

Q4 2017

Industrial Insight

Healthy fundamentals spur new development

- Big-box groundbreakings help reverse six quarter decline in construction volume.
- Leasing activity dominated by consumer goods and logistics companies expanding in the market.
- A quiet period for deliveries coupled with major move-outs results in lower net absorption in the fourth quarter.

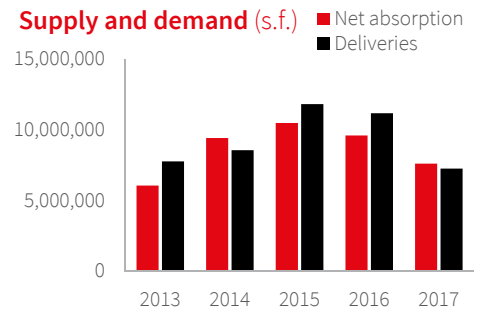
As vacancy and availability remain tight, large blocks of existing space are limited, and major users are having to start the site selection process with land searches. To this end, construction activity reversed course in the fourth quarter with five new buildings breaking ground and 4.6 million square feet currently under construction. Two of the projects are over half a million square feet in size - a 674,000-square-foot speculative building in the Northwest submarket and a 500,000-square-foot build-to-suit for Vinmar International near the Port. Consumer goods and logistics companies continue to drive much of the demand for Houston industrial product. The industries accounted for close to half of the 3.4 million square feet of leasing activity at year-end, with tenants signing long-term deals and expanding footprints across Houston.

After outpacing move-ins for three of the last four years, deliveries are almost completely in balance with absorption for 2017. The 690,990 square feet in deliveries at year-end represents the lowest quarterly total since 2011, a product of the smaller development pipeline. In addition, several large move-outs created an unusually weak quarter for net absorption. Most notably, Randalls closed a 700,644-square-foot distribution center in the Northwest submarket as part of a consolidation of operations to Fort Worth.

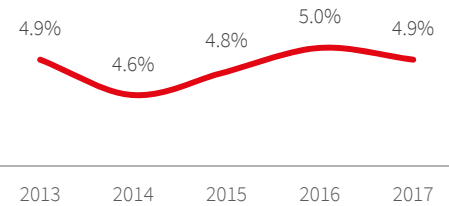
Outlook

Changes in supply chain planning are beginning to put Houston on the radar for regional distribution facilities and fulfillment centers, driving demand for larger industrial buildings. There are 12 big-box warehouse/distribution projects either underway or delivered in 2017, a 20 percent increase year-over-year and a 140 percent increase from 2015. As tenants remain confident and developers disciplined, the Houston market is poised for another strong year in 2018.

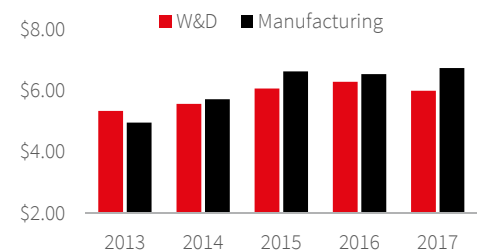
Fundamentals	Forecast
YTD net absorption	7,607,173 s.f. ▶
QTD net absorption	239,374 s.f. ▲
Under construction	4,614,698 s.f. ▶
Total vacancy	4.9% ▶
Average asking rent (NNN)	\$6.15 p.s.f. ▶
Tenant improvements	Stable ▶



Total vacancy



Average asking rents (\$/s.f.)



For more information, contact: Rachel Alexander | rachel.alexander@am.jll.com

Q4 2017

Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
Warehouse & Distribution	342,132,356	985,731	7,868,315	2.3%	5.3%	8.9%	\$6.00	690,990	7,196,639	4,576,278
Manufacturing	83,134,514	-746,357	-261,142	-0.3%	3.2%	7.3%	\$6.74	0	61,750	38,420
Totals	425,266,870	239,374	7,607,173	1.8%	4.9%	8.6%	\$6.15	690,990	7,258,389	4,614,698
Submarkets										
CBD										
Warehouse & Distribution	34,475,450	57,624	-109,029	-0.3%	4.9%	9.4%	\$4.52	0	0	0
Manufacturing	10,433,537	-138,581	18,203	0.2%	2.7%	10.3%	\$7.02	0	0	0
Totals	44,908,987	-80,957	-90,826	-0.2%	4.4%	9.6%	\$4.69	0	0	0
Northwest										
Warehouse & Distribution	96,377,584	-644,899	1,063,273	1.1%	5.6%	9.4%	\$6.69	0	1,064,125	800,035
Manufacturing	22,475,130	-122,212	39,527	0.2%	3.4%	7.9%	\$6.32	0	61,750	38,420
Totals	118,852,714	-767,111	1,102,800	0.9%	5.2%	9.1%	\$6.58	0	1,125,875	838,455
North										
Warehouse & Distribution	56,806,886	784,100	2,269,115	4.0%	8.1%	11.4%	\$6.73	0	1,019,968	934,706
Manufacturing	12,115,125	-3,421	12,833	0.1%	4.9%	8.0%	\$6.00	0	0	0
Totals	68,922,011	780,679	2,281,948	3.3%	7.6%	10.8%	\$6.60	0	1,019,968	934,706
Northeast										
Warehouse & Distribution	23,852,276	-172,513	-216,511	-0.9%	3.4%	7.2%	\$4.81	0	0	143,500
Manufacturing	6,389,222	-25,170	120,794	1.9%	0.9%	1.8%	\$6.00	0	0	0
Totals	30,241,498	-197,683	-95,717	-0.3%	2.9%	6.0%	\$4.89	0	0	143,500
Southeast										
Warehouse & Distribution	62,772,516	1,160,460	4,151,135	6.6%	4.4%	8.8%	\$5.58	578,490	4,446,846	2,626,444
Manufacturing	16,623,307	-582,293	-458,793	-2.8%	3.5%	6.5%	\$10.75	0	0	0
Totals	79,395,823	578,167	3,692,342	4.7%	4.2%	8.3%	\$6.43	578,490	4,446,846	2,626,444
South										
Warehouse & Distribution	27,737,537	-134,965	402,504	1.5%	2.7%	4.4%	\$4.85	0	274,800	71,593
Manufacturing	8,102,985	114,384	46,150	0.6%	0.4%	4.0%	\$4.50	0	0	0
Totals	35,840,522	-20,581	448,654	1.3%	2.2%	4.3%	\$4.74	0	274,800	71,593
Southwest										
Warehouse & Distribution	40,110,107	-64,076	307,828	0.8%	5.6%	8.2%	\$6.55	112,500	390,900	0
Manufacturing	6,995,208	10,936	-39,856	-0.6%	4.9%	9.9%	\$7.46	0	0	0
Totals	47,105,315	-53,140	267,972	0.6%	5.5%	8.5%	\$6.74	112,500	390,900	0

Q3 2017

Industrial Insight

Hot demand streak continues for Houston industrial

- Market tightens with declining vacancy, availability, and a historically low construction pipeline on the supply side
- Strong market fundamentals drive investor interest and transaction activity for industrial product across the metro
- The North submarket becomes a standout on the positive side, dominating leasing activity and net absorption in the third quarter

After hitting pause at mid-year, the industrial sector returned to business as usual with declining vacancy and availability, coupled with strong net absorption. Total vacancy once again dipped below the five-percent mark, falling 20 basis points to 4.9 percent. Availability followed suit, reaching 8.9 percent in the third quarter. Net absorption rebounded to 3.0 million square feet, well above the historical average, after a lackluster showing in the spring. The construction pipeline, which fell for the sixth consecutive quarter, is not bringing any relief on the supply side to tenants in the firmly landlord-favorable market. An almost 300,000-square-foot lease inked by Home Depot was one of several expansion deals signed in the wake of Hurricane Harvey. Consistently high occupancy, even through the energy downturn, has led to increased interest from institutional and foreign investors, and deal volume is up both on the quarter and the year.

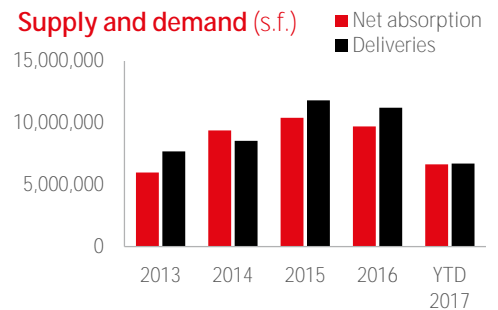
The North submarket, which has struggled with oversupply in recent quarters, is mounting a recovery in late 2017. The submarket accounted for over 50.0 percent of leasing activity and over 40.0 percent of net absorption for the third quarter, assisted by declining asking rents as landlords get aggressive to fill vacant space.

Outlook

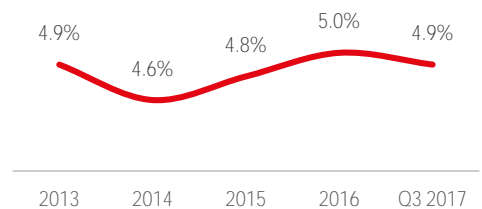
Consumer goods, retail distribution, and plastics manufacturing will continue to drive market dynamics while supply plays catch-up across the metro. With over 10 million square feet of tenants in the market, there's no shortage of large-user demand in the pipeline.

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.

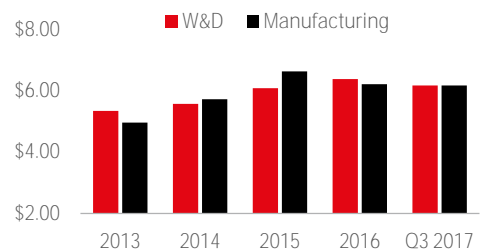
Fundamentals	Forecast
YTD net absorption	6,646,063 s.f.
QTD net absorption	2,985,354 s.f.
Under construction	2,271,878 s.f.
Total vacancy	4.9%
Average asking rent (NNN)	\$6.17 p.s.f.
Tenant improvements	Stable



Total vacancy



Average asking rents (\$/s.f.)



