Quarterly Market Overview
2017 Third Quarter
FOR IMMEDIATE RELEASE

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HOUSTON'S OFFICE MARKET RECOVERY SLOW, INDUSTRIAL DEMAND REMAINS HIGH

HOUSTON — (October 18, 2017) — Houston's commercial real estate market is optimistic after grappling with Hurricane Harvey amid the continued energy recovery, according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR).

For office space, direct negative net absorption of 39,995 square feet was recorded; Class A and C showed positive absorption of 246,119 square feet and 18,230 square feet, respectively, while Class B reported negative absorption of 304,344 square feet. Move-ins at 609 Main including four different firms who preleased space in the new building accounted for almost 263,000 square feet of the Class A positive absorption. Year-to-date overall totals are positive for the year primarily due to the first quarter occupancy of 600,000 square feet by BHP Billiton in its new headquarters building, although the firm is leaving behind more than 320,000 square feet that is currently on the sublease market.

Space left behind by various firms occupying new properties along with sublease spaces converting to direct space will continue to affect the vacancy rate. The current 16.7% direct vacancy rate is unchanged from last quarter, but up from the 15.5% recorded during the same quarter in 2016. Class A space overall is 16.0% vacant, Class B is 19.1% vacant and Class C is 11.4% vacant.

Total sublease space saw a slight decline this quarter with almost 9.1 million square feet compared to second quarter's 9.4 million square feet and year-end's 10.2 million square feet. Although some spaces have been leased, such as the largest block of 431,307 square feet taken by NRG in One Shell Plaza, others have turned into direct availability. Others have been taken off the market but are still available. NRG will be leaving vacant space and possibly adding to the sublease market in three buildings in the Central Business District (CBD): 1201 Fannin (GreenStreet), 1000 Main and 1300 Main.

The effects of Harvey resulted in sublease space taken as displaced companies and governmental entities lease short-term space. (Please see brokers' commentaries for more detail.) But the amount of sublease space continues to play a large role in the dynamics of the marketplace. Today's sublease space represents about 4% of our total tracked office market, but if counted as vacant, the overall vacancy changes from 16.7% to 21.0%. Currently, 83 of the sublease listings representing 2.3 million square feet have terms expiring by year-end 2018 while another 69 listings representing 1.4 million square feet are set to expire by the end of 2019.

The under-construction market in Houston currently totals 13 buildings and 2.4 million square feet and overall is 53% preleased. Properties completed during the third quarter include Generation Park's first spec building at 250 Assay Street, which is about 80% preleased, along with two 25,000-square-foot buildings on Memorial, which are collectively 23% preleased. Four buildings totaling 354,499 square feet broke ground during third quarter, the largest being CityPlace 1 in Springwoods Village with 149,500 available square feet.

Concessions are becoming more commonplace in the market, even though quoted rental rates have remained steady. At $28.73 overall, rental rates showed a slight increase from the past quarter and from a year ago. Class A rates, now at $34.78 citywide and at $42.35 in the CBD, experienced slight increases from last quarter's $34.30 citywide and $41.50 in the CBD. Quoted rents for sublease space decreased from $25.41 last quarter to $23.00 this quarter.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "Houston's office market continues to grapple with the energy downturn after experiencing a brief stoppage in late September due to Harvey's interruption; many businesses and schools remained closed for days following the initial impact of the storm due to property damage and street flooding. The Houston area since has experienced higher retail sales as consumers and businesses must make repairs and replace flooded furniture and other household goods. This activity in turn is resulting in stronger demand for warehouse space among retailers; Home Depot and Lowe's recently leased new 200,00 to 300,000 square-foot spaces to accommodate the increased inventory. The housing market also showed its 'Houston Strong' resiliency during the four weeks that followed the storm with a rebound in home sales and the strongest rental activity of all time.

"Although the office market will be the last sector to recover, market activity continues. Leasing activity appears to be picking up, and sublease spaces are still offering competitive options to companies like NRG, who just signed for 431,000 square feet of former Shell Oil space at 910 Louisiana. But with more than 9 million square feet of sublease space in the market, and 3.7 million square feet of that with terms expiring within the next two years, office vacancy rates will remain high."

David Baker, Executive Vice President, Transwestern "Hurricane Harvey affected less than 1% of Houston's office inventory, so it didn't significantly change the overall available space in our market. Notwithstanding, the negative absorption is mostly comprised of space we knew was coming available to the direct market as much as two to three years ago. There is a significant number of deals in the marketplace that correlates with the strong job growth we are seeing in the city."

Dan Boyles, Partner, Team Leader – Office Tenant Rep Group, NAI Partners "I have been asked quite often about the impact Harvey has had or will have on the office market. Although the statistics are not yet available, our general consensus is there were some positives coming from companies needing space after being displaced; however, most of these needs were short-term in nature and, therefore, will have no sustainable impact on the market. The ability to work remotely, along with the deployment of temporary power solutions for those buildings that went down, are two major factors that allowed landlords and tenants to get back to work quickly following the storm.

"The Houston office market continues to be a tenant's market in almost every submarket across the city. The vacancy rate now stands at 20.8%, with overall availability more than 26%. On the demand side, absorption has been negative for the fifth quarter in a row, and we will likely see negative net absorption for the year more than three million square feet. As a result, landlords will continue to feel the pressure to drop rents and increase concessions for those few tenants in the market looking for space.

"The good news is that there has been activity in the market. However, much of that activity has been for smaller tenants needing space of less than 10,000 square feet. It is impossible to make up for the millions of square feet dumped on the market resulting from the energy downtown in 5,000- to 10,000-square-foot chunks. At that rate it would take 50 years for the market to return to any type of equilibrium. The good news for landlords is that historically speaking, the office market has cycles of 7 to 8 years in

Houston. As such, we should begin to see some light at the end of the tunnel sometime in 2018. However, I believe we have a ways to go before we pendulum will swing back in the landlords' favor.

"Average asking rents continue to fall, but that statistic does not tell the real story. Landlords tend to hold advertised asking rents, only to drop them significantly once they have a strong prospect to lease space. We have seen rental rates decrease by as much as 30% during the negotiation process, while concession packages will increase by that same percentage. The amount of negotiation can vary from submarket to submarket and even building to building, so it is important for tenants to consider all their options to find the best lease terms.

"The overall office market continues to face new challenges. Merger and acquisition activity has left companies with more excess space to be placed in the sublease market. Examples of this include Ensco's acquisition of Atwood Oceanics and Spectra Energy's acquisition of Enbridge. Both transactions resulted in large blocks of space being put on the sublease market. The former is in the Energy Corridor and the latter in the CBD.

"The rest of 2017 will likely continue with more of the same: not enough positive influences to outweigh the results of the downturn in the energy business which started roughly three years ago. However, history tells us that 2018 should be a year in which the office market will see signs of life that will lead to a gradual recovery."

Patrick Duffy, President, Colliers International "The office market, pre-Harvey, had begun to stabilize. While absorption was still negative, the rate of space placed into availability by the energy companies had definitely declined. We have not started the recovery stage of this market yet, but the bottom has formed. Harvey will slow the recovery for a few months, but we expect a bit of a slingshot once everyone deals with their employees and corporate flood issues.

"Beyond the temporary absorption for recovery space and some short leases for government agencies who will be here sorting out the damage and federal funding application, we do not believe that Harvey will have a significant impact on the office market. However, this event is a good reminder for all tenants along with their real estate brokers, legal counsel and insurance agents, to take a closer look at lease language regarding remedies, cures and insurance provisions. These areas are often viewed as

‘just boiler plate,’ either out of ignorance or just deal fatigue. The implications at a time like this are anything but boiler plate!”

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group “Houston’s office market fundamentals remain soft with nearly 1.8 million square feet of occupancy losses year-to-date, causing citywide direct occupancy rates to drop to 82.2%, the lowest level since 1995. The Class A market has been most impacted during the down cycle as new construction deliveries and tenant departures have caused direct occupancy rates to drop by 230 basis points over the last 12 months to 81.1%. However, there are signs of stabilization as Class A direct occupancy rates remained unchanged during the third quarter due to modest absorption gains primarily driven by pre-lease commitments. Sublease availability also improved with its fourth consecutive quarterly decline since hitting a cyclical high of 12.1 million square feet in Third Quarter 2016. In addition, the construction pipeline has dropped by 74.2% since hitting its peak of 12.2 million square feet of leasable office product that was underway in Third Quarter 2014.

“Although Houston’s office leasing market continues to experience softness, there is a sense of renewed optimism that has led to an uptick in leasing activity since the beginning of the year. Tenants are beginning to realize there is a window of opportunity to lock-in reduced rental rates on a new lease as rates appear to have bottomed out. As a result, leasing activity above the 50,000-square-foot mark demonstrated signs of picking up with 20 deals closed totaling 3 million square feet since the beginning of the year. Meanwhile, small- and mid-sized leases (10,000 to 50,000 square feet) have accounted for the remaining 41% of the cumulative space leased year-to-date above the 10,000-square-foot threshold.

“There has been just over 2.2 million square feet of new office construction completed year-to-date, with an additional 1.1 million square feet slated to deliver by year-end 2017 (excluding corporate-owned projects). Even though construction levels have tapered off dramatically to their lowest level in five years, 3.1 million square feet of competitive office space is still under construction, of which 45.3% is already preleased. Looking ahead, developers and contractors will keep a close eye on construction costs as rebuilding after this season’s massive hurricanes has caused building costs to increase nationwide due to increased demand for building materials and skilled labor.

> “Although Houston’s economic recovery is underway and the worst of the energy slump appears to be behind us, the high volume of available direct and sublease space will delay the office market’s recovery. The office leasing market is expected to continue facing challenges as many sublease listings will roll over to direct space as their agreements expire, further impacting the direct occupancy rates. Even though office-using employment growth is expected to accelerate into 2018, the abundance of sublease and shadow space will create a drag on future leasing demand as companies will need to backfill this space before expanding into additional space.”

Houston Industrial Market

Houston’s industrial market dominated the commercial market during the third quarter with expansions resulting in positive direct net absorption of almost 3.3 million square feet, according to statistics compiled by Commercial Gateway.

This quarter’s absorption represents the 31st consecutive quarter – more than seven years – of positive absorption, with four quarters recording more than 3 million square feet each and 10 recording more than 2 million square feet each. The third-quarter absorption totals were positive for all types and included almost 2.8 million square feet of warehouse-distribution space along with 265,857 square feet of net absorption of light industrial space. Manufacturing properties recorded 204,346 square feet while flex/R&D space absorption was 36,261 square feet. Overall, 24 properties recorded 50,000 square feet or more of absorption this quarter, with eight of those recording 100,000 square feet or more.

About 2.6 million square feet in seven buildings came online during the third quarter. The absorption of 2.4 million square feet of new space this quarter included both FedEx’s 1.1 million square-foot distribution facility in the Northwest near the Grand Parkway and U.S. Highway 290 and Amazon’s 855,000-square-foot fulfillment center off the Beltway in Pinto Park. Two other build-to-suits were also completed and occupied this quarter: Floworks International’s affiliated companies occupied its 225,000-square-foot facility in the South while Pepperl+Fuchs completed and occupied its 110,000 square-foot distribution center in West Ten Business Park in the west. For the year, 32 properties totaling almost 4.7 million square feet were completed and are currently 12.2% vacant.

Vacancy rates have decreased slightly to 5.8% from 6.0% last quarter but are the same as in Third Quarter 2016. Vacancy for warehouse/distribution space citywide is 6.2% with manufacturing space at 2.6%.

Construction activity has slowed when compared to previous years, with only 36 projects totaling more than 3.4 million square feet underway. The largest project currently is a build-to-suit project, Amazon's 1.0 million square-foot distribution project in Katy, followed in size by Cedar Port's 501,020 square-foot building in the Southeast. Including Amazon, eight warehouse-distribution projects with more than 100,000 square feet are underway with three 100% preleased.

The bulk of projects under construction is concentrated in the North/Northwest, with 14 buildings totaling 1.7 million square feet or 49.1% followed by the Southeast with six projects totaling 1.2 million square feet or 33.9% of the total. Overall, the under-construction market is 43% preleased.

New projects and large leases continue to be announced, with the most recent new project breaking ground in early October, a speculative 673,785-square-foot distribution facility being developed by Oakmont Industrial Group in Katy's West Ten Business Park. Houston-based Pontikes Development has announced a 3-million-square-foot speculative project to be built in Baytown. Both Lowe's and Home Depot recently signed leases up to 300,000 square feet to handle consumer demand, while other large deals are in the market.

Rental rates have increased this quarter to $7.22 from $6.48 last quarter but are similar to rents recorded in early 2016. Rates for sublease space dipped slightly to $6.45 from $6.52 last quarter.

Sublease space also decreased slightly this quarter to 3.5 million square feet but is a slight increase when compared to the same quarter last year.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Walker Barnett, SIOR, Principal, Colliers International "Houston is a tale of two big-box markets: consumer goods distributors (including e-commerce) and port-related import and export businesses. The Houston metropolitan region has led the nation in population growth for eight years, and we are seeing increased demand from consumer and durable goods tenants seeking spaces of more than 200,000 square feet. And even with

the slowdown in the ‘upstream’ side of the oil and gas economy, the ‘downstream’ end-product side continues to be a robust growth market.

“The east side of Houston has been the strongest submarket, as its proximity to the nation’s largest petrochemical refineries and the Port of Houston makes the area appealing to plastic resin packagers. This group has been taking substantial warehouse space in rail-served buildings of up to 500,000 square feet. In addition, we have seen global retailers commit to import distribution centers in the area - which speaks to Houston’s strength as a ‘third-coast’ port that allows access to consumers in the central United States.”

Mark Nicholas, SIOR, Executive Vice President, Regional Director, JLL “Houston’s industrial market continues to work on all cylinders. During third quarter, the industrial sector returned to business as usual with declining vacancy and availability, coupled with strong net absorption of 3.0 million square feet well above the historical average.

“Consistently high occupancy - even through the energy downturn – had led to increased interest from institutional and foreign investors, and deal volume is up both in the quarter and the year. Local and regional investors can expect to see increased competition as foreign capital looks to Houston for opportunities to achieve higher returns on industrial portfolios, given the long-term favorable market performance.

“The North submarket, which has struggled with oversupply in recent quarters, is mounting recovery in late 2017. The submarket accounted for over 50 percent of leasing activity and over 40 percent of net absorption for the third quarter, assisted by declining asking rents as landlords get aggressive to fill space.

“Consumer goods, retail distribution, and plastics manufacturing will continue to drive market dynamics while supply plays catch-up across the metro. With over 10 million square feet of tenants in the market, there’s no shortage of large user-demand in the pipeline.”

Darren O’Conor, Vice President, NAI Partners/Houston “As the city of Houston 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 real estate market - like much of the city - hit the pause button for a couple of weeks even though it felt like much longer. As the city has since returned to business with some sense of

normalcy post-Harvey, we have seen activity levels pick back up with increases in virtually all submarkets.

“Two recent transactions were the direct result of Harvey: Home Depot leasing approximately 300,000 square feet in Northwest Houston, and Lowe’s taking around 250,000 square feet in North Houston. 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 e-commerce facilities are two significant factors driving the vacancy decline. The recent announcement of the speculative 673,785-square-foot distribution facility being developed by Oakmont Industrial Group and marketed by NAI Partners in Katy’s West Ten Business Park is a testament to the growing appetite for buildings that can serve online retailers as well as many other types of uses. Lastly, the Southeast Market has also remained strong due to the need for rail-served product.

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

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

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Houston-Area Office Market Overview

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Submarket	Class	# of Bldgs*	Building SF*	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Avg Rent***	Avail Sublease
CBD	A	34	31,924,350	4,090,934	12.8%	279,330	(157,744)	754,000	$42.35	1,906,626
	B	34	11,175,523	2,794,394	25.0%	35,437	(38,478)	0	$26.02	166,871
	C	6	394,396	100,288	25.4%	12,796	13,905	0	$19.16	0
CBD Subtotal		**74**	**43,494,269**	**6,985,616**	**16.1%**	**327,563**	**(182,317)**	**754,000**	**$37.78**	**2,073,497**
Energy Corridor	A	49	15,891,381	3,119,184	19.6%	48,002	(45,247)	0	$36.45	1,241,481
	B	58	6,733,012	1,625,499	24.1%	(62,909)	(222,618)	0	$27.07	154,370
	C	7	340,198	31,989	9.4%	8,972	7,488	0	$19.98	3,519
Energy Corridor Subtotal		**114**	**22,964,591**	**4,776,672**	**20.8%**	**(5,935)**	**(260,377)**	**0**	**$31.40**	**1,399,370**
Fort Bend County	A	26	3,068,830	248,815	8.1%	(15,557)	30,976	0	$30.74	140,130
	B	23	2,528,901	141,736	5.6%	45,313	40,923	74,799	$20.78	6,855
	C	1	156,000	35,738	22.9%	(1,023)	5,959	0	$19.00	0
Fort Bend County Subtotal		**50**	**5,753,731**	**426,289**	**7.4%**	**28,733**	**77,858**	**74,799**	**$27.00**	**146,985**
Greenspoint	A	25	5,209,070	2,655,649	51.0%	20,454	35,962	0	$25.73	540,373
	B	48	4,919,245	1,806,280	36.7%	(97,049)	(150,397)	0	$16.55	311,934
	C	27	2,020,855	448,892	22.2%	(12,345)	(12,422)	0	$12.43	11,506
Greenspoint Subtotal		**100**	**12,149,170**	**4,910,821**	**40.4%**	**(88,940)**	**(126,857)**	**0**	**$20.80**	**863,813**
Inner Loop	A	36	11,059,054	1,655,287	15.0%	(138,785)	(164,445)	188,696	$33.62	169,158
	B	107	11,380,385	1,398,482	12.3%	(70,677)	(25,208)	0	$26.97	110,881
	C	62	4,136,040	305,494	7.4%	(22,902)	35,930	0	$18.23	9,483
Inner Loop Subtotal		**205**	**26,575,479**	**3,359,263**	**12.6%**	**(232,364)**	**(153,723)**	**188,696**	**$29.93**	**289,522**
North/The Woodlands/Conroe	A	58	11,766,038	1,317,435	11.2%	(4,235)	45,325	854,300	$26.46	233,278
	B	91	5,812,817	752,780	13.0%	(7,107)	147,255	56,113	$20.26	157,645
	C	19	1,082,230	161,889	15.0%	1,051	(24,719)	0	$14.40	1,664
North/The Woodlands/ Conroe Subtotal		**168**	**18,661,085**	**2,232,104**	**12.0%**	**(10,291)**	**167,861**	**910,413**	**$22.81**	**392,587**
Northeast	A	4	498,193	80,230	16.1%	17,309	17,309	0	$25.75	0
	B	11	482,105	68,934	14.3%	(28,706)	(9,447)	0	$17.83	0
	C	5	197,243	46,624	23.6%	(161)	33,548	0	$25.66	0
Northeast Subtotal		**20**	**1,177,541**	**195,788**	**16.6%**	**(11,558)**	**41,410**	**0**	**$20.04**	**0**
Northwest	A	41	4,876,262	917,533	18.8%	18,262	(19,843)	0	$27.43	297,760
	B	63	6,611,718	1,074,800	16.3%	(13,570)	108,003	0	$18.82	100,656
	C	19	850,491	52,006	6.1%	9,008	1,336	0	$14.50	5,200
Northwest Subtotal		**123**	**12,338,471**	**2,044,339**	**16.6%**	**13,700**	**89,496**	**0**	**$22.25**	**403,616**

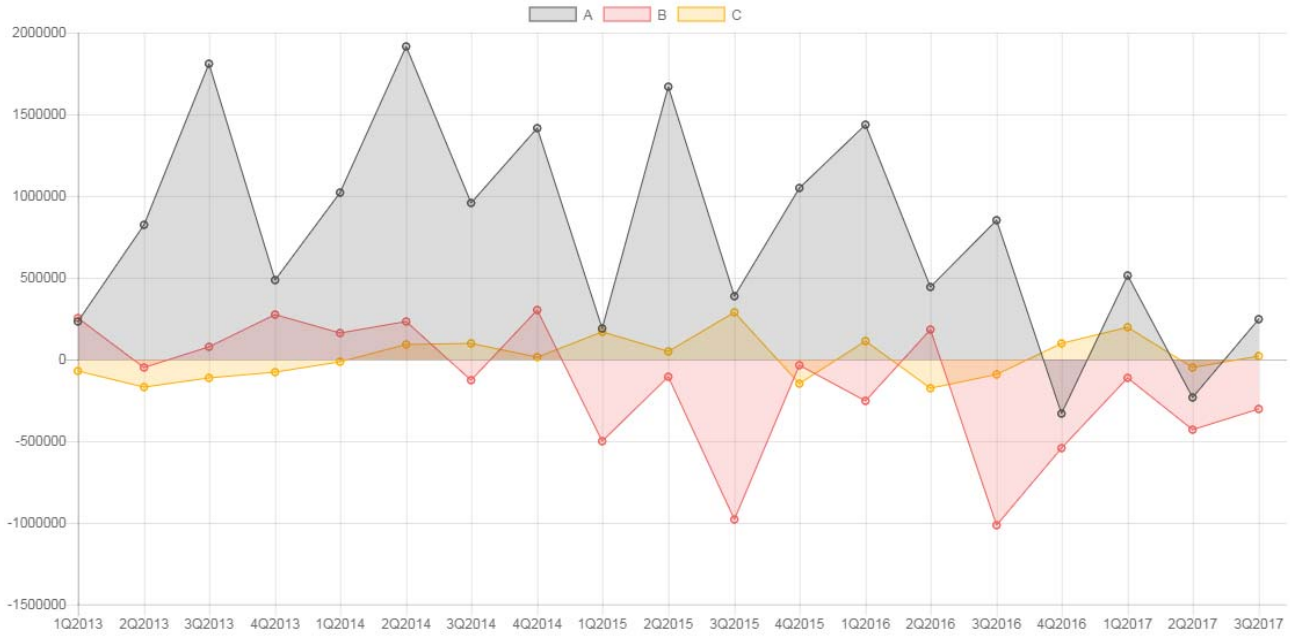
Submarket	Class	# of Bldgs*	Building SF*	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Avg Rent***	Avail Sublease
Southeast	A	20	2,693,380	119,262	4.4%	18,848	81,860	0	$24.98	26,245
	B	56	4,437,151	920,905	20.8%	15,703	183,528	0	$18.32	13,031
	C	37	1,800,547	268,837	14.9%	(7,165)	24,002	0	$19.74	27,610
Southeast Subtotal		**113**	**8,931,078**	**1,309,004**	**14.7%**	**27,386**	**289,390**	**0**	**$19.34**	**66,886**
Southwest	A	5	1,122,590	237,303	21.1%	0	5,732	0	$17.40	53,437
	B	46	5,516,471	1,367,275	24.8%	15,006	(141,254)	0	$17.56	27,194
	C	70	4,813,726	481,292	10.0%	36,291	62,694	0	$15.55	10,946
Southwest Subtotal		**121**	**11,452,787**	**2,085,870**	**18.2%**	**51,297**	**(72,828)**	**0**	**$16.97**	**91,577**
Uptown	A	49	19,237,943	3,275,791	17.0%	(161,561)	676,148	140,000	$37.33	905,678
	B	77	10,396,558	1,518,754	14.6%	(23,488)	(66,102)	0	$27.56	305,298
	C	11	868,722	59,738	6.9%	5,563	8,505	0	$21.10	0
Uptown Subtotal		**137**	**30,503,223**	**4,854,283**	**15.9%**	**(179,486)**	**618,551**	**140,000**	**$34.63**	**1,210,976**
West	A	54	8,628,331	1,286,831	14.9%	77,362	137,976	86,255	$30.74	705,154
	B	41	3,753,595	537,379	14.3%	(58,110)	(47,114)	72,045	$19.92	63,348
	C	32	1,581,506	86,477	5.5%	(3,905)	40,677	0	$16.15	5,982
West Subtotal		**127**	**13,963,432**	**1,910,687**	**13.7%**	**15,347**	**131,539**	**158,300**	**$25.89**	**774,484**
Westchase	A	34	10,330,409	1,183,023	11.5%	86,690	(139,532)	186000	$37.18	1,137,010
	B	52	7,596,429	1,503,502	19.8%	(54,187)	(100,355)	0	$20.27	233,394
	C	13	572,634	61,006	10.7%	(7,950)	(31,470)	0	$18.48	176
Westchase Subtotal		**99**	**18,499,472**	**2,747,531**	**14.9%**	**24,553**	**(271,357)**	**186,000**	**$30.31**	**1,370,580**
Houston Area	A	435	126,305,831	20,187,277	16.0%	246,119	504,477	2,209,251	$34.78	7,356,330
	B	707	81,343,910	15,510,720	19.1%	(304,344)	(321,264)	202,957	$22.10	1,651,477
	C	309	18,814,588	2,140,270	11.4%	18,230	165,433	0	$16.09	76,086
Houston-Area Total		**1,451**	**226,464,329**	**37,838,267**	**16.7%**	**(39,995)**	**348,646**	**2,412,208**	**$28.73**	**9,083,893**

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

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

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

Houston-Area Office Direct Net Absorption by Class



Period	Class A	Class B	Class C	All Classes
2017 Q3	246,119	(304,344)	18,230	(39,995)
2017 Q2	(232,068)	(432,595)	(51,273)	(715,936)
2017 Q1	515,735	(118,063)	193,871	591,543
2016 Q4	(336,578)	(543,756)	98,733	(781,601)
2016 Q3	851,993	(1,018,591)	(96,016)	(262,614)
2016 Q2	443,813	183,040	(181,753)	445,100
2016 Q1	1,437,939	(252,844)	110,467	1,295,562
2015 Q4	1,047,903	(39,851)	(148,638)	859,414
2015 Q3	388,022	(980,177)	288,849	(303,306)
2015 Q2	1,670,153	(106,443)	47,764	1,609,547
2015 Q1	186,877	(502,956)	168,774	(146,435)
2014 Q4	1,415,039	298,373	14,315	1,727,727
2014 Q3	955,886	(126,773)	94,919	924,032
2014 Q2	1,916,611	228,677	89,631	2,234,599
2014 Q1	1,016,779	161,486	(16,995)	1,161,270
2013 Q4	484,233	274,194	(80,972)	677,880
2013 Q3	1,809,844	75,175	(117,343)	1,767,676
2013 Q2	825,910	(52,453)	(169,337)	604,120
2013 Q1	229,455	252,585	(71,189)	410,851

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commercial gateway

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Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2017 Q3	1,451	226,464,329	37,838,267	16.7%	9,083,893	(39,995)	$28.73	$23.00
2017 Q2	1,495	227,312,558	37,953,923	16.7%	9,425,943	(715,936)	$28.32	$25.41
2017 Q1	1,499	227,853,168	37,445,041	16.4%	9,980,263	591,543	$28.77	$24.73
2016 Q4	1,497	226,219,897	36,445,014	16.1%	10,211,382	(781,601)	$28.37	$25.30
2016 Q3	1,494	226,143,148	34,976,040	15.5%	10,727,188	(262,614)	$28.23	$23.36
2016 Q2	1,479	224,432,349	33,021,806	14.7%	10,191,713	445,100	$28.24	$25.25
2016 Q1	1,456	221,136,243	30,612,790	13.8%	7,440,283	1,295,562	$27.89	$22.18
2015 Q4	1,411	215,823,335	28,949,388	13.4%	6,747,090	859,414	$28.87	$23.59
2015 Q3	1,352	205,990,648	27,317,659	13.3%	5,749,042	(303,306)	$27.33	$25.39
2015 Q2	1,346	204,955,072	25,737,474	12.6%	4,883,961	1,609,547	$26.68	$28.09
2015 Q1	1,339	202,418,133	24,961,553	12.3%	3,460,749	(146,435)	$26.38	$29.70
2014 Q4	1,329	199,819,687	22,674,538	11.3%	3,205,260	1,727,727	$25.54	$29.30
2014 Q3	1,322	197,208,059	21,431,395	10.9%	3,052,773	924,032	$25.24	$29.40
2014 Q2	1,313	195,781,170	20,969,381	10.7%	3,137,069	2,234,599	$25.20	$27.93
2014 Q1	1,306	194,126,034	21,478,878	11.1%	2,761,297	1,161,270	$24.97	$26.01
2013 Q4	1,302	193,233,524	21,645,607	11.2%	2,626,169	677,880	$24.37	$27.50
2013 Q3	1,295	191,933,483	21,940,993	11.4%	2,299,752	1,767,676	$24.33	$27.48
2013 Q2	1,283	190,065,097	21,055,857	11.1%	2,034,306	604,120	$23.69	$26.34
2013 Q1	1,278	189,004,629	21,292,981	11.3%	1,703,104	410,851	$23.39	$25.56

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

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

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

Quarterly Market Overview
2017 Second Quarter
FOR IMMEDIATE RELEASE

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HOUSTON'S OFFICE MARKET RECOVERY SLOW, INDUSTRIAL ACTIVITY REMAINS HEALTHY

HOUSTON — (July 18, 2017) — Houston's commercial real estate market continues to adjust as the economy recovers and space options multiply, according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR).

The second quarter reported direct negative net absorption of 214,995 square feet of office space; Class A showed a slight positive absorption of 25,704 square feet, while Class B and Class C reported negative absorption. Move-ins at 10100 Katy Freeway and 609 Main, two new buildings completed this year, along with companies moving into space at Remington Square III accounted for some of the Class A positive absorption. Year-to-date overall totals are positive for the year primarily due to the first quarter occupancy of 600,000 square feet by BHP Billiton in its new headquarters building, leaving behind more than 320,000 square feet currently on the sublease market.

Space left behind by various firms occupying those new properties along with sublease spaces showing up as direct space continues affecting the vacancy rate. The current 17.2% direct vacancy rate is slightly up from 17.0% last quarter, and also up from the 15.3% recorded during the same quarter in 2016. Class A space overall is 16.2% vacant, while Class B is overall 20.2% vacant and Class C is 11.9% vacant.

Total sublease space saw a slight decline this quarter with more than 9.3 million square feet compared to first quarter's 9.9 million square feet and year-end's 10.2 million square feet. Although some of those spaces have been leased, others have turned into direct availability and some spaces have been taken off the market although still available.

The amount of sublease space is playing a large role in the dynamics of the marketplace as landlords have to compete. With almost 2.2 million square feet of the current sublease space expiring and moving to direct by yearend, more sublease space continues to enter the market as companies merge or downsize. When combined with the current direct availability, the

availability percentage jumps to 23%. Regarding location, more than 85% of all sublease space is located in six market areas, with each totaling more than 700,000 square feet. The CBD leads the way with 25.3% of the total, while the Energy Corridor is second with 16.1%. Westchase has the next highest amount at 14.1%, followed closely by Uptown with 12.7%, Greenspoint has 9.1% and the West market has 7.9% of the total sublease space. Broken down by spaces, 19 sublease listings are currently marketing more than 50,000 square feet; the largest sublease available is Shell Oil's space totaling 877,026 square feet in One Shell Plaza.

The under-construction market in Houston jumped to 12 buildings and 2.1 million square feet during second quarter as Skanska re-started construction on its new Capitol Tower, a 754,000-square-foot building in the Central Business District, after securing a 210,000-square-foot commitment from Bank of America. Three other single-tenant, build-to-suit properties also broke ground in Springwoods Village, the 60-acre mixed-use development in north Houston. The new buildings include one with 303,127 square feet for Houston-based American Bureau of Shipping and two buildings totaling 378,000 square feet for HP; completions are scheduled for mid- to late-2018 with Skanska's building taking two years to be completed in 2019.

Other than Capitol Tower, two additional properties underway have more than 100,000 square feet available. The Post Oak in Uptown, scheduled for completion in January 2018, is 0% preleased with 140,000 square feet available; The Kirby Collection at 3200 Kirby, with 188,696 square feet and scheduled for completion by the fourth quarter, is 2.1% preleased. Overall, the under-construction market is 54% preleased. The totals represent a 57% drop in the construction pipeline from a year ago and an 81% drop from two years ago.

Concessions are becoming more commonplace in the market, even though quoted rental rates have remained steady. At $28.34 overall, rental rates showed a slight decrease from the past quarter but remained constant from a year ago. Class A rates, now at $34.30 citywide and at $41.50 in the CBD, experienced slight decreases from last quarter's $34.75 citywide and $41.89 in the CBD. Quoted rents for sublease space increased from $24.75 last quarter to $25.42 this quarter.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "Houston's office market continues to grapple with the energy downturn and recovery. Recent reports predict both higher employment and population numbers in 2017 and 2018, which appear to be having a positive effect on housing, retail

and industrial. Retailers are building larger and more warehouse-distribution facilities to satisfy the population growth while e-commerce companies like Amazon are building facilities to deliver products quicker to the consumer.

"The office market will be the last sector to recover. As sublease terms expire, landlords will then make deals based on market conditions rather than having to compete with less costly sublease space. But the real positive trend I see in the office market – and in the industrial sector -- is the level of leasing activity in both the newest buildings along with the current build-to-suit activity. More tenants continue to be announced as taking space in 609 Main, which proves that some companies are still willing to pay a price for the highest quality space when options are available at attractive terms and conditions."

David Baker, Executive Vice President, Transwestern "As the Investment community sees Houston at or very near the bottom of the downturn, the investment activity is really beginning to pick up. Investors in Houston also continue to diversify their investments in various industries like technology."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "Although Houston's economic recovery is underway and the worst of the energy slump appears to be behind us, the high volume of available direct and sublease space will delay any true recovery in the Houston office market. Houston's office market fundamentals remained soft with negative 1.4 million square feet of direct net absorption during the first half of 2017, causing direct occupancy rates to drop to 82.3%, the lowest level since 1995.

"The Class A sector has been hardest hit as new construction deliveries and tenant departures have caused Class A direct occupancy rates to drop by 290 basis points to 81.1% during the prior 12 months. On a positive note, Houston's office market has exhibited signs of stabilization as sublease availability has experienced its third consecutive quarterly decline since hitting a cyclical high of 12.1 million square feet in 3Q 2016. In addition, the construction pipeline has dropped by 72.1% since hitting its peak of 12.2 million square feet of leasable office product that was underway in 3Q 2014.

"While leasing activity has remained light for the past two years, increasing tour activity has demonstrated signs of renewed tenant interest and optimism leading to an actual increase in leasing volume during the first half of 2017. Leasing activity above the

50,000-square-foot mark demonstrated signs of picking up with 16 deals closed totaling 2.3 million square feet. Meanwhile, small and mid-sized leases (10,000 to 50,000 square feet) accounted for the remaining 40% of the cumulative space leased during the first half of 2017 above the 10,000-square-foot threshold.

"In terms of new supply, four office buildings totaling nearly 1.4 million square feet were delivered during the second quarter of 2017 and just more than 2.0 million SF of new office construction has been completed year-to-date (excluding corporate-owned projects). Although construction levels have tapered off dramatically, an additional 1.8 million square feet of new product is still scheduled to deliver during the second half of 2017. Looking ahead, citywide direct occupancy levels will continue to slide as new supply is expected to outpace demand for the remainder of 2017, with only 43.3% of this new space pre-leased.

"Since the office market typically lags the economy by up to 12 months, Houston's office leasing market fundamentals are expected to remain soft as tenant consolidations and downsizings coupled with several remaining new construction deliveries will further decrease the citywide direct occupancy rate, likely down to near 81.6% by year-end 2017. The office leasing market will continue to face challenges as many sublease listings begin to roll over to direct space as their leases expire, further impacting direct occupancy rates.

"While face rents may not reflect the increase in vacancy, effective rents have seen a significant decline with the offering of increased tenant improvement allowances, rental abatement and parking concessions. However, concessions are expected to remain around for the long haul until the office market reaches a healthy balance between supply and demand.

"Looking ahead, expectations for a moderate recovery in Houston's office market reflect the lag time between job growth and office space absorption. Even though office-using employment growth is forecasted to accelerate in 2018, future demand from the energy sector will likely remain suppressed with the abundance of sublease and shadow space that must be dealt with before tenants will lease additional space."

Taylor Wright, Vice President – Office Tenant Representation, NAI Partners/Houston

"While both overall rents and leasing activity have risen slightly, the Houston office

market continued at a slower pace than we have been accustomed to through the second quarter of 2017. While Houston has made significant strides in diversifying its economy, the city's fortunes remain primarily driven by activity in the energy sector. With that in mind, I predict Houston will stay entrenched as a tenant's market until commodities pricing not only stabilizes but increases.

"On the availability front, sublease space still dominates the conversation between clients and real estate professionals alike. Larger blocks of sublease space are either sitting vacant or are being pulled off of the market altogether, with one or two exceptions. Conversely, smaller spaces -- those less than 20,000 square feet -- with remaining terms on their leases seem to be attracting the lion's share of activity.

"As far as direct leasing is concerned, most tenants are looking for a Class A building at Class B pricing, coupled with a healthy concession package. While those opportunities do exist, options can be limited and tenants need to be comfortable with looking toward the Energy Corridor. However, there are recent instances where tenants have chosen to upgrade without the appearance of cost-saving, underscored by two new Class A buildings in the CBD with strong direct leasing activity: at 609 Main, multiple professional services firms -- and owner Hines itself -- have chosen to follow United Airlines' lead and lease space in the new tower. Additionally, Bank of America announced it will be relocating from its current namesake tower at 700 Louisiana to Skanska's new development located at 800 Capitol Street, where the bank has entered into a long-term lease for 210,000 square feet. Again, it's worth noting that these tenants were already in Class A product and are moving into newer, more sophisticated Class A product, along with the price tag that this kind of space carries. It will be interesting to see how the older CBD Class A space fares with the addition of these new buildings.

"For the market as a whole, unfortunately, early optimism about a full-scale market recovery in 2017 appears to be wishful thinking."

Houston Industrial Market

Houston's industrial market continued to expand during the second quarter with positive direct net absorption of 2.3 million square feet, according to statistics compiled by Commercial Gateway.

This quarter's absorption represents the 30th consecutive quarter – more than seven years – of positive absorption, with nine quarters recording more than 2 million square feet each and more than half recording more than 1 million square feet. The second-quarter absorption totals were positive for all types and included almost 1.6 million square feet of warehouse-distribution space along with 349,773 square feet of net absorption of light industrial space. Manufacturing properties recorded 190,213 square feet while flex/R&D space absorption was 215,577 square feet.

Vacancy rates have decreased slightly to 6.1% from 6.4% last quarter and recorded the same rate in Second Quarter 2016. Vacancy for warehouse/distribution space citywide is 6.6% with manufacturing space at 3.0%.

About 2.1 million square feet in 25 buildings came online during the first half of 2017. The newly completed projects are collectively 82% leased and contributed almost 1.6 million square feet of absorption.

Construction activity has slowed when compared to previous years, with only 37 projects totaling more than 5.2 million square feet underway. The mid-year total is about 50% of under-construction projects both a year ago and two years ago. Similar to office, the largest projects currently underway are build-to-suit projects, including the largest to break ground during second quarter, Amazon's 1.0 million square-foot project in Katy. FedEx's 1.1 million square-foot distribution facility in the Northwest near the Grand Parkway and U.S. Highway 290 is scheduled for completion in August, as is Amazon's 855,000-square-foot fulfillment center off the Beltway in Pinto Park.

The largest spec building under construction is Cedar Port's 501,020 square-foot building, which broke ground during second quarter after Ikea's leasing and occupancy of the first two buildings totaling almost 1 million square feet. The bulk of the remainder under construction is concentrated in the North/Northwest with 2.4 million square feet or 46.7% of the total in 11 buildings followed by the Southeast with six projects totaling 1.1 million square feet or 20.3% of the total. Overall, the under-construction market is 69.0% preleased.

New projects recently announced include another Amazon project, this one a bit smaller for Amazon Fresh, 110,000 square feet in Fallbrook Pines, to join its almost 2 million square feet currently underway. Another media report announced a prelease of 465,851 square feet by

Kuraray America, a global supplier of chemical, fiber and resin products, in Avera's new Bayport Logistics Park. DHL Supply Chain has also announced a third building off State Highway 225.

Rental rates have increased slightly this quarter to $6.41 from $6.33 last quarter but are lower than the $7.24 recorded during the same quarter last year.

Sublease space also decreased slightly this quarter by about 120,000 square feet, representing a slight decrease when compared to the same quarter last year.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Michael B. Keegan, SIOR, Partner, NAI Partners "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 square feet 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 saw ±10,318 square feet of positive absorption according to NAI statistics, it's important to take note of the fact that there were nearly 5 million square feet of new leases signed during the second quarter. It is expected that roughly 3.4 million square feet of those lease agreements signed won't start occupying until mid-2018, so the absorption of that space won't be reflected by market statistics until sometime next year."

Mark Nicholas, SIOR, Executive Vice President, Regional Director, JLL "Houston's industrial market is working on all cylinders. Demand spiked in the second quarter with leasing activity totaling 5.5 million square feet, driven in part by four large signed deals that were each over 250,000 square feet. However, the lion's share of deals range from 10,000 to 50,000 square feet (52%) followed by the range of 50,000 to 100,000 square feet (29%).

"Despite an enormous infusion of new construction, vacancy and availability were stable in the second quarter, closing out at 5.1% and 9.1%, respectively.

"Net absorption was positive at 600,000 square feet during the second quarter after a banner first quarter with 3.4 million square feet absorbed, driven by both pre-leased deliveries and move-ins. While the majority of Houston's submarkets recorded little to no positive absorption in the second quarter, the Northwest submarket was a standout with 775,376 square feet in occupancy growth. The Northwest boasts a very healthy 4.4 vacancy percentage and continues to build on momentum; of the 1.1 million square feet currently under construction, 90% will be occupied upon delivery.

"Construction activity declined again to 3.3 million square feet, following 4.5 million square feet in deliveries year-to-date. The second quarter reported the fewest construction projects delivered since 2011; however, a strong pipeline remains. A modest eight total buildings and 1.1 million square feet were delivered in the second quarter; considering the Southeast claims 93.2 percent of all deliveries, deliveries outside the area were virtually nonexistent.

"The Houston market should see an uptick in building completions as 3 million square feet will deliver in the near future. Although the construction pipeline has steadily decreased since the beginning of 2016, landlords continue to uncover land in the Southeast.

"Demand by three groups: e-commerce, plastics, and third-party logistics continues to drive larger warehouse/distribution facilities construction. This year alone is set to deliver a record seven warehouse and distribution facilities greater than 400,000 square feet due to the expansion in the consumer goods sector brought on by consistent population growth. Since 2000, 42 buildings larger than 400,000 square feet have delivered when just over 50 had been built prior to the new millennium."

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

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Houston-Area Office Market Overview

2017 Second Quarter

Submarket	Class	# of Bldgs*	Building SF*	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Avg Rent***	Avail Sublease
CBD	A	34	31,924,123	4,380,748	13.7%	138,646	(311,379)	754,000	$41.50	2,283,104
	B	29	9,981,630	2,912,855	29.2%	(252,322)	(169,309)	0	$26.42	82,678
	C	7	412,596	113,084	27.4%	6,863	1,109	0	$19.16	0
CBD Subtotal		**70**	**42,318,349**	**7,406,687**	**17.5%**	**(106,813)**	**(479,579)**	**754,000**	**$37.16**	**2,365,782**
Energy Corridor	A	49	15,891,329	3,175,594	20.0%	(132,504)	(101,657)	0	$34.54	1,342,611
	B	54	5,924,488	1,570,022	26.5%	(190,029)	(165,638)	0	$27.57	173,782
	C	8	355,254	40,961	11.5%	(5,629)	(1,484)	0	$19.98	9,539
Energy Corridor Subtotal		**111**	**22,171,071**	**4,786,577**	**21.6%**	**(328,162)**	**(268,779)**	**0**	**$30.93**	**1,525,932**
Fort Bend County	A	26	3,068,830	233,258	7.6%	20,871	46,533	0	$30.34	131,304
	B	21	2,458,901	187,049	7.6%	(9,783)	(24,390)	0	$21.24	6,969
	C	1	156,000	34,715	22.3%	6,179	6,982	0	$19.00	0
Fort Bend County Subtotal		**48**	**5,683,731**	**455,022**	**8.0%**	**17,267**	**29,125**	**0**	**$26.02**	**138,273**
Greenspoint	A	25	5,209,070	2,512,098	48.2%	(53,215)	(57,208)	0	$25.46	540,373
	B	46	4,697,779	1,670,723	35.6%	(45,871)	(94,971)	0	$16.65	305,604
	C	27	1,934,447	414,804	21.4%	(8,310)	(10,666)	0	$12.21	5,199
Greenspoint Subtotal		**98**	**11,841,296**	**4,597,625**	**38.8%**	**(107,396)**	**(162,845)**	**0**	**$20.70**	**851,176**
Inner Loop	A	36	10,971,456	1,493,244	13.6%	(7,593)	(2,402)	188,696	$32.27	116,313
	B	110	10,600,278	1,377,900	13.0%	30,611	42,874	0	$27.16	99,359
	C	63	4,142,568	285,092	6.9%	(11,580)	58,832	0	$17.64	7,423
Inner Loop Subtotal		**209**	**25,714,302**	**3,156,236**	**12.3%**	**11,438**	**99,304**	**188,696**	**$29.21**	**223,095**
North/The Woodlands/Conroe	A	58	11,693,417	1,295,559	11.1%	67,941	58,254	704,800	$27.90	230,896
	B	90	5,236,827	773,024	14.8%	56,938	216,483	56,113	$20.18	183,290
	C	22	969,322	162,940	16.8%	2,307	(25,770)	0	$14.92	1,664
North/The Woodlands/Conroe Subtotal		**170**	**17,899,566**	**2,231,523**	**12.5%**	**127,186**	**248,967**	**760,913**	**$23.02**	**415,850**
Northeast	A	3	411,670	11,016	2.7%	0	0	86,523	$25.75	0
	B	13	533,957	40,228	7.5%	11,334	19,259	0	$19.70	0
	C	5	197,243	46,463	23.6%	(14,463)	33,709	0	$25.70	0
Northeast Subtotal		**21**	**1,142,870**	**97,707**	**8.6%**	**(3,129)**	**52,968**	**86,523**	**$21.80**	**0**
Northwest	A	40	4,751,870	923,884	19.4%	(16,121)	(25,838)	0	$26.19	314,861
	B	61	5,074,910	1,129,612	22.3%	39,145	55,433	0	$19.46	118,421
	C	23	925,763	157,014	17.0%	3,168	(9,762)	0	$16.46	5,200
Northwest Subtotal		**124**	**10,752,543**	**2,210,510**	**20.6%**	**26,192**	**19,833**	**0**	**$21.58**	**438,482**
Southeast	A	18	2,100,535	138,110	6.6%	(15,257)	13,242	0	$25.29	39,531
	B	59	3,563,375	820,867	23.0%	210,438	230,098	0	$18.05	13,031
	C	37	1,707,458	246,029	14.4%	24,818	36,457	0	$18.23	27,610
Southeast Subtotal		**114**	**7,371,368**	**1,205,006**	**16.4%**	**219,999**	**279,797**	**0**	**$19.04**	**80,172**
Southwest	A	4	911,003	220,101	24.2%	18,571	5,732	0	$16.70	53,437
	B	43	5,148,639	1,182,325	23.0%	(2,239)	(51,683)	0	$17.60	19,978
	C	72	4,903,178	517,583	10.6%	(49,653)	26,403	0	$15.34	1,480
Southwest Subtotal		**119**	**10,962,820**	**1,920,009**	**17.5%**	**(33,321)**	**(19,548)**	**0**	**$16.77**	**74,895**

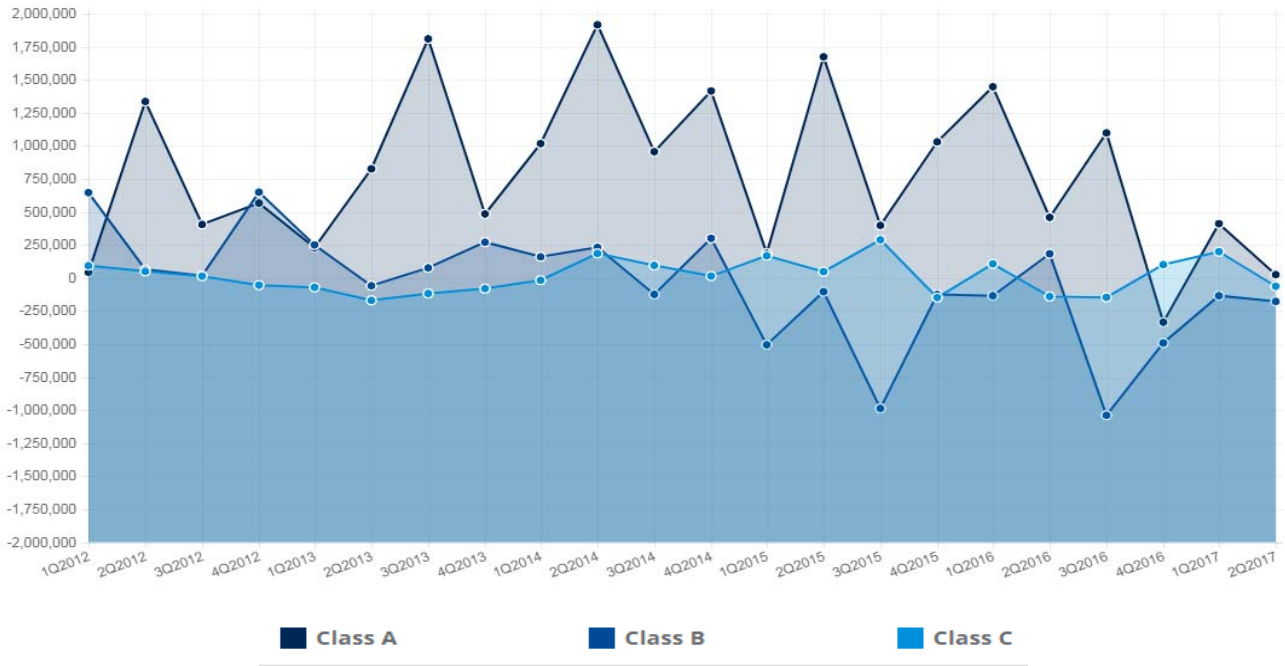
Uptown	A	47	18,375,508	3,105,014	16.9%	29,159	660,924	140,000	$36.29	877,935
	B	78	10,614,116	1,505,375	14.2%	18,039	(44,009)	0	$27.73	305,939
	C	12	883,150	65,301	7.4%	6,154	2,942	0	$24.39	0
Uptown Subtotal		**137**	**29,872,774**	**4,675,690**	**15.7%**	**53,352**	**619,857**	**140,000**	**$33.63**	**1,183,874**
West	A	52	8,578,331	1,208,127	14.1%	97,890	166,680	136,255	$31.58	675,089
	B	42	3,579,440	471,837	13.2%	(12,847)	16,925	72,045	$19.43	61,772
	C	34	1,608,229	82,572	5.1%	13,177	44,582	0	$16.13	5,982
West Subtotal		**128**	**13,766,000**	**1,762,536**	**12.8%**	**98,220**	**228,187**	**208,300**	**$26.13**	**742,843**
Westchase	A	34	10,365,407	1,432,463	13.8%	(122,684)	(203,022)	0	$37.44	1,025,650
	B	53	7,083,906	1,433,123	20.2%	(30,586)	(27,856)	0	$19.70	291,123
	C	14	587,034	61,567	10.5%	(36,558)	(28,125)	0	$18.83	176
Westchase Subtotal		**101**	**18,036,347**	**2,927,153**	**16.2%**	**(189,828)**	**(259,003)**	**0**	**$30.87**	**1,316,949**
Houston Area	A	426	124,252,549	20,129,216	16.2%	25,704	249,859	2,010,274	$34.30	7,631,104
	B	699	74,498,246	15,074,940	20.2%	(177,172)	3,216	128,158	$22.31	1,661,946
	C	325	18,782,242	2,228,125	11.9%	(63,527)	135,209	0	$15.90	64,273
Houston-Area Total		**1,450**	**217,533,037**	**37,432,281**	**17.2%**	**(214,995)**	**388,284**	**2,138,432**	**$28.34**	**9,357,323**

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

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

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

Houston-Area Office Direct Net Absorption by Class



Period	Class A	Class B	Class C	All Classes
2017 Q2	25,704	(177,172)	(63,527)	(214,995)
2017 Q1	410,392	(134,376)	198,736	474,752
2016 Q4	(334,644)	(492,255)	101,373	(725,526)
2016 Q3	1,098,329	(1,038,969)	(147,036)	(87,676)
2016 Q2	458,663	183,040	(140,467)	501,236
2016 Q1	1,447,067	(134,454)	106,514	1,419,127
2015 Q4	1,030,491	(125,313)	(148,638)	756,540
2015 Q3	398,294	(987,011)	288,849	(299,868)
2015 Q2	1,673,913	(103,809)	47,764	1,615,941
2015 Q1	186,877	(505,867)	168,774	(149,346)
2014 Q4	1,415,039	299,495	14,315	1,728,849
2014 Q3	955,886	(124,273)	94,919	926,532
2014 Q2	1,916,611	231,353	185,631	2,333,275
2014 Q1	1,016,779	160,494	(16,995)	1,160,278
2013 Q4	484,233	270,886	(80,972)	674,572
2013 Q3	1,809,844	76,743	(117,343)	1,769,244
2013 Q2	825,910	(58,785)	(169,337)	597,788
2013 Q1	229,455	249,850	(71,189)	408,116
2012 Q4	566,957	649,491	(54,495)	1,161,953
2012 Q3	405,430	17,666	13,047	436,143
2012 Q2	1,335,653	64,691	50,391	1,450,735
2012 Q1	43,439	645,346	93,214	781,999

Houston-Area Office Historical Overview

2017 Second Quarter

Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2017 Q2	1,450	217,533,037	37,432,281	17.2%	9,357,323	(214,995)	$28.34	$25.42
2017 Q1	1,455	218,146,839	37,044,862	17.0%	9,942,503	474,752	$28.74	$24.75
2016 Q4	1,453	216,513,663	35,926,053	16.6%	10,197,305	(725,526)	$28.37	$25.31
2016 Q3	1,451	216,567,419	34,513,154	15.9%	10,711,821	(87,676)	$28.21	$23.38
2016 Q2	1,436	214,978,579	32,844,360	15.3%	10,161,176	501,236	$28.23	$25.33
2016 Q1	1,415	212,002,743	30,489,348	14.4%	7,400,271	1,419,127	$27.90	$22.26
2015 Q4	1,383	209,564,166	29,078,951	13.9%	6,719,848	756,540	$28.85	$23.65
2015 Q3	1,353	206,103,730	27,535,899	13.4%	5,747,106	(299,868)	$27.30	$25.39
2015 Q2	1,349	205,439,384	26,215,150	12.8%	4,882,025	1,615,941	$26.80	$28.09
2015 Q1	1,342	202,791,829	25,185,895	12.4%	3,460,749	(149,346)	$26.36	$29.70
2014 Q4	1,330	199,911,745	22,765,518	11.4%	3,205,260	1,728,849	$25.51	$29.30
2014 Q3	1,323	197,300,117	21,523,497	10.9%	3,052,773	926,532	$25.21	$29.40
2014 Q2	1,314	195,873,228	21,063,983	10.8%	3,137,069	2,333,275	$25.16	$27.93
2014 Q1	1,307	194,211,588	21,480,156	11.1%	2,761,297	1,160,278	$24.98	$26.01
2013 Q4	1,303	193,319,078	21,645,893	11.2%	2,626,169	674,572	$24.37	$27.50
2013 Q3	1,296	192,020,957	21,937,971	11.4%	2,299,752	1,769,244	$24.33	$27.48
2013 Q2	1,284	190,150,651	21,054,403	11.1%	2,034,806	597,788	$23.69	$26.34
2013 Q1	1,279	189,090,183	21,285,195	11.3%	1,703,604	408,116	$23.40	$25.56
2012 Q4	1,280	189,048,985	21,708,565	11.5%	1,654,045	1,161,953	$23.29	$23.05
2012 Q3	1,276	188,530,638	22,255,891	11.8%	1,669,477	436,143	$23.03	$23.71
2012 Q2	1,273	188,504,483	22,715,424	12.1%	1,873,841	1,450,735	$22.84	$24.85
2012 Q1	1,273	188,522,901	23,566,663	12.5%	2,220,466	781,999	$22.74	$25.28

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

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

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

Selected Office Buildings 20,000 SF+ Under Construction

Market	Property Name	Address	Bldg Size	Preleased	Est Completion
CBD	Capitol Tower	800 Capitol St	754,000	37.3%	4/1/2019
North/The Woodlands/Conroe	HP Campus (2 bldgs)	23019 North Freeway	378,000	100.0%	8/1/2018
North/The Woodlands/Conroe	American Bureau of Shipping (Springwoods)	Lake Plaza Dr	326,800	100.0%	12/1/2018
Inner Loop	The Kirby Collection	3200 Kirby Dr	188,696	2.1%	9/30/2017
Uptown	The Post Oak	1600 West Loop S	140,000	0.0%	1/1/2018
Northeast	250 Assay St (Generation Park)	250 Assay St	86,523	79.7%	6/30/2017
West	Members Choice Credit Union	18211 Katy Fwy	86,255	55.0%	10/1/2017
West	Grandway West Bldg 4	2322 W Grand Pkwy N	72,045	50.8%	1/1/2018
North/The Woodlands/Conroe	Wind Energy Office	8917 Louetta Rd	56,113	57.2%	11/15/2017
West	Memorial Green Bldg 2	12525 Memorial Dr	25,000	14.7%	9/1/2017
West	Memorial Green Bldg 1	12525 Memorial Dr	25,000	30.9%	9/1/2017
	Total Tracked Under-Construction:	**12 bldgs**	**2,138,432**	**54.0%**	

Source: Commercial Gateway

Quarterly Market Overview
2017 First Quarter
FOR IMMEDIATE RELEASE

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HOUSTON'S OFFICE MARKET SLOW-MOVING, INDUSTRIAL ACTIVITY REMAINS HEALTHY

HOUSTON — (April 20, 2017) — Houston's commercial real estate market carried over slow-moving activity from the end of last year into 2017, with confidence increasing but leasing options still plentiful for the near future, according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR).

