Harris County Appraisal District

HARRIS COUNTY APPRAISAL DISTRICT
Texas

2015 Market Trends Report

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Residential Property

According to the Greater Houston Partnership, Houston's economy continued to show strong development and growth in 2014 adding almost 125,300 new jobs. Over the same time period the Texas Workforce Commission shows that the Houston unemployment rate fell from 5.7 percent to 4.5 percent. Job growth, low unemployment, low interest rates, and affordable housing have combined to create a very strong residential market. Sales volume, average price, median price, and months of inventory all reflect a healthy local residential real estate market.

Sales Volume Update

According to the Houston Association of Realtors (HAR), 2014 was a record year for the Houston housing market, with strong gains recorded in sales volume and pricing versus 2013. There were 75,319 single-family closings and 91,202 total closings, representing the most transactions in the history of Houston real estate. Sales volume for single-family residential properties totaled 6,451 units in December 2014, an 11.6% increase from December 2013. The chart below shows the five year monthly sales trend line. In 2009 the monthly average was 4,000 units versus over 6,400 units in 2014. This represents a 60% increase in volume over the five year period.

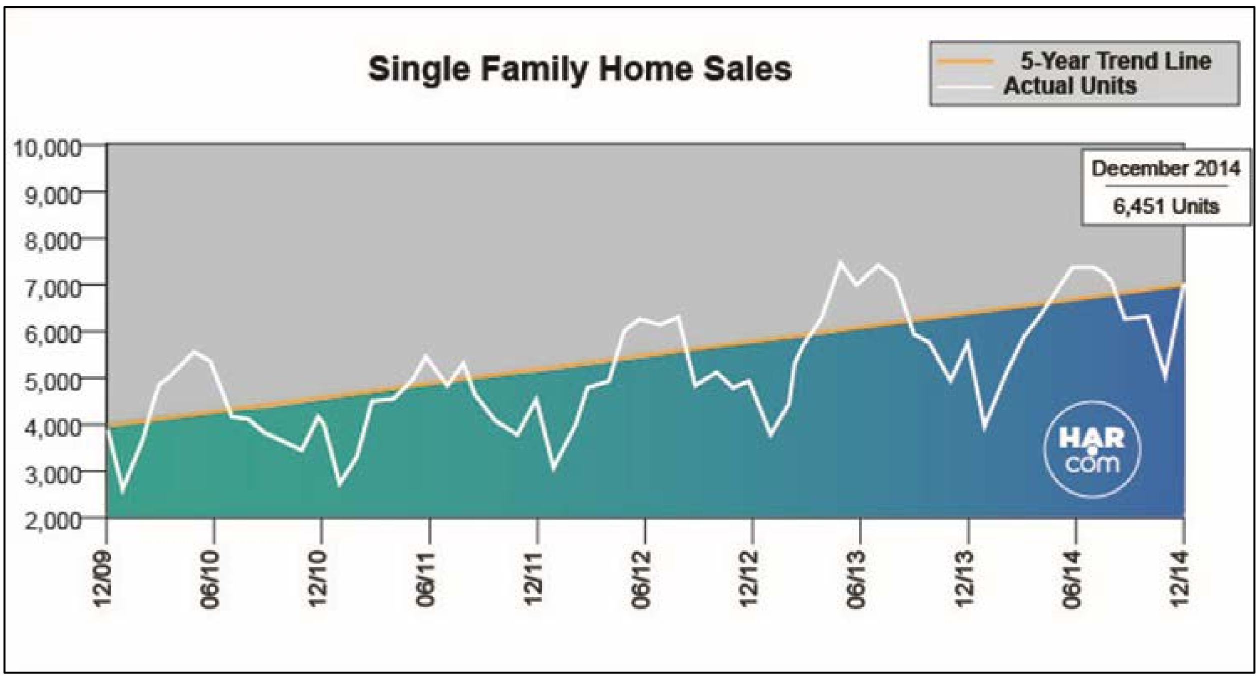
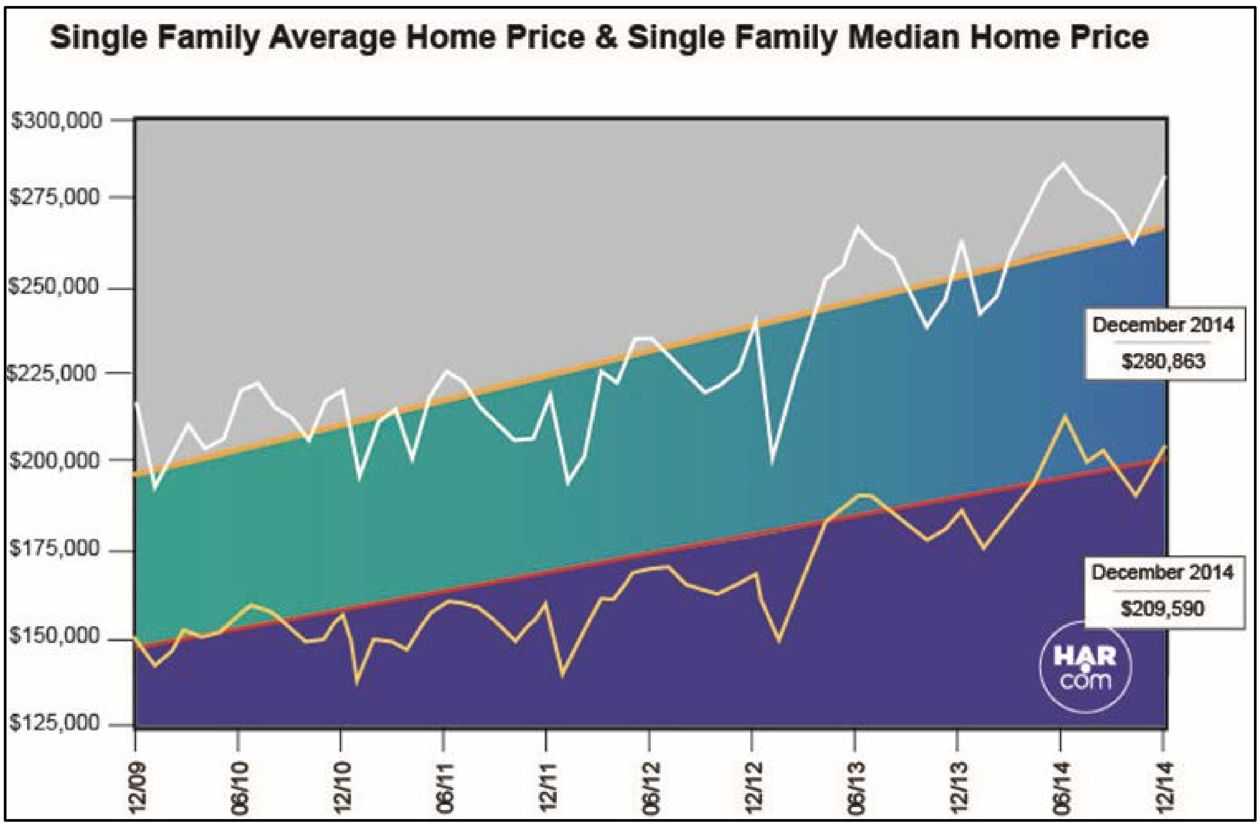


Chart released by HAR on January 15, 2015.

Sales of townhouses and condominium units rose 7.3% from one year earlier. A total of 556 units sold in December of 2014 compared to 518 in December 2013.

Sales Price Update

The HAR chart below shows a five year trend line for both the average sales price and median sales price for single-family homes. The average home price trend has gone from just under $200,000 in 2009 to over $280,000 during this period which represents a 40% increase. The median home sale price has gone from $150,000 in 2009 to more than $209,000 at the end of 2014, which represents a more than 39% increase.



Courtesy HAR January 14, 2015

From December 2013 to December 2014, the average price of townhouse and condo units increased 10.1% to $231,561 while the median price rose 1.8 percent to $158,000.

Inventory Update

According to HAR, the inventory of available homes, which was 2.9 months at the end of 2013, ended 2014 with a record low of 2.5 months. The national average stands at 5.1 months of supply according to the National Association of Realtors (NAR). Typically, 6 months of inventory is considered equilibrium and inventory levels below 6 months indicate a seller's market. The number of days it took a home to sell was 54 in November of 2014 versus 60 last November. Until this supply of homes currently in a shortage moves closer to equilibrium we are likely to continue experiencing a seller's market and a corresponding increase in sales prices. The supply of townhouse and condominium unit inventory fell to 2.3 months compared to 2.6 months in December 2013.

HAR December Monthly Market Comparison

CATEGORIES	DECEMBER 2013	DECEMBER 2014	CHANGE
Total property sales	6,932	7,695	11.0%
Total dollar volume	$1,750,080,206	$2,066,438,709	18.1%
Total active listings	28,147	25,821	-8.3%
Total pending sales	3,122	3,414	9.4%
Single-family home sales	5,781	6,451	11.6%
Single-family average sales price	$263,403	$280,863	6.6%
Single-family median sales price	$188,500	$209,590	11.2%
Single-family months inventory*	2.6	2.5	-3.8%

** Months inventory estimates the number of months it will take to deplete current active inventory based on the prior 12 months sales activity. This figure is representative of the single-family homes market.*

See http://www.har.com/mls/dispPressRelease_print.cfm?month=01&year=15 for additional information.

Lease Property Update

As the supply of properties for sale continues to fall and remains at historic lows the demand for lease property naturally increases. As a result single-family home rentals climbed 11.7% compared to December 2013, while year-over-year townhouse/condominium rentals increased 11.5%. The average rent for a single-family home was up 5% to $1,669 and the average rent for a townhouse/condominium was up 2.4% to $1,507.

Summary of Houston Real Estate Milestones in 2014

- Single-family home sales increased 11.6% year-over-year.
- Total dollar volume jumped 18.1%, increasing from $1.8 billion to $2.0 billion on a year-over-year basis.
- At $280,863, the average single-family home price reached the highest level for a December in Houston.
- At $209,590, the median single-family home price also reached a December high;
- A 2.5-months' supply of inventory of single-family homes is the lowest level of all time and is well below the national average of 5.1 months.

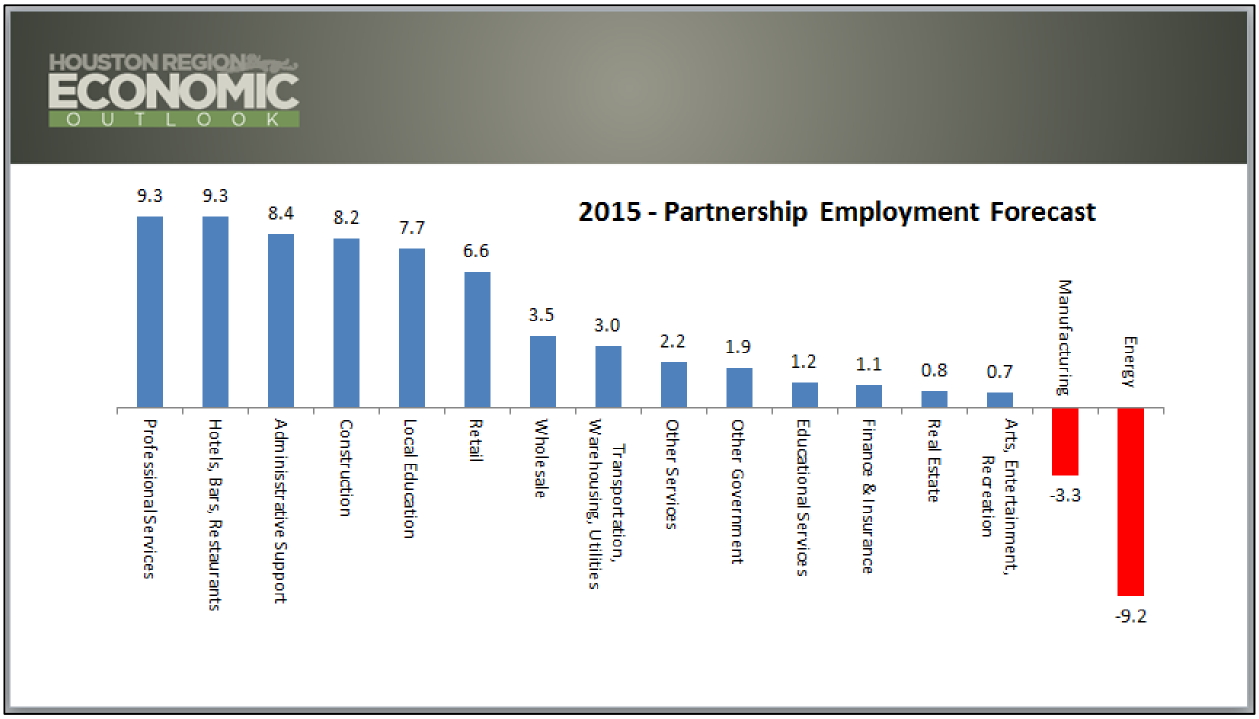
- Sales of townhouses and condominium units rose 7.3% year-over-year.
- Single-family home rentals rose 11.7% compared to December 2013 while rentals of townhouses and condominium units climbed 11.5%.

Looking Forward

The price of oil has fallen from its June high of over $107 per barrel to about $48 per barrel at the year's end. This is causing a considerable amount of concern for the health of Houston's economy and the housing market especially for those who recall the recessions of the 1980s and 2008. Although these concerns are historically well–founded, there are a number of differences in Houston's market today which will diminish the likelihood of a severe recession or housing crash:

- There is no irrational exuberance and unbridled speculation that leads to an oversupply of homes and is one of the necessary ingredients for a housing crash. The supply of inventory as noted earlier is at an all-time low as builders and developers have been slow to meet the demand. Additionally, sales activity has not slowed and remains robust.
- Houston continues to add jobs and unemployment is low. Although the rate of job creation that occurred in 2014 is not likely to continue, experts estimate that Houston will add between 50,000 and 60,000 jobs in 2015.
- Interest rates remain low which is good for lending-based economic activity, especially the housing market.
- Although the energy industry, especially the oil industry, is still extremely important to the Houston economy, the greater economic diversification of Houston no longer makes Houston a "one-trick pony". According to the Texas Workforce Commission, of the almost 460,000 jobs created in Texas last year, less than 7.5% were in the energy industry.

2015 Houston Region Employment Forecast



The historically low inventory of homes, low unemployment, job creation, low interest rates, and Houston's more diversified economy coupled with a banking system that is more secure foster a financial environment that is quite different than that resulting in recession and housing crashes of the not too distant past.

Commercial Property

Vacant Land

Property development in Harris County can be broken into five different property types. Those types are office, retail, medical, warehouse and residential. The one common and necessary component of each of these property types is land. In Harris County there is a healthy mix of the above mentioned property types and the mix is constantly expanding. The county is seeing growth at an astonishing rate. You may ask what the driving factors for this growth are. A simple answer is energy.

The City of Houston, located in Harris County, is the largest portion of Harris County. Over the years the city has garnered many nicknames. The city's nicknames reflect its geography, economy, and multi-cultural population. Once called the Bayou City, the current official nickname is "The Space City". Since the late sixties, the city has had this nickname because it is home to NASA's Lyndon B Johnson Space center. In recent years, the decline in the governments funding of the space program has led to the downsizing of NASA.

In recent years, North America has become the leader in the world in production of natural gas. Houston is now being marketed as "The Energy Capital of the World". The city is home to more than 5,000 energy related firms. The city is a leading domestic and international center for virtually every facet of the oil and gas industry. These segments include exploration, production, transmission, marketing, service, supply, offshore drilling, and technology.

Houston dominates U.S. oil and gas exploration and production and is unrivaled in the American energy industry. It is home to more than 3,600 energy-related establishments. Houston is also home to 13 of the nation's 20 largest natural gas transmission companies, 600 exploration and production firms and more than 170 pipeline operators. Houston also hosts the annual Offshore Technology Conference which is the world's largest energy-related trade show.

Another factor for growth in Houston, Harris County is medicine. The Texas Medical Center is the largest medical center in the world with one of the highest densities of clinical facilities for patient care, basic science, and translational research. The center contains 54 medicine-related institutions, including 21 hospitals and eight specialty institutions, eight academic and research institutions, three medical schools, six nursing schools, and schools of dentistry, public health, pharmacy, and other health-related practices.

The following report will touch on the activity and development throughout the county. The report will also show how the aforementioned driving factors affect all of the property type segments. This will show the land component of the property segments high demand and an active land sales market.

The Central Business District

Downtown Houston is the city's central business district. Downtown contains the headquarters of many prominent companies. There is an extensive network of pedestrian tunnels and skywalks connecting the buildings of the district. Downtown is home to almost thirty major energy companies. Fifty eight percent of the hi-rise office buildings are occupied by energy companies. Nineteen percent are occupied by legal type businesses, twelve percent are occupied by finance, insurance and real estate businesses, and the last eleven percent is occupied by various other types of companies like Waste Management and United Airlines.

Currently, there are two hi-rise office towers under construction and at least seven towers in the planning stages. The construction on the two hi-rise towers will bring online over 1.5 million square feet of office space at the end of 2016.

The property located at 1111 Travis is going to be a 23-story 475,000 square foot office developed by 1111 Travis Partners LP, after the demolition of the old Macy's building.

The property located at 609 Main is a Hines development. A 48-story 1.057 million square foot office tower is under construction at this location

According to different sources, there are at least seven more office developments planned in the near future for the central business district. Two of the seven projects will redevelop two existing structures and the other five will be new construction.

Skanska USA is demolishing the old Houston Club building at 811 Rusk to develop a 35-story 750,000 square foot office building.

800 Bell, formerly owned by Exxon, now owned by Shorenstein Properties, who is currently leasing the building back to Exxon. Exxon is expected to vacate in 2015. Shorenstein will redevelop the building to a LEED Gold standard.

Houston Center will see the addition of a 30-story office tower by Crescent Real Estate Holdings on block 95. Houston Center 6 will be 600,000 square feet.

Allen Center will be expanded with Allen Center Five. The location is currently a 2.4742 acre tract used for surface parking on the edge of downtown but will boast a 50-story 1.5 million square foot office. Brookfield is the developer.

Bordering the historical and theatre districts of downtown will be One Market Square. One Market square is planned to be a 41-story 750,000 square foot office tower. Essex Stream is the developer.

Chevron has placed their future development on hold, but still plans to build a 50-story 1.7 million square foot office tower. This tower would expand their existing urban campus when completed. This will also bring about 10,000 new jobs to the Houston area.

The office market is the primary driver for land acquisitions in the central business district. With the current active market for office construction, a market for new hotels and residential units has also been spawned. Houston has been dubbed as a global city. Always in competition with other major cities, for attracting businesses, hosting sporting events and conventions, there is an increased need for hotels. Construction has started on three hotels and four more are in the planning stages.

The most anticipated hotel in the central business district is the Marriot Marquis Convention Center Hotel. Just north of Discovery Green Park and northwest of the George R. Brown Convention Center, Rida Development is building a 29-story 1000 room hotel. The hotel is expected to be completed in the third quarter of 2016. This will be just in time for the city hosting Super Bowl LI in 2017. The hotel will sit across the park from the Hilton Americas-Houston.

The other two properties under construction are redevelopments of older properties. The old Savoy Hotel located on Main Street is being redeveloped into a Holiday Inn as a 215 room hotel.

Built in 1911 and known as the Carter Building, the structure at 806 Main has been gutted and is being totally remodeled into a 325 key hotel.

Block 75 will be home to two hotels. Hampton Inn will develop a 14 story 168 key hotel and Homewood Suites a 132 key hotel.

The development formerly known as the Houston Pavilions is now rebranded as Green Street. Home to the House of Blues, Lucky Strike Bowling, a number of upscale restaurants, and various retail outlets, Green Street will add the 225 room luxury hotel, Hotel Alessandra. The hotel helps fill the growing need for more accommodations in the area, in addition to providing an important anchor in the city's plan for a vibrant, mixed-use retail district in downtown Houston.

Hilton and SpringHill Suites also have plans on entering the downtown market with locations in the core of the central business district. Hilton will build a 12-story 230 key Garden Inn next to the Wedge Building and SpringHill Suites will redevelop Humble Building apartments as a 166 key hotel.

All the activity downtown has brought on the need for residential units for those who want to be close to their downtown jobs or want to live an urban lifestyle. Four apartment complexes are under construction and many more are in the planning stages. Many of the complexes are taking advantage of Downtown Living Initiative which offers a tax break for each unit built in a multi-family complex of at least 10 units.

SkyHouse Houston, a 24-story, 336 unit luxury high-rise apartment is nearing completion at 1625 Main Street.

Across the street from SkyHouse, Broadstone is planning to build a 5 story 207 unit apartment building on block 344. The complex will cover the whole city block and will have an underground parking garage.

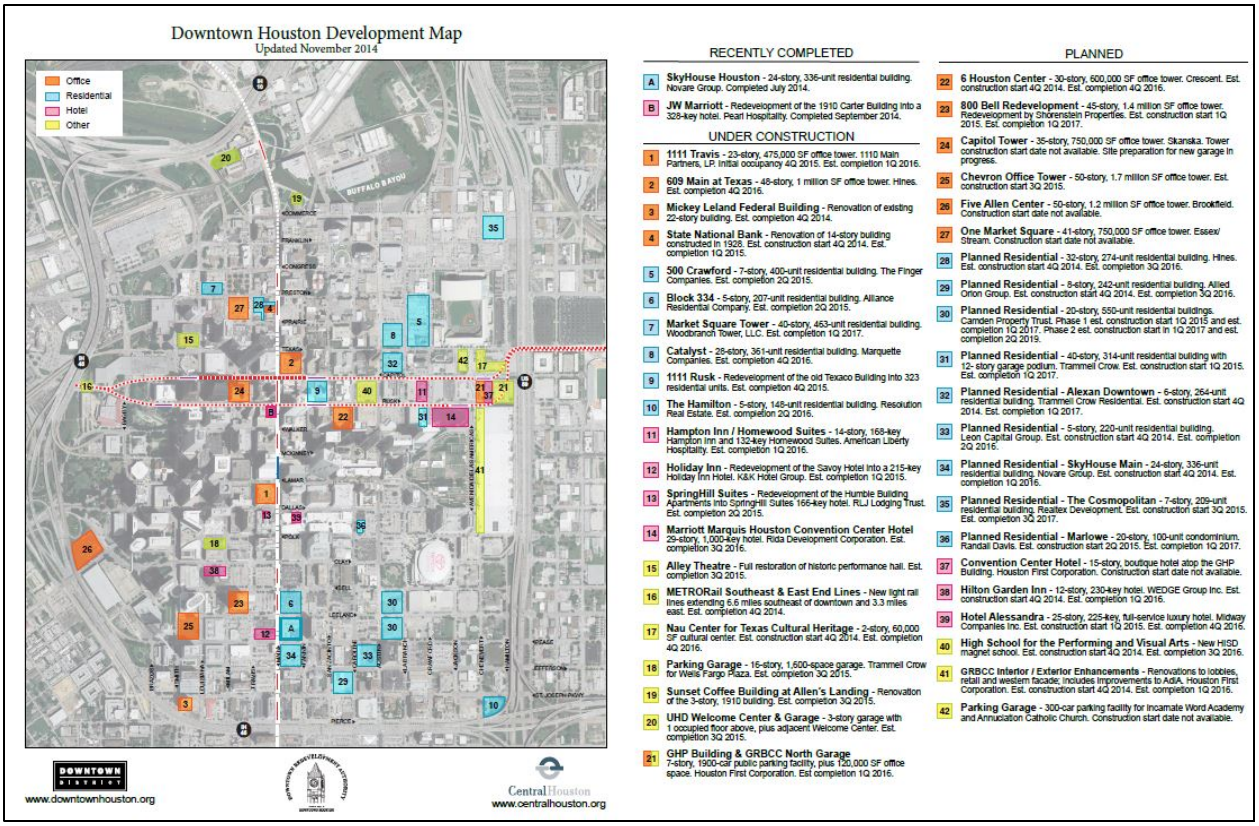
Mentioned in previous report, the Finger Companies have started construction on a two-block seven-story 397-unit complex next to Minute Maid Park. Blocks 50 and 51 have been combined to accommodate the new construction.

The other complexes on the drawing board will be located near Market Square in the Historical District, in the Minute Maid Park District and the Toyota Center District. By the year 2019 there will be at least 3000 new apartment units added to downtown Houston.

