



HOUSTON'S COMMERCIAL ACTIVITY SLOWS IN FOURTH QUARTER, BUT OPTIMISM ABOUNDS FOR 2017 AND BEYOND

HOUSTON — (January 18, 2017) — Houston's commercial real estate market finished out 2016 with decreased leasing activity in both office and industrial sectors, but more confidence and hope for the next few years, according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR).

The fourth quarter reported direct negative net absorption of 445,245 square feet of office space primarily due to vacancies created by firms like Exxon Mobil whose vacant sublease space in Greenspoint converted to vacant direct space. Absorption for the year totaled 681,862 square feet, once again primarily due to multiple owner-occupied projects including Phillips 66 and National Oilwell Varco in Westchase, accounting for more than 1.6 million square feet in their new buildings, and Hillcorp with another 515,025 square feet in the Central Business District (CBD). Other recent completions including the Greater Houston Partnership's building in the Central Business District and Regions' Financial Center in Greenway Plaza helped to offset increasing vacancies in Class A properties. For the year, Class A properties recorded absorption of almost 2.1 million square feet, offset by Class B and Class C properties' year-end negative absorption, a negative 1.3 million square square feet and a negative 109,534 square feet, respectively.

Space left behind by various firms occupying those new properties are showing up as direct space and affecting the vacancy rate, which continues to climb. The current 16.4% direct vacancy rate is up from the 15.9% vacancy recorded last quarter, and also up from the 13.9% recorded during the same quarter in 2015. Fort Bend County is the only submarket with a year-end single-digit vacancy rate at 9.4%, and only three submarkets, the CBD, Fort Bend and Southeast, are reporting Class A vacancy less than 10.0% at year-end. Class A space overall is 15.0% vacant, while Class B is overall 19.6% vacant and Class C is 12.3% vacant.

The huge subleases added to the market during 2016 are examples of the changing economy related to the energy downturn, which is clearly reflected in the record-level direct

vacancy when combined with the additional 10.2 million square feet of available sublease space. Although total sublease space actually saw a decrease from third quarter, that drop resulted from Conoco Phillips taking back its new 600,000-square-foot building from the sublease market combined with both limited leasing activity and other sublease space coming back on as direct, like Exxon's Greenspoint properties.

Currently at 10.2 million square feet, Houston's office sublease market has almost doubled in the past year, when Fourth Quarter 2015 statistics reported by Commercial Gateway totaled 6.7 million square feet. Regarding location, more than 79% of all sublease space is located in five market areas. The CBD led the way with 25.5% of the total as Shell Oil added more sublease space at One Shell Plaza. The Energy Corridor is second with 17.6%, Uptown is third with 13.8%, Westchase follows closely at 12.8%, and Greenspoint now offers 9.0% of the total sublease space. Broken down by spaces, currently 44 sublease listings are marketing more than 50,000 square feet, with nine of those reporting contiguous blocks of more than 100,000 square feet.

Only one smaller building, the Dave Ward Crime Stoppers building, was completed during the fourth quarter. Absorption will be counted for that building during the first quarter of 2017 along with space from the new BHP Billiton's Tower in Uptown. BHP Billiton will reportedly occupy that space during first quarter and has already added about 320,000 square feet of its current space to the sublease market. Year-to-date, 19 properties totaling more than 6.1 million square feet were completed in 2016; as of year-end, the buildings are collectively 72.1% leased.

Construction starts have halted for the most part since the first quarter, with only office buildings in mixed-use or boutique office projects breaking ground. Overall, the Houston under-construction office market has 10 properties totaling 2.4 million square feet, of which 609 Main at Texas represents almost half of the total and is the largest spec building. Collectively, the under-construction buildings are about 48.1% preleased. Scheduled for completion during first quarter, 609 Main has reported several new deals: one law firm, Kirkland and Ellis, has doubled its previously pre-leased space for a total of 105,000 square feet on the top four floors, while Russell Reynolds Associates, an international search firm, has preleased 15,000 square feet in the new tower. These firms join a couple other law firms who previously announced signing up for two floors each, and United Airlines, who committed to 225,000 square feet of the new building.

The most positive leasing activity for the year includes the largest office lease recorded for 2016: Houston-based American Bureau of Shipping, which will reportedly lease 303,127 square feet in a new building in Springwoods Village, a 60-acre mixed-use development in north Houston. Another major deal for that project was announced in early January: HP reportedly is committing to 378,000 square feet in two new buildings to house about 2,400 employees. Construction will be starting early this year on both projects, with completions scheduled for mid- to late-2018. No mention was made of either firm eventually adding any of their current space to the sublease market.

Concessions are becoming more commonplace in the market, even though quoted rental rates have remained steady. Rental rates showed a slight increase from the past quarter and an increase from the past year with the current overall averaged weighted rental rate of \$28.27, up from last quarter's \$28.11 rate and up from \$27.81 from last year's fourth quarter. Class A rates, now at \$34.26 citywide and at \$42.78 in the CBD, experienced slight increases from last quarter. Quoted rents for sublease space increased 10.4% from \$22.44 last quarter to \$24.78 this quarter.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "Office tenants will remain in the driver's seat as landlords compete with the massive amounts of sublease space currently available in the market. Much of this sublease space is Class A with high-quality finishout, which provides many opportunities for firms looking to upgrade. With few deals in the marketplace, landlords are also keeping apprised of the sublease space, and in some cases, are assisting the sublessor by offering a few incentives to increase the term of the sublease.

"The housing market continues to experience healthy sales as the multi-family market adjusts to an oversupply of Class A apartments. Both office tenants and apartment tenants will benefit from the oversupply, with new construction at a standstill in both those segments.

