

Houston Industrial Real Estate Continues to Boom

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Houston Business Journal

Commercial Real Estate Market Guide 2006

After 13 consecutive quarters of positive absorption and sub 7% vacancy rate for Class A warehouse projects, it's no secret that the Houston industrial real estate market is booming. In the last 24 months, developers have keyed in on tightening market conditions and responded by securing land sites for speculative and build-to-suit development throughout most submarkets in the City. A strong economy, good job growth and an expanding energy sector are fueling this expansion. When combined with the abundance of institutional money available for real estate development today, a level of development activity is occurring which has not been seen in the City in the past two decades. This trend is particularly evident in the Southeast submarket; where close to 3 Million square feet of industrial space is either under construction or ready for occupancy. In addition to the above growth factors, the Southeast market is being driven by the success of the Barbour's Cut Container Terminal and the Bayport Terminal expansion.

Last year approximately 1.6MM TEU's (20 foot container equivalent unit) came through Barbour's Cut. With phase one of Bayport coming on line later this summer, it is projected that 1.8MM TEUs will come through the combined terminals this year. It's expected that incoming container traffic will increase by 10-15% annually.

Other driving forces for this submarket are the thriving petrochemical and plastics industries. While the majority of these products are exported via the Ship Channel, a substantial amount of them are diverted to warehouses via rail and truck for blending, packaging, and storage. The Southeast submarket is somewhat unique to other markets in that the logical tenant base has to be located there, mainly for proximity to the container terminals, refineries, and rail lines. Typically, tenants not directly tied to the Port of Houston and/or the Ship Channel industries will locate in other submarkets. Developers and investors are betting big on the expanding Port activity to fill their warehouses. The looming question is, how long it will take?