

Houston industrial real estate surges on export growth

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The addition of billions of dollars worth of new petrochemical plants and plant expansions has major implications for Houston's industrial real estate sector, said Tom Lynch, senior vice president of industrial investments at CBRE.



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In 2014, Texas exported \$289 billion worth of goods and services — nearly double that of the second-highest state, Washington, which clocked in at \$179 billion, according to Los Angeles-based CBRE (NYSE: CBG) research.

The U.S. posted \$2.35 trillion in exported goods last year, breaking the record for the fifth straight year. In Houston, where 60 percent of the U.S.'s refining capabilities are located, the oil and gas industry dominates our exports.

And with the addition of billions of dollars worth of new petrochemical plants and plant expansions, the Bayou City is on track to continue the

trend of growth. That has major implications for Houston's industrial real estate sector, said Tom Lynch, senior vice president of industrial investments at CBRE.

"Most of those plants will come online in late '16 to 2018, and as those open, they are incredibly expensive factories to operate," Lynch said. "Whenever that final product comes out, it has to get shipped out as soon as possible or get to a storage facility that sits on much cheaper land. That will drive warehouse needs and railcar storage needs."

Because of this, southeast Houston, which a decade ago had the lowest rental rates in the Houston area due to being overbuilt, has seen a jump in rental rates of about 70 percent in the past 18 months, Lynch said.

"It's the tightest market now in the Houston area," Lynch said. "It's been a huge climb, so there's a big need for new product in that part of town."

Because of increased demand for space, land prices have also jumped in southeast Houston, forcing developers and third-party logistics groups, which often handle packaging and distribution for large companies, to look farther out, like Cedar Port, which boasts 11,000 acres of developable land on the other side of the Ship Channel.

"It's hard to find attractively priced land in that part of town," Lynch said.

"They're going to have to find other locations, and figure out how to do that by tying in roadways and rail."

Roxanna covers commercial real estate for the Houston Business Journal.