

HOUSTON INDUSTRIAL | Q2 2018

Quarterly Market Report

JULY 2018

EXECUTIVE SUMMARY

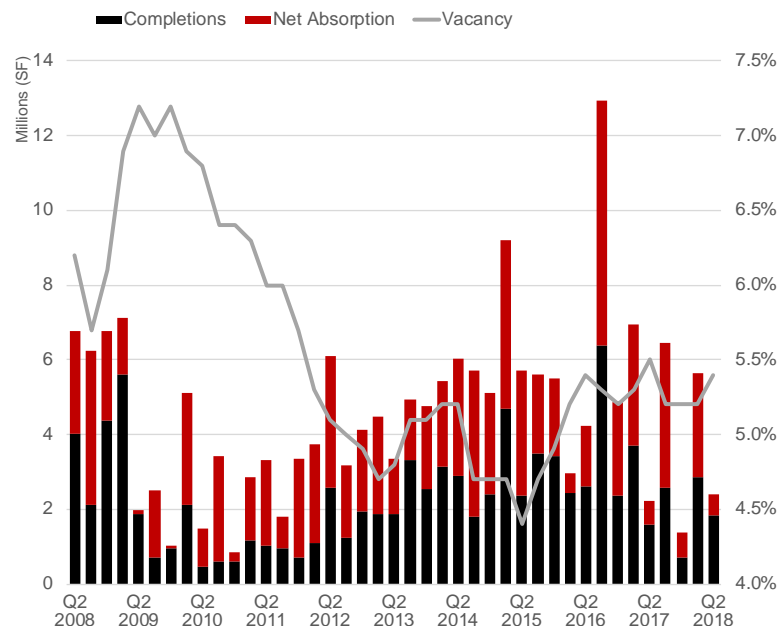
Development soars as vacancy increases marginally

Houston's overall industrial vacancy rate grew to 5.4% in Q2 2018, an increase of 20 basis points quarter-over-quarter, and unchanged year-over-year. It should be noted that despite what has been reported by several others in the industry, net absorption was actually positive for the quarter, registering 544,000 sq. ft. as of the quarter's end, falling behind the five-year quarterly average of 2.0 million sq. ft. The development pipeline is reaching levels not seen in over two years, logging 12.4 million sq. ft., compared to the all-time recorded high of 15 million sq. ft. reached in Q2 2015. New construction delivered during the second quarter stood at 1.8 million sq. ft.—close to the average amount of space completed over the last four quarters at 1.9 million sq. ft. Triple net average asking rents increased by 3.6% quarter-over-quarter to \$6.97 per sq. ft., and up by 2.0% from \$6.83, year-over-year.

Houston industrial and economic indicators reflect positive outlook

In May, a landmark 3.1 million workers were on payrolls throughout the region, according to the Texas Workforce Commission. For the 12 months ending May 2018, metro Houston created 79,200 jobs, for a 2.6% increase. Construction, manufacturing, and employment services led job growth with the three sectors accounting for 45.6% of the jobs created. Houston's unadjusted unemployment rate was 4.2% in May, unchanged from 4.2% in April and down from 4.8% in May 2017. The price of West Texas Intermediate has averaged \$65.49 during 2018, and the U.S. rig count averaged 1,003 during the first six months of 2018, up from 814 rigs during the same period last year. In addition, the Houston-Galveston Customs District handled \$92.3 billion in trade through May of this year, up from \$78.6 billion, or 17.4%, year-over-year.

Supply & Demand



Market Indicators

	Current Q2 2018	Prior Quarter Q1 2018	Year Ago Q2 2017
Vacant Direct	5.0%	4.8% ▲	5.2% ▼
Vacant Total	5.4%	5.2% ▲	5.4% ▬
Available Direct	8.3%	8.0% ▲	8.3% ▬
Available Total	8.9%	8.5% ▲	9.0% ▼
Net Absorption (SF)	543,796	2,764,281 ▼	620,011 ▼
Leasing Activity (SF)	5,393,339	5,834,130 ▼	8,535,928 ▼
Construction (SF)	12,422,232	10,115,014 ▲	6,361,794 ▲
Deliveries (SF)	1,847,835	2,869,423 ▼	1,603,223 ▲
Avg Asking Rent (NNN)	\$6.97	\$6.73 ▲	\$6.83 ▲
Inventory (SF)	561,888,656	560,040,821 ▲	553,900,943 ▲

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Broker's Perspective

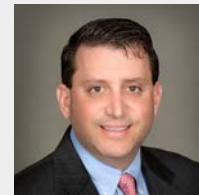
Industrial data shows a slight increase in vacancy and a much lower absorption number compared to the first quarter, which correlates with the amount of new construction delivered in the first half of the year. However, we did not see any slowdown in deal velocity whatsoever in the thriving Houston industrial market. There is more than 12 million sq. ft. of new industrial construction underway throughout the city. This is double the amount compared to the second quarter of 2017. Recently, a number of large deals were signed, including 727,600 sq. ft. for Grocers Supply, 144,000 sq. ft. for JW Roberts, 90,000 sq. ft. for Mattress One, 83,000 sq. ft. for Schenker Inc, and 80,000 sq. ft. for Express Bolt and Gasket. There are also a number of large deals that are still rumored to be in the market with the anticipation they will land in the second half of the year.

The Houston industrial market has quickly transformed into a major player for larger distribution users. All of the major submarkets in town are experiencing strong demand from bulk distribution tenants with the Southwest seeing the strongest demand. More developers are now entering the market for the first time looking to capitalize on the strong tenant demand and take advantage of the fairly low barriers of entry that Houston offers. As a result, interest from institutional investors has also increased in Houston, as well as driven cap rates below the 6% mark for new Class A product, and below 5% in a few cases.

As the price of WTI crude oil hovers in the low 70s per barrel, we are seeing demand once again for crane-served manufacturing buildings. Most analysts expect oil prices to increase throughout the year, which will increase the demand for this product type. Even though there is currently more interest on the sale side, we fully expect the leasing market to get stronger as the year progresses. Many of the large oilfield service companies are back in the market evaluating options, and we expect to see a number of large manufacturing deals done between now and the end of the year.

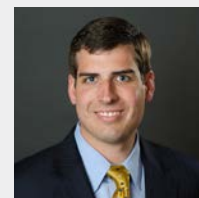
Barring any unforeseen event, we see no end in sight for a healthy industrial market for the remainder of the year. Oil prices increasing, a strong local economy, and major interest from ecommerce companies should lead to the second half of the year being extremely active.

“More developers are now entering the market for the first time looking to capitalize on the strong tenant demand and take advantage of the fairly low barriers of entry that Houston offers.”



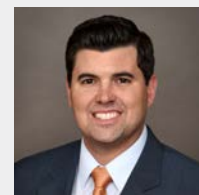
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MARKET OVERVIEW

Net absorption down, but not out

Vacancy increased slightly, and while net absorption did drop 80% to 543,796 sq. ft. compared to this time last quarter at 2.8 million sq. ft., it did not fall into negative territory as reported by several other outlets. The much lower net absorption can be attributed in part to the 4.7 million sq. ft. that has been delivered to the market in the first half of the year. In addition, almost 775,000 sq. ft. of space was added back to the market in the Northwest submarket alone. Positive influences on overall net absorption include major move-ins during the second quarter, involving 601,000 sq. ft. of space taken by Emser Tile in Pinto Business Park; 274,479 sq. ft. of space occupied by Plastipak in Bayport North Industrial Park; and 257,835 sq. ft. of space absorbed by Unis, LLC in Bayport South Industrial Park. Across the Houston metro, Warehouse/Distribution space equaled 752,520 sq. ft. of positive net absorption, Flex space was responsible for negative 285,691 sq. ft., while positive 76,967 sq. ft. of Manufacturing space was reported.

Warehouse/Distribution space requirements dominate demand

Of the current 12.4 million sq. ft. under construction in the Houston industrial market, 95% of construction is represented by Warehouse/Distribution space. In addition, half of that space is scheduled to deliver in Q3 2018 with a current availability rate of 75% which may extend the slowdown into the second half of 2018. In the coveted Northwest submarket, the largest speculative project underway is 525 Cane Island Parkway in West Ten Business Park, a 673,785-sq.-ft. distribution center in Katy that broke ground in late September, with plans to deliver the end of July 2018; and the heated Southeast submarket is home to Port Crossing Commerce Center, a 600,360 sq. ft. distribution building located at 1302 Wharton Weems Blvd., with a scheduled completion date also for this summer.

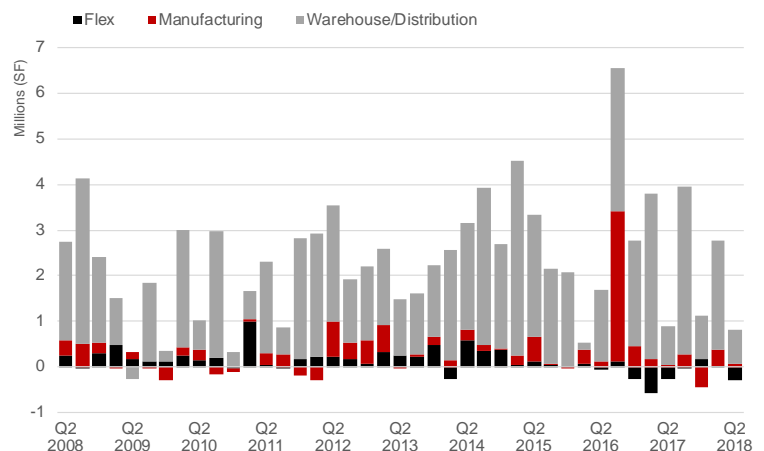
Light industrial development to kick off Beacon Hill

On the horizon is the 521-acre development, Beacon Hill in Waller County. It is reported that Wolff Cos. paid between \$15 million to \$20 million in cash in late June to acquire the site off U.S. 290 and Farm to Market Road 362. Plans are said to include office, retail, hospitality and multifamily at the site with construction to take place through the year 2024. In addition, 270 acres were sold to Houston-based Long

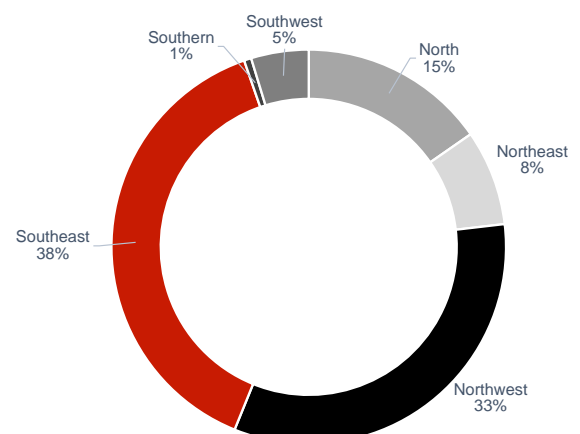
Vacancy by Property Type



Net Absorption



Under Construction



Lake Ltd., a single-family home developer planning to build 1,000 homes on the land with the first homes scheduled to deliver in January 2020. Waller County is forty miles northwest of downtown Houston with a 2016 estimated population of 50,000 people. By 2050, the county expects its population to reach at least 86,000, a 72% increase.

Investment sales activity

Real Capital Analytics data reports the rolling 12-month industrial sales volume as of June 2018 in the Houston area at \$642.5 million, resulting in a -26.8% change. The buyer composition in 2018 is made up of 69% private, 14% cross-border, 8% user/other, 5% institutional, and 4% REIT/listed. Costar reported in July that Wilson Investment Properties, acquired 19 buildings in six industrial parks, primarily located in northwest Houston, for \$25.65 million. The portfolio, covering a total of approximately 460,000 sq. ft., is leased to a varied set of 103 tenants, including manufacturing, fabrication, and many local service businesses, suffering little to no damage during Hurricane Harvey. The six parks included in the sale were the Eldridge Business Center, Keough Business Center, Westbelt Business Center, Emmott Business Center, Berrybrook Business Center and Winkler Business Center.

Leasing activity

The volume of square footage signed during the second quarter remained steady at 5.4 million sq. ft. compared to last quarter at 5.8 million sq. ft., although down notably from a year ago at 8.5 million sq. ft.

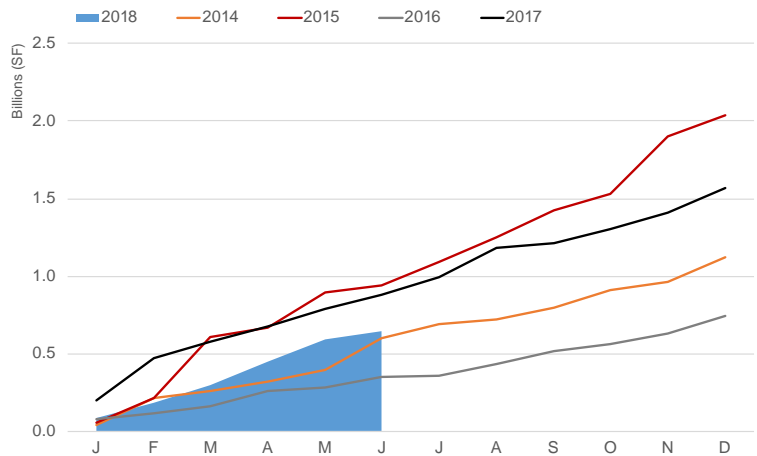
Direct leases of existing properties represented the lion's share of the transactions. Top lease transactions that were signed in the first quarter include 282,880 sq. ft. being taken at 2240 S Mason Road in Katy; Lowes inking a deal on 217,440 sq. ft. in Gateway Southwest Industrial Park; B & H Bag Company signed a lease for 186,306 sq. ft. at 800 Koomey Road in the Northwest submarket; and Kitchen Cabinet Distributions took 107,790 sq. ft. in Pinto Business Park.

Average asking NNN rent increases

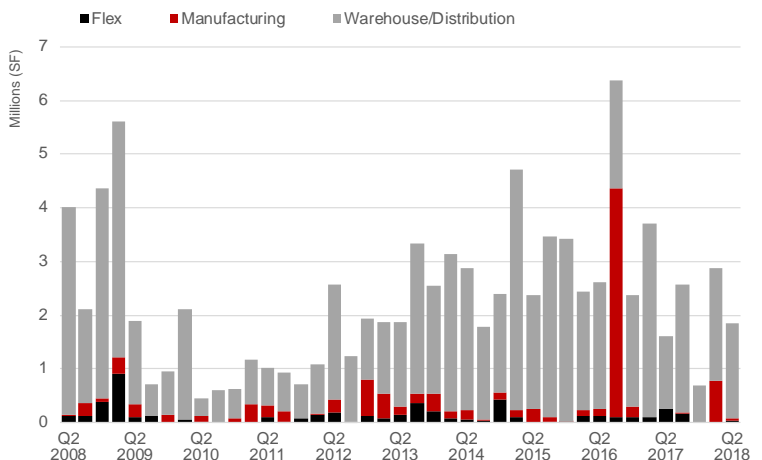
Rental rates for the entire market on average have reached \$6.97 per sq. ft. as of the second quarter of 2018, up 3.6% from the previous quarter, with less of an increase seen from \$6.83 per sq. ft. at the same time in the previous year. The average rate for Flex space is currently at \$9.44 per sq. ft.; Manufacturing rates are at \$6.62; and Warehouse/Distribution space sits at \$6.67.

Houston Industrial Cumulative Monthly Sales Volume

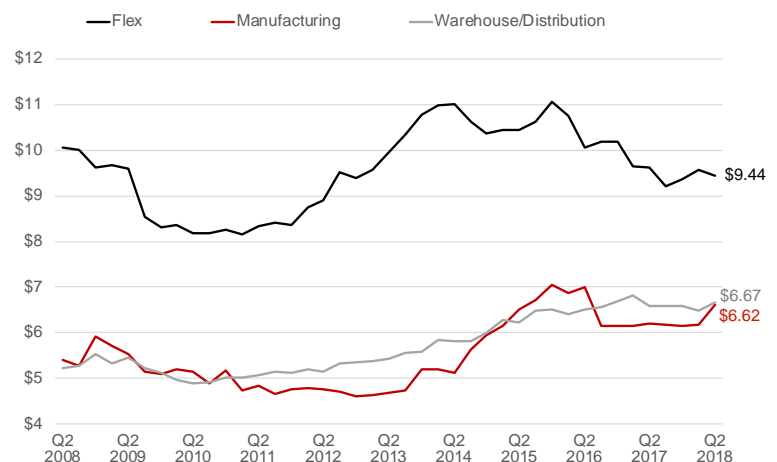
Source: Real Capital Analytics



Completions



Average NNN Asking Rent



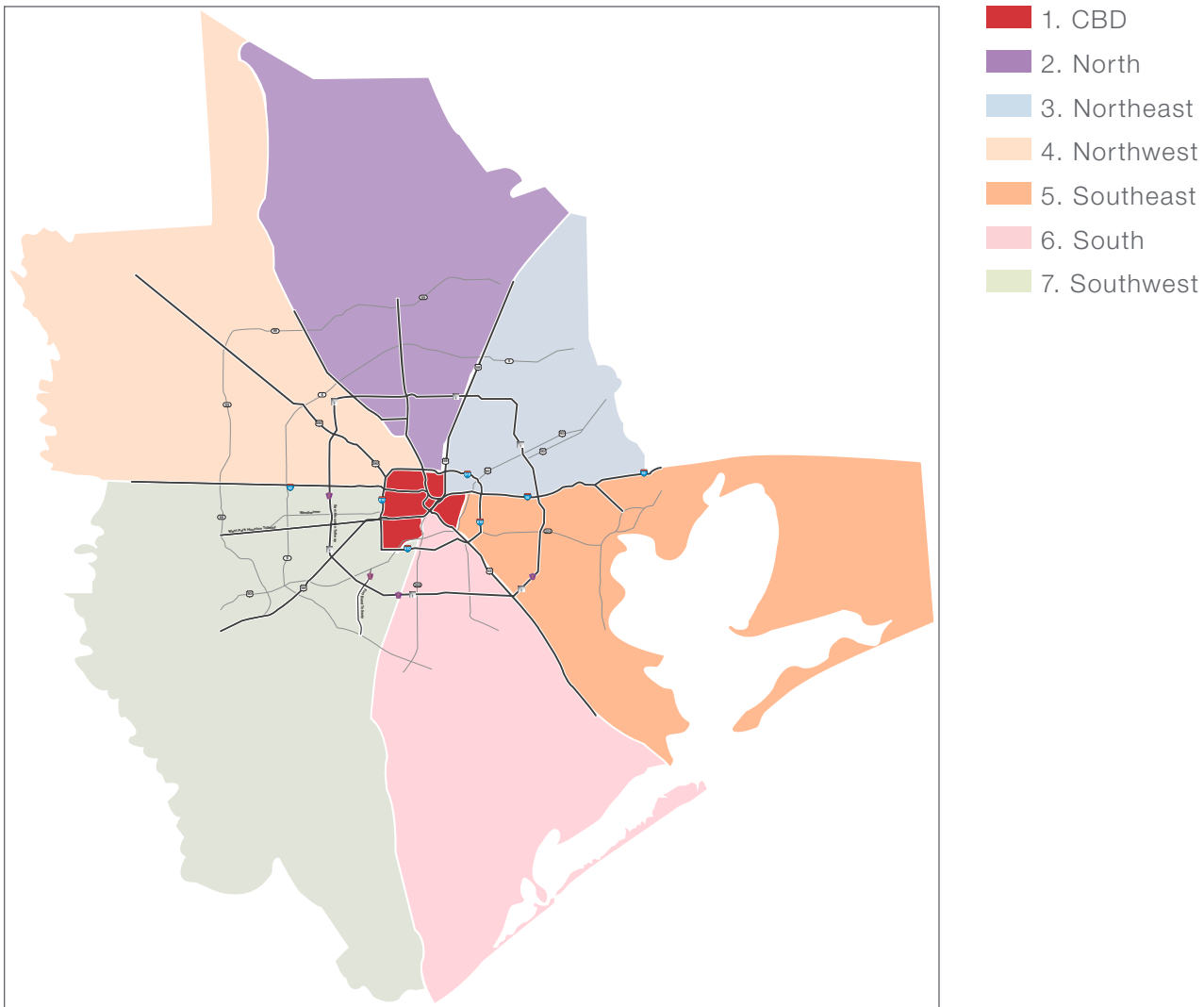
MARKET OVERVIEW

Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2018 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2018 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/PSF)
Houston Market Total	561,888,656	5.4	8.9	543,796	3,308,077	1,847,835	4,717,258	12,422,232	6.97
Flex	47,798,855	10.3	12.4	-285,691	-260,647	37,866	37,866	283,885	9.44
Manufacturing	86,643,586	3.2	6.4	76,967	422,038	40,500	825,960	320,000	6.62
Warehouse/Distribution	427,446,215	5.3	9.0	752,520	3,146,686	1,769,469	3,853,432	11,818,347	6.67
CBD Total	54,689,380	4.0	8.8	261,984	90,613	0	0	14,250	5.84
Flex	3,269,029	6.4	8.4	-7,793	13,610	0	0	0	15.22
Manufacturing	10,078,070	2.0	9.4	43,556	26,768	0	0	0	7.85
Warehouse/Distribution	41,342,281	4.2	8.7	226,221	50,235	0	0	14,250	4.83
North Total	99,432,859	7.5	10.5	673,046	1,244,475	1,169,546	1,169,546	1,948,980	7.19
Flex	10,490,013	1.1	17.2	-52,673	-16,687	37,866	37,866	283,885	9.42
Manufacturing	13,009,937	4.9	7.1	-51,320	-101,073	40,500	40,500	0	6.77
Warehouse/Distribution	75,932,909	7.2	10.1	777,039	1,362,235	1,091,180	1,091,180	1,665,095	6.95
Northeast Total	35,648,355	2.2	7.8	5,033	268,726	21,000	184,650	997,040	5.61
Flex	454,853	15.5	20.4	-18,405	-19,991	0	0	0	11.26
Manufacturing	6,957,993	1.3	2.1	20,290	34,070	0	0	0	4.25
Warehouse/Distribution	28,235,509	2.2	8.9	3,148	254,647	21,000	184,650	997,040	5.86
Northwest Total	160,100,258	5.9	9.2	-774,331	592,370	231,839	1,655,914	4,265,354	7.30
Flex	16,516,658	10.6	12.4	-163,804	-315,877	0	0	0	8.36
Manufacturing	23,495,031	4.1	6.8	-79,268	-114,502	0	72,720	320,000	6.43
Warehouse/Distribution	120,088,569	5.6	9.3	-531,259	1,022,749	231,839	1,583,194	3,945,354	7.15
Southeast Total	93,882,357	4.7	9.3	467,826	1,135,691	311,650	1,515,292	4,520,005	7.07
Flex	2,472,436	9.3	12.1	-60,072	-45,996	0	0	0	11.88
Manufacturing	16,589,013	2.1	4.0	99,198	692,017	0	712,740	0	7.63
Warehouse/Distribution	74,820,908	5.1	10.3	428,700	489,670	311,650	802,552	4,520,005	6.70
South Total	47,715,885	3.9	6.6	-128,781	-152,408	38,500	91,020	75,765	5.24
Flex	2,143,129	11.6	12.3	9,127	117,475	0	0	0	4.05
Manufacturing	9,216,833	1.4	4.7	-44,189	-62,842	0	0	0	4.46
Warehouse/Distribution	36,355,923	4.1	6.8	-93,719	-207,041	38,500	91,020	75,765	5.68
Southwest Total	70,419,562	5.8	7.5	39,019	128,610	75,300	100,836	600,838	7.55
Flex	12,452,737	8.5	9.1	7,929	6,819	0	0	0	11.72
Manufacturing	7,296,709	5.7	12.2	88,700	-52,400	0	0	0	6.67
Warehouse/Distribution	50,670,116	5.2	6.5	-57,610	174,191	75,300	100,836	600,838	7.13

MARKET OVERVIEW

Houston Industrial Submarkets



Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

HOUSTON INDUSTRIAL | Q2 2018

Quarterly Market Report

JULY 2018

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HOUSTON INDUSTRIAL | Q1 2018

Quarterly Market Report

APRIL 2018

EXECUTIVE SUMMARY

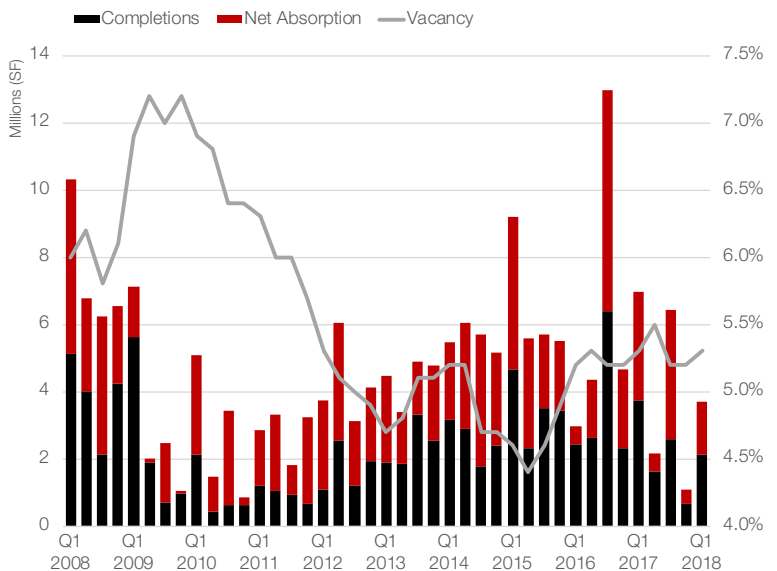
Vacancy up slightly as development climbs

Houston's overall industrial vacancy rate grew slightly to 5.3% in Q1 2018, an increase of 10 basis points quarter-over-quarter, and unchanged year-over-year. Net absorption registered 1.6 million sq. ft. as of the quarter's end, falling behind the five-year quarterly average of 2.6 million sq. ft. The development pipeline has started to gain momentum at 8.8 million sq. ft., increasing over the last two quarters, after dropping each quarter since Q2 2015, when it reached an all-time recorded high of 15 million sq. ft. under construction. New construction delivered during the first quarter stood at 2.1 million sq. ft.—the same as the average amount of space completed over the last four quarters. Triple net average asking rents dropped marginally by \$0.05 per sq. ft. quarter-over-quarter to \$6.67 per sq. ft., and down by \$0.32 year-over-year to \$6.99.

Houston industrial and economic indicators are positive

As the Houston industrial market continues its growing pace, current economic indicators are largely optimistic, suggesting healthy economic output and future growth. Jobs, energy-related activities, and import/export trade have recorded positive results during the first quarter of the year. Houston jobs grew at a convincing annualized pace of 4.7% over the two months ending in February (23,400 jobs), with trade, transportation and utilities having the second largest gains (4,200 jobs). The price of West Texas Intermediate has averaged just under \$63 during 2018, and the U.S. rig count was at 993 as of March 30, up 169 rigs, or 20.5%, from 824 the same week in March 2017. **In January, \$16.9 billion in goods and commodities passed through the Houston/Galveston Customs District, up 8.5% from this time last year.** In addition, exports totaled \$9.7 billion, up 7.9%, and imports totaled \$7.2 billion, up 9.5%.

Supply & Demand



Market Indicators

	Current Q1 2018	Prior Quarter Q4 2017	Year Ago Q1 2017
Vacant Direct	5.0%	4.9% ▲	5.0% ■
Vacant Total	5.3%	5.2% ▲	5.3% ■
Available Direct	8.3%	8.1% ▲	8.3% ■
Available Total	8.8%	8.7% ▲	9.1% ▼
Net Absorption (SF)	1,578,903	424,247 ▲	3,237,039 ▼
Leasing Activity (SF)	5,065,135	7,453,570 ▼	7,808,134 ▼
Construction (SF)	8,843,602	8,051,083 ▲	6,175,111 ▲
Deliveries (SF)	2,101,533	641,853 ▲	3,733,335 ▼
Avg Asking Rent (NNN)	\$6.67	\$6.72 ▼	\$6.99 ▼
Inventory (SF)	558,997,053	556,811,120 ▲	552,002,735 ▲

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Broker's Perspective | Southwest Submarket

While industrial vacancy may have slightly increased citywide during the first quarter of 2018, a newly developed area in Southwest Houston located around Highway 90 and Beltway 8 is steadfastly bucking that trend.

Around 2016, a handful of developers in the Southwest Houston submarket had many in the industrial real estate world scratching their heads in disbelief. Almost simultaneously, these developers delivered roughly 3 million sq. ft. of distribution space all within a three-mile radius. Although these weren't the first developments of their kind in southwest Houston, this particular submarket had not been historically known for bulk distribution warehouses. To put it into perspective, the deliveries of these projects more than doubled the total square footage of distribution space in that same three-mile radius.

Fast-forward to the present day, and the developers collectively look like Nostradamus: of that 3 million sq. ft. delivered in 2016, less than 300,000 sq. ft. remains vacant. A few of the noteworthy tenants that have decided to call parts of this submarket boom home are Maintenance Supply Headquarters, Pitney Bowes, FedEx, Niagra Bottling, and VWR International.

The risky bet seems to have paid off handsomely for the owners of these industrial parks—so big in fact that Trammel Crow, which owns Park 8Nintey, is getting close to moving forward on Phase 2 of its business park. Additionally, HTX Equities owner of Beltway Southwest Business Park, will be breaking ground on the newest phase of their development as well.

And these aren't the only new walls set to go up in Southwest Houston: another 1.5 million sq. ft. of distribution product is either in the planning process or currently under construction, with rumblings of even more construction of this same product type expected to be announced in the near future.

It only took two years for the Southwest industrial landscape to undergo this transformation. It will be interesting to see how things progress in the coming years as the greater Houston area continues to become a more highly preferred regional and national distribution hub.

“The developers in Houston industrial’s Southwest submarket collectively look like Nostradamus: of that 3 million sq. ft. delivered in 2016, less than 300,000 sq. ft. remains vacant.”



Jake Wilkinson

Vice President
NAI Partners

MARKET OVERVIEW

Booming demand for ecommerce facilities

Industrial inventory in the Houston market area totals 559 million sq. ft., of which 425 million sq. ft. (76%), is Warehouse/Distribution space. The vacancy rate for Warehouse/Distribution product has remained unchanged at 5.2% for the past three quarters, after a drop of 40 basis points from Q2 2017 at 5.6%. The booming demand for ecommerce space has kept vacancy rates tight. Warehouse/Distribution space registered 1.9 million sq. ft. of net absorption during Q1 2018 keeping demand equal with supply, as 2.0 million sq. ft. of new construction was delivered.

Houston #2 in the nation

Due in part to Houston now being recognized as a leading distribution market, Site Selection magazine recently named the Houston region the #2 metro in the nation for new and expanded corporate facilities, totaling 196 businesses. Since 2011, the Houston metro has ranked among the top three metros for corporate relocations and expansions in the nation. Along with population growth, infrastructure, Port Houston, and a dynamic economy, Houston is a primary contender in the race to meet the growing demand for ecommerce facilities.

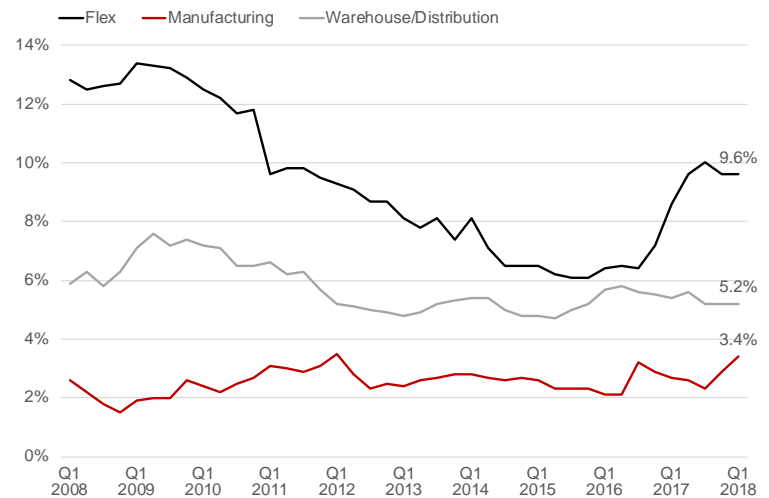
New supply stimulating increased net absorption

Net absorption for the overall Houston industrial market increased to 1.5 million sq. ft. during the first quarter, almost four times greater than Q4 2017's 424,000 sq. ft. In addition, the amount of square feet delivered to the market grew to 2.1 million sq. ft., triple the volume quarter-over-quarter. Also influencing the increased amount of net absorption are major move-ins during the first quarter, including 1 million sq. ft. of space taken at Amazon Distribution Center; 143,500 sq. ft. of space occupied by GHX at Generation Park; and 112,000 sq. ft. of space absorbed by Flexo Converters USA at 8575 Volta Drive. Move-outs included Moody's Compress & Warehouse leaving 605,879 sq. ft. at 4906 Broadway St.; Plastipak Packaging Inc. moving out of 180,000 sq. ft. at 300 S. Sheldon Rd., and FedEx Office Print and Ship vacating 122,500 sq. ft. of space at 5737 Brittmoore Road. Warehouse/Distribution space equaled 1.9 million sq. ft. of net absorption, Flex space was responsible for 44,055 sq. ft., while negative 367,269 sq. ft. of Manufacturing space was reported.

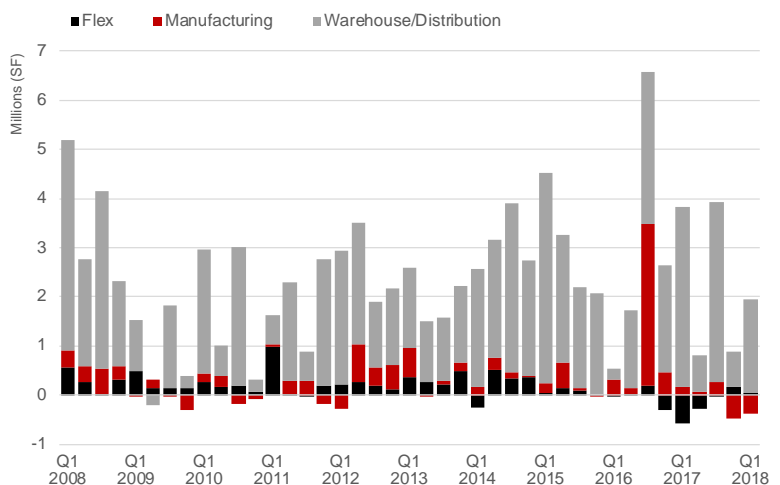
Warehouse/Distribution space requirements continue to drive demand

Of the current 8.8 million sq. ft. under construction in the Houston industrial market, construction starts in the last 12 months represent 6.6 million sq. ft. of that

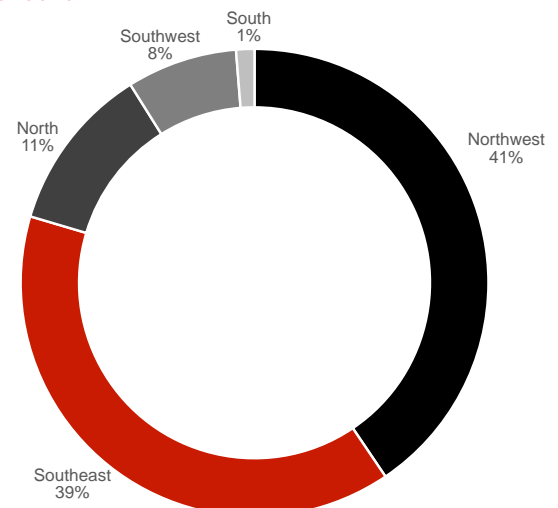
Vacancy by Property Type



Net Absorption



Under Construction



total, with a current overall availability rate of 57%. In the sought-after Northwest submarket, the two largest speculative projects underway are 525 Cane Island Parkway in West Ten Business Park, a 673,785-sq.-ft. distribution center in Katy that broke ground in late September, with plans to deliver in July 2018; and Northwest Logistics Center, a 411,442-sq.-ft. distribution center located at 6751 N. Eldridge Parkway, with a scheduled completion date of June 2018. On the horizon are the warehouse-style Offices at North Post Oak, a seven-building project at Interstate 10 and the 610 Loop, just northwest of the Memorial area. Over the next several years, Clay Development will build the project on 7.5 acres. The first two properties will be 16,100-sq.-ft. 2-story buildings scheduled to deliver in the first quarter of 2019.

Investment sales activity

Real Capital Analytics data reports the rolling 12-month industrial sales volume as of March 2018 in the Houston area at \$289 million, resulting in a -50.1% change versus the prior 12 months. The buyer composition in 2018 is made up of 80% private, 8% public listed/REITs, 7% institutional, and 5% user/other. Top sales transactions in the first quarter for the Houston industrial market include Stag Industrial's purchase of Brookhollow West Business Park, a 232,950-sq.-ft. industrial complex consisting of two fully leased warehouses located at 7049 and 7140 W. Sam Houston Pky., from AIV; and the St. Paul Fire and Marine Insurance Co. acquisition of Intrepid Business Park at 5737-5747 Brittmoore Road in northwest Houston, a 270,750-sq.-ft. industrial park from Triten Real Estate.

Leasing activity

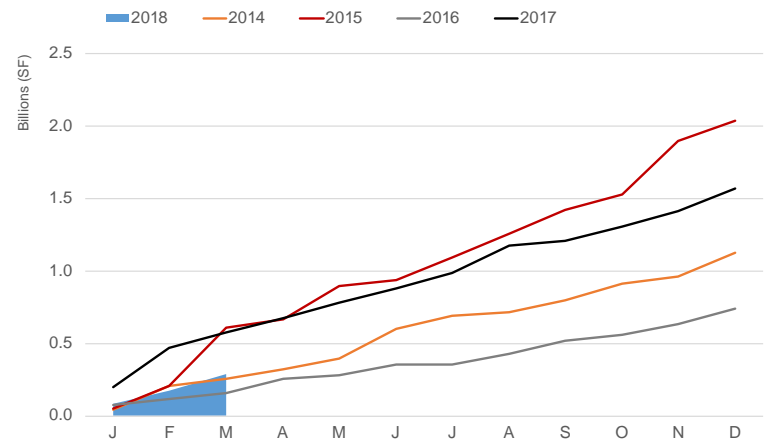
Leasing activity decreased during the first quarter with a total of 5.0 million sq. ft. leased in the Greater Houston market. This is in comparison to 7.4 million sq. ft. leased during Q4 2017. Top lease transactions that were signed in the first quarter include Unis, LLC taking 257,835 sq. ft. in Bayport South Business Park at 10535 Red Bluff Road; Richardson Steel inking the deal on 138,921 sq. ft. at 2333 Clinton Drive in Galena Park; and Flexo Converters USA signing a 112,000-sq.-ft. lease at 8575 Volta Drive in the North Hardy Toll Road submarket.

Average asking NNN rent dips

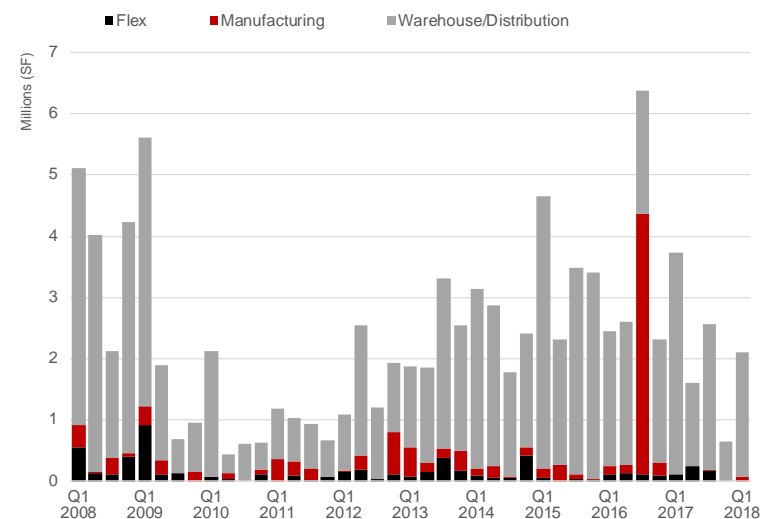
The industrial market saw overall average asking rates slide \$0.05 per sq. ft. lower quarter-over-quarter to finish at \$6.67 per sq. ft. at the end of Q1 2018. The average rate for Flex space is currently at \$9.58 per sq. ft.; Manufacturing rates are at \$6.10; and Warehouse/Distribution space sits at \$6.42.

Houston Industrial Cumulative Monthly Sales Volume

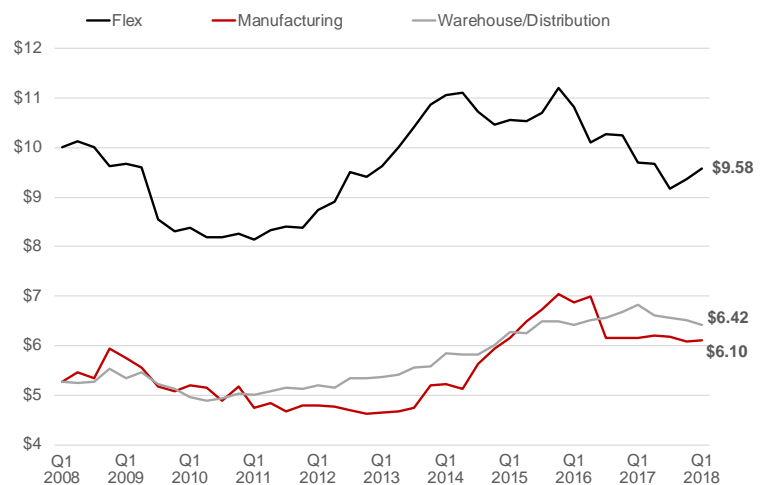
Source: Real Capital Analytics



Completions



Average NNN Asking Rent



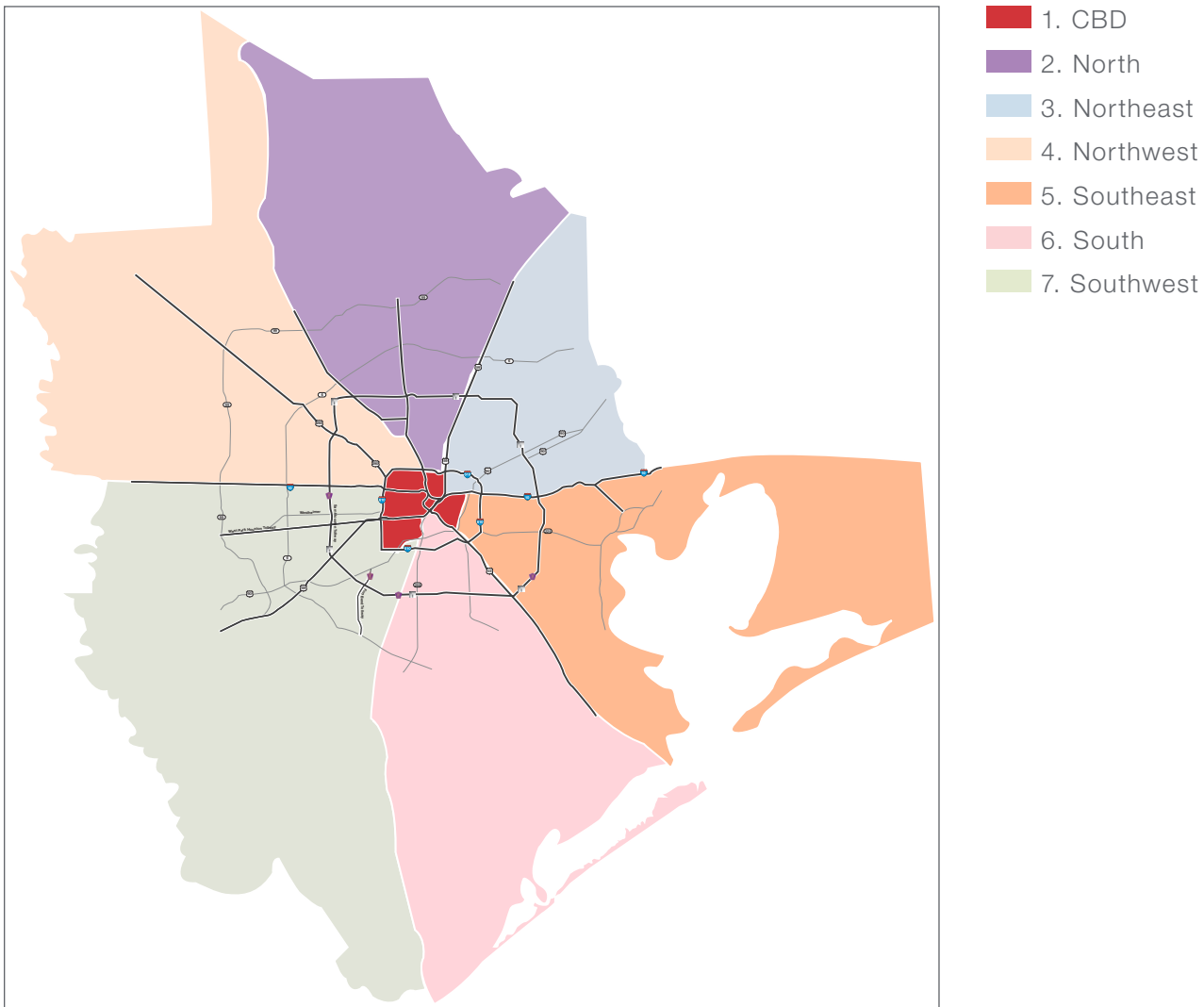
MARKET OVERVIEW

Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2018 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q1 2018 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/PSF)
Houston Market Total	558,997,053	5.3	8.8	1,578,903	1,578,903	1,816,933	2,101,533	8,843,602	6.67
Flex	48,200,931	9.6	11.9	44,055	44,055	0	0	52,866	9.58
Manufacturing	85,782,615	3.4	6.9	-367,269	-367,269	-68,380	72,720	320,000	6.10
Warehouse/Distribution	425,013,507	5.2	8.9	1,902,117	1,902,117	2,028,813	2,028,813	8,470,736	6.42
CBD Total	54,657,751	4.5	9.2	-277,151	-277,151	0	0	14,250	5.51
Flex	3,362,353	6.0	8.5	21,403	21,403	0	0	0	15.66
Manufacturing	10,088,070	2.4	10.5	-16,788	-16,788	0	0	0	7.71
Warehouse/Distribution	41,207,328	5.4	9.3	-281,766	-281,766	0	0	14,250	4.35
North Total	98,561,706	7.7	11.0	640,084	640,084	0	0	1,013,691	7.12
Flex	10,476,082	11.2	14.5	35,986	35,986	0	0	52,866	9.48
Manufacturing	12,966,775	4.2	6.3	-50,253	-50,253	0	0	0	6.08
Warehouse/Distribution	75,118,849	6.7	10.2	654,351	654,351	0	0	960,825	7.01
Northeast Total	35,488,947	3.0	5.9	263,631	263,631	0	143,500	21,000	5.12
Flex	454,853	11.4	16.6	-1,586	-1,586	0	0	0	11.26
Manufacturing	6,954,693	1.6	2.5	13,780	13,780	0	0	0	6.00
Warehouse/Distribution	28,079,401	2.1	5.2	251,437	251,437	143,500	143,500	21,000	5.86
Northwest Total	160,044,417	5.8	9.6	1,153,304	1,153,304	1,424,075	1,424,075	3,571,032	6.90
Flex	16,706,674	9.7	12.1	-133,062	-133,062	0	0	0	7.96
Manufacturing	23,494,464	4.0	7.8	-35,234	-35,234	72,720	72,720	320,000	6.33
Warehouse/Distribution	119,843,279	5.4	10.0	1,321,600	1,321,600	1,351,355	1,351,355	3,251,032	6.53
Southeast Total	92,654,513	4.2	8.3	-159,803	-159,803	470,902	470,902	3,438,941	6.73
Flex	2,589,261	6.6	11.5	14,076	14,076	0	0	0	12.06
Manufacturing	15,800,473	3.0	4.2	-120,521	-120,521	0	0	0	6.03
Warehouse/Distribution	74,264,779	5.3	9.5	-53,358	-53,358	470,902	470,902	3,438,941	6.41
South Total	47,365,551	3.5	5.8	-20,727	-20,727	52,520	52,520	111,593	5.43
Flex	2,113,489	11.3	12.5	108,348	108,348	0	0	0	4.39
Manufacturing	9,177,931	0.8	5.3	-17,153	-17,153	0	0	0	4.74
Warehouse/Distribution	36,074,131	3.7	6.5	-111,922	-111,922	52,520	52,520	111,593	5.49
Southwest Total	70,224,168	6.2	8.9	-20,435	-20,435	-130,564	10,536	673,095	7.39
Flex	12,498,219	9.1	10.1	-1,110	-1,110	0	0	0	12.52
Manufacturing	7,300,209	6.9	12.5	-141,100	-141,100	-141,100	0	0	6.78
Warehouse/Distribution	50,425,740	5.1	6.8	121,775	121,775	10,536	10,536	673,095	6.94

MARKET OVERVIEW

Houston Industrial Submarkets



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HOUSTON INDUSTRIAL | Q1 2018

Quarterly Market Report

APRIL 2018

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HOUSTON INDUSTRIAL | Q4 2017

Quarterly Market Report

JANUARY 2018

EXECUTIVE SUMMARY

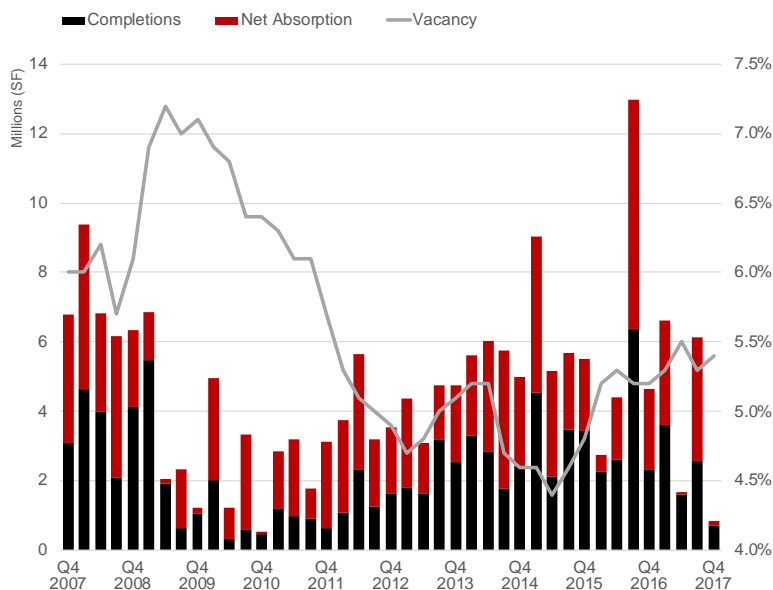
Vacancy remains low with existing space scarce

The overall industrial vacancy rate stood at 5.4% at the end of Q4 2017, an increase of 10 basis points quarter-over-quarter and an increase of 20 basis points year-over-year. Net absorption finished the quarter at positive 147,952 sq. ft., significantly down from positive 3.5 million sq. ft. as of the third quarter's end, and totaling 6.8 million sq. ft. for the full year. Triple net asking rents remained steady, down \$0.04 per sq. ft. quarter-over-quarter to close Q4 at \$6.71; with a decrease of \$0.21 per sq. ft. year-over-year—although concessions such as free rent and tenant improvement allowances make posted rents less meaningful as a market indicator. Houston's leasing activity rose to 5.5 million sq. ft., up from the previous quarter's 5.0 million sq. ft., and not far from 5.6 million sq. ft. a year ago. Current construction activity remains controlled at 6.0 million sq. ft., up from this time last quarter at 4.9 million sq. ft., while the amount of square feet delivered to the market in the fourth quarter decreased to 705,196 sq. ft., compared to 2.6 million sq. ft. at the end of the third quarter.

Outlook for Houston remains positive

The Houston economy continued to improve nearing the end of 2017. The business-cycle index is trending upwards and employment data exceeded pre-hurricane readings. Houston's unadjusted unemployment rate was 4.3% in November, up from 4.1% in October. The November increase was driven in part by an increase in the labor force likely related to Hurricane Harvey. Metro Houston created 15,700 jobs in November, according to the Texas Workforce Commission, slightly above the 25-year average of 11,700 jobs for the month. Transportation, warehousing and utilities grew by 2,600 jobs, the largest November job gain for the sector since 1990, the earliest data available. The rise of online retailers such as Amazon, has increased demand for workers to package and deliver goods. Amazon has opened five Houston-area facilities totaling more than 1.3 million sq. ft. since 2014. Overall, while the outlook for the immediate future is cautious, forecasts for the next few years remain optimistic.

Supply & Demand



Market Indicators

	Current Q4 2017	Prior Quarter Q3 2017	Year Ago Q4 2016
Vacancy Rate (%)	5.4	5.3 ▲	5.2 ▲
Availability Rate (%)	9.0	9.2 ▼	9.0 ■
Net Absorption (SF)	147,952	3,546,729 ▼	2,339,439 ▼
Leasing Activity (SF)	5,505,259	5,038,491 ▲	5,645,230 ▼
Deliveries (SF)	705,196	2,569,829 ▼	2,321,364 ▼
Construction (SF)	6,066,545	4,915,714 ▲	7,864,276 ▼
Inventory (SF)	549,452,521	548,747,325 ▲	540,948,490 ▲
Avg Asking NNN Rent (\$)	6.71	6.75 ▼	6.92 ▼

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Broker's Perspective

Most statistical data points for the industrial market moved in a positive direction or at a minimum stabilized by the end of the fourth quarter. I believe this sets the table for the Houston industrial market to have an outstanding 2018, due in part to the demand for Manufacturing space continuing to increase alongside the already thriving distribution market.

Additionally, there is a healthy amount of speculative construction underway combined with increased build-to-suit activity to meet tenant demand in 2018. The Southeast and Northwest continue to be the submarket darlings of the industrial sector due to each segment's performance and rental rate growth. The lack of quality land sites available in these core submarkets constrains the amount of speculative development that can take place.

Ultimately, the resiliency of our industrial market now coupled with pro-business national policies should make for a very successful and exciting 2018 for Houston's industrial market.