One other development of note is Block 352. The 1.1021 acre block is home to surface parking and the Houston Press Building which will be demolished. Chevron claims the block will be used to hold construction material for the previously mentioned hi-rise planned for construction. This shows they intend to build the hi-rise that was put on hold. Chevron officials also stated the block will also be used for future expansion of their growing urban campus.

DowntownHouston.org often publishes a development map showing activity and the locations of the activity. The illustration below is a copy of the most current map. The maps are updated on a regular basis to show all of the new development.

Downtown Houston Development map



Uptown District / Galleria

The Galleria / Uptown District is witnessing constant growth and redevelopment even with a scarcity of premium land sites. As mentioned in previous forecasts, the Galleria area is almost developed to capacity. There have been purchases of properties that have reached the end of their economic life. The improvements on these properties are being demolished and new buildings are being constructed.

The largest land grab for redevelopment is the former Westcreek Apartments. The site is 30.655 acres and is being subdivided for various redevelopments including an office building, residential luxury townhomes, high rise apartments and condominiums.

The northeast corner of Westcreek Ln and Westheimer Rd. will be known as River Oaks District. This will be a 279 unit luxury apartment building. The ground level of the complex will consist of office space, open air shopping, dining and entertainment venues. A part of the entertainment venue will be a new luxury iPic movie theatre. Scheduled to open in 2015, the property sits on 14.5304 acres.

6.3709 acres located between Westcreek Ln. and 610 Loop is being developed as a 368,000 square foot office tower. The 14 story office tower will be known as Westcreek Centre.

Ground has been broken at 2041 Westcreek Ln for SkyHouse River Oaks. This is the second SkyHouse project in Houston. The luxury apartment tower will be 25-stories tall and consist of 352 units. This tract is 1.52 acres.

Westcreek Lane redevelopment

3131 West Loop South is being redeveloped as an apartment complex. For the last 46 years a hotel occupied this location. Post Galleria LLC plans to build 390 units at this location.

The property at 1717 West Loop South was once home to the computer store Micro Center. The plan is to tear down the existing structure to make way for Amegy Bank’s new local headquarters. A 350,000 square foot office will be built on the site. Amegy Bank's corporate offices and Galleria banking center will occupy the majority of the new building, but 100,000 square feet will be available for lease.

Across the 610 Loop in the heart of the Galleria is where the most activity is taking place. A number of apartments are still under construction. A new high rise office tower has broken ground. Two new hotels are under construction and the Galleria Mall is experiencing redevelopment as well.

An Atlanta development firm that controls more than 7 acres across from the Galleria is adding a second hotel to the site. The original plan was for The Carlyle Group and Songy High Roads to develop a Hyatt Regency with 325 rooms. The plan is now to build a second hotel. The second hotel, Hyatt Place, will have 157 rooms in a 12 story building that will face West Alabama. The hotel will offer fewer amenities than the full service hotel next door and will be less expensive. Both are expected to be completed by late 2015.

Hyatt Place and Hyatt Regency at Sage and West Alabama

The development of BLVD Place seems to be in full swing. The Whole Foods Market at Post Oak Blvd and San Felipe is nearly complete and will open before years end.

Energy giant Apache Corp plans to build their new headquarters on nearly a third of the land in BLVD Place. The Office tower will be 34 stories and 750,000 square feet. The building will have a cafeteria and fitness center on site.

Hanover Company is nearing completion on a new 29 story apartment tower in the rear of BLVD Place. The tower will be the home to 358 units.

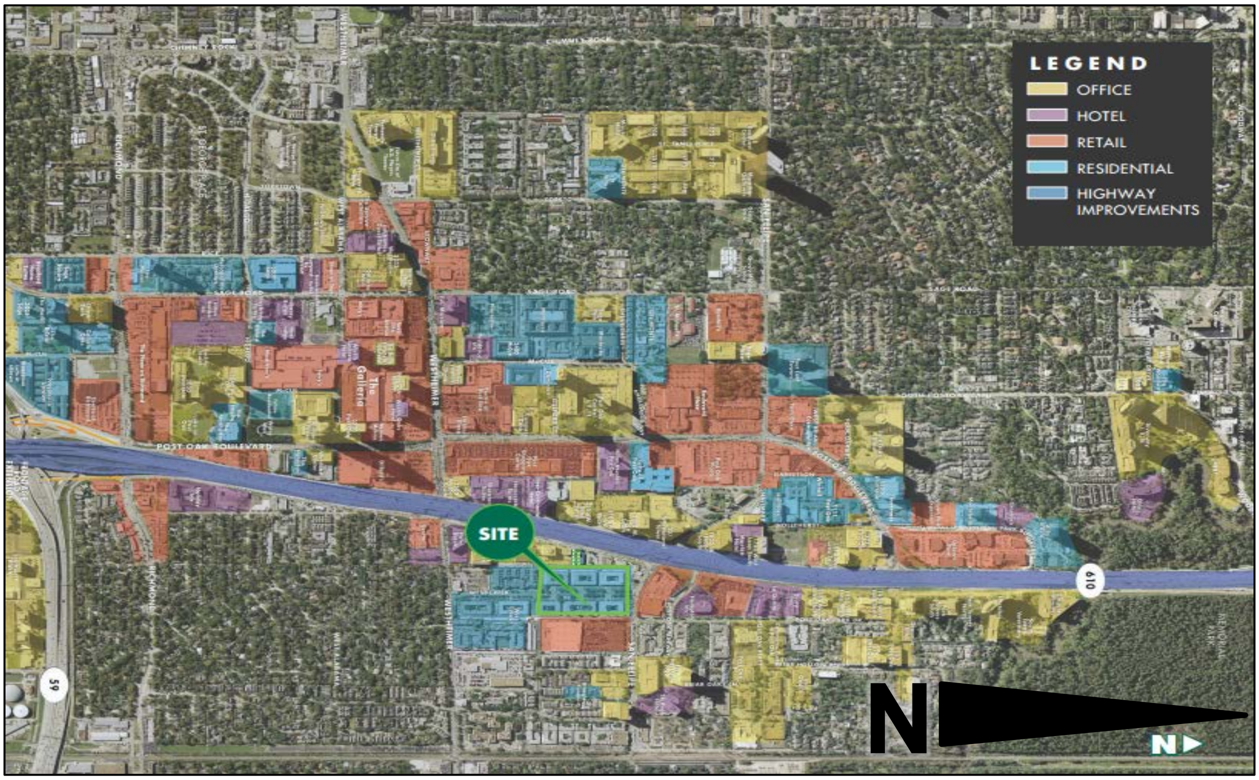
Just north of San Felipe from BLVD Place, BHP Billiton Petroleum, the oil and gas exploration, production, development, and marketing arm of Australian mining company BHP Billiton Ltd., officially filed a long-term lease plan with Four Oaks Place owner New York-based TIAA-CREF to secure office space in a new building at the complex.

The new space, at 1500 Post Oak Blvd., is being built on the former 24-Hour Fitness site. The tower will be built in the likeness of the existing Four Oaks Place. The building will be 30 stories and 560,000 square feet. The construction started earlier this year.

One of the last prime tracts in the Galleria, 5.96 acres sitting on the northwest corner of Post Oak Blvd and Richmond Ave, is being held for development and or investment by Palmetto RPO LP. The original plan by previous owner Deyaar Development Corp was to build an office building. Unfortunately the downturn in the market in 2007 caused them to quell those plans.

Luxury living is on the rise in Houston, and the Galleria/Memorial area is no exception. A new apartment complex is well underway at 2626 Fountain View and on pace to join other top tier multi-family residences already completed or under construction on the same roadway. Two office buildings that were located on this 4.0420 acre tract were demolished to make way for the new Broadstone apartment development. The complex will have 281 units.

Westcreek Lane site location



Inner Loop

Midtown

In the past fifteen years, the Midtown area has gone from a barren wasteland of old buildings and warehouse type properties to a trendy walkable, livable neighborhood. The neighborhood has a decent mix of retail and residential type properties. The Midtown TIRZ is a major reason this neighborhood has bounced back from the downturn it saw in the eighties and early nineties.

The Midtown area has seen a number of new and potential developments in the past year. Most are for multi-family development. The apartment market is strong and getting stronger based on the number of new units currently under construction.

3800 Main, a 1.6645 acre tract, is being developed as a 203-unit five-story apartment complex. 3800 Main LLC also owns the smaller 1.1336 acre block across the street at 880 Alabama Street. The intended use for the property is also multi-family residential. This development will have 116 units.

Alexan Midtown is now under construction by Trammell Crow Residential, located in the 2400 Block of Main Street. The complex will have 215 units and will be seven stories.

2107 Milam Street was home to a long abandoned Presidents Health Club. Owner Hobby Place LLC recently demolished the building. The future use is unknown.

The sales in the area range from $30.00 per square foot up to $78.00 per square foot depending on the intended use of the property. The higher end of the range seems to be for multi-family residential and the lower sales are geared towards smaller retail type properties.

Houston Community College has a goal is to build a dormitory on six acres of land at Alabama and Almeda, which would include first floor retail space and a parking garage. The dormitory would be modeled after Tobin Lofts at Alamo Colleges' San Antonio College.

The organizers of Midtown Arts & Theatre Center are planning on constructing a $25 million dollar facility for more than a dozen independent art groups. The building will be located on the 3400 block of Main Street. This location is formerly the parking lot for the City of Houston's Code Enforcement Office.

Montrose

The sales in the Montrose seem to happen with less frequency due to the lack of vacant parcels in the neighborhood. Similar to the Houston Heights, the majority of the sales are less for commercial and more for residential. The commercial activity in the neighborhood is mostly redevelopment of older properties by demolishing old improvements to make way for the new ones. Most of the new construction activity is centered in the Gray Street and Dallas Street area. The development is mostly multi-family residential. This area has the most vacant land in the Montrose neighborhood. Regent Square CD LLC owns roughly 15 acres of vacant land in that area. The developed tracts by the same owner are improved with apartment complexes. The vacant land will most likely be developed in the same manner. The commercial sales that are of public knowledge are smaller properties scattered throughout the Montrose. Effectively vacant land sales are on the rise. The tracts are however selling and being redeveloped as residential single-family.

A new eight story condominium is planned for 3516 Montrose. The site was once home to the River Café. The Montrose project is proposed for the northeast corner of Montrose and Marshall across from

The Parc IV & V condominium towers. The developer is listed as Montrose & Marshall LLC. The developer is currently requesting variances to build closer to the street.

Upper Kirby

The Upper Kirby area like the Montrose has seen similar activity. The activity is mostly redevelopment. Upper Kirby is home to many higher end retail type properties, restaurants, and residential properties. Upper Kirby could be considered the gateway from Montrose to River Oaks.

Like most of the county, more apartments are planned for the Upper Kirby District.

Houston-based Hanover Co. is in the early stages of planning a 30-story, 300-unit upscale apartment tower with restaurants on the ground floor. The property will be located along Kirby

Drive and Kipling Street. The apartments will cover 1.65 acres of land. The project, which was designed by architecture firm Solomon Cordwell Buenz, is expected to begin construction next summer.

Renderings of Hanover Company's proposed apartment tower

The northwest corner of Kirby and Colquitt Street will see the demolition of four bars located in three buildings. Thor Equities plans to replace those establishments with two levels of retail facing Kirby Drive, over a dozen-level office tower along Colquitt, and a taller residential tower on top of a parking garage on the rear of the property on Lake Street. The property will be known as The Kirby Collection.

Kirby Collection

Washington Avenue

The land sales activity along Washington Avenue has slowed. The lack of activity is due to the fact there are very few vacant land tracts on Washington Avenue. Over the past few years the area has been revitalized with a hopping nightlife, new restaurants, bars and clubs. The area surrounding Washington Ave is mostly townhome developments. To support the residential a number of retail outlets moved into the neighborhood also.

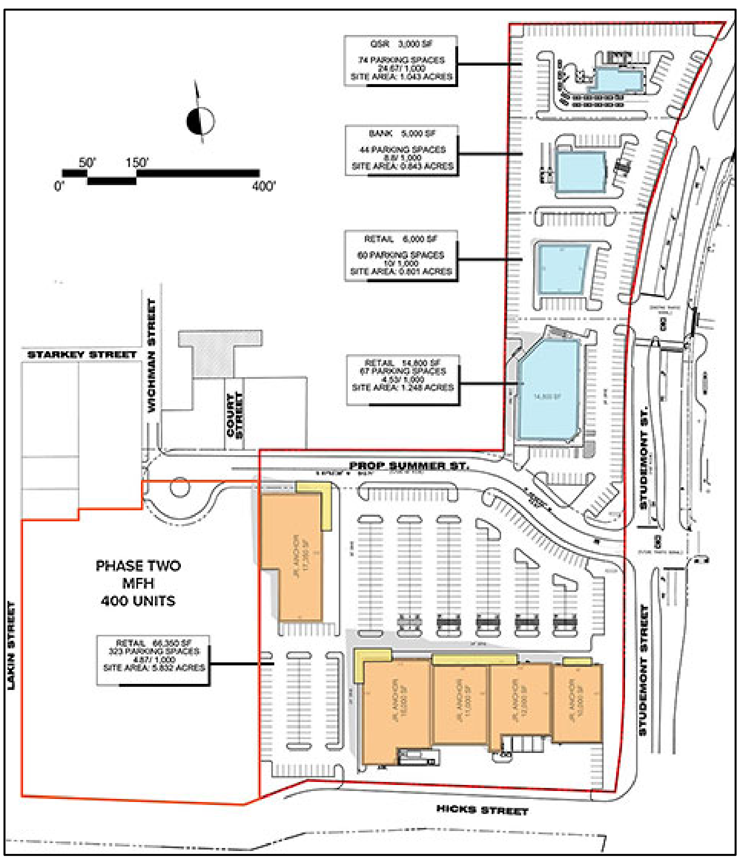
The residential is still in demand in this area. Townhomes dominate the streets surrounding Washington Avenue along with apartment complexes. At least two new complexes are either started on construction or close to starting construction.

Morgan Group has started construction on the Pearl on Washington luxury apartment complex. The complex will be located at T.C. Jester and Washington Avenue. The complex will be five stories and have 322 units. The building will sit on two levels of parking.

Grocers Supply moved out of its 15 acre site at Studemont and Hicks Street, across from the Studemont Kroger, in December of 2013. Capcor Partners and Kaplan Management plan to build a mixed use project of up to 400 upscale apartments as well as retail components, possibly grocers, movie theatres, restaurants and big box retail.

Grocers Supply site

Grocers Supply redevelopment plan



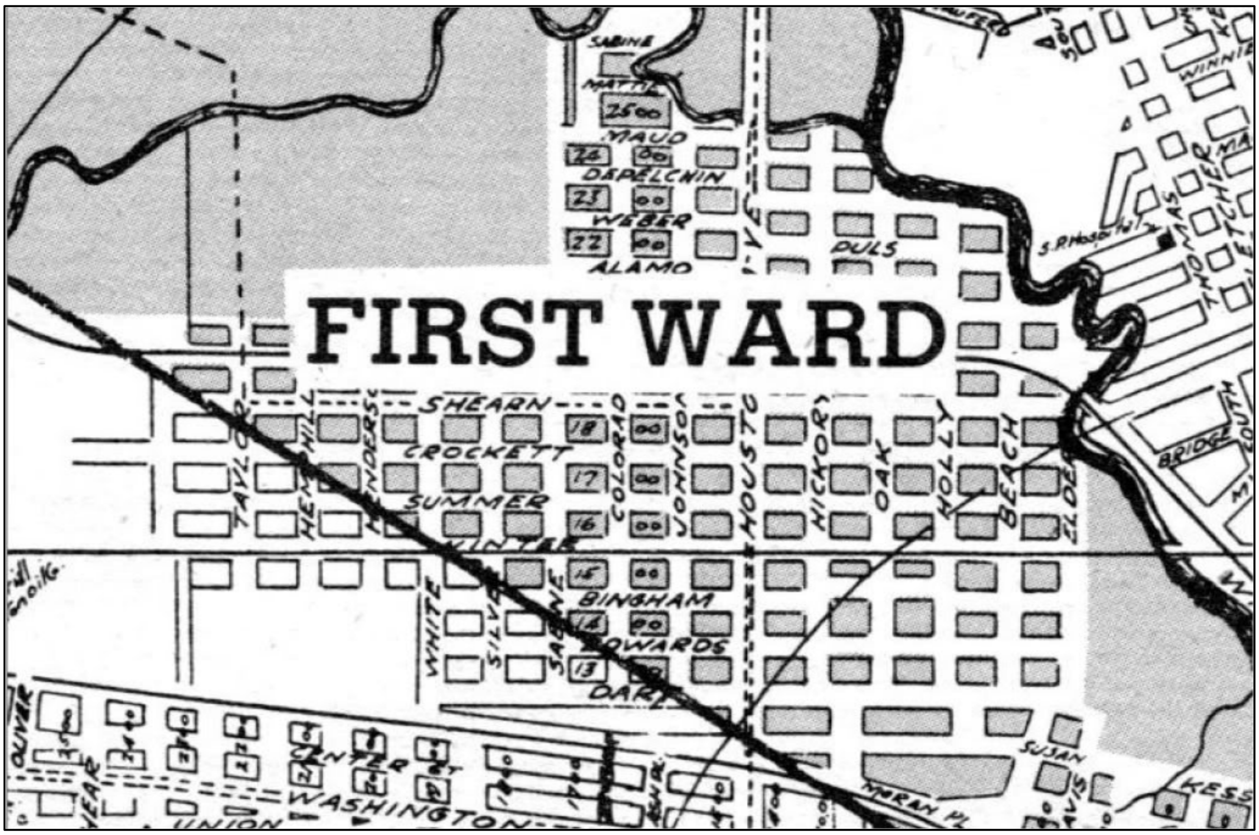
Yale Street Market is a new proposed grocery anchored shopping center. The center at Interstate 10 and Yale will be 114,300 square feet and sit on 8.07 acres of land. The property is directly north of the new Heights Walmart on Yale. Sprouts Farmers Market will occupy the grocery space and the other spaces will be filled out with an LA Fitness, World Market, Guitar Center, Mattress Firm and Sprint.

Yale Street Market rendering

Yale Street Market location

The majority of activity in the Washington Avenue area is in the Historic First Ward. This area was mostly occupied with small shotgun homes and large old industrial type warehouses. With the demand for new residences, the old warehouses are gradually disappearing and being replaced with townhomes in the neighborhoods and retail on the main lanes. The majority of sales in the area are residential. The sales average from $26.00 to $57.00. The commercial sales in the area range from $25.00 to $35.00.

Historic First Ward



The Outer Loop

The outer loop is seeing just as much development as the inner loop. The west side has seen development of more retail, more apartments, more office, more warehouses and more residential. The east side development has been more along the lines of industrial, warehouses, retail clusters and some apartments. This development has been typical over the years due to the certain demographics and geographical features each side displays. Because the Port of Houston is on the east side there will be more warehouse and industrial type properties. The activity is mostly prevalent along the Sam Houston Parkway.

Located just outside of the 610 Loop near the Galleria, The Shoppes at Uptown Crossing will be developed. The site is 3.5 acres and the former home of Wald Relocation Services. The tract has been vacant for over six years. The site at 5305 South Rice Avenue will feature a Walmart Supercenter, Micro Center, Town Place Suites by Marriot and a number of fast food outlets. The newest fast food restaurant chain in Houston is El Pollo Loco and they will also occupy a pad site at this locale. Midway LT LP has owned the property since 2000.

Eleven acres of land at 1495 North Post Oak Lane is to be developed as an apartment complex. The complex will be known as 1495 Post Oak and will have 450 units.

The North Post Oak area has primarily been a warehouse / industrial area. The location is currently changing due to its location. That area is close to the Galleria and not that far from downtown. The area is primed for residential development.

D'Agostino Companies is developing a four story office building at 10203 Sam Houston Park Drive within the 42 acre Sam Houston Crossing Business Park. The Offices at Sam Houston will sit on 4.344 acres.

Work is also underway on Westway Plaza. General Electric has preleased 150,000 square feet of a five story, 312,000 square foot office project under construction located at the northwest corner of Sam Houston Tollway and Clay Road.

Katy

The City of Katy and the surrounding area has a lot of things going for them these days. The Grand Parkway and the Energy Corridor are components that make Katy a more desirable place to live. Many new residential neighborhoods are popping up in the area and the new construction can be attributed to both factors previously mentioned.

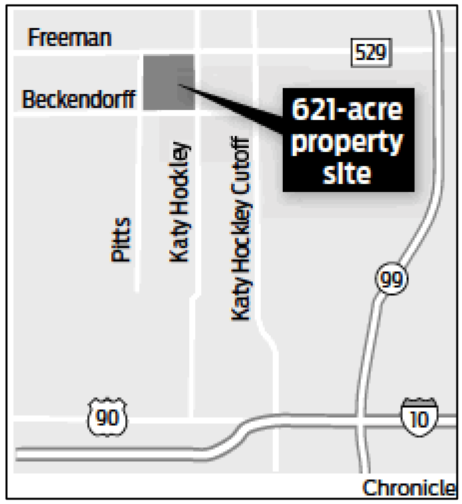
Chevron has 103 acres of land off the Grand Parkway and Clay Road for future use. The oil company does not have a specific use for the property, but they say its gives the company future research and development facilities flexibility as they grow and expand their presence in the Greater Houston area.

Dallas-based developer Skybox has started construction on an 86,960 square foot, 20 acre data center in Katy at the northwest corner of Franz and Mason roads.

The facility, which is expected to open in November, will offer four private 10,000 square foot halls and 12 additional data rooms for companies in Houston to utilize. With Houston's Energy Corridor located just west of Beltway 8, Skybox hopes to capitalize on the city's oil, gas and energy- driven companies.

A trio of investors betting on rising land values own a major undeveloped tract in the Katy area. John S. Beeson, John Stephen Ford Sr. and Steven A. Webster have 621 acres of land about 6 miles north of Interstate 10 and 4 miles west of the Grand Parkway. The property, which is bordered by FM 529, Katy Hockley Road, Beckendorff Road and Pitts Road, was previously owned by the Beckendorff family.

Location of Beckendorff property



The plan is to hold the property for a year and to sell it to someone to develop for home lots.

According to investors, big tracts have become scarcer as rooftops have replaced farms over the last several decades. What's left now are 200 acres or 150 acres or less. There are not very many 600-acre tracts north of I-10 and west of the Grand Parkway.

West of the Grand Parkway, Moody Rambin will be constructing Katy Ranch Phase I at 24275 Katy Freeway. The building will be six stories and 151,187 square feet. The Class A office will have a LEED Silver certification.

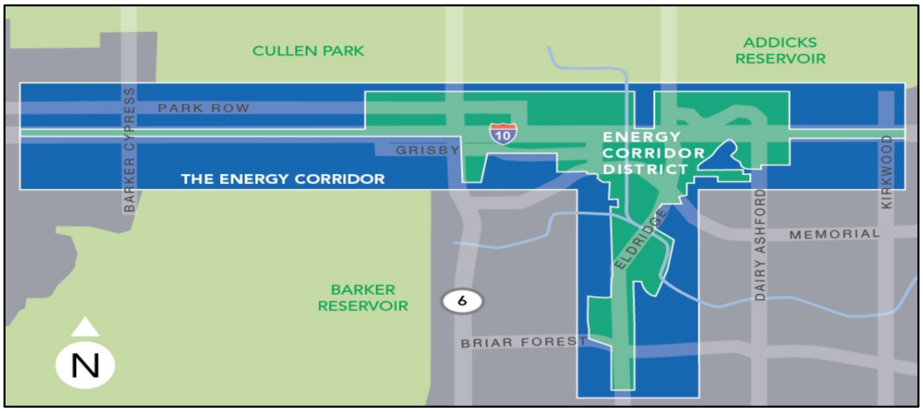
Moody Rambin is also building another office building at Mason Creek Corporate, a first-class business park located at the northeast corner of Mason Road and I-10. The 110 acre master planned, deed restricted business park is designed to accommodate users for office, industrial, flex, back-office, restaurants, hotel and retail.

Construction is underway on Mason Creek Office Center Phase II. Located at 21700 Merchant Way, the three story 127,955 square foot office building will be built on 9.3 acres.