"Although the large amounts of sublease office space will continue to affect the overall office market for the next 18 months, office tenants will emerge the winners as they determine their best deal from numerous available and attractive options."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "Houston continues to feel the effects of the energy sector's downturn, but the market has begun

to show promising signs that the worst may be in the rear-view mirror as oil prices have slowly increased and office sublease space availability has declined for the first time in two years. Unfortunately, the dramatic job losses in the energy industry came on the tail of a peak growth period and one of the city's most active development cycles.

“Overall leasing activity remained sluggish this past year as energy-related firms have placed office space decisions on hold, causing overall transaction volume to drop to its lowest level since 2009. Small- and mid-sized leases continued to account for the bulk of the activity, causing leasing volume to drop 28.2% over the prior 12 months. Only five lease transactions above the 100,000-square-foot mark were signed in 2016, with three of these deals taking place in new construction projects.

“During the fourth quarter of 2016, Houston's office leasing market fundamentals continued to soften as the citywide Class A direct occupancy level declined by 60 basis points to 82.8% overall. Class A direct occupancy levels have dropped by 290 basis points year-over-year and plunged by 820 basis points since their cyclical peak of 91.0% in early 2014. Within the competitive leasing market, developers delivered just under 3.8 million square feet of new office space in 2016 (excluding corporate-owned projects). Meanwhile, Houston's sublease availability declined by 339,423 square feet to 11.8 million square feet during the quarter – marking its first quarterly decline since mid-year 2014 – but remains well above its 10-year average of 4.1 million square feet.

“Total space availability jumped by 5.7 million square feet in 2016 due to added sublease space and newly delivered space. As a result, the total space availability level has jumped 250 basis points to 24.1% with sublease space included, which is 500 basis points above its 10-year average. Even though face rates have remained relatively steady with the addition of new inventory commanding higher rents and increased taxes inflating operating expenses, actual effective rates at which deals are being signed have subsided, and the value of concession packages (free rent and tenant improvement allowances) has increased.

“Houston's office leasing market fundamentals are expected to remain soft as new supply will likely outpace demand through 2017, which could push the citywide direct occupancy rate down to approximately 82.5% by year-end 2017 - its lowest level since 1995. The key areas for office property owners to focus on during these challenging times will be the careful evaluation of near-term rollover and the retention of value by

securing early lease renewals and/or extensions to combat potential increased vacancies. Even though office-using job growth is projected to return by sometime in 2018, future leasing demand from the energy sector will likely remain suppressed as there will be an abundance of sublease and shadow space that must be dealt with before tenants will absorb additional space.”

Alex Taghi, Vice President, NAI Partners “After a tumultuous two years, we are starting to see signs of recovery in the office market, albeit slight ones. Perhaps recovery is too strong a term; the numbers show that we are actually more confident in saying we have found the bottom rather than we are recovering. The deluge of sublease space which washed over Houston, particularly West Houston and CBD, has finally let up; in fact, 4Q16 was the first quarter in two years where we did not see an increase in sublease space – often cited as a barometer on the overall health of the office market. By tracking the increase in rig counts and the price oil, it is not a broad jump to conclude that the large, market-impacting space dispositions are in all likelihood over.

“With all that said, the tune we’ve been humming hasn’t changed all that much - we are still very much in an office market ‘recession,’ which should be music to the ears of tenants. Landlords are having to claw their way into deals as they are still very much competing with more sublease space than the market can realistically absorb in the short- to mid-term. Even though quoted rental rates haven’t seen drastic declines as one would be led to believe given the conditions, significant economic incentives still need to be made in order for landlords to be competitive. The delta between quoted and negotiated rates remains substantial and other concessions like construction allowances, free rent and free parking can and definitely should move the needle to companies evaluating their current lease.

“To make a long story short – tenants are still in a favorable position to take advantage of market conditions but we are a little more confident in saying that the clock is ticking.”

Houston Industrial Market

Houston’s industrial market continued to expand during the fourth quarter with positive direct net absorption of 1.0 million square feet, according to statistics compiled by Commercial Gateway. Absorption for 2016 totals a positive 8.5 million square feet, with almost half of that

attributed to the third quarter occupancy of Daikin Industries' 4 million-square-foot manufacturing and distribution facility, reported as the largest concrete tilt-wall building in the world.

This quarter's absorption represents the 28th consecutive quarter – over six years – of positive absorption, with seven quarters recording more than 2 million square feet each and more than half recording more than 1 million square feet. The year-end absorption totals include almost 5.7 million square feet of warehouse-distribution space along with 4.2 million square feet of manufacturing space. Light industrial space offset the positive levels with a negative 1.3 million square feet along with a negative 78,957 square feet for flex/R&D space.

Vacancy rates have increased slightly to 6.5% from 6.1% last quarter and the same quarter last year due to both slower leasing activity in some areas along with several projects coming online with no preleasing. Vacancy for warehouse/distribution space citywide is 6.7% with manufacturing space at 3.7%.

Almost 2.5 million square feet in 13 buildings came online during the fourth quarter, increasing the total square footage completed in 2016 to 11.5 million square feet in 52 buildings. The newly completed projects are collectively 68.5% leased with an average \$9.13 rental rate. The new buildings contributed almost 7.7 million square feet of absorption.

Construction activity is still high, with many projects underway and many other projects proposed. Currently, 51 buildings representing 5.1 million square feet are underway. The largest build-to-suit is FedEx's new 800,000-square-foot distribution facility in the Northwest near the Grand Parkway and west of U.S. Highway 290. The bulk of the remainder under construction is concentrated in the Southeast with 15 projects totaling 2.3 million square feet followed by the Northwest with 13 projects totaling 1.2 million square feet. Overall, the under-construction market is 75.0% preleased.