The first quarter reported direct net absorption of 120,524 square feet of office space primarily due to the 600,000 square-foot occupancy of BHP Billiton's new building. Amegy also occupied its new 269,258-square-foot space in its namesake building, leaving behind its former 248,985-square-foot space at Five Post Oak Park. Other recent completions include Hines' 1.06 million-square-foot 609 Main at Texas office building in the Central Business District (CBD); although no move-ins yet, the building is 63.1% preleased with United Airlines the major tenant along with five other firms. For the quarter, Class A properties recorded positive absorption of 322,363 square feet, offset by Class B properties' negative absorption of 400,575 square feet. Class C reported positive absorption of 198,736 square feet.

Space left behind by various firms occupying those new properties along with sublease spaces showing up as direct space is affecting the vacancy rate, which continues to climb. The current 17.0% direct vacancy rate is up from 16.4% last quarter, and also up from the 14.3% recorded during the same quarter in 2016. Fort Bend County is the only submarket with a first-quarter, single-digit vacancy rate at 8.3%, and only two submarkets, Fort Bend and Southeast, are reporting Class A vacancy less than 10.0% during the first quarter. Class A space overall is 15.8% vacant, while Class B is overall 20.4% vacant and Class C is 11.3% vacant.

Total sublease space is currently reporting more than 9.9 million square feet, which represents a decrease from yearend's 10.2 million square feet. Although some spaces have been leased, others have turned into direct availability while some spaces have taken off the market as economic conditions have showed some signs of recovery.

The amount of sublease space is playing a large role in the dynamics of the marketplace as landlords have to compete. When combined with direct availability, the availability percentage jumps to 21.6 percent. Regarding location, more than 76% of all sublease space is located in five market areas. The CBD leads the way with 22.2% of the total, while the Energy Corridor is second with 15.1%. Westchase has the next highest amount at 14.8%, followed closely by Uptown with 13.3%, and Greenspoint has 11.4% of the total sublease space. Broken down by spaces, 40 sublease listings are currently marketing more than 50,000 square feet, with 13 of those reporting contiguous blocks of more than 100,000 square feet. The largest sublease available is Shell Oil's space totaling 877,026 square feet in One Shell Plaza.

The under-construction market in Houston has reached the lowest square footage total in many years, with only seven buildings totaling 736,951 square feet currently underway. The largest, at 188,696 square feet, is The Kirby Collection at 3200 Kirby. But construction totals are about to change with the recent announcement by Skanska that its long-proposed 750,000-square-foot Capitol Tower will soon break ground in the Central Business District after securing a 210,000-square-foot commitment from Bank of America. In addition, three build-to-suit properties will be breaking ground soon in Springwoods Village, the 60-acre mixed-use development in north Houston. The new buildings include one with 303,127 square feet for Houston-based American Bureau of Shipping and two buildings totaling 378,000 square feet for HP; completions are scheduled for mid- to late-2018 with Skanska's building taking two years to be completed in 2019. In addition to the Bank of America commitment, Targa Resources signed for 127,734 square feet in 811 Louisiana, perhaps the largest deal in an existing multi-tenant building this year.

Three buildings were occupied or completed this quarter: 609 Main at Texas in the CBD, Amegy Bank Tower in Uptown, and 10100 Katy Freeway in the West market. Collectively, the almost 1.7 million square feet hit the market with preleasing of 44%.

Concessions are becoming more commonplace in the market, even though quoted rental rates have remained steady. Rental rates showed a slight increase from the past quarter and an increase from the past year with the current overall averaged weighted rental rate of $28.74, up from last quarter's $28.33 rate and up from $27.83 from last year's first quarter. Class A rates, now at $34.75 citywide and at $41.89 in the CBD, experienced slight increases from last quarter. Quoted rents for sublease space decreased from $25.35 last quarter to $24.79 this quarter.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "Options remain plentiful for office tenants in the market for new space or relocations. Sublease space is most likely the first option, with almost 9 million square feet of Class A space currently in the market.

"Although the large amounts of sublease office space will continue to affect the overall office market well into 2019, almost half of the current sublease available will convert to direct space next year if not leased as terms expire. Landlords will then be able to make deals based on market conditions rather than having to compete with the usually more favorable terms of sublease space. Once the majority of the sublease office space is either leased or back on the market as direct, office space fundamentals will change even though office tenants will continue to have numerous available and attractive options."

David Baker, Executive Vice President, Transwestern "While office absorption was slightly positive for the first quarter, activity is picking up as tenants are starting to sense that it is time to lock rates on a new lease as rates are likely at the bottom. Non-energy and non-engineering companies are more likely to lock in long terms as we are seeing stability and growth in the financial and accounting sectors.

"The recovery is underway in the energy and engineering sectors but companies in this area are generally still cautious and more likely to do shorter term leases. There is also a significant uptick in office investment sales activity due to the improving office fundamentals."

Coy Davidson, Senior Vice President, Colliers International "Is the Houston office market really in a recovery? Well I guess it depends on your perspective. It does appear that the worst is over and the office market has bottomed out from the weakened energy market that has plagued the Houston office market over the last couple of years. Houston's citywide vacancy rate increased 100 basis points from 17.5% to 18.5% over the quarter and posted negative net absorption of 745,000 during the same period, which was a slight increase from Q4 2016. These are statistics that don't necessarily point to a recovery.

"However there are some bright spots in the Houston office market's first quarter 2017 performance. The glut of available sublease space created by the energy downturn after

a record amount of new office construction in the city has declined for two consecutive quarters as layoffs in the energy sector have dissipated. Houston's construction pipeline has shrunk by 50% from a year ago.

"Houston's average asking rental rates remained relatively flat over the quarter. The average Class A rental rate in both the CBD and Suburban submarkets decreased marginally over the quarter, as did the average Class B rental rates. The office market remains a tenant's market for now and the foreseeable future as office occupiers enjoy the leverage of landlord-aggressive rent concessions. Office rents are a function of supply and demand. However, with new supply diminishing, stabilizing oil prices and new job growth beginning to accelerate, the Houston market should continue to show signs of gradual improvement in 2017."

Matt Gaby, Associate Broker, NAI Partners Houston "In the first quarter of 2017, the Houston office market showed some encouraging signs as it began to lift itself out of the soft environment that has lingered in many of its submarkets. During the two years prior to 2017, we witnessed an onslaught of sublease space being added to the market, totaling more than 12 million square feet. Today, we are on our way down from that mark and closing in on 11.1 million square feet citywide. This is due in part to the rising rig counts (nearly double that of Q1 2016), rising oil prices, other non-energy related industry growth, and natural lease expirations.

"While I won't go so far as to forecast what I think will happen going forward, by recognizing trends in the market one can position oneself to take advantage when opportunity arises. Market indicators such as sublease availability, vacancy rates, and absorption rates are all critical data points when evaluating the future strength of the office market. Looking at the trends seen in 2016 and thus far in Q1 2017, I feel comfortable saying the market softening has 'bottomed out.' Tenants in the market for space now or over the next few years can take advantage of landlords taking an increasingly aggressive approach when vying for prospective tenants. These aggressive incentives often come in the form of rental rate reductions, large concession packages, additional free rent periods, free parking, and greater building amenities.

"As the trend continues for tenants to take on new or additional space or renegotiate existing leases, the market will once again shift back to favor landlords. A very realistic prediction of when this shift might happen is over the next 14 to 18 months (think Q2 to

Q4 2018). This begs the question: why do many companies only seem to renew on high points? Based on where we are in the current market cycle - the Houston commercial real estate market historically operates in seven- to eight-year cycles - office tenants today have tremendous negotiating leverage. To that end, on average we are now seeing longer lease terms signed, even for smaller companies, who wish to capture the favorable market terms for as long as possible. Timing, as they say, is everything."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "Houston's office market continues to experience the effects of the energy downturn even though positive indicators suggest that the worst may be in the rearview mirror.

"Since the office market typically lags the overall economy by up to 12 months, it should come as no surprise that Houston's office market fundamentals remained soft with just over 1 million square feet of negative direct net absorption during the first quarter of 2017, surpassing the losses experienced in 2016. While leasing activity in early 2017 remains relatively slow, increasing tour activity has demonstrated signs of renewed tenant interest and optimism, likely leading to an actual increase in leasing volume during the remainder of 2017. Small and mid-sized leases above the 10,000-square-foot threshold continue to account for the bulk of activity, with 64% of the cumulative space leased in the trailing 12 months occurring in the 10,000-to-50,000-square-foot size range.

"In terms of new supply, three office buildings totaling 639,422 square feet were delivered during the first quarter of 2017 and just under 3.6 million square feet of new office construction has been completed over the prior 12 months (excluding corporate-owned projects). This new supply, coupled with tenant downsizing and departures, have pushed total space availability (including sublease) up 4.6 million square feet over this trailing 12-month period. Class A direct occupancy rates have dropped to 82.5% and plunged by 850 basis points since their cyclical peak of 91.0% in early 2014. On a positive note, Houston's sublease availability declined by 678,989 square feet to 11.1 million square feet during the 1st quarter of 2017 – its second consecutive quarterly decline since hitting its cyclical high of 12.1 million square feet in 3Q 2016 - but still remains well above its 10-year historic average of 4.1 million square feet.

"Houston's office leasing market fundamentals are expected to remain soft as tenant consolidations and downsizings coupled with several remaining new construction

deliveries could further decrease the citywide direct occupancy rate near 81.6% by year-end 2017, absent any significant new leasing. The market will face additional downward pressure as sublease listings begin to roll over to direct space as their agreements expire, further impacting the direct occupancy rates. Concessions such as free rent and higher tenant improvement allowances will remain prevalent in the market as long as leasing volume remains sluggish and landlords fight to maintain rental rate levels.

"On the bright side, landlords that receive direct space are back in the driver seat and no longer have to compete with tenants willing to sublease their premises at very low recovery rates. Even though office-using employment growth is expected to return by 2018, future demand from the energy sector will likely remain suppressed with the abundance of sublease and shadow space that must be dealt with before tenants will lease additional space."

Houston Industrial Market

Houston's industrial market continued to expand during the first quarter, with positive direct net absorption of almost 3.6 million square feet, according to statistics compiled by Commercial Gateway.

This quarter's absorption represents the 29th consecutive quarter – over six years – of positive absorption, with eight quarters recording more than 2 million square feet each and more than half recording more than 1 million square feet. The first-quarter absorption totals were positive for all types and included almost 2.2 million square feet of warehouse-distribution space along with 1.1 million square feet net absorption of light industrial space. Manufacturing properties recorded 250,531 square feet while flex/R&D space absorption was 68,506 square feet.

Vacancy rates have increased slightly to 6.8% from 6.6% last quarter and from 6.0% in the same quarter last year due to both slower leasing activity in some areas along with several projects coming online with no preleasing. Vacancy for warehouse/distribution space citywide is 7.4% with manufacturing space at 3.9%.

About 2.1 million square feet in 20 buildings came online during the first quarter. The newly completed projects are collectively 79% leased and contributed almost 1.6 million square feet of absorption. The largest projects to be completed and occupied during first quarter include IKEA's two buildings in Cedar Port totaling 996,482 square feet; Maintenance Supply

Headquarters of 209,000 square feet and Homelegance's 175,000 square feet, both in Beltway Southwest Business Park, along with Aker BioMarine Manufacturing's 144,800 square feet at 4494 Campbell.

Construction activity has slowed, with only 32 projects totaling more than 3.5 million square feet underway. The largest build-to-suit is FedEx's new 800,000-square-foot distribution facility in the Northwest near the Grand Parkway and west of U.S. Highway 290. The bulk of the remainder under construction is concentrated in the Southeast with 14 projects totaling 1.1 million square feet followed by the Northwest with 12 projects totaling 1.3 million square feet. Overall, the under-construction market is 75.0% preleased. Warehouse distribution projects are the major projects under construction as e-commerce giants come to Houston. Amazon has also announced another 1 million-square-foot project in Katy in addition to the 855,000-square-foot project in Pinto Park in north Houston, and DHL Supply Chain is adding another building, this one 222,000 square feet, to its two buildings on State Highway 225.

Rental rates have decreased this quarter to $6.42 from $6.65 last quarter and are also lower than the $7.23 recorded during the same quarter last year.

Sublease space had been steadily increasing each quarter during the last couple years, but decreased slightly to 3.4 million square feet this quarter, representing a 48% increase from the same quarter last year.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Chris Caudill, SIOR, Partner with NAI Partners "Houston's industrial market as a whole is relatively healthy but certain markets along with certain types – like manufacturing, primarily crane served buildings – are continuing the negative absorption trend based on 1st quarter statistics. The dock-high, distribution markets are doing fairly well, except for two submarkets, the North and Southwest, which have some vacancy issues. Landlords are getting aggressive in these submarkets with their concessions. This will continue in these two areas for the foreseeable future with overall lower rents.

"One positive trend I see is owner occupied industrial real estate sale prices remain healthy, probably due to the continued lower interest rates. We have not seen the downturn in sale prices like we have seen the 20 to 30 percent drop in some lease rates."

Faron Wiley, First Vice President, Industrial and Logistics, CBRE "Positive absorption totaled over 3 million square feet during the first quarter for industrial properties. The overall economy, with $50 oil, is rebounding, and oilfield companies are finally starting to see the light. Some sublease space has been taken off the market, and most sublease still being marketed represents companies looking to upgrade or those getting out of the business.

"The industrial market overall is showing a 5% vacancy, although some softness in the market is the institutional grade product, which may be more at 8% vacant. To compete successfully, this product type will be built and enter the market vacant but the space will be on the ground ready to go when needed. Typical building characteristics of this type of institutional or investor grade product is concrete construction, 24' to 36' clearance, modern sprinkler system, and built for single-tenant but flexible for multi-tenant in a location of growth and opportunity.

"The rest of the year will see more e-commerce companies leasing large distribution spaces for consumer products in the North/Northwest, Katy, Southwest and near the Port. Several companies are active in the market looking to add warehouse space closer to the 'last mile' of the consumer who is buying the products."

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

###

Houston-Area Office Market Overview

2017 First Quarter

commercial gateway

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Submarket	Class	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
CBD	A	34	31,858,175	4,410,264	13.8%	(450,025)	(450,025)	0	$41.89	2,117,275
	B	29	9,959,544	3,026,861	30.4%	(283,315)	(283,315)	0	$30.76	95,514
	C	8	562,596	119,947	21.3%	(5,754)	(5,754)	0	$19.34	0
CBD Subtotal		**71**	**42,380,315**	**7,557,072**	**17.8%**	**(739,094)**	**(739,094)**	**0**	**$38.84**	**2,212,789**
Energy Corridor	A	48	15,719,319	2,658,920	16.9%	185,947	185,947	0	$37.49	1,307,960
	B	55	6,086,725	1,460,388	24.0%	23,050	23,050	0	$28.42	183,407
	C	8	355,254	35,332	10.0%	4,145	4,145	0	$19.98	9,539
Energy Corridor Subtotal		**111**	**22,161,298**	**4,154,640**	**18.8%**	**213,142**	**213,142**	**0**	**$33.33**	**1,500,906**
Fort Bend County	A	25	2,982,678	251,096	8.4%	25,662	25,662	0	$30.73	139,204
	B	22	2,541,221	180,299	7.1%	(14,607)	(14,607)	0	$21.74	2,330
	C	1	156,000	40,894	26.2%	803	803	0	$19.00	0
Fort Bend County Subtotal		**48**	**5,679,899**	**472,289**	**8.3%**	**11,858**	**11,858**	**0**	**$26.81**	**141,534**
Greenspoint	A	25	5,207,997	2,456,937	47.2%	(1,470)	(1,470)	0	$25.54	596,263
	B	47	4,824,556	1,605,396	33.3%	(29,644)	(29,644)	0	$16.60	532,619
	C	27	1,934,447	406,494	21.0%	(2,356)	(2,356)	0	$12.24	6,799
Greenspoint Subtotal		**99**	**11,967,000**	**4,468,827**	**37.3%**	**(33,470)**	**(33,470)**	**0**	**$21.03**	**1,135,681**
Inner Loop	A	37	11,298,467	1,485,651	13.2%	5,191	5,191	188,696	$32.15	169,832
	B	111	10,670,788	1,420,122	13.3%	9,132	9,132	0	$26.77	63,146
	C	62	4,109,682	240,626	5.9%	70,412	70,412	0	$17.54	7,423
Inner Loop Subtotal		**210**	**26,078,937**	**3,146,399**	**12.1%**	**84,735**	**84,735**	**188,696**	**$28.69**	**240,401**
North/The Woodlands/ Conroe	A	57	11,493,813	1,397,000	12.2%	(9,687)	(9,687)	0	$31.27	315,327
	B	89	5,134,654	934,764	18.2%	59,545	59,545	0	$19.61	160,730
	C	23	992,770	173,247	17.5%	(28,077)	(28,077)	0	$14.59	2,864
North/The Woodlands/ Conroe Subtotal		**169**	**17,621,237**	**2,505,011**	**14.2%**	**21,781**	**21,781**	**0**	**$24.22**	**478,921**
Northeast	A	2	51,670	11,016	21.3%	0	0	86,000	$25.75	0
	B	13	533,957	51,562	9.7%	7,925	7,925	0	$19.32	0
	C	5	197,243	32,000	16.2%	48,172	48,172	0	n/a	0
Northeast Subtotal		**20**	**782,870**	**94,578**	**12.1%**	**56,097**	**56,097**	**86,000**	**$20.29**	**0**
Northwest	A	41	5,119,356	902,596	17.6%	(9,717)	(9,717)	0	$26.22	308,376
	B	62	5,108,301	1,176,157	23.0%	(91,712)	(91,712)	0	$19.75	123,400
	C	24	943,763	160,182	17.0%	(12,930)	(12,930)	0	$16.31	18,000
Northwest Subtotal		**127**	**11,171,420**	**2,238,935**	**20.0%**	**(114,359)**	**(114,359)**	**0**	**$21.76**	**449,776**

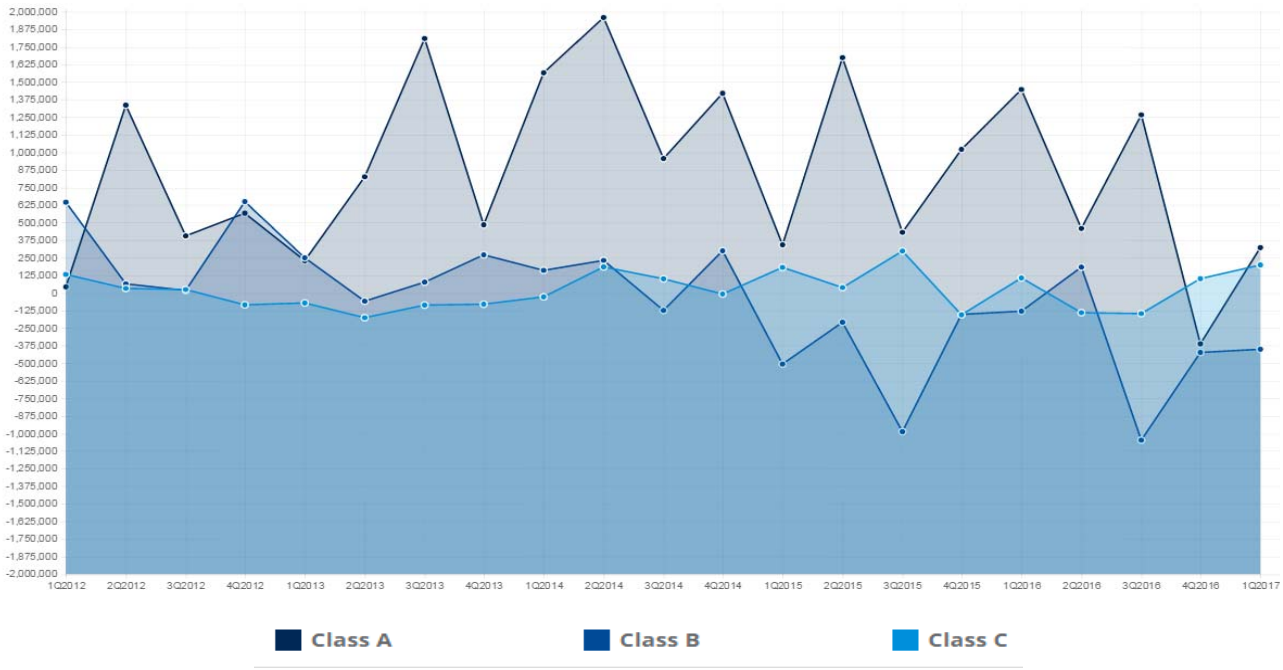
Southeast	A	19	2,105,697	177,355	8.4%	10,755	10,755	0	$27.07	42,281
	B	61	3,707,834	1,061,376	28.6%	23,474	23,474	0	$18.05	12,581
	C	37	1,702,008	272,127	16.0%	11,639	11,639	0	$17.23	27,610
Southeast Subtotal		**117**	**7,515,539**	**1,510,858**	**20.1%**	**45,868**	**45,868**	**0**	**$19.04**	**82,472**
Southwest	A	5	1,082,476	238,672	22.1%	(12,839)	(12,839)	0	$16.69	53,437
	B	46	5,477,045	1,131,390	20.7%	(49,463)	(49,463)	0	$17.80	16,478
	C	72	4,903,178	467,930	9.5%	76,056	76,056	0	$14.91	0
Southwest Subtotal		**123**	**11,462,699**	**1,837,992**	**16.0%**	**13,754**	**13,754**	**0**	**$16.76**	**69,915**
Uptown	A	46	18,156,666	3,125,188	17.2%	654,282	654,282	140,000	$36.89	960,391
	B	80	10,895,052	1,500,399	13.8%	(90,900)	(90,900)	0	$27.80	356,617
	C	12	883,150	71,455	8.1%	(3,212)	(3,212)	0	$20.78	2,804
Uptown Subtotal		**138**	**29,934,868**	**4,697,042**	**15.7%**	**560,170**	**560,170**	**140,000**	**$33.90**	**1,319,812**
West	A	53	8,752,422	1,370,205	15.7%	4,602	4,602	50,000	$31.31	775,908
	B	43	3,641,896	487,447	13.4%	33,210	33,210	86,255	$19.00	65,717
	C	34	1,608,229	95,749	6.0%	31,405	31,405	0	$16.28	1,054
West Subtotal		**130**	**14,002,547**	**1,953,401**	**14.0%**	**69,217**	**69,217**	**136,255**	**$25.80**	**842,679**
Westchase	A	33	10,178,115	1,122,487	11.0%	(80,338)	(80,338)	186,000	$37.60	1,168,466
	B	53	7,079,077	1,397,708	19.7%	2,730	2,730	0	$20.37	306,262
	C	14	587,034	25,009	4.3%	8,433	8,433	0	$19.26	176
Westchase Subtotal		**100**	**17,844,226**	**2,545,204**	**14.3%**	**(69,175)**	**(69,175)**	**186,000**	**$31.05**	**1,474,904**
Houston Area	A	425	124,006,851	19,607,387	15.8%	322,363	322,363	650,696	$34.75	7,954,720
	B	711	75,660,650	15,433,869	20.4%	(400,575)	(400,575)	86,255	$22.80	1,918,801
	C	327	18,935,354	2,140,992	11.3%	198,736	198,736	0	$15.73	76,269
Houston-Area Total		**1,463**	**218,602,855**	**37,182,248**	**17.0%**	**120,524**	**120,524**	**736,951**	**$28.74**	**9,949,790**

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

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

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

Houston-Area Office Direct Net Absorption by Class



Period	Class A	Class B	Class C	All Classes
2017 Q1	322,363	(400,575)	198,736	120,524
2016 Q4	(362,311)	(423,318)	101,373	(684,256)
2016 Q3	1,266,982	(1,047,275)	(147,036)	72,671
2016 Q2	458,663	183,462	(140,467)	501,658
2016 Q1	1,447,067	(130,000)	106,514	1,423,581
2015 Q4	1,021,081	(152,550)	(155,638)	712,893
2015 Q3	431,000	(987,011)	297,665	(258,346)
2015 Q2	1,673,913	(208,611)	38,093	1,501,468
2015 Q1	342,380	(505,867)	181,513	18,896
2014 Q4	1,419,893	299,495	(7,988)	1,711,400
2014 Q3	955,886	(124,273)	100,109	931,722
2014 Q2	1,959,053	231,353	185,092	2,375,178
2014 Q1	1,566,039	160,494	(28,136)	1,698,397
2013 Q4	484,233	270,886	(80,335)	675,209
2013 Q3	1,809,844	76,743	(86,576)	1,800,011
2013 Q2	825,910	(58,785)	(176,355)	590,770
2013 Q1	229,455	249,850	(71,478)	407,827
2012 Q4	566,957	649,491	(84,809)	1,131,639
2012 Q3	405,430	17,666	24,139	447,235
2012 Q2	1,335,653	64,691	31,732	1,432,076
2012 Q1	43,439	645,346	131,604	820,389

Houston-Area Industrial Market Summary

2017 First Quarter

commercial gateway

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Submarket	Specific Use	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
Inner Loop	Warehouse - Distribution	241	11,207,097	307,037	2.7%	162,306	162,306	0	$6.50	23,152
	Manufacturing	21	911,000	0	0.0%	0	0	0	n/a	0
	Light Industrial	163	4,047,927	128,851	3.2%	99,260	99,260	0	$6.47	0
	Flex/R&D	90	2,292,052	101,337	4.4%	5,810	5,810	0	n/a	0
	Inner Loop Subtotal	**515**	**18,458,076**	537,225	**2.9%**	**267,376**	**267,376**	**0**	**$6.49**	**23,152**
North	Warehouse - Distribution	219	8,994,604	1,197,237	13.3%	32,031	32,031	223,735	$7.18	25,736
	Manufacturing	50	2,936,711	191,750	6.5%	(43,870)	(43,870)	71,750	$5.32	0
	Light Industrial	260	5,131,221	251,839	4.9%	228,928	228,928	52,538	$8.96	49,012
	Flex/R&D	47	2,119,845	337,864	15.9%	43,781	43,781	0	$12.24	5,100
	North Subtotal	**576**	**19,182,381**	**1,978,690**	**10.3%**	**260,870**	**260,870**	**348,023**	**$7.51**	**79,848**
Northeast	Warehouse - Distribution	567	46,810,406	5,017,759	10.7%	(15,738)	(15,738)	164,060	$6.06	680,843
	Manufacturing	88	6,974,744	224,295	3.2%	(42,781)	(42,781)	34,500	$7.32	122,207
	Light Industrial	365	8,824,023	855,363	9.7%	(31,634)	(31,634)	20,222	$8.10	38,626
	Flex/R&D	103	3,549,129	542,031	15.3%	(896)	(896)	0	$7.53	19,030
	Northeast Subtotal	**1,123**	**66,158,302**	**6,639,448**	**10.0%**	**(91,049)**	**(91,049)**	**218,782**	**$6.91**	**860,706**
Northwest	Warehouse - Distribution	998	76,388,475	4,099,350	5.4%	258,810	258,810	1,053,000	$7.31	865,206
	Manufacturing	188	16,421,279	603,268	3.7%	144,800	144,800	58,460	$8.71	58,600
	Light Industrial	852	20,190,946	1,290,999	6.4%	367,658	367,658	154,850	$7.97	180,181
	Flex/R&D	319	11,073,354	543,410	4.9%	112,070	112,070	0	$9.74	59,462
	Northwest Subtotal	**2,357**	**124,074,054**	**6,537,027**	**5.3%**	**883,338**	**883,338**	**1,266,310**	**$7.97**	**1,163,449**
South	Warehouse - Distribution	256	14,601,346	540,221	3.7%	152,906	152,906	260,200	$4.96	119,652
	Manufacturing	52	3,661,824	109,176	3.0%	214,682	214,682	0	$6.40	0
	Light Industrial	347	6,889,544	307,865	4.5%	95,110	95,110	21,000	$5.88	30,000
	Flex/R&D	49	1,647,024	147,492	9.0%	(6,384)	(6,384)	0	n/a	0
	South Subtotal	**704**	**26,799,738**	**1,104,754**	**4.1%**	**456,314**	**456,314**	**281,200**	**$5.37**	**149,652**
Southeast	Warehouse - Distribution	631	56,941,242	4,745,629	8.3%	654,982	654,982	549,538	$4.45	560,007
	Manufacturing	122	14,609,025	204,410	1.4%	(73,000)	(73,000)	300,000	$9.01	0
	Light Industrial	358	7,950,491	736,260	9.3%	272,384	272,384	210,757	$4.95	40,086
	Flex/R&D	79	2,530,055	263,241	10.4%	(72,926)	(72,926)	0	$11.31	9,500
	Southeast Subtotal	**1,190**	**82,030,813**	**5,949,540**	**7.3%**	**781,440**	**781,440**	**1,060,295**	**$4.99**	**609,593**
Southwest	Warehouse - Distribution	471	30,766,582	2,293,828	7.5%	937,199	937,199	207,700	$6.18	451,600
	Manufacturing	59	4,192,239	594,720	14.2%	50,700	50,700	0	$5.12	0
	Light Industrial	401	11,054,059	409,414	3.7%	61,002	61,002	40,320	$8.14	29,935
	Flex/R&D	191	7,845,289	588,688	7.5%	(12,949)	(12,949)	100,000	$12.88	61,182
	Southwest Subtotal	**1,122**	**53,858,169**	**3,886,650**	**7.2%**	**1,035,952**	**1,035,952**	**348,020**	**$7.14**	**542,717**

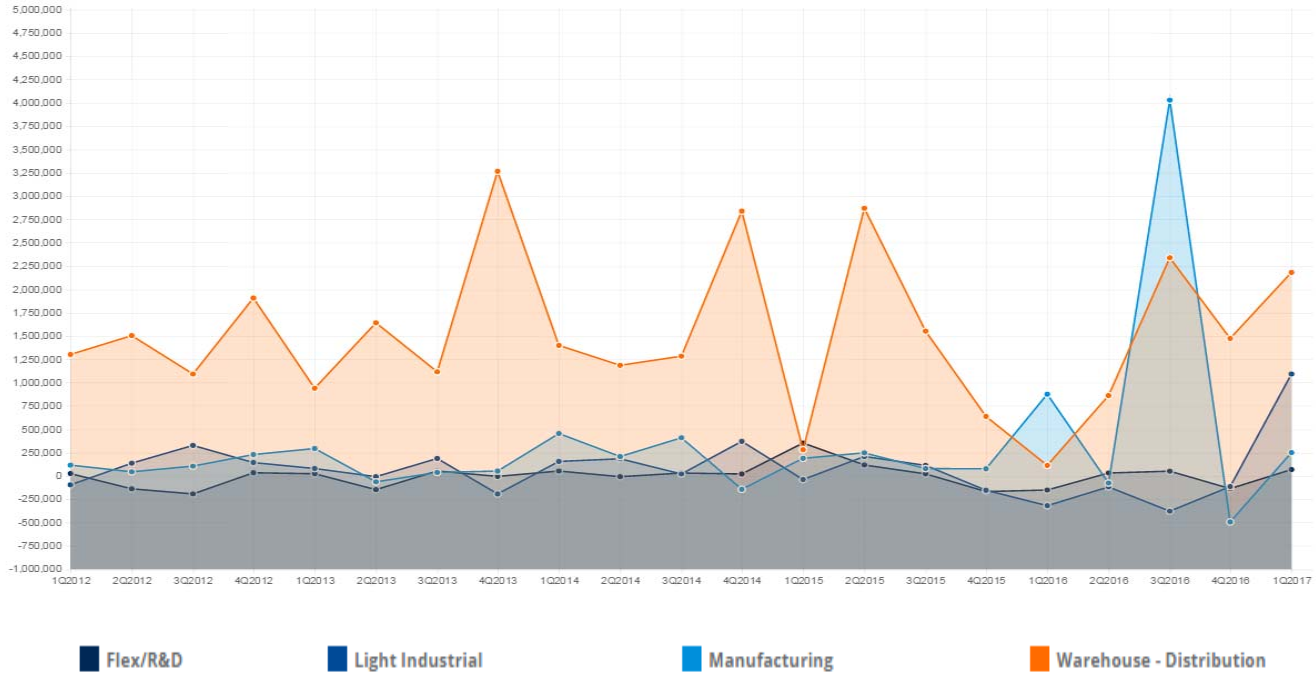
Houston Area	Warehouse - Distribution	3,383	245,709,752	18,201,061	7.4%	2,182,496	2,182,496	2,458,233	$5.49	2,726,196
	Manufacturing	580	49,706,822	1,927,619	3.9%	250,531	250,531	464,710	$6.18	180,807
	Light Industrial	2,746	64,088,211	3,980,591	6.2%	1,092,708	1,092,708	499,687	$7.31	367,840
	Flex/R&D	878	31,056,748	2,524,063	8.1%	68,506	68,506	100,000	$9.96	154,274
	Houston-Area Total	**7,587**	**390,561,533**	**26,633,334**	**6.8%**	**3,594,241**	**3,594,241**	**3,522,630**	**$6.42**	**3,429,117**

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

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

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

Houston-Area Industrial Direct Net Absorption by Type



Period	Flex/R&D	Light Industrial	Manufacturing	Warehouse-Distribution	All Types
2017 Q1	68,506	1,092,708	250,531	2,182,496	3,594,241
2016 Q4	(136,372)	(114,527)	(493,371)	1,474,130	729,860
2016 Q3	51,018	(377,683)	4,029,346	2,339,554	6,042,235
2016 Q2	31,257	(118,041)	(75,921)	861,232	698,527
2016 Q1	(151,167)	(319,040)	876,263	113,031	519,087
2015 Q4	(167,392)	(153,542)	76,496	638,076	393,638
2015 Q3	22,000	112,692	78,674	1,552,351	1,765,717
2015 Q2	117,699	208,720	247,275	2,870,150	3,443,844
2015 Q1	353,148	(38,783)	188,910	280,869	784,144
2014 Q4	20,908	371,015	(143,098)	2,839,063	3,087,888
2014 Q3	31,000	20,982	408,958	1,284,129	1,745,069
2014 Q2	(8,135)	183,821	207,922	1,185,883	1,569,491
2014 Q1	52,636	155,506	454,750	1,399,492	2,062,384
2013 Q4	(4,830)	(192,608)	51,980	3,266,527	3,121,069
2013 Q3	52,871	187,095	37,808	1,116,305	1,394,079
2013 Q2	(147,032)	(8,137)	(63,405)	1,641,833	1,423,259
2013 Q1	23,493	79,562	294,045	939,899	1,336,999
2012 Q4	33,839	143,171	229,044	1,907,476	2,313,530
2012 Q3	(192,880)	327,075	105,257	1,092,598	1,332,050
2012 Q2	(138,262)	136,630	44,180	1,504,291	1,546,839
2012 Q1	25,173	(95,604)	115,825	1,302,453	1,347,847

Quarterly Market Overview
2016 Fourth Quarter
FOR IMMEDIATE RELEASE

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

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

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

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

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

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

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

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

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

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

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

Commercial Gateway Member/Broker Comments on the Houston Office Market

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

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

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

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

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

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

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

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

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

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

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

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

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

Houston Industrial Market

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

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

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

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

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

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

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

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

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

###

Houston-Area Office Market Overview

2016 Fourth Quarter

Powered by

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

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

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

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

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

Houston-Area Office Historical Overview

2016 Fourth Quarter

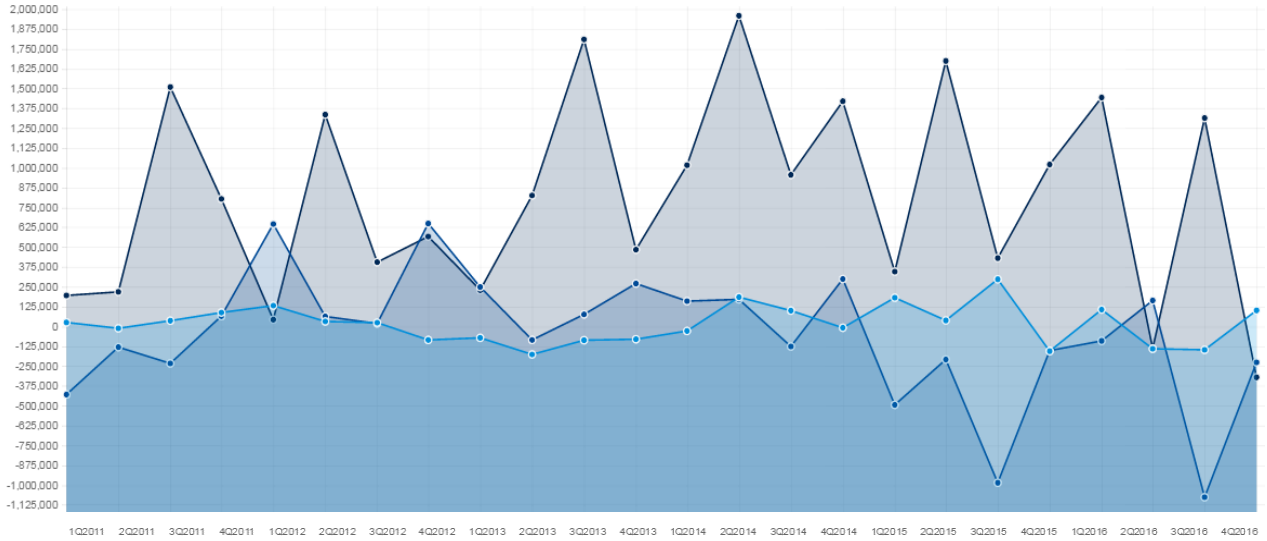
Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2016 Q4	1,458	216,620,865	35,414,439	16.4%	10,153,560	(445,245)	$28.27	$24.78
2016 Q3	1,456	216,020,656	34,315,581	15.9%	10,678,789	90,678	$28.11	$22.44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

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

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

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

Houston-Area Office Direct Net Absorption by Class



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

Houston-Area Industrial Market Summary

2016 Fourth Quarter

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

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

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

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

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

Houston-Area Industrial Historical Overview

2016 Fourth Quarter

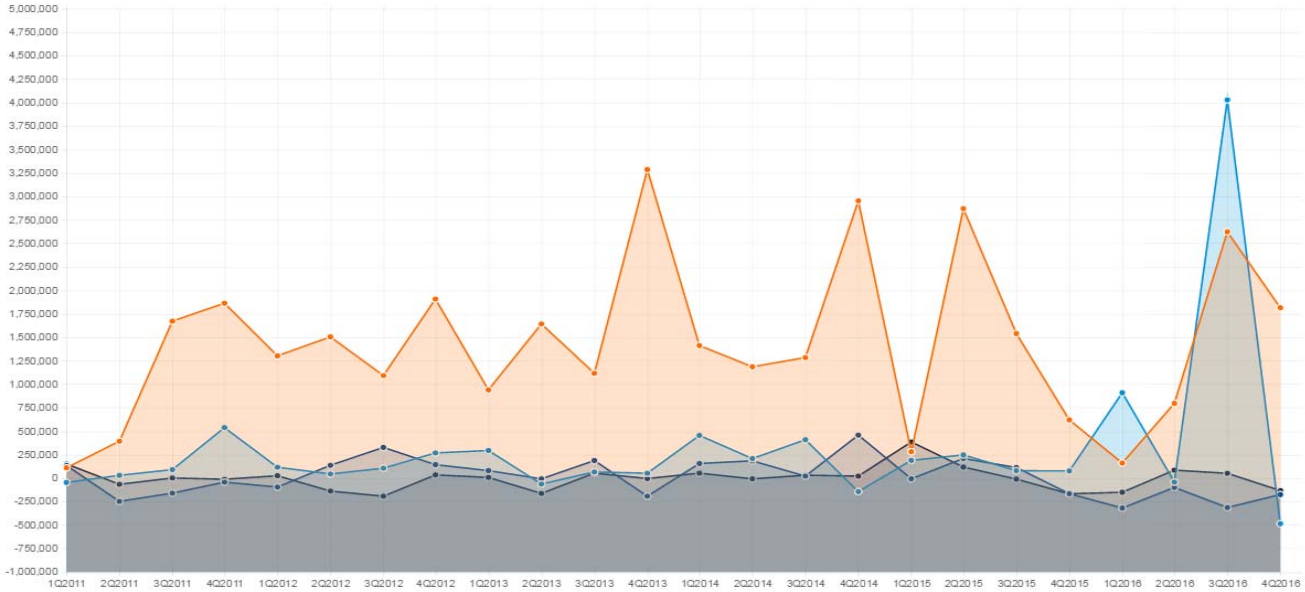
Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2016 Q4	7,835	415,730,666	26,955,804	6.5%	3,677,772	1,020,481	$6.84	$5.88
2016 Q3	7,820	414,158,092	25,115,783	6.1%	2,634,253	6,390,576	$7.10	$6.81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

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

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

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

Houston-Area Industrial Direct Net Absorption by Type



Flex/R&D | Light Industrial | Manufacturing | Warehouse - Distribution

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

Quarterly Market Overview
2016 Third Quarter
FOR IMMEDIATE RELEASE

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HOUSTON'S THIRD-QUARTER COMMERCIAL ACTIVITY SHOWS MIXED RESULTS

HOUSTON — (October 20, 2016) — Houston's commercial real estate market offers mixed readings, as office continues to struggle and industrial continues to build. That's according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR).

The third quarter reported direct positive absorption of 575,726 square feet of office space primarily due to Phillips 66 occupying its new 1.1 million square-foot campus in Westchase. If not included, the absorption number would be negative. That move-in, along with several other recent completions including the Greater Houston Partnership's building in the Central Business District and Region's Financial Center in Greenway Plaza, helped to offset increasing vacancies in Class A properties. Class B and Class C properties both reported negative absorption for the quarter, a negative 592,992 square feet and a negative 156,008 square feet, respectively.

Absorption year-to-date is running at almost 1.5 million square feet, once again primarily due to multiple owner-occupied projects including Phillips 66 and National Oilwell Varco in Westchase, accounting for more than 1.6 million square feet in their new buildings, and Hillcorp with another 515,025 square feet in the Central Business District.

Space left behind by various firms occupying those new properties are showing up as direct space and affecting the vacancy rate, which continues to climb. The current 15.5% direct vacancy rate is up from the 15.2% vacancy recorded last quarter, and also up from the 13.3% recorded during the same quarter in 2015. No submarket is reporting a single-digit vacancy rate, and among the larger submarkets, only the Central Business District is reporting single-digit vacancy in Class A space. Class A space overall is 14.2% vacant. One of the larger spaces to hit the market was Halliburton's 560,000-square-foot building at 10200 Bellaire, part of the company's Oak Park Campus. Halliburton completed its employee relocation to its corporate

headquarters in North Houston during the third quarter and placed the entire 48.9566-acre campus on the market.

Halliburton's decision is just one example of the changing economy related to the energy downturn, which is clearly reflected in the record-level direct vacancy when combined with the additional 10.7 million square feet of sublease space. During the third quarter, 84 new sublease spaces totaling almost 1.9 million square feet were added to the list, according to Commercial Gateway statistics. The positive side of that is the net gain in sublease space was only 700,000 square feet for the quarter, which means the other listings were either leased, taken off the market for some reason – some may have been retained by the current tenant, or the sublease term expired.

Currently at 10.7 million square feet, Houston's office sublease market has doubled in the past year, when Third Quarter 2015 statistics reported by Commercial Gateway totaled 5.7 million square feet. Regarding location, almost three-fourths of all sublease space is located in four market areas with the top two representing almost half of the overall total. The Energy Corridor leads the way with 27.0%, the Central Business District with 22.1%, followed by Westchase and Uptown markets at 12.8% and 12.0%, respectively. Broken down by space, currently 26 sublease listings are marketing more than 100,000 square feet, with 10 of those reporting contiguous blocks of more than 100,000 square feet. However, recent reports have increased the sublease total to around 12 million square feet and growing.