“The Southeast and Northwest continue to be the submarket darlings of the industrial sector due to each segment's performance and rental rate growth.”



Travis Land

Partner
NAI Partners

MARKET OVERVIEW

Vacancy rate at or below 5.5% for 24 consecutive quarters

Houston's overall vacancy rate stood at 5.4% for Q4 2017, an increase of 10 basis points quarter-over-quarter and an increase of 20 basis points year-over-year. The overall availability rate, which measures the total amount of space being marketed for lease, dropped 20 basis points to 9.0% as of the fourth quarter 2017. Among the major property types, Warehouse/Distribution ended at 5.4% vacancy, Manufacturing closed at 2.9%, and Flex space finished at 10.0%. The overall vacancy rate for Houston industrial space has remained at or below 5.5% for 24 consecutive quarters, beginning with Q1 2012.

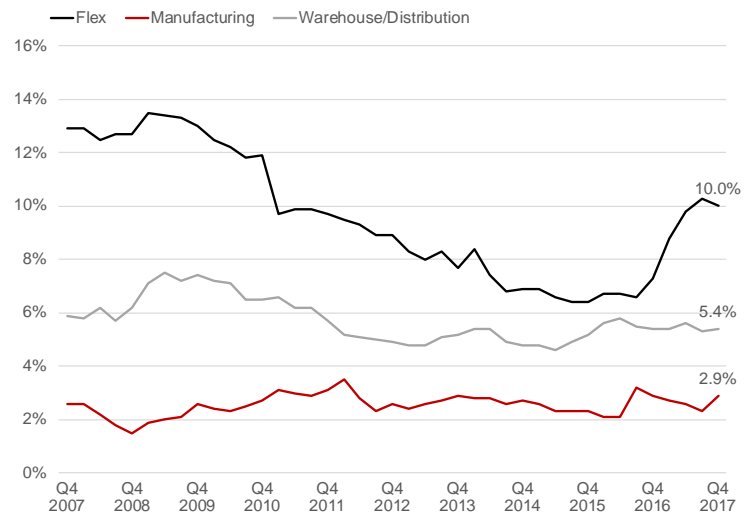
Limited new supply contributes to driving net absorption down

Net absorption for the overall Houston industrial market dropped to positive 147,952 sq. ft. during the fourth quarter while the amount of square feet delivered to the market dwindled to 705,196 sq. ft. compared to 2.6 million sq. ft. at the end of the third quarter. The amount of square feet delivered to the market in the fourth quarter is the lowest quarterly total since Q4 2011 at 626,253 sq. ft. Also impacting minimal net absorption are major move-outs including Randall's leaving 700,644 sq. ft. of distribution space at 10700 Telge Road; Pacorini Metals and Exel responsible for portions of 307,500 sq. ft. of sublease space on the market in Cedar Crossing Business Park; and RR Donnelley & Sons emptying 201,600 sq. ft. of space in West by Northwest Business Park. Sizeable move-ins during the fourth quarter include 415,272 sq. ft. of space taken by MRC Global in Port Crossing Commerce Center in LaPorte; 181,540 sq. ft. of space occupied by Starplast in Point North Cargo Park in Humble.; and 160,520 sq. ft. of space absorbed in Ameriport Industrial Park in Baytown.

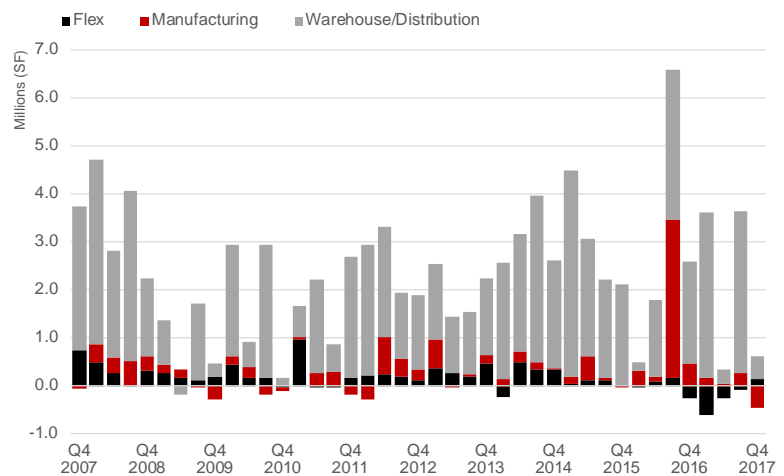
Warehouse/Distribution space requirements pushing demand

Of the current 6.0 million sq. ft. under construction in the Houston industrial market, construction starts in 2017 represented 3.8 million sq. ft. of that total, with a current overall availability rate of 70%. In the coveted Northwest submarket, the two largest speculative projects underway are 525 Cane Island Parkway in West Ten Business Park, a 673,785-sq.-ft. distribution center in Katy that broke ground in late September, with plans to deliver in July 2018; and Northwest Logistics Center, a 411,442-sq.-ft. distribution center located at 6751 N. Eldridge Parkway on a 26-acre site just south of Hwy. 290 and west of Beltway 8, with a scheduled completion date of June 2018. Considering the shortage of bulk distribution space available for lease, and the ever-growing demand from retailers for Warehouse/Distribution space, both projects are awaiting pre-leasing activity.

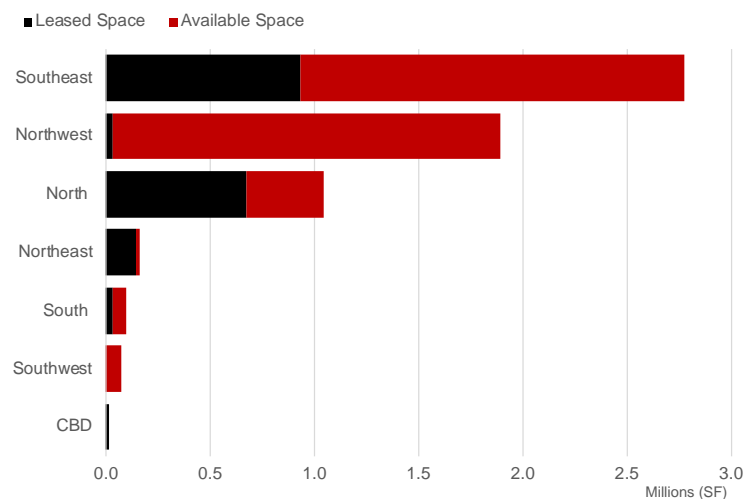
Vacancy by Property Type



Net Absorption



Under Construction



Average asking NNN rent remains steady

The industrial market saw overall average asking rates slide \$0.04 per sq. ft. lower quarter-over-quarter to finish at \$6.71 per sq. ft. at the end of Q4 2017. The average rate for Flex space is currently at \$9.26 per sq. ft.; Manufacturing rates are at \$6.09; and Warehouse/Distribution space sits at \$6.51. Total industrial inventory followed in the Houston market area amounted to 550 million sq. ft. in 11,400 buildings. The Flex sector consisted of 48 million sq. ft. (9%); Manufacturing made up 85 million sq. ft. (15%); and Warehouse/Distribution space accounted for 417 million sq. ft. (76%). In addition, within the industrial market are 3,000 owner-occupied buildings representing 169 million sq. ft.

Strong investment sales and leasing activity

Real Capital Analytics data reports the rolling 12-month industrial sales volume as of December 2017 in the Houston area at \$1.497 billion, resulting in a 102.1% change versus the prior 12 months. The buyer composition in 2017 was made up of 40% private, 25% institutional, 16% public listed/REITs, 12% cross-border, and 7% user/other. Top sales transactions in December for the Houston industrial market include Duke Realty's purchase of Bayport North Distribution Center II, a 772,500-sq.-ft., 2-building portfolio from Mountain West; and the Rodney George acquisition of 9835 Genard Road in northwest Houston, a 485,832-sq.-ft. distribution/warehouse from First Industrial Realty Trust, with tenant Emser Tile awaiting completion of their 600,000-sq.-ft. build-to-suit in Pinto Business Park in north Houston.

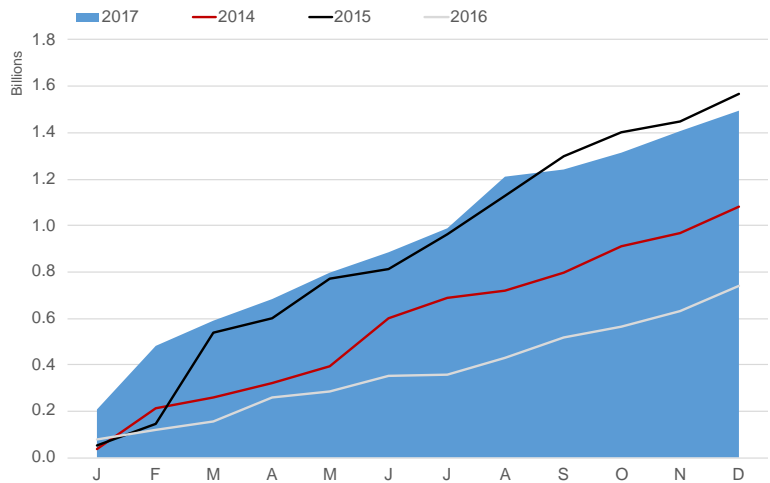
Leasing activity increased during the fourth quarter with a total of 5.5 million sq. ft. leased in the Greater Houston market. This is in comparison to 5.0 million sq. ft. leased throughout Q3 2017. Warehouse/Distribution space dominated at 4.8 million sq. ft. or 87%, followed by Flex space fulfilling 505,000 sq. ft., and Manufacturing space satisfying 209,000 sq. ft. Top lease transactions that were signed in the fourth quarter include Rooms To Go taking 373,860 sq. ft. in Mason Park at 2244 N. Mason in Katy; NFI inking the deal on 244,550 sq. ft. in Greenspoint Business Center at 121 Esplanade Blvd.; and Palmer Logistics signing a 231,875 sq. ft. lease in Bayport North Industrial Park in Pasadena.

Keeping an eye on crude and rig count

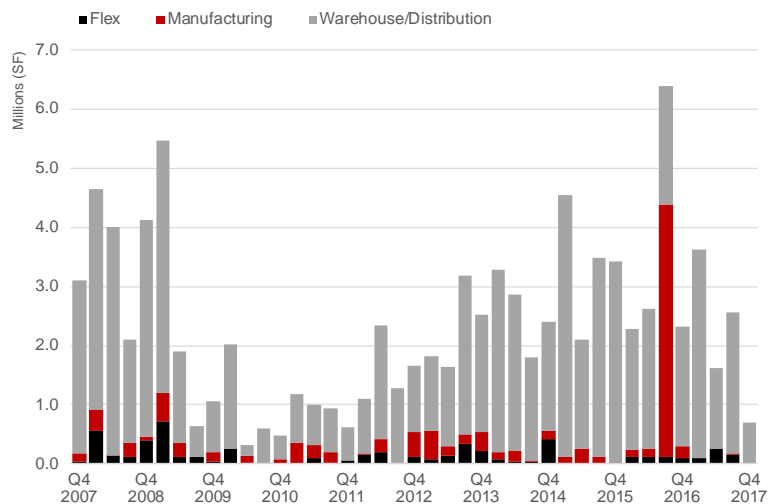
West Texas Intermediate traded between \$55.79 and \$60.46 per barrel in December 2017 compared to \$49.85 and \$54.01 in December 2016. The U.S. Energy Information Administration recently said it expects crude prices to average \$54.01 a barrel in the first quarter of 2018, up from its previous forecast of \$51.79 a barrel. In the fourth quarter, it said, prices could average \$57.31 a barrel, up from its last projection of \$54.95 a barrel. Baker Hughes reported the average U.S. rig count for December 2017 was 930, up 19 from the 911 counted in November 2017, and up 296 from the 634 counted in December 2016. The rig count peaked at 958 in late July, then briefly declined, but has trended upward since early November.

Cumulative Monthly Sales Volume Houston Industrial

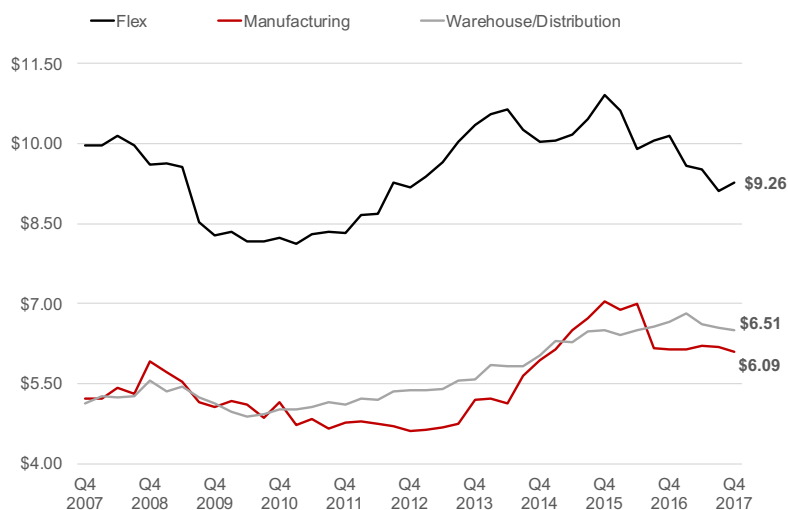
Source: Real Capital Analytics



Completions



Average NNN Asking Rent



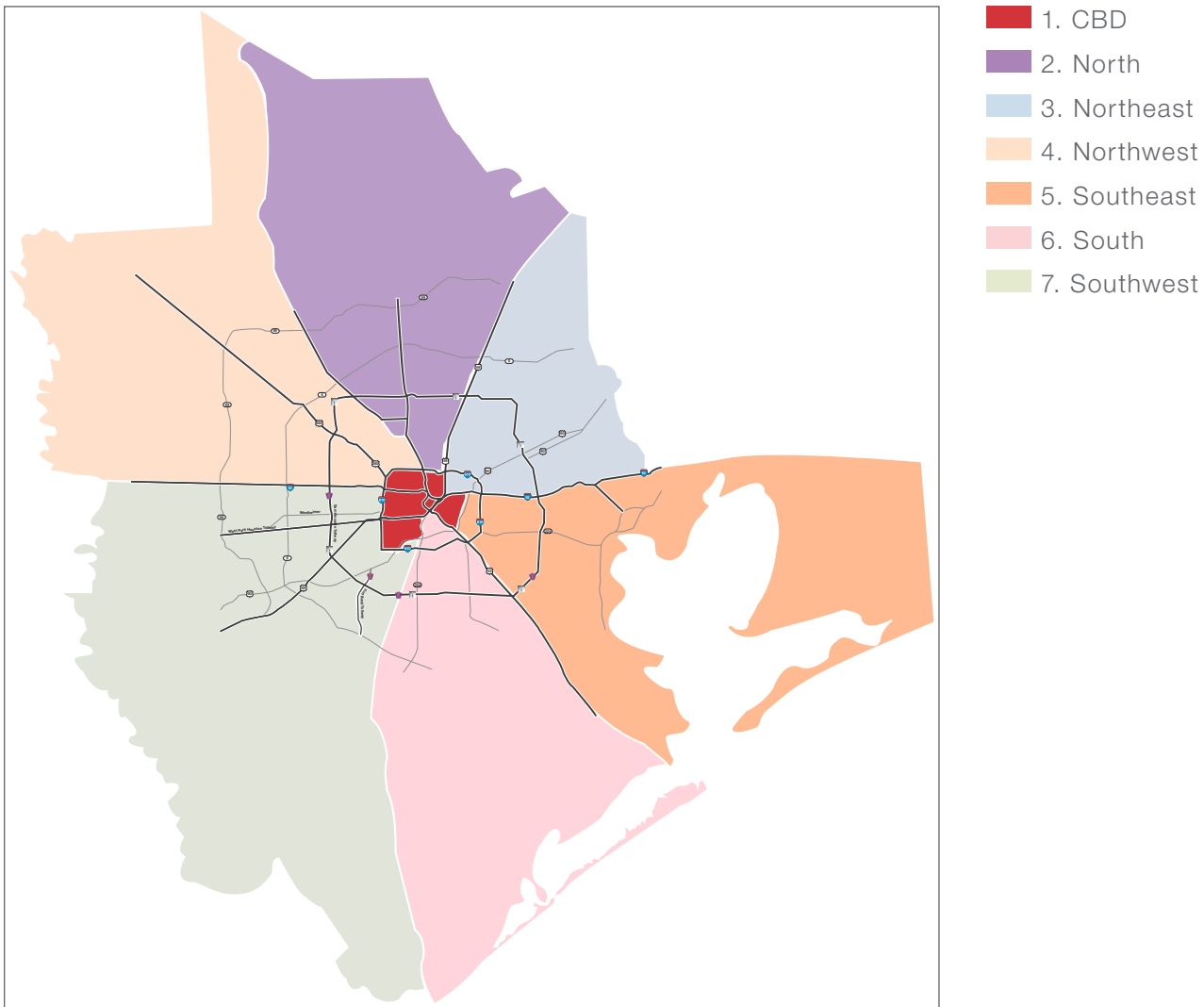
MARKET OVERVIEW

Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2017 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q4 2017 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/PSF)
Houston Market Total	549,452,521	5.4	9.0	147,952	6,763,948	705,196	8,504,031	6,066,545	6.71
Flex	47,611,229	10.0	12.1	132,372	-832,480	0	506,054	52,866	9.26
Manufacturing	84,697,548	2.9	7.0	-471,192	9,518	0	24,000	72,720	6.09
Warehouse/Distribution	417,143,744	5.4	9.0	486,772	7,586,910	705,196	7,973,977	5,940,959	6.51
CBD Total	54,809,882	4.5	9.2	-73,994	-237,956	0	0	14,250	5.51
Flex	3,240,276	7.0	8.9	2,788	-3,484	0	0	0	14.82
Manufacturing	9,989,083	2.3	10.6	-138,581	12,683	0	0	0	10.06
Warehouse/Distribution	41,580,523	4.9	8.9	61,799	-247,155	0	0	14,250	4.69
North Total	95,331,448	7.7	11.0	661,659	2,139,407	56,195	1,356,111	1,046,946	7.12
Flex	10,021,202	12.1	15.5	-2,538	-290,484	0	171,146	52,866	9.59
Manufacturing	12,749,813	3.9	7.3	30,529	110,025	0	0	0	5.93
Warehouse/Distribution	72,560,433	7.7	11.4	633,668	2,319,866	56,195	1,184,965	994,080	7.02
Northeast Total	34,906,349	3.0	5.9	-264,646	-62,677	0	20,088	164,500	5.12
Flex	446,715	11.3	13.5	-1,231	13,747	0	0	0	11.26
Manufacturing	6,800,724	1.9	2.3	-93,170	55,994	0	0	0	6.00
Warehouse/Distribution	27,658,910	3.1	6.7	-170,245	-132,418	0	20,088	164,500	5.58
Northwest Total	156,429,481	5.8	9.6	-963,512	631,308	28,325	1,527,322	1,895,232	6.90
Flex	16,917,013	9.5	10.9	125,993	-191,718	0	29,000	0	6.98
Manufacturing	23,509,138	3.5	7.8	-100,690	-38,528	0	0	72,720	6.37
Warehouse/Distribution	116,003,330	5.7	9.8	-988,815	861,554	28,325	1,498,322	1,822,512	7.10
Southeast Total	91,080,193	4.2	8.3	996,109	4,023,941	591,390	4,723,034	2,777,188	6.73
Flex	2,566,695	7.4	12.0	35,703	187,073	0	190,908	0	12.00
Manufacturing	15,632,473	2.3	5.5	-297,700	-163,690	0	24,000	0	6.42
Warehouse/Distribution	72,881,025	4.5	8.7	1,258,106	4,000,558	591,390	4,508,126	2,777,188	6.59
South Total	47,067,957	3.5	5.8	-75,894	102,293	0	328,790	97,593	5.43
Flex	2,113,489	16.4	18.1	-29,842	-246,523	0	15,000	0	9.22
Manufacturing	8,998,422	0.7	4.1	124,384	79,290	0	0	0	4.73
Warehouse/Distribution	35,956,046	3.4	5.5	-170,436	269,526	0	313,790	97,593	5.42
Southwest Total	69,827,211	6.2	8.9	-131,770	167,632	29,286	548,686	70,836	7.39
Flex	12,305,839	9.4	10.7	1,499	-301,091	0	100,000	0	13.25
Manufacturing	7,017,895	5.2	10.7	4,036	-46,256	0	0	0	6.83
Warehouse/Distribution	50,503,477	5.6	8.2	-137,305	514,979	29,286	448,686	70,836	6.72

MARKET OVERVIEW

Houston Industrial Submarkets



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HOUSTON INDUSTRIAL | Q4 2017

Quarterly Market Report

JANUARY 2018

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HOUSTON INDUSTRIAL | Q3 2017

Quarterly Market Report

OCTOBER 2017

EXECUTIVE SUMMARY

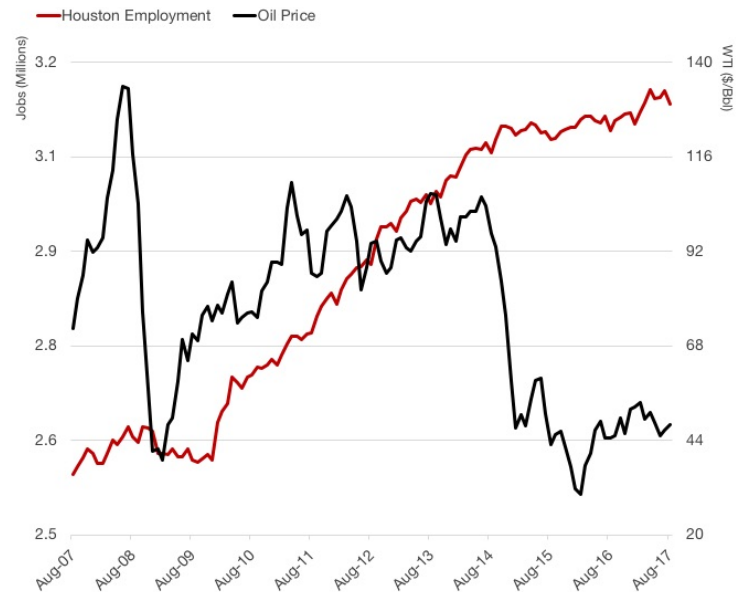
Despite summer slowdown, construction activity still robust

The overall industrial vacancy rate stood at 5.4% for Q3 2017, a decrease of 20 basis points quarter-over-quarter and an increase of 20 basis points year-over-year. Net absorption finished the quarter at positive 2,991,769 sq. ft., up from negative 67,870 sq. ft. as of the second quarter's end, tallying close to 6 million sq. ft. year-to-date. Both the Houston metro's overall rent and leasing activity are down from last quarter, with the difference larger from a year ago. However, despite the summer slowdown, current construction activity remains steady at 4.86 million sq. ft., up slightly from this time last quarter, while the amount of square feet delivered to the market in the third quarter increased to 2.54 million sq. ft. compared to 1.56 million sq. ft. at the end of the second quarter.

Hurricane Harvey alters economic activity

The Houston economy sustained moderate growth, but at a slower pace through August. The business-cycle index and employment data were softer, and the energy industry provided less of a helping hand to Houston over the summer. Striking at the end of August, Hurricane Harvey was not included in the jobs data for August; however, a breakdown by the Dallas Fed suggests that while Harvey's impact will be felt deeply, Houston and the Texas Gulf Coast are expected to recover quickly. Houston's unemployment rate was 5.0% in August, up from a revised 4.6% in July. The August unemployment rate for Texas was 4.2% and 4.4% for the U.S. After the storm, the shutdown of refinery capacity drove the price of West Texas Intermediate crude oil (WTI) down, and also pushed motor fuel prices up. WTI has traded between \$45 and \$55 over the majority of the past year, while the weekly retail price of regular gasoline rose 36 cents per gallon in Houston. Overall, while the outlook for the immediate future is unsure, prospects for the next few years remain positive.

Employment & Oil Prices



Market Indicators

	Current Q3 2017	Prior Quarter Q2 2017	Year Ago Q3 2016
Vacancy Rate (%)	5.4	5.6 ↓	5.2 ↑
Availability Rate (%)	9.4	9.3 ↑	9.1 ↑
Net Absorption (SF)	2,991,769	-67,870 ↑	6,461,564 ↓
Leasing Activity (SF)	3,926,663	6,503,600 ↓	6,604,198 ↓
Deliveries (SF)	2,542,549	1,562,223 ↑	6,291,802 ↓
Construction (SF)	4,864,618	4,507,275 ↑	9,673,349 ↓
Inventory (SF)	542,831,129	540,288,580 ↑	532,860,917 ↑
Avg Asking NNN Rent (\$)	6.76	6.84 ↓	6.85 ↓

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Broker's Perspective

As the Greater Houston area continues its recovery from the aftermath of Hurricane Harvey, those in the industrial sector have been keen to determine how deeply Harvey affected our product type. The industrial real estate market—like much of the metro—hit the pause button for a couple of weeks even though it felt like much longer. As the Houston area has since returned to business with some sense of normalcy post-Harvey, we have seen activity levels pick back up, with increased movement in virtually all industrial submarkets.

Lowe's, through a third-party logistics provider, NFI, plans to sign a three-year lease for 250,000 sq. ft. of industrial space, per industry sources, as a direct result of Hurricane Harvey. In addition, Home Depot signed a lease in March 2017 for 300,000 sq. ft. of warehouse space in Northwest Houston, to store additional inventory, with a planned move-in date of September 2017. Both retail giants absorbed sizable space to address demand for construction supplies.

Following increased demand, the overall vacancy rate has decreased slightly over the past quarter. Consumers in need of construction supplies, along with increasing requirements for ecommerce facilities are two significant factors driving the vacancy decline. The recent announcement of the speculative 673,785-sq.-ft. distribution facility being developed by Oakmont Industrial Group and marketed by NAI Partners in West Ten Business Park in Katy is a testament to the growing appetite for buildings that can serve online retailers as well as many other types of distribution uses. Lastly, the Southeast submarket has also remained strong due to the need for rail-served product.

The resiliency the Houston area has shown post-Harvey is a reminder to all how strong the industrial market is and should continue to be in the future.

“The resiliency the Houston area has shown post-Harvey is a reminder to all how strong the industrial market is and should continue to be in the future.”



Darren O'Connor

Vice President
NAI Partners

MARKET OVERVIEW

Vacant space drops to 5.4% of the market

Houston's overall vacancy rate stood at 5.4% for Q3 2017, a decrease of 20 basis points quarter-over-quarter and an increase of 20 basis points year-over-year. The overall availability rate, which measures the total amount of space being marketed for lease, rose 10 basis points to 9.4% as of the third quarter 2017. Among the major property types, Warehouse/Distribution ended at 5.5% availability, Manufacturing closed at 2.6%, and Flex space finished at 10.5%.

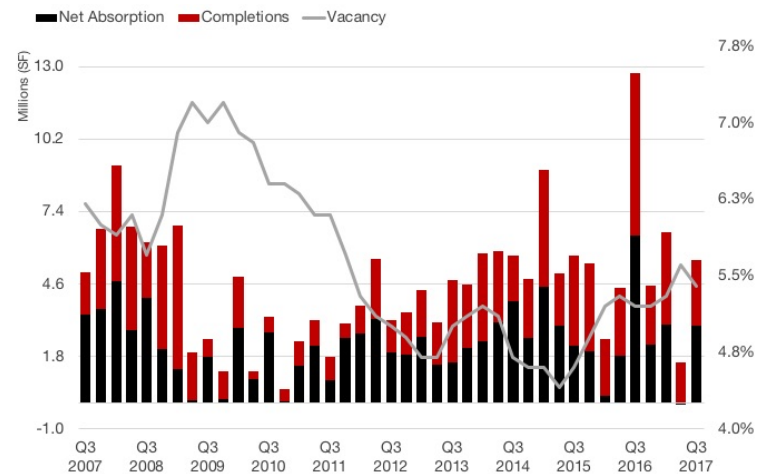
Net absorption back up to speed

Net absorption for the overall Houston industrial market was positive 2,991,769 sq. ft. during the third quarter. The major move-ins contributing to net absorption include 225,000 sq. ft. of space taken by Supply Chain Management in Bayport North Distribution Center; 225,000 sq. ft. of space occupied by MEI Rigging and Crating at 6501 Navigation Blvd.; and 128,720 sq. ft. of space absorbed by Relevant Power Solutions at 20120 E. Hardy Road. The major move-outs involve Weatherford vacating 130,113 sq. ft. of space at 22001 Northpark Drive; 129,000 sq. ft. left by Aztech Windshield at 8601 Boone Road; and 128,924 sq. ft. emptied by McLane Global in Central Green Corporate Center.

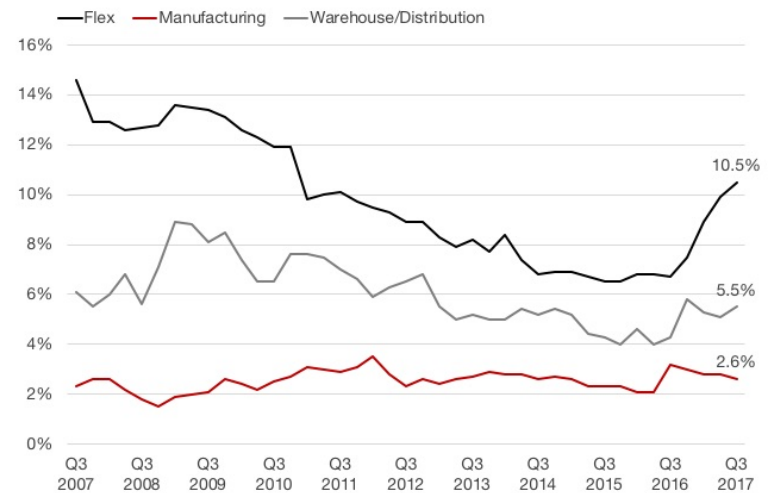
Demand intensifies as ecommerce evolves

You can add to the current 4.86 million sq. ft. under construction in the Houston industrial market, a speculative 673,785-sq.-ft. distribution facility in Katy to meet the ever-growing demand from retailers for warehouse/distribution space. The future distribution center broke ground in late September, with plans to deliver in July 2018. The project will be built on a 42-acre tract in Houston-based Parkside Capital's West Ten Business Park. Developer Oakmont Industrial Group purchased the area from Parkside in late September. Both the city of Katy and Waller County gave Oakmont tax incentives as part of the agreement. Upon delivery, the distribution facility will include all of the latest ways to optimize proficiency, including 36-foot-high ceilings, 70-foot-deep loading bays, 56-foot-wide column spacing, ESFR sprinklers and LED warehouse lighting, and an abundance of parking space. Most recently, the park has become home to Buc-ee's convenience store and Germany-based Pepperl+Fuchs' warehouse and manufacturing plant. The current vigorous development activity comes on the heels of a rush of consumer goods retailers—including Amazon, Ikea and Best Buy—either having leased or looking to lease distribution space in Houston. Consumer ecommerce is driven by the best prices on products that can be delivered the fastest, with the current pace of demand only intensifying going forward. Whether driven by millennials or Generation Z, immediate gratification and the consumer experience will

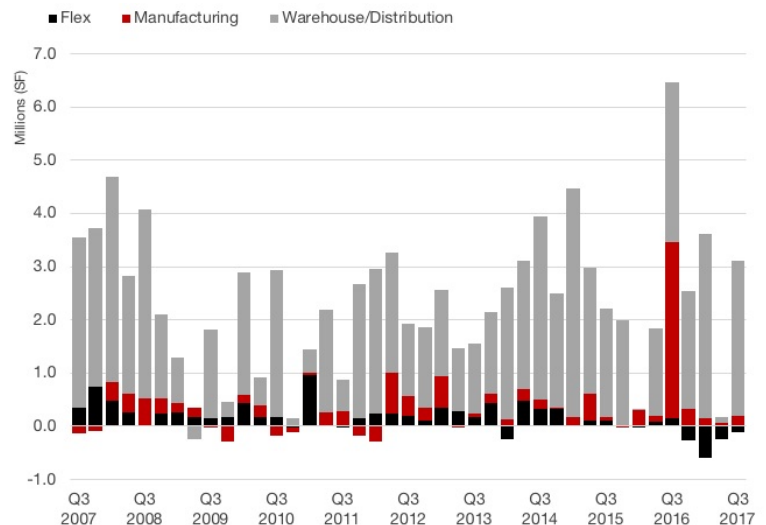
Supply & Demand



Vacancy by Property Type



Net Absorption



continue to evolve and Houston will be there to answer the call.

Average asking NNN rent dips slightly

The industrial market saw overall average asking rates drop \$0.08 per sq. ft. quarter-over-quarter to finish at \$6.76 per sq. ft. at the end of Q3 2017. Rates for industrial real estate throughout Houston show that the Southwest submarket has the highest prices for industrial space at \$7.27. The average rate for Flex space is currently highest in the CBD submarket, at \$15.32 per sq. ft.; Manufacturing rates peak in the Southeast at \$6.70; and Warehouse/Distribution space is at its high point in the North at \$7.20.

Optimistic investment sales and leasing activity

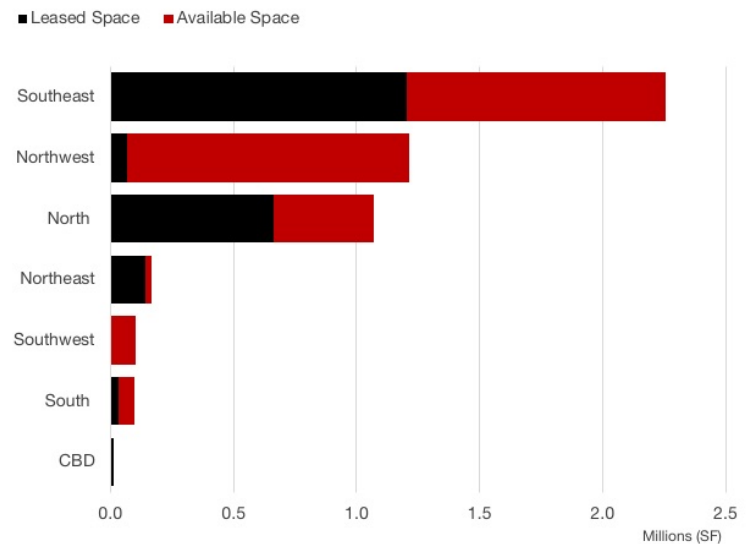
Real Capital Analytics data reports year-to-date industrial sales volume in the Houston area at \$1.151 billion, resulting in a year-over-year change of 122%. The buyer composition is made up of 33% institutional, 33% private, 16% public listed/REITs, 12% cross-border, and 6% user/other. Another positive sign for the Houston industrial market is the WPT Industrial REIT acquisition of Apex Distribution Center in northwest Houston, a three-building industrial park that totals 410,600 sq. ft. from Crow Holdings Industrial. The northwest Houston properties are located at the W. Sam Houston Tollway on Brittmoore and Tanner roads and were built between 2005 and 2016 with the first project in the park constructed as a build-to-suit for Goya Foods. The current tenant list includes Dawn Food Products, TSC Apparel Co. and Eleganza Tiles. At the time of the sale the project was 86.2% leased.

Leasing activity slowed during the third quarter with a total of almost 4 million sq. ft. leased in the overall Houston market. This is in comparison to 6.5 million sq. ft. leased throughout Q2 2017. Warehouse/Distribution space led the way at 3.4 million sq. ft. or 87%, followed by Flex space fulfilling 447,000 sq. ft., and Manufacturing space realizing 75,000 sq. ft. These amounts are down significantly from both this time last quarter and last year. Despite that, Emser Tile started construction on a 600,000-sq.-ft. build-to-suit in Pinto Business Park in north Houston. Current tenants in the park include Amazon, HD Supply, The Reynolds Co., and Sysco Corp. The development is scheduled for completion in the second quarter of 2018.

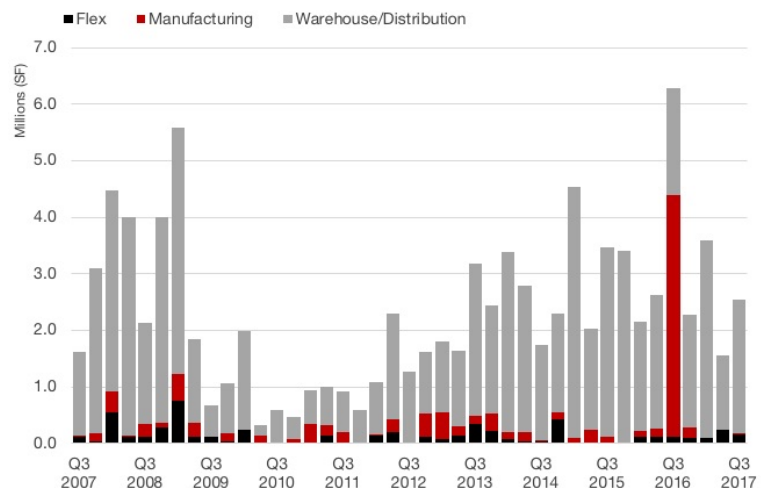
Quick recoveries at Port Houston and Houston Airport System

Port Houston's recovery from Hurricane Harvey began on September 1 as Barbour's Cut and Bayport Container Terminals handled five thousand gate transactions. Vessel activity and gate operations continued seamlessly through that weekend. As for the Houston Airport System, all major airlines ramped back up to their standard schedules less than two weeks after the storm.

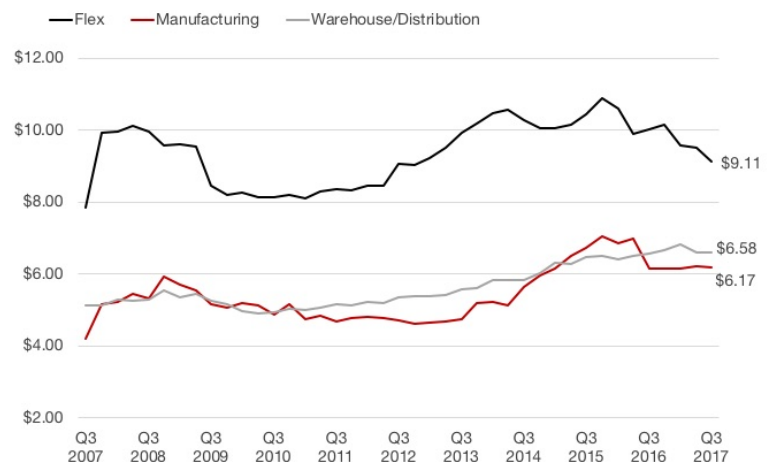
Under Construction



Completions



Average NNN Asking Rent



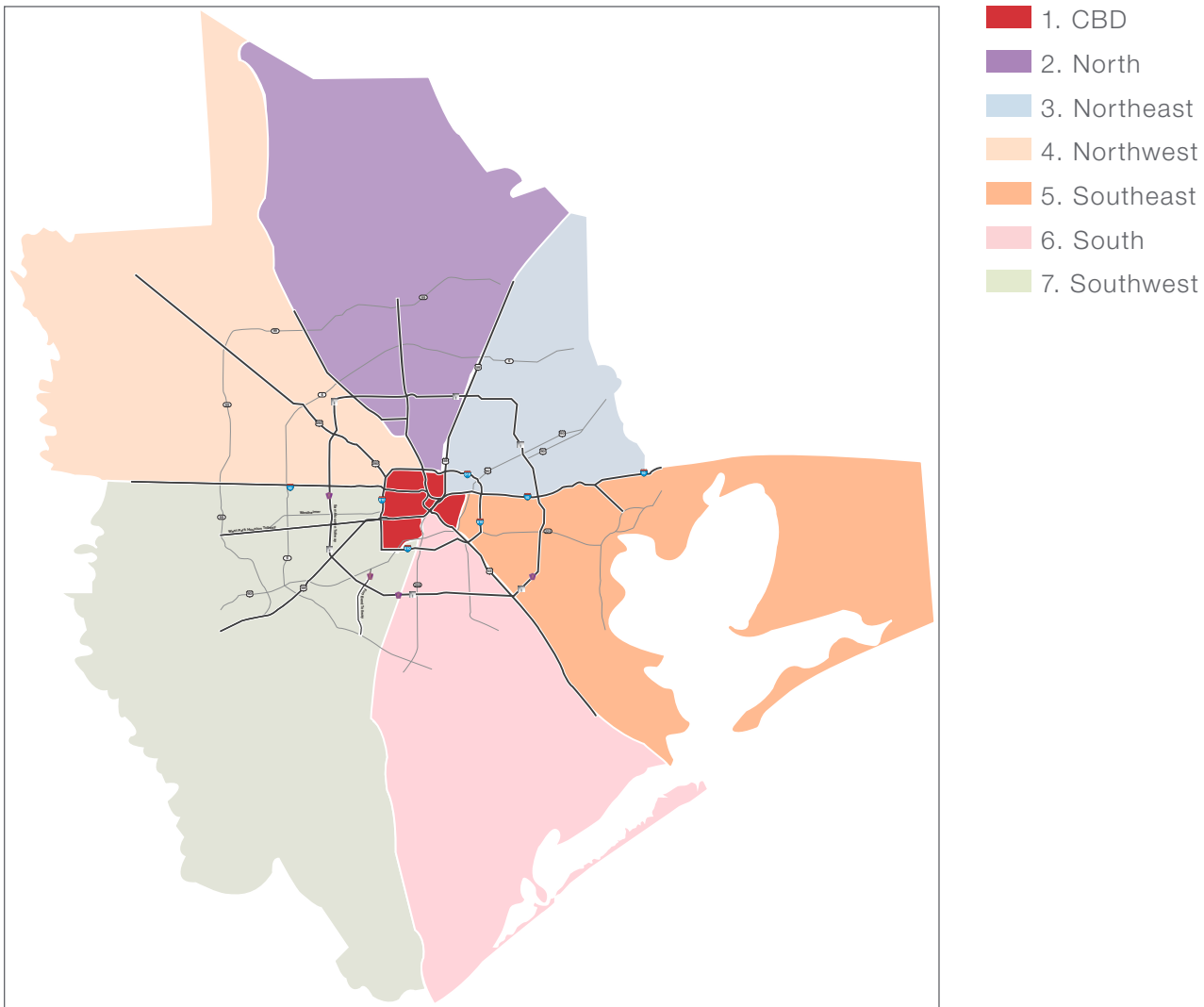
MARKET OVERVIEW

Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2017 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q3 2017 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/PSF)
Houston Market Total	547,237,328	5.4	9.4	2,991,769	5,944,599	2,542,549	7,690,723	4,864,618	6.76
Flex	47,581,114	10.5	13.1	-122,493	-962,019	157,000	506,054	10,625	9.11
Manufacturing	84,728,979	2.6	7.5	184,873	408,902	24,000	24,000	72,720	6.17
Warehouse/Distribution	414,927,235	5.5	9.3	2,929,389	6,497,716	2,361,549	7,160,669	4,781,273	6.58
CBD Total	54,934,271	4.4	9.0	128,184	-138,945	0	0	14,250	5.59
Flex	3,240,654	7.1	8.6	10,963	-6,277	0	0	0	15.32
Manufacturing	9,989,083	0.9	10.4	180,640	151,264	0	0	0	6.54
Warehouse/Distribution	41,704,534	5.1	8.6	-63,419	-283,932	0	0	14,250	4.79
North Total	94,844,120	8.5	12.1	1,317,478	1,392,747	876,300	1,276,364	1,068,800	7.22
Flex	10,039,996	12.3	17.3	-183,171	-289,630	0	171,146	10,625	9.30
Manufacturing	12,702,605	3.8	6.8	108,334	113,446	0	0	0	5.76
Warehouse/Distribution	72,101,519	8.7	12.3	1,392,315	1,568,931	876,300	1,105,218	1,058,175	7.20
Northeast Total	34,719,615	2.3	5.8	26,274	187,421	0	20,088	164,500	6.41
Flex	446,715	11.0	13.2	27,150	14,978	0	0	0	-
Manufacturing	6,828,954	0.7	3.3	0	135,016	0	0	0	6.00
Warehouse/Distribution	27,443,946	2.5	6.3	-876	37,427	0	20,088	164,500	6.44
Northwest Total	155,931,532	5.2	10.3	1,118,135	1,305,007	983,750	1,414,437	1,161,082	6.82
Flex	16,853,592	10.3	12.5	-10,323	-305,166	12,000	29,000	0	6.97
Manufacturing	23,589,849	3.5	8.3	-101,840	-28,448	0	0	72,720	6.63
Warehouse/Distribution	115,488,091	4.8	10.4	1,230,298	1,638,621	971,750	1,385,437	1,088,362	6.84
Southeast Total	90,422,263	4.9	8.3	669,779	3,007,796	428,479	4,131,644	2,258,271	6.86
Flex	2,544,695	8.6	11.9	132,260	155,849	130,000	190,908	0	10.73
Manufacturing	15,620,071	1.1	6.4	127,123	134,010	24,000	24,000	0	6.70
Warehouse/Distribution	72,257,497	5.5	8.6	410,396	2,717,937	274,479	3,916,736	2,258,271	6.72
South Total	46,591,279	3.3	5.7	18,212	182,987	41,520	328,790	97,593	5.41
Flex	2,097,816	15.1	17.8	12,515	-216,681	15,000	15,000	0	9.22
Manufacturing	8,988,172	2.1	5.5	-103,384	-45,594	0	0	0	4.76
Warehouse/Distribution	35,505,291	2.9	5.0	109,081	445,262	26,520	313,790	97,593	5.42
Southwest Total	69,794,248	6.4	9.5	-286,293	7,586	212,500	519,400	100,122	7.27
Flex	12,357,646	9.7	11.2	-111,887	-315,092	0	100,000	0	12.93
Manufacturing	7,010,245	5.2	11.4	-26,000	-50,792	0	0	0	6.22
Warehouse/Distribution	50,426,357	5.8	8.8	-148,406	373,470	212,500	419,400	100,122	6.75

MARKET OVERVIEW

Houston Industrial Submarkets



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HOUSTON INDUSTRIAL | Q3 2017

Quarterly Market Report

OCTOBER 2017

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HOUSTON INDUSTRIAL | Q2 2017

Quarterly Market Report

JULY 2017

EXECUTIVE SUMMARY

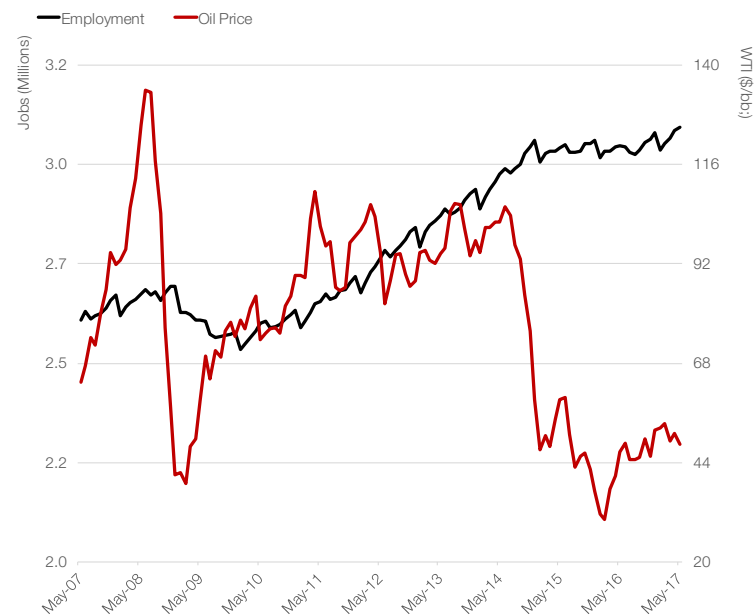
Industrial market in good shape due in part to e-commerce demand

Falling oil prices have had varied effects on the different property types in the Houston industrial market. Currently, the most robust sector is Warehouse/Distribution space, underscoring the vigorous demand from e-commerce tenants such as Amazon and FedEx. Overall industrial vacancy rose to 5.5% in Q2 2017, an increase of 20 basis points quarter-over-quarter and year-over-year. Total available sublease space continued to drop in the second quarter, down 20% since year-end 2016. In addition, net absorption stood at positive 10,312 sq. ft. as of the quarter's end, with a total of 3.0 million sq. ft. of positive absorption recorded thus far during 2017. The construction pipeline has slowed down, as developers seem to have learned their lessons from the 1980s and avoided overbuilding, while continuing to keep an eye out for available land sites in anticipation of new projects to keep up with future demand. The asking rent for all sectors dropped 2.1% from Q1 2017 to \$6.84 per sq. ft. at the end of the second quarter as pressure from the continued low oil prices continue to influence rates.

Economy continues to grow

Overall, the outlook for Houston is hopeful. May data was varied for the Houston metro area. The business-cycle index continued to indicate a modest expansion. Labor market data suggested job growth, improvement in the energy sector, and low fuel prices helped consumers. Houston's unemployment rate was 5.1% in May, down from 5.4% in April and below its year-to-date average of 5.5%. Other positive indicators are the Houston Purchasing Managers Index, which registered at 54.1 in May, signaling economic expansion in metro Houston for the eighth consecutive month; and the closely followed Baker Hughes U.S. Rig Count, which rose for the 23rd straight week totaling 941 rigs. Conversely, increasing costs and moderate oil prices may soften the course of the rig count. The recent forecast by the Energy Information Administration estimated oil (WTI) will average \$51 in 2017 and \$55 in 2018, while market experts state the industry needs \$60 to \$65 per barrel oil for sustained growth and success.

Employment & Oil Prices



Market Indicators

	Current Q2 2017	Prior Quarter Q1 2017	Year Ago Q2 2016
Vacancy Rate (%)	5.5	5.3 ↑	5.3 ↑
Availability Rate (%)	9.4	9.3 ↑	8.9 ↑
Net Absorption (SF)	10,312	3,009,582 ↓	1,768,897 ↓
Leasing Activity (SF)	5,251,483	4,739,237 ↑	6,837,294 ↓
Deliveries (SF)	1,502,423	3,563,276 ↓	2,617,862 ↓
Construction (SF)	4,301,209	5,127,113 ↓	13,607,690 ↓
Inventory (SF)	542,687,360	541,184,937 ↑	529,050,370 ↑
Avg Asking Gross Rent (\$)	6.84	6.99 ↓	6.96 ↓

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Broker's Perspective

Houston's industrial market saw stable but continued growth throughout the second quarter, recording overall positive net absorption for the 58th consecutive quarter. With the majority of activity being driven by online retailers, it's clear that the phrase "e-commerce" is no longer a buzzword, it's a movement. Of the nearly dozen big-box distribution deals greater than 500,000 sq. ft. currently looking for space in the Houston market, most are being driven by e-commerce needs, with a core requirement being as close in proximity to UPS and FedEx shipping hubs as possible.

Continued demand for larger distribution facilities and a lack of developable industrial sites close to shipping hubs is making counties like Waller County create incentive packages to attract developers, which is also resulting in population growth. End-user consumer-driven distribution and third-party logistics companies are driving construction projects in other submarkets, notably the North and Northwest. Additionally, despite diminishing hopes of oil reaching \$60/barrel by the end of the year, the plastics and petrochemical industries are still playing major roles in new construction projects in the Southeast, which has and will continue to remain one of Houston's healthiest submarkets.

With regards to absorption, although the second quarter only saw $\pm 10,318$ sq. ft. of positive absorption, it's important to take note of the fact that there were nearly 5 million sq. ft. of new leases signed during the second quarter. It is expected that roughly 3.4 million sq. ft. of those lease agreements signed won't start occupying until mid-2018, and so the absorption of that space won't be reflected by market statistics until sometime next year.

“Continued demand for larger distribution facilities and a lack of developable industrial sites close to shipping hubs is making counties like Waller County create incentive packages to attract developers.”



Michael Keegan

Partner
NAI Partners

MARKET OVERVIEW

Vacancy edges up

Overall vacant space rose to 5.5%, an increase of 20 basis points from the 5.3% rate recorded at the end of the previous quarter. The vacancy rate has remained at or below 5.5% since Q1 2012, averaging 5.0% during the same time period. Among the major property types, Warehouse/Distribution ended at 5.6% vacancy, Manufacturing closed at 2.8% vacancy, and Flex space finished at 9.9% vacancy. Of the 5.0 million sq. ft. of new supply delivered during 2017, 1.9 million sq. ft. is vacant Warehouse/Distribution space.

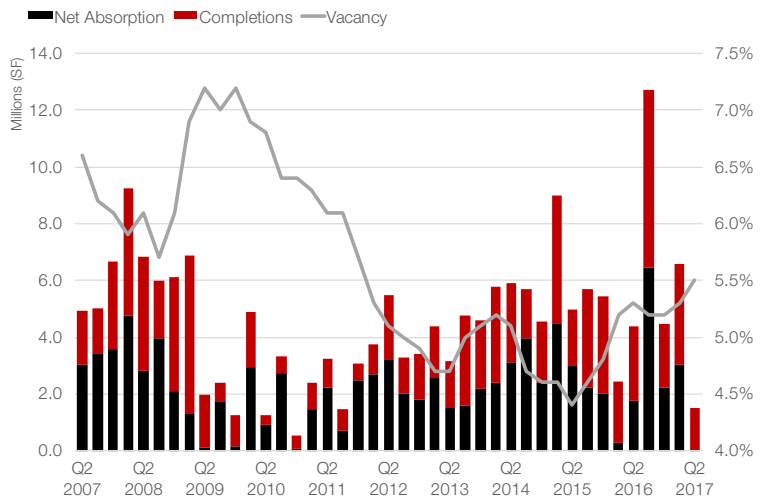
Flat net absorption with healthy future commitments

During the second quarter, about 2.3 million sq. ft. of space was moved out of, and 2.3 million sq. ft. was moved in to, resulting in positive net absorption of 10,318 sq. ft. Also during the second quarter, 4.9 million sq. ft. of new leases were signed. While one tenant's move-in and move-out may happen at the same time, another tenant may move in or out on different dates. This past quarter, 3.4 million sq. ft. of new lease agreements were signed with move dates scheduled in the third quarter of 2017 or later, indicating a healthy amount of committed future absorption. Another good indicator is the 4.4 million sq. ft. under construction with only 1.25 million sq. ft. of that space available, representing a healthy amount of build-to-suit industrial space being built. The major move-ins contributing to net absorption include 340,503 sq. ft. of space taken by Bel Furniture in West Ten Distribution Center; 160,000 sq. ft. of space occupied by McLane Group Int'l at Interstate Commerce Center; and 140,000 sq. ft. of space absorbed by Staples at Alamo Crossing Commerce. The major move-outs involve Foxconn Technology Group vacating 245,094 sq. ft. of space at Centre at Cypress Creek; 125,120 sq. ft. left by Kuehne & Nagel at World Houston Business Center; and 102,680 sq. ft. emptied at 4849 Homestead Road in Northway Park II.