Rental rates have decreased this quarter to \$6.84 from \$7.10 last quarter and are also lower than the \$7.25 recorded during the same quarter last year.

Sublease space had been steadily increasing each quarter during the last couple years, and jumped to almost 3.7 million square feet this quarter, representing 36.6% more space when compared to last quarter. The current quarter's total is more than double the sublease square footage from the same quarter two years ago.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Gary A. Mabray, SIOR, Principal, Colliers International “2016 proved to be a year of paradoxes for the Houston-area industrial market. The high price of crude oil in 2014 and 2015 encouraged a significant increase in the development of institutional product, particularly in the north and southeast segments of the market. The northwest experienced continued growth as well; however, the scarcity of available land kept that market somewhat in check. Smaller ‘crane-ready’ buildings aimed at the energy service business seemingly sprung up overnight wherever smaller land parcels were available. Then came the late 2015 downturn in the oil and gas business, both real and perceived, particularly from a national perspective.

“Thus, as the market quickly cooled, the residual of the ‘boom-market’ development flurry on the north side of Houston left the area with a marked increase of available space by the end of 2016. Those market areas are driven more by consumer product warehouse and distribution, and as confidence waned, vacancy increased.

“While other markets slowed, interest, development activity and leasing on the far east side of Houston accelerated during that same time frame. In this case, low energy prices proved to be a catalyst for growth. With low feedstock costs, the petrochemical industry undertook massive new infrastructure projects all along the Gulf Coast. Additionally, Houston’s Port activity continued to grow as container traffic increased, the opening of the expanded Panama Canal promised more water-borne deliveries and Houston’s significance as the new ‘third coast’ was reinforced.

“We leave 2016 with a total market size of approximately 535,000,000 square feet and an overall market vacancy of 5.6 percent, still a generally healthy market having survived the tough energy climate.

“As we enter 2017, energy prices seem to be slowly rising, and with that, market confidence is increasing as well. In discussions within our firm, other major brokerage firms, developers and lenders, 2017 should prove to be a year of recovery for the slower markets and continued good activity for those already thriving.”

Mark G. Nicholas, SIOR, Executive Vice President & Regional Director-Brokerage, JLL

“While overall leasing activity was consistently strong over the course of Houston’s economic downturn, the industrial market experienced a drop in transactions at the close

of 2016. The total volume of deals signed fell to 1.8 million square feet from 4.2 million square feet in the third quarter, representing a decline of 69.1% from the previous eight-quarter average. This is not a concerning statistic, but a natural effect of sustained low vacancy and availability across the Houston industrial market.

“At 5.5% total vacancy, the number of large blocks available for lease is limited, making it no surprise that 62.4% of leases this quarter were sourced from deals smaller than 50,000 square feet. The market’s landlord-favorable position will likely weaken in 2017 as industrial moves to a more neutral playing field, though to what degree will vary widely by submarket and property type.

“Construction activity began trending downward in 2016, dropping by 34.1% to 4.7 million square feet, following 2.1 million square feet in deliveries and no new major projects breaking ground. The pipeline for proposed projects remains high, however, as developers remain confident but disciplined in the Houston market.

“The remaining space under-construction space has close to 75% controlled by the Southeast and Southwest, two submarkets that outperformed the pack in 2016. Spec construction dominates the pipeline, accounting for 68.1% of the total space, while the largest single-tenant project underway is FedEx’s 800,000-square-foot owner/user building in the Northwest.

“Barring a second dip in energy prices, there will likely be an uptick in demand in the next 12-18 months as prices stabilize and end-users regain confidence in the market.”

Jake Wilkinson, Senior Vice President, NAI Partners “As things currently stand, all industrial products in Houston remain in a holding pattern, due largely to the waiting game that is being played to see when and how oil is going to rebound. Additionally, the presidential election created even more uncertainty, causing many companies to postpone their real estate decisions. However, even though actual vacancy rates as a whole haven’t really fluctuated and remain at about 5% across all industrial products in Houston, overall sentiment towards the market has picked up significantly. OPEC’s recent announcement that it will be cutting oil production by 1.2 million barrels by January has many companies in the oil industry optimistic about the future. Whether they actually make their proposed cuts remains to be seen, but it has many in the real estate industry excited about 2017.

“The East and Southeast submarkets continue to lead the Houston industrial market, ending 2016 with just over 3 million square feet in net absorption. These submarkets saw the delivery of 4.5 million square feet of new product, and another 2.5 million square feet is under construction, fueled by the expansion of the Bayport Container Terminal of the Port of Houston and growth in the plastics industry.

“Although the Northwest submarket has taken the biggest hit over the past couple of years since the decline in oil prices, vacancy in the Northwest has dropped from 5.5% in the third quarter to 5% at the close of the fourth quarter. Additionally, the average rental rate per square foot per month has slightly increased. The combination of a decrease in new product -- from 4 million square feet to 120,000 square feet -- and continued positive absorption -- 900,000 square feet in Q4 -- have also helped lessen the blow.

“Despite some positive signs, many of the free-standing buildings delivered during 2015 have sat vacant with minimal interest. Whether or not the Northwest submarket will begin to take a turn for the better remains to be seen. However, the recent uptick in interest of oil and gas companies for the submarket has real estate specialists somewhat optimistic about 2017, since many industrial brokers are reporting a significant increase in interest in their Northwest products. Of course, that optimism doesn’t mean anything unless it turns into actual transactions.

“Ultimately, oil is in the driver’s seat, and the Houston industrial market will continue to hinge on the price of oil. OPEC’s announcement to cut production could be the start of what many in the industry have been hoping for, but even with that, we cannot expect major changes overnight. We do expect vacancy rates to decline gradually in the first quarter of 2017 and believe we will continue to climb out of this downturn. Cautious optimism underpins Houston’s industrial outlook.”

