Harris County

Appraisal District

2017

Market Trends Report

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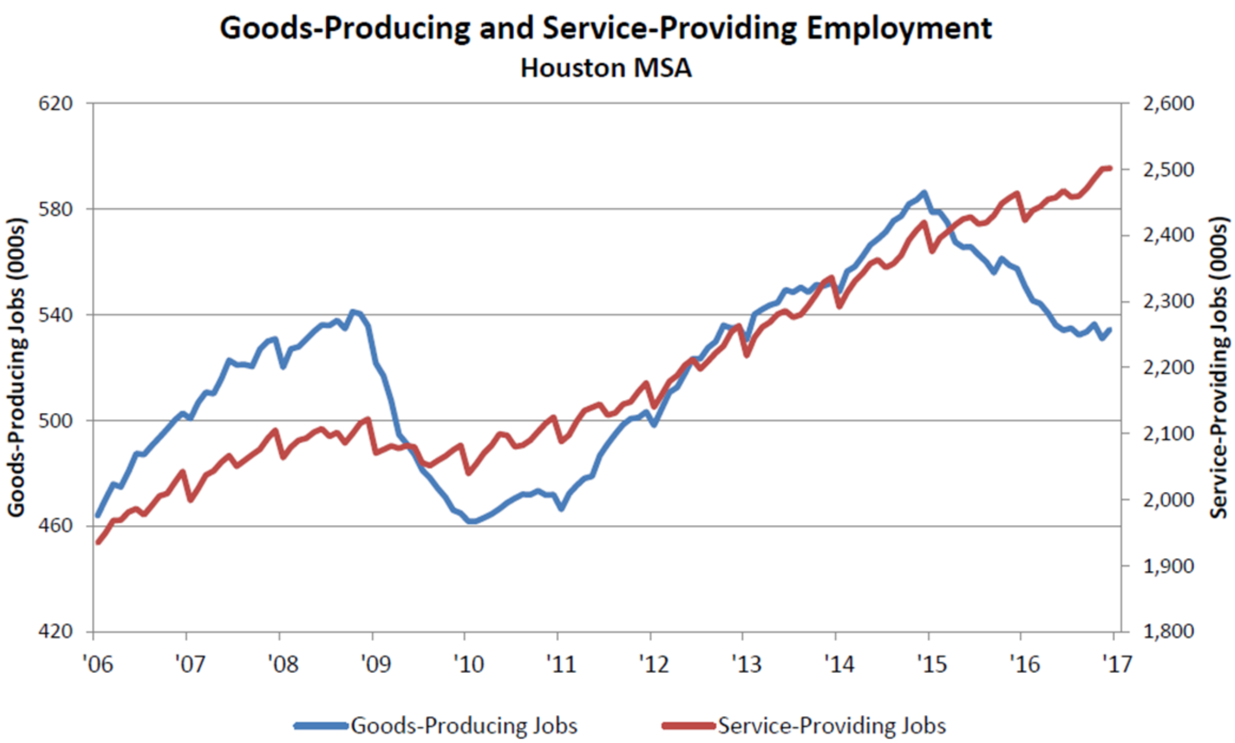
Residential Property

Houston's economy and residential market are continuing to do well. Although we are not seeing the job growth and rapidly increasing property values of 2014 the economy and residential market are doing well and are stable.

This stability has much to do with the rebounding and stabilization of the spot price for WTI, which averaged $52.50 in January of 2016 versus $31.68 in January of 2015. The U.S. Energy Information Administration forecasts WTI to average $53.46 in '17 and $56.18 in '18. Many consider $60 the threshold at which the oil industry returns to profitability.

Metro Houston added 14,800 jobs in 2016 according to the Texas Workforce Commission which is lower than their initially forecast of 22,000 jobs. There is still lingering concern over the types of jobs that are being lost versus those being added. Specifically, goods-producing jobs like; mining, construction, manufacturing, and professional services, which are typically higher paying jobs, lost 31,000 jobs in 2016. Conversely, service-providing jobs like; educational services, accommodation and food services, and government gained almost 34,000 jobs. The graph below provided by the Texas Workforce Commission depicts this issue.