Demand for Warehouse space dominating

There is currently 4.3 million sq. ft. under construction in the Houston industrial market, with only one-fourth of that space available for lease. Port-and-rail-oriented developments in the Southeast submarket are a good indicator of Houston's diversified economy. A testament to those developments is the recent 500,000-sq.-ft. rail-served distribution facility for Vinmar International, a Houston-based petrochemical marketing and distribution company. The acquisition of 40 acres in the TGS Cedar Port Industrial Park near Baytown was prompted in part by the expanded Panama Canal. The expansion was completed in June 2016 allowing for larger ships and more cargo containers to pass through the canal. Many

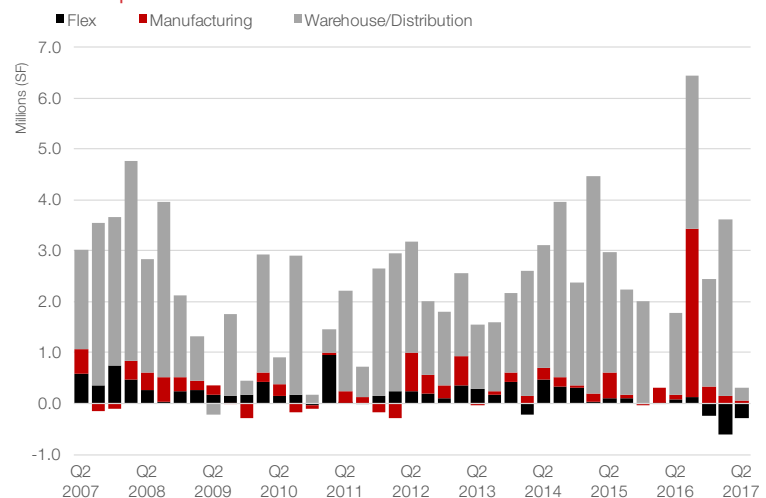
Supply & Demand



Vacancy & Availability



Net Absorption



additional industrial and distribution projects have been completed at Cedar Port, including IKEA's 1.0 million-sq.-ft. distribution facility. To meet the current market demand for rail-served sites, Phase III at Cedar Port Industrial Park is delivering a 3,000-acre tract to provide for bulk distribution and manufacturing. There has been more than 5.0 million sq. ft. of industrial buildings completed in Houston in 2017—4.7 million sq. ft., or 94% of that total, is Warehouse/Distribution space. The Southeast submarket has the most space in the pipeline at close to 1.7 million sq. ft., while the Northwest submarket comes in second with 1.2 million sq. ft.

Mega manufacturing facility opens

The new \$417 million, 497-acre state-of-the-art Daikin Texas Technology Park consists of 23 million sq. ft. of space under one roof including the three-mile perimeter around the entire facility. The park is the largest tilt-wall structure in the U.S., and the second-largest manufacturing facility in the U.S. The workforce should hit the 5,000-plus mark between 2017 and 2018, with the rumored number of employees reaching up to 6,000. Waller, the location of the plant, is home to 2,400 residents. Local businesses have reported increased sales because of DTPP employees.

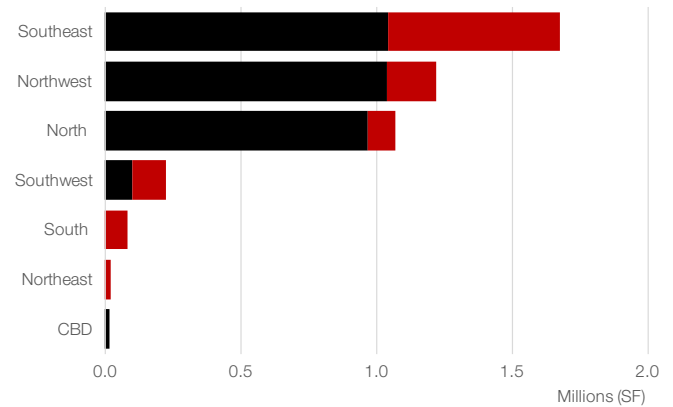
As the rate of leasing activity has remained steady during 2017, a total of 5.2 million sq. ft. of transactions occurred in the overall Houston market during the second quarter. Significant tenants that signed lease agreements include Bel Furniture, with 340,503 sq. ft. at West Ten Distribution Center; Dupuy Group, with 212,961 sq. ft. at 3240 South Loop E.; and VWR Int'l taking 125,251 sq. ft. of space at 521 Highway 90A in southwest Houston. Japanese chemical giant Kuraray America, signed a long-term lease for 465,851 sq. ft. in two, new build-to-suits, with a move date scheduled for January 2018. Kuraray is the first tenant in the new 185-acre Bayport Logistics Park, in Pasadena, near the Port of Houston.

Average asking NNN rent remains relatively steady

The industrial market saw overall average asking rates drop \$0.15 per sq. ft. quarter-over-quarter to finish at \$6.84 per sq. ft. at the end of Q2 2017. Rates for industrial real estate throughout Houston show that the Southwest submarket has the highest prices for industrial space at \$7.38. The average rate for Flex space is currently highest in the CBD submarket, at \$15.35 per sq. ft.; Manufacturing rates peak in the Northwest at \$7.01; and Warehouse/Distribution space is at its highpoint in the North at \$7.20. The North and Northwest's top-tier rental rates are no surprise—the submarkets are the traditional core of industrial development, comprising 247 million sq. ft., almost half of the metro's 543 million sq. ft. of industrial space.

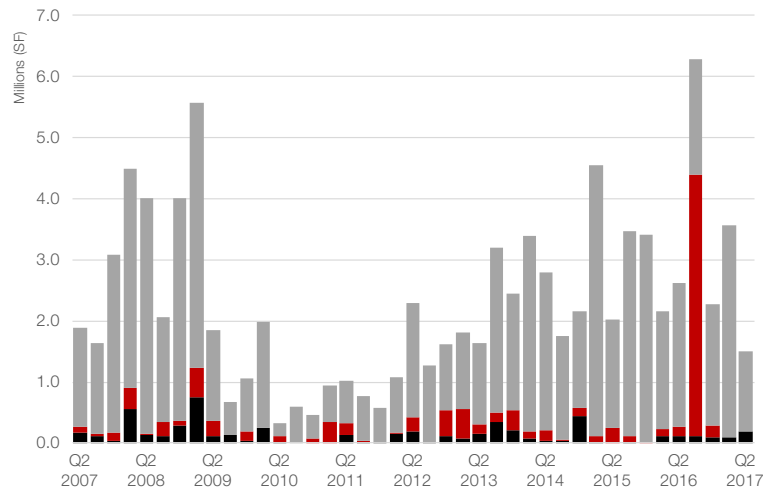
Under Construction

■ Leased Space ■ Available Space



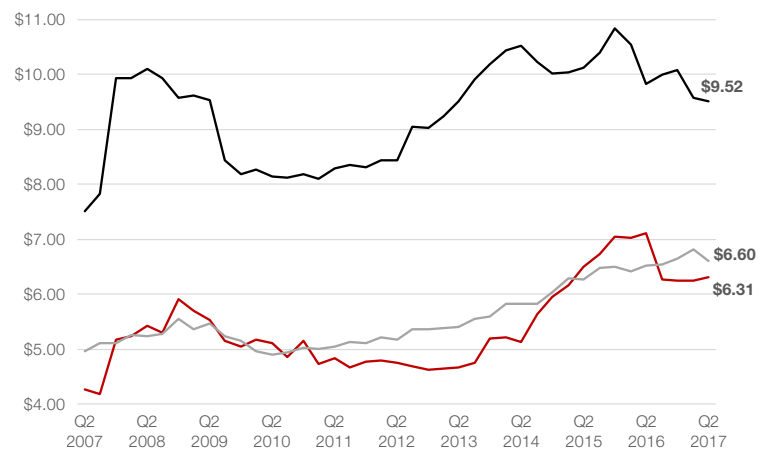
Completions

■ Flex ■ Manufacturing ■ Warehouse/Distribution



Average NNN Asking Rent

— Flex — Manufacturing — Warehouse/Distribution



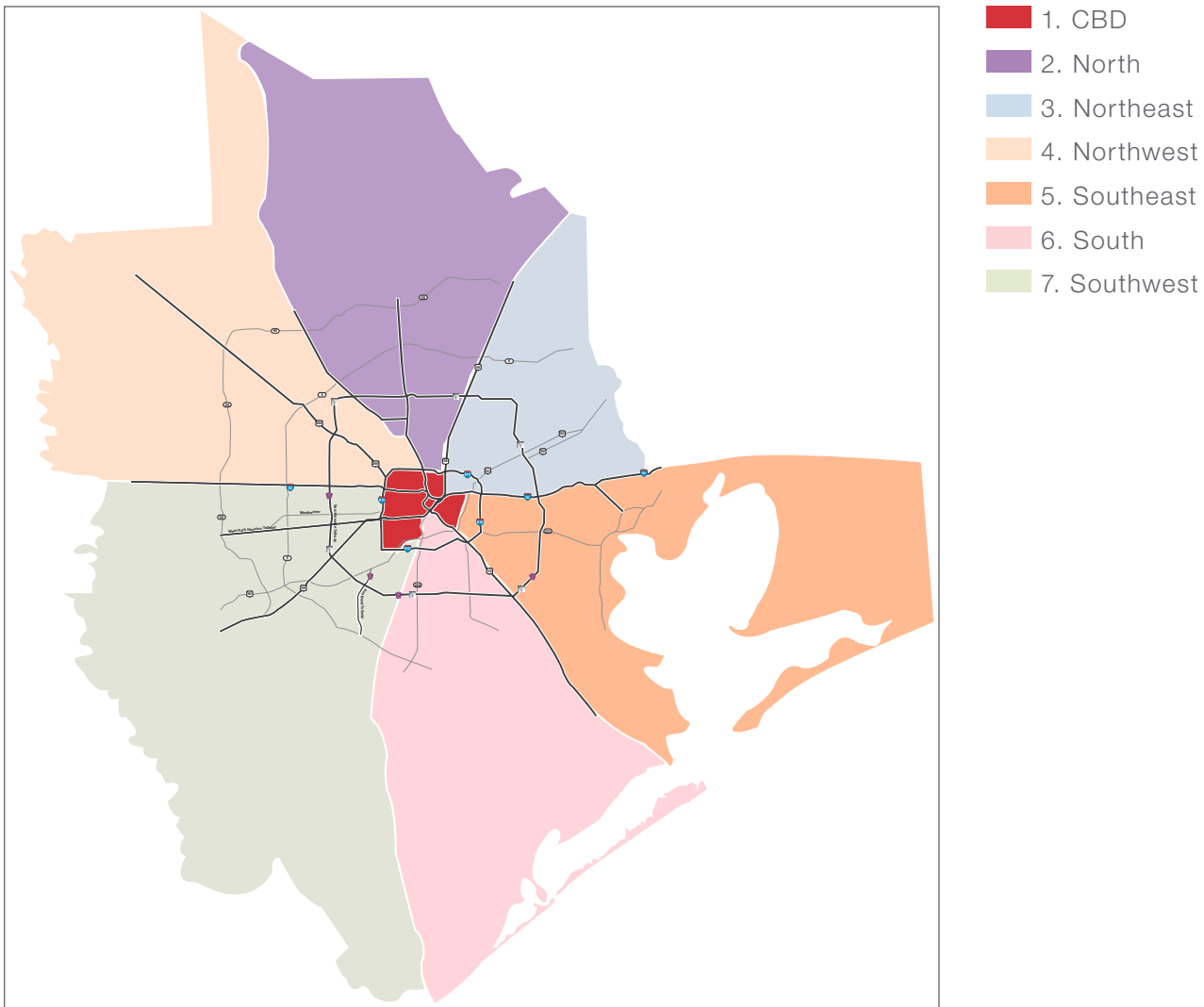
MARKET OVERVIEW

Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2017 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2017 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/PSF)
Houston Market Total	542,687,360	5.5	9.4	10,312	3,019,894	1,502,423	5,065,699	4,301,209	6.84
Flex	47,392,010	9.9	12.5	-294,833	-897,768	189,254	289,254	54,800	9.52
Manufacturing	84,893,707	2.8	7.8	58,205	216,729	0	0	96,720	6.31
Warehouse/Distribution	410,401,643	5.7	9.5	246,940	3,700,933	1,313,169	4,776,445	4,149,689	6.60
CBD Total	54,788,510	4.8	8.8	-248,599	-281,524	0	0	14,250	5.57
Flex	3,267,284	7.3	8.1	16,808	-17,235	0	0	0	15.35
Manufacturing	9,988,959	2.7	12.2	-23,856	-29,376	0	0	0	5.59
Warehouse/Distribution	41,532,267	5.1	8.1	-241,551	-234,913	0	0	14,250	4.84
North Total	93,076,444	9.0	12.7	109,360	140,318	250,396	400,064	1,067,995	7.26
Flex	10,014,912	10.5	16.8	-11,109	-104,906	171,146	171,146	0	9.29
Manufacturing	12,617,803	4.6	7.0	83,594	5,412	0	0	0	5.92
Warehouse/Distribution	70,443,729	9.6	13.1	36,875	239,812	79,250	228,918	1,067,995	7.20
Northeast Total	34,740,053	2.3	6.9	-51,322	161,647	0	20,088	21,000	6.05
Flex	446,715	17.1	21.3	-376	-12,172	0	0	0	-
Manufacturing	6,885,934	0.7	3.7	-5,448	135,016	0	0	0	6.00
Warehouse/Distribution	27,407,404	2.5	7.5	-45,498	38,803	0	20,088	21,000	6.05
Northwest Total	153,946,830	5.2	9.9	47,412	224,047	113,040	391,012	1,219,970	7.04
Flex	16,855,622	9.9	11.4	-287,142	-306,543	0	0	12,000	6.94
Manufacturing	23,146,450	3.0	7.2	61,708	65,792	0	0	72,720	7.01
Warehouse/Distribution	113,944,758	5.0	10.3	272,846	464,798	113,040	391,012	1,135,250	7.08
Southeast Total	90,453,440	5.2	8.3	151,860	2,315,557	1,085,487	3,660,365	1,674,575	6.93
Flex	2,393,027	10.0	12.1	23,769	-24,511	18,108	18,108	42,800	12.61
Manufacturing	16,284,699	2.0	8.1	9,907	6,887	0	0	24,000	6.72
Warehouse/Distribution	71,775,714	5.7	8.2	118,184	2,333,181	1,067,379	3,642,257	1,607,775	6.55
South Total	46,562,818	3.4	5.9	-113,324	168,570	0	287,270	80,383	5.46
Flex	2,090,816	15.0	19.0	-46,906	-229,196	0	0	0	9.40
Manufacturing	8,988,788	1.2	5.3	-16,700	57,790	0	0	0	4.76
Warehouse/Distribution	35,483,214	3.2	5.3	-49,718	339,976	0	287,270	80,383	5.47
Southwest Total	69,119,265	5.8	9.2	114,925	291,279	53,500	306,900	223,036	7.38
Flex	12,323,634	9.0	10.4	10,123	-203,205	0	100,000	0	13.31
Manufacturing	6,981,074	4.9	11.9	-51,000	-24,792	0	0	0	6.61
Warehouse/Distribution	49,814,557	5.1	8.5	155,802	519,276	53,500	206,900	223,036	6.67

MARKET OVERVIEW

Houston Industrial Submarkets



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Quarterly Market Report

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EXECUTIVE SUMMARY

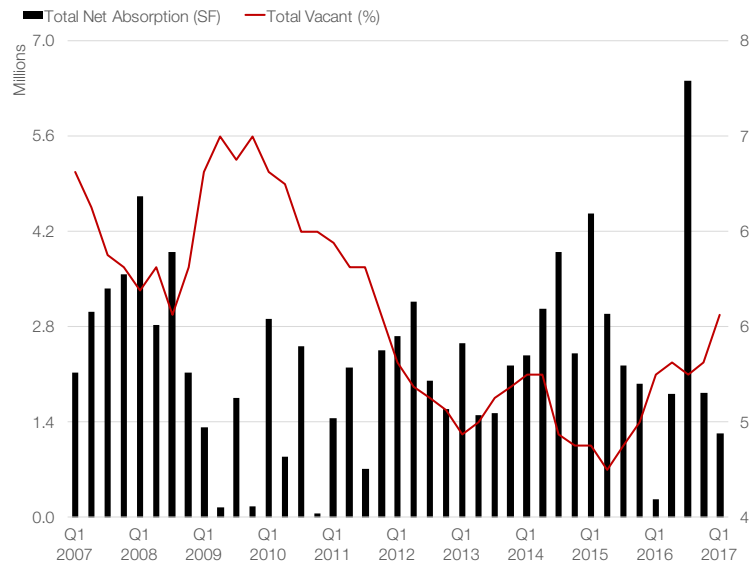
Industrial Market

Continued low oil prices have had a marginal impact on Houston's industrial market. With a reduced pipeline of new projects and strong demand from e-commerce tenants such as Amazon and FedEx, the Houston industrial real estate market is reasonably healthy. The vacancy rate for the metro area rose to 5.7% in Q1 2017, an increase of 40 basis points quarter-over-quarter and 50 basis points year-over-year. In line with broker sentiment, available sublease space for all industrial property types is down 15.8% since Q4 2016. In addition, net absorption stood at positive 1,233,828 sq. ft. as of the quarter's end—this on the heels of the more than 10.3 million sq. ft. of positive absorption recorded in 2016 (4 million sq. ft. of which Daikin was responsible for). Following a year rife with speculation around the energy market's recovery and uncertainty over the new presidential administration, Houston's industrial market is primed for a reprieve in 2017.

Houston Economy

Per the U.S. Census Bureau, the Houston metro area reported 125,005 new residents from July 1, 2015, to July 1, 2016, and Houston ranks fifth in the 10 most populous metro areas in the country as of July 1, 2016. As for the Houston job market, the unemployment rate (not seasonally adjusted) ticked up to 5.9% in February, up from 5.7% in January and above 4.8% a year ago. Houston remains above the Texas rate of 5.1% and the U.S. rate of 4.9%. Job growth in Houston increased by 6,200 jobs during the month in February. Government, mainly led by colleges and school districts, had the largest monthly gain of 8,400 jobs. Trade, Transportation, and Utilities had the largest drop, losing 7,800 jobs. The Greater Houston Partnership is forecasting one more soft year in 2017 (albeit with an encouraging job forecast of adding as many as 30,000 new jobs this year), and expects that by 2018 the market should be trending upward.

Supply & Demand



Market Indicators

	Current Q1 2017	Prior Quarter Q4 2016	Year Ago Q1 2016
Net Absorption (sq. ft.)	1,233,828	1,833,112 ↓	261,264 ↑
Vacancy (%)	5.7	5.3 ↑	5.2 ↑
Availability (%)	9.5	9.3 ↑	8.8 ↑
Avg Asking Gross Rent (\$)	7.02	6.91 ↑	6.93 ↑
Construction (sq. ft.)	4,495,393	7,157,892 ↓	14,381,751 ↓
Deliveries (sq. ft.)	2,206,883	3,342,514 ↓	2,160,379 ↑
Inventory (sq. ft.)	538,283,190	534,847,730 ↑	523,762,613 ↑

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MARKET OVERVIEW

Net Absorption

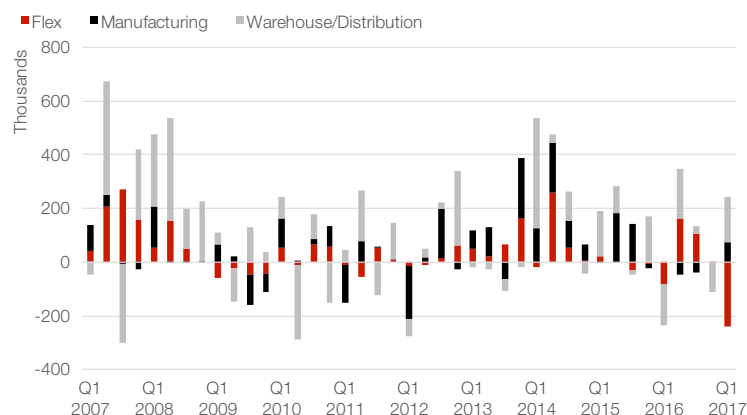
Houston ended the first quarter of 2017 with positive 1,233,828 sq. ft. of net absorption. Flex space represented negative 639,593 sq. ft. of that total, manufacturing space was responsible for negative 391,838 sq. ft., and warehouse/distribution space closed the quarter with positive 2,265,259 sq. ft.

The Southeast Warehouse/Distribution submarket was almost single-handedly responsible for the overall positive absorption in the Houston industrial market, and remains center stage in the region due to petrochemicals and trade activity. Demand is especially high for properties that have rail-served distribution space near the Port of Houston. In the first quarter of 2017, the Southeast submarket was responsible for 34% of absorption gains and 23% of total leasing activity in Houston. The major move-ins contributing to the quarterly gains include 495,462 sq. ft. of space taken by IKEA in Cedar Port Distribution Park; more than 660,000 sq. ft. of space occupied at Ameriport Industrial Park; and 145,376 sq. ft. of space absorbed at Eastport 8 on E. Interstate 10.

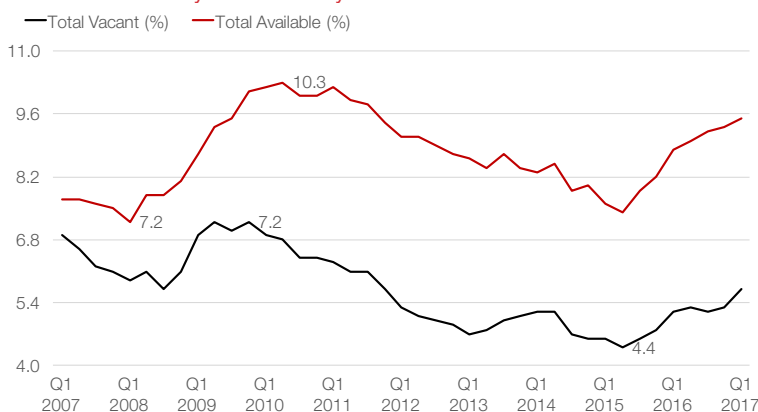
Availability and Vacancy

Houston's industrial availability rate, which measures the total amount of space being marketed for lease, increased by 20 basis points quarter-over-quarter, from 9.3% to 9.5%. By the end of the first quarter, Houston had 51.6 million sq. ft. of available industrial space. Among the major property types, Warehouse/Distribution ended at 9.5% availability, Manufacturing closed at 8.1% availability, and Flex space finished at 12.6% availability. Available sublease space dipped from a peak of almost 5.4 million sq. ft. as of fourth quarter 2016, down to 4.5 million sq. ft. by the close of first quarter 2017. Across all industrial property types, available sublease space was down 15.8% quarter-over-quarter. The North submarket continued to have both the highest overall vacancy and availability rates, at 9.1% and 13.1%, respectively. The higher availability is due in part to an ongoing large supply of institutional warehouse and distribution space at 13.3%. Move-outs affecting net absorption in the North submarket included Ozburn-Hessey Logistics vacating 300,000 sq. ft. at Bayport North Distribution Center in Pasadena and Largo moving out of 200,220 sq. ft. at Clay-Campbell Business Park, in the Northwest submarket.

Net Absorption by Industrial Property Type



Historical Vacancy & Availability



Select Sale & Lease Transactions

Sale/Buyer	Building/Address	SF	Submarket
HRUS Underwood, LLC	Underwood Distribution Center Portfolio	2,165,200	Southeast
Prologis-Exchange W by NW LLC	West by Northwest Industrial Portfolio	809,196	Northwest
TIAA-CREF Investment Management	Fallbrook 1 & 2 Portfolio	693,400	Northwest
CalPERS	Beltway Crossing Northwest Portfolio	663,882	Northwest

Lease/Tenant	Building/Address	Type/Deal	SF	Submarket
Gulf Winds	Greens Port Industrial Warehouse	Direct/Renewal	303,281	Northeast
Ford Motor Company	Alamo Crossing Center	Direct/Renewal	250,000	Northwest
Exel	Citypark East Industrial	Direct/Renewal	167,753	Energy Corridor
McLane Group	Interstate Commerce Center	Direct/New	159,785	North

MARKET OVERVIEW

Asking Rent

The industrial market saw overall average asking rates rise \$0.11 per sq. ft. quarter-over-quarter to finish at \$7.02 per sq. ft. at the end of Q1 2017. Rates for industrial real estate throughout Houston show that the Southwest submarket has the highest prices for industrial space at \$8.02. The average rate for Flex space is highest in the Southwest submarket, at \$14.33 per sq. ft.; Manufacturing rates peak in the southwest at \$6.89; and Warehouse/Distribution space is at its pinnacle in the Northwest at \$7.71. The Northwest's top-tier rental rates are no surprise—the submarket is the traditional core of industrial development, with more than 152 million sq. ft. of the metro's 538 million sq. ft. of industrial space. Southwest Houston's vicinity to downtown and the Medical Center is said to be driving demand, as escalated prices may be pushing industrial development to the North and Northwest.

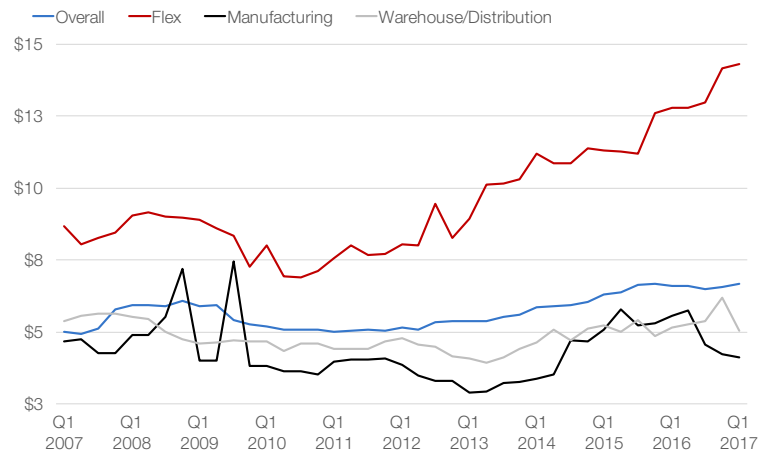
Construction & Deliveries

There is currently about 4.5 million sq. ft. under construction in the Houston industrial market, with about 36% of that space available for lease. The Southeast submarket has the most space in the pipeline at close to 1.5 million sq. ft., including Bayport North Industrial Park Buildings I-1, I-2 and I-3 underway with more than 613,000 sq. ft. and no pre-leased space. The Northwest submarket comes in second with about 1.3 million sq. ft. as Pepperl + Fuchs' 110,000-sq.-ft. distribution building nears completion at 500 Cane Island Parkway in Katy; and FedEx works towards a completion date of August 2017 for its 800,000-sq.-ft. warehouse at 8787 Grand Parkway in Cypress. During the first quarter of 2017 there were 26 buildings delivered to the Houston industrial market totaling 2.2 million sq. ft., all of which was Warehouse/Distribution except for 100,000 sq. ft. of flex R&D space at Dow Chemical in Lake Jackson.

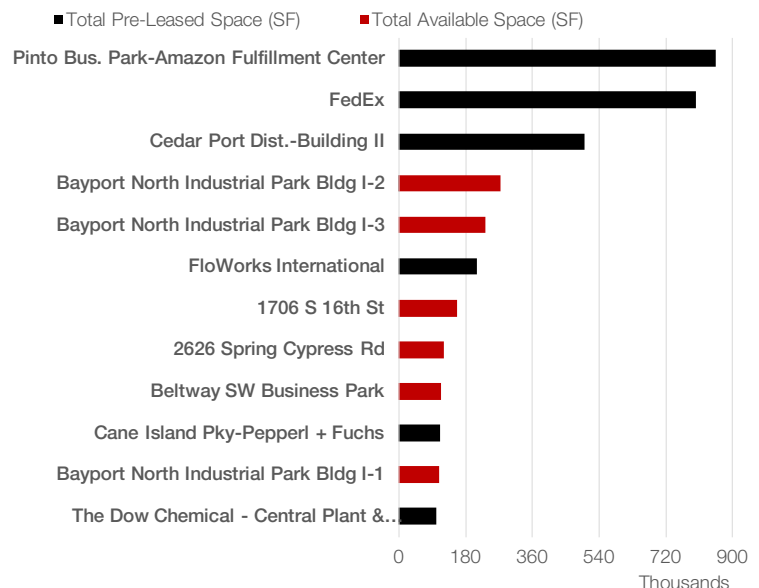
Leasing Activity

Overall leasing activity was down quarter-over-quarter at almost 3.5 million sq. ft. during Q1 2017 from 5.0 million sq. ft., and year-over-year from 6.7 million sq. ft. The average sq. ft. leased per quarter during the last ten years is approximately 6.1 million sq. ft. Notable tenants that signed lease agreements this year include Gulf Winds, with a 303,281-sq.-ft. renewal at Greens Port Industrial in the Northeast submarket; Ford Motor Company, taking 250,000 sq. ft. at Alamo Crossing Center in the Northwest; and Exel renewing 167,753 sq. ft. of space at Citypark East Industrial in the Energy Corridor.

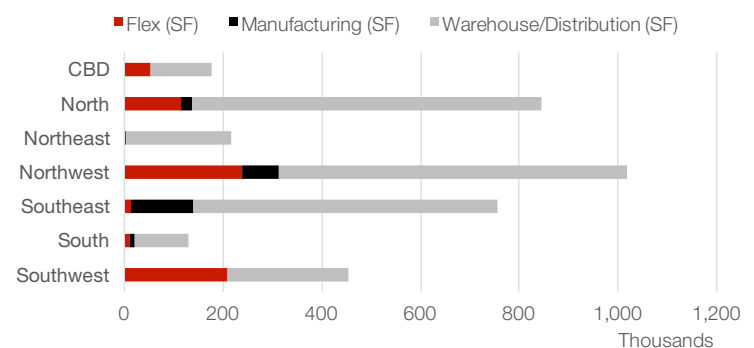
Historical Gross Average Asking Rent



Under Construction Over 100,000 SF



Top 10 Submarkets by Leasing Activity



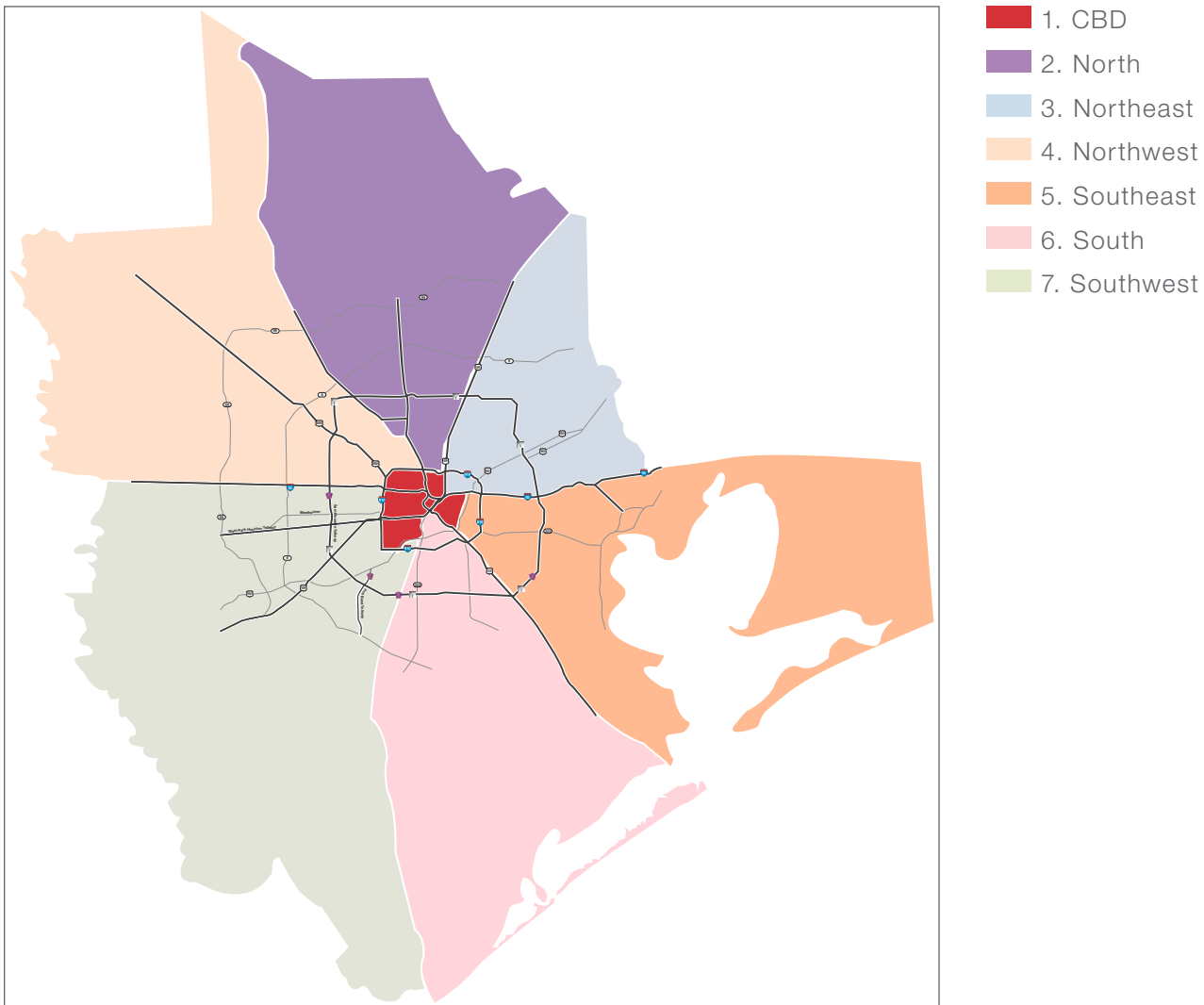
MARKET OVERVIEW

Submarket Stats

Submarket	Inventory (SF)	Q1 2017 Net Absorption (SF)	2017 YTD Net Absorption (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2017 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Avg Asking Rent (\$/PSF)
CBD Total	54,681,230	-694,381	-694,381	5.6	9.7	0	0	0	5.40
Flex	3,253,284	-34,043	-34,043	7.9	7.7	0	0	0	15.22
Manufacturing	10,046,959	-537,702	-537,702	7.8	12.3	0	0	0	5.59
Warehouse/Distribution	41,380,987	-122,636	-122,636	4.9	9.3	0	0	0	4.87
North Total	92,194,182	-142,475	-142,475	9.1	13.1	84,415	84,415	1,184,450	7.57
Flex	9,859,580	-109,997	-109,997	9.1	16.4	0	0	120,000	9.22
Manufacturing	12,606,604	-101,162	-101,162	5.4	9.5	0	0	0	6.26
Warehouse/Distribution	69,727,998	68,684	68,684	9.7	13.3	84,415	84,415	1,064,450	7.58
Northeast Total	34,510,624	193,789	193,789	2.3	6.1	20,088	20,088	0	6.05
Flex	446,715	-11,796	-11,796	17.0	23.2	0	0	0	-
Manufacturing	6,628,176	145,964	145,964	0.5	3.8	0	0	0	6.00
Warehouse/Distribution	27,435,733	59,621	59,621	2.6	6.4	20,088	20,088	0	6.05
Northwest Total	152,342,024	-32,050	-32,050	5.4	9.3	244,522	244,522	1,271,690	7.24
Flex	16,459,965	-13,421	-13,421	7.6	10.9	0	0	12,000	6.80
Manufacturing	23,060,309	3,384	3,384	3.3	7.0	0	0	34,300	6.48
Warehouse/Distribution	112,821,750	-22,013	-22,013	5.5	9.6	244,522	244,522	1,225,390	7.71
Southeast Total	89,572,275	1,743,957	1,743,957	4.8	9.1	1,557,658	1,557,658	1,477,141	6.94
Flex	2,385,609	-48,280	-48,280	10.3	12.9	0	0	42,800	12.53
Manufacturing	16,243,378	-3,020	-3,020	2.0	7.9	0	0	0	6.33
Warehouse/Distribution	70,943,288	1,795,257	1,795,257	5.3	9.2	1,557,658	1,557,658	1,434,341	6.65
South Total	46,162,001	59,724	59,724	3.5	6.7	64,800	64,800	257,290	5.38
Flex	2,100,439	-182,290	-182,290	12.7	18.5	0	0	0	9.14
Manufacturing	8,988,763	74,490	74,490	1.0	5.9	0	0	0	4.57
Warehouse/Distribution	35,072,799	167,524	167,524	3.6	6.2	64,800	64,800	257,290	5.46
Southwest Total	68,820,806	105,264	105,264	5.8	9.2	235,400	235,400	304,822	8.02
Flex	12,315,894	-239,766	-239,766	9.3	11.7	100,000	100,000	0	14.33
Manufacturing	6,980,624	26,208	26,208	4.1	10.8	0	0	0	6.89
Warehouse/Distribution	49,524,288	318,822	318,822	5.2	8.4	135,400	135,400	304,822	6.94
Houston Market Total	538,283,142	1,233,828	1,233,828	5.7	9.5	2,206,883	2,206,883	4,495,393	7.02
Flex	46,821,486	-639,593	-639,593	8.9	12.6	100,000	100,000	174,800	9.53
Manufacturing	84,554,813	-391,838	-391,838	3.5	8.1	0	0	34,300	6.13
Warehouse/Distribution	406,906,843	2,265,259	2,265,259	5.7	9.5	2,106,883	2,106,883	4,286,293	6.85

MARKET OVERVIEW

Houston Industrial Submarkets



Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

HOUSTON INDUSTRIAL | Q1 2017

Quarterly Market Report

APRIL 2017

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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q4 2016



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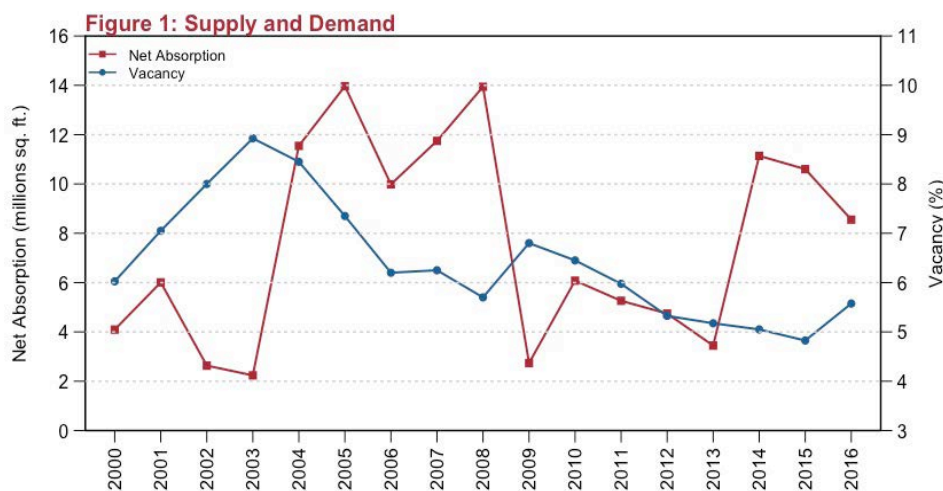


Table 1. Key market indicators for Q4 2016, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

Market Variables	Q4 2016	Percent Change over Time Period	
		QoQ (%)	YoY (%)
Net Absorption (sq. ft.)	1,848,815	-72.4 %	3.4 %
Leasing Activity	3,288,168	-47.8 %	-64.8 %
Availability (%)	9.5%	1.1 %	15.9 %
Vacancy (%)	5.7%	3.6 %	14.0 %
Deliveries (RBA, sq. ft.)	2,953,204	-54.2 %	-12.9 %
Construction (RBA, sq. ft.)	5,223,750	-34.2 %	-59.8 %
Inventory (RBA)	578,871,870	0.5 %	2.3 %
Inventory (No. Buildings)	18,806	0.2 %	0.8 %

Executive Summary

Economy

- The 115th Congress is expected to see new policies and possible changes in the repeal/replace of Affordable Care Act, corporate and individual tax cuts and reforms, increased infrastructure spending, and trade policy and regulations.
- With increases in oil prices and rig counts, the energy sector has likely passed its bottom, and national, regional and local signs indicate a positive but bumpy improvement ahead.
- Gross domestic product (GDP) is anticipated to be 1.6% for 2016 and 2.1% for 2017, both slower than the 2.6% measure seen in 2015.
- U.S. employment remains steady in posting 156,000 new jobs in December, for a total of 2.2 million new jobs in 2016 (an average of 180,000 new jobs per month); though still strong, 2017 is anticipated to see a slightly lower 160,000 new jobs per month.
- Houston's economic outlook is expected to shift from negative to a positive outlook in 2017.

Industrial Market

- Q4 2016 posted 1.8 million sq. ft. of net absorption, representing a large -72.4% QoQ decrease due to the 4.0 million Daikin delivery in Q3.
- Total annual net absorption was 8.5 million sq. ft.; absent of Daikin, it would have been 4.5 million sq. ft., more in line with the pullback in the oil industry and Houston's economy.
- 3.29 million sq. ft. of leasing activity was recorded for Q4 2016, which is significantly below its historic Q4 average of 5,168,529 sq. ft.
- 9.5% availability was a 15.9% increase YoY; 5.7% vacancy was a 14.0% increase YoY.
- Vacancies for flex, manufacturing, and warehouse/distribution space were 7.1%, 4.0%, and 6.0%, respectively.
- Availability of manufacturing, in particular crane-served buildings, remains the soft spot in Houston's industrial market, at 9.5% significantly greater than the historic Q4 average of 4.9%.

Broker's Perspective

As 2016 wraps up and we move into 2017, the same questions remain for Houston's industrial real estate market: are we over the worst of the downturn? Has the price of oil stabilized? At this point, most economists agree that the worst of the economic downturn is over. Yet, there are certainly a few naysayers calling the current stabilization in pricing a dead cat bounce, indicating another drop may be looming. The market responds to sentiment as well as supply/demand economics (and geopolitical flashpoints, natural disasters, etc.), and it seems the overall sentiment in Houston is positive. Employees feel a little more secure in their jobs, rig count is up, the Houston Purchasing Manager Index (measuring industrial manufacturing activity) is up, and we've got what seems to be a very pro-U.S. business administration going into the White House.

How is all of this affecting Houston's industrial real estate market? Most new construction and leasing activity continues to be in the southeast, bolstered by the same forces that made this submarket the star of 2016, namely continued infrastructure investment and terminal expansion at the Port of Houston, completion of widening the Panama Canal, lifting the ban on U.S. crude exports, and importantly, growth in the plastic resin industry. The 3PLs and plastics packagers in the area (and their associated service companies) are maintaining their already large footprints and have either leased additional space or are looking for more. Rail-served distribution space is in very high demand and short supply. Large national developers are looking for land sites in the southeast. The attractive, easily developable land sites with good access have been picked over and the ones with a little more "hair" on them are still priced too high to justify based on market rental rates. We'll have to see how the market adjusts, as land prices in the southeast are not likely to come down any time soon. The limited supply of good sites will prevent the submarket from experiencing the construction boom we saw in the north Houston submarket in 2013-2015.

The north Houston submarket will continue to have the highest industrial vacancy rate in the city (for distribution buildings) for the foreseeable future, as demand for space still lags well behind supply. Deals are getting done, but they are few and far between, and at very favorable rates for tenants. Some tenants are even considering relocating from other submarkets in the city due to the aggressive terms they are getting from landlords who have been sitting on large, vacant space in north Houston. This space will get leased, but it will take some time. Houston gained 132,000 new residents in 2016, and we're expecting more than that in 2017. These new Houstonians need consumer goods and those items need to be stored somewhere.

Activity in the southwest submarkets since the typical slowdown that happens around the holidays. There are some large holes to fill in distribution buildings in the Southwest after the recent flood of new construction deliveries in 2016, but there is no reason to believe that these spaces won't get leased up on a reasonable timeline.

A series of several sizeable deals in northwest Houston have helped to keep submarket vacancy rates down. If history is any indication, the remaining spaces won't stay vacant very long.

Overall, Houston's industrial real estate market is in pretty good shape going into 2017. Oil service manufacturing companies that weathered the storm have consolidated or are sitting on capital ready to be deployed, which is driving an increase in sales of crane-served buildings. The Federal Reserve's recent interest rate hike with more on the horizon suggests it is best to lock in a good rate now. Speculative new construction is reigned in as developers and investors are waiting to see if the recent increase in activity is real or just "tire-kickers" looking to see what's out there. Either way, companies are feeling positive enough to consider expansions, and Houston is back on the radar of institutional investors. Considering what Houston has been through over the past couple of years, reasonably healthy market statistics and positive market sentiment point toward a promising 2017.



Holden Rushing

Vice President | NAI Partners

“...companies are feeling positive enough to consider expansions, and Houston is back on the radar of institutional investors.”

ECONOMIC OVERVIEW

National Economy

As the 115th Congress began alongside a new president-elect, some new policies and policy changes that may unfold include repealing/replacing the Affordable Care Act, corporate/individual tax cuts and reforms, increased infrastructure spending, and among others trade policy and regulations. Despite a very vibrant political cycle with some clear consequences, Trump's election is not anticipated to influence gross domestic product (GDP) in 2017, which is expected to be about 2.1%. GDP may roll in for 2016 around 1.6%, lagging behind 2.6% in 2015. Proposed tax cuts tend to mostly lead consumers to reduce their debt, rather than increase consumer spending, which accounts for about two-thirds of GDP. Consumer spending did grow by 2.8% in the third quarter of 2016.

Job growth continues to be a strength of the U.S. economy. Employment in December increased by 156,000 new jobs, with particular strengths in health care, hospitality, government and manufacturing. In 2016, there was an average of about 180,000 new jobs added per month, for a total of 2.2 million new jobs and an unemployment rate of 4.7%. Job growth in 2017 is anticipated to slow but remain strong at around 160,000 new jobs per month. Increases in job openings and turnover further suggest a tightening labor market. Nevertheless, with more people entering the labor force, unemployment is expected to drop to 4.5% in 2017. Strong employment and job growth are big contributors to the likely two-to-three interest rate hikes anticipated to occur by the Federal Reserve in 2017. Personal income also rose in every state in Q3 2016.

Core inflation, excluding food and energy, is projected to be about 2.3% in 2017, a modest increase from 2.2% in 2016. However, energy prices are likely to increase modestly in 2017, for an overall 2.5% inflation in 2017, up from 2% in 2016. The question remains as to whether OPEC's cuts will really manifest and if so, how much they will lead to the stabilization and increase in oil prices and the energy sector. Either way the oversupply of production and stored oil still persists and needs to be burnt off

for WTI prices to see substantial shifts upward. The oil markets are likely to remain volatile in 2017, possibly stabilizing some during the latter half of the year.

Business spending was largely flat in 2016, but a modest increase of 3-4% may occur in 2017. Demand for factory-produced goods continues to strengthen after a lengthy lull. The Small Business Optimism Index of the National Federation of Independent Businesses (NFIB) increased substantially by 7.9 points in December and 10.9 points in November, following decreases over the past 12-18 months. Such positive swings indicate an expected stronger economy associated with possible easing of regulations. The ISM manufacturing index rose to 54.7, a two-year high on the heels of increases in production and new orders in December. In December, the ISM non-manufacturing index was unchanged at 57.2.

Indicators such as residential construction suggest that the housing market will strengthen in 2017, despite substantial drops in housing starts in November 2016. Inventory remains low, with more people looking to buy homes than are readily available. With political headwinds in 2016 in both the U.S. and U.K. leading to uncertainty, growth in private nonresidential construction spending is anticipated to be about 7.5% in 2016. The Dodge Momentum Index of non-residential construction increased 2.9% in December after downward revisions for November.

Export prices are expected to increase with the strong value of the dollar, which in turn will produce an anticipated increase in U.S. trade deficit by 4% in 2017. Meanwhile, import prices rose 1.8% in 2016. Though all data are not yet in, it appears that international trade in 2016 will fare better than initially anticipated with the shortfall on par with that of 2015. Retail sales were weaker overall than hoped for in December, marking an increase of 0.6% in December following 0.2% in November (compared to expectations of 0.5%).

Houston and Texas Economy

The economies of Texas and Houston appear to be poised to begin to see some positive changes in 2017, following the bottoming of the oil industry and its

economic impacts. However, at both the state and local levels, we are likely to see some continued turbulence as we bounce back from the downturn. Oil prices and rig counts are moving in the right direction as the outlook begins to brighten. The Dallas Fed Energy Survey increased to 40.1 in the fourth quarter from 26.7 in the prior quarter, based on its responses of executives in the industry. Signs of recovery manifested in both employment and production.

Employment in Texas grew 2.1% in the second half of the year, compared to just 0.8% in the first half of the year. Overall, Texas employment will be about 1.5% for 2016, with a forecast of growth near 2.1% for 2017. From December 2014 through November 2016 Houston lost about 70,000 jobs in sectors associated with oil rigs. Of these jobs, 25,000 were from mining and 25,000 were from manufacturing. The outlook is getting better. Houston jobs grew 1.5% from August to November. Job growth remains weak in the oil and oil service fields, but is positive in leisure and hospitality, professional and business services, and trade, transportation, and utilities. Houston's unemployment was 4.6%. Service sector employment in Houston grew at 2.3%, above its average of 2.0% since 2000.

The revenue index of the Texas Service Sector Outlook survey increased from 13.7 in November to 20.6 in December. Retail sales in Texas also increased according to the Texas Retail Outlook Survey, which rose from 6.0 to 19.2. Factory activity in Texas has increased consistently over the past six months, according to the Texas Manufacturing Outlook Survey. The index which measures manufacturing conditions increased to 13.8. The Houston Business Cycle Index contracted from December 2014 to November 2016 an annualized 0.4%, but has grown 1.8% over the past five months.

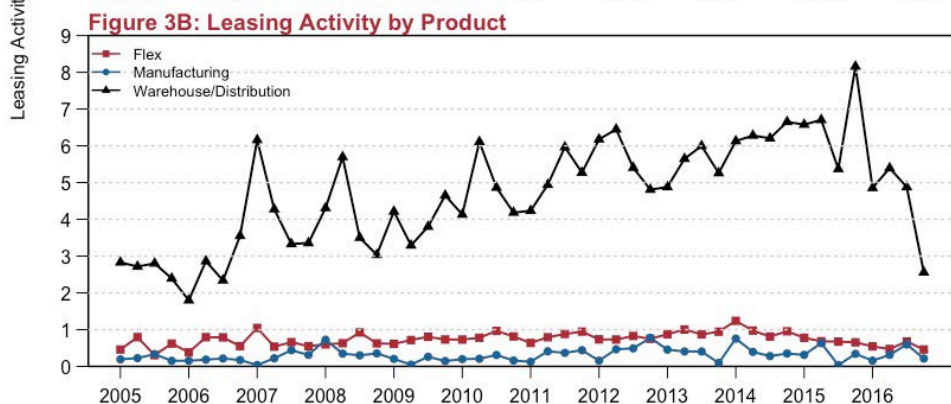
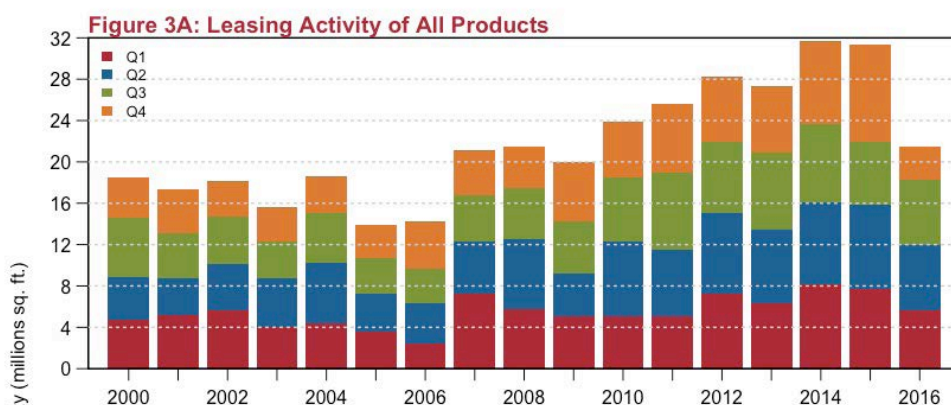
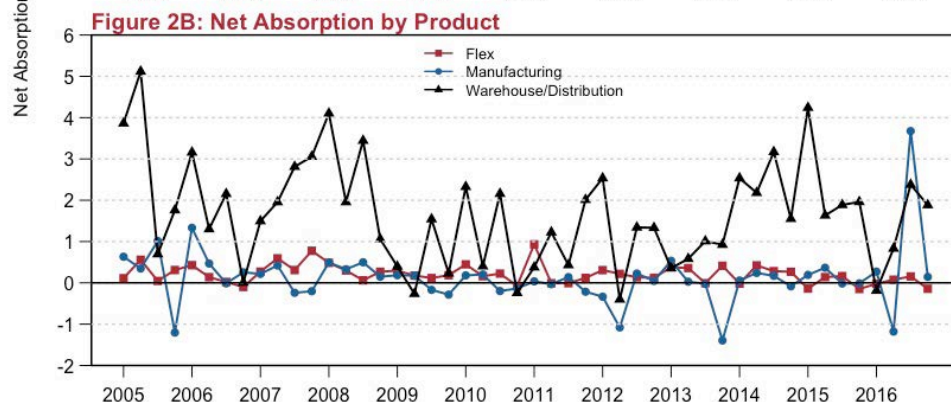
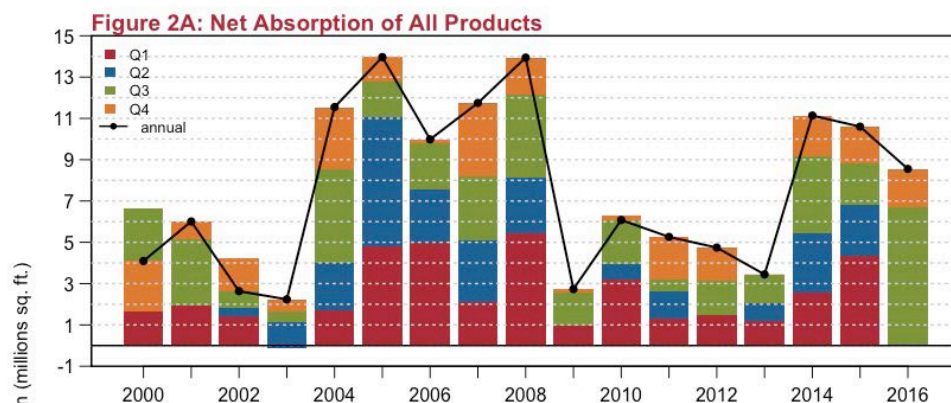
The Houston Business Cycle Index grew 2.6% in August, following 2.0% and 2.6% in July and June, respectively. Annually, however, the index is down 2.2% YoY. Texas exports declined 7% in July, the largest drop seen since 2009.