Founded in 2001, Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR), is a commercial information exchange of commercial real estate professionals engaged in every aspect of property sales and leasing, appraisal, property management and counseling.

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Houston-Area Office Market Overview

2016 Fourth Quarter



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Submarket	Class	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
CBD	A	33	30,800,517	2,902,581	9.4%	(25,113)	(40,163)	1,057,658	\$42.78	2,248,700
	B	28	9,864,544	2,743,546	27.8%	(69,825)	(152,537)	0	\$30.64	338,921
	C	8	562,596	114,193	20.3%	667	(15,157)	0	\$18.68	0
CBD Subtotal		69	41,227,657	5,760,320	14.0%	(94,271)	(207,857)	1,057,658	\$39.17	2,587,621
Energy Corridor	A	47	15,413,898	2,799,636	18.2%	(56,344)	111,249	0	\$34.08	1,522,824
	B	56	6,311,902	1,530,356	24.3%	4,152	(341,281)	0	\$29.12	257,536
	C	8	355,254	39,477	11.1%	-	(26,599)	0	\$21.22	9,539
Energy Corridor Subtotal		111	22,081,054	4,369,469	19.8%	(52,192)	(256,631)	0	\$31.76	1,789,899
Fort Bend County	A	25	2,982,239	276,319	9.3%	63,478	173,171	0	\$29.94	108,414
	B	23	2,594,611	219,082	8.4%	(10,036)	23,576	0	\$20.01	2,540
	C	1	156,000	41,697	26.7%	8,774	2,610	0	19	0
Fort Bend County Subtotal		49	5,732,850	537,098	9.4%	62,216	199,357	0	\$25.42	110,954
Greenspoint	A	25	5,207,420	2,454,890	47.1%	(352,998)	(771,843)	0	\$25.76	360,890
	B	48	4,914,073	1,500,898	30.5%	(151,853)	80,926	0	\$17.01	542,568
	C	27	1,930,104	399,795	20.7%	3,640	91,235	0	\$11.94	6799
Greenspoint Subtotal		100	12,051,597	4,355,583	36.1%	(501,211)	(599,682)	0	\$21.60	910,257
Inner Loop	A	37	11,298,467	1,490,842	13.2%	88,701	435,850	188,696	\$32.66	211,679
	B	109	10,563,353	1,421,573	13.5%	1,297	(89,679)	0	\$26.42	64,024
	C	63	4,151,182	311,378	7.5%	(2,943)	(76,456)	0	\$17.30	7,423
Inner Loop Subtotal		209	26,013,002	3,223,793	12.4%	87,055	269,715	188,696	\$28.80	283,126
North/The Woodlands/Conroe	A	60	11,794,553	1,387,313	11.8%	75,367	124,675	0	\$32.69	324,265
	B	86	4,940,806	888,224	18.0%	78,290	1,928	0	\$19.08	133,890
	C	23	992,770	145,170	14.6%	5,795	(15,570)	0	\$15.39	2864
North/The Woodlands/Conroe Subtotal		169	17,728,129	2,420,707	13.7%	159,452	111,033	0	\$24.88	461,019
Northeast	A	2	51,670	11,016	21.3%	(400)	(3,386)	86000	\$25.75	0
	B	13	533,957	59,487	11.1%	(2,902)	13,107	0	\$17.75	0
	C	5	197,243	80,172	40.7%	480	265	0	15.38	0
Northeast Subtotal		20	782,870	150,675	19.3%	(2,822)	9,986	86,000	\$16.93	0
Northwest	A	40	5,056,748	891,601	17.6%	25,523	442,974	0	27.92	235,275
	B	62	5,121,076	1,205,220	23.5%	68,772	45,734	0	18.96	111,118
	C	23	925,763	147,252	15.9%	25,010	(3,772)	0	16.99	0
Northwest Subtotal		125	11,103,587	2,244,073	20.2%	119,305	484,936	0	\$21.69	346,393

Southeast	A	19	2,109,649	188,110	8.9%	12,729	107,962	0	25.51	34,439
	B	59	3,531,033	689,887	19.5%	6,018	(193,428)	0	18.01	12,581
	C	39	1,868,158	311,880	16.7%	184	10,273	0	17.66	27,610
Southeast Subtotal		117	7,508,840	1,189,877	15.9%	18,931	(75,193)	0	\$18.74	74,630
Southwest	A	5	1,089,277	232,634	21.4%	1,021	(10,847)	0	\$17.24	850
	B	48	5,614,693	1,218,149	21.7%	11,179	83,725	0	\$17.08	27,034
	C	72	4,903,178	543,986	11.1%	68,928	(41,615)	0	\$14.59	17,700
Southwest Subtotal		125	11,607,148	1,994,769	17.2%	81,128	31,263	0	\$16.47	45,584
Uptown	A	44	17,514,639	3,265,240	18.6%	(63,304)	20,422	507,170	\$36.77	1,040,008
	B	79	10,863,970	1,423,993	13.1%	(85,043)	(245,995)	0	\$27.23	358,108
	C	13	929,110	68,627	7.4%	(1,303)	(21,264)	0	\$20.90	2804
Uptown Subtotal		136	29,307,719	4,757,860	16.2%	(149,650)	(246,837)	507,170	\$33.55	1,400,920
West	A	51	8,298,062	1,134,807	13.7%	7,502	279,801	290,000	\$32.42	806,374
	B	42	3,668,221	504,556	13.8%	(36,522)	(121,400)	86,255	\$19.19	28,980
	C	35	1,666,468	137,188	8.2%	(3,009)	(33,201)	0	\$16.32	5,496
West Subtotal		128	13,632,751	1,776,551	13.0%	(32,029)	125,200	376,255	\$26.05	840,850
Westchase	A	33	10,178,115	1,200,349	11.8%	(96,621)	1,199,803	186,000	\$35.82	1,031,615
	B	52	7,035,534	1,399,873	19.9%	(39,686)	(382,948)	0	\$20.39	270,516
	C	15	630,012	33,442	5.3%	(4,850)	19,717	0	\$18.44	176
Westchase Subtotal		100	17,843,661	2,633,664	14.8%	(141,157)	836,572	186,000	\$30.21	1,302,307
Houston Area	A	421	121,795,254	18,235,338	15.0%	(320,459)	2,069,668	2,315,524	\$34.26	7,925,333
	B	705	75,557,773	14,804,844	19.6%	(226,159)	(1,278,272)	86,255	\$22.58	2,147,816
	C	332	19,267,838	2,374,257	12.3%	101,373	(109,534)	0	\$15.84	80,411
Houston-Area Total		1,458	216,620,865	35,414,439	16.4%	(445,245)	681,862	2,401,779	\$28.27	10,153,560