Inventory Update

According to the Houston Association of Realtors (HAR), the inventory of available homes which was at 3.3 months in January 2016 is at 3.5 months as of January 2017. The 3.5 months is slightly below the national average inventory which stands at 3.6 months of supply. Typically, 6 months of inventory is considered equilibrium. Accordingly, inventory levels below 6 months indicate a seller's market which is generally accompanied by an increase in prices and in turn appraisal values. The number of days it took a home to sell (a.k.a. Days on Market) increased slightly from 63 days to 64 days. Until the supply of homes moves closer to equilibrium we are likely to continue experiencing a seller's market and the corresponding increases in sales prices.

Sales Volume Update

Sales volume for single family residential properties in 2016 totaled 76,449 units, which is a 3.0 percent increase versus the 74,174 units sold in 2015, per HAR. There were 6 months in 2016 where sales volume declined versus the same month in 2015.

Categories	**Full-Year 2015**	**Full-Year 2016**	**Change**
Single-family home sales	74,174	76,449	+3.0%
Total property sales	89,296	91,520	+2.2%
Total dollar volume	$23,559,111,514	$24,546,840,733	+4.2%
Single-family average sales price	$280,290	$283,133	+1.1%
Single-family median sales price	$212,000	$221,000	+4.5%

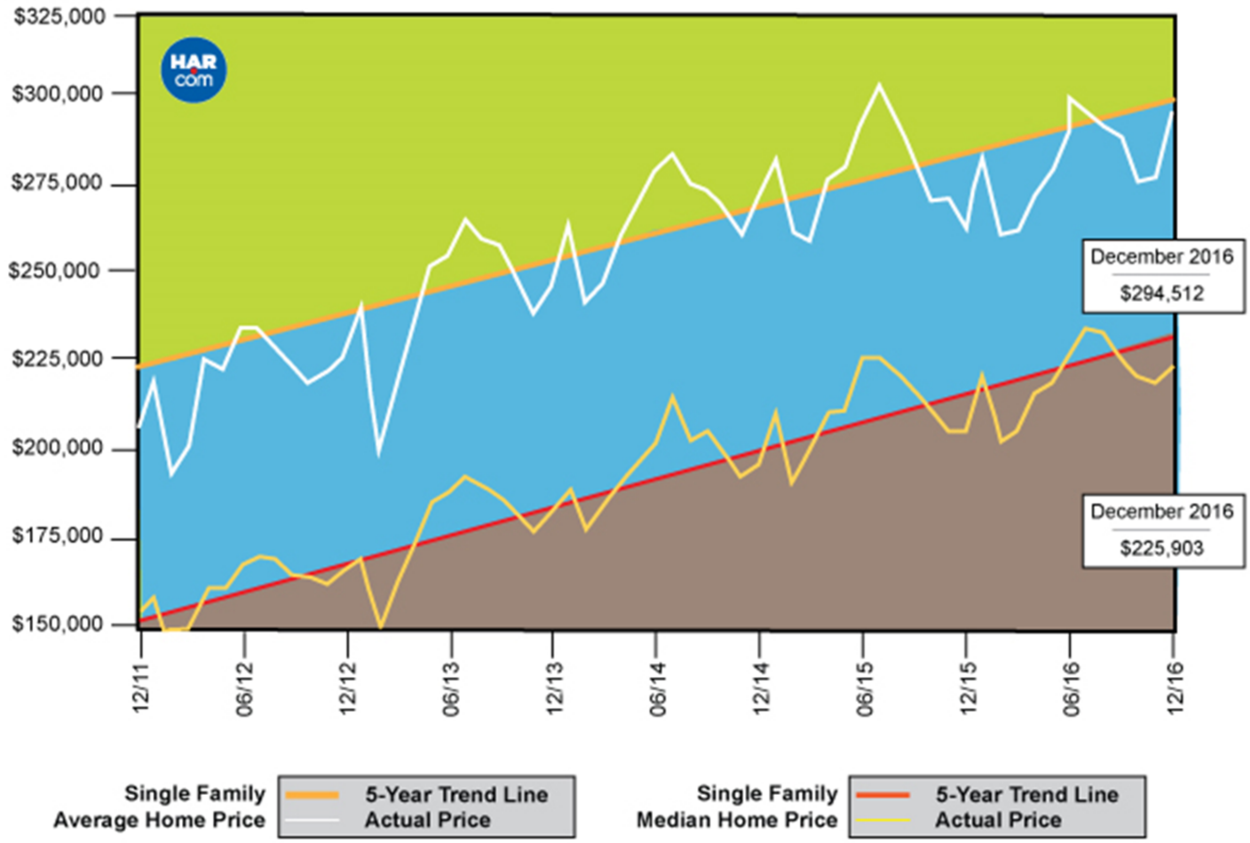
Courtesy HAR January 11, 2017[1]

[1] https://www.har.com/content/mls/?m=1&y=17

Sales Price Update

The chart below shows a five-year trend line for both the average home sale price and the median home sale price of single family homes. In a year-over-year comparison the median price for a home in December increased to its highest level ever rising 4.58% to $225,903 which represents a more than 50 percent increase over the 5-year period. In December, the average price increased 5.1% to $294,512 which represents an almost 31 percent increase over the 5-year period.