The Energy Corridor

The Energy Corridor is probably the hottest market in Houston right now. The most noticeable thing traveling down Interstate 10 towards Katy is all of the new high rise office buildings and all of the new construction taking place along or close to I-10. The Energy Corridor has become home to many of the major energy production companies in the nation and the world. There are a number of campuses under development or completed in the area. Companies like Phillips, Conoco, Shell and British Petroleum have made their home in this stretch of I-10 between Dairy Ashford Road and Highway 6. More energy related companies are expected to come to this area also.

Energy Corridor



Just north of the Katy Freeway at Park Row and Park Ten Blvd., construction is underway on Park Ten Center. The 301,932 sf complex will comprise a pair of 3-story office buildings designed by O'Brien Architecture out of Dallas. Developed by Lincoln Property and Stonelake, the 150,966 sf buildings are being built mostly on spec. The complex will occupy the Energy Corridor property where a cluster of smaller industrial buildings were demolished in June of 2014.

The Swedish development company Skanska has become a major player in the Houston office construction market. Skanska has begun work on West Memorial Place. The building will be a 12-story, 325,000 square foot Office tower. The building will be built on the site of the demolished ARCO building. The building will have a 9-story parking garage. The building will sit on 12 acres at 15375 Memorial Drive, between Westlake Park Blvd. and South Mayde Creek Drive. Petroleum Geo-Services has signed on to occupy about 122,000 square feet of the building.

Skanska has received a building permit for a second Energy Corridor office high-rise. The core and shell construction and parking garage will cost $110 million. West Memorial Place II will have 380,000 square feet of spec office space and will have a similar layout as the first building in the complex, the existing West Memorial Place.

West Memorial Place

Trammell Crow Company and Principal Real Estate Investors have started construction on Energy Center Five. This will be the final phase of the companies Energy Corridor campus. The Class A 18-story office tower is slated to be complete in the second quarter of 2016. The tower is located on North Eldridge Parkway just south of Interstate 10, adjacent to Energy Centers Three and Four. The entire campus sits on 18.9 acres. The spec project will be designed to accommodate either one large tenant or several tenants. It currently has no signed tenants.

Energy Plaza Houston

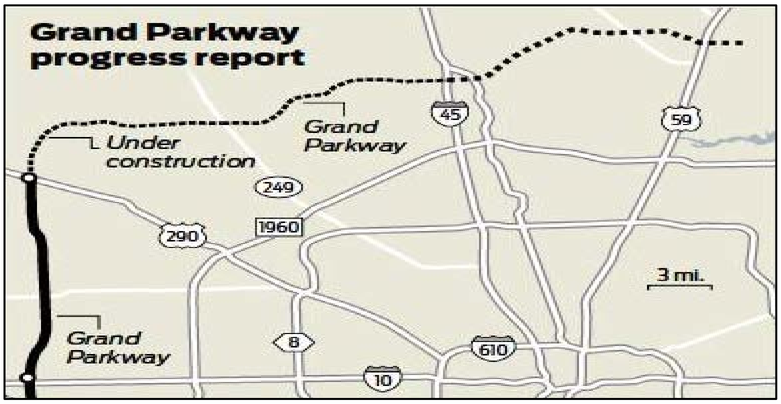
The newest edition coming to Enclave Parkway is Enclave Place. Enclave Place will be an 11-story 300,906 square foot office building. The building is slated to be completed in the summer of 2015. The building will sit on 4.6702 acres at the corner of Enclave Parkway and Olive Hill Drive.

The property will have an on-site deli, a fitness center, an outdoor garden & special event space, and a parking structure siding the office building.

The Grand Parkway

New Roads bring new development. That statement stands true for State Highway 99, better known as the Grand Parkway. When completed, the Grand Parkway will be 185 miles of roadway that loops Harris County and passes through at least six other bordering counties. Crews are working hard and fast to make the “outer outer loop" a reality. Work can be seen throughout the western portion of the county, and all the way to the north side of the county.

Grand Parkway progress



Investors and developers have been purchasing land near or on the proposed and completed roadways.

Grand Morton Town Center is under development at the Grand Parkway and Morton Ranch Road in Katy. The 25 acre site is at the intersection's northeast corner. The development will be situated within the Grand Parkway's Segment E linking the Katy Freeway and Highway 290. Newquest Properties is developing the site. The company also owns Katy Grand Square at the intersection of I-10 and the Grand Parkway. It's within close proximity to 12,000 homes in Cinco Ranch.

Kingwood is primed for a large project that will include another medical facility as the Grand Parkway stretches its loop to connect the suburbs. Conroe-based Signorelli Co. plans to develop a 1,400-acre, mixed-use medical district, called Valley Ranch, anchored by a new hospital in Kingwood. The new 250-bed acute care hospital, called the Valley Ranch Medical Center, will be located at the intersection of the Grand Parkway and Highway 59. The mixed-use medical district will also include more than 300,000 square feet of medical office buildings, 250,000-square feet of grocery-anchored retail, hotels, restaurants and shops, as well as an estimated 400,000 square feet of multi-family construction.

Cypress Fairbanks ISD

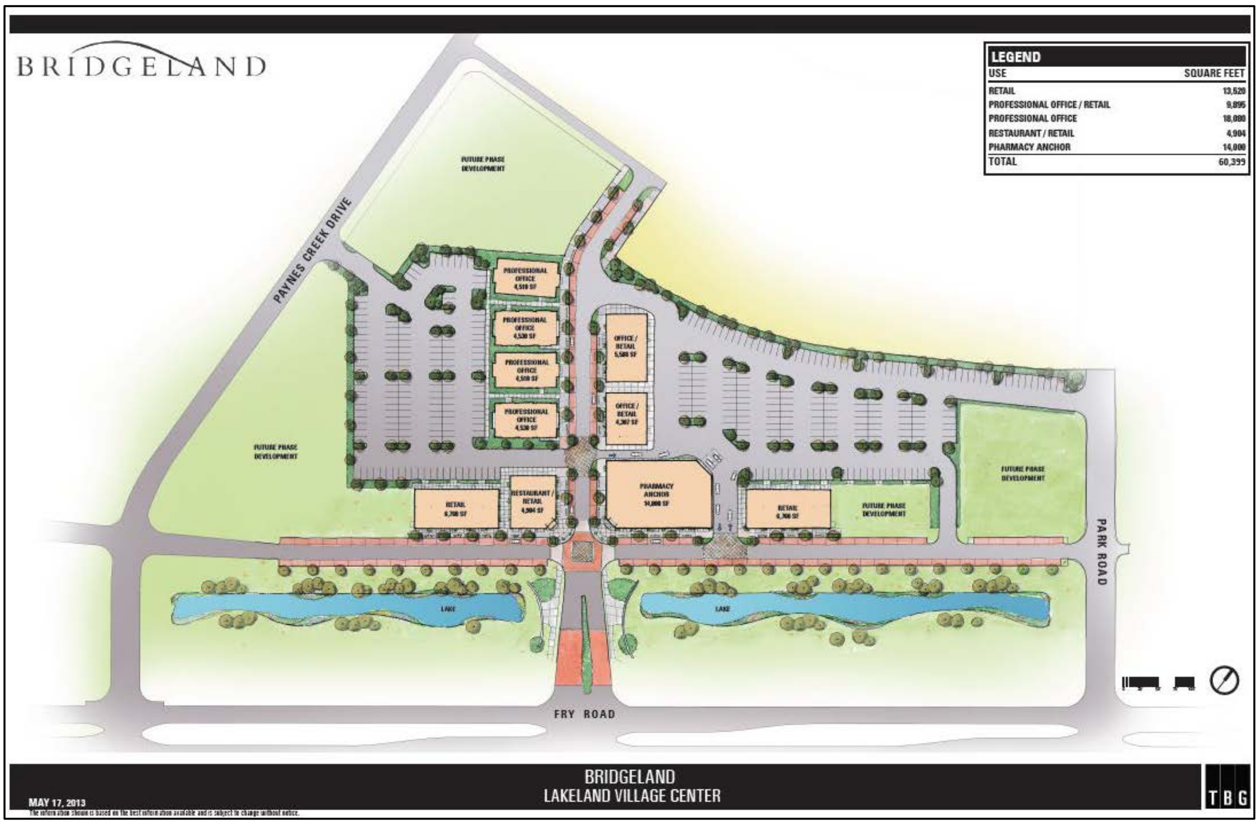
The Cy-Fair ISD student population is projected to reach 128,000 by 2022, which has district officials studying the various factors driving growth, ranging from availability of open land for future development to transportation.

CFISD is 69% built out, which is a large percentage for a district. About 21,000 housing units are projected to be built in the next nine and a half years in the far western portion of the district, according to a demographic study. Additionally, 2,000 housing units are projected north of Hwy. 290, while 11,600 are expected to be built on the western side of the Grand Parkway.

The types of housing will also differ from traditional houses in subdivisions, as more multi-family projects and mid- or high-rise buildings are planned for the area. Four multi-family complexes are in the works around the new H-E-B in Fairfield, while the master-planned community of Bridgeland will include multi-family units and office space in the coming years.

Work is set to begin soon on Lakeland Village Center, the first retail component in the master-planned community of Bridgeland. The center will be on Fry Road across from Cypress Ranch High School. The first phase of the center includes 32,000 square feet of proposed retail space and 30,000 square feet of proposed professional office space. The town center—a larger mixed-use concept that will bisect the Grand Parkway—will develop over a series of decades. The first phase of the larger development is expected to begin in the next three to four years.

Bridgeland Lakeland Village Center



The master-planned community of Towne Lake is primed for retail growth as well with a 120,000-square-foot Kroger scheduled to open in June at the southwest corner of Tuckerton and Barker Cypress. A new Bank of America and McDonalds are also under construction in front of the new grocery store. Plans for the Boardwalk at Towne Lake project—a waterfront mixed-use development with retail, dining and office space—are also moving forward.

Segment E of the new Grand Parkway is expected to have a strong economic impact on the Cy-Fair area. Now completed, Segment E is a four-lane, 15-mile toll road that spans western Harris County and connects I-10 to Hwy. 290. The Grand Parkway brought improved growth to Katy and Fort Bend County with Segment D. The same type of growth is expected with this new segment.

New retail developments are in the works or planned for the Fry Road corridor south of Hwy. 290, in addition to the upcoming Boardwalk at Towne Lake project in development by Caldwell Companies. Better Homes and Gardens Real Estate opened its second Cypress location in

December inside the Shops at Cypress Creek Lakes—a 30,000-square-foot retail center on Fry Road developed by Hunington Properties and Mischer Development.

Tomball ISD

Tomball ISD is centered on State Highway 249. The road expansion of the state highway has spurred new growth of commercial businesses.

Tomball is in the midst of phenomenal growth that is being seen in every facet of the community including mobility, economic development and housing.

Construction is ongoing at Vintage Park, with ten new businesses poised to open in the center throughout the next few months. Nearby developments have also sprouted up due in part to the center's growth.

As Vintage Park has grown throughout the past six years, it has spurred several adjacent new developments, ranging from grocery stores to health care facilities to apartment complexes.

Located within The Vintage at Louetta and Cutten Roads, another new shopping center is under construction in the area. It will be anchored by the first Whole Foods in northern Houston. The 18-acre commercial development will also feature about 30,000 square feet of additional retail space, which will be managed by LCSE Limited Partnership.

The Retreat at Vintage Park is also under construction near the shopping center, adjacent from Vintage Park at Chasewood Drive near Louetta Road. This 323-unit apartment complex is slated to open in 2014. The residential development will feature amenities such as a resort-style swimming pool, detached garages, a fitness center, activity center and a clubhouse.

Noble Energy has started a 20-story tower at the southwest corner of Louetta Road and State Highway 249. The building will be built next to the 10-story building Noble leased in 2012. The project will be developed by Trammell Crow. An additional land parcel has been reserved for future growth.

The Tomball Economic Development Corp. is planning a 102-acre business park located at 11526 Holderrieth Road. Construction on the Tomball Business & Technology Park was slated for January of 2014 but was pushed back due to inclement weather. The master-planned business park offers development-ready sites for new and expanding businesses, and tax incentives will be available.

In recent months, the city has learned of a plan that will bring a mixed-use development to the area just south of the intersection of FM 2920 and Hufsmith-Kohrville and north of the Willow Creek Estates. White Oak Development and Palermo Commercial Real Estate Advisors will develop the property. Together the group will be known as 2978 Panormus, LP. 2978 Panormus LP owns more than 30 acres that sits between Baker Hughes and the future Tomball Business and Technology Park.

The 34.5 acre site, known as Peck Station, will include a recognized brand-name hotel, such as a Hilton Garden Suites or a Courtyard Marriot Hotel that will consist of between 80 and 120 rooms. Also planned are a Class A, garden-style apartment complex, which could be developed by Camden Property Trust, Greystar or Trammell Crow, and space for restaurants and retail behind the planned hotel and apartment complex.

Peck Station

Friendswood Development Company is in the beginning stages of constructing a new 488-acre master-planned community. Woodtrace Development, located near the corner of Hwy. 249 and Woodtrace Boulevard near Tomball, will include 840 homes in the $300,000–$700,000 price range, with build out expected by late 2018.

The gated master-planned community is expected to house at least 2,500 residents and feature an estimated 18-acre lake, walking trails, parks, ponds, soccer fields and a central recreation center.

Spring ISD / ExxonMobil Campus

ExxonMobil is constructing a state-of-the-art campus in Houston that will be home to its Upstream, Downstream and Chemicals companies and associated service groups.

By bringing many global functional groups together, the campus will provide employees with the tools and capabilities needed today, and in the future, to achieve business objectives and accelerate the discovery of new resources, technologies and products. It will foster improved collaboration, creativity and innovation and enhance the company's ability to attract, develop and retain the top talent in the industry.

The campus is located on 385 wooded acres immediately to the west of Interstate Highway 45 (I-45), at the intersection of I-45 and the Hardy Toll Road, approximately 25 miles from the cultural vibrancy of downtown Houston.

Designed to accommodate 10,000 employees, the campus will be constructed to the highest standards of energy efficiency and environmental stewardship. Its design incorporates extensive research into best practices in workplace design and benchmarking from the world's top facilities.

The 10,000 employees are not just from the Houston area, but from around the country and the world. Many have been relocated here already and it can be noticed in the increase in traffic and the number of out of state license plates on the road.

The campus has generated development in the surrounding area to compliment and accommodate venture known as Project Delta. The biggest developer near the campus is CDC Houston. Springwoods Village is the 1,800-acre master-planned community under development along the west side of Interstate 45 between Springwoods Village Parkway and the future Grand Parkway. The project encompasses the 385-acre Exxon Mobil Corp. campus. With the acquisition of the land already in hand, the building phase is in motion.

A 60-acre mixed-use town center development called CityPlace is planned for Springwoods Village and will include millions of square feet of office and retail space, as well as two hotels and a luxury multi-family, residential complex.

CityPlace

The first phase of CityPlace development will include two Class A office buildings. The first structure will be five stories and offer 147,000 square feet for tenants. The second office building will be 10 stories and 295,000 square feet. The first building will be delivered in the fourth quarter of 2015.

The plan calls for several separate walkable districts, including a business area that will house the new Exxon facilities.

A medical district was also included in the master design of Springwoods Village. CHI St. Luke's Health has 23 acres at the corner of the Grand Parkway and Holzwarth Road. They will be starting construction soon and hope to have the first phase completed by the third quarter of 2015.

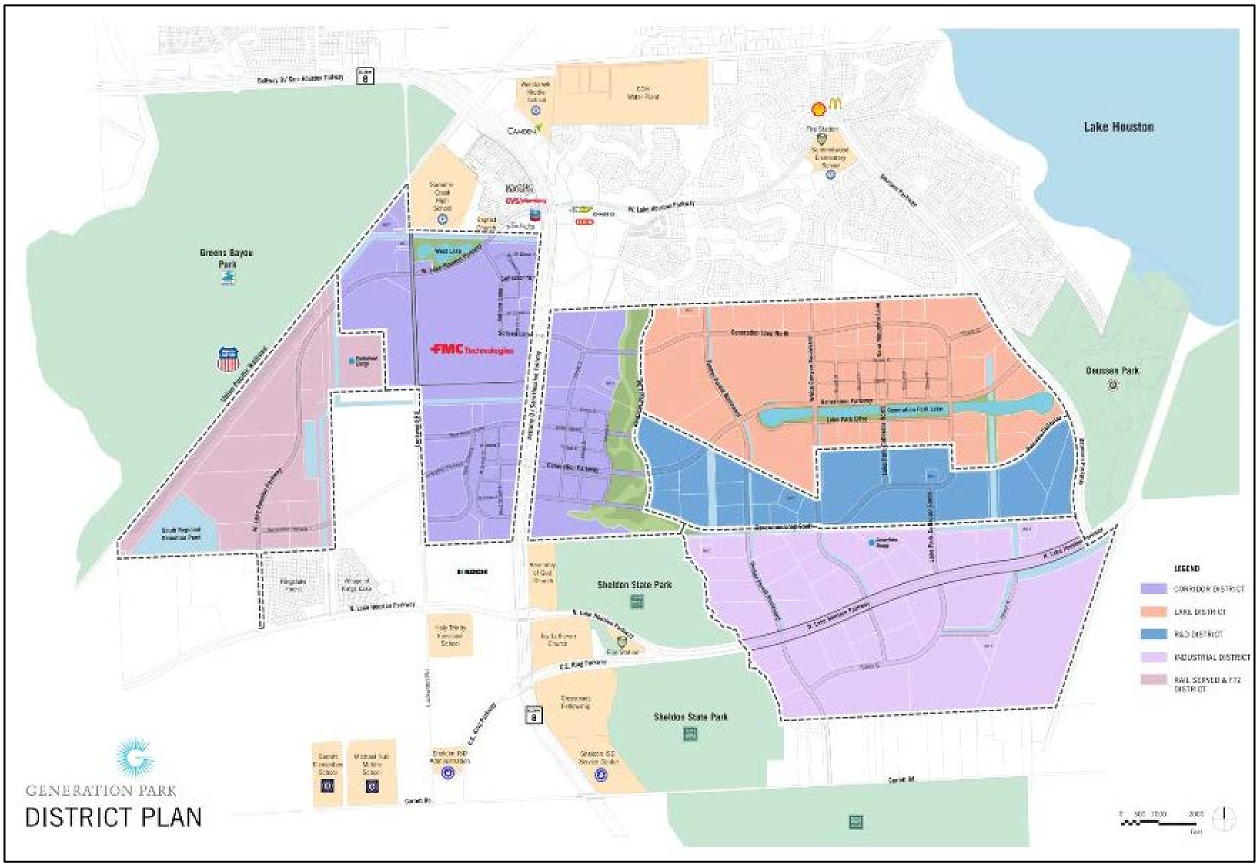
Humble / Kingwood

Development in the Humble/ Kingwood area is just as strong as the rest of the county. The Sam Houston Parkway and West Lake Houston Parkway have been magnets for new development over the past few years. The trend is not changing either. There are number of new projects underway or in the planning stages. The development ranges from mixed-use development to medical to industrial and general commercial development. There are also many residential developments in progress as well as public and educational projects.

Intercontinental Commerce Park will be a 190 acre mixed-use development by Skymark Development Company. The project is reported to include 145 acres of light industrial/ commercial and 42.76 acres of commercial retail and potentially a hotel. The property is located along Will Clayton Pkwy and Old Humble Rd.

Generation Park, as previously mentioned, will sit on 3,924 acres. Located on the northeast corner of Beltway8/Sam Houston Tollway and W. Lake Houston Pkwy, the mixed-used project will consist of office, distribution centers, and rail served sites, manufacturing centers, and regional medical and corporate campuses. The project will take a number of years to develop. FMC Technologies is one of the first to commit to this project and will occupy 173 acres as their corporate headquarters.

Generation Park District Plan



Fidelis Partners will build a new retail center on over 65 acres at the northwest corner of the Beltway 8 and West Lake Houston Pkwy intersection, in front of Summer Creek High School. The shopping center will provide 600,000 sf of commercial retail and will include a movie theatre and a Kroger as grocery anchor. 20 commercial pad sites are currently available.

Ligomar and Orinkola Supply has plans for a new manufacturing facility for drilling rigs on 112 acres at FM 1960 and Broze Road. They believe it is a great industrial site for their manufacturing plant because it is a solid location in North Houston, directly across from Bush IAH with access to both Hwy 59 and I-45.

Air 59 Commerce Center is a 111 acre site is located across the highway from George Bush Intercontinental Airport on the northeast corner of U.S. Highway 59 and Will Clayton Parkway, will hold 1.5 million to 2 million sf of buildings for commercial use.

Clear Creek ISD

Clear Lake has long been the home to NASA. The Clear Lake community surrounding the space agency has always benefited from and supported the Johnson Space Center. In recent years the space program has been in decline due to losing a lot of its government funding and downsizing. The future of NASA in Clear Lake is unknown at this point and it has had lingering effects on the surrounding community. The only thing that may save the space exploration business in the area would be the privatization of the industry and hopes the private space exploration companies would remain or move to this area. As of now unfortunately, those private start-ups are located elsewhere.

Retail in the area is still strong and this can be seen as Baybrook Mall plans a massive expansion. There will be a multi-million dollar expansion that adds more than 30 retailers, 10 restaurants and entertainment and hospitality venues to the property. The project, a joint venture between General Growth Properties, Inc. and the landowner, a CDC Houston-managed entity, adds an estimated 555,000 square feet to the 1.2-million-square-foot center.

Baybrook Mall

Giving competition to the Bay Area Regional Medical Center, Kelsey-Seybold Clinic just opened new facilities at 1010 South Ponds Drive. The move comes after consolidating two smaller locations to a 55,000 square foot facility along Interstate 45. The new clinic will help accommodate the increased demand in the area offering patients added convenience and new amenities including free Wi-Fi, flat screen televisions, Saturday ill-care appointments and online scheduling for certain specialties.

Sales

The table shows HCAD land sales data with per square foot price ranges and sales volume per submarket and school district. This table gives a clearer picture of the actual numbers and types of sales that occurred throughout the four quarters of 2014.

Northwest						
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction	$ per SF Range
Aldine	97	17	72	0	8	$0.18 - $12.97
Klein	54	11	52	1	0	$0.06 - $17.00
Spring	43	11	32	0	0	$0.25 - $28.61
Tomball	38	17	20	1	0	$0.27 - $10.74
Waller	17	11	6	0	0	$0.15 - $1.49
Total Sales	**249**	**67**	**182**	**2**	**8**	
Southwest						
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction	$ per SF Range
Alief	17	4	11	0	2	$1.95 - $17.22
Katy	58	8	50	0	0	$0.29 - $21.51
Spring Branch	17	3	14	0	0	$5.14 - $30.34
Total Sales	**92**	**15**	**75**	**0**	**2**	
Northeast						
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction	$ per SF Range
Crosby	21	8	10	3	0	$0.07 - $1.84
Huffman	5	4	1	0	0	$0.10 - $4.22
Humble	35	4	28	0	3	$0.06 -$14.99
Sheldon	16	5	11	0	0	$0.70 - $4.59
Total Sales	**77**	**21**	**50**	**3**	**3**	
Southeast						
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction	$ per SF Range
Channelview	10	4	6	0	0	$0.18 - $21.56
Clear Creek	27	3	21	2	1	$1.15 - $13.63
Deer Park	7	0	7	0	0	$0.00
Galena Park	5	2	3	0	0	$0.41 - $2.50
Goose Creek	8	6	1	0	1	$0.22 - $14.57
La Porte	23	7	15	0	1	$0.04 - $4.98
Pasadena	67	15	48	3	1	$0.06 - $8.45
Total Sales	**147**	**37**	**101**	**5**	**4**	
Houston						
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction	$ per SF Range
Houston	476	120	312	5	39	$0.02 - $330.39
Total Sales	**476**	**120**	**312**	**5**	**39**	
Cy-Fair						
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction	$ per SF Range
Cy-Fair	137	24	105	6	2	$0.40 - $14.37
Total Sales	**137**	**24**	**105**	**6**	**2**	

Summary

Investors and developers are grabbing as much land as they can as fast as they can to keep up with all of the industry moving into Harris County and surrounding areas. The market for land is definitely strong and that may not change for a while.

Based on the sales summarized above, the sales of land have increased over the prior third quarter report. At years end 1178 commercial land sales have been recorded in the districts records. This is a 235% increase over the 501 sales recorded by the end of the third quarter.