* Number of buildings calculated on specific buildings at each property address

**Includes all general-purpose existing office buildings 20,000 square feet or larger

***Rental rates are weighted and averaged based on available space

Houston-Area Office Historical Overview

2016 Fourth Quarter



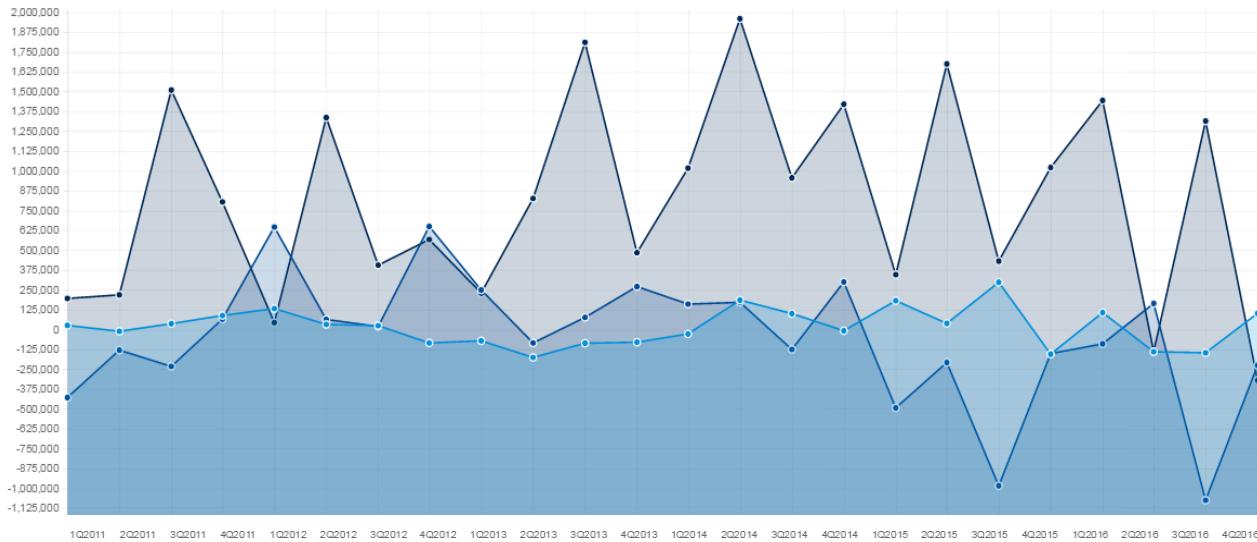
Period	# of Buildings*	Building SF**	Vacancy Rate		Avail SF	Net Absorption	Avg Rent***	
			Vacant SF Direct	Direct			Direct	Sublease
2016 Q4	1,458	216,620,865	35,414,439	16.4%	10,153,560	(445,245)	\$28.27	\$24.78
2016 Q3	1,456	216,020,656	34,315,581	15.9%	10,678,789	90,678	\$28.11	\$22.44
2016 Q2	1,441	215,145,989	33,239,224	15.4%	10,128,144	(115,263)	\$28.14	\$24.31
2016 Q1	1,424	212,742,242	30,278,848	14.2%	7,373,529	1,459,409	\$27.81	\$21.82
2015 Q4	1,393	210,536,009	29,204,633	13.9%	6,709,792	713,513	\$28.74	\$23.20
2015 Q3	1,364	207,574,960	27,680,258	13.3%	5,737,050	(256,501)	\$27.20	\$25.40
2015 Q2	1,359	206,374,164	26,402,876	12.8%	4,871,969	1,501,762	\$26.71	\$28.10
2015 Q1	1,353	203,996,609	25,529,039	12.5%	3,450,693	34,038	\$26.44	\$29.72
2014 Q4	1,340	200,888,934	22,820,753	11.4%	3,195,204	1,711,152	\$25.48	\$29.33
2014 Q3	1,333	198,286,699	21,762,328	11.0%	3,042,717	930,055	\$25.20	\$29.42
2014 Q2	1,324	196,859,810	21,368,432	10.9%	3,127,013	2,314,851	\$25.13	\$27.94
2014 Q1	1,316	195,118,168	21,686,179	11.1%	2,751,241	1,148,452	\$24.96	\$26.01
2013 Q4	1,312	194,225,658	21,840,090	11.2%	2,616,113	674,935	\$24.36	\$27.50
2013 Q3	1,306	193,126,682	22,132,531	11.5%	2,299,752	1,799,437	\$24.33	\$27.48
2013 Q2	1,293	191,057,231	21,279,156	11.1%	2,034,806	564,785	\$23.68	\$26.34
2013 Q1	1,288	189,996,763	21,476,945	11.3%	1,703,604	406,880	\$23.38	\$25.56
2012 Q4	1,289	189,955,565	21,899,079	11.5%	1,654,045	1,131,404	\$23.28	\$23.05
2012 Q3	1,285	189,437,218	22,415,856	11.8%	1,669,477	448,015	\$23.04	\$23.71
2012 Q2	1,283	189,610,208	22,887,261	12.1%	1,873,841	1,430,466	\$22.86	\$24.85
2012 Q1	1,283	189,628,626	23,718,231	12.5%	2,220,466	820,841	\$22.75	\$25.28
2011 Q4	1,281	189,453,217	25,438,493	13.4%	2,508,155	957,606	\$22.91	\$25.34
2011 Q3	1,275	188,969,492	26,191,514	13.9%	3,001,909	1,313,123	\$22.74	\$25.32
2011 Q2	1,274	188,069,047	26,610,814	14.1%	2,748,436	76,499	\$22.98	\$24.95
2011 Q1	1,272	187,384,895	26,179,277	14.0%	2,793,033	(207,504)	\$23.24	\$24.02

