Harris County

Appraisal District

2018

Market Trends Report

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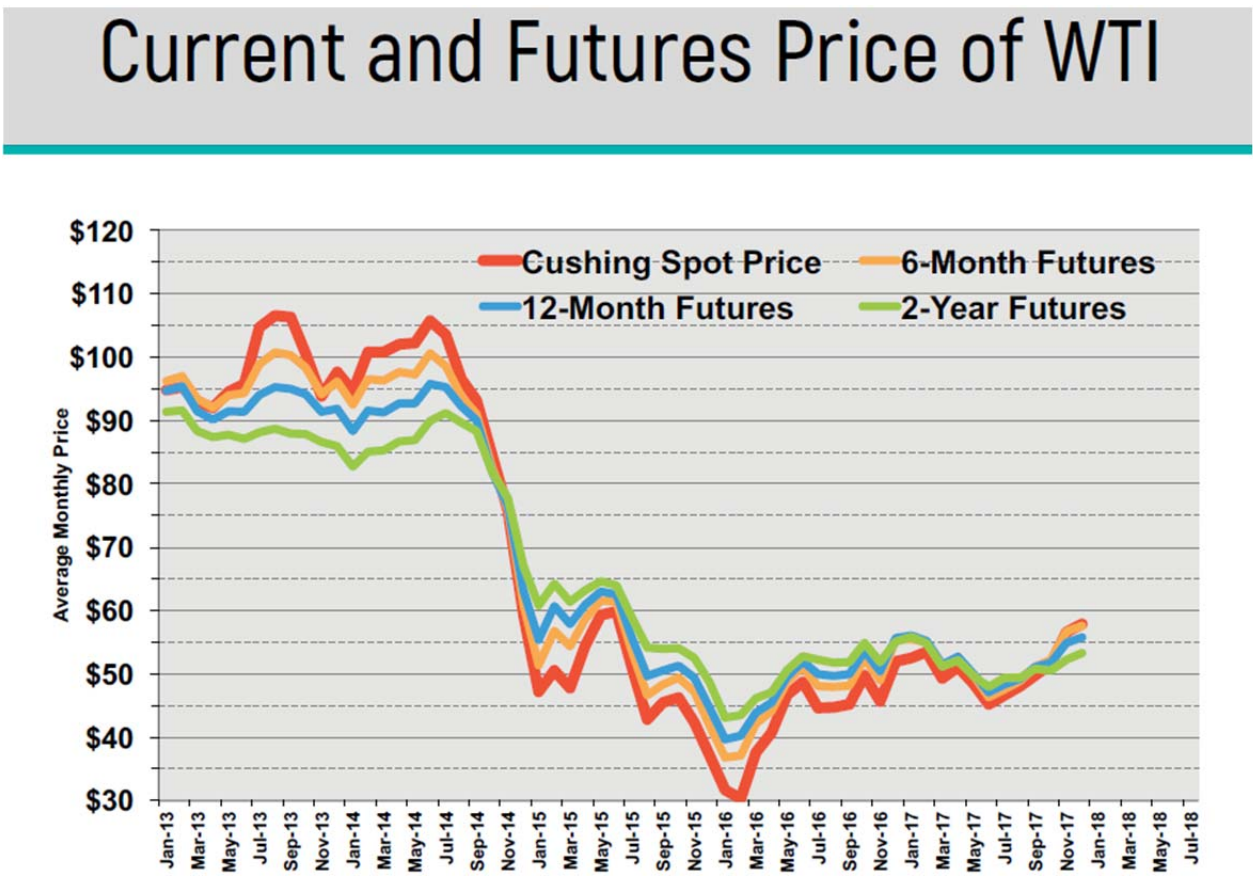
Residential Property

Despite the numerous issues and challenges presented by Hurricane Harvey which included the flooding of almost 70,000 homes, Houston's economy and residential market are doing well. Although we are not seeing the job growth and rapidly increasing property values of 2013-2014 the economy and residential market are doing well and are stable. The stability in Houston's economy and housing market can be best identified by several key metrics that are indicative of a healthy Houston: Oil prices, Job Growth, Home Inventory

Oil Prices

The spot price for oil continues to rebound. West Texas Intermediate was $52.36 on January 1, 2017 versus $60.37 on January 1, 2018. Many consider $60 the threshold at which the oil industry returns to profitability.

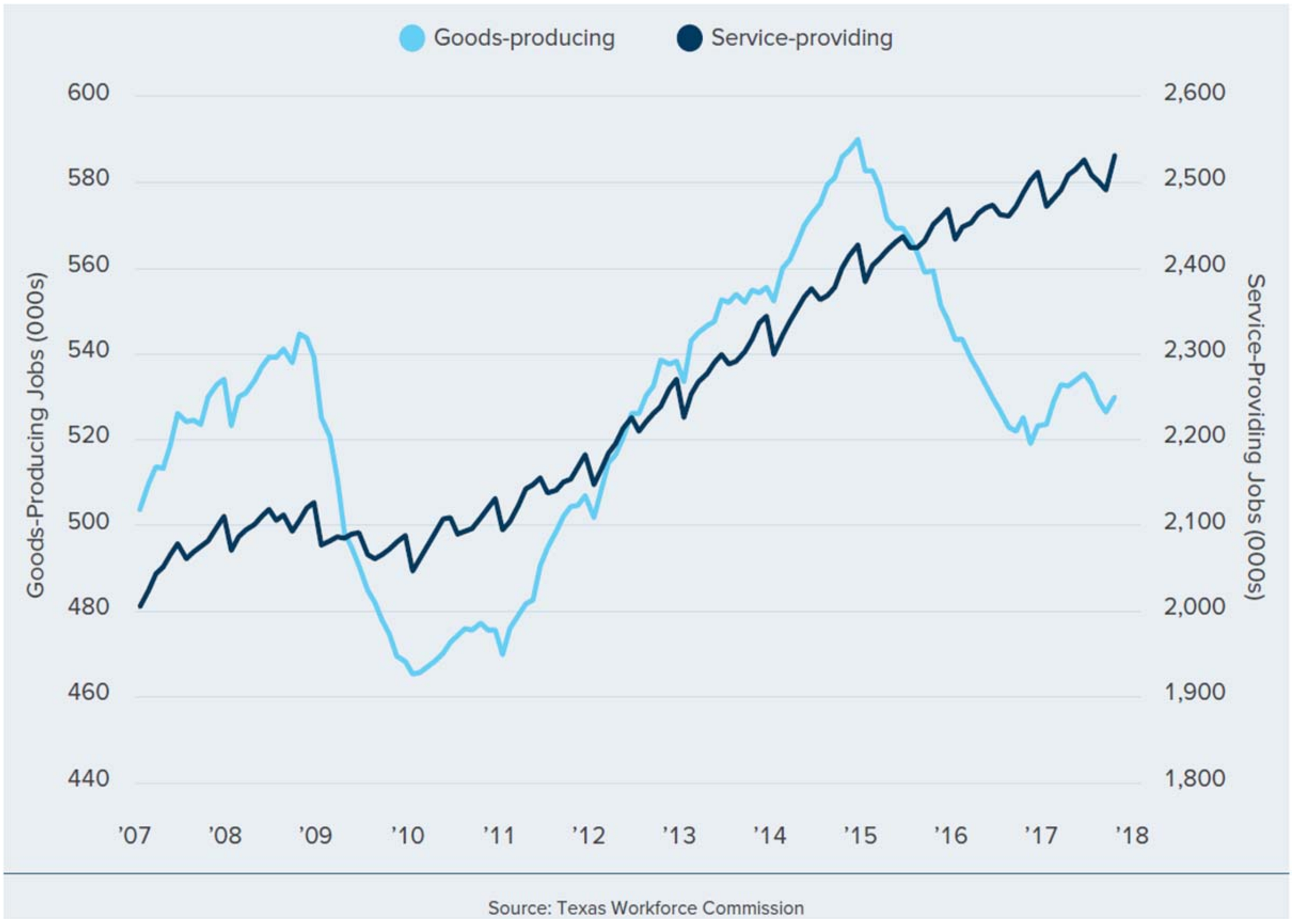


Job Growth

Metro Houston added 13,500 jobs in 2017 according to the Texas Workforce Commission. Unemployment in the metro area remains unchanged at 4.3 percent. The greater Houston

Partnership forecasts for the Greater Houston Metropolitan area to create more than 45,000 jobs in 2018 with gains in most sectors other than energy, construction, and information.

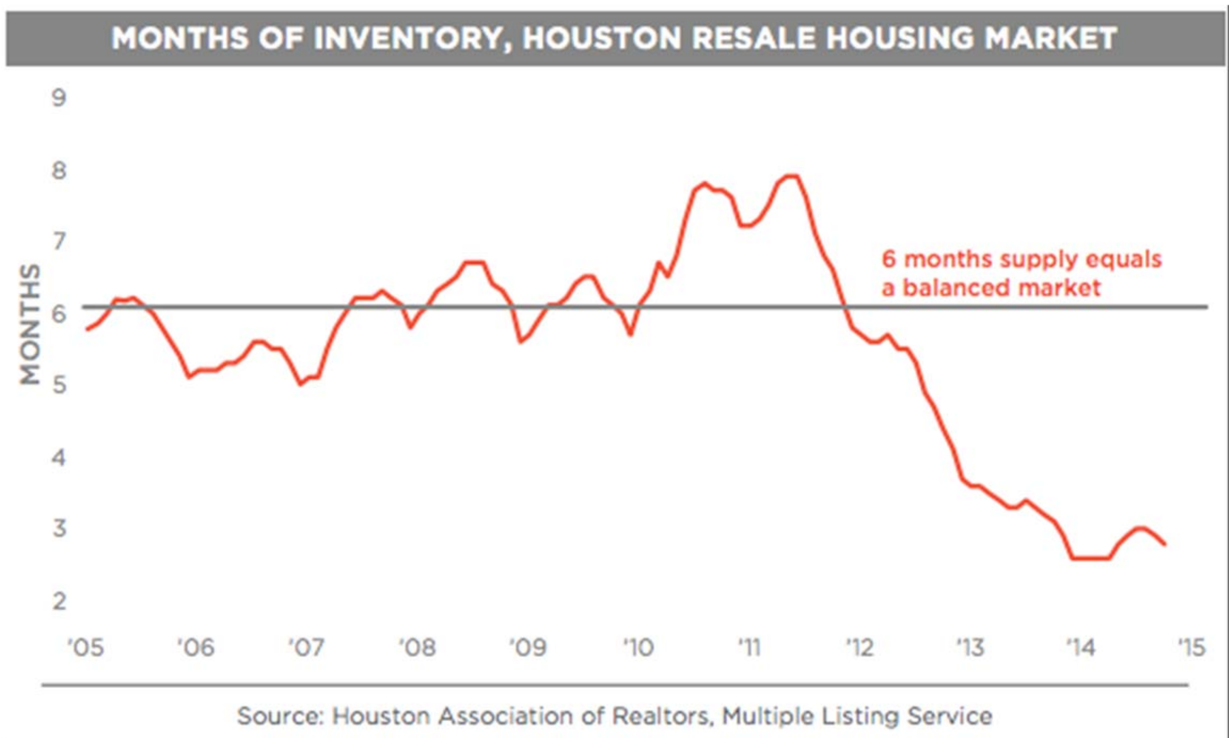
There is still lingering concern over the types of jobs that are being lost versus those being added. Specifically, goods-producing jobs like; mining, construction, manufacturing, and professional services, which are typically higher paying jobs which started to recover for the first 10 months of 2017 have slowed again. Conversely, service-providing jobs like; educational services, accommodation and food services, and government continued to gain. The graph below provided by the Texas Workforce Commission depicts this issue.



Home Inventory

According to the Houston Association of Realtors (HAR), the inventory of available homes which was at 3.3 months in January 2017 rose to 4.3 in the months leading up to Hurricane Harvey. The surge in demand for housing after Harvey pushed the inventory down to 3.2 months as of January 2018. The 3.2 months is slightly below the national average inventory which stands at 3.4 months of supply. Typically, 6 months of inventory is considered equilibrium. Accordingly, inventory levels below 6 months indicate a seller's market which is generally accompanied by an increase in prices and in turn appraisal values. Until the supply of homes moves closer to equilibrium we are likely to continue experiencing a seller's market and the corresponding increases in sales prices. The number of days it took a home to sell (a.k.a. Days on Market) was unchanged at 62 days.

Houston's housing market has been a sellers' market since 2012-2013 which is depicted in the Houston association of Realtor's chart below:



Sales Volume Update

According to HAR, sales volume for single family residential properties in 2017 totaled 79,117 units which is a 3.5 percent increase versus the 76,450 units sold in 2016.