There is thought that future sales may slow down based on the recent drop in oil and gas prices. The drop has slightly affected the office market in attracting energy sector businesses. Halliburton and Baker Hughes have announced a large number of future layoffs. Not all of the layoffs will be in the Houston area but it does create tension with future investors looking to expand, especially in the energy sector.

The recent news of the relations between Cuba and the United States improving will give a boost to the Ship Channel area, which is already the top trade port in the United States.

Residential development is still moving at an active pace. This development will drive retail, warehouse and medical development near the new residential developments throughout the county.

Houston has long been known for its affordable real estate market, but there is a distinguishable shift in that idea lately and much of it has to do with the price of dirt. As inventory decreases, and demand increases, the price of land in Houston is rising. The amount of quality tracts are dwindling in key areas around the county and what was once surplus is quickly becoming scarce. The new development mentioned in the above report is the contributing factor to this scarcity. Land values, across the county, will be trending upwards in the immediate future. Continued hotspots of activity will be seen along Old Katy Road, the South Sam Houston Parkway, and the Grand Parkway. Areas that are ripe for major redevelopment will possibly be in the southwest section of HISD along South Main Street and Richmond Avenue.

Office

Houston has remained one of the steadiest and most productive growing cities in the country for many years. Houston has repeated its success as the national leader in office development; primarily due to the strong oil and gas sector. Houston has thrived through its economic diversity in sectors including distribution, technology, and health care. However, the oil & gas and energy sectors remain the most significant economic drivers. These major sectors have led to an even larger addition of office buildings in the Energy Corridor and West Houston/Katy Freeway, making up effectively 39% of all new competitive office properties added to the overall Houston market over the ten-year period ending with the 3rd quarter 2014. Additionally, overall average asking rent for year-end 2014 was $27.24 psf which marked an approximate increase of 9.00% from the year-end 2013.

Twenty fourteen has been largely a landlord’s market as landlords have been able to negotiate greater rents with lesser concessions being offered to tenants. Leasing activity absorbed roughly 2,560,000 sf during 2014. Along with the thriving economy came the expansion in construction and deliveries of new office buildings for 4th quarter 2014. A total of 20 buildings delivered to the market in 4th quarter 2014 totaling 1,783,653 sf, with 17,902,821 sf still under construction. The additional square footage being made available offsets the absorption and is sending the vacancy rate up. This will be a continuing trend as vacancy and absorption rates try to maintain a balance with supply.

Concerns of the danger posed by heavy reliance on oil have risen during the energy driven economic and real estate boom. Toward the end of 2014, oil prices began to steeply decline. With oil prices slipping below $50 per barrel, many developers started reconsidering the timing of future and ongoing projects which may lead to slightly slower real estate growth than previously anticipated.

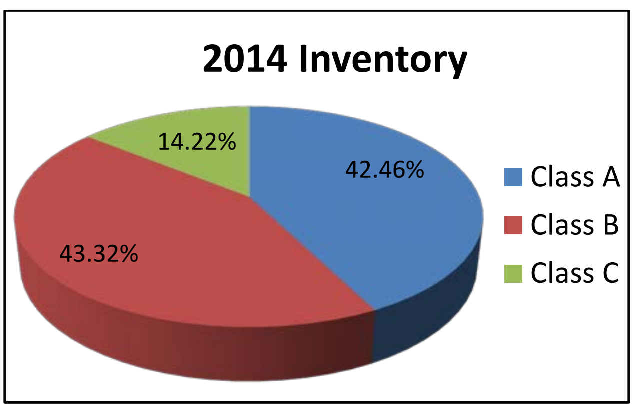
Houston's port economy will likely see strong growth due to the opening and expansion of South America's oil and gas industry, with the Panama Canal expansion project directly affecting distribution and the export and import industry.

Houston's office market recorded robust growth throughout 2014 and exceeded many expectations about market rents, construction, vacancy, and absorption. Furthermore, 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.

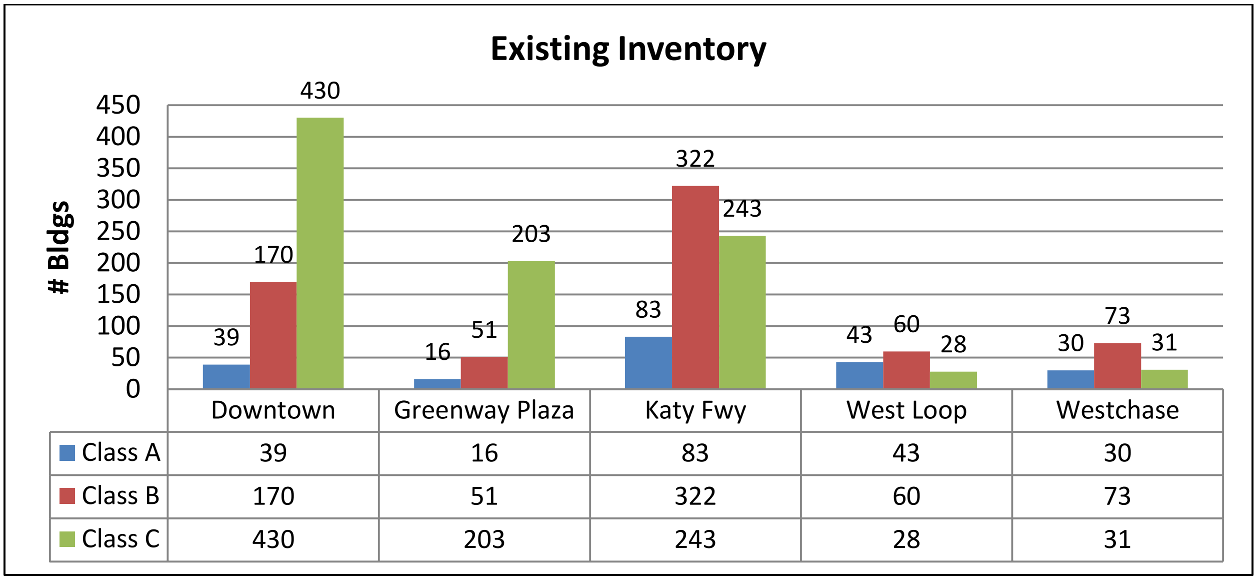
Inventory Analysis

According to CoStar, the total office inventory in Houston at the end of 4th quarter 2014 consisted of 6,547 office buildings totaling 280,416,894 sf of office space. Of that space, 42.46% is Class A consisting of 384 buildings; 43.32% Class B consisting of 2,716 buildings; and 14.22% Class C consisting of 3,447 buildings. With the exception of Class C buildings in Downtown, the Katy Freeway Market is the fastest growing submarket and has the largest existing inventory of Class A and B buildings as well as new construction.

Office Inventory by Class



Existing Inventory in Select Submarkets



	Downtown	Greenway Plaza	Katy Fwy	West Loop	Westchase
Class A	39	16	83	43	30
Class B	170	51	322	60	73
Class C	430	203	243	28	31

Data provided by CoStar

Construction Activity and Deliveries

Twenty fourteen saw several newly constructed office properties, particularly Class A sector development. Energy firms including ExxonMobil, Anadarko Petroleum, Phillips 66, Shell Oil, and Chevron built or began building major facilities in 2014; much of it in the Energy Corridor.

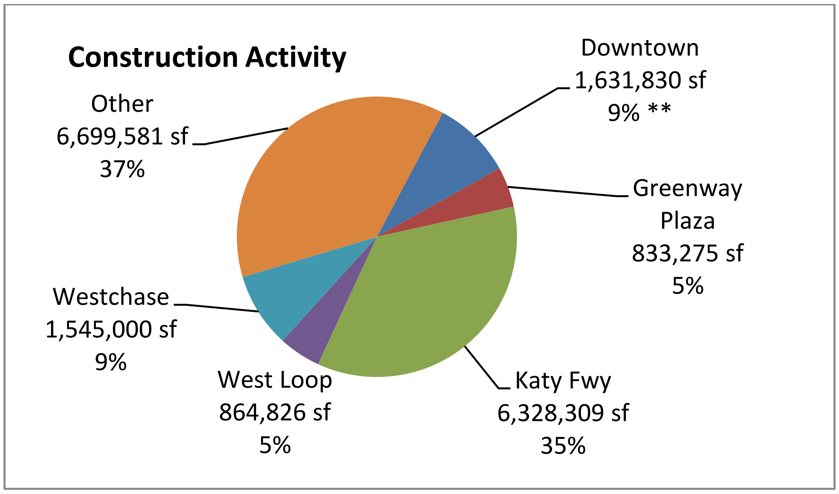
Per CoStar, 2014 saw delivery of 103 new buildings totaling 7,576,793 sf of new office space and there was 17,902,821 sf of office space under construction at the end of the 4^{th} Quarter 2014. A breakdown of construction for 2014 includes: 20 buildings totaling 1,783,653 sf for the 1^{st} Quarter; 28 buildings totaling 1,810,312 sf for the 2^{nd} Quarter; 21 buildings totaling 1,482,296 sf for the 3^{rd} quarter; and 34 buildings totaling 2,500,532 sf for the 4^{th} Quarter.

Some of the notable deliveries for 2014 include: ExxonMobil Campus – Phase 1, a 1,000,000 sf facility, Anadarko Hackett Tower, a 549,260 SF office building, and Energy Tower III, a 428,831 sf office building.

REIS reported that construction of 6,040,969 sf was completed and delivered in 2014 while 9,110,834 sf was still under construction at the end of 2014.

Note: The data provided by vendors can vary due to differences in classifying submarkets areas and their locations, the individual breakdowns of said market areas, and the accuracy of each vendor's gathered market data.

Construction Activity



*** CoStar stated three Class A offices are under construction: 609 Main at Texas (1,057,668 sf), Hilcorp Energy Tower (406,600 sf) in the CBD submarket; and 170,038 sf in the Midtown submarket (the name and location of this building was not identified).*

Notable Year-to-Date deliveries based on square footage

Sub-market	Leasing Co.	Property	Sty	NRA	% Leased	Delivery Date
Woodlands	ExxonMobil Foundation	ExxonMobil Campus – Phase I	8	1,000,000	100%	Q4 2014
Woodlands	Anadarko Petroleum Corp	Anadarko Hackett Tower	31	549,260	100%	Q1 2014
Katy Fwy	Mac Haik Realty LLC	Energy Tower III	17	428,831	100%	Q1 2014
Katy Fwy	Hines	11910 Katy Fwy	14	375,000	100%	Q2 2014
Katy Fwy	Shell Oil Co	200 N Dairy Ashford Rd	9	375,000	100%	Q2 2014
Westchase	Cassidy Turley	Two BriarLake Plaza	10	333,100	40%	Q3 2014
Katy Fwy	Lincoln Property Co	Energy Crossing II	8	321,508	87%	Q1 2014

Technip moving into 428,831 sf at Energy Tower III; and Modec International moving into 126,222 sf at Energy Crossing II.

Notable Year-to-Date office buildings under construction based on square footage

Sub-market	Leasing Co.	Property	Sty	NRA	% Pre-Leased	Delivery Date
Woodlands	ExxonMobil Foundation	ExxonMobil Campus	8	3,000,000	100%	Underway
Westchase	N/A	2101 Citywest Blvd – Phillips 66	12	1,100,000	100%	Q2 2016
Downtown	Colvill Office Properties	609 Main at Texas	48	1,057,668	0%	Q4 2016
Northwest	CyrusOne	CyrusOne W Campus Expansion	1	640,000	100%	Q1 2015
West Loop	Transwestern	PHP Billiton Petroleum	30	600,000	100%	Q4 2016

Phillips 66 moving into 2101 Citywest Blvd. ExxonMobil Campus Phase I (1,000,000 sf) was completed and delivered in 4th quarter 2014; Phase II is currently underway with a delivery date in the 1st quarter 2015.

Data provided by CoStar

Net Absorption and Leasing Activity

Per CoStar, the net absorption of office properties in the overall Houston area was positive at 7,783,390 SF for 2014. CoStar reported that all building classes saw a positive net absorption in 2014: the Class A market was 6,096,330 sf; the Class B market was 1,462,867 sf; the Class C market was 224,193 sf. Furthermore, the Central Business District was at 571,341 sf and the suburban market was at 7,212,049 sf the end of the 2014. Notable tenant arrivals for 2014 included: Technip of 428,831 sf at Energy Tower III, Mustang Engineering of 186,375 sf at 17320 Katy Fwy, Modec International of 126,222 sf at Energy Crossing II, and Repsol Services Company moving into 200,000 sf at Research Forest Lakeside – Building 5. Notable tenant departures for 2014 included: ExxonMobil Corporation moving out of 450,244 sf and Technip USA moving out of 208,264 sf at Energy Tower I.

According to REIS, the 2014 year-end net absorption total was 3,481,000 sf, an increase from 2013’s net absorption total of 3,359,000 sf. Total Class A inventory was 96,767,000 sf with a net absorption of 2,646,000 sf. Total Class B and C inventory was 74,854,000 sf with a net absorption of 839,000 sf.

Notable Year-to-Date office building leases based on square footage

Submarket	Leasing Co.	Property	Tenant	Qtr	NRA
Greenspoint	Colvill Office Properties	One Greenspoint Pl	American Bureau of Shipping	1st	224,833
FM 1960 / Hwy 290	Transwestern	Westway Plaza	GE Oil & Gas	1st	150,000
CBD	Transwestern	One City Centre	Energy XXI Services	1st	127,684
CBD	DTZ	One Allen Center	Memorial Production Partners LP	2nd	111,566
CBD	Savills Studley	One Allen Center	Motiva Enterprises	2nd	109,373
Katy Fwy West	Mac Haik Realty LLC	Energy Tower IV	Technip	3rd	103,987
Greenspoint	Parkway Realty	One Commerce Green	N/A	4th	98,400
Katy Fwy West	Chambers Street Properties	Det Norske Veritas – Phase I	Det Norske Veritas	3rd	89,750
E Fort Bend Co / Sugar Land	PM Realty Group	Sugar Creek on the Lake	N/A	3rd	85,749
Westchase	Granite Properties	Granite Briarpark Green	JGC America, Inc.	3rd	77,625

Data provided by CoStar

Vacancy

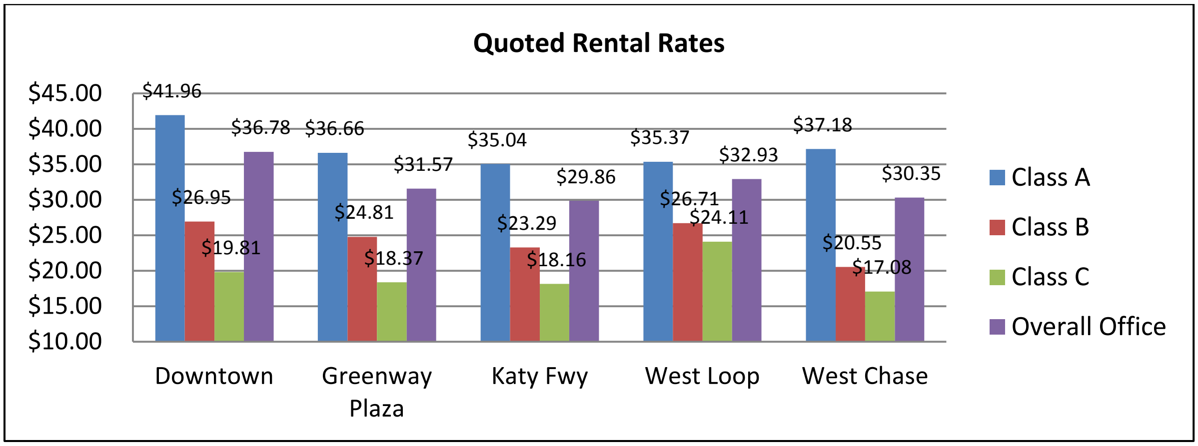
According to CoStar, the vacancy rate for all classes of office buildings at the end of 4th quarter 2014 was 11.30%, below end-of-year 2013 which closed just shy of 12%. CoStar reported vacancy rates for the end of the year to be: 9.50% for Class A buildings; 12.40% for Class B buildings; and 9.50% for Class C buildings. The overall ending vacancy rate for the CBD in 2014 was 8.90%, a decrease from 2013. Additionally, vacant sublease space in Houston ended 2014 with 1,762,556 sf. Per CoStar, Class A properties reported vacant sublease space of 1,128,422 sf, Class B properties reported vacant sublease space of 622,482 sf, and Class C properties reported vacant sublease space of 11,652 sf. Notable tenant departures in 2014 included AMEC Paragon of 167,964 sf at Clay Road Building, Continental Airlines of 152,000 sf at 1600 Smith Street, and CHRISTUS Health of 121,570 sf at 2707 North Loop West.

Per REIS, Houston’s vacancy was among the lowest in the nation, arriving lower than the national average for the past eight quarters. However, as construction activity is expected to continue for the next few years 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. REIS reported that vacancy ran steadily in the vicinity of 14.4% for 2014, the same as 2013.

Rental Rates

CoStar reported that overall market rental rates were $27.24 psf for 4th quarter 2014, an increase of approximately 9.00% from the prior year. The average rental rate at the end of 2014 for Class A spaces was $34.51 psf, Class B $21.35 psf, and Class C $16.38 psf.

According to REIS, the average asking rents saw a change from $25.90 psf to $27.20 psf, a 5.02% change from 2013 to 2014.



Sales Activity

According to CoStar, the first nine months of 2014 saw 32 office sales transactions with a total volume of $1.363 billion and an average of $214.84 psf. This is in comparison to 2013, which posted 41 office sales transactions with a total volume of $1,959,916,622 and an average of $217.70 psf.

According to REIS, 2014 had a total of 17 sales with a total volume of approximately $1.586 billion and an average of $315 psf. REIS reported that:

- 1st quarter 2014 had eight sales for a combined total of approximately $556,000,000
- 2nd quarter 2014 had two sales for a combined total of approximately $112,000,000
- 3rd quarter 2014 had five sales for a combined total of approximately $421,000,000
- 4th quarter 2014 had two sales for a combined total of approximately $497,000,000

Capitalization Rates

CoStar reported that cap rates were lower in 2014 given the increase in property values, sales, and newly constructed office buildings. Per CoStar, cap rates in 2014 averaged 7.35% compared to 2013 when they averaged 8.29%.

According to REIS, the overall average cap rate for 2014 was 5.70% with an average capitalization rate of 6.30% for 1st quarter 2014, 8.00% for the 2nd quarter, 5.30% for the 3rd quarter, and 4.10% for the 4th quarter.

Cap Rates based on Office Building Sales from October 2013 through September 2014

Bldg Size	# of Bldgs	NRA	$/sf	Cap Rate
< 50,000 sf	40	458,518	$177.78	7.40%
50K-249K sf	22	3,351,712	$150.13	7.53%
250K-499K sf	9	3,542,894	$190.28	8.57%
> 500K sf	3	3,129,872	$244.47	5.75%

Summary

Due to the credit crunch, there are stricter regulations to obtain financing for commercial properties throughout the nation. This has limited the potential pool of buyers for commercial properties and has affected the commercial real estate market. While the nation's credit standards are still higher than before the financial crisis, they are not as strict as they have been over the last few years. The Houston economy has been somewhat shielded from the slow growth and conditions affecting the rest of the country.

Houston's office market rent growth is projected to continue to increase. At the same time, supply continues to grow and demand begins to decrease, so vacancy is expected to inch higher. However, the Houston market has experienced a significant increase in market activity and improving market conditions were given consideration while indicating a continuing upward trend in property values. Strong trade sectors and high growth rate of population also contribute. With employment growth projected to remain high for the near future, Houston will remain consistent in growth on all fronts.

Apartments

Houston's demand for apartments is at an all-time high. According to the CBRE Report, Houston had a positive net absorption of 21,394 multi-family units over the past year. Net absorption is an indicator for multi-family demand. It measures the change in occupied apartment units over a period of time. Since 2009, Houston gained more than 370,000 jobs, more than double the number of jobs lost during the recession. Houston's population boom and job growth are fueling this record demand for apartments. Last year, Houston saw the largest population increase, nationally, after nearly 140,000 new residents flocked to the city.

According to the REIS Apartment First Glance 4th quarter 2014, national vacancy ended the year at 4.2%, a potentially worrisome result for those who fret about the near-term future of the apartment sector. Effective rent increased by 0.6%, and asking rent increased to 0.6%. On a year over year basis, asking rents grew by 3.4% and effective rents increased by 3.6%. Rents are expected to continue to accelerate. REIS is forecasting a gradual rise in vacancies over the next five years. Rent growth will stabilize as well at or around 3%.

If job growth were the sole standard, the Houston economy can be said to have achieved complete recovery from the recession that continues to haunt employment numbers in any number of local economies nationwide. According to the Greater Houston Partnership, the Metro area will create 62,900 jobs for twelve months ending December 2015. This is a 2.3 % annual growth rate.

This is a slower pace than prior years. Growth peaked at a 4.5% annual rate, or 120,000 jobs, during the twelve months ending October 2014. This was the fastest pace since June 2007, when the region added jobs at a 4.6% annual rate. The year should end with 2.9 million payroll jobs, a net increase of more than 500,000 jobs since January 2005. Only two other metros, New York and Dallas-Fort Worth, will be able to make similar claim.

Several factors will drive job growth in 2015; the increase in construction at area chemical plants, the backlog of projects at local engineering firms, growing consumer confidence, and sustained population and income growth. An increase in the U.S. economic growth would further stimulate Houston’s economy.

Per Cushman and Wakefield, Houston’s economy continues to add jobs well above the pace of the nation and in other large metropolitan areas.

The unemployment rate in April 2014 was 4.6%, far below the national rate of 5.6%, as the number of unemployment persons declined by 383,000. The rate of job growth has averaged between 3% and 4% since the end of 2011, and is projected to remain above 3% through 2016 according to Moody’s analytics. The energy industry is the primary driver of Houston’s economy, with manufacturing, distribution and logistics, the Port of Houston, health services (including biotechnology), and aerospace all contributing significantly to the region’s economic base.

Looking broadly at the national economy, the U.S. added 252,000 in December, capping the best year for the U.S. labor market since 1999. More jobs and more spending will create a better environment for commercial real estate.

Rental Rates

Over the past twelve months, apartments in the Greater Houston Area have registered an 8.1% increase in rental rates. Total absorption for the twelve months ending in December 2014 was 16,432 units, according to ADS, with 5,217 of those units absorbed within the last six months. With positive absorption and higher occupancies, apartment communities are now offering fewer concessions. Per ADS, as of January 2015, 22% of apartment communities are now offering concessions (all classes) in comparison to 2014 at 20% of communities forced to give free rent.

Of the forty-one (41) submarkets analyzed by ADS, twenty-eight (28) have had rental rate increases and 13 had decreases. A major noticeable change in 2014is a trend toward increasing rent growth in suburban market and decreasing rent growth in the urban core. The Baytown submarket had the largest rental rate change over the last twelve months at 13.4%, followed by Alief at 9.4%. Throughout the metro area, ADS reports that overall vacancies decreased from 9.5% in 2013 to 8.9% as of January 2015. During that time period, rents increased from an average of $0.97 psf per month to $1.054 psf per month for the overall market.

Market Performance

Class	Number of Properties	Average Rate	Occupancy (%)	<u>ALL PROPERTIES</u> % Effect of Concessions on Market Price *	<u>ONLY PROPERTIES W/CONCESSIONS</u> % Effect of Concessions on Market Price *
A	551	147.2	86.4	1.8	5.9
B	849	102.2	94.4	0.7	3.7
C	790	82.3	93.1	1.4	5.0
D	363	66.7	87.3	1.6	5.0
OVERALL	**2,553**	**105.2**	**91.1**	**1.4**	**5.0**

Note: One Month Free = -8.3%

** On Street Price (s): Based on only those properties with concessions*

Source: ADS – January 2015

Market Trends

Transwestern reported a total of 255 sales represented 68,675 units that took place in a trailing 12 months with average cap rate, 7.1%, totaling a volume of $4,815,000; represents an average price per unit of $99,374, for all classes of property.