* Number of buildings calculated on specific buildings at each property address

**Includes all general-purpose existing office buildings 20,000 square feet or larger

***Rental rates are weighted and averaged based on available space

Houston-Area Office Direct Net Absorption by Class



■ Class A

■ Class B

■ Class C

Period	Class A	Class B	Class C	All Classes
2016 Q4	(320,459)	(226,159)	101,373	(445,245)
2016 Q3	1,313,932	(1,076,218)	(147,036)	90,678
2016 Q2	(138,965)	164,169	(140,467)	(115,263)
2016 Q1	1,443,644	(90,749)	106,514	1,459,409
2015 Q4	1,021,081	(151,930)	(155,638)	713,513
2015 Q3	431,000	(985,166)	297,665	(256,501)
2015 Q2	1,673,913	(208,317)	38,093	1,501,762
2015 Q1	345,803	(494,148)	181,513	34,038
2014 Q4	1,419,893	299,247	(7,988)	1,711,152
2014 Q3	955,886	(125,940)	100,109	930,055
2014 Q2	1,959,053	171,026	185,092	2,314,851
2014 Q1	1,016,779	159,809	(28,136)	1,148,452
2013 Q4	484,233	270,612	(80,335)	674,935
2013 Q3	1,809,844	76,169	(86,576)	1,799,437
2013 Q2	825,910	(84,770)	(176,355)	564,785
2013 Q1	229,455	248,903	(71,478)	406,880
2012 Q4	566,957	649,256	(84,809)	1,131,404
2012 Q3	405,430	18,446	24,139	448,015
2012 Q2	1,335,653	63,081	31,732	1,430,466
2012 Q1	43,439	645,798	131,604	820,841
2011 Q4	804,219	65,449	87,938	957,606
2011 Q3	1,509,485	(232,783)	36,421	1,313,123
2011 Q2	218,266	(130,246)	(11,521)	76,499
2011 Q1	195,659	(428,686)	25,523	(207,504)

Houston-Area Industrial Market Summary

2016 Fourth Quarter



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Submarket	Specific Use	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
Inner Loop	Warehouse - Distribution	275	13,663,885	422,964	3.1%	(10,118)	20,584	0	\$6.89	18,342
	Manufacturing	26	1,147,964	0	0.0%	18,600	(1,265)	0	\$6.00	0
	Light Industrial	166	4,177,227	228,111	5.5%	15,716	6,840	0	\$5.79	0
	Flex/R&D	95	2,456,877	139,933	5.7%	49,570	18,615	0	\$13.18	0
Inner Loop Subtotal		562	21,445,953	791,008	3.7%	73,768	44,774	0	\$6.71	18,342
North	Warehouse - Distribution	228	9,614,159	941,331	9.8%	(62,343)	214,108	223,735	\$7.34	0
	Manufacturing	51	2,976,061	147,880	5.0%	0	123,450	0	\$5.66	0
	Light Industrial	255	4,984,858	337,429	6.8%	(3,320)	16,313	166,238	\$8.84	65,582
	Flex/R&D	44	2,066,976	328,235	15.9%	1,230	(9,915)	50,000	\$13.14	5100
North Subtotal		578	19,642,054	1,754,875	8.9%	(64,433)	343,956	439,973	\$7.50	70,682
Northeast	Warehouse - Distribution	572	48,198,347	5,010,429	10.4%	68,598	666,229	164,060	\$6.15	736,536
	Manufacturing	95	7,694,342	151,758	2.0%	(52,660)	743,166	34,500	\$7.04	103,714
	Light Industrial	365	8,861,470	812,833	9.2%	2,935	(222,779)	20,222	\$8.24	86,037
	Flex/R&D	112	3,880,698	526,115	13.6%	(39,374)	(61,050)	0	\$7.61	19,030
Northeast Subtotal		1,144	68,634,857	6,501,135	9.5%	(20,501)	1,125,566	218,782	\$7.00	945,317
Northwest	Warehouse - Distribution	1,036	81,517,688	4,216,740	5.2%	712,231	1,354,705	979,490	\$7.41	1,096,939
	Manufacturing	194	17,327,922	744,273	4.3%	(285,728)	3,521,851	58,460	\$8.14	58,600
	Light Industrial	847	20,309,384	1,480,819	7.3%	(272,235)	(480,167)	194,850	\$7.80	235,317
	Flex/R&D	324	11,167,576	566,414	5.1%	(3,702)	41,108	0	\$10.17	115,462
Northwest Subtotal		2,401	130,322,570	7,008,246	5.4%	150,566	4,437,497	1,232,800	\$8.00	1,506,318
South	Warehouse - Distribution	278	16,954,594	769,732	4.5%	41,147	41,539	260,200	\$5.02	119,652
	Manufacturing	55	3,400,823	196,958	5.8%	(135,308)	(135,308)	0	7.25	0
	Light Industrial	342	6,919,927	417,593	6.0%	26,668	(208,975)	21,000	\$5.39	30000
	Flex/R&D	53	1,716,065	137,983	8.0%	0	7,664	0	n/a	0
South Subtotal		728	28,991,409	1,522,266	5.3%	(67,493)	(295,080)	281,200	\$5.61	149,652
Southeast	Warehouse - Distribution	684	62,354,990	3,869,571	6.2%	1,192,804	2,490,535	1,783,373	\$5.12	415,602
	Manufacturing	132	15,496,001	117,660	0.8%	20,000	219,906	300,000	\$9.60	0
	Light Industrial	354	7,851,385	904,045	11.5%	(50,147)	(401,224)	210,757	\$6.93	40086
	Flex/R&D	81	2,622,160	164,220	6.3%	(28,766)	34,589	0	\$11.99	9500
Southeast Subtotal		1,251	88,324,536	5,055,496	5.7%	1,133,891	2,343,806	2,294,130	\$5.88	465,188
Southwest	Warehouse - Distribution	507	34,230,904	2,745,849	8.0%	(127,724)	861,161	496,500	\$6.95	431,831
	Manufacturing	66	4,663,819	597,920	12.8%	(50,700)	(254,941)	0	\$4.60	0
	Light Industrial	405	11,616,746	464,616	4.0%	104,927	23,213	40,320	\$7.96	20,505
	Flex/R&D	193	7,857,818	514,393	6.6%	(111,820)	(109,968)	100,000	\$12.62	69,937
Southwest Subtotal		1,171	58,369,287	4,322,778	7.4%	(185,317)	519,465	636,820	\$7.04	522,273

