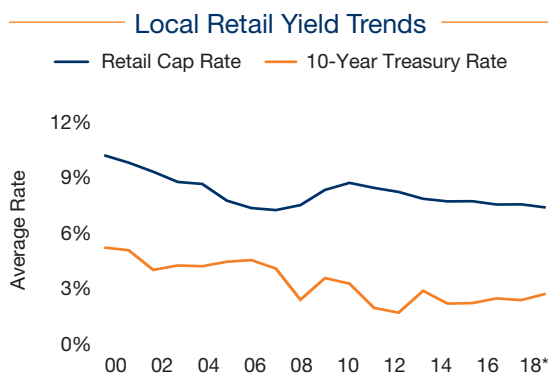


Houston Employment Rising Again, Attracts Residents and Retailers

Rebounding employment, healthy demographics encourage Houston retail market. While many other major metros' growth cycles are beginning to slow down, Houston is ramping back up. The decline in energy prices placed pressure on the local oil and gas industry in the middle of a national economic expansion. As a result, employment gains were virtually flat for two years as additions in other sectors mitigated losses at energy firms and related companies. Job creation in the metro began to strengthen during 2017, and growth continue to improve again this year, attracting new residents to the metro. With the market returning to expansion mode, retail tenant demand strengthens from last year at a time when deliveries remain near a cyclical peak.

Households replacing damaged goods help boost retail spending. Thousands of residents are still dealing with repairs and replacing household goods in the metro following the flooding from Hurricane Harvey. This helped boost spending in the metro at its fastest pace since 2014, and a stronger rate of growth is expected again this year. Retail developers continue to bring a healthy amount of new space online in the metro to meet rising tenant demand, and while vacancy rises this year, the development pipeline begins to thin and vacancy remains healthy through the end of this year.



* Cap rates trailing 12 months through 1Q18; 10-Year Treasury up to March 29, 2018
Sources: CoStar Group, Inc.; Real Capital Analytics

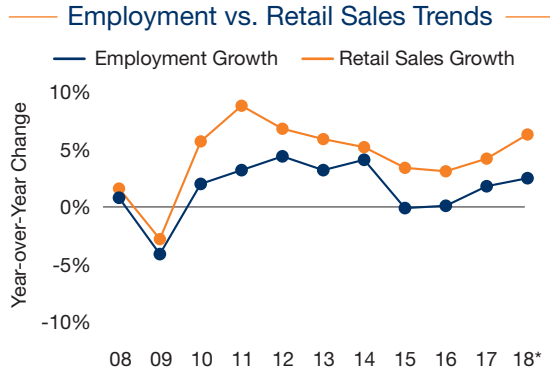
Retail 2018 Outlook

- 4.4 million sq. ft.** will be completed **Construction:** Retail deliveries in Houston during 2018 will be one of the highest in the country and remain in line with the previous five-year average.
- 20 basis point** increase in vacancy **Vacancy:** Vacancy rises to 5.9 percent in 2018 as the absorption of more than 3.6 million square feet of retail space falls short of supply additions this year.
- 3.3%** increase in asking rents **Rents:** Asking rent advances at a healthy clip to \$17.63 per square foot. Last year, the average increased 4.4 percent.

Investment Trends

- Houston's ability to rebound from uncertain economic times and perils has made it an attractive market in which to invest, with yields averaging 50 to 100 basis points higher than most major markets across the country. Rising interest rates, and the local economy back in growth mode, could prompt additional demand as buyers search for higher-yielding opportunities.
- Unanchored strip centers are performing well and attracting strong investor interest throughout the metro. Properties with small shop space and a good mix of service-related retailers are in highest demand. Cap rates for these assets average between 6.5 percent and 7.5 percent depending on property age, location and tenant credit.
- Strip center assets in western areas of the metro, such as Sugar Land, Katy and up to The Woodlands, are in high demand and often trading for a premium, with prices averaging \$40 to \$60 per square foot more than the metro average.

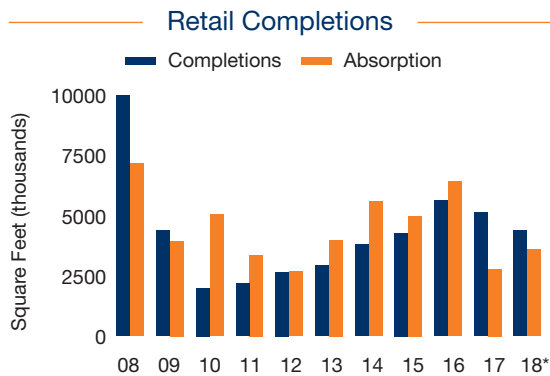
1Q18 - 12-MONTH TREND



EMPLOYMENT:

2.1% increase in total employment Y-O-Y

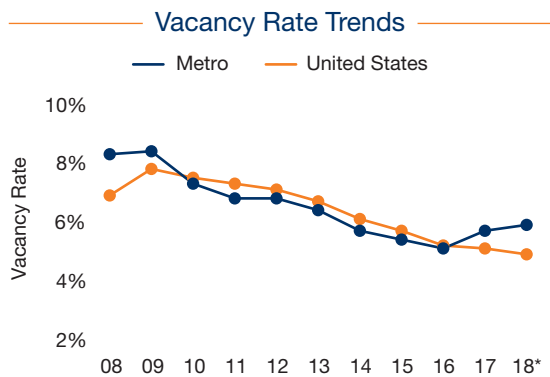
- A gain of more than 26,000 employees in the professional and business services sector helped propel a 64,000-job increase in Houston's total employment during the past 12 months.
- Strong job gains resulted in a 120-basis-point drop in the metro's unemployment rate, which reached 4.5 percent in the first quarter, near the decade low.



CONSTRUCTION:

5.1 million square feet completed Y-O-Y

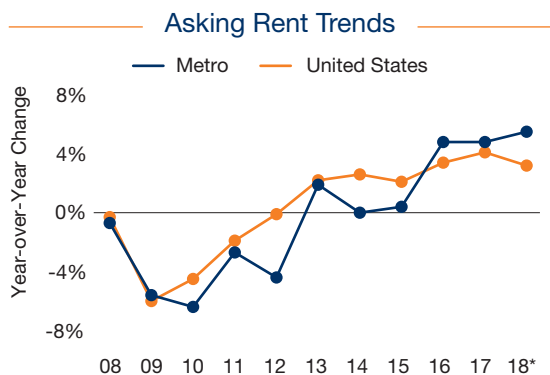
- Approximately 1 million square feet of retail space came online in the first quarter, with deliveries concentrated in the North Houston suburb of Conroe.
- Space underway is concentrated in the southwest portion of the metro, where nearly 800,000 square feet of space is under construction. Sugar Land will gain more than 300,000 square feet of space this year.



VACANCY:

40 basis point increase in vacancy Y-O-Y

- Absorption stumbled during the third quarter of 2017 as retailers dealt with the aftermath of Hurricane Harvey, resulting in supply additions outpacing demand over the last year and pushing up vacancy to 5.7 percent.
- The CBD, Inner Loop and North Houston submarkets recorded increases in vacancy of 100 basis points or more over the past four quarters.



RENTS:

1.6% increase in the average asking rent Y-O-Y

- The average asking rent advanced to \$17.20 per square foot over the past year, slowing from the 6.7 percent pace of growth achieved over the previous 12-month span.
- Despite a 240-basis-point increase in vacancy last year, rent growth in the CBD was strong. The average surged more than 25 percent during the past year to \$24.27 per square foot.