Apartments Recently Opened - January 2014 through February 2015 (ADS)

AKA	Account #	Address	Units	Eco Area	Key Map	Move In Date
Aldeia West	134-652-001-0001	18325 Kingsland Blvd	305	6	487A	Feb 15
Aura Memorial	134-425-001-0001	14900 Memorial Dr	288	6	488G	Feb 15
Vista at Grand Crossing	121-481-003-0001	302 Cobia Dr	351	28	485B	Feb 15
21 Eleven	134-341-002-0001	2119 Westheimer Rd	215	3	492U	Jan 15
Gables Upper Kirby II & lll	130-752-001-0001	2305 W Alabama St	145	3	492U	Dec 14
2929 Weslayan	130-900-001-0001	2929 Weslayan St	254	3	492S	Dec 14
Astor Tanglewood	133-896-001-0001	502 S Post Oak Ln	238	4	491L	Dec 14
Hanover Post Oak Hi-Rise	133-897-001-0001	1750 Sky Lark Ln	355	4	491Q	Dec 14
Olympia at Willowick Park	116-432-001-0003	3939 W Alabama St	189	3	492S	Dec 14
Sorrel	047-221-000-0005	1660 Katy Gap Rd	304	28	485F	Dec 14
Villas at Colt Run	066-113-011-0001	7600 E Houston Rd	138	17	455L	Dec 14
Aria at Willowick Park	116-432-001-0001	3255 Las Palmas St	325	3	492S	Nov 14
Modera Spring Town Center	041-078-000-0223	21801 Northcrest Dr	396	25	290L	Nov 14
Sunrise By The Park	133-755-001-0001	155 Birdsall St	180	3	492L	Nov 14
Arrabella	134-534-001-0001	10902 Katy Frwy	232	6	489C	Oct 14
Sunrise Briar Forest	131-326-001-0001	14695 Briar Forest Dr	232	6	488J	Oct 14
Vargo's on the Lake	134-459-001-0001	2411 Fondren Rd	276	5	490U	Oct 14
3800 Main I	134-002-001-0001	3800 Main St	203	1	493T	Sep 14
Fairfield Creek Estates (Senior)	044-005-000-0001	27550 Northwest Frwy	140	25	326Y	Sep 14
Fairmont Museum District North	128-648-001-0002	4310 Dunlavy St	208	3	492Z	Sep 14
Sola Uptown River Oaks	133-563-001-0001	70 E Briar Hollow Ln	317	3	491R	Sep 14
Sovereign at Regent Square	132-069-004-0005	3233 W Dallas St	290	1	492R	Sep 14
Townhomes at Willowick Park	116-432-001-0001	3939 W Alabama St	38	3	492S	Sep 14
Waterford Springs	042-141-000-0148	24530 Gosling Rd	308	25	251W	Sep 14
Alexan Auburn Lakes	042-043-000-0015	6000 W Rayford Rd	346	25	250V	Aug 14
Alexan Enclave	133-901-001-0001	13411 Briar Forest Dr	354	6	488K	Aug 14
Alta City West	132-928-001-0002	9235 Westheimer Rd	133	5	490T	Jul 14
Fairfield Ranch	134-853-001-0001	20525 Cypresswood Dr	294	25	326S	Jul 14
Highpoint at Cypresswood	134-729-001-0001	13920 Mandolin Dr	336	32	369C	Jul 14
Muse	133-663-001-0001	1301 Richmond Ave	270	1	493W	Jul 14
Sky House Houston	002-068-000-0006	1625 Main St	336	1	493Q	Jul 14
Hanover West University	133-762-001-0001	2630 Bissonnet St	425	3	492Y	Jun 14
Pearl Midtown	013-270-004-0001	3101 Smith St	154	3	493T	Jun 14
Ascent at City Centre	129-779-001-0002	801 Town & Country Blvd	160	6	489D	May 14
Belvedere at Springwoods Village	133-907-001-0001	2323 E Mossy Oaks Rd	342	25	292J	May 14
Broadstone Post Oak	133-362-001-0001	3100 Post Oak Blvd	272	4	491Y	May 14
Elan Med Center	133-890-001-0001	7010 Staffordshire St	281	10	533J	May 14
Grove at Wilcrest	133-447-001-0001	11070 Katy Frwy	360	6	489B	May 14
Virage	133-885-001-0001	100 Detering St	383	3	492L	Apr 14
Broadstone Park West	026-051-000-0228	2219 Greenhouse Rd	370	28	446Z	Apr 14
Villages at Cypress (Senior)	131-723-003-0001	11821 Cypress Corner Ln	162	32	368Q	Apr 14
7 Seventy	133-758-001-0001	770 N Eldridge Pkwy	320	6	488G	Mar 14

AKA	Account #	Address	Units	Eco Area	Key Map	Move In Date
Belle Vintage Park	108-237-000-0008	15455 Canterbury Forest Dr	120	32	329S	Mar 14
District at Washington	133-601-001-0001	230 T C Jester Blvd	396	3	492G	Mar 14
District at Westborough	133-835-002-0003	1550 Westborough Dr	340	28	446X	Mar 14
Elan Briar Forest	134-182-001-0001	14698 Briar Forest Dr	324	6	488J	Mar 14
Parkside Grand Parkway	134-578-001-0001	1226 W Grand Pkwy S	354	28	485F	Mar 14
Seventeen15 Enclave II	134-311-001-0001	1715 Enclave Pkwy	120	6	488Q	Mar 14
Spring Trace Senior *	133-919-001-0001	24505 Aldine Westfield Rd	180	21	293W	Mar 14
Valencia Place	134-056-001-0002	3131 W Bellfort St	246	10	532T	Mar 14
Post 510	130-901-001-0001	510 Richmond Ave	242	1	493W	Mar 14
Avenues at Cypress	131-669-001-0001	21500 Cypresswood Dr	240	25	326S	Feb 14
City Place Midtown II	013-270-003-0001	306 McGowen St	96	1	493P	Feb 14
Memorial Heights Villages	131-570-001-0002	225 S Heights Blvd	318	2	493J	Feb 14
Palisades of Inwood **	114-730-001-0029	5800 W Mount Houston Rd	127	23	411K	Feb 14
Allusion West University	074-071-015-0001	3810 Law St	231	3	532A	Jan 14
TOTAL			**14,559**			

** Tax Credit*

Listed below are several top submarkets identified by REIS Observer 3rd quarter 2014, indicating the number of units sold and the respective sales price per unit within those highly coveted areas. The Briar Grove submarket led in properties sold per unit. The North/NE Houston and Briar Forest submarkets followed in number of units changing hands.

Top Submarkets

Submarket Name	Units Sold	Price Per Unit
North/NE Houston	326	$188,957
Briar Forest	324	$77,778
Briar Grove	798	$30,201
Champions/FM 1960	272	$56,250

New Construction

The new construction activity for apartments is tightening, however apartments will continue to be planned and constructed if demand stays strong, vacancy rates decline, rent growth remains substantially positive, and lending for development becomes more available. This is expected to leave some excess supply in the market over the long term, saving Houston's apartment market from any further meaningful tightening. Developers are able to build all of the new projects largely because banks are willing to give them the money for construction and interest rates for the near term should stay low. Houston ranks 10^{th} in metropolitan areas for multi-family construction starts in dollars through the first 10 months of 2014, behind New York, Miami, and Washington D.C.

Per ADS, fifty-six new complexes totaling 14,559 units were added to the Houston market during calendar year 2014. In addition, there are sixty-nine complexes, consisting of 19,286 units, under construction as of January 2015. Of the new apartment complexes recently delivered to the market, one is a tax credit property.

Apartments under Construction through December 2014 (ADS)

AKA	Account #	Address	Units	Eco Area	Key Map	Move In Date
3400 Montrose Hi-Rise	026-171-000-0001	3400 Montrose Blvd	325	1	493S	Jun 15
3800 Main II	025-034-000-0011	Alabama St @ Travis St	116	1	493T	May 15
500 Crawford	134-992-001-0001	500 Crawford St	364	1	493M	Mar 15
Alexan Midtown	134-760-001-0001	2310 Main St	215	1	493P	May 15
Ashby High Rise	129-842-001-0001	1717 Bissonnet St	228	1	492Z	Dec 15
Axis	134-019-001-0001	810 Waugh Dr	368	1	493J	Jan 16
Block 334	134-973-001-0001	1515 Main St	207	1	493Q	Jun 15
Broadstone Skyline	017-120-000-0002	707 Saulnier St	269	1	493P	Mar 16
Carter	052-193-000-0006	4 Chelsea Blvd	305	1	493W	Mar 16
Dolce Living West Gray	134-947-002-0001	180 Gray St	180	1	493P	Mar 15
Hampstead	025-024-042-0009	1508 Blodgett St	36	1	493X	May 15
Jefferson Heights	127-890-001-0001	1520 N Memorial Way	198	1	493K	Sep 15
Le Palais	133-041-001-0001	1916 W Gray St	278	1	492R	Apr 15
Lofts at Mid Main	025-031-000-0003	3622 Main St	363	1	493T	Feb 16
Memorial	131-987-001-0001	2018 N Memorial Way	198	1	493K	Sep 15
Pearl at the Mix	013-270-001-0001	Milam St/Tuam St	196	1	493T	Jun 16
Alexan Heights	133-883-001-0001	655 Yale St	352	2	492D	Jun 15
Alexan Yale	133-883-001-0001	501 Yale St	380	2	492D	Aug 16
Elan Heights	040-050-000-0009	2222 White Oak Dr	327	2	493B	Oct 15
Heights Block 39	020-035-000-0001	525 W 24th St	282	2	452V	Jul 15
Avenue Grove	041-017-005-0160	Wakeforest Ave/ Lexington St	270	3	492X	Apr 15
Azalea Court Hi-Rise	134-266-001-0001	2400 Mid Lane	645	3	491V	Jun 15
Elan Memorial Park l	134-687-001-0001	902 Westcott St	258	3	492G	Dec 15
Hanover South Hampton Hi-Rise	134-340-001-0001	5122 Morningside Dr	207	3	532C	Mar 15
Pearl Washington	133-323-001-0001	5424 Washington Ave	322	3	492G	Mar 16
Post Galleria	134-399-001-0001	3131 West Loop South	390	3	491Z	Aug 15
River Oaks District	045-140-001-0258	4444 Westheimer Rd	279	3	491V	Jul 15
Sky House River Oaks Hi-Rise	134-929-001-0001	2031 Westcreek Ln	352	3	491V	Mar 15
Streetlights Midlane	134-969-001-0001	4200 Westheimer Rd	344	3	491V	
Susanne	134-535-001-0001	3833 Dunlavy St	399	3	492V	Mar 15
1900 Yorktown	104-073-001-0001	1900 Yorktown St	262	4	491Q	Mar 15
2626 Fountain View	099-076-000-0002	2626 Fountain View Dr	281	4	491S	Mar 15
Crest at Fondren	041-028-003-0032	8816 Westheimer Rd	338	4	490U	Jun 15
High Point Uptown	133-975-001-0001	807 S Post Oak Ln	277	4	491L	Mar 15
Hudson	134-935-001-0002	5880 Inwood Dr	431	4	491P	May 15
Tuscany Walk	132-470-001-0001	2001 S Voss Rd	150	4	490R	Apr 15
Pearl Woodlake	103-481-000-0005	2033 S Gessner Dr	376	5	490S	Sep 15
Alexan City Centre	040-160-000-0057	I-10/Beltway 8	354	6	489D	Nov 16
Alexan Wilcrest	070-077-002-0047	Wilcrest Dr/Katy Frwy	415	6	489B	May 15

AKA	Account #	Address	Units	Eco Area	Key Map	Move In Date
Ascension On the Bayou	133-903-001-0001	150 Sam Houston Pkwy	280	6	489M	Jan 16
Broadstone Energy	041-036-001-0268	880 S Hwy 6/Memorial	417	6	488E	Jan 16
District at Memorial	134-489-001-0001	10300 Katy Frwy	326	6	489D	Jun 15
Domain Memorial	134-684-001-0001	14800 Memorial Dr	300	6	488H	Nov 15
Domain West	100-270-000-0010	611 N Dairy Ashford Rd	333	6	488H	Apr 15
H 6	130-314-003-0001	410 Highway 6 S	293	6	488A	Mar 15
Haven on Eldridge	134-446-001-0001	13115 Whittington Dr	248	6	488Q	Feb 15
Modera Kinetic Flats	133-080-001-0001	14520 Briar Forest Dr	278	6	488J	Nov 15
Parkside At Memorial	132-965-001-0002	777 South Mayde Creek Dr	380	6	488B	Jan 15
Pearl CityCentre	102-571-000-0002	10402 Town & Country Way	312	6	489D	Oct 15
Pearl Residences At CityCentre	102-570-000-0013	Town & Country @ Attingham	148	6	489D	Sep 15
District 28	128-687-001-0001	2828 Old Spanish Trail	300	10	533J	Jul 15
Haven at Main	044-092-000-0165	8700 S Main	256	10	532Q	Nov 15
Hermann Park Plaza	042-133-003-0024	5745 Almeda Rd	193	10	533B	Apr 15
Millennium Kirby	134-962-001-0001	7600 Kirby Dr	378	10	532L	Sep 15
Premier at Med Center	134-752-001-0001	1755 Wyndale St	265	10	533J	Apr 15
BBVA EaDo Station	134-698-001-0001	Dowling St/Texas St	311	11	493R	Dec 15
Catalyst Hi-Rise	001-052-000-0006	1423 Texas Ave	361	11	493R	Mar 16
Market Square Tower Hi-Rise	001-035-000-0001	777 Preston St	463	11	493L	Oct 16
Texaco Building Hi-Rise	001-079-000-0001	1111 Rusk St	309	11	493Q	Mar 15
Vue on MacGregor	134-385-001-0001	4460 MacGregor	210	11	534E	Fall 2014
La Mariposa	045-066-000-0085	2930 Plum Creek Ln	78	12	534M	Apr 15
Eldorado Green (Senior) *	040-210-000-0076	240 W Eldorado Blvd	108	13	617U	Jan 15
Mariposa At Pecan Park (Senior) *	023-146-000-0691	3535 Canada Rd	180	14	578D	Apr 15
Watercolor	045-144-002-0230	1700 Rollingbrook Dr	240	16	501P	May 15
Newport Village	120-704-001-0001	5925 FM 2100	80	17	419G	Jan 15
New Hope Housing at Rittenhouse	133-892-001-0001	7020 Stuebner Airline Rd	160	20	412Z	Jan 14
Domain at Northgate Crossing	044-102-000-0033	Northgate Crossing Blvd/Hardy Toll Rd	306	21	292G	Feb 16
2121 Ella	056-166-000-0210	2121 Ella Blvd	120	22	452T	Mar 15
Haven on 11th	044-082-000-0271	2205 W 11th St	120	22	492C	Mar 15
Fairfield Place	131-669-001-0001	Fairfield Plc/Cypresswood	240	25	326S	Aug 14
Parkside Place	127-028-001-0001	FM 2920 @ Kuykendahl Rd	384	25	290Q	Feb 15
Willow Creek	040-220-001-0065	FM 2920/Telge Rd	180	25	287M	Apr 15
1300 N Post Oak Lofts	044-082-000-0780	1300 N Post Oak Rd	247	26	451Z	Oct 15
Heights at Park Row	134-699-001-0001	13710 Park Row	342	27	448X	Mar 15
West Lake Park	125-697-001-0001	18100 West Rd	330	27	407B	Feb 15
Commons At Hollyhock	046-005-000-0019	5751 Greenhouse Rd	624	28	406Z	May 15
Dolce Living Grand Harbor ll	134-320-001-0001	24758 Grand Harbor Dr	162	28	485A	Jul 14
Haven at Westgreen	131-494-001-0001	520 Westgreen Dr	171	28	486A	Apr 15
Vue At Kingsland	104-807-000-0014	18021 Kingsland Blvd	423	28	487A	Apr 15
Heights at Westchase	111-378-000-0010	3505 W Sam Houston Pkwy	262	29	489Z	Mar 15
Portico at West Eight Ph II	126-213-001-0002	3003 Seagler Rd	300	29	489Z	Mar 15

AKA	Account #	Address	Units	Eco Area	Key Map	Move In Date
Residences at City West	115-172-000-0004	2520 Rogerdale Rd	266	29	489V	Mar 16
TOTAL			**23,221**			

** Tax Credit*

Summary

Per the Kinder Institute Houston Area Survey, in 2013, half of the respondents indicated an interest in living in "an area with a mix of developments, including homes, shops and restaurants". In Houston, apartment developers are going vertical to rising land prices. As of 2nd quarter 2014, seven 20-plus-story high-rises were under construction and several more will break ground soon, including the 40-story Market Square Tower. The West Memorial/Briar Forest submarket leads all Houston submarkets with thirteen properties containing 4,084 units under construction. Per ADS, office development in the nearby Energy Corridor is one of the factors driving apartment demand in the area.

The Downtown Living Initiative program offers $15,000 per unit in tax rebates to developers who create homes and multi-family projects. Currently, there are four projects under construction and eight additional projects planned for the future. Before the initiative program only 3,600 residents lived downtown; but within 5 years this number will triple.

Even though the construction market is booming, skilled workers are in short supply. The labor shortage has become so severe that construction companies have recently started putting guards on job sites to keep workers from being poached by competitors willing to pay more. The labor shortage is leading to scheduling delays and significant cost overruns. Rising land values, combined with higher construction and material costs, are compressing the returns investors can make on development. An apartment complex that cost $130,000 per unit to build now costs $190,000 per unit to build today.

Marcus & Millichap's 4th quarter National Apartment Index reports Houston's apartment market will stage another strong performance in 2015, even as completions rise significantly. Though a slide in oil prices that began in late 2014 introduces significant uncertainty into the outlook, the diversified employment base offers potential for steady job creation in other segments of the economy, including education and health services. Investors will continue to target Houston apartments in 2015, encouraged by another year of above-average job creation and population growth. At the same time, for-sale inventory will remain limited relative to buyer demand, maintaining a highly competitive climate and supporting elevated prices across the Houston area. Bidding will remain particularly intense for apartment properties inside the Loop, and for assets in the Galleria/Uptown and The Woodlands/Spring areas, where land costs have skyrocketed over the past few years. Vacancy rates are expected to remain near their lowest levels in the last decade, providing sufficient leverage for local apartment owners to achieve strong rent growth.

The most common age in the U.S. is 22 years of age followed by 23 years of age. There are 45 million people between the ages 20 and 29. A lot of young people who are predominately renters and not homeowners this will continue to provide significant demand, even as new supply growth accelerates.

Per REIS Observer 2nd quarter 2014, a change in the balance of supply and demand attending the current boom in construction will reverse the downward movement in the vacancy rate, a trend apparent in the Class A sector. While some submarkets will see greater increases in their vacancy rates than others, a condition of general oversupply is not expected. Vacancy, though, could rise to about 6.5% next year. Rent growth should remain strong. The gains of 4.5% projected for both the asking and effective averages for 2014 all told could be followed by a mild decline in growth rates next year. The fourth quarter indicated that the actual rents grew to 3.4% effective rents grew to 3.6% over the course of the year. The boom in development getting under way in north Houston bears watching even as the energy-driven submarkets on the west side retain their vigor.

Retail

The Houston Retail Market did not experience much change in market conditions in the 4th quarter 2014. By most accounts, 2014 was better than 2013.

The Houston-Sugar Land-Baytown metro led the state in employment growth, creating 125,300 jobs in the 12 months ending in November 2014. Houston's November unemployment rate was 4.5%, down from 4.7% in October and 5.7% in November 2013.

Houston construction permits totaled $8.7 billion for the 12 months ending November 2014, a 47.7% increase from the $5.9 billion issued during the same period in 2013.

Houston home sales have remained busy through the fall, selling 6,639 single-family homes in October, a 12.3% increase from the 5,912 sold in October 2013.

Houston auto dealers sold 371,331 vehicles in the 12 months ending November 2014, up 6% from the 350,454 sold during the previous 12 months.

Oil and Gas exploration is tapering off, prompting Houston to look to other sectors for growth. The U. S. economy should expand at 4% or better this year. The Houston economy benefits whenever U. S. growth exceeds 3%. Houston's expanding population and aging population continues to drive the need for health care.

Net Absorption

Retail net absorption was positive in Houston in 2014, absorbing 4,232,709 square feet for the four quarters in 2014.

Tenants moving into large blocks of space in 2014 include: Kroger moving into 123,000 square feet at 25651 U.S. Highway 59; Ventech is moving into 122,526 square feet at Pasadena Town Square; and Best Storage moving into 80,397 square feet at Northgate Shopping Center; Sam's Club moving into 136,545 square feet at 22402 Bellaire Blvd and Kroger moving into 123,429 square feet at 24350 Kuykendahl Rd.

Market Occupancy

Houston's Retail vacancy rate decreased in the 4th quarter 2014, ending the quarter at 5.6%. Over the past four quarters, the market has seen an overall decrease in the vacancy rate, with the rate going from 6.1% in the 1st quarter 2014, to 5.6% in the current quarter.

The amount of vacant sublease space in the Houston market has trended downward over the past four quarters. At the end of the 1st quarter 2014, there were 375,732 square feet of vacant sublease space. Currently, there are 291,701 square feet vacant in the market.

Largest Lease Signings

The largest lease signings taking place in 2014 are: the 90,945 square foot lease signed by HEB at Tanglewood Court (SEC of San Felipe and Fountain View) ;the 60,000 square foot lease signed by Fiesta Mart at 20403 FM 529-Phase I and the 71,680 square foot lease signed by Academy at 1461 Spring Cypress Rd.

Rental Rates

According to CoStar, the average quoted asking rental rates in the Houston Retail Market are up from four quarters ago. Quoted rents ended the 4th quarter 2014 at $15.17 per square foot per year. This represents a 3.36% increase in rental from four quarters ago.

Inventory & Construction

During the 4th quarter 2014, eighteen (18) buildings totaling 377,127 square feet were completed in the Houston Retail Market. Over the past four quarters, a total of 2,323,829 square feet of retail space has been built in Houston. In addition, thirty (30) buildings with 555,656 square feet were completed in 3rd quarter 2014, thirty-one (31) buildings totaling 597,483 square feet were completed in 2nd quarter 2014, and 793,563 square feet in forty-eight (48) buildings were completed in the 1st quarter 2014.

There were 2,355,126 square feet of retail space under construction at the end of the 4th quarter 2014.

Some of the notable completions in 2014 are: Idylwood Wal-Mart Supercenter, an 185,000 square foot building at 2391 S Wayside Dr. that is now 100% occupied and 8700 N Highway 146, an 185,989 square foot facility that is also now 100% occupied.

The Retail inventory in the Houston market area totaled 348,325,086 square feet in 21,975 buildings and 3,880 centers as of the end of the 4th quarter 2014.

Sales Activity/Capitalization Rates

Tallying retail building sales of 15,000 square feet or larger, Houston retail sales figures fell during the 3rd quarter 2014 in terms of dollar volume compared to the 2nd quarter 2014.

In the 3rd quarter, ten (10) retail transactions closed with a total volume of $67,820,000. These ten buildings totaled 462,504 square feet and the average was $146.64 per square foot. This compares to twenty-one (21) transactions totaling $195,777,900 in the 2nd quarter 2014. The total square footage in the 2nd quarter was 1,136,232 square feet for an average price per square foot of $172.30.

Total Retail center sales activity in 2014 was up compared to 2013. In the first nine months of 2014, the market saw forty-eight (48) transactions with a total volume of $371,327,900. The price per square foot averaged $162.22. In the first nine months of 2013, the market posted thirty-two (32) transactions with a total volume of $315,989,239. The price per square foot averaged $108.39.

Cap rates have been lower in 2014, averaging 7.72% compared to the same period in 2013 when they averaged 8.47%.

Specific information on key indicators measuring the strength of the retail market was obtained mostly from the Costar Retail Report – 4th quarter 2014, covering the Houston Retail Market.

Detail by Property Type

The CoStar 4th quarter 2014 Report gives further detailed information on the five retail subcategories:

Shopping Centers

The Shopping Center market in Houston currently consists of 3,774 projects with 152,610,978 square feet of retail space in 6,098 buildings. In this report, the Shopping Center market is comprised of all Community Centers, Neighborhood Centers, and Strip Centers.

After absorbing 102,392 square feet and delivering 32,835 square feet in the current quarter, the Shopping Center sector saw the vacancy rate decrease from 8.6% at the end of the 3rd quarter 2014 to 8.5% in the current quarter.

