

Fritsche Anderson Realty Partners is a Houston-based commercial real estate services firm specializing in the representation of office and industrial tenants. In 2019, the firm successfully executed approximately 170 lease transactions totaling 3.4 million SF.

While Houston's industrial market remains the most robust and resilient of the commercial real estate markets across the city, it has not escaped the impact of the COVID-19 pandemic and energy downturn which will likely hammer the office and retail sectors.

The citywide industrial vacancy rate closed Q2 2020 at 8.1%, up from 7.6% at the end of the prior quarter. With unprecedented levels of construction still underway, new building deliveries through the remainder of 2020 will create a glut of available inventory across the city. Roughly 4.9 million SF of new industrial projects were delivered in Q2 with 16.7 million SF still under construction. Most of the current projects under construction were pre-pandemic, speculative starts with expectations of leasing demand from energy, e-commerce and manufacturing firms; however, given current world events, diminished overall demand will likely drive vacancy rates higher through the rest of 2020.

The most significant groundbreaking during the quarter was Trammell Crow's construction of Amazon's 850,000 SF fulfillment center in Richmond at 10507 Harlem Road, which is slated for completion in 2021. Stream Realty's Empire West Business Park also broke ground in Q2. Located on 300 acres in Brookshire, Phase I of this industrial park will feature 3 speculative distribution buildings totaling 1 million SF, followed by build-to-suit projects in Phase II.

Q2 absorption lagged behind previous quarters, with year to date absorption now at 1.8 million SF (positive). Notable industrial leases signed during the quarter included a new 133,333 SF lease by A & R Logistics at AmeriPort Industrial Park (703 Logistics Drive S), a new 114,400 SF lease by Dunavant Distribution Group at Bay Area Business Park (10619 Red Bluff Road), a new 114,400 SF lease by NACC Disaster Services at Central Green Business Park (16605 Air Center Boulevard) and a new 65,520 SF lease by Advanced Wheel Sales at Waypoint Business Park (9333 S Sam Houston Parkway W).

Despite uncertainty in the broader market, increased demand within the e-commerce sector as a result of the national work-from-home dynamic has kept Houston's industrial market afloat. Additionally, population growth is expected to fuel demand for industrial space in the consumer foods and plastic resins industries. The Southeast and Northwest corridors should see much of this growth as they continue to outperform all other industrial submarkets given their proximity to the Port of Houston and major highways respectively, both of which prove extremely attractive to industrial owners and developers.

Houston's existential connection to the energy sector will have a negative effect on the industrial market, as the price of oil remains low and oil & gas companies struggle to stay profitable. Compounded by uncertainty surrounding the pandemic, this will create economic disruption and unpredictability in the short term and expectations are for a decline in overall demand, rising vacancy, suspension of new developments and softening rental rates through the remainder of 2020.

MARKET SNAPSHOT: INDUSTRIAL

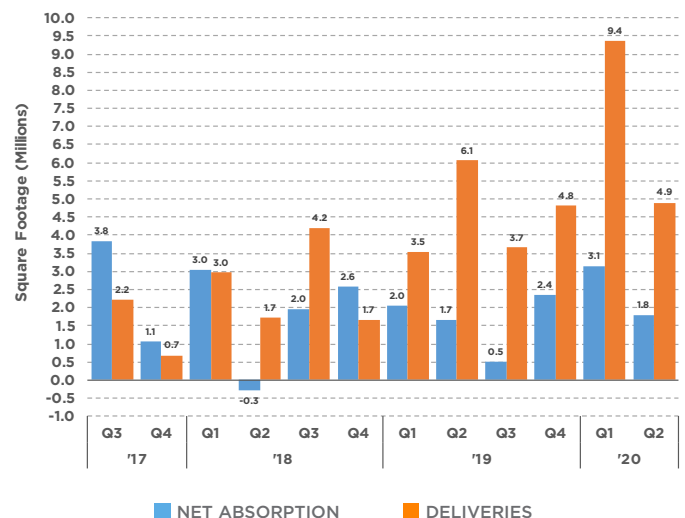
Net Absorption	1,785,169 SF
Under Construction	16,718,730 SF
Total Vacancy	8.1%
Average Asking Rate (Gross)	\$7.30 / SF

CRUDE OIL PRICES & INDUSTRIAL VACANCY RATES

10 YEAR HISTORY



ABSORPTION & DELIVERIES



NOTABLE PROJECTS



ROSS DISTRIBUTION CENTER - 2,165,000 SF



MEDLINE - 1,300,000 SF



DOLLAR TREE DISTRIBUTION CENTER - 1,200,000 SF



AMAZON - 806,000 SF

TENANT	Q2 ACTIVITY	BUSINESS TYPE	SUBMARKET	SIZE (SF)
A & R Logistics	Leased	Transportation	Southeast Corridor	133,333
Dunavant Distribution Group	Leased	Distribution	Southeast Corridor	114,400
Nacc Disaster Services	Leased	Non-Profit	North Corridor	114,400
Advanced Wheel Sales	Leased	Retailer	Southwest Corridor	65,520
Ernest Packaging Solutions	Leased	Retailer	North Corridor	55,425
Fleenor Paper Company	Leased (Renewal)	Manufacturing	Northwest Corridor	46,800
Expedi, Inc.	Leased	Distribution	Northwest Corridor	45,722

FLEX MARKET STATISTICS

	Inventory (SF)	Total Net Absorption (SF)	Direct Vacancy (%)	Total Vacancy (%)	Average Asking Rent (\$/PSF)	Under Construction (SF)
Austin County	14,522	1,454	24.10%	24.10%	\$0.00	0
CBD	3,547,805	14,732	4.84%	4.84%	\$16.48	0
Liberty County	55,798	0	14.34%	14.34%	\$6.00	0
North Corridor	12,180,742	59,047	13.56%	13.74%	\$11.04	0
Northeast Corridor	897,691	20,596	6.02%	6.02%	\$8.81	0
Northwest Corridor	17,107,138	(48,211)	10.53%	10.86%	\$9.66	98,912
Southeast Corridor	3,625,626	25,265	6.20%	6.20%	\$11.35	0
Southern Corridor	2,776,717	(16,166)	9.01%	9.09%	\$10.78	0
Southwest Corridor	13,395,654	(21,746)	8.34%	8.55%	\$14.99	101,683

WAREHOUSE MARKET STATISTICS

	Inventory (SF)	Total Net Absorption (SF)	Direct Vacancy (%)	Total Vacancy (%)	Average Asking Rent (\$/PSF)	Under Construction (SF)
Austin County	2,305,537	0	8.28%	8.28%	\$9.04	0
CBD	53,647,890	(41,072)	5.09%	5.28%	\$5.86	0
Liberty County	1,409,668	(7,800)	5.85%	5.85%	\$5.57	0
North Corridor	113,025,013	1,201,981	9.15%	9.49%	\$8.18	1,899,680
Northeast Corridor	40,313,314	(104,070)	5.71%	5.88%	\$6.20	279,500
Northwest Corridor	168,833,039	263,544	8.21%	8.61%	\$7.56	5,292,006
Southeast Corridor	112,222,885	633,548	7.93%	8.25%	\$6.39	3,143,685
Southern Corridor	50,539,719	436,213	4.42%	4.96%	\$6.18	289,358
Southwest Corridor	69,691,585	47,639	7.13%	7.25%	\$8.66	5,609,906