REDnews Houston Industrial & Logistics Summit

BY RAY HANKAMER

Industrial Real Estate Market Overview

Moderator: Debra Gilbreath, Dow Golub Remels & Gilbreath, LLP, Attorneys
Panelists: David Hudson, Duke Realty; Kevin Sager, Eastgroup Properties; Charlie Strauss, JLL


Debra Gilbreath


David Hudson


Kevin Sager


Charlie Strauss

- Regional distribution is overtaking oil & gas tenancy in Houston industrial space, and this is being driven by distribution of consumer items to growing population; in parallel, the Port has seen double digit growth in incoming containers
- 1.3 million population growth in past ten years > new homes > new retail > need for product in brick and mortar stores, in addition to growth in eCommerce which now contributes about 13% of retail sales, and growing; eCommerce is about 35% of retail sales in China-is this where we are going?
- In addition to consumer eCommerce, we are seeing business-to-business eCommerce
- Oil & gas has shrunk to 35% of industrial tenancy; some manufacturing, labs, and assembly are coming back to US from other countries; non-specialized buildings can be customized to many tenant uses; Covid-19 virus is exposing cracks in supply chains to China, causing companies to re-think maintaining their operations there
- Houston is evolving into an international trade center, connecting 'lots of little parts' including physical warehouses, delivery to warehouses, delivery from warehouses, staffing of warehouses and professional office space in them
- In addition to developer build-to suit and spec warehouses, we are seeing substantial owner-built/owner-occupied projects; some tenants are leaving older building when they become obsolete for them, creating redevelopment options for new tenants for the vacated space
- Warehouses are moving close to consumers in SW, W, NW, and N to moderate costs of 'last mile' delivery of goods, while industrial development in SE and S hinges on incoming freight from Port, and exports of plastics base products; ships bring consumer goods into Port and leave with plastic feed product exports, which is attractive to shipping companies; but some industrial tenants resist the temptation to move to new parts of town for fear of losing their trained employees in their existing location
- On the investment side, there is a lot of cash seeking a yield; cap rates are being compressed while developer costs are inching up; rental rates have been more or less flat for 12-13 years; Blackstone recently purchased a $30 billion industrial portfolio; cap rates which three years ago were in the low 5% range are now in the high 4% range; REITs are buying more one-offs since fewer portfolios are available
- Current tenant demands include higher clear heights, moving from 32-24' and now up to 40' in some cases; with greater volume buildings can stack more product with fewer SF, but parking ratios have zoomed, some mega-warehouses needing parking for 1,000 trailers and hundreds of employee cars; this affects impervious cover and increases detention and drainage ditch costs for developers
- Houston is far more affordable for industrial development than large cities on the 'other coasts', where entitlement also takes much longer before construction can begin; in Houston all the submarkets have light oversupply of space and vacancy overall here is in the 6-7% rate, which is not impacting developers-yet
- There are no major barriers to entry to industrial development in Houston, compared to the rest of the nation; in addition to development going further out, some infill locations are becoming economic for redevelopment to be near consumers; Class B industrial is becoming attractive to some categories of users
- Some companies are pulling back manufacturing from Asian countries to Mexico and even the US, in order to be nearer the customer and to avoid the shipping time and cost from overseas

The State of Industrial Development

Moderator: Alfredo Gutierrez, SparrowHawk
Panelists: Charlie Christ, Clay Development & Construction; Robert Wheless, Logistics Property Company; Gary Mabray, Colliers


Alfredo Gutierrez


Charlie Christ


Robert Wheless


Gary Mabray

- The market is still strong here, and it remains cheaper to develop space here than in other markets-rents have been level for last twelve years, although land prices which maybe 13 years ago were $0.50-1.00 SF now may be $5.00 SF...even then we are cheap compared to say Los Angeles area
- Ship Channel / Port market has grown briskly; the number of industrial developers has increased steadily in our market over the years
- The average deal size here is 70,000 SF (50-100,000 SF); cities are starting to be concerned about tenants' operations, to make sure they are safe; fire code and other safety issues arise
- Developer challenges are flooding, detention, drainage...following Harvey regulations have been evolving from the different governmental entities but getting entitlements here takes half or less as long as in other large cities
- Spec warehouses are built somewhat generically so that eventual tenant can customize as needed, as to lighting, amount of paved parking, dock amenities, etc., and then the question arises: does landlord or tenant pay for improvements?
- Developers are being squeezed between rising construction costs and persistently flat rents; leases range from 3-20 years and lease term affects building desirability for investors seeking long predicable return
- Some parks have regional detention and drainage systems which helps the individual developer
- Railroads now prefer unit trains with 90-100 car single product trains, and are loath to do switching of 2 or 3 cars to individual tenants... but there are intermediate firms which will do the switching, and in the Port and other terminal areas this service is provided for cargo