Over the past four quarters, the Shopping Center vacancy has decreased from 9.1% at the end of the 1st quarter 2014, to 8.7% at the end the 2nd quarter 2014, to 8.6% at the end of the 3rd quarter 2014, and finally to 8.5% at the end of the current quarter.

Rental rates ended the 4th quarter 2014 at $15.09 per square foot, up from the $14.47 per square foot one a year ago.

Net Absorption in the Shopping Center sector has totaled 1,427,002 square feet over the past four quarters.

Power Centers

The Power Center average vacancy rate was 3.5% in the 4th quarter 2014. A year ago, in the 4th quarter 2013, the vacancy rate was 4.2%. Over the past 4 quarters, Power Centers have absorbed 188,300 square feet of space and delivered 16,538 square feet of space. Vacant sublease space has decreased from 53,483 square feet to 30,000 square feet over that time period, and rental rates have decreased from $16.86 to $15.50.

The total stock of Power Center space in Houston is currently 26,636,754 square feet in 57 centers comprised of 561 buildings.

No space was under construction at the end of the 4th quarter 2014.

General Retail Properties

The General Retail sector of the market, which includes all freestanding retail buildings, except those contained within a center, reported a vacancy rate of 2.6% at the end of 4th quarter 2014. There was a total of 3,625,954 square feet vacant at that time. The general Retail sector in Houston currently has average rental rates of $14.56 per square foot per year. There are 1,607,424 square feet of space under construction in this sector, with 323,321 square feet having been completed in the 4th quarter. In all, there are a total of 15,031 buildings with 137,287,455 square feet of general Retail space in Houston.

Specialty Centers

There are currently sixteen (16) Specialty Centers in the Houston market, with approximately 3,187,417 square feet of retail space. In this report, the Specialty Center market is comprised of Outlet Centers, Airport Retail and Theme/Festival Centers. Specialty Centers in the Houston market have experienced positive 186,337 square feet of net absorption in 2014. The vacancy rate is currently 9.2% and rental rates average $17.55 per square foot.

Malls

Malls have recorded a net absorption of negative 24,099 square feet in the 4th quarter 2014. This net absorption, combined with the 20,971 square feet of new space added in the quarter, caused the vacancy rate to increase from 5.3% in the previous quarter to 5.5% at the end of the 4th quarter 2014. Rental rates went from $22.49 per square foot to $19.58 per square foot during that time. In this report, the Mall market is comprised of 33 Lifestyle Centers, Regional Malls and Super Regional Malls.

Summary

Wulfe & Co. projects just over 3.7 million square feet of new retail shopping center space will be built in the greater Houston area this year. According to the locally based real estate firm’s 22nd Annual Retail Survey, this represents a 56% increase over the previous years’ 2.37 million square feet.

Supermarkets will dominate the retail new construction. Thirty-two (32) new stores are planned. HEB will open seven; Kroger will open four and expand two; Wal-Mart will open four neighborhood market stores; Whole Foods and Sprouts will each add two; Fiesta and Trader Joe’s will each open one; and relative new comer ALDI will add eleven 18,000 sf stores to the market.

The survey also indicated that there will be a new 180,000 sf Wal-Mart Superstore, 165,000 sf Gallery Furniture and a Lowe’s home improvement center. There will also be five new theatres, three new Academy stores and two new Ross stores.

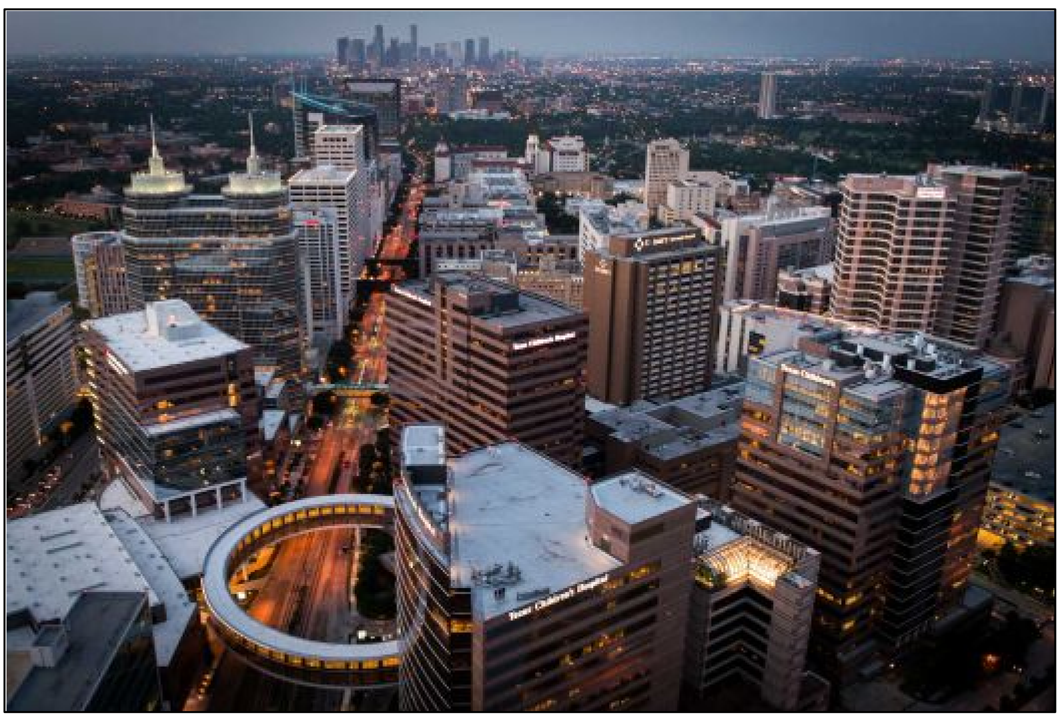
“With this high activity of new retail growth, we project that higher retail occupancy rates will exceed a rate of 92% this year,” said Wulfe & Co. “Rental rates will also continue to increase; driven by limited availability of shopping center space, higher land costs and higher construction costs for materials and labor to build or remodel retail facilities.”

Medical

The medical segment in Harris County includes hospitals, surgery centers, medical office buildings, medical condominiums, retirement homes and nursing homes. Medical inventory is organized in 23 economic areas throughout the county, with the highest concentration of development being in the Texas Medical Center.

The Texas Medical Center

Located within Loop 610 southwest of the Central Business District, the Texas Medical Center (TMC) is one of Harris County's leading economic contributors. It ranks as the 8^{th}-largest downtown business district in the United States. Recognized as the largest medical complex in the world, it has continued to grow since it was founded in 1945, with the majority of the growth being within the previous decade. The center contains 54 member institutions, including twenty-one hospitals, six nursing programs, and three public health organizations, as well as two universities and numerous medical, dental, and pharmacy schools. TMC is the largest employer in Houston. It directly employs 106,000 people and instructs 50,000 students. Currently, clinical research in the TMC generates an average of 15 new startup businesses per year. An estimated 7.2 million people visit the medical center each year. TMC is home to more than 290 professional buildings on over 1,300 acres of land.



Colliers International estimates the TMC current annual economic impact to be $15 billion. Since 2008 the TMC has spent an estimated $7.1 billion in building and infrastructure investments. Texas Medical Center's recent growth increased the total campus size to 45.8 million gross square feet, up from 29.6 million gross square feet, representing an increase of almost 55% in a six-year period. There are also many new and proposed construction projects ongoing.

Texas Children's Hospital recently announced details for a $506 million expansion, adding six floors and 640,000 square feet to their Pavilion for Women. The University of Texas M.D. Anderson Cancer Center is spending $198 million on a hospital expansion and renovation project to add 185,000 square feet. M.D. Anderson is also adding nine floors atop the Alkek Hospital at a cost of $293 million. Baylor College of Medicine is building a $1 billion clinic and hospital in the TMC's mid-campus.

Houston Methodist will build a $300 million patient tower and $70 million adult outpatient clinic. St Luke's is demolishing its original 50-year-old hospital to erect a new $200 million patient care center. Memorial Hermann is undergoing a $420 million expansion of all nine of its acute care hospitals. HCA has seven construction projects underway, including a $50 million project at the Women's Hospital of Texas.

Another large project is The University of Texas Research Park, located just south of the TMC. It will be a master-planned campus with laboratory and office space for both academic and commercial biomedical and biotechnology research facilities, encouraging collaboration between scientific and business. The M.D. Anderson portion of the Research Park is planned to provide parcels for as many as twelve buildings containing 1.5 million square feet of lab, office and support space. The Park is designed to be pedestrian-friendly with a multi-level underground parking garage.

The most recent medical office to open in the TMC market area is Parc Binz, a 50,000 square-foot five-story Class A building featuring high-end retail mix on the first floor and an ambulatory surgical center as well as pharmacy and private medical offices. Like many of the new construction office buildings in Harris County, Parc Binz was 50% pre-leased with asking rents of $30 per square foot.

Parc Binz rendering

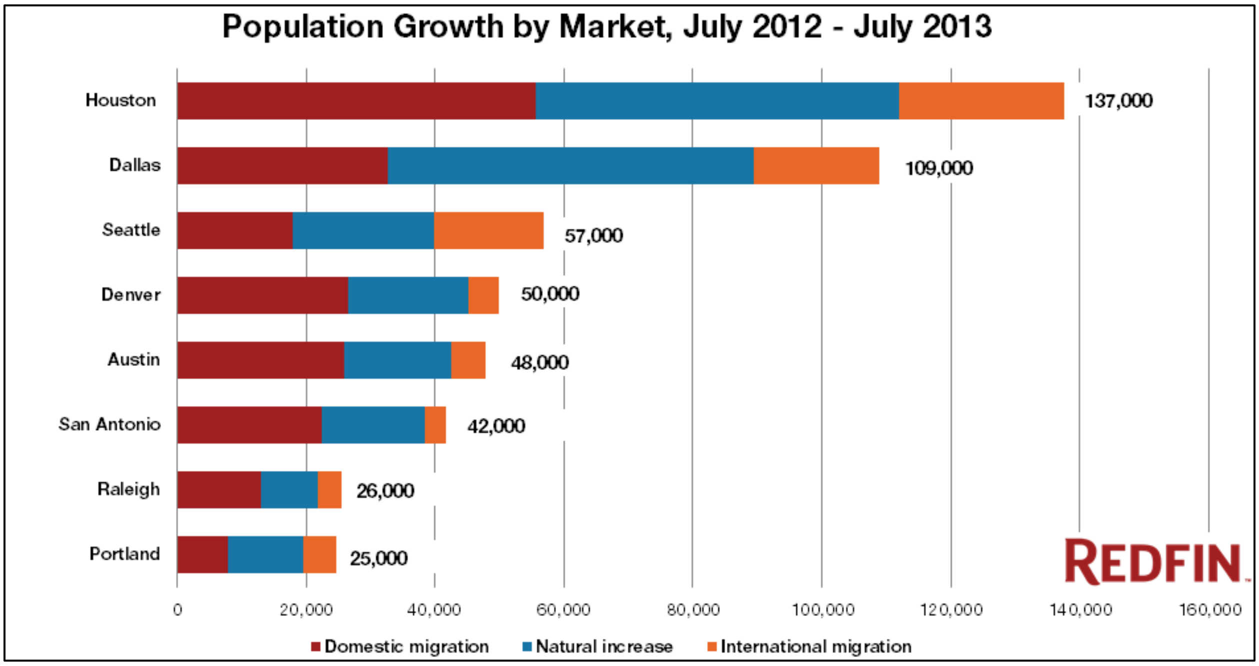
In October, the TMC and Harris County broke ground on the construction of its new forensic facility. The 200,000 square foot, nine-story tower is slated to be completed in early 2017 and will be equipped with state-of-the-art technology as well as integrated clinical, laboratory, administrative, public and teaching/training areas. The project includes a second phase four-story building for future expansion.

Harris County Institute of Forensic Science rendering

Demographics: Driving Demand

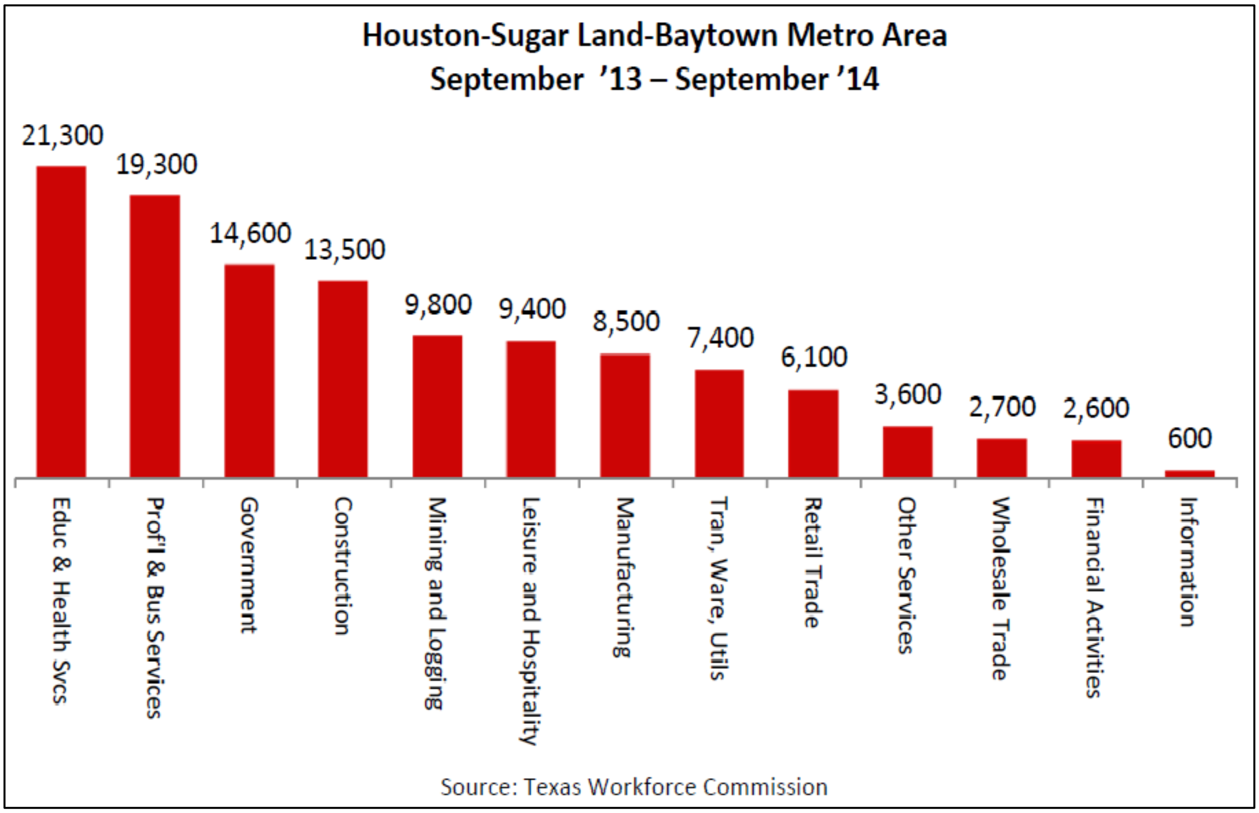
Despite the uncertainties as a result of the 2014 Patient Protection and Affordable Health Care Act, the medical sector has not been deterred. The long-term effects of the act will require additional medical spaces as the hospital systems and physicians respond to the ongoing demand for medical care contributed by the county’s growing population, aging baby-boomers, and newly-insured.

Redfin population growth chart



Houston is one of the fastest-growing market areas in the United Sates. According to the U.S. Census Bureau, Harris County's population grew 6% from April 2010 to July 2013, well above the national average growth rate of 2.4% for the same time period. Despite the tremendous growth in population, the unemployment rate continues to fall. Per the U.S. Department of Labor: Bureau of Labor Statistics, the unemployment rate in Harris County fell from 6.8% for June 2013 to 5.4% for June 2014. From September 2013 to September 2014, there were 21,300 new jobs created in health services and education, more than any other sector.

Year-over-year industry growth



Medical Office Buildings

The Medical Office Building (MOB) segment continues to outperform traditional office spaces in both stabilized occupancy and rental rates. Medical properties are considered to be safer investment vehicles than any other property type as a direct result of long-term leases, credit-worthy tenants and stable income streams. Consequently, REIT’s consider medical properties to be prime investments to its portfolios. Medical office buildings located on or near hospital campuses and leased by physician groups and hospital systems (often referred to as “compounds”) are considered prime investment grade real estate.

Examples include two projects being built near the site of the future St Luke’s Katy hospital at the intersection of Kingsland and Grand Parkway. Katy Medical Plaza recently completed the first of three proposed medical office buildings nearby and Vista Kingsland Equities will begin construction in July of an 8,000 sf building at a cost of $2.5 million. It is scheduled to open in early 2015.

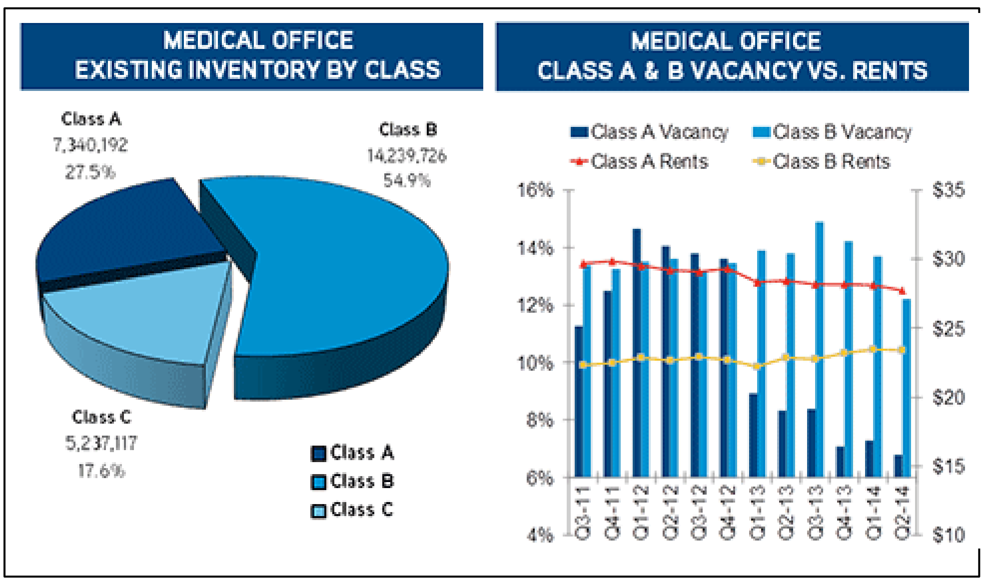
However, the latest trend is positioning small clinics and medical offices in retail centers that serve suburban neighborhoods, as the population demands the convenience of having medical services closer to home. Some of the major players of this type in the Houston market are the urgent care centers, emergency centers and dialysis centers. According to Colliers International, the high-end retail in the stronger submarkets is currently more expensive to lease than Class A office buildings. Additionally, off-campus locations are leasing up twice as fast as traditional on-campus buildings.

An example of this trend in medical office buildings is the Spring Valley Medical Plaza which is scheduled for a fall 2015 completion. This is a 68,000 sf surgery center and medical office building on Katy Frwy in Spring Branch and was 60% pre-leased before the start of construction.

Emergency care centers are being built throughout the suburban markets in Harris County, with the majority of new construction in Cypress. North Cypress Medical Center began construction in Towne Lake and Houston Methodist broke ground in December on a new facility on Highway 290 in Fairfield.

Another important trend is the demand for a single destination for multiple types of medical care. Kelsey-Seybold, the Houston-based pioneer in this type of facility, built a new $10.8 million multi-specialty care center on North Sam Houston Parkway near Summer Creek which opened in October of 2014. Kelsey-Seybold also opened new locations in Clear Lake and The Woodlands in 2014. The Summer Creek clinic is their 20th location in the Houston area. Kelsey-Seybold also owns land adjacent to the future St Luke's Katy hospital.

Medical Office analysis from Collier's



Published by Collier's International in their Mid-Year 2014 report

Citing "disciplined development" preventing major upheavals, Colliers reported only five new buildings including 201,200 sf added to the medical office building market during the first half of 2014. Even with the new construction, Harris County medical office overall occupancy increased in 2014, with vacancies decreasing from 11.5% at the end of 2013 to 10.3% by the 4th quarter. Class B properties benefitted the most with a 160-basis point gain, but still have the highest vacancy rate of the MOBs, with an average of 12.2%. However, rental rates increased steadily for Class B properties throughout 2013 and into the first half of 2014. Class C properties had an 80-basis point gain, bringing average vacancies to 10.1%. Class A properties gained another 50 basis points to end the 4th quarter with a very healthy 6.8% average vacancy, though with a slight decrease in rental rates.

Overall, Houston's medical office market recorded 516,778 sf of positive net absorption in the first half of 2014. The average full-service rental rate for all MOB classes was $23.36 psf at mid-2014, increasing from $23.19 psf at the end of 2013. While landlords continue to offer concessions such as free rent, they have decreased the amount of tenant improvements. Class A rates decreased from $28.26 to $27.73 psf. Class B increased from $23.14 to $23.40 psf. Class C decreased from $18.08 to $17.54 psf. The majority of new leases were in the 1,000 to 5,000 sf range.

Hospitals

Most hospitals in Harris County thrived throughout the recent economic downturn. This trend is expected to continue as PwC projects the national hospital trend to include a 3.65% increase in capital projects for 2014-2015. Houston is expected to outperform the national growth rate over the next decade.

According to the Texas Hospital Association (THA), there are 80 hospitals in Harris County. On average in Texas, 28% of all hospitals are nonprofit, 21% are government-owned and 51% are investor-owned. The trend over the previous 10 years, according to THA, is a reduction in the number of government-owned hospitals and an increase in the number of investor-owned hospitals. Currently there are a total of 53 taxable full-service, acute care, specialty use, rehabilitation, and psychiatric care hospitals in Harris County. U.S. News & World Report's Best Hospitals 2014-15 list included several nationally ranked hospitals in Harris County either overall or in various specialties, including Houston Methodist Hospital, St. Luke's Episcopal Hospital, University of Texas MD Anderson Cancer Center, Menninger Clinic, TIRR Memorial Hermann, and Texas Children's Hospital.

As detailed previously, most of the major hospitals in the TMC have either expanded their facilities or are planning some major expansions in the near future in response to the increasing demand. The new construction is not only taking place in the TMC campus, but also suburban areas such as The Woodlands, Pearland, Katy, Cypress, and Kingwood. Much of the new suburban hospital construction is outside of Harris County.

Along with expanding their TMC footprint, also in the works for Houston Methodist is a full-service 470,000 sf, 193-bed inpatient hospital to be built near The Woodlands in Montgomery County. Construction is slated to begin in early 2015 with completion in 2017. The $328 million Woodlands project will also include a 135,000 sf medical building scheduled to open in late 2015. Methodist plans to invest more than $1 billion in expanding and replacing its facilities in the Houston area over the next three years.

Rendering of Houston Methodist's new hospital near The Woodlands

As of early 2014, Houston Methodist is repurposing the CHRISTUS St Catherine hospital in Katy to a long-term acute care facility. Houston Methodist also has plans to build in the Cypress area, at the intersection of Hwy 290 and Fairfield Creek Drive. They will begin construction on the new emergency care facility this fall and plan to open summer of 2015. It will be modeled after several other free-standing emergency departments the hospital system owns throughout the area. Methodist is Houston's third-largest hospital system with seven hospitals and 2,222 beds.

The **Memorial Hermann Health System** is Houston's largest health care system with twelve (12) area hospitals and 3,447 beds. It has several projects in the works. Beginning the summer of 2014 and scheduled for completion in 2018 is a $650 million expansion and renovation of its TMC campus, bringing it from the current 2.5 million square feet to 3.84 million square feet. The new 17-story tower will be dubbed Hermann Pavilion 2. This will add 160 beds, replace 71 beds, and add 24 new operating rooms, 16 additional emergency room bays, and 750 new parking spaces. Included in the plans are a six-story parking and infrastructure building, emergency generator systems, and a roof-top helipad. The plan also accounts for future growth to include six shelled floors and six shelled operating rooms with the potential of adding 264 additional beds, and space for expansion of the kitchen service and heating and cooling systems.

Memorial Hermann is also in the process of constructing another patient tower at its Katy campus location. It is projected to cost an estimated $70 million; adding 58 patient beds. The expected 155,555 sf tower will increase its current emergency department and operating room capacity by almost double. The project is currently in phase two of its master plan, which originally began in 2007. The construction is expected to be completed by 2016.

