<b>(322,085)</b>	<b>(891,037)</b>	<b>-</b>	<b>-</b>	<b>-</b>
North Fwy/Tomball Pky	14,132,614	1,416,930	10.0%	6,475	0.0%	1,423,405	10.1%	62,023	107,531	41,250	41,250	49,950
North Hardy Toll Rd	21,553,276	2,343,662	10.9%	258,371	1.2%	2,602,033	12.1%	245,307	935,636	-	522,790	554,720
North Outer Loop	17,169,681	1,128,251	6.6%	-	0.0%	1,128,251	6.6%	(1,028)	81,704	122,227	122,227	-
The Woodlands/Conroe	12,798,451	621,832	4.9%	69,390	0.5%	691,222	5.4%	(235,601)	(298,660)	10,000	50,000	95,000
<b>Total North Corridor</b>	<b>65,654,022</b>	<b>5,510,675</b>	<b>8.4%</b>	<b>334,236</b>	<b>0.5%</b>	<b>5,844,911</b>	<b>8.9%</b>	<b>70,701</b>	<b>826,211</b>	<b>173,477</b>	<b>736,267</b>	<b>699,670</b>
Northeast Hwy 321	1,144,487	4,200	0.4%	-	0.0%	4,200	0.4%	(4,200)	(4,200)	-	-	-
Northeast Hwy 90	16,061,335	298,281	1.9%	-	0.0%	298,281	1.9%	(67,820)	(88,820)	-	-	30,000
Northeast I-10	3,920,720	28,850	0.7%	-	0.0%	28,850	0.7%	50,660	36,855	-	-	-
Northeast Inner Loop	10,954,476	799,286	7.3%	49,700	0.5%	848,986	7.8%	(159,369)	(245,079)	-	-	-
<b>Total Northeast Corridor</b>	<b>32,081,018</b>	<b>1,130,617</b>	<b>3.5%</b>	<b>49,700</b>	<b>0.2%</b>	<b>1,180,317</b>	<b>3.7%</b>	<b>(180,729)</b>	<b>(301,244)</b>	<b>-</b>	<b>-</b>	<b>30,000</b>
Hwy 290/Tomball Pky	15,389,178	768,694	5.0%	11,374	0.1%	780,068	5.1%	63,173	94,588	-	-	100,000
NW Hwy 6	3,842,937	72,301	1.9%	-	0.0%	72,301	1.9%	(14,700)	(39,631)	-	-	200,000
NW Inner Loop	59,875,924	3,812,830	6.4%	172,643	0.3%	3,985,473	6.7%	29,938	(670,136)	163,320	307,723	170,000
NW Near	16,158,715	1,094,019	6.8%	48,030	0.3%	1,142,049	7.1%	(19,229)	(170,853)	49,430	314,068	-
NW Outlier	11,348,346	605,713	5.3%	40,073	0.4%	645,786	5.7%	119,171	62,486	-	118,005	25,000
West Outer Loop	20,769,040	1,587,434	7.6%	75,998	0.4%	1,663,432	8.0%	(155,316)	(218,839)	315,120	532,432	153,044
<b>Total Northwest Corridor</b>	<b>127,384,140</b>	<b>7,940,991</b>	<b>6.2%</b>	<b>348,118</b>	<b>0.3%</b>	<b>8,289,109</b>	<b>6.5%</b>	<b>23,037</b>	<b>(942,385)</b>	<b>527,870</b>	<b>1,272,228</b>	<b>648,044</b>
East I-10 Outer Loop	14,719,029	292,832	2.0%	10,578	0.1%	303,410	2.1%	40,000	45,262	-	-	-
East-SE Far	42,235,980	5,766,621	13.7%	38,250	0.1%	5,804,871	13.7%	32,801	880,227	585,310	2,029,758	48,750
SE Outer Loop	21,121,300	458,496	2.2%	-	0.0%	458,496	2.2%	61,061	184,851	-	-	-
<b>Total Southeast Corridor</b>	<b>78,076,309</b>	<b>6,517,949</b>	<b>8.3%</b>	<b>48,828</b>	<b>0.1%</b>	<b>6,566,777</b>	<b>8.4%</b>	<b>133,862</b>	<b>1,110,340</b>	<b>585,310</b>	<b>2,029,758</b>	<b>48,750</b>
South Hwy 35	28,460,751	1,353,006	4.8%	-	0.0%	1,353,006	4.8%	(52,604)	(137,232)	-	309,483	50,000
S Inner Loop	14,139,072	473,750	3.4%	3,185	0.0%	476,935	3.4%	(37,768)	(18,752)	-	-	-
<b>Total South Corridor</b>	<b>42,599,823</b>	<b>1,826,756</b>	<b>4.3%</b>	<b>3,185</b>	<b>0.0%</b>	<b>1,829,941</b>	<b>4.3%</b>	<b>(90,372)</b>	<b>(155,984)</b>	<b>-</b>	<b>309,483</b>	<b>50,000</b>
Hwy 59/Hwy 90	20,440,854	1,500,343	7.3%	16,871	0.1%	1,517,214	7.4%	(27,186)	45,140	60,000	421,377	12,500
Southwest Far	10,570,746	1,333,595	12.6%	53,268	0.5%	1,386,863	13.1%	123,825	260,846	96,561	992,618	-
Southwest Outer Loop	15,096,903	1,168,004	7.7%	21,125	0.1%	1,189,129	7.9%	45,695	(4,423)	-	-	-
Sugar Land	17,381,793	922,639	5.3%	299,764	1.7%	1,222,403	7.0%	2,813	31,547	-	-	1,077,013
<b>Total Southwest Corridor</b>	<b>63,490,296</b>	<b>4,924,581</b>	<b>7.8%</b>	<b>391,028</b>	<b>0.6%</b>	<b>5,315,609</b>	<b>8.4%</b>	<b>145,147</b>	<b>333,110</b>	<b>156,561</b>	<b>1,413,995</b>	<b>1,089,513</b>