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Emerging Trends in Logistics and Industrial Real Estate

Moderator: Dallas Hall, Allied Fire Protection

Panelists: Bruce Mann, Port of Houston Authority; Keith Holley, Method Architecture; Regina Lindsey, Economic Alliance Houston Port Region; R.D. Tanner, Port of Houston Authority


Dallas Hall


Bruce Mann


Keith Holley


Regina Lindsey


R.D. Tanner

- 80% of eCommerce in our area comes in through our Port, so we should not discount its role in the overall scheme of things: water to rail to truck is the formula here; then, there are 15-20 million consumers living across Texas within a four hour drive from Port of Houston; and the Port has received a noticeable bump in cargo since the widening of the Panama Canal; currently the width and depth of our Ship Channel is an impediment to the larger cargo ships; we are promoting the idea that Houston is a better and more centralized port than either East- or West-coast ports
- Warehouses vacated by O&G users usually get re-purposed/re-leased within twelve months; lots of new warehouse space is being devoted (converted to) freezer-cooler space for food imports
- Port of Houston has 3,000 acres of developed land and 3,000 available for development, and continues to make major investments to accommodate increasing cargo flow; Port has rail-served and non-rail served land available
- We have gone from net importer of petroleum to net exporter, and Port has adapted; we now receive 35% of our cargo from Asia; billions of dollars of chemical plants have recently opened in the Houston region, or will open in near future, enhancing export potential, not to mention big boosts to local economies from 2-3 year construction periods and corresponding job creation
- Expansion of commercial and consumer deliveries is delayed during the 6AM-6PM time period when roads are congested, so deliveries are being planned in future for nighttime hours when roads are clear; other means of delivery are in the works, including autonomous vehicles and drones; also there is a growing need for refrigeration in delivery vehicles
- Taxing authorities are now being paid taxes for eCommerce as amazon and others now have physical presence in every state; as for employment, about three jobs are gained in eCommerce for every one job lost in a brick and mortar store
- Residential development is coming to E and SE as communities there try to balance out their land use; school districts belatedly are moving to vocational training to prepare employees for eCommerce jobs where new categories of employees are needed; college education is not for all, as we are finally realizing; today's warehouses have many more employees than older warehouses did and need specialized workers
- The Grand Parkway is being expanded in SE and so is State Hwy. 225...this in addition to the rebuilding of I-45 will give Houston a 'new look' mobility-wise
- Our Port is 20% of Texas economy, and Texas is the 10th economy in the world if it were a country, so by extension our Port is a proven major force in the world economy

Working With Local Governments To Build Lasting Product

Moderator: Robert Eckels, Husch Blackwell Attorneys

Panelists: B.J. Simon, Baytown-West Chambers County EDF; Ryan Cramer, City of La Porte; Vince Yokom, Waller County Economic Development Partnership

- Waller County in the past was resistant to growth and that has changed since residents have seen the strong tax base which can come from industrial users who need to grow out of Houston; the County realizes now that high-paying jobs can come with industrial development as well; the County has few drainage issues since it has slightly rolling terrain; a new rail-served park is in place; the


Robert Eckels


B.J. Simon


Ryan Cramer


Vince Yokom

world's largest cricket field is coming to Prairie View, emblematic of Houston's diversity; the conversion from Ag land to industrial tax base can have a huge economic benefit to the County, and the residents have realized the difference this makes

- La Porte works diligently to balance needs of citizens with needs of industrial users, but available land is dwindling, and remaining tracts in some cases are being hoarded for future use as City Fathers try to get it into 'best hands'; high tax base from industrial users enables high-end services to local citizens; the City realizes that 'time is money to developers' and it makes available meet-ups where a developer can come and sit down with all City department heads in one meeting to determine the level of support for his proposed land use
- Storm surge and inundation was minimal in La Porte during Harvey; nonetheless attention is being given to future weather issues; a Tri-County cooperative effort has been established including Baytown and Chambers County after severe flooding in the Cedar Bayou watershed from rain and rising water which saw 6-8 feet of water invade a large industrial development which had been recently completed; the cooperative group is seeking regional, state, and federal dollars for future deluge and storm surge prevention, while pre-Harvey there was minimal cooperation
- All of the smaller communities in the Houston Metro area realize that we are all in the same economic unit and cooperation among everyone should be the theme of the day
- Communities are exploring the use of TIRZs, PIDs, management districts, tax abatement schemes, and Enterprise Zones-alone and in creative combinations- to attract quality developments which will attract good jobs and add to the local tax bases ■