In addition to the Harris County properties, Memorial Hermann also has projects within the Houston metropolitan area in Brazoria and Fort Bend Counties. Memorial Hermann recently broke ground on a 40-acre medical campus in Pearland and will open a 64-bed acute care hospital there in December 2015. In addition, it is working on a $93 million expansion of its Sugar Land hospital.

Memorial Hermann also recently announced plans to build a medical center with both inpatient and outpatient capabilities on a 32-acre parcel of land at Hwy 290 and the Grand Parkway in Cypress. The $168 million project will begin in June and is expected to be completed by 2017. Phase 1 will include a medical office building for primary care and an emergency care center which will go online in early 2016. Phase 2 will include completion of the hospital, at which time the emergency care center will likely be converted to serve as an urgent care facility, although no definitive plans have been set. The 80-bed hospital tower will have eight operating rooms, a 16-bed intensive care unit, a neonatal intensive care unit and a cardiac catheterization lab. The site is large enough to accommodate future expansion, including a parking garage, additional office buildings, a helipad, and up to 275 patient beds.

Hospital Corporation of America (HCA) is in process of two expansion projects in the TMC and recently opened Pearland’s first hospital. In the TMC, HCA is adding two additional floors and 112,500 square feet to its Texas Orthopedic Hospital. The expansion will allow for privatization of patient beds and creation of clinical, educational, and business office space on the fourth and fifth floors. The second TMC project is a $26.5 million 72,000-square-foot expansion of the Women’s Hospital of Texas that will add a pediatric floor and pediatric support area in the emergency department, as well as shell space on the hospital’s fourth floor to allow for future growth. The Pearland Medical Center, which opened in January, is a $71 million facility with 33 beds. HCA is Houston’s second largest hospital system with ten local hospitals and 2,607 beds.

Catholic Health Initiatives (CHI) St Luke’s Health will develop a $110 million facility in the new master-planned community of Springwoods south of The Woodlands, near the new Exxon Mobile campus. The 23-acre development will include a 55,000 sf ambulatory center and 100,000 sf medical office building. It is expected to be completed in late 2015. Long-term plans include a 300-bed hospital and 600,000 sf of medical offices at this location.

St Luke’s also owns nearly 30 acres of land in Katy at the intersection of Kingsland and Grand Parkway with plans for a new hospital development and said it will invest as much as $70 million more over the next five years in future development. CHI St Luke’s is the area’s fourth-largest hospital system with six hospitals and 1,331 beds.

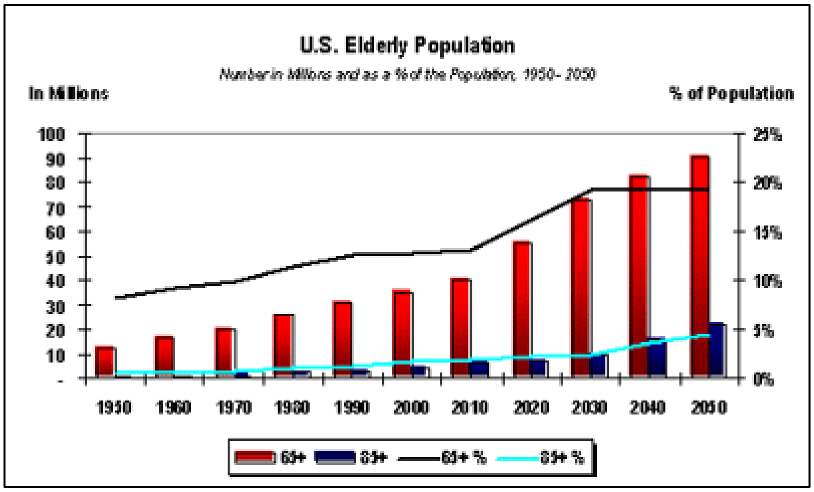
Medistar Corporation completed construction in July 2014 of phase one of its new Bay Area Regional Medical Center in Webster, with construction of the second phase underway. The nearly 400,000 sf nine-story building includes 104 patient suites and 22 intensive care unit rooms. It also has a full-service emergency room with 11 treatment rooms, five operating suites, three cardiac suites and one flex suite. The second phase will expand the facility and is slated for completion September 2015. When the facility is complete, it will have 275 rooms in 11 floors.

Nursing Homes and Retirement Homes

Positive trends are also apparent in the senior housing and skilled nursing markets. Many developers are constructing senior living facilities that consolidate multiple services into single centralized facilities. These facilities are providing more than one type of care and are becoming more common in the industry. The senior living facilities that incorporate independent living, assisted living, and nursing care are often referred to as “Continuing Care Retirement Community” (CCRC). Among the highest ranked CCRC’s in Harris County for 2014-2015, according to U.S. News & World Report, are Emeritus at Kingwood, The Hampton at Post Oak, and University Place Nursing Center.

Real estate trends for the senior housing industry will focus on building flexible spaces that allow for customization to accommodate the demands of an aging population.

U.S. Elderly Population chart



The county's steady population growth has played a contributing factor to the increase in demand for new development. The demand for senior care is particularly strong, given the aging population among the post-war baby boomers. More than 390,000 (9%) of the 4,336,853 Harris County residents are persons 65-years of age and older. The percentage is expected to climb to 15.6% by 2030, still below the national average which is expected to be closer to 18%.

Brazos Towers at Bayou Manor

Brazos Towers at Bayou Manor is a $70 million project currently underway that will transform the historic campus of Bayou Manor in Bellaire to include a new 14-story residential tower with 84 new residents and 25 assisted living residences. The new East Tower is scheduled for completion in 2015. Included in the project is a complete renovation of the original West Tower.

Similarly, **The Buckingham** in the Memorial area is expanding its facilities along Buffalo Bayou. Currently a 323-unit community that opened its door in 2005 and has been operating at capacity since 2008. Plans call for demolishing the adjacent apartment complex and constructing a $56 million expansion that will add 187 additional residences including 104 independent living apartments, 33 assisted living suites, 18 memory care residences and 32 private skilled-nursing rooms. It is slated to open in 2017.

Under construction in the Heights market is the four-story, 3500 unit, senior living project **The Village of the Heights** scheduled for completion in early 2015. It will be an assisted living center and will feature specialty memory care suites.

Belmont Village Senior Living expanded from its West University location to include an additional development in Hunters Creek in the Galleria market area. It opened in November of 2014 and features 106,000 sf on six stories. It also emphasizes memory care services and includes upscale features such as a gym, therapy pool and bistro. The community has 149 residences, including 31 memory suites. With the goal of encouraging socialization, common areas will make up 40% of the gross building area.

Legacy at Falcon Point is a luxury assisted living and memory care center that opened in the Katy market area in October of 2014. It is located in close proximity to the campus of the future CHI St Luke's and Methodist hospitals near the Grand Parkway.

In the Cypress market area, construction was completed in 2014 on **Villages at Cypress**, a 162-unit affordable care independent senior living center developed by Caddis Partners. Caddis is also developing another assisted living community in the Cypress area with an innovative "Main Street" concept featuring such amenities as storefronts, movie theater, ice cream parlor, art studio, auto repair garage and plant nursery. Construction began on the luxury **Heartis Cypress** development in March of 2014 and it is scheduled to open in the spring of 2015. The Heartis facility was launched after Caddis realized the strong market demand, with over 800 people putting their names on the waiting list for the Villages at Cypress center.

Wood Glen Court Senior Living in Cypress is an "age in place" community featuring upscale finishes and kitchenettes in the rooms which opened in late 2014. **Avanti** is in the process of a $15 million, 90-unit senior living project at Towne Lake in Spring which will open in mid-2015. The Spring market area also has a new $10.7 million facility **Magnolia Heights** Assisted Living that opened in November of 2013 and, like most of the newer facilities, features special memory care suites as well as assisted living units.

There are plans underway to convert the **Old San Jacinto Hospital** in Baytown to a luxury retirement center featuring a restaurant on the top floor with skyline views and utilizing the full campus to create green space. The developer spent over $1 million on selective demolition to stabilize the property and is currently waiting on a zoning variance to be approved.

Economic Uncertainties

The recent drop in oil prices which began in mid-2014 and the resulting change in oil-company budgets are causing some economic uncertainty for all real estate sectors in Houston. Most analysts are predicting prices will not recover for 2015, yet they are still predicting economic growth for Houston, though not as robust as we saw in 2013 and 2014. Many are counting on the region's economic diversification, which is much greater now than in the previous downturn in the 1980's, as well as the tempered growth rate Houston experienced as a result of the recent oil boom compared to the previous boom. They are citing a more stable housing market, with fewer "spec" homes, the fact that more than 50% of the new office construction has been pre-leased, more stable banking systems, and in general less "excess."

Much of the 2014 construction contracts in Houston were concentrated in chemical plants along the Houston Ship Channel, which benefit from low oil prices. And Houston's expanding and aging population continues to drive the need for health care.

Summary

The future looks bright for all property types in the medical segment for 2015. The Texas Medical Center continues to expand to meet the demands of a growing population and places a new emphasis on promoting the creation of startup companies. Medical office buildings are experiencing lower vacancy rates and increasing rental rates, particularly for Class B buildings. Retail centers should benefit from the trend toward locating medical clinics and services in suburban markets. Many of the area health care systems are building new hospital campuses in the suburban market, most of which are located outside of Harris County. The aging population is driving demand for senior housing with trends toward multi-service facilities, flexible spaces and more upscale choices.

Construction costs could rise dramatically with increased demand for material and shortages of skilled labor. The availability of financing remains healthy, particularly for senior housing and small medical office buildings, as more private investors and REITs enter the market. Hospitals are also benefiting from a trend toward investor-owned facilities. Due to the projected growth in the industry driven by demographics and abundance of willing investors driving competition and making financing readily available, capitalization rates are expected to remain steady and values increase as supply struggles to keep up with the rising demand.

Hotels and Motels

The Houston hotel market will remain one of the strongest in the country this year and into 2015. Houston is preparing to host the 2017 Super Bowl, which is sparking an expansion of hotel stock. Additional rooms are being built to capture convention business, and new properties are arising in anticipation of the opening of ExxonMobil's new campus in the Woodlands.

Integra Realty Resources Houston in their 2015 Annual Viewpoint reports the hotel market in Houston is booming due, at the moment, to the oil and gas industry. A total of sixty-six hotels will be built over the next two years, most of which will be major brand name hotels. A big push of boutique hotels is predicted as well. The Galleria, Downtown, Energy Corridor, and the Woodlands are saturated so boutique hotels will have to fill the gap. Boutique hotels are slower and riskier projects to build that require experienced developers but are typically more successful in appealing to the younger generation.

Per Source Strategies November of 2014 Report, Texas lodging performance measured strong third quarter gains in Houston, Austin, San Antonio and DFW. Year-over-year, lodging performance measures are now at healthy levels.

Texas Lodging

Revenue Growth

Texas lodging room revenues gained 11.3% in the third quarter, to $2.5 billion. The 11.3% total Texas quarterly gain compares to 10.1% in 2012 and an 8.7% increase for all of 2013. This may indicate an accelerating economy in the state.

Room-Nights sold

Third quarter room-nights sold increased 6.3% state wide after a 3.5% gain in 2013 and a 6.2% rise in 2012. Room-nights sold are the measure of real demand and the most important driver of industry health.

Revenue per Available Room (RevPAR)

Third quarter RevPAR gained 9.0% spurred by a 4.7% price increase combined with a 4.1% increase in occupancy. RevPAR close on pre-recession trends, but at a slow pace.

Occupancy

Third quarter occupancy reached 66.4%. Annual occupancy was 63.6% in 2013 and 62.5% in 2012. 60% is the long term Texas average.

Supply Below Demand Growth

With current low supply growth only about 2%, high and increasing occupancy and good RevPAR levels support a likelihood of higher new development and increasing supply.

Houston Lodging

Houston-Baytown-Sugar Land metro area room-nights sold gained 9.8% in the 3rd quarter. Revenues moved from $521.9 million in 2013 to $573 million in 2014. The metro area had increases in occupancy to 68.7%, average daily rate to $106.92 and RevPAR to $73.45.

Developments

Marriott Marquis - Houston First Corporation has selected RIDA Development Corporation to build a convention hotel downtown. The 1,000-room hotel will developed on the block immediately north of Discovery Green and will connect to the George R. Brown Convention Center via a skywalk. The hotel groundbreaking is proposed for 2014 and opening in 2016.

JW Marriott Houston Downtown - Downtown’s 102-year old Samuel F. Carter Building was transformed into the 328-room JW Marriott Houston Downtown in summer 2014. Pearl Hospitality developed the new $81 million, luxury hotel at the corner of Rusk and Main Street. The hotel was slated to open September 2014.

Holiday Inn Downtown - A development group will turn the former Savoy Hotel that straddles Downtown and Midtown into a Holiday Inn. The 17-story property on Main Street has been closed since the late 1980’s. Completion is expected in mid-2015.

Springhill Suites - Just a few blocks west of the George R. Brown convention center, the historic Humble Oil Building complex at Main Street and Dallas is getting a new 166-room

Springhill Suites hotel. The complex is already home to a 191-room Courtyard and 171-room Residence Inn. The property's owner, RLJ Lodging, will spend $80 million to convert an existing 82-unit apartment tower into the new hotel, with construction slated to wrap in mid-2015.

Courtyard by Marriott/Hampton Inn Suites by Hilton – Energy Corridor- Western International is expected to break ground this summer on a new Courtyard and Hampton. The hotels will go up side by side at Barker-Cypress Road, just off I-10. Each will feature approximately 135 rooms. Completion is likely in mid-2015.

Hampton Inn/Homewood Suites - Houston based American Liberty Hospitality is building a pair of hotels under one roof at Crawford and Capitol streets Downtown. A 168-room Hampton and a 132-room Homewood Suites will comprise the $50 million project. The developer is aiming to open in summer 2015.

Hyatt Regency & Hyatt Place – Galleria- A 325-room Hyatt Regency and a 157-room Hyatt Place will rise at Sage Road and West Alabama near the Galleria. Completion for the dual-concept project is slated for late 2015.

Aloft Houston – Downtown- Aloft is planning its second Houston property Downtown at Fannin and Walker streets. The hotel will be a redevelopment of the historic, 10-story Stowers Building. It is unclear at this time how many rooms the project will have, but completion is expected by summer 2016.

Hotel Alessandra - One much anticipated new hotel project will help anchor the mixed-use GreenStreet development Downtown. Hotel Alessandra will be a tall, narrow tower at Fannin and Polk streets with 225 rooms. Completion is slated for 3rd quarter 2016.

Unnamed Medical Center Project- TRC Capital Partners and Medistar Corp are planning a 250-room hotel in the Texas Medical Center. The 17-story hotel will be located at 6750 Main Street. Groundbreaking is slated for later this year but no completion date is set.

Summary

Houston's hotel market is and should remain a strong market, due to the overall Houston economy. Room-nights sold and revenue have continued to grow, and with the Super Bowl and continued convention growth, the outlook is still good. Many new developments are coming online, but are not expected to outpace demand.

Golf Courses

PGA PerformanceTrak reports that while results show for November 2014 and YTD 2014, rounds and revenues are below 2013 numbers, we believe it is important to consider golf performance based on rounds and revenues booked in terms of days open. Based on the number of days facilities were open (accounting for weather), rounds played per open day were up 1.4% and golf fees were up 2.2% YTD as of November 2014.

New Construction

There are no new golf courses planned for Harris County, but several properties have undergone or are planning renovations

Raveneaux Country Club has proposed a redevelopment project calling for the development of a high-end residential community, consisting of 79 townhomes, 52 patio homes, 89 brownstone units, and 240 mid-rise condominiums. The project also calls for the demolition of the current clubhouse and the construction of a new, smaller clubhouse elsewhere on the property. The swimming pools and tennis courts were renovated in 2013 and are the only renovations that have taken place to date.

Lakeside Country Club underwent several renovations which began in June of 2013. The project included modification to its bunkers, nine new tee boxes, and lots of tree trimming. These changes lengthened the course by 250 yards and made the course more challenging. Lakeside Country Club renovations were completed in 2014.

Atascocita Golf Course, which was closed in 2009 due to a lack of community support, has remodeled the clubhouse and converted it to an event center. They now have nine holes in operation which have been renovated and subleased. They still have 18 holes not in use.

Goose Creek Country Club was forced to close the golf course on December 31, 2013 to stop the financial drain. They are hoping to go forward as an event center but the condition of the building is deteriorating.

Summary

The golf industry has weakened over the past several years due to falling interest and the resulting closing of courses. According to a May 2014 Bloomberg Business article, about 400,000 players left the sport last year, with 260,000 women taking up golf, but 650,000 men quitting, and 200,000 players under 35 leaving the sport. Additionally, a scant 14 new courses were built in the U.S. last year, while at the same time 160 closed: the eighth straight year with a net decrease.

The current sales in the Houston market show that golf courses have not fully recovered. Golf course values are expected to remain flat for 2015.

Warehouses

The Houston industrial market is still experiencing signs of advancement, development, and growth during the expansion portion of this economic cycle however its velocity may wane due to recent pricing pressures from the oil sector. Colliers' Q4 2014 Houston Industrial Market Report asserts, "Houston's industrial investment sales market is benefiting from the foreign capital that is pouring into the U.S." Houston's industrial sector is ranked 2nd only after Los Angeles, per Marcus & Millichap: "Major markets proximate to busy ports and those with links to multi-modal transportation and distribution networks again occupy the top ranks of this year's index." Positive factors in the city include an increase in jobs, low unemployment, stable rental rates, low vacancy, low-to-no concessions, positive net absorption, active leasing, sales velocity, and new construction.

New Construction

Currently, much of the warehouse construction is concentrated in three areas of the county: the Far North, the Northwest and the Southeast. These areas are perceived as being most desirable to tenants and investors of build-to-suit and speculative buildings based on their proximity to major highways, airports, and the Port of Houston.

According to CoStar, during the fourth quarter 2014 there were thirty six (36) buildings totaling 1,470,209 sf that were delivered in the Houston area market. This compares to the thirty three (33) buildings totaling 1,725,070 sf delivered in the third quarter of 2014. New construction deliveries in 2014 totaled 8,951,383 sf, compared to 8,687,406 sf in 2013. Developers and investors have fueled this current surge of supply and currently have over 9.1 million square feet under construction at the end of fourth quarter 2014, reports CoStar. According to Transwestern Houston Metro Outlook, for end of year 2014, warehouse/distribution product comprises the majority (93%) of the space that is under construction. Per Costar 4Q 2014 Report, space under construction is 40% pre-leased for year-end 2014. More new construction can be expected with the expansion of the Panama Canal currently set to be complete in late 2015 or early 2016. Other driving influences include continued expansion in the chemical industry, progression of e-commerce and manufacturing and medical center job growth. Also, newer properties are viewed very favorably, since some older industrial products involve obsolescence, being incompatible with modern requirements of users, such as greater wall heights, larger contiguous blocks of space, more overhead doors, and floors that can support heavier loads of equipment and goods.

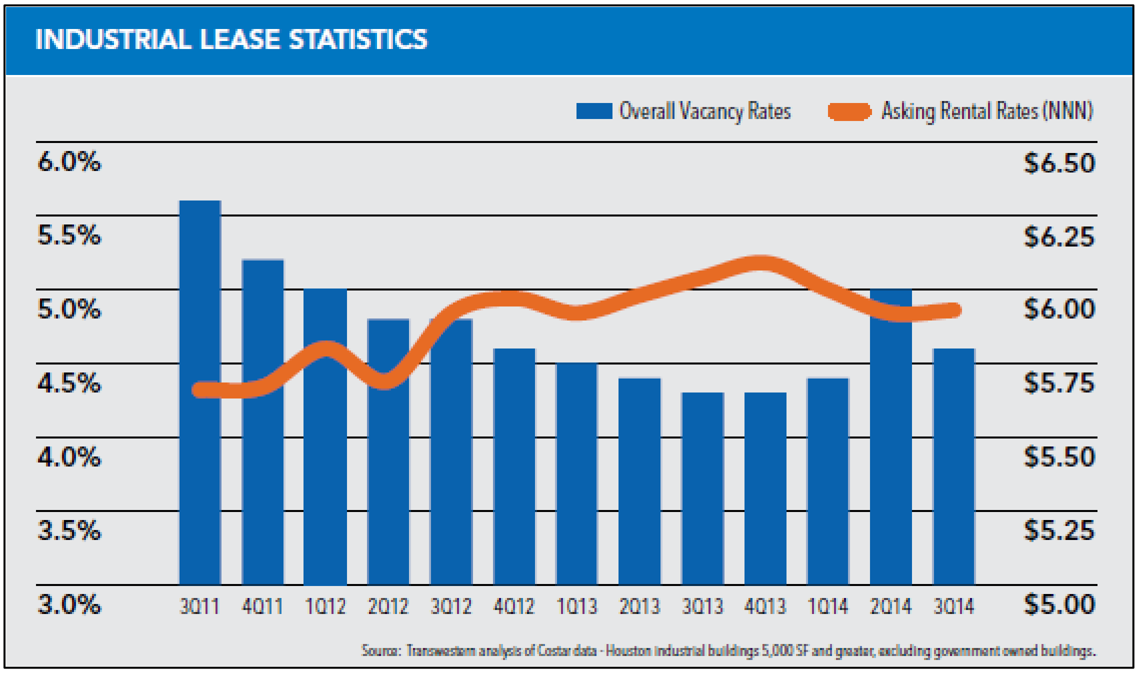
New proposed construction projects of note (from CoStar and Colliers):

Address	Square Feet	Completed	Complete /Estimated Completion Date 2014
8345 Fallbrook Dr.	709,045	No	15-Jun
3505 Hwy 225	495,719	Yes	14-Dec
1540 N Mason Rd.	471,858	No	15-May
20710 Northwest Fwy	471,800	Yes	14-Dec
11802 N. Gessner Rd.	441,000	No	15-Feb
8303 Fallbrook Dr.	400,250	Yes	14-Oct
660 Greens Pkwy	350,000	No	15-Mar
11747 Windfern Rd.	320,430	No	15-Mar
9254 Park South View	281,134	Yes	14-Aug
400 Century Plaza Dr.	149,760	No	15-Jan
14820 N. Fwy	126,568	Yes	14-Dec
8780 West Rd.	100,275	No	15-Feb

Leasing Activity and Rents

According to Colliers International 4th quarter report, industrial leasing activity reached 3.4 million sf which was mostly due to renewals. Also for 4Q 2014, the city wide average industrial rental rate increased to $6.20 psf NNN, which reflects a four (4%) percent increase compared to 4Q 2013 ($6.15 NNN). This figure is lower than the Cushman Wakefield report, which reflects an increase in rental rates of seven (7%) percent from 4th quarter 2013 to 4th quarter 2014. Per CoStar the average quoted rate within the Flex sector was $9.05 psf NNN at the end of Q4 2013, while the average quoted rate for the Q4 2014 Flex sector was $8.96 psf NNN, reflecting a 1.0% decrease. The graph below reflects a four-year trend of positive rental rates and a four-year trend of predominantly decreasing vacancy rates per Transwestern.