* Forecast

DEMOGRAPHIC HIGHLIGHTS



2018 JOB GROWTH*
Metro **2.5%**
U.S. Average 1.2%



FIVE-YEAR POPULATION GROWTH**
645,700 or **1.8%** Annual Growth
U.S. 0.7% Annual Growth



FIVE-YEAR HOUSEHOLD GROWTH**
250,000 or **2.0%** Annual Growth
U.S. 1.1% Annual Growth



1Q18 MEDIAN HOUSEHOLD INCOME
Metro **\$64,063**
U.S. Median \$60,686

1Q18 RETAIL SALES PER MONTH

\$4,244 Per Household
U.S. \$3,922

\$1,481 Per Person
U.S. \$1,506



RETAIL SALES FORECAST**
Metro **28.2%**
U.S. 19.7%

* FORECAST **2017-2022

Lowest Vacancy Rates 1Q18

SUBMARKET TRENDS

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rent	Y-O-Y % Change
Austin County	1.6%	(960)	\$12.00	35.3%
Northeast	4.4%	30	\$17.49	6.4%
Inner Loop	4.6%	100	\$26.18	10.1%
West	5.0%	30	\$20.93	1.8%
East	5.5%	70	\$13.96	6.3%
Northwest	5.7%	30	\$18.66	9.5%
Southeast	5.7%	(20)	\$14.34	1.8%
Southwest	6.2%	20	\$15.04	-2.5%
CBD	6.3%	240	\$24.27	25.3%
South	6.3%	60	\$15.98	-2.3%
North	6.7%	140	\$13.64	-14.8%
Overall Metro	5.7%	40	\$17.20	1.6%

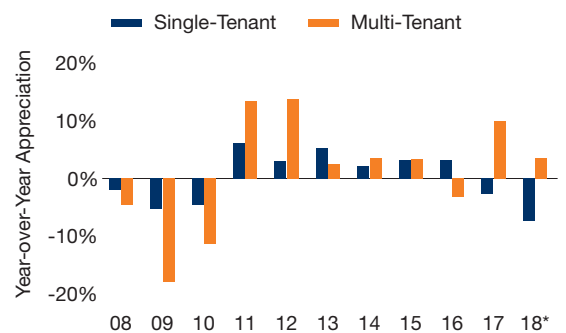
Buyers Target Houston for Larger Yield Spreads Amid Rising Interest Rate Environment

SALES TRENDS

- **Multi-Tenant:** Sales activity is increasing as confidence in Houston returns, and the average price grew 3.6 percent to nearly \$214 per square foot. Cap rates for these properties averaged 7.7 percent.
- **Single-Tenant:** Net leased retail assets changed hands for an average price of \$256 per square foot over the past 12 months, with cap rates in the low-7 percent area.

Outlook: Strong retail property operations and a favorable economic outlook will sustain healthy demand for Houston area properties.

Price Per Square Foot Trends



* Trailing 12 months through 1Q18 over previous time period
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

By WILLIAM E. HUGHES, Senior Vice President,
Marcus & Millichap Capital Corporation

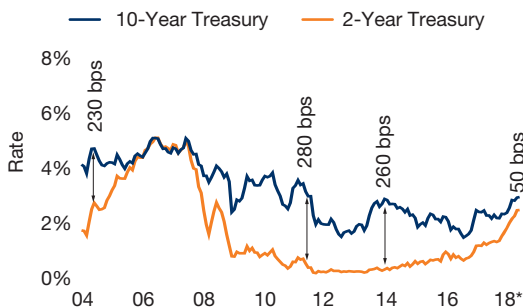
Fed raises benchmark interest rate, plans additional increases. The Federal Reserve increased the federal funds rate by 25 basis points in late March, raising the overnight lending rate to 1.5 percent. While the Fed noted the inflation outlook moderated recently, an upgraded economic forecast including tax cuts and a regulation rollback strengthened growth projections through 2020. As a result, the Fed has guided toward at least two more rate hikes this year, while setting the stage for up to four increases in 2019.

Lending costs rise alongside Fed rate increase. As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, greater competition for loan demand has prompted some lenders to absorb some cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should boost rent growth above inflation over the coming year.

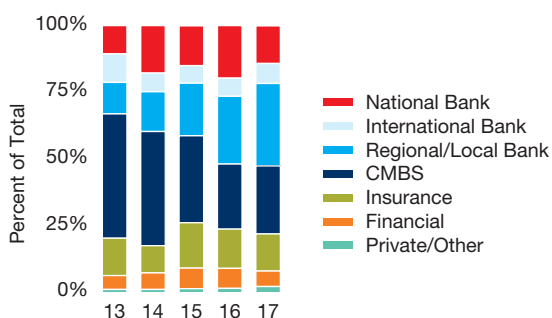
The capital markets environment remains highly competitive.

While the Federal Reserve has committed to tightening policy, other major central banks have maintained easing policies. The downward pressure on rates from foreign central banks is counteracting greater economic growth and wider government deficits, keeping demand for fixed-income investments stable. Loan pricing resides in the mid-4 percent range with maximum leverage of 70 percent. Portfolio lenders will require loan-to-value ratios closer to 65 percent with interest rates, depending on term, in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly this year, while limited new construction and steady absorption will contain retail vacancy near 5 percent.

10-Year Treasury vs. 2-Year Treasury Yield Spread Tightens



Retail Mortgage Originations by Lender



* Through May 1st

Sources: CoStar Group, Inc.; Real Capital Analytics

National Retail Group

Visit www.NationalRetailGroup.com

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Price: \$250

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau

Retail Research

Market Report

Houston Metro Area

Third Quarter 2017

Houston Retail Demand Strong Despite Some Uncertainty in Harvey Aftermath

Flooding from Hurricane Harvey adds new dynamic to Houston's retail sector; implications unknown. Small strip centers and neighborhood centers located in or near pockets of residential flooding were at highest risk, primarily affecting smaller regional and local tenants. Owners of flooded properties will be sorting through options over the next several months as they assess damages and insurance claims, determining whether to hold on to properties or list. Tenants affected by the floods could also face trials as well, as they could be experiencing personal challenges stemming from the rising waters. However, the majority of retail properties were unaffected across the metro, and many tenants reopened quickly, meeting strong demand from area residents and those assisting in relief efforts.

Diverse economy, healthy demographics keep retail expansion underway. Job gains and positive in-migration trends will continue to attract retailers to Houston. Construction timelines may be extended as material costs soar and labor is short while housing stock is restored, but strong demand for goods and services will encourage retailers to continue expansion plans. As a result, vacancy will remain historically low and rent will rise.

Retail 2017 Outlook

5.5 million sq. ft. will be completed



Construction:

Completions remain elevated this year despite a pushback in construction timelines in the final quarter, and 5.5 million square feet will come online in 2017.

90 basis point increase in vacancy



Vacancy:

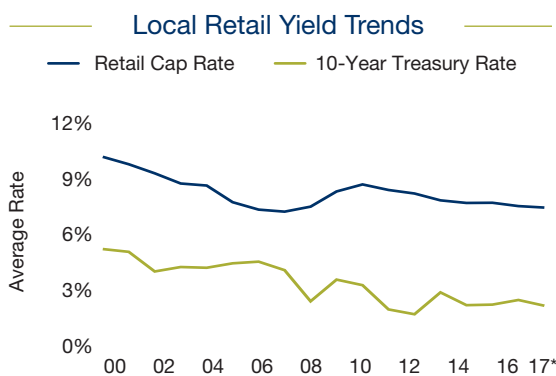
Retail vacancy remains historically low in 2017, rising to 6.2 percent as nearly 2.4 million square feet of space is absorbed.

1.7% increase in asking rents



Rents:

Asking rent growth resumes this year, with the average advancing to \$16.30 per square foot and reaching a new peak.

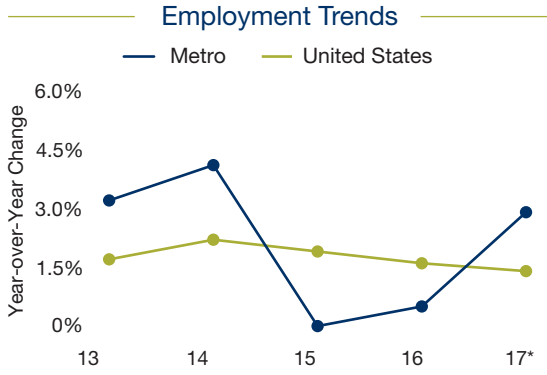


Investment Trends

- Houston's diverse economy and strong demographic trends remain attractive to investors. The area's retail market sustained healthy property operations following the most recent downturn in the oil and gas industry, and investors are keeping an optimistic outlook in the aftermath of devastating floods.
- Out-of-state investors are targeting the metro in higher numbers after Hurricane Harvey, seeking damaged properties for upside potential. Many property owners are still assessing damages, however, and listings of these assets are limited.
- High-quality, Class A properties that sustained no damage are also in high demand. A large portion of the metro was not flooded, and commercial properties that served these areas fared well. Tight vacancy and steady rent gains will continue to attract investors to these properties.