Net Absorption

As a key metric for demand of industrial space, net absorption measures the change in occupied inventory, including direct and sublease space. Total net absorption of all products combined in Q4 2016 was 1,848,815 sq. ft., yielding a decrease of -72.4% QoQ but an actual increase of 3.4% YoY (Table 1, Fig 2A). The historic Q4 average (\pm 95% confidence interval) for net absorption is 1,215,416 sq. ft. (\pm 709,279). We are 95% certain that Q4 absorption typically falls between 506,137 to 1,924,696 sq. ft. Despite the pullback in oil and associated impacts on the industrial market, net absorption in Q4 2016 did not deviate significantly from historic Q4 performance since 2000. Figure 2B breaks total net absorption down since 2005 by year and quarter for flex, manufacturing, and warehouse/distribution space. All three product types show declines in Q4 2016, consistent with overall net absorption for all industrial products combined (Figure 2A). Nevertheless, Q4 net absorption of 1.8 million sq. ft. brings total annual net absorption for 2016 to 8.6 million sq. ft. This makes 2016 the eighth highest year for demand since 2000. It is important to note that 4.0 million sq. ft. of absorption in Q3 came from the Daikin delivery.

Leasing Activity

Another measure of demand that is more forward-looking than net absorption is leasing activity, the total amount of space represented by direct leases, subleases, renewals, and pre-leasing of rentable building area. Figure 3A reports all leasing activity since 2000, while Figure 3B breaks down leasing activity by year and quarter for each of flex, manufacturing, and warehouse/distribution space. Leasing activity



of 3,288,168 sq. ft. occurred in Q4 2016, yielding decreases of -47.8% QoQ and -64.8% YoY (Table 1). The historic Q4 average (\pm 95% confidence

interval) for leasing activity is 5,168,529 sq. ft. (\pm 969,647). We are 95% certain that Q4 leasing activity typically falls between 4,198,881 sq.

ft. and 6,138,176 sq. ft., indicating that leasing activity in Q4 was below its historic Q4 performance. Leasing activity of 3,288,168 sq. ft. in Q4 brings total leasing activity for 2016 to 21.5 million sq. ft., a drop from 2015 but well within typical annual activity. With net absorption lagging behind leasing activity, lower leasing activity in 2016 suggests lower absorption in quarters to come.

Vacancy and Availability

Vacancy and availability measure the supply of industrial space. Availability estimates total supply because it includes vacant, occupied, and sublease space. Vacancy estimates empty space on the market, whether or not that space is leased or for rent. Supply continues to increase, particularly for manufacturing products (Tables 1 and 2, Figure 4). For the industrial market as a whole, availability in Q4 2016 was 9.5%, an increase of 1.1% QoQ and 15.9% YoY (Table 1). Vacancy for all industrial space combined was 5.7%, an increase of 3.6% QoQ and 14.0% YoY (Table 1).

Figure 4 shows percent availability and vacancy for flex, manufacturing, and warehouse/distribution buildings since 2000. Table 2 summarizes availability and vacancy of flex, manufacturing, and warehouse/distribution buildings for Q4 2016. Vacancy and availability of flex space remain below historic levels. However, with the surge of sublease space, availability of manufacturing space at 9.2% is significantly greater than its historic average of 4.7%. Nonetheless, the vacancy measure for manufacturing has yet to see the increase exhibited by the availability measure, and remains within its historic 95% interval of performance at 4.2%. As for warehouse/distribution space, both vacancy and availability

are increasing, but still within their historic ranges of performance.

Asking Rent

Figure 5 plots asking rent prices since 2000 for flex, manufacturing, and warehouse/distribution space. In Q4 2016, asking rents for flex space

nudged upwards a touch, while manufacturing also inched up, and warehouse/distribution space held steady.

Construction

Construction of new buildings shapes new supply of industrial space.

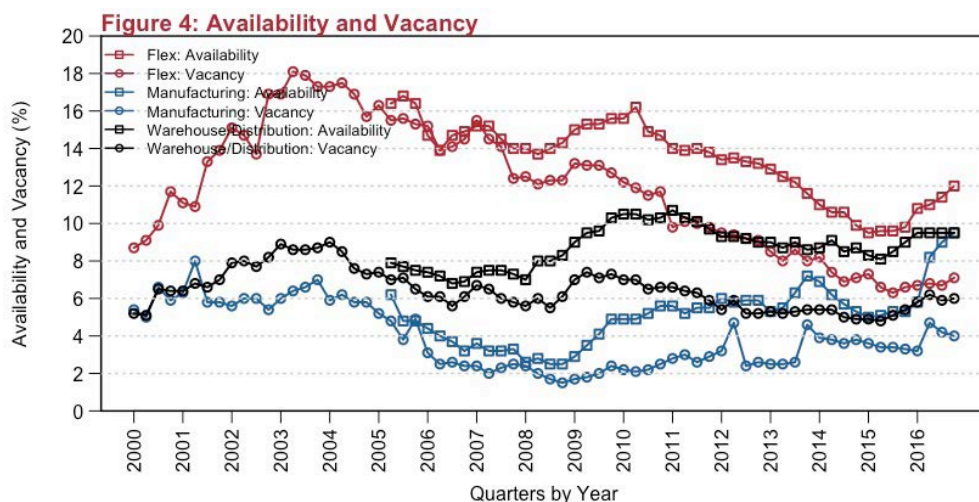


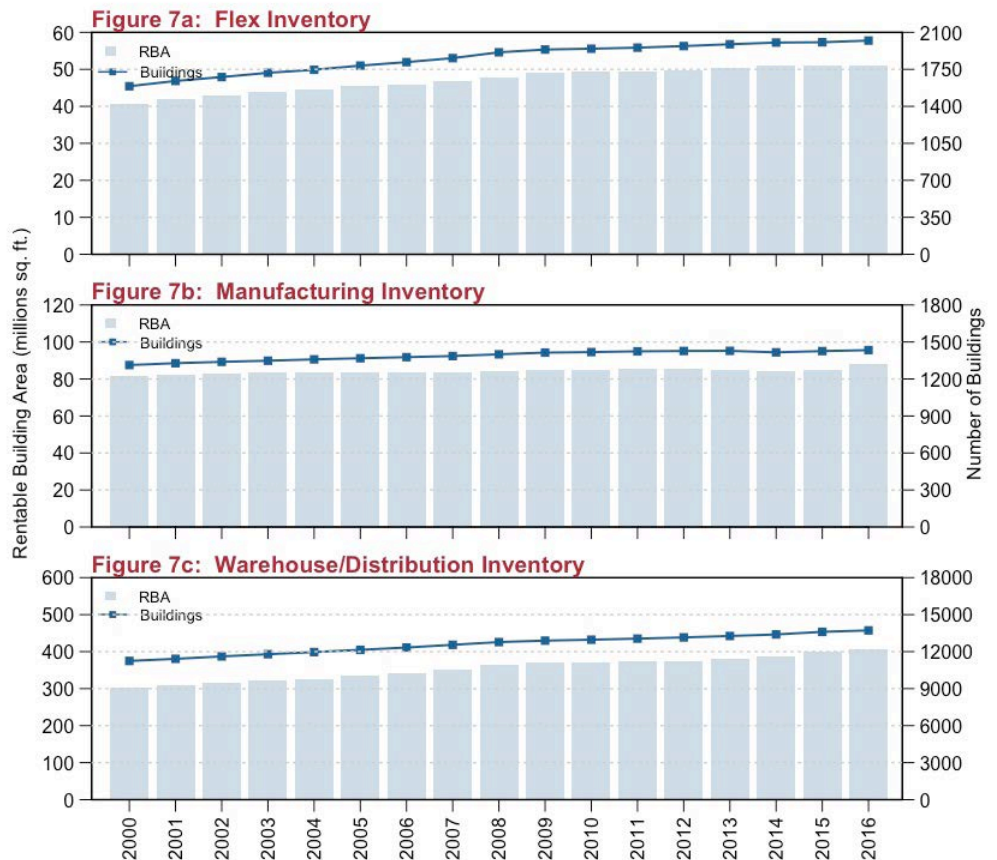
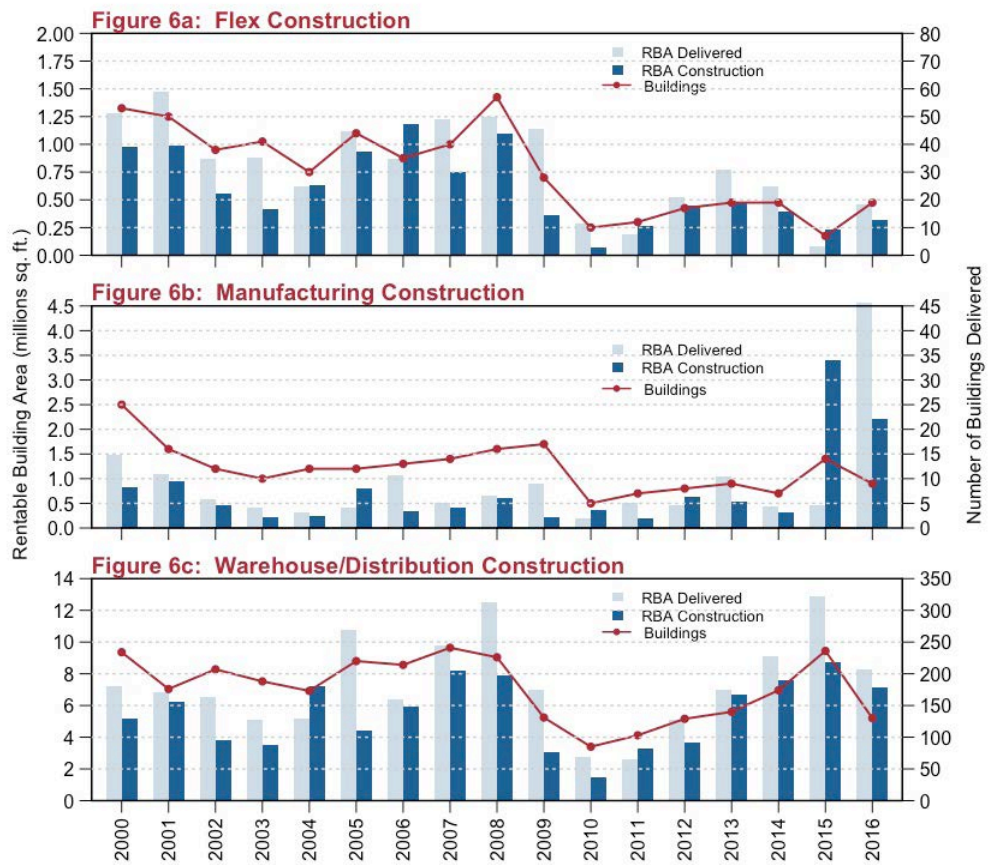
Table 2. Q4 2016 supply of industrial space as measured by the availability and vacancy of flex, manufacturing, and warehouse/distribution space (% total RBA), compared to the historic Q4 average since 2000. The 95% confidence interval is the historic expected Q4 performance.

	Q4 2016	Historic Q4 Average	95% Confidence Interval for Q4
Availability (%)			
Flex	11.5	13.6	12.2 to 15.0
Manufacturing	9.2	4.7	3.9 to 5.6
Warehouse/Distribution	9.4	8.7	7.9 to 9.4
Vacancy (%)			
Flex	6.8	12.1	10.3 to 13.9
Manufacturing	4.2	3.8	2.8 to 4.7
Warehouse/Distribution	5.7	6.3	5.8 to 6.9

“RBA Delivered” refers to completed construction, while “RBA Construction” refers to space under construction that has not yet been completed. As detailed in Table 1 and Figure 6, deliveries in Q4 2016 were 2.9 million sq. ft., a decrease of -54.2% QoQ and -12.9% YoY (Table 1). About 4.0 million sq. ft. of manufacturing construction is accounted for by Daikin Industries’ new campus in Waller, Texas. RBA under construction was 5.2 million sq. ft. in Q4 2016, decreases of -34.2% QoQ and -59.8% YoY (Table 1).

Inventory

Figure 7 depicts changes in the inventory of flex, manufacturing, and warehouse/distribution space since 2000, both for RBA and number of buildings. RBA inventory for all industrial space increased to 578 million sq. ft. for 18,806 buildings, which is an increase of 0.2% QoQ and 0.8% YoY (Table 1).



Select Largest Deliveries (AS OF END OF Q4)

Building Address	Rentable Building Area	Percent Leased
600 Fallbrook Dr	500,400	0%
1801 S 16th St	415,272	0%
14151 E Hillcroft St	240,000	0%
12101 McClain Rd	217,440	0%
Highway 90 A & Beltway 8	208,907	0%
9631 Bay Area Blvd	153,655	0%
12121 McCalin Rd	131,560	0%
9331 Bay Area Blvd	110,000	0%
10653 W Airport Blvd	91,560	0%
Highway 90 A & Beltway 8	68,800	0%

Select Under Construction (AS OF END OF Q4)

Building Address	Rentable Building Area	Percent Leased
5000 Ameriport Pky	458,280	0%
4121 Malone Dr	274,479	0%
4111 Malone Dr	231,983	0%
2626 Spring Cypress Rd	120,000	0%
4033 Malone Dr	107,291	0%
10633 W Airport Blvd	95,400	73%
12320 Cutten Rd	80,000	50%
1321 W Pasadena Fwy	78,490	0%
3207 N Sam Houston Pky E	64,800	0%
7430 Fairbanks N Houston Rd	40,000	0%
12527 Taylor Rd	36,600	0%
1924 Aldine Western Rd	34,500	0%
10344 New Decade Dr	34,350	0%
7800 Breen Rd	30,000	0%
12527 Taylor Rd	30,000	0%
7440 Fairbanks N Houston Rd	28,000	0%
12527 Taylor Rd	27,000	0%

Select Major Lease Transactions (AS OF END OF Q4)

Tenant	Qtr.	Building	Size (SF)
Adams Warehouse & Delivery*	4th	279 McCarty	75,540
Consolidated Pressure Control*	4th	27260 Oakridge Park Dr	66,875
Gateway Supply, Inc.	4th	620 N Houston Ave	52,145
Debusk	4th	1005 W 8th St	49,178
Diesel Core	4th	21401 Park Row Dr	42,550
MIAT College of Technology*	4th	Prologis Northpark	40,400
SRG Stairs	4th	555-575 W 38th St	40,352
Deep Down, Inc.*	4th	18511 Beaumont Highway	40,000
Diverse Metal Products	4th	6614 Dixie Dr.	28,800
Ideal Products	4th	3009 Highway 225	27,854
Hertz	4th	3920 North Fwy	27,750
ALG Truck & Trailer Repair	4th	5855 Kelley St	24,872
Advent*	4th	6605 Roxburgh Dr	21,700
Morison Polymer	4th	3635 Willowbend Blvd	21,583
FSR Service	4th	15411 Vantage Pky W	21,130
Indusys Technology Inc	4th	3670-3698 Westchase Dr	20,222

* Renewal / Expansion

**Build-To-Suit

Flex Market Statistics (AS OF END OF Q4)

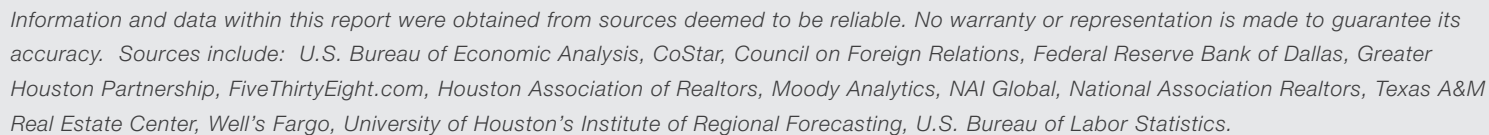
Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	1	1,200	1,200	100.0%	(1,200)	0	\$0.00
CBD Ind	173	3,712,580	231,419	6.2%	(9,216)	0	\$13.25
North Corridor Ind	398	10,675,360	854,901	8.0%	(43,628)	127,639	\$9.04
Northeast Corridor Ind	64	762,483	53,246	7.0%	(16,748)	0	\$7.43
Northwest Corridor Ind	567	17,417,896	1,299,570	7.5%	(160,482)	12,000	\$9.00
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	216	3,114,106	274,307	8.8%	82,809	42,800	\$11.13
Southern Corridor Ind	122	2,480,976	109,035	4.4%	42,229	0	\$9.74
Southwest Corridor Ind	476	12,974,664	809,474	6.2%	171,501	102,000	\$11.46

Warehouse Market Statistics (AS OF END OF Q4)

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	26	1,599,711	531,120	33.2%	396,915	0	\$4.80
CBD Ind	1,902	55,783,125	2,916,773	5.2%	(978,831)	0	\$5.46
North Corridor Ind	3,161	89,592,474	7,859,621	8.8%	886,061	284,974	\$7.33
Northeast Corridor Ind	956	35,403,199	928,783	2.6%	142,461	20,222	\$4.86
Northwest Corridor Ind	4,156	143,008,938	6,950,319	4.9%	5,571,583	1,400,100	\$6.57
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,348	91,147,529	4,552,236	5.0%	2,836,384	2,487,695	\$5.94
Southern Corridor Ind	1,929	48,392,029	1,700,113	3.5%	(125,849)	274,800	\$5.91
Southwest Corridor Ind	2,240	61,440,152	3,419,482	5.6%	(198,765)	471,520	\$6.89

Total Industrial Market Statistics (AS OF END OF Q4)

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	27	1,600,911	532,320	33.3%	395,715	0	\$4.80
CBD Ind	2,075	59,495,705	3,148,192	5.3%	(988,047)	0	\$5.79
North Corridor Ind	3,559	100,267,834	8,714,522	8.7%	842,433	412,613	\$7.51
Northeast Corridor Ind	1,020	36,165,682	982,029	2.7%	125,713	20,222	\$4.92
Northwest Corridor Ind	4,723	160,426,834	8,249,889	5.1%	5,411,101	1,412,100	\$6.90
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,564	94,261,635	4,826,543	5.1%	2,919,193	2,530,495	\$6.25
Southern Corridor Ind	2,051	50,873,005	1,809,148	3.6%	(83,620)	274,800	\$6.03
Southwest Corridor Ind	2,716	74,414,816	4,228,956	5.7%	(27,264)	573,520	\$7.57



Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q4 2016



HOUSTON | AUSTIN | SAN ANTONIO

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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q3 2016



HOUSTON | SAN ANTONIO | AUSTIN

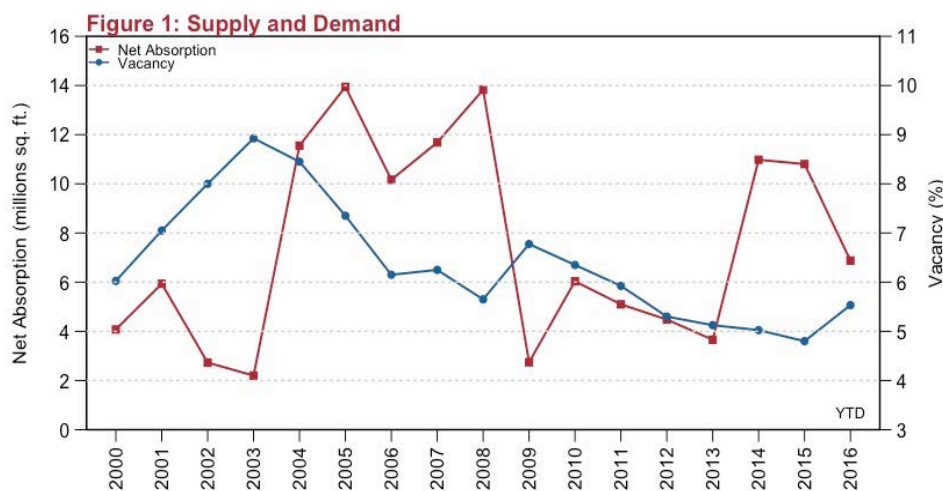


Table 1. Key market indicators for Q3 2016, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

Market Variables	Q3 2016	Percent Change over Time Period	
		QoQ (%)	YoY (%)
Net Absorption (sq. ft.)	6,890,715	1691.6 %	241.6 %
Leasing Activity	5,550,805	-3.6 %	-9.5 %
Availability (%)	9.4%	1.1 %	17.5 %
Vacancy (%)	5.5%	-5.2 %	14.6 %
Deliveries (RBA, sq. ft.)	6,593,114	151.7 %	86.0 %
Construction (RBA, sq. ft.)	7,495,046	-44.1 %	-45.7 %
Inventory (RBA)	573,475,775	1.0 %	2.4 %
Inventory (No. Buildings)	18,634	0.2 %	0.8 %

Executive Summary

Economy

- Economic uncertainty associated with an unprecedented presidential election cycle will continue after new administration moves in due to ongoing discontent between parties.
- U.S. energy sector has likely bottomed out; real signs of recovery have emerged over past the quarter, such as increases in rig counts.
- Gross domestic product (GDP) is anticipated to be 1.4% for 2016 and 2.0% for 2017, both slower than 2.5% in 2015.
- U.S. employment remains steady, posting 156,000 new jobs in September, after 167,000 in August. Job growth below 200,000 per month suggests tightening labor market.
- Houston technically entered an economic recession in November 2015; while the bottom has likely passed, Houston is not yet recovering.
- Houston's economic outlook is to shift from a modestly negative stance to one that is generally flat for the remainder of 2016.

Industrial Market

- 6.8 million sq. ft. of net absorption in Q3 2016, representing large percent increases QoQ and YoY, but 4.0 million sq. ft. was accounted for by the Daikin Industries delivery.
- Leasing activity of 5.5 million sq. ft. was within historic Q3 performance of all industrial products.
- Availability at 9.4% was a 17.5% increase YoY; vacancy at 5.5% was a 14.6% increase YoY.
- Vacancy for flex, manufacturing, and warehouse/distribution space was 6.8%, 4.2%, and 5.7%, respectively.
- The primary soft spot is availability of manufacturing space, which at 9.2% is significantly greater than its historic average of 4.7%.
- With the Daikin delivery, RBA under construction is down to 7.5 million sq. ft., a decrease of 46% YoY.

Broker's Perspective

Sales of industrial owner-occupied buildings are still happening. This class of buyers typically has healthy balance sheets, and is taking advantage of the cheap money that is still out there. A 100-basis-point increase in rates is not enough for companies to turn the other way when it comes to buying. Most of these consumer service companies are not oil-field related.

There are numerous differences between this oil downturn and the one that occurred in the 1980's, the most glaring of which is Houston's population increase over the last five years. Peoples' basic needs for food, clothing, and shelter have helped prop up the retail and consumer service industries, which are doing fairly well despite the oil crunch.

It will be very interesting to see how long it takes the oil industry to rebound if OPEC and other major non-OPEC nations hold true to their agreement to agree to freeze or cut production at the next OPEC meeting later in the Fall. Many oil service companies indicate they will need to see oil prices stabilize for six months before they will start to see a turnaround in their business. It's too early to make any sort of prediction on this given the fact that a lot of the discussion about freeze and production cuts is just that: talk.



Chris Caudill

Partner | NAI Partners

“A 100-basis-point increase in rates is not enough for companies to turn the other way when it comes to buying.”

ECONOMIC OVERVIEW

National Economy

With a truly unprecedented election cycle and associated economic uncertainty coming closer to an end, discontent between parties will still likely hang over policy and decision makers as a new administration takes hold. Gross domestic product (GDP) is anticipated to be 1.4% for 2016 and 2.0% for 2017, both slower than 2.5% in 2015. GDP is being led by consumer spending and job gains, but weak business, government spending, and slow export sales are holding it back. Consumer spending increased strongly by 4.3% in Q2. Revolving consumer credit continued its slow but steady increase, with August showing the largest increase in 2016. Consumer interest rates remained steady. The Consumer Sentiment index moved higher in September, rising 1.4 points to 91.2, most of which came from higher income households.

Employment continues to remain steady. September posted a solid 156,000 new jobs, following 167,000 new jobs in August. Job growth remaining below 200,000 per month is suggestive of a tightening labor market. As more people entered the labor force, unemployment moved up to 5%, which historically has been considered full employment in the labor force. Also, wage growth increased by 2.6% in September, following 2.4% in August. Some analyses still suggest that the recovery is weak and as a result interest rates may stay low. With strong September job growth, and two more job reports to go, the December FOMC meeting following the election will likely result in an interest rate hike by year's end. Nevertheless, interest rates are expected to remain low and fluctuate within a small range.

International trade continues to see slow export sales. U.S. exports are down 3.7% YoY. Yet, the negative economic impacts of falling import prices is beginning to fade, as import prices inched up 0.1% in September and are only down 1.1% relative to this time last year. The trade deficit widened modestly in August, but realized net exports are likely to make

a positive contribution to GDP in Q3. Demand for U.S.-made durable goods abroad will remain weak and flat through the end of the year and increase modestly by 3-4% in 2017. These trends may stifle U.S. business investment.

The Small Business Optimism Index of the National Federation of Independent Businesses (NFIB) continued its decrease over the past 12-18 months, declining 0.3% points in September to 94.1, but remaining unchanged relative to the past six-month average. This indicates businesses are cautious on hiring and inventories. While factory orders of durable and nondurable goods rose in Q3, business investment in capital goods fell, which signaled a softer quarter. In September the ISM manufacturing index bounced firmly back into expansion territory at 51.5.

The U.S. energy sector appears to have bottomed out, and over the past quarter or so has begun to show real signs of recovery, with consistent weekly increases in rig counts being led by the Permian Basin. Nevertheless, modest increases in drilling activity and oil production does not signal the end of the persistent oversupply and large stockpiles. Recently, the Organization of the Petroleum Exporting Countries (OPEC) has agreed to agree to cut production at the next OPEC meeting, but when it still remains unclear when the global rebalance of the oil market will occur.

More people are looking to buy homes, but home availability remains low, driving up prices. Residential housing for August, in terms of sales of both new and existing homes fell, and new housing starts declined as well. Yet, this is in the context of a strong first half of 2016 where home sales and new home construction were very strong through July 2016. The Dodge Momentum Index of non-residential construction declined 4.3 percent in September to 129, but is up 5.1% YoY. Both July and August saw pullbacks in total construction momentum across residential, nonresidential, and public spending.

Houston and Texas Economy

After adjusting for price effects, the Houston metropolitan area's GDP grew 4.6% from 2014 to 2015. Texas and Houston continue to have a mixed set of economic numbers, but all indications are that the bottom has come and we are now moving up. Rig count has increased every week for 15 of the past 16 weeks. Technically, Houston did move into an economic recession in November of 2015; while the bottom has likely come and gone, Houston is not yet recovering. The outlook for Houston is to shift from a modestly negative economic stance to one that is generally flat for the remainder of 2016.

Employment in Texas grew 2.6% in August and 3.2% in July, with an annualized increase of 0.8% for 2016 thus far. The employment forecast for Texas is 1.2% in 2016. Jobs in Houston grew 1.8% over June, July, and August, the best seen since early 2015. Job growth remains low in the oil and oil service fields, while growth was seen in leisure and hospitality, private education and health services and government, and then trade, transportation, and utilities. This is all in the context of annualized -1.0% decline in employment of about 15,000 jobs year to date. Unemployment was 4.7% in Texas.

The revenue index of the Texas Service Sector Outlook survey increased from 6.5 to 13.0 in September. Meanwhile the sales index of the Texas Retail Outlook Survey increased from -5.3 to 2.0. Factory activity in Texas did increase substantially in September, according to the Texas Manufacturing Outlook Survey. The index which measures manufacturing conditions rose 12 points to 16.7, again a substantial increase. Nevertheless, consistent with the broader U.S. economy, business conditions in Texas are mixed. The general business activity index continued into negative territory for another month at -3.7, representing almost two years in negative territory. The Houston Business Cycle Index grew 2.6% in August, following 2.0% and 2.6% in July and June, respectively. Annually, however, the index is down 2.2% YoY. Texas exports declined 7% in July, the largest drop seen since 2009.

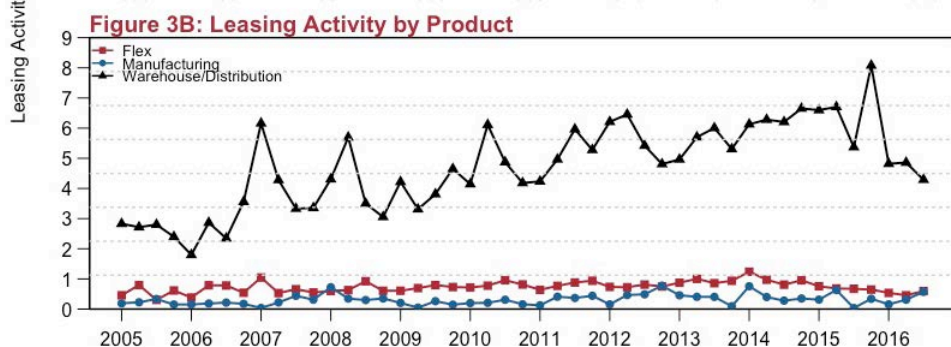
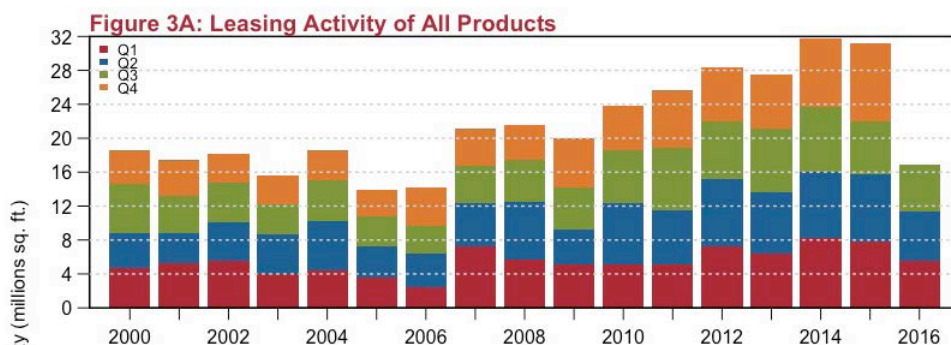
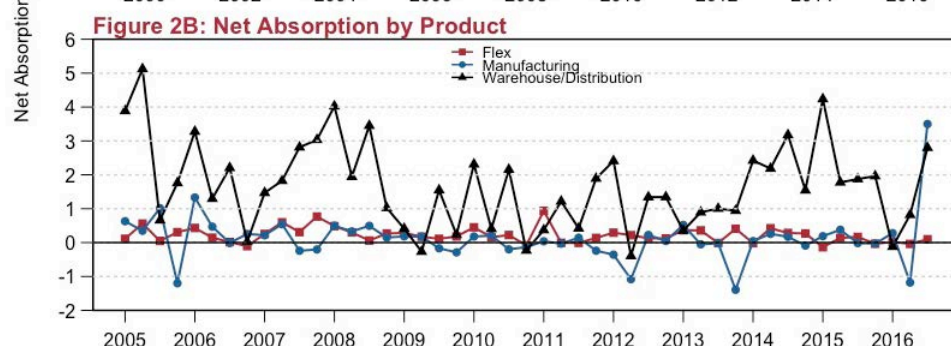
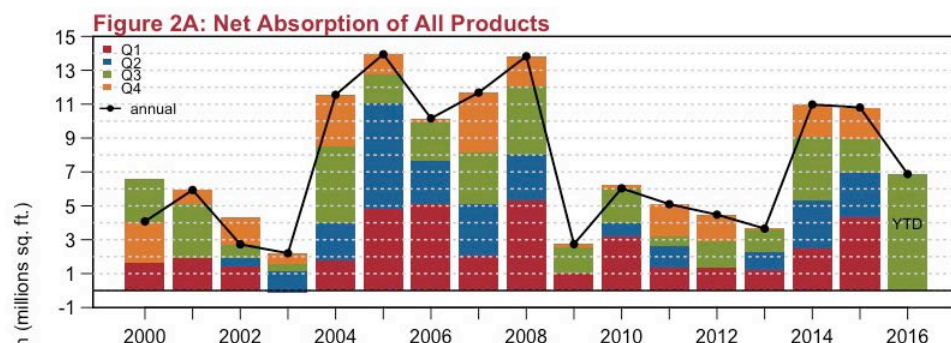
Net Absorption

Net absorption, a key metric for demand of industrial space, measures the change in occupied inventory, including direct and sublet space. Total net absorption for all products combined in Q3 2016 was over 6.8 million sq. ft., yielding huge percent increases QoQ and YoY (Table 1, Fig 2A). It is important to note, however, that about 4.0 of this 6.8 million sq. ft. is accounted for solely by the Daikin Industries delivery.

The historic Q3 average (\pm 95% confidence interval) for net absorption is 1,866,538 sq. ft. (\pm 1,149,189). We are 95% certain that Q3 net absorption typically falls between 717,340 and 3,015,727 sq. ft. In the absence of the Daikin delivery, net absorption in Q3 2016 was within its average range of Q3 performance, but with the Daikin delivery net absorption is significantly greater than historic Q3 performance. Figure 2B breaks total net absorption down since 2005 by year and quarter for three product types: flex, manufacturing, and warehouse/distribution space. Flex saw modest increases of net absorption in Q3 2016, but manufacturing and warehouse/distribution spaces both saw substantial increases in net absorption (Figure 2B).

Leasing Activity

A measure of demand that is more forward looking than net absorption is leasing activity, the total amount of space represented by direct leases, subleases, renewals, and pre-leasing. Figure 3A reports all leasing activity since 2000; Figure 3B breaks down leasing activity by year and quarter for each of flex, manufacturing, and warehouse/distribution space. Leasing activity of 5.5 million sq. ft. occurred in Q3 2016, representing decreases of -3.6% QoQ and -9.5%



YoY (Table 1). The historic Q3 average (\pm 95% confidence interval) for leasing activity is 5,356,277 sq. ft. (\pm 764,596). We are 95% certain that Q3 leasing activity typically falls between 4,591,681 and 6,120,873 sq. ft., indicating that leasing activity in Q3 was within its historic range of Q3 performance since 2000. Notably, manufacturing leasing activity has

steadily increased QoQ from Q1 to Q3 2016.

Vacancy and Availability

Vacancy and availability measure the supply of industrial space. Availability estimates total supply because it includes vacant, occupied, and sublease space. Vacancy estimates empty space on the

market, whether or not that space is leased or for rent. Supply continues to remain low, but with some key increases in recent quarters (Tables 1 and 2, Figure 4). For the industrial market as a whole, availability in Q3 2016 was 9.4%, an increase of 1.1% QoQ and 17.5% YoY (Table 1). Vacancy for all industrial space combined was 5.5%, a decrease of -5.2% QoQ but an increase of 14.6% YoY (Table 1).

Figure 4 shows percent availability and vacancy for flex, manufacturing, and warehouse/distribution buildings since 2000. Table 2 summarizes availability and vacancy of flex, manufacturing, and warehouse/distribution buildings for Q3 2016. In particular, note that vacancy and availability of flex space remain below historic levels. However, with the surge of sublease space, availability of manufacturing space at 9.2% is significantly greater than its historic average of 4.7%. Nonetheless, the vacancy measure for manufacturing has yet to see the increase exhibited by the availability measure, and remains within its historic 95% interval of performance at 4.2%. As for warehouse/distribution space, both vacancy and availability are increasing, but still within their historic ranges of performance.

Asking Rent

Figure 5 plots asking rent prices since 2000 for flex, manufacturing, and warehouse/distribution space. In Q3 2016, asking rents for flex space nudged upwards a touch, while manufacturing decreased, and warehouse/distribution space held steady.

Construction

Construction of new buildings shapes new supply of industrial space. “RBA Delivered” refers to

completed construction, while “RBA Construction” refers to space under construction that has not yet been completed. As detailed in Table 1 and Figure 6, deliveries in Q3 2016

were 6.5 million sq. ft., an increase of 152% QoQ and 86% YoY (Table 1). It is important to note that about 4.0 million sq. ft. is accounted for by Daikin Industries’ new campus in



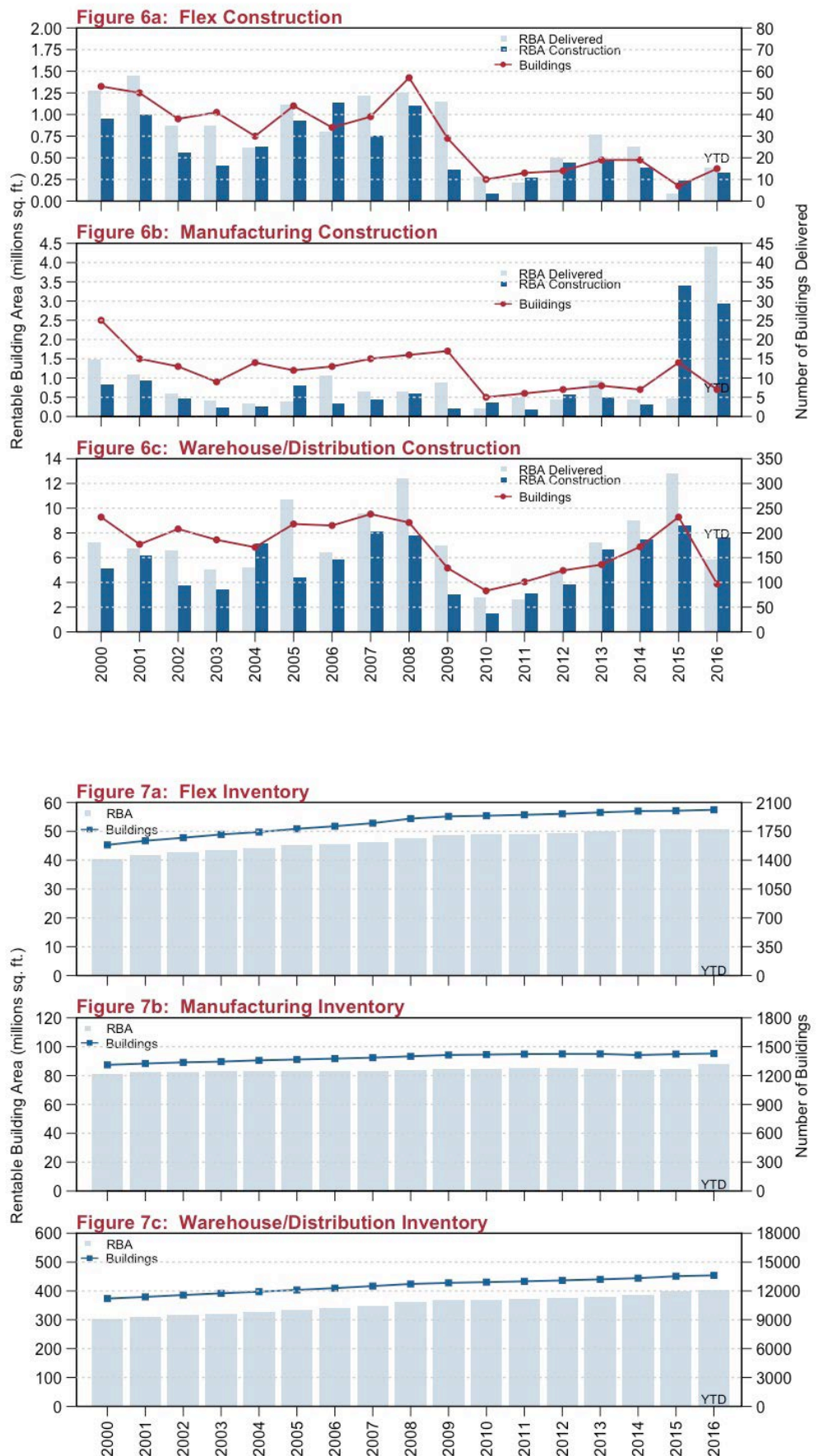
Table 2. Current (Q3 2016) supply of industrial space as measured by the availability and vacancy of flex, manufacturing, and warehouse/distribution space (% total RBA), compared to the historic first-quarter (Q3) average since 2000. The 95% confidence interval is the typical historic expected Q3 performance.

	Q3 2016	Historic Q3 Average	95% Confidence Interval for Q3
Availability (%)			
Flex	11.5	13.6	12.2 to 15.0
Manufacturing	9.2	4.7	3.9 to 5.6
Warehouse/Distribution	9.4	8.7	7.9 to 9.4
Vacancy (%)			
Flex	6.8	12.1	10.3 to 13.9
Manufacturing	4.2	3.8	2.8 to 4.7
Warehouse/Distribution	5.7	6.3	5.8 to 6.9

Waller, Texas. With this delivery, RBA under construction was down to 7.5 million sq. ft. in Q3 2016, a decrease of -44% QoQ and 46% YoY (Table 1).

Inventory

Figure 7 depicts changes in the inventory of flex, manufacturing, and warehouse/distribution space since 2000, both for RBA and number of buildings. RBA inventory for all industrial space increased to 573 million sq. ft. for 18,634 buildings, which is an increase of 0.2% QoQ and 0.8% YoY (Table 1).



Select Largest Deliveries (AS OF END OF Q3)

Building Address	Rentable Building Area	Percent Leased
14151 E Hillcroft St	240,000	0%
7256 S Sam Houston Pky W	112,500	50%
3516 Highway 225	72,791	41%
Highway 90 A & Beltway 8	68,800	0%
Highway 90 A & Beltway 8	55,250	0%
1330 Industrial Blvd	39,750	50%
10321 Regal Row	28,041	0%
5910 E Sam Houston Pky S	24,000	0%
633 Choctaw Ln	22,500	0%
1810 First Oaks St	20,000	63%

Select Under Construction (AS OF END OF Q3)

Building Address	Rentable Building Area	Percent Leased
5000 Ameriport Pky	458,280	65%
1801 S 16th St	415,272	0%
4111 Malone Dr	231,983	0%
Highway 90 A & Beltway 8	208,907	0%
1401 S 16th St	193,586	0%
10643 W Airport Blvd	165,000	0%
9631 Bay Area Blvd	153,655	0%
9331 Bay Area Blvd	110,390	0%
S Sam Houston Pky E	108,000	0%
4033 Malone Dr	107,291	0%
10633 W Airport Blvd	95,400	0%
10653 W Airport Blvd	91,560	0%
12320 Cutten Rd	80,000	0%
13720 Stafford Rd	68,300	76%
S Sam Houston Pky E	64,800	0%
12527 Taylor Rd	36,600	0%
1924 Aldine Western Rd	34,500	0%
10344 New Decade Dr	34,350	0%
7800 Breen Rd	30,000	0%
12527 Taylor Rd	30,000	0%
12527 Taylor Rd	27,000	0%
12527 Taylor Rd	25,000	0%
10322 New Decade Dr	24,380	0%
5346 Bay Oaks Dr	24,000	0%
21500 Springbridge Dr	22,500	0%
Genoa Red Bluff @ Bay Oak Dr	21,840	0%
218 N Preston Ave	20,700	0%
8316 Willow Place Dr N	20,250	0%
3201 Awesome Ln	20,000	0%

Select Major Lease Transactions (AS OF END OF Q3)

Tenant	Qtr.	Building	Size (SF)
IKEA	3rd	Cedar Port Industrial Park	1,000,000
Katoen Natie	3rd	1919 FM 565	480,000
Advance Auto Parts	3rd	11810 N. Gessner	441,000
Valerus Field Solutions	3rd	5000 I-10	396,880
Dunavant Distribution Group LLC	3rd	Bay Area Business Park - Bldg V	353,600
The Packwell Company	3rd	Bayport Distribution Center	286,000
S.I. Warehousing Co	3rd	359 Old Underwood Rd.	150,000
Vee Express & Valles Transportation	3rd	Portwall Distribution Center I	140,000
Dealer Tire LLC*	3rd	Claymoore Business Park II	109,756
Allied Stone	3rd	2200 Lauder	100,000
Air Liquide	3rd	Port 225 - Bldg. 5	83,030
Land 'N' Sea	3rd	Park 288 - Bldg. D	76,646
Ace Image Wear	3rd	11220 S. Main	61,274
Thompson Delivery	3rd	1930-1998 Afton	55,110

* *Renewal / Expansion****Build-To-Suit*

Flex Market Statistics (AS OF END OF Q3)

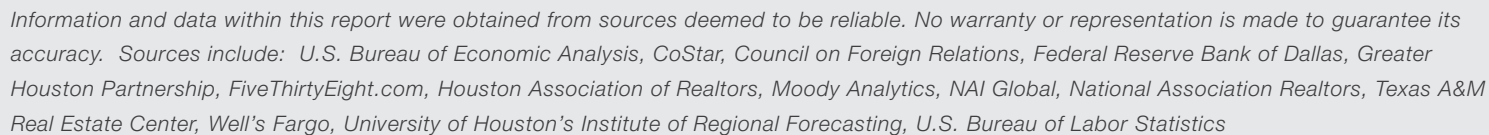
Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	170	3,640,908	199,293	5.5%	(96,614)	0	\$12.39
North Corridor Ind	392	10,499,674	681,162	6.5%	80,211	50,000	\$9.40
Northeast Corridor Ind	64	762,483	58,750	7.7%	(22,252)	0	\$7.51
Northwest Corridor Ind	564	17,330,149	1,291,463	7.5%	(178,865)	38,490	\$8.89
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	215	3,081,142	267,914	8.7%	89,202	42,800	\$12.15
Southern Corridor Ind	123	2,483,568	132,334	5.3%	18,930	0	\$8.92
Southwest Corridor Ind	475	12,779,301	816,598	6.4%	148,377	102,000	\$11.31

Warehouse Market Statistics (AS OF END OF Q3)

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	25	1,588,430	531,120	33.4%	396,915	0	\$4.80
CBD Ind	1,898	55,775,415	2,862,176	5.1%	(788,934)	0	\$5.06
North Corridor Ind	3,128	88,928,457	7,959,309	9.0%	611,769	312,400	\$7.26
Northeast Corridor Ind	946	35,312,439	807,320	2.3%	260,624	0	\$4.69
Northwest Corridor Ind	4,125	142,692,190	7,852,667	5.5%	4,536,236	1,265,200	\$6.59
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,306	88,655,854	3,836,024	4.3%	1,797,358	4,015,869	\$5.75
Southern Corridor Ind	1,910	47,831,439	1,381,006	2.9%	52,903	382,800	\$5.78
Southwest Corridor Ind	2,223	60,573,758	2,646,305	4.4%	(57,641)	1,255,487	\$6.66

Total Industrial Market Statistics (AS OF END OF Q3)

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	25	1,588,430	531,120	33.4%	396,915	0	\$4.80
CBD Ind	2,068	59,416,323	3,061,469	5.2%	(885,548)	0	\$5.31
North Corridor Ind	3,520	99,428,131	8,640,471	8.7%	691,980	362,400	\$7.49
Northeast Corridor Ind	1,010	36,074,922	866,070	2.4%	238,372	0	\$4.76
Northwest Corridor Ind	4,689	160,022,339	9,144,130	5.7%	4,357,371	1,303,690	\$6.91
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,521	91,736,996	4,103,938	4.5%	1,886,560	4,058,669	\$6.18
Southern Corridor Ind	2,033	50,315,007	1,513,340	3.0%	71,833	382,800	\$5.85
Southwest Corridor Ind	2,698	73,353,059	3,462,903	4.7%	90,736	1,357,487	\$7.39



Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q3 2016



HOUSTON | AUSTIN | SAN ANTONIO

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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q2 2016



HOUSTON | SAN ANTONIO | AUSTIN

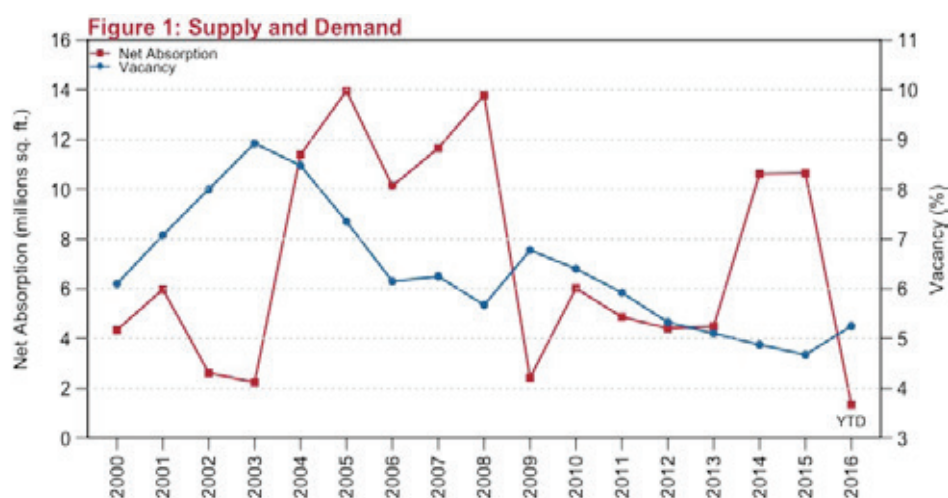


Table 1. Key market indicators for Q2 2016, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

Market Variables	Q2 2016	Percent Change over Prior Period	
		QoQ (%)	YoY (%)
Net Absorption (sq. ft.)	754,862	27.2%	-70.4%
Leasing Activity	3,697,197	-26.3%	-54.4%
Availability (%)	9.3%	3.3%	25.7%
Vacancy (%)	5.4%	5.9%	20.0%
Deliveries (RBA, sq. ft.)	2,590,621	15.7%	22.8%
Construction (RBA, sq. ft.)	12,275,281	-9.2%	-16.8%
Inventory (RBA)	566,470,921	0.5%	2.0%
Inventory (No. Buildings)	18,508	0.2%	0.9%

Executive Summary

Two quarters into 2016 and we have already seen a turbulent year, with January and February lows replaced by some rebalancing in March and April, only for volatility to return at the end of the second quarter with Brexit. While Q1 2016 was likely the bottom of the oil commodity downturn, we have again in recent weeks seen WTI prices fall. This is likely a short-term result of Brexit and the value of the dollar, but nonetheless presents further concern for local and national economies. Projected U.S. GDP for 2016 has now been revised down from 2.4% to 1.8%, with the latest revision for Q1 at 1.1%. Consumer spending and consumer credit remain strong points, fueling about two-thirds of GDP. Recent changes in national employment further underscore the volatility of the first half of the year, dropping to only 11,000 new jobs in May and then bouncing back to 287,000 new jobs in June. Brexit will likely have minimal effects on the U.S., and the world as a whole, as the United Kingdom only accounts for about 4% of global GDP. Yet, Brexit could actually catalyze U.S. commercial real estate investors to remain in the U.S. rather than Central London, where many have previously sought opportunities. The economic outlook for Texas and Houston economies is uncertain, sitting on the edge of further declines or mild to modest growth for the remainder of 2016.

At 754,000 sq. ft. and 3.7 million sq. ft., respectively, both net absorption and leasing activity experienced significant declines in Q2 2016 compared with historic Q2 performance. Availability in Q2 was 9.3%, an increase of 3% QoQ and 26% YoY. Vacancy for all industrial space combined was 5.4%, an increase of 5.9% QoQ and 20% YoY. With a surge in manufacturing sublease space, manufacturing availability has increased to 7.9%, substantially greater than its historic average of 4.6%. Vacancy and availability of warehouse/distribution space has also increased, but both are still near their historic range of performance. Deliveries of 2.6 million sq. ft. represents an increase of 16% QoQ and 23% YoY. Current under construction space amounts to 12.3 million sq. ft., much of which is accounted for by one 4.0 million sq. ft. development by Daikin. Warehouse and distribution products, particularly those that are rail served, remain in high demand.

Broker's Perspective

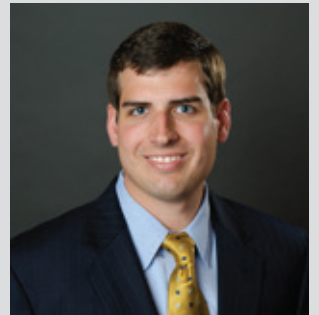
In the second quarter of 2016, we continue to see a mixed market depending on which side of the city you are looking. The North and Northwest submarkets remain slow due to the downturn of the oilfield industry, while the Southeast submarket continues to thrive by the expansion of the petrochemical industry.

The North and Northwest submarkets continue to bear the brunt of the downturn and low oil prices. We are still seeing increased concessions and healthy amounts of free rent from landlords in both dock high distribution space and freestanding manufacturing buildings in these submarkets. Freestanding manufacturing buildings continue to perform worse than the other product types due to low oil prices, with deals being done well below quoted asking rates and leased to tenants outside of the oilfield

industry. Dock high distribution space in these submarkets has performed a little better through the downturn. However, tenants of buildings 50,000 sq. ft. and up have been able to secure great deals in some of the new construction that has been sitting unoccupied for a while.