Industrial Lease Statistics



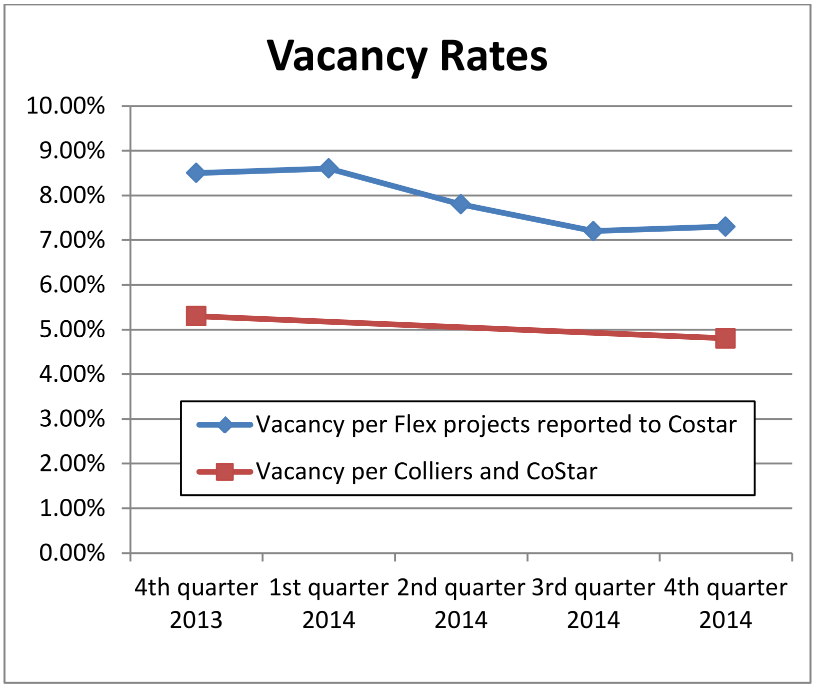
Notable 2014 Leases

Tenant	Property	Square Feet	Quarter
HD Supply Holdings, Inc.	10565 Greens Crossing	497,867	Q4
Goodman Manufacturing	Rampart Corporate Center	299,840	Q4
B&G Foods Inc.	DCT Airtex Industrial Center	267,170	Q4
Sharps Compliance Corp.	Park 288-Bldg B	131,406	Q2
Pacorini Metals, USA, LLC	Excel Logistics	121,500	Q1
Niavo Gulf Industries Inc.	12300 Amelia Dr.	102,000	Q1
Freeman Decorating	Park 288-Bld E-Freeman	90,067	Q1
Adams Warehouse & Delivery	3851 Yale St.	84,044	Q1
Tara Exports, LLC	4800 Blaffer St.	81,250	Q1
Rofson Associates	Claymoore Business Park	76,140	Q2

Vacancy/Absorption

The Colliers and CoStar Q4-2014 reports indicate vacancy for Houston's industrial market fell by fifty basis points year-over-year, to 4.8%; whereas 4th quarter 2013 reflected 5.3%. Flex projects reported to Costar that vacancy was 7.3% at the end of the 4th quarter 2014 versus 8.5% at the end of the 4th quarter of 2013.

Vacancy Data



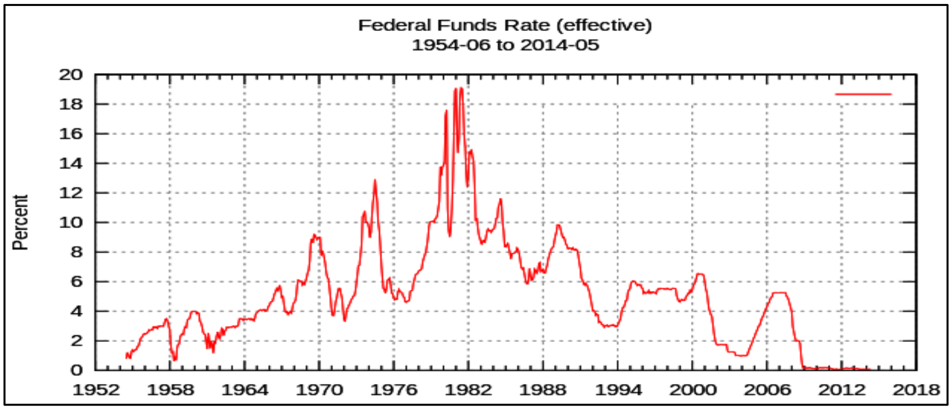
The local industrial market has recently showed signs of its positive net absorption losing some momentum. But, it is important to remember that this is within the context of the sector having rapidly grown in recent years. CoStar stated net absorption for the overall Houston industrial market was positive, at 1,422,827 sf in the 4th quarter 2014 compared with 4,029,572 sf in 3rd quarter 2014, 2,767,698 sf in 2nd quarter 2014, and 2,129,991 sf in the 1st quarter of 2014. Colliers International, in agreement with figures from other prominent sources, reports Houston posted approximately 1.4 million sf of positive net absorption in the 4th quarter, bringing the year-to-date figure to 10.2 million sf.

Examples of several major tenant move-ins (such as HD Supply Holdings, Inc. located at 10565 Greens Crossing Blvd.) are listed in the chart of notable 2014 leases. Goodman Manufacturing also took new space totaling 299,840 located at Rampart Corporate Center.

Sales and Capitalization Rates

The Federal Reserve started its first round of quantitative easing in 2008. (See graph below). Eventually, monetary liquidity returned to the commercial markets and institutional players began buying again. Fast forward to 2014, and we have the institutional investors vying for the newer well-positioned, higher occupancy properties. Per CoStar, “Total year-to-date industrial building sales activity in 2014 is down compared to the previous year. In the first nine months of 2014, the market saw 35 industrial sales transactions with a total volume of $243,799,698. The sales price per square foot has averaged $61.63 this year. Cap rates have been lower in 2014, averaging 6.17%, compared to the first nine months of 2013, which averaged 7.56%.” Per Transwestern Houston Metro Outlook for Mid-Year 2014, “Cap rates covered a wide range, depending on the type and class of product sold. Class A properties sold in the 5-6% range for the second quarter, while Class B product was trading in the 7-9% range. However, well-located Class A distribution projects are currently trading in the low-5% range."

Federal Funds Rate



Summary

The Houston warehouse sector had a positive year in 2014 due to increased rental rates, lower vacancy, increased absorption and a resulting increase in sales price per square foot. The Houston metropolitan area created 120,600 jobs between October 2013 and October 2014 reflecting an annual increase of 4.3% over the prior year's job growth. Meanwhile, on June 23, 2014 West Texas Intermediate (WTI) traded at $107.95 per barrel and by January 13th 2015 the price had fallen to $44.91. The effects are far reaching. The major oil players and service providers began reducing staff and budgets. Now the new employment forecast for Houston in 2015 is approximately 60,000 new jobs which equates to a two (2%) increase. The question at hand is how low will oil go and for how long will it trade side-ways? Or will it capitulate and trade in a V pattern? Houston has diversified since the recession of the 1980's, as illustrated by the medical industry, with the Houston Medical Center now being the largest in the world. Also, it is important to remember the $35 billion of construction in the port area, including the world's largest ethane export terminal, which is coming to the Houston Ship Channel. There is also the expected completion of the Panama Canal in late 2015 or early 2016. The general consensus is that growth in Houston will continue, just at a slower pace. Looking forward to 2015 from an annualized basis year over year, the Houston industrial warehouse income sector should anticipate approximately an eight (8%) increase in value based on preliminary figures.

Industrial Property

Refineries

The shale oil boom in new U.S. production fields has turned historical refining margins upside down. Processing heavy, sour crude was, until 2012, a more profitable option. Now, due to the abundance of light, sweet crude, the heavy, sour option has fallen out of favor. This is because heavy, sour crude, which is priced on a basis that is disconnected from the price of U.S. crude, is more costly than domestic shale oil. Thus, refiners who can transition from heavy to light processing along with those who run predominantly light crude will have an advantage over those configured to process only heavy crude. A new wrinkle, however, has developed whereby OPEC producers appear to have adopted a strategy shift from defending oil price to defending market share against the new U.S. shale crude. Instead of reducing crude production to maintain price, they have continued production allowing prices to fall.

The Texas Gulf Coast refinery average annual capacity utilization, as defined by the DOE, for 2014 (data through October) has been 90.6% compared to 88.7% for the same period in 2013. U.S. Gulf Coast refineries have produced 4% more barrels of finished motor gasoline so far in 2014 as compared to a year earlier. Distillate fuel oil production, including ULS diesel, is up more than 5%.

Continuing production of oil in the U.S. midcontinent stemming from shale region production like Bakken in the Dakotas provides an advantage to refiners who are able to process the domestic light, sweet crude over others purchasing water-borne crude priced relative to Brent (i.e., Maya). Unfortunately, simple refining configurations such as these do not dominate the Gulf Coast refining scene. The PACE (*The Pace Consultants Inc.*) Gulf Coast composite refining margin for 2014 is, so far, about 3.5 percent higher than 2013 (data from January through September). Through the three quarters of 2014, Baker & O'Brien Inc.'s PRISM® cash margins for the Gulf Coast averaged $2.60 per barrel higher than the same period of the prior year.

There have been a few refinery-related construction projects that will affect values for 2015. ExxonMobil Chemical has completed and begun operation of its SpectraSyn Elite project. This project will produce metallocene polyalphaolefin (mPAO) synthetic lubricant base stock components for automotive and industrial applications. This project was still under construction in 2014 and the 2015 value should be in excess of $100 million. Valero refinery crude topping expansion project, estimated to cost $400 million, will have limited value, if any, for 2015. The anticipated startup for this project is mid-2016. The value for construction in progress should be evident for 2016 with full operational value being recognized in 2017.

Gulf Coast refining margins will be mixed depending on refinery configurations, the types of crudes processed, and the degree of the distillate production compared to gasoline, for 2014 compared to 2013. A focus on distillates instead of subsistence on gasoline margins would benefit the refiner. Lackluster economics in the U.S. and growth in worldwide refining capacity that exceeds demand indicates that 2014 profitability may finish flat-to-only-slightly better than where 2013 finished, regardless of which crude market (light versus heavy) one considers.

In September two sale announcements circulated: Chevron is seeking a buyer for its 54,000 bpd refinery in Hawaii and, ExxonMobil is rumored to be selling its 155,000 bpd Torrance, California refinery. Neither sale has consummated nor has ExxonMobil publically confirmed that it is 'shopping' the refinery. Little will be gleaned from these potential transactions should they occur due to their lack of location similarity with the Gulf Coast refining market. However, because each appears to be a part of a major integrated oil company's asset divestiture plan and California can be a difficult market, a completed sale will most likely end up at a below-average market multiple when compared to other transactions.

On a different scale, Petroleos de Venezuela SA (PDVSA), the state-owned oil company, is purportedly seeking to sell its Citgo Petroleum Corporation which wholly owns refineries in Lake Charles, Louisiana, Corpus Christi, Texas, and Lemont, Illinois and one in partnership with ExxonMobil in Chalmette, Louisiana. Chalmette is an 189,000 bpd refinery with a configuration somewhat comparable to the ExxonMobil Baytown refinery.

Chemicals

The chemicals industry is heavily dependent on automotive manufacturing and home building and, as the economy goes, so goes the chemical industry. Texas has been blessed with oil and natural gas fields that have either been recently discovered or, through newer technologies, have been newly developed. The glut of natural gas that has hit the market in the last few years has caused a large amount of new construction to process this gas. The price of natural gas has dropped over the last few years and that means lower raw material cost for many chemical processors and possibly greater profit margins for their products.

Oil prices began declining in the fourth quarter of 2014 and have yet to rebound. While this has made an impact on what is being paid at the pump, it may also have a positive impact on the chemical market that is dependent on oil-based feeds. The real question is whether this drop in price for oil is just temporary or if it will hold. With the drop in oil prices, there have not been any announcements for new construction as the market is still waiting to see if this change will last. The plants that will benefit from the drop in oil prices are the facilities that are flexible enough to take advantage of whichever feed is the cheapest. However, while oil has dropped significantly, natural gas is likely to remain as the preferred feedstock for the near future.

There are a number of chemical construction projects that will have an effect on 2015 values. Chevron Phillips' Cedar Bayou facility is moving forward on the new olefins unit and it is approximately 3% complete for 2015 and the 1-hexene unit has been completed for 2015. ExxonMobil's Baytown Olefins Plant is moving forward on a new olefins unit and for 2015 it is approximately 3% complete. Lyondell/Equistar Channelview has started the furnace additions for the olefins unit and this project will be completed in 2015. The methanol restart was completed in 2014 for the Channelview plant. Lyondell/Equistar La Porte olefins furnace addition will also be completed in 2015.

Utilities

The electric power generation sector (power plants and cogeneration facilities) 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, that fuel is primarily natural gas, although the addition of wind projects and transmission lines from West Texas in connection with these projects is affecting power prices.

There are several initiatives competing to impact generation within the Electric Reliability Council of Texas (ERCOT) region. The first is the Competitive Renewable Energy Zones (CREZ) initiative adopted by the Public Utility Commission of Texas (PUCT). In April 2008, the PUCT adopted a $5 billion scenario to add transmission infrastructure to move electricity from wind farms in the ERCOT West zone to markets in the North, South, and Houston zones. Wind energy has zero fuel cost and is a clean alternative to burning hydrocarbons, but many of the wind farms in Texas began production between 2004 and 2007 and will be losing their 10-year federal tax incentives. This will impact the electric prices as these incentives go away because wind power with incentives is able to sell power at negative prices (loss of ~20 cents per Megawatt) and the government makes up that difference. When the government incentives go away, the wind power producers will have to bid in at positive costs making the average price for electricity higher. This should take effect in the next couple of years and we will have to wait and see what impact it has on pricing.

The next initiative is the PUCT increasing the ceiling for power prices within ERCOT. The PUCT makes the rules for the Texas power market and they have been looking at increasing the cap for power price per megawatt during peak hours. Their concern is that Texas is still growing in power consumption, but there is not enough new power construction in the market to maintain a reasonable reserve. The PUCT has typically enjoyed a 12% reserve on the ERCOT grid, but projections show that without new construction Texas could fall well below 10%. To encourage new power plant construction the PUCT has increased the cap from $3,000 per MW to $4,500 per MW and there are still discussions to raise the cap further to $9,000 per MW. While this may seem significant, the industry is doubtful that this will be enough incentive to bring in new construction. The industry likens the cap increase to high stakes gambling, where the owner has to bet on whether there will be enough peak days in a year to make it worth the risk. So far there has been very little proposed new construction and only two grass roots facilities being built by the same company.

It has looked as though older power plants would be permanently shut down and abandoned, but it appears that companies can still use these older units for peak power during summer months. In 2010 we saw at least 4 units in Harris County mothballed, but we saw the company that owned them request to take the units out of mothball status for the summer and then put them back in mothball for the winter over the past few years. Mothball status allows the company to have fewer people at each location and allows the company to cut costs by having smaller crews onsite. Expect this trend to continue until significant new construction begins in the Houston area.

The net effects on value within Harris County should be minor, but Calpine will add two natural gas cogeneration turbines, one at their Channelview location and the other at Deer Park, that will go into operation in 2015. The majority of the power in Harris County is from cogeneration facilities that produce 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. Steam prices typically track with the price of natural gas, and as long as natural gas is stable, the value of these facilities will not be significantly impacted up or down.

One new item is that there have been several recent sales for combined cycle power plants around the state. These sales are much higher than Capitol's market values for those facilities. While there is no way to know what all is involved in the sales purchase price, this is an indication that combined cycle plants are worth more due to anticipation in the market. This will have some impact on the cogeneration plants in Harris, but not as much as on other combined cycle plants which are not in Harris County.

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 keep operating and service costs are 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. 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 2015, the values of businesses in this sector are expected to reflect brightened corporate earnings prospects with further improvement in both industrial activity and retail sales. An improving job market and housing sales also underpin solid revenue growth and earnings potential.

Gas storage facilities will experience little change in infrastructure and will result in a flat value of plant and equipment for 2015. Working gas inventories are below the 5-year historical range as of September 1st. Working gas in storage as of July 1, 2014 is down about 34.1 Bcf compared with the same period a year ago for the West Clear Lake storage facility; while the Bammel storage facility had a decrease of 27.1 Bcf storage levels over the levels for the same period in 2013. Bammel has a September 1 inventory date for a majority of its working gas. December 2014 data was not available as of the date of this writing. Energy Information Administration expects that working natural gas inventories will be below last year's high levels by the end of this year's injection season. Year-to-date storage levels are down 13.7% nationally. This should lead to the upward movement of natural gas pricing for the near future. The Henry Hub natural gas spot price averages $3.67 per million British thermal units (MMBtu) on September 1, 2013. January 1 price for 2013 was $3.33/MMBtu. For 2014, the September 1 price of natural gas was to be $4.01/MMBtu, which is up 9.2% from last year. January 1 inventory pricing was $4.38 for 2014; 2015 pricing is $3.00. January 1 pricing is down almost 32% off last year's January 1 price. Higher gas prices are not likely within the near future, due to little demand pressure and excess production levels. Bammel and West Clear Lake working gas inventory value should be below last year. Kinder Morgan is subletting space in the West Clear Lake facility and, as a result, this could increase the number of owners requesting an Interstate Commerce exemption, which may have an effect on the taxable value of the working gas at the West Clear Lake facility.

For 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. Only 1 in 4 adults has a traditional wired telephone. AT&T still plans to end its traditional wire service by 2020 which would require approval by the FCC. That 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. 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 of Texas dropped approximately 8 percent in 2014 and is expected to decline over the next few years.

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. That said, revenues for Comcast and Time Warner have been up in the first part of 2014. If this trend continues, then the value of these companies should show a slight increase for 2015.

Large wireless communication carriers' expenditures on infrastructure should begin to taper off in 2015. This is due to the installation of new equipment that is being installed in 2014. Sprint Communications and Softbank Corporation completed their merger in 2013. The merger is providing Sprint with capital so the company can begin to upgrade its network. Sprint began dismantling older equipment for its network and replacing it with newer technology.

Fiber optic long distance transmission carriers will see only continued depreciation for 2015. There appears to be more utilization for fiber transmission. However, due to the increase in technology for transmitting data along fiber, the amount of fibers that are needed still remains low. Overbuilt capacity for this sector continues.

There will be very little change to the broadcast television market for 2015.

Manufacturing

Texas factory activity increased again in December, according to business executives responding to the Dallas Fed's Texas Manufacturing Outlook Survey, which polls businesses on whether key indicators of activity have increased, remained the same, or decreased from the previous month. Survey responses are used to calculate an index for each indicator. The production index, a key measure of state manufacturing conditions, rose markedly from 6.8 to 15.8, indicating output grew at a faster pace than in November. This index was at 6 at the end of 2013. This indicates stronger manufacturing production to close out 2014.

Other measures of current manufacturing activity also reflected significantly stronger growth in December. The new orders index moved down from 5.6 to 1.3, suggesting moderating demand growth, but more than a quarter of firms noted increases in new orders over November levels. The capacity utilization index rose from 9.8 to 12.4, due to a higher share of respondents noting an increase in December than in November. The shipments index rebounded to 19.6 after falling last month. These are similar levels to the end of 2013.

Upward pressures on prices eased, while wage pressure increased slightly. The raw materials prices index fell from 15.3 to 10.2, its lowest reading in eight months, and down considerably from end of year 2013. The finished goods prices index declined as well to a 13-month low of 4.2. Looking ahead, 26% of respondents anticipate increases in raw materials prices over the next six months, while 24% expect higher finished goods prices. The wages and benefits index ticked up from 23.9 to 25.1. This index has been consistently elevated this year, suggesting continued upward pressure on compensation costs.

The price of West Texas Intermediate (WTI) crude oil fell from $82 per barrel in mid-October to below $60 in mid-December. Since reaching a peak of $107 in June, the price of WTI has dropped by over 40 percent. Though the rig count has been steady at around 900 for most of the year, it fell to 872 in the week of December 12. Energy price data shifted three months ahead suggest that historically there has been a delay between a decline in oil prices and a corresponding drop in active rigs. Hence, the rig count is expected to fall further in coming weeks if oil prices remain at or fall below current levels. With many of the major Texas shale plays having average breakeven points above $60, sustained low oil prices will likely result in a sharp drop in oil exploration and extraction activity.

Commercial Personal Property

According to the Kiplinger Forecasts, economic growth looks to improve to 3.3% this year, from 2.4% in 2014, and will continue to expand next year. Lower oil prices will help stoke U.S. gross domestic product (GDP) growth as consumers shell out less at the gas pump and more on other goods and services, which in turn will spur businesses to increase investment in new production capacity.

The economy will be further spurred by an increase in jobs. The number of job openings is at a 14-year high and will keep rising, adding to the improving mood of consumers, who account for two-thirds of the nation’s economy. Housing is also in a recovery mode, with builders expected to increase the pace of new-home construction this year.

On the downside, the strong dollar and sluggish economic expansion abroad will hurt U.S. exporters. And though the Federal Reserve’s potential interest rate hikes coming this year are expected to be modest, uncertainty about the impact of higher rates will make some investors nervous.

Per the Texas State Comptrollers’ office, job growth, sales tax collections, and building permits all signal that the Texas economy continues to outpace the national economy. Over the past year, Texas added jobs in all of the 11 major industries, including professional and business services, trade, transportation and utilities, leisure and hospitality, education and health services, construction, mining and logging, government, financial activities, information, other services, and manufacturing. Pre-recession Texas employment peaked at 10,638,100 in August 2008, a level that was surpassed in November 2011, and by November 2014 Texas added an additional 1,101,100 jobs. The U.S. recovered all recession-hit jobs by May 2014 and by November 2014 added an additional 1,680,000 jobs.

According to American Gas Export "Houston's economy will continue to grow in 2015, but at a slower rate than the past few years," said GHP Vice President of Research Patrick Jankowski. "The uncertainty in the oil patch will be offset by the ongoing boom in chemical plant construction, the region's never-ceasing population growth and that growth's impact on retail, restaurants and health care, the continued expansion of international air service at IAH and Hobby, and the need to educate a growing school population."

Houston, according to the Houston Business Journal, has one of the fastest-growing economies among large metro areas nationwide, and that growth is expected to remain strong for years, a new report says. Houston led the nation in population growth last year. The city is more urban and residential development is more vertical.

A report by IHS Global Insight for the U.S. Conference of Mayors, found Houston's gross metropolitan product (GMP) — the metro equivalent of GDP — is the fourth-largest in the nation, behind New York, Los Angeles and Chicago. However, it also has one of the fastest-growing GMPs, unlike most of the largest metros. Among the 10 largest metro economies, only Houston, Dallas, Atlanta and San Francisco are among the 100 fastest-growing GMPs. Houston is expected to grow its GMP 3.5 percent in 2014 and 4.8 percent in 2015. Additionally, Houston's GMP is expected to maintain an average of 4 percent annual growth from 2013 through 2020.

According to the Federal Reserve Bank of Dallas, The Houston Business-Cycle Index increased at a blistering 9.5 percent in July after climbing a revised 6.2 percent in June. This would imply that economic conditions strengthened markedly as Houston entered the third quarter. Service industries are posting near-record gains as the Houston economy has maintained its momentum, if not accelerated, into the second half of the year.

The commercial personal property tax base as a whole increased approximately 4.89 percent for tax year 2014. Harris County saw a 3.27 percent increase of the general personal property value base for 2014. It is anticipated that this sector will increase for 2015 as the economy continues to grow in the Houston area.

The Houston retail market did not experience much change in market conditions in the fourth quarter 2014. The vacancy rate was 5.6 percent unchanged from the previous quarter where it was also 5.6 percent. Net absorption was positive 376,055 square feet, and vacant sublease space increased by 25,345 square feet. Quoted rental rates decreased from third quarter 2014 levels, ending at $15.17 per square foot per year. A total of 18 retail buildings with 377,127 square feet of retail space were delivered to the market in the quarter, with 2,355,126 square feet still under construction at the end of the quarter.

The Houston Office market ended the fourth quarter 2014 with a vacancy rate of 10.8 percent. The vacancy rate was down over the previous quarter, with net absorption totaling positive 2,562,772 square feet in the fourth quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1,762,556 square feet. Rental rates ended the fourth quarter at $27.24, an increase over the previous quarter. A total of 20 buildings delivered to the market in the quarter totaling 1,783,653 square feet, with 17,902,821 square feet still under construction at the end of the quarter.

The total value of the leased asset component of commercial personal property increased 6.12 percent in tax year 2014. The value for this sector may increase slightly for 2015 as office market vacancy rates are expected to decline over the next few years and the majority of leased assets are generally business office machinery and equipment.

Houston-area auto dealers sold 27,693 vehicles in November, down 3.1 percent from November ’13, according to *TexAuto Facts*, published by InfoNation, Inc. of Sugar Land. Vehicle sales fell for the second straight month, but produced the second highest November in the past 15 years. In the 12 months ending November ’14, 371,331 vehicles were sold in the Houston region, up 6.0 percent from the 350,454 sold during the prior 12 months.

Since the dealer inventory component is tied to prior year vehicle sales, this indicates an increase in value for this sector in 2015. The tax base for Dealer Inventory in tax year 2014 increased by 12.78 percent from 2013.

The tax base for business vehicles for tax year 2014 increased by 14.17 percent from 2013. Part of this increase is a result of intensified discovery efforts in adding vehicles from information on the Texas Department of Motor Vehicles records. The value for this sector, however, is expected to increase slightly for 2015.