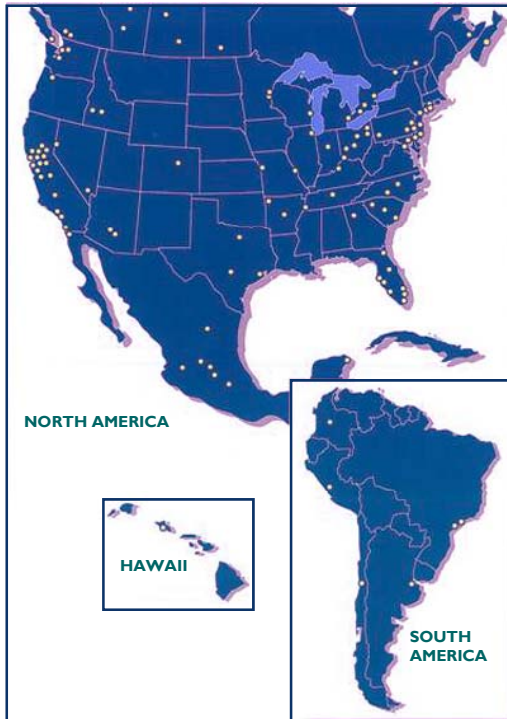
## SELECT INDUSTRIAL PROJECTS UNDER CONSTRUCTION

Submarket	Building Park	Building Name	Building Address	RBA	Percent Leased	Developer	Estimated Completion
Sugar Land		Rooms To Go Distribution Center	I-10 (west of Pederson Rd)	1,000,000	100	Rooms To Go, Inc	Dec-09
North Hardy Toll Road	Airtex Industrial Center	Airtex Industrial Center, Bldg. A	300 Airtex Dr	486,720	0	Panattoni Development	Aug-09
West Outer Loop	Port North West Business Park	Port North West, 2 bldgs	7200 Golden Gate Dr	153,044	0	Transwestern / TIAA-CREF	Aug-09
Northwest Inner Loop		TAM International	6909 US 290	150,000	100	TAM International	Dec-09
Northwest Hwy 6	Hempstead 1960 Business Park	20220 Hempstead Industrial WH	20220 Hempstead Rd	130,000	0	Capital Real Estate Commercial	Nov-09
Hwy 290/Tomball Pky	Beltway 249 Business Park	15825 Tomball Pkwy Flex Bldg.	15825 Tomball Parkway	100,000	80	Capital Real Estate Commercial	Sep-09
The Woodlands/Conroe	North Houston Business Park	23023 I-45 Flex Bldg.	23023 I-45 N	95,000	100	Capital Real Estate Commercial	Sep-09
Northwest Hwy 6	Tomball Parkway Business Center	22955 Tomball Pkwy Industrial WH	22955 Tomball Parkway	70,000	0	Capital Real Estate Commercial	Sep-09
North Hardy Toll Road	Greens Road Industrial Park	Peyton Rd Industrial Warehouse	Peyton & Aldine Westfield Rd	68,000	0	Capital Commercial Investments	Sep-09
Sugar Land		522 Gillingham Industrial WH	522 Gillingham Ln	57,013	100	City of Sugar Land	Aug-09
South Hwy 35		9001 Industrial Warehouse	9001 E Monroe Rd	50,000	0	Mayan Companies	Nov-09
<b>Total u/c industrial projects listed above</b>				<b>2,359,777</b>			
<b>Grand total u/c industrial (including projects under 50,000 sf not listed above)</b>				<b>2,565,977</b>			