For the quarter, six new buildings were completed, adding almost 1.6 million square feet to the market and 66.0% preleased. All but one of the six had preleasing; the largest to be completed was BHP Billiton's 600,000-square-foot Tower in Uptown. BHP Billiton will be occupying that space either later in the year or early next year and has already put some of its current space on the sublease market. Year-to-date, 18 properties totaling 6.1 million square feet were completed in 2016.

Construction starts have halted for the most part since the first quarter, with only office buildings in mixed-use or boutique office projects breaking ground. Overall, the Houston under-construction office market has 10 properties totaling 2.3 million square feet, of which 609 Main at Texas represents almost half of the total and is the largest spec building. Collectively, the under-construction buildings are about 45.3% preleased, with 13 properties classified as multi-tenant. Of those under construction, two are scheduled for completion by yearend.

Concessions are becoming more commonplace in the market, even though quoted rental rates have remained steady. Rental rates showed a slight decrease from the past quarter and an increase the past year with the current overall averaged weighted rental rate of $28.15, down from last quarter's $28.22 rate but up from $27.20 from last year's third quarter. Class A rates, now at $33.49 citywide and at $42.67 in the CBD, experienced slight increases from last quarter. Quoted rents for sublease space decreased almost a full $2, or 7.4%, from $24.31 last quarter to $22.41 this quarter.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "Office tenants looking to move or expand their space will have more options than they can imagine as leasing activity slows and sublease space multiplies. Although both the office and industrial markets recorded positive absorption during third quarter, the majority of positive absorption can be attributed to large owner-occupied properties including Phillips 66 completing its move into its new 1.1 million square-foot facility in Westchase and Daikin Industries' completion and occupation of its 4 million square-foot facility in Northwest Houston.

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

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

David Baker, Executive Vice President, Transwestern "The market has continued to add space on a direct and sublease basis. At the same time, it appears that the energy business has hit bottom and is starting to rebound, and Houston is expected to have positive overall job growth for 2016. So we anticipate that this will minimize or eliminate further increases in new space availabilities and help moderate the level of concessions and stabilize rental rates in 2017."

Kevin Kushner, First Vice President, CBRE Group Inc. "This is a great time to be a tenant in Houston. There so many more options available in this market. With sublease space

totaling more than 12 million square feet, including 500,000 that was added during the last 15 days, tenants have more options (as a percentage of the overall market) than at any time since the 1990s.This large amount of sublease space – specifically high quality space with strong sub-landlords – in turn forces building owners to become more competitive. While landlords are not decreasing quoted rates to sublease rate levels, landlords are offering significant concessions and often agreeing to rates far below their quoted terms. Regarding concessions, whereas landlords were offering $50 to $60 per square foot in tenant improvement dollars on long-term deals a few years ago, some are now offering up to $90 per square foot. Landlords are seeing very little activity. There just are not many tenants in the market at this time. As a result, landlords can easily justify offering free rent for a period of time to entice tenants to sign a lease.

"Advising clients through the leasing process is far different now than a couple years ago. New options come online almost daily – as more firms add space to the sublease market. My team and I are constantly evaluating and updating our data to ensure we are presenting clients with all possible options – often re-evaluating previously identified options against what has recently come available. The process becomes more of a struggle for the tenant, but tenants who are patient and diligent can reap big rewards by ensuring they are thoroughly evaluating all the options."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "Houston continues to feel the effects of the energy sector's downturn, which has cast a shadow of uncertainty over the office leasing market creating sluggish demand and rising sublease availabilities on top of numerous new office buildings entering the market. Overall leasing activity declined for the seventh consecutive quarter as many companies are delaying their long-term leasing decisions due to uncertainty in the local economy, resulting in overall transaction volume dropping to its lowest level since 2009. The dramatic decline in leasing volume is also attributed to small- and mid-sized leases accounting for the bulk of activity. Only four lease transactions above the 100,000-square-foot mark have been signed year-to-date, with three of these deals taking place in new construction projects.

"During the third quarter of 2016, Houston's office leasing market fundamentals softened further as the citywide Class A direct occupancy level declined by 60 basis points to 83.4%, reaching its lowest level since 2005. Although pre-lease commitments in newly-

built projects managed to keep Class A direct absorption levels slightly in positive territory, new supply has outpaced demand in nine of the previous 10 quarters causing Class A direct occupancy levels to fall by 7.6 percentage points since their cyclical peak of 91.0% in early 2014.

“Within the competitive leasing market, developers completed seven new office buildings citywide during the third quarter totaling 1,575,831 square feet and have delivered a total of nearly 7.1 million square feet of new office construction over the past 12 months (excluding corporate-owned projects). Meanwhile, sublease availability has soared by 4.5 million square feet to over 12.1 million square feet since the third quarter of 2015 as many energy-related companies are placing underutilized space on the market that was created by workforce reductions, a merger or acquisition, or space that was originally tied up for future expansion. Consequently, total space availability has significantly increased by 7.2 million square feet within the past 12 months, primarily due to this sublease space and newly delivered office space.

“As office leasing volume remains slow and the number of available space options continue to grow, asking rents have begun to adjust and more concessions are being offered to stimulate leasing activity and combat increased vacancies. Even though face rates remain relatively steady with the addition of new inventory commanding higher rents and increased taxes inflating operating expenses, actual effective rates at which deals are being done have decreased, and the value of concession packages increased. In addition, the spread between quoted rates and actual deal rates is widening significantly.

“Houston’s office leasing market fundamentals are expected to remain soft as new supply is expected to outpace demand through 2017, which could push the citywide direct occupancy rate down to approximately 82.5% by year-end 2017 -- its lowest level since 1995. Current oil market conditions suggest downsizing will continue and additional sublease blocks will hit the market due to job cuts, bankruptcies and merger and acquisition activity, adding to the oversupply problem.

“The key areas for office property owners to focus on during these challenging times will be the careful evaluation of near-term rollover and the retention of value by securing early lease renewals and/or or extensions to combat potential increased vacancies. Even though office-using job growth is expected to return sometime in 2018, future

leasing demand from the energy sector will likely remain suppressed as there will be an abundance of sublease and shadow space that must be dealt with before tenants will absorb additional space. Another factor that could impact future absorption trends in the competitive leasing market is the continuing trend of consolidation into owned facilities by large companies such as ExxonMobil, Phillips 66, Shell Oil, Southwestern Energy, Halliburton, FMC Technologies, Hillcorp and others."

Alex Taghi, Vice President, NAI Partners "Houston is an incredibly resilient city; it's much ballyhooed economic diversity is certainly not without merit. That said, the 'lower for longer' reality for oil prices has been felt nowhere more acutely than the office sector, the one sector tied directly to oil and gas job creation. As such, we continue to see an incredibly favorable tenant market with a couple of major caveats, however. Smaller tenants, say under 10,000 rentable square feet, are seeing a slightly tighter market than their larger counterparts, particularly in regards to sublease space. Additionally, although the market as a whole is as favorable to tenants as we've seen in recent memory, it can still differ greatly on a building-by-building basis. The constant barrage of reports and news clippings about the demise of the Houston office market is not entirely overblown (12 million square feet of sublease space alone), but many of the ultra-aggressive deals are tied to large block availabilities where a smaller tenant may have a hard time taking advantage.

"NAI research indicates there is about a 35% delta between direct rates and sublease rates - in specific instances that delta is even greater. It's easy to see why subleases are gaining so much traction – they offer premium built-out space, often fully furnished, at very attractive economics. Terms vary greatly, though, and it requires a thorough understanding of market dynamics to educate your clients accordingly as expectations and reality don't always align. With the unprecedented amount of sublease space in addition to new office deliveries (as dwindling as those are becoming), many landlords are being forced to make difficult decisions – attempt to protect rates or be proactive and maximize tenancy today but take a haircut on economics. Even though we've seen a modest rebound in oil prices, it will take time to backfill all the space on the market, pushing back any true office market recovery until late 2017 at the earliest and likely into 2018 or beyond.

"Heady tenants will take full advantage of current market conditions, whether locking in lower rates and increased concessions, taking advantage of a plethora of sublease options, or simply leveraging the negative news into a more favorable restructure. As Warren Buffett famously said, 'Be fearful when others are greedy, and be greedy when others are fearful…' For the able tenant, now may be the time to get greedy."

Houston Industrial Market

Houston's industrial market continued to expand dramatically during the third quarter with positive direct net absorption of 6.1 million square feet, according to statistics compiled by Commercial Gateway. Daikin Industries' manufacturing and distribution facility, reported as the largest concrete tilt-wall building in the world at 4 million square feet, accounts for about two-thirds of the quarter's absorption. Located off U.S. Highway 290 about three miles west of State Highway 99, the $417 million campus represents the consolidation of four existing facilities in the U.S. Built by the Japan-based HVAC manufacturer, the facility will eventually employ up to 5,000 people.

This quarter's absorption represents the 27th consecutive quarter – over six years – of positive absorption, with seven quarters recording more than 2 million square feet each and more than half recording more than 1 million square feet. Even without Daikin's property, the current quarter's absorption compares favorably to the 1.7 million square feet recorded in third quarter last year. The current absorption total includes 2.3 million square feet of warehouse-distribution space along with 4.1 million square feet of manufacturing space. Only light industrial space offset the positive levels with a negative 364,831 square feet.

Activity is slowing for some product in some areas but due to the large property coming online totally leased, the vacancy rate decreased slightly to 6.1%, compared to 6.3% the previous quarter. Vacancy for warehouse/distribution space citywide is 6.3% with manufacturing space at a low of 3.0%.

Almost 6 million square feet in 11 buildings came online during the third quarter, contributing about 5.1 million square feet to the absorption total coming on line at 85.4% leased. Year-to-date, 39 industrial buildings totaling almost 9 million square feet were completed in 2016 and are collectively 79.1% leased.

Construction activity is still high with many projects underway and other build-to-suit (BTS) projects getting ready to start construction before the end of the year. Currently, 42

buildings representing 6.4 million square feet are underway. The largest BTS is FedEx's new 800,000-square-foot distribution facility in the Northwest near the Grand Parkway and west of U.S. Highway 290. The bulk of the remainder under construction is concentrated in the Southeast with 14 projects totaling more than 3.1 million square feet followed by the Southwest with eight projects totaling more than 1.1 million square feet. Overall, the under-construction market is 54.5% preleased.

Rental rates have decreased slightly this quarter to $7.10 from $7.21 last quarter but are lower than the $7.77 recorded during the same quarter last year.

Sublease space had been steadily increasing each quarter during the last couple years, and increased slightly to 2.6 million square feet this quarter. The current quarter's total is still almost double the square footage from the same quarter a year ago.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Peyton Easley, Associate, ICO Commercial "The Houston industrial market continues to trend in a positive direction with vacancy rates remaining low and strong levels of activity. Despite the headlines throughout 2016, properties are continuing to perform well and there is a healthy amount of new construction. However, each submarket has its own story.

"The Northwest and Southeast continue to get the spotlight because of the softening of the oil industry and the rise of the petrochemical sector. However, one submarket that has been relatively unchanged from the oil-and-gas struggles is the Southwest submarket. In fact, rental rates have increased every quarter since the end of 2014; this is possible because the tenant mix has few oil- and gas-related tenants.

"Despite the success in the Southwest, the vacancy rate rose in the second quarter of 2016 to 5.6% but has since dropped back down to 4.7% in the third quarter. This short-term increase in vacancy rates was due to the increased construction in late 2015 and early 2016; developers were making up for the construction slowdown in the market since mid-2014.

"Current market conditions surprise tenants when they realize rental rates are increasing in spite of the Houston storyline. However, the increases are fairly small as the market has seen a meager 7.5% increase since 2013.Tenants looking to move away from leasing will be amazed by the lack of product for sale. Only 2.3% of the market's

properties are currently available for purchase. That being said, the Southwest submarket clearly favors landlords and owners."

Michael Keegan, SIOR, Senior Vice President, NAI Partners "The Houston industrial market remains steady over the third quarter with absorption and deliveries gaining momentum. Supply is up compared to the second quarter, and demand sees a slow uptick.

"Leasing activity was a bit slower compared to the second quarter with a 3.6% decrease. Vacancy also saw a slight decrease of 5.2% while 6.5 million square feet of industrial product type was delivered in the third quarter. Although that seems like a large number, 4 million of that was the Daikin Industries facility in Waller, Texas.

"Low oil prices continue to impact Houston's local economy and development. We are still seeing landlord concessions being offered along with reduced sale prices and substantial amounts of free rent for both dock-high distribution and free-standing manufacturing facilities. The free-standing manufacturing market is still bearing the brunt of low oil prices and continues to perform at the lowest of all product classes.

"The Northwest Houston submarket continues to be impacted the most by low oil prices. North Houston showed signs of growth in the first and second quarter but slowed down towards the end of summer. South and Southwest Houston submarkets are getting more and more attention from big-bulk distribution developers while Southeast Houston remains strong thanks to the healthy petrochemical industry.

"We expect positive growth in the fourth quarter specifically in the big-bulk distribution markets, and if oil continues to climb, we'll hopefully see growth in the manufacturing arena."

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

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Houston-Area Office Market Overview

2016 Third Quarter

Powered by

Submarket	Class	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
CBD	A	33	30,800,517	2,877,468	9.3%	(360,826)	(15,050)	1,057,658	$42.67	2,067,882
	B	28	9,858,006	2,774,282	28.1%	(63,938)	(176,877)	0	$31.30	324,254
	C	8	552,183	104,447	18.9%	0	(15,824)	0	$18.64	0
CBD Subtotal		**69**	**41,210,706**	**5,756,197**	**14.0%**	**(424,764)**	**(207,751)**	**1,057,658**	**$39.19**	**2,392,136**
Energy Corridor	A	47	15,413,898	2,145,664	13.9%	14,917	(194,168)	0	$31.35	2,227,136
	B	54	6,208,400	1,535,454	24.7%	(348,219)	(335,785)	0	$27.57	574,745
	C	8	355,254	39,477	11.1%	408	(26,599)	0	$21.22	6,195
Energy Corridor Subtotal		**109**	**21,977,552**	**3,720,595**	**16.9%**	**(332,894)**	**(556,552)**	**0**	**$29.65**	**2,808,076**
Fort Bend County	A	25	2,982,239	339,797	11.4%	36,324	109,693	27,906	$26.49	98,908
	B	23	2,594,611	209,046	8.1%	6,001	(19,778)	0	$20.27	0
	C	1	156,000	50,471	32.4%	(25,441)	(6,164)	0	19	0
Fort Bend County Subtotal		**49**	**5,732,850**	**599,314**	**10.5%**	**16,884**	**83,751**	**27,906**	**$23.62**	**98,908**
Greenspoint	A	26	5,411,356	2,099,275	38.8%	(49,521)	(436,835)	0	$25.76	506,127
	B	46	4,593,052	1,349,045	29.4%	138,492	232,779	0	$16.41	188,445
	C	27	1,999,611	403,435	20.2%	(36,553)	87,991	0	$11.90	6799
Greenspoint Subtotal		**99**	**12,004,019**	**3,851,755**	**32.1%**	**52,418**	**(116,065)**	**0**	**$21.51**	**701,371**
Inner Loop	A	38	11,414,570	1,690,919	14.8%	206,308	366,072	188,696	$33.04	201,843
	B	109	10,833,247	1,264,685	11.7%	(88,761)	(133,174)	28,000	$26.45	64,408
	C	62	4,151,529	310,307	7.5%	4,909	18,734	0	$17.46	2,250
Inner Loop Subtotal		**209**	**26,399,346**	**3,265,911**	**12.4%**	**122,456**	**251,632**	**216,696**	**$29.18**	**268,501**
North/The Woodlands/ Conroe	A	61	11,950,553	1,462,680	12.2%	170,116	205,308	0	$31.50	368,667
	B	86	4,956,363	968,988	19.6%	(140,006)	(69,720)	0	$19.00	133,022
	C	22	914,144	145,935	16.0%	(4,307)	(19,607)	0	$13.97	0
North/The Woodlands/ Conroe Subtotal		**169**	**17,821,060**	**2,577,603**	**14.5%**	**25,803**	**115,981**	**0**	**$24.25**	**501,689**
Northeast	A	3	411,670	10,616	2.6%	(2,986)	357,014	0	$25.75	0
	B	16	640,930	56,585	8.8%	7,407	16,009	0	$17.28	0
	C	6	206,683	80652	39.0%	(480)	(215)	0	15.39	0
Northeast Subtotal		**25**	**1,259,283**	**147,853**	**11.7%**	**3,941**	**372,808**	**0**	**$16.78**	**0**
Northwest	A	40	4,770,344	917,124	19.2%	14,093	59,571	0	$26.11	236,824
	B	63	5,187,947	1,273,992	24.6%	(58,038)	(23,038)	0	$18.99	113,458
	C	22	1,007,437	169,719	16.9%	7,033	(29,467)	0	$17.14	0
Northwest Subtotal		**125**	**10,965,728**	**2,360,835**	**21.5%**	**(36,912)**	**7,066**	**0**	**$21.08**	**350,282**

Southeast	A	17	1,989,649	148,641	7.5%	75,309	77,431	0	$24.30	29,537
	B	57	3,682,885	676,646	18.4%	(60,697)	(196,530)	0	$17.87	22,175
	C	39	1,868,158	312,064	16.7%	(31,910)	10,089	0	$17.38	27610
Southeast Subtotal		**113**	**7,540,692**	**1,137,351**	**15.1%**	**(17,298)**	**(109,010)**	**0**	**$18.28**	**79,322**
Southwest	A	5	1,089,277	233,655	21.5%	2,966	(11,868)	0	$17.25	850
	B	49	5,709,512	1,264,766	22.2%	36,632	57,855	0	$21.12	32,741
	C	72	4,903,178	612,914	12.5%	(27,718)	(110,543)	0	$13.46	17,700
Southwest Subtotal		**126**	**11,701,967**	**2,111,335**	**18.0%**	**11,880**	**(64,556)**	**0**	**$17.94**	**51,291**
Uptown	A	45	17,722,017	3,236,648	18.3%	(96,628)	63,627	507,170	$37.07	931,335
	B	76	10,469,387	1,235,295	11.8%	10,859	(67,509)	0	$28.89	304,911
	C	14	983,308	114,254	11.6%	(52,120)	(62,054)	0	$21.06	2804
Uptown Subtotal		**135**	**29,174,712**	**4,586,197**	**15.7%**	**(137,889)**	**(65,936)**	**507,170**	**$34.70**	**1,239,050**
West	A	52	8,429,288	1,142,309	13.6%	287,239	317,142	290,000	$27.21	771,667
	B	40	3,572,381	449,456	12.6%	(72,285)	(66,300)	0	$19.06	59,806
	C	37	1,776,592	153,355	8.6%	(7,008)	(49,368)	0	$16.54	13,037
West Subtotal		**129**	**13,778,261**	**1,745,120**	**12.7%**	**207,946**	**201,474**	**290,000**	**$23.66**	**844,510**
Westchase	A	35	10,435,493	1,160,427	11.1%	1,027,415	1,274,950	186,000	$35.65	1,067,821
	B	49	6,637,887	682,800	10.3%	39,561	273,595	0	$19.74	280,656
	C	16	768,196	58,785	7.7%	17,179	20,531	0	$16.16	176
Westchase Subtotal		**100**	**17,841,576**	**1,902,012**	**10.7%**	**1,084,155**	**1,569,076**	**186,000**	**$30.64**	**1,348,653**
Houston Area	A	427	122,820,871	17,465,223	14.2%	1,324,726	2,172,887	2,257,430	$33.49	8,508,597
	B	696	74,944,608	13,741,040	18.3%	(592,992)	(508,473)	28,000	$22.70	2,098,621
	C	334	19,642,273	2,555,815	13.0%	(156,008)	(182,496)	0	$15.54	76,571
Houston-Area Total		**1,457**	**217,407,752**	**33,762,078**	**15.5%**	**575,726**	**1,481,918**	**2,285,430**	**$28.15**	**10,683,789**

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

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

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

Houston-Area Office Historical Overview

2016 Third Quarter

Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2016 Q3	1,457	217,407,752	33,762,078	15.5%	10,683,789	575,726	$28.15	$22.41
2016 Q2	1,437	215,060,856	32,689,397	15.2%	10,128,144	(188,289)	$28.22	$24.31
2016 Q1	1,418	212,534,106	30,295,257	14.3%	7,184,337	1,094,481	$27.89	$22.45
2015 Q4	1,390	210,381,234	29,339,456	13.9%	6,718,856	469,895	$28.74	$23.16
2015 Q3	1,363	207,476,275	27,672,276	13.3%	5,737,050	(259,089)	$27.20	$25.40
2015 Q2	1,358	206,278,067	26,394,894	12.8%	4,871,969	1,503,287	$26.71	$28.10
2015 Q1	1,352	203,900,512	25,522,582	12.5%	3,450,693	32,894	$26.43	$29.72
2014 Q4	1,339	200,792,837	22,813,152	11.4%	3,195,204	1,717,228	$25.48	$29.33
2014 Q3	1,332	198,190,602	21,760,803	11.0%	3,042,717	930,055	$25.20	$29.42
2014 Q2	1,323	196,763,713	21,366,907	10.9%	3,127,013	2,312,302	$25.13	$27.94
2014 Q1	1,315	195,022,071	21,682,105	11.1%	2,751,241	1,149,977	$24.96	$26.01
2013 Q4	1,311	194,129,561	21,837,541	11.2%	2,616,113	674,935	$24.36	$27.50
2013 Q3	1,305	193,030,585	22,129,982	11.5%	2,299,752	1,799,437	$24.33	$27.48
2013 Q2	1,292	190,961,134	21,276,607	11.1%	2,034,806	563,625	$23.68	$26.34
2013 Q1	1,287	189,916,763	21,473,236	11.3%	1,703,604	408,040	$23.38	$25.56
2012 Q4	1,288	189,875,565	21,896,530	11.5%	1,654,045	1,133,953	$23.28	$23.05
2012 Q3	1,284	189,357,218	22,415,856	11.8%	1,669,477	437,218	$23.04	$23.71
2012 Q2	1,282	189,530,208	22,876,464	12.1%	1,873,841	1,428,941	$22.85	$24.85
2012 Q1	1,282	189,548,626	23,705,909	12.5%	2,220,466	825,651	$22.75	$25.28
2011 Q4	1,280	189,373,217	25,430,981	13.4%	2,508,155	956,156	$22.91	$25.34
2011 Q3	1,274	188,889,492	26,182,552	13.9%	3,001,909	1,300,872	$22.74	$25.32
2011 Q2	1,273	187,989,047	26,589,601	14.1%	2,748,436	74,580	$22.97	$24.95
2011 Q1	1,271	187,304,895	26,156,145	14.0%	2,793,033	(208,340)	$23.23	$24.02

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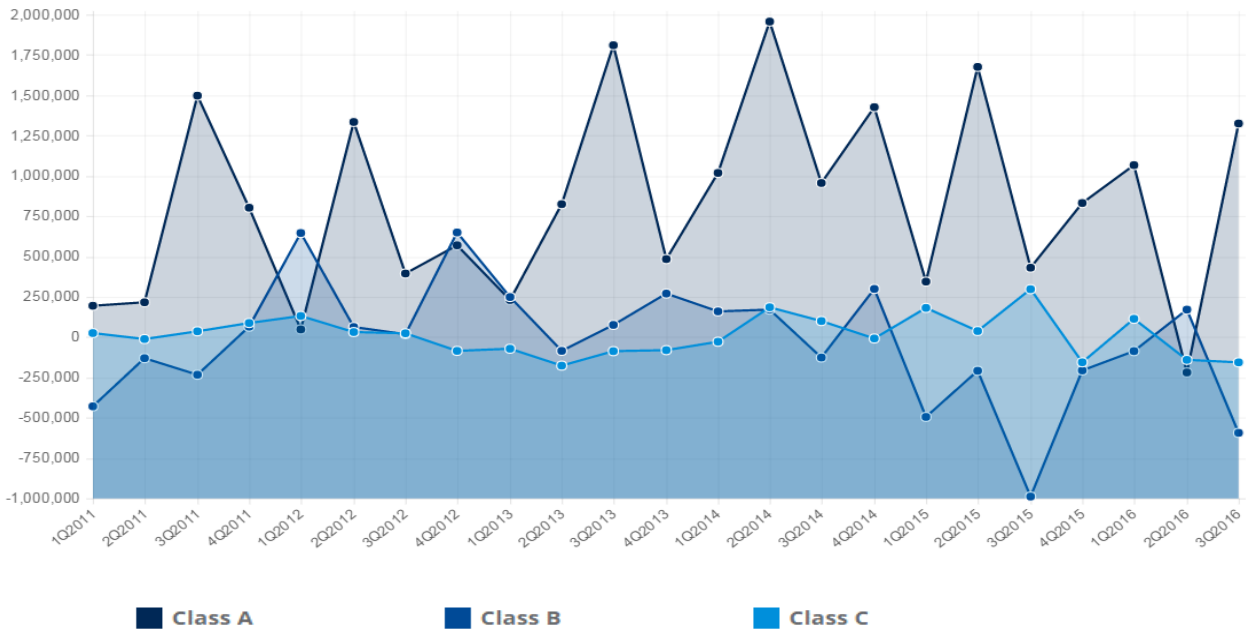
***Rental rates are weighted and averaged based on available space

Houston-Area Office Direct Net Absorption by Class



Period	Class A	Class B	Class C	All Classes
2016 Q3	1,324,726	(592,992)	(156,008)	575,726
2016 Q2	(218,628)	170,806	(140,467)	(188,289)
2016 Q1	1,066,789	(86,287)	113,979	1,094,481
2015 Q4	831,660	(206,127)	(155,638)	469,895
2015 Q3	431,000	(987,754)	297,665	(259,089)
2015 Q2	1,675,438	(208,317)	38,093	1,503,287
2015 Q1	344,659	(494,148)	181,513	32,894
2014 Q4	1,425,969	299,247	(7,988)	1,717,228
2014 Q3	955,886	(125,940)	100,109	930,055
2014 Q2	1,956,504	171,026	185,092	2,312,302
2014 Q1	1,018,304	159,809	(28,136)	1,149,977
2013 Q4	484,233	270,612	(80,335)	674,935
2013 Q3	1,809,844	76,169	(86,576)	1,799,437
2013 Q2	824,750	(84,770)	(176,355)	563,625
2013 Q1	230,615	248,903	(71,478)	408,040
2012 Q4	569,506	649,256	(84,809)	1,133,953
2012 Q3	394,633	18,446	24,139	437,218
2012 Q2	1,334,128	63,081	31,732	1,428,941
2012 Q1	48,249	645,798	131,604	825,651
2011 Q4	802,769	65,449	87,938	956,156
2011 Q3	1,497,234	(232,783)	36,421	1,300,872
2011 Q2	216,347	(130,246)	(11,521)	74,580
2011 Q1	194,823	(428,686)	25,523	(208,340)

Houston-Area Industrial Market Summary

2016 Third Quarter

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Submarket	Specific Use	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
Inner Loop	Warehouse - Distribution	277	13,704,844	412,846	3.0%	(36,233)	41,640	0	$6.88	18,342
	Manufacturing	27	1,164,186	18,600	1.6%	(18,600)	(19,865)	0	$5.94	0
	Light Industrial	166	4,172,434	258,827	6.2%	25,207	(13,986)	0	$5.83	0
	Flex/R&D	95	2,456,777	189,403	7.7%	1,151	(30,955)	0	$13.96	0
	Inner Loop Subtotal	**565**	**21,498,241**	**879,676**	**4.1%**	**(28,475)**	**(23,166)**	**0**	**$7.11**	**18,342**
North	Warehouse - Distribution	228	9,599,300	878,988	9.2%	265,210	247,149	223,735	$7.22	0
	Manufacturing	52	3,037,344	193,533	6.4%	52,150	177,950	0	$5.92	0
	Light Industrial	253	4,997,204	325,709	6.5%	56,008	46,479	166,238	$8.84	57,482
	Flex/R&D	44	1,938,820	328,515	16.9%	(1,595)	(10,195)	50,000	$14.19	5100
	North Subtotal	**577**	**19,572,668**	**1,726,745**	**8.8%**	**371,773**	**461,383**	**439,973**	**$7.97**	**62,582**
Northeast	Warehouse - Distribution	569	48,187,596	5,344,789	11.1%	(61,790)	(58,431)	164,060	$6.41	435,002
	Manufacturing	95	7,714,006	119,222	1.6%	0	890,455	34,500	$6.72	122,207
	Light Industrial	351	8,476,944	820,429	9.7%	(53,997)	(166,341)	0	$7.84	86,037
	Flex/R&D	113	3,921,523	518,351	13.2%	(37,572)	(33,347)	0	$7.28	70,403
	Northeast Subtotal	**1,128**	**68,300,069**	**6,802,791**	**10.0%**	**(153,359)**	**632,336**	**198,560**	**$6.87**	**713,649**
Northwest	Warehouse - Distribution	1,029	80,656,138	4,707,555	5.8%	1,069,722	950,615	1,024,890	$7.66	803,148
	Manufacturing	194	17,112,564	482,785	2.8%	3,988,851	3,942,859	0	$8.46	48,500
	Light Industrial	839	20,455,797	1,431,497	7.0%	(42,386)	(202,960)	61,250	$7.85	236,372
	Flex/R&D	329	12,886,003	562,712	4.4%	72,403	20,684	0	$9.68	133,774
	Northwest Subtotal	**2,391**	**131,110,502**	**7,184,549**	**5.5%**	**5,088,590**	**4,711,198**	**1,086,140**	**$8.02**	**1,221,794**
South	Warehouse - Distribution	274	16,564,643	677,779	4.1%	89,640	(116,548)	433,000	$5.28	59,501
	Manufacturing	53	3,562,271	55,650	1.6%	0	0	80,000	6.31	90,000
	Light Industrial	340	6,857,921	452,241	6.6%	(16,481)	(127,249)	0	$6.25	0
	Flex/R&D	55	1,817,877	137,983	7.6%	5,080	(16,153)	0	$10.20	0
	South Subtotal	**722**	**28,802,712**	**1,323,653**	**4.6%**	**78,239**	**(259,950)**	**513,000**	**$5.96**	**149,501**
Southeast	Warehouse - Distribution	682	60,149,788	2,524,219	4.2%	1,147,194	996,804	2,638,060	$5.48	10,400
	Manufacturing	130	15,137,407	137,660	0.9%	101,936	185,906	260,000	$8.50	0
	Light Industrial	348	7,610,327	769,548	10.1%	(357,263)	(349,327)	120,617	$7.34	0
	Flex/R&D	83	2,769,854	135,454	4.9%	(14,617)	(14,617)	0	$13.29	0
	Southeast Subtotal	**1,243**	**85,667,376**	**3,566,881**	**4.2%**	**877,250**	**898,498**	**3,018,677**	**$6.31**	**10,400**
Southwest	Warehouse - Distribution	500	33,813,351	2,015,174	6.0%	(172,231)	239,621	1,123,167	$6.88	305,720
	Manufacturing	66	4,663,819	547,220	11.7%	2,009	(204,241)	0	$4.42	65,942
	Light Industrial	407	11,727,094	566,218	4.8%	24,081	4,843	0	$8.84	20,505
	Flex/R&D	194	6,710,206	402,573	6.0%	514	(36,225)	0	$13.99	57,718
	Southwest Subtotal	**1,167**	**56,914,470**	**3,531,185**	**6.2%**	**(145,627)**	**783,186**	**1,123,167**	**$7.23**	**449,885**

Houston Area	Warehouse - Distribution	3,559	262,675,660	16,561,350	6.3%	2,301,512	3,080,038	5,606,912	$6.43	1,632,113
	Manufacturing	617	52,391,597	1,554,670	3.0%	4,126,346	4,973,064	374,500	$5.88	326,649
	Light Industrial	2,704	64,297,721	4,624,469	7.2%	(364,831)	(808,541)	348,105	$7.72	400,396
	Flex/R&D	913	32,501,060	2,274,991	7.0%	25,364	(41,076)	50,000	$10.30	266,995
	Houston Area Total	**7,793**	**411,866,038**	**25,015,480**	**6.1%**	**6,088,391**	**7,203,485**	**6,379,517**	**$7.10**	**2,626,153**

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

Houston-Area Industrial Historical Overview

2016 Third Quarter

Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2016 Q3	7,793	411,866,038	25,015,480	6.1%	2,626,153	6,088,391	$7.10	$6.65
2016 Q2	7,711	405,743,984	25,538,683	6.3%	2,290,374	720,782	$7.21	$6.73
2016 Q1	7,676	404,537,970	23,892,139	5.9%	2,293,819	394,312	$7.25	$6.81
2015 Q4	7,642	406,184,540	24,561,144	6.0%	2,411,783	589,341	$7.58	$6.94
2015 Q3	7,316	404,126,540	21,805,321	5.4%	1,807,084	1,725,798	$7.77	$7.24
2015 Q2	7,300	402,626,323	22,362,997	5.6%	1,761,238	3,438,844	$7.69	$7.39
2015 Q1	7,255	400,224,070	23,504,775	5.9%	1,623,022	847,724	$7.64	$7.31
2014 Q4	7,197	397,865,039	23,253,781	5.8%	1,512,112	3,275,376	$7.53	$6.92
2014 Q3	7,156	394,579,932	24,698,199	6.3%	1,373,219	1,745,069	$7.29	$6.84
2014 Q2	7,115	392,115,353	24,650,017	6.3%	1,478,620	1,589,515	$7.13	$6.81
2014 Q1	7,087	389,202,301	24,841,501	6.4%	1,354,465	2,076,387	$6.78	$6.26
2013 Q4	7,061	387,864,139	27,004,682	7.0%	1,994,230	3,142,819	$6.63	$6.06
2013 Q3	7,032	385,227,944	28,205,332	7.3%	2,310,894	1,407,215	$6.45	$5.78
2013 Q2	6,994	381,754,367	26,974,306	7.1%	2,205,071	1,412,501	$6.42	$5.32
2013 Q1	6,968	379,409,862	27,029,124	7.1%	1,717,698	1,320,799	$6.04	$5.53
2012 Q4	6,933	377,468,143	25,595,065	6.8%	1,745,173	2,352,880	$5.96	$5.14
2012 Q3	6,915	376,070,091	27,425,302	7.3%	1,705,302	1,332,050	$5.74	$5.73
2012 Q2	6,897	375,370,974	28,391,336	7.6%	1,713,664	1,546,839	$5.67	$5.65
2012 Q1	6,885	374,764,074	28,545,007	7.6%	1,977,300	1,360,547	$5.59	$5.17
2011 Q4	6,862	372,775,086	28,764,729	7.7%	1,970,315	2,339,958	$5.50	$5.61
2011 Q3	6,846	371,602,617	30,276,797	8.1%	2,130,635	1,603,326	$5.43	$6.41
2011 Q2	6,835	371,359,600	32,236,206	8.7%	2,125,422	109,501	$5.48	$5.51
2011 Q1	6,776	368,707,696	31,527,993	8.6%	2,044,721	349,140	$5.48	$5.37

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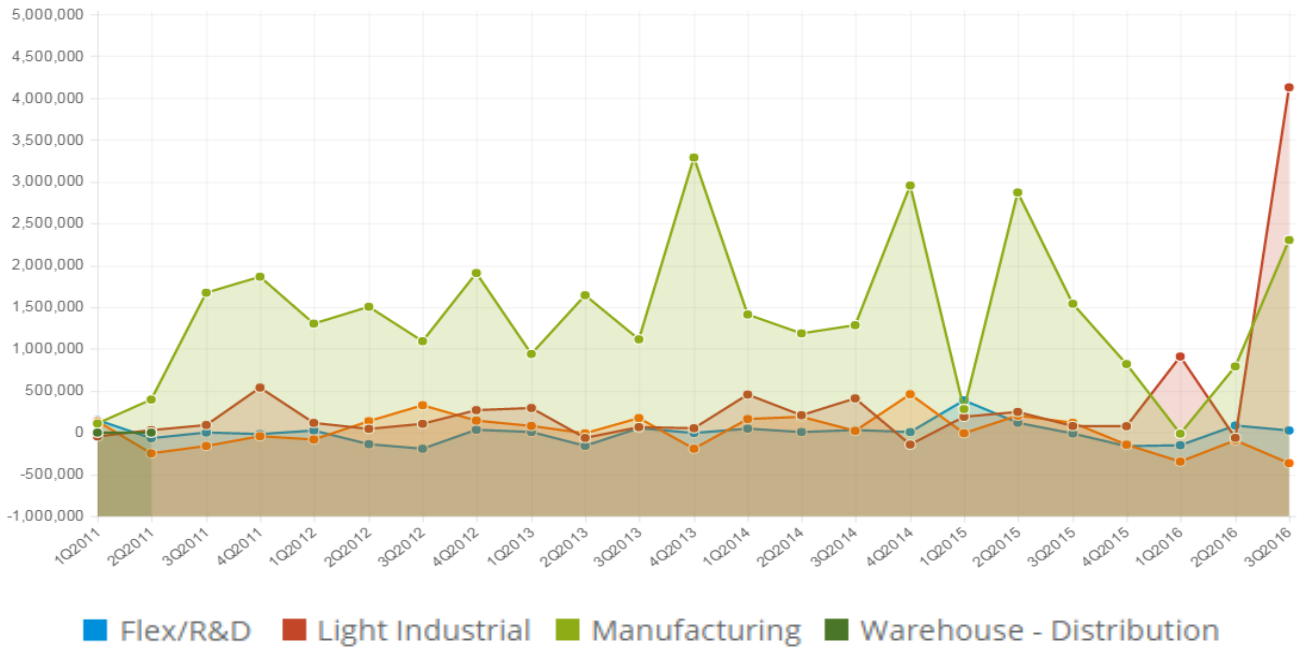
Houston-Area Industrial Direct Net Absorption by Type



Period	Flex/R&D	Light Industrial	Manufacturing	Warehouse-Distribution	All Types
2016 Q3	25,364	(364,831)	4,126,346	2,301,512	6,088,391
2016 Q2	84,647	(92,389)	(62,545)	791,069	720,782
2016 Q1	(151,087)	(351,321)	909,263	(12,543)	394,312
2015 Q4	(161,947)	(144,312)	76,496	819,104	589,341
2015 Q3	(10,786)	117,802	78,674	1,540,108	1,725,798
2015 Q2	117,699	203,720	247,275	2,870,150	3,438,844
2015 Q1	385,258	(7,313)	188,910	280,869	847,724
2014 Q4	6,239	458,935	(143,098)	2,953,300	3,275,376
2014 Q3	31,000	20,982	408,958	1,284,129	1,745,069
2014 Q2	6,534	189,176	207,922	1,185,883	1,589,515
2014 Q1	47,194	162,451	454,750	1,411,992	2,076,387
2013 Q4	(4,830)	(192,608)	51,980	3,288,277	3,142,819
2013 Q3	52,871	173,835	65,704	1,114,805	1,407,215
2013 Q2	(157,790)	(8,137)	(63,405)	1,641,833	1,412,501
2013 Q1	7,293	79,562	294,045	939,899	1,320,799
2012 Q4	33,839	143,171	268,394	1,907,476	2,352,880
2012 Q3	(192,880)	327,075	105,257	1,092,598	1,332,050
2012 Q2	(138,262)	136,630	44,180	1,504,291	1,546,839
2012 Q1	25,173	(82,904)	115,825	1,302,453	1,360,547
2011 Q4	(17,800)	(43,148)	537,804	1,863,102	2,339,958
2011 Q3	1,150	(159,986)	90,211	1,671,951	1,603,326
2011 Q2	(67,016)	(247,923)	29,313	395,127	109,501
2011 Q1	150,600	134,957	(46,076)	109,659	349,140

Quarterly Market Overview
2016 Second Quarter
FOR IMMEDIATE RELEASE

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HOUSTON'S SECOND-QUARTER COMMERCIAL ACTIVITY SHOWS OFFICE STRUGGLE, INDUSTRIAL FLOURISH

HOUSTON — (July 21, 2016) — Houston's commercial real estate market offers a mixed report: office continues to struggle while certain types of industrial continue to flourish, depending on location. That's according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors (HAR).

The second quarter reported direct negative net absorption of 88,768 square feet of office space, a major decrease when compared to the same quarter last year of positive 1.5 million square feet and this year's first-quarter absorption of 905,855 square feet. Class B properties represent the bulk of the this quarter's growth, 122,152 square feet, offset by Class A and C's negative absorption of 110,920 square feet. However, to put this in perspective, both last year's and last quarter's positive absorption resulted from single-tenant and owner-occupied projects being completed and occupied.

Space left behind by various firms occupying those new properties are showing up as direct space and affecting the vacancy rate, which continues to climb. The current 15.4% direct vacancy rate is up from the 14.4% vacancy recorded last quarter, and also up from the 12.8% recorded during the same quarter in 2015. No submarket is reporting a single-digit vacancy rate, and only the Central Business District is reporting single-digit vacancy in Class A space. Class A space overall is 14.6% vacant.

The changing economy related to the energy downturn is clearly reflected in the record-level vacancy when it is combined with the additional 2.8 million square feet of sublease space added this quarter. One newly completed building representing almost 600,000 square feet of preleased space came on the market with its total square footage now being marketed as sublease space. More than 5.2 million net square feet has been added during the last 12 months, although we more than 700,000 square feet of sublease space has been reported as having been leased during the first half of the year. At the end of the second quarter, the

Houston market recorded more than 10.1 million square feet of sublease space available and being marketed. Of that total, almost 8.1 million, or 80%, is Class A space.

For the quarter, seven new buildings were completed, adding almost 2.8 million square feet to the market. Five of the buildings have no pre-leasing while the other one entered the market preleased but is now available as sublease. The bright spot was the Phillip 66 headquarters complex being completed with 1.1 million square feet to be occupied during the next two months, which will improve the absorption total for the year.

Construction starts have idled for the most part since the first quarter, with only office buildings in mixed-use projects breaking ground. Overall, the Houston under-construction office market has 15 properties totaling 3.9 million square feet. Collectively, the under-construction buildings are about 47.4% preleased, with 13 properties classified as multi-tenant. Of those under construction, eight are scheduled for completion by yearend. Three of those are not bringing any availability to the market: BHP Billiton will be occupying its entire 600,000 square feet in Uptown, the Greater Houston Partnership and other local governmental type firms will be occupying the Partnership building, and the Dave Ward Building will be occupied by Crime Stoppers. The largest spec building under construction with the largest availability remains Hines' 609 Main at Texas building, which is 28% preleased.

With construction on the decline, one major prelease announced during second-quarter was American Bureau of Shipping's 300,000+-square-foot lease at CityPlace2 in Springwoods Village near The Woodlands. CityPlace2 is scheduled to break ground next year. ABS will leaving almost 259,000 square feet in Greenspoint Place. Other leases recorded during the second quarter included Patterson-UTI Energy's 34,748-square-foot lease in Remington Square II along with two additional preleases for Amegy Bank Tower, which leaves that building with only 12,469 square feet to lease.

Concessions are becoming more commonplace in the market, even though quoted rental rates have seen averages increase. Rental rates showed an increase from the past quarter and the past year with the current overall averaged weighted rental rate of $28.04, up from last quarter's $27.72 and $26.57 from last year. Class A rates, now at $33.54 citywide and at $41.04 in the CBD, experienced slight increases from last quarter from the same quarter in 2015. Rents for sublease space also increased slightly at $24.31 from last quarter's $22.45 after showing consistent decreases for almost two years.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "The commercial market continues to hold its own in the first half of 2016, with positive absorption recorded in both the office and industrial sectors. The office sector is clearly struggling as construction is at a standstill, and new buildings are coming online with little or no preleasing. Vacancy is up along with sublease, which is at record levels.

"The industrial and retail sectors are performing great, playing catch-up to the last few years of large population increases in the area. Retailers are setting up distribution centers as they expand into different areas of the city. The petrochemical industry has also excelled, positively affecting the area's industrial segment in the Southeast.

"The multi-family market is experiencing softness like the office market and oversupply has occurred. However, like office, new construction has stopped with most new units to be completed through early next year.

"Although the office and multi-family markets are struggling now, Houston remains a strong, robust city. The medical industry is booming with hospital expansions and medical office buildings in every sector of the greater Houston area. The area's population growth will continue to positively affect the commercial real estate sectors."

Elliott A. Hirshfeld, Senior Vice President, Brokerage Services, CBRE "From 2010 through 2014, the Houston office market experienced an extraordinary level of activity. In 2016, however, we are in the doldrums, not the trade winds of this previous period. From an overall market perspective, not much is happening. But not all properties in all areas are affected; different buildings in different areas must be looked at on a case-by-case basis.

"One of the bigger challenges in today's market is the gap between owners' expectations and tenants' expectations. Bridging that gap is an educational process. Some owners, those more focused on occupancy, are becoming more aggressive, but others are not. Tenants seem to expect everything should be heavily discounted. Rental rates as a whole are flat, with Class A rates dropping only 1%. Owners are more interested in stability and do not want to damage the value of their buildings by reducing rents.

"Leasing activity is still happening, with a significant amount of absorption occurring in the sublease marketplace over the first half of the year. One major challenge with

several sublease listings is that several are in large blocks of space. Sub-landlords don't want to break it up and spend money on improvements when they are already losing money on the space. Current tenants are also reluctant to make too many changes if they believe they may need the space back at a later date.

"In addition to law firms being active in the market, we are also seeing several non-energy firms leasing more space. Firms are still interested in occupying quality offices to attract and retain quality employees. Some older office properties may be considered functionally obsolete and are being considered for re-purposing and major renovations."

Trey Martin, Vice President, NAI Partners "The majority of building owners and landlords still have well stabilized properties due to the fact that most tenants sign 5- to 10-year lease terms, which the landlords hope will outlast the current oil boom/bust cycle. However, landlords also recognize that the market has shifted into a 'tenant-friendly market,' and they are certainly more willing to make leasing concessions now, such as abated rent and increasing construction allowances for tenant improvements.

"Right now is an opportunity for certain tenants to 'lock in' at favorable lease terms, and take advantage of unique situations in the marketplace where certain landlords have large blocks of space that are vacant or expiring in the near future. Some of these landlords are highly motivated to backfill the vacant space in their buildings. Tenants utilizing their broker's knowledge of the current market conditions can find these specific buildings and negotiate favorable deal terms."

L. Ace Schlameus, Senior Vice President, and Jenny Seckinger, Senior Associate, Colliers International

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of incredulity, it was a season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair."

"We all know the famous quote, 'It was the best of times, it was the worst of times,' but most of us forget 'it was a season of light'. Sounds a lot like the situation we find ourselves here in Houston, Texas. Houston is one of the more interesting cities in the world. Since the Allen brothers founded our fine community, we have embraced change. It seems that we and our forefathers have understood that to be the smartest person in the room simply meant that you were in the wrong room. Houstonians aren't afraid to change rooms.

"Our citizens have always been committed to making a mark on our state and this great country. We have recruited talent from all over the world to live, work and be a part of this community. Houston has sent men to the moon, improved lives by advancing medicine, and, if it isn't clear by now, we've made a significant impact towards making our country more energy independent. Let us look at Houston's role in the quest for energy independence for a minute. It can be argued we actually made us a little too independent as far as OPEC was concerned - which brings me to another part of the same Dicken's quote: 'It was the age of wisdom, it was an age of foolishness.' We've taken some wrong turns recently. For example, we didn't anticipate the moves of our OPEC competitors, we over-estimated the world's economies, and we've over-built our office inventory.

"'It was the season of light' The U.S. is now awash in potential energy reserves that we were told could never be exploited. Such reserves are being produced for less money and by a smaller work force. The market is changing, and companies are adapting. Shell has recently shifted from abandoning shale altogether to making a long-term corporate commitment in that direction; the decision was based on risk vs cost vs reward factors. Transocean made the decision to refinance their debt, which, most believe, will carry them through the tough times; and Schlumberger Technology Corp., who has contracted with Energy Recovery Inc., a Silicon Valley firm, to implement an improved hydraulic fracturing process. We are finding solutions, from changing drilling priorities, restructuring debt and buying strategic properties both mineral & intellectual.

"Houstonians are innovators, if we don't know how to do it, we'll engage financial experts from New York or high-tech professionals from California. We are in a period of light, not darkness; we have generated hope, not despair. Change is coming. Our economy will rise again, and we will be wiser this time. This is not your father's Texas economy."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "The prolonged energy sector downturn has cast a shadow of uncertainty over Houston's office leasing market over the past 18 months creating sluggish demand and rising sublease availabilities on top of multiple new office buildings entering the market. Class A leasing velocity over the past 12 months has declined by 47.1% from the prior year, largely due to companies delaying leasing decisions in an uncertain economy, as well as a lower volume of expiring leases and fewer expansions taking place. During the second

quarter of 2016, Houston's office leasing market fundamentals continued to soften as the citywide Class A direct occupancy level declined by 100 basis points to 84.0%, reaching its lowest level since 2005. Although pre-lease commitments in newly-built projects managed to keep Class A direct absorption levels in positive territory through 2015, new supply has consistently outpaced demand in seven of the previous eight quarters causing Class A direct occupancy levels to drop by 700 basis points since the cyclical peak of 91.0% in early 2014.

"Within the competitive leasing market, developers completed 10 new office buildings citywide during the second quarter totaling 1,324,153 square feet and delivered a total of more than 6.4 million square feet of new office construction over the past 12 months (excluding corporate-owned projects). Meanwhile, sublease availability has risen by 3.7 million square feet to 11.2 million square feet since mid-year 2015, as many energy-related companies are placing underutilized space on the market that was created by workforce reductions or space that was originally tied up for future expansion. Consequently, total space availability has significantly increased by 6.1 million square feet within the past 12 months. As office leasing volume remains sluggish and the number of available space options continue to grow, asking rents have begun to adjust and more concessions are being offered to stimulate leasing activity and combat the increased vacancies.

"Houston's office leasing market fundamentals are expected to remain soft for the remainder of the year as the continuing trend of consolidation and space optimization by office users and the completion of remaining office projects under construction will add downward pressure on occupancy levels. The supply of sublease space - currently at its highest level in decades - will remain a growing concern as energy firms continue to dump excess space onto the market.

"The key areas for office property owners to focus on during these challenging times will be the careful evaluation of near-term rollover and the retention of value by securing early lease renewals and/or or extensions to combat potential increased vacancies. Even though office-using job growth is expected to return by 2018, future leasing demand from the energy sector will likely remain suppressed as there will be an abundance of sublease and shadow space that must be dealt with before tenants will absorb additional space."

Houston Industrial Market

Houston's industrial market continued to expand with positive direct net absorption of 719,078 square feet during the second quarter despite manufacturing slowdowns and overall economic uncertainty, according to statistics released by Commercial Gateway.