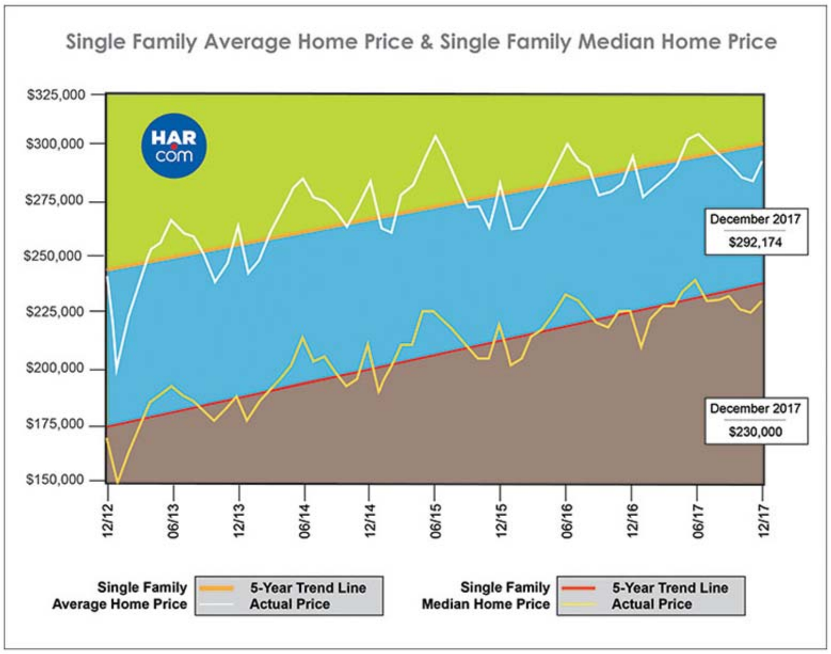
CATEGORIES	FULL-YEAR 2016	FULL-YEAR 2017	CHANGE
Single-family home sales	76,450	79,117	3.5%
Total property sales	91,530	94,726	3.5%
Total dollar volume	$21,645,218,533	$23,049,934,248	6.5%
Single-family average sales price	$283,133	$291,340	2.9%
Single-family median sales price	$221,500	$229,900	3.8%

Courtesy HAR January 10, 2018

Sales Price Update

The chart below shows a five year trend line for both the average home sale price and the median home sale price of single family homes. In a year-over-year comparison the median price for a home in December increased to its highest level ever rising 1.74% to $230,000 which represents about a 31 percent increase over the 5-year period. In December the average price decreased 0.63% to $292,174 which represents a more than 19 percent increase over the 5-year period.

Single Family Average Home Price & Single Family Median Home Price



Courtesy HAR January 13, 2016

Townhomes and Condominiums

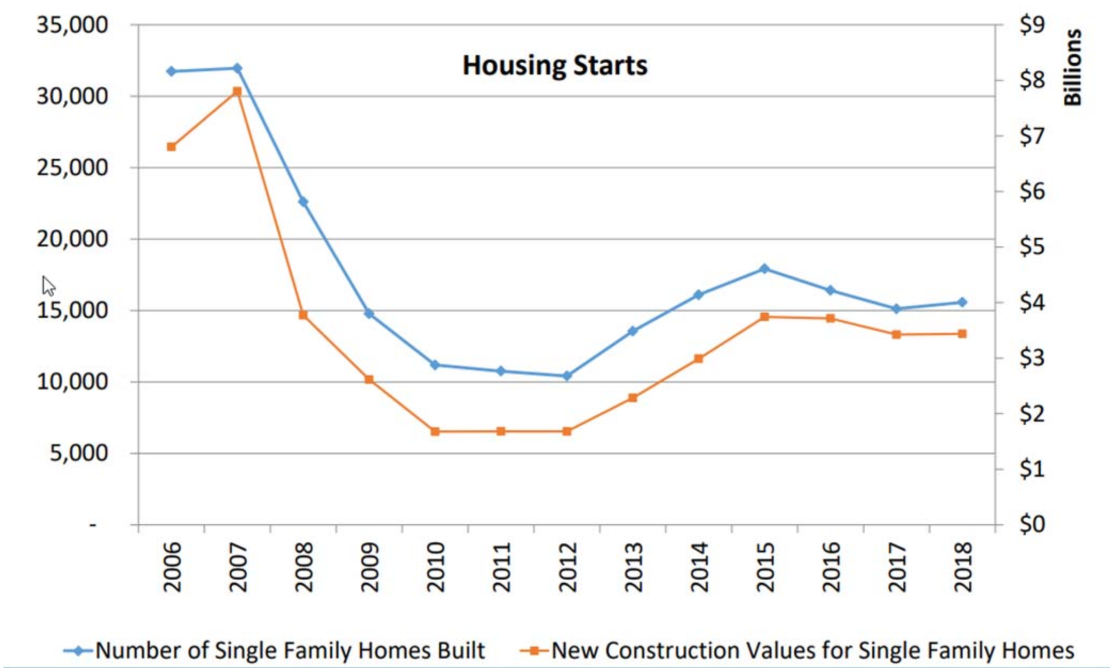
Sales of townhouses and condominiums increased 3.2% in December 2017 versus December 2016. A total of 552 units sold in December 2017 as compared to 535 properties in December 2016. The average price fell 5.5 percent to $199,197 and the median price decreased 9.3 percent to $158,250. Inventory is at 3.3 months' supply which fell slightly from 3.4 months' supply in January of 2017.

Lease Property Update

Generally as the supply of properties for sale remains below equilibrium the demand for lease property naturally increases. However the number of single-family home leases fell 3.6 percent compared to December 2016. This is most likely due to the diminished supply of homes available for lease due to Hurricane Harvey. The year-over-year townhouse/condominium rentals increased 9.5 percent. The average rent for both single-family homes and townhouse/condos increased slightly with single family increasing 3.3% to $1,745 and townhomes and condos increasing 2.4% to $1,532.

New Construction

The number of new starts for 2018 will be little changed from the 15,117 in 2017. Similarly, the new construction value associated with the new starts will be little changed from the $3.6 billion of 2017.



2018 Outlook and Insights

It is difficult to say what will happen with the housing market in the coming year. Below is a list of factors that will be important indicators as to how the economy and housing market fair in 2018.

- Oil price – been range bound between $62-$64 to this point in 2018. This is above the consensus estimates and is showing signs of stability in this range.
- Interest rates - Will the Federal Reserve increase the federal funds rate? At the most recent Fed meeting the committee decided to leave the rate unchanged at 1.25-1.5%.

- Tax Reform - What impact will Federal Tax reform have on the economy and the housing market? The reform may be good for jobs and the economy in general but at this point we are not sure what effect, if any, it will have on homes especially the higher end of the market?

- Job Growth – Will the greater Houston Metroplex meet the projected growth of 45,000 jobs? Specifically, will we see the creation of any jobs in the higher paying sectors like energy, manufacturing, and construction?

- Natural Disasters – Will Harris County have another Natural disaster? Major events like hurricanes have a major impact on the local economy and a shock to the housing market. With three major disasters in a 27 month period this is becoming more a routine for Houstonians.

Commercial Property

Overview

The economy in the Greater Houston area rebounded and stabilized from the market adjustment in recent years caused by economic (oil price adjustment) and environmental (Hurricane Harvey) setbacks.

James Gaines, the Chief Economist with RERC at Texas A&M University stated "The energy sector downturn for Texas is over'. 'It took a hit in 2016, recovered in 2017, and will continue in 2018… Texas forecast is for 4.1% growth in 2018, versus the 2.9% growth forecast for the United States.'" [1/26/18]

ExxonMobil, Shell Oil and Chevron averaged $23.6 billion each in profits in 2014, when oil was $107.26/barrel that June. By February 2016, oil reached a low of $26.21/barrel, and that year, the three energy companies averaged only $3.4 billion each in profit. By the start of 2018, oil was at $60.42/barrel, and except for 3 days, stayed above the $60/barrel for January and February. For 2017, these three oil companies averaged $16.5 billion in profit. The cost of drilling for oil in Texas ranges between $20 to $23/barrel, which includes administration, transportation and taxes. Drilling offshore costs a little more than double that figure.

By the end of 2016, there were 637 active oil drilling rigs in the United States. By December 2017, there were 931 active drilling rigs in the United States, of which only 19 were offshore. At the beginning of 2018, there were 457 active rigs in Texas. ** For the first time since the 1970's, Texas is pumping over 10 million barrels per day. With the recent 20 billion barrel find in west Texas's Permian Basin, Texas's oil volume output is close to 1/3 that of the nation.

With the low cost of oil drilling relative to its sale price, the cost to produce plastics and petrochemical products is reduced, creating a petrochemical boom. Ethylene, used to make polyethylene, is now made from natural gas at 40% of the cost of making it from crude oil. ExxonMobil's 2017 profit was derived from 11% upstream (drilling), 60% from downstream (plastics, petrochemical products and fuels) and 29% from integrated natural gas.

For refineries and plastics production, there is $50 billion under construction along the Texas Gulf Coast, of which approximately $16 billion is in the Metro Houston area and another $20 billion in the Corpus Christi area. The Keystone XL pipeline, 1,179 miles from Canada to Nebraska, will feed 830,000 barrels a day into Houston on the day of completion. TransCanada plans to start construction next year.

Hurricane Harvey (Aug. 25-30, 2017) greatly impacted Metro Houston and Texas regarding the negative short term damage and its positive associated recovery. With 9 trillion gallons***of rainfall on southeast Texas, Hurricane Harvey caused an estimated $185 billion in damage, comparable to Hurricane Katrina's damage. Hurricane Ike's damage was $29.5 billion. Also considered are the Memorial Day Flood (5/26/15 – 10 hours, 12 inches of rainfall) and April Tax

Day Flood (4/18/16 – 19 hours, 15 inches of rainfall). Three major storms in three years have many anxiously awaiting to see what 2018 has in store.

With residents of flooded and damaged homes seeking accommodations, there was an upsurge of hotel room and apartment rentals in the Metro Houston area after the hurricane. New car sales also spiked after the storm to replace flooded cars and settle insurance claims. Half a million cars were flooded in Texas.

**In comparison, there are 278 active drilling rigs in Canada, and 960 in the rest of the world. Oklahoma has 118 active rigs, New Mexico 88, Louisiana 61, California 14, and Alaska 5. The entire Middle East has 383, less than Texas alone.

***The flow of water over Niagara Falls (Canadian & US) can fill the HCAD office building in 200 seconds. In comparison, for 9 trillion gallons, it would take 4.5 months for Harvey's rainfall total to flow over Niagara Falls.

As a result of Hurricane Harvey, 121,915 homes were damaged in Harris County, of which 800 were completely destroyed. Another 48,969 homes were affected. During the storm, 11,212 people were rescued. There were 88 fatalities in Texas directly or indirectly related to Hurricane Harvey. For August 2017, there were 1,838,694 housing units in Metro Houston, of which the homeownership rate is 59%. Greater Houston issued nearly 80,000 residential building permits in 2016 and over 90,000 in each of 2015 and 2014 for new home construction. During Hurricane Harvey, no less than 95% of the homes had continual electrical service throughout the storm.

Houston is growing as a major distribution center, taking advantage of its location at the crossroads of I-10 and I-69 (Super NAFTA Highway between Mexico and Montreal), and increased shipping through the Port of Houston with the expansion of the Panama Canal. Volume shipping is up approximately 13% from 2016. The Intercostal Waterway supplies Houston with additional sources of crude oil from Corpus Christi and Mexico. Today, it is second in the nation in total waterborne transportation (21% of nation's total volume), shipping 486 million tons per year, of which 90% is petroleum, its products, and associated chemicals. The Warehouse and Industrial market is experiencing high demand due to increased shipping through the Port of Houston and Houston's growing importance as a distribution center.

The Metro Houston population grew by an estimated 100,000 to 6.7 million in 2017, one new resident every five minutes. The Texas Demographic Center estimates that under a Moderate Growth Scenario, Metro Houston will have a population close to 8 million in 2030, 9 million in 2040 and 10 million in 2050. The metro area is undergoing "regional compression"; with Harris County alone having a population of 6.3 million by 2050 (almost as many as Metro Houston has now).

Retail and Multifamily commercial properties are expected to keep pace with the area's consistent population growth. Northwest Harris County is experiencing new development to follow the new residential neighborhoods along the recently opened sections of the Grand Parkway.

The Retail sector is undergoing an adjustment in the marketplace in relation to internet on-line shopping, especially with the activity of Amazon and other large retailers capturing a market share of this type of e-commerce.