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Q3 2017

Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
Warehouse & Distribution	341,918,010	2,677,028	6,239,830	1.8%	5.5%	9.3%	\$6.17	2,201,229	6,451,471	2,233,458
Manufacturing	82,862,172	308,326	406,233	0.5%	2.6%	7.5%	\$6.17	0	0	38,420
Totals	424,780,182	2,985,354	6,646,063	1.6%	4.9%	8.9%	\$6.17	2,201,229	6,451,471	2,271,878
Submarkets										
CBD										
Warehouse & Distribution	34,572,652	13,943	-172,700	-0.5%	5.2%	8.8%	\$4.31	0	0	0
Manufacturing	10,433,537	180,640	156,784	1.5%	1.3%	10.3%	\$6.15	0	0	0
Totals	45,006,189	194,583	-15,916	0.0%	4.3%	9.2%	\$4.65	0	0	0
Northwest										
Warehouse & Distribution	96,422,297	1,171,496	1,660,884	1.7%	4.9%	10.0%	\$6.59	971,750	1,075,200	100,000
Manufacturing	22,507,841	20,232	105,629	0.5%	3.1%	8.2%	\$6.45	0	0	38,420
Totals	118,930,138	1,191,728	1,766,513	1.5%	4.5%	9.7%	\$6.57	971,750	1,075,200	138,420
North										
Warehouse & Distribution	56,786,314	1,204,550	1,309,260	2.3%	9.4%	13.7%	\$7.06	855,000	954,715	393,280
Manufacturing	12,101,867	56,522	-37,786	-0.3%	5.2%	7.7%	\$5.81	0	0	0
Totals	68,888,181	1,261,072	1,271,474	1.8%	8.6%	12.6%	\$6.81	855,000	954,715	393,280
Northeast										
Warehouse & Distribution	23,840,427	-48,484	-43,998	-0.2%	2.7%	6.4%	\$5.77	0	0	143,500
Manufacturing	6,389,222	0	131,816	2.1%	0.7%	3.5%	\$6.00	0	0	0
Totals	30,229,649	-48,484	87,818	0.3%	2.3%	5.8%	\$5.80	0	0	143,500
Southeast										
Warehouse & Distribution	62,280,736	367,204	2,752,458	4.4%	5.7%	8.5%	\$6.20	274,479	3,868,356	1,412,585
Manufacturing	16,341,012	165,316	163,816	1.0%	0.8%	6.0%	\$8.69	0	0	0
Totals	78,621,748	532,520	2,916,274	3.7%	4.7%	8.0%	\$6.49	274,479	3,868,356	1,412,585
South										
Warehouse & Distribution	27,876,971	101,433	503,709	1.8%	2.3%	4.2%	\$5.06	0	274,800	71,593
Manufacturing	8,102,985	-114,384	-89,234	-1.1%	2.0%	5.4%	\$4.48	0	0	0
Totals	35,979,956	-12,951	414,475	1.2%	2.2%	4.5%	\$4.89	0	274,800	71,593
Southwest										
Warehouse & Distribution	40,138,613	-133,114	230,217	0.6%	5.4%	8.0%	\$6.43	100,000	278,400	112,500
Manufacturing	6,985,708	0	-24,792	-0.4%	4.7%	10.7%	\$6.48	0	0	0
Totals	47,124,321	-133,114	205,425	0.4%	5.3%	8.4%	\$6.44	100,000	278,400	112,500

Q2 2017

Industrial Insight

Market remains strong despite quiet quarter

- The Northwest submarket proved to be the darling of the second quarter, leading all markets in occupancy growth in an otherwise stagnant spring
- Q2 saw the fewest construction projects delivered since 2011, though this is more of an anomaly given the strong development pipeline
- E-commerce, plastics, and 3PL demand continues to drive construction of larger warehouse and distribution facilities

absorption in the second quarter, the Northwest submarket was a standout with 775,376 square feet in occupancy growth, bringing the submarket to just under 1,000,000 square feet absorbed year-to-date. The largest Houston of industrial product - boasts a very healthy 4.1 vacancy percentage. Looking ahead, of the 1.1 million square feet currently under construction in the Northwest, 90 percent will be occupied upon delivery by users like FedEx and Pepperl + Fuchs.

Houston has seen a notable rise in the number of big box deliveries to market. Thanks to expansion in the consumer goods sector brought on by consistent population growth, 2017 is set to deliver a record seven warehouses and distribution facilities greater than 400,000 square feet. E-commerce and third

best illustrated by the type of tenants absorbing the bulk of the newly delivered space. Since 2000, 42 buildings above 400,000 square feet have delivered. For perspective, only 54 other buildings of this size existed in the market prior to the new millennium.

Outlook

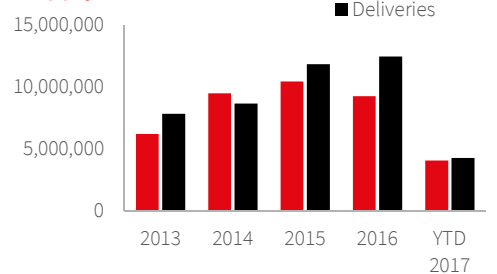
Retail distribution, E-commerce, and plastics manufacturing will continue to drive demand for warehouse and distribution space. Close proximity to Port Houston and cheap natural gas feedstock all but ensure the ongoing demand for rail-served warehouse.

Meanwhile, landlords are looking to capitalize on strong demand and tight land availabilities in the Southeast submarket, where prices are being driven up but should not see much fluctuation elsewhere.

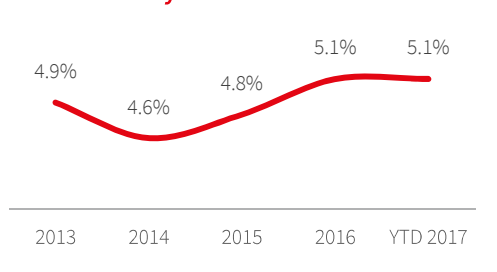
Fundamentals

	Forecast
Total vacancy	5.1% ▶
QTD net absorption	602,267 s.f. ▶
YTD net absorption	4,039,914 s.f. ▶
Under construction	3,267,212 s.f. ▼
Average asking rent (NNN)	\$6.28 p.s.f. ▲
Tenant improvements	Stable ▶

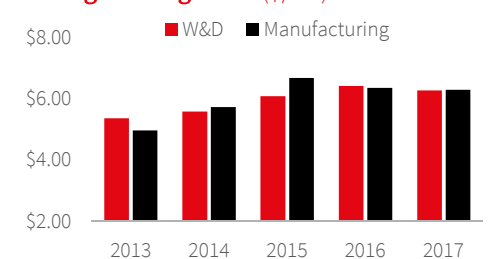
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



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Q2 2017

Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
Warehouse & Distribution	339,826,856	713,942	4,009,160	1.2%	5.6%	9.4%	\$6.27	1,145,379	4,250,027	3,267,212
Manufacturing	82,490,037	-111,675	30,754	0.0%	3.0%	7.8%	\$6.29	0	0	0
Totals	422,316,893	602,267	4,039,914	1.0%	5.1%	9.1%	\$6.28	1,145,379	4,250,027	3,267,212
Submarkets										
CBD										
Warehouse & Distribution	34,576,328	-228,971	-198,643	-0.6%	5.5%	8.8%	\$4.37	0	0	0
Manufacturing	10,439,832	-23,856	-50,151	-0.5%	3.1%	12.1%	\$5.45	0	0	0
Totals	45,016,160	-252,827	-248,794	-0.6%	4.9%	9.5%	\$4.70	0	0	0
Northwest										
Warehouse & Distribution	95,490,295	696,371	905,939	0.9%	4.7%	10.3%	\$6.90	0	103,450	1,071,750
Manufacturing	22,364,680	79,005	90,689	0.4%	2.9%	7.1%	\$6.83	0	0	0
Totals	117,854,975	775,376	996,628	0.8%	4.4%	9.7%	\$6.89	0	103,450	1,071,750
North										
Warehouse & Distribution	55,962,422	137,277	155,980	0.3%	10.1%	13.8%	\$6.99	35,000	99,500	855,000
Manufacturing	11,872,336	-72,676	-140,458	-1.2%	6.1%	8.0%	\$6.09	0	0	0
Totals	67,834,758	64,601	15,522	0.0%	9.4%	12.8%	\$7.18	35,000	99,500	855,000
Northeast										
Warehouse & Distribution	23,860,582	-72,228	4,486	0.0%	2.5%	6.4%	\$6.39	0	0	0
Manufacturing	6,459,202	-14,148	131,816	2.0%	0.7%	3.1%	\$6.00	0	0	0
Totals	30,319,784	-86,376	136,302	0.4%	2.1%	5.7%	\$6.35	0	0	0
Southeast										
Warehouse & Distribution	62,026,358	111,556	2,341,610	3.8%	6.0%	8.2%	\$6.16	1,067,379	3,593,877	1,094,869
Manufacturing	16,287,849	1,500	-1,500	0.0%	1.8%	7.5%	\$8.69	0	0	0
Totals	78,314,207	113,056	2,340,110	3.0%	5.2%	8.0%	\$6.51	1,067,379	3,593,877	1,094,869
South										
Warehouse & Distribution	27,881,266	25,725	452,614	1.6%	2.5%	4.5%	\$5.39	0	274,800	33,093
Manufacturing	8,103,601	-30,500	25,150	0.3%	0.9%	5.5%	\$4.48	0	0	0
Totals	35,984,867	-4,775	477,764	1.3%	2.2%	4.7%	\$5.08	0	274,800	33,093
Southwest										
Warehouse & Distribution	40,029,605	44,212	347,174	0.9%	4.8%	8.4%	\$6.31	43,000	178,400	212,500
Manufacturing	6,962,537	-51,000	-24,792	-0.4%	4.8%	11.3%	\$6.86	0	0	0
Totals	46,992,142	-6,788	322,382	0.7%	4.8%	8.8%	\$6.41	43,000	178,400	212,500

Q1 2017

Industrial Insight

Market well-positioned for future growth in 2017 and beyond

- Demand was softer with leasing activity largely characterized by existing tenant renewals and relocations
- Vacancy and availability edged up slightly in the first quarter but remain tight as landlord-favorable conditions continue
- Net absorption was strongly positive, driven by both preleased deliveries and move-ins

Leasing activity declined for the third consecutive quarter as demand continues to normalize from the frenetic pace of 2013 to 2015. Deal volume totaled 2.2 million square feet in the first quarter, a decrease of 44.3 percent quarter-over quarter and 55.2 percent year-over year. The three largest deals of the quarter were all renewals and included Gulf Winds for 303,281 square feet, Ford Motor Company for 250,000 square feet, and DHL Supply Chain for 167,748 square feet. The activity was spread over a wide range of industries but was most notably sourced from third-party logistics and logistics/distribution companies.

While deliveries continued to outpace absorption through the first quarter, the market should begin to rebalance amid declining levels of construction activity. The development pipeline is currently 69.9 percent preleased, which will translate into positive absorption as these buildings deliver. A frequent stand-out submarket of late, the Southeast dominated again, accounting for 75.4 percent of the net absorption for the entire Houston market. This is a direct result of new building move-ins as nine of the 10 largest completions year-to-date were in this submarket.

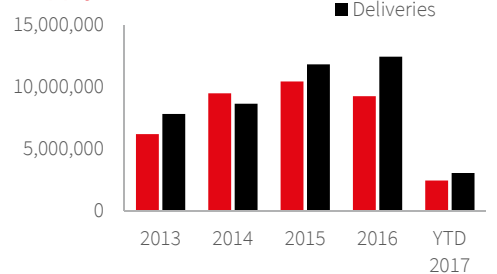
Outlook

Key market indicators point to steady and sustainable growth in the period ahead. The consumer goods sector is expected to continue driving demand on the warehouse/distribution side, and manufacturing activity is beginning to pick back up with some stabilization occurring in oil and gas. Tenant activity remains robust with over eight million square feet in requirements out in the market and an average size of 146,545 square feet. While rents trended upward in 2016, they will likely remain flat overall this year, though this will vary widely by property type and submarket.