This quarter's absorption represents the 26th consecutive quarter – over six years – of positive absorption, with six quarters recording more than 2 million square feet each and more than half recording more than 1 million square feet. The second quarter's net absorption clearly represents a slowdown from those quarters, but is in line with the first quarter's absorption of 628,981 square feet. The warehouse-distribution segment recorded 865,302 square feet absorption in the second quarter, with manufacturing and light industrial offsetting that positive with a negative 184,304 square feet.

In addition to the most recent announcement that IKEA is planning up to a million square-foot distribution facility, Amazon has announced a large facility in the North along with the leasing of another 100,000 square feet of distribution space in the Northwest. Serta has also taken 268,407 square feet of space in Fallbrook Pines in the Northwest and FedEx moved into its new 303,335 square-foot build-to-suit in the Southwest. Applied Optoelectronics also moved into its expansion property totaling 111,600 square feet also in the Southwest.

Activity is slowing for some product in some areas, and due to several large properties coming online with little preleasing, the vacancy rate increased slightly to 6.3%, compared to 6.0% the previous quarter. Vacancy for warehouse/distribution space citywide is 6.4% with manufacturing space at a low of 3.8%.

More than 1.5 million square feet in 14 buildings came online during the second quarter, contributing about 600,000 square feet to the absorption total. Collectively, all industrial buildings completed this year entered the market 46.9% leased.

Construction activity is still high with many projects underway and many other proposed properties announced. Currently, 62 buildings representing more than 10.7 million square feet are underway. The two largest BTS projects are Daiken's 4 million square foot facility off Highway 290 and FedEx's new 800,000-square-foot project near the Grand Parkway in the Northwest. The bulk of the remainder under construction is concentrated in the Southeast with 17 projects totaling more than 2.8 million square feet followed by the Southwest with eight

projects totaling more than 1.1 million square feet. Overall, the under-construction market is 73.8% preleased.

Rental rates have increased 2.8% this quarter to $7.47 from $7.24 last quarter but are less than the $7.70 recorded during the same quarter last year.

Sublease space had been steadily increasing each quarter during the last couple years, but remained constant at 2.4 million square feet this quarter. The current quarter's total is still almost double the square footage from the same quarter a year ago.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Tom Lynch, Senior Vice President, Industrial Services and Logistics, CBRE "The Houston industrial market remains steady with activity, and our vacancy rate has remained low for almost 10 years, which has allowed a healthy market for development and absorption.

"The oil downturn has softened the industrial product sector that uses manufacturing buildings but Houston's population growth has created expansion for consumer service providers locally. Houston has also emerged as a hub for those products to be distributed in Austin, San Antonio, the valley and Louisiana.

"The downturn in oil creates a cautious environment for both users and investors for 2015; however, this year we have seen very good activity in both sectors of the industrial market. As we continue in the year, we will see more large consumer products transactions on the east side and in the northwest sector.

"We expect more e-commerce distribution in the market. And some will be smaller satellite facilities to service the large area of Houston; since new product does not exist, we will see more construction just not at the levels we have experienced for the last four years."

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

"The Houston Industrial market maintained solid fundamentals in the second quarter despite headwinds in the overall Houston economy. While some companies are postponing expansion, the consumer sector -- driven primarily by booming population growth and consistently high retail demand -- is flourishing. Specifically, the warehouse/distribution sector is drawing strength from moving and storage, building supply and third-party logistics (3PL) companies, all with targeted Houston growth

plans. Though a few big-box leases dominated headlines, activity in the market is primarily smaller transactions as 84.0% of deals this quarter were less than 100,000 square feet in size.

"Even with another 1.6 million square feet delivered in the second quarter, bringing the year-to-date total to nearly 4 million square feet, total vacancy remained unchanged at 5.5 percent, and total availability edged up just 20 basis points quarter-over-quarter to 9.2 percent. This speaks to the high demand for the metro's industrial sector as local, national and multinational occupiers make long-term commitments in the Houston market. The Southeast submarket saw the most completions by far in the second quarter, recording just under a million square feet of new inventory added which was 67.0 percent preleased. Given the area's strong distribution channels, the Houston warehouse market should continue to prosper in the period ahead, especially if development activity remains disciplined in weaker submarkets.

"Industrial development activity remained at high levels through the second quarter, concentrated in two of the strongest-performing submarkets. The Northwest and Southeast together account for 77.8 percent of space currently under construction across Houston. In the Northwest, owner-users control the pipeline with companies such as Daikin and FedEx underway on 4.7 million square feet of warehouse/distribution facilities. In the Southeast market, most projects broke ground speculatively, but are leasing up fairly quickly due to proximity to and demand from the Port of Houston and the petrochemical industry along Texas' Gulf Coast. The only significant non-spec development Southeast is Katoen Natie's three-building, 1.4 million-square-foot owner-occupied project, which will be used for plastics packaging.

"Though the supply-demand spread was less severe at mid-year with the quarter's absorption at 912,259 square feet and completions at 1.6 million square feet, a significant disparity is still seen when reviewing year-to-date totals. Thanks to the volume of new projects being completed, new supply is likely to continue outpacing net absorption in 2016, though 2017 and beyond is less certain. Most submarkets remain landlord favorable for warehouse/distribution, though momentum may begin to swing towards the tenant if recent weakness in leasing continues."

Nick Peterson, Vice President, NAI Partners "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 free-standing manufacturing buildings in these submarkets. Free-standing 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 square feet 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 square feet 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 square feet of rail-served space from Clay Development. This market will continue to remain active through the end of the year and into the near future.”

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

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Houston-Area Office Market Overview

2016 Second Quarter

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Submarket	Class	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
CBD	A	32	30,812,169	2,676,569	8.7%	(163,807)	349,450	1,166,658	$41.04	1,748,934
	B	26	9,544,105	2,710,344	28.4%	1,278	(309,066)	0	$30.69	238,848
	C	8	552,183	104,447	18.9%	(14,557)	(15,824)	0	$18.64	0
CBD Subtotal		**66**	**40,908,457**	**5,491,360**	**13.4%**	**(177,086)**	**24,560**	**1,166,658**	**$37.74**	**1,987,782**
Energy Corridor	A	45	14,973,224	1,776,047	11.9%	44,697	70,835	385,274	$31.27	2,126,082
	B	52	5,526,983	1,187,235	21.5%	(27,457)	(27,897)	0	$24.39	676,041
	C	6	285,459	39,885	14.0%	(20,517)	(27,299)	0	$21.14	6,195
Energy Corridor Subtotal		**103**	**20,785,666**	**3,003,167**	**14.5%**	**(3,277)**	**15,639**	**385,274**	**$27.99**	**2,808,318**
Fort Bend County	A	26	3,010,145	404,027	13.4%	(57,611)	73,369	0	$30.31	91,079
	B	23	2,601,481	215,047	8.3%	(28,268)	27,611	0	$19.84	1,765
	C	1	156,000	25,030	16.0%	6,682	19,277	0	n/a	0
Fort Bend County Subtotal		**50**	**5,767,626**	**644,104**	**11.2%**	**(79,197)**	**120,257**	**0**	**$26.62**	**92,844**
Greenspoint	A	25	5,246,262	2,128,745	40.6%	(124,648)	(574,103)	0	$25.51	561,908
	B	45	4,707,496	1,613,325	34.3%	80,679	94,380	0	$17.17	209,060
	C	28	2,121,861	366,882	17.3%	49,773	120,339	0	$11.95	0
Greenspoint Subtotal		**98**	**12,075,619**	**4,108,952**	**34.0%**	**5,804**	**(359,384)**	**0**	**$21.30**	**770,968**
Inner Loop	A	40	12,219,811	2,021,418	16.5%	2,556	144,371	582,002	$32.14	225,495
	B	107	10,472,153	1,238,539	11.8%	(1,676)	(81,155)	0	$26.22	39,470
	C	59	3,859,180	266,079	6.9%	(34,359)	64,270	0	$16.48	6,453
Inner Loop Subtotal		**206**	**26,551,144**	**3,526,036**	**13.3%**	**(33,479)**	**127,486**	**582,002**	**$28.84**	**271,418**
North/The Woodlands/ Conroe	A	60	11,634,312	1,275,145	11.0%	85,046	40,013	201,651	$37.01	372,659
	B	89	5,073,362	835,455	16.5%	61,609	30,026	0	$18.29	126,114
	C	23	999,077	141,628	14.2%	(17,093)	(13,624)	0	$12.90	0
North/The Woodlands/ Conroe Subtotal		**172**	**17,706,751**	**2,252,228**	**12.7%**	**129,562**	**56,415**	**201,651**	**$26.77**	**498,773**
Northeast	A	3	411,670	7,630	1.9%	0	360,000	0	$25.50	0
	B	12	551,716	139,651	25.3%	(2,003)	(2,212)	0	$15.35	0
	C	4	116,022	0	n/a	0	265	0	n/a	0
Northeast Subtotal		**19**	**1,079,408**	**147,281**	**13.6%**	**(2,003)**	**358,053**	**0**	**$15.94**	**0**
Northwest	A	39	4,726,974	877,660	18.6%	191,606	134,046	0	$29.03	231,824
	B	62	5,371,291	1,216,179	22.6%	43,549	43,031	0	$19.74	123,478
	C	18	781,787	164,937	21.1%	(16,387)	(24,423)	0	$17.77	0
Northwest Subtotal		**119**	**10,880,052**	**2,258,776**	**20.8%**	**218,768**	**152,654**	**0**	**$22.58**	**355,302**

Southeast	A	17	1,989,497	161,345	8.1%	(17,256)	2,122	0	$27.41	37,320
	B	53	3,554,775	616,784	17.4%	30,466	(127,560)	0	$17.60	20,889
	C	42	1,909,863	272,742	14.3%	25,055	25,768	0	$17.89	27610
Southeast Subtotal		**112**	**7,454,135**	**1,050,871**	**14.1%**	**38,265**	**(99,670)**	**0**	**$18.59**	**85,819**
Southwest	A	6	1,879,127	490,277	26.1%	(38,194)	4,580	0	$20.48	2,100
	B	49	5,053,514	1,043,134	20.6%	28,306	1,572	0	$18.31	45,031
	C	71	4,815,908	588,555	12.2%	(34,528)	(42,863)	0	$13.56	17,700
Southwest Subtotal		**126**	**11,748,549**	**2,121,966**	**18.1%**	**(44,416)**	**(36,711)**	**0**	**$17.89**	**64,831**
Uptown	A	44	16,991,362	2,500,118	14.7%	(46,749)	171,483	1,107,170	$37.01	986,807
	B	80	11,063,442	1,286,274	11.6%	(111,627)	(99,350)	0	$27.64	245,111
	C	13	929,110	57,297	6.2%	(6,491)	(9,934)	0	$19.35	0
Uptown Subtotal		**137**	**28,983,914**	**3,843,689**	**13.3%**	**(164,867)**	**62,199**	**1,107,170**	**$34.25**	**1,231,918**
West	A	53	8,799,049	1,438,196	16.3%	50,265	100,440	290,000	$27.63	540,409
	B	46	3,820,395	405,205	10.6%	(19,439)	(19,872)	0	$19.82	20,274
	C	33	2,271,435	121,185	5.3%	(32,864)	(24,533)	0	$16.77	7,541
West Subtotal		**132**	**14,890,879**	**1,964,586**	**13.2%**	**(2,038)**	**56,035**	**290,000**	**$24.63**	**568,224**
Westchase	A	34	10,354,083	2,183,991	21.1%	(49,005)	251,916	186,000	$35.85	1,132,626
	B	50	6,723,066	726,212	10.8%	66,735	233,658	0	$19.62	259,321
	C	16	767,856	75,964	9.9%	7,466	562	0	$15.99	0
Westchase Subtotal		**100**	**17,845,005**	**2,986,167**	**16.7%**	**25,196**	**486,136**	**186,000**	**$29.93**	**1,391,947**
Houston Area	A	424	123,047,685	17,941,168	14.6%	(123,100)	1,128,522	3,918,755	$33.54	8,057,243
	B	694	74,063,779	13,233,384	17.9%	122,152	(236,834)	0	$22.00	2,005,402
	C	322	19,565,741	2,224,631	11.4%	(87,820)	71,981	0	$15.52	65,499
Houston-Area Total		**1,440**	**216,677,205**	**33,399,183**	**15.4%**	**(88,768)**	**963,669**	**3,918,755**	**$28.04**	**10,128,144**

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

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

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

Houston-Area Office Historical Summary

2016 Second Quarter

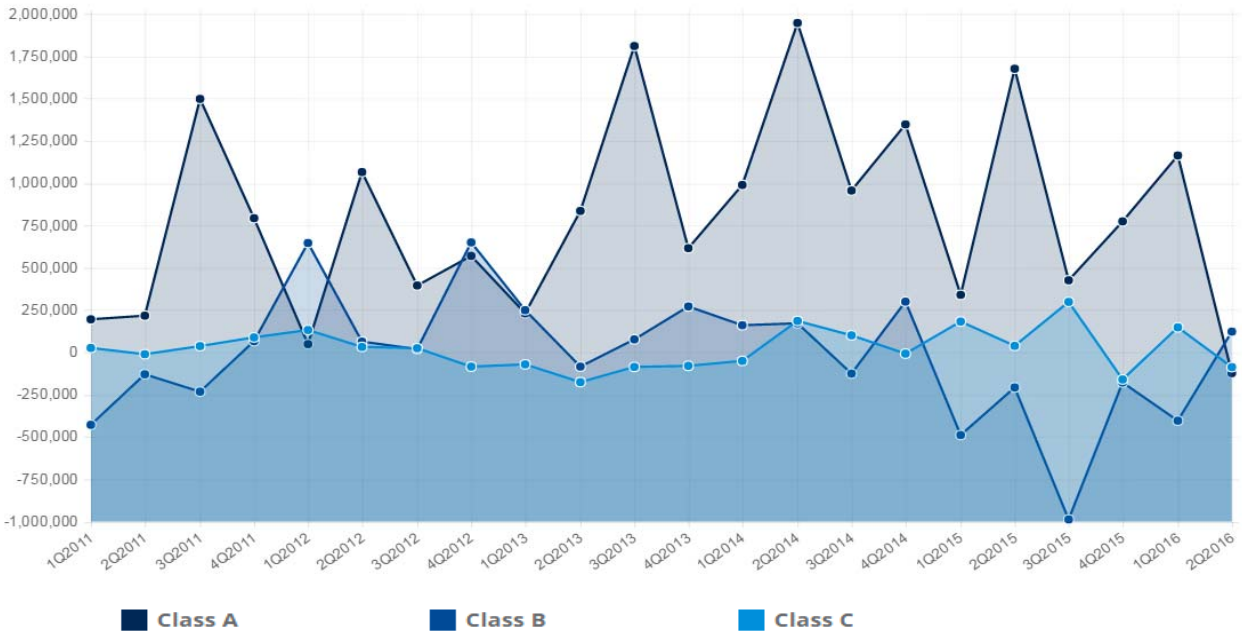
Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2016 Q2	1,440	216,677,205	33,399,183	15.4%	10,128,144	(88,768)	$28.04	$24.31
2016 Q1	1,417	214,130,054	30,808,257	14.4%	7,322,911	905,855	$27.72	$22.45
2015 Q4	1,402	212,602,436	29,962,782	14.1%	6,699,931	434,158	$28.64	$23.16
2015 Q3	1,374	209,676,369	28,000,668	13.4%	5,738,477	(264,659)	$27.10	$25.40
2015 Q2	1,369	208,482,780	26,722,335	12.8%	4,871,969	1,503,287	$26.57	$28.10
2015 Q1	1,363	206,107,104	25,839,751	12.5%	3,450,693	32,894	$26.30	$29.72
2014 Q4	1,350	202,997,550	23,140,593	11.4%	3,195,204	1,637,837	$25.35	$29.33
2014 Q3	1,343	200,395,315	22,092,765	11.0%	3,042,717	930,055	$25.07	$29.42
2014 Q2	1,334	198,968,426	21,698,869	10.9%	3,127,013	2,301,836	$25.00	$27.94
2014 Q1	1,326	197,226,784	22,003,601	11.2%	2,751,241	1,097,457	$24.83	$26.01
2013 Q4	1,322	196,048,750	22,106,517	11.3%	2,616,113	805,851	$24.26	$27.50
2013 Q3	1,315	194,818,858	22,398,958	11.5%	2,299,752	1,799,437	$24.22	$27.48
2013 Q2	1,302	192,749,407	21,545,583	11.2%	2,034,806	574,091	$23.58	$26.34
2013 Q1	1,297	191,705,036	21,752,678	11.3%	1,703,604	408,040	$23.29	$25.56
2012 Q4	1,298	191,663,838	22,175,972	11.6%	1,654,045	1,133,953	$23.19	$23.05
2012 Q3	1,294	191,145,491	22,695,298	11.9%	1,669,477	437,218	$22.95	$23.71
2012 Q2	1,292	191,318,481	23,155,906	12.1%	1,873,841	1,159,965	$22.77	$24.85
2012 Q1	1,292	191,336,899	23,716,375	12.4%	2,220,466	825,651	$22.75	$25.28
2011 Q4	1,290	191,161,490	25,441,447	13.3%	2,508,155	945,690	$22.90	$25.34
2011 Q3	1,284	190,677,765	26,182,552	13.7%	3,001,909	1,300,872	$22.74	$25.32
2011 Q2	1,283	189,777,320	26,589,601	14.0%	2,748,436	74,580	$22.97	$24.95
2011 Q1	1,281	189,093,168	26,156,145	13.8%	2,793,033	(208,340)	$23.23	$24.02

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

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

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

Houston-Area Office Direct Net Absorption by Class



Period	Class A	Class B	Class C	All Classes
2016 Q2	(123,100)	122,152	(87,820)	(88,768)
2016 Q1	1,162,819	(404,313)	147,349	905,855
2015 Q4	773,460	(178,523)	(160,779)	434,158
2015 Q3	425,430	(987,754)	297,665	(264,659)
2015 Q2	1,675,438	(208,317)	38,093	1,503,287
2015 Q1	339,553	(489,042)	181,513	32,894
2014 Q4	1,346,578	299,247	(7,988)	1,637,837
2014 Q3	955,886	(125,940)	100,109	930,055
2014 Q2	1,946,038	171,026	185,092	2,301,836
2014 Q1	988,624	159,809	(50,976)	1,097,457
2013 Q4	615,149	270,612	(80,335)	805,851
2013 Q3	1,809,844	76,169	(86,576)	1,799,437
2013 Q2	835,216	(84,770)	(176,355)	574,091
2013 Q1	230,615	248,903	(71,478)	408,040
2012 Q4	569,506	649,256	(84,809)	1,133,953
2012 Q3	394,633	18,446	24,139	437,218
2012 Q2	1,065,152	63,081	31,732	1,159,965
2012 Q1	48,249	645,798	131,604	825,651
2011 Q4	792,303	65,449	87,938	945,690
2011 Q3	1,497,234	(232,783)	36,421	1,300,872
2011 Q2	216,347	(130,246)	(11,521)	74,580
2011 Q1	194,823	(428,686)	25,523	(208,340)

Houston-Area Industrial Market Overview

2016 Second Quarter

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Submarket	Specific Use	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const	Avg Rent***	Sublease Avail
Inner Loop	Warehouse - Distribution	293	13,884,793	376,613	2.7%	131,672	66,935	0	$7.30	26,500
	Manufacturing	28	1,375,273	0	0.0%	0	(1,265)	0	n/a	0
	Light Industrial	167	4,277,115	284,034	6.6%	14,308	(34,083)	0	$6.20	0
	Flex/R&D	99	2,605,543	190,554	7.3%	(6,516)	(32,106)	0	$13.96	0
	Inner Loop Subtotal	**587**	**22,142,724**	**851,201**	**3.8%**	**139,464**	**(519)**	**0**	**$8.04**	**26,500**
North	Warehouse - Distribution	337	13,049,854	1,224,284	9.4%	64,456	35,117	223,735	$7.63	0
	Manufacturing	66	3,263,944	205,845	6.3%	105,705	162,485	45,653	$5.72	0
	Light Industrial	152	3,565,030	326,076	9.2%	(33,614)	(22,029)	178,113	$8.67	30,203
	Flex/R&D	47	1,868,686	319,150	17.1%	(1,700)	(8,600)	50,000	$15.36	0
	North Subtotal	**602**	**21,747,514**	**2,075,355**	**9.5%**	**134,847**	**166,973**	**497,501**	**$7.97**	**30,203**
Northeast	Warehouse - Distribution	715	51,121,033	4,780,253	9.4%	66,517	99,485	857,460	$8.70	439,222
	Manufacturing	121	8,640,446	166,920	1.9%	110,553	796,813	34,500	$7.33	122,207
	Light Industrial	212	6,850,700	930,408	13.6%	(98,935)	(187,910)	0	$8.37	114,446
	Flex/R&D	95	2,816,607	231,176	8.2%	13,500	(4,017)	0	$6.92	47,663
	Northeast Subtotal	**1,143**	**69,428,786**	**6,108,757**	**8.8%**	**91,635**	**704,371**	**891,960**	**$8.49**	**723,538**
Northwest	Warehouse - Distribution	1,357	90,783,166	5,912,167	6.5%	425,567	226,825	869,490	$7.38	636,116
	Manufacturing	271	15,723,501	543,003	3.5%	(51,265)	(35,014)	4,000,000	$8.37	115,835
	Light Industrial	528	15,574,718	1,114,235	7.2%	(112,953)	(235,616)	45,250	$7.69	178,559
	Flex/R&D	229	6,817,724	423,876	6.2%	(81,240)	(141,698)	0	$8.13	43,865
	Northwest Subtotal	**2,385**	**128,899,109**	**7,993,281**	**6.2%**	**180,109**	**(185,503)**	**4,914,740**	**$7.50**	**974,375**
South	Warehouse - Distribution	333	18,990,736	917,979	4.8%	(150,591)	(178,628)	433,000	$5.56	67,001
	Manufacturing	61	3,774,168	55,650	1.5%	(55,650)	0	80,000	n/a	90,000
	Light Industrial	289	5,715,793	353,626	6.2%	(74,668)	(111,630)	0	$6.30	0
	Flex/R&D	54	1,715,237	72,729	4.2%	10,364	7,664	0	$7.32	0
	South Subtotal	**737**	**30,195,934**	**1,399,984**	**4.6%**	**(270,545)**	**(282,594)**	**513,000**	**$5.84**	**157,001**
Southeast	Warehouse - Distribution	838	61,575,830	2,913,068	4.7%	(119,508)	(228,046)	2,271,497	$5.87	10,400
	Manufacturing	143	13,975,211	412,353	3.0%	(14,000)	83,970	260,000	$8.15	125,104
	Light Industrial	197	4,310,512	525,683	12.2%	(10,782)	(26,990)	123,853	$7.94	0
	Flex/R&D	87	2,264,665	59,542	2.6%	49,090	39,125	154,360	$15.88	0
	Southeast Subtotal	**1,265**	**82,126,218**	**3,910,646**	**4.8%**	**(95,200)**	**(131,941)**	**2,809,710**	**$6.45**	**135,504**
Southwest	Warehouse - Distribution	502	32,870,528	2,039,446	6.2%	447,189	1,069,509	1,123,167	$6.71	169,759
	Manufacturing	65	4,322,369	549,229	12.7%	(159,013)	(206,250)	0	$5.22	65,942
	Light Industrial	397	12,088,903	576,572	4.8%	196,010	(22,130)	0	$8.99	114,732
	Flex/R&D	187	6,516,023	403,087	6.2%	54,582	4,003	0	$14.03	34,545
	Southwest Subtotal	**1,151**	**55,797,823**	**3,568,334**	**6.4%**	**538,768**	**845,132**	**1,123,167**	**$7.92**	**384,978**

Houston Area	Warehouse - Distribution	4,375	282,275,940	18,163,810	6.4%	865,302	1,091,197	5,778,349	$7.15	1,348,998
	Manufacturing	755	51,074,912	1,933,000	3.8%	(63,670)	800,739	4,420,153	$6.93	519,088
	Light Industrial	1,942	52,382,771	4,110,634	7.9%	(120,634)	(640,388)	347,216	$7.87	437,940
	Flex/R&D	798	24,604,485	1,700,114	6.9%	38,080	(135,629)	204,360	$11.41	126,073
	Houston Area Total	**7,870**	**410,338,108**	**25,907,558**	**6.3%**	**719,078**	**1,115,919**	**10,750,078**	**$7.47**	**2,432,099**

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

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

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

Houston-Area Industrial Historical Summary

2016 Second Quarter

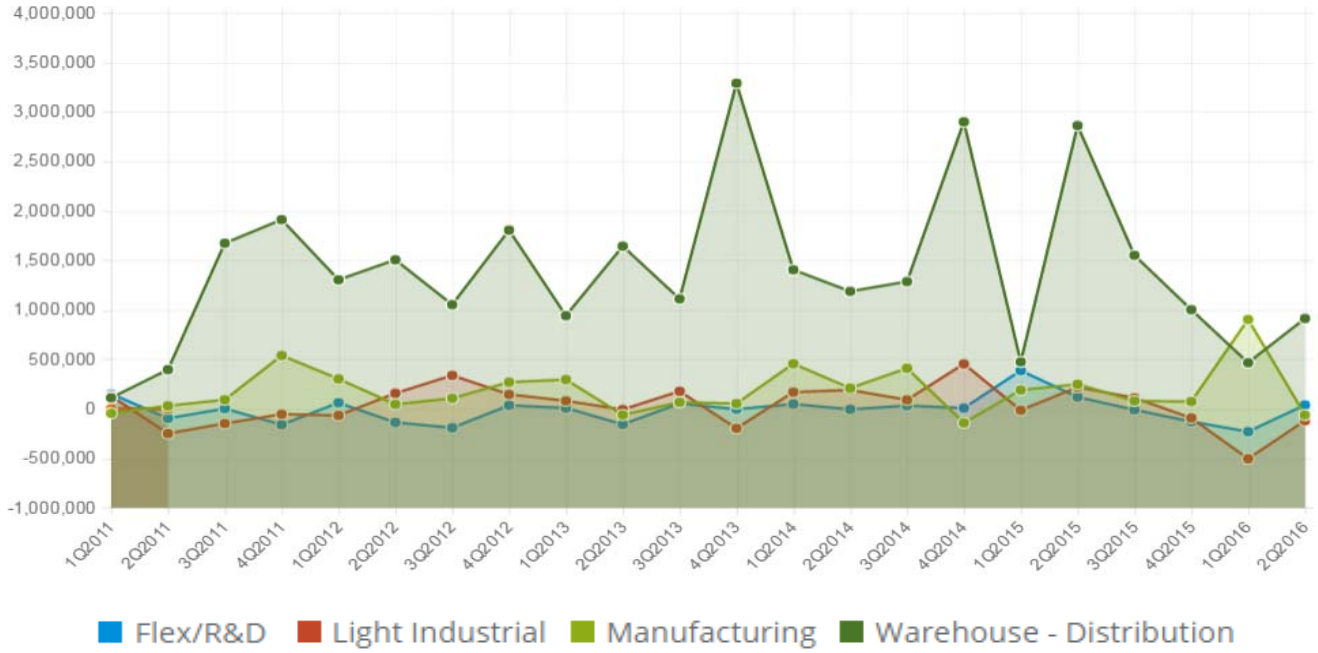
Period	# of Buildings*	Building SF**	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent*** Direct	Avg Rent*** Sublease
2016 Q2	7,870	410,338,108	25,907,558	6.3%	2,432,099	719,078	$7.47	$6.65
2016 Q1	7,735	409,395,762	24,390,202	6.0%	2,419,894	613,203	$7.24	$6.35
2015 Q4	7,699	409,193,387	25,122,878	6.1%	2,451,206	910,996	$7.53	$5.45
2015 Q3	7,390	408,330,314	22,055,100	5.4%	1,851,334	1,727,837	$7.77	$6.81
2015 Q2	7,373	406,733,847	22,556,765	5.5%	1,765,988	3,442,915	$7.70	$7.40
2015 Q1	7,328	404,331,594	23,739,391	5.9%	1,628,464	1,032,430	$7.69	$7.31
2014 Q4	7,270	402,340,623	24,046,963	6.0%	1,517,554	3,213,995	$7.57	$6.92
2014 Q3	7,228	398,681,656	25,056,140	6.3%	1,378,661	1,813,560	$7.35	$6.84
2014 Q2	7,187	396,122,547	24,981,919	6.3%	1,484,062	1,576,570	$7.13	$6.81
2014 Q1	7,159	393,062,413	25,116,791	6.4%	1,363,465	2,073,135	$6.67	$6.26
2013 Q4	7,133	391,610,966	27,276,720	7.0%	2,003,230	3,137,471	$6.52	$6.06
2013 Q3	7,104	389,103,121	28,472,022	7.3%	2,310,894	1,404,630	$6.35	$5.78
2013 Q2	7,066	385,631,494	27,238,411	7.1%	2,205,071	1,412,501	$6.34	$5.32
2013 Q1	7,040	383,286,989	27,471,495	7.2%	1,717,698	1,320,799	$5.97	$5.53
2012 Q4	7,005	381,345,270	26,037,436	6.8%	1,745,173	2,250,701	$5.90	$5.14
2012 Q3	6,987	379,947,218	27,805,629	7.3%	1,705,302	1,300,505	$5.75	$5.73
2012 Q2	6,969	379,248,101	28,740,118	7.6%	1,713,664	1,566,279	$5.67	$5.65
2012 Q1	6,956	378,618,201	28,913,229	7.6%	1,977,300	1,596,121	$5.60	$5.08
2011 Q4	6,933	376,636,869	29,183,000	7.7%	1,970,315	2,231,354	$5.51	$5.58
2011 Q3	6,917	375,464,400	30,418,034	8.1%	2,130,635	1,614,384	$5.48	$6.41
2011 Q2	6,906	375,221,383	32,388,501	8.6%	2,125,422	76,885	$5.54	$5.51
2011 Q1	6,843	372,328,597	31,619,559	8.5%	2,044,721	342,142	$5.51	$5.37

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

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

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

Houston-Area Industrial Direct Net Absorption by Type



Period	Flex/R&D	Light Industrial	Manufacturing	Warehouse-Distribution	All Types
2016 Q2	38,080	(120,634)	(63,670)	865,302	719,078
2016 Q1	(231,785)	(505,482)	901,614	464,634	628,981
2015 Q4	(130,139)	(93,964)	72,183	1,000,415	848,495
2015 Q3	(10,736)	109,791	78,674	1,550,108	1,727,837
2015 Q2	117,699	217,791	247,275	2,860,150	3,442,915
2015 Q1	385,258	(15,037)	188,910	473,299	1,032,430
2014 Q4	6,239	452,754	(143,098)	2,898,100	3,213,995
2014 Q3	30,950	89,523	408,958	1,284,129	1,813,560
2014 Q2	(6,166)	188,931	207,922	1,185,883	1,576,570
2014 Q1	47,194	167,799	454,750	1,403,392	2,073,135
2013 Q4	(4,830)	(197,956)	51,980	3,288,277	3,137,471
2013 Q3	52,871	176,250	65,704	1,109,805	1,404,630
2013 Q2	(157,790)	(8,137)	(63,405)	1,641,833	1,412,501
2013 Q1	7,293	79,562	294,045	939,899	1,320,799
2012 Q4	33,839	144,932	268,394	1,803,536	2,250,701
2012 Q3	(192,880)	336,660	105,257	1,051,468	1,300,505
2012 Q2	(138,262)	156,070	44,180	1,504,291	1,566,279
2012 Q1	59,798	(67,480)	301,350	1,302,453	1,596,121
2011 Q4	(161,071)	(55,481)	537,804	1,910,102	2,231,354
2011 Q3	1,150	(148,928)	90,211	1,671,951	1,614,384
2011 Q2	(97,335)	(250,220)	29,313	395,127	76,885
2011 Q1	150,600	127,959	(46,076)	109,659	342,142

Quarterly Market Overview
2016 First Quarter
FOR IMMEDIATE RELEASE

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HOUSTON'S FIRST-QUARTER COMMERCIAL ACTIVITY CONTINUES TO SLOW AMID ECONOMIC DOWNTURN

HOUSTON — (May 18, 2016) — Houston's commercial real estate market appears to be weathering the storms -- both the rains and sublease ones -- despite slower leasing activity as the economic downturn continues. That's according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors.

The first quarter reported direct positive net absorption of more than 1.0 million square feet of office space, comparing favorably to the same quarter last year of 676,602 square feet and double the average quarterly direct absorption recorded during all of 2015. However, the statistics would paint a different picture without the move-ins by local firms into their build-to-suit, single-tenant office buildings, which represented almost 1.5 million square feet. As in previous years, Class A properties represent the bulk of the growth, offset by Class B's negative absorption and Class properties reporting 146,952 square feet of positive absorption to start the year.

Specifically, keeping the direct absorption positive during the first quarter primarily results from FMC moving into its new building at Generation Park, National Oilwell Varco occupying the company's new 441,000-square-foot Millennium Tower II in Westchase, Nalco Champion occupying its new 133,000-square-foot expansion building in Sugar Land, and Hilcorp completing a move into its namesake Energy Tower in the Central Business District. Rounding out the larger absorption recorded this quarter is Stage Store's occupation of the company's new 168,000-square-foot offices at 2425 W Loop S. On the negative side, Hilcorp left behind about 145,000 square feet in the Central Business District and BMC Software consolidated offices in CityWest, leaving behind in excess of 200,000 square feet.

For the quarter, nine of the 13 submarkets recorded positive absorption, with four of the submarkets recording more than 200,000 square feet each. At the top of the list is the Westchase market, which recorded 460,249 square feet of net absorption, primarily due to the National Oilwell Varco move in. Coming in second is the smallest market area, the Northeast,

which contributed 360,056 square feet, also primarily due to one company, FMC Technologies, occupying their new building. The Greenspoint submarket recorded the largest negative absorption, a negative 280,151 square feet for the quarter, due to space left behind by ExxonMobil and Noble Energy and now available.

The changing economy related to the energy downturn is also shown by the increasing amounts of sublease space on the market. About a million square feet has been added each quarter during the last 12 months, and the numbers keep climbing, with estimates ranging in the 9 to 10 million square-foot range. At the end of the first quarter, the Houston market recorded 7.2 million square feet of sublease space available and being marketed. Of that total, 5.4 million, or 75%, is Class A space. This total represents almost double the sublease space available during the same time last year.

For the quarter, four new buildings were completed, adding almost 1.5 million square feet to the market. All four were either single-tenant or owner-occupied so no new available space entered the market.

Construction starts halted for the most part during the first quarter, with only office buildings in mixed-use projects breaking ground. Overall, the Houston under-construction office market has 23 properties totaling 6.5 million square feet. Collectively, the under-construction buildings are about 40% preleased, with 20 properties classified as multi-tenant. The multi-tenant properties represent almost 4.8 million square feet or 72.9% of the under-construction total and are currently reporting 56.5% preleased space. Of the multi-tenant spec properties, three of the 20 are reported 90% or more available.

The largest project under construction is Phillips 66's 1.2 million-square-foot campus in the Westchase area. The largest spec building under construction with the largest availability remains Hines' 609 Main at Texas building, which did recently announce a 225,000-square-foot prelease to United Airlines to add to the 62,000-square-foot one reported earlier.

The current 14.2% direct vacancy rate is slightly up from the 13.3% vacancy recorded last quarter, and also up from the 12.5% recorded during the same quarter in 2015. Only one submarket, Fort Bend County, at 9.4%, reports a vacancy lower than double digit. Class A space overall is 12.3% vacant, and only four submarkets report vacancy rates under 10%.

Rental rates represented a 5.3% increase during the past year with the current overall averaged weighted rental rate of $27.70, down from last quarter's $28.64. Class A rates, now at

$33.40 citywide and at $41.01 in the CBD, experienced slight decreases from last quarter but still higher than the same quarter in 2015. Sublease space overall is continuing to increase along with the rental rates; the current average of $24.75 shows a 7.9% increase from last quarter. During the past year, the average sublease rate dropped 16.7%.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "The commercial market continues to hold its own in the early months of 2016, with positive absorption recorded in both the office and industrial sectors. Much of the office growth resulted from preleasing in buildings completed and occupied during the first quarter, including FMC Technologies, both office and industrial, National Oilwell Varco in Westchase, and Nalco Champion's expansion in Sugar Land. Those three office buildings alone accounted for over 1.0 million square feet of positive absorption, and those deals all happened prior to 2015.

"Although job cuts within the oil industry continue to be announced, the Greater Houston Partnership is predicting slightly positive job growth this year. Reports are that layoffs that happened in the early months of the year will most likely take until the fall to return to the previous employment peak. The GHP report noted that last year, Houston didn't recoup its early-year losses until November.

"Growth is slowing, and sublease space in both office and industrial is increasing. Retail is still strong with a few fallouts while the multi-family market is experiencing some oversupply. Land brokers are still busy, and the residential single-family market is doing well. The continued population growth has supported several sectors of the market, including new retail and medical facilities.

"I am cautiously optimistic. Houston remains a strong, robust city with a diversified economy that will rebound to show slow but continual growth in the real estate sectors."

Elizabeth G. LeDoux, Associate, Colliers International "Due to the decline in oil, the Houston office market has become a rather dynamic environment as it has shifted to a tenant's market. A few variables are playing into this shift. First, there is a large amount of sublease space available, and some of the space has five or more years left on the term, which makes it a direct competitor to the direct space available throughout the city. It is important to note that much of the sublease space available is in full floor plates.

“Secondly, due to hesitation in the market, there are not many full-floor tenants looking for space. This has caused landlords to get creative in order to lease their space. Although it can be costly, some landlords are willing to build new common area corridors so they can divide the space up to fit the needs of several prospects.

”We are still seeing activity and inquiries in the market, but it is more often than not smaller tenants looking to be in nice space for a fraction of the cost. The issue of hesitation also applies to landlords. Many landlords believe Houston will bounce out of its current slump in the next six to 12 months. This being said, they are hesitant to sign leases and lock in a lower rate for a term of five to seven years.

“Likewise, the sublease space in the market was once occupied by large corporations with high quality credit, and landlords are not as willing to sign a blend and extend deal with a tenant who has lower quality credit. With more than 9 million square feet of sublease space available throughout the city, it has caused landlords to be more aggressive and creative with their concessions. For example, in the Greenspoint market, we are hearing of tenants getting as much as 12 months abated rent to incentivize them to renew or sign new leases.

“In closing, with the price of oil stabilizing recently around $42.00/barrel, the market may be inching towards recovery in some industries, but only time will tell how the office market will react, and how quickly we will be able to absorb the high levels of vacancy across the city.”

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group “The prolonged downturn impacting the energy industry has certainly dampened Houston’s office leasing market with slower demand and rising sublease availabilities. Coupled with the new office buildings entering the market, a steep supply/demand imbalance is impacting overall leasing activity.

“Many energy firms’ office space decisions have been put on hold amid cost cutting and downsizing, and the low volume of leases expiring has resulted in the overall transaction volume dropping to its lowest level since 2009. During the first quarter of 2016, Houston’s overall direct occupancy level continued its decline, plunging 200 basis points to 84.9% within the past 12 months.

"Within the competitive leasing market, developers completed 5 new office buildings during the quarter totaling 835,779 square feet and delivered just over 7.3 million square feet of new office construction within the past 12 months (excluding corporate-owned projects). Within the energy sector, sublease availability has risen by 3.1 million square feet to nearly 9.3 million square feet since early 2015 as many companies are placing underutilized space on the market that was created by workforce reductions or space that was originally tied up for future expansion. Consequently, total space availability has significantly increased by 5.7 million square feet within the past 12 months due to added sublease inventory and newly delivered office space.

"Houston office leasing market fundamentals are expected to remain soft in the year ahead as the continuing trend of consolidation and space optimization by office users and the completion of remaining office projects under construction will add downward pressure on occupancy levels in 2016. The supply of sublease space will remain a concern with potential additional sublease space hitting the market during the first-half of 2016 due to looming bankruptcies and merger and acquisition activity; many of which have been announced recently.

"The key areas for office property owners to focus on during these challenging times will be the careful evaluation of near-term rollover and the retention of value by securing early lease renewals and/or extensions to combat potential increased vacancies. Even though office-using job growth is expected to return in 2017, future leasing demand from the energy sector will likely remain suppressed as there will be an abundance of sublease and shadow space that can be absorbed before tenants will absorb additional space."

Houston Industrial Market

Houston's industrial market continued to expand with positive direct net absorption of 723,030 square feet during the first quarter despite manufacturing slowdowns and overall economic uncertainty, according to statistics released by Commercial Gateway.

This quarter's absorption represents the 25th consecutive quarter – over six years – of positive absorption, with seven quarters recording more than 2 million square feet each. The first quarter's net absorption clearly represents a slowdown, although slightly lower than last quarter's 792,552 square feet, but considerable lower than the previous years.

In addition to the most recent announcement that IKEA is looking to build up to a million square foot distribution facility, several other major announcements for large build-to-suits and speculative projects have resulted in several large deals recorded during 2016, which included Advance Auto Parts' 441,000-square-foot lease in Beltway Crossing Northwest, Plastic Express' 394,489-square-foot lease in Port 225 among two build-to-suits in Beltway Southwest: Maintenance Supply's 209,000-square-foot building and Homelegance's 175,000-square-foot building.

Activity is slowing for some product in some areas, but due to several build-to-suits coming online, the vacancy rate decreased to 5.9%, compared to 6.2% the previous quarter. Vacancy for warehouse/distribution space citywide is 6.1% with manufacturing space at a low of 3.1%.

More than 1.9 million square feet in 17 buildings came online during the first quarter, with the largest being Aldi's 650,000-square foot project in the Southwest and FMC's project in the Northeast. The five largest multi-tenant buildings completed this quarter are divided between Gateway Southwest Business Park and Beltway Southwest Industrial Park, both in the Southwest, and Interstate Commerce Center in the north. Collectively, all industrial buildings completed this year entered the market 46.9% leased.

Construction activity is still high with many projects underway and many other proposed properties announced. Currently, 64 buildings representing almost 10.1 million square feet are underway. The two largest BTS projects are Daiken's 4 million square foot facility off Highway 290 and FedEx's new 800,000-square-foot project near the Grand Parkway in the Northwest.

Rental rates have taken a slight drop this quarter to $7.25 from $7.54 last quarter and are less than the $7.69 recorded during the same quarter last year.

Sublease space had been steadily increasing throughout last year, but remained constant at 2.4 million square feet. The current quarter's total is an increase of 48.6% from the same quarter a year ago, and is starting to rival the larger square footage totals in 2013 and back through 2010.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Travis Land, SIOR, Partner, NAI Partners "The industrial market trends for first quarter are continuing into the second quarter, with vacancies and availabilities increasing in all

submarkets except the Southeast. This has been happening since third quarter of last year.

"The Southeast area boasts the majority of deals and increased activity, but we will continue to see non energy-related large distribution firms sporadically take advantage of the softer submarkets and sign leases there. Overall rental rents are also softening in most submarkets, and they will continue to decrease with greater incentives provided throughout the year."

Mark G. Nicholas, SIOR, Executive Vice President Regional Director-Brokerage, JLL Houston "I am seeing a lot of industrial properties coming on the market during the first part of the year, especially manufacturing facilities. These properties range in various sizes, with a majority on the market because of company mergers, consolidations and even bankruptcies. Because of the volume, properties must be priced right in order to move; manufacturing has slowed down, and the demand is just not there.

"My team is still very busy with land deals in many areas of the city. Land is still moving to both users and developers alike, and pricing is steady. Many users are looking for shovel-ready sites so they can just come in and build what they need quickly and not have to wait for infrastructure like streets, utilities, and detention ponds to be created.

"Houston's industrial market remains very active, with major deals completed due to the diversity of the economy. Specific areas and product -- such as North Houston's distribution, institutional properties -- are overbuilt, but the overall market is not yet overbuilt. New projects, many build-to-suit, are on the drawing boards or under construction now. But there are quite a few free-standing buildings available where landlords did not acquire or leave enough excess land for employee parking or to accommodate outside storage requirements, etc.; so those may take a while."

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

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Houston-Area Office Market Summary

2016 First Quarter

Submarket	Class	# of Buildings	Building SF	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Construction	Avg Rent	Sublease Avail
CBD	A	32	30,812,169	2,512,762	8.2%	513,257	513,257	1,166,658	$41.01	1,442,246
	B	26	9,544,105	2,711,622	28.4%	(310,344)	(310,344)	0	$28.22	245,360
	C	9	648,066	102,393	15.8%	(1,664)	(1,664)	0	$18.86	1,427
CBD Subtotal		**67**	**41,004,340**	**5,326,777**	**13.0%**	**201,249**	**201,249**	**1,166,658**	**$36.88**	**1,689,033**
Energy Corridor	A	43	14,136,723	1,258,544	8.9%	63,941	63,941	1,514,801	$33.93	933,797
	B	51	5,456,424	1,159,778	21.3%	(440)	(440)	0	$21.26	725,658
	C	6	285,459	19,368	6.8%	(6,782)	(6,782)	0	$24.60	6,195
Energy Corridor Subtotal		**100**	**19,878,606**	**2,437,690**	**12.3%**	**56,719**	**56,719**	**1,514,801**	**$27.49**	**1,665,650**
Fort Bend County	A	27	3,127,893	351,549	11.2%	129,713	129,713	0	$28.09	147,091
	B	22	2,573,287	164,379	6.4%	2,489	2,489	22,400	$21.50	1,765
	C	1	156,000	31,712	20.3%	12,595	12,595	0	n/a	0
Fort Bend County Subtotal		**50**	**5,857,180**	**547,640**	**9.4%**	**144,797**	**144,797**	**22,400**	**$26.50**	**148,856**
Greenspoint	A	26	5,392,889	1,890,805	35.1%	(364,418)	(364,418)	0	$25.62	137,873
	B	43	4,502,946	1,694,004	37.6%	13,701	13,701	0	$17.84	73,432
	C	27	2,112,615	416,549	19.7%	70,566	70,566	0	$11.92	0
Greenspoint Subtotal		**96**	**12,008,450**	**4,001,358**	**33.3%**	**(280,151)**	**(280,151)**	**0**	**$21.60**	**211,305**
Inner Loop	A	39	11,449,433	1,744,042	15.2%	150,782	150,782	575,316	$32.63	210,764
	B	104	10,993,034	1,270,942	11.6%	(88,446)	(88,446)	28,000	$26.41	35,745
	C	60	3,870,274	235,080	6.1%	95,269	95,269	0	$16.44	6,753
Inner Loop Subtotal		**203**	**26,312,741**	**3,250,064**	**12.4%**	**157,605**	**157,605**	**603,316**	**$28.92**	**253,262**

North/The Woodlands/ Conroe	A	59	11,930,130	1,040,138	8.7%	(45,033)	(45,033)	201,651	$35.28	387,295
	B	79	4,868,567	884,470	18.2%	(18,986)	(18,986)	0	$18.32	115,079
	C	24	1,040,105	126,260	12.1%	1,793	1,793	0	$13.06	0
North/The Woodlands/ Conroe Subtotal		**162**	**17,838,802**	**2,050,868**	**11.5%**	**(62,226)**	**(62,226)**	**201,651**	**$27.17**	**502,374**
Northeast	A	3	411,670	7,630	1.9%	360,000	360,000	0	$25.50	0
	B	10	539,796	137,648	25.5%	(209)	(209)	0	$15.32	0
	C	4	116,022	0	n/a	265	265	0	n/a	0
Northeast Subtotal		**17**	**1,067,488**	**145,278**	**13.6%**	**360,056**	**360,056**	**0**	**$15.92**	**0**
Northwest	A	39	4,680,429	1,019,668	21.8%	(61,071)	(61,071)	0	$28.11	165,340
	B	56	5,279,692	1,250,740	23.7%	2,952	2,952	0	$19.28	121,605
	C	19	862,012	157,365	18.3%	(14,761)	(14,761)	0	$18.38	0
Northwest Subtotal		**114**	**10,822,133**	**2,427,773**	**22.4%**	**(72,880)**	**(72,880)**	**0**	**$22.16**	**286,945**
Southeast	A	17	1,997,376	144,089	7.2%	19,378	19,378	0	$28.47	37,320
	B	54	3,693,569	632,250	17.1%	(158,026)	(158,026)	28,500	$17.87	18,000
	C	43	1,952,285	312,797	16.0%	713	713	0	$18.00	27,610
Southeast Subtotal		**114**	**7,643,230**	**1,089,136**	**14.3%**	**(137,935)**	**(137,935)**	**28,500**	**$19.03**	**82,930**
Southwest	A	6	1,889,547	452,083	23.9%	42,774	42,774	0	$21.04	2,100
	B	45	5,157,288	1,075,932	20.9%	(26,734)	(26,734)	0	$18.24	43,274
	C	72	4,888,175	554,027	11.3%	(8,335)	(8,335)	0	$13.48	17,700
Southwest Subtotal		**123**	**11,935,010**	**2,082,042**	**17.4%**	**7,705**	**7,705**	**0**	**$18.14**	**63,074**
Uptown	A	42	16,832,547	2,290,670	13.6%	215,572	215,572	1,272,316	$36.22	738,933
	B	79	10,856,136	1,166,684	10.8%	14,937	14,937	75,000	$27.83	251,122
	C	13	929,110	50,806	5.5%	(3,443)	(3,443)	0	$21.88	0
Uptown Subtotal		**134**	**28,617,793**	**3,508,160**	**12.3%**	**227,066**	**227,066**	**1,347,316**	**$34.20**	**990,055**
West	A	52	9,222,428	1,326,967	14.4%	(47,742)	(47,742)	364,295	$27.24	353,772
	B	45	3,741,845	411,124	11.0%	(433)	(433)	0	$19.24	56,989
	C	34	2,349,985	88,321	3.8%	8,331	8,331	0	$14.15	10,059
West Subtotal		**131**	**15,314,258**	**1,826,412**	**11.9%**	**(39,844)**	**(39,844)**	**364,295**	**$23.89**	**420,820**
Westchase	A	35	9,499,660	1,054,562	11.1%	302,618	302,618	1,286,000	$35.56	797,344

	B	46	6,465,475	761,557	11.8%	165,226	165,226	0	$19.59	49,519
	C	16	807,728	87,812	10.9%	(7,595)	(7,595)	0	$17.44	0
Westchase Subtotal		**97**	**16,772,863**	**1,903,931**	**11.4%**	**460,249**	**460,249**	**1,286,000**	**$29.83**	**846,863**
Houston Area	A	420	121,382,894	15,093,509	12.4%	1,279,771	1,279,771	6,381,037	$33.40	5,353,875
	B	660	73,672,164	13,321,130	18.1%	(404,313)	(404,313)	125,400	$21.45	1,737,548
	C	328	20,017,836	2,182,490	10.9%	146,952	146,952	0	$15.63	69,744
Houston Area Total		**1,408**	**215,072,894**	**30,597,129**	**14.2%**	**1,022,410**	**1,022,410**	**6,506,437**	**$27.70**	**7,161,167**

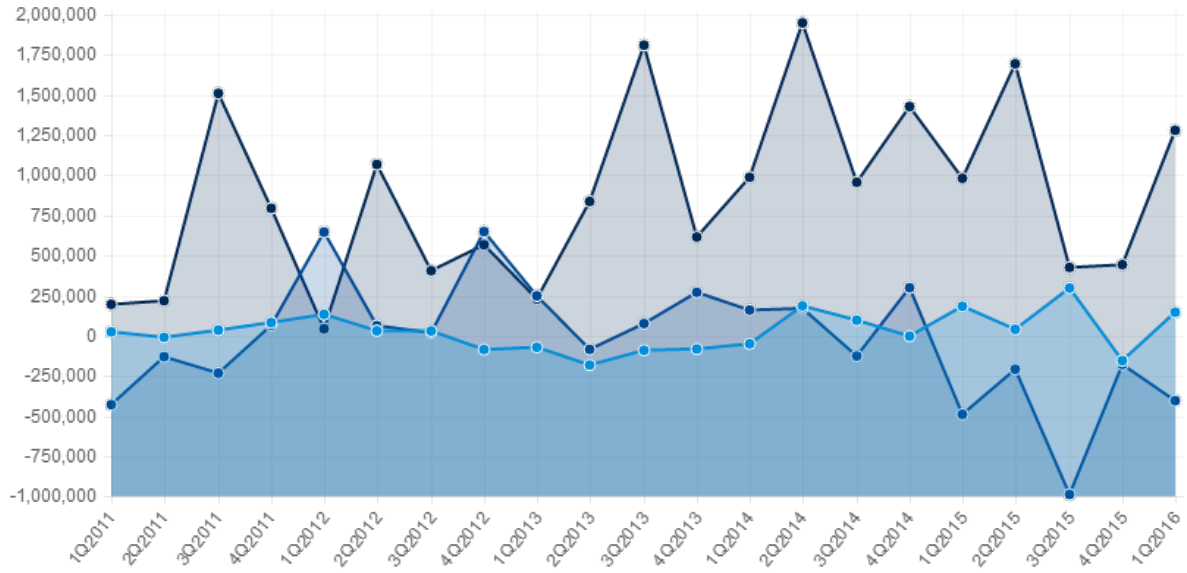
* Number of buildings calculated on specific buildings at each property address.
** Includes all general-purpose existing office buildings 20,000 square feet or larger.
*** Rental rates are weighted and averaged based on available space.