With the adjustments in the energy market, and large companies building their own campuses, the Office market in Houston experienced an increase in vacancy, most of which was sublease office space (the direct tenant still pays the full lease on their tenant space, with the area for lease only physically vacant, not economically). However, there appears to be a demand for Class A rental space, as its net absorption for the 4th Quarter 2017 was nearly 700,000 sf New office projects have fortunately been put on hold, as only about 200,000 sf of new office product was under construction in the 4th Quarter.

Houston is the home of the Texas Medical Center (TMC), the largest medical center in the world. Houston's Medical sector is one of the strongest in the city's economy. For years 2016 and 2017, Medical buildings had less than 100,000 sf of sublease space available. Currently, there are over $3 billion in hospital and medical building construction in the Greater Houston area. The senior population (age 65+) in Harris County is now at 462,000, and is estimated to reach 965,000 by 2040 (more than double). The TMC sees 8 million patients per year, and is the 8th largest central business district in the nation.

In 2017, the national economy saw an increase in GDP growth, a reduction in the unemployment rate, and significant and record-breaking increases on investment returns in the stock market compared to the previous year. For 2018, the nation's economy is expected to be more stable with good economic growth, investment returns, and continued low unemployment.

Usually, a GDP growth of 2.0% is considered to be growth typical of a stable market, and 4.0% or more growth is considered a boom or "bull" market. Houston's GDP change was -3.6% for 2016. It is estimated to have a GDP of $489.1 billion for 2017, with GDP growth of 2.2% for the year, and 2.6% growth for 2018. According to the Greater Houston Partnership and the Perryman Group, projections for Houston's GDP for 2020 are $558 billion, $784 billion for 2030, and $1.02 trillion for 2040. That is to say, Houston's economy is estimated to double in a little over 20 years. Net job growth for Houston was 48,500 in 2017 and is estimated at 46,000 for 2018 and 75,000 for each of 2019 and 2020 if oil prices remain above $60/barrel.

Greater Houston employs over 3 million people in full-time jobs. Anything less than 5.3% unemployment is considered to be "full employment" and a shortage of labor. During the Great Recession (2007-2009), Houston's unemployment rate peaked at 8.8%, and during the oil bust of the 1980s, unemployment hit 12.9%. At the beginning of 2017, unemployment in Houston was 5.0%, and is currently 4.3% for the start of 2018.

Inflation was 2.1% in 2017 and is projected to be 2.5% for 2018. The 10-year U.S. Treasury Bill rate by the end of 2018 is expected to be 3.0%. Retail sales are predicted to grow 4.7% in 2018. The current Federal funds rate is 1.5%. The Federal Reserve signaled it will raise rates to 2% in 2018, 2.5% in 2019 and 3% in 2020. Announcing these expected changes stabilizes and reduces uncertainty in financial obligations planning.

The 10-year U.S. Treasury Bill is normally considered as a reliable indication of the “safe rate” component of the capitalization rate for real estate investments (i.e., in the “built up” capitalization method, the other three components are management, risk and illiquidity rate).

The Dow Jones Industrial Average rose exponentially since the Presidential Election Day on November 8, 2016. Called the “Trump Bump,” the DJ rose from November 8, 2016 to January 26, 2018 by an astounding 32% (a 14-month time frame), and just 25% for 2017. This was fueled by the confidence of the financial and business world in an Administration that favors: less government regulation, periodic moderate and manageable interest rate increases, tax reduction, low inflation, low unemployment, increasing infrastructure and shipping, exporting of oil, natural gas and coal, growth of domestic capital as well as business/industrial operations. This will drive an increase in business activity, earnings and profits.

On December 20, 2017, Congress passed a tax bill that will reduce income and corporate tax. The current Income Tax rate for the top income level will decrease from 39.6% to 37%, and for those with $38,700 to $82,500 annual income, from 25% to 22%. Increased “cash in the consumers’ pockets” could additionally stimulate economic growth.

Currently, the Statutory Corporate Tax rate in the US is 38.91%, while Europe’s average is 18.35% and the world 22.96%. Corporations have moved capital and operations overseas for tax planning and avoidance. The new tax bill reduces the US statutory corporate tax rate permanently to 21%. This will encourage corporations to move overseas capital and operations back to the United States.

It would also provide additional revenues to the government, as overseas capital is not taxed by the US. On January 17, 2018, Apple Corporation announced a new set of investments committed “to support the American economy and its workforce,” with $55 billion for 2018 and “…direct contribution to the US economy … $350 billion over the next five years…” In January 2018, “Amazon pledged to add 100,000 new full-time US jobs by mid-2018…”

This opportunity to shift overseas capital back to the United States directly attributed to the one week 1,000+ increase in the Dow Jones Industrial Average for the third week in January 2018. The additional domestic capital will need to perform with returns and yields for companies and investors, and the competition for acquiring performing investments should result in further compressing capitalization rates. The gradual rise of financing interest rates could offset this compression caused by the lack of investments available at higher cap rates.

Moving capital and business operations back to the US could also stress foreign markets that need these US investments and holdings as a significant part of their own economy, possibly creating foreign recessions. This could create an additional influx of foreign capital to the US as those markets look for a safe haven and good returns for their capital.

Hobby Airport handled 13.28 million passengers in 2017, compared to 12.73 million in 2016. Bush International Airport handled 41.42 million passengers in 2017, down from 42.86 million in 2016. However, it shipped 445,266 metric tons of air freight in 2017, compared to 415,391 in

2016, an increase of 7.2%. In 2017, 50.6% of the air freight was shipped to/from international destinations.

MetroRail continues the further expansion of their light rail public transport system in Greater Houston. The Gold Line (Bellaire/South Rice to Northwest Transit Center) is under construction. The Purple Line (Hillcroft Transit Center to Eastwood Transit Center) is planned. Currently, with 23 miles of MetroRail line in operation, long-term plans include lines to service Bush International Airport, Katy and Sugar Land.

For the month of November 2017, 1.65 million passengers used Houston's light rail system, up 15% from November of the previous year. In November 2016, 1.44 million passengers used MetroRail, compared to 1.47 million in November 2015.

Texas Central plans to break ground in 2019 for a high speed train to run from Houston to Dallas, with a stop at Bryan-College Station.

NASA downsized its operation when the Shuttle program was cancelled in 2011, but is back up to normal levels with the Orion project. A lunar space station is planned by 2027, and manned mission to Mars by 2033. In November 2016, NASA developed "EM drive," an electromagnetic propulsion system that uses no propellant and emits no exhaust, also known as Solar Electric Propulsion. It actually "breaks a law of physics. However, a NASA test says it works anyway." It "… converts electricity into thrust simply by bouncing around microwaves in a closed cavity…"

In Metro Houston, according to the TexAuto Facts, "Local auto dealers sold 30,670 vehicles in November 2017, a 35.3% increase from November 2016. Strong demand for replacement vehicles from Hurricane Harvey continues to bolster sales, though 12-month totals still lag previous years. Dealers sold 293,614 vehicles for the 12-months ending November 2017, down 3.1% from the same period the previous year"

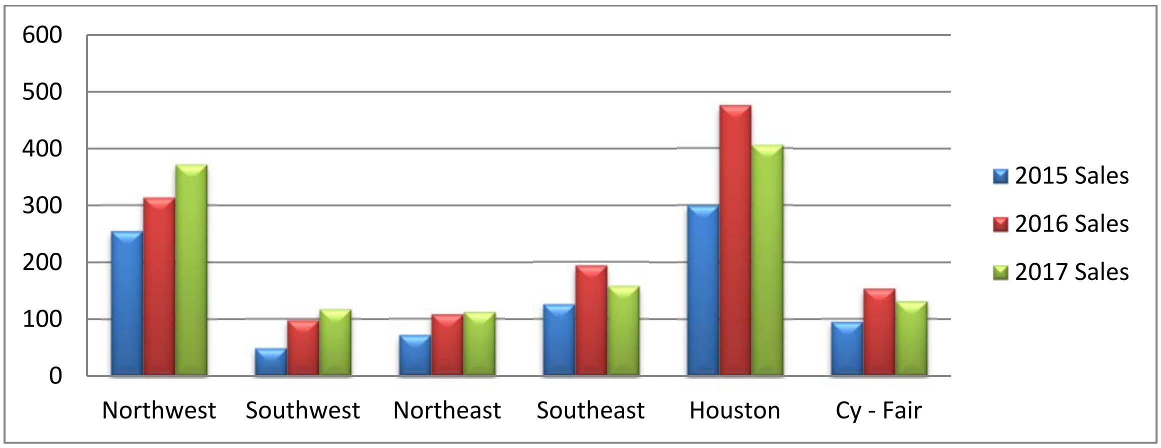
Recent positive factors presented favorable conditions for equity and capital growth nationwide in 2017. Houston has consistently shown resilience to the national recession in the past several years and has remained one of the nation's best areas for employment and economic growth. Houston's historically lower cost of living compared to other metropolitan areas, affordability of homes, low unemployment, job creation, relatively low interest rates (although rising gradually), and Houston's diversified economy should support strong long-term economic growth relative to a consistently growing population. The recent recovery from an adjusting market and damaging storms brings an element of caution underlying a generally optimistic Houston market.

Land

The following charts show various breakdowns of the sales activity in Harris County. The comparisons by submarket are designed to show what parts of the county has the most sales activity. The comparisons by year are designed to show if the land market is improving, getting worse or remaining the same.

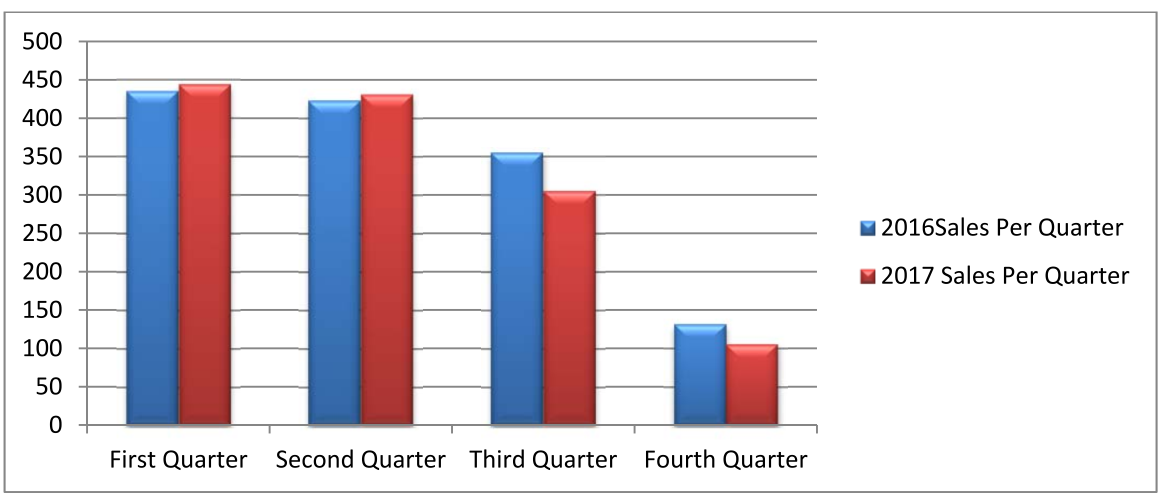
The chart below shows the sales volume per submarket for 2015 versus 2016 versus 2017. Based on this chart the 2017 sales activity shows an improvement in activity for the Northwest, Southwest and Northeast submarkets over previous years. The Houston, Southeast, and Cy-Fair submarkets were slightly less active in 2017. The markets have increased in activity since 2015. Although some of the submarkets were not as active as 2016, there is still an uptick in activity over previous years.