The Southeast submarket continues to be the bright spot in Houston with 4.2 million sq. ft. currently under construction, much of which will soon hit the ground. A number of these new developments will deliver rail-served buildings, which continues to be the hottest product type in Houston, due largely to the expansion of the petrochemical industry on the east side. In the second quarter, one tenant alone leased 1 million sq. ft. of rail-served space. This market will continue to remain active through the end of the year and into the near future.

“The Southeast submarket continues to be the bright spot in Houston with 4.2 million sq. ft. currently under construction, much of which will soon hit the ground.”



Nick Peterson

Vice President | NAI Partners

ECONOMIC OVERVIEW

The overall economic outlook has again declined for Texas and Houston, despite some intermittent positive signs. Brexit has increased volatility in financial markets, but could lead to increased CRE spending in U.S. as investors shift from Central London. The oil and gas downturn is now manifesting throughout Houston beyond just those direct businesses. The hopes are that the oil industry will swing back up before the national economy slows, which remains solid despite some mixed numbers and slowdowns.

National Economy

Economic data in recent weeks and months are sending mixed messages for second quarter performance, leading many to further debate whether the economic expansion will continue or reverse course and slide downward. The Leading Economic Index (LEI) declined by a slight 0.2% in May — its third drop in six months — but overall this looks to be short lived. The U.S. gross domestic product (GDP) is now projected to be 1.8% for 2016, a modest decrease from 2.4% in 2015. GDP was revised up to 1.1% for Q1 2016, and is expected to come in around 2.4% for Q2. Strong consumer spending, which accounts for about two-thirds of GDP, will continue to fuel economic growth. Consumer credit further strengthened in May, and strong consumption in April and May will likely account for growth in Q2 2016. Consumer confidence increased 7.6 points in June, though some concern remains in the job market. International trade will continue to decline and hamper GDP with the strong dollar (up nearly 20%). Greater import growth in May led to a wider trade deficit, which is likely to increase by 4% in 2016, following 6.2% increase in 2015.

At the center of the mixed messages in economic data are numbers on employment. Job growth in May dropped to only 11,000, but bounced back higher than expected to 287,000 new jobs in June, resulting in a three-month trend of 147,000 new jobs. With the unemployment rate remaining below 5%, the labor market continues to tighten. However, recent growth in jobs has been in industries with high and low wages, leaving middle-class wages to lag.

After a few months of growth and modest stability following lows in January and February, volatility has again returned to the financial and commodity markets,

largely as a timely result of Brexit. Since the vote for the U.K. to leave the European Union, global financial markets have settled down. Effects on the U.S. will likely be minimal over the long term, but uncertainty will continue as the UK and EU begin working out negotiations on their future economic relationships. The U.K. will likely dip into a mild recession later in 2016, but this should not have a large effect on world economics, as the U.K. only represents 4% of global GDP. With uncertainty in the U.K., investors in commercial real estate from the U.S. may shift from Central London and simply remain in the U.S. with its strong CRE industry. To wit, the Dodge Momentum Index, a 12-month leading indicator of non-residential construction spending, jumped 11.2 percent in June and overall in Q2.

The ISM non-manufacturing index increased in June to 56.5, indicating that the economy continues to expand at a moderate pace. Moreover, the NFIB Small Business Optimism Index increased in June for the third month in a row. The ISM manufacturing index indicated that in June factories grew at the strongest rate since early 2015, but growth will remain modest in months to come, as shipments, orders and inventories are still declining, though at a slower rate. Given a variety of headwinds, including low May job growth, financial volatility, and reduced manufacturing, the current speculation is for only one remaining interest rate hike by the Federal Reserve Bank, likely after the presidential election.

The housing market is yet another variable producing mixed economic signals. Both the good-time-to-buy and good-time-to-sell indices increased in June, but the Home Purchase Sentiment Index dropped to 83.2. The high value of the dollar has led the National Association of Realtors to point out that home values by international buyers have decreased

by 1.3%. This is leading such buyers to seek out lower-priced homes. Sales of new homes decreased by 6% in May.

Houston and Texas Economy

Following the lows in oil prices of Q1, the initial months of Q2 saw prices swing up as global inventory stock piles slowed. Then Brexit and the value of the dollar saw oil prices decline again, restarting a new set of price swings and volatility in recent weeks. Due to weakness in the energy market, banks of the Eleventh Federal Reserve District have increased their funds set aside in case of loan losses, supporting recent increases in noncurrent loans associated with oil and gas companies.

Overall, Texas and Houston have a mixed set of economic numbers. Employment in Texas, despite the energy pullback, grew 0.4% in May compared to U.S. at 0.3%, with 4,400 new jobs following 14,500 new jobs in April. Unemployment in Texas remains at 4.4%, still lower than the national level of 4.7%. To this end, the Texas Leading Index, which uses key economic indicators to forecast future employment growth, did increase across sectors, suggesting some improvements ahead. Texas retail sales previously declined, but increased modestly in June as evidenced by the Texas Retail Outlook Survey. While employment growth in Houston contracted by 1.9% from April to May—with job growth coming from government, and education and health services—Houston's unemployment rate dropped to 5% in May. Layoffs in Houston are now trickling through the economy and manifesting in residential, retail, wages, and office markets. Housing remains strong in other cities and regions of Texas, but Houston's housing market has weakened substantially.

MARKET OVERVIEW

Total net absorption for all industrial products combined in Q2 2016 was 754,862 sq. ft., representing a 27% QoQ increase in demand, but a decrease of -70% YoY. With the pullback in the oil industry, Q2's net absorption was a significant decrease from the quarter's historic performance. Likewise, quarterly leasing activity of 3.7 million sq. ft. was significantly lower than historic Q2 performance. However, warehouse and distribution products, particularly those that are rail-served on the east side of Houston, remain in high demand. Declines in manufacturing continue at both local and national levels. Availability in Q2 2016 was 9.3%, an increase of 3% QoQ and 26% YoY. Vacancy increased to 5.4%, a 20% increase YoY. Vacancy for flex, manufacturing, and warehouse/distribution space were 6.8%, 2.0%, and 6.1%, respectively — each of these figures are lower than their historic Q2 averages. However, with increases in subleases, the availability for manufacturing space at a high 7.9% has increased significantly above its historic Q2 performance. Deliveries in Q1 were about 2.6 million sq. ft., with 12.3 million sq. ft. under construction.

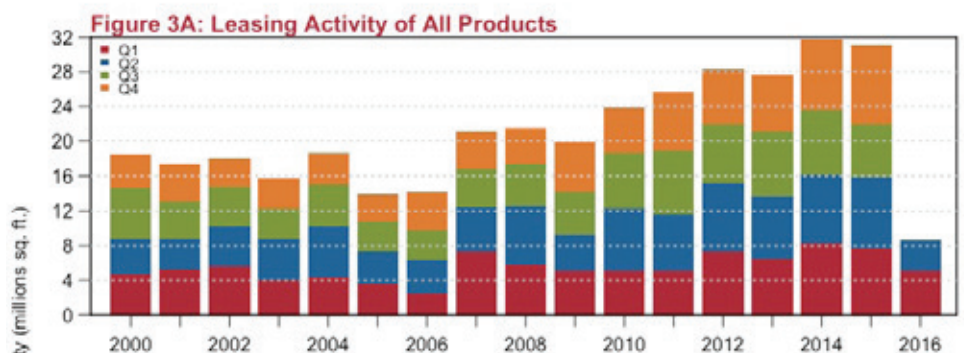
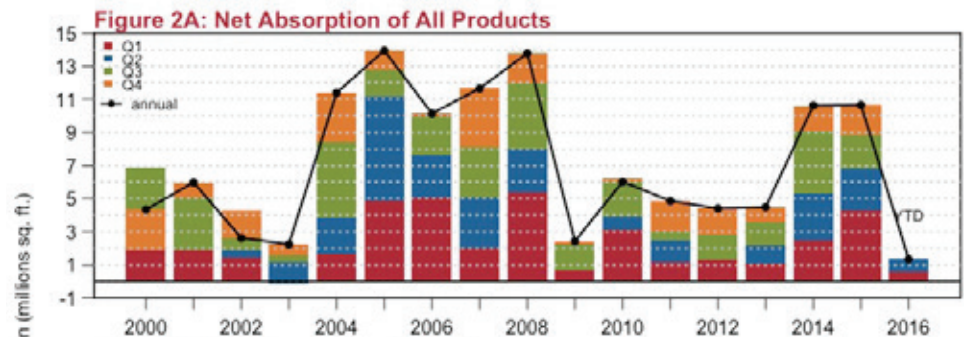
Net Absorption

Net absorption, a key metric for demand of industrial space, measures the change in occupied inventory, including direct and sublet space. Total net absorption for all products combined in Q2 2016 was 754,862 sq. ft., yielding an increase of 27% QoQ but a decrease of -70% YoY (Table 1, Fig 2A). The historic Q2 average (\pm 95% confidence interval) for net absorption is 1,612,700 sq. ft. (\pm 989,578). We are 95% certain that Q2 net absorption typically falls between 623,153 and 2,602,248 sq. ft. With the pullback in oil and associated impacts on the industrial market, net absorption in Q2 2016 was substantially lower than average Q2 performance, but did not deviate significantly from historic Q2 levels since 2000.

Figure 2B breaks total net absorption down since 2005 by year and quarter for three product types: flex, manufacturing, and warehouse/distribution space. Warehouse/distribution and flex saw modest increases of net absorption in Q2 2016, but manufacturing net absorption declined (Figure 2B).

Leasing Activity

A measure of demand that is more forward looking than net absorption is leasing activity, the total amount of space represented by direct leases, subleases, renewals, and pre-leasing. Figure 3A reports all leasing activity since 2000, while Figure 3B breaks down leasing activity by year and quarter for each of flex, manufacturing, and warehouse/distribution space. Leasing activity of 3.7 million sq. ft. occurred in Q2 2016, marking



decreases of -26% QoQ and -70% YoY (Table 1). The historic Q2 average (\pm 95% confidence interval) for leasing activity is 5,704,580 sq. ft. (\pm 875,003). We are 95% certain that Q2 leasing activity typically falls between 4,829,577 and 6,579,583 sq. ft., indicating that leasing activity in Q2 was significantly lower than its historic Q2 performance since 2000. Notably, however, manufacturing leasing activity increased from 55,000 sq. ft. to 279,000 sq. ft., with flex and warehouse/distribution accounting for the overall decline.

Vacancy and Availability

Vacancy and availability measure the supply of industrial space. Availability estimates total supply because it includes vacant, occupied, and sublease space. Vacancy estimates empty space on the market, whether or not that space is leased or for rent. Supply continues to remain low, but with some key increases in recent quarters (Tables 1 and 2, Figure 4). For all industrial buildings combined, availability in Q2 2016 was 9.3%, an increase of 3% QoQ and 26% YoY (Table 1). Likewise, vacancy for all industrial space combined was 5.4%, an increase of 6% QoQ and 20% YoY (Table 1).

Figure 4 shows percent availability and vacancy for flex, manufacturing, and warehouse/distribution buildings since 2000. Table 2 summarizes availability and vacancy of flex, manufacturing, and warehouse/distribution buildings for Q2 2016. In particular, note that vacancy and availability of flex space remain below historic levels. However, with the surge of sublease space, availability of manufacturing space at 7.9% is significantly greater than its historic average of 4.6%. Nonetheless, the vacancy measure for manufacturing has yet to see the increase exhibited by the availability measure, and remains at a low 2%. As for warehouse/distribution space, both vacancy and availability are increasing, but still within their historic ranges of performance.

Asking Rent

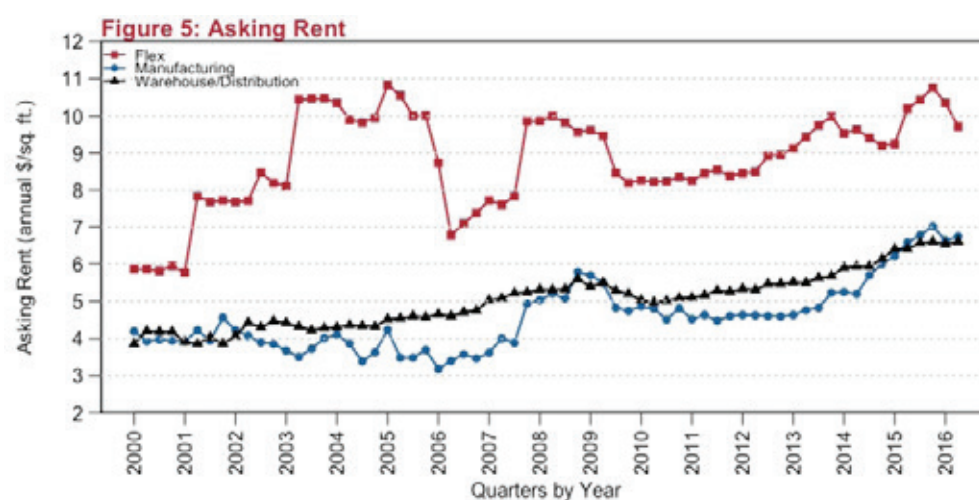
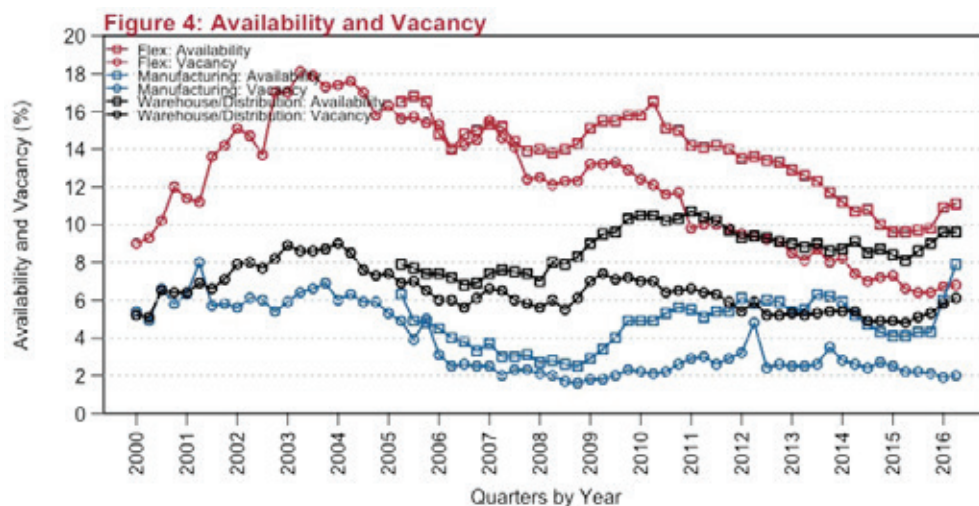


Figure 5 plots asking rent prices since 2000 for flex, manufacturing, and warehouse/distribution space. In Q2 2016, flex space continued to show its declining asking rents of recent quarters, while manufacturing and warehouse/distribution seem to have stabilized.

Construction

Construction of new buildings is an important variable determining the supply of industrial space. "RBA Delivered" refers to completed construction, while "RBA Construction" refers to space under construction that has not yet

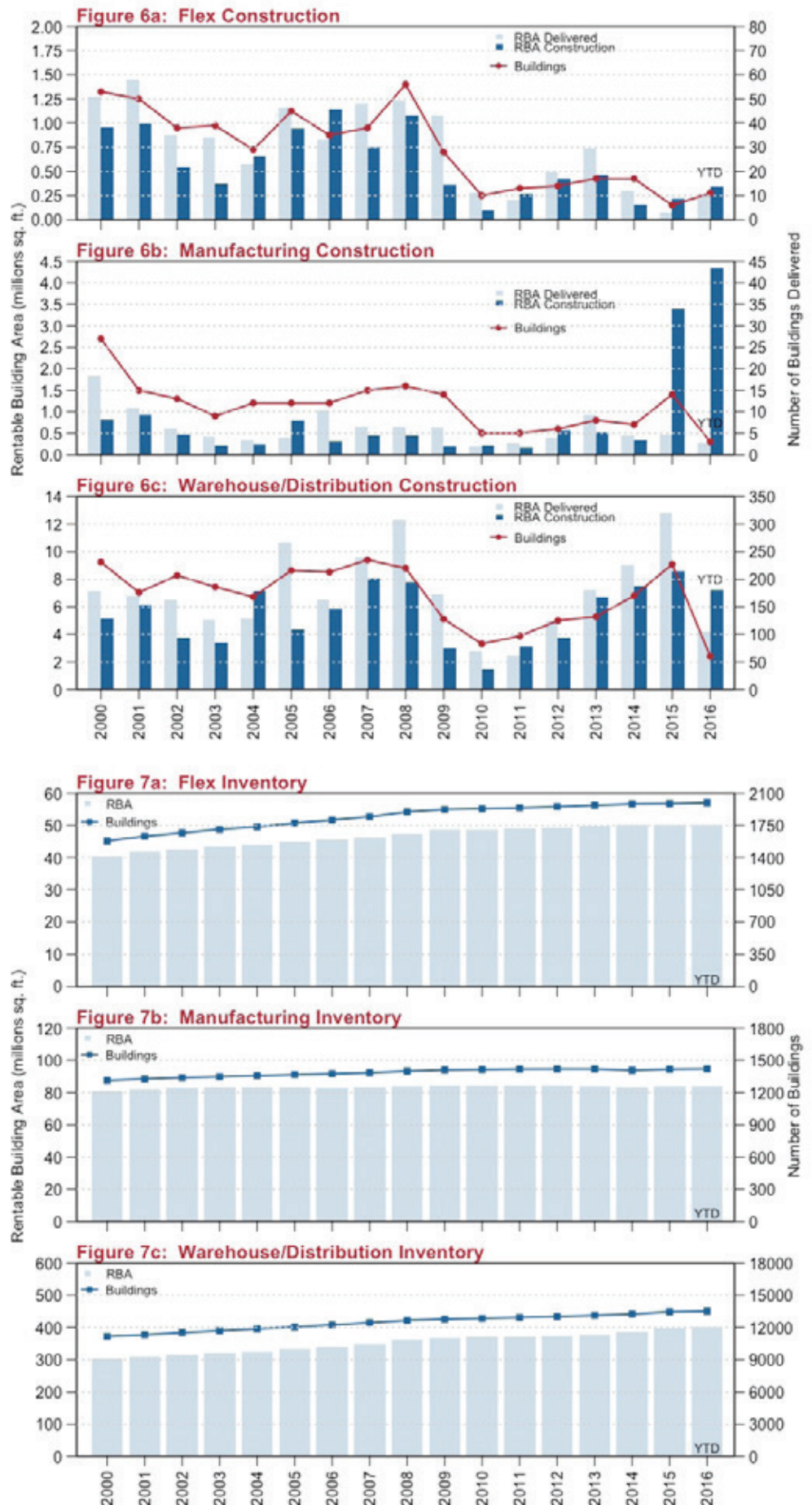
Table 2. Current (Q2 2016) supply of industrial space as measured by the availability and vacancy of flex, manufacturing, and warehouse/distribution space (% total RBA), compared to the historic first-quarter (Q2) average since 2000. The 95% confidence interval is the typical historic expected Q2 performance.

	Q2 2016	Historic Q2 Average	95% Confidence Interval for Q2
Availability (%)			
Flex	11.1	13.8	12.4 to 15.3
Manufacturing	7.9	4.6	3.8 to 5.3
Warehouse/Distribution	9.6	8.8	8.0 to 9.5
Vacancy (%)			
Flex	6.8	12.1	10.3 to 14.0
Manufacturing	2.0	3.9	2.8 to 5.0
Warehouse/Distribution	6.1	6.5	5.9 to 7.2

been completed. As detailed in Table 1 and Figure 6, deliveries in Q2 2016 were 2.59 million sq. ft., an increase of 16% QoQ and 23% YoY (Table 1). RBA under construction was 12.3 million sq. ft. in Q2 2016, a decrease of -9.2% QoQ -16.8% YoY (Table 1). Of this 12.3 million under construction, ~4.0 million is accounted for by Daikin Industries' new campus in Waller, Texas.

Inventory

Figure 7 depicts changes in the inventory of flex, manufacturing, and warehouse/distribution space since 2000, both for RBA and number of buildings. RBA inventory for all industrial space increased to 566 million sq. ft. for 18,508 buildings, which is an increase of 0.3% QoQ and 1.0% YoY (Table 1).



Select Largest Deliveries (AS OF END OF Q2)

Building Address	Rentable Building Area	Percent Leased
600 Fallbrook Dr	500,400	0%
FM 565	480,000	100%
FM 565	480,000	100%
3013 Highway 225	394,489	100%
4505 Ameriport Pky	333,200	100%
233 S Cravens Rd	303,335	100%
12101 McClain Rd	217,440	0%
13450 Lockwood Rd	215,000	100%
1256 Greens Pky	213,218	75%
3009 Highway 225	205,015	50%
252 Fallbrook Dr	193,000	0%
8575 Volta Dr	168,425	0%
3011 Highway 225	154,360	0%
12121 McCalin Rd	131,560	0%
200 Beltway Green Blvd	121,896	0%
13450 Lockwood Rd	120,000	100%
20502 Northwest Fwy	110,240	100%
13115 Jess Pirtle Blvd	106,000	100%
850 W Conroe Park Dr	104,325	100%
500 W Conroe Park Dr	80,000	100%
865 W Conroe Park Dr	66,000	100%
727 Century Plaza Dr	65,328	60%
9380 Kirby Dr	65,007	0%
11085 Regency Green Dr	65,000	100%
13450 Lockwood Rd	63,650	100%
Loop 336 W	51,500	100%
5501 Northwest Fwy	44,744	0%
3516 Highway 225	43,234	0%
6501 Bingle Rd	42,000	100%
125 Magellan Cir	35,000	100%
21225 FM-529	28,642	100%
188 White Rd	26,520	0%
9370 Kirby Dr	26,250	0%
6303 N Sam Houston Pky W	24,800	0%
4458 Genoa Red Bluff Rd	24,307	100%
5910 E Sam Houston Pky S	24,000	17%
5522 Shirley Ln	24,000	0%
4203 Greenhouse Rd	20,365	100%
23563 Clay Rd	20,040	0%
1810 First Oaks St	20,000	63%
2101 Former Fab Dr	20,000	100%

Select Under Construction (AS OF END OF Q2)

Building Address	Rentable Building Area	Percent Leased
19001 Kermier Rd	3,900,000	100%
8787 W Grand Pky N	800,000	100%
4830 Borusan Rd	495,462	100%
FM 565 Rd	481,000	100%
5000 Ameriport Pky	458,280	65%
1801 S 16th St	415,272	0%
9431 Bay Area Blvd	353,600	100%
717 Logistics Dr	327,600	0%
14151 E Hillcroft St	240,000	0%
10140 Fairmont Pky	231,875	0%
9531 Bay Area Blvd	212,160	100%
3730 S Main St	210,000	100%
Hillcroft Rd	209,000	100%
Highway 90 A & Beltway 8	208,907	0%
Hillcroft Rd	175,000	100%
10643 W Airport Blvd	165,000	0%
9631 Bay Area Blvd	153,655	0%
188 N FM 3083 Rd W	140,000	100%
Leesa Ln & Genoa Red Bluf	130,000	100%
7256 S Sam Houston Pky W	112,500	33%
9331 Bay Area Blvd	110,390	0%
500 Cane Island Pky	110,000	100%
S Sam Houston Pky E	108,000	0%
10140 Fairmont Pky	107,000	0%
220 Abner Jackson Pky	100,000	100%
230 Abner Jackson Pky	100,000	100%
240 Abner Jackson Pky	100,000	100%
14827 I-10	95,500	100%
10633 W Airport Blvd	95,400	0%
10653 W Airport Blvd	91,560	0%
10151 Waukegan Rd	80,000	100%
Highway 90 A & Beltway 8	68,800	0%
13720 Stafford Rd	68,300	76%
S Sam Houston Pky E	64,800	0%

Building Address	Rentable Building Area	Percent Leased
12331 Cutten Rd	61,875	100%
Highway 90 A & Beltway 8	55,250	0%
10485 W Bellfort St	50,000	100%
421 W Conroe Park Dr	50,000	100%
Hufsmith-Kohrville Rd	50,000	100%
12530 Burdine St	40,000	100%
1330 Industrial Blvd	39,750	50%
12527 Taylor Rd	36,600	0%
12850 Fuqua Rd	35,200	50%
1905 Little York Rd	35,000	100%
1924 Aldine Western Rd	34,500	0%
7800 Breen Rd	30,000	0%
Katy Hockley Cutoff & Cla Dr	30,000	0%
12527 Taylor Rd	30,000	0%
10321 Regal Row	28,041	0%
12527 Taylor Rd	27,000	0%
12840 Sugar Ridge Blvd	25,000	100%
12527 Taylor Rd	25,000	0%
5346 Bay Oaks Dr	24,000	0%
633 Choctaw Ln	22,500	0%
21500 Springbridge Dr	22,500	0%
218 N Preston Ave	20,700	0%
8316 Willow Place Dr N	20,250	0%
3201 Awesome Ln	20,000	0%
25918 Hardin Store Rd	15,000	100%
12527 Taylor Rd	15,000	0%
19200 W Little York Rd	14,490	63%
17641 Telge Rd	14,000	0%
21215 FM 529	13,750	0%
12315 Bellaire Blvd	12,750	20%
8650 Fairbanks N Houston Rd	12,000	100%
27725 Robinson Rd	11,875	0%
34275 Sunset Ln	10,100	100%
149 Magellan Cir	10,000	0%

Select Major Lease Transactions (AS OF END OF Q2)

Tenant	Qtr.	Building	Size (SF)
IKEA	2nd	Cedar Port Industrial Park	1,000,000
Serta	2nd	Fallbrook Pines Business Park Bldg. 3	268,482
Gulf Intermodal Services	2nd	359 Pike Court	243,900
A-1 Warehousing	2nd	Lockwood Distribution Center Bldg. 1	154,114
S.I. Warehousing	2nd	359 Old Underwood Rd.	150,000
Allied Stone	2nd	2200 Lauder	100,000
Smart Warehousing	2nd	Wallisville Rd. Industrial Park	83,011
Pack Rat	2nd	West Little York DC Bldg. 2	82,546
Quest	2nd	Stafford Rd. @ Stafford Blvd.**	70,000
American De Rosa, Inc.*	2nd	West Little York DC Bldg. 2	60,546
La Polla Industries, Inc.*	2nd	15402 Vantage Parkway	56,375
Winsupply Houston	2nd	9600 Bamboo	55,600
Corporate Office Liquidators*	2nd	600-650 W. 6th	46,400

* Renewal / Expansion

**Build-To-Suit

Flex Market Statistics (AS OF END OF Q2)

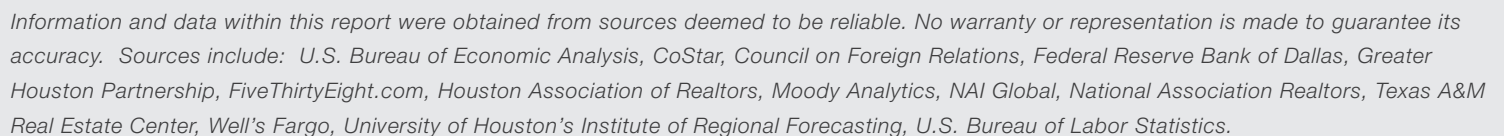
Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	171	3,756,782	214,735	5.7%	3,868	0	\$11.01
North Corridor Ind	392	10,523,509	748,908	7.1%	2,100	50,000	\$8.40
Northeast Corridor Ind	64	755,910	31,294	4.1%	5,204	0	\$8.66
Northwest Corridor Ind	558	17,021,575	1,175,972	6.9%	(73,309)	14,490	\$8.92
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	213	3,088,800	330,573	10.7%	16,939	28,400	\$11.12
Southern Corridor Ind	122	2,474,568	130,355	5.3%	20,409	0	\$10.48
Southwest Corridor Ind	472	12,632,635	802,344	6.4%	68,569	200,000	\$10.85

Warehouse Market Statistics (AS OF END OF Q2)

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,568,430	0	0.0%	0	0	\$0.00
CBD Ind	1,913	56,233,724	3,044,110	5.4%	(772,804)	0	\$4.87
North Corridor Ind	3,087	87,894,420	7,845,335	8.9%	311,005	567,098	\$7.15
Northeast Corridor Ind	931	35,032,189	733,913	2.1%	319,856	9,313	\$4.59
Northwest Corridor Ind	4,109	138,413,541	8,050,057	5.8%	474,068	5,151,281	\$6.50
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,283	87,359,501	3,850,469	4.4%	289,388	4,147,832	\$5.63
Southern Corridor Ind	1,891	47,634,278	1,419,230	3.0%	29,279	389,400	\$5.66
Southwest Corridor Ind	2,211	60,812,205	2,345,769	3.9%	668,827	1,717,467	\$6.54

Total Industrial Market Statistics (AS OF END OF Q2)

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,568,430	0	0.0%	0	0	\$0.00
CBD Ind	2,084	59,990,506	3,258,845	5.4%	(768,936)	0	\$5.07
North Corridor Ind	3,479	98,417,929	8,594,243	8.7%	313,105	617,098	\$7.29
Northeast Corridor Ind	995	35,788,099	765,207	2.1%	325,060	9,313	\$4.67
Northwest Corridor Ind	4,667	155,435,116	9,226,029	5.9%	400,759	5,165,771	\$6.85
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,496	90,448,301	4,181,042	4.6%	306,327	4,176,232	\$6.05
Southern Corridor Ind	2,013	50,108,846	1,549,585	3.1%	49,688	389,400	\$5.78
Southwest Corridor Ind	2,683	73,444,840	3,148,113	4.3%	737,396	1,917,467	\$7.26



Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q2 2016



HOUSTON | AUSTIN | SAN ANTONIO

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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q1 2016



HOUSTON | SAN ANTONIO | AUSTIN

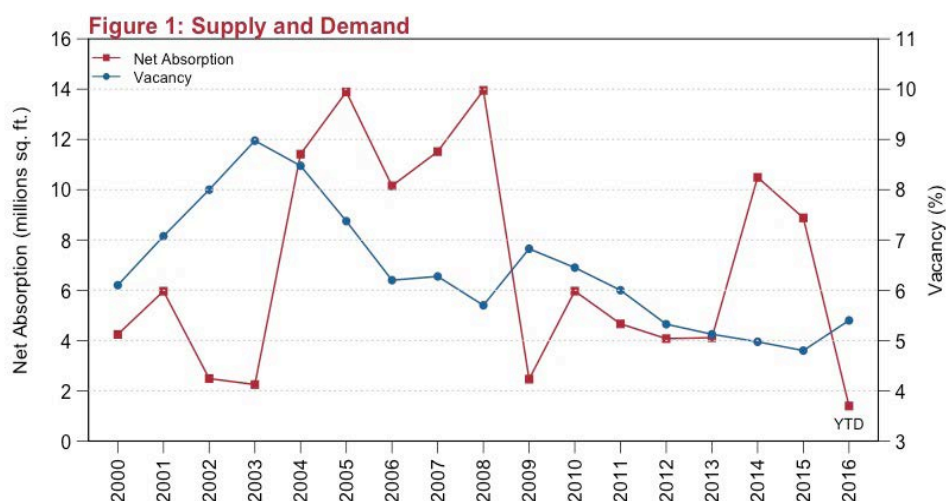


Table 1. Key market indicators for Q1 2016, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

Market Variables	Q1 2016	Percent Change over Prior Period	
		QoQ (%)	YoY (%)
Net Absorption (sq.ft.)	1,395,412	217.1 %	-66.6 %
Leasing Activity	3,965,689	-52.6 %	-48.9 %
Availability (%)	9.2 %	9.5 %	18.0 %
Vacancy (%)	5.4 %	5.9 %	14.9 %
Deliveries (RBA, sq. ft.)	3,346,666	50.6 %	-28.3 %
Construction (RBA, sq.ft.)	12,299,828	-2.0 %	43.0 %
Inventory (RBA)	562,000,485	0.6 %	1.9 %
Inventory (No. Buildings)	18,405	0.3 %	1.0 %

Executive Summary

Houston has seen sizeable slowing in job growth in February and WTI prices broke below \$27 per barrel in Q1, but have recovered to high \$30s and low \$40s. The economic outlook has bounced back from January and February lows, but remains weakened due to volatile financial markets and low prices of commodities. Yet, there seems to be a disconnect between Wall Street and Main Street, as Q1 2016 showed turmoil and volatility on Wall Street, but there was strengthening confidence by the consumer on Main Street. With much talk of an economic recession, the Fed put the probability at 10% and Wells Fargo is slightly higher at 25%. The outlook for Texas and Houston economies is positive, poised for modest growth hinging on no further retreats in the oil industry.

The first quarter of 2016 saw demand for industrial real estate increase QoQ to 1,395,412 sq. ft. of net absorption, but this was a -66% drop YoY. Net absorption in Q1 2016 decreased significantly from historic Q1 performance since 2000. Likewise, Leasing activity of 3,965,689 sq. ft. was significantly lower than its historical Q1 performance. Reductions in leasing activity suggest declines in net absorption in coming quarters. For all industrial buildings combined, availability in Q1 2016 was 9.2%, an increase of 9.5% QoQ and 18.0% YoY. Vacancy for all industrial space combined was 5.4%, an increase of 5.9% QoQ and 14.9% YoY. With the surge of manufacturing sublease space, availability of manufacturing space at 6.0% is now significantly greater than its historic average of 4.6%. Vacancy and Availability of warehouse/distribution space is on the rise, but still within its historic range of performance. Deliveries of 3.3 million sq. ft. represented an increase of 50% QoQ but a decrease of 28% YoY. Current construction amounts to 12.2 million sq. ft., much of which is accounted for by one 4.0 million sq. ft. development for Daikin. Warehouse and distribution products, particularly those that are rail served, remain in high demand.

Broker's Perspective

The Houston Industrial Market experienced a first quarter that was justly reflective of the changing economic landscape; the woes of the oil field are dragging down one sector while the highs of the petro-chemical industry are driving demand and development for another. The first quarter of 2016 will certainly be a roadmap of what's to come as the year unfolds.

Areas of the Houston Industrial Market this quarter that have seen significant change from 2015, are the freestanding crane-ready and crane-served building market as well the rail-served bulk-warehouse market. One sector is seeing borderline depressing stats while the other is flourishing under the shadow of Houston's logistical magnet, that is the Port of Houston.

Freestanding Crane Capable Buildings:

There has always been a healthy supply of freestanding crane-capable buildings throughout the City, more so in the northwest and north markets. Supply is at an all-time high but demand has taken a serious hit. Where there was once an oilfield service user gobbling-up every available building they could retrofit a crane into, those very same buildings sit idle or being leased at below market rates to non-crane /non-oilfield related users. We are seeing free rent increase on seven and ten year deals. Quoted rental rates are dropping and most transactions are being executed well below quoted

rates. If you are a tenant looking for a freestanding building in just about any submarket in Houston, then you are going to be driving the negotiations. Correction in the market is healthy so there is a light at the end of the tunnel.

Got Rail?

The flip-side to all of this negativity in the industrial market associated with the decline of the oil and gas sector is that the petro-chemical industries on Houston's eastside are booming due to the cheap cost of their feedstock. The polyethylene or plastic resins industry is in hyper expansion mode right now along the port region gearing up to handle a quantum leap in containerized exports. These tenants are unfortunately fighting for the remaining big blocks of industrial space with various "e-commerce" groups looking to expand into the Houston market, leading the Port-area space to be at a premium.

Having a large block of space on the ground is not enough for the plastics packagers and 3PL's vying to profit off the market expansion. These tenants need active rail-service to their building and even smaller subset need access to a "heavy-haul" corridor in order to get their containers down to a waiting barge or deep-water dock. In recent years, rail service is a commodity that is increasingly difficult to find with many of the Class I's (UP, BNSF & KCS) driving their customers into industrial parks where they are forced to traverse their cars through a

"short-line". The short-line, a privately owned rail-road company established to service the parks they reside in, act as an intermediary between the Class I's and the end user. It's a lucrative gig if you can find it, and it's becoming more of the norm for many Landlords who own or develop rail-served product. The other aspect of the logistical conundrum facing these rail-served projects is the need to have direct access to a heavy-haul road down to their barge or deep-water dock. Options are limited on the south side of the Channel but on the Northside in the Chambers County Baytown market tenants have a few additional options to export out of. The congestion of bulk materials coming into and trucks/containers coming out of this region is expected to increase significantly as more rail-served buildings come on line to serve the ever increasing needs of the market.



Clay Pritchett, SIOR

Sr. Vice President | NAI Partners

“Areas of the Houston Industrial Market this quarter that have seen significant change from 2015”

ECONOMIC OVERVIEW

The overall economic outlook has bounced back from January and February lows, but remains weakened due to volatile financial markets and low prices of commodities. The outlook for Texas and Houston economies are similar, poised for modest growth but hinging on no further retreats in the oil industry. The energy and manufacturing sectors have weighed heavily, but 2016 could see growth at both city and state levels.

National Economy

The overall economic outlook has bounced back from January and February lows, but remains a bit weaker than could be due to volatile financial markets and the low prices of commodities. Yet, there seems to be a disconnect between Wall Street and Main Street; while the first quarter of 2016 showed turmoil and volatility on Wall Street, there was strengthening confidence by the consumer on Main Street. With much talk of an economic recession, the St. Louis, Atlanta, and New York branches of the Federal Reserve Bank all put the probability of an **economic recession** at 10%, but Wells Fargo gives a higher 25% probability over the next six months. It is important to remember that more economic recessions have been forecasted than actually manifest.

The U.S. **gross domestic product** (GDP) is projected to be 2.3% for 2016, a modest difference from 2.4% in 2015. GDP will continue to grow with pent up demand in the **housing market** and strong **consumer spending**, the latter of which accounts for about 66% of GDP. Although **consumer confidence** was down in the winter with stock market volatility, it increased 2.2 points in March to 96.6, but consumers continue to be frustrated with slow growth in income. Consumer credit increased for the 54th month in a row. Data indicate economic growth in Q1 with improving job market and lower debt burdens aiding private consumption. Yet, the strong dollar, volatile financial

markets, and low commodity prices way down the overall positive outlook.

Employment in March increased 215,000 jobs, with gains across many sectors, including in particular retail, health care, food services, and business services; again, the primary weakness in job growth remains with energy, manufacturing, and export industries. The ISM manufacturing index increased to 51.8 in March, indicating the first expansion in factory activity since August 2015. Nevertheless, hiring remains low in manufacturing. Unemployment increased to 5.0%, but this is likely attributed to workers re-entering the work force.

There will likely be a couple of interest rate hikes by the Fed in 2016, possibly in the summer and at the end of the year. Core **inflation** was 2.1% in 2015, and will likely rise to near 2.4% in 2016, which will also help the Fed justify increasing interest rates. **International trade** will continue to decline and hamper GDP with strong dollar (up nearly 20%) and global pullbacks, including in particular China and Brazil. The trade deficit is likely to increase 4% in 2016. In February the **trade** deficit increased 2.6% to \$47.1 billion, the highest level in past six months.

Houston and Texas Economy

The outlook for Texas and Houston economies are similar, poised for modest growth depending on no major further retreats in the oil industry. The energy and manufacturing sectors have weighed heavily, but 2016 could see growth at both city and state

levels. U.S. rig counts continue to decline, reaching a low of 450 rigs at the end of March.

Employment in Texas, despite the energy pullback, grew 0.4% in February compared to U.S. at 2.0%, with 4,500 new jobs following 23,700 new jobs in January. Unemployment in Texas was 4.4% in February, still lower than U.S. level of 4.9%. Employment in Houston, however, contracted by 0.4% for the three months ending in February. What job growth did occur came from sectors of leisure and hospitality, education and health, and retail trade. Houston's unemployment remained steady at 4.7% in February, compared with 4.9% in U.S. and 4.4% in Texas. Manufacturing and in particular durable goods continued to lose jobs. However, Texas factory and manufacturing activity, as indicated by the Texas Manufacturing Outlook Survey, increased slightly in March, but was still negative.

The Houston **Business Cycle** Index of the Dallas Federal Reserve measures the Houston economy based on movements in local unemployment, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. Business growth in Houston continued its downward fall. Since 2000, the average business cycle index was 3.2% growth, which fell to 1.1% growth in 2015, but as of February 2016 was -3.6%, mostly due to job losses.

MARKET OVERVIEW

Total net absorption for all industrial products combined in Q1 2016 was 1,395,412 sq. ft., yielding an increase in demand of industrial real estate of 217.1% QoQ but a decrease of -66.6% YoY. In fact, with the pullback in oil and associated impacts on the industrial market, net absorption in Q1 2016 did decrease significantly from historic Q1 performance since 2000. Moreover, at 3,965,689 sq. ft. in Q1 2016, leasing activity was significantly lower than its typical historic Q1 performance, signaling lower net absorption to come. Yet, Houston's industrial real estate is not uniform among its products and submarkets. Warehouse and distribution products, particularly those that are rail served on the east side of Houston, remain in high demand. On the other hand, we continue to see declines in manufacturing at both local and national levels.

Supply of industrial real estate continues to remain low, with vacancy increasing to 5.4%, a 14.9% increase YoY. For all industrial buildings combined, availability in Q1 2016 was 9.2%, an increase of 9.5% QoQ and 18.0% YoY. Vacancy for all industrial space combined was 5.4%, an increase of 5.9% QoQ and 14.9% YoY. Vacancy for flex, manufacturing, and warehouse/distribution space were 7.0%, 1.9%, and 6.1%, respectively, each of which is lower than its historic Q1 averages. However, with increases in subleases, availability for manufacturing space at 6.0% has now increased significantly above its historic Q1 performance level. Deliveries in Q1 were about 3.3 million sq. ft., with 12.3 million sq. ft. under construction.

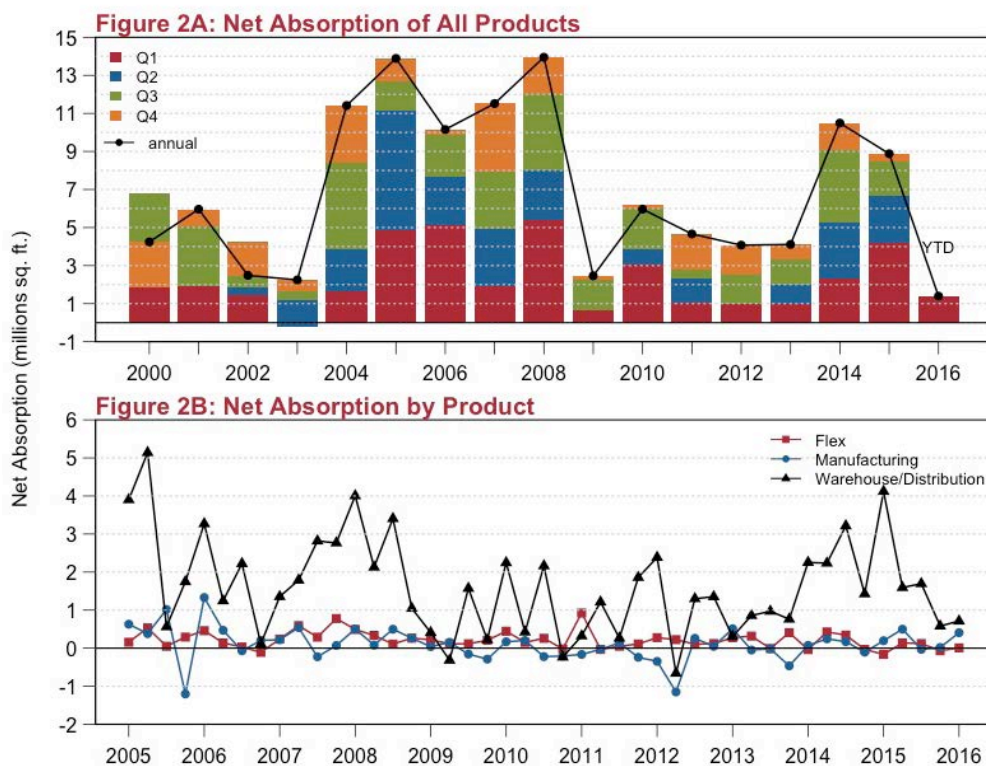
Net Absorption

As a key metric for demand of industrial space, net absorption measures the change in occupied inventory, including direct and sublet space. Total net absorption for all products combined in Q1 2016 was 1,395,412 sq. ft., yielding an increase of 217.1% QoQ but a decrease of -66.6% YoY (Table 1, Fig 2A). The historic Q1 average (\pm 95% confidence interval) for net absorption is 2,719,804 sq. ft. (\pm 940,881). We are 95% certain that Q1 absorption typically falls between 1,778,923 to 3,660,684 sq. ft. With the pullback in oil and associated impacts on the industrial market, net absorption in Q1 2016 did decrease significantly from historic Q1 performance since 2000.

Figure 2B breaks total net absorption down since 2005 by year and quarter for three product types: flex, manufacturing, and warehouse/distribution space. All three product types show stable to small increases in Q1 2016, most notably a strong increase in manufacturing net absorption (Figure 2B).

Leasing Activity

A measure of demand that is more forward looking than net absorption is



leasing activity, the total amount of space represented by direct leases, subleases, renewals, and pre-leasing. Figure 3A reports all leasing activity since 2000, while Figure 3B breaks down leasing activity by year and quarter for each of flex, manufacturing, and warehouse/

distribution space. Leasing activity of 3,965,689 sq. ft. occurred in Q1 2016, yielding decreases of -52.6% QoQ and -48.9% YoY (Table 1). The historic Q1 average (\pm 95% confidence interval) for leasing activity is 5,490,134 sq. ft. (\pm 843,881). We are 95% certain that Q1

leasing activity typically falls between 4,646,253 to 6,334,016 sq. ft., indicating that leasing activity in Q1 was significantly lower than its historic Q1 performance since 2000. With net absorption lagging behind leasing activity, lower leasing activity for all three products suggests lower absorption in quarters to come.

Vacancy and Availability

Vacancy and availability measure the supply of industrial space. Availability estimates total supply because it includes vacant, occupied, and sublease space. Vacancy estimates empty space on the market, whether or not that space is leased or for rent. Supply continues to remain very low, but with some modest increases (Tables 1 and 2, Figure 4). For all industrial buildings combined, availability in Q1 2016 was 9.2%, an increase of 9.5% QoQ and 18.0% YoY (Table 1). Likewise, vacancy for all industrial space combined was 5.4%, an increase of 5.9% QoQ and 14.9% YoY (Table 1).

Figure 4 shows percent availability and vacancy for flex, manufacturing, and warehouse/distribution buildings since 2000. Table 2 summarizes availability and vacancy of flex, manufacturing, and warehouse/distribution buildings for Q1 2016. In particular, note that vacancy and availability of flex space remain below historic levels. However, with the surge of sublease space, availability of manufacturing space at 6.0% is now significantly greater than its historic average of 4.6%; nonetheless, vacancy of manufacturing has yet to see the rise and remains a low 1.9%. Vacancy and Availability of warehouse/distribution space is on the rise, but still within its historic range of performance.

Asking Rent

Figure 5 plots asking rent prices since 2000 for flex, manufacturing, and warehouse/distribution space. In Q1 2016, each product type showed modest decreases in asking rents, consistent with modest rises vacancy and availability.

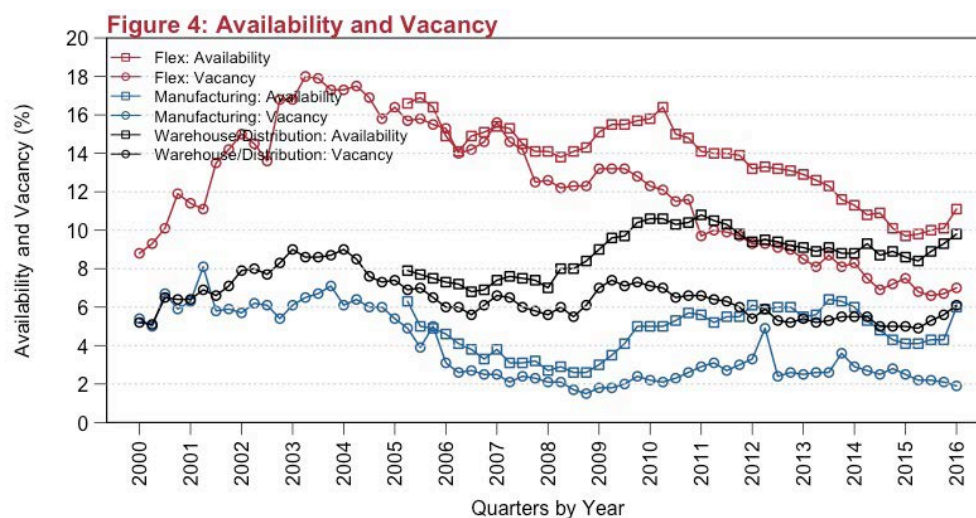
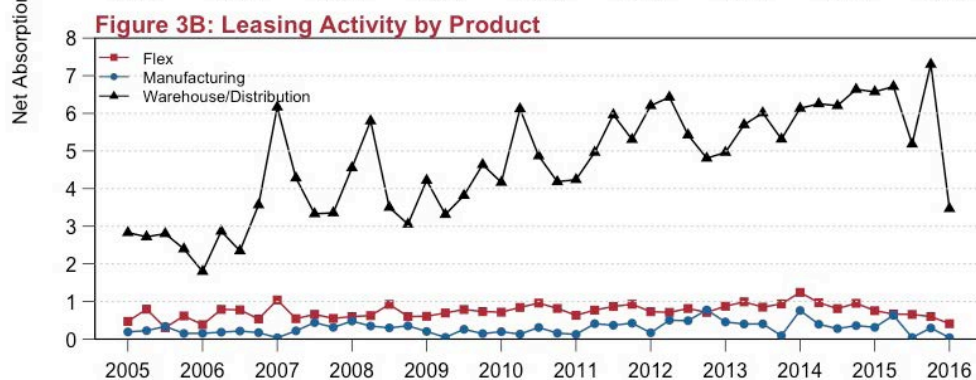
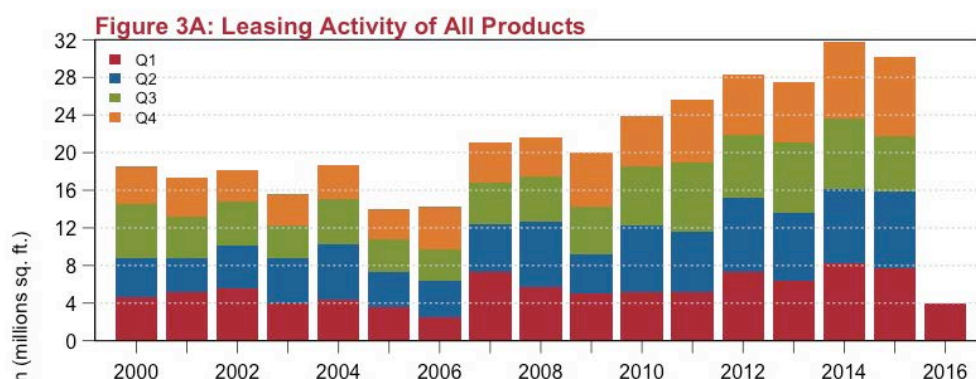


Table 2. Current (Q1 2016) supply of industrial space as measured by the availability and vacancy of flex, manufacturing, and warehouse/distribution space (total RBA), compared to the historic first-quarter (Q1) average since 2000. The 95% confidence interval is the typical historic expected Q1 performance.

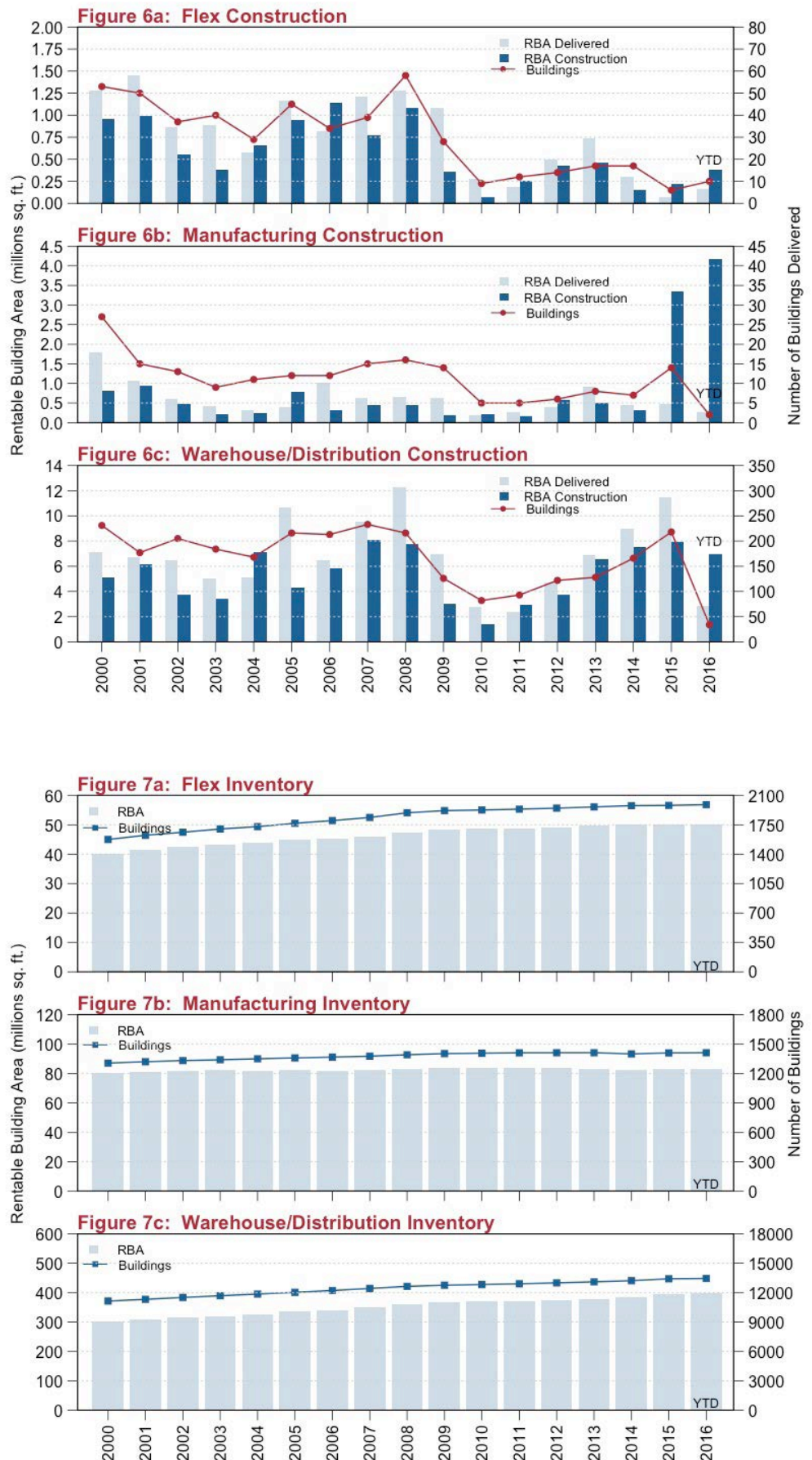
	Q1 2016	Historic Q1 Average	95% Confidence Interval for Q1
Availability (%)			
Flex	11.1	13.7	12.3 to 15.0
Manufacturing	6.0	4.6	3.8 to 5.5
Warehouse/Distribution	9.8	8.8	7.9 to 9.9
Vacancy (%)			
Flex	7.0	12.4	10.6 to 14.2
Manufacturing	1.9	3.8	2.9 to 4.7
Warehouse/Distribution	6.1	6.7	5.9 to 7.2

Construction

Construction of new buildings is an important variable determining the supply of industrial space. "RBA Delivered" refers to completed construction, while "RBA Construction" refers to space under construction that has not yet been completed. As detailed in Table 1 and Figure 6, deliveries in Q1 2016 were 3.3 million sq. ft., an increase of -50.6% QoQ but a decrease of 28.3% YoY (Table 1). RBA under construction was 12.6 million sq. ft. in Q1 2016, a decrease of -2.0% QoQ but an increase of 43% YoY (Table 1). Of this 12.6 million under construction, ~4.0 million is accounted for by Daikin Industries new campus in Waller, Texas.