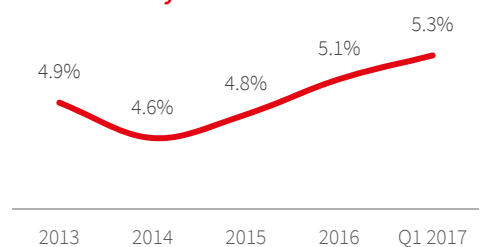
Fundamentals

	Forecast
QTD net absorption	2,428,898 s.f. ▶
YTD net absorption	2,428,898 s.f. ▶
Under construction	3,827,951 s.f. ▼
Total vacancy	5.3% ▲
Average asking rent (NNN)	\$6.32 p.s.f. ▶
Tenant improvements	Rising ▲

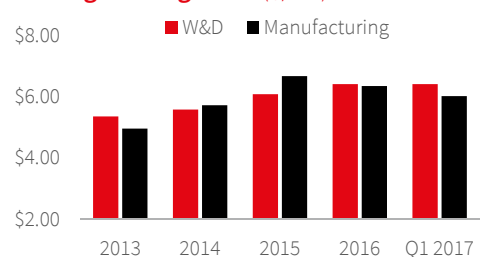
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



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Q1 2017

Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
Warehouse & Distribution	339,385,264	2,307,546	2,307,546	0.7%	5.8%	9.6%	\$6.41	3,032,555	3,032,555	3,827,951
Manufacturing	82,255,120	121,352	121,352	0.1%	2.9%	8.3%	\$6.02	0	0	0
Totals	421,640,384	2,428,898	2,428,898	0.6%	5.3%	9.3%	\$6.32	3,032,555	3,032,555	3,827,951
Submarkets										
CBD										
Warehouse & Distribution	34,111,755	-143,781	-143,781	-0.4%	5.3%	10.1%	\$4.62	0	0	0
Manufacturing	10,491,537	0	0	0.0%	2.8%	14.1%	\$5.45	0	0	0
Totals	44,603,292	-143,781	-143,781	-0.3%	4.7%	11.0%	\$4.88	0	0	0
Northwest										
Warehouse & Distribution	95,618,468	-87,883	-87,883	-0.1%	5.7%	9.7%	\$6.73	63,450	63,450	1,116,600
Manufacturing	22,459,690	52,400	52,400	0.2%	3.1%	6.8%	\$6.00	0	0	0
Totals	118,078,158	-35,483	-35,483	0.0%	5.2%	9.1%	\$6.65	63,450	63,450	1,116,600
North										
Warehouse & Distribution	56,198,953	173,591	173,591	0.3%	10.1%	13.8%	\$7.53	64,500	64,500	890,000
Manufacturing	12,071,037	-94,262	-94,262	-0.8%	5.5%	9.4%	\$6.02	0	0	0
Totals	68,269,990	79,329	79,329	0.1%	9.3%	13.0%	\$7.18	64,500	64,500	890,000
Northeast										
Warehouse & Distribution	24,059,500	64,767	64,767	0.3%	2.5%	6.5%	\$6.39	0	0	0
Manufacturing	6,399,202	145,964	145,964	2.3%	0.5%	3.5%	\$6.00	0	0	0
Totals	30,458,702	210,731	210,731	0.7%	2.1%	5.8%	\$6.34	0	0	0
Southeast										
Warehouse & Distribution	61,296,027	1,834,793	1,834,793	3.0%	5.4%	9.3%	\$6.14	2,704,405	2,704,405	1,355,851
Manufacturing	15,646,181	-3,000	-3,000	0.0%	1.9%	7.8%	\$8.69	0	0	0
Totals	76,942,208	1,831,793	1,831,793	2.4%	4.7%	9.0%	\$6.46	2,704,405	2,704,405	1,355,851
South										
Warehouse & Distribution	27,900,546	197,734	197,734	0.7%	3.3%	5.7%	\$5.51	64,800	64,800	210,000
Manufacturing	8,224,936	55,650	55,650	0.7%	0.5%	5.5%	\$4.26	0	0	0
Totals	36,125,482	253,384	253,384	0.7%	2.7%	5.7%	\$5.08	64,800	64,800	210,000
Southwest										
Warehouse & Distribution	40,200,015	268,325	268,325	0.7%	4.9%	8.7%	\$6.67	135,400	135,400	255,500
Manufacturing	6,962,537	-35,400	-35,400	-0.5%	4.9%	11.3%	\$6.89	0	0	0
Totals	47,162,552	232,925	232,925	0.5%	4.9%	9.1%	\$6.71	135,400	135,400	255,500

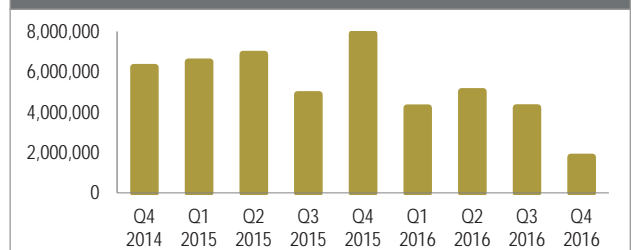


Industrial remains strong despite slowing activity

Leasing activity trends downward in 2016

While overall leasing activity was consistently strong over the course of Houston's economic downturn, the industrial market experienced a drop off in transactions at the close of 2016. 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 percent from the previous eight quarters' 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 percent total vacancy, the number of large blocks available for lease is limited, making it no surprise that 62.4 percent of leases this quarter were sourced from deals smaller than 50,000 square feet.

Deal volume falls quarter-over-quarter

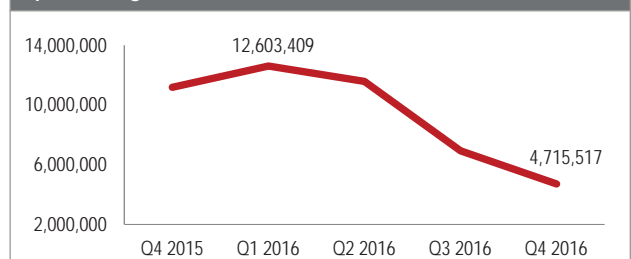


Source: JLL Research

Construction activity continues decline with no new groundbreakings

The industrial development pipeline has remained disciplined through the oil price decline, as evidenced by continued healthy market fundamentals. Even so, the market has softened, and construction activity is no exception. The pipeline dropped by 32.0 percent to 4.7 million square feet, following 2.1 million square feet in deliveries and no new projects breaking ground in the fourth quarter. In an interesting twist, the entirety of deliveries this quarter came from the southern half of the metro, with 82.0 percent from the Southeast submarket alone. Of the remaining space under construction, close to 75.0 percent is controlled by the Southeast and Northwest, two submarkets which have outperformed the pack in 2016.

Pipeline edges downward in 2016

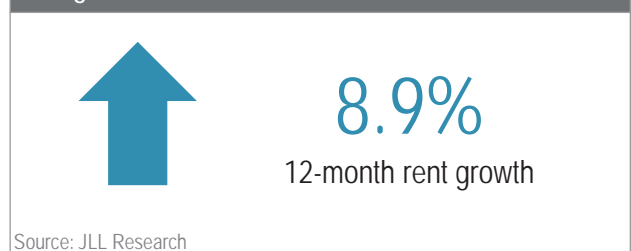


Source: JLL Research

Southwest submarket emerges as contender

The Southwest submarket has added new supply and maintained consistent rent growth as companies have sought an alternative from the high-demand Northwest and Southeast submarkets. It has experienced an influx of activity from both flex and rear-load users and still offers opportunities in quality, bulk distribution product. The submarket captured the second largest transaction signed this quarter from a company new to the Houston market: CME Wire and Cable inked a deal for 102,780 square feet in Bayou Bend Business Park. This is especially significant as most of the leasing activity this year came from existing tenant movements in the market.

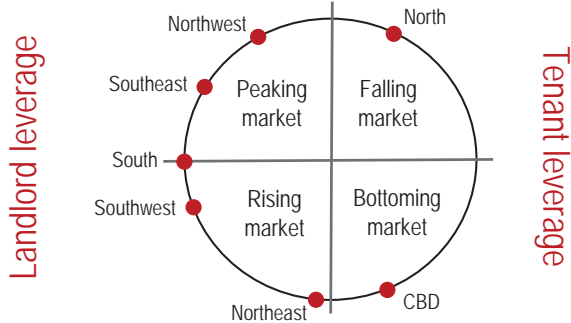
Asking rents on the rise in the Southwest



Source: JLL Research

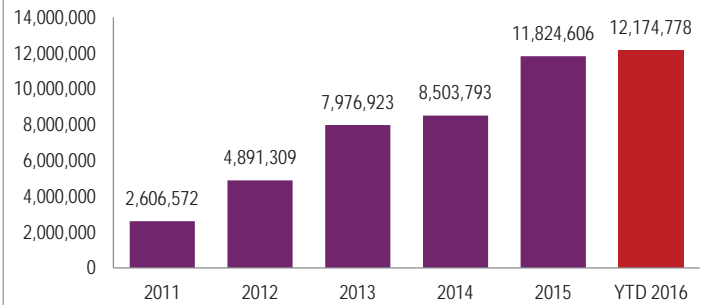
1,771,065 Leasing activity (s.f.)	2,146,187 Quarterly completions (s.f.)	6.3% 12-month rent growth	4,715,517 Total under construction (s.f.)
5.3% Direct vacancy	4,610,614 Available sublease space (s.f.)	20,404,468 Proposed construction (s.f.)	1,795,157 Total net absorption (s.f.)

Current conditions, by submarket



Source: JLL Research

New construction deliveries (s.f.)



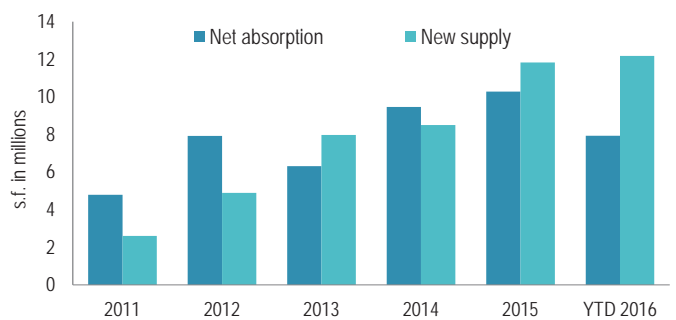
Source: JLL Research

Overview of absorption

Net absorption dips after record Q3

Net absorption totaled 1.8 million square feet in the fourth quarter, which is below the long-term average of 2.1 million square feet; this follows the largest absorption total in recent history from the third quarter. New deliveries were a major contributor, and at 62.6 percent preleased, added 1.3 million square feet of occupied new supply to the market. This marks the second consecutive year in which deliveries outpaced absorption, an indicator likely to rebalance in 2017 as construction activity continues to decline and groundbreaking on new projects has slowed.

Annual net absorption vs. new supply



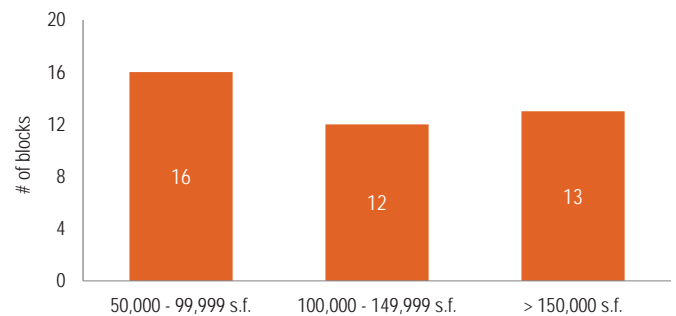
Source: JLL Research

Overview of demand

Distribution demand remains healthy

Tenant activity is still fairly consistent and includes retail distribution/ consumer goods, building materials, logistics and plastics. The Southeast, which is thriving off the downstream sector, currently has the most active tenant requirements at 2.7 million square feet. Oilfield service companies continue to be inactive, effectively "retrenching" in their existing facilities as they await recovery in the energy sector. Barring another sizable dip in energy prices, there will likely be an uptick in demand over the next 12 to 18 months as prices stabilize and end-users regain confidence in the market.