Single Family Average Home Price & Single Family Median Home Price



Courtesy HAR January 11, 2017

Townhomes and Condominiums

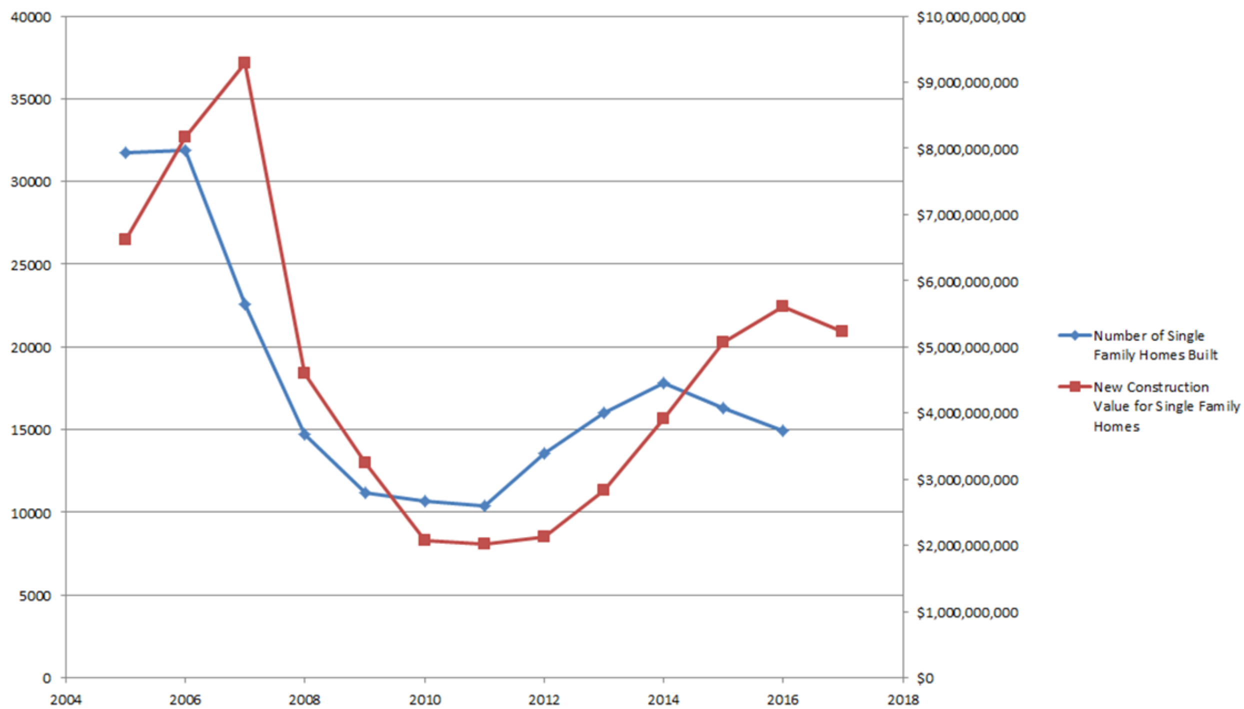
Sales of townhouses and condominiums fell 8.1% in December versus one year earlier. A total of 531 units sold in December 2016 as compared to 578 properties in December 2015. The average price increased 3.7% to $208,905 and the median price increased to $169,250. Inventory reached a 3.4 months' supply, which is an increase from the 2.9 months' supply a year earlier.

Lease Property Update

As the supply of properties for sale continues to remain below equilibrium the demand for lease property naturally increases. Single-family home rentals climbed 5.2 percent compared to December 2015, while year-over-year townhouse/condominium rentals increased 9.5 percent. The average rent for a single-family home fell slightly to $1,690 and the average rent for a townhouse/condominium increased slightly to $1,497.