<u>2015 Sales Volume vs. 2016 Sales Volume vs. 2017 Sales Volume</u>

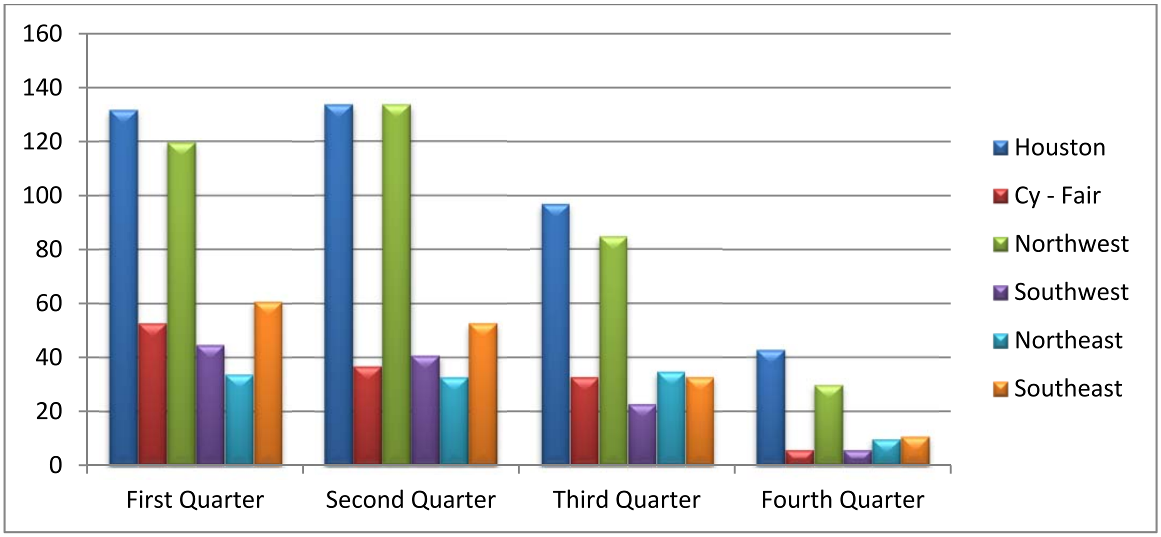


This next chart shows sales volume for the whole county by quarter for 2017 in comparison to sales per quarter in 2016. Like most years the fourth quarter shows the least amount of activity. Based on this chart the activity throughout the county seems to drop off throughout the year. It is unknown what effect Hurricane Harvey has had on the third and fourth quarter sales.

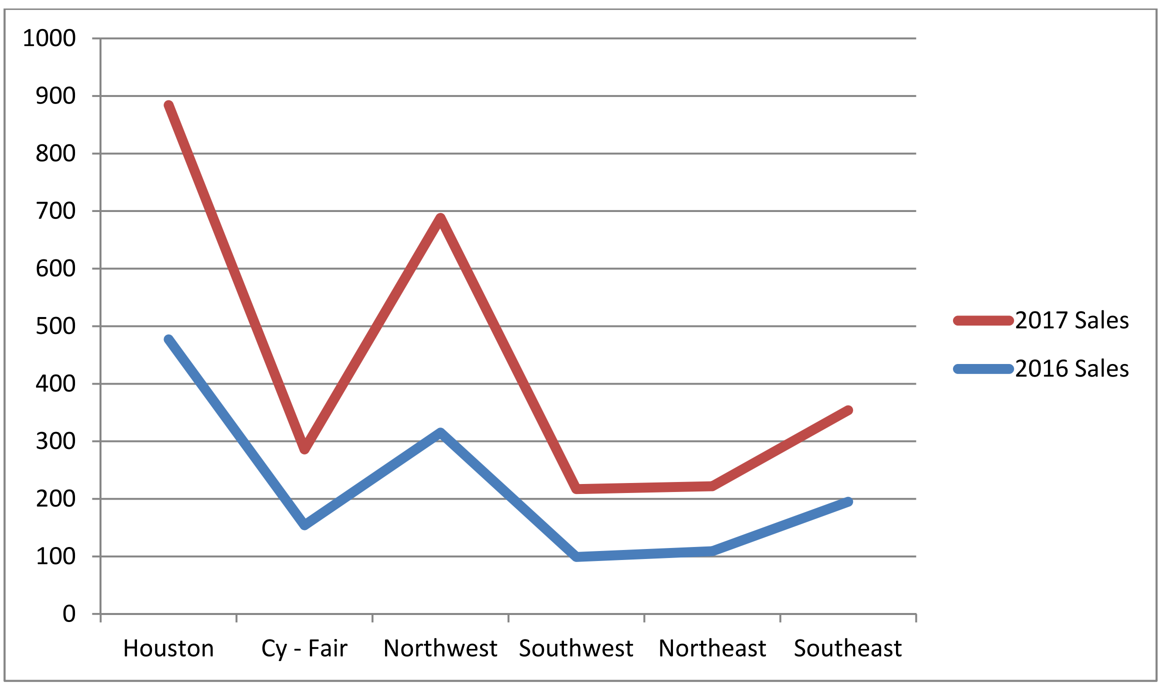
<u>2017 Sales per Quarter vs 2016 Sales per Quarter</u>



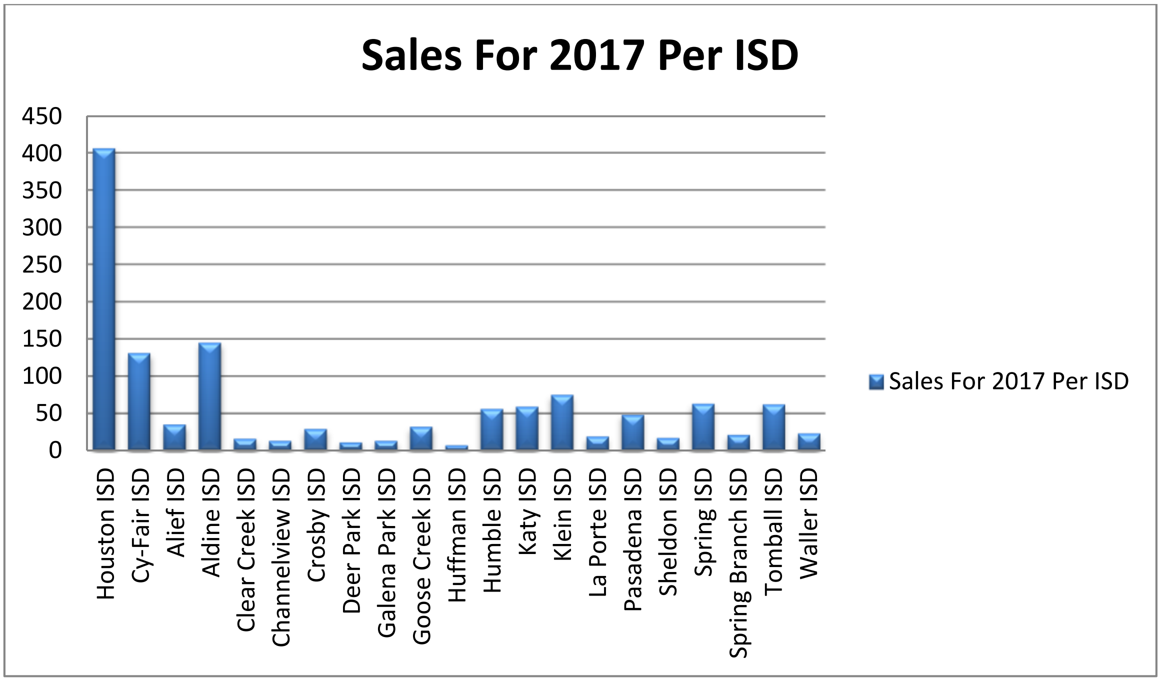
2017 Land Sales per Quarter per Submarket



2016 Sales Volume vs 2017 Sales Volume per Submarket



Volume of Sales per School District for 2017



Summary

The sales charts give a clear indication of the activity throughout the county. HISD typically has the highest amount of sales activity followed by Cy–Fair ISD. That is something that has hardly changed throughout the years. This is mainly because they are the two largest school districts in the county. The charts however show the northwest quadrant of the county has seen the most activity in the twelve-month period of 2017. That is followed by the southeast quadrant, the southwest quadrant, and lastly the northeast quadrant.

The downturn in the oil market has had effects on the west side of town where the energy giants are located but it has not slowed the building of apartments and retail throughout the county. The recent hurricane may have caused a pause in activity as many try to recover from any damages incurred. The investors with eyes on the future are always looking for prime real estate and the downturns will not stop them from seeking out the best parcels up for offer.

Office

The Office market was affected by the downturn in the oil & gas economy in metropolitan Houston during 2016. Since then, the Office market has been adjusting and recovering from the shuffle of tenants, leaving a short-term gap in occupancy. Some tenants left large office buildings in the CBD to move to their own-built new campuses. Others consolidated their operations and reduced office space. As the economic continues to recovery, "vacant office space placed on the market by firms in the energy industry will take longer to absorb," according to Colliers.

"Houston's office market should begin 2018 on relative solid footing. However, expectations of flat energy employment could restrain any significant office sector leasing activity, moderating any major occupancy gains through the first half of the new year."

For sublease space, although the space may be physically vacant, the primary tenants are still paying rent to the office building owner. Reports of the amount of sublease space in the greater Houston area range from 4.9 million sf to 8.1 million square feet in 3Q 2017. The most frequently reported range of total sublease space in the greater Houston area is between 5 to 6 million square.

Class A rents do not appear to noticeably drop to Class B levels. Instead, tenants are demanding more Tenant Improvements, and updating (fitness gym, food court and/or restaurants, Wi-Fi, subcontractor meeting room, etc.). The challenge is that property owners did not plan or budget for major T.I. expenditures early in the building's life, for example, 10 years after the building's construction. Concessions are considered to attract new tenants and to retain renewals. There is significant growth and potential in health care, higher education, and technology office market.

This economic adjustment has slowed the aggressive construction activity experienced over the past few years. Most proposed office construction projects were fortunately put on hold. This will inevitably cause the market's vacancy rate to float higher as the market tries to rally leasing and absorption activity to keep up with supply.

Of Houston's 2017 net absorption loss of -2.0 million sf, 38% of that was in the North Belt/Greenspoint area. Excluding this area, the greater Houston area would have had a positive Class A net absorption for the year. Note the 4th Quarter net absorption, on the following page, for most classifications was either positive, or the negative net absorption was less than -80,000 sf Class A net absorption in greater Houston area in the 4th quarter was almost +700,000 sf

Significant numbers of negative absorption were generally seen in the first three quarters of 2017. In the 4th quarter, it appeared the market had turned, as the Suburban absorption was a little more than +750,000 sf, while the CBD had less than -100,000 sf At the end of 2017, CBRE indicated "Leasing closes year on positive note; 2018 to see momentum ... Houston's office market should begin 2018 on relative solid footing." They also indicated the average vacancy rate was 17.3%, average asking rental rate was $29.41/sf, and 4th quarter 2017 net absorption was +324,546 sf From the previous quarter, the vacancy rate was trending down, average asking rate and net absorption trending up, and construction was level.

IRR, in their 2018 Viewpoint report, indicates Houston along with Chicago to be in a Recession Suburban market, with increasing vacancy rates, moderate/low new construction, low absorption, and low rental rate growth.

With regards to Hurricane Harvey, Colliers state in their 3Q 2017 report, "Unlike housing and infrastructure, the office inventory emerged relatively unscathed … This was a temporary setback for many, but has had permanent ramifications for others. A joint industry survey confirmed that less than 7% of Houston's office inventory suffered damage. Of that amount, approximately 45% were repaired and back on-line within the first month. Another 30% reported repairs to be completed by the end of the year and the remaining properties [less than 2% of the total inventory] were so severely damaged they could not report a time frame for repairs."

Inventory Analysis

According to CRBE, 19.9% of the metropolitan office building inventory is in downtown Houston, followed by Galleria/West Loop North (15.6%) and Energy Corridor (Katy Freeway West) (11.6%). Over the last 10 years, 44.3% of the total metropolitan office completions were in West Katy Freeway area, accounting for 13.8 million square feet over that period.