Inventory

Figure 7 depicts changes in the inventory of flex, manufacturing, and warehouse/distribution space since 2000, both for RBA and number of buildings. RBA inventory for all industrial space increased to 562 million sq. ft. for 18,405 buildings, which is an increase of 0.3% QoQ and 1.0% YoY (Table 1).



Select Largest Deliveries

Building Address	Rentable Building Area	Percent Leased
4505 Ameriport Pky	333,200	59%
Beltway 8 & US Hwy 90-A	217,440	0%
3009 Highway 225	205,015	50%
Volta Dr. & Kenswick Dr	168,425	0%
Beltway 8 & US Hwy 90-A	131,560	0%
9380 Kirby Dr	65,007	0%
9370 Kirby Dr	26,250	0%
5910 E Sam Houston Pky S	24,000	17%
1810 First Oaks St	20,000	38%
2101 Former Fab Dr	20,000	50%
2260-2270 Dickinson Ave	19,550	33%
5908 E Sam Houston Pky S	18,000	0%
5914 E Sam Houston Pky S	18,000	0%
FM 1960 & Springbridge	15,000	0%
5912 E Sam Houston Pky S	14,000	0%
21602 W Hardy Rd	13,850	0%
21215 Fm-529	13,750	0%
5916 E Sam Houston Pky S	12,000	0%
13011 Misty Willow Dr	11,250	0%
13017 Misty Willow Dr	11,250	0%

Select Under Construction

Building Address	Rentable Building Area	Percent Leased
19001 Kermier Rd	3,900,000	100%
8787 W Grand Pky N	800,000	100%
600 Fallbrook Dr	500,400	0%
FM 565 Rd	481,000	100%
FM 565	480,000	100%
FM 565	480,000	100%
Wharton Weems Blvd	415,272	0%
3013 Highway 225	394,489	100%
9431 Bay Area Blvd	353,600	100%
233 S Cravens Rd	303,335	100%
14151 E Hillcroft St	240,000	0%
1256 Greens Pky	213,218	0%
9531 Bay Area Blvd	212,160	100%
3730 S Main St	210,000	100%
Highway 90 A & Beltway 8	208,907	0%
252 Fallbrook Dr	193,000	0%
10643 W Airport Blvd	165,000	0%
3011 Highway 225	154,360	0%
9631 Bay Area Blvd	153,655	0%
Leesa Ln & Genoa Red Bluf	130,000	100%
Beltway Green Blvd	121,300	0%
7256 S Sam Houston Pky W	112,500	33%
9331 Bay Area Blvd	110,390	0%
20502 Northwest Fwy	110,240	68%
13115 Jess Pirtle Blvd	106,000	100%
220 Abner Jackson Pky	100,000	100%
230 Abner Jackson Pky	100,000	100%
240 Abner Jackson Pky	100,000	100%
14827 I-10	95,500	100%
10633 W Airport Blvd	95,400	0%
10653 W Airport Blvd	91,560	0%
500 W Conroe Park Dr	80,000	100%

Building Address	Rentable Building Area	Percent Leased
10151 Waukegan Rd	80,000	100%
727 Century Plaza Dr	65,328	60%
12331 Cutten Rd	61,875	100%
10485 W Bellfort St	50,000	100%
500 W Conroe Park Dr	50,000	100%
Hufsmith-Kohrville Rd	50,000	100%
865 W Conroe Park Dr	49,750	100%
3516 Highway 225	43,234	0%
12530 Burdine St	40,000	100%
12850 Fuqua Rd	35,200	50%
1905 Little York Rd	35,000	100%
1924 Aldine Western Rd	34,500	0%
3162 Avenue M Ext	32,604	100%
21850 Katy Fwy	30,000	100%
Katy Hockley Cutoff & Cla Dr	30,000	0%
6303 N Sam Houston Pky W	28,600	13%
10321 Regal Row	28,041	0%
12840 Sugar Ridge Blvd	25,000	100%
4458 Genoa Red Bluff Rd	24,307	13%
1630 FM 1960 Rd	15,750	0%
2111 Humble Westfield	15,200	0%
25918 Hardin Store Rd	15,000	100%
109 Magellan Cir	15,000	100%
12527 Taylor Rd	15,000	0%
2023 Humble Westfield Rd	14,875	0%
19200 W Little York Rd	14,490	0%
17641 Telge Rd	14,000	0%
12315 Bellaire Blvd	12,750	20%
501 N 16th St	12,000	
20212 Hempstead Rd	12,000	100%
27725 Robinson Rd	11,875	0%
901 Magnolia Ave	10,000	100%

Select Major Lease Transactions

Tenant	Qtr.	Building	Size (SF)
Goodman Manufacturing Company*	1st	Prologis Park Jersey Village	700,039
Advanced Auto Parts	1st	11810 North Gessner	441,000
Adams Warehouse & Delivery	1st	3530 W 12th St	141,550
Communications Test Design	1st	West by Northwest Phase II	114,467
KW International, LLC (KWI)*	1st	1223 Brittmoore Rd	54,374
Servi Fluid Power, Inc.	1st	22240 Merchants Way	44,767
Constitution Chemical	1st	Railwood Industrial Park	36,000
Epic Piping	1st	9260 Bryant St	35,824
Accurate Controls	1st	Claymoore Business Park 3	34,455
Point2Point Crowded House Moving & Storage	1st	Pine Forest Business Park Bldg 6	31,000
Patronelli USA Group LLC	1st	Hardy Industrial Center Bldg 2	22,500

* Renewal / Expansion

Flex Market Statistics

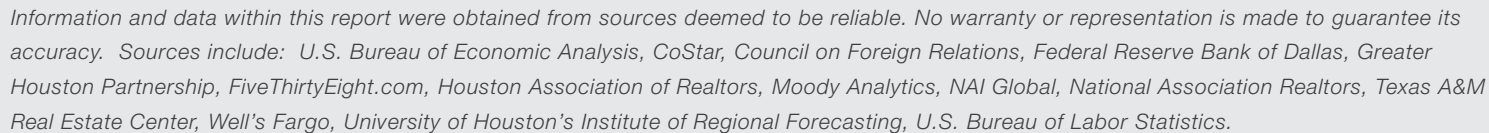
Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	173	3,773,132	226,331	6.0%	2,772	0	\$11.79
North Corridor Ind	392	10,584,165	761,290	7.2%	72,102	50,000	\$8.80
Northeast Corridor Ind	64	755,910	32,533	4.3%	3,965	0	\$9.35
Northwest Corridor Ind	556	16,970,748	1,093,435	6.4%	4,397	14,490	\$9.59
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	211	3,073,800	324,919	10.6%	21,593	11,850	\$10.93
Southern Corridor Ind	121	2,453,568	187,040	7.6%	3,624	0	\$9.68
Southwest Corridor Ind	469	12,452,204	883,882	7.1%	(98,978)	306,000	\$10.90

Warehouse Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,568,430	0	0.0%	0	0	\$0.00
CBD Ind	1,911	56,268,189	2,818,598	5.0%	(218,440)	0	\$4.58
North Corridor Ind	3,050	86,066,061	6,824,341	7.9%	441,927	1,507,375	\$7.09
Northeast Corridor Ind	921	34,874,977	690,754	2.0%	324,355	9,313	\$4.32
Northwest Corridor Ind	4,099	137,877,947	8,254,431	6.0%	665,980	4,984,881	\$6.55
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,265	86,298,568	3,853,379	4.5%	(366,694)	3,721,467	\$5.60
Southern Corridor Ind	1,878	47,498,541	1,539,633	3.2%	(166,982)	210,000	\$5.69
Southwest Corridor Ind	2,205	60,157,506	2,656,618	4.4%	756,879	1,404,452	\$6.26

Total Industrial Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,568,430	0	0.0%	0	0	\$0.00
CBD Ind	2,084	60,041,321	3,044,929	5.1%	(215,668)	0	\$4.87
North Corridor Ind	3,442	96,650,226	7,585,631	7.8%	514,029	1,557,375	\$7.26
Northeast Corridor Ind	985	35,630,887	723,287	2.0%	328,320	9,313	\$4.42
Northwest Corridor Ind	4,655	154,848,695	9,347,866	6.0%	670,377	4,999,371	\$6.99
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,476	89,372,368	4,178,298	4.7%	(345,101)	3,733,317	\$6.02
Southern Corridor Ind	1,999	49,952,109	1,726,673	3.5%	(163,358)	210,000	\$5.81
Southwest Corridor Ind	2,674	72,609,710	3,540,500	4.9%	657,901	1,710,452	\$6.99



Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q1 2016

Marketing & Research Team

J. Nathaniel Holland, Ph.D.
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Director of Property Research

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Sr. Director of Marketing and Research

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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q4 2015

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Figure 1: Supply and Demand

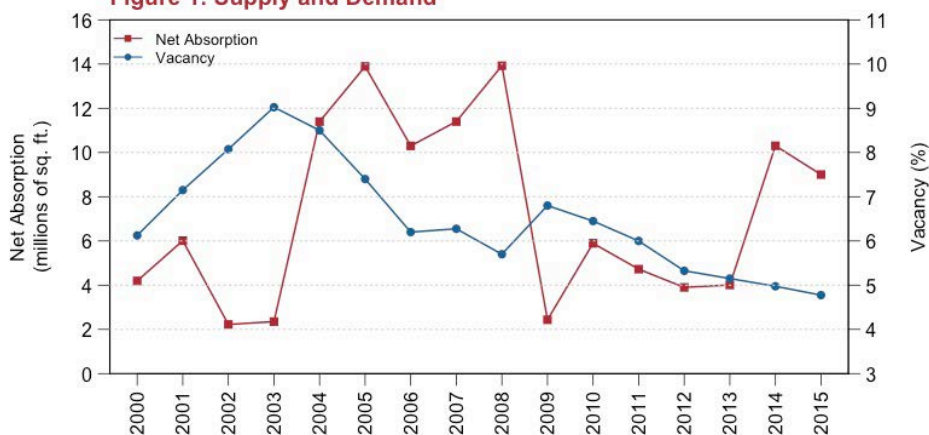


Table 1. Key market indicators for Q4 2015, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

	Q4 2015	Percent Change over Prior Period	
		QoQ (%)	YoY (%)
Net Absorption (sq.ft.)	852,955	-43.3	-36.0
Leasing Activity	4,438,136	4.7	-45.7
Availability (%)	8.6	4.9	4.9
Vacancy (%)	5.0	4.2	6.4
Deliveries (RBA, sq. ft.)	2,149,969	-29.7	27.9
Construction (RBA, sq.ft.)	9,713,178	-2.1	-4.1
Inventory (RBA)	554,861,006	0.3	2.0
Inventory (No. Buildings)	18,222	0.2	1.1

Executive Summary

With hope for a V-shaped recovery from the oil downturn gone, reality has settled in to a best case scenario of a U-shaped recovery. While the oversupply of oil is recognized as the key variable driving oil prices down, the most recent drop in WTI is as much a result of the soaring value of the U.S. dollar, as the oil glut persists with little recent change in supply of the commodity. The strengthening dollar is also reducing U.S. exports. While oil and exports are two prominent factors weighing down the economy, as a whole the national economy is healthy and has a strong outlook. Yet, rather than leading the nation as in years past, Texas and especially Houston are now lagging behind the nation on most economic metrics, largely due to the oil downturn. Forecasts are for the oil prices to begin to turn around in mid to late 2016, but oil forecasts are less than stellar in their performance.

While demand dropped to a 852,000 sq. ft. of net absorption in Q4, it was well within its typical Q4 bounds of performance over the past 16 years. Likewise, leasing activity of 4,438,00 sq. ft. in Q4 2015 was a measured drop YoY, but still within historical performance bounds. Reductions in leasing activity suggest declines in net absorption in coming quarters. In total, 2015 saw 9.0 million sq. ft. of net absorption and 20.7 million sq. ft. of leasing activity, both typical of average performing years. While vacancy continues to remain quite low at 5%, supply is increasing with availability at 8.6%. Deliveries of 2.1 million sq. ft. represented a decrease of -30% QoQ but an increase of 28% YoY. Current construction amounts to 9.7 million sq. ft., much of which is accounted for by one 4.0 million sq. ft. development. Warehouse and distribution products, particularly those that are rail served, remain in high demand, but we continue to see both local and national declines in manufacturing.

Broker's Perspective

East vs. West Houston: This dichotomy describes the division between oil and petrochemical industries and also a division in the current performance of Houston's industrial market. In 2016, you cannot really talk about Houston's industrial sector as a whole. Niches within the product type are just too different in 2016 (and more generally). Petrochemical strength is creating a frenzy for rail-served distribution space in East Houston. Other factors leading to this strong demand include the openings of the Panama Canal and the expansion of the plastics business on Houston's East side. In the last two months in Cedar

Port Industrial Park, we have closed five deals totaling approximately 140 acres of rail-served land.

On the other hand, and the opposite side of town, the manufacturing sector is struggling. Sales are still happening because interest rates are still near historical lows, but leasing has slowed dramatically. That could have a big impact on the southwest market, where 1.0 million sq. ft. of development is about to deliver. We anticipate vacancy rates will increase in the southwest and northwest markets, which should spark rent concessions in manufacturing product over the next 12 months.



Joel Michael, SIOR
Partner, NAI Partners

“East vs. West Houston: This dichotomy describes the division between oil and petrochemical industries and also a division in the current performance of Houston's industrial market.”

ECONOMIC OVERVIEW

Houston's economy remains largely flat, as substantial downturns in the oil industry are modestly buffered by growth in health, construction, and petrochemical industries. The strengthening of the U.S. dollar continues to drive oil prices downward, with WTI breaking below \$30 per barrel in January. U.S. rig counts are now down to 663, from 1750 a year ago. The strength of the dollar is also hampering exports. Despite these weaknesses in oil and export trade, the national economy has a strong healthy outlook. Employment continues to show strength, with unemployment at a low 5.0% for the nation, 4.6% for Texas, and 4.8% for Houston. Gross domestic product (GDP) is anticipated to be 2.5% for 2015, and possibly increasing to 2.7% for 2016, with strong consumer spending and a strengthening housing market.

National Economy

With much speculation and uncertainty about a looming decline in the national economy, the numbers actually suggest a healthy and strong economic outlook with the exceptions of **energy** and **trade**. While U.S. rig counts had appeared to stabilize in early Fall 2015, active **rig counts** have continued to drop to 663 from 1750 a year ago. This decline in rig counts is manifesting as a result of the global oversupply in oil. This glut in oil is clearly the major factor driving declines in WTI prices per barrel. However, the most recent drops in WTI oil prices to \$30 per barrel is as much a result of the soaring value of the U.S. dollar (which oil trades in), as it is shifts in the excess supply of the commodity which remain largely unchanged.

Following a 5% increase in 2015, the **trade** deficit is likely to widen further in 2016 as a result of the strong dollar. The dollar is up in value by 17% since the middle of 2014. This slump in the export of goods from the U.S. is accompanied by strong export in transportation and tourism services.

Despite limitations in energy and exports, the U.S. **gross domestic product** (GDP) is on track for 2.5% for 2015, possibly increasing to 2.7% for 2016. GDP will continue to be based largely upon growth in the **housing**

market and strong **consumer spending**, the latter of which accounts for about 66% of GDP. Housing starts are expected to increase possibly by 13% in 2016. With the increase in interest rates, buyers will likely move forward with their home purchases before mortgage rates increase too much. **International trade** will continue to hamper GDP by discouraging export volume.

Employment in the U.S. increased by 292,000 jobs in December 2015, closing the year with a low 5.0% unemployment, a level the Federal Reserve sees as consistent with 'full' employment, and with 2016 looking at an even lower 4.6%. While job growth continues to churn the economic engine, salary growth remains stunted, with corporations not passing profits onto employees as much as in prior economic expansions.

The Federal Reserve did raise **interest rates** by a modest 25 basis points at their December 2015 meeting. Yet, Fed Chair Yellen strongly suggested that further rate hikes will be conditional upon data and may be some time to come, despite the contrary poll of Fed governors and bank presidents expecting four more rate hikes in 2016 alone. There is concern, however, that increasing rates too much will further strengthen the value of the dollar with more feedbacks on other economics.

Houston and Texas Economy

The regional Houston economy appears to be staggering in neither a growth nor recession phase. The Houston **Business Cycle** Index of the Dallas Federal Reserve measures the Houston economy based on movements in local unemployment, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. Following growth of 4.7% in September, October to November declined to 0.8%, with the long-term average since 2000 being 3.3% growth. Manufacturing, both at regional and national levels, continues to decline, contrary to initial signs of stabilization at the end of last quarter. **Texas exports** declined 3.8% in October, which was 6.6% lower than a year ago.

Through November 2015, **Houston's employment** has increased by only 3,600 jobs, and will struggle to reach 2015 annual forecasts of 15,000 to 30,000 with only December remaining. Houston area manufacturing jobs declined by 19,000 through November 2015. November unemployment increased to 4.8% for the Houston area, while Texas unemployment was 4.6%. Houston faces a rough 2016, yet forecasts are not negative, but rather just some minimal positive growth between 20,000 - 30,000 new jobs.

MARKET OVERVIEW

Total net absorption for all products combined in Q4 2015 was 852,955 sq. ft., yielding decreases in demand for industrial real estate by -43.3% QoQ and -36.0% YoY. Despite the drastic downturn in Houston's oil industry, annual net absorption and leasing activity remained within typical bounds of their historic performance, at 9.0 and 20.7 million sq. ft., respectively. Nevertheless, Houston's industrial real estate is not uniform among its various products and submarkets. Warehouse and distribution products, particularly those that are rail served on the east side of Houston, remained in high demand. On the other hand, we continue to see declines in manufacturing at both local and national levels.

Supply of industrial real estate continues to remain very low, with vacancy only increasing to 5% overall. For all industrial buildings combined, availability in Q4 was 8.6%, an increase of 4.9% YoY (Table 1). Vacancy for flex, manufacturing, and warehouse/distribution space were 6.8%, 2.0%, and 5.2%, respectively, each of which is significantly lower than their historic Q4 averages. Deliveries in Q4 were about 2.1 million sq. ft., with 9.7 million sq. ft. under construction.

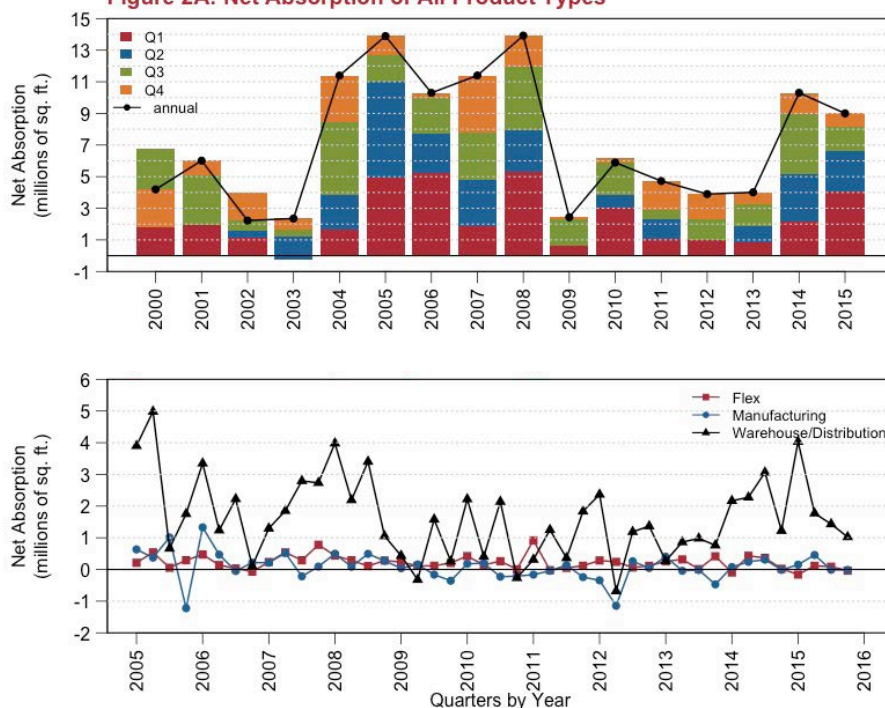
Net Absorption

As a key metric for demand of industrial space, net absorption measures the change in occupied inventory, including direct and sublet space. Total net absorption for all products combined in Q4 2015 was 852,955 sq. ft., yielding decreases of -43.3% QoQ and -36.0% YoY (Table 1, Fig 2A). The historic Q4 average (\pm 95% confidence interval) for net absorption is 1,173,915 sq. ft. (\pm 732,529). We are 95% certain that Q4 absorption typically falls between 441,387 to 1,906,444 sq. ft. Despite the pullback in oil and associated impacts on the industrial market, net absorption in Q4 2015 did not deviate significantly from historic Q4 performance since 2000. Figure 2B breaks total net absorption down since 2005 by year and quarter for three product types, namely flex, manufacturing, and warehouse/distribution space. All three product types show declines in Q4 2015, consistent with overall net absorption for all industrial products combined (Figure 2A). Nevertheless, Q4 net absorption of 0.8 million sq. ft. brings total annual net absorption for 2015 to 9.0 million sq. ft. This makes 2015 the 7th highest year for demand since 2000.

Leasing Activity

Another measure of demand that is more forward looking than net absorption is leasing activity, the total amount of space

Figure 2A: Net Absorption of All Product Types



represented by direct leases, subleases, renewals, and pre-leasing of rentable building area. Figure 3A reports all leasing activity since 2000, while Figure 3B breaks down leasing activity by year and quarter for each of flex, manufacturing, and warehouse/distribution space. Leasing activity of 4,438,136 sq. ft. occurred in Q4 2015, yielding an increase of 4.7% QoQ but a decrease of -45.7% YoY (Table 1). The historic Q4 average (\pm 95% confidence interval) for leasing activity is

4,898,525 sq. ft. (\pm 828,289). We are 95% certain that Q4 leasing activity typically falls between 4,070,236 to 5,726,814 sq. ft., indicating that leasing activity in Q4 was within its historic Q4 performance since 2000. Leasing activity of 4,438,136 sq. ft. in Q4 brings total leasing activity for 2015 to 20.7 million sq. ft., a drop from 2014 but well within typical annual activity. With net absorption lagging behind leasing activity, lower leasing activity in 2015 suggests lower absorption in quarters to come.

Vacancy and Availability

Vacancy and availability measure the supply of industrial space. Availability estimates total supply because it includes vacant, occupied, and sublease space. Vacancy estimates empty space on the market, whether or not that space is leased or for rent. Supply continues to remain very low, but with some modest increases (Tables 1 and 2, Figure 4). For all industrial buildings combined, availability in Q4 2015 was 8.6%, an increase of 4.9% QoQ and 4.9% YoY (Table 1). Likewise, vacancy for all industrial space combined was 5.0%, an increase of 4.2% QoQ and 6.4% YoY (Table 1).

Figure 4 shows percent availability and vacancy for flex, manufacturing, and warehouse/distribution buildings since 2000. Table 2 summarizes availability and vacancy of flex, manufacturing, and warehouse/distribution buildings for Q4 2015. It is important to note that supply in terms of vacancy is currently low and below 95% confidence intervals of historic Q4 values (Table 2). Availability is also on the low end, but within historic intervals values.

Table 2. Current (Q4 2015) supply of industrial space as measured by the availability and vacancy of flex, manufacturing, and warehouse/distribution space (% total RBA), compared to the historic second-quarter (Q4) average since 2000. The 95% confidence interval is the typical historic expected Q4 performance.

Asking Rent

Figure 5 plots asking rent prices since 2000 for flex, manufacturing, and warehouse/distribution space. In Q4 2015, each product type showed modest increases in asking rents. Consistent with low vacancy and stable net absorption, asking rents continue to increase.

Figure 3A: Leasing Activity of All Product Types

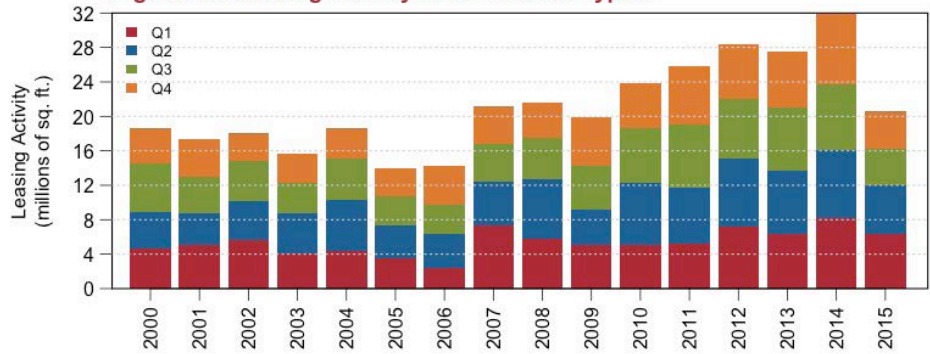


Figure 3B: Leasing Activity by Selected Product Types

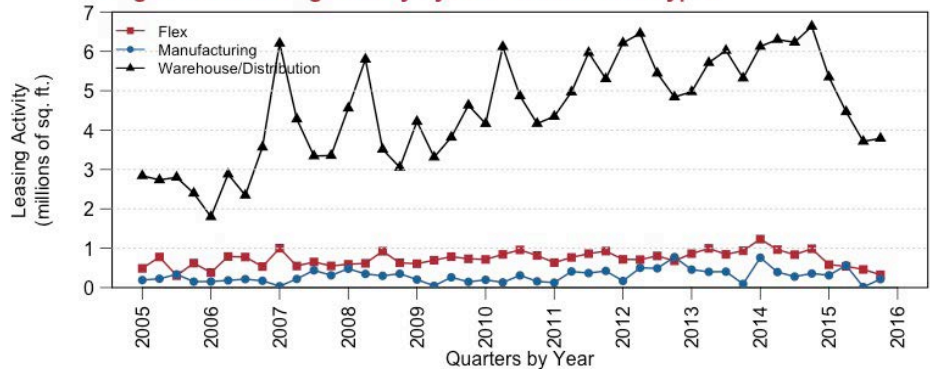


Figure 4: Availability and Vacancy

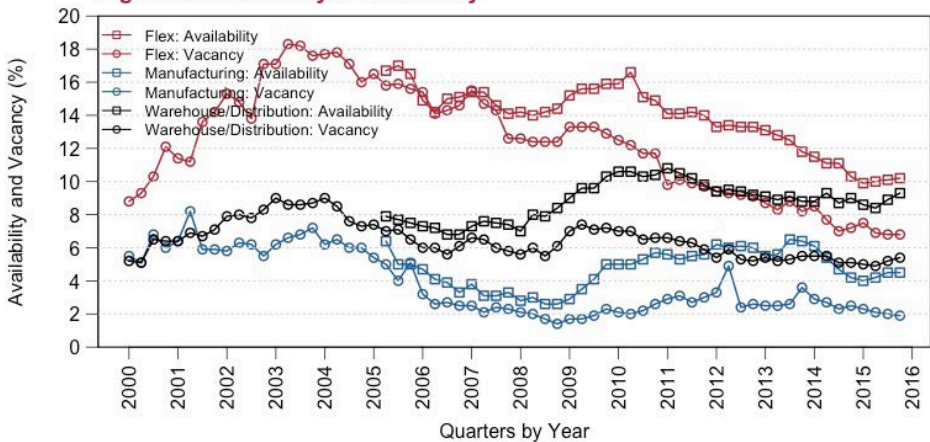


Figure 5: Asking Rent

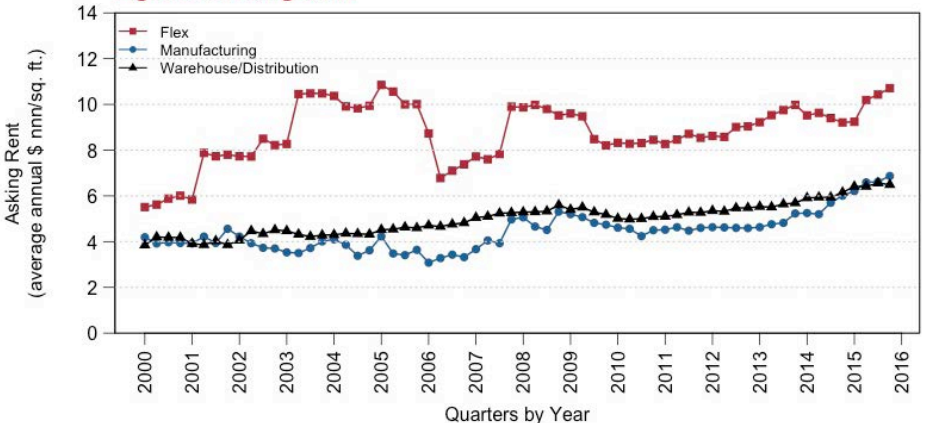


Table 2. Current (Q4 2015) supply of industrial space as measured by the availability and vacancy of flex, manufacturing, and warehouse/distribution space (% total RBA), compared to the historic second-quarter (Q4) average since 2000. The 95% confidence interval is the typical historic expected Q4 performance.

	Q4 2015	Historic Q3 Average	95% Confidence Interval for Q3
Availability (%)			
Flex	10.1	14.3	13.1 to 15.4
Manufacturing	4.5	4.7	3.8 to 5.6
Warehouse/Distribution	8.9	8.7	7.9 to 9.6
Vacancy (%)			
Flex	6.8	12.7	10.9 to 14.4
Manufacturing	2.0	3.8	2.7 to 4.9
Warehouse/Distribution	5.2	6.5	5.9 to 7.0

Construction

Construction of new buildings is an important variable determining the supply of industrial space. "RBA Delivered" refers to completed construction, while "RBA Construction" refers to space under construction that has not yet been completed. As detailed in Table 1 and Figure 6, deliveries in Q4 2015 were 2.1 million sq. ft., a decrease of -30% QoQ but an increase of 28% YoY (Table 1). RBA under construction was just under 10 million sq. ft. in Q4 2015, a decrease of -2.1% QoQ and -4.1% YoY (Table 1). Of this 10 million under construction, 4.0 million is accounted for by Daikin Industries new campus in Waller, Texas.

Inventory

Figure 7 depicts changes in the inventory of flex, manufacturing, and warehouse/distribution space since 2000, both for RBA and number of buildings. RBA inventory for all industrial space increased to 554 million sq. ft. for 18,222 buildings, which is an increase of 0.2% QoQ and 1.1% YoY (Table 1).

Figure 6a: Flex Construction

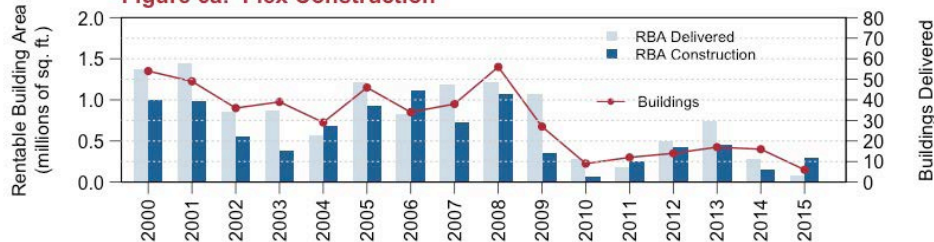


Figure 6b: Manufacturing Construction



Figure 6c: Warehouse/Distribution Construction

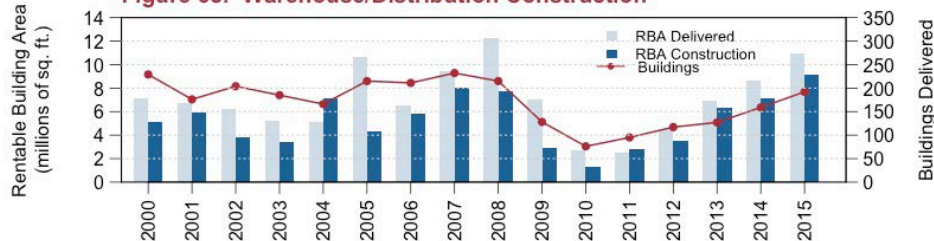


Figure 7a: Flex Inventory

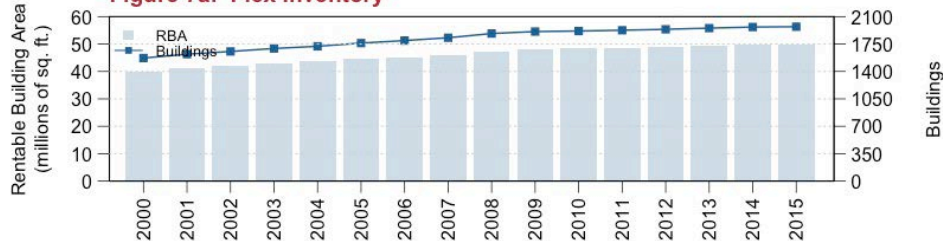


Figure 7b: Manufacturing Inventory

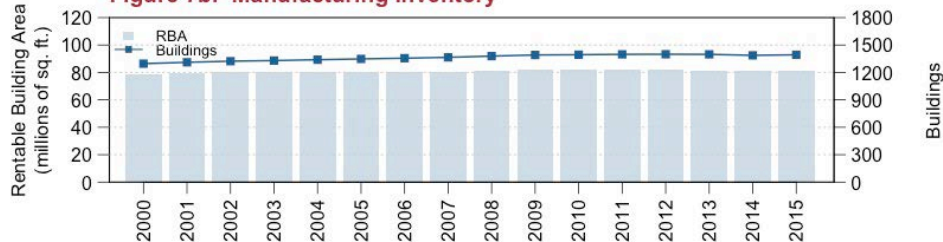
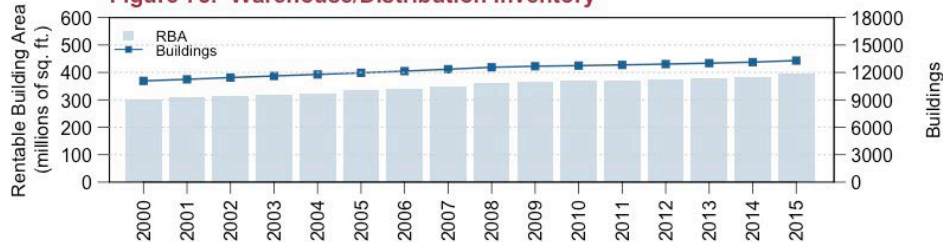


Figure 7c: Warehouse/Distribution Inventory



Select Largest Deliveries

Building Address	Rentable Building Area	Percent Leased
3507 Pasadena Blvd	600,000	100%
11810 N Gessner Rd	441,000	0%
2244 N Mason	373,860	0%
4300 Malone Dr	365,727	0%
9902 Fallbrook Dr	362,395	0%
11717 Windfern Rd	362,180	100%
20710 Hempstead Rd	357,887	100%
971 N Sam Houston Parkway E	352,680	0%
660 Greens Pky	350,000	100%
28450 West Ten Blvd	340,503	0%
11747 Windfern Rd	320,430	59%
8520-B S Sam Houston Pky W	310,010	67%
1910 Cypress Station Dr	284,170	0%
616 Delta Pky	252,720	100%
5801 Bayport Blvd	243,360	100%
5300 Highway 146	243,000	100%
8411 Humble Westfield Rd	205,608	47%
10634 Tanner Rd	204,070	29%
619 E Sam Houston Pky S	199,680	21%
9950 Fallbrook Dr	197,917	32%
9254 Park South Vw	193,741	60%
14888 Kirby Dr	180,000	100%
6410 Langfield Rd	177,246	30%
431 E Airtex Dr	166,250	0%
11720 N Gessner Rd	155,400	0%
2020 Greens Rd	153,357	35%
18727 Kenswick Dr	150,000	100%
18945 Kenswick Dr	150,000	100%
1902 Cypress Station Dr	129,936	0%
20702 Hempstead Rd	114,800	100%
10470 Gillespie Rd	105,800	100%
Way Out West Blvd	88,000	100%
611 E Sam Houston Pky S	87,880	0%
8401 Fallbrook Dr	86,722	100%
5747 Brittmoore Rd	86,250	38%
8770 West Rd	77,987	0%
28480 West Ten Blvd	74,793	0%
10622 Hirsch Rd	70,000	100%
8520-A S Sam Houston Pky W	68,370	44%
22130 Merchants Way	67,743	0%
11710 N Gessner Rd	67,200	0%
10618 Tanner Rd	66,420	66%
19522 Aldine Westfield Rd	65,000	100%
8787 West Rd	64,750	35%
8401 Fallbrook Dr	62,061	0%
19408 Kenswick Dr	59,000	0%
9191 Gulf Fwy	52,200	0%
6410 Langfield Rd	51,539	0%

Under Construction

Building Address	Rentable Building Area	Percent Leased
19001 Kermier Rd	4,000,000	100%
777 Highway 90A W	650,000	100%
600 Fallbrook Dr	500,400	0%
3013 Highway 225	394,489	0%
9431 Bay Area Blvd	353,600	100%
14151 E Hillcroft St	240,000	0%
Beltway 8 & US Hwy 90-A	217,440	0%
1300 Greens Pky	213,218	0%
9531 Bay Area Blvd	212,160	100%
State Highway 35 & Bailey Rd	210,000	100%
3009 Highway 225	205,015	50%
252 Fallbrook Dr	193,000	0%
Volta Dr. & Kenswick Dr	168,425	0%
3011 Highway 225	154,360	0%
9631 Bay Area Blvd	153,655	0%
Beltway 8 & US Hwy 90-A	131,560	0%
Beltway Green Blvd	121,300	0%
7256 S Sam Houston Pky W	112,500	33%
9331 Bay Area Blvd	110,390	0%
20502 Northwest Fwy	110,240	68%
13115 Jess Pirtle Blvd	106,000	100%
220 Abner Jackson Pky	100,000	100%
230 Abner Jackson Pky	100,000	100%
240 Abner Jackson Pky	100,000	100%
727 Century Plaza Dr	65,328	60%
9380 Kirby Dr	65,007	0%
Hufsmith-Kohrville Rd	50,000	100%
6501 Bingle Rd	42,000	100%
Fuqua & Freehill	37,500	6%
901 Magnolia Ave	35,000	100%
13933 JFK Blvd	30,000	0%
6303 N Sam Houston Pky W	28,600	0%
9370 Kirby Dr	26,250	0%
21602 E Hardy Rd	25,000	0%
4458 Genoa Red Bluff Rd	24,307	1%
5910 E Sam Houston Pky S	24,000	17%
Vantage Pky W	21,290	0%
218 N Preston Ave	20,700	0%
3201 Awesome Ln	20,000	0%

Select Major Lease Transactions

Tenant	Qtr.	Building	Size (SF)
Michelin North America, Inc.*	4th	8800 Citypark Loop	663,821
GE Oil and Gas*	4th	Port Northwest Bldg. 2	261,990
Exel, Inc.*	4th	8833 Citypark Loop	254,765
Exel, Inc.*	4th	8711 Citypark Loop	217,836
Jacobson Warehouse Co.*	4th	Williamsport DC, Bldg. 2	210,000
Exel, Inc.*	4th	8705 Citypark Loop	191,537
Mason Road Sheet Metal, Inc.	4th	West by Northwest Industrial Park	162,000
Exel, Inc.*	4th	8607 Citypark Loop	128,201
Exel, Inc.*	4th	8503 Citypark Loop	114,000
KEMTRON Technologies, Inc.*	4th	10050 Cash Rd.	110,800

* Renewal / Expansion



Flex Market Statistics

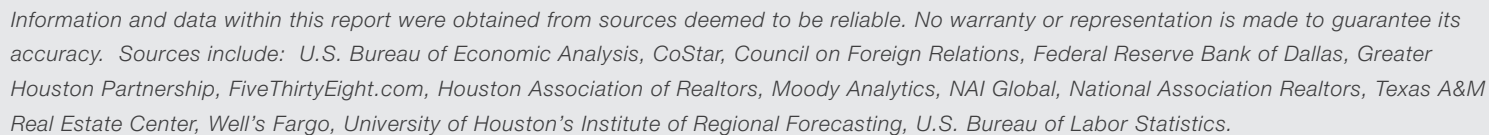
Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	174	3,776,419	223,829	5.9%	(64,864)	0	\$11.95
North Corridor Ind	385	10,529,041	761,598	7.2%	107,453	68,000	\$8.65
Northeast Corridor Ind	65	775,730	36,498	4.7%	(5,029)	0	\$9.61
Northwest Corridor Ind	548	16,694,747	1,081,990	6.5%	191,402	14,490	\$10.07
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	209	3,119,786	375,837	12.0%	25,726	12,100	\$11.02
Southern Corridor Ind	122	2,466,056	190,664	7.7%	(13,499)	0	\$9.36
Southwest Corridor Ind	463	12,197,296	723,267	5.9%	(584)	397,257	\$10.79

Warehouse Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	0	0.0%	2,400	0	\$0.00
CBD Ind	1,911	56,006,266	2,535,422	4.5%	(101,933)	0	\$4.67
North Corridor Ind	2,980	83,657,665	6,507,743	7.8%	2,984,245	1,397,715	\$7.08
Northeast Corridor Ind	904	34,157,064	392,709	1.1%	131,075	0	\$3.88
Northwest Corridor Ind	4,069	136,098,949	7,675,214	5.6%	1,406,318	4,227,340	\$6.60
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,237	85,500,700	2,734,501	3.2%	2,847,707	1,922,026	\$5.59
Southern Corridor Ind	1,864	47,269,664	1,396,508	3.0%	808,579	210,000	\$5.72
Southwest Corridor Ind	2,202	59,783,371	2,817,395	4.7%	1,124,095	1,464,250	\$6.40

Total Industrial Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	0	0.0%	2,400	0	\$0.00
CBD Ind	2,085	59,782,685	2,759,251	4.6%	(166,797)	0	\$5.01
North Corridor Ind	3,365	94,186,706	7,269,341	7.7%	3,091,698	1,465,715	\$7.24
Northeast Corridor Ind	969	34,932,794	429,207	1.2%	126,046	0	\$4.01
Northwest Corridor Ind	4,617	152,793,696	8,757,204	5.7%	1,597,720	4,241,830	\$7.07
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,446	88,620,486	3,110,338	3.5%	2,873,433	1,934,126	\$5.98
Southern Corridor Ind	1,986	49,735,720	1,587,172	3.2%	795,080	210,000	\$5.83
Southwest Corridor Ind	2,665	71,980,667	3,540,662	4.9%	1,123,511	1,861,507	\$7.12



Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q4 2015

Marketing & Research Team

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NAIPartners

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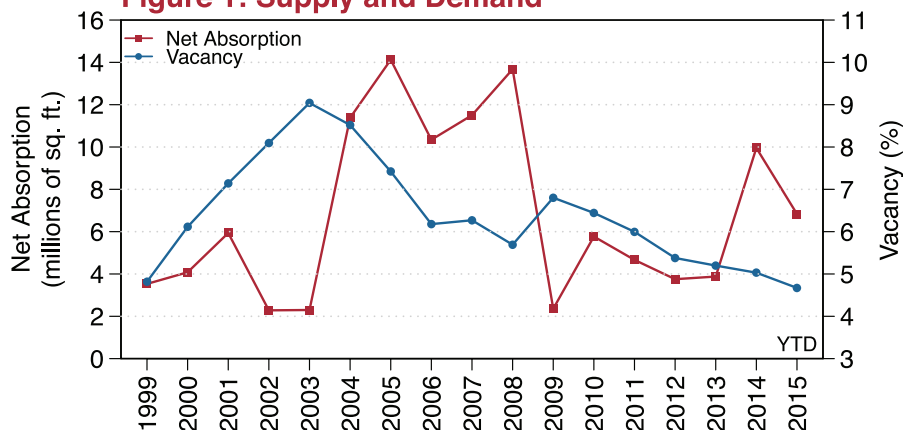
Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q2 2015

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Figure 1: Supply and Demand



Executive Summary

While there are some key uncertainties in the global economy, the U.S. national economy remains on solid footing. Nonetheless, some see the slightest hiccup as a potential to hamper growth. National strengths include employment, consumer confidence, low inflation, demand for housing, and increased business spending, with international trade being the primary holdback. National job growth continues as unemployment drops to 5.3%. The positive national economic outlook along with Houston's economic growth in downstream refining, petrochemical business, and construction are projected to counterbalance Houston's economic pullback due to oil.

With the 1-3 month lag between leasing activity and net absorption, we have not yet seen major impacts of the oil pullback on the overall industrial market. But, with leasing activity significantly down, we may see more signs in quarters to come. Overall, demand for industrial space was stable, while supply remained low. Net absorption was 2,751,436 sq. ft., a decrease consistent with Q2 typically having lower demand than Q1. However, leasing activity of 3,479,431 sq. ft. was statistically lower than historic Q2 performance, suggestive of potentially slower quarters to come. Supply remains very low, with 4.6% vacancy and 7.1% availability, both of which are modestly lower QoQ and YoY. Deliveries of about 2.0 million sq. ft. represented a decrease of 55% QoQ and 23% YoY. There are currently 11 million sq. ft. under construction, but about 36% of this is accounted for by one development. Asking rents remain stable with a modest increase.

Table 1. Key market indicators for Q2 2015, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

	Percent Change over Prior Period		
	Q2 2015	QoQ (%)	YoY (%)
Asking Rent: Flex	\$10.53	12.4	7.8
Asking Rent: Manufacturing	\$6.59	6.1	26.7
Asking Rent: Ware./Distrib.	\$6.38	12.4	7.2
Net Absorption (sq.ft.)	2,751,436	-32.6	-3.4
Leasing Activity	3,479,431	-37.1	-55.9
Availability (%)	7.1	-1.7	-13.4
Vacancy (%)	4.6	-3.6	-12.6
Deliveries (RBA, sq. ft.)	2,047,130	-55.2	-23.1
Construction (RBA, sq.ft.)	11,281,761	46.3	82.2
Inventory (RBA)	547,522,910	0.4	1.6
Inventory (No. Buildings)	17,952	-0.3	1.0

Broker's Perspective

A year into the slump in oil prices, 2Q15 saw Houston area deal makers scrambling to stir up activity and aggressively chase down every requirement in the market. The second quarter saw interest heat up in certain submarkets, and certain product types, as others cooled down. Historically low vacancy rates in both distribution and manufacturing facilities, combined with depressed oil prices (i.e., cheap feed stock for the petrochemical industry) and increased capital investment in refineries, has driven a strong spike in leasing activity in the Southeast/Port submarkets. Citywide demand for second generation distribution space has remained strong, while leasing activity on new construction, especially in the North submarket, has decreased. For the most part, speculative construction starts have slowed as developers and investors

take a “wait and see” approach to the uncertainty of the coming months.

While absorption and leasing activity have decreased, average rental rates and availability, citywide, have held fairly constant. Landlords have not yet felt the need to start offering aggressive concessions (free rent, increased tenant improvement allowances, etc.) to attract desirable tenants, but asset managers are getting more creative with their deal structures, which could lead to the 2nd half of the year becoming a more “tenant friendly” market.

With Q2 wrapped up, and as the standard summer slow-down that we often experience in commercial real estate sets in, the Houston industrial market is poised for a slight readjustment. However, prudent planning by developers and investors over the last several years (perhaps

due to lessons learned in the last economic downturn) has assured that the overall industrial market is not too out of balance. Indeed, supply and demand are strong in Houston. Combined with the continued positive outlook for the national economy, the future, though not as bright as it was at this point last year, still looks relatively bright for Houston industrial real estate.



Holden Rushing,
Senior Associate, NAI Partners

“A year into the slump in oil prices, 2Q15 saw Houston area deal makers scrambling to stir up activity and aggressively chase down every requirement in the market.”

ECONOMIC OVERVIEW

With some key uncertainties in the global economy, including China, Greece, and Iran, the U.S. national economy remains on solid ground, though some see the slightest hiccup as potential to hamper growth. National strengths include employment, consumer confidence, low inflation, demand for housing, and business spending, but with international trade as a primary holdback. National job growth continues as unemployment drops to 5.3%. The positive national economic outlook along with Houston's economic growth in downstream refining and petrochemical business will help to counterbalance Houston's economic pullback due to oil.

National Economy

The national U.S. economy remains strong, though some see it as vulnerable to the slightest bump in the road. Key economic improvements occurred in areas of continued growth in full-time employment, stronger consumer confidence, low inflation, greater demand in housing market, cheaper oil prices, and among others increased business spending.

On the downside, international trade will likely soften with the strength of the dollar and slowing international economies. Year-to-date, national exports decreased 2.7% and imports decreased 2.2%. Concerns over the global economy center around uncertainties --- of Greece's future, of the market pullback in China which is the second largest economy, and of the Iran nuclear negotiations and its impact on oil supply. Exports from Texas are likely to continue to decline with China's slowdown, a country that is the fourth (behind Mexico, Canada, and Brazil) in receiving most of Texas exports.

Slower U.S. gross domestic product (GDP) in Q1 is projected to pick up in Q2. GDP at year's end will likely be in the range of 3 - 3.5% in 2015 (cf. 2.4% in 2014), being lifted in second half of 2015 by strong consumer spending, particularly on durable goods and services. Retail sales growth is anticipated to reach toward 5% for the 2015 year, compared with 4.7% in 2014. Despite national, regional and local slowdowns in business activity in May, business spending will likely see expansion of 4% in 2015.

Nonfarm payroll employment in the U.S. increased by 223,000, as national unemployment declined to 5.3%, in June with job gains in professional and

business services, health care, retail, financial activities, and in transportation and warehousing. Uncertainty persists on when interest rates will tick up. While they will likely remain unchanged in the short term, the Federal Reserve may begin to increase them by 25 basis points in September.

The energy sector continues to be a focus, though we may be at the bottom of the pullback in terms of job losses and oil prices. Rig counts at state and national levels seem to be stabilizing. In fact, U.S. oil rig counts moved up two weeks in a row by early July, for the first weeks of increases in active rig counts since the oil pullback. Debate continues as to whether the oil downturn will be characterized by a V- or U-shaped recovery. The recent decline of WTI from \$60 to the low \$50s is likely on sentiment, as the fundamentals of the strength of the dollar and the underlying issues of supply and demand remain largely similar.

Houston and Texas Economy

Employment in Texas has grown 1.1% year to date, with May 2015 growth at an annualized rate of 2.1%, slower than the 2.4% of the U.S. From April to May, Texas unemployment moved up from 4.2% to 4.3%, but is still lower than the national 5.3%. Houston's employment in May 2015 picked up to an annualized 1.8% growth, compared to a 3.1% loss in April, but employment year to date was flat. Houston's unemployment held steady at 4.2% in May.

Despite thoughts of a more diversified economy than in the past, Houston's economy remains strongly tied to the national and regional oil industry. As a result of the oil downturn, Dr. Keith Phillips

of the Federal Reserve Bank of Dallas has reduced his Texas job forecast to 0.5-1.5% growth, which is 59,000 - 176,000 new jobs in 2015. Likewise, forecasts for Houston's job growth in 2015 have been revised downward to 15,000 by Dr. Bill Gilmer of the University of Houston's Institute for Regional Forecasting. Patrick Jankowski of the Greater Houston Partnership revised his estimate down to 20,000 - 30,000. These Houston forecasts are much lower than the 100,000 new jobs per year from 2012 to 2014.

According to Dr. Gilmer, Houston will likely avoid a recession for two prominent reasons. First, there is a strong national economy which carries over to Houston and Texas economies. Second, with low natural gas prices, there is an explosion of \$138 billion in petrochemical projects throughout the U.S.A., 21% of which is concentrated in Houston's greater metropolitan area (largely on the east side).

The Houston Business Cycle Index of the Dallas Federal Reserve measures the Houston economy based on movements in local unemployment, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. Following a substantial contraction in April to negative territory, May showed 2.5% annualized growth, the strongest measure year to date. Oil woes continue to pull down on the region's economy, but are being offset to some degree by petrochemical industries. Nevertheless, the outlook for the Houston region remains weak despite the up tick in the business cycle index.

MARKET OVERVIEW

Demand for industrial space continues to remain strong, with 2.7 million sq. ft. of total net absorption in Q2 2015. However, leasing activity, another measure of demand, was significantly down to 3.4 million sq. ft. (Table 1). This amount of leasing activity is statistically lower than the 95% confidence interval of 4,544,743 to 6,284,784 sq. ft. for historic Q2 performance since 1999. With such a decline in leasing activity, coming quarters may see lower net absorption, given its 1-3 month lag behind leasing activity.