Houston Area	Warehouse - Distribution	3,580	266,534,567	17,976,616	6.7%	1,814,595	5,648,861	3,907,358	\$6.05	2,818,902
	Manufacturing	619	52,706,932	1,956,449	3.7%	(485,796)	4,216,859	392,960	\$6.09	162,314
	Light Industrial	2,734	64,720,997	4,645,446	7.2%	(175,456)	(1,266,779)	653,387	\$7.54	477,527
	Flex/R&D	902	31,768,170	2,377,293	7.5%	(132,862)	(78,957)	150,000	\$10.14	219,029
Houston Area Total		7,835	415,730,666	26,955,804	6.5%	1,020,481	8,519,984	5,103,705	\$6.84	3,677,772

* Number of buildings calculated on specific buildings at each property address

**Includes all general-purpose existing industrial buildings 10,000 square feet or larger or those within a designated business park

***Rental rates are weighted and averaged based on available space

Houston-Area Industrial Historical Overview

2016 Fourth Quarter



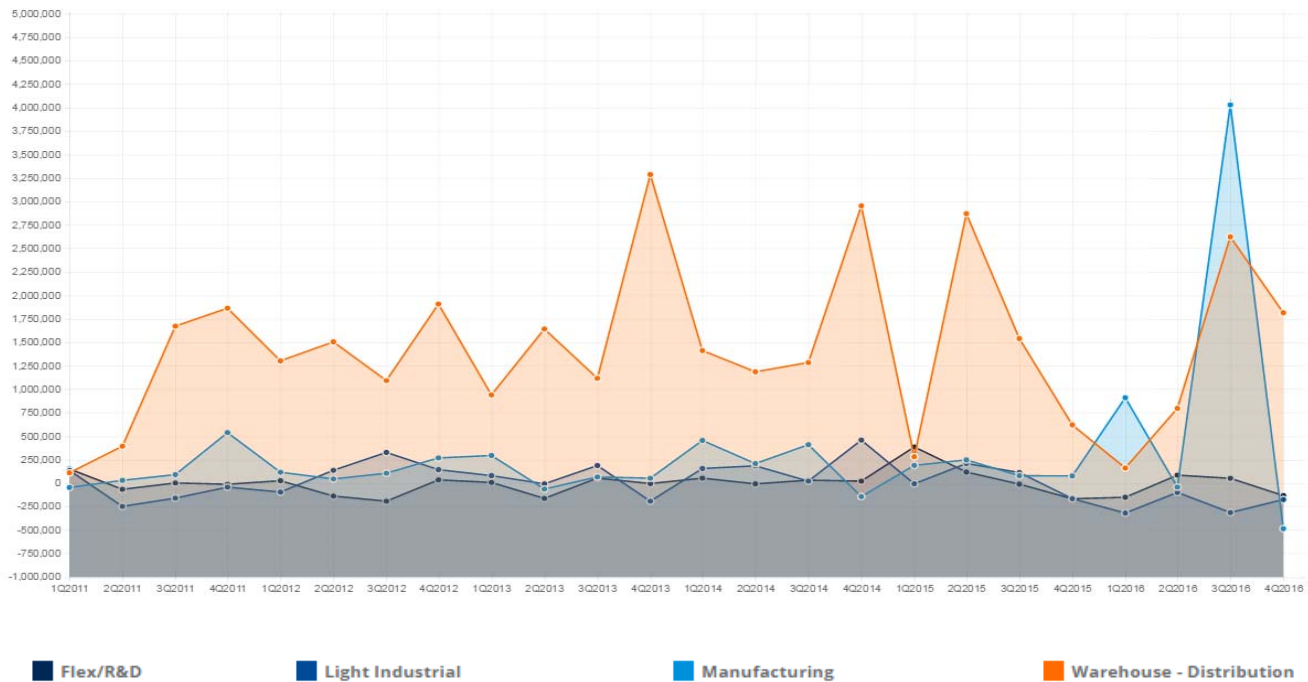
Period	# of Buildings*	Building SF**	Vacancy Rate		Avail SF	Net Absorption		Avg Rent***	
			Vacant SF Direct	Direct		Direct	Sublease	Direct	Sublease
2016 Q4	7,835	415,730,666	26,955,804	6.5%	3,677,772	1,020,481		\$6.84	\$5.88
2016 Q3	7,820	414,158,092	25,115,783	6.1%	2,634,253	6,390,576		\$7.10	\$6.81
2016 Q2	7,796	408,264,337	25,739,206	6.3%	2,295,374	738,879		\$7.23	\$6.73
2016 Q1	7,724	406,883,437	24,099,674	5.9%	2,293,819	599,942		\$7.25	\$6.81
2015 Q4	7,635	405,839,390	24,830,223	6.1%	2,411,783	362,633		\$7.58	\$6.94
2015 Q3	7,307	403,803,012	21,688,321	5.4%	1,807,084	1,720,688		\$7.77	\$7.24
2015 Q2	7,291	402,238,245	22,342,997	5.6%	1,761,238	3,443,844		\$7.68	\$7.39
2015 Q1	7,246	399,825,992	23,504,775	5.9%	1,628,464	847,724		\$7.64	\$7.31
2014 Q4	7,188	397,466,923	23,253,781	5.9%	1,517,554	3,289,085		\$7.53	\$6.92
2014 Q3	7,147	394,181,816	24,711,908	6.3%	1,378,661	1,745,069		\$7.29	\$6.84
2014 Q2	7,106	391,717,237	24,663,726	6.3%	1,484,062	1,569,491		\$7.13	\$6.81
2014 Q1	7,078	388,804,185	24,835,186	6.4%	1,363,465	2,074,884		\$6.78	\$6.26
2013 Q4	7,052	387,466,023	26,906,864	6.9%	2,003,230	3,141,319		\$6.64	\$6.06
2013 Q3	7,023	384,829,828	28,196,014	7.3%	2,310,894	1,421,975		\$6.44	\$5.78
2013 Q2	6,985	381,356,251	26,979,748	7.1%	2,205,071	1,407,059		\$6.42	\$5.32