Colliers 4th Quarter Houston Office Market

	# of Bldgs	NRA sf	Vacancy %	Average Ask rate ($/sf)	Sublease SF	Q2 2017 Net Absorption (sf)	Q3 2017 Net Absorption (sf)	Q4 2017 Net Absorption (sf)
Total	***1,709***	***231,290,464***	***16.4%***	***$29.34***	***5,479,096***	***-729,966***	***-835,979***	***+673,545***
Class A	413	129,468,953	16.8%	$35.31	4,910,126	-903,862	-612,381	+694,686
Class B	975	88,134,878	17.5%	$22.07	554,560	+216,698	-177,431	-34,757
Class C	321	13,686,633	11.2%	$17.43	14,410	-42,802	-46,167	+ 13,616

CBD	***78***	***43,559,173***	***17.5%***	***$41.02***	***1,266,887***	***-190,189***	***-269,406***	***-85,263***
Class A	35	32,894,996	14.6%	$44.36	1,189,387	-79,994	-318,832	-75,517
Class B	29	9,786,995	27.4%	$29.29	77,500	-99,793	+ 49,426	-12,296
Class C	14	877,182	12.5%	$20.26	0	-10,404	0	-450
Total Suburban	***1,631***	***187,731,291***	***16.6%***	***$27.05***	***4,212,209***	***-539,777***	***-566,573***	***+758,808***
Class A	378	96,573,957	17.6%	$32.92	3,720,739	-823,868	-293,549	+767,203
Class B	946	78,347,883	16.3%	$20.54	477,060	+316,491	-226,857	-22,461
Class C	307	12,809,451	11.1%	$17.22	14,410	-32,400	-46,167	+ 14,066

Source: Colliers Research & Forecast Report, Houston, Office, Q3 & Q4 2017 Reports

	Buildings			Inventory (sf)		
	2015	**2016**	**3Q 2017**	**2015**	**2016**	**3Q 2017**
Owner Occ.	570	594	585	42,058,691	45,513,192	44,411,214
Class A	449	470	481	133,949,803	139,601,730	124,695,246
Class B	2,874	3,011	3,120	124,310,081	124,822,508	124,695,246
Class C	3,587	3,559	3,761	39,584,279	39,676,730	38,682,508
Total	***6,910***	***7,150***	***7,362***	***297,844,163***	***304,100,825***	***306,029,167***

Owner Occupied Buildings are included as part of the Class A, B, and C inventory

Sublease Availability

SUBLEASE Vacancy sf	4Q 2016 sf	1Q 2017 sf	2Q 2017 sf	3Q 2017 sf	4Q 2017 sf
Class A	4,008,279	4,198,912	4,466,631	4,975,524	4,467,636
Class B	1,000,061	761,652	726,830	639,376	547,292
Class C	6,020	14,188	24,425	37,214	8,739
Total*	5,014,360	4,974,752	5,217,896	5,652,114	5,023,667
CBD	970,254	817,471	869,432	1,226,887	1,304,406
Suburban	4,044,106	4,157,281	4,348,464	4,385,227	3,719,261

**at the end of each quarter*

Net Absorption

The first three quarters of 2017 saw a decrease in absorption, an increase in vacancy and lease concessions, and an increase in available sublease space.

According to CBRE, in the five quarters from July 2016 to September 2017, Class A had almost no absorption in two quarters, negative absorption less than -900,000 sf in each of two quarters, and roughly 100,000 sf positive absorption in one quarter. That is to say, in 3 years from January 2015 to December 2017, only two quarters (6 months) saw negative absorption in Class A Office space in the greater Houston area, being October 2016 to March 2017.

Of the city’s net absorption loss for the year, 11% was Class A, and 94% Class B. The positive absorption of Class C adjusts the total to 100%.

In the 11 quarters from January 2015 to September 2017, Class B saw a negative absorption for 8 quarters. “With expectations of flat energy employment could restrain any significant office sector leasing activity, moderating any major occupancy gains through the first half of the new year.”

Overall, net absorption in 2017 was negative -100,000 sf for Class A and C combined, but -1.9 million sf for Class B, for a net absorption of -2.0 million sf Many Class B tenants migrated to Class A, which had lower effective rates from the year before, increasing the amount of Class B available. Much of Class A provided sublease space, as energy companies in CBD and Energy Corridor moved to other campuses. “Class A buildings continue to be encumbered by the expiration of available sublease terms and footprint contractions”

However, 4th Quarter 2017 positive absorption for most sectors of the Houston office market are presented in the chart in the introduction of this section.

Leasing Activity

Houston’s office leasing activity dropped from 3.4 million in Q2 2017 to 2.7 million in the next quarter.

- BHP has 294,580 sf at Four Oaks Place in the West Loop / Galleria market;
- NGR leased 431,307 sf in One Shell Plaza in the CBD.
- Apache Corp. renewed their lease of 355,506 sf in Post Oak Central One, Galleria
- Bank of America leased 209,447 sf in the Capital Tower in the CBD.

Houston Office Vacancy Rates

	2015	4Q 2016	1Q 2017	2Q 2017	3Q 2017
All Classes	13.6%	14.9%	16.0%	16.1%	16.4%
Class A	14.5%	17.6%	18.9%	19.5%	19.8%
Class B	14.3%	14.4%	15.1%	15.0%	15.4%
Class C	8.1%	6.9%	7.3%	7.1%	7.4%
CBD	13.6%	18.1% (1) 15.0% (2)	17.2%	17.2%	18.1% (1) 14.2% (2)
Suburban		15.1%			18.9% (3)

CoStar (2) REIS (3) Colliers

Construction Activity and Deliveries

Colliers reported there was approximately 200,000 square feet of new construction starts in Q3 2017, compared to 1.5 million sf in same quarter of the previous year. Of the 2.2 million sf currently under construction (2.9 million sf in Q3 2016), 8.3% was Class B, with the remainder as Class A. The Capital Tower in the CBD represents 35% of the new construction under way in Houston. According to CoStar, almost 4.0 million square feet of construction was underway at the end of 2016, of which 51% was pre-leased. Construction Activity: Downtown 25%, Woodlands 18%, Ft. Bend/Sugar Land 14%, Westchase 6%, Katy/Grnd Pwy 4%, West Loop 4%, Other 30%. (Source: CoStar)

Noted projects underway at the 3rd quarter were the Capital Tower (778,344 sf), 27% pre-leased, and CityPlace 2 (326,800 sf, 94% pre-leased).

Office Building Deliveries and Construction

Office	4Q2016	1Q2017	2Q2017	3Q2017	12 mo. Total
Buildings Delivered	12	20	19	11	62
Total SF Delivered	89,065	1,944,623	350,424	209,846	2,593,958
SF Under Construction				3,139,455	

Source: CoStar

The area centered on Gessner Drive and Interstate 10 just east of the Sam Houston Beltway (HCAD Economic Area 14) has been strong for new construction, with pre-leasing ranging from 80% to 100% occupancy. With the development of a Hermann Memorial Hospital campus next to Memorial City Shopping center, construction of multi-story office buildings has been prevalent. Most of the new buildings, as well as the hospital, have been connected to the shopping center by sky-walks.

Galleria and Central Business District are still considered good locations for attracting tenants. Given the adjustment period the market is now experiencing, there is some resistance by tenants of locking into long term leases. Class A leases tend to be 5 to 7 years in length, with most new buildings signed to long-term 15 year leases.

Rental Rates

Quoted Rental Rates	Class A	Class B	Class C	Overall
Downtown	$41.11	$28.65	$23.19	$37.84
Greenway Plaza	$36.68	$27.30	$23.24	$33.63
Katy Fwy	$32.85	$22.08	$20.14	$28.02
West Loop	$36.34	$26.58	$22.51	$34.37
Westchase	$34.81	$19.02	$15.92	$28.74

Source: CoStar

Average Office Rental Rates

Office	4Q 2016	2Q 2017	3Q 2017
Rental Rate/sf	$27.52	$27.67	$27.60

Houston Market Areas Ranked by Overall Vacancy Rate and Rental Rate

	Vacancy Rate	Quoted Rates Per Square Foot
1.	6.7% - South/ Medical Ctr	$37.84 - CBD
2.	7.0% - Kingwood/Humble	$34.37 - West Loop
3.	7.6% - Northeast Near	$33.63 - Greenway Plaza

…	…	…
22.	19.4% - Katy Freeway	$17.64 - I-10 East
23.	20.7% - Westchase	$17.41 - Southwest
24.	39.9% - North Beltway	$17.35 - Richmond/Fountainview
Average	**16.4%**	**$27.60**

Source: CoStar Year End 2017 Houston Office Market Report

Sales Activity

Regarding sales activity, "most of the investor community believing the downturn in energy industry has reached the bottom and has begun to rebound; they now see Houston as offering limited downside and the potential for healthy returns. The average sales price per square foot increased over the quarter, but is still below the historical average." Of the notable disclosed sales from Nov. 2016 through June 2017, Greenway Portfolio (built in 1979) with over 2.4 million sf NRA sold for $200-$250 psf. One with 272,941 sf built in 1976 sold for $150-$250 psf. The newer buildings, 5 built after 2002, sold for $150 to $400 psf, according to CoStar. The first half of 2017 saw 20 properties sell for $1.15 billion, with an average sale price of $210 psf.

Also from IRR, "…even with a slower market, prices rose 8.4%, suggesting that more careful selection rather than any withdrawal of capital is what is shaping the real estate investment marketplace." In the Office sector, in terms of top markets by total office transaction volume based on year over year percentage change, Houston was 1st in the nation with a 140.5% change for 2017.

Capitalization Rates

CoStar reported that cap rates were higher in 2017 sales averaged 7.17%, more than the sales average cap rate of 6.32% in 2016, but less than the average of 7.12% for 2015, 7.30% for 2014, and 8.29% in 2013. REIS indicates a mean and median cap rate of 7.0% for the year, down from a mean of 7.7% in 2016, but up from the median of 6.4%.

It appears a majority of the sales that did occur included a significant number of portfolio (bulk) sales, distressed properties, older product, or sales based on business decisions and pressures rather than market conditions. As a result, sales may not truly reflect market value of stabilized properties.

The overall national average cap rate for the 3rd quarter of 2017, according to Price Waterhouse Cooper, was 5.66% for CBD office building sales, down marginally from 5.68% for the previous 3rd quarter. For the national suburban office market, for 3Q 2017 it was 6.69%, up marginally from 6.64% a year earlier.

Summary

In the energy sector adjustment, large tenants either consolidated their operations and/or rental space, shifted to other Class A locations obtainable at competitive rates and terms, or moved to either their own newly built camp. This significantly increased the supply of available office space for rent, both direct and sublease space. Class B negative absorption increased significantly as tenants shifted to competitive Class A space.

While the first three quarters of 2017 had negative absorption, it appeared that in the fourth quarter Houston showed signs of improving with positive absorption of available office space. North Beltway/Greenspoint accounted for over 1/3 of the total negative absorption for the year, and excluding its negative absorption in Class A properties would have put Houston Class A properties in a positive absorption for the year.

The pull back of new construction projects will help in reducing the amount of new product coming on line in the next two or three years, giving leasing activity an opportunity to lease up the large amount of existing vacant available office space.

For 2018, at least, the outlook is for the office market is “cautionary”, with little rise in rental rates; concessions and tenant improvements offered to retain or attract tenants; decrease in new construction, which will reduce the supply of available space accordingly; vacancy rates expected to remain high but appears to have leveled off; and continued low capitalization rates. The demand is for Class A office space, but tenants will use the availability of sublease and Class B space to negotiate for favorable leases.

Hurricane Harvey did not affect the office market as much as it did the residential market in Houston. Considering the size of the storm, with only 7% were affected, and less than 2% of the total office inventory was not repaired by the end of the year, the recovery is considered to be relatively remarkable.

The Office market may have turned the corner with regards to absorption. However, after the region experienced a market adjustment in the energy sector, and a set back with Hurricane Harvey, an element of caution and limited optimism underlies market anticipations.

CBRE 4th Quarter 2017 Houston Office Market

	NRA sf	Vacancy %	Avg Ask rate ($/sf)	Sublease (sf)	Under Construction (sf)	Q4 2017 Net Absorption (sf)	2017 Net Absorption (sf)
Total	***213,189,747***	***17.3%***	***$29.41***	***9,339,002***	***2,236,736***	***+ 324,546***	***-2,000,480***
Class A	115,189,747	15.5%	$38.10	6,752,233	2,049,536	+ 113,598	-213,980
Class B	73,280,631	20.4%	$22.75	2,385,404	187,200	+ 37,849	-1,886,049
Class C	24,719,369			201,265		+ 173,099	+ 99,549
CBD	***42,343,647***	***14.3%***	***$40.83***	***2,165,070***	***778,344***	***-92,907***	***-688,227***
Class A	30,126,479	13.7%	$45.54	1,699,599	778,344	-110,553	-206,079

Class B	11,269,895	16.2%	$29.91	369,599	--	-23,297	-555,277
Class C	947,273			96,322		+ 40,943	+ 73,129
Total Suburban	***170,846,100***	***18.1%***	***$26.59***	***7,173,932***	***1,458,392***	***+ 417,453***	***-1,312,253***
Class A	85,813,706	16.2%	$35.03	5,052,634	1,271,192	+ 224,151	-7,901
Class B	61,010,736	21.1%	$21.58	2,016,255	187,200	+ 61,146	-1,330,772
Class C	24,021,658			5,043	132,156	+ 132,156	+ 26,420

W.Loop/ Galleria	***33,238,084***	***16.2%***	***$34.01***	***982,220***	***104,579***	***+ 18,055***	***+ 70,222***
Class A	17,436,762	16.7%	$38.56	630,133	104,579	-30,389	+ 412,248
Class B	12,355,738	16.2%	$29.02	340,850	--	+ 52,100	-356,368
Class C	3,445,584			11,237		-39,766	+ 14,342
Energy Corridor	***24,636,590***	***18.4%***	***$31.38***	***1,967,535***	***86,255***	***+ 96,658***	***-692,059***
Class A	18,796,583	16.3%	$36.21	1,789,537	86,255	+ 38,858	-395,304
Class B	4,934,870	25.3%	$25.23	167,270	--	+ 24,624	-351,239
Class C	905,137			10,728		+ 33,176	+54,484
Westchase	***19,657,631***	***19.5%***	***$28.05***	***1,471,208***	***187,011***	***-75,034***	***-376,806***
Class A	7,255,779	18.5%	$41.02	979,826	187,011	-36,527	-129,968
Class B	9,198,188	20.7%	$23.33	486,521	--	-4,101	-158,490
Class C	3,203,664			24,856		-34,406	-88,348

Source: CBRE Marketview, Houston Office, Q4 2017

Multi-Family

The Houston multifamily apartment market in 2017 saw three segments: the first half year, slow absorption with delivery of units moderately exceeding demand and slowdown in new starts; third quarter, Hurricane Harvey affecting the apartment rental market, with significant negative absorption due to "down" apartments needing repair; and the fourth quarter, "hyper-leasing" with significant positive absorption as tenants and homeowners scrambled to find accommodation while their residences were under repair. Underlying this was the improving economy for Houston, low unemployment, job growth, and consistent significant population growth.