Houston-Area Office Historical Summary

2016 First Quarter

Period	# of Buildings	Building SF	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent Direct	Avg Rent Sublease
2016 Q1	1,408	215,072,894	30,597,129	14.2%	7,322,911	1,022,410	$27.70	$24.75
2015 Q4	1,393	213,345,701	29,948,651	14.0%	6,699,931	109,803	$28.64	$22.94
2015 Q3	1,377	210,519,092	27,998,664	13.3%	5,738,477	(264,934)	$27.10	$25.40
2015 Q2	1,372	209,325,503	26,720,056	12.8%	4,871,969	1,523,614	$26.57	$28.10
2015 Q1	1,366	206,949,827	25,857,799	12.5%	3,450,693	676,602	$26.30	$29.72
2014 Q4	1,352	203,201,000	23,162,349	11.4%	3,195,204	1,724,240	$25.35	$29.33
2014 Q3	1,345	200,595,877	22,114,124	11.0%	3,042,717	927,210	$25.07	$29.42
2014 Q2	1,336	199,168,988	21,717,383	10.9%	3,127,013	2,305,477	$25.00	$27.94
2014 Q1	1,328	197,427,346	22,025,756	11.2%	2,751,241	1,096,846	$24.83	$26.01
2013 Q4	1,324	196,237,340	22,128,061	11.3%	2,616,113	803,945	$24.25	$27.50
2013 Q3	1,317	195,007,448	22,418,596	11.5%	2,299,752	1,795,906	$24.21	$27.48
2013 Q2	1,304	192,937,997	21,561,690	11.2%	2,034,806	569,668	$23.58	$26.34
2013 Q1	1,299	191,877,529	21,764,362	11.3%	1,703,604	407,220	$23.29	$25.56
2012 Q4	1,300	191,836,331	22,186,836	11.6%	1,654,045	1,130,314	$23.19	$23.05
2012 Q3	1,296	191,317,984	22,702,523	11.9%	1,669,477	454,212	$22.95	$23.71
2012 Q2	1,294	191,490,974	23,180,125	12.1%	1,873,841	1,160,667	$22.76	$24.85
2012 Q1	1,294	191,509,392	23,741,296	12.4%	2,220,466	823,036	$22.75	$25.28
2011 Q4	1,292	191,333,983	25,463,753	13.3%	2,508,155	942,031	$22.90	$25.34
2011 Q3	1,286	190,850,258	26,201,199	13.7%	3,001,909	1,311,958	$22.74	$25.32
2011 Q2	1,285	189,949,813	26,619,334	14.0%	2,748,436	78,544	$22.97	$24.95
2011 Q1	1,283	189,265,661	26,189,842	13.8%	2,793,033	(208,556)	$23.23	$24.02

TX - Houston Area Office Direct Net Absorption By Class



Period	Class A	Class B	Class C	All Classes
2016 Q1	1,279,771	(404,313)	146,952	1,022,410
2015 Q4	442,771	(178,437)	(154,531)	109,803
2015 Q3	425,430	(987,754)	297,390	(264,934)
2015 Q2	1,693,588	(208,317)	40,270	1,523,614
2015 Q1	980,697	(489,042)	184,077	676,602
2014 Q4	1,427,302	299,247	(2,309)	1,724,240
2014 Q3	955,886	(125,940)	97,264	927,210
2014 Q2	1,948,587	171,026	186,184	2,305,477
2014 Q1	987,099	159,809	(50,062)	1,096,846
2013 Q4	615,149	270,612	(82,241)	803,945
2013 Q3	1,809,844	76,169	(90,107)	1,795,906
2013 Q2	836,376	(84,770)	(181,938)	569,668
2013 Q1	229,455	248,903	(71,138)	407,220
2012 Q4	566,957	649,256	(85,899)	1,130,314
2012 Q3	405,430	18,446	30,336	454,212
2012 Q2	1,066,677	63,081	30,909	1,160,667
2012 Q1	43,439	645,798	133,799	823,036
2011 Q4	793,753	65,449	82,829	942,031
2011 Q3	1,509,485	(232,783)	35,256	1,311,958
2011 Q2	218,266	(130,246)	(9,476)	78,544
2011 Q1	195,659	(428,686)	24,471	(208,556)

Houston-Area Industrial Market Summary

2016 First Quarter

Submarket	Specific Use	# of Buildings	Building SF	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Construction	Avg Rent	Sublease Avail
Inner Loop	Warehouse - Distribution	304	14,056,120	502,839	3.58%	(53,799)	(53,799)	0	$5.60	26,500
	Manufacturing	28	1,617,380	46,946	2.90%	(1,265)	(1,265)	0	$10.08	0
	Light Industrial	148	3,923,839	207,559	5.29%	(48,391)	(48,391)	**0**	$7.71	0
	Flex/R&D	104	2,817,785	245,646	8.72%	(17,190)	(17,190)	0	$9.47	0
	Inner Loop Subtotal	**584**	**22,415,124**	**1,002,990**	**4.47%**	**(120,645)**	**(120,645)**	**0**	**$7.99**	**26,500**
North	Warehouse - Distribution	356	14,178,553	1,020,134	7.19%	(54,295)	(54,295)	223,735	$8.08	0
	Manufacturing	64	3,194,044	249,750	7.82%	14,280	14,280	45,653	$8.16	0
	Light Industrial	114	2,910,861	252,269	8.67%	11,585	11,585	11,875	$9.36	30,203
	Flex/R&D	51	1,956,335	317,450	16.23%	(6,900)	(6,900)	111,800	$16.59	4,245
	North Subtotal	**585**	**22,239,793**	**1,839,603**	**8.27%**	**(35,330)**	**(35,330)**	**393,063**	**$8.73**	**34,448**
Northeast	Warehouse - Distribution	742	51,458,854	4,881,114	9.49%	(126,186)	(126,186)	977,580	$6.67	495,814
	Manufacturing	122	8,102,665	247,043	3.05%	686,260	686,260	34,500	$6.95	122,207
	Light Industrial	146	5,839,898	818,410	14.01%	(91,668)	(91,668)	12,000	$8.55	123,440
	Flex/R&D	90	2,921,877	238,866	8.18%	(47,675)	(47,675)	0	$6.87	47,663
	Northeast Subtotal	**1,100**	**68,323,294**	**6,185,433**	**9.05%**	**420,731**	**420,731**	**1,024,080**	**$7.00**	**789,124**
Northwest	Warehouse - Distribution	1,407	93,011,166	6,114,663	6.57%	167,509	167,509	979,730	$7.68	682,937
	Manufacturing	280	17,159,606	419,088	2.44%	97,446	97,446	4,000,000	$8.63	115,835
	Light Industrial	347	13,443,776	825,413	6.14%	(59,796)	(59,796)	210,629	$8.75	132,516
	Flex/R&D	188	6,154,593	239,542	3.89%	(50,256)	(50,256)	40,375	$8.35	14,664
	Northwest Subtotal	**2,222**	**129,769,141**	**7,598,706**	**5.86%**	**154,903**	**154,903**	**5,230,734**	**$7.93**	**945,952**
South	Warehouse - Distribution	349	19,969,850	748,568	3.75%	(83,575)	(83,575)	208,000	$5.73	67,001
	Manufacturing	62	4,931,485	0	0.00%	55,650	55,650	0	n/a	90,000
	Light Industrial	245	5,305,328	257,651	4.86%	(34,961)	(34,961)	0	$6.37	0
	Flex/R&D	50	1,819,583	47,067	2.59%	(31,597)	(31,597)	0	n/a	0

	South Subtotal	**706**	**32,026,246**	**1,053,286**	**3.29%**	**(94,483)**	**(94,483)**	**208,000**	**$5.94**	**157,001**
Southeast	Warehouse - Distribution	856	62,412,612	2,242,536	3.59%	(130,888)	(130,888)	1,824,880	$6.01	10,400
	Manufacturing	144	14,124,016	433,103	3.07%	49,324	49,324	0	$8.15	125,104
	Light Industrial	159	3,777,697	535,367	14.17%	(2,753)	(2,753)	197,703	$8.20	0
	Flex/R&D	87	2,010,542	75,176	3.74%	(8,205)	(8,205)	25,000	$12.55	0
	Southeast Subtotal	**1,246**	**82,324,867**	**3,286,182**	**3.99%**	**(92,522)**	**(92,522)**	**2,047,583**	**$6.78**	**135,504**
Southwest	Warehouse - Distribution	505	33,249,731	2,065,141	6.21%	808,910	808,910	1,137,595	$6.39	49,958
	Manufacturing	63	4,229,295	278,616	6.59%	(27,709)	(27,709)	0	$5.10	65,942
	Light Industrial	350	12,937,676	751,918	5.81%	(215,669)	(215,669)	15,000	$7.75	193,420
	Flex/R&D	187	6,520,379	388,775	5.96%	(75,156)	(75,156)	0	$13.28	22,045
	Southwest Subtotal	**1,105**	**56,937,081**	**3,484,450**	**6.12%**	**490,376**	**490,376**	**1,152,595**	**$7.03**	**331,365**
Houston Area	Warehouse - Distribution	4,519	288,336,886	17,574,995	6.10%	527,676	527,676	5,351,520	$6.74	1,332,610
	Manufacturing	763	53,358,491	1,674,546	3.14%	873,986	873,986	4,080,153	$7.24	519,088
	Light Industrial	1,509	48,139,075	3,648,587	7.58%	(441,653)	(441,653)	447,207	$8.21	479,579
	Flex/R&D	757	24,201,094	1,552,522	6.42%	(236,979)	(236,979)	177,175	$10.62	88,617
	Houston Area Total	**7,548**	**414,035,546**	**24,450,650**	**5.91%**	**723,030**	**723,030**	**10,056,055**	**$7.26**	**2,419,894**

* Number of buildings calculated on specific buildings at each property address.
** Includes all general-purpose existing industrial buildings 10,000 square feet or larger.
*** Rental rates are weighted and averaged based on available space.

Houston-Area Industrial Historical Summary

2016 First Quarter

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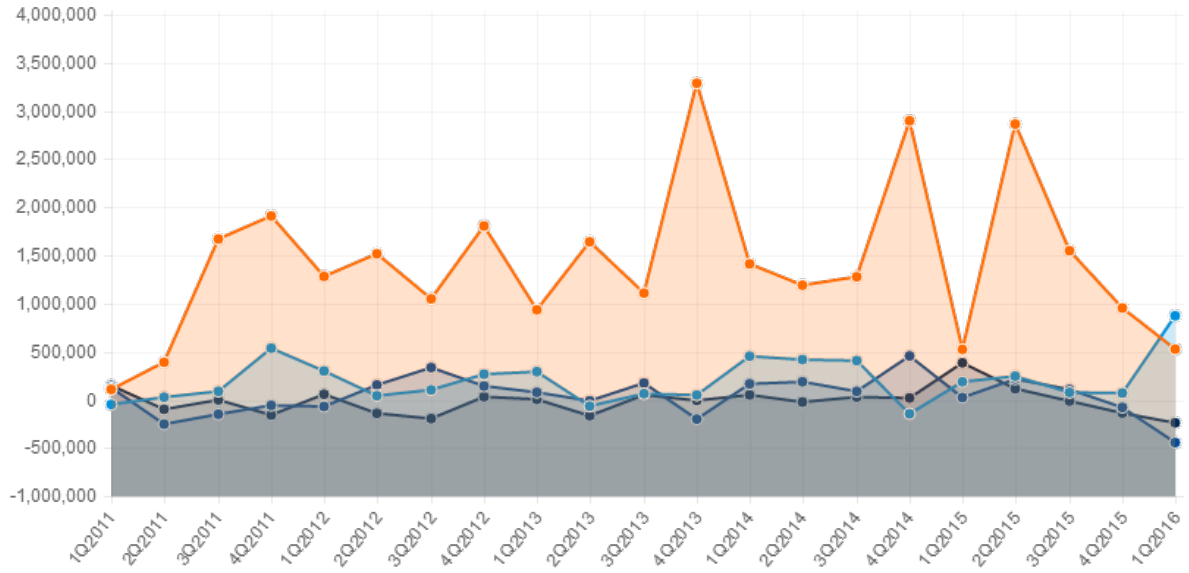
Period	# of Buildings	Building SF	Vacant SF Direct	Vacancy Rate Direct	Avail SF Sublease	Net Absorption Direct	Avg Rent Direct	Avg Rent Sublease
2016 Q1	7,548	414,035,546	24,450,650	5.90%	2,419,894	723,030	$7.25	$6.15
2015 Q4	7,558	409,236,392	25,184,304	6.20%	2,451,206	792,552	$7.54	$5.45
2015 Q3	7,408	410,844,492	22,083,342	5.40%	1,851,334	1,727,156	$7.77	$6.81
2015 Q2	7,391	409,246,393	22,582,726	5.50%	1,765,988	3,446,915	$7.70	$7.40
2015 Q1	7,345	406,604,989	23,751,852	5.80%	1,628,464	1,124,814	$7.69	$7.31
2014 Q4	7,285	404,134,409	24,266,864	6.00%	1,517,554	3,233,664	$7.58	$6.92
2014 Q3	7,243	400,258,002	25,078,270	6.30%	1,378,661	1,808,363	$7.35	$6.84
2014 Q2	7,202	397,698,893	24,998,852	6.30%	1,484,062	1,778,183	$7.14	$6.81
2014 Q1	7,174	394,638,759	25,124,252	6.40%	1,363,465	2,087,789	$6.68	$6.26
2013 Q4	7,148	392,797,439	27,298,835	6.90%	2,003,230	3,137,471	$6.53	$6.06
2013 Q3	7,119	390,289,594	28,494,137	7.30%	2,310,894	1,404,630	$6.36	$5.78
2013 Q2	7,081	386,801,467	27,244,026	7.00%	2,205,071	1,407,059	$6.35	$5.32
2013 Q1	7,055	384,456,962	27,471,668	7.10%	1,717,698	1,316,799	$5.98	$5.53
2012 Q4	7,020	382,398,541	26,033,609	6.80%	1,745,173	2,253,851	$5.91	$5.14
2012 Q3	7,002	381,000,489	27,804,952	7.30%	1,705,302	1,298,922	$5.76	$5.73
2012 Q2	6,984	380,301,372	28,737,858	7.60%	1,713,664	1,579,719	$5.68	$5.65
2012 Q1	6,971	379,671,472	28,924,409	7.60%	1,977,300	1,576,393	$5.61	$5.08
2011 Q4	6,948	377,688,760	29,174,452	7.70%	1,970,315	2,236,388	$5.52	$5.58
2011 Q3	6,932	376,516,291	30,414,520	8.10%	2,130,635	1,614,984	$5.49	$6.41
2011 Q2	6,921	376,272,374	32,385,587	8.60%	2,125,422	74,608	$5.55	$5.51
2011 Q1	6,858	373,377,488	31,614,368	8.50%	2,044,721	342,142	$5.52	$5.37

TX - Houston Area Industrial Direct Net Absorption By Type



Period	Flex/R&D	Light Industrial	Manufacturing	Warehouse - Distribution	All Types
2016 Q1	(236,979)	(441,653)	873,986	527,676	723,030
2015 Q4	(135,584)	(76,903)	72,257	955,072	814,842
2015 Q3	(10,736)	109,791	78,674	1,549,427	1,727,156
2015 Q2	117,699	217,791	247,275	2,864,150	3,446,915
2015 Q1	385,258	25,945	188,910	524,701	1,124,814
2014 Q4	20,908	457,754	(143,098)	2,898,100	3,233,664
2014 Q3	30,950	89,523	408,958	1,278,932	1,808,363
2014 Q2	(20,835)	188,931	419,007	1,191,080	1,778,183
2014 Q1	52,636	167,799	454,750	1,412,604	2,087,789
2013 Q4	(4,830)	(197,956)	51,980	3,288,277	3,137,471
2013 Q3	52,871	176,250	65,704	1,109,805	1,404,630
2013 Q2	(163,232)	(8,137)	(63,405)	1,641,833	1,407,059
2013 Q1	7,293	79,562	294,045	935,899	1,316,799
2012 Q4	33,839	144,932	268,394	1,806,686	2,253,851
2012 Q3	(192,880)	336,660	105,257	1,049,885	1,298,922
2012 Q2	(138,262)	156,070	44,180	1,517,731	1,579,719
2012 Q1	59,798	(67,480)	301,350	1,282,725	1,576,393
2011 Q4	(155,626)	(55,481)	537,804	1,909,691	2,236,388
2011 Q3	1,150	(147,428)	90,211	1,671,051	1,614,984
2011 Q2	(96,390)	(250,220)	29,313	391,905	74,608
2011 Q1	150,600	127,959	(46,076)	109,659	342,142

Quarterly Market Overview
2015 Year End
FOR IMMEDIATE RELEASE

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HOUSTON'S FOURTH-QUARTER COMMERCIAL ACTIVITY SLOWS, BUT SHOWS RESILIENCE AMID DOWNTURN

HOUSTON — (January 28, 2016) — Houston's commercial real estate market appears resilient despite slower leasing activity as the downturn continues, fueled by plummeting oil prices. That's according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors.

The fourth quarter reported positive net absorption of 380,758 square feet of office space, continuing the year's positive trend to total more than 2.5 million square feet for the year. This annual absorption represents less than half of the previous year's 6.0 million square feet. As in previous years, Class A properties represent the bulk of the growth, offset by both Class B and C properties reporting negative absorption for the quarter.

Keeping the direct absorption positive primarily results from large companies occupying their new space in recently completed build-to-suit and/or owner-occupied properties, which has been the norm all year. ExxonMobil moved into its two new properties in The Woodlands, Air Liquide occupied its new building in the west, Statoil occupied the rest of CityWest Place 2, and Lennar and its affiliated companies including Friendswood Development occupied their new building in Greenspoint. These companies added to the new building occupation from earlier in the year by Conoco Phillips Lower 48 Business of 547,628 square feet in Energy Center Three and Sasol North America in its new headquarters' building, both in the Energy Corridor, along with ExxonMobil finalizing its move into the remainder of the 3 million-square-foot campus in the north.

For the quarter, only five of the 13 submarkets recorded positive absorption for the fourth quarter, but seven recorded positive net absorption for the year, with two submarkets recording more than 2.0 million square feet and two recording more than a negative 1.0 million square feet. Topping the list for the positive side was the North/The Woodlands/Conroe submarket with 2.2 million square feet of net absorption followed by the West submarket with more than 1.5 million square feet. On the negative side for the year was the Central Business District (CBD)

with 1.6 million square feet of negative net absorption followed closely by the Greenspoint area with almost 1.1 million square feet of negative absorption. ExxonMobil accounts for much of both sides of the absorption totals as the company moved into its new space and left a couple million square feet in various markets across the city, including 800 Bell's 1.1 million square feet in the CBD.

The changing economy related to the energy downturn is also shown by the increasing amounts of sublease space on the market. At year-end 2015, the Houston market had almost 6.7 million square feet of sublease space available and being marketed. Of that total, 4.6 million, or more than half, is Class A space. This total represents more than double the sublease space available at year-end 2014.

For the quarter, eight new buildings were completed, adding 2.1 million square feet to the market. For the year, 25 projects totaling almost 8.0 million square feet have been completed. Collectively, the new buildings are currently 67.4% leased and contributed more than 5.2 million square feet of net absorption.

Construction starts halted for the most part during the fourth quarter, with only one property, the new 240,000-square-foot CEMEX building in West Houston, breaking ground. Overall, the Houston under-construction office market has 21 properties totaling 7.4 million square feet. Collectively, the under-construction buildings are 76.5% preleased, with 13 properties classified as multi-tenant. The multi-tenant properties represent 3.7 million square feet or 59.2% of the under-construction total and are currently reporting 50.1% preleased space. Of the multi-tenant spec properties, four of the 13 are 100% available.

The largest project under construction is Phillips 66's 1.2 million-square-foot campus in the Westchase area. The largest spec building under construction with the largest availability remains Hines' 609 Main at Texas building with 1.05 million square feet and one recently reported 62,000-square-foot pre-lease.

Although construction overall slowed, one major commercial project got a jump-start in 2015. Generation Park, McCord Development's 4,000-acre project on the Northeast side, currently has the headquarters for FMC Technology under construction along with multi-family projects. In addition, both Lone Star College and San Jacinto College have announced plans to build new facilities there.

The current 14.0% direct vacancy rate is up from the 13..3% vacancy recorded last quarter, and quite a jump from the 11.2% recorded during the same quarter at year-end 2014. Class A space overall is 12.2% vacant, with the North/The Woodlands/Conroe submarket increasing to 8.3% from the third-quarter vacancy of 4.7% due to new construction entering the market with little preleasing. Only the smaller Southeast submarket is posting a lower Class A rate of 8.2% with the CBD following at 8.4% and the Westchase submarket at 9.7%, rounding out all submarkets with less than 10% Class A vacancy. Only one of the 13 submarkets, the Fort Bend County submarket, registered an overall single-digit vacancy.

Rental rates represented a 12.6% increase during the past year with the current overall averaged weighted rental rate of $28.54. Class A rates, now at $34.54 citywide and at $40.88 in the CBD, experienced a 6.4% and 3.1% increase, respectively, from the same quarter in 2014. Sublease space overall is continuing to increase but the rental rate for sublease decreased 10.7% from third quarter, reporting a current average of $22.94. During the past year, the average sublease rate dropped 21.7%.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "The commercial market held its own in 2015, with positive absorption recorded in both the office and industrial sectors. Much of the office growth resulted from preleasing in buildings that completed during 4th quarter, including Air Liquide and the two buildings in The Woodlands housing ExxonMobil. Those three alone accounted for over 660,000 square feet of positive absorption, and those deals all happened prior to 2015.

"Although job cuts within the oil industry continue to be announced, the Greater Houston Partnership is predicting positive job growth this year and more new jobs in 2017. Houston's diversity is responding to the oil price's decline, and the area should remain one of the best commercial markets in the country.

"Growth is slowing, but other than some excess Class A office space and multi-family product, other sectors of the commercial market are going great. Houston's industrial segment is strong, retail is respectable, the land market is good, and homebuilders haven't overbuilt.

"The upstream oil and gas market is hurting, but the petrochemical sector is booming. We're seeing billions of dollars in new petrochemical construction on the east side,

which has helped offset the downturn in the oil and gas sector. Houston's port is expanding; the widening of the Panama Canal is going to be a great driving force for new business there. Houston's medical industry is also expanding, with extensive growth in the suburbs with many new hospitals and emergency centers built or under construction. So today, other industries are offsetting the decline of the energy sector.

"I am cautiously optimistic. Houston is a strong, robust city that is taking a breather. We may be pausing temporarily but we will come back even stronger."

David Baker, Executive Vice President, Houston Operations, Transwestern "The market is continuing to add space on a direct and sublease basis. At the same time, we are seeing a significant increase in overall market activity as I believe tenants are taking advantage of new concessions in the marketplace.

Additionally, our Transwestern Outlook Report is forecasting continued positive job growth in 2016 and significant job growth in 2017. We expect this job growth will spur new demand that should moderate the level of concessions and stabilize rental rates in 2016."

Robert S. Parsley, SIOR, Co-Chairman, Colliers International "As 2015 came to a close, the Houston Office Market was in the midst of a significant slowdown in reaction to the dramatic drop in energy prices that occurred throughout the year and the subsequent reevaluation and adjustments in growth plans implemented by many of the 'upstream' energy companies. As the slowdown has continued throughout most of 2015, many other sectors are feeling the impact of this slowdown, including the 'mid-' and 'downstream' energy companies, as well as the oilfield service industry and companies that provide other services to the energy industry, including engineering, finance, manufacturing and law firms.

"In 2015, Houston's citywide vacancy rates rose over 430 basis points from 11.1% to 15.4%. In many of the submarkets, we saw the 'perfect storm' created by over 12.7 million rentable square feet of new construction delivered to the market in 2015 while many energy companies were putting large amounts of sublease space on the market due to the slowdown in the economy. Available sublease space more than doubled in 2015, increasing from 3.8 million rentable square feet to 8.0 million rentable square feet. The majority of this space was previously leased by growing energy companies for

future expansion. There was a decline in the velocity of office lease transactions and a decline in leasing activity by 53.5% for 2015. Many tenants are renewing their leases for a shorter term and renewing in their existing space while they determine the direction of the office market.

"As we look at 2016, we see a continued slowing in office leasing as companies determine what direction the energy industry will go, and companies are trying to stay nimble and await opportunities. Tenants occupy a strong position in this market, and there are many options for tenants willing to relocate to other buildings. We are seeing the return of free rent and lease concessions as landlords fight to keep their existing tenants and attract new tenants from other buildings. As the market slows down, the local job growth assumptions -- which is a key driver for office space growth -- is uncertain. Local economists are wary of 2016, and it appears that job growth will be between flat and approximately 20,000 new jobs, based on when energy prices strengthen as well as the impact of the uncertainties regarding the national election in October."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "The effects of the oil and gas slump have dampened Houston's office leasing market with slower demand and rising sublease availabilities, and the flood of office buildings being completed and entering the market are creating additional downward pressure. Despite the volatility in the energy sector, the office leasing market recorded just over 2.7 million square feet of positive direct net absorption in 2015, but direct occupancy levels have plunged by 220 basis points to 85.4% within the past year largely due to nearly 8.2 million square feet of new supply that delivered in 2015.

"It is important to note that the direct net absorption gains witnessed this past year were significantly influenced by leases signed by energy companies in new buildings 18 to 24 months prior to the current downturn as these firms are now occupying their new space. As a result of the job losses within the energy sector, sublease availability has risen by 3 million square feet to nearly 7.8 million square feet. Since year-end 2014, many companies are placing under-utilized space on the market that was created by workforce reductions or space that was originally tied up for future expansion. With nearly 2 million square feet of this sublease space becoming vacant in 2015, the addition of the vacant

sublet space to the direct net absorption figures result in only 675,328 square feet of true net absorption for 2015.

"As a result of the economic uncertainty, leasing activity has slowed significantly and dropped to its lowest level since 2009 as many companies are delaying their long-term leasing decisions while some are opting for short-term leases. As a result of the drop in leasing activity, many landlords are being more aggressive in negotiations by offering increased concessions in order to drive tenant interest amid worsening economic conditions. With the recent onslaught of new construction deliveries, property owners will have to contend with large blocks of vacant space as many tenants are in a holding pattern until the market begins to recover.

"The Houston office market is expected to experience some softening in the year ahead with additional corporate layoffs as well as merger and acquisition activity within the energy sector, which could also create additional sublease availability. The continuing trend of consolidation and space optimization by office users and the completion of numerous developments will add downward pressure on occupancy levels in 2016. Asking rental rates are expected to remain flat, but concessions such as rent abatement and TI allowances will gradually increase as a result of slowed leasing activity, the added sublease inventory and rising vacancy."

Houston Industrial Market

Houston's industrial market continued to expand with positive direct net absorption of almost 662,889 square feet during the fourth quarter of 2015 despite economic uncertainty, according to statistics released by Commercial Gateway.

This quarter's absorption represents the 24th consecutive quarter – six years – of positive absorption, with seven quarters recording more than 2 million square feet each. The fourth quarter's net absorption clearly represents a slowdown when compared to last year's fourth quarter, which recorded 3.2 million square feet. However, comparing year to year, the 6.8 million square feet of net absorption for 2015 is still a healthy amount when compared to the 8.9 million square feet from 2014.

Major recent announcements for large build-to-suits and speculative projects have added to several large deals recorded during 2015, which included CVS Health Corp.'s new 328,020-square-foot lease in Imperial Distribution Center, Foxconn Corp's 400,250-square-foot

deal at Fallbrook Distribution Center, McKesson's 357,887-square-foot lease at Gateway North Business Park, and a 207,000-square-foot deal by Niagara Water in Bayou Bend Business Park.

Net absorption was shared by all industrial types throughout the year with warehouse/distribution properties accounting for the bulk of absorption this quarter (571,788 square feet) and for the year, ending with 5.5 million square feet or 81.1% of the overall annual total.

Activity is slowing, but not enough to cause a large bump in the vacancy rate, which increased to 6.0% from 5.4% the previous quarter. This rate is a slight increase from the vacancy rate of 5.8% recorded during the same quarter a year ago. Vacancy for warehouse/distribution space citywide is 6.3% with manufacturing space at 4.2%.

More than 6.7 million square feet in 73 buildings came online during the year, with just three breaking ground during the fourth quarter. Collectively, all industrial buildings completed in 2015 are currently 34.0% leased and represent more than 2.1 million square feet of absorption for the year. The majority of construction occurred in the Northwest and Northeast, which accounted for 23 buildings in 2.2 million square feet and 18 buildings in 1.0 million square feet, respectively.

Construction activity is still high with many proposed properties announced. Currently, 27 projects representing almost 8.0 million square feet are underway. The two largest BTS projects remain Daiken's 4 million square foot facility off Highway 290 and FMC's new project at Generation Park in the Northeast.

Despite the downturn, there is still major activity in the industrial sector, especially in the South, Southeast and even in the Northwest for both build-to-suit and speculative projects. FedEx recently announced an 800,000 square-foot distribution building off Highway 290 in Cypress, which will become the company's largest distribution warehouse in Texas. Keystone Automotive Industries is reportedly working with Nelson Commercial to build a 200,000+ square-foot facility near Bush Intercontinental Airport, and Clay Development is starting a 1.5 million square-foot, three-building speculative project called Cedar Park Distribution Park. The first 500,000 square-foot building is scheduled to break ground early this year. The Pearland area is also seeing activity with a couple projects: Tool Flo's 80,000-square-foot facility in

Spectrum Business Park and the Lonza Group's 100,000 square-foot biotechnology facility in the lower Kirby district.

Rental rates have taken a slight drop this quarter to $7.16 from $7.74 last quarter and slightly less than the $7.57 recorded during the same quarter last year.

Sublease space has been steadily increasing throughout the year, and took a higher jump in fourth quarter to almost 2.5 million square feet, a 32.4% jump from third quarter. This quarter's total is an increase of 61.5% from the same quarter a year ago, and is starting to rival the larger square footage totals in 2013 and back through 2010.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Clarence Trey Erwin III, MBA, Vice President, Colliers International "The Houston industrial market hit the brakes in 2015. In late 2014 energy and oil service companies were hitting all cylinders and the local economy was consistently adding jobs. The price of oil then buckled, hence drilling collapsed and local job growth went flat.

"During the fourth quarter this year, 745,000 square feet of Houston's industrial inventory was absorbed, pushing year-end net absorption to 3.4 million square feet.

"Current vacancy for the Houston industrial market as a whole sits at 5.0%. Historically 'upstream' submarkets such as the Northwest Corridor and the North Corridor pose vacancies at 5.6% and 7.6%, respectfully, while the resilient downstream and Port of Houston's strong Southeast submarket tallies a mere 3.4% vacancy. Lower oil prices give way to some opportunities – especially in Southeast/East Houston. Over $33 billion in new infrastructure has been invested in the petrochemical/plastics plants which thrive on low-cost oil, which has sounded a colossal development from South Texas to North Louisiana. The plastics industry accounted for +/-90% of Southeast Houston's 2015 Industrial absorption – this tenant use absorption in the submarket will proceed forward in 2016.

"Greater Houston still has 9.2 million square feet still under construction, with about half of that located in the Northwest Corridor and is inclusive of Daikin Industries' new 4.1 million-square-foot manufacturing campus.

"Moving forward in 2016, Houston's industrial market will see vast amounts of sublease space come to the market, tenant renewals will be prevalent and non-energy tenants

and users will take full advantage of ‘upstream’ submarkets such as the North and the Northwest. The overbuilt, smaller single-tenant new construction market of 10,000 to 20,000 square feet will slow down considerably, while the big box distribution multi-tenant product of 100,000 square foot plus will remain flat.”

“In conclusion, 2016 will go down in the books as a year the Houston industrial market hit pause – the rattlesnake bite of low oil prices will sting the Houston industrial market, but the market will survive and thrive in 2017.”

Mark G. Nicholas, SIOR, Executive Vice President Regional Director-Brokerage, JLL Houston “Houston’s commercial market has seen and experienced a downturn in the upstream side in the energy, oil and gas industry with most companies primarily located in the West Houston submarket. On the contrary, the downstream and midstream side in the petrochemical sectors in East Houston is still extremely active.

“My team is very busy because we work the entire Greater Houston Metropolitan Area. Land sales are still active, whether it be to users or developers for either manufacturing or distribution facilities.

“In East Houston, there is over 2.5 million square feet under construction of institutional product with another 1.5 million square feet planned or proposed in various developments. Large companies are still moving forward on projects as these are long-term decisions and not solely based on today’s economic climate.

“Many users are looking for shovel-ready sites so they can just come in and build what they need quickly and not have to wait for infrastructure like streets, utilities, and detention ponds to be created.

“What amazes me is that every downturn we have experienced in recent years has resulted in another area rising to the occasion. Like the shale plays virtually coming to a screeching halt when oil and gas slows down – the Houston market seems to maintain the diversity and resilience to overcome many different economic issues.”

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

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Houston-Area Office Market Summary

2015 Year End

Submarket	Class	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Construction	Avg Rent***	Sublease Avail
CBD	A	31	29,969,965	2,513,586	8.4%	96,752	(406,661)	1,675,025	$40.88	1,098,342
	B	29	9,549,998	2,401,278	25.1%	(42,895)	(1,316,076)	0	$31.58	286,501
	C	8	640,313	100,729	15.7%	37,529	86,595	0	$19.28	1,427
CBD Subtotal		**68**	**40,160,276**	**5,015,593**	**12.5%**	**91,386**	**(1,636,142)**	**1,675,025**	**$37.82**	**1,386,270**
Energy Corridor	A	45	14,136,934	1,471,158	10.4%	9,530	1,029,068	1,514,801	$34.46	968,340
	B	57	4,974,209	841,312	16.9%	(77,462)	(398,879)	0	$25.18	662,571
	C	6	293,490	12,586	4.3%	1,204	(12,068)	0	$24.96	36,223
Energy Corridor Subtotal		**108**	**19,404,633**	**2,325,056**	**12.0%**	**(66,728)**	**618,121**	**1,514,801**	**$30.27**	**1,667,134**
Fort Bend County	A	35	2,994,393	347,762	11.6%	30,880	49,609	133,500	$28.77	155,281
	B	25	2,481,920	126,165	5.1%	(9,709)	40,956	0	$22.08	1,765
	C	2	247,000	85,010	34.4%	(36,095)	(51,039)	0	n/a	0
Fort Bend County Subtotal		**62**	**5,723,313**	**558,937**	**9.8%**	**(14,924)**	**39,526**	**133,500**	**$27.42**	**157,046**
Greenspoint	A	33	5,159,180	1,523,325	29.5%	(171,296)	(585,160)	0	$26.48	405,085
	B	45	4,704,053	1,700,566	36.2%	(16,224)	(511,817)	0	$18.87	293,407
	C	29	2,190,970	514,157	23.5%	(47,907)	23,953	0	$12.31	0
Greenspoint Subtotal		**107**	**12,054,203**	**3,738,048**	**31.0%**	**(235,427)**	**(1,073,024)**	**0**	**$21.94**	**698,492**
Inner Loop	A	41	11,271,464	1,620,250	14.4%	191,230	(598,211)	162,500	$33.51	209,709
	B	102	10,736,642	1,302,601	12.1%	(9,718)	(210,429)	0	$27.28	37,172
	C	72	4,291,776	415,209	9.7%	(7,958)	(10,690)	0	$17.39	10,148
Inner Loop Subtotal		**215**	**26,299,882**	**3,338,060**	**12.7%**	**173,554**	**(819,330)**	**162,500**	**$29.69**	**257,029**
North/The Woodlands/Conroe	A	88	11,928,643	995,205	8.3%	173,518	2,259,576	619,599	$32.82	398,419
	B	82	4,859,633	899,031	18.5%	(34,834)	(80,126)	77,900	$17.88	132,685
	C	32	1,161,368	142,022	12.2%	(5,360)	43,432	0	$13.70	0
North/The Woodlands/ Conroe Subtotal		**202**	**17,949,644**	**2,036,258**	**11.3%**	**133,324**	**2,222,882**	**697,499**	**$25.27**	**531,104**
Northeast	A	6	51,670	7,630	14.8%	0	0	0	$25.50	0
	B	9	458,575	57,267	12.5%	(2,059)	(8,995)	0	$15.54	0
	C	5	197,243	80,437	40.8%	(265)	(11,412)	0	$15.38	0
Northeast Subtotal		**20**	**707,488**	**145,334**	**20.5%**	**(2,324)**	**(20,407)**	**0**	**$15.98**	**0**
Northwest	A	40	4,485,979	903,030	20.1%	875	508,664	410,171	$23.80	91,454
	B	62	5,753,037	1,178,116	20.5%	(37,630)	6,228	23,000	$19.68	106,990
	C	23	894,194	143,212	16.0%	11,605	101,007	0	$18.30	0
Northwest Subtotal		**125**	**11,133,210**	**2,224,358**	**20.0%**	**(25,150)**	**615,899**	**430,171**	**$20.30**	**198,444**

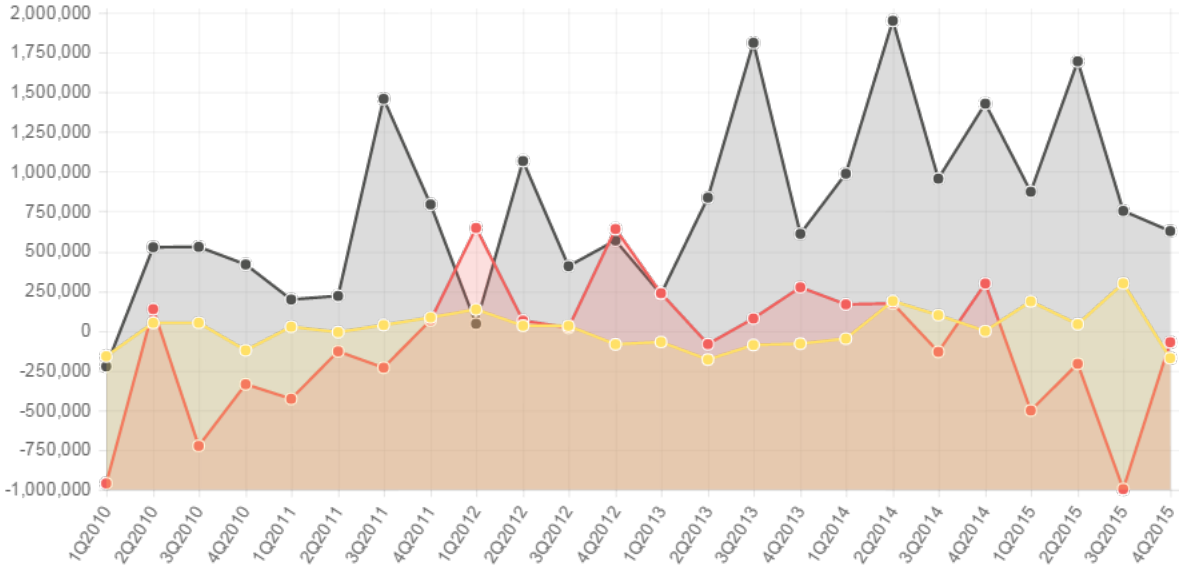
Southeast	A	17	1,997,376	163,467	8.2%	96,098	46,682	0	$29.35	37,320
	B	54	3,473,086	454,204	13.1%	139,085	100,628	52,500	$17.94	1,311
	C	43	1,910,170	320,306	16.8%	(18,488)	(4,082)	0	$17.39	26,330
Southeast Subtotal		**114**	**7,380,632**	**937,977**	**12.7%**	**216,695**	**143,228**	**52,500**	**$19.17**	**64,961**
Southwest	A	4	1,069,386	221,787	20.7%	22,708	50,983	0	$17.50	0
	B	46	5,826,954	1,321,134	22.7%	(6,859)	314,340	0	$18.35	22,620
	C	85	5,219,812	593,249	11.4%	(76,170)	184,485	0	$12.66	0
Southwest Subtotal		**135**	**12,116,152**	**2,136,170**	**17.6%**	**(60,321)**	**549,808**	**0**	**$16.87**	**22,620**
Uptown	A	43	16,935,800	2,241,497	13.2%	(112,178)	(266,981)	1,132,316	$39.47	359,484
	B	82	10,760,603	1,259,598	11.7%	48,460	1,673	0	$27.08	351,174
	C	15	1,008,356	52,200	5.2%	(7,559)	19,855	0	$19.45	0
Uptown Subtotal		**140**	**28,704,759**	**3,553,295**	**12.4%**	**(71,277)**	**(245,453)**	**1,132,316**	**$35.64**	**710,658**
West	A	53	8,810,552	1,446,314	16.4%	223,590	1,346,345	459,492	$29.59	390,476
	B	48	4,019,101	417,528	10.4%	32,514	189,251	0	$19.53	33,072
	C	41	2,687,135	100,234	3.7%	(16,291)	(10,345)	0	$14.94	7,541
West Subtotal		**142**	**15,516,788**	**1,964,076**	**12.7%**	**239,813**	**1,525,251**	**459,492**	**$25.83**	**431,089**
Westchase	A	34	9,112,517	885,282	9.7%	64,585	(112,841)	1,517,000	$34.84	511,087
	B	48	6,634,282	958,384	14.5%	(55,327)	26,547	0	$21.73	63,997
	C	19	808,152	80,461	10.0%	(7,121)	74,248	0	$18.04	0
Westchase Subtotal		**101**	**16,554,951**	**1,924,127**	**11.6%**	**2,137**	**(12,046)**	**1,517,000**	**$28.72**	**575,084**
TX - Houston Area	A	470	117,923,859	14,340,293	12.2%	626,292	3,321,073	7,624,404	$34.54	4,624,997
	B	689	74,232,093	12,917,184	17.4%	(72,658)	(1,846,699)	153,400	$22.81	1,993,265
	C	380	21,549,979	2,639,812	12.3%	(172,876)	433,939	0	$15.58	81,669
TX - Houston Area Total		**1,539**	**213,705,931**	**29,897,289**	**14.0%**	**380,758**	**1,908,313**	**7,777,804**	**$28.54**	**6,699,931**

* Number of buildings calculated on specific buildings at each property address.
** Includes all general-purpose existing industrial buildings 10,000 square feet or larger.
*** Rental rates are weighted and averaged based on available space.