Demand: Warehouse & distribution tenant requirements



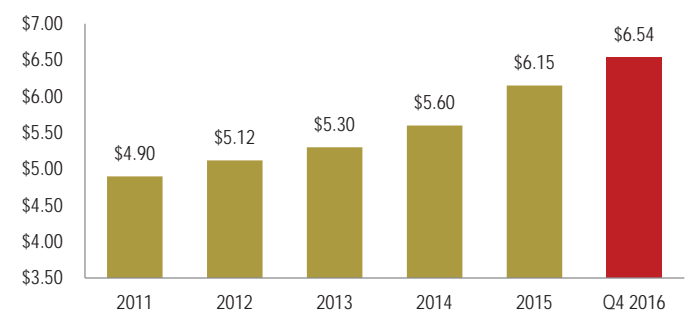
Source: JLL Research

Overview of rents

Asking rents grow at year-end

After remaining flat between the second and third quarters, asking rents resumed their upward climb, rising to \$6.54-per-square-foot triple net this quarter. This represents a growth of 4.3 percent quarter-over-quarter and 6.3 percent year-over-year. Landlords are maintaining face rates in distribution space but will get aggressive for credit tenants and are offering significant concession packages. Conversely, the North submarket and manufacturing sector as a whole are seeing asking rates fall amid softer conditions. Market-wide, rent growth should continue to decelerate in 2017.

Average total asking rent (NNN \$ p.s.f.)



Source: JLL Research

Industrial Statistics



Houston | Q4 2016

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
Warehouse & Distribution	337,267,450	1,762,087	4,640,890	1.4%	6.1%	9.7%	\$6.63	2,146,187	11,329,919	4,715,517
Manufacturing	82,373,750	33,070	3,293,274	4.0%	3.5%	9.3%	\$6.24	0	844,859	0
Totals	419,641,200	1,795,157	7,934,164	1.9%	5.6%	9.6%	\$6.54	2,146,187	12,174,778	4,715,517
Submarkets										
CBD										
Warehouse & Distribution	34,698,792	-193,694	-623,272	-1.8%	6.6%	11.4%	\$4.87	0	0	0
Manufacturing	10,484,487	2,500	-218,523	-2.1%	3.2%	15.3%	\$5.52	0	0	0
Totals	45,183,279	-191,194	-841,795	-1.9%	5.8%	12.3%	\$5.01	0	0	0
Northwest										
Warehouse & Distribution	95,622,664	735,487	1,597,720	1.7%	5.5%	8.8%	\$8.08	0	3,900,000	1,131,100
Manufacturing	22,394,622	4,136	3,577,315	16.0%	3.6%	8.1%	\$5.99	0	196,984	0
Totals	118,017,286	739,623	5,175,035	4.4%	5.1%	8.7%	\$7.51	0	4,096,984	1,131,100
North										
Warehouse & Distribution	56,035,162	93,480	383,003	0.7%	10.4%	14.9%	\$7.24	0	1,414,196	35,000
Manufacturing	11,806,600	-21,874	88,162	0.7%	5.0%	10.9%	\$6.52	0	397,875	0
Totals	67,841,762	71,606	471,165	0.7%	9.5%	14.2%	\$7.09	0	1,812,071	35,000
Northeast										
Warehouse & Distribution	23,827,547	-22,870	250,316	1.1%	2.5%	5.2%	\$5.12	0	278,650	0
Manufacturing	6,399,202	-52,145	-48,964	-0.8%	2.8%	3.3%	\$5.05	0	120,000	0
Totals	30,226,749	-75,015	201,352	0.7%	2.6%	4.8%	\$5.10	0	398,650	0
Southeast										
Warehouse & Distribution	59,681,873	1,177,679	2,257,462	3.8%	5.6%	9.1%	\$6.22	1,760,887	4,133,138	2,398,750
Manufacturing	16,300,546	73,288	33,400	0.2%	3.6%	8.2%	\$8.83	0	130,000	0
Totals	75,982,419	1,250,967	2,290,862	3.0%	5.2%	8.9%	\$6.61	1,760,887	4,263,138	2,398,750
South										
Warehouse & Distribution	27,568,308	-176,885	-218,683	-0.8%	4.2%	7.3%	\$5.60	108,000	108,000	274,800
Manufacturing	8,105,552	0	-76,650	-0.9%	1.2%	7.5%	\$4.07	0	0	0
Totals	35,673,860	-176,885	-295,333	-0.8%	3.5%	7.3%	\$5.06	108,000	108,000	274,800
Southwest										
Warehouse & Distribution	39,833,104	148,890	994,344	2.5%	5.0%	8.7%	\$6.81	277,300	1,495,935	875,867
Manufacturing	6,882,741	27,165	-61,466	-0.9%	4.4%	11.6%	\$7.02	0	0	0
Totals	46,715,845	176,055	932,878	2.0%	4.9%	9.1%	\$6.86	277,300	1,495,935	875,867

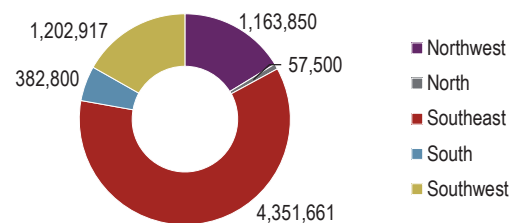


Net absorption spikes amid preleased deliveries

Construction pipeline drops following major deliveries

Construction activity fell by more than a third this quarter, and at 7.2 million square feet, marks the lowest level since 2014. The largest delivery by far was Daikin's 3.9-million-square-foot HVAC manufacturing campus in the Northwest submarket. This facility is the largest concrete tilt-wall building in the world. Other notable deliveries included Beltway Southwest Business Park Building II, which delivered with no preleasing in the North submarket, and two of the three buildings in Katoen Natie's plastics packaging project, totaling 960,000 square feet, in the Southeast submarket. With the Daikin delivery, only 130,000 square feet remains under construction in manufacturing, while in warehouse/distribution, 7.0 million square feet is still under construction.

Construction activity by submarket

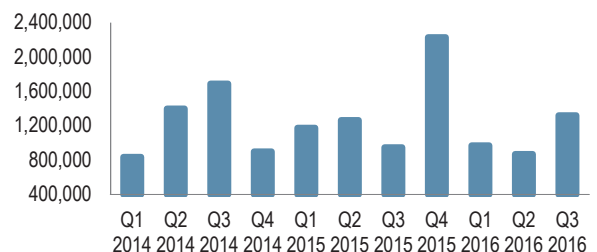


Source: JLL Research

Southeast submarket a star on multiple fronts

The Southeast continues to outperform with significant leasing and construction activity. The submarket dominated new deals inked with 1.3 million square feet of completed transactions, accounting for 40.7 percent of the total volume. Notable transactions included OHL's 300,000-square-foot lease at Ameriport Industrial Park Building IV and CRC Industries' 225,000-square-foot deal at Underwood I, both of which have ties to the petrochemical industry, making the submarket an ideal location to capitalize on ongoing growth in that sector. Additionally, the Southeast's 4.4-million-square-foot construction pipeline comprises 60.8 percent of the total activity, of which 65.1 percent is preleased.

Consistently high leasing activity in the Southeast

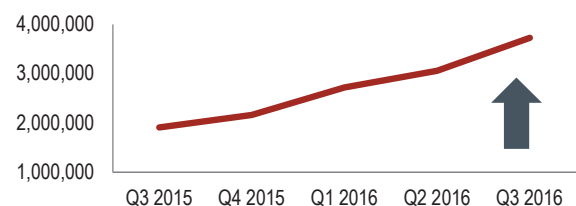


Source: JLL Research

Sublease space on the rise in soft economy

The Houston industrial market is seeing a spike in sublease space, growing to nearly 4.0 million square feet in the third quarter, from 3.0 million square feet at mid-year and 2.0 million square feet a year ago. Neither sector of space has been immune as warehouse/distribution saw an 81.5 percent increase, and manufacturing experienced a 120.4 percent growth in total available sublease space year-over-year. The largest blocks on the market include a 299,840-square-foot space being vacated by Goodman Manufacturing as it moves to its new headquarters and a 245,319-square-foot space vacated by National Oilwell Varco, both of which are in the Northwest submarket.

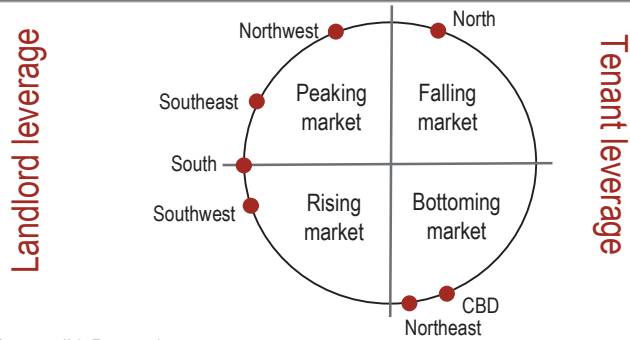
Sublease space growing dramatically



Source: JLL Research

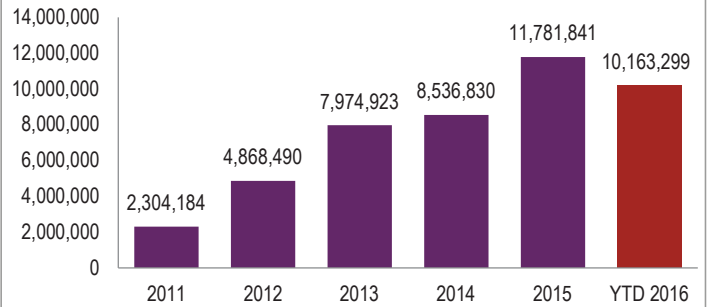
3,245,108 Leasing activity (s.f.)	6,110,366 Quarterly completions (s.f.)	3.8% 12-month rent growth	7,158,728 Total under construction (s.f.)
5.2% Direct vacancy	3,789,837 Available sublease space (s.f.)	20,204,261 Proposed construction (s.f.)	5,840,129 Total net absorption (s.f.)

Current conditions, by submarket



Source: JLL Research

New construction deliveries (s.f.)



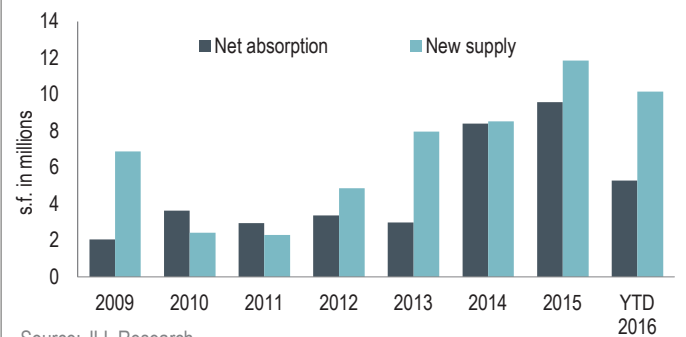
Source: JLL Research

Overview of absorption

Net absorption surges with volume of deliveries

Net absorption totaled 5.8 million square feet in the third quarter, powered by Daikin's 3.9-million-square-foot delivery in the Northwest submarket. Including the campus, deliveries were 70.3 percent preleased for the quarter. Without this sizable owner-occupied project, deliveries would have been 51.9 percent preleased, illustrating a slight imbalance of supply and demand in the market. The greatest net absorption levels came out of the Northwest and Southeast submarkets as they continue to perform well, while the North struggles with oversupply.