Over the last 10 years, the average annual absorption rate was 10,112 units per year. The Demographic Center of Texas, under a Moderate Growth Scenario, estimates the population of greater Houston by 2040 to be 9 million, from the current 6.7 million for the metro area.

The economic recession year of 2008 saw 21,862 units delivered. Only 3,900 to 5,900 new units per year were delivered during the economic recovery years of 2010 to 2012. Conversely, from 2014 to 2016, a total of 57,824 sf were delivered. Absorption rate for 2016 was only 4,195 units.

By the end of 2016, 12,133 units were under construction. Many proposed projects were put on hold until absorption rates increase to meet new supply of units.

The first half of 2017 saw improving leasing activity and dwindling concessions. There was a positive absorption of 12,746 apartment units for the six months.

Then Hurricane Harvey hit in the 3rd quarter of 2017. "While other commercial sectors saw minimal impact from Hurricane Harvey, damage to multifamily units and demand from the single-family market has thrust Houston into a landlord market 18 months earlier than anticipated" In September, the Wall Street Journal published the article "Before Harvey, Houston Had a Glut of Rentals. Not Anymore." ADS reported that 15,000 units were out of commission as of Sept. 22nd. For the 3rd quarter, net absorption changed to -4,265 units.

As a result, occupancy spiked to 90.2% from 88.9%. Effective rents climbed 1.4% within a month of Harvey and significant concessions and lease-up specials ended.

Labor and materials for repair were in short supply, and associated costs rose. There was an added demand for apartment accommodation not only from those in flood affected apartment units, but from single family residential also needing repair from flood damage.

CRBE indicates, "Although some renters will return to their homes in the next six to nine months, demand from recovery efforts and new permanent renters will complement organic growth, which was already forecasted to pick up in 2019." The REIS 5-year forecast for Houston is for 7,155 units to be built annually, with 5,628 units absorbed each year.

Projected leasing starts for 2018 are 4,100 units for the 1st quarter; 4,400 for the 2nd; 1,800 for the 3rd; and 1,900 for the 4th quarter, for a total of 12,200 units.

Texas Metropolitan Multifamily Market

	Houston	**Dallas/FW**	**Austin**	**San Antonio**
Occupancy	89.4%	91.6%	90.9%	90.2%
Rental $/mo.	$1,104	$1,070	$1,175	$ 909
Rental Rate psf/mo.	$1.12	$1.23	$1.35	$1.07
Avg Size	882 sf	871 sf	872 sf	849 sf
Rental Rate growth (12 mo.)	4.7%	4.8%	1.8%	2.7%
Units Absorbed (2017)	17,469	14,325	6,979	3,805
Communities	2,278	2,964	924	863
Units	639,979	690,497	214,468	181,904
MSA population	6.7 million	7.0 million	2.0 million	2.4 million

Source: Apartment Data Services, Market Line – Houston, January 2018

Competition continues between Class A and B apartments, with tenants look for the best deals. Most of the population influx was looking for better economic opportunities. As a result, there remains a strong demand for Class C accommodations. For 2018 and 2019, asking rents are projected to increase 2.6% and effective rents 2.3% for each year.

2017 Multifamily Unit Absorption & Rental Rate Change

	1Q	2Q	3Q	4Q	Total	Rental Rate 12 mo. Chg
Greater Houston	5,226	7,520	(4,265)	8.988	17,469	4.7%
			Harvey 8/18			
Central	1,186	1,736	1,305	1,770	5,997	
Northeast	318	859	(2,681)	1,051	-453	
Northwest	2,043	2,857	(6)	2,684	7,578	
Southeast	757	859	(1,119)	1,382	1,879	
Southwest	**922**	**1,064**	**(1,764)**	**2,101**	**2,323**	

Source: Apartment Data Source (ADS), January 2018
Smaller neighborhoods not listed above, but totals included in submarket region totals.

The increase in new equity from 25% gains in the 2017 Stock Market could put pressure on developers by the investment market to increase building of new product to park investment capital, regardless of demand or market conditions. This is a cautionary issue regarding forecasts of supply and demand for multifamily properties in the near future.

Sales Activity

In 2016, total combined $719.9 million was invested at an average selling price of $81,000 per unit. In the first 3 quarters of 2017, there were 22 properties sold for $405.8 million, at $90,000 a unit. This includes all classes of apartments.

Capitalization Rates

The 12-month rolling cap rate per quarter end was 6.5% for 3rd Quarter, 7.7% for 2nd Quarter, and 8.0% for 3rd Quarter 2016. The cap rate is expected to remain about 6.5% for the coming year.

Summary

Any concerns regarding potential overbuilding the market (west side particularly) or economic market adjustment from the energy sector has been put aside by the storm. This will affect and support the multifamily market well into 2018. Underlying this is the improving economy for Houston (estimated to double by 2040 by the Greater Houston Partnership), low unemployment, job growth, and consistent significant population growth. However market dynamics will eventually return to normal, and much will depend on the extent of building in relation to population and economic growth.

Retail

The retail commercial market in Houston experienced growth associated with the improving economy for Houston, low unemployment, job growth, and consistent significant population growth. In the metropolitan area with a population of 6.7 million, new retail supply is occurring in suburban communities that are catching up with residentially-driven demand growth. Most of this retail growth occurred outside the Beltway in Houston's suburbs.

New construction starts included 0.6 million sf in Q3 2017, 0.8 million sf in Q2, 0.8 million sf in Q1 2017, and for each of the 3rd and 4th quarters of 2016 had 1.3 million sf A bulk of the construction volume is in grocery-anchored centers.

Net absorption for 2017 was close to 3.9 million sq. ft., of which 2.0 million of that in the 4th quarter. CBRE indicates that the 10 year average annual retail absorption is 1.1 million sf Deliveries outpaced net absorption, with 5.8 million sf of construction completed in 2017 in metro Houston, according to CoStar.

An abundance of retail business bankruptcies, as well as Hurricane Harvey in August 2017, had some affected on the retail market. "Pain in the retail sector has only intensified this year, as e-commerce continues to surge at the expense of weaker retailers, especially department stores. Meanwhile, the industry is experiencing unusually widespread store closings, particularly considering the strength of consumer spending, straining occupancy in secondary markets. Accordingly, investors continue to flee the sector, investing in only the best centers and locations. However, a strong holiday season" ended the year "on a positive note."

The overall vacancy rate for retail by the end of 2017 was 5.3%. This is up from the 2016 vacancy rate of 4.7%, which was the best since 2006. Class A retail had a vacancy rate of 2.6% for the year. Single-tenant free-standing buildings, with ¼ of the city's retail rental space inventory, had only a 1.6% vacancy. Sublet available space was less than 0.1% of the total inventory.

Colliers reported, "In August 2017, Houston faced one of the worst natural disasters in history ...The retail sector saw supply chain interruptions which halted distribution logistics for a week or more. Ships carrying consumer goods were delayed due to ports shutting down and local distribution facilities could not get products delivered to consumers. Hurricane Harvey damaged was not as extensive for the commercial market as that for residential. Retail sales picked up after the storm shut down period for replacement items and repair immediately following recovery.

Different and newer retail concepts are ever evident in real estate development. Some malls converted from retail outlets to entertainment centers, with recreational activity based retail (e.g., Main Event), restaurants, and cinema, hobby and sports stores. These became known as Lifestyle Centers, using 5.3 million sq. ft. of Houston's retail inventory. Also, newer commercial developments implemented a European design, with retail on the main floor and multifamily residential apartments above. This design creates a "village" effect, where apartment residents become boutiques and service store patrons. Some multi-story retail stores were developed in areas with higher density and high land value.

COSTAR Q4 2017 Retail Market Statistical Summary

	# of Bldgs	Rentable Area	Direct Vacant SF	Vacancy Rate	2107 Net Absorption	2017 Deliveries	Under Constrn
General Retail	17,997	159,348,536	4,908,778	3.1%	1,363,026	2,732,853	2,408,449
Shopping Centers	3,959	160,731,995	12,334,970	7.8%	792,458	1,551,415	771,529
Specialty Centers	15	2,366,448	182,764	7.7%	- 7,661	0	165,000
Power Centers	61	28,732,614	1,153,537	4.0%	955,201	961,938	14,206
Malls	38	30,809,656	1,285,659	4.2%	770,781	548,075	6,000
GREATER HOUSTON	**25,546**	**382,049,249**	**19,865,708**	**5.3%**	**3,873,783**	**5,794,281**	**3,365,184**

Source: Colliers, Research & Forecast Report, Houston Retail, Q3 2017
Power Centers have 3 or more anchor stores

COLLIERS Q3 2017 Retail Market Statistical Summary

	Rentable Area	Direct Vacant SF	Direct Vacancy Rate	Sublet Vacant SF	Total Vacancy Rate	3Q 2107 Net Absorption	Class A Rental Rates (In Line) psf
Strip Centers	35,773,891	3,232,510	9.0%	24,417	9.1%	10,443	$27 - $45
Neighborhood Ctrs	71,572,850	6,595,121	9.2%	69,384	9.3%	76,406	$28 - $46
Community Ctrs	47,169,154	2,251,998	4.8%	54,292	4.9%	179,082	$28 - $45
Power Centers	27,622,955	1,215,940	4.4%	4,300	4.4%	99,760	$28 - $45
Lifestyle Centers	5,316,860	165,943	3.1%	2,700	3.2%	17,700	$40 - $85
Outlet Centers	1,330,725	150,456	11.3%	--	11.3%	- 9,300	$20 -$ 40
Single-Tenant	72,268,637	1,108,339	1.5%	57,463	1.6%	91,891	N/A
Malls	23,908,876	922,004	3.9%	--	3.9%	- 29,255	N/A
Theme/ Entertainment	499,468	11,638	2.3%	--	2.3%	1,121	$25 - $35
GREATER HOUSTON	**285,463,416**	**15,653,949**	**5.5%**	**57,463**	**5.6%**	**437,918**	

Source: Colliers, Research & Forecast Report, Houston Retail, Q3 2017
Strip Centers are unanchored; Neighborhood Center has one anchor, Community Centers two anchors, and Power Centers have 3 or more anchor stores

Retail sales improve, mostly in furniture and home improvements. Retail sales in the region are forecast to reach $75.5 million in 2018, a 5.7% increase from last year. Similar sales growth is projected over the next 5 years.

Houston's submarket vacancies were the best in the Near North at 3.5% and Inner Loop 3.7%. Highest submarket vacancy was the Near Southwest at 8.5%. The Triple Net (NNN) asking rate in the Inner Loop was $38/sf per year, Far Northwest $32/sf, Near West $36, and Far West at $30/sf.

Houston quoted retail rents were $16.86 psf at the end of 2017. That compares to $16.53 psf the 3rd quarter 2017, and $16.39 psf at the end of the 1st quarter 2017. This represents a 2.0% increase in rental rates in the current quarter, and a 2.79% increase from four quarters ago.

Space Scheduled to be Available for Occupancy, includes under construction space:

2018 1Q: 940,000 sf

2018 2Q: 380,000 sf

2018 3Q: 50,000 sf

Leasing activity involved 1.2 million sf of retail space, down from 1.4 million sf in the 2nd Quarter. Hurricane Harvey may have affected this change in quarterly activity.

In the 3rd quarter of 2017, 37 retail properties with 2.0 million sf sold at an average of $323/sf, with an average capitalization rate of 6.6%.