Availability and vacancy of industrial real estate continues to remain low. In fact, supply of flex, manufacturing, and warehouse/distribution space was significantly lower than historic Q2 averages. For all industrial products combined, vacancy was down to 4.6%. Vacancy for flex, manufacturing, and warehouse/distribution space were 7.0%, 1.9%, and 4.9%, respectively. Deliveries in Q2 2015 were about 2.0 million sq. ft., a decrease of -55% QoQ and -23% YoY. Under construction was up substantially to 11 million sq. ft., but 36% of this was accounted for by one development. Asking rentals prices on stable, with modest increases.

Net Absorption

Net absorption is a key metric for the demand of industrial space. It measures the change in occupied inventory over a specific time period, including direct and sublet space. Total net absorption for all products combined in Q2 2015 was 2,751,436 sq. ft., yielding decreases of -32.6% QoQ and -3.4% YoY (Table 1). The historic Q2 average (\pm 95% confidence interval) for net absorption is 1,483,520 sq. ft. (\pm 977,526). We are 95% certain that Q2 absorption will typically fall between 505,995 to 2,461,046 sq. ft. Net absorption in Q2 2015 was down from Q1, but well within its historic Q2 performance since 1999. Also, Q1 performance was statistically greater than historic Q1. Since 1999, Q2 tends to have about 1.0 million sq. ft. less of net absorption than Q1. We must be careful in interpreting the reduction in net absorption as a result of oil pullback or any other such cause, given that Q2 tends to perform lower than Q1.

Figure 2 breaks total net absorption down since 1999 by year and quarter by three product types, namely flex, manufacturing, and warehouse/distribution space. While net absorption for flex and manufacturing were up from the prior quarter, warehouse/distribution declined. However, this is in accord with historic trends in Q2 performance being lower on average than Q1.

Figure 2: Net Absorption

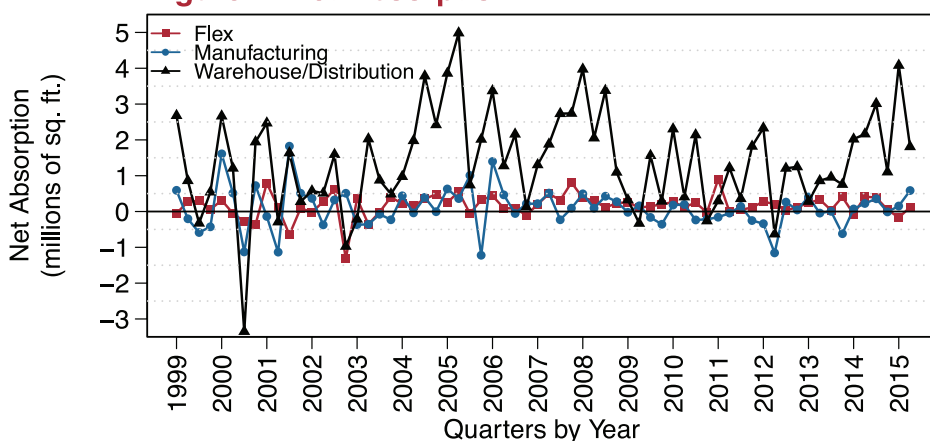
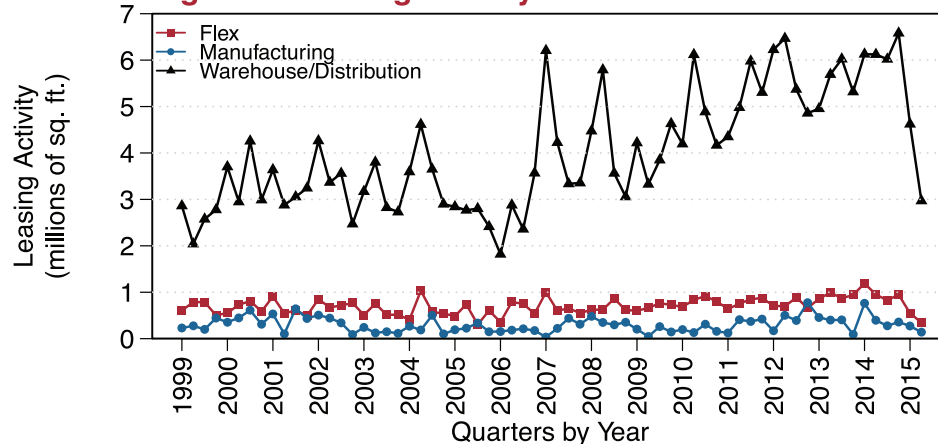


Figure 3: Leasing Activity



Leasing Activity

Leasing activity, another measure of demand, is the total amount of space represented by direct leases, subleases, renewals, and pre-leasing of rentable building area. Figure 3 reports leasing activity since 1999 by year and quarter for industrial products, broken down by flex, manufacturing, and warehouse/distribution space. Leasing activity of 3,479,431 sq. ft. occurred in Q2 2015, yielding decreases of -37% QoQ and -56% YoY (Table 1). The historic Q2 average (\pm 95% confidence interval) for leasing activity is 5,414,763 sq. ft. (\pm 870,020). We are 95% certain that Q2 leasing activity typically falls between 4,544,743 to 6,284,784 sq. ft., indicating that leasing activity of 3,479,431 sq. ft. in Q2 is statistically lower than its historic Q2 performance since 1999. With net absorption lagging 1-3 months behind leasing, this decline in leasing activity suggests reduced net absorption in quarters to come.

Vacancy and Availability

Vacancy and availability measure the supply of industrial space. Availability better estimates total supply because it includes vacant, occupied, and sublease space. Vacancy better estimates empty space on the market, whether or not that space is leased or even for rent. Overall, supply remained low in Q2 2015, compared with recent quarters (Figure 4). For all industrial buildings combined, availability was 7.1%, down -1.7% QoQ and -13.4% YoY (Table 1). Likewise, vacancy for all industrial space combined was 4.6%, down -3.6% QoQ and -12.6% YoY (Table 1).

Figure 4 shows percent availability and vacancy for flex, manufacturing, and warehouse/distribution buildings since 1999. Table 2 summarizes availability and vacancy of flex, manufacturing, and warehouse/distribution buildings for Q2 2015. It is important to note that supply, both in terms of availability and vacancy, is

Figure 4: Availability and Vacancy

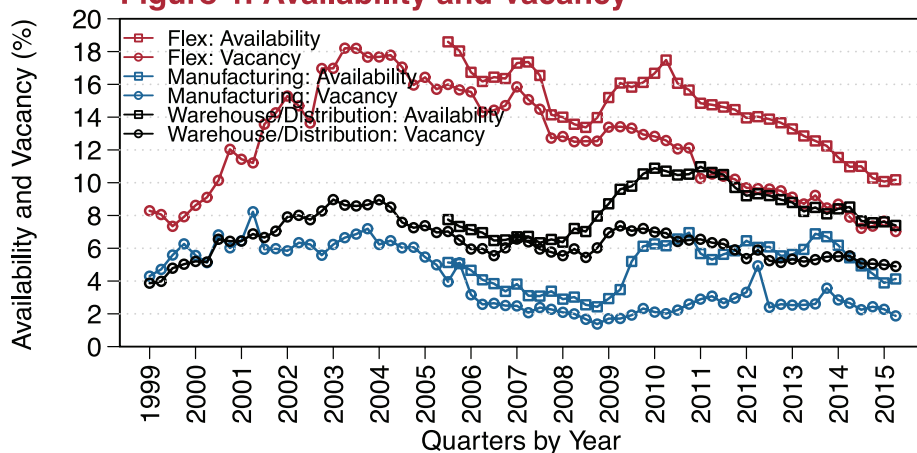
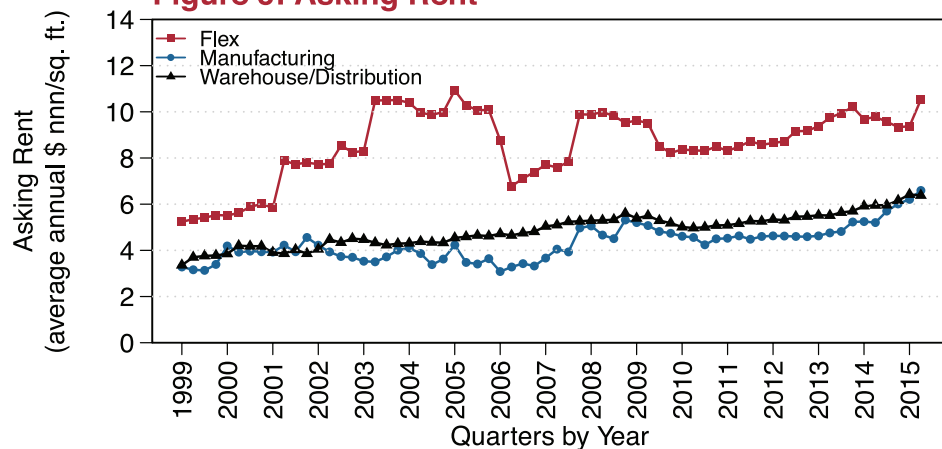


Table 2. Current (Q1 2015) supply of industrial space as measured by the availability and vacancy of warehouse and flex space (% total RBA), compared to the historic first-quarter (Q1) average since 1999. The 95% confidence interval is the typical historic Q1 performance.

	Q2 2015	Historic Q2 Average	95% Confidence Interval for Q2
Availability (%)			
Flex	10.2	14.8	13.1 to 16.5
Manufacturing	4.1	4.7	3.7 to 5.7
Warehouse/Distribution	7.4	8.7	7.5 to 9.8
Vacancy (%)			
Flex	7.0	12.5	10.7 to 14.2
Manufacturing	1.9	4.1	3.0 to 5.2
Warehouse/Distribution	4.9	6.5	5.8 to 7.2

Figure 5: Asking Rent



currently low and below 95% confidence intervals of historic Q2 values (Table 2).

Asking Rent

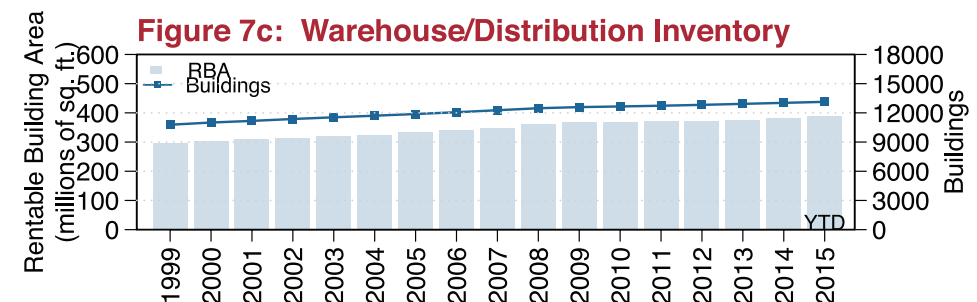
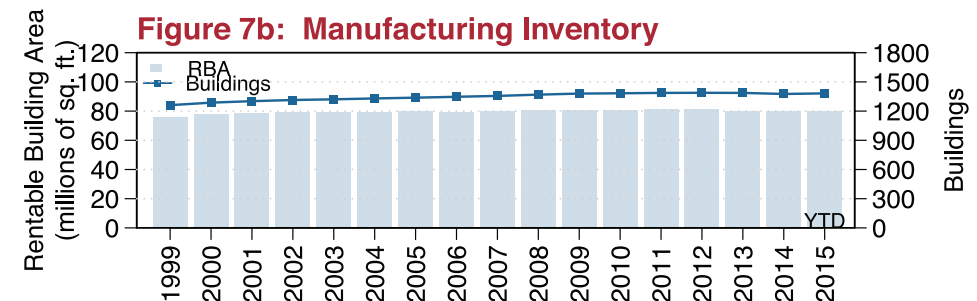
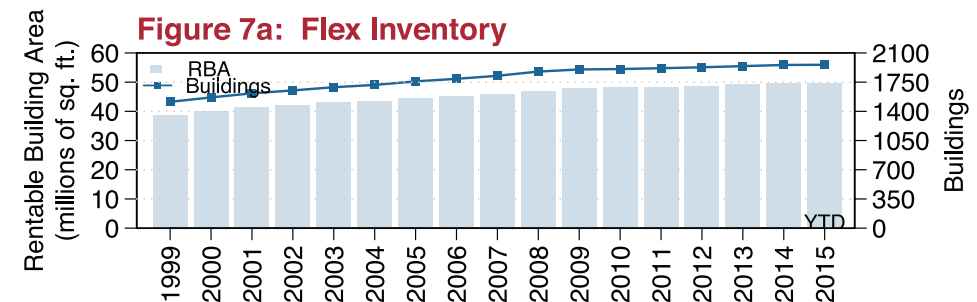
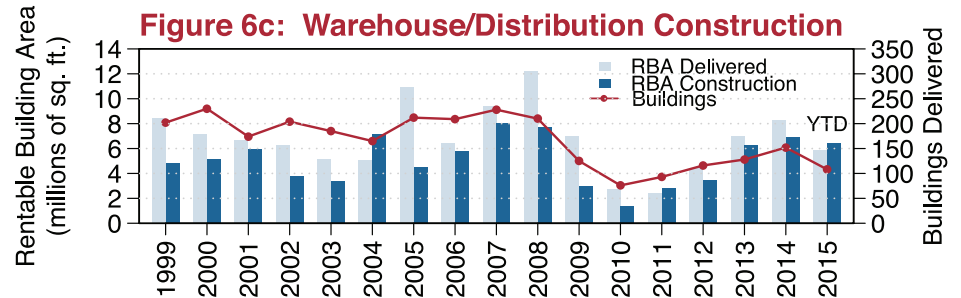
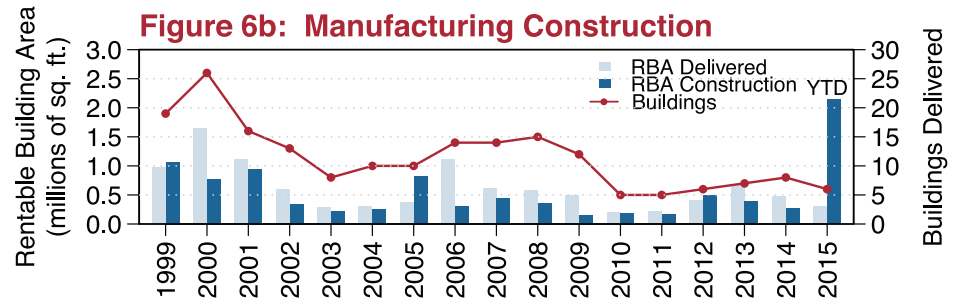
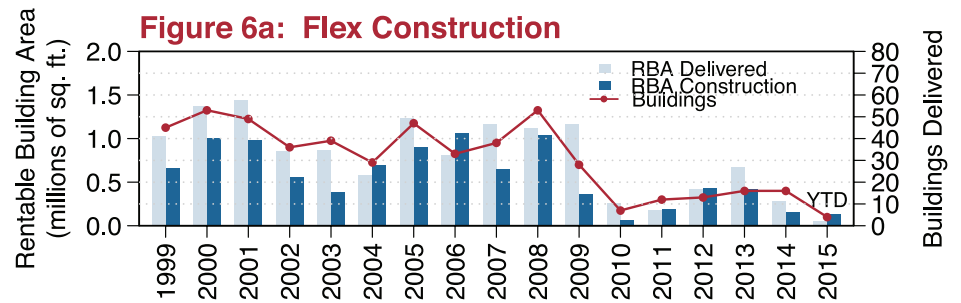
Figure 5 plots asking rent prices since 1999 for flex, manufacturing, and warehouse/distribution space. In Q2 2015, each product type showed modest increases of 6-12% in asking rents (Table 1). Of particular note is the 26% increase in asking rents for manufacturing space over the past year. Consistent with low vacancy and stable net absorption, asking rents are on the up tick.

Construction

Construction of new RBA is another key variable determining the supply of industrial space. "RBA Delivered" refers to completed construction that occurs during a given time period, while "RBA Construction" refers to space under construction that has not yet been completed. As detailed in Table 1 and Figure 6, deliveries in Q2 2015 were about 2.0 million sq. ft., a decrease of -55% QoQ and -23% YoY (Table 1). RBA under construction was over 11 million sq. ft. in Q2 2015, an increase of 46% QoQ and 82% YoY (Table 1). Notably, an anticipated 4.0 million sq. ft., or 36% of current RBA under construction, is accounted for by Daikin Industries which has just begun construction of its new campus in Waller, Texas.

Inventory

Figure 7 depicts changes in the inventory of flex, manufacturing, and warehouse/distribution space since 1999, both for RBA and number of buildings. RBA inventory for all industrial space increased to 547 million sq. ft. for 17,952 buildings, which are relatively stable QoQ and YoY (Table 1).



Select Deliveries

Building Address	Rentable Building Area	Percent Leased
1401 N Rankin Rd	656,116	0%
777 Highway 90A W	650,000	100%
3507 Pasadena Blvd	600,000	100%
11810 N Gessner Rd	441,000	0%
2244 N Mason Rd	373,860	100%
2244 N Mason Rd	373,860	0%
4300 Malone Dr	365,727	0%
8401 Fallbrook Dr	362,320	0%
11717 Windfern Rd	362,180	100%
20710 Hempstead Rd	357,887	100%
971 N Sam Houston Parkway E	352,680	0%
660 Greens Pky	350,000	100%
28450 West Ten Blvd	340,503	0%
11747 Windfern Rd	320,430	59%
8520-B S Sam Houston Pky W	310,010	67%
1910 Cypress Station Dr	284,170	0%
616 Delta Pky	252,720	100%
5801 Bayport Blvd	243,360	100%
5300 Highway 146	243,000	100%
Fort Bend & Sam Houston Pky	240,000	0%
101 Airtex Blvd	226,460	100%
Beltway 8 & US Hwy 90-A	217,440	0%
1300 Greens Pky	213,218	0%
Highway 90 A & Beltway 8	208,907	0%
8411 FM 1960	205,608	47%
10634 Tanner Rd	204,070	0%
619 E Sam Houston Pky S	199,680	0%
8401 Fallbrook Dr	197,917	0%
9254 Park South Vw	193,741	60%
6410 Langfield Rd	180,928	0%
14888 Kirby Dr	180,000	100%
Volta Dr. & Kensington Dr	168,425	0%
431 E Airtex Dr	166,250	0%
11720 N Gessner Rd	155,400	0%
6401 W Little York Rd	153,188	0%
18727 Kensington Dr	150,000	100%
18945 Kensington Dr	150,000	100%
2172-2188 Greens Rd	147,112	0%
Beltway 8 & US Hwy 90-A	131,560	0%
1902 Cypress Station Dr	129,936	0%
101 Airtex Blvd	116,550	100%
20702 Hempstead Rd	114,800	50%
Fort Bend & Sam Houston Pky	112,500	0%
Hwy 59 & Rankin Rd	109,200	0%
Gillespie Rd	105,800	100%
220 Abner Jackson Pky	100,000	100%
230 Abner Jackson Pky	100,000	100%
240 Abner Jackson Pky	100,000	100%
Way Out West Blvd	88,000	38%
611 E Sam Houston Pky S	87,880	0%
8401 Fallbrook Dr	86,722	100%
101 Airtex Blvd	86,608	100%
5737 Brittmoore Rd	86,250	38%
8770 West Rd	77,987	0%
28480 West Ten Blvd	74,793	0%
10622 Hirsch Rd	70,000	100%
Highway 90 A & Beltway 8	68,800	0%
8520-A S Sam Houston Pky W	68,370	44%
22130 Merchants Way	67,743	0%
11710 N Gessner Rd	67,200	0%
10618 Tanner Rd	66,420	0%
8787 West Rd	64,750	0%
9380 Kirby Dr	64,260	100%
9390 Kirby Dr	64,260	100%
6722 W Little York Rd	64,000	0%
8401 Fallbrook Dr	62,061	0%
19408 Kensington Dr	59,000	0%

Building Address	Rentable Building Area	Percent Leased
Highway 90 A & Beltway 8	55,250	0%
9191 Gulf Fwy	52,200	0%
6410 Langfield Rd	51,424	0%
0000 Richey Rd	50,000	0%
19522 Aldine Westfield Rd	49,950	100%
3259-3777 Farrell Rd	49,950	100%
14155 W Hardy Rd	42,600	0%
18725 McKay Blvd	40,000	0%
6510 Guhn Rd	39,600	100%
6410 Langfield Rd	37,636	0%
Bammel Rd	37,500	0%
10541 S Sam Houston Pky W	36,750	0%
505 Stonegate Dr	36,750	51%
901 Magnolia Ave	35,000	100%
1924 Aldine Western Rd	34,500	0%
Bay Oaks Dr	34,043	100%
431 Bammel Rd	33,000	0%
42460 Highway 290 Business	33,000	0%
11917 Cutten Rd	31,500	0%
Katy Hockley Cutoff & Cla Dr	30,000	0%
7800 Breen Rd	30,000	0%
18400 Kieth Harrow Blvd	30,000	0%
1348 E Richey Rd	28,688	0%
6303 N Sam Houston Pky	28,600	0%
41281 Park 290 Dr	27,700	0%
27603 Commerce Oaks Dr	27,603	100%
2902 Farrell Rd	27,292	0%
15342 Vantage Pky W	27,246	0%
9370 Kirby Dr	26,250	0%
105 Riley Rd	26,100	100%
7600 Drouet	25,000	12%
21602 E Hardy Rd	25,000	0%
27329 Spectrum Way	25,000	0%
27341 Spectrum Way	25,000	0%
27351 Spectrum Way	25,000	0%
12233 Robin Blvd	24,175	0%
26803 Hanna Rd	24,000	0%
26803 Hanna Rd	24,000	0%
26803 Hanna Rd	24,000	0%
6315 N Sam Houston Pky W	23,600	0%
2000 Cavalcade St	22,800	0%
5527 Edward Dr	22,500	0%
11804 W Fairmont Pky	22,500	0%
7428 Fairview St	22,500	100%
7532 Fairview St	22,500	100%
7536 Fairview St	22,500	0%
1368 E Richey Rd	22,500	100%
13311 Pike Rd	22,500	0%
Richey Rd	22,500	0%
6327 N Sam Houston Pky W	22,400	0%
1005 W 8th St	21,678	0%
15330 Vantage Pky W	21,646	0%
6403 N Sam Houston Pky W	21,200	0%
14621 Blue Ash Dr	21,000	0%
S Sam Houston Pky W @ Almeda	21,000	0%
4605 Tidwell Rd	21,000	100%
1366 E Richey Rd	20,943	0%
19710 Aldine Westfield Rd	20,500	0%
937 E Airtex Dr	20,250	0%
15835 Kimberlee St	20,222	0%
3401 Awesome Ln	20,000	0%
17510 Carlsway Rd	20,000	0%
23555 Clay Rd	20,000	0%
23559 Clay Rd	20,000	100%
820 FM 1960 Rd	20,000	0%
14428 Smith Rd	20,000	100%
6415 N Sam Houston Pky W	20,000	0%

Under Construction

Building Address	Rentable Building Area	Percent Leased
19001 Kermier Rd	4,000,000	100%
777 Highway 90A W	650,000	100%
2244 N Mason Rd	373,860	100%
2244 N Mason Rd	373,860	0%
4300 Malone Dr	365,727	0%
8401 Fallbrook Dr	362,320	0%
28450 West Ten Blvd	340,503	0%
1910 Cypress Station Dr	284,170	0%
616 Delta Pky	252,720	100%
Fort Bend & Sam Houston Pky	240,000	0%
Beltway 8 & US Hwy 90-A	217,440	0%
1300 Greens Pky	213,218	0%
8411 FM 1960	205,608	47%
10634 Tanner Rd	204,070	0%
619 E Sam Houston Pky S	199,680	0%
8401 Fallbrook Dr	197,917	0%
6410 Langfield Rd	180,928	0%
Volta Dr. & Kenswick Dr	168,425	0%
18727 Kenswick Dr	150,000	100%
2172-2188 Greens Rd	147,112	0%
Beltway 8 & US Hwy 90-A	131,560	0%
1902 Cypress Station Dr	129,936	0%
Fort Bend & Sam Houston Pky	112,500	0%
Gillespie Rd	105,800	100%
220 Abner Jackson Pky	100,000	100%
230 Abner Jackson Pky	100,000	100%
28480 West Ten Blvd	74,793	0%
10618 Tanner Rd	66,420	0%
8787 West Rd	64,750	0%
9191 Gulf Fwy	52,200	0%
14155 W Hardy Rd	42,600	0%
6510 Guhn Rd	39,600	100%
Bammel Rd	37,500	0%
10541 S Sam Houston Pky W	36,750	0%
505 Stonegate Dr	36,750	51%
901 Magnolia Ave	35,000	100%
6303 N Sam Houston Pky	28,600	0%
9370 Kirby Dr	26,250	0%
27351 Spectrum Way	25,000	0%
6315 N Sam Houston Pky W	23,600	0%
2000 Cavalcade St	22,800	0%
13311 Pike Rd	22,500	0%
6327 N Sam Houston Pky W	22,400	0%
6403 N Sam Houston Pky W	21,200	0%
14621 Blue Ash Dr	21,000	0%
937 E Airtex Dr	20,250	0%
23555 Clay Rd	20,000	0%
6415 N Sam Houston Pky W	20,000	0%

Building Address	Rentable Building Area	Percent Leased
23555 Clay Rd	19,583	100%
13505 Pike Rd	19,560	0%
Genoa Red Bluff @ Bay Oak Dr	19,250	0%
6427 N Sam Houston Pky W	18,800	0%
933 E Airtex Dr	18,000	0%
5804 Hamblen Rd	18,000	0%
S Sam Houston Pky W @ Almeda	18,000	0%
6631 Theall Rd	18,000	0%
13435 Pike Rd	17,736	0%
2111 Humble Westfield	15,200	0%
5812 Hamblen Rd	15,000	0%
13310 Pike Rd	15,000	100%
6603 Theall Rd	15,000	0%
6639 Theall Rd	15,000	0%
19200 W Little York Rd	14,490	0%
6635 Theall Rd	14,000	0%
12315 Bellaire Blvd	12,750	20%
5808 Hamblen Rd	12,000	0%
5816 Hamblen Rd	12,000	0%
13620 Gilman Park	12,000	0%
6607 Theall Rd	10,500	0%
34275 Sunset Ln	10,100	0%
14904 Lee Rd	10,000	0%
10843 Strang Rd	10,000	0%
6619 Theall Rd	10,000	0%
Magnolia Ave	10,000	0%
20817 Park Row Dr	9,375	0%
20813 Park Row Dr	9,000	0%
25143 Melda St	9,000	0%
1515 Vander Wilt Ln	8,800	0%
1523 Vanderwilt Ln Dr	8,750	0%
10843 Strang Rd	8,000	0%
3402 Bacor Rd	8,000	0%
23450 Aldine Westfield	7,500	0%
6623 Theall Rd	7,500	0%
820 FM 1960 Rd	6,500	0%
6611 Theall Rd	6,250	0%
6615 Theall Rd	6,250	0%
412 N 8th St	6,000	0%
20212 Hempstead Rd	6,000	100%
14908 Lee Rd	6,000	0%
14912 Lee Rd	6,000	0%
8152 Spring Cypress Rd	6,000	0%
8158 Spring Cypress Rd	6,000	0%
8164 Spring Cypress Rd	6,000	0%
11160 Dover St	5,000	0%

Select Major Lease Transactions

Tenant	Qtr.	Building	Size (SF)
Tramonita USA	2nd	1641 Gillingham	234,039
Plastipak Packaging, Inc.	2nd	300 S. Sheldon Rd.	180,000
Buske Logistics	2nd	8658 Market St.	165,000
J.D. Martin Co.*	2nd	309 McCarty	29,419
Mattress Firm Holding Corp.	2nd	10201 S. Main St.	123,836
GLT Fabricators, Inc.	2nd	2902 E. 13th St.	100,000
Pathmark Transportation	2nd	14810 North Freeway	76,234
Starplast USA	2nd	Bay Area Business Park - Bldg. 2	65,520
JDS Industries	2nd	Park 88 - Bldg. D	65,272
Chicago Bridge & Iron*	2nd	7330 Neuhaus	57,058
Dynamex Operations	2nd	Alamo Crossing Commerce - Bldg. A	55,381
Process Manufacturing Corp.	2nd	North Wayside Industrial Park	53,136
Image Engine	2nd	Northwest Distribution Center	51,499
Rasch Graphic Services	2nd	8648 Glenmont	45,451

* Renewal / Expansion

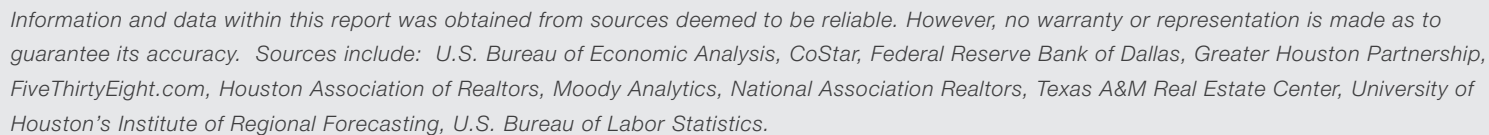


Flex Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	176	3,967,829	322,895	8.1%	(2,790)	22,800	\$6.75
North Corridor Ind	380	10,448,970	762,023	7.3%	150,454	18,000	\$8.74
Northeast Corridor Ind	64	775,185	31,529	4.1%	(560)	0	\$9.53
Northwest Corridor Ind	544	16,323,169	1,085,338	6.6%	11,111	14,490	\$10.09
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	206	3,058,212	407,654	13.3%	(21,921)	10,000	\$10.87
Southern Corridor Ind	120	2,446,313	175,300	7.2%	1,365	0	\$10.02
Southwest Corridor Ind	463	12,123,654	674,876	5.6%	47,807	126,250	\$10.39

Warehouse Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	0	0.0%	2,400	0	\$0.00
CBD Ind	1,921	55,427,185	2,211,597	4.0%	231,642	0	\$4.73
North Corridor Ind	2,906	81,298,625	6,426,697	7.9%	1,527,091	1,931,819	\$7.04
Northeast Corridor Ind	892	33,922,137	390,906	1.2%	176,749	70,000	\$4.55
Northwest Corridor Ind	4,010	134,145,143	5,931,146	4.4%	1,329,339	6,541,029	\$6.65
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,201	84,474,970	2,419,627	2.9%	2,177,448	929,327	\$4.91
Southern Corridor Ind	1,850	46,982,108	1,564,038	3.3%	529,293	0	\$5.53
Southwest Corridor Ind	2,180	58,998,568	2,604,180	4.4%	898,721	1,598,796	\$6.49



Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q2 2015

Marketing & Research Team

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NAIPartners

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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q1 2015



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Figure 1: Supply and Demand

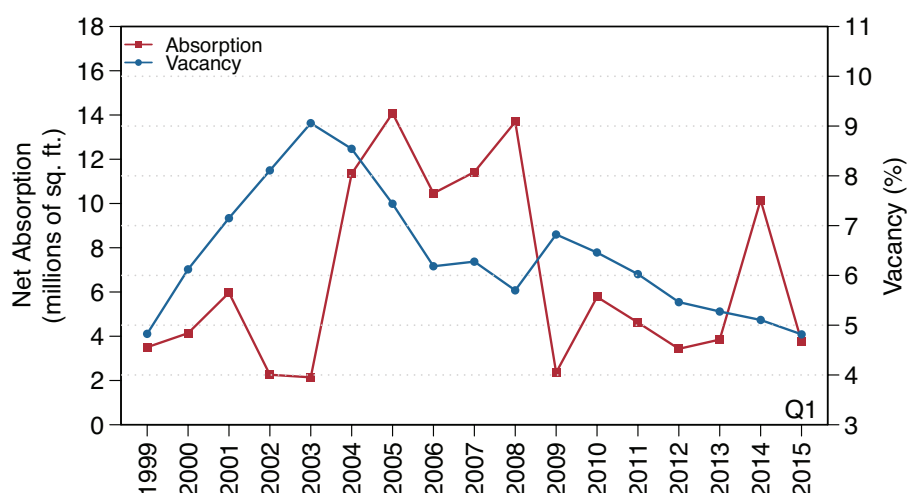


Table 1. Key market indicators for Q1 2015, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

	Percent Change over Prior Period		
	Q1 2015	QoQ (%)	YoY (%)
Asking Rent: Warehouse	\$6.48	5.0	10.0
Asking Rent: Flex	\$9.47	0.7	-1.9
Net Absorption (sq. ft.)	3,766,447	220.3	85.8
Leasing Activity	3,998,248	-43.8	-51.2
Availability (%)	7.3	0.1	-12.2
Vacancy (%)	4.8	-1.2	-10.5
Deliveries (RBA, sq. ft.)	4,138,291	171.2	16.9
Construction (RBA, sq. ft.)	7,461,814	-21.0	17.5
Inventory (RBA)	543,739,570	0.7	1.8
Inventory (No. Buildings)	17,871	0.4	0.9

Executive Summary

The performance of Houston's economy is strongly correlated with both the national economy and Texas rig counts, the latter is a key indicator of our regional oil industry. The national economy continues to show strength and growth in key areas, including jobs, ending of the government's QE inputs, housing market picking up, bank credit flowing more freely, and yes, less expensive oil. On the other hand, while reductions in Texas rig counts are slowing, they are nonetheless down from 877 a year ago to 456 in April. Overall, the positive national economic outlook — combined with Houston's boom in downstream refining, petrochemical business, and construction — should counterbalance pullbacks in oil. Houston may have a few slower than desired quarters ahead, but collectively the outlook is for modest growth in 2015.

With the 2-3 month lag between oil prices and rig counts, and the 1-3 month lag between leasing activity and absorption, initial gloom and doom sentiment has now shifted to cautious optimism with a close eye on the next few quarters. The industrial market did not show major indications of a downturn in Q1 2015, but some signs suggest possible slowing may occur. Overall, demand for industrial space was greatly up, while supply remained stable QoQ but declined YoY. Net absorption increased to 3,766,447 sq. ft., an increase of 220% QoQ and 86% YoY. However, leasing activity — at just under 4 million sq. ft. — was down 44% QoQ and 51% YoY. Supply remains very low, with 4.8% vacancy and 7.3% availability, both of which are stable QoQ but are down 10-12% YoY. Deliveries increased by 171% QoQ and 16.9% YoY, for a total of 4,138,291 sq. ft. There are currently 7.5 million sq. ft. under construction, a decline of 21% QoQ but an increase of 17.5% YoY. Asking rents have been more or less stable for flex space, but rents for warehouse space are up 5.0% QoQ and 10% YoY.

Broker's Perspective

As we roll out of a robust 2014, in which demand and absorption for mid to large sized manufacturing buildings was at an all time high, the market has seen some slow down in leasing in the first quarter of 2015. In 2014, market searches for 20,000 – 30,000 SF crane served manufacturing facilities yielded few viable options that were currently on the ground ready to be delivered, and not a speculative building.

Today, in the early months of 2015, numerous crane-served buildings are now complete and ready for occupancy. This suggests, with the price of oil declines, that the market may be becoming overbuilt, though demand remains high and supply stable. What does this mean for the industrial market in Houston? This may lead to potential decreases in rental rates, which have been averaging \$6.48 psf in first quarter of 2015. Additionally, landlords may need to offer concessions, such as abated rent and higher tenant improvement allowances to secure good tenants.

“ This suggests, with the price of oil declines, that the market may be becoming overbuilt, though demand remains high and supply stable. ”



Chris Kugle
Sr. Vice President, NAI Partners



ECONOMIC OVERVIEW

Ongoing improvements in the labor market continue to support economic growth for cities, states, and the nation as a whole. Several key indicators show growth and strength in the national economy, including job growth, ending of the government's fiscal inputs, growing housing market, bank credit flowing more freely, and less expensive oil. Overall, the positive national economic outlook — combined with Houston's job and economic growth in downstream refining, petrochemical business, and construction — will counterbalance Houston's economic pullback due to oil.

National Economy

The outlook for the national economy is strong, with key improvements including job growth, ending of QE by the federal government, signs of housing market beginning to improve, well capitalized banks with more free flowing credit, and cheaper oil prices. The U.S. **gross domestic product** (GDP) will likely be around 3% in 2015, compared to 2.4% in 2014. Slower GDP in Q1 is anticipated to be replaced by a more productive Q2 2015. National **unemployment** remains stable at 5.5%, with upward trends in professional and business services, health care, and retail, while mining jobs declined. With increasing demand for workers, employers are likely to begin increasing wages.

In the **energy sector**, eyes remain optimistically but cautiously focused on oil prices. Low oil prices will stimulate the economies of most states in 2015, with an anticipated 67 basis point bump in GDP. Yet, those few states with prominent energy sectors will experience economic slowdowns due to oil pullbacks, including Wyoming, Oklahoma, North Dakota, Alaska, Louisiana, Texas, West Virginia, and New Mexico. Gas prices remain low but will begin to increase toward \$2.60 - \$2.70 over the summer months.

While **interest rates** will likely remain unchanged in the short term, the Federal Reserve may begin to increase them by 25 basis points in the Fall. **Business activity** will remain stable in the first half

of 2015, but will likely pick up in the later half of 2015, fueled in part by cheap oil. The **Consumer Price Index** (CPI) increased by 0.2% in February, and will likely increase 1% in 2015, compared to 0.8% in 2014. **Trade** will continue to see disconnect between exports and imports, as the strong dollar and U.S. economy move ahead of international economies.

Houston and Texas Economy

Houston's economy is strongly tied to the national economy and the regional oil industry. Reductions in **Texas rig counts** — a key indicator of our regional oil industry — are slowing, but are nevertheless down from 877 a year ago to 456 in April. The drop in oil from \$106 to \$80 per barrel was good for the economies of Houston and Texas, but the sustained drop from \$80 - \$50 per barrel is opposing, as most breakeven points for shale oil in Texas are \$50 - \$60 per barrel.

Employment in Texas saw February growth at an annualized rate of 1.3%. Texas unemployment in February was 4.3%, well below the national average. Houston saw an annualized rate of 1.9% job growth in February, following an employment decline of 0.3% in January. Texas job growth is forecasted to be

1-2% in 2015. Job growth in Houston is forecasted to be 1.6 - 2.1% in 2015, with job losses on the west side due to oil countered by job growth on the east side arising from downstream refining, construction, and the petrochemical industry as a whole. Though less than the 100,000 new jobs created in each of 2012, 2013, and 2014, forecasts for Houston's job growth in 2015 still remain positive, ranging from 46,000 to 63,000.

The Houston **Business Cycle** Index of the Dallas Federal Reserve measures Houston economy based on movements in local unemployment, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The index grew to a rate of 3.3% in February, following four months of declining business activity. There have been pullbacks in manufacturing, particularly metal products linked to oil. Monthly **exports** from Texas declined by 4.5% in January, a decline of 10.7% YoY.



MARKET OVERVIEW

Demand for industrial space remained strong in Q1 2015, at 3.7 million sq. ft. of total net absorption, up 220% QoQ and 86% YoY. Leasing activity, another measure of demand, was 3,998,248 sq. ft., yielding decreases of 44% QoQ and 51% YoY (Table 1). However, this amount of leasing activity is statistically within the 95% confidence interval of 4,433,578 to 6,045,838 sq. ft. for historic Q1 performance since 1999. If leasing activity continues to decline below this 95% confidence interval, this may indicate lower absorption in coming months, given that absorption lags 1-3 months behind leasing activity.

Supply of industrial space, as measured by availability and vacancy, remained low in Q1 2015, declining by about 10-12% YoY. In fact, supply of warehouse and flex space was significantly lower than historic Q1 averages. Specifically, availability of warehouse and flex buildings was 7% and 10%, respectively. Vacancy of warehouse and flex buildings was 4.6% and 7.1%, respectively. Deliveries increased by 171% QoQ and 16.9% YoY, for a total of 4,138,291 sq. ft. There are more than 7.5 million sq. ft. under construction. In Q1 2015, flex space showed stable to modest decreases in rent prices at \$6.48, while warehouse rents of \$9.47 showed substantial increases of 5% QoQ and 10% YoY.

Net Absorption

Net absorption is a key metric for the demand of industrial space. It measures the change in occupied inventory over a specific time period, including direct and sublet space and the addition and subtraction of building area. Figure 2 shows total net absorption since 1999 by year and quarter for combined industrial spaces. Net absorption of 3,766,447 sq. ft. occurred in Q1 2015, yielding increases of 220% QoQ and 86% YoY (Table 1). The historic Q1 average (\pm 95% confidence interval) for net absorption is 2,554,968 sq. ft. (\pm 963,461). We are 95% certain that Q1 absorption will typically fall between 1,591,507 to 3,518,429 sq. ft. Net absorption in Q1 2015 was up, in fact statistically greater than historic Q1 performance since 1999. That is, 3,766,447 sq. ft. exceeded the upper bound on the 95% confidence interval.

Leasing Activity

Leasing activity, another measure of demand, is the total amount of space represented by direct leases, subleases, renewals, and pre-leasing of rentable building area. Figure 3 reports leasing activity since 1999 by year and quarter for industrial space. Leasing activity of 3,998,248 sq. ft. occurred in Q1 2015, yielding decreases of 44% QoQ and 51% YoY.

Figure 2: Net Absorption

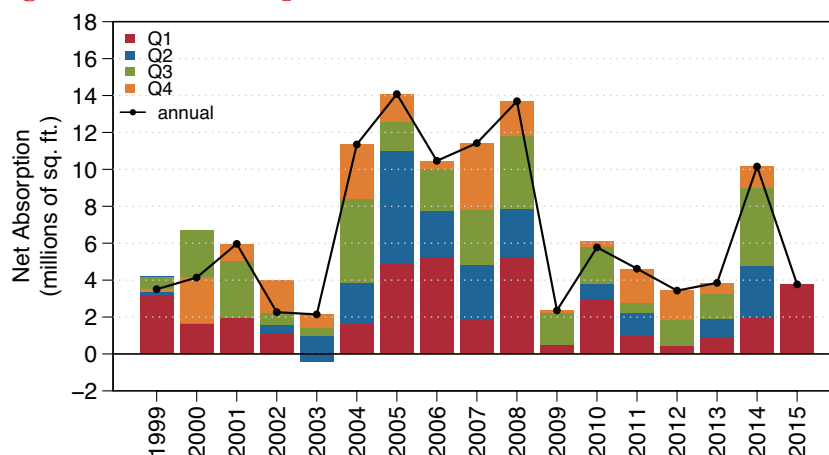
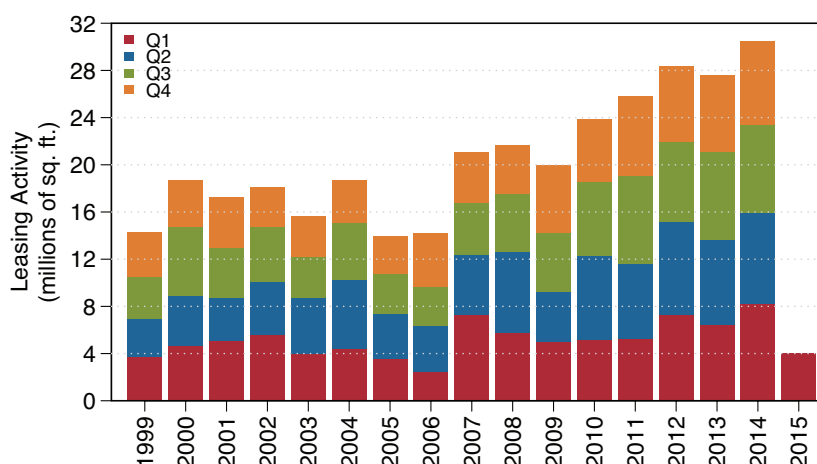


Figure 3: Leasing Activity



51% YoY (Table 1). The historic Q1 average (\pm 95% confidence interval) for leasing activity is 5,239,708 sq. ft. (\pm 806,130). We are 95% certain that Q1 leasing activity typically falls between 4,433,578 to 6,045,838 sq. ft., indicating that leasing activity is statistically within its historic Q1 performance since 1999. With absorption lagging 1-3 months behind leasing, future declines in leasing activity could indicate reduced absorption in quarters to come. Currently, however, leasing does not suggest drastic declines in absorption in quarters to come.

Vacancy and Availability

Vacancy and availability both measure the supply of industrial space. Availability better measures total supply because it includes vacant, occupied, and sublease space. Vacancy better measures empty space on the market, whether or not that space is leased or even for rent. Overall, supply of both warehouse and flex space remained low in Q1 2015, compared with recent quarters (Figure 4). For all industrial buildings combined, availability was 7.3%, down 12.2% YoY (Table 1). Likewise, vacancy for industrial space was at a 4.8% low, down 10.2% YoY (Table 1).

Figure 4 shows percent availability and vacancy for each of warehouse and flex buildings since 1999. Table 2 summarizes availability and vacancy of warehouse and flex buildings separately for Q1 2015. It is important to note that supply, both in terms of availability and vacancy, is currently low and outside the 95% confidence intervals of historic Q1 values (Table 2). In Q1 2015, there tended to be a 3% difference between warehouse and flex space for both availability and vacancy. However, historic averages show that warehouse and flex space tend to differ by 6-8%.

Asking Rent

Prices reflect the relationships between supply and demand. Figure 5 plots direct and sublease asking rent prices since 1999 for warehouse and flex space. In Q1

Table 2. Current (Q1 2015) supply of industrial space as measured by the availability and vacancy of warehouse and flex space (% total RBA), compared to the historic first-quarter (Q1) average since 1999. The 95% confidence interval is the typical historic Q1 performance.

	Q1 2015	Historic Q1 Average	95% Confidence Interval for Q1
Availability (%)			
Warehouse	7.0	7.9	6.7 to 9.0
Flex	10.0	14.9	13.4 to 16.3
Vacancy (%)			
Warehouse	4.6	6.0	5.3 to 6.6
Flex	7.1	12.7	10.9 to 14.5

Figure 4: Availability and Vacancy

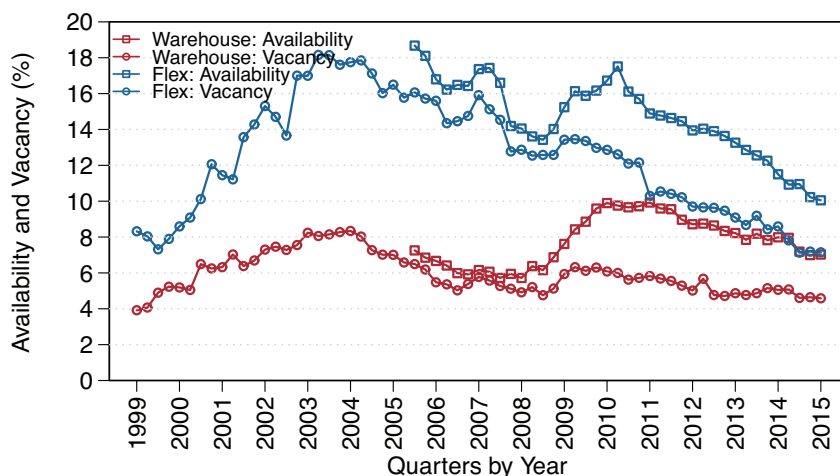
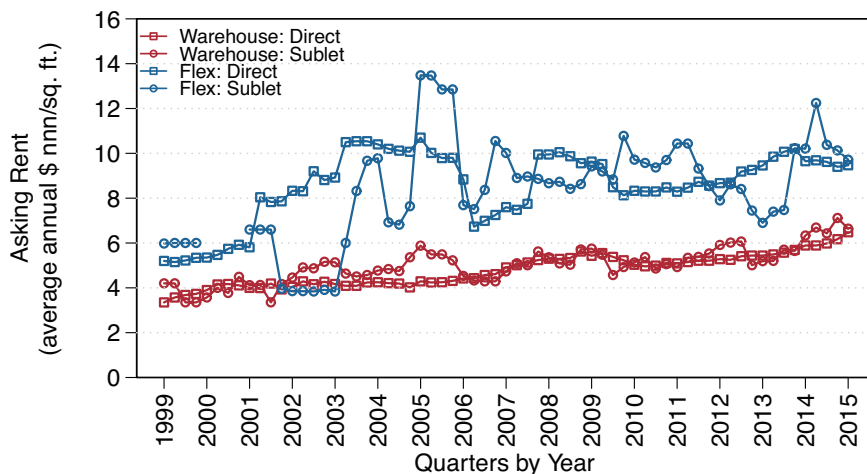


Figure 5: Asking Rent



2015, flex space showed stable to modest decreases in rent, while warehouse rents showed substantial increases of 5% QoQ and 10% YoY (Table 1). Overall, average annual asking rents for warehouse space have risen 67% since 1999, from \$3.59 to \$6.48 in Q1 2015. Average annual asking rents for flex space have risen 83% since 1999, from \$5.27 to \$9.47 in Q1 2015.

Construction

Construction of new RBA is another key variable determining the supply of industrial space. "RBA Delivered" refers to completed construction that occurs during a given time period, while "RBA Under Construction" refers to space under construction that has not yet been completed. As detailed in Figure 6, deliveries in Q1 2015 were about 4.1 million sq. ft., an increase of 171% QoQ and 16.9% YoY (Table 1). RBA under construction declined from 9.1 million sq. ft. in Q4 2014 to 7.4 million sq. ft. in Q1 2015, a decrease of 21% QoQ but an increase of 17.5% YoY (Table 1).

Inventory

Figure 7 depicts changes in the inventory of warehouse and flex space since 1999, both in terms of the number of buildings and the RBA of that space. RBA inventory for all industrial space increased to 543 million sq. ft. for 17,871 buildings, which are relatively stable QoQ and YoY (Table 1).