Annual net absorption vs. new supply



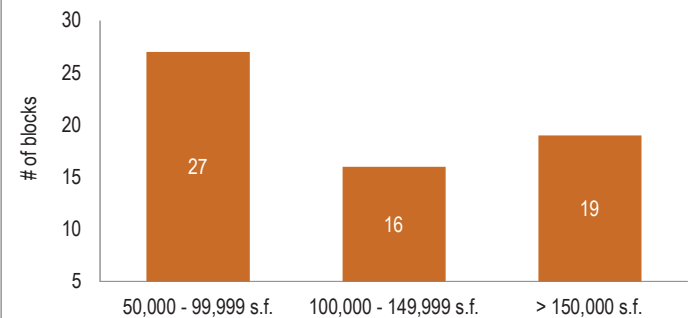
Source: JLL Research

Overview of demand

Distribution demand remains strong

Tenant activity in the market is being dominated by a variety of industries including consumer goods, building materials, logistics and plastics. Conversely, the manufacturing sector remains soft across the metro, but it is getting a lift from the downstream sector, somewhat offsetting its losses from upstream. The largest deal of the quarter actually originated from manufacturing as Valerus Field Solutions leased 396,880 square feet in the former BAE Systems facility in Sealy. The company is consolidating locations across Texas and Louisiana to the western edge of the Houston market.

Demand: Warehouse & distribution tenant requirements



Source: JLL Research

Overview of rents

Asking rents stable through third quarter

Asking rents have been rising moderately since the third quarter of 2015 but remained flat at \$6.28-per-square-foot, per annum, triple net, for this quarter. In the weaker economic conditions, landlords are becoming more competitive on rates and more aggressive on concession packages, though this varies widely by submarket and sector. Many owners are seeking to preserve face rates, while providing increased TIs and free rent on the back end. As the market nears its peak of the cycle, rate growth will likely continue to decelerate and taper off through the end of 2016.

Average total asking rent (NNN \$ p.s.f.)



Source: JLL Research

Industrial Statistics

Houston | Q3 2016



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Total										
Warehouse & Distribution	334,396,913	2,786,411	3,144,818	0.9%	6.0%	9.7%	\$6.32	1,878,491	5,745,424	7,028,728
Manufacturing	82,067,993	3,053,718	2,136,628	2.6%	3.6%	8.8%	\$6.12	4,231,875	4,417,875	130,000
Totals	416,464,906	5,840,129	5,281,446	1.3%	5.5%	9.6%	\$6.28	6,110,366	10,163,299	7,158,728
Submarkets										
CBD										
Warehouse & Distribution	34,667,656	193,465	-530,729	-1.5%	6.6%	11.1%	\$4.81	0	0	0
Manufacturing	10,484,487	-126,492	-221,023	-2.1%	3.2%	16.8%	\$5.65	0	0	0
Totals	45,152,143	66,973	-751,752	-1.7%	5.8%	12.4%	\$4.97	0	0	0
Northwest										
Warehouse & Distribution	95,495,410	608,504	781,062	0.8%	6.3%	9.3%	\$6.88	52,041	322,832	1,163,850
Manufacturing	22,309,666	3,479,281	3,536,179	15.9%	3.7%	7.3%	\$6.59	3,900,000	3,900,000	0
Totals	117,805,076	4,087,785	4,317,241	3.7%	5.8%	8.9%	\$6.80	3,952,041	4,222,832	1,163,850
North										
Warehouse & Distribution	55,641,840	207,504	236,693	0.4%	10.6%	14.8%	\$7.28	100,040	1,420,236	57,500
Manufacturing	11,815,314	139,525	110,036	0.9%	4.8%	9.7%	\$6.61	331,875	397,875	0
Totals	67,457,154	347,029	346,729	0.5%	9.6%	13.9%	\$7.16	431,915	1,818,111	57,500
Northeast										
Warehouse & Distribution	23,823,638	44,167	298,186	1.3%	2.3%	5.8%	\$4.80	0	278,650	0
Manufacturing	6,368,451	-93,819	8,905	0.1%	1.9%	6.1%	\$4.90	0	120,000	0
Totals	30,192,089	-49,652	307,091	1.0%	2.2%	5.9%	\$4.82	0	398,650	0
Southeast										
Warehouse & Distribution	57,918,983	1,320,892	1,387,289	2.4%	4.6%	8.9%	\$6.07	1,209,860	2,508,301	4,221,661
Manufacturing	16,131,994	-149,000	-176,188	-1.1%	3.9%	7.0%	\$7.78	0	0	130,000
Totals	74,050,977	1,171,892	1,211,101	1.6%	4.4%	8.5%	\$6.45	1,209,860	2,508,301	4,351,661
South										
Warehouse & Distribution	27,435,988	96,351	77,366	0.3%	2.8%	6.2%	\$5.79	0	46,520	382,800
Manufacturing	8,075,077	-76,650	-76,650	-0.9%	1.2%	7.9%	\$4.36	0	0	0
Totals	35,511,065	19,701	716	0.0%	2.4%	6.6%	\$5.30	0	46,520	382,800
Southwest										
Warehouse & Distribution	39,413,398	315,528	894,951	2.3%	4.5%	8.7%	\$6.56	516,550	1,168,885	1,202,917
Manufacturing	6,883,004	-119,127	-1,044,631	-15.2%	4.8%	8.3%	\$6.23	0	0	0
Totals	46,296,402	196,401	-149,680	-0.3%	4.5%	8.6%	\$6.49	516,550	1,168,885	1,202,917

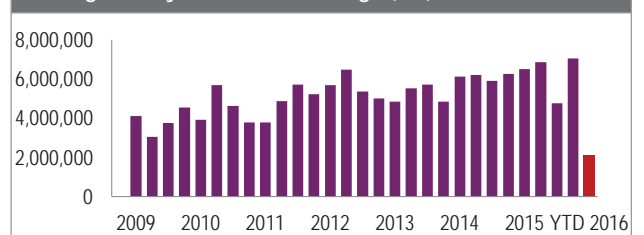


Demand begins to weaken in early 2016

Tenants' cautious mentality seen in leasing activity

Leasing activity slowed to a crawl in the quarter and began to reflect tenants' more conservative nature during the uncertain market. First-quarter leasing of just over 2.1 million square feet is about one third of the 5.1 million-square-foot average that Houston's industrial market had seen over the prior 29 quarters. Additionally, the first quarter recorded nearly 1.0 million square feet less of leasing than the previous lowest quarter mark in 2009. Leasing size also reflected a more cautious market, as the majority of leasing activity involved leases of 40,000 square feet and under, while only eight transactions of greater than 100,000 square feet were signed during the first quarter.

Leasing activity 1/3 of 2015 average (s.f.)

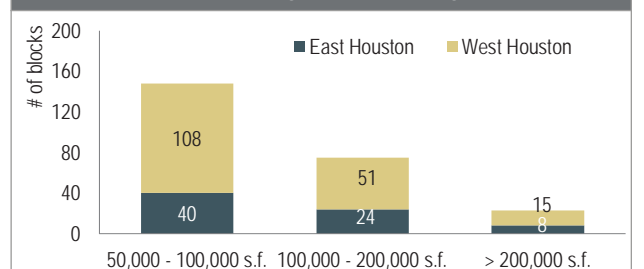


Source: JLL Research

Tightening of east-side options continues

In terms of construction and development, the divide between west and east Houston grew more pronounced during the first quarter of 2016. Large block availabilities within under-construction buildings in east Houston dipped to 32 options with greater than 100,000 square feet available. West Houston's supply, in comparison, was nearly 70 options of greater than 100,000 square feet that were under construction in the market. As tenant demand continues to be forecast to decrease in 2016, Houston's industrial market as a whole will see an uptick in vacancy as a result of this space coming to market with no preleasing.

Under-construction leasing remains strong

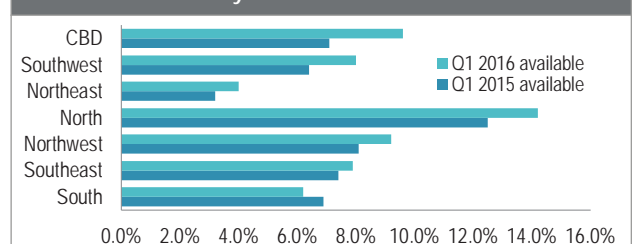


Source: JLL Research

Key submarkets continue to be impacted by space availabilities

As a slowing of leasing activity combined with new sublease space additions, Houston's industrial market was negatively impacted during the first quarter. Submarkets including the North and Northwest had total availability rates rise by 10.0 percent on average as tenant demand in the near term shifted to the petrochemical-dominated east side. In comparison, the Southeast submarket showed a tightening availability as the area benefited from not only petrochemical companies' continued expansions but also the increase in retailers and distribution centers.

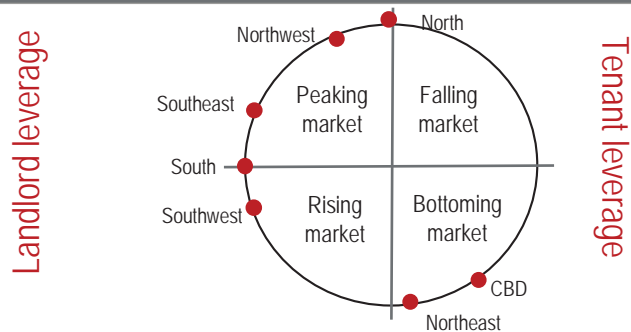
Submarket availability



Source: JLL Research

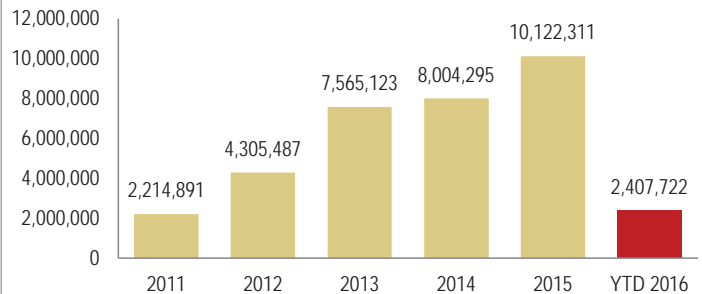
2,107,111 Leasing activity (s.f.)	2,407,722 Quarterly completions (s.f.)	5.3% 12-month rent growth	10,194,430 Total under construction (s.f.)
5.2% Direct vacancy	2,872,690 Available sublease space (s.f.)	13,938,089 Proposed construction (s.f.)	635,860 Total net absorption (s.f.)

Current conditions, by submarket



Source: JLL Research

New construction deliveries (s.f.)



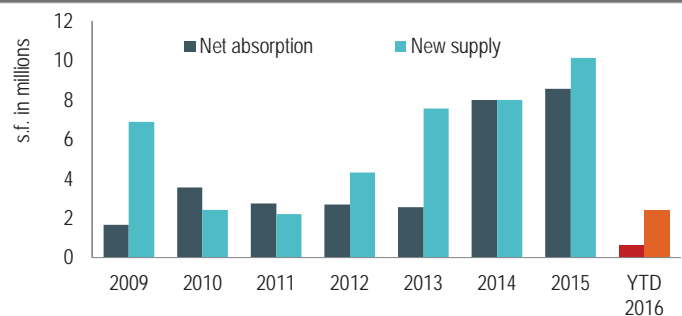
Source: JLL Research

Overview of absorption

Absorption

The first quarter of 2016 saw new supply outpacing absorption in the market and a continuation of the shift to a tenant-favorable market status. As oil remained near \$40/bbl during the quarter, absorption registered one-quarter of the prior 90-day mark. Combined with an additional 2.4 million square feet of new construction arriving to market, and more than 10.0 million square feet of under-construction projects, Houston will need several sustained quarters of increased absorption to offset weak market conditions taking root.