* Cap rates trailing 12 months through 2Q17; 10-year Treasury rate through Aug. Sources: CoStar Group, Inc.; Real Capital Analytics

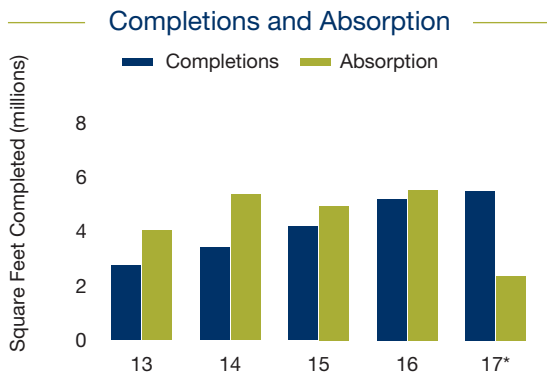
2Q17 - 12-MONTH TREND



EMPLOYMENT:

2.1% increase in total employment Y-O-Y

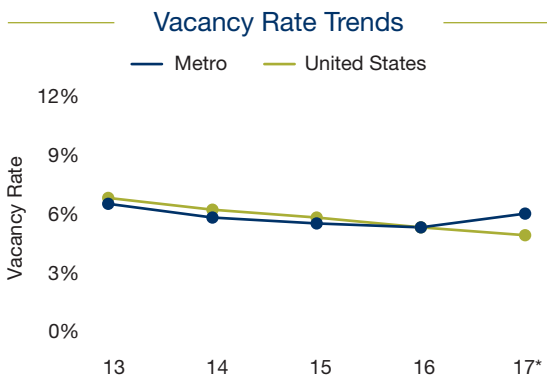
- Houston employers created 63,700 positions over the last 12 months, with nearly one-third of those jobs in office-using sectors.
- Unemployment in the metro ticked down 10 basis points over the last year to 5.2 percent. Houston's unemployment rate remains the highest of the four major markets in the state.



CONSTRUCTION:

5.7 million square feet completed Y-O-Y

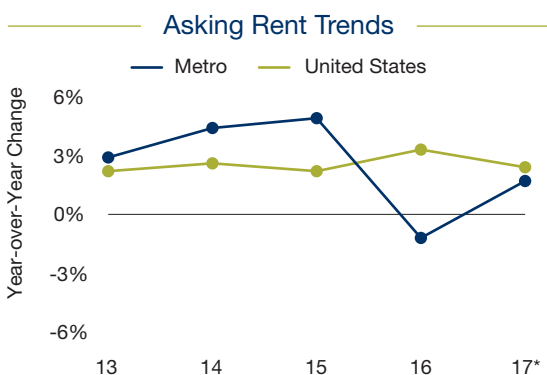
- Developers completed more than 1.5 million square feet of retail space in the second quarter, the strongest quarter for deliveries since early 2009.
- The northern portion of the metro has received the largest share of new stock during the last four quarters. Northwest Houston gained 1.6 million square feet during the period, while North Houston added 1.4 million.



VACANCY:

30 basis point increase in vacancy Y-O-Y

- Additions to supply outweighed tenant demand during the last year, pushing up the overall retail vacancy rate to 5.7 percent.
- Two submarkets recorded dips in the vacancy rate over the last 12 months. The rate declined 150 basis points in the CBD to 7.1 percent, while a 70-basis-point fall pushed down East Houston's rate to 5.0 percent.



RENTS:

2.8% increase in the average asking rent Y-O-Y

- Healthy demand for retail space contributed to a stronger advance in average asking rent during the last four quarters, reaching \$16.40 per square foot in June.
- Average asking rent growth in the CBD and East and West Houston submarkets was the strongest, rising 35.7 percent, 13.6 percent and 17.0 percent, respectively, over the last 12 months.

* Forecast

DEMOGRAPHIC HIGHLIGHTS



2017 JOB GROWTH*
Metro **1.8%**
U.S. Average 1.4%



FIVE-YEAR POPULATION GROWTH**
656,200 or **1.9%** Annual Growth
U.S. 0.7% Annual Growth



FIVE-YEAR HOUSEHOLD GROWTH**
278,000 or **2.2%** Annual Growth
U.S. 1.1% Annual Growth



2Q17 MEDIAN HOUSEHOLD INCOME
Metro **\$62,434**
U.S. Median \$58,672

2017 RETAIL SALES PER MONTH

\$4,073 Per Household
U.S. \$3,785

\$1,441 Per Person
U.S. \$1,454



RETAIL SALES FORECAST**
Metro **29.1%**
U.S. 21.1%

* FORECAST **2017-2022

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q17

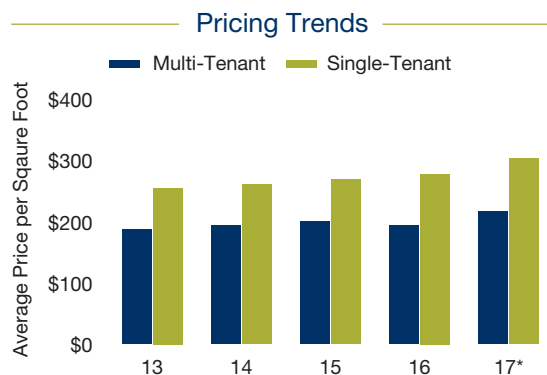
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rent	Y-O-Y % Change
Inner Loop	4.2%	100	\$23.33	-0.7%
Northeast	4.2%	70	\$15.52	1.6%
West	4.6%	0	\$21.49	17.0%
East	5.0%	-70	\$13.88	13.6%
North	5.9%	40	\$14.87	2.3%
Northwest	5.9%	90	\$16.06	-3.2%
South	6.0%	130	\$16.21	7.3%
Southeast	6.6%	10	\$13.97	4.3%
Southwest	6.6%	0	\$13.98	-6.0%
CBD	7.1%	-150	\$23.56	35.7%
Overall Metro	5.7%	30	\$16.30	2.8%

SALES TRENDS

Retail Asset Prices Rise in Houston Amid Strengthening Buyer Competition

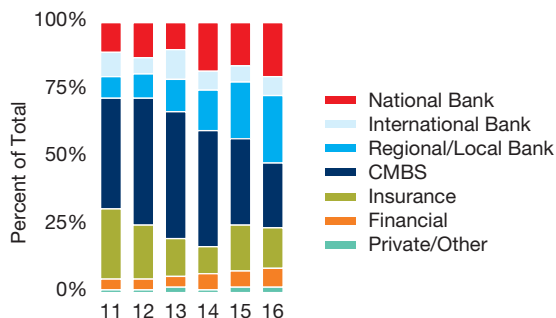
- **Multi-Tenant:** Sales activity dipped 4 percent during the last year, but rising investor demand produced a 10 percent increase in the average price to \$217 per square foot.
- **Single-Tenant:** The average price per square foot jumped 11 percent over the last four quarters to more than \$300 per square foot. The average first-year yield compressed 30 basis points to 7.1 percent.

Outlook: Retail properties remain in high demand as local and out-of-state investors target the metro. Value-add properties will garner significant buyer interest.

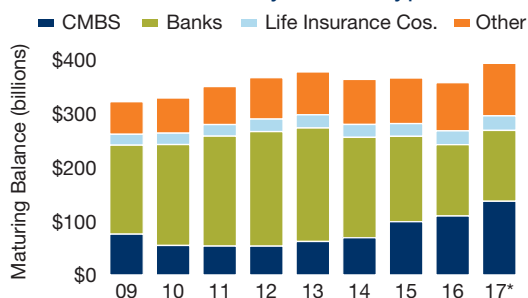


* Trailing 12 months through 2Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Retail Mortgage Originations by Lender



Estimated Commercial/Multifamily Debt Maturities by Lender Type



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

National Retail Group

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CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.
- Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding a possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.
- Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 60 percent to 70 percent for most retail properties. At the end of 2016, the combination of increasing rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and nominally higher interest rates may also encourage additional lenders to participate.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau

Energy-Related Hiring Resumes, Boosts Retail Outlook for Houston

Economic outlook brightens, reinforces tenant demand. Renewed hiring in the oil and gas industry in the first three months of 2017 is stabilizing the Houston economy and will help bolster retail spending this year. As oil prices continue to stabilize through the remainder of the year, additional job gains in manufacturing and other energy-related segments of the local economy are set to rise. As a result, the boost to the Houston economy will increase retail space demand, placing additional downward pressure on vacancy this year.