Figure 6a: Warehouse Construction

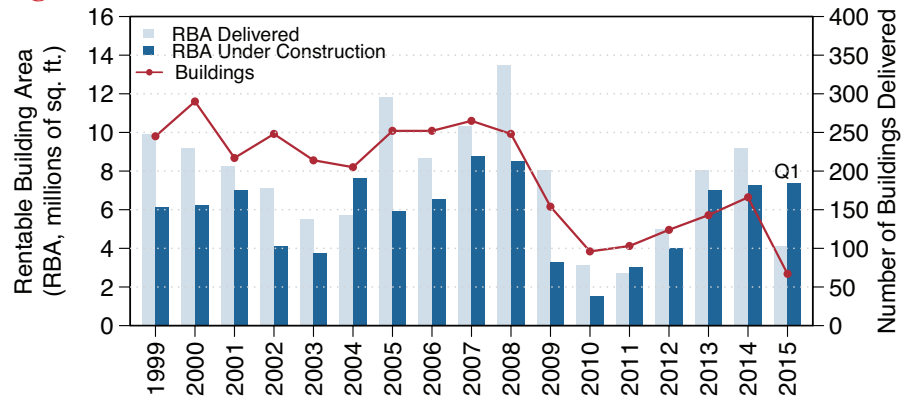


Figure 6b: Flex Construction

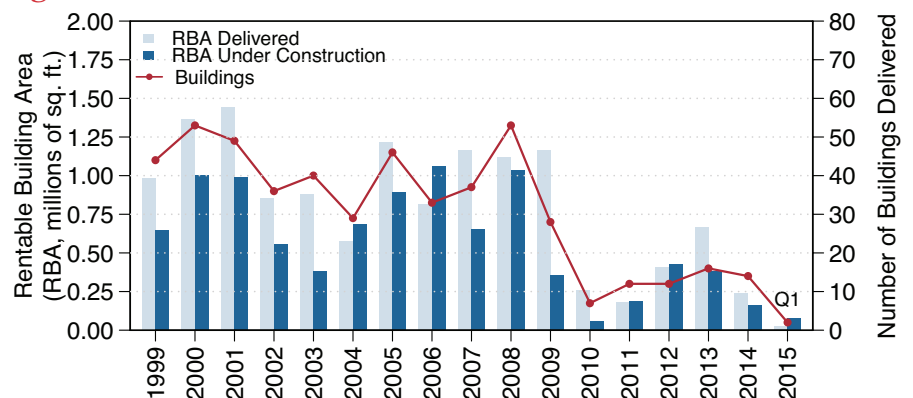


Figure 7a: Warehouse Inventory

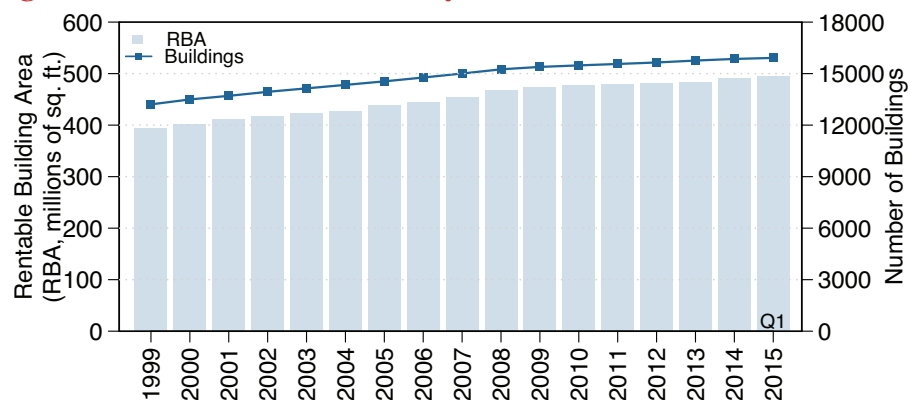
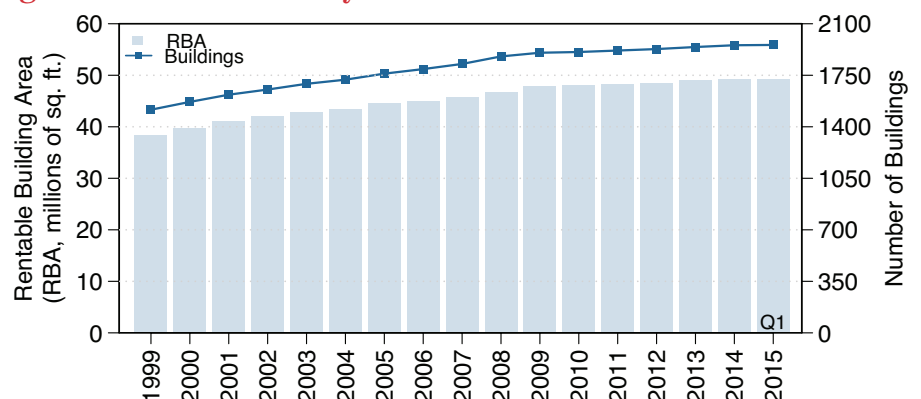


Figure 7b: Flex Inventory



Select Deliveries

Building Address	Rentable Building Area	Percent Leased
3507 Pasadena Blvd	600,000	100%
11717 Windfern Rd	362,180	100%
20710 Hempstead Rd	357,887	100%
971 N Sam Houston Parkway E	352,680	0%
11747 Windfern Rd	320,430	0%
8520-B S Sam Houston Pky W	310,010	67%
5300 Highway 146	243,000	100%
9254 Park South Vw	193,741	27%
431 E Airtex Dr	166,250	0%
11720 N Gessner Rd	155,400	0%
20702 Hempstead Rd	114,800	50%
611 E Sam Houston Pky S	87,880	0%
5737 Brittmoore Rd	86,250	38%
8770 West Rd	77,987	0%
22130 Merchants Way	67,743	0%
11710 N Gessner Rd	67,200	0%
Katy Hockley Cutoff & Cla Dr	30,000	0%
27603 Commerce Oaks Dr	27,603	0%
105 Riley Rd	26,100	100%
12233 Robin Blvd	24,175	0%
1005 W 8th St	21,678	0%
19710 Aldine Westfield Rd	20,500	0%
23559 Clay Rd	20,000	100%
3401 Awesome Ln	20,000	0%
3511 N Loop 336 E	19,125	0%
32628 Decker Prairie Rd	18,000	61%
21110 N Summitry Cir	18,000	0%
Greens Rd. & Highway 59 N	17,500	0%
7310 W Little York Rd	17,500	100%
4682 Sam Houston Pky E	17,500	0%
27309 Spectrum Way	15,840	0%
Greens Rd. & Highway 59 N	15,000	0%
20360 Whitewood Dr	15,000	0%
9655 New Century Dr	14,950	100%
Greens Rd. & Highway 59 N	13,500	0%
8626 Fairbanks N Houston Rd	12,500	0%

Building Address	Rentable Building Area	Percent Leased
8630 Fairbanks N Houston Rd	12,500	100%
8622 Fairbanks N Houston Rd	12,000	0%
12534 Haynes Rd	12,000	0%
13614 Rankin Cir E	12,000	0%
3003 Farrell Rd	11,920	0%
12534 Haynes Rd	10,500	100%
3113 Farrell Rd	10,000	100%
Greens Rd. & Highway 59 N	10,000	100%
18527 Imperial Valley Dr	10,000	100%
18535 Imperial Valley Dr	10,000	0%
20212 Hempstead Rd	8,400	0%
20212 Hempstead Rd	8,400	0%
20212 Hempstead Rd	8,400	0%
20212 Hempstead Rd	8,400	0%
8614 Fairbanks N Houston Rd	8,000	100%
3023 Farrell Rd	8,000	100%
8638 Fairbanks N Houston Rd	7,500	0%
12534 Haynes Rd	7,500	0%
12534 Haynes Rd	7,500	100%
12534 Haynes Rd	7,500	100%
18503 Imperial Valley Dr	7,500	0%
4122 FM 2351 Rd	7,000	71%
12534 Haynes Rd	7,000	100%
18519 Imperial Valley Dr	6,600	0%
12711 Haynes Rd	6,250	0%
18703 Clay Rd	6,000	0%
8610 Fairbanks N Houston Rd	6,000	0%
8618 Fairbanks N Houston Rd	6,000	0%
3013 Farrell Rd	6,000	0%
3123 Farrell Rd	6,000	100%
20212 Hempstead Rd	6,000	0%
831 Weisinger Dr	5,032	0%
18503-18551 Imperial Valley Dr	4,400	0%
18543 Imperial Valley Dr	4,400	0%

Under Construction

Building Address	Rentable Building Area	Percent Leased
777 Highway 90A W	650,000	100
11810 N Gessner Rd	441,000	0
2244 N Mason Rd	373,860	0
4300 Malone Dr	365,727	0
8401 Fallbrook Dr	362,320	0
616 logistics Dr	357,935	100
660 Greens Pky	350,000	100
28450 West Ten Blvd	340,503	0
1910 Cypress Station Dr	284,170	0
2240 N Mason Rd	282,880	0
616 Logistics Dr	252,720	0
10634 Tanner Rd	204,070	0
619 E Sam Houston Pky S	199,680	0
8401 Fallbrook Dr	197,917	0
6410 Langfield Rd	180,928	0
Volta Dr. & Kenswick Dr	168,425	0
18727 Kenswick Dr	150,000	100
18945 Kenswick Dr	150,000	100
2172-2188 Greens Rd	147,112	0
1902 Cypress Station Dr	129,936	0
Gillespie Rd	105,800	100
Way Out West Blvd	88,000	37.5
8401 Fallbrook Dr	86,722	100
28480 West Ten Blvd	74,793	0
8520-A S Sam Houston Pky W	68,370	0
10618 Tanner Rd	66,420	0
8401 Fallbrook Dr	62,061	0
9191 Gulf Fwy	52,200	0
6410 Langfield Rd	51,424	0
14155 W Hardy Rd	42,600	0
Guhn Rd	39,600	100
6410 Langfield Rd	37,636	0
Bammel Rd	37,500	0
Bammel Rd	33,000	0
9370 Kirby Dr	26,250	0
27329 Spectrum Way	25,000	0
27341 Spectrum Way	25,000	0
27351 Spectrum Way	25,000	0
11804 W Fairmont Pky	22,500	0
1368 E Richey Rd	22,500	100
7428 Fairview St	22,500	0
7532 Fairview St	22,500	0
14621 Blue Ash Dr	21,000	0
S Sam Houston Pky W @ Almeda	21,000	0
23555 Clay Rd	20,000	0

Building Address	Rentable Building Area	Percent Leased
14428 Smith Rd	20,000	100
Pike Rd & Stafford Rd	19,560	0
19396 Kenswick Dr	19,000	0
S Sam Houston Pky W @ Almeda	18,000	0
Pike Rd & Stafford Rd	17,736	0
30067 Hwy 90	16,875	0
19396 Kenswick Dr	15,000	0
21245 FM 529	15,000	0
19200 W Little York Rd	14,490	0
12315 Bellaire Blvd	12,750	20
8815 Fairbanks North Houston Rd	12,600	0
4407 Halik St	12,000	100
4407 Halik St	12,000	50
21207 Hufsmith-Kohrville Rd	11,010	0
14904 Lee Rd	10,000	0
2300 Hickerson St	9,991	0
2310 Hickerson St	9,991	0
20817 Park Row Dr	9,375	0
1515 Vanderwilt Ln Dr	8,800	0
8805 Fairbanks North Houston Rd	8,400	0
8809 Fairbanks North Houston Rd	8,400	0
8811 Fairbanks North Houston Rd	8,400	0
8813 Fairbanks North Houston Rd	8,400	0
820 FM 1960 Rd	8,000	0
3402 Bacor Rd	8,000	0
23450 Aldine Westfield	7,500	0
824 FM 1960	6,300	0
412 N 8th St	6,000	0
3103 Farrell Rd	6,000	100
8152 Spring Cypress Rd	6,000	0
8158 Spring Cypress Rd	6,000	0
8164 Spring Cypress Rd	6,000	0
3432 Bacor Rd	5,000	0
Butler Rd	5,000	0
32319 Tamina Rd	3,800	0
32319 Tamina Rd	3,800	0
32319 Tamina Rd	3,800	0
32319 Tamina Rd	3,800	0

Select Major Lease Transactions

Tenant	Building	Size (SF)
Franklin Valve	Prologis Park Northpark - Bldg. 12	132,600
Star Pipe Products, Ltd.*	4023 Westhollow Parkway	120,000
CEVA Logistics	World Houston Business Center - Bldg. 10	107,000
Spitzer Industries*	11250 Tanner	92,521
Brighton-Best International, Inc.	Cole Creek #3	90,528
South Coast Supply	Gateway Northwest Business Park - Bldg. 2	57,400
Chempak	Main Park Service Center - Bldg. 3	49,500
P&I Supply	Beltway Crossing Business Park - Bldg. 5	47,430
Omni Valve	World Houston Business Center - Bldg. 39	47,037
Columbus McKinnon	Greens Crossing Phase 2	45,185
Goody Goody Liquor	Pine Forest 8	43,629
Amega West Services	14424 Smith Rd.	41,356
Zachry Industrial, Inc.	121 S. Avenue A	40,893

* Renewal / Expansion



Flex Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	178	4,040,464	340,571	8.4%	(20,466)	0	\$6.18
North Corridor Ind	376	10,505,285	840,773	8.0%	16,284	33,200	\$7.59
Northeast Corridor Ind	64	775,185	34,642	4.5%	(3,673)	0	\$10.29
Northwest Corridor Ind	543	16,305,352	1,034,377	6.3%	45,072	14,490	\$9.79
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	207	3,100,908	393,471	12.7%	(16,975)	0	\$11.31
Southern Corridor Ind	120	2,442,898	195,477	8.0%	(14,527)	0	\$9.67
Southwest Corridor Ind	465	12,164,494	684,040	5.6%	38,643	26,250	\$10.61

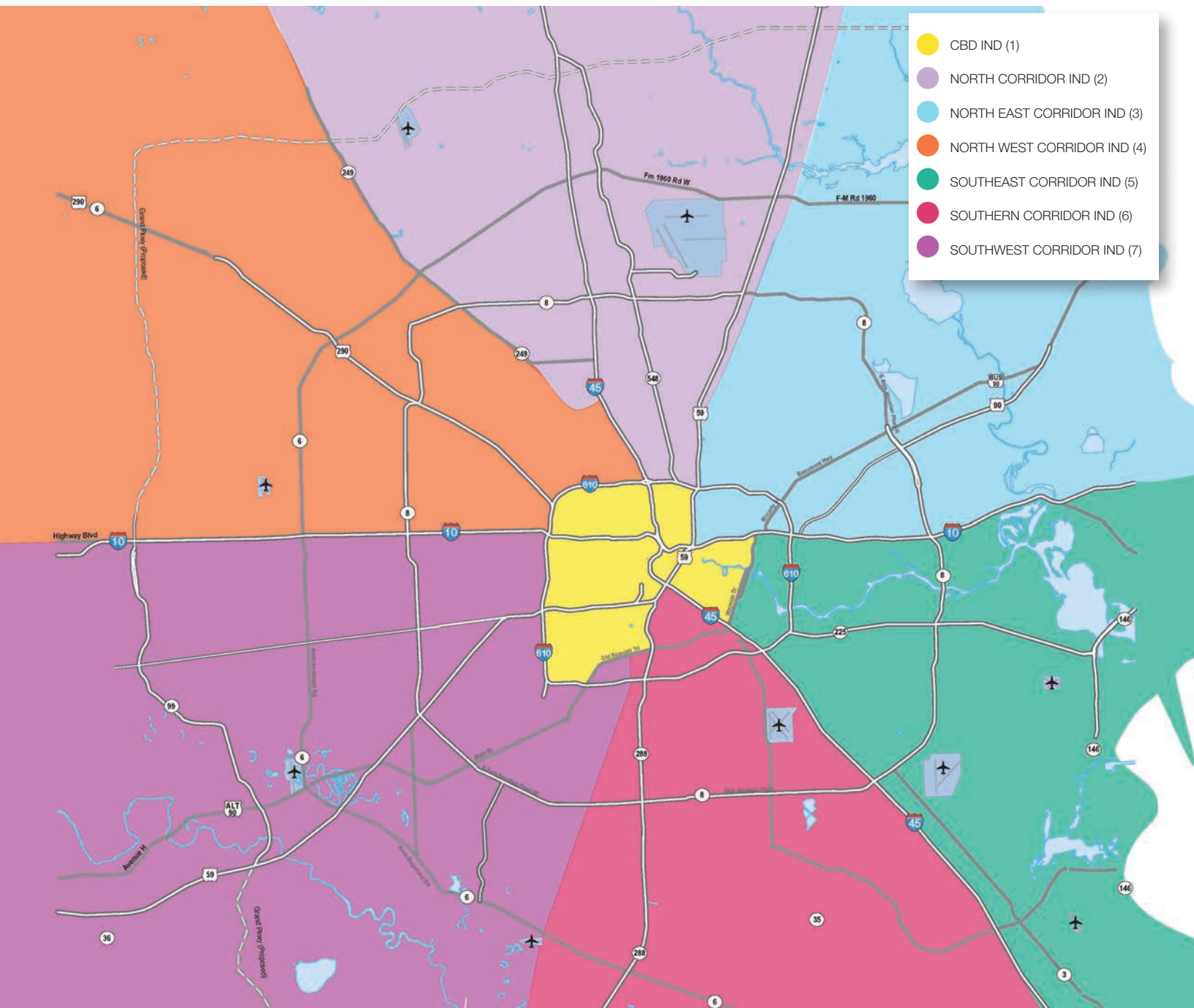
Warehouse Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	2,400	0.2%	0	0	\$0.00
CBD Ind	1,924	55,321,557	2,175,821	3.9%	237,424	0	\$4.89
North Corridor Ind	2,862	80,527,750	6,232,221	7.7%	1,064,767	1,854,335	\$6.95
Northeast Corridor Ind	890	33,898,318	465,347	1.4%	92,868	20,000	\$4.93
Northwest Corridor Ind	3,970	132,723,226	5,919,304	4.5%	463,066	3,042,496	\$6.52
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,179	83,730,887	3,224,010	3.9%	1,414,445	1,338,642	\$4.88
Southern Corridor Ind	1,833	46,832,525	1,623,260	3.5%	255,171	36,000	\$5.48
Southwest Corridor Ind	2,177	58,627,075	3,003,825	5.1%	187,848	1,096,426	\$6.54

Total Industrial Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	2,400	0.2%	0	0	\$0.00
CBD Ind	2,102	59,362,021	2,516,392	4.2%	216,958	0	\$5.02
North Corridor Ind	3,238	91,033,035	7,072,994	7.8%	1,081,051	1,887,535	\$7.04
Northeast Corridor Ind	954	34,673,503	499,989	1.4%	89,195	20,000	\$5.07
Northwest Corridor Ind	4,513	149,028,578	6,953,681	4.7%	508,138	3,056,986	\$6.97
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,386	86,831,795	3,617,481	4.2%	1,397,470	1,338,642	\$5.24
Southern Corridor Ind	1,953	49,275,423	1,818,737	3.7%	240,644	36,000	\$5.65
Southwest Corridor Ind	2,642	70,791,569	3,687,865	5.2%	226,491	1,122,676	\$7.11

The Houston Industrial Sub-market Map



Information and data within this report was obtained from sources deemed to be reliable. However, no warranty or representation is made as to guarantee its accuracy. Sources include: U.S. Bureau of Economic Analysis, CoStar, Federal Reserve Bank of Dallas, Greater Houston Partnership, FiveThirtyEight.com, Houston Association of Realtors, Moody Analytics, National Association Realtors, Texas A&M Real Estate Center, University of Houston's Institute of Regional Forecasting, U.S. Bureau of Labor Statistics.

Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q1 2015

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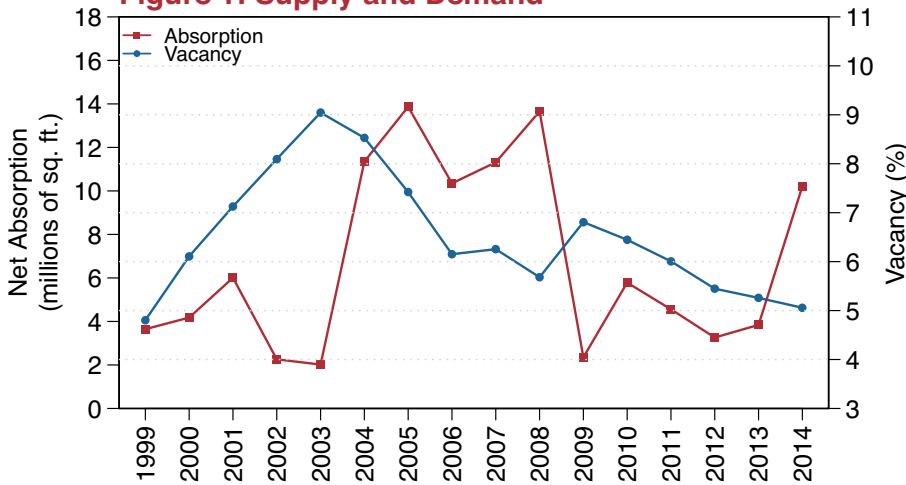
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Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q4 2014

Figure 1: Supply and Demand



Executive Summary

Houston's economy is healthy and diversified, and is anticipated to continue to grow in 2015, but at a slower pace due to the recent decline in oil prices. Local, state, and national economies are growing from improvements in GDP (gross domestic product), employment, energy costs, and business activity. Even though lower oil prices and reduced energy costs can stimulate economic growth, there is appropriate concern for the Houston and Texas economies given the prominence of the energy sector.

Demand, as measured by net absorption, remained strong, with 1.4 million sq. ft. being absorbed in the Q4 2014, a 148% increase year-over-year (YoY). The year of 2014 absorbed 10,211,455 sq. ft, the highest net absorption since 2008. Supply, as measured by vacancy, for the quarter was 4.8% for all industrial space, yielding a 0.4% and 12% decrease quarter-over-quarter (QoQ) and YoY, respectively. The quarter saw deliveries decline by 28% YoY and construction increase by 26% YoY. Asking rents are up 7.7% YoY for warehouse space, but down 8.9% YoY for flex space.

Table 1. Key market indicators for Q4 2014, and their percent (%) change on a quarter-over-quarter (QoQ) and year-over-year (YoY) basis.

	Q4 2014	Percent Change over Prior Period	
		QoQ (%)	YoY (%)
Asking Rent: Warehouse	\$6.13	2.2	7.7
Asking Rent: Flex	\$9.37	-2.6	-8.9
Net Absorption (sq.ft.)	1,434,915	-64.0	148.1
Leasing Activity	3,731,569	-15.3	-42.6
Availability (%)	7.3	-3.6	-11.9
Vacancy (%)	4.8	-0.4	-12.0
Deliveries (RBA, sq.ft)	1,466,909	-14.2	-28.2
Construction (RBA, sq.ft.)	9,115,977	16.5	26.2
Inventory (RBA)	536,571,701	0.3	1.3
Inventory (No. Buildings)	17,712	0.2	0.6

ECONOMIC OVERVIEW

While some global slowdowns are occurring, the economic profiles of the U.S., Texas, and Houston remain strong with continued growth. Houston and Texas are among the leaders in the U.S. economy, despite declines in the energy industry. Positive outlook is carried by improvements in GDP, employment, energy costs, and business activity, while a slightly negative outlook, for Houston and Texas in particular, is due to declines in both energy and Texas exports.

Energy

The global supply of 92 million barrels of oil per day (mb/d) in 2014 is projected to exceed demand (91.4 mb/d), with the U.S. contributing +1.5 mb/d to the surplus. By mid-January 2015, the price of West Texas Intermediate (WTI) fell below \$50. Natural gas prices are down \$0.71, with an average \$3.40 per MMBtu. Drops also occurred in ethane and propane, with prices at their lowest in over a decade. A gallon of retail regular gasoline on the Gulf Coast dropped to \$2.31 in December 2014, lowest since mid-year 2009. U.S. oil and gas rig count was down from an average of 1,925 in October to 1,882 in December. In Texas, rig counts declined from 904 in November to 855 in December. With an approximate three month lag between energy prices and active rigs, coming weeks and months may see further reductions.

As of early January 2015, the US Energy Information Administration (EIA) has revised its 2015 projection for WTI downwards to \$62, Goldman Sachs has it at \$47, and Citi at \$55. Often, however, predictions for oil are incorrect. In 2008 it was forecast that U.S. oil production was in a decline that would never recover, with production at five mb/d compared with 10 mb/d at its peak in the early 1970s. An increase in oil production was not considered feasible by any forecast. Then, in 2014, oil production in the U.S. exceeded 8 mb/d. Similarly, forecasts for 2014 did not predict the later decline in prices. Simply put, forecasting oil is a complex problem.

While Houston's economy varies with the performance of its energy sector, it would be misleading to equate the decline in recent oil prices with a pending decline in Houston's overall economy. For example, consider the projected changes in GDP due to the recent decline in oil prices. It is anticipated that reduced oil prices and lower prices at the pump will lead to an increase of approximately 0.3 to 0.4% in GDP, while the pullback in oil will reduce GDP by only 0.1%. Moreover, consumer spending accounts for ~60% of GDP. Reductions in oil prices stimulate consumer spending, and in turn consumer spending stimulates demand for oil. Overall, economic forecasts for Houston, Texas and the U.S. are for continued healthy growth. Certainly, the growth in Houston's economy will not be as strong had oil prices not fallen, but Houston's economy is diversified and is anticipated to continue to grow.

Gross Domestic Product (GDP)

While Europe's GDP in Q3 2014 came in at just 0.6%, the GDP of the U.S. exceeded expectations at 5.0% growth for the same period. Personal consumption expenditures (PCE) and exports were key contributors to the increase.

Employment

Ongoing improvements in the labor market continue to support economic growth at national, state, and city levels. For the 11th consecutive month, job growth increased by more than 200,000 jobs. National unemployment in December 2014 declined 0.2% to an overall 5.6%, the lowest it has been since June 2008. Despite

largely positive employment numbers, average wages have largely been stagnant, only up by \$0.40 year-over-year.

Houston and Texas continue to outperform national labor markets. Unemployment in November 2014 remained steady at 4.9% in Texas and 4.8% in Houston. Employment in Texas and Houston in November 2014 grew 3.2% and 4.4%, respectively, compared to the nation's 2.8%. The energy industry in Houston had an increase in jobs in November, when Houston's payroll employment increased 3.9%, dominated by construction and mining and leisure and hospitality. Financial activities showed declines in payroll employment. Job growth in energy extraction and pipeline increased by 7.6%, but job growth in support activities slowed to 6.6%. Job growth in Texas and Houston are expected to be ~2.7% in 2015. This is ~1% less than 2014 but still higher than the long term average of 2.1%.

Interest Rates

While interest rates continue to remain unchanged, the Federal Reserve may begin to increase them in 2015, through relatively small and incremental changes.

Consumer Price Index

The Consumer Price Index (CPI) for Urban Consumers (CPI-U) is a key measure of inflation, and when reported as the core inflation rate does not include the volatility of short-term food and energy prices. The CPI-U for all items decreased 0.4% in December 2014, the biggest drop in six years, and increased only 0.8% for the past 12 months, compared to 1.3% for 12 months

ending November 2014. Excluding food and energy, the index remained unchanged in December. The energy index declined 10.6% over the 12 months ending December 2014. As the economy continues to grow, so will inflation, though probably not sooner than a year or two.

Business Activity

The Dallas Federal Reserve reports the Production Index for Texas Manufacturing, which subtracts the percentage of firms reporting a decrease in manufacturing from those reporting an increase. Positive values represent increases in manufacturing, negative values represent decreases. The Production Index increased sharply from 6.0 in November to 15.8 in December 2014. At the national level, factories are at 77.2% capacity (compared to 63.9% in early 2009), indicating near term expansion to meet demands.

The Houston Business-Cycle Index of the Dallas Federal Reserve is a single measure assessing the Houston-Sugar Land-Baytown economy based on movements in local unemployment, nonagricultural employment, inflation-adjusted wages, and

inflation-adjusted retail sales. The index shows that, while the business growth rate in Houston remains positive, it declined to 6% in November from 7.4% in October. Inexpensive oil and a growing economy are expected to support continued growth in manufacturing.

Exports/Trade

In November 2014, monthly exports from Texas declined 2.4%, following a 5.2% decline in October. Year-over-year, Texas exports were down 8.6%.

Housing

National home prices gained 4% in 2014, and sales are expected to grow 8% in the coming year. Fannie Mae and Freddie Mac reduced down payments from 5% to 3%, indicating that rules for mortgage lending may begin to relax. In Texas, existing home sales decreased 0.3% in November, but they were up 7.6% year-over-year. Permits for construction of single-family homes in Texas dropped 4.4% in November (compared to 2.2% increase in October), but they are up 5.6% year-over-year. With high demand and low inventory for single family homes, there has been a strong rental market that

has increased multifamily construction. However, Texas housing starts (both single and multi-family) were down 12.2% in November and 14.7% year-over-year. Texas home inventory was down to 3.4 months in November 2014, compared to 3.7 months a year ago. Demand for housing in 2015 is likely to increase as unemployment declines and incomes increase.

Retail

National retail and food service sales decreased 0.9% in December 2014, but were up 3.2% year-over-year. The revenue index for the Texas Retail Outlook Survey (TROS) shows strong growth in recent months, with highs not seen since 2007. Retailers appear optimistic about business.



Houston and Texas continue to outperform national labor markets. Unemployment in November 2014 remained steady at 4.9% in Texas and 4.8% in Houston. Employment in Texas and Houston in November 2014 grew 3.2% and 4.4%, respectively, compared to the nation's 2.8%.

MARKET OVERVIEW

Demand remained strong with 1,434,915 sq. ft. absorbed in Q4 2014, a 148% increase YoY. With net absorption of 10,211,455 sq. ft., 2014 had the highest rate since 2008. Supply, as measured by vacancy, was 4.8% for all industrial space for the Q4 2014, yielding a 0.4% and 12% decrease QoQ and YoY, respectively. Deliveries decreased by 28% YoY and construction increased by 26% YoY. Asking rents are up 7.7% YoY for warehouse space, but down 8.9% YoY for flex space.

Net Absorption

Net absorption is a key metric that shows actual demand for industrial space. Net absorption measures the change in occupied inventory over a specific time period, including direct and sublet space and the addition and subtraction of building area. Figure 2 shows net absorption from 1999-2014 by year and quarter for combined industrial space. Net absorption of 1,434,915 sq. ft. occurred in Q4 2014, yielding a 64% decrease QoQ, but still a 148% increase YoY (Table 1). In general, Q4 net absorption during the past 14 years tends to be less than or equal to that of Q3, so the 64% QoQ decline in Q4 2014 should be interpreted cautiously with regard to oil. The year of 2014 absorbed 10,211,455 sq. ft., the highest net absorption since 2008.

Leasing Activity

Leasing activity, another measure of demand, is the gross amount of space represented by direct leases, subleases, renewals, and pre-leasing of rentable building area (RBA) under construction. Figure 3 reports leasing activity from 1999-2014 by year and quarter for combined industrial space. Leasing activity for Q4 2014 fell to 3,731,569 sq. ft., a 15% and 43% decrease QoQ and YoY, respectively (Table 1). Leasing activity in each quarter of 2014 was flat or lower than each respective quarter for the past three years. While 2014 had lower leasing activity compared with the recent years, it was not abnormally low compared to other years dating back to 1999, with eight other years having even lower leasing activity.

Figure 2: Net Absorption

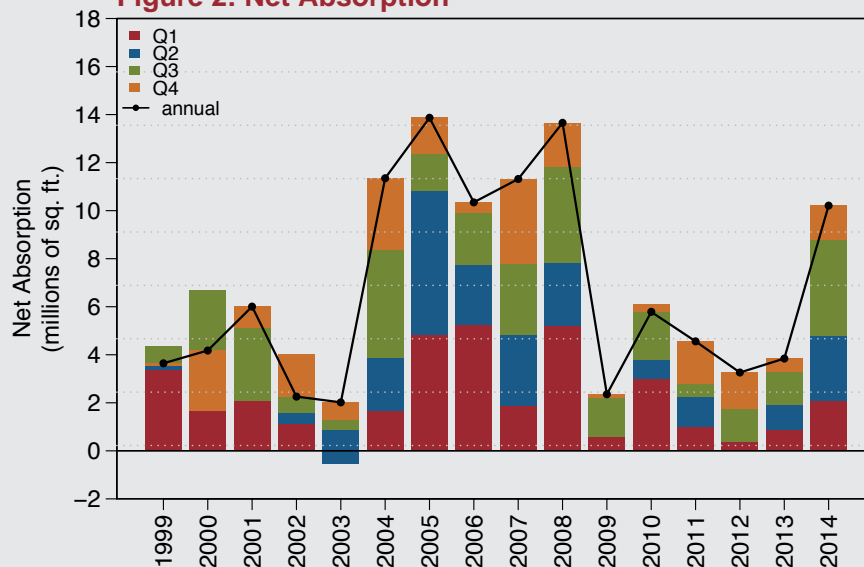
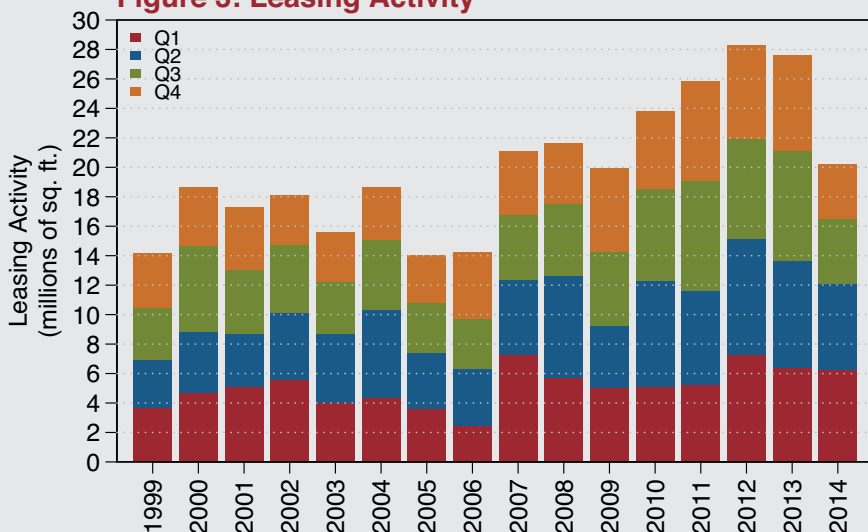


Figure 3: Leasing Activity



Vacancy and Availability

Vacancy and availability are two different measures of the supply of industrial space. Vacancy (%) is the amount of space that is not occupied by a tenant relative to the total rentable space of the market. Vacancy is independent of whether or not the space has a paid lease or is even available for lease. Availability (%) is the amount of space currently available for lease relative to the total rentable space, whether or not the space is vacant, occupied, sublet, or becoming available in the near term. In this way, vacancy under estimates supply by not including space for lease that is still occupied, while availability does little to evaluate how much space is sitting empty.

Figure 4 shows availability and vacancy from 1999-2014 for each of warehouse and flex industrial space. Availability tends to be ~3% greater than vacancy, with warehouse space showing lower availability and vacancy rates than flex space. Availability for the Q4 2014 decreased to 7.3% for all industrial space, while vacancy dropped to 4.8%. Vacancy of both warehouse and flex spaces in 2014 were nearly as low as in 1999, the lowest of the past 16 years.

Asking Rent

Prices reflect the relationships between supply and demand. Figure 5 plots direct and sublet asking rent prices from 1999 - 2014 for warehouse and flex space. Warehouse asking rent rose to \$6.13 nnn in Q4 2014 and flex asking rent fell to \$9.37 nnn. Overall, average annual asking rents for warehouse space have risen 67% in 16 years, from \$3.59 in 1999 to \$6.00 in 2014. Average annual asking rents for flex space have risen even faster, 83% from \$5.27 in 1999 to \$9.64 in 2014.

Figure 4: Availability and Vacancy

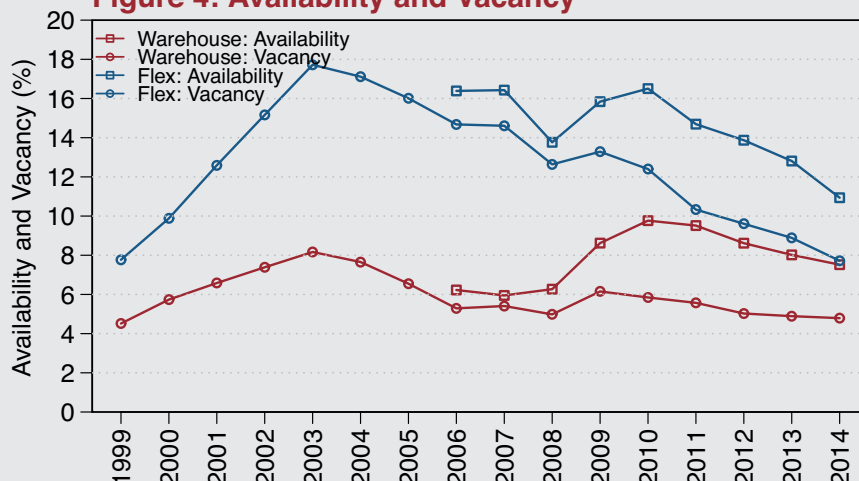
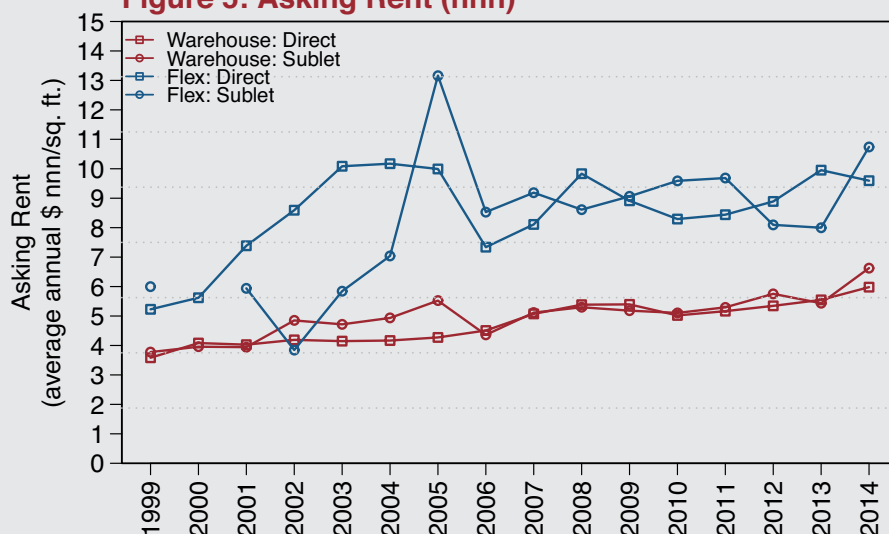


Figure 5: Asking Rent (nnn)



Construction

Construction of new RBA is another key variable determining the supply of office space. RBA delivered refers to completed construction that occurs during a given time period, while RBA under construction refers to space not yet completed construction. Deliveries in Q4 2014 amounted to more than 1.4 million sq. ft., while RBA under construction was 9.1 million sq. ft. Warehouse construction shows continued strength following low

levels of new buildings and RBA under construction in 2010. Flex construction continues to be episodic, and low relative to pre-2010 levels.

Inventory

Figure 7 depicts changes in the inventory of warehouse and flex space over the past 16 years, both in terms of the number of buildings and the RBA of that space. RBA inventory for all industrial space increased slightly to 536 million sq. ft. for 17,712 buildings, an increase of about 0.25% and ~0.95% QoQ and YoY, respectively (Table 1).

RBA inventory for all industrial space included 536 million sq. ft. for 17,712 buildings, an increase of about 0.25% and ~0.95% QoQ and YoY, respectively (Table 1).

Figure 6a: Warehouse Construction

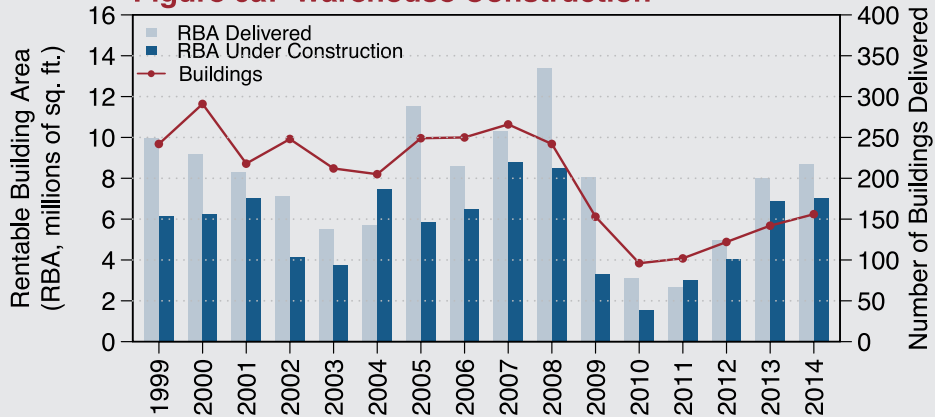


Figure 6b: Flex Construction

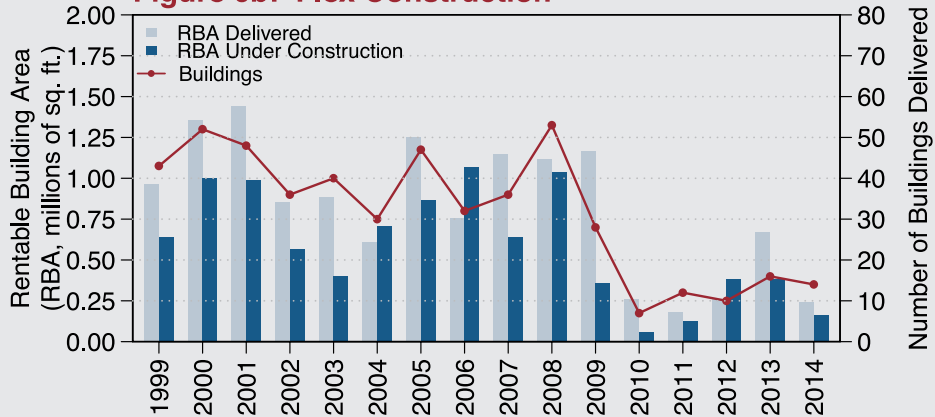


Figure 7a: Warehouse Inventory

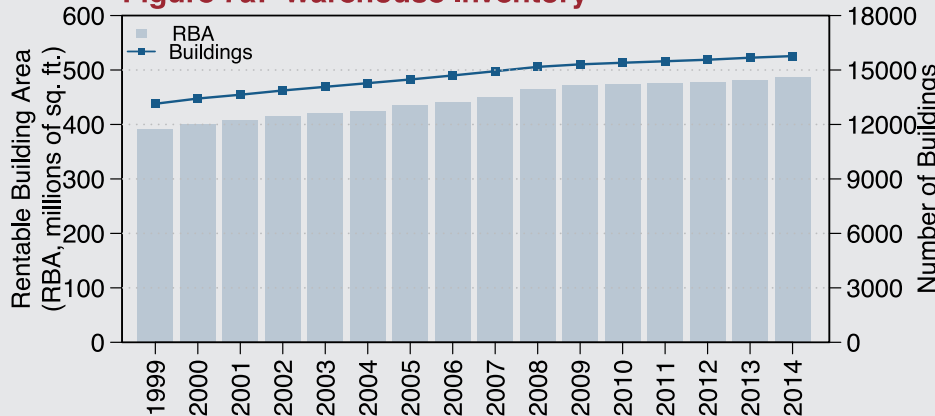
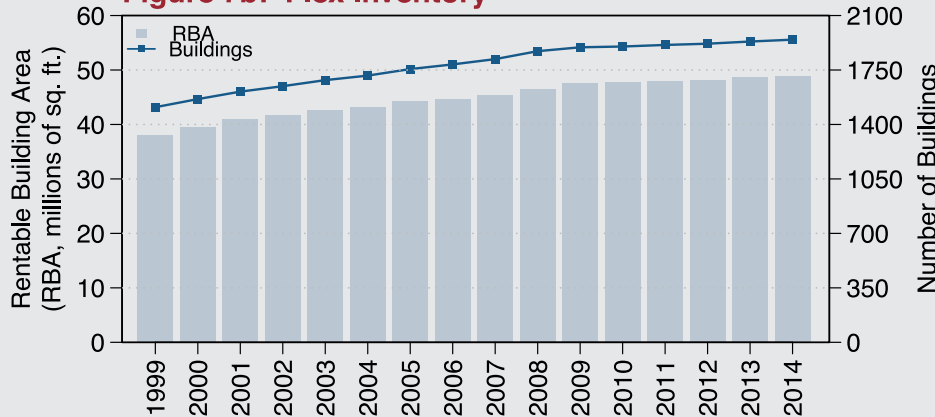


Figure 7b: Flex Inventory



Select Largest Deliveries

Building Address	Rentable Building Area	Percent Leased
10565 Greens Crossing Blvd	600,750	83%
8303 Fallbrook Dr	400,250	0%
3505 Pasadena Blvd	400,000	100%
4800 W Greens Rd	350,820	0%
19802 Imperial Valley Dr	328,020	0%
8039 Humble Westfield Rd	250,200	0%
121 Esplanade Blvd	244,550	0%
300 Airtex Dr	225,360	0%
3750 Highway 225	185,168	100%
16245 Port NW	171,850	100%
11220 Ella Blvd	162,780	0%
13627 W Hardy Rd	151,339	100%
11951 Spectrum Blvd	150,000	100%
400 Century Plaza Dr	149,760	0%
525 Century Plaza Dr	149,500	100%
7330 Langfield Rd	132,470	100%
16501 Central Green Blvd	129,143	81%
16507 Central Green Blvd	129,143	0%
14820 North Fwy	126,568	0%
13615 S Gessner Rd	123,300	0%
5737 Brittmoore Rd	122,500	100%
433 Plaza Verde Dr	120,159	100%
545 Plaza Verde Dr	120,159	0%
4525 Kennedy Commerce Dr	120,000	100%
3700 Hwy 225 Rd	118,500	57%
7390 Northcourt Rd	113,065	100%
14646 Kirby Dr	110,000	100%
71 Esplanade Blvd	106,700	0%
15882 Diplomatic Plaza Dr	104,242	0%
22350 Merchants Way	101,300	100%
8780 West Rd	100,275	100%
15892 Diplomatic Plaza Dr	94,074	0%
16235 Port NW	91,731	100%
9258 Park South Vw	90,067	100%
10401 S Sam Houston Pky W	90,000	0%
13721 S Gessner	85,500	45%
2425 Mowery Rd	69,760	0%
22110 Merchants Way	67,743	100%
1050 Greens Pky	66,798	100%
22240 Merchants Way	64,313	0%
529 Stonegate Dr	63,382	100%
8790 West Rd	63,000	62%
3800 Highway 225	61,794	100%
12550 N Houston Rosslyn Rd	56,876	100%
616 Spring Hill Dr	56,700	83%
4351 E Highway 6	55,000	100%

Under Construction

Building Address	Rentable Building Area	Percent Leased
777 Highway 90A W	650,000	100%
3507 Pasadena Blvd	600,000	100%
11810 N Gessner Rd	441,000	0%
8401 Fallbrook Dr	362,320	0%
11717 Windfern Rd	362,180	100%
20710 Hempstead Rd	357,887	0%
971 N Sam Houston Parkway E	352,000	0%
660 Greens Pky	350,000	100%
28450 West Ten Blvd	340,503	0%
11747 Windfern Rd	320,430	0%
8520-B S Sam Houston Pky W	310,010	67%
1910 Cypress Station Dr	284,170	0%
5300 Highway 146	243,000	100%
1300 Greens Pky	213,218	0%
10634 Tanner Rd	204,070	0%
619 E Sam Houston Pky S	199,680	0%
8401 Fallbrook Dr	197,917	0%
9254 Park South Vw	193,741	0%
6410 Langfield Rd	180,928	0%
431 E Airtex Dr	166,250	0%
11720 N Gessner Rd	155,400	0%
18945 Kenswick Dr	150,000	100%
2172-2188 Greens Rd	147,112	0%
1902 Cypress Station Dr	129,936	0%
20702 Hempstead Rd	114,800	0%
Way Out West Blvd	88,000	38%
611 E Sam Houston Pky S	87,880	0%
8401 Fallbrook Dr	86,747	0%
5737 Brittmoore Rd	86,250	0%
8770 West Rd	77,987	0%
28480 West Ten Blvd	74,793	0%
8520-A S Sam Houston Pky W	68,370	0%
22130 Merchants Way	67,743	0%
11710 N Gessner Rd	67,200	0%
10618 Tanner Rd	66,420	0%
8401 Fallbrook Dr	62,061	0%
9191 Gulf Fwy	52,200	0%
6410 Langfield Rd	51,424	0%
14155 W Hardy Rd	42,600	0%
6410 Langfield Rd	37,636	0%
Bammel Rd	37,500	0%
Bammel Rd	33,000	0%
25311 Kingsland Blvd	31,000	0%
7800 Breen Rd	30,000	100%
Katy Hockley Cutoff & Cla Dr	30,000	0%
18400 Kieth Harrow Blvd	30,000	0%
27603 Commerce Oaks Dr	27,603	0%
9370 Kirby Dr	26,250	0%

Select Major Lease Transactions

Tenant	Qtr.	Building	Size (SF)
American Tile & Stone	4th	ClayPoint Distribution Park	121,795
Veritrust Corp*	4th	2000 Afton Rd.	87,000
Pharmedium Services*	4th	12620 West Airport Blvd.	74,100
Overseas Trading*	4th	1800 South St.	66,000
Flotek Industries	4th	8846 N. Sam Houston Parkway W.	50,400
ERA Industries	4th	6028 Navigation	44,000
Surface Preparation Texas	4th	Southport Business Park	40,150
N2It Containers	4th	6002 Murphy	33,000
Performance Contracting Group	4th	221 Beltway Green Blvd.	32,140
Iron Acces	4th	3815 Hollister	30,194
Interstate-McBee	4th	Central Green Business Park	25,600
Hoist Manufacturing	4th	2410 Broad St.	19,580
Foundation Logistics & Services	4th	15370 Vantage Parkway West	17,646
Medical Transportation Management	4th	5400 Mitchelldale	16,600
Standard Alloys & Manufacturing	4th	1101 Howard Dr.	15,300
Sherrariums Co.	4th	7221 Wynnwood	14,490
JYC Enterprise	4th	12634 East Freeway	12,000



Flex Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	0	0	0	0.0%	0	0	\$0.00
CBD Ind	176	3,751,140	303,421	8.1%	26,576	0	\$5.35
North Corridor Ind	373	10,464,071	873,619	8.3%	98,895	34,325	\$7.60
Northeast Corridor Ind	64	774,295	30,969	4.0%	21,930	0	\$8.75
Northwest Corridor Ind	539	15,985,542	1,068,649	6.7%	239,757	6,000	\$9.63
San Jacinto County Ind	0	0	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	203	3,081,010	375,096	12.2%	5,230	0	\$10.96
Southern Corridor Ind	117	2,423,673	198,716	8.2%	53,025	0	\$9.21
Southwest Corridor Ind	467	12,187,403	725,683	6.0%	323,458	26,250	\$10.38

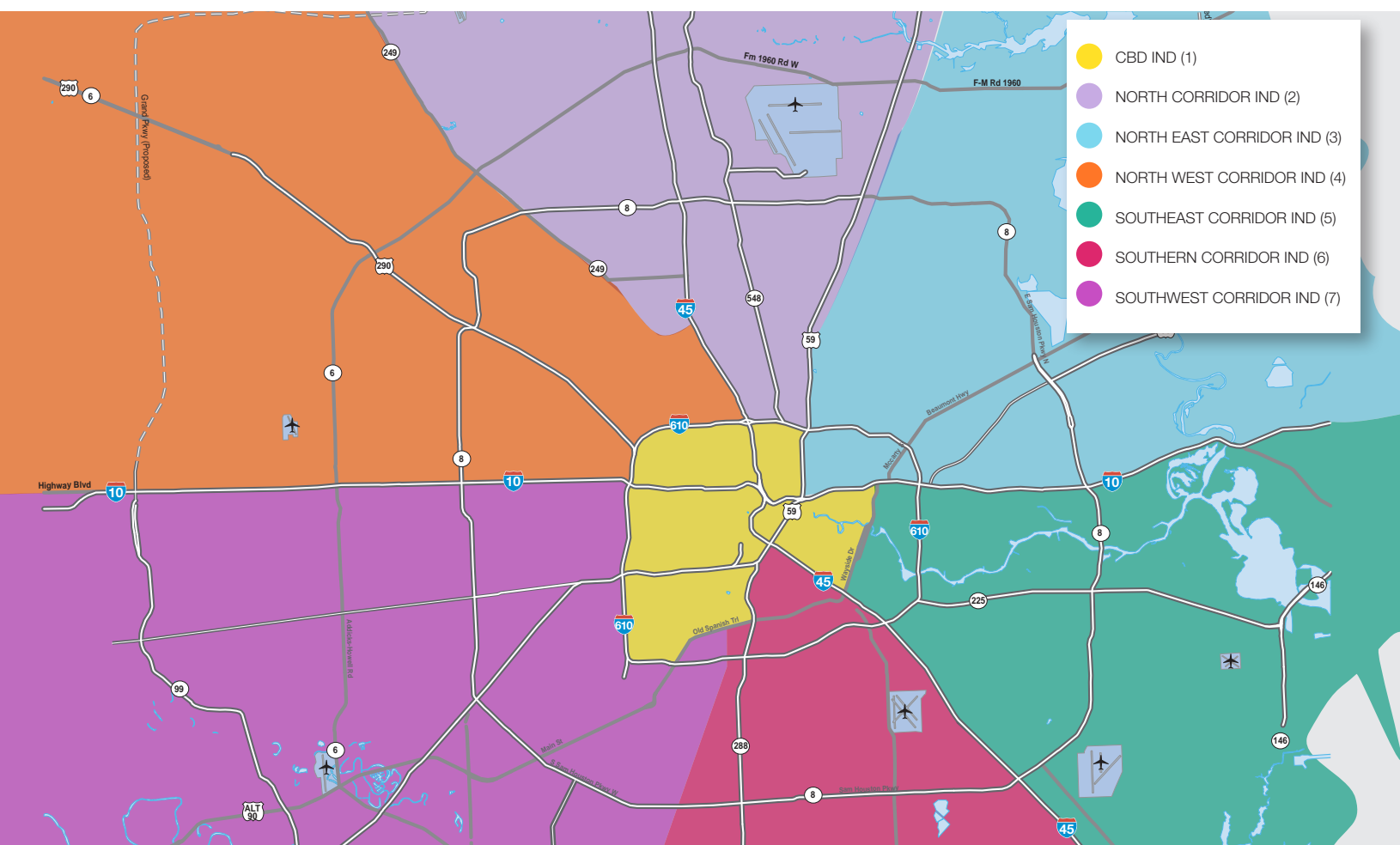
Warehouse Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	2,400	0.2%	(500)	0	\$0.00
CBD Ind	1,928	55,500,276	2,422,780	4.4%	291,354	0	\$4.57
North Corridor Ind	2,800	78,573,539	6,427,835	8.2%	2,676,149	2,263,391	\$6.67
Northeast Corridor Ind	880	33,332,696	530,280	1.6%	511,578	30,560	\$4.97
Northwest Corridor Ind	3,930	130,441,793	4,484,008	3.4%	2,803,484	4,158,546	\$6.45
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,171	83,116,524	3,829,616	4.6%	2,039,686	1,241,888	\$4.70
Southern Corridor Ind	1,822	46,468,311	1,517,815	3.3%	1,082,228	258,341	\$5.47
Southwest Corridor Ind	2,158	57,815,582	2,867,261	5.0%	177,238	1,096,676	\$6.37

Total Industrial Market Statistics

Submarket	# Blds	Total RBA	Total Available SF	Vacancy %	YTD Net Absorption	Under Construction SF	Quoted Rental Rates (\$/SF/Yr)
Austin County Ind	23	1,540,395	2,400	0.2%	(500)	0	\$0.00
CBD Ind	2,104	59,251,416	2,726,201	4.6%	317,930	0	\$4.63
North Corridor Ind	3,173	89,037,610	7,301,454	8.2%	2,775,044	2,297,716	\$6.82
Northeast Corridor Ind	944	34,106,991	561,249	1.6%	533,508	30,560	\$5.04
Northwest Corridor Ind	4,469	146,427,335	5,552,657	3.8%	3,043,241	4,164,546	\$6.88
San Jacinto County Ind	4	34,464	0	0.0%	0	0	\$0.00
Southeast Corridor Ind	2,374	86,197,534	4,204,712	4.9%	2,044,916	1,241,888	\$5.01
Southern Corridor Ind	1,939	48,891,984	1,716,531	3.5%	1,135,253	258,341	\$5.63
Southwest Corridor Ind	2,625	70,002,985	3,592,944	5.1%	500,696	1,122,926	\$7.00

The Houston Industrial Sub-market Map



Methodology | Definitions

Absorption (Net)

The change in occupied space in a given time period.

Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

Average Asking Rental Rate

Rental rate as quoted from each building's owner/management company. For office space, a full service rate was requested; for retail, a triple net rate requested; for industrial, a NN basis.

Building Class

Class A Product is office space of steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rates. Class B product is office space built after 1980, fair to good finishes & wide range of tenants.

Direct Vacancy

Space currently available for lease directly with the landlord or building owner.

Market Size

Includes all existing and under construction office buildings (office, office condo, office loft, office medical, all classes and all sizes, both multi-tenant and single-tenant, including owner-occupied buildings) within each market.

Overall Vacancy

All physically unoccupied lease space, either direct or sublease.

SF/PSF

Square foot/per square foot, used as a unit of measurement.

Sublease

Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

Sublease Space

Total square footage being marketed for lease by the tenant.

Sublease Vacancy

Space currently available in the market for sublease with an existing tenant within a building acting as the landlord.

RBA (Rentable Building Area)

Expressed in square feet, this area includes the usable area and its associated share of the common areas.

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Information herein was obtained from sources deemed to be reliable, but no warranty or representation is made as to guarantee its accuracy.

Sources include: CoStar, Federal Reserve Bank of Dallas, Greater Houston Partnership, Houston Association of Realtors, National Association Realtors, Texas A&M Real Estate Center, U.S. Bureau of Labor Statistics, U.S. Bureau of Commerce.

Economic and Market Outlook:

HOUSTON INDUSTRIAL | Q4 2014

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