Annual net absorption vs. new supply



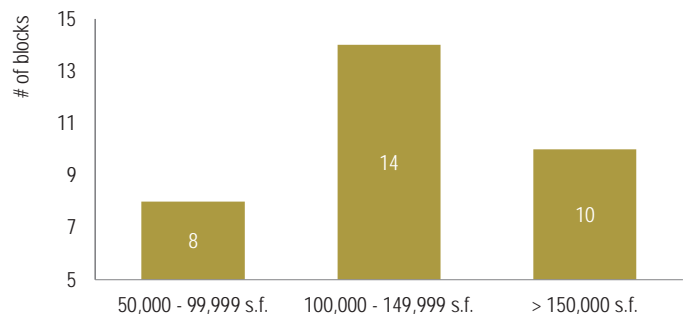
Source: JLL Research

Overview of demand

Tenant demand remains on east and west areas of city

Leasing activity remains focused on outlying areas of the city, with particular focus by 3PL and retail-based tenants. As key transportation networks like the Port of Houston and Grand Parkway continue to expand, tenants are actively searching for space near these areas. During the quarter, large blocks of leasing activity within the western and eastern sections of Houston included 441,000 square feet by Advance Auto Parts, 209,000 square feet by Maintenance Supply, 175,000 square feet by Homelegance and 150,000 square feet by Slay Transportation. Market demand by 3PLs and retailers is expected to continue to increase through 2016.

Demand: Warehouse & distribution tenant requirements



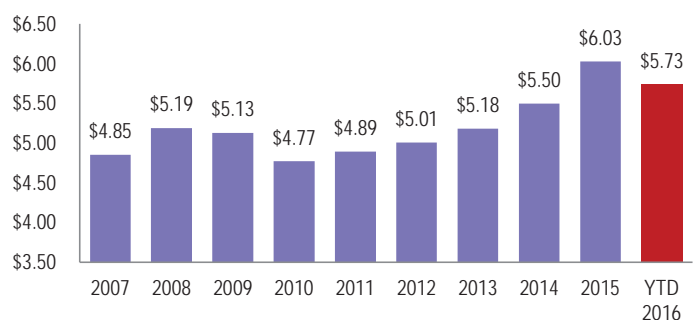
Source: JLL Research

Overview of rents

Asking rents begin pullback across submarkets

Throughout multiple industrial submarkets, asking rental rates during the first quarter of 2016 experienced a pullback from year-end 2015 high watermarks. Overall, market rents fell 5.0 percent, with the Northwest, North, Southeast and Southwest submarkets dropping nearly 10.0 percent on average. New construction arriving with little preleasing, second-generation space remaining vacant, and slowing leasing activity all have forced landlords to become more aggressive to get leases executed.

Average total asking rent (NNN \$ p.s.f.)



Source: JLL Research

Industrial Statistics

Houston | Q1 2016



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Total										
Warehouse & Distribution	330,464,675	484,820	484,820	0.1%	6.3%	9.9%	\$5.71	2,407,722	2,407,722	10,064,430
Manufacturing	77,157,573	151,040	151,040	0.2%	1.9%	5.1%	\$5.89	0	0	130,000
Totals	407,622,248	635,860	635,860	0.2%	5.5%	9.0%	\$5.73	2,407,722	2,407,722	10,194,430
Submarkets										
CBD										
Warehouse & Distribution	35,757,786	-213,936	-213,936	-0.6%	6.7%	10.6%	\$4.32	0	0	0
Manufacturing	9,784,832	0	0	0.0%	1.2%	6.1%	\$5.27	0	0	0
Totals	45,542,618	-213,936	-213,936	-0.5%	5.5%	9.6%	\$4.47	0	0	0
Northwest										
Warehouse & Distribution	95,467,789	270,748	270,748	0.3%	7.4%	10.0%	\$6.15	538,757	538,757	4,898,840
Manufacturing	17,700,529	56,183	56,183	0.3%	2.3%	4.9%	\$5.17	0	0	0
Totals	113,168,318	326,931	326,931	0.3%	6.6%	9.2%	\$6.07	538,757	538,757	4,898,840
North										
Warehouse & Distribution	54,214,716	246,248	246,248	0.5%	9.4%	15.7%	\$6.32	272,750	272,750	1,173,800
Manufacturing	11,385,618	185,000	185,000	1.6%	2.3%	6.9%	\$7.90	0	0	0
Totals	65,600,334	431,248	431,248	0.7%	8.2%	14.2%	\$6.47	272,750	272,750	1,173,800
Northeast										
Warehouse & Distribution	23,161,092	23,628	23,628	0.1%	2.2%	4.5%	\$2.78	0	0	0
Manufacturing	6,280,106	-65,776	-65,776	-1.0%	1.2%	2.1%	\$2.57	0	0	0
Totals	29,441,198	-42,148	-42,148	-0.1%	2.0%	4.0%	\$2.75	0	0	0
Southeast										
Warehouse & Distribution	56,186,196	-274,230	-274,230	-0.5%	5.1%	8.7%	\$5.91	597,215	597,215	2,623,995
Manufacturing	16,178,896	-24,367	-24,367	-0.2%	2.2%	4.9%	\$7.15	0	0	130,000
Totals	72,365,092	-298,597	-298,597	-0.4%	4.4%	7.9%	\$5.99	597,215	597,215	2,753,995
South										
Warehouse & Distribution	27,309,756	-195,935	-195,935	-0.7%	3.4%	6.7%	\$5.73	0	0	210,000
Manufacturing	8,070,815	0	0	0.0%	0.0%	4.3%	\$4.98	0	0	0
Totals	35,380,571	-195,935	-195,935	-0.6%	2.6%	6.2%	\$5.19	0	0	210,000
Southwest										
Warehouse & Distribution	38,367,340	628,297	628,297	1.6%	5.3%	8.5%	\$5.98	999,000	999,000	1,157,795
Manufacturing	7,756,777	0	0	0.0%	3.2%	5.0%	\$5.64	0	0	0
Totals	46,124,117	628,297	628,297	1.4%	4.9%	8.0%	\$5.95	999,000	999,000	1,157,795

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Houston closes 2015 and begins an uneasy 2016

M&A activity during 2015 impacting industrial market

Despite the announcement of several large M&A actions and a declining energy sector, Houston's industrial market performed well in 2015. Most of the impact from oil and M&A activity was on the manufacturing front as several oil-field services companies closed secondary facilities to reduce costs. Out of the 2.3 million square feet of sublease space on the market, the majority concerns the oil-related companies that are seeking to right-size their real estate needs. We anticipate this trend will continue as the effect of low oil prices manifests itself in the marketplace. On the other hand, the industrial distribution market did not flinch at \$40 oil. Despite early fears of a slow 2015, the only real impact of oil prices was psychological in nature as many landlords showed an eagerness to lock in occupancy by offering more aggressive leasing incentives to qualified tenants. Magnifying landlords' aggressiveness was the fact that tenants had more options to choose from than in recent years past.

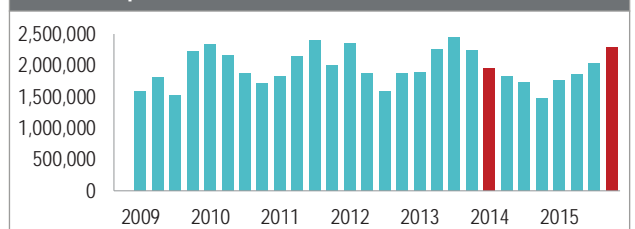
Scarcity of large block Class B space within the markets

While rents stabilized in first-generation/Class A buildings because of new delivery and competition, savvy landlords took advantage of the lack of competing inventory in second-generation/Class B buildings to push rental rates by 10 – 25 percent. Tenants that have historically enjoyed the lower rent that Class B buildings offer can potentially move to Class A options for just a slight premium, which might cause flight to quality in 2016.

Fourth quarter absorption 1/10th of overall year

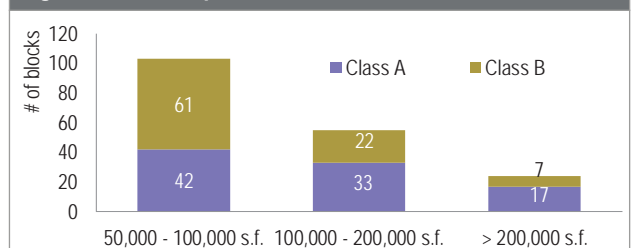
The last three months of 2015 for the Houston industrial market capped a declining 12 month period in terms of absorption, with less than one-tenth of the year's 8.5 million square feet taking place from October to December. This negative trend in absorption, together with an additional nearly 2.0 million square feet of completions during the same time period, is causing the recent trend of increases in vacancy to continue. As the calendar changes to 2016, Houston's industrial market will need a combination of increased leasing activity and a halt to new projects in order to bring the market back in balance.

Sublease space arrives to market in 2015



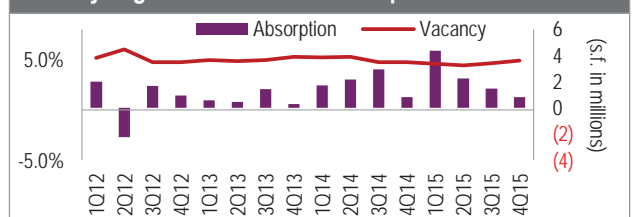
Source: JLL Research

Flight to Class B space seen



Source: JLL Research

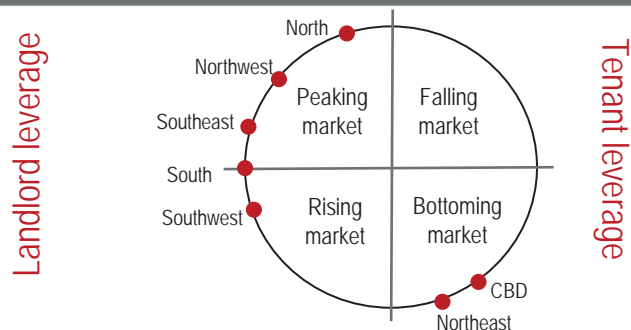
Vacancy begins slow climb as absorption slows



Source: JLL Research

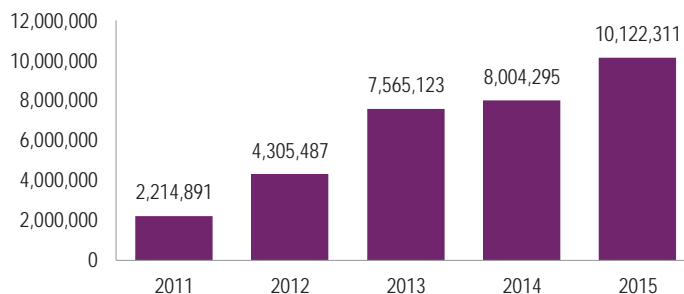
1,113,885 Leasing activity (s.f.)	1,884,020 Quarterly completions (s.f.)	9.6% 12-month rent growth	8,581,537 Total under construction (s.f.)
4.8% Direct vacancy	2,297,461 Available sublease space (s.f.)	12,759,015 Proposed construction (s.f.)	813,810 Total net absorption (s.f.)

Current conditions, by submarket



Source: JLL Research

New construction deliveries (s.f.)



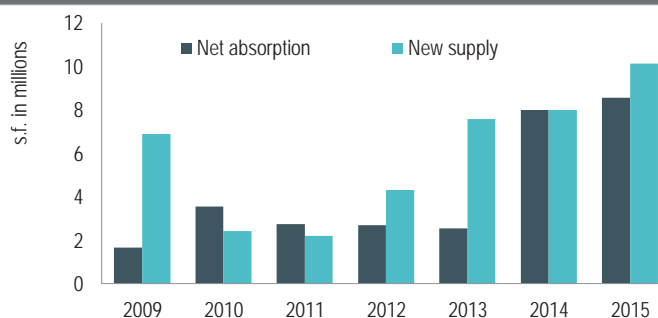
Source: JLL Research

Overview of absorption

Absorption

The fourth quarter of 2015 saw the beginning of new supply outpacing absorption in the market. As additional job growth remains constrained, coupled with sub \$40/bbl oil prices, Houston's industrial sector saw a significant slowing of absorption to half that of the prior quarter, while new supply to the market overall passed 10.0 million square feet. As supply continues to outpace absorption, a gradual shift to a tenant-favorable market will begin in earnest in 2016.