Deliveries remain elevated, but healthy net absorption supports rent gains. The retail segment has been a bright spot in the Houston commercial real estate market over the past two years. Deliveries reached a cyclical high during 2016, but strong demand from retailers seeking new locations throughout the metro continued to drive down the overall vacancy rate. As completions dip this year, net absorption of 4.1 million square feet will reduce vacancy to the mid-5 percent range. With the rate tightening, the pace of rent growth will also strengthen and raise the average rent to a cycle peak.

Retail 2017 Outlook

3.6 million sq. ft. will be completed

Construction:

Deliveries in 2017 fall from last year when 5.1 million square feet of space was added to metrowide inventory.

20 basis point decrease in vacancy

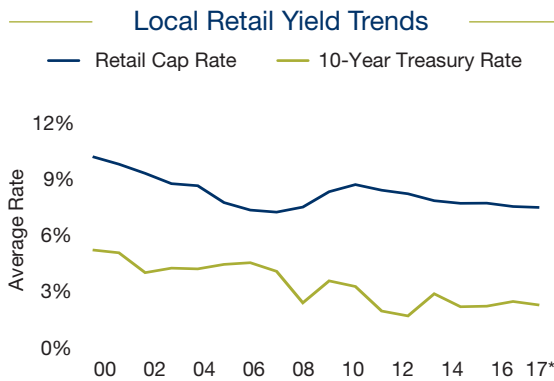
Vacancy:

Demand outweighs additions to supply, pushing down the vacancy rate to 5.0 percent this year. The rate declined 20 basis points last year.

5.4% increase in asking rents

Rents:

The average rent advances to \$16.85 per square foot this year. The increase follows a decline of 1.5 percent during 2016.

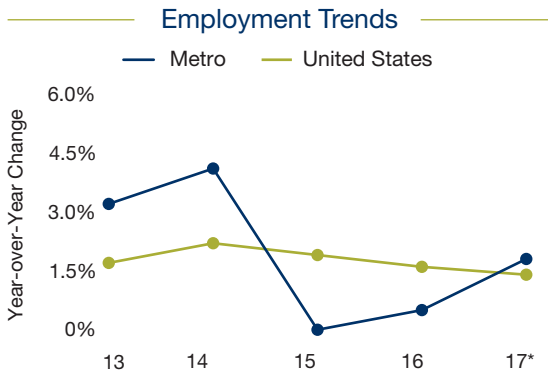


Investment Trends

- Buyers from the Southwest have dominated transactions over the last two years, but a rebounding energy industry will draw additional buyers from coastal markets as they search for higher yields inland. Multi-tenant cap rates in Houston average near 8 percent, approximately 150 to 300 basis points more than East and West Coast metros.
- Development in western submarkets is attracting a wide range of buyers, and properties located in Sugar Land, Katy and The Woodlands are in high demand. These assets often sell for a premium, commanding first-year returns in the low- to mid-7 percent area.
- The opening of the Grand Parkway around Houston is creating additional development and investment opportunities. Several large retailers are opening along the route, attracting local and regional tenants to strip centers and outparcels. Sales will rise in the outer suburbs as new buildings are stabilized.

* Trailing 12 months through 1Q17
Sources: CoStar Group, Inc.; Real Capital Analytics

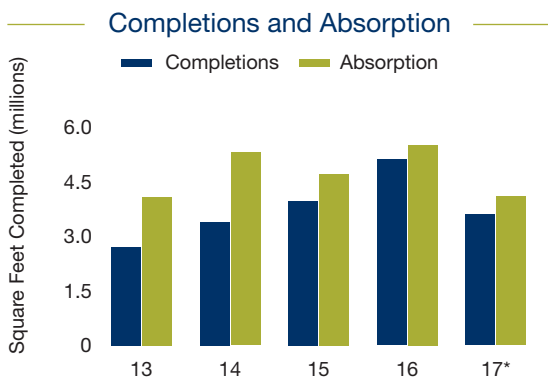
1Q17 - 12-MONTH TREND



EMPLOYMENT:

1.1% increase in total employment Y-O-Y

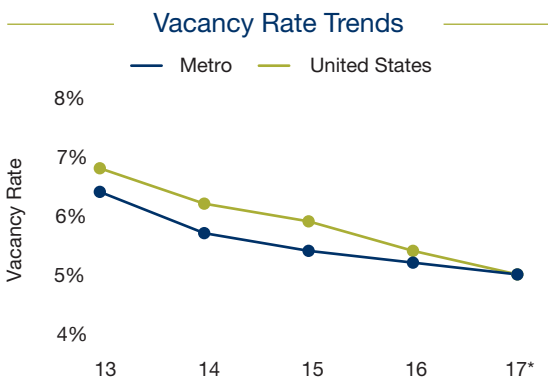
- Employers created 18,800 jobs in the first quarter of 2017 for an annual headcount expansion of 32,600 workers. The manufacturing sector is leading growth so far this year, with 7,300 positions generated.
- The unemployment rate grew 70 basis points over the past year to 5.7 percent despite one of the strongest paces of employment growth during the last two years.



CONSTRUCTION:

5.4 million square feet completed Y-O-Y

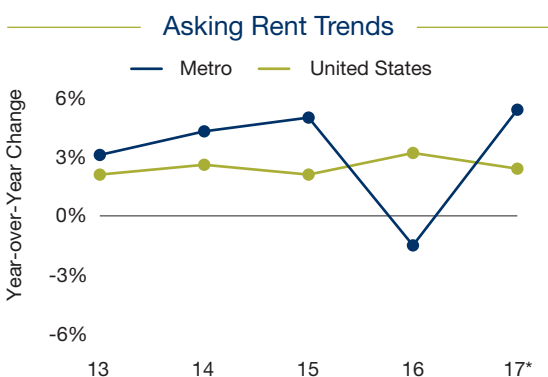
- Builders brought 1.4 million square feet of space online in the first quarter of the year. The largest project delivered was 270,000 square feet at Baybrook Mall.
- Nearly 2.8 million square feet of retail space is underway across the Houston metro, and pre-leasing remains healthy as 66 percent of new space coming online is off the market.



VACANCY:

20 basis point decrease in vacancy Y-O-Y

- Nearly 5.7 million square feet of retail space was absorbed over the last 12 months, pushing down the vacancy rate to 5.4 percent.
- No new space has come online in the CBD since early 2010, and vacancy in the submarket peaked in the first quarter of 2014 at 13 percent. Over the last three years, the rate has tumbled to 6.5 percent.



RENTS:

8.0% increase in the average asking rent Y-O-Y

- The average asking rent surged in the first quarter to \$17.09 per square foot, the highest level in the metro in the past 10 years.
- Increases in asking rent were recorded in every submarket during the last year, but most notably in the CBD and Northwest. Here, the average grew by 16.8 percent and 19.7 percent, respectively.