COSTAR Total Retail Market Statistics

	# of Bldgs	Rentable Area SF	Direct Vacant SF	Vacancy Rate	2107 Net Absorption	2017 Deliveries	Under Construction
2017	***25,546***	***382,049,249***	***19,865,708***	***5.3%***	***3,873,783***	***5,794,281***	***3,365,184***
2017 4Q	25,546		19,865,708	5.3%	1,744,394	1,336,149	3,365,184
2017 3Q	25,453		20,173,613	5.4%	509,278	1,201,999	4,308.554
2017 2Q	25,390		19,565,461	5.2%	874,411	1.650,501	4,748,245
2017 1Q	25,292		18,638,016	4.9%	745,702	1,606,632	4,684,218
2016	***25,211***	***375,803,059***	***17,790,965***	***4.7%***	***6,911,704***	***5,853,578***	***4,593,908***
2016 4Q	25,211		17,790,965	4.7%	1,631,633	1,701,179	4,593,908
2016 3Q	25,159		17,671,752	4.7%	2,103,545	1,575,752	5,266,719
2016 2Q	25,066		18,133,059	4.9%	2,629,715	1,333,517	5,602,659
2016 1Q	24,986		19,435,893	5.2%	546,811	1,243,130	5,345,416
2015	**24,910**	**369,793,646**	**18,479,351**	**5.1%**	**5,062,346**	**4,194,261**	**4,306,087**
2014	**24,732**	**365,500,624**	**19,307,204**	**5.3%**	**5,755,853**	**3,196,940**	**3,508,805**
2013	**24,529**	**362,057,147**	**21,445,183**	**6.0%**	**4,246,145**	**2,469,603**	**2,672,472**
2009	**23,677**	**351,207,616**	**26,855,679**	**7.8%**	**4.699,906**	**3,581,812**	**2,126,495**
2008	**23,374**	**346,650,239**	**26,679,259**	**7.9%**	**10,099,791**	**8,471,362**	**3,520,152**

Deliveries

- Target Shopping Center, SW Retail Market, 264,000 sf, 93% leased;

- 500 Baybrook Mall, 100% occupied, 270,000 sf.;
- Walmart Super Center, 22850 Morton Ranch Road, 100% occupied, 186,902 sf,
    - Spring Stuebner & Kuykendahl, occupied, 154,943 sf.

Top Select Sales include (CoStar):

- 10904 Scarsdale Blvd., 61,535 sf built in 1988 for $200-$250 psf;
- Humblewood Center, 117,641 sf, built 2010, for $200-$250 psf in April 2017;
- 14044 Grant Rd., 20,987 sf, built 2016, for $550-$600 psf in December 2016;
- 5215 FM 1463 Road, 26,721 sf built 2015 for $350-$400 psf.

Summary

IRR lists Houston as in the Expansion phase of the Retail Market Cycle, with decreasing vacancy rates, moderate/high new construction, high absorption, moderate/high employment growth, and medium/high rental rate growth. REIS conclude, "E-commerce and Harvey aside, meanwhile, the conventional retail real estate market remains in good shape. The demand for community and neighborhood shopping center space has been reasonably strong, development has picked up, and vacancy has been stable, if slightly elevated."

Warehouse

Houston is growing as a major distribution center, taking advantage of its location at the crossroads of I-10 and I-69, and increased shipping through the Port of Houston with the expansion of the Panama Canal. A trade loop of China-Panama-Houston-California has seen an increase in volume shipping in the Port of Houston of 13% last year above 2016. The Intercostal Waterway supplies Houston with additional sources of crude oil from Corpus Christi and Mexico. Today, it is second in the nation in total waterborne transportation (21% of nation's total volume), shipping 486 million tons per year, of which 90% is petroleum, its products, and associated chemicals. The Warehouse and Industrial market is experiencing high demand due to increased shipping through the Port of Houston and Houston's growing importance as a distribution center.

The warehouse commercial market in Houston experienced growth associated with the improving economy for Houston, low unemployment, job growth, and consistent significant population growth. The energy sector has returned to profit levels near that of pre-$100/barrel days. The US is pumping oil at over 10 million barrels per day, for the first time since the 1970s, a third of which comes from Texas. There are more active oil wells in Texas than in the entire Middle East. Upstream (drilling) has increase 46% in US in 2017 compared to the year before. But Shell makes only 11% of its profit from drilling. From downstream processing (plastics, petrochemical, gasoline manufacturing), with the decrease in oil prices, a decrease in cost of supply materials has created a petrochemical boom. Shell makes 60% of their profit from downstream processing. The profitable change in the energy sector dynamics has fueled a high demand for warehouse, distribution, and industrial properties in the world's oil capital, Houston. Vacancies are low, generally 5%, with indications of it heading toward 3%, depending on property type and location and characteristics. The market cycle is in Expansion, with positive absorption and relative new construction and deliveries.

Colliers indicates in its 4th Quarter 2017 report, "The resiliency of Houston's industrial real estate market is truly astounding. Outsiders have always considered Houston to be an "oil town" with our economic success tied to the geopolitical intricacies of the international oil and gas markets. Three years into the oil and gas downturn, Houston has proven yet again that we have a truly diversified economic base. As a result, Houston's industrial real estate market has enjoyed a disproportionate benefit of that concerted effort to have a truly balanced economy."

"Houston has been a late-comer to the unprecedented growth of e-commerce logistics. Not only have we seen multi-million SF investments by Amazon, UPS, FedEx and other providers, but we are also seeing providers to these major distributors seeking to establish regional distribution and return centers related to online sales."

At the end of the 4th quarter of 2017, Houston had 28.1 million sf of direct industrial lease space, and an additional 1.6 million sf of sublease space. "The Northeast Corridor has the lowest vacancy rate at 3.0%, followed by the South Corridor at 3.5%, and the Southwest Corridor at 4.2%. The largest percentage of vacant space is located in the North Corridor which has a 7.7$ vacancy."

Total leasing activity, including renewals, reached 23.7 million square feet in 2017. That compares with 25.7 million sf for 2016 and 30.2 million sf for 2015. Most of the leasing transactions were for space less than 50,000 sf Currently, there is 6.4 million sf of industrial/warehouse space is under construction, of which 29.3% is pre-leased. Of that, 4.6 million square feet is spec building.

Current inventory is 592 million sf in 19,302 buildings, of which 59% is warehouse, 17% is manufacturing, 14% distribution, 2% service/showroom, and 1% R&D. Owner occupied buildings number 3,550 with 158,131,765 sq.ft of Industrial area.

The annual absorption was 6.7 million sf for 2017, compared to 11 to 12 million sf each year for 2014 to 2016.

Sales activity in the third quarter of 2017 saw 18 industrial properties sell at a total volume of \$123.56 million, for 1,276, 920 square feet, or \$96.76 per sf "Cap rates have been higher in 2017, averaging 7.66% compared to the first nine months of last year when they averaged 7.08%. The 2.165 million sf Underwood Business Park in La Porte sold in February 2017 at a 6.10% cap rate for \$70 to \$75 per sf

Summary

CBRE titled their Q4 2017 Houston Industrial report, "Spec opens up as robust demand tightens availability." They indicated "Net occupier demand in the final quarter totaled over 1 million sf, driven by occupier expansions and new tenant move-ins ... Robust net absorption, paired with subdued levels of pre-leased completions, is indicative of further potential tightening in 2018." Port and petrochemical demand are expected to keep the market strong in the upcoming year. "The emergence of the Gulf Coast as a globally low-cost petrochemical manufacturer leaves Houston's industrial sector well positioned entering 2018."

Summary Statistics	Q3 2017	Q4 2017	2017	Rental Rate	Q3 2017	Q4 2017
Vacancy Rate	5.3%	5.4%	5.4%	Average	$6.73	$7.01
Net Absorption	3,476,375	186,349	6,754,452	Warehouse Distribution	$6.45	$6.71
New Construction Delivered (sf)	2,225,020	667,181	8,204,463	Flex/Service	$9.33	$9.80
Under Construction (sf)	5,291,835	6,276,897		Tech/R&D	$10.95	$10.75

Source: Colliers and CoStar, 2017 reports. Rental Rate Per Sf Per Year.

Industrial Property

Refineries

The price of crude oil has continued to rise on supply-demand fundamentals and some political-based speculation (i.e., high-profile arrests in Saudi Arabia). On the first trading day of 2017, the price of West Texas Intermediate (WTI) was about $52 per barrel. It now stands around $60 (NYMEX; first trading day 2018). Other benchmark crudes have experienced similar price increases with the exception of Western Canadian crude (tar sands) which is down about 25% year-over-year. The OPEC production restraint announced in late '16, and recently extended through 2018, has allowed global oil prices to firm from their low in 2016 of about $30.

Year-over-year crude runs at Gulf Coast refineries remained steady. The Texas Gulf Coast refinery average annual capacity utilization, as defined by the Department of Energy, for 2017 (data through October) was 87.1 percent compared to 87.0 percent for the same period in 2016. Hurricane Harvey had a varying impact on individual refineries along the coast, and most experienced reduced operations lasting days, if not weeks in August, September, and October.

The Muse, Stancil U.S. Gulf Coast composite refining margin (Oil & Gas Journal) for 2017 is about 4.5 percent higher than it was for 2016. Through the first three months of 2017, Baker & O'Brien Inc.'s PRISM® cash margins for refining on the Gulf Coast (PADD 3) averaged $2.59 per barrel higher than the same period for the prior year. Another third-party subscription service reflects a slight year-over-year increase in margin and then a forecasted reduction in refiner earnings from 2018 and 2019 of about 6%. It seems that forecasts reflect a somewhat stable earnings environment.

Specific Gulf Coast refining margins are mixed depending on refinery configuration, the types of crudes processed, and the degree of the distillate production compared to gasoline. Similarly, some refiners have associated retail outlets (to different degrees) and some do not. This has led to complaints about the RINs (Renewable Identification Numbers; the renewable fuels trading/compliance mechanism) market. RINs continue to have a sizeable impact on the merchant (a refiner with no, or minimal wholesale/retail fuels outlet) refiner's bottom line. Over the course of 2017, the price of an ethanol RIN was lower compared to 2016, but the biodiesel RIN was higher under the same comparison, so the year-to-year 'cost' as not changed significantly. In the "grand scheme" the RINs process is supposed to hold the refiner neutral with the blend cost being passed on to the consumer at the retail pump. In short, the refiner that doesn't blend his product (because he has no retail outlet) with a renewable component must acquire a RIN to conform to the renewable fuels standard mandated by the EPA. To comply, he can buy that RIN from a wholesale/retailer who did the blending and generated the RIN "credit." Part of the complaint with this process is that outside market "participants" are trading, adding speculation, and generally interfering with the price of the RIN. Because of the significant cost (hundreds of millions of dollars) to some, this trading can artificially distort a refiner's "market" earnings. RINs are also a political issue, but as of yet, there have been no changes to the blending mandates or market pricing mechanisms.

There was no significant new construction in the Harris County refining space for 2017, although some unit expansions are in the engineering and initial construction phase, most notably Valero's $300 million alkylation project.

In August of 2016 it was mentioned that Houston Refining would consider selling their refinery, but early in 2017, that decision was reversed. Also early in 2017 Delek US Holdings indicated that it would purchase the balance of outstanding shares of Alon USA Energy that it did not already own in an all-stock transaction. In late spring of 2017, Petrobras announced that it was considering the sale of its Pasadena Refining Systems operation. However, no additional news since has revealed a potential buyer. In August of 2017, Husky Energy agreed to buy Calumet's Superior refinery in Wisconsin. There is also news about Shell's Martinez California refinery being offered for sale.

Chemicals

The chemicals industry is heavily dependent on auto manufacturing and home building and, as the economy goes, so goes the chemical industry. Retail sales for vehicles declined 1.8% year over year, but have been on the rise for the past few months. This recent trend is probably skewed by the number of vehicles replaced due to Hurricane damage from Harvey. Housing is still picking up as well with new construction 8.8% higher than last year in the according to the latest figures from the census bureau.

Texas has been blessed with oil and natural gas fields that continue to be discovered, or through newer technologies, have been newly developed. The glut of natural gas that has hit the market since 2005 has caused a tremendous amount of new construction to process the gas. Around the state, there have been many other projects for building facilities to use the natural gas found in south Texas and along the East Coast. Cheap natural gas means lower raw material costs for many chemicals and possibly greater profit margins for their products.

Oil prices began cratering in 4Q14 and have begun to rebound with prices going from the mid $40s per barrel to the mid $50s per barrel year on year. While oil has dropped significantly from being over $100 per barrel, natural gas is likely to continue as the preferred feed product for chemical manufacturing in the near future. The plants that will benefit are the facilities that are flexible enough to take advantage of whichever feed is the cheapest.