Annual net absorption vs. new supply



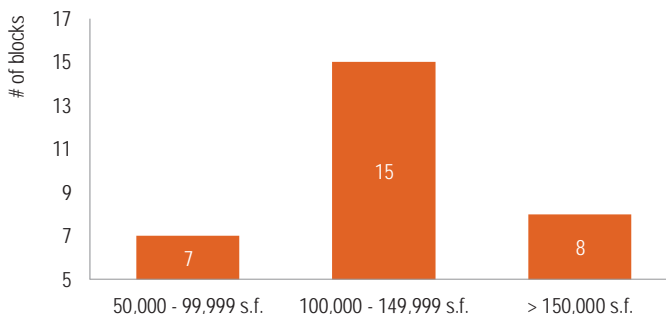
Source: JLL Research

Overview of demand

Tenant demand focusing east and west and 120,000 SF

Houston's continued residential push west along the I-10 corridor as well as along the Grand Parkway, in conjunction with the petrochemical growth in the eastern and Port of Houston areas of the city, have caused a demand shift by tenants. Overall, much of Houston's industrial market, save the North submarket, has been robust. Tenants' focus continues to be away from large user requirements in excess of 250,000 square feet to a target focus of 90,000 to 120,000 square feet to help meet the demands caused by the durable goods and plastics strengths in the market.

Demand: Warehouse & distribution tenant requirements



Source: JLL Research

Overview of rents

Rental rates reaching peaks in much of market

Throughout multiple industrial submarkets, rental rates during the fourth quarter (and overall year 2015) reached high water marks. On average the Southeast and Southwest submarkets saw 3.0 percent gains against third quarter's already peak numbers. This continued upward pressure on rents and new spec construction coming online allows tenants to look elsewhere in the market for cheaper space; which, in turn, is causing an uptick in vacancy as newer construction lingers on the market. This is another factor in the gradual shift to a tenant-favorable market in 2016.

Average total asking rent (\$ p.s.f.)



Source: JLL Research

Industrial Statistics

Houston | Q4 2015



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Total										
Warehouse & Distribution	327,637,489	827,378	7,970,465	2.4%	5.1%	9.8%	\$5.94	1,884,020	9,853,175	8,581,537
Manufacturing	75,374,803	-13,568	588,083	0.8%	1.5%	4.4%	\$6.75	0	269,136	0
Totals	403,012,292	813,810	8,558,548	2.1%	4.4%	8.8%	\$6.03	2,608,716	10,122,311	8,581,537
Submarkets										
CBD										
Warehouse & Distribution	35,742,449	-70,446	-232,109	-0.6%	6.3%	10.5%	\$4.01	0	0	0
Manufacturing	9,706,701	0	-11,745	-0.1%	0.4%	4.8%	\$6.41	0	0	0
Totals	45,449,150	-70,446	-243,854	-0.5%	5.0%	9.3%	\$4.21	0	0	0
Northwest										
Warehouse & Distribution	94,985,870	-358,921	1,293,939	1.4%	6.6%	8.7%	\$7.04	401,163	4,223,650	4,070,600
Manufacturing	16,536,422	0	107,327	0.6%	1.6%	3.8%	\$8.18	37,636	37,636	0
Totals	111,522,292	-358,921	1,401,266	1.3%	4.8%	8.0%	\$6.97	438,799	4,261,286	4,070,600
North										
Warehouse & Distribution	52,963,327	618,506	2,320,930	4.4%	9.2%	15.0%	\$6.72	402,900	2,274,089	1,023,661
Manufacturing	11,191,404	55,832	141,394	1.3%	2.7%	7.0%	\$6.46	0	51,500	0
Totals	64,154,731	674,338	2,462,324	3.8%	8.1%	13.6%	\$6.69	402,900	2,325,589	1,023,661
Northeast										
Warehouse & Distribution	22,992,000	-41,636	148,323	0.6%	1.8%	7.2%	\$2.82	70,000	90,000	0
Manufacturing	6,219,830	10,000	-5,400	-0.1%	0.2%	1.1%	\$0.42	0	0	0
Totals	29,211,830	-31,636	142,923	0.5%	1.4%	5.9%	\$2.63	70,000	90,000	0
Southeast										
Warehouse & Distribution	55,956,329	458,042	2,767,578	4.9%	3.4%	10.4%	\$6.16	716,954	2,175,052	1,825,776
Manufacturing	15,843,604	1,500	27,882	0.2%	1.9%	3.1%	\$8.57	0	0	0
Totals	71,799,933	459,542	2,795,460	3.9%	3.1%	8.8%	\$6.45	716,954	2,175,052	1,825,776
South										
Warehouse & Distribution	27,273,583	84,437	363,019	1.3%	2.7%	5.6%	\$5.13	0	244,016	210,000
Manufacturing	8,094,065	1,900	289,217	3.6%	0.5%	6.7%	\$5.16	0	180,000	0
Totals	35,367,648	86,337	652,236	1.8%	2.2%	5.9%	\$5.13	0	424,016	210,000
Southwest										
Warehouse & Distribution	37,723,931	137,396	1,076,443	2.9%	5.4%	8.4%	\$6.24	363,003	846,368	1,451,500
Manufacturing	7,756,777	-82,800	40,408	0.5%	3.2%	4.6%	\$21.00	0	0	0
Totals	45,480,708	54,596	1,116,851	2.5%	5.1%	7.8%	\$6.26	363,003	846,368	1,451,500

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New tenant mix maintains Houston's growth

Low vacancy leading to high rents

Since the beginning of 2014, Houston had 13.5 million square feet delivered. The North and Northwest submarkets alone accounted for 70 percent of that new construction. This oversaturation of the market has resulted in several big blocks of newly delivered space sitting empty for several quarters now while tenants lease up the second generation Class A space. Houston is seeing incredibly tight availability for this second generation space in the 50,000 – 100,000 square foot range.

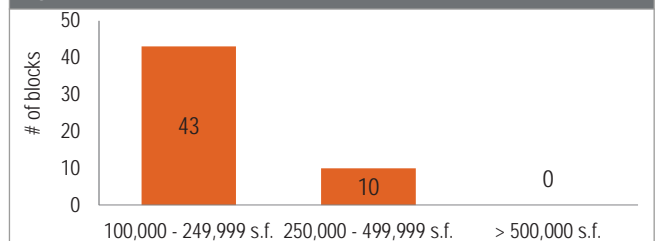
New mix of tenants

With the drop in oil prices, Houston's tenant mix has seen a shift away from predominantly upstream oil and gas companies to those in the mid- and downstream side of the industry. There has also been a new influx of manufacturing companies throughout the market as the Port of Houston prepares for the expansion of the Panama Canal.

Vacancy rates remain relatively steady despite amount of new deliveries

The Houston industrial market has consistently delivered well over one million square feet of new construction quarter after quarter. However, despite this amount of supply, the vacancy rate remains steady due to a larger than normal wave of tenants signing built-to-suit deals and absorbing a high percentage of the new construction space.

Big blocks of available space in North and Northwest



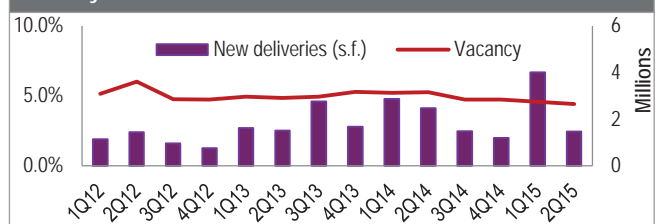
Source: JLL Research

Notable leases

Tenant	Industry	Size (s.f.)
CVS	Retailer	328,020
Cameron	Energy	350,882
Abrasive Products	Manufacturing	205,015

Source: JLL Research

Vacancy



Source: JLL Research

2,747,957

Leasing activity (s.f.)

1,471,543

Quarterly completions (s.f.)

79.9% vs. 20.1%

Spec construction vs. design-builds

10,004,161

Total under construction (s.f.)

4.3%

Direct vacancy

\$85.00

Average sales price (p.s.f.)

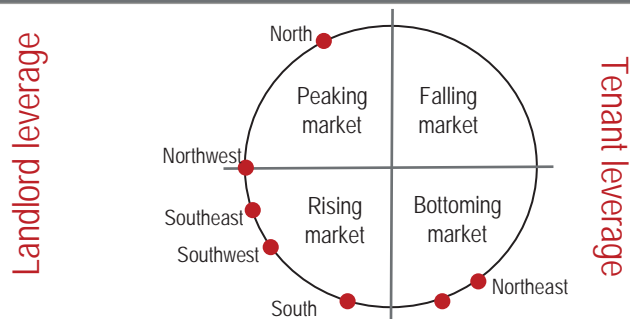
428,595

Sublease space (s.f.)

2,217,799

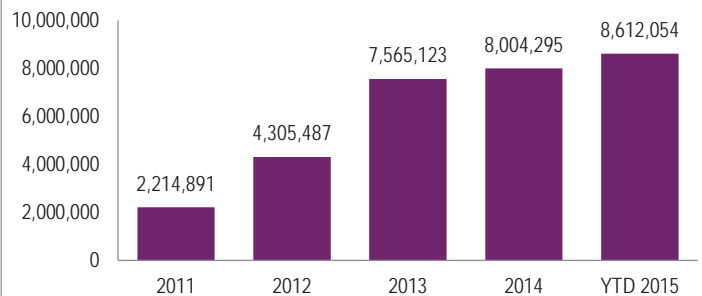
Total net absorption (s.f.)

Current conditions – submarket



Source: JLL Research

New construction deliveries



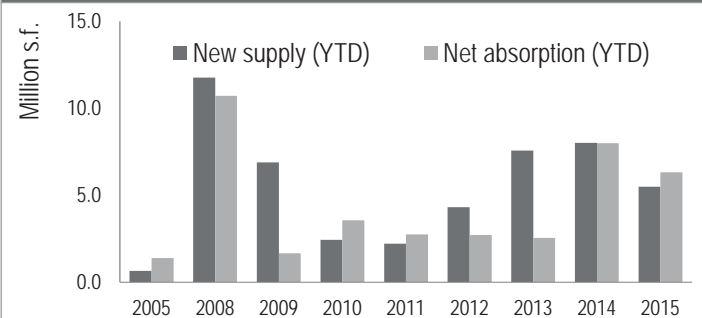
Source: JLL Research

Overview of absorption

Absorption

New construction has outpaced absorption starting in 2012 and 2013. By 2014, a balance was achieved. During the first two quarters of 2015, absorption has overtaken new construction resulting in lower vacancy rates. Planned new construction is moving forward with caution in order to maintain that balance. This trend is expected to continue into the latter part of 2015, until the new developments announced in the Southwest submarket – totaling 1.35M square feet – are delivered in early 2016.