* Forecast

DEMOGRAPHIC HIGHLIGHTS



2017 JOB GROWTH
Metro **1.8%**
U.S. Average 1.4%



FIVE-YEAR POPULATION GROWTH*
656,200



FIVE-YEAR HOUSEHOLD GROWTH*
274,000



1Q17 MEDIAN HOUSEHOLD INCOME
Metro **\$61,188**
U.S. Median \$58,218

1Q17 RETAIL SALES PER MONTH



\$4,073 Per Household
U.S. \$3,785



\$1,441 Per Person
U.S. \$1,454



RETAIL SALES FORECAST*
Metro **29.1%**
U.S. 21.1%

*2017-2022

Lowest Vacancy Rates 1Q17

SUBMARKET TRENDS

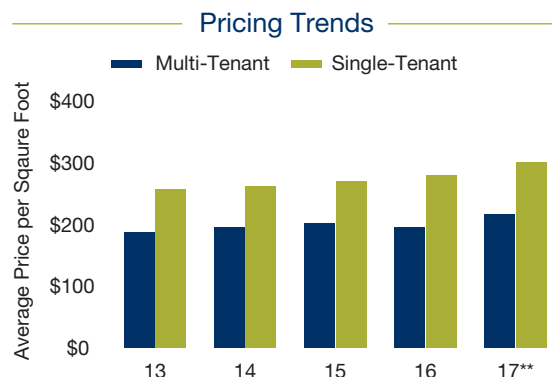
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rents	Y-O-Y % Change
Inner Loop	3.7%	20	\$23.71	4.4%
Northeast	4.2%	-10	\$15.64	6.3%
East	4.8%	-180	\$13.12	7.4%
West	4.8%	0	\$20.43	12.2%
South	5.0%	10	\$15.54	5.4%
Northwest	5.6%	20	\$20.04	19.7%
North	5.7%	-20	\$14.82	1.2%
Southwest	6.0%	-30	\$15.08	1.8%
Southeast	6.2%	-50	\$14.09	6.4%
CBD	6.5%	-340	\$20.50	16.8%
Overall Metro	5.4%	-20	\$17.09	8.0%

SALES TRENDS

Bright Economic Outlook Keeps Keen Investor Interest

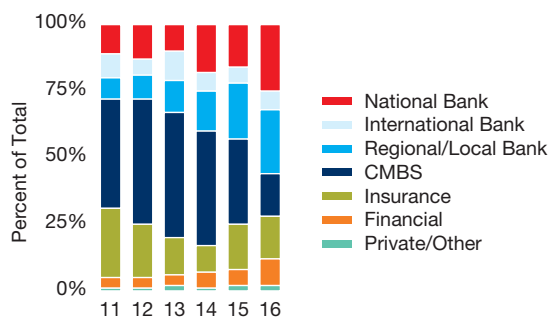
- **Multi-Tenant:** Transactions remain steady with prices hovering between \$195 per square foot and \$215 per square foot over the past three years. The average cap rate is also holding firm near 8 percent.
- **Single-Tenant:** Single-tenant property prices continue to rise. In the past year, the average price jumped 11 percent to \$300 per square foot.

Outlook: Sales will rise through the remainder of the year as investor confidence in the market returns and draws buyers from the sidelines.

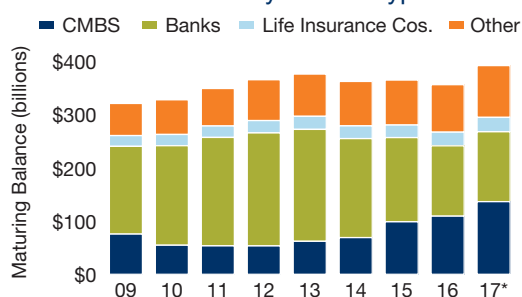


** Trailing 12 months through 1Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Retail Mortgage Originations by Lender



Estimated Commercial/Multifamily Debt Maturities by Lender Type



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

National Retail Group

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Price: \$250

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CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President,
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- Monetary policy in transition.** The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the first quarter of 2017. Despite the Fed raising its benchmark short-term rate twice in recent months and signaling another rise in June, long-term rates have remained stable. The Federal Reserve wants to normalize its monetary policy and, in addition to rate hikes, could start paring its balance sheet. While short- and long-term rates do not always move in tandem, both actions by the Fed have the potential to lift long-term rates.
- Sound economy a balancing act for Fed.** Tight labor market conditions are finally producing upward pressure on wages and inflation. Unemployment just hit the lowest level since 2007 and consumer confidence sits close to its all-time high. Consumers have the means and the confidence to expand consumption and retail properties stand to gain significantly from increased spending. The Fed must now balance economic growth and job creation against wage growth and inflationary pressures.
- Lenders exercise disciplined approach.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 60 percent to 70 percent for most retail properties. The combination of higher rates and conservative lender underwriting encouraged some investor caution that slowed deal flow in late 2016, a trend that will likely extend into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and higher interest rates may also encourage additional lenders to participate.

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau.

Retail Research Market Report

Houston Metro Area

Absorption Strong as Retail Projects Ramp Up

Intense tenant demand encourages retail developers in Houston. As multifamily and office builders have scaled back development in the metro, a number of mixed-use projects containing a large retail component are coming to fruition, with pre-leasing activity remaining robust across the market. In addition, household formation is rising at a stable pace, encouraging several grocers to move forward with expansion plans in the metro, including H-E-B, Kroger and Wal-Mart. This year, the Houston metro will lead the nation in retail completions as more than 3.2 million square feet of retail space is delivered. Vigorous pre-leasing for space underway will continue to benefit existing centers nearby as the ability to attract growing retailers increases. Though several Sports Authority and The Fresh Market locations have

left large blocks of space vacant across the market, positive absorption will remain robust as expanding merchants pen new leases. As vacancy remains at historically low levels, demand for space will permit the average marketed rent to rise, allowing an asset's net operating income to remain strong and support desired yields.

Local and regional investors seek to capitalize on retail assets. Houston investors interested in building their retail portfolio in select areas are optimistic about the long-term economic outlook and opportunities. The market is shifting to buyers' expectations while out-of-state investor activity temporarily cools as the market employment composition diversifies following losses in upstream energy and related

industry jobs. As a result, those acquiring assets are capturing higher yields than 12 to 18 months ago in some instances. Areas near the Medical Center, NASA/Clear Lake and Kingwood in particular are attracting investor attention as the petrochemical industry and medical community employers grow and sections of the Grand Parkway open, allowing easier access to select shopping hubs. Properties in these locations, along with other high-demand submarkets such as Sugar Land, Katy and The Woodlands, draw premium returns and trade in the low-to mid-7 percent area depending on credit and lease terms. Initial yields average up to 100 basis points higher in other portions of the metro.

2016 Retail Forecast

0.2% increase
in total employment



Employment:

Metro employment will rise 0.2 percent this year as 5,000 jobs are created. The majority of these positions will be generated in the education and health services industry, as well as the leisure and hospitality segment. Last year, employment grew 0.7 percent.

3.25 million sq. ft.
will be completed



Construction:

Builders will deliver approximately 3.25 million square feet of retail space in 2016, more than any other market in the country. This is down slightly from the 3.9 million square feet of inventory that came online last year.

10 basis point
decrease in vacancy



Vacancy:

Strong tenant demand will drive the absorption of more than 3.3 million square feet of retail space this year, pushing down the vacancy rate 10 basis points year over year to 5.4 percent. Last year, the rate declined 30 basis points.

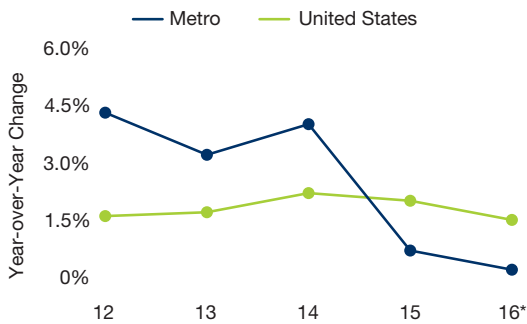
0.5% increase
in asking rents



Rents:

Tightening conditions will encourage rent growth this year, and the average asking rent will tick up 0.5 percent from the end of 2015 to \$16.21 per square foot. This increase follows a 3.9 percent rise in the average rent last year.

Employment Trends

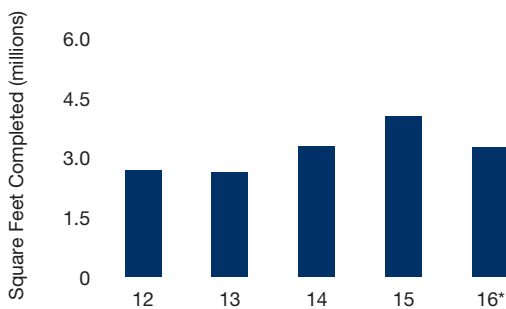


Economy

- Over the last 12 months, Houston employers have added 3,700 workers to staffs, down significantly from the 62,100 positions created in the prior year-long period. Steep cuts in the manufacturing, natural resources and mining, and professional and business services sectors have countered strong gains in the education and health services and leisure and hospitality segments since the beginning of 2015.
- The education and health services industry continues to be a bright spot in the metro's economy, generating more than 18,700 positions during the last 12 months, an annual growth rate of 5.1 percent.
- The unemployment rate rests just above the national average, rising 70 basis points from one year ago to 5.1 percent in the second quarter. The rate has held steady from the end of last year, despite slowing job growth.