In Harris County, there have been several announcements of increased capacity or new unit construction. Lyondell Bassell has increased capacity at their La Porte and Channelview facilities which completed in 2015. Exxon Mobil and ChevronPhillips are building a new olefins plant at their facilities near Baytown that should be operational in early 2018. These projects have been delayed, but the plan is to complete them as soon as possible. The ethylene margins are not stellar currently and are likely to take a big hit once these facilities come online. I expect that the economics of these units may become very ugly, especially if foreign countries decide that they don't want our plastics, or that they can get them cheaper from the Middle East or Asia.

Operation rates specifically for olefins units have been steady and hovered just under 90 percent on average through November of 2017, slightly less than last year. Oil prices appear to not have any affect on olefin unit run rates at this point, but oil is impacting the overall economy of Texas and the US which does affect profitability. It appears that 2017 may end up flat or down a little in production, but down in overall economics. All together this industry appears to have peaked for the 5-15 year cycle we are on and values will likely decline over the next few years especially with the impact of the massive new plants coming online in the next few years.

Chemical-related inventory volumes should be near the levels they were on January 1, 2017, and prices are up or down depending on the chemical. Value changes for most chemical facilities look to be down for commodity chemicals going into 2018 but may be down more for specialty chemicals that depend on oil-based feedstocks as their margins are squeezed.

Utilities

Electric

The electric power generation sector has been through a great deal of turbulence over the past few years and it doesn't look like it's going to get any better soon. Historically, the price of electricity has followed the dominant fuel used to generate the power for peaking plants. In Texas, natural gas is our primary fuel. Very mild weather for the past few years and impacts from wind generation have caused power prices to be historically low.

The Competitive Renewable Energy Zones (CREZ) initiative was adopted by the Public Utility Commission of Texas (PUCT) in April 2008, with a $5 billion plan to add transmission infrastructure to move electricity from wind farms in West Texas to markets in the North, South, and Houston zones. Wind energy has zero fuel cost and is a clean alternative to burning hydrocarbons. Wind generation can receive federal tax incentives allowing them to sell power at negative prices (loss of ~20 dollars per Megawatt) and the federal government makes up that difference. When the government incentives go away, wind power producers will have to bid in at positive pricing increasing the average price for electricity, but this has not yet happened. There have been a few spikes in power pricing in early 2018 due to weather, but this is likely not going to carry into the summer months when power producers typically make their profit for the year.

Originally, I expected these older wind farms to lose their incentives and cause the power prices to get stronger, but there has been enough new investment into new windfarms that the prices continue to stay very soft. In addition to new construction, there has been a new trend of taking existing wind farms that have lost their incentives and replacing the internal parts of the turbines which allows the windfarm to qualify for the incentives all over again. These "re-power" windfarms are getting another 10 years of production tax credits in addition to local abatements on property taxes. This just results in the electric prices staying low for the foreseeable future unless the federal government starts weening wind off of the subsidies.

Peaker plants were proposed all over Texas to help offset the load loss when the wind stops and wind generation dies out, but very few projects have broken ground. At this point, it is unlikely that many will as the combined cycle plants have been able to effectively fill the wind gap.

The net effects on value within Harris County reflect a reduction in values as plants depreciate. Calpine did complete their two new units in 2014, one at their Channel location and the other at Deer Park and these went on the roll at their full value for 2015. The litigation filed for the 2015 tax year was settled in 2016. The methodology agreed to in the settlement will drop the value again in 2018. Many of the facilities in Harris County are aging past being 20 years old. The life on these assets is in the 40-45 year range, so values are likely to be reduced substantially in the next 10-15 years.

Most of the power in Harris County is from cogeneration facilities that produce both steam for an adjacent facility as well as power. If the power prices are affected up or down, it will impact the value of the facility, but the steam will help offset the impact. Some cogeneration facilities have lost the steam user and have made changes to their facilities to become merchant plants rather than cogeneration plants. The effect on these facilities is that they rely more heavily on the power market and with soft pricing, these plants are not as valuable as they once were.

Natural Gas

Natural Gas Distribution utility companies are always requesting that regulators allow them higher returns (through the rates they are allowed to charge their customers) in order to pay for the cost of expansion when needed, repair storm damage at times, and maintain reliable service overall. However, the main goal of regulators is to make sure gas distribution companies remain operational while keeping service costs as low as possible, in return for the monopoly power given to these companies over designated service areas. Because both revenues and expenses tend to be held in line with this process, the values of property owned by these natural gas distribution businesses tend to be rather stable. Other factors that augur well for continued healthy future demand for utility services are: a) the nation's population appears to be on a steady upward growth course; b) limited practical alternatives exist for consumers seeking a steady supply of natural gas; and c) natural gas supplies in this country are abundant thanks to proficient drilling and extraction technologies. Unseasonably warm or cold weather can always cause substantial volatility in quarterly operating results; however, companies strive to counteract this exposure through long-term oriented temperature-adjusted rate mechanisms. For 2018, the values of businesses in this sector are expected to reflect confidence in the continued improvement in the nation's economic outlook. This past year saw many of these companies stocks priced relatively high due to improved corporate earnings. Several storms that hit the Gulf Coast and Eastern Seaboard in 2017 had minimal effect on these companies as the majority of their assets lie underground and companies that operate in the area are holding up reasonably well.

Telecommunications

Most Telephone companies in addition to the traditional landlines have a thriving cell phone business which currently is the most profitable portion of the communications sector. For the traditional portion of Telephone Utilities, the number of phone lines in the United States continues to decrease. Many people are dropping traditional phone lines for internet phone services or have chosen to carry just cellular phones. AT&T still plans to end its traditional wire service by 2020 which would require approval by the FCC. The FCC has granted removal of all POTs lines in some specific cities for testing. Complete approval is widely expected, although the timeframe for the transition remains unknown. The continued competition from customers relying solely on cell phones and Voice over Internet Protocol (VoIP) offered by cable companies will continue to keep the values down. Many businesses are moving from POT's service to VoIP telephones. AT&T has lost more than 80% of its POTs service due to the move to cell phones and VoIP. Bundling packages that include voice, internet and television programming over some phone systems still cost more to provide than the revenue it generates. Traditional telephone property across the state is expected to continue declining over the next few years. It should be noted that all telephone calls, including cell calls, are still directed through the traditional telephone switching system.

The cable companies and telephone companies are in competition for the same market. The ability for these industries to provide phone, television, and internet has reduced the ability for both industries to earn a profit. Telecommunications will continue to get less expensive as technology advances. If this trend continues, then the value of these companies should change little.

Wireless communications carriers' expenditures on infrastructure will stay constant as the major cellular carriers are starting to deploy the next generation of wireless technology referred to as 5G. 5G currently is built on LTE (Long Term Evolution) technology and will take a few years before substantial deployments will begin. However, to meet increased demand for mobile data and internet traffic, the carriers will have to add equipment to keep up with the demand which is growing exponentially. The new equipment includes the Hetnet concept of small cells, DAS (distributed antenna system) and WIFI equipment working in conjunction with the cellular towers to increase capacity.

Replacement costs for voice and data equipment will continue to vary depending on the latest and greatest design and manufacturing improvements. Overall value in 2017 increased 2.7 percent in Harris County over 2016. The value increase represents a heavy investment on part of Verizon, AT&T, and T-Mobile in deploying LTE and associated equipment to meet its current data demand. AT&T acquired Cricket Communications in 2014 and Sprint finish removal of its old iDen network. The older generation equipment 2G, 3G & 4G (2nd, 3rd & 4th Generation) will experience expedited obsolescence due to the efficiencies of the current LTE devices. Depreciation on existing plant assets will continue to outweigh new construction and this trend should continue for the foreseeable future.

The Data Centers business has really flourished in Harris County within the past few years. This business will probably experience slow growth due to the construction of new data centers. New data centers were completed in 2015 and one in 2016 and these are already online. This increase in capacity (available space) will probably prompt more competition among the Data Centers. However, the development of new data centers will probably slow till the capacity is absorbed.

A lot of companies are choosing to host in data centers as compared to building their own because of the high cost of infrastructure and equipment associated with this business.

Fiber Optic long distance transmission carriers' will see only continued depreciation for 2017. The increase in data demand has been a positive for the communication industry as the older cable is getting better utilized. Centurylink finished its acquisition of Level 3 Communications in 2017. There have been new cable deployments happening in major metro cities. Few tower companies are also getting into acquiring and installing fiber for selling small cell spaces to major carriers.

Broadcast television capital expenditures should be minimal in 2018. The improvement in technology has resulted in a decrease in equipment cost and investment. Other communication and internet companies asset values will decrease due to further depreciation of their assets and lower investment cost associated with newer technologies.

Manufacturing

Texas manufacturing had a great year in 2017. Texas factory activity increased in December according to business executives responding to the Texas Manufacturing Outlook Survey, which polls businesses on whether key indicators of activity have increased, remained the same, or decreased from the previous month. This survey is conducted monthly by the Dallas Fed. Survey responses are used to calculate an index for each indicator. The production index, a key measure of state manufacturing conditions, ended the year at 19.5 after Texas factory activity increased continuously in 2017. This index was at 13.8 for December 2016, seasonally adjusted. The utilization capacity, finished goods pricing, and future company outlook indices are all the highest they have been since the petrochemical industry took a downturn at the end of 2015.

Commercial Personal Property

Goldman Sachs is predicting the 2018 global GDP to reach 4.0%, up 0.3% from 2017. For the first time since 2010, the world economy is outperforming most predictions and is expected to continue. On the supply side, there have been tentative signs of a rebound in productivity growth from its post-crisis trend. Spare capacity is diminishing rapidly—and already exhausted in many advanced economies, including the US. 2018 is on track to be the first year since the financial crisis that the global economy will be operating at or near full capacity.

The oil market is still responding to the impact of U.S. shale oil production. That reduced oil prices 25 percent in 2014 and 2015. The good news for the economy is that it also lowered the cost of transportation, food, and raw materials for business, which raised profit margins. It also gave consumers more disposable income to spend. The slight slowdown is because both companies and families are saving instead of spending.

The Texas economy reversed the trend in the wake of the energy sector downturn. Oil price increases induced a resurgence in energy activity, leading to job growth and near-record levels of production. Robust global demand and flourishing crude oil exports provided further support for rising output. Aside from promising developments in the energy sector, the Texas economy grew roughly around the post-recession average. Employment growth picked up after a sluggish 2016, driving down unemployment but failing to bolster wage increases. Additionally, demographic changes drove the Texas labor force participation rate to an all-time low of 63.5 percent. Potential headwinds to the Texas economy include energy price volatility and trade uncertainty, especially with Mexico as NAFTA negotiations progress. In general, the Texas economic expansion should continue throughout 2018.

According to the U.S. Bureau of Labor Statistics, the cost of consumer goods and services as measured by the Consumer Price Index for All Urban Consumers (CPI-U) rose 1.7% in Houston from December 2016 to December 2017. The Harris County commercial personal property of general personal, dealer inventory, transportation, and multi/leasing accounts tax base increased approximately 5.18% for the tax year 2017. It is anticipated that this sector will show a minimal change for 2018 as the Houston economy continues slow growth.

In August 2017, Houston faced one of the worst natural disasters in history. Hurricane Harvey, a Category 4 hurricane, slammed the Texas coast and dumped over 50 inches of rain in parts of Houston. The event caused widespread flooding, destroying homes, businesses, and infrastructure. This was a temporary setback for many but has had permanent ramifications for others.

The Houston Office market ended the fourth quarter 2017 with a vacancy rate of 16.3%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 769,331 square feet in the fourth quarter. A total of 16 buildings delivered to the market in the quarter totaling 636,600 square feet, with 2,479,402 square feet still under construction at the end of the quarter. The largest lease signings in 2017 were NRG Energy with 431,307 square feet, Apache Corporation with 355,506 square feet, and Bank of America with 209,447 square feet.

The retail industry sustained its average of staying below 6% vacancy and ended at 5.3% in the fourth quarter. A total of 78 retail buildings with 1,336,149 square feet of retail space were delivered to the market in the quarter, with 3,365,184 square feet still under construction at the end of the quarter. Store closing announcements included Sam's, Macy's and Charming Charlie. Larger retailers are looking at ways to help fill their unused space after downsizing, and many grocery stores are adding online shopping and delivery options.

The total value of the leased asset component of commercial personal property remained constant from 2016 to 2017, but may increase slightly for 2018 as office market vacancy rates are expected to decline over the next few years and most leased assets are generally business office machinery and equipment.

Houston area auto dealers sold 290,354 vehicles in 2017, down 3.0% from 2016. Harvey replacements accounted for 10.3% of the total annual sales. 20,806 vehicles were sold in December 2017, down 13.5% from December 2016, according to TexAuto Facts, published by InfoNation, Inc. of Sugar Land. Per the DMV, Hurricane Harvey damaged 232,429 vehicles.