TX - Houston Area Office Historical Summary

Period	# of Buildings	Building SF	Vacant SF			Vacancy Rate			Net Absorption			Avg Rent	
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease
2015 Q4	1,539	213,705,931	29,897,289	6,699,931	30,062,573	14.0%	3.1%	14.1%	380,758	307,772	688,530	$28.54	$22.94
2015 Q3	1,526	211,186,249	28,066,026	5,742,722	28,066,026	13.3%	2.7%	13.3%	54,290	(643,999)	(589,709)	$27.11	$25.39
2015 Q2	1,519	209,621,820	26,561,986	4,876,214	26,496,867	12.7%	2.3%	12.6%	1,525,541	(1,426,369)	99,172	$26.57	$28.09
2015 Q1	1,501	207,061,155	26,002,563	3,450,693	25,947,115	12.6%	1.7%	12.5%	555,397	(254,744)	300,653	$26.30	$29.72
2014 Q4	1,477	203,212,546	22,820,001	3,195,204	22,751,814	11.2%	1.6%	11.2%	1,721,540	(162,674)	1,558,866	$25.34	$29.33
2014 Q3	1,461	201,191,267	22,153,776	3,042,717	22,107,892	11.0%	1.5%	11.0%	919,950	84,296	1,004,246	$25.06	$29.42
2014 Q2	1,451	199,743,451	21,748,248	3,127,013	21,697,174	10.9%	1.6%	10.9%	2,305,797	(375,772)	1,930,025	$25.00	$27.94
2014 Q1	1,442	198,025,809	22,056,941	2,751,241	22,006,406	11.1%	1.4%	11.1%	1,102,240	(241,993)	860,247	$24.82	$26.01
2013 Q4	1,438	196,835,805	22,165,177	2,616,113	22,125,783	11.3%	1.3%	11.2%	799,788	(316,361)	483,427	$24.25	$27.50
2013 Q3	1,432	195,907,142	22,456,947	2,299,752	22,416,916	11.5%	1.2%	11.4%	1,796,238	(264,946)	1,531,292	$24.21	$27.48
2013 Q2	1,418	193,363,835	21,600,041	2,034,806	21,529,243	11.2%	1.1%	11.1%	569,668	(273,404)	296,264	$23.57	$26.34
2013 Q1	1,414	192,686,956	21,754,713	1,703,604	21,690,933	11.3%	0.9%	11.3%	393,869	(49,559)	344,310	$23.29	$25.56
2012 Q4	1,414	192,629,758	22,211,836	1,654,045	22,148,345	11.5%	0.9%	11.5%	1,120,277	15,432	1,135,709	$23.19	$23.05
2012 Q3	1,412	192,175,411	22,717,486	1,669,477	22,684,309	11.8%	0.9%	11.8%	454,212	204,364	658,576	$22.95	$23.71
2012 Q2	1,410	192,348,401	23,195,088	1,873,841	23,150,819	12.1%	1.0%	12.0%	1,160,667	346,625	1,507,292	$22.76	$24.85
2012 Q1	1,410	192,366,819	23,756,259	2,220,466	23,730,649	12.3%	1.2%	12.3%	823,036	287,689	1,110,725	$22.74	$25.28
2011 Q4	1,407	192,167,372	25,478,716	2,508,155	25,414,716	13.3%	1.3%	13.2%	942,031	496,847	1,438,878	$22.89	$25.34
2011 Q3	1,400	191,549,685	26,010,162	3,005,002	25,946,162	13.6%	1.6%	13.5%	1,259,958	(222,073)	1,037,885	$22.72	$25.30
2011 Q2	1,397	190,782,640	26,634,297	2,782,929	26,570,297	14.0%	1.5%	13.9%	78,544	71,935	150,479	$22.97	$24.78
2011 Q1	1,396	190,098,488	26,204,805	2,827,526	26,140,805	13.8%	1.5%	13.8%	(208,556)	350,061	141,505	$23.23	$23.87
2010 Q4	1,396	189,347,495	25,625,230	3,189,862	25,561,230	13.5%	1.7%	13.5%	2,764	422,532	425,296	$22.73	$23.52
2010 Q3	1,396	188,896,542	25,953,035	3,406,980	25,889,035	13.7%	1.8%	13.7%	(171,019)	(175,513)	(346,532)	$22.94	$24.55
2010 Q2	1,396	188,896,542	25,697,891	3,232,943	25,633,891	13.6%	1.7%	13.6%	697,170	557,095	1,254,265	$23.27	$24.67
2010 Q1	1,395	188,872,302	26,234,346	3,790,038	26,170,345	13.9%	2.0%	13.9%	(1,335,476)	(94,915)	(1,430,391)	$23.92	$25.56

TX - Houston Area Office Direct Net Absorption By Class



Period	Class A	Class B	Class C	All Classes
2015 Q4	626,292	(72,658)	(172,876)	380,758
2015 Q3	752,938	(996,038)	297,390	54,290
2015 Q2	1,693,588	(208,317)	40,270	1,525,541
2015 Q1	873,530	(502,210)	184,077	555,397
2014 Q4	1,427,302	296,547	(2,309)	1,721,540
2014 Q3	955,886	(133,200)	97,264	919,950
2014 Q2	1,948,587	171,026	186,184	2,305,797
2014 Q1	987,099	165,203	(50,062)	1,102,240
2013 Q4	608,883	272,608	(81,703)	799,788
2013 Q3	1,809,844	76,501	(90,107)	1,796,238
2013 Q2	836,376	(84,770)	(181,938)	569,668
2013 Q1	229,455	235,552	(71,138)	393,869
2012 Q4	566,957	639,219	(85,899)	1,120,277
2012 Q3	405,430	18,446	30,336	454,212
2012 Q2	1,066,677	63,081	30,909	1,160,667
2012 Q1	43,439	645,798	133,799	823,036
2011 Q4	793,753	65,449	82,829	942,031
2011 Q3	1,457,485	(232,783)	35,256	1,259,958
2011 Q2	218,266	(130,246)	(9,476)	78,544
2011 Q1	195,659	(428,686)	24,471	(208,556)
2010 Q4	416,133	(337,040)	(123,902)	2,764
2010 Q3	526,692	(724,927)	49,309	(171,019)
2010 Q2	524,438	135,506	48,972	697,170
2010 Q1	(224,705)	(960,759)	(160,884)	(1,335,476)

Houston-Area Industrial Market Summary

2015 Year End

Submarket	Specific Use	# of Bldgs*	Building SF**	Vacant SF	Vacancy Rate	Net Abs (Current)	Net Abs (YTD)	Under Const.	Avg Rent***	Sublease Avail
Inner Loop	Warehouse/ Distribution	565	19,469,365	879,679	4.5%	43,081	(26,564)	0	$6.30	26,500
	Manufacturing	58	1,763,271	46,946	2.7%	(4,313)	(4,313)	0	$10.08	0
	Light Industrial	109	3,076,767	236,819	7.7%	(22,943)	(99,757)	0	$8.10	39,617
	Flex/R&D	81	1,600,667	32,786	2.1%	36,296	35,620	0	$12.00	0
Inner Loop Subtotal		813	25,910,070	1,196,230	4.6%	52,121	(95,014)	0	$7.30	66,117
North	Warehouse/ Distribution	694	14,440,487	1,263,454	8.8%	(213,730)	(245,534)	44,875	$7.33	34,220
	Manufacturing	117	3,206,046	264,030	8.2%	38,400	79,208	0	$2.67	25,050
	Light Industrial	146	2,745,355	178,815	6.5%	89,572	94,772	22,500	$9.17	18,383
	Flex/R&D	78	2,047,736	298,865	14.6%	(7,515)	34,722	0	$16.80	0
North Subtotal		1,035	22,439,624	2,005,164	8.9%	(93,273)	(36,832)	67,375	$7.38	77,653
Northeast	Warehouse/ Distribution	1,138	53,008,130	5,212,795	9.8%	50,253	1,019,226	744,118	$6.75	500,501
	Manufacturing	215	7,596,112	193,303	2.5%	103,456	342,475	674,500	$0.88	103,714
	Light Industrial	206	5,794,588	696,189	12.0%	(22,187)	126,803	0	$8.83	70,602
	Flex/R&D	117	2,548,227	102,567	4.0%	(4,485)	(3,192)	0	n/a	9,500
Northeast Subtotal		1,676	68,947,057	6,204,854	9.0%	127,037	1,485,312	1,418,618	$6.89	684,317
Northwest	Warehouse/ Distribution	2,164	96,423,107	6,161,600	6.4%	306,323	2,291,336	14,490	$7.12	798,126
	Manufacturing	459	17,036,620	559,554	3.3%	(43,326)	(30,623)	4,021,250	$8.64	87,320
	Light Industrial	467	13,809,379	952,200	6.9%	41,762	148,994	0	$10.31	274,132
	Flex/R&D	275	5,458,096	17,545	0.3%	(19,132)	7,018	0	$5.03	14,664
Northwest Subtotal		3,365	132,727,202	7,690,899	5.8%	285,627	2,416,725	4,035,740	$7.66	1,174,242
South	Warehouse/ Distribution	763	24,533,100	777,386	3.2%	(163,329)	(27,236)	35,000	$5.26	25,500
	Manufacturing	161	5,872,661	309,986	5.3%	(78,450)	(28,381)	0	$8.22	0
	Light Industrial	90	1,825,314	213,848	11.7%	(25,746)	(47,081)	0	$9.93	0
	Flex/R&D	75	1,451,429	0	0.0%	0	0	0	n/a	0
South Subtotal		1,089	33,682,504	1,301,220	3.9%	(267,525)	(102,698)	35,000	$6.05	115,500
Southeast	Warehouse/ Distribution	1,301	59,716,502	2,531,733	4.2%	237,526	1,669,793	1,725,565	$6.29	67,808
	Manufacturing	221	10,292,610	313,893	3.1%	54,490	(63,018)	0	$5.52	0
	Light Industrial	103	2,195,512	427,065	19.5%	(64,918)	(392)	20,700	$10.22	0
	Flex/R&D	134	2,053,128	66,967	3.3%	0	0	25,000	$11.94	25,000
Southeast Subtotal		1,759	74,257,752	3,339,658	4.5%	227,098	1,606,383	1,771,265	$6.76	67,808

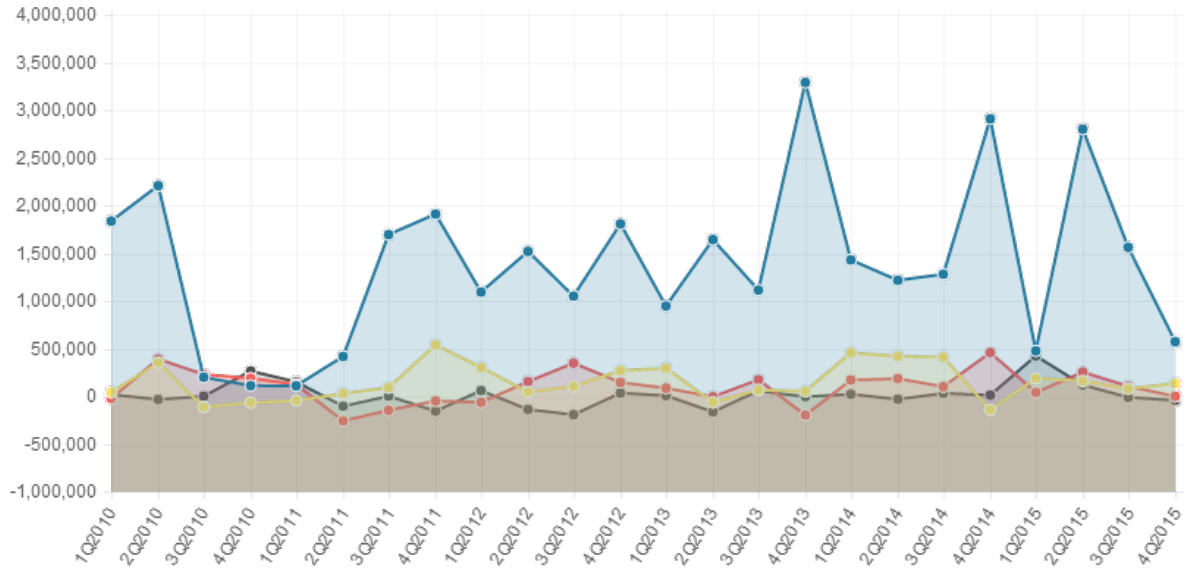
Southwest	Warehouse/ Distribution	950	37,913,470	2,273,280	6.0%	311,664	843,580	570,550	$6.08	87,642
	Manufacturing	128	4,425,892	400,190	9.0%	64,560	155,955	111,600	$5.11	128,934
	Light Industrial	366	12,117,222	696,305	5.8%	4,134	135,237	0	$13.12	48,995
	Flex/R&D	168	4,131,708	64,329	1.6%	(48,554)	398,429	0	n/a	0
Southwest Subtotal		1,612	58,588,292	3,434,104	5.9%	331,804	1,533,201	682,150	$7.31	265,571
TX - Houston	Warehouse/ Distribution	7,575	305,504,161	19,099,927	6.3%	571,788	5,524,601	3,435,598	$6.64	1,540,297
	Manufacturing	1,359	50,193,212	2,087,902	4.2%	134,817	451,303	4,851,550	$5.75	435,018
	Light Industrial	1,487	41,564,137	3,401,241	8.2%	(326)	358,576	118,871	$10.28	451,729
	Flex/R&D	928	19,290,991	583,059	3.0%	(43,390)	472,597	25,000	$10.68	24,164
TX - Houston Area Total		11,349	416,552,501	25,172,129	6.0%	662,889	6,807,077	7,989,448	$7.16	2,451,208

* Number of buildings calculated on specific buildings at each property address.
** Includes all general-purpose existing industrial buildings 10,000 square feet or larger.
*** Rental rates are weighted and averaged based on available space.

TX - Houston Area Industrial Historical Summary

Period	# of Buildings	Building SF	Vacant SF			Vacancy Rate			Net Absorption			Avg Rent	
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease
2015 Q4	11,349	416,552,501	25,172,129	2,451,208	25,394,279	6.0%	0.6%	6.1%	662,889	547,522	1,210,411	$7.16	$5.40
2015 Q3	11,308	414,032,426	22,400,701	1,851,334	22,500,701	5.4%	0.4%	5.4%	1,733,288	68,079	1,801,367	$7.74	$6.81
2015 Q2	11,310	412,202,740	22,851,985	1,862,124	22,851,985	5.5%	0.5%	5.5%	3,330,758	(76,524)	3,254,234	$7.66	$7.40
2015 Q1	11,227	409,337,967	23,898,426	1,628,464	23,941,286	5.8%	0.4%	5.8%	1,127,700	103,824	1,231,524	$7.68	$7.31
2014 Q4	11,142	406,134,298	23,512,679	1,517,554	23,555,539	5.8%	0.4%	5.8%	3,233,364	(248,279)	2,985,085	$7.57	$6.92
2014 Q3	11,075	403,008,716	25,045,104	1,378,661	25,053,749	6.2%	0.3%	6.2%	1,819,744	120,501	1,940,245	$7.35	$6.84
2014 Q2	11,031	400,383,356	25,191,308	1,484,062	25,199,953	6.3%	0.4%	6.3%	1,787,103	(88,457)	1,698,646	$7.14	$6.81
2014 Q1	10,987	397,382,947	25,245,378	1,363,465	25,254,023	6.4%	0.3%	6.4%	2,076,199	148,511	2,224,710	$6.67	$6.26
2013 Q4	10,949	394,607,216	27,431,371	2,003,230	27,441,016	7.0%	0.5%	7.0%	3,137,896	(220,940)	2,916,956	$6.53	$6.06
2013 Q3	10,896	392,367,809	28,684,348	2,310,894	28,657,851	7.3%	0.6%	7.3%	1,409,040	85,252	1,494,292	$6.36	$5.78
2013 Q2	10,833	389,249,902	27,288,647	2,205,071	27,274,675	7.0%	0.6%	7.0%	1,409,939	(448,240)	961,699	$6.24	$5.32
2013 Q1	10,796	387,188,877	27,669,169	1,717,698	27,689,582	7.1%	0.4%	7.2%	1,332,284	27,475	1,359,759	$5.95	$5.53
2012 Q4	10,746	384,972,730	26,167,105	1,745,173	26,187,518	6.8%	0.5%	6.8%	2,253,851	259,860	2,513,711	$5.86	$5.14
2012 Q3	10,721	383,574,634	27,844,288	1,705,302	27,859,508	7.3%	0.4%	7.3%	1,309,122	8,362	1,317,484	$5.72	$5.73
2012 Q2	10,687	383,011,567	28,951,444	1,713,664	28,967,872	7.6%	0.4%	7.6%	1,577,285	33,946	1,611,231	$5.65	$5.65
2012 Q1	10,666	381,587,394	28,791,968	1,977,300	28,810,429	7.5%	0.5%	7.6%	1,389,666	335,275	1,724,941	$5.59	$5.08
2011 Q4	10,625	380,040,455	29,112,708	1,970,315	29,131,976	7.7%	0.5%	7.7%	2,243,257	160,320	2,403,577	$5.52	$5.58
2011 Q3	10,591	378,909,379	30,576,718	2,130,635	30,609,216	8.1%	0.6%	8.1%	1,639,397	68,870	1,708,267	$5.46	$6.41
2011 Q2	10,506	378,753,412	32,517,398	2,125,422	32,544,627	8.6%	0.6%	8.6%	82,931	(59,701)	23,230	$5.52	$5.51
2011 Q1	10,387	376,052,417	31,759,262	2,044,721	31,786,491	8.4%	0.5%	8.5%	337,590	(134,971)	202,619	$5.51	$5.37
2010 Q4	10,367	375,777,528	31,944,912	1,878,890	31,931,362	8.5%	0.5%	8.5%	497,855	(14,162)	483,693	$5.57	$5.81
2010 Q3	10,297	374,382,782	32,424,170	1,853,478	32,414,781	8.7%	0.5%	8.7%	314,689	585,710	900,399	$5.68	$5.65
2010 Q2	10,286	373,937,120	32,601,291	2,406,522	32,600,629	8.7%	0.6%	8.7%	2,915,224	147,783	3,063,007	$5.73	$5.38
2010 Q1	10,144	365,911,129	33,480,337	2,512,162	33,479,675	9.1%	0.7%	9.1%	1,874,054	(205,779)	1,668,275	$5.46	n/a

TX - Houston Area Industrial Direct Net Absorption By Type



Period	Flex/R&D	Light Industrial	Manufacturing	Warehouse - Distribution	All Types
2015 Q4	(43,390)	(326)	134,817	571,788	662,889
2015 Q3	(10,736)	104,488	78,674	1,560,862	1,733,288
2015 Q2	117,699	253,660	160,275	2,799,124	3,330,758
2015 Q1	423,391	40,222	188,910	475,177	1,127,700
2014 Q4	11,269	457,754	(143,098)	2,907,439	3,233,364
2014 Q3	30,950	100,904	408,958	1,278,932	1,819,744
2014 Q2	(31,313)	184,611	419,007	1,214,798	1,787,103
2014 Q1	22,006	169,999	454,750	1,429,444	2,076,199
2013 Q4	(4,830)	(197,531)	51,980	3,288,277	3,137,896
2013 Q3	57,421	173,110	65,704	1,112,805	1,409,040
2013 Q2	(163,232)	(5,257)	(63,405)	1,641,833	1,409,939
2013 Q1	7,293	85,507	294,045	945,439	1,332,284
2012 Q4	33,839	144,932	268,394	1,806,686	2,253,851
2012 Q3	(192,880)	346,860	105,257	1,049,885	1,309,122
2012 Q2	(138,262)	153,636	44,180	1,517,731	1,577,285
2012 Q1	59,798	(63,527)	301,350	1,092,045	1,389,666
2011 Q4	(155,626)	(48,612)	537,804	1,909,691	2,243,257
2011 Q3	1,150	(146,515)	90,211	1,694,551	1,639,397
2011 Q2	(104,439)	(258,458)	29,313	416,515	82,931
2011 Q1	150,600	123,407	(46,076)	109,659	337,590
2010 Q4	264,159	188,845	(66,290)	111,141	497,855
2010 Q3	(209)	228,652	(113,250)	199,496	314,689
2010 Q2	(33,547)	389,676	351,499	2,207,596	2,915,224
2010 Q1	17,825	(21,899)	42,018	1,836,110	1,874,054

Quarterly Market Overview
Third Quarter 2015
FOR IMMEDIATE RELEASE

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HOUSTON'S THIRD-QUARTER COMMERCIAL ACTIVITY SLOWS, REFLECTS CHANGING ECONOMY

HOUSTON — (October 20, 2015) — Houston's commercial real estate activity has begun to show more visible signs of adjusting to changing economic factors, according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors.

For the first time in more than four years, the third quarter reported slightly negative office absorption of 55,300 square feet, although absorption through the first three quarters remained positive with direct net absorption totaling more than 2.0 million square feet. As in previous years, Class A properties represent the bulk of the growth, offset by Class B properties reporting a negative 1.0 million square feet for third quarter. Class C properties came out on the positive side, with 297,390 square feet of positive absorption for the quarter. Contributing heavily to the negative absorption in Class B is the new availability of 1.3 million square feet in 800 Bell after ExxonMobil vacated and moved to the company's new headquarters in the north.

Keeping the direct absorption positive primarily results from large companies occupying their new space in recently completed build-to-suit and/or owner-occupied properties. The largest is the recent move-in by Conoco Phillips Lower 48 Business into the newly-completed Energy Center Three, a 547,628 square-foot building. Ten submarkets recorded positive absorption for third quarter but only seven submarkets recorded positive direct net absorption year-to-date.

The changing economy related to the oil and gas downturn is also shown by the increasing amounts of sublease space on the market; and when that sublease space enters the picture, the absorption totals change dramatically. However, sublease space appears on the market for many reasons, including downsizing and consolidations, but rent is usually being paid for the space whether it is occupied or vacant. And that situation could easily change if a company's business volume changes. At the end of the third quarter, the Houston market currently has almost 6 million square feet of sublease space available, and another 2 million

square feet being marketed but not yet available – with almost half Class A space. This total represents almost double the same period last year. Firms looking to move or expand will be able to take advantage of reduced rates with limited terms, which could affect both the overall leasing activity for the new buildings being completed in the next two years and certainly could play a factor in delaying the starts of new buildings.

For the quarter, six new multi-tenant buildings were completed, adding almost 1.4 million square feet to the market. The two largest multi-tenant buildings to be completed this quarter were 3737 Buffalo Speedway, a 400,000-square-foot building in the Central Northwest which is 27.6% leased, and Enclave Place, a 300,900-square-foot building in the Energy Corridor with all space available. To date through third quarter, 41 buildings in 26 projects have been completed this year. Collectively, the new buildings are currently 69.1% leased and contributed almost 5.2 million square feet of net absorption. To date, the new properties collectively completed in 2015 added more than 8 million square feet to the market with rental rates averaging $30.02, less than the overall Class A rate of $32.46.

Construction starts halted during the third quarter, with only one property, Grandway West Building 2, breaking ground. Overall, the Houston under-construction office market boasts 30 properties with 35 buildings totaling almost 9.8 million square feet. Collectively, the under-construction buildings are 45% preleased, with 20 properties classified as multi-tenant. The multi-tenant properties represent almost 5.7 million square feet or 59.2% of the under-construction total and are currently reporting 23.2% preleased space. Of the multi-tenant spec properties, 11 of the 20 are less than 10% preleased.

The largest project under construction is Phillips 66's 1.2 million-square-foot campus in the Westchase area, while the largest spec building under construction with the largest availability remains Hines' 609 Main at Texas building with 1.05 million square feet.

The current 13.4% direct vacancy rate is an almost 1.0% increase from the 12.5% vacancy recorded last quarter, and even more than the 11.0% recorded during the same quarter a year ago. Class A space overall is 11.4% vacant, with the North/The Woodlands/Conroe submarket showing the lowest Class A vacancy of 4.7% followed by the Westchase submarket at 8.3% and the Fort Bend County submarket at 9.1%. Five of the 13 submarkets are recording single-digit vacancies in Class A space, but only three of the 13 boast single-digit vacancies overall.

Rental rates represent a 7.5% increase during the past year with the current overall averaged weighted rental rate of $26.93. Class A rates, now at $32.46 citywide and at $39.66 in the CBD, experienced a slight decrease from the same quarter last year. Sublease space overall is continuing to increase but the rental rate for sublease decreased 9.5% from second quarter, reporting a current average of $24.56. Concessions are reportedly being offered to entice some tenants, but none are being offered across the board.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "With decreased job growth and higher vacancy rates, the Houston area's office market is starting to visibly reflect the slowdown. While large blocks of direct space and sublease space have been added to the marketplace earlier this year, we are seeing more newly completed buildings coming on line with little preleasing. Since many buildings entered the market fully leased when construction levels peaked last year, this lack of preleasing is the most visible sign of the slowdown in leasing activity.

"But the industrial sector is still going very strong, especially in areas connected to the growing petrochemical industry along with future growth related to the Port of Houston and the Panama Canal. Certain select submarkets to the north and northwest are struggling to keep pace as new construction enters the market, but Houston's industrial market is still considered one of the healthiest in the country."

David Baker, Executive Vice President, Houston Operations, Transwestern "While the Houston market continues to soften due to a downturn in the energy economy, office face rents are continuing to trend upward, but landlords are offering more concessions to get those rents. Sublease inventories remain on the rise, although at a much slower rate than the first half of the year."

Darren Gowell, Senior Associate, Colliers International "The Houston office market continues to decline while the price of oil still has not rebounded to the level this city needs. The predictions that oil prices will rise has still not occurred, and the 'upstream' sector has been heavily affected. While this is healthy for the midstream and downstream companies, it certainly hurts the upstream companies that occupy more office space.

“Houston’s leasing activity has declined nearly 40% between second and third quarter this year, and the days of the landlord market are now coming to an end. This is a great time for tenants to take advantage of the soft market and to consider longer term leases. Landlords are starting to give the concessions that have not been seen in several years. It appears Houston’s diversity has helped our economy, but it’s clear we are still very heavily dependent on the price of oil.”

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group “Houston’s office leasing market has begun to experience some softness due to slower demand, rising sublease availabilities, and a flood of new office buildings entering the market. Despite the uncertainties surrounding the local economy, the office leasing market has held up relatively well thus far with nearly 1.6 million square feet of positive direct net absorption year-to-date, with the bulk of these gains within the Class A market.

“Meanwhile, sublease availability has risen by 2.9 million square feet to over 7.6 million square feet since year-end 2014, which is more than double its 10-year historic average. However, the addition of the vacant sublet space to the office space absorption figures result in an overall citywide negative absorption of 47,700 square feet year-to-date.

“In terms of new supply, developers have delivered just over 5 million square feet of competitive space year-to-date, which have caused direct occupancy levels to drop by 130 basis points to 86.3% since year-end 2014 as new supply has outpaced demand. As a result of the economic uncertainty in the energy sector, leasing activity has slowed significantly compared to its swift pace experienced within the past few years as many companies are delaying their long-term leasing decisions while some are opting for short-term leases or early lease restructures. Class A direct leasing activity in the trailing 12 months has declined by 45% from its prior year to drop to its lowest level since 2009.

“As a result of the significant drop in leasing activity, some landlords are being more aggressive in negotiations by offering more concessions to drive tenant interest amid worsening economic conditions. With the recent onslaught of new construction deliveries, property owners will have to contend with large chunks of vacant space as many tenants are in a holding pattern until the market begins to recover.

“Also, energy tenants in existing buildings have begun to either relocate early to new product or to consolidate operations causing sublease space availability to rise to a

record high. The steady increase in sublease availability has resulted from energy-related companies temporarily downsizing and offering portions of their leased space while some have consolidated and relocated to new construction projects delivered in recent quarters.

"Looking ahead, the Houston office market is expected to round-out the year with an additional 3.1 million square feet of construction deliveries during the fourth quarter. As a result of a steep supply/demand imbalance, direct occupancy rates are projected to decline by 120 basis points to 85.1% by year-end 2015, reaching their lowest level since 2011, after enjoying three years above its 20-year historical average of 86.8%. Asking rental rates are expected to remain flat for the remainder of 2015, but concessions such as rent abatement and TI allowances will be increasing as a result of slowed leasing activity, the added sublease inventory and rising vacancy."

Jason Whittington, Partner, NAI Partners **"**The Houston office market is not in a state of doom and gloom despite the influential drop in oil prices from over $100 a barrel to less than $50. Houston is a resilient and more diversified city than the crash of the 1980s. However, Houston is still heavily dependent on the energy industry for job growth and the oil patch is having significant layoffs and cut backs in spending which impacts the office space market.

"The office space 'boom' we have experienced up until mid-2014 has slowed dramatically and is headed south. Certain office markets in the city are being hit harder than others. The Energy Corridor, which had experienced the most growth and construction in the city, is being hit the hardest. A couple of years ago occupancy in the Energy Corridor was nearly 99%, but that figure is rapidly declining with the new construction coming on line and the large amounts of sublease space on the market.

"The energy slowdown could last at least two years and then take another year before the energy companies staff back up and start spending. In the meantime, tenants in the market for office space can lock in an attractive lease package that includes reduced rental and concessions such as abated rent, increased tenant improvement allowance, and abated parking."

Houston Industrial Market

Houston's industrial market continues to expand with positive direct net absorption of almost 1.8 million square feet during the third quarter of 2015 despite economic uncertainty, according to statistics released by Commercial Gateway.

This quarter's absorption represents the 23nd consecutive quarter – over five years – of positive absorption, with seven quarters recording more than 2 million square feet each. Although almost half of the previous quarter, the third quarter absorption is about the same when compared to the same quarter last year and is clearly a positive sign in today's marketplace of energy layoffs and cutbacks.

Major deals recorded during the quarter include preleasing in Port 225 by Abrasive Products, 102,508 square feet, and a 207,000-square-foot deal by Niagra Water in Bayou Bend Business Park, along with two leases in Apex Business Park, Dawn Food Product's 89,710-square-foot lease along with Eleganza Tile's 44,130-square-foot deal. Slay Industries also signed a 100,000-square-foot deal at 2902 E. 13th.

Net absorption was shared by all industrial types except high tech/R&D during the third quarter with warehouse/distribution properties accounting for the bulk of absorption, 1.6 million square feet or 91.4% of the total. High tech/R&D space experienced a slightly negative quarter with a negative 10,736 square feet recorded after four quarters of positive absorption.

Activity is slowing but not enough to cause a large bump in the vacancy rate, which increased to 5.6% from 5.5% the previous quarter. This rate is a drop from the vacancy rate of 6.2% recorded during the same quarter a year ago. Vacancy for warehouse/distribution space citywide is 5.6% with manufacturing space at 4.4%.

More than 1.4 million square feet in 20 buildings came online during the third quarter. Collectively, all industrial buildings completed to date are currently 37.7% leased and represent more than 1.6 million square feet of absorption for the year. The largest spec buildings completed during the third quarter with little preleasing include Interstate Commerce Center's two buildings at 416,916 square feet and Mason Ranch Industrial Park Building 1 at 373,860 square feet. All other completed spec buildings were smaller than 100,000 square feet.

Construction activity is still high and may get higher with over 31 proposed properties, half of which are planned for more than 100,000 square feet. Currently, 66 buildings are underway in 50 projects representing almost 10.4 million square feet. Major spec projects without major preleasing include the newest project, Bay Area Business Park Phase II's

829,805 square feet, Fallbrook Pines' 560,312 square feet, Fallbrook 1 Pinto Business Park's 500,400 square feet, Bayou Bend Business Park's Phase II with 378,380 square feet, and several recent projects that broke ground in the Southwest. The two largest BTS projects remain Daiken's 4 million square foot facility off Highway 290 and FMC's new project at Generation Park in the Northeast.

Rental rates have taken a minimal drop this quarter to $7.60 from $7.66 last quarter but are still 2.7% higher than the $7.40 recorded during the same quarter last year. Rental rates quoted are grossed up and weighted and averaged based on available space. Most new buildings are now quoting net rents and passing on the increased taxes and operating costs.

Sublease space has been steadily increasing throughout the year, but only slightly from last quarter for a current total of 1.9 million square feet. This quarter's total is an increase of 37.7% from the same quarter a year ago, but is still below square footage totals in 2013 and back through 2010.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

John Ferruzzo, SIOR, Partner and Industrial Division Leader, NAI Partners "With the third quarter complete, we have a large amount of uncertainty about the state of the industrial market for the final months of 2015. Many people experienced the 'summer lull' for the first time in a number of years and optimism has quickly faded. The vibrant market we have seen over the past 3 to 5 years is starting to feel a little like 2009, but the fundamentals are much stronger and there is no need to hit the panic button.

"Most brokers in all property types are seeing plenty of demand, yet the velocity of deal closings has slowed down. Buyers and tenants are being prudent and not rushing to make quick decisions. The disconnect between both sides of the negotiating table is getting larger as users see 'blood in the water', while owners are not yet in that mindset. This could change as over 5 million square feet of spec space is finishing the construction stage and landlords will compete for fewer tenants to lease these buildings. There are plenty of negatives in the current state of the industrial market, yet deals are still getting done. We may see some bumps in the road over the next 12 months, but Houston will continue to be one of the strongest industrial markets in the country."

Jon Lindenberger, CCIM, SIOR, Senior Vice President, Colliers International "The price of oil is the main topic of conversation in Houston and how it will affect the industrial market. Vacancy rates for all markets are still below 5% except for North and Northwest Houston. We saw a healthy absorption of 1.58 million square feet absorbed citywide.

"We do need to keep a close eye on the Northwest market, as 4.3 million square feet is slated for construction with only 526,656 square feet of absorption this past quarter. In the past, Northwest Houston has been the choice market for development; now the Northeast Corridor and Southeast Corridor are dominating with vacancy less than 3%. We expect developers to continue to find land plays in these tight markets."

"Look for landlords to get creative in the North and Northwest markets by offering rent concessions and additional tenant improvement packages for credit tenants. Rental rates should continue to stay consistent as most developers and institutional owners have capital to weather the storm over the course of the next few months."

Mark G. Nicholas, SIOR, Executive Vice President Regional Director-Brokerage, JLL Houston "Actually we are finally seeing a slow down for the first time on both the industrial side and land side.

"With more "spec" product completed and available, options are not as limited. Rents have stabilized with some rent concessions from select properties helping tenants to make decisions and move forward.

"We are still seeing some mergers, acquisitions and consolidations, with the latter moving toward corporate, campus-style facilities. The east side is especially busy with lots of activity due to the increased petrochemical facilities there. East Houston is by far seeing the most activity with close to 4 million square feet of new buildings under construction and proposed or planned.

"Buyers and tenants alike want a "shovel-ready" site that has utilities and detention in place, preferring to take down the property sooner rather than later. Despite the plunge in oil prices, the industrial/land market is still very active in select markets."

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

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Houston-Area Office Market Summary

2015 Third Quarter

	Class	No. Bldgs *	Bldg SF **	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Wted Avg Rent ***	Sublease Avail
Central Business District	A	33	30,931,033	3,063,559	9.9 %	(149,637)	(519,328)	1,635,000	$39.66	968,818
	B	29	8,914,113	2,191,785	24.6 %	(1,293,144)	(1,254,724)	0	$29.64	305,378
	C	8	748,896	92,511	12.4 %	(275)	47,799	0	$19.22	1,427
Central Business District Subtotal		70	40,594,042	5,347,855	13.2 %	(1,443,056)	(1,726,253)	1,635,000	$35.20	1,275,623
Energy Corridor	A	43	13,727,928	1,651,807	12.0 %	377,985	674,370	1,664,801	$28.67	1,085,614
	B	55	5,347,374	875,321	16.4 %	(208,490)	(339,645)	0	$24.23	586,498
	C	8	393,192	18,790	4.8 %	0	(13,272)	0	$24.22	0
Energy Corridor Subtotal		106	19,468,494	2,545,918	13.1 %	169,495	321,453	1,664,801	$27.11	1,672,112
Fort Bend County	A	40	4,162,783	378,642	9.1 %	14,325	20,295	133,500	$28.27	147,473
	B	19	1,195,530	102,452	8.6 %	42,381	43,180	0	$22.10	0
	C	2	245,182	47,097	19.2 %	(16,722)	(14,639)	0	$17.83	0
Fort Bend County Subtotal		61	5,603,495	528,191	9.4 %	39,984	48,836	133,500	$26.14	147,473
Greenspoint	A	32	5,090,260	1,352,059	26.6 %	(91,324)	(413,864)	68,950	$22.39	392,109
	B	41	4,555,039	1,590,463	34.9 %	(105,288)	(431,499)	0	$17.91	255,558
	C	28	2,167,820	466,250	21.5 %	(2,423)	71,860	0	$12.33	0
Greenspoint Subtotal		101	11,813,119	3,408,772	28.9 %	(199,035)	(773,503)	68,950	$18.92	647,667
Inner Loop	A	36	10,401,003	1,034,178	9.9 %	75,526	(250,915)	412,000	$31.62	66,891
	B	102	10,617,550	1,304,543	12.3 %	(16,555)	(198,098)	0	$27.27	39,935
	C	74	4,428,394	416,219	9.4 %	(11,171)	(22,437)	0	$18.32	10,148
Inner Loop Subtotal		212	25,446,947	2,754,940	10.8 %	47,800	(471,450)	412,000	$27.55	116,974
North/The Woodlands/Conroe	A	83	10,861,183	515,003	4.7 %	27,721	2,086,058	1,391,707	$33.20	248,574
	B	76	4,669,910	826,649	17.7 %	47,933	(46,809)	0	$17.63	83,097
	C	32	1,136,292	134,796	11.9 %	30,071	48,792	0	$13.21	0
North/The Woodlands/Conroe Subtotal		191	16,667,385	1,476,448	8.9 %	105,725	2,088,041	1,391,707	$22.66	331,671
Northeast	A	6	51,670	7,630	14.8 %	0	0	360,000	$25.50	0
	B	17	731,811	87,121	11.9 %	(9,753)	(7,898)	0	$18.12	2,087
	C	6	243,603	80,172	32.9 %	(11,147)	(11,147)	0	$15.38	0
Northeast Subtotal		29	1,027,084	174,923	17.0 %	(20,900)	(19,045)	360,000	$17.18	2,087
Northwest	A	41	4,513,888	704,328	15.6 %	69,182	504,029	247,171	$23.26	253,413
	B	61	5,656,709	1,097,990	19.4 %	74,375	42,714	0	$19.43	61,394
	C	22	833,110	130,128	15.6 %	13,347	13,347	0	$18.37	0
Northwest Subtotal		124	11,003,707	1,932,446	17.6 %	156,904	560,090	247,171	$20.75	314,807

Houston-Area Office Market Summary

2015 Third Quarter

	Class	No. Bldgs *	Bldg SF **	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Wted Avg Rent ***	Sublease Avail
Southeast	A	18	2,057,376	259,565	12.6 %	(2,590)	(49,416)	0	$29.02	37,320
	B	56	3,591,095	594,090	16.5 %	72,303	(38,457)	0	$18.67	1,311
	C	47	2,011,292	370,833	18.4 %	(1,313)	21,586	0	$16.87	26,330
Southeast Subtotal		121	7,659,763	1,224,488	16.0 %	68,400	(66,287)	0	$20.32	64,961
Southwest	A	5	1,227,586	402,695	32.8 %	3,454	28,275	0	$22.64	0
	B	48	5,976,693	1,327,878	22.2 %	309,346	340,890	0	$17.48	8,703
	C	84	5,117,259	430,500	8.4 %	197,707	254,370	0	$13.42	0
Southwest Subtotal		137	12,321,538	2,161,073	17.5 %	510,507	623,535	0	$17.63	8,703
Uptown	A	47	17,825,074	2,310,893	13.0 %	259,661	(41,910)	1,216,824	$39.03	313,711
	B	79	10,162,138	1,167,269	11.5 %	31,734	(94,671)	0	$26.31	458,530
	C	18	1,133,574	86,960	7.7 %	12,408	27,174	0	$16.25	0
Uptown Subtotal		144	29,120,786	3,565,122	12.2 %	303,803	(109,407)	1,216,824	$34.31	772,241
West	A	52	8,592,271	1,098,984	12.8 %	125,427	1,324,636	919,492	$27.88	194,105
	B	39	3,167,821	252,778	8.0 %	(17,887)	170,665	0	$18.10	18,196
	C	38	2,568,814	72,956	2.8 %	6,945	13,684	0	$14.65	7,541
West Subtotal		129	14,328,906	1,424,718	9.9 %	114,485	1,508,985	919,492	$25.47	219,842
Westchase	A	33	8,954,144	743,494	8.3 %	(26,823)	(129,426)	1,517,000	$33.91	100,050
	B	51	6,837,702	957,626	14.0 %	37,448	87,282	0	$22.52	68,511
	C	19	833,516	90,546	10.9 %	79,963	84,620	0	$17.40	0
Westchase Subtotal		103	16,625,362	1,791,666	10.8 %	90,588	42,476	1,517,000	$26.98	168,561
Suburban	A	436	87,465,166	10,459,278	12.0 %	832,544	3,752,132	7,931,445	$30.35	2,839,260
	B	644	62,509,372	10,184,180	16.3 %	257,547	(472,346)	0	$21.23	1,583,820
	C	378	21,112,048	2,345,247	11.1 %	297,665	473,938	0	$15.42	44,019
Suburban Subtotal		1,458	171,086,586	22,988,705	13.4 %	1,387,756	3,753,724	7,931,445	$24.78	4,467,099
Houston-Area	A	469	118,396,199	13,522,837	11.4 %	682,907	3,232,804	9,566,445	$32.46	3,808,078
	B	673	71,423,485	12,375,965	17.3 %	(1,035,597)	(1,727,070)	0	$22.72	1,889,198
	C	386	21,860,944	2,437,758	11.2 %	297,390	521,737	0	$15.57	45,446
Houston-Area Total		1,528	211,680,628	28,336,560	13.4 %	(55,300)	2,027,471	9,566,445	$26.93	5,742,722

* Number of buildings calculated on specific buildings at each property address.
** Includes all general-purpose existing office buildings 20,000 square feet or larger.

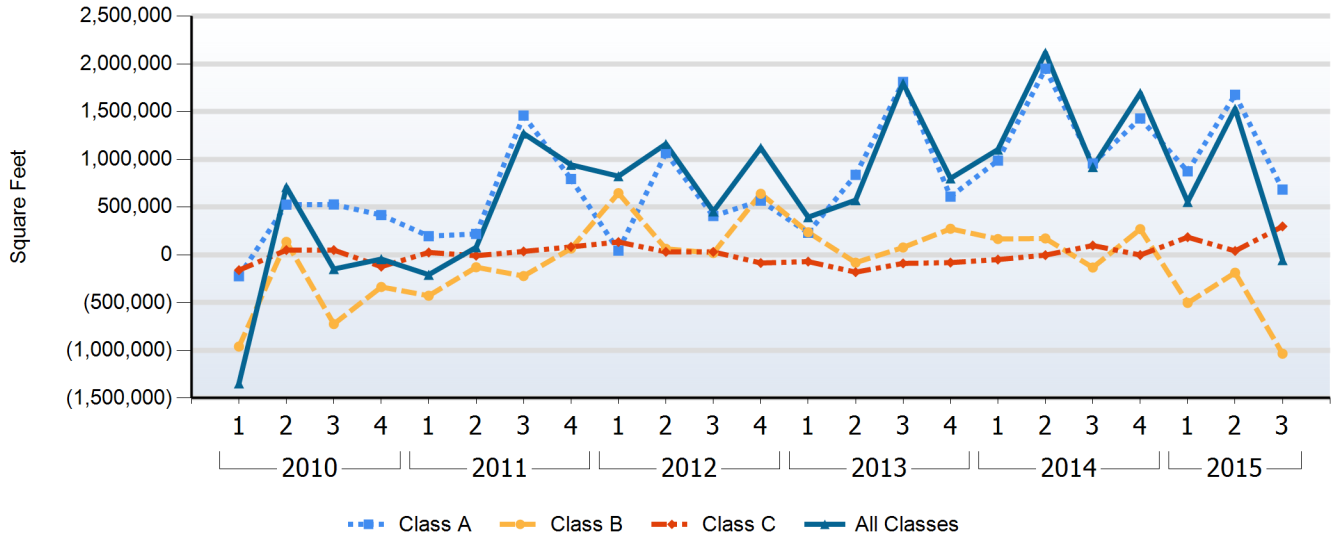
*** Rental rates weighted and averaged based on available space.

Houston-Area Office Statistical Summary

Period	Office SF	No. of Bldgs	Vacant SF			Vacancy Rate			Net Absorption			Avg* Gross Rent	
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease
2015 Q3	211,680,628	1,528	28,336,560	5,742,722	34,079,282	13.4 %	2.7 %	16.1 %	(55,300)	(866,508)	(921,808)	$26.93	$24.56
2015 Q2	209,732,955	1,519	26,119,022	4,876,214	30,995,236	12.5 %	2.3 %	14.8 %	1,528,887	(1,425,521)	103,366	$26.38	$27.15
2015 Q1	206,582,202	1,499	25,442,945	3,450,693	28,893,638	12.3 %	1.7 %	14.0 %	553,884	(255,489)	298,395	$26.09	$28.54
2014 Q4	203,007,194	1,476	22,532,149	3,195,204	25,727,353	11.1 %	1.6 %	12.7 %	1,693,767	(152,487)	1,541,280	$25.25	$26.88
2014 Q3	201,241,794	1,460	22,130,530	3,042,717	25,173,247	11.0 %	1.5 %	12.5 %	919,950	84,296	1,004,246	$25.06	$27.08
2014 Q2	199,911,978	1,451	21,746,160	3,127,013	24,873,173	10.9 %	1.6 %	12.4 %	2,115,885	(375,772)	1,740,113	$24.98	$26.08
2014 Q1	198,196,424	1,442	22,056,941	2,751,241	24,808,182	11.1 %	1.4 %	12.5 %	1,102,240	(241,993)	860,247	$24.75	$23.49
2013 Q4	197,006,420	1,438	22,165,177	2,616,113	24,781,290	11.3 %	1.3 %	12.6 %	799,788	(316,361)	483,427	$24.13	$24.62
2013 Q3	195,959,757	1,431	22,437,411	2,299,752	24,737,163	11.5 %	1.2 %	12.6 %	1,796,238	(264,946)	1,531,292	$24.14	$24.76
2013 Q2	193,416,450	1,417	21,580,505	2,034,806	23,615,311	11.2 %	1.1 %	12.2 %	572,402	(295,404)	276,998	$23.44	$21.01
2013 Q1	192,739,071	1,413	21,737,911	1,681,604	23,419,515	11.3 %	0.9 %	12.2 %	393,869	(49,559)	344,310	$23.26	$21.22
2012 Q4	192,681,873	1,412	22,195,034	1,632,045	23,827,079	11.5 %	0.8 %	12.4 %	1,120,277	37,432	1,157,709	$23.10	$21.63
2012 Q3	192,227,526	1,410	22,700,684	1,669,477	24,370,161	11.8 %	0.9 %	12.7 %	454,212	204,364	658,576	$22.93	$21.68
2012 Q2	192,422,516	1,409	23,178,286	1,873,841	25,052,127	12.0 %	1.0 %	13.0 %	1,160,667	346,625	1,507,292	$22.79	$22.74
2012 Q1	192,383,376	1,408	23,739,457	2,220,466	25,959,923	12.3 %	1.2 %	13.5 %	823,036	287,689	1,110,725	$22.73	$23.86
2011 Q4	192,159,286	1,401	25,461,914	2,508,155	27,970,069	13.3 %	1.3 %	14.6 %	942,031	496,847	1,438,878	$22.87	$24.15
2011 Q3	191,541,599	1,394	25,993,360	3,005,002	28,998,362	13.6 %	1.6 %	15.1 %	1,270,142	(222,073)	1,048,069	$22.68	$23.78
2011 Q2	190,774,554	1,391	26,627,679	2,782,929	29,410,608	14.0 %	1.5 %	15.4 %	78,544	71,935	150,479	$22.98	$23.50
2011 Q1	190,079,152	1,389	26,198,187	2,827,526	29,025,713	13.8 %	1.5 %	15.3 %	(208,556)	350,061	141,505	$23.22	$22.36
2010 Q4	189,101,815	1,387	25,530,782	3,177,587	28,708,369	13.5 %	1.7 %	15.2 %	(44,809)	422,532	377,723	$22.73	$22.35
2010 Q3	188,650,862	1,387	25,811,014	3,394,705	29,205,719	13.7 %	1.8 %	15.5 %	(148,926)	(175,513)	(324,439)	$23.06	$22.86
2010 Q2	188,650,862	1,387	25,577,963	3,220,668	28,798,631	13.6 %	1.7 %	15.3 %	708,916	557,095	1,266,011	$23.39	$23.51
2010 Q1	188,180,496	1,383	26,119,320	3,777,763	29,897,083	13.9 %	2.0 %	15.9 %	(1,346,348)	(94,915)	(1,441,263)	$23.93	$25.00

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

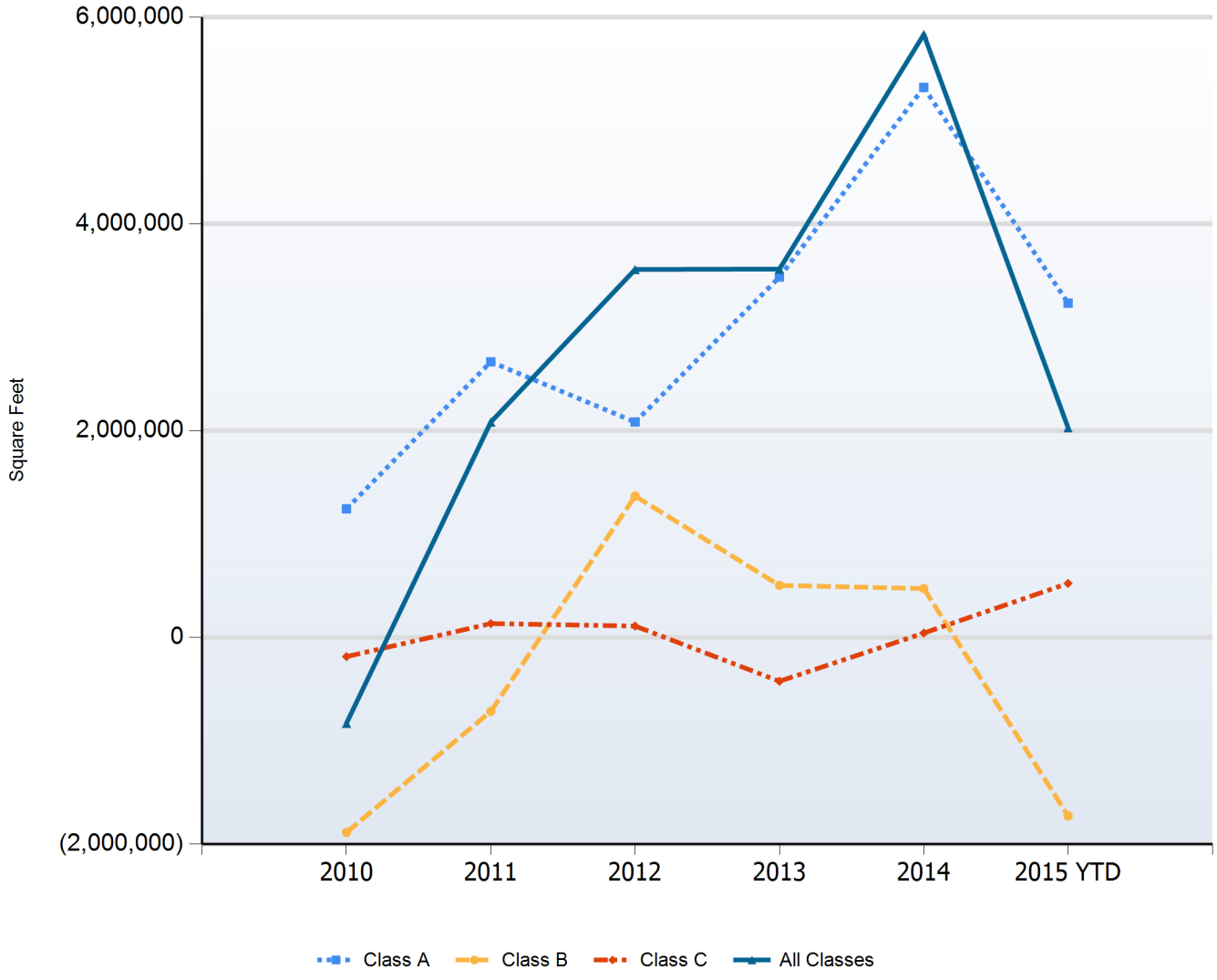
Houston-Area Office Absorption by Class by Quarter



		Class A	Class B	Class C	All Classes
2015	Q3	682,907	(1,035,597)	297,390	(55,300)
	Q2	1,676,367	(187,750)	40,270	1,528,887
	Q1	873,530	(503,723)	184,077	553,884
2014	Q4	1,427,302	268,774	(2,309)	1,693,767
	Q3	955,886	(133,200)	97,264	919,950
	Q2	1,948,587	171,026	(3,728)	2,115,885
	Q1	987,099	165,203	(50,062)	1,102,240
2013	Q4	608,883	272,608	(81,703)	799,788
	Q3	1,809,844	76,501	(90,107)	1,796,238
	Q2	836,376	(82,036)	(181,938)	572,402
	Q1	229,455	235,552	(71,138)	393,869
2012	Q4	566,957	639,219	(85,899)	1,120,277
	Q3	405,430	18,446	30,336	454,212
	Q2	1,066,677	63,081	30,909	1,160,667
	Q1	43,439	645,798	133,799	823,036
2011	Q4	793,753	65,449	82,829	942,031
	Q3	1,457,485	(222,599)	35,256	1,270,142
	Q2	218,266	(130,246)	(9,476)	78,544
	Q1	195,659	(428,686)	24,471	(208,556)
2010	Q4	416,133	(337,040)	(123,902)	(44,809)
	Q3	526,692	(724,927)	49,309	(148,926)
	Q2	524,438	135,506	48,972	708,916
	Q1	(224,705)	(960,759)	(160,884)	(1,346,348)

Absorption square footage includes only net absorption for direct space; sublease space is excluded.