Outlook: Employment in the metro will rise 0.2 percent this year as 5,000 jobs are created. Last year, employment grew 0.7 percent.

Retail Completions

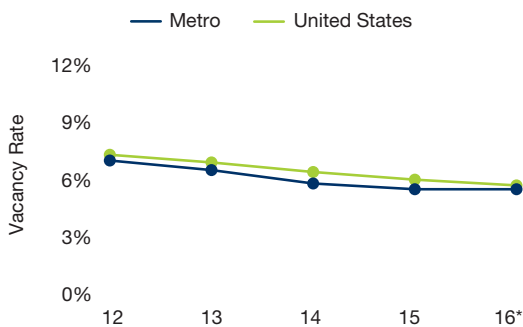


Construction

- Area retail developers completed more than 4.5 million square feet of space during the last 12 months, up significantly from the nearly 3.4 million square feet brought online in the prior annual time frame.
- Wal-Mart completed construction on a 190,000-square-foot store at Rayford Crossing near The Woodlands. Another location, comprising 160,000 square feet, is also underway at the intersection of Kuykendahl Road and Augusta Pines Drive in Spring.
- Developers have targeted the West Houston suburbs and areas of Katy, Cinco Ranch and Fulshear over the last 12 months, and builders completed more than 1.9 million square feet of retail space nearby. Despite robust construction over the annual period, vacancy contracted 30 basis points in the West Houston submarket to 4.8 percent, one of the lowest rates in the metro.

Outlook: Builders will deliver approximately 3.25 million square feet of retail space in 2016, more than any other market in the country.

Vacancy Rate Trends



Vacancy

- Vacancy remained flat over the last 12 months as tenants leased more than 4.4 million square feet of retail space, keeping vacancy at 5.5 percent. Absorption during the second quarter was one of the strongest quarterly absorption rates since late 2008.
- Vacancy is lowest in the Inner Loop, where it fell to 3.3 percent on a 20-basis-point decrease over the last four quarters. Next is Northeast Houston, where a 70-basis-point annual decline pushed down the rate to 3.9 percent.
- The CBD has one of the highest vacancy rates in the market, reaching 8.4 percent in the second quarter. Bars, restaurants and other tourism-related retailers will seek to add new locations in the submarket over the coming months as the metro prepares to host the Superbowl in 2017, strengthening property operations here.

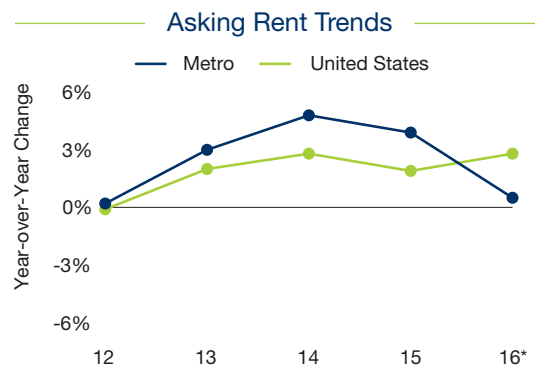
Outlook: Intense tenant demand will drive absorption this year, and the vacancy rate will squeeze 10 basis points year over year to 5.4 percent.

* Forecast
Source: CoStar Group, Inc.

Rents

- The average asking rent has decreased since the end of last year, falling 2.7 percent to \$15.69 per square foot in June, an annual decline of 0.4 percent. In the prior yearlong period, the average increased 2.3 percent.
- Half of all submarkets in the metro realized an increase in rent during the last 12 months, with the largest rise in the Southern portion of the market. Here, the average grew 4.6 percent to \$14.87 per square foot. Meanwhile, rent in the Inner Loop is highest, ticking up 2.8 percent to \$23.05 per square foot.
- The majority of submarkets recorded average rent ranging from \$12.32 per square foot in East Houston to \$17.46 per square foot in West Houston. Rent growth, meanwhile, was mixed, as some areas registered steep declines of up to nearly 8 percent while others registered gains during the period.

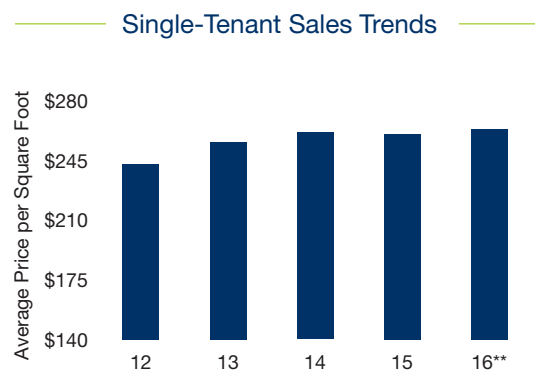
Outlook: This year, the average asking rent will tick up 0.5 percent from the end of 2015 to \$16.21 per square foot. This increase follows a 3.9 percent rise in the average rate last year.



Single-Tenant Sales Trends**

- Sales of single-tenant assets fell 9 percent during the last 12 months, though not due to a lack of buyer interest. Drugstores, restaurants and fast-food establishments continued to draw a significant pool of investors during the yearlong period.
- The average price per square foot remained on an upward trajectory during the last 12 months, ticking up 1.4 percent to \$263. In the previous annual time frame, the average surged nearly 20 percent.
- Cap rates compressed further during the last four quarters, declining approximately 10 basis points to the mid- to high-6 percent area. Initial yields for nationally recognized fast-food and drugstore deals typically started below 5 percent.

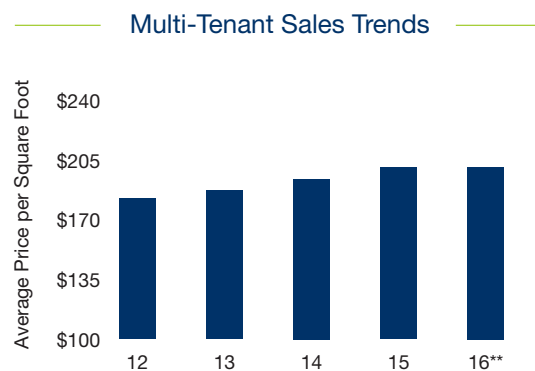
Outlook: Bolstered by historically low interest rates and a strong dollar, investors see single-tenant assets in the metro as a good alternative investment in a world of global instability.



Multi-Tenant Sales Trends**

- Sales of multi-tenant retail properties have held steady during the last two years, though a shift in the buyer pool is occurring. The number of out-of-state investors has reduced significantly over the last 12 months, accounting for just 15 percent of trades during the annual time frame, compared with nearly 40 percent of deals one year ago.
- The average price per square foot ticked up 2 percent over the last four quarters to \$200 in June. Properties priced between \$1 million and \$5 million are driving transaction velocity, and these assets averaged closer to \$133 per square foot during the annual period.
- Cap rates held firm during the past year, and initial yields averaged in the low- to mid-8 percent range in the second quarter.

Outlook: Yield compression in other Texas markets could shift some attention back to Houston as retail property operations remain strong, increasing competition for metro assets.



* Forecast
 ** Trailing 12-month period through 2Q
 Source: CoStar Group, Inc.