## SELECT INDUSTRIAL DELIVERIES IN SECOND QUARTER 2009

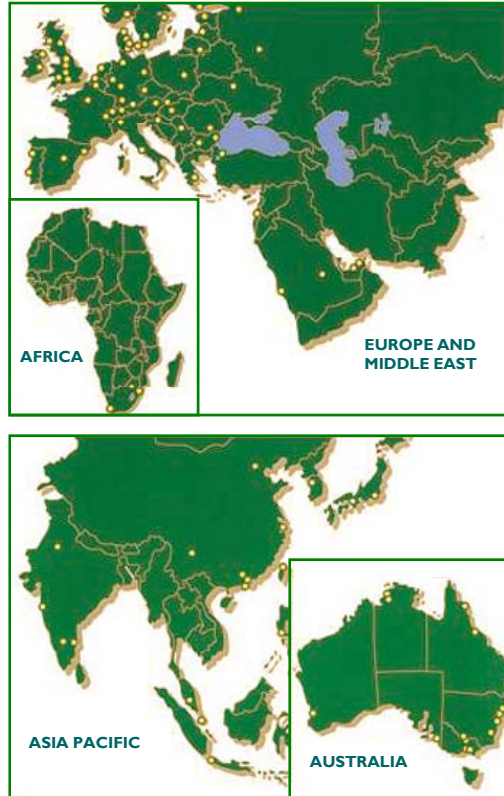
Submarket	Building Park	Building Name	Building Address	RBA	Percent Leased	Developer	Built
East-Southeast Far Ind	Ellington Trade Center Phase I	Ellington Trade Ctr, 3 bldgs.	12552-12556 Highway 3	513,800	0	Koll Development Company	May-09
West Outer Loop Ind	Satsuma Station Industrial Park	Satsuma Distribution Center I	9020 Jackrabbit Rd	315,120	0.03	Pinpoint Commercial	Jun-09
North Outer Loop Ind		World Houston 30	5656 N Sam Houston Pky E	88,000	29.55	Eastgroup Properties	Jun-09
Southwest Far Ind		National Oilwell Varco	3814 Reese Rd	64,000	100	Lane Aviation	2Q-09
Northwest Inner Loop Ind	Beltway 8 Corporate Center	Building 5	5050 Westway Park Blvd	63,000	68.32	Panattoni Development	Apr-09
Northwest Inner Loop Ind	Clara Road Business Park	Clara Road BP, Bldg. 5	5512 Clara Rd	60,000	100	Clay Development & Construction	Jun-09
Hwy 59/Hwy 90 (Alt) Ind		Parker Corp. Energy Products	11151 Cash Rd	60,000	100	Avera Companies	Apr-09
Northwest Near Ind	Langfield Industrial Park	2 Bldgs	6430-6440 Langfield Rd	49,430	0	Capital Commercial Investments	May-09
North Fwy/Tomball Pky Ind	High Life Business Park	Building 2	7011 Highlife Dr	41,250	100	Clay Development & Construction	May-09
Northwest Inner Loop Ind		9770 W. Wingfoot Industrial WH	9770 W Wingfoot Dr	40,320	0	Wingfoot Development	Apr-09
North Outer Loop Ind		Southwest Science Center	4150 Interwood South Pky	34,227	100	n/a	May-09
Southwest Far Ind	Corporate Centre Kirby	Corporate Centre Kirby- Phase 3	9240 Kirby Dr	32,561	100	Warehouse Associates	Jun-09
East-Southeast Far Ind	Federal Road Business Center	Federal Road BC, 2 bldgs.	3131-3139 Federal Rd	28,310	0	n/a	May-09
East-Southeast Far Ind	Spencer Business Park	Spencer BP, Bldg 7	5041 Spencer Hwy	22,000	70.45	Spencer Business Park	Apr-09
East-Southeast Far Ind		Lot C	1311 Avenue A	11,200	0	Ernest Bartek	2Q-09
Woodland/Conroe Ind	Oak Ridge North Commerce Park	Building 2	27640 Commerce Oaks Dr	10,000	0	The National Realty Group	Apr-09
East-Southeast Far Ind			14251 Gulfstream Park Dr	10,000	0	The National Realty Group	May-09
<b>Total 2nd Qtr industrial deliveries listed above</b>				<b>1,443,218</b>			
<b>Total year-to-date industrial deliveries</b>				<b>5,761,731</b>			

## Colliers International has 294 Offices Worldwide



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