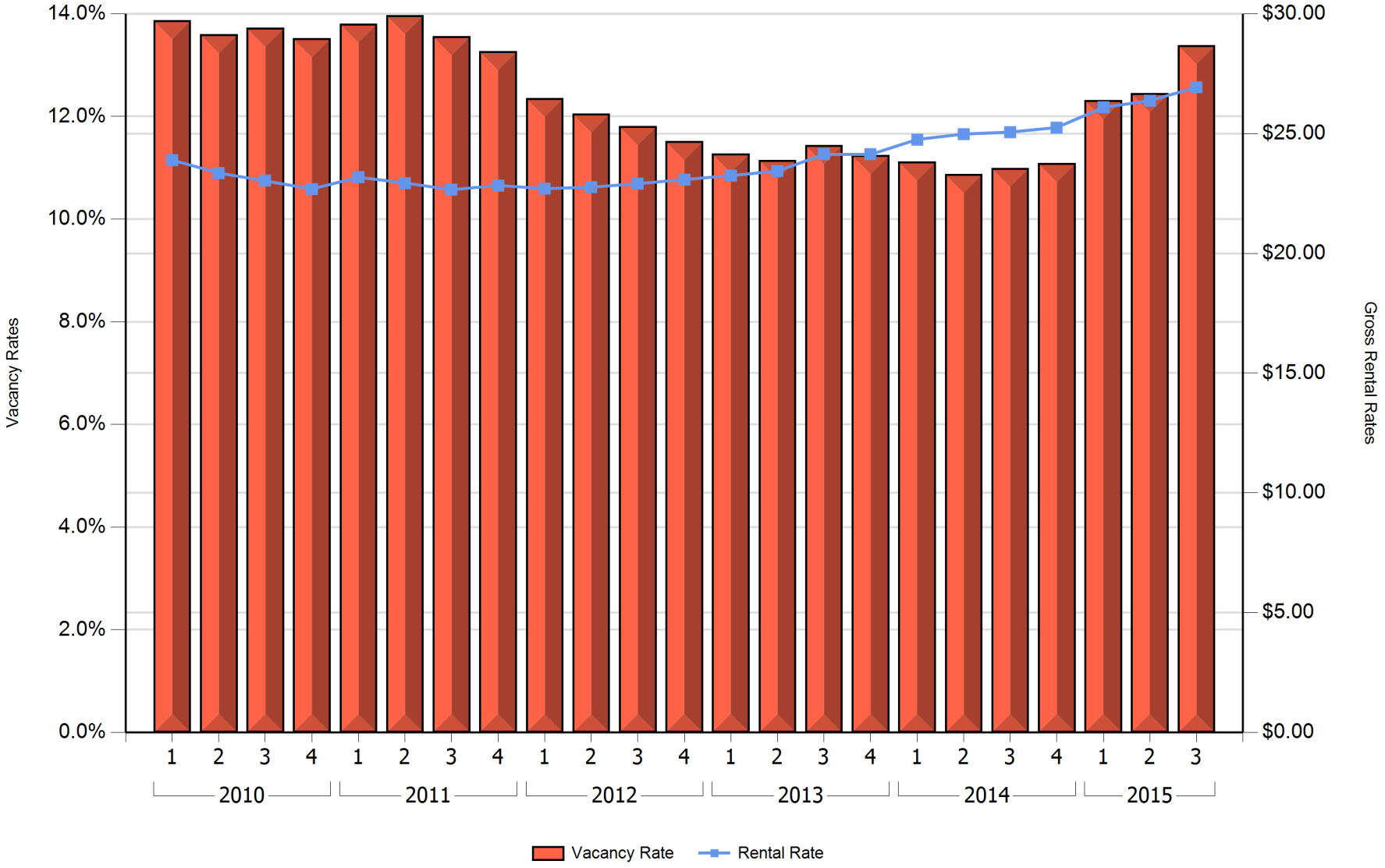
Houston-Area Office Absorption by Class by Year



	Class A	Class B	Class C	All Classes
2015 YTD	3,232,804	(1,727,070)	521,737	2,027,471
2014 YTD	5,318,874	471,803	41,165	5,831,842
2013 YTD	3,484,558	502,625	(424,886)	3,562,297
2012 YTD	2,082,503	1,366,544	109,145	3,558,192
2011 YTD	2,665,163	(716,082)	133,080	2,082,161
2010 YTD	1,242,558	(1,887,220)	(186,505)	(831,167)

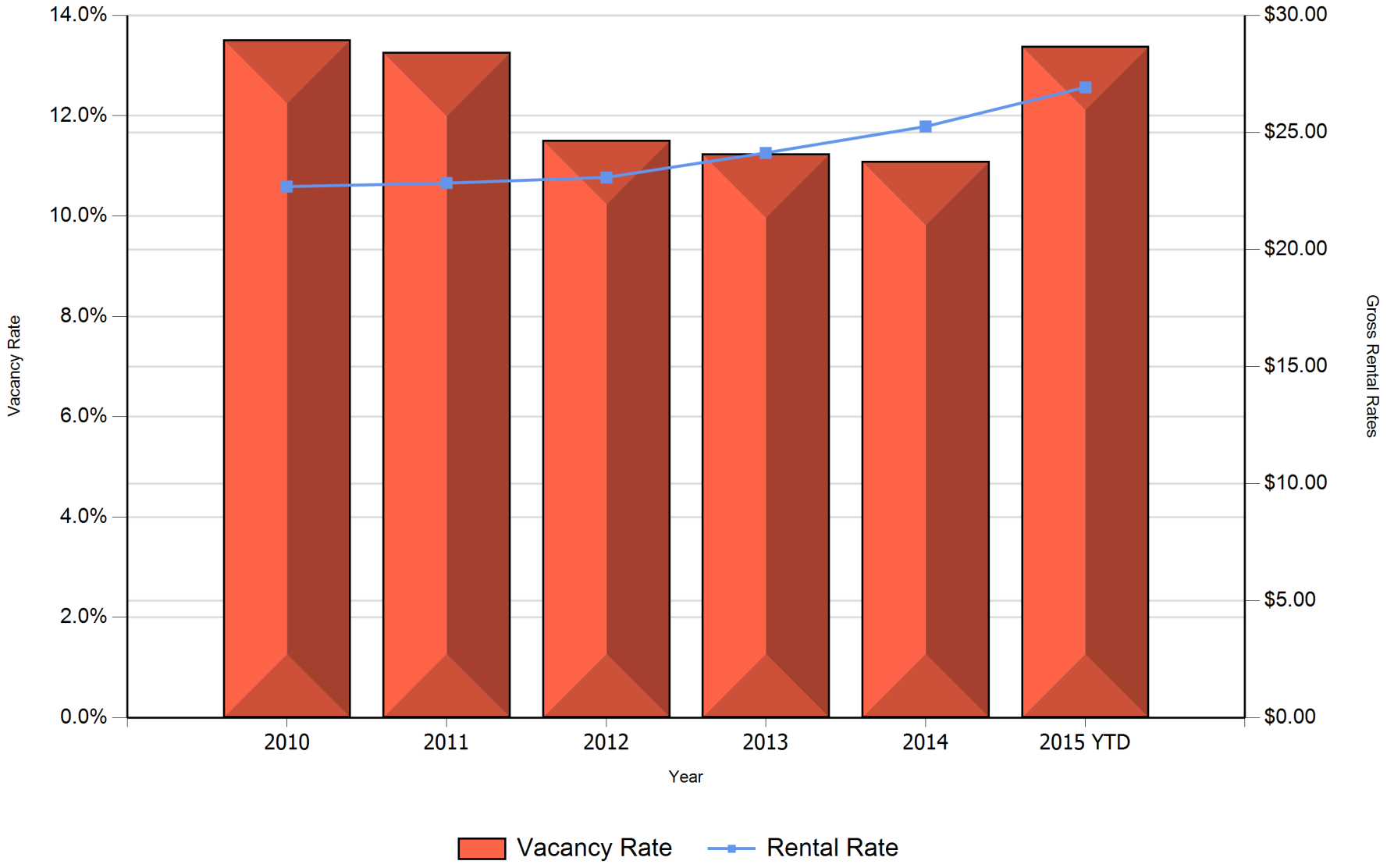
Absorption square footage includes only net absorption for direct space; sublease space is excluded.

Houston-Area Office Vacancy and Rental Rates* by Quarter



** Gross rental rates are averaged and weighted based on available space.*

Houston-Area Office Vacancy and Rental Rates* by Year



*Year-end numbers. *Gross rental rates are averaged and weighted based on available space.*

Houston-Area Industrial Market Summary

2015 Third Quarter

Market Area	Type	No. Bldgs *	Bldg SF **	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Wted Avg Rent ***	Sublease Avail
Inner Loop	Warehouse/Distribution	504	17,500,606	828,185	4.7 %	4,751	(57,042)	0	$6.86	13,500
	Flex/Service Center	186	4,712,461	175,933	3.7 %	(71,699)	(59,827)	0	$11.86	42,863
	Manufacturing	51	1,819,885	37,000	2.0 %	0	0	0	$4.32	0
	HighTech/R&D	5	169,011	0	0.0 %	0	0	0	N/A	0
Inner Loop Subtotal		746	24,201,963	1,041,118	4.3 %	(66,948)	(116,869)	0	$7.62	56,363
North	Warehouse/Distribution	412	9,010,791	920,776	10.2 %	37,561	228,381	92,010	$8.95	31,600
	Flex/Service Center	132	2,624,186	239,915	9.1 %	71,963	(932)	0	$10.94	13,150
	Manufacturing	63	1,382,088	152,223	11.0 %	0	20,088	0	$8.40	25,050
	HighTech/R&D	20	786,612	265,100	33.7 %	0	2,244	0	$16.80	0
North Subtotal		627	13,803,677	1,578,014	11.4 %	109,524	249,781	92,010	$10.52	69,800
Northeast	Warehouse/Distribution	1,202	54,017,035	4,580,464	8.5 %	170,870	775,125	1,239,228	$7.39	542,015
	Flex/Service Center	314	7,743,250	664,682	8.6 %	87,011	197,605	0	$8.49	19,254
	Manufacturing	250	9,479,350	171,438	1.8 %	113,608	239,019	745,800	$4.83	103,714
	HighTech/R&D	13	540,915	102,567	19.0 %	0	66,243	0	N/A	9,500
Northeast Subtotal		1,779	71,780,550	5,519,151	7.7 %	371,489	1,277,992	1,985,028	$7.45	674,483
Northwest	Warehouse/Distribution	2,476	98,663,880	5,853,042	5.9 %	759,795	1,932,530	1,223,970	$7.57	522,594
	Flex/Service Center	753	18,329,182	1,155,851	6.3 %	(115,954)	28,449	0	$10.56	86,827
	Manufacturing	520	19,062,135	866,389	4.5 %	2,000	83,303	4,088,750	$6.30	92,070
	HighTech/R&D	38	2,313,689	32,786	1.4 %	(8,636)	23,474	0	N/A	0
Northwest Subtotal		3,787	138,368,886	7,908,068	5.7 %	637,205	2,067,756	5,312,720	$7.87	701,491
South	Warehouse/Distribution	695	22,496,482	452,546	2.0 %	5,173	67,309	19,000	$6.00	0
	Flex/Service Center	137	2,803,694	153,095	5.5 %	20,062	(3,410)	37,500	$11.85	0
	Manufacturing	161	6,092,962	302,736	5.0 %	0	119,062	0	$5.19	180,410
	HighTech/R&D	7	209,802	0	0.0 %	0	0	0	N/A	0
South Subtotal		1,000	31,602,940	908,377	2.9 %	25,235	182,961	56,500	$6.72	180,410
Southeast	Warehouse/Distribution	1,462	68,178,574	2,865,114	4.2 %	585,676	1,320,884	1,396,687	$5.80	36,200
	Flex/Service Center	274	5,065,473	257,442	5.1 %	23,550	74,526	224,680	$10.34	0
	Manufacturing	218	9,121,604	290,399	3.2 %	(95,008)	(16,500)	0	$9.35	3,403
	HighTech/R&D	15	445,973	66,967	15.0 %	0	0	0	$14.78	0
Southeast Subtotal		1,969	82,811,624	3,479,922	4.2 %	514,218	1,378,910	1,621,367	$6.61	39,603
Southwest	Warehouse/Distribution	847	33,972,207	1,566,612	4.6 %	38,289	489,017	1,200,630	$7.71	120,258
	Flex/Service Center	483	14,533,074	672,055	4.6 %	62,935	181,068	0	$13.77	56,176
	Manufacturing	112	3,686,491	387,250	10.5 %	63,074	68,895	111,600	$5.29	0
	HighTech/R&D	13	948,730	18,095	1.9 %	(2,100)	437,100	0	$27.56	0
Southwest Subtotal		1,455	53,140,502	2,644,012	5.0 %	162,198	1,176,080	1,312,230	$9.03	176,434
Houston-Area	Warehouse/Distribution	7,600	303,876,775	17,066,739	5.6 %	1,602,115	4,756,204	5,171,525	$7.24	1,266,167
	Flex/Service Center	2,279	55,811,320	3,318,973	5.9 %	77,868	417,479	262,180	$10.93	218,270
	Manufacturing	1,375	50,644,515	2,207,435	4.4 %	83,674	513,867	4,946,150	$6.37	404,647
	HighTech/R&D	111	5,414,732	485,515	9.0 %	(10,736)	529,061	0	$16.97	9,500
Houston-Area Total		11,365	415,747,342	23,078,662	5.6 %	1,752,921	6,216,611	10,379,855	$7.60	1,898,584

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

** Includes all general-purpose existing industrial buildings 10,000 square feet or larger.

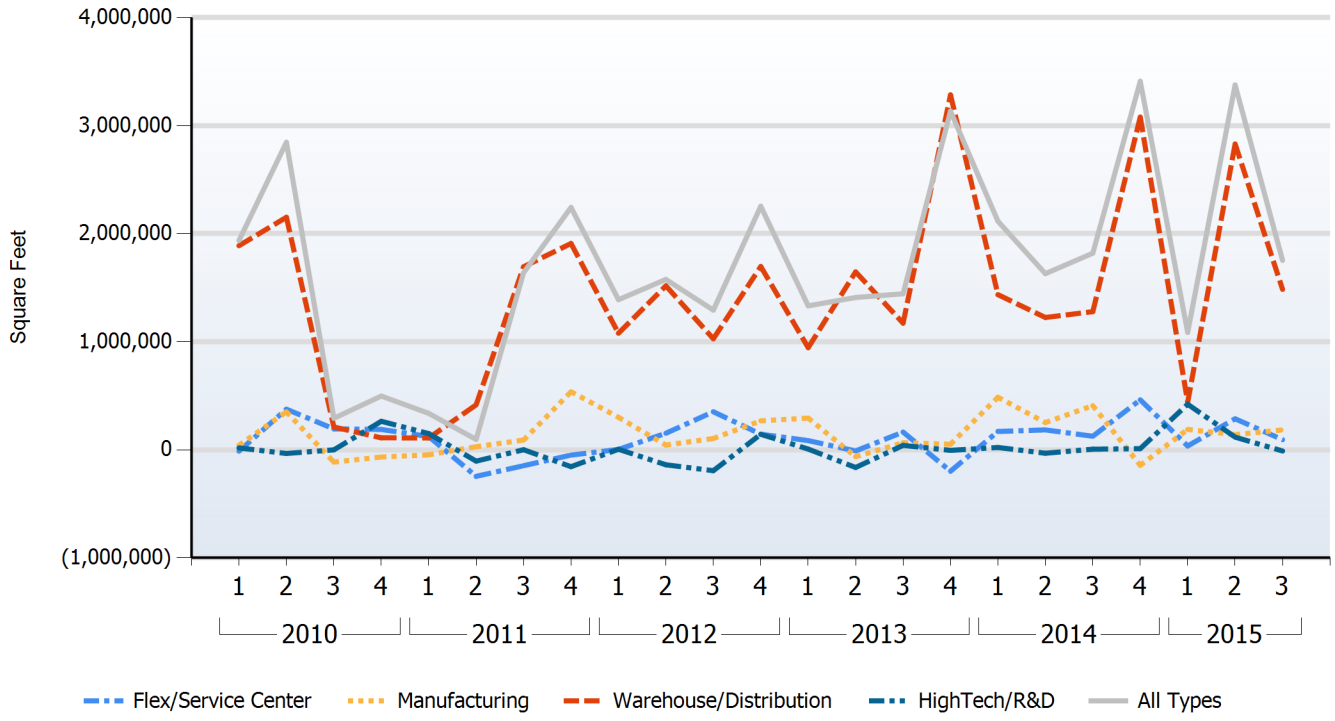
*** Rental rates are weighted and averaged based on available space.

Houston-Area Industrial Statistical Summary

Period	Building SF	No. of Bldgs	Vacant SF			Vacancy Rate			Net Absorption			Avg* Gross Direct Rent
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	
2015 Q3	415,747,342	11,365	23,078,662	1,898,584	24,977,246	5.6 %	0.5 %	6.1 %	1,752,921	7,190	1,760,111	$7.60
2015 Q2	412,538,123	11,294	22,869,828	1,875,274	24,745,102	5.5 %	0.5 %	6.0 %	3,376,671	(78,674)	3,297,997	$7.66
2015 Q1	409,572,732	11,243	24,185,360	1,644,464	25,829,824	5.9 %	0.4 %	6.3 %	1,087,019	74,465	1,161,484	$7.79
2014 Q4	406,441,420	11,165	23,646,249	1,533,554	25,179,803	5.8 %	0.4 %	6.2 %	3,411,050	(138,893)	3,272,157	$7.76
2014 Q3	403,067,638	11,101	25,189,160	1,378,661	26,567,821	6.2 %	0.3 %	6.6 %	1,819,744	120,501	1,940,245	$7.40
2014 Q2	400,442,278	11,059	25,335,364	1,484,062	26,819,426	6.3 %	0.4 %	6.7 %	1,630,486	(113,457)	1,517,029	$7.10
2014 Q1	397,441,869	11,016	25,200,719	1,338,465	26,539,184	6.3 %	0.3 %	6.7 %	2,115,153	173,511	2,288,664	$6.63
2013 Q4	394,667,621	10,972	27,425,666	1,941,510	29,367,176	6.9 %	0.5 %	7.4 %	3,134,396	199,060	2,913,456	$6.59
2013 Q3	392,428,214	10,935	28,675,143	2,249,174	30,924,317	7.3 %	0.6 %	7.9 %	1,443,995	85,252	1,529,247	$6.53
2013 Q2	389,310,307	10,877	27,314,397	2,174,211	29,488,608	7.0 %	0.6 %	7.6 %	1,409,939	(448,240)	961,699	$6.34
2013 Q1	387,249,282	10,845	27,694,919	1,686,838	29,381,757	7.2 %	0.4 %	7.6 %	1,332,284	27,475	1,359,759	$5.94
2012 Q4	385,033,135	10,790	26,192,855	1,714,313	27,907,168	6.8 %	0.4 %	7.2 %	2,253,851	259,860	2,513,711	$5.80
2012 Q3	383,635,654	10,765	27,870,038	1,674,442	29,544,480	7.3 %	0.4 %	7.7 %	1,292,872	8,362	1,301,234	$5.73
2012 Q2	383,072,587	10,745	28,960,944	1,682,804	30,643,748	7.6 %	0.4 %	8.0 %	1,577,285	33,946	1,611,231	$5.61
2012 Q1	381,603,110	10,724	28,801,468	1,946,440	30,747,908	7.5 %	0.5 %	8.1 %	1,389,666	335,275	1,724,941	$5.58
2011 Q4	380,056,171	10,690	29,122,208	1,939,455	31,061,663	7.7 %	0.5 %	8.2 %	2,243,257	160,320	2,403,577	$5.53
2011 Q3	378,925,095	10,668	30,586,218	2,099,775	32,685,993	8.1 %	0.6 %	8.6 %	1,639,397	68,870	1,708,267	$5.46
2011 Q2	378,772,208	10,657	32,526,898	2,094,562	34,621,460	8.6 %	0.6 %	9.1 %	96,281	(59,701)	36,580	$5.37
2011 Q1	376,082,305	10,545	31,782,112	2,013,861	33,795,973	8.5 %	0.5 %	9.0 %	337,590	(134,971)	202,619	$5.59
2010 Q4	375,838,276	10,537	31,967,762	1,878,890	33,846,652	8.5 %	0.5 %	9.0 %	497,855	(14,162)	483,693	$5.47
2010 Q3	374,504,744	10,484	32,460,351	1,853,478	34,313,829	8.7 %	0.5 %	9.2 %	291,790	585,710	877,500	$5.48
2010 Q2	374,059,082	10,477	32,614,573	2,406,522	35,021,095	8.7 %	0.6 %	9.4 %	2,846,293	147,783	2,994,076	$5.63
2010 Q1	373,078,256	10,472	34,166,865	2,534,105	36,700,970	9.2 %	0.7 %	9.8 %	1,936,708	(202,279)	1,734,429	$5.46

Rental rates are averaged and weighted based on available space.

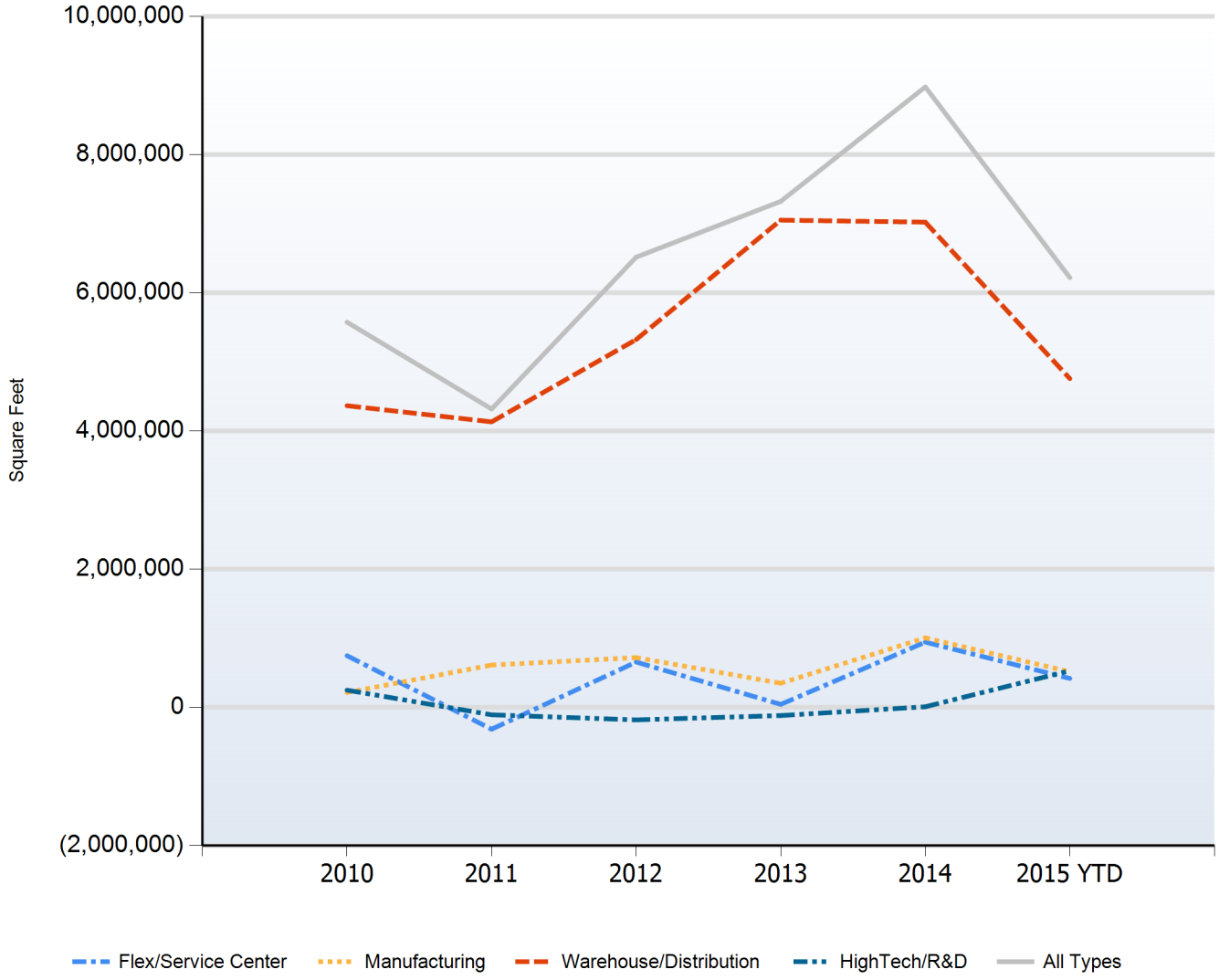
Houston-Area Industrial Absorption by Type by Quarter



		Flex/ Service Center	Manufacturing	Warehouse/ Distribution	HighTech/R&D	All Types
2015	Q3	94,067	184,682	1,484,908	(10,736)	1,752,921
	Q2	287,573	140,275	2,831,124	117,699	3,376,671
	Q1	35,839	188,910	440,172	422,098	1,087,019
2014	Q4	462,804	(143,098)	3,080,075	11,269	3,411,050
	Q3	125,904	408,958	1,278,932	5,950	1,819,744
	Q2	184,611	252,390	1,224,798	(31,313)	1,630,486
	Q1	169,999	486,848	1,436,300	22,006	2,115,153
2013	Q4	(197,531)	51,980	3,284,777	(4,830)	3,134,396
	Q3	164,712	65,704	1,172,153	41,426	1,443,995
	Q2	(10,307)	(63,405)	1,646,883	(163,232)	1,409,939
	Q1	85,507	294,045	945,439	7,293	1,332,284
2012	Q4	144,932	268,394	1,696,686	143,839	2,253,851
	Q3	352,450	105,257	1,028,045	(192,880)	1,292,872
	Q2	153,636	44,180	1,517,731	(138,262)	1,577,285
	Q1	3,772	301,350	1,079,046	5,498	1,389,666
2011	Q4	(48,612)	537,804	1,909,691	(155,626)	2,243,257
	Q3	(146,515)	90,211	1,694,551	1,150	1,639,397
	Q2	(245,108)	29,313	416,515	(104,439)	96,281
	Q1	123,407	(46,076)	109,659	150,600	337,590
2010	Q4	188,845	(66,290)	111,141	264,159	497,855
	Q3	193,813	(113,250)	211,436	(209)	291,790
	Q2	376,345	351,499	2,151,996	(33,547)	2,846,293
	Q1	(12,387)	42,018	1,889,252	17,825	1,936,708

Absorption square footage includes only net absorption for direct space; sublease space is excluded.

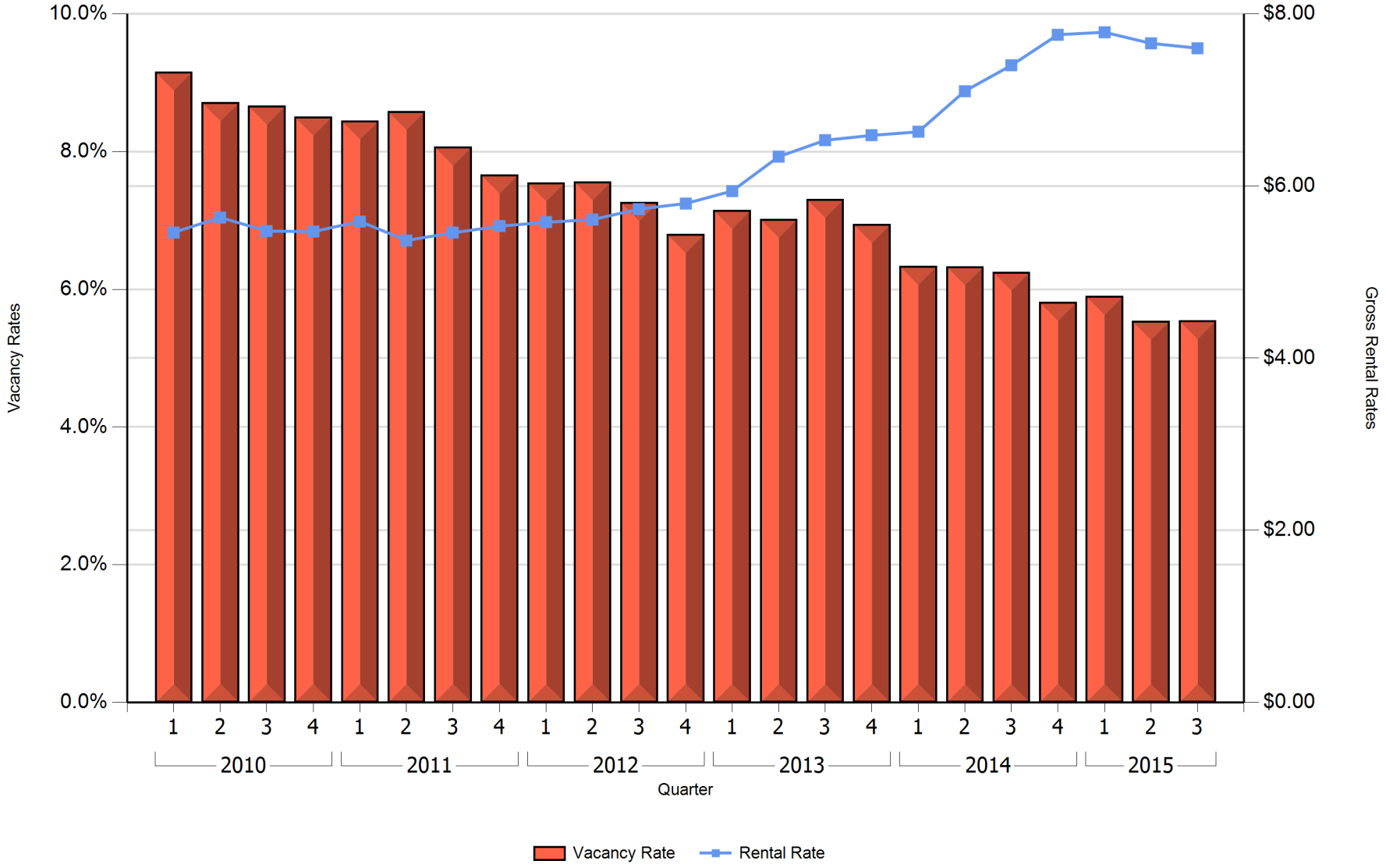
Houston-Area Industrial Absorption by Type by Year



	Flex/ Service Center	Manufacturing	Warehouse/ Distribution	HighTech/R&D	All Types
2015 YTD	417,479	513,867	4,756,204	529,061	6,216,611
2014	943,318	1,005,098	7,020,105	7,912	8,976,433
2013	42,381	348,324	7,049,252	(119,343)	7,320,614
2012	654,790	719,181	5,321,508	(181,805)	6,513,674
2011	(316,828)	611,252	4,130,416	(108,315)	4,316,525
2010	746,616	213,977	4,363,825	248,228	5,572,646

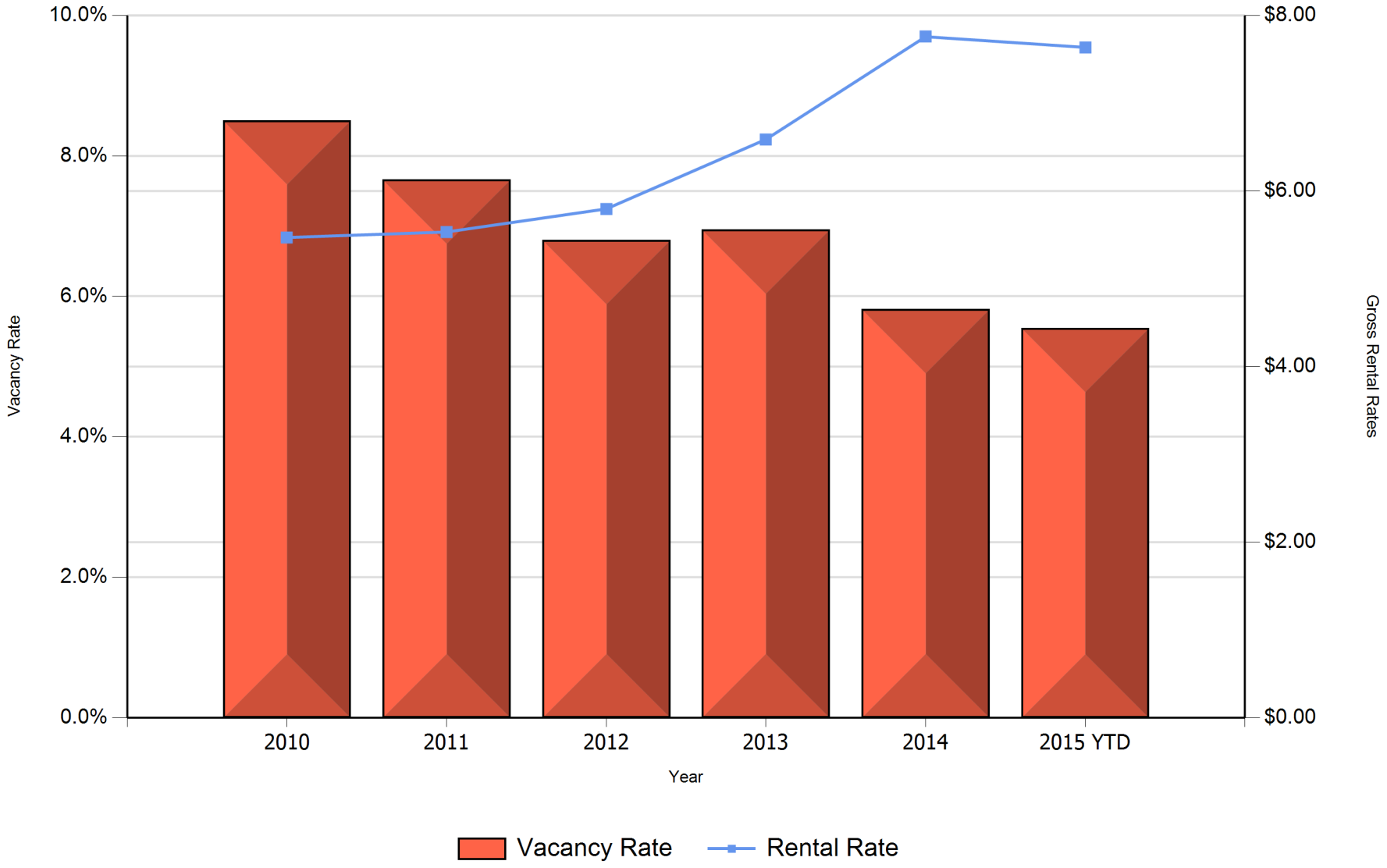
Absorption square footage includes only net absorption for direct space; sublease space is excluded.

Houston-Area Industrial Vacancy and Rental Rates* by Quarter



** Gross rental rates are averaged and weighted based on available space.*

Houston-Area Industrial Vacancy and Rental Rates* by Year



*Year-end numbers. *Gross rental rates are averaged and weighted based on available space.*

Quarterly Market Overview
Second Quarter 2015
FOR IMMEDIATE RELEASE

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HOUSTON'S SECOND-QUARTER COMMERCIAL ACTIVITY REFLECTS CHANGING ECONOMY

HOUSTON — (July 21, 2015) — Houston's commercial real estate activity continues at a steady albeit slower pace as the market adjusts to changing economic factors, according to quarterly market research compiled by Commercial Gateway, the commercial division of the Houston Association of Realtors.

The second quarter reported direct office net absorption of almost 1.7 million square feet, representing the 17th consecutive quarter of positive absorption with a mid-year total of more than 2.1 million square feet of direct net absorption. As in previous years, Class A properties represent the bulk of the growth, almost 1.7 million square feet of positive absorption, offset by Class B properties reporting a negative 174,306 square feet; Class C properties reported 136,270 square feet of positive absorption.

Keeping the direct absorption positive primarily results from large companies occupying their new space in recently completed build-to-suit and/or owner-occupied properties. The largest at 1 million square feet represents the third and final move-in phase for ExxonMobil (which represents 2 million for the year) followed by Noble Energy's 456,000 square-foot move. Other major moveins include GE Electric, 150,000 square feet in Westway Plaza; Sasol, 171,475 square feet in Woodbranch Plaza IV; Air Liquide, 145,000 in its new Memorial City building; and Nabors Industry, 98,400 square feet in Commerce Green. Only five submarkets recorded positive direct net absorption for the second quarter, and four of the five are attributed to large moveins, while the Southwest submarket saw more small positive deals than negative ones.

On the other side are the direct vacancies resulting from several company move-outs, which turned some key submarkets to experience negative absorption. These move-outs include BP in two Four Oaks Place buildings and one in the West, GE moving out of Park Towers, Repsol vacating its space in 2001 Timberloch and Southwestern Energy and ExxonMobil vacating their former spaces in the Greenspoint submarket.

The changing economy related to the oil and gas downturn is also shown by the increasing amounts of sublease space on the market; and when that sublease space enters the picture, the absorption totals do change dramatically. However, sublease space appears on the market for many reasons including downsizing and consolidations, but rent is usually being paid for the space whether it is occupied or vacant. And that situation could easily change if a company's business volume changes. At the end of the second quarter, the Houston market currently has more than 5 million square feet of sublease space available, and another 1 to 2 million square feet being marketed but not yet available – with almost half Class A space. This total represents almost double the same period last year. Firms looking to move or expand will be able to take advantage of reduced rates with limited terms, which could affect both the overall leasing activity for the new buildings being completed in the next two years and certainly could play a factor in delaying the starts of new buildings.

For the quarter, 10 new buildings were completed, adding almost 3.2 million square feet to the market. The new buildings, including five owner-occupied or single-tenant, contributed almost 2.2 million square feet of absorption. Upon completion, the new properties collectively were almost 81.2% leased with rental rates averaging $32.70, marginally less than the overall Class A rate of $32.88. The largest building completed this quarter was Trammell Crow's Energy Center Three at 546,604 square feet, which is 100% leased by ConocoPhilips with movein scheduled for August.

Other than those noted above, the largest multi-tenant building to be completed this quarter was Westway Plaza at 314,000 square feet, which was totally pre-leased to three tenants. The second largest multi-tenant building to be completed this quarter and 15% preleased was Legacy at Fallbrook, Liberty Property's 206,754-square-foot property in the Northwest at 10720 West Sam Houston Parkway North.

Construction starts halted to just one new building started in the second quarter: Wildwood Corporate Center II in the north. However, two new buildings, one by MetroNational in Memorial City for Cemex and one in Pearland, were just announced with construction starts scheduled for the fall. Overall, the Houston under-construction office market boasts 36 properties with 38 buildings totaling almost 11.2 million square feet. Collectively, the under-construction buildings are 50% preleased, with 24 properties classified as multi-tenant. The multi-tenant properties represent almost 6.9 million square feet or 61.3% of the under-

construction total and are currently reporting 20.2% preleased space. Of the multi-tenant spec properties, 16 of the 24 are less than 10% preleased.

The largest project under construction is Phillips 66's 1.2 million-square-foot campus in the Westchase area, while the largest spec building under construction with the largest availability remains Hines' 609 Main at Texas building with1.05 million square feet.

The current 12.4% direct vacancy rate is an increase from the 12.3% vacancy recorded last quarter, and the 10.9% during the same quarter a year ago. Class A space overall is at 10.4% vacancy, with the North/The Woodlands/Conroe submarket showing the lowest Class A vacancy of 5.0% followed by the Westchase submarket at 6.9% and the Inner Loop submarket at 8.2%. The West submarket is recording the lowest overall vacancy of all submarkets at 8.2%. Six of the 13 submarkets are recording single-digit vacancies in Class A space, with four of the 13 boasting single-digit vacancies overall.

Rental rates represent a 6.0% increase during the past year with the current overall averaged weighted rental rate of $26.49. Class A rates, now at $32.89 citywide and at $40.02 in the CBD, experienced a slight increase from the same quarter last year. CBD's Class A rates increased 3.4% from the same quarter last year. Rates overall have shown increases due to new space with higher rents entering the market along with increased operating expenses due to tax jumps. Concessions are reportedly being offered to entice some tenants, but none are being offered across the board.

Commercial Gateway Member/Broker Comments on the Houston Office Market

Mario A. Arriaga, First Group "With decreased job growth and higher vacancy rates, the Houston area's office market is definitely experiencing a slowdown. Large blocks of direct space and sublease space have been added to the marketplace as many newly completed buildings come on line and those tenants move from their current offices while others are downsizing. Mergers and acquisitions are also still big news, and duplicate facilities are being analyzed to determine what to keep at what cost.

"Leasing activity has dropped considerably. Many companies are delaying decisions about their office space, some thinking a better deal is in the near future and others are questioning their own business strategies and growth.

“The industrial sector is still going very strong, with firms both expanding and moving into the Houston area to participate in the growing petrochemical industry along with future growth related to the Port of Houston and the Panama Canal. Despite the low price of oil and other economic factors in turmoil, Houston’s industrial market is still considered one of the healthiest in the country.”

David Baker, Executive Vice President, Houston Operations, Transwestern “In the second quarter, the multi-tenant office market showed almost 900,000 square feet of positive absorption while the overall office market was slightly negative. The absorption continued to be primarily in Class A space. Notwithstanding the downturn in the energy and manufacturing job base during the first half of the year, the overall office market has managed to achieve positive absorption of more than 1.6 million square feet for the year. There are still significant deals in the marketplace, which will be tempered by the fact that available sublease space continues to increase.”

Jeff Peltier, Senior Associate, Colliers International “The pullback in the oil and gas industry is creating holes in the Houston office market. Houston's office leasing activity dropped an astonishing 67.5% in one year, recording only 1.8 million square feet of leasing activity in the second quarter of 2015, compared to the 5.5 million square feet in Second Quarter 2014. This lack of leasing velocity combined with an additional 2.1 million square feet of new inventory delivered in the second quarter is pushing Houston’s overall vacancy rate from a Second Quarter 2014 number of 11.6% to a now current 14.1% number.

“One of the most talked about sectors of the market is the available sublease space, which totals 7.4 million square feet, or 3.3% of Houston's total office inventory. Houston's available sublease space has almost doubled in the last 12 months, providing discounted options to tenants with leases expiring in the near future. That being said, it doesn’t help that the Houston office market overall posted 525,000 square feet of negative net absorption (including direct and sublease space) in the second quarter; this is the first time Houston has posted any negative net absorption in five years, since Second Quarter 2010.

“Rental rates remain relatively flat despite the softening market; Class B rental rates fell by 1% in the second quarter, but Class A rates increased by 2.7% in the same quarter to $42.32 per square foot. New product and new ownership continue to push for steady

Class A rates to please investors, but with the price of oil hovering just above $50, one could wonder how long that could last."

John Spafford, Executive Vice President, Director of Leasing, PM Realty Group "Houston's office leasing market has been one of the most active in the country over the past four years, but growth has tapered and some softness is occurring due to slower demand and a flood of new office buildings entering the market.

"In spite of the economic uncertainty, Houston's office leasing market has held up relatively well thus far and managed to record positive direct net absorption during the first half of 2015, with the majority of this growth taking place in new projects recently delivered. Leasing activity has certainly slowed down from its swift pace seen in recent years, but it has been largely attributed to the lower volume of lease expirations and companies delaying their long-term leasing decisions. As a result of the economic uncertainty, some tenants are opting for short-term leases while others are moving forward with early lease restructures.

"Houston's sublease inventory has dramatically risen to nearly 7.5 million square feet, which accounts for 17.2% of the total space available and 3.5% of the total rentable inventory. The steady rise of sublease availability has resulted from energy-related companies temporarily downsizing and offering portions of their leased space while some have consolidated and relocated to new construction projects delivered in recent quarters. However, it is important to point out that only 36% of the large contiguous blocks of sublease space (40,000 square feet or greater) have a term remaining in excess of 5 years, which makes them less competitive with direct space for most tenants seeking stability.

"With likely lower employment growth on the horizon, Houston's office market should experience reduced direct absorption growth. As a result of the new deliveries and slower office leasing activity, direct occupancy levels will slightly decline in 2015 but not enough to significantly impact rents. Asking rental rates are expected to remain flat during the second-half of 2015, but concessions such as rent abatement and tenant improvement allowances will be increasing as a result of the added sublease inventory and existing vacancy. However, with a high volume of leases expiring in 2017 through 2019 and the pent-up demand from tenants delaying office leasing decisions, market activity is expected to return to increased levels in 2016 and 2017."

Houston Industrial Market

Houston's industrial market continues to expand with positive direct net absorption of more than 3.3 million square feet during the second quarter of 2015 despite economic uncertainty, according to statistics released by Commercial Gateway.

This quarter's absorption represents the 22nd consecutive quarter – over five years – of positive absorption, with seven quarters recording more than 2 million square feet each. This absorption is almost double when compared to the same quarter last year and is clearly a positive sign in today's marketplace of energy layoffs and cutbacks.

Major deals recorded during the quarter include McKesson Corporation's 357,887-square-foot lease at Duke's Gateway Northwest One Building; Slay Industries (SI Warehousing) and GLT Fabricators Inc., both at 100,000 square feet to totally lease up 2902 E. 13th Street; Frontier Logistics' 600,000-square-foot move into its new building at 225 Railport; DB Schenker's 150,000 square-foot move into its new building at Kenswick AirFreight Center; Pathmark Transportation's 76,234-square-foot move into Airtex Industrial Center Building; and Tesla's 33,525- square-foot move into DCT's Airtex Business Center, both in the Greenspoint area.

Net absorption was shared by all industrial types during the first quarter with warehouse/ distribution properties accounting for the bulk of absorption, 2.9 million square feet or 86.7% of the total. Flex/service center space represented 237,466 square feet of absorption, or 7.1% of the total. Manufacturing space accounted for 140,275 square feet, or 4.2% of the total while high tech/R&D space represented 67,164 square feet, or 2.0% of the total.

The rate of absorption cased the vacancy rate's slight decrease to 5.6% from 5.9% last quarter and below the 6.3% of the same quarter a year ago. Vacancy for warehouse/distribution space citywide is 5.7% with manufacturing space at 4.3%. Houston is still considered one of the healthiest industrial markets nationwide due to its balance of supply and demand.

More than 1.8 million square feet in 33 buildings came online during the second quarter. Collectively, the new buildings are currently 41.0% leased and represent about 1.2 million square feet of absorption, or 36.4% recorded for the quarter. The largest spec buildings completed during the second quarter and without preleasing include Beltway North Commerce Building in Greenspoint at 352,680 square feet and DCT's Northwest Crossroads Building along

the North Belt at 320,430 square feet. All other completed spec buildings were smaller than 100,000 square feet with 15 buildings less than 20,000 square feet.

Construction activity is still high and may get higher with over 30 proposed properties, half of which are planned for more than 100,000 square feet. Currently, 60 buildings are underway in 55 projects representing more than 10.1 million square feet. Major spec projects without major preleasing include Fallbrook Pines' 560,312 square feet, Fallbrook 1 Pinto Business Park's 500,400 square feet, Interstate Commerce Center's 416,930 square feet, Bayou Bend Business Park's 378,380 square feet, and Mason Ranch Industrial Park's 373,860 square feet. The two largest BTS projects include Daiken's 4 million square foot facility off Highway 290 and FMC's new project at Generation Park in the Northeast.

Rental rates have taken a minimal drop this quarter to $7.67 from $7.80 last quarter but are still 7.9% higher than the $7.11 recorded during the same quarter last year. Rental rates quoted are grossed up and weighted and averaged based on available space. Most new buildings are now quoting net rents and passing on the increased taxes and operating costs.

Sublease space increased 14.0% from last quarter to more than 1.8 million square feet. This quarter's total is an increase of 26.4% from the same quarter a year ago, but is still below square footage totals in 2013 and back through 2010.

Commercial Gateway Member/Broker Comments on the Houston Industrial Market

Andrew Jewett, Vice President, Industrial Services, Cresa Houston "Houston's industrial market in Houston is starting to see a very small shift in fundamentals as the prolonged drop in the price of oil continues. However, demand is expected to taper off by year's end, regardless of the industrial market remaining largely unaffected by the economy due to the diversification within the oil and gas industry.

"Going into the quarter most economists were cautiously optimistic, but many have revised predictions including the number of jobs created in 2016, which has now been cut significantly. Time will determine the true impact of the reduced job numbers, capital budgets and exploration expenditures on Houston's industrial market.

"A soft economy is implied via several economic indicators but in the second quarter, Houston experienced increases in rental rates and decreases in vacancy year-over-year. However, leasing activity continued to slow and absorption outpaced development numbers by a small margin.

"East Houston continues to dominate large petrochemical construction projects – doubling citywide since a year ago – including new chemical plants along with expansions and improvements to infrastructure. Absorption was positive in most submarkets but leasing activity slowed to its lowest level since 2006 – signaling declining fundamentals.

"Leasing activity and absorption numbers were the strongest in the Northwest submarket, and simultaneously had the largest increases in rental rates. Landlord concessions will increase in areas with weakening fundamentals to remain competitive and retain tenants, mainly in west Houston."

Mark G. Nicholas, SIOR, Executive Vice President and National Director, JLL Houston

"This is the busiest summer I have experienced in my 26 years in the Houston industrial real estate and land markets. Activity is brisk; we are definitely experiencing a much better year and summer than expected and seeing continuous and steady business.

"This activity reflects on the diversity of the market. We all know that Houston has primarily been heavy into oil and gas-related businesses; however, there are so many other industries relocating here from other parts of America and around the globe, with existing companies expanding or consolidating their current facilities.

"I'm seeing a range of build-to-suits, leases and sales. Land prices have stabilized somewhat, maybe even decreased a little from the very high prices of the last couple years. We now have plenty of "spec" product available in certain markets that rents have stabilized, with some rent concessions from select properties that have become important for the tenant to move forward.

"We are still seeing many mergers, acquisitions and consolidations, with the latter moving toward corporate, campus-style facilities. The east side is especially busy with lots of activity due to the increasing petrochemical facilities there. We recently closed on a 10-acre tract in Park 225, which will be the site of a 121,300-square-foot, rear-load, distribution facility. Almost 35 percent of my business involves land deals.

"Buyers and tenants alike want a "shovel-ready" site that has utilities and detention in place, preferring to take down the property sooner rather than later. Despite the plunge in oil prices, the industrial/land market is still very active and alive in Houston."