Capital Markets

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- Global capital markets have remained stable over the past few weeks, even as Brexit and the continued devaluation of the Chinese yuan have induced bouts of volatility into stock and bond markets. Meanwhile, U.S. economic data has proved resilient, with increases in retail sales and steady hiring supporting a measured pace of growth. Additionally, higher bond prices have lowered prospective yields, boosting the appeal of commercial real estate.
- As the current economic cycle has continued, retail vacancy descended to 5.8 percent by the end of the second quarter. A focus on net-leased construction for pre-leased tenants and mixed-use developments has limited development activity in relation to prior cycles, supporting robust increases in average asking rents. Builders will deliver 46 million square feet of retail space this year, with more than two-thirds of new supply slated as single-tenant structures. This environment will sponsor a fourth straight year of average asking rent growth, with advancement projected to exceed inflation over the same period.
- Capital markets remain highly competitive, with a broad assortment of fixed-rate products available through commercial banks, life-insurance companies and CMBS lenders. Loans are generally offered at terms up to 10 years at maximum leverage of 65 to 75 percent. For 10-year terms, rates will typically reside in the high-3 to mid-4 percent range, depending on leverage and underwriting criteria. Floating bridge loans and financing for repositionings are typically underwritten with LTVs above 80 percent, while pricing at 300 basis points above Libor for recourse deals and extending to 470 basis points above Libor for non-recourse transactions.

Local Highlights

- The first phase of Valley Ranch Town Center is ahead of schedule and will open in the next few months. Of the more than 1.5 million square feet the total project will include, approximately 505,000 square feet will come on-line this year. The first phase will host new locations for Kroger Marketplace, Sam's Club, Academy Sports + Outdoors and Hobby Lobby, along with several smaller stores and restaurants. A second and third phase are expected to round out the project next year.
- Fairfield Town Center, located in Cypress next to Houston Premium Outlets, will also come online this fall. Nearly 375,000 square feet of stores and restaurants are scheduled to open, with tenants such as Old Navy, Party City, Marshall's/HomeGoods, The Mattress Firm, Zoe's Kitchen, Chipotle and Pei Wei, among many others, adding new locations in the metro.
- An estimated 3.9 million square feet of retail space is under construction in the metro, with delivery dates scheduled through 2017. Nearly 2.3 million square feet of this space is underway in submarkets to the north, northeast and northwest of the metro, including the areas of Conroe, Cypress, Katy and Spring.

Retail Research Market Report

Houston Metro Area

Retail Expansion and Development Continue in Houston; Vacancy Keeps Tight

Retailers growing locations in Houston, keeping vacancy tight as supply and demand level. Houston's long-term economic outlook is attracting retailers to expand in the market, and vacancy will remain tight through the remainder of the year. Grocery and other necessities-based retailers continue their expansion plans in the metro this year as Wal-Mart, H-E-B, Aldi and Kroger will open several new locations in the months to come. The growth of these merchants in the market is luring additional tenants among movie theaters, gyms and other leisure-related retailers. In addition, developers' attitudes remain confident as they finish several large projects in the metro this year. Late last year, builders broke ground on Valley Ranch Town Center, north of Kingwood, and the

first phase will open this fall. The mixed-use project will include approximately 1.8 million square feet of retail space, anchored by Kroger, Sam's Club and Academy, among other big-box stores. Tenant demand will remain strong as these and other retail tenants take space in the market, absorbing nearly all of the space coming online this year and keeping vacancy below 6 percent.

Local buyers driving transaction velocity, chasing credit and location as REITs and institutions scale back. Confidence in Houston's retail market is prevailing, and assets in the metro will remain in strong demand over the coming months. High-net-worth private investors were previously priced out of purchasing Class A/B-plus

multi-tenant retail properties as REITs and institutions built portfolios with area assets. However, as these funds scale back on acquiring properties, the opportunity for individuals to purchase these buildings is rising. Strip center spaces and shadow-anchored retail buildings with regional and national-credit tenants in high-traffic areas will be especially sought after. Initial yields for these properties are in the mid-6 to low-7 percent area. Those in search of value-add opportunities will search for properties in the southern and eastern portions of the metro. Strong job growth in this area from the expanding petrochemical industry will stir tenant demand for necessities-based retailers such as grocers, drugstores and eating establishments.

2016 Retail Forecast

0.6% increase
in total employment



Employment:

Area employers will increase payrolls 0.6 percent in 2016 with the creation of 17,000 positions. Last year, nearly 21,000 jobs were generated for an annual expansion of 0.7 percent.

3.3 million sq. ft.
will be completed



Construction:

Builders will complete nearly 3.3 million square feet of retail space this year, bringing more space online than any other market in the country. Last year, approximately 3.9 million square feet was added to inventory.

0 basis point
change in vacancy



Vacancy:

Metrowide vacancy will hold steady at 5.5 percent this year as supply additions slightly outweigh tenant demand. In 2015, the absorption of 4.6 million square feet of retail space pushed down the rate 30 basis points.

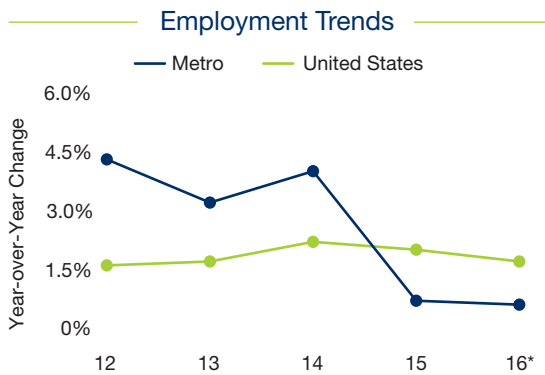
3.1% increase
in asking rents



Rents:

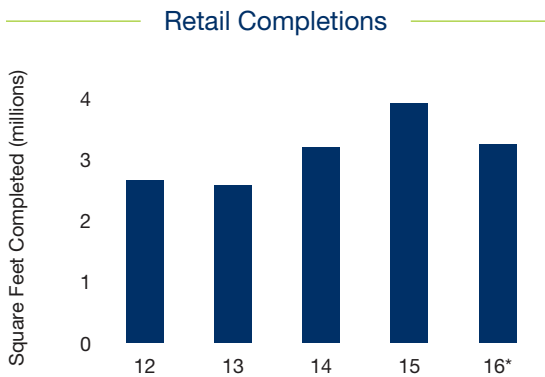
The average asking rent will rise 3.1 percent this year as tenant demand remains strong, reaching \$16.62 per square foot by year end. The average grew 3.9 percent annually in 2015.

Economy



- Houston employers added 10,400 workers during the 12 months ending in March, expanding payrolls 0.3 percent annually. In the previous yearlong period, the private and public sectors grew 3.2 percent year over year with the creation of 91,600 jobs.
- Hiring in the last four quarters was led by the leisure and hospitality industry, generating more than 19,600 positions during the time frame. The education and health services sector, as well as government, also realized significant increases in staffs as 16,400 and 8,200 jobs were created in each respective sector.
- Retail sales growth remains strong as residents are confident in the metro's long-term economic outlook. During the last year, retail sales grew 4.9 percent, compared with 5.3 percent one year ago. In addition, hiring in retail-related positions is robust, and nearly 6,400 workers were added to staffs over the last 12 months.

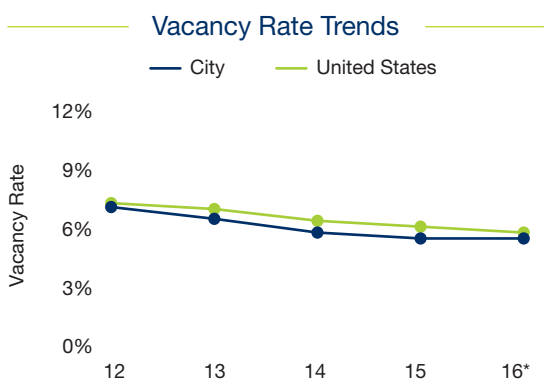
Outlook: Total employment will increase 0.6 percent in 2016 with the creation of 17,000 positions. Last year, nearly 21,000 jobs were generated for an annual expansion of 0.7 percent.



Construction

- Over the past four quarters, builders completed approximately 3.6 million square feet of retail space in the metro, including 700,000 in the first three months of 2016. In the previous annual time frame, developers brought nearly 3.2 million square feet of space into service.
- The largest project completed so far this year was the 148,000-square-foot Costco in Humble. The company has been expanding rapidly throughout the Houston metro, opening stores in Sugar Land and Katy in the past few years.
- One of the biggest projects under construction in the metro is a 240,000-square-foot retail building at Main Street Kingwood, a mixed-use project on 33 acres. H-E-B will anchor the development with a 107,000-square-foot store containing a sit-down restaurant, fish market, juice bar and live cooking classes, among other special amenities.