2013 Q1	6,959	379,011,746	27,029,124	7.1%	1,717,698	1,320,799		\$6.04	\$5.53
2012 Q4	6,924	377,070,027	25,595,065	6.8%	1,745,173	2,352,880		\$5.96	\$5.14
2012 Q3	6,906	375,671,975	27,425,302	7.3%	1,705,302	1,332,050		\$5.74	\$5.73
2012 Q2	6,888	374,972,858	28,391,336	7.6%	1,713,664	1,546,839		\$5.67	\$5.65
2012 Q1	6,876	374,365,958	28,545,007	7.6%	1,977,300	1,347,847		\$5.59	\$5.17
2011 Q4	6,853	372,376,970	28,752,029	7.7%	1,970,315	2,345,403		\$5.50	\$5.61
2011 Q3	6,837	371,204,501	30,269,542	8.2%	2,130,635	1,603,326		\$5.43	\$6.41
2011 Q2	6,826	370,961,484	32,228,951	8.7%	2,125,422	108,946		\$5.48	\$5.51
2011 Q1	6,767	368,309,580	31,520,183	8.6%	2,044,721	349,140		\$5.48	\$5.37

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Houston-Area Industrial Direct Net Absorption by Type



Period	Flex/R&D	Light Industrial	Manufacturing	Warehouse-Distribution	All Types
2016 Q4	(132,862)	(175,456)	(485,796)	1,814,595	1,020,481
2016 Q3	51,018	(313,512)	4,029,346	2,623,724	6,390,576
2016 Q2	84,647	(99,291)	(42,421)	795,944	738,879
2016 Q1	(151,087)	(319,040)	909,263	160,806	599,942
2015 Q4	(167,392)	(166,347)	76,496	619,876	362,633
2015 Q3	(10,786)	112,692	78,674	1,540,108	1,720,688
2015 Q2	117,699	208,720	247,275	2,870,150	3,443,844
2015 Q1	385,258	(7,313)	188,910	280,869	847,724
2014 Q4	20,908	457,975	(143,098)	2,953,300	3,289,085
2014 Q3	31,000	20,982	408,958	1,284,129	1,745,069
2014 Q2	(8,135)	183,821	207,922	1,185,883	1,569,491
2014 Q1	52,636	155,506	454,750	1,411,992	2,074,884
2013 Q4	(4,830)	(192,608)	51,980	3,286,777	3,141,319
2013 Q3	52,871	187,095	65,704	1,116,305	1,421,975
2013 Q2	(163,232)	(8,137)	(63,405)	1,641,833	1,407,059
2013 Q1	7,293	79,562	294,045	939,899	1,320,799
2012 Q4	33,839	143,171	268,394	1,907,476	2,352,880
2012 Q3	(192,880)	327,075	105,257	1,092,598	1,332,050
2012 Q2	(138,262)	136,630	44,180	1,504,291	1,546,839
2012 Q1	25,173	(95,604)	115,825	1,302,453	1,347,847
2011 Q4	(12,355)	(43,148)	537,804	1,863,102	2,345,403
2011 Q3	1,150	(159,986)	90,211	1,671,951	1,603,326
2011 Q2	(66,071)	(247,923)	29,313	393,627	108,946
2011 Q1	150,600	134,957	(46,076)	109,659	349,140