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

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Houston-Area Office Market Summary

2015 Second Quarter

	Class	No. Bldgs *	Bldg SF **	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Wted Avg Rent ***	Sublease Avail
Central Business District	A	32	30,652,033	2,633,922	8.6 %	33,398	(369,691)	1,525,000	$40.02	1,076,340
	B	29	8,914,113	898,641	10.1 %	48,580	38,420	0	$29.55	471,262
	C	8	748,896	92,236	12.3 %	46,091	48,074	0	$19.22	0
Central Business District Subtotal		69	40,315,042	3,624,799	9.0 %	128,069	(283,197)	1,525,000	$36.90	1,547,602
Energy Corridor	A	41	13,091,281	1,167,803	8.9 %	115,579	309,846	1,965,701	$31.33	433,476
	B	55	5,347,908	666,831	12.5 %	17,585	(131,155)	0	$24.44	523,689
	C	8	393,192	18,790	4.8 %	(6,940)	(13,272)	0	$24.22	0
Energy Corridor Subtotal		104	18,832,381	1,853,424	9.8 %	126,224	165,419	1,965,701	$28.78	957,165
Fort Bend County	A	40	4,162,783	392,967	9.4 %	(7,702)	5,970	133,500	$28.37	144,976
	B	19	1,195,530	144,833	12.1 %	(9,188)	799	0	$21.62	0
	C	2	245,182	30,375	12.4 %	(1,769)	2,083	0	$16.77	0
Fort Bend County Subtotal		61	5,603,495	568,175	10.1 %	(18,659)	8,852	133,500	$26.03	144,976
Greenspoint	A	32	5,096,921	1,260,735	24.7 %	82,640	(322,540)	0	$23.14	372,275
	B	41	4,549,789	1,435,765	31.6 %	(59,557)	(312,853)	0	$18.40	57,896
	C	28	2,167,820	463,827	21.4 %	34,297	74,283	0	$12.21	0
Greenspoint Subtotal		101	11,814,530	3,160,327	26.7 %	57,380	(561,110)	0	$19.38	430,171
Inner Loop	A	35	10,008,003	825,004	8.2 %	(119,380)	(326,441)	1,025,151	$31.09	69,757
	B	102	10,617,550	1,287,988	12.1 %	38,302	(181,543)	0	$26.68	26,424
	C	77	4,455,894	405,048	9.1 %	(21,743)	(11,266)	0	$18.18	10,148
Inner Loop Subtotal		214	25,081,447	2,518,040	10.0 %	(102,821)	(519,250)	1,025,151	$26.76	106,329
North/The Woodlands/Conroe	A	83	10,861,183	542,724	5.0 %	1,011,924	2,058,337	1,391,707	$33.46	147,272
	B	76	4,672,123	874,582	18.7 %	(65,757)	(94,742)	0	$17.66	79,585
	C	32	1,136,292	164,867	14.5 %	1,675	18,721	0	$12.02	0
North/The Woodlands/Conroe Subtotal		191	16,669,598	1,582,173	9.5 %	947,842	1,982,316	1,391,707	$22.49	226,857
Northeast	A	6	51,670	7,630	14.8 %	0	0	360,000	$25.50	0
	B	17	731,811	77,368	10.6 %	(4,068)	1,855	0	$18.36	2,087
	C	6	243,603	69,025	28.3 %	0	0	0	$13.25	0
Northeast Subtotal		29	1,027,084	154,023	15.0 %	(4,068)	1,855	360,000	$16.43	2,087
Northwest	A	39	4,284,787	770,508	18.0 %	447,571	438,607	347,559	$28.03	195,436
	B	62	5,678,969	1,172,365	20.6 %	(22,279)	(31,661)	0	$20.25	51,948
	C	22	831,022	47,475	5.7 %	96,000	96,000	0	$19.40	0
Northwest Subtotal		123	10,794,778	1,990,348	18.4 %	521,292	502,946	347,559	$23.24	247,384

Houston-Area Office Market Summary

2015 Second Quarter

	Class	No. Bldgs *	Bldg SF **	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Wted Avg Rent ***	Sublease Avail
Southeast	A	18	2,057,376	234,815	11.4 %	13,454	(46,826)	0	$27.65	7,783
	B	56	3,588,266	666,393	18.6 %	(61,774)	(110,760)	0	$18.72	1,311
	C	47	2,011,292	369,520	18.4 %	(10,312)	22,899	0	$16.86	0
Southeast Subtotal		121	7,656,934	1,270,728	16.6 %	(58,632)	(134,687)	0	$19.83	9,094
Southwest	A	5	1,227,586	406,149	33.1 %	0	24,821	0	$19.64	0
	B	52	6,008,695	1,582,807	26.3 %	12,395	31,544	0	$17.61	1,711
	C	83	4,974,976	608,297	12.2 %	7,963	56,663	0	$13.09	0
Southwest Subtotal		140	12,211,257	2,597,253	21.3 %	20,358	113,028	0	$16.87	1,711
Uptown	A	46	17,637,210	2,403,554	13.6 %	(294,119)	(301,571)	1,383,824	$37.96	324,612
	B	79	10,162,138	1,199,003	11.8 %	(1,666)	(126,405)	0	$25.89	403,971
	C	18	1,133,574	99,368	8.8 %	6,297	14,766	0	$16.63	0
Uptown Subtotal		143	28,932,922	3,701,925	12.8 %	(289,488)	(413,210)	1,383,824	$33.48	728,583
West	A	50	8,186,595	830,130	10.1 %	514,615	1,199,209	1,325,168	$27.55	129,417
	B	39	3,167,821	234,891	7.4 %	4,745	188,552	0	$17.91	44,572
	C	39	2,588,814	79,901	3.1 %	1,207	6,739	0	$15.08	1,440
West Subtotal		128	13,943,230	1,144,922	8.2 %	520,567	1,394,500	1,325,168	$24.70	175,429
Westchase	A	33	8,954,144	614,671	6.9 %	(104,392)	(102,603)	1,517,000	$34.43	319,368
	B	51	6,834,269	1,015,641	14.9 %	(71,624)	29,267	0	$22.15	155,040
	C	19	833,516	170,509	20.5 %	(16,496)	4,657	0	$18.35	0
Westchase Subtotal		103	16,621,929	1,800,821	10.8 %	(192,512)	(68,679)	1,517,000	$25.98	474,408
Suburban	A	428	85,619,539	9,456,690	11.0 %	1,660,190	2,936,809	9,449,610	$30.90	2,144,372
	B	649	62,554,869	10,358,467	16.6 %	(222,886)	(737,102)	0	$21.13	1,348,234
	C	381	21,015,177	2,527,002	12.0 %	90,179	272,273	0	$15.03	11,588
Suburban Subtotal		1,458	169,189,585	22,342,159	13.2 %	1,527,483	2,471,980	9,449,610	$24.58	3,504,194
Houston-Area	A	460	116,271,572	12,090,612	10.4 %	1,693,588	2,567,118	10,974,610	$32.89	3,220,712
	B	678	71,468,982	11,257,108	15.8 %	(174,306)	(698,682)	0	$21.81	1,819,496
	C	389	21,764,073	2,619,238	12.0 %	136,270	320,347	0	$15.18	11,588
Houston-Area Total		1,527	209,504,627	25,966,958	12.4 %	1,655,552	2,188,783	10,974,610	$26.49	5,051,796

* Number of buildings calculated on specific buildings at each property address.
** Includes all general-purpose existing office buildings 20,000 square feet or larger.

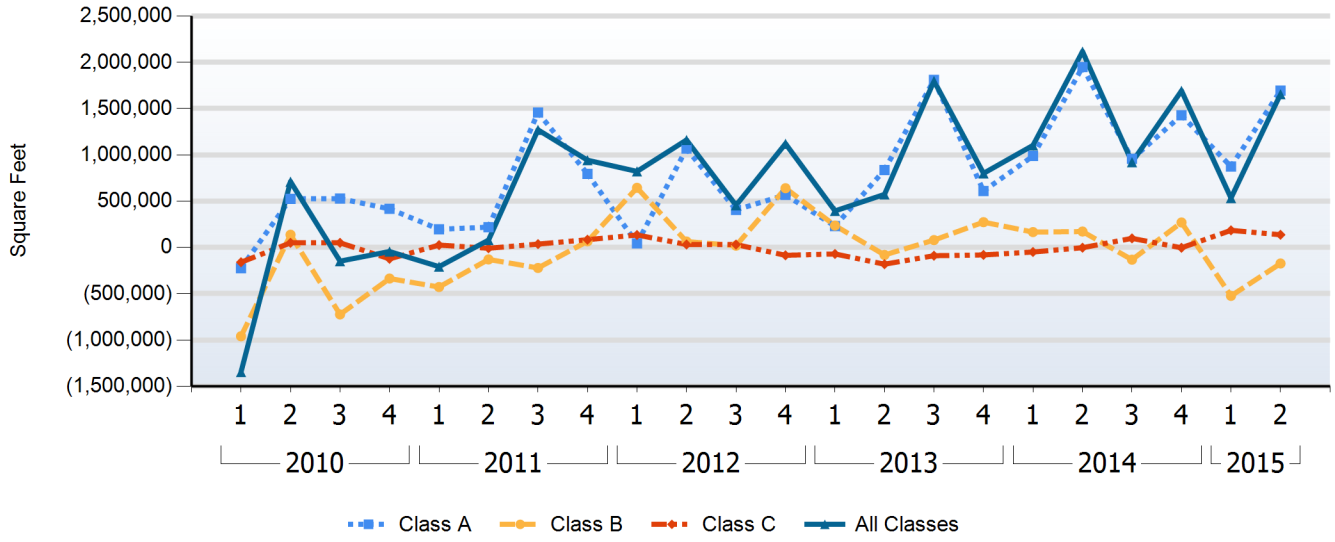
*** Rental rates weighted and averaged based on available space.

Houston-Area Office Statistical Summary

Period	Office SF	No. of Bldgs	Vacant SF			Vacancy Rate			Net Absorption			Avg* Gross Rent	
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease
2015 Q2	209,504,627	1,527	25,966,958	5,051,796	31,018,754	12.4 %	2.4 %	14.8 %	1,655,552	(1,601,103)	54,449	$26.49	$26.90
2015 Q1	206,355,962	1,507	25,453,598	3,450,693	28,904,291	12.3 %	1.7 %	14.0 %	533,231	(255,489)	277,742	$26.22	$28.46
2014 Q4	202,768,866	1,483	22,802,149	3,195,204	25,997,353	11.2 %	1.6 %	12.8 %	1,691,679	(152,487)	1,539,192	$25.38	$26.88
2014 Q3	200,731,138	1,466	22,130,530	3,042,717	25,173,247	11.0 %	1.5 %	12.5 %	919,950	84,296	1,004,246	$25.06	$27.08
2014 Q2	199,401,322	1,457	21,746,160	3,127,013	24,873,173	10.9 %	1.6 %	12.5 %	2,115,885	(375,772)	1,740,113	$24.98	$26.08
2014 Q1	197,690,184	1,448	22,056,941	2,751,241	24,808,182	11.2 %	1.4 %	12.5 %	1,102,240	(241,993)	860,247	$24.75	$23.49
2013 Q4	196,500,180	1,444	22,165,177	2,616,113	24,781,290	11.3 %	1.3 %	12.6 %	799,788	(316,361)	483,427	$24.13	$24.62
2013 Q3	195,453,517	1,437	22,437,411	2,299,752	24,737,163	11.5 %	1.2 %	12.7 %	1,798,414	(264,946)	1,533,468	$24.14	$24.76
2013 Q2	192,910,210	1,423	21,582,681	2,034,806	23,617,487	11.2 %	1.1 %	12.2 %	572,402	(295,404)	276,998	$23.44	$21.01
2013 Q1	192,232,831	1,419	21,740,087	1,681,604	23,421,691	11.3 %	0.9 %	12.2 %	393,869	(49,559)	344,310	$23.26	$21.22
2012 Q4	192,175,633	1,418	22,197,210	1,632,045	23,829,255	11.6 %	0.8 %	12.4 %	1,120,277	37,432	1,157,709	$23.10	$21.63
2012 Q3	191,721,286	1,416	22,702,860	1,669,477	24,372,337	11.8 %	0.9 %	12.7 %	454,212	204,364	658,576	$22.92	$21.68
2012 Q2	191,916,276	1,415	23,180,462	1,873,841	25,054,303	12.1 %	1.0 %	13.1 %	1,160,667	346,625	1,507,292	$22.79	$22.74
2012 Q1	191,877,136	1,414	23,741,633	2,220,466	25,962,099	12.4 %	1.2 %	13.5 %	820,860	287,689	1,108,549	$22.73	$23.86
2011 Q4	191,653,046	1,407	25,461,914	2,508,155	27,970,069	13.3 %	1.3 %	14.6 %	942,031	496,847	1,438,878	$22.87	$24.15
2011 Q3	191,035,359	1,400	25,993,360	3,005,002	28,998,362	13.6 %	1.6 %	15.2 %	1,270,142	(222,073)	1,048,069	$22.68	$23.78
2011 Q2	190,268,314	1,397	26,627,679	2,782,929	29,410,608	14.0 %	1.5 %	15.5 %	78,544	71,935	150,479	$22.98	$23.50
2011 Q1	189,572,912	1,395	26,198,187	2,827,526	29,025,713	13.8 %	1.5 %	15.3 %	(208,556)	350,061	141,505	$23.22	$22.36
2010 Q4	188,595,575	1,393	25,530,782	3,177,587	28,708,369	13.5 %	1.7 %	15.2 %	(44,809)	422,532	377,723	$22.73	$22.35
2010 Q3	188,144,622	1,393	25,811,014	3,394,705	29,205,719	13.7 %	1.8 %	15.5 %	(148,926)	(175,513)	(324,439)	$23.06	$22.86
2010 Q2	188,144,622	1,393	25,577,963	3,220,668	28,798,631	13.6 %	1.7 %	15.3 %	709,745	557,095	1,266,840	$23.39	$23.51
2010 Q1	187,674,256	1,389	26,120,149	3,777,763	29,897,912	13.9 %	2.0 %	15.9 %	(1,346,348)	(94,915)	(1,441,263)	$23.93	$25.00

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

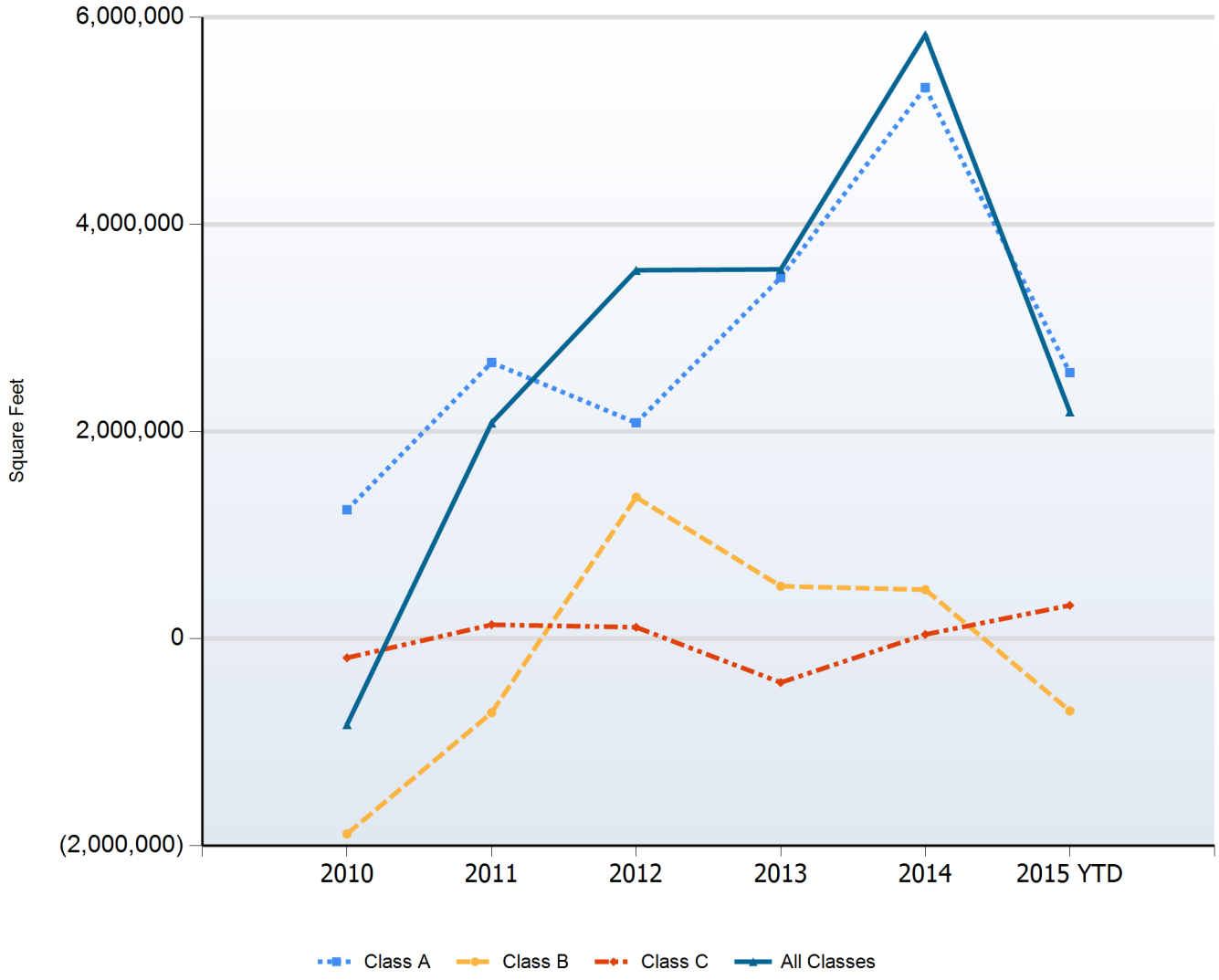
Houston-Area Office Absorption by Class by Quarter



		Class A	Class B	Class C	All Classes
2015	Q2	1,693,588	(174,306)	136,270	1,655,552
	Q1	873,530	(524,376)	184,077	533,231
2014	Q4	1,427,302	268,774	(4,397)	1,691,679
	Q3	955,886	(133,200)	97,264	919,950
	Q2	1,948,587	171,026	(3,728)	2,115,885
	Q1	987,099	165,203	(50,062)	1,102,240
2013	Q4	608,883	272,608	(81,703)	799,788
	Q3	1,809,844	78,677	(90,107)	1,798,414
	Q2	836,376	(82,036)	(181,938)	572,402
	Q1	229,455	235,552	(71,138)	393,869
2012	Q4	566,957	639,219	(85,899)	1,120,277
	Q3	405,430	18,446	30,336	454,212
	Q2	1,066,677	63,081	30,909	1,160,667
	Q1	43,439	643,622	133,799	820,860
2011	Q4	793,753	65,449	82,829	942,031
	Q3	1,457,485	(222,599)	35,256	1,270,142
	Q2	218,266	(130,246)	(9,476)	78,544
	Q1	195,659	(428,686)	24,471	(208,556)
2010	Q4	416,133	(337,040)	(123,902)	(44,809)
	Q3	526,692	(724,927)	49,309	(148,926)
	Q2	524,438	136,335	48,972	709,745
	Q1	(224,705)	(960,759)	(160,884)	(1,346,348)

Absorption square footage includes only net absorption for direct space; sublease space is excluded.

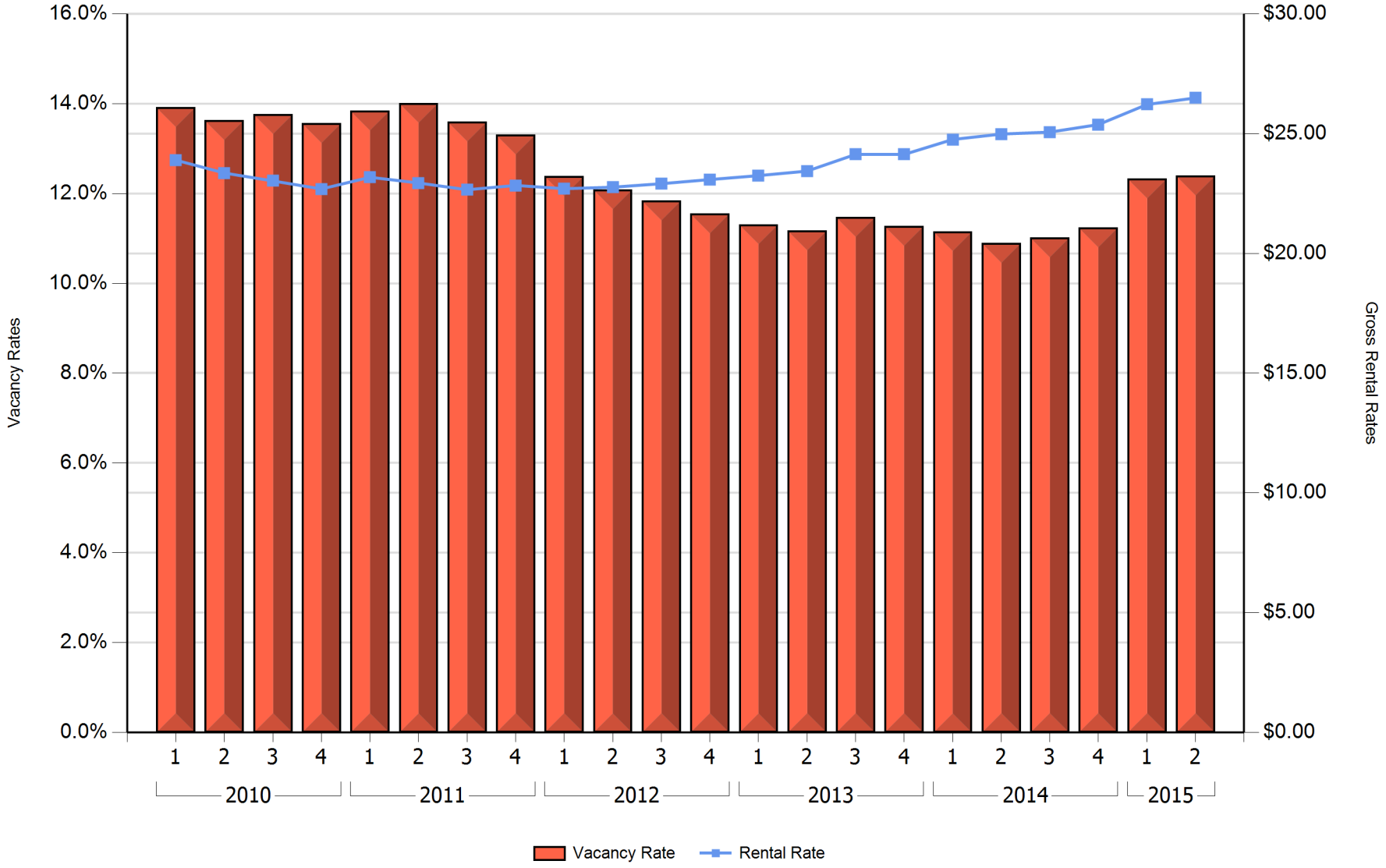
Houston-Area Office Absorption by Class by Year



	Class A	Class B	Class C	All Classes
2015 YTD	2,567,118	(698,682)	320,347	2,188,783
2014 YTD	5,318,874	471,803	39,077	5,829,754
2013 YTD	3,484,558	504,801	(424,886)	3,564,473
2012 YTD	2,082,503	1,364,368	109,145	3,556,016
2011 YTD	2,665,163	(716,082)	133,080	2,082,161
2010 YTD	1,242,558	(1,886,391)	(186,505)	(830,338)

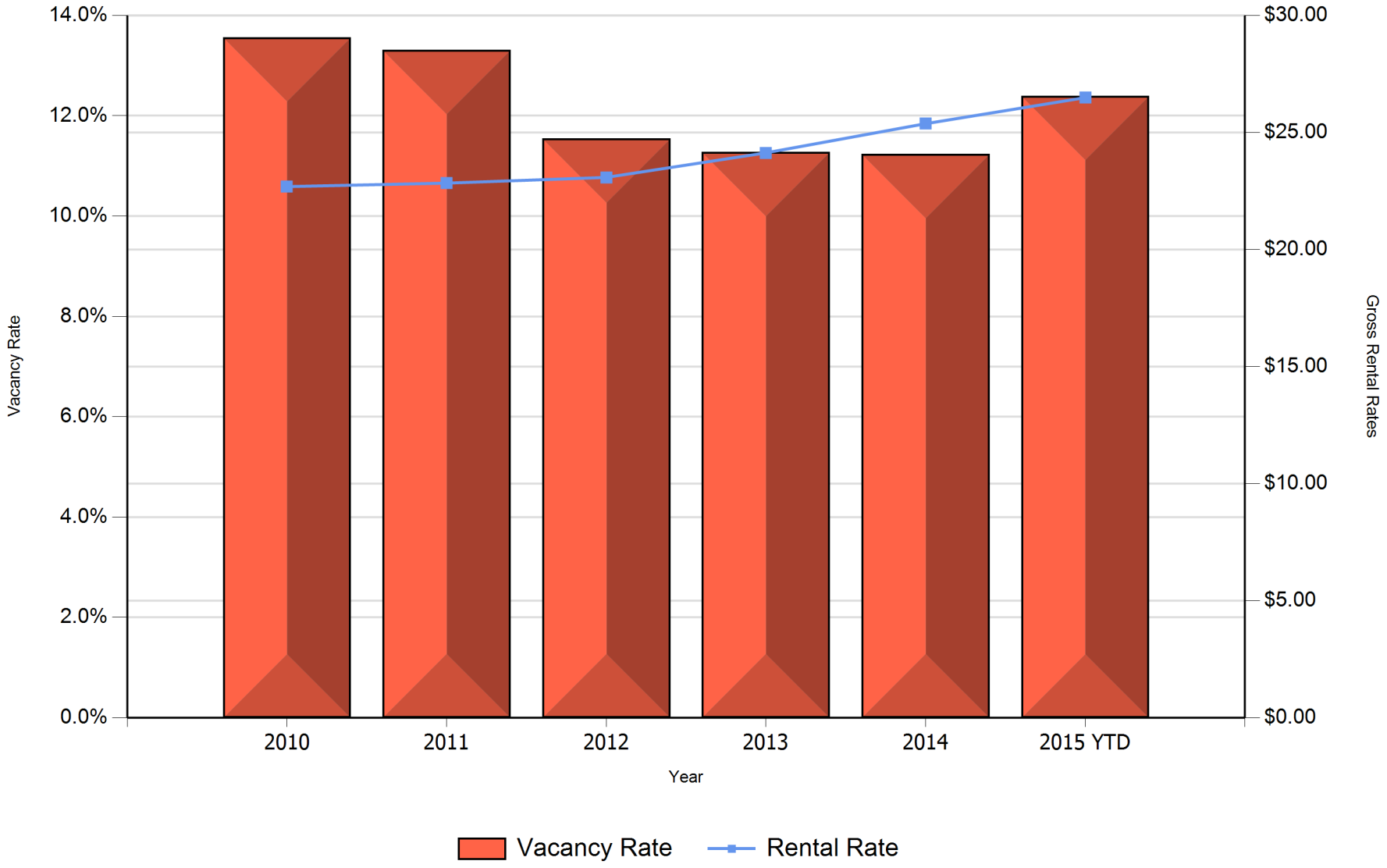
Absorption square footage includes only net absorption for direct space; sublease space is excluded.

Houston-Area Office Vacancy and Rental Rates* by Quarter



** Gross rental rates are averaged and weighted based on available space.*

Houston-Area Office Vacancy and Rental Rates* by Year



*Year-end numbers. *Gross rental rates are averaged and weighted based on available space.*

Houston-Area Industrial Market Summary

2015 Second Quarter

Market Area	Type	No. Bldgs *	Bldg SF **	Vacant SF	Vacancy Rate	Net Absorption Current	Net Absorption YTD	Under Construction	Wted Avg Rent ***	Sublease Avail
Inner Loop	Warehouse/Distribution	503	17,485,606	832,936	4.8 %	38,233	(61,793)	21,646	$6.15	35,066
	Flex/Service Center	186	4,711,061	104,234	2.2 %	31,698	11,872	0	$15.01	39,617
	Manufacturing	51	1,883,663	37,000	2.0 %	0	0	0	$4.32	0
	HighTech/R&D	5	169,011	0	0.0 %	0	0	0	N/A	0
Inner Loop Subtotal		745	24,249,341	974,170	4.0 %	69,931	(49,921)	21,646	$7.03	74,683
North	Warehouse/Distribution	397	8,427,241	436,415	5.2 %	(64,896)	190,820	543,256	$9.66	17,300
	Flex/Service Center	132	2,564,546	311,878	12.2 %	(3,080)	(72,895)	0	$12.28	13,150
	Manufacturing	62	1,371,958	152,223	11.1 %	20,088	(76,912)	0	$8.40	0
	HighTech/R&D	14	526,612	5,100	1.0 %	2,856	2,244	0	$16.80	10,432
North Subtotal		605	12,890,357	905,616	7.0 %	(45,032)	43,257	543,256	$10.39	40,882
Northeast	Warehouse/Distribution	1,193	53,412,897	4,482,296	8.4 %	251,145	604,255	1,357,874	$7.29	470,429
	Flex/Service Center	313	7,952,871	833,407	10.5 %	89,209	110,594	0	$8.56	23,223
	Manufacturing	247	9,358,327	285,046	3.0 %	84,747	125,411	783,300	$6.63	103,714
	HighTech/R&D	13	540,915	102,567	19.0 %	66,243	66,243	0	N/A	0
Northeast Subtotal		1,766	71,265,010	5,703,316	8.0 %	491,344	906,503	2,141,174	$7.44	597,366
Northwest	Warehouse/Distribution	2,467	97,941,477	5,997,175	6.1 %	720,364	1,254,421	2,303,536	$7.69	502,949
	Flex/Service Center	755	18,497,341	1,039,897	5.6 %	97,950	128,204	0	$10.65	146,875
	Manufacturing	516	18,987,345	771,545	4.1 %	54,178	81,303	4,054,250	$6.22	161,560
	HighTech/R&D	37	2,093,013	24,150	1.2 %	0	32,110	0	N/A	0
Northwest Subtotal		3,775	137,519,176	7,832,767	5.7 %	872,492	1,496,038	6,357,786	$7.94	811,384
South	Warehouse/Distribution	699	22,638,442	457,719	2.0 %	92,641	62,136	45,640	$5.67	0
	Flex/Service Center	132	2,701,134	173,157	6.4 %	(357)	(23,472)	0	$13.31	0
	Manufacturing	158	6,082,162	302,736	5.0 %	(22,719)	119,062	0	$5.19	180,410
	HighTech/R&D	12	312,302	0	0.0 %	0	0	0	N/A	0
South Subtotal		1,001	31,734,040	933,612	2.9 %	69,565	157,726	45,640	$6.93	180,410
Southeast	Warehouse/Distribution	1,457	68,293,128	3,421,500	5.0 %	1,437,344	790,971	68,614	$5.96	58,280
	Flex/Service Center	270	5,021,873	280,992	5.6 %	7,850	50,976	25,000	$10.34	0
	Manufacturing	214	9,072,348	181,972	2.0 %	16,160	(22,500)	0	$9.35	5,585
	HighTech/R&D	18	496,508	117,502	23.7 %	(50,535)	0	0	$14.78	0
Southeast Subtotal		1,959	82,883,857	4,001,966	4.8 %	1,410,819	819,447	93,614	$6.68	63,865
Southwest	Warehouse/Distribution	839	33,879,879	1,480,055	4.4 %	424,328	450,728	867,426	$7.70	79,734
	Flex/Service Center	479	14,391,049	830,351	5.8 %	14,196	60,668	0	$13.89	26,950
	Manufacturing	110	3,601,891	450,324	12.5 %	(12,179)	5,821	111,600	$5.51	0
	HighTech/R&D	13	948,730	15,995	1.7 %	48,600	439,200	0	$29.60	0
Southwest Subtotal		1,441	52,821,549	2,776,725	5.3 %	474,945	956,417	979,026	$9.32	106,684
Houston-Area	Warehouse/Distribution	7,557	302,115,870	17,108,096	5.7 %	2,899,159	3,291,538	5,207,992	$7.16	1,163,758
	Flex/Service Center	2,267	55,839,875	3,573,916	6.4 %	237,466	265,947	25,000	$11.29	249,815
	Manufacturing	1,358	50,357,694	2,180,846	4.3 %	140,275	232,185	4,949,150	$6.37	451,269
	HighTech/R&D	112	5,087,091	265,314	5.2 %	67,164	539,797	0	$16.57	10,432
Houston-Area Total		11,294	413,400,530	23,128,172	5.6 %	3,344,064	4,329,467	10,182,142	$7.67	1,875,274

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

** Includes all general-purpose existing industrial buildings 10,000 square feet or larger.

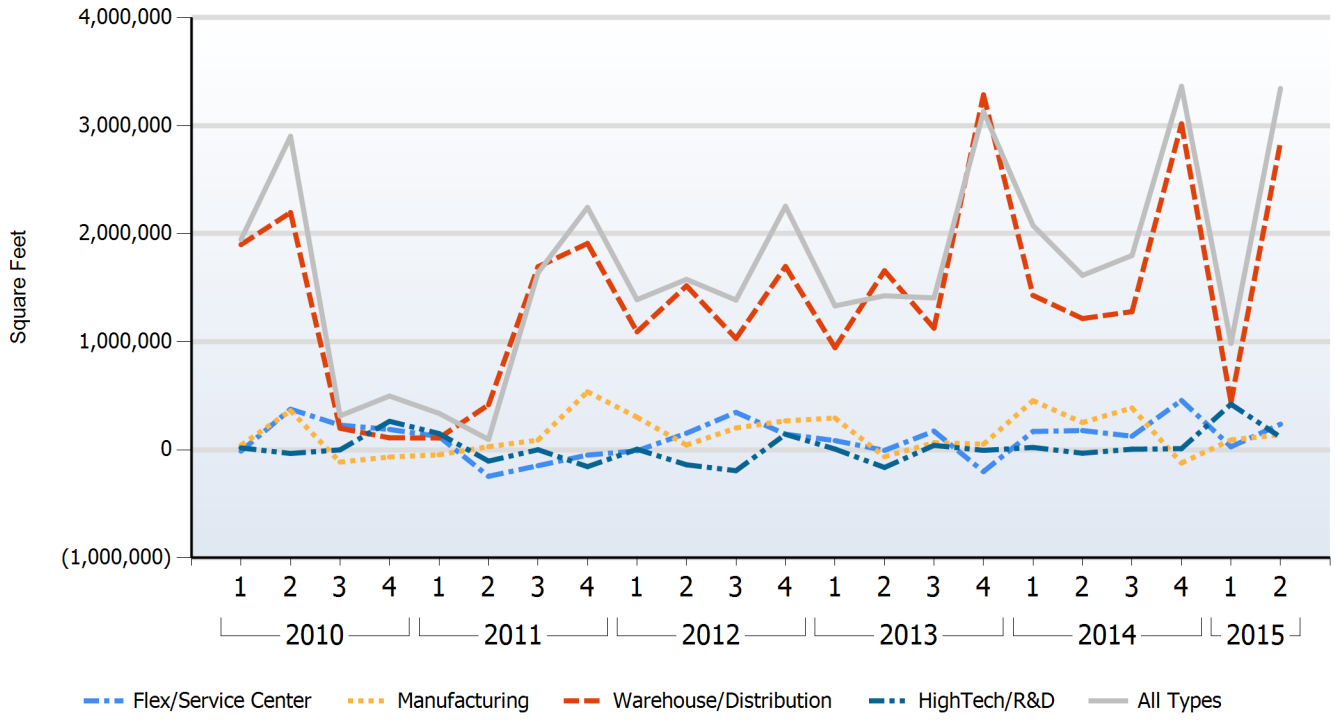
*** Rental rates are weighted and averaged based on available space.

Houston-Area Industrial Statistical Summary

Period	Building SF	No. of Bldgs	Vacant SF			Vacancy Rate			Net Absorption			Avg* Gross Direct Rent
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	
2015 Q2	413,400,530	11,294	23,128,172	1,875,274	25,003,446	5.6 %	0.5 %	6.0 %	3,344,064	(78,674)	3,265,390	$7.67
2015 Q1	410,062,222	11,242	24,257,107	1,644,464	25,901,571	5.9 %	0.4 %	6.3 %	985,403	74,465	1,059,868	$7.80
2014 Q4	406,871,910	11,163	23,672,655	1,533,554	25,206,209	5.8 %	0.4 %	6.2 %	3,363,870	(138,893)	3,224,977	$7.76
2014 Q3	403,639,628	11,100	25,268,386	1,378,661	26,647,047	6.3 %	0.3 %	6.6 %	1,798,624	120,501	1,919,125	$7.40
2014 Q2	401,024,876	11,059	25,461,662	1,484,062	26,945,724	6.3 %	0.4 %	6.7 %	1,614,486	(88,457)	1,526,029	$7.11
2014 Q1	398,024,467	11,016	25,343,115	1,363,465	26,706,580	6.4 %	0.3 %	6.7 %	2,076,199	148,511	2,224,710	$6.64
2013 Q4	395,226,236	10,971	27,506,608	1,941,510	29,448,118	7.0 %	0.5 %	7.5 %	3,130,396	199,060	2,909,456	$6.60
2013 Q3	392,986,829	10,934	28,752,085	2,249,174	31,001,259	7.3 %	0.6 %	7.9 %	1,406,045	85,252	1,491,297	$6.55
2013 Q2	389,898,922	10,877	27,353,389	2,174,211	29,527,600	7.0 %	0.6 %	7.6 %	1,425,939	(448,240)	977,699	$6.36
2013 Q1	387,837,897	10,845	27,749,911	1,686,838	29,436,749	7.2 %	0.4 %	7.6 %	1,332,284	27,475	1,359,759	$5.94
2012 Q4	385,540,508	10,789	26,166,605	1,714,313	27,880,918	6.8 %	0.4 %	7.2 %	2,253,851	259,860	2,513,711	$5.79
2012 Q3	384,142,412	10,764	27,843,788	1,674,442	29,518,230	7.2 %	0.4 %	7.7 %	1,386,122	8,362	1,394,484	$5.73
2012 Q2	383,579,345	10,744	29,027,944	1,682,804	30,710,748	7.6 %	0.4 %	8.0 %	1,577,285	33,946	1,611,231	$5.61
2012 Q1	382,058,172	10,721	28,771,468	1,946,440	30,717,908	7.5 %	0.5 %	8.0 %	1,389,666	335,275	1,724,941	$5.58
2011 Q4	380,542,033	10,690	29,102,208	1,939,455	31,041,663	7.6 %	0.5 %	8.2 %	2,243,257	160,320	2,403,577	$5.53
2011 Q3	379,410,957	10,668	30,566,218	2,099,775	32,665,993	8.1 %	0.6 %	8.6 %	1,639,397	68,870	1,708,267	$5.46
2011 Q2	379,258,070	10,657	32,506,898	2,094,562	34,601,460	8.6 %	0.6 %	9.1 %	96,281	(59,701)	36,580	$5.37
2011 Q1	376,568,167	10,545	31,762,112	2,013,861	33,775,973	8.4 %	0.5 %	9.0 %	337,590	(134,971)	202,619	$5.59
2010 Q4	376,324,138	10,537	31,947,762	1,878,890	33,826,652	8.5 %	0.5 %	9.0 %	497,855	(14,162)	483,693	$5.47
2010 Q3	374,990,606	10,484	32,440,351	1,853,478	34,293,829	8.7 %	0.5 %	9.1 %	314,689	585,710	900,399	$5.48
2010 Q2	374,544,944	10,477	32,617,472	2,406,522	35,023,994	8.7 %	0.6 %	9.4 %	2,901,893	147,783	3,049,676	$5.64
2010 Q1	373,564,118	10,467	34,225,364	2,534,105	36,759,469	9.2 %	0.7 %	9.8 %	1,946,252	(202,279)	1,743,973	$5.45

Rental rates are averaged and weighted based on available space.

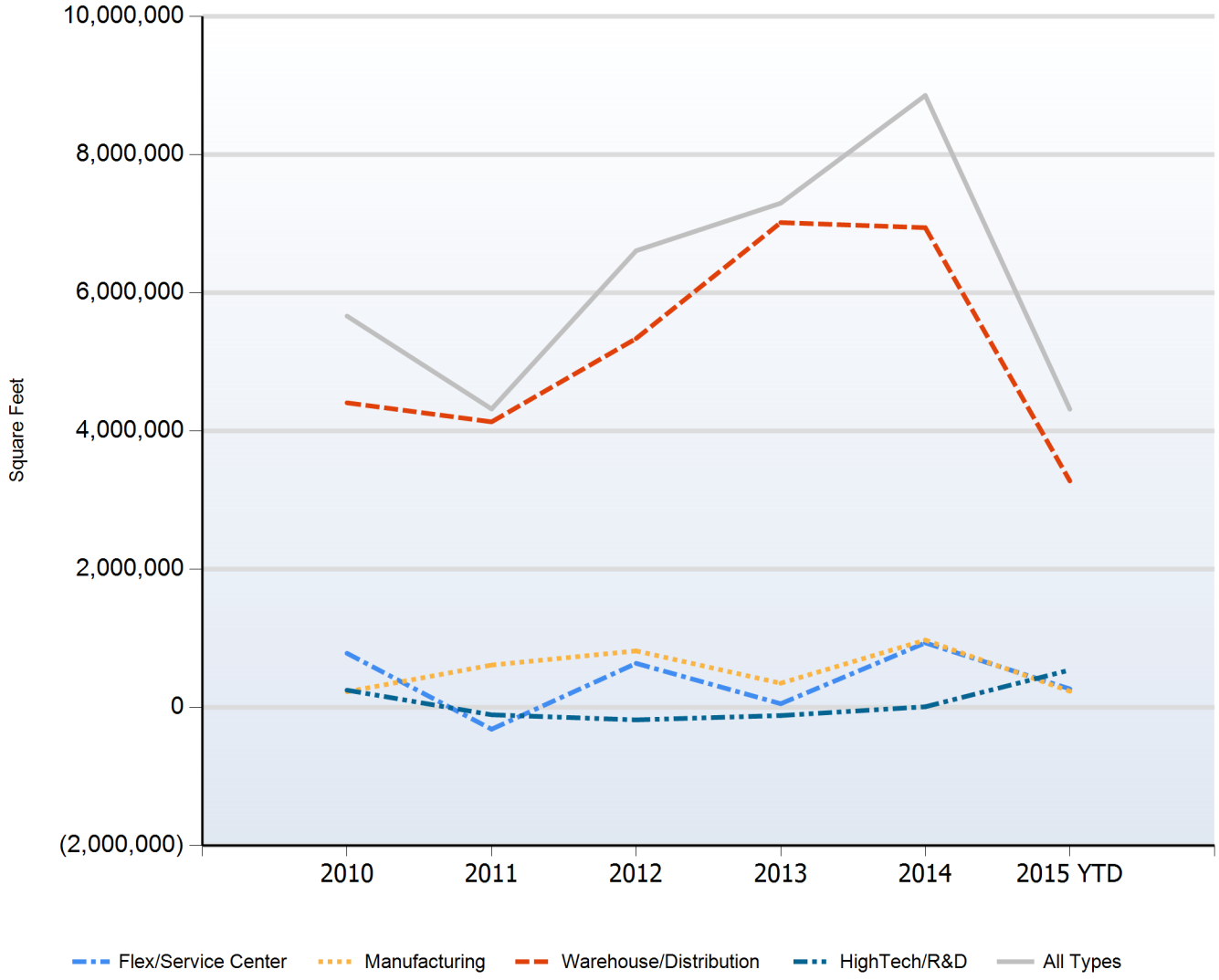
Houston-Area Industrial Absorption by Type by Quarter



		Flex/ Service Center	Manufacturing	Warehouse/ Distribution	HighTech/R&D	All Types
2015	Q2	237,466	140,275	2,848,624	117,699	3,344,064
	Q1	28,481	91,910	442,914	422,098	985,403
2014	Q4	457,754	(121,978)	3,016,825	11,269	3,363,870
	Q3	125,904	387,838	1,278,932	5,950	1,798,624
	Q2	178,611	252,390	1,214,798	(31,313)	1,614,486
	Q1	169,999	454,750	1,429,444	22,006	2,076,199
2013	Q4	(201,531)	51,980	3,284,777	(4,830)	3,130,396
	Q3	173,110	65,704	1,125,805	41,426	1,406,045
	Q2	(5,257)	(63,405)	1,657,833	(163,232)	1,425,939
	Q1	85,507	294,045	945,439	7,293	1,332,284
2012	Q4	144,932	268,394	1,696,686	143,839	2,253,851
	Q3	346,860	202,257	1,029,885	(192,880)	1,386,122
	Q2	153,636	44,180	1,517,731	(138,262)	1,577,285
	Q1	(9,227)	301,350	1,092,045	5,498	1,389,666
2011	Q4	(48,612)	537,804	1,909,691	(155,626)	2,243,257
	Q3	(146,515)	90,211	1,694,551	1,150	1,639,397
	Q2	(245,108)	29,313	416,515	(104,439)	96,281
	Q1	123,407	(46,076)	109,659	150,600	337,590
2010	Q4	188,845	(66,290)	111,141	264,159	497,855
	Q3	228,652	(113,250)	199,496	(209)	314,689
	Q2	376,345	362,699	2,196,396	(33,547)	2,901,893
	Q1	(12,387)	42,018	1,898,796	17,825	1,946,252

Absorption square footage includes only net absorption for direct space; sublease space is excluded.

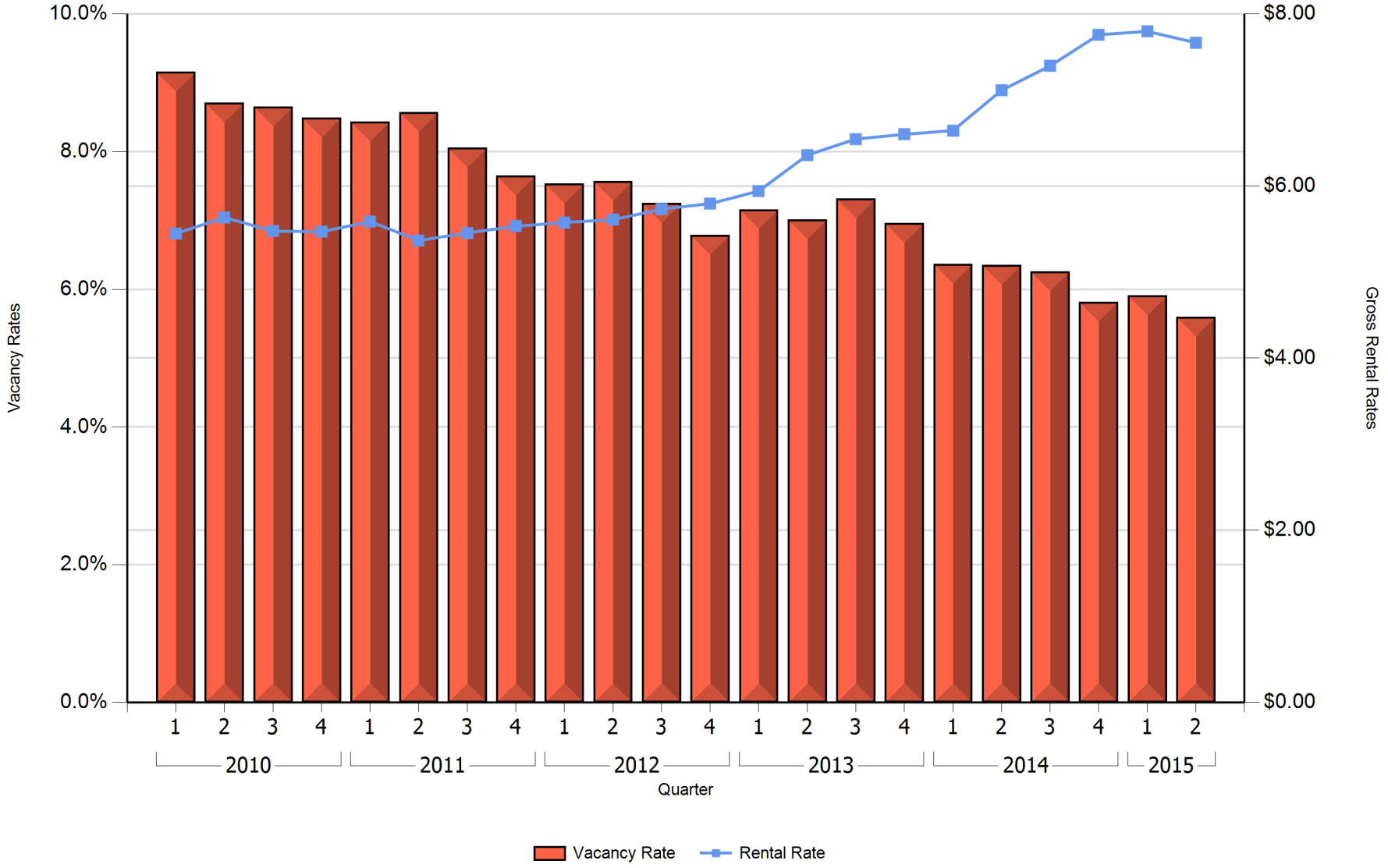
Houston-Area Industrial Absorption by Type by Year



	Flex/ Service Center	Manufacturing	Warehouse/ Distribution	HighTech/R&D	All Types
2015	265,947	232,185	3,275,547	539,797	4,313,476
2014	932,268	973,000	6,939,999	7,912	8,853,179
2013	51,829	348,324	7,013,854	(119,343)	7,294,664
2012	636,201	816,181	5,336,347	(181,805)	6,606,924
2011	(316,828)	611,252	4,130,416	(108,315)	4,316,525
2010	781,455	225,177	4,405,829	248,228	5,660,689

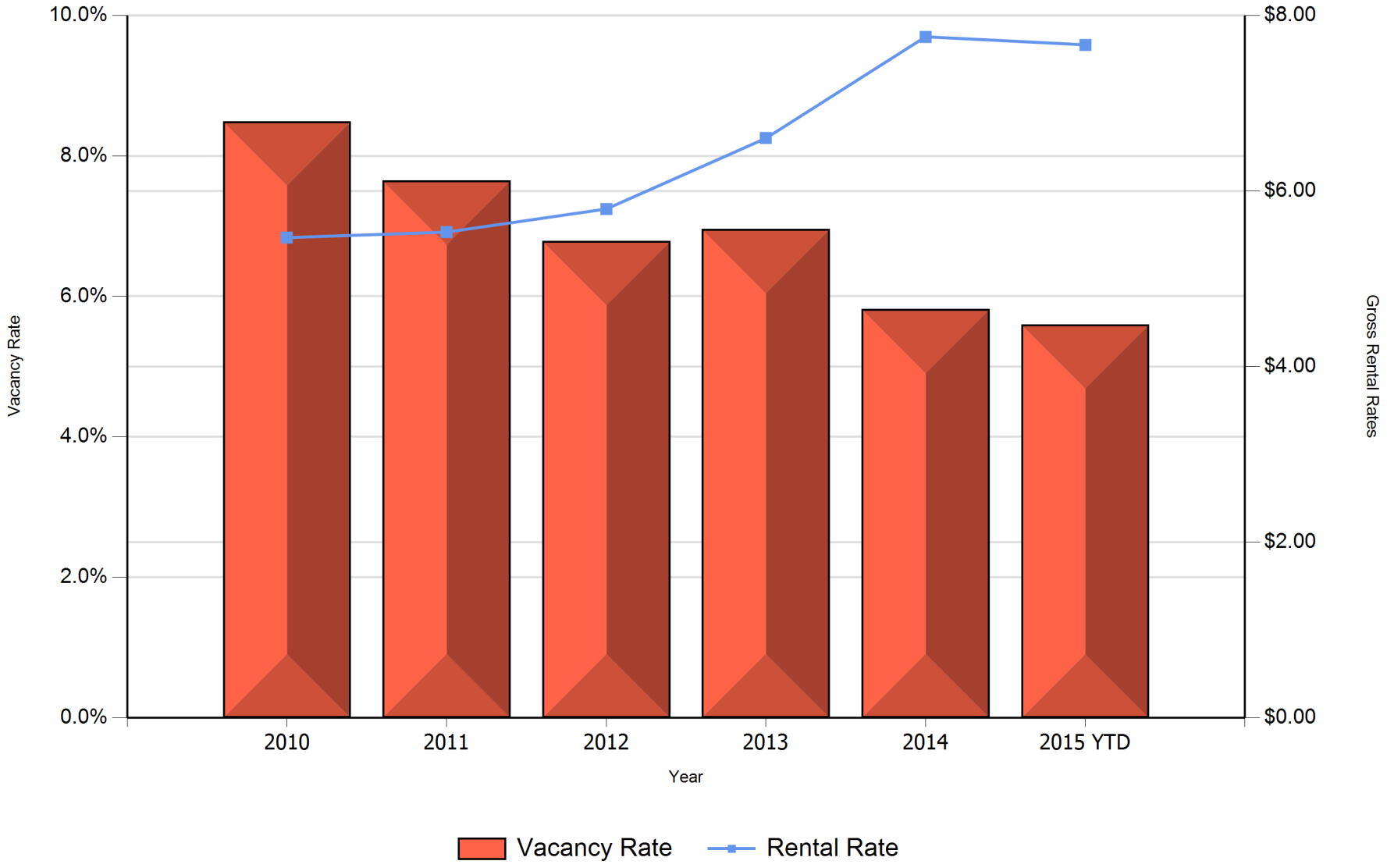
Absorption square footage includes only net absorption for direct space; sublease space is excluded.

Houston-Area Industrial Vacancy and Rental Rates* by Quarter



** Gross rental rates are averaged and weighted based on available space.*

Houston-Area Industrial Vacancy and Rental Rates* by Year



*Year-end numbers. *Gross rental rates are averaged and weighted based on available space.*