Outlook: Builders will complete nearly 3.3 million square feet of retail space this year, bringing more space online than any other market in the country.



Vacancy

- Retail vacancy in the metro has remained in the mid- to high-5 percent area for the past several quarters but is down 10 basis points from March of last year. Net absorption over the 12-month period totaled nearly 3.6 million square feet of space. In the previous annual time frame, vacancy declined 60 basis points as retailers absorbed 4.8 million square feet of space.
- Vacancy at area shopping centers improved 30 basis points during the last year, falling to 8.1 percent in the first quarter. The rate at these centers has constricted more than 400 basis points since peaking in 2008.
- Area malls and power centers realized an increase in vacancy during the past 12 months, rising 70 basis points to 4.8 percent and 10 basis points to 4.0 percent, respectively.

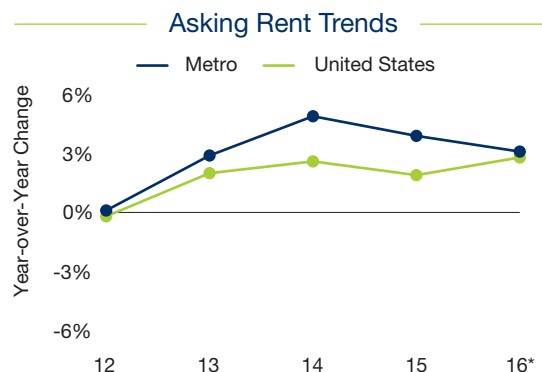
Outlook: Metrowide vacancy will hold steady at 5.5 percent this year as supply additions slightly outweigh tenant demand.

* Forecast

Rents

- Though conditions remained tight, rent growth has slowed slightly during the past year as the average asking rent ticked down during the last two quarters. On a year-over-year basis, the average remained flat at \$15.60 per square foot. In the prior four quarters, rents advanced 5.0 percent year over year.
- Heightened demand for space at local shopping centers contributed to a 1.5 percent growth in the average asking rent over the past 12 months, rising to \$15.29 per square foot in March. Amid strong demand for space in these buildings this year, rents will continue to rise.
- As operations softened at area malls and power centers, average rents declined in owners' efforts to lease space. At power centers, the average dipped 1.6 percent to \$15.30 per square foot, while mall rents plunged nearly 19 percent to \$19.44 per square foot.

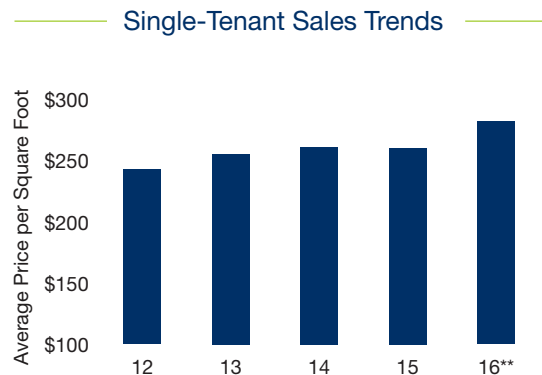
Outlook: The average asking rent will rise 3.1 percent to \$16.62 per square foot by year end as tenant demand remains intense. The average grew 3.9 percent annually in 2015.



Single-Tenant Sales Trends**

- Sales of single tenant assets fell 5 percent during the last four quarters, though not due to a lack of investor interest. Freestanding retail buildings accounted for the bulk of trades, with restaurants, service stations, auto-repair shops and fast-food establishments also making up a significant portion of activity.
- The average price per square foot for single-tenant assets in the metro grew 6 percent over the last 12 months to \$282, reaching a new peak.
- Cap rates remained flat during the year ending in March, hovering near 7.0 percent. Initial yields depend largely on tenant credit and asset location, with best-in-class properties trading near 4.0 percent during the period.

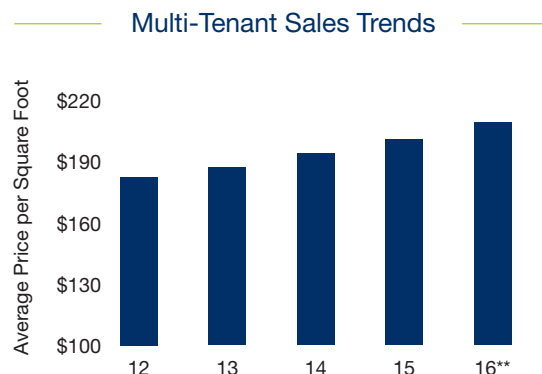
Outlook: Single-tenant assets will remain in high demand and those in the southern and eastern portion of metro will receive significant buyer interest in the months to come.



Multi-Tenant Sales Trends**

- Multi-tenant transaction velocity ticked up 6 percent over the past year as local buyers chase deals throughout the metro. Investor interest for assets in southern submarkets grew during the annual time frame, with sales advancing nearly 40 percent in this area. Sales of properties located to the east of the market also rose significantly.
- Increased buyer demand for multi-tenant retail properties in the metro contributed to prices swelling 9 percent in the last year, rising above \$200 per square foot for the first time since 2007. Investor confidence will remain strong in the coming months, keeping prices elevated.
- First-year returns averaged near 8.0 percent over the last year, holding steady from the prior four quarters. Cap rates started near 6.0 percent for assets with credit tenants and in high-traffic areas, trending upward more than 300 basis points, depending on tenancy and location.

Outlook: A bright economic outlook and the metro's history of rebounding from tough times will encourage investment in area retail assets this year. Local buyers will stay active as institutions and REITs move to the sidelines, leaving opportunities for these investors to acquire assets in prime locations.



* Forecast
 ** Trailing 12-month period through 1Q
 Sources: CoStar Group, Inc.; Real Capital Analytics

Capital Markets

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- The U.S. economy grew nominally in the first quarter as respectable consumer trends were partly offset by softness in manufacturing, exports and business investment. The lull in economic activity in the first three months of 2016, and volatility in the stock and debt markets, will likely delay any action on monetary policy by the Federal Reserve until midyear at the earliest. Against this broader economic backdrop, retail properties continued to gain traction behind growing space demand and limited construction. This year, retailers will absorb an additional 61 million square feet of space to cut the U.S. vacancy rate 30 basis points to 5.9 percent.
- CMBS issuance declined in the first quarter from the corresponding period one year ago, offering the latest evidence of disruption in the securitized market. Although spreads on the highest-rated bonds in a securitized pool compressed slightly during this year's opening quarter, they remain wider than one year ago, meaning borrowers face slightly higher costs. Bond investors also require higher returns on loans perceived as being aggressively underwritten with higher LTVs and on loans issued to lower-rated borrowers, putting a squeeze on securitized lenders that could potentially limit lending capacity.
- Bank lenders remain positioned and capitalized to compete for market share, perhaps gaining business that CMBS cannot fill. The Federal Reserve's accommodative monetary stance continues to support a low cost of capital to these lenders. National, regional and local banks offer leverage on retail property loans that averages in the 65 percent range and loan terms vary from five, seven and 10 years. Spreads vary depending on asset location and quality but generally start in the low- to mid-200-basis-point range above corresponding swap rates. Bridge financing spread over short-term benchmarks is also available for properties in transition.

Local Highlights

- While the brunt of energy-related cuts have been focused in the manufacturing sector and the natural resources and mining industry, losses are spilling over into other areas of the employment base. In the last 12 months, professional and business services employers cut more than 11,000 positions. High-wage earners such as attorneys, accountants and engineers made up a significant portion of these losses.
- Retail vacancy is tightest in the Inner Loop, declining 50 basis points year over year to 3.8 percent in recent quarters. In addition, rent growth remains strong here, pushing up 4.3 percent annually to \$23.69 per square foot, the highest average rent in the metro.
- Wal-Mart will open a 187,000-square-foot store in Spring during the second quarter. The new location will employ 300 workers and will offer online ordering and curbside pickup to area residents.
- H-E-B is planning to replace its Bellaire store with a two-story location nearby. This will be the first multi-level location in the Houston area and will include a parking garage. The store is scheduled to open in the fall of 2017.

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