Absorption



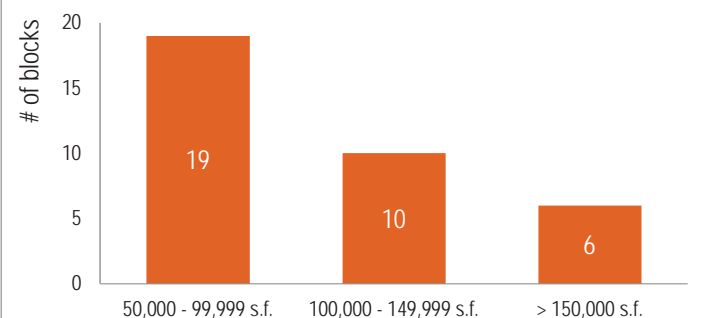
Source: JLL Research

Overview of demand

Demand meets new construction deliveries closely

A change in location demand has caused an interesting shift in Houston's industrial market. Going from a market primarily driven by oil and gas companies in the North and Northwest submarkets to a market being lead by hospitality and leisure, healthcare, and information technology sectors in the Southwest region, the new tenant influx has spurred new development announcements in the last quarter as developers take advantage of the changing times. The majority of these tenants' requirements range from 50,000 – 80,000 square feet.

Demand: Warehouse & distribution tenant requirements



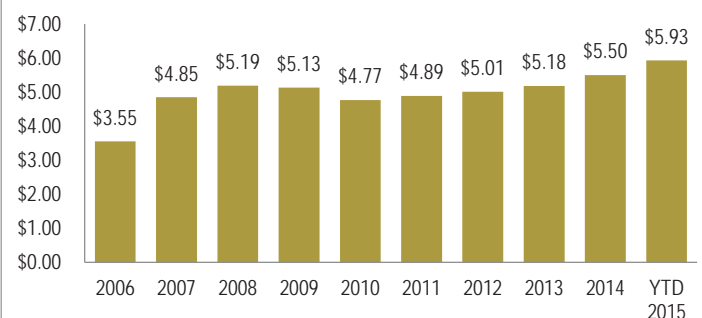
Source: JLL Research

Overview of rents

Low vacancy leading to high rents

Houston is seeing rents at an all-time high right now due to the tightening of the market. The majority of new space delivered is being leased up quickly as tenants expect rates to keep rising in certain submarkets. The Southeast submarket has seen a ten cent jump in asking rates since the beginning of the year and has one of the lowest vacancy rates in Houston. This submarket sat primarily empty until just recently when several major LNG expansions were announced.

Average total asking rent (\$ p.s.f.)



Source: JLL Research

Industrial Statistics

Houston | Q2 2015



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Total										
Warehouse & Distribution	322,926,453	1,651,766	5,579,656	1.7%	5.0%	7.5%	\$5.79	1,202,407	5,210,381	6,074,161
Manufacturing	74,189,274	566,033	738,529	1.0%	1.7%	4.0%	\$6.38	269,136	269,136	4,000,000
Totals	397,115,817	2,217,799	6,318,185	1.6%	4.4%	6.9%	\$5.87	1,471,543	5,479,517	10,074,161
Submarkets										
CBD										
Warehouse & Distribution	35,999,071	-56,934	265,414	0.7%	5.1%	8.9%	\$4.10	0	0	0
Manufacturing	9,220,561	-22,320	21,680	0.2%	0.9%	1.5%	\$5.21	0	0	0
Totals	45,219,632	-79,254	287,094	0.6%	4.2%	4.1%	\$4.20	0	0	0
Northwest										
Warehouse & Distribution	93,758,742	640,968	1,058,007	1.1%	5.1%	6.9%	\$7.04	829,707	2,489,584	2,451,571
Manufacturing	16,240,210	160,837	117,032	0.7%	1.8%	3.4%	\$7.14	37,636	37,636	4,000,000
Totals	109,998,952	801,805	1,175,039	1.1%	4.6%	6.3%	\$7.06	867,343	2,527,220	6,451,571
North										
Warehouse & Distribution	50,817,683	48,962	924,978	1.8%	9.8%	12.0%	\$6.53	152,950	818,983	1,136,513
Manufacturing	10,997,161	173,812	163,862	1.5%	2.1%	4.7%	\$5.65	51,500	51,500	0
Totals	61,814,844	222,774	1,088,840	1.8%	8.4%	10.7	\$6.42	204,450	870,483	1,136,513
Northeast										
Warehouse & Distribution	22,842,122	58,094	162,409	0.7%	1.4%	5.2%	\$4.26	20,000	20,000	70,000
Manufacturing	6,153,519	0	4,600	0.1%	0.0%	1.1%	\$4.74	0	0	0
Totals	28,995,641	58,094	167,009	0.6%	1.1%	4.3%	\$4.32	20,000	20,000	70,000
Southeast										
Warehouse & Distribution	55,133,540	391,168	2,167,206	3.9%	3.0%	6.2%	\$5.08	110,380	1,238,418	905,327
Manufacturing	15,773,644	21,882	30,382	0.2%	1.9%	3.2%	\$8.36	0	0	0
Totals	70,907,184	413,050	2,197,588	3.1%	2.8%	5.6%	\$5.32	110,380	1,238,418	905,327
South										
Warehouse & Distribution	27,145,304	112,154	301,161	1.1%	2.7%	6.5%	\$5.21	0	244,016	0
Manufacturing	7,862,478	139,107	163,138	2.1%	2.1%	8.4%	\$5.80	180,000	180,000	0
Totals	35,007,782	251,261	464,299	1.3%	2.6%	6.9	\$5.32	180,000	424,016	0
Southwest										
Warehouse & Distribution	37,230,081	457,354	700,481	1.9%	5.3%	5.8%	\$6.48	89,370	399,380	1,510,750
Manufacturing	7,941,701	92,715	237,835	3.0%	2.1%	6.4%	\$5.26	0	0	0
Totals	45,171,782	550,069	938,316	2.1%	4.7%	5.9%	\$6.42	89,370	399,380	1,510,750

Industrial Statistics

Houston | Q1 2015



	YTD completion (s.f.)	Inventory (s.f.)	Direct net absorption (s.f.)	YTD direct net absorption (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (s.f.)	Direct vacancy (%)	Total vacancy (s.f.)	Total vacancy (%)	Average asking rent (\$ p.s.f.) NNN	Under construction (s.f.)
Houston Total													
Warehouse & Distribution	3,867,707	361,696,840	2,966,448	2,966,448	2,676,309	2,676,309	0.7%	17,885,885	4.9%	18,372,833	5.1%	\$6.15	7,670,814
Manufacturing	32,500	78,535,307	150,886	150,886	140,886	140,886	0.2%	1,760,438	2.2%	1,772,620	2.3%	\$6.09	25,000
Totals	3,900,207	440,232,147	3,146,352	3,146,352	2,846,213	2,846,213	0.6%	19,617,305	4.5%	20,116,435	4.6%	\$6.15	7,695,814

*All classes, 20,000 s.f. and higher

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Houston Submarkets

	YTD completion (s.f.)	Inventory (s.f.)	Direct net absorption (s.f.)	YTD direct net absorption (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (s.f.)	Direct vacancy (%)	Total vacancy (s.f.)	Total vacancy (%)	Average asking rent (\$ p.s.f.) NNN	Under construction (s.f.)
CBD													
Warehouse & Distribution	0	35,532,996	165,722	165,722	165,722	165,722	0.5%	1,879,134	5.3%	1,901,334	5.4%	\$4.09	0
Manufacturing	0	8,338,762	44,000	44,000	44,000	44,000	0.5%	15,000	0.2%	15,000	0.2%	\$5.03	0
Totals	0	44,727,067	209,722	209,722	209,722	209,722	0.5%	1,894,134	4.2%	1,916,334	4.3%	\$4.16	0
Northwest													
Warehouse & Distribution	1,452,560	92,110,728	286,788	286,788	239,908	239,908	0.3%	4,066,299	4.4%	4,155,339	4.5%	\$6.71	3,617,399
Manufacturing	0	15,885,892	-66,092	-66,092	-76,092	-76,092	-0.5%	440,352	2.8%	440,352	2.8%	\$6.79	0
Totals	1,452,560	107,996,620	220,696	220,696	163,816	163,816	0.2%	4,506,651	4.2%	4,605,691	4.3%	\$6.73	3,617,399
North													
Warehouse & Distribution	616,303	50,428,308	4,224,938	4,224,938	4,339,452	4,339,452	8.6%	4,703,820	9.3%	4,818,334	9.6%	\$6.42	804,437
Manufacturing	0	10,921,558	28,800	28,800	28,800	28,800	0.3%	316,312	2.9%	316,312	2.9%	\$5.23	0
Totals	616,303	61,349,866	1,070,537	1,070,537	1,028,374	1,028,374	1.7%	5,020,132	8.2%	5,134,646	8.4%	\$6.29	804,437
Northeast													
Warehouse & Distribution	0	22,689,138	80,715	80,715	80,715	80,715	0.4%	384,083	1.7%	384,083	1.7%	\$5.33	20,000
Manufacturing	0	6,153,519	4,600	4,600	4,600	4,600	0.1%	0	0.0%	0	0.0%	\$4.03	0
Totals	0	28,842,657	85,315	85,315	85,315	85,315	0.3%	342,727	1.2%	342,727	1.2%	\$5.08	20,000
Southeast													
Warehouse & Distribution	884,678	53,577,345	938,533	938,533	827,637	827,637	1.5%	2,298,936	4.3%	2,409,832	4.3%	\$5.00	1,938,642
Manufacturing	0	15,857,548	6,500	6,500	6,500	6,500	0.0%	312,803	2.0%	312,803	2.0%	\$7.96	0
Totals	884,678	69,434,893	945,033	945,033	834,137	834,137	1.2%	2,611,739	3.8%	2,724,817	3.9%	\$5.22	1,938,642

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Houston Submarkets, cont.

	YTD completion (s.f.)	Inventory (s.f.)	Direct net absorption (s.f.)	YTD direct net absorption (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (s.f.)	Direct vacancy (%)	Total vacancy (s.f.)	Total vacancy (%)	Average asking rent (\$ p.s.f.) NNN	Under construction (s.f.)
South													
Warehouse & Distribution	244,016	27,136,558	193,807	193,807	193,807	193,807	0.7%	801,865	3.0%	825,465	3.0%	\$5.65	24,175
Manufacturing	0	7,817,478	24,031	24,031	24,031	24,031	0.3%	125,586	1.6%	125,586	1.6%	\$4.44	0
Totals	244,016	34,954,036	217,838	217,838	217,838	217,838	0.6%	927,451	2.7%	951,051	2.7%	\$5.34	24,175
Southwest													
Warehouse & Distribution	378,380	36,888,601	147,962	147,962	63,162	63,162	0.2%	2,137,876	5.8%	2,137,876	5.8%	\$6.65	1,047,380
Manufacturing	0	8,134,505	145,120	145,120	145,120	145,120	1.8%	301,783	3.7%	301,783	3.7%	\$5.31	0
Totals	378,380	45,023,106	293,082	293,082	208,282	208,282	0.5%	2,439,659	5.4%	2,535,357	5.6%	\$6.59	1,049,380
Houston Total													
Warehouse & Distribution	3,867,707	361,696,840	2,966,448	2,966,448	2,676,309	2,676,309	0.7%	17,885,885	4.9%	18,372,833	5.1%	\$6.15	7,670,814
Manufacturing	32,500	78,535,307	150,886	150,886	140,886	140,886	0.2%	1,760,438	2.2%	1,772,620	2.3%	\$6.09	25,000
Totals	3,900,207	440,232,147	3,146,352	3,146,352	2,846,213	2,846,213	0.6%	19,617,305	4.5%	20,116,435	4.6%	\$6.15	7,695,814

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