New Construction

The number of new starts fell more than 8 percent to 14,940 during 2016 from 16,308 in 2015. The new construction value associated with the new starts fell more than 7 percent from $5.6 billion to $5.2 billion for 2017. The decrease in new starts is likely due to several factors including lower than anticipated job growth, job growth in lower paying sectors of the economy, and the maturing and near completion of many of Houston's master planned communities.



American Housing Survey – U.S. Census Bureau

The following are Houston insights from the U.S. Census Bureau's survey of housing characteristics.[2]

- Nearly 700,000 Houstonians moved last year
- 850,000 households pay rent 71% pay <$1,000 while 2.9% pay >$2,250
- 770,000 households have a mortgage with 77% paying <1,250 and 3.6% paying >2,250
- 81% of respondents think their neighborhood had good schools
- 34.6% believe their neighborhood has good public transit service
- Nearly 25% believe their neighborhood has a great deal of petty crime
- 9.9% believe their neighborhood is plagued with serious crime
- 18.1% are concerned their neighborhood is a high risk of flooding

Based on the outlook for oil and the Federal Reserve's recent signaling of interest rate hikes it is difficult to say what will happen with the housing market in 2017.

- If interest rates are left unchanged and the price of oil continues to rebound, then it is likely that the number of sales will continue to increase as the inventory of homes stays relatively unchanged and that prices will continue to rise, albeit slowly.
- If the price of oil reverses its current trend and begins to fall and the Federal Reserve increases interest rates then it is likely that the sale of homes will slow, inventory levels will rise, and the prices of homes will be flat or possibly fall Houston's housing market moves closer to equilibrium.

[2] http://www.houston.org/pdf/research/glance_archives/Glance_Feb17.pdf

Commercial Property

Houston's Economy

Patrick Jankowski of the Greater Houston Partnership said, "The worst of the energy downturn is now over and Houston's economy will see some growth in 2017."[3] Dr. Bill Gillmer, Director of the Institute of Regional Forecasting, stated that "By the time we get everything in about 2016, we will probably realize the worst is behind us." The Greater Houston Partnership forecasts "the Houston metro market will create 29,700 net new jobs in 2017."[4]

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.

New jobs in healthcare, services, and retail somewhat offset losses in manufacturing and oil & gas. Houston continues to add jobs and unemployment is low. In the first 11 months of 2016, 10,200 jobs were added. Greater Houston employs over 3 million people in full-time employment. Houston finished the year at 5.3% unemployment, up from 4.9% from the previous month. For the month of January 2016, the national unemployment rate was to 4.9%. During the Great Recession, Houston's unemployment rate peaked at 8.8%, and during the oil bust of the 1980s, unemployment hit 12.9%.

Impact of Oil

The economy in the greater Houston area has continued to see adjustments to market conditions due to the drop of oil prices from $107.26 / barrel in June 2014 to $26.21 /bbl. in February 2016. However, in 1987 Houston's economy was 82% dependent on oil, according to Kinder Houston Area Survey 2016 while Houston's economy now is estimated to be 40% oil-dependent, according to the Real Estate Center at Texas A&M.

Dynamics in the oil industry affecting Houston's economy include:

- **Fracking –** From 2010 to 2014, fracking (hydraulic fracturing) and shale oil drilling wells went from producing 20 barrels of oil per day (bbl./d) to over 500 bbl./d. In that time, US oil production increased almost 3 million barrels a day.
- **Drilled but Uncompleted (DUC) wells** - In the 1970s, wells could extract about 50% of the oil in the ground, at which point they were DUCs. Recent drilling technology advancements allow drillers to reopen old wells to extract another 20 to 30%, at a considerably lower cost than new drilling.
- **Intracoastal Waterway** - Houston received no oil from Mexico prior to 2010 via the Gulf Intracoastal Waterway Texas (GIWW-T). Mexico now sends 700,000 bbl./d to

[3] https://urbanedge.blogs.rice.edu/2017/01/04/the-5-biggest-questions-facing-houston-in-2017
[4] https://www.houston.org/assets/pdf/2016_Annual_Report.pdf

Houston for refining through this waterway. In addition, there is $18.755B in industrial development for refining and manufacturing underway along the GIWW-T.

- **Ethylene** - New technology has resulted in the more efficient production of ethylene from natural gas. The US can make ethylene for 40% less than Europe can from oil. This has sparked the construction of four $4B to $6B ethylene plants in Southeast Texas. Dr. James P. Gaines, Chief Economist of the Texas A&M Real Estate Center estimates there is $50 billion in downstream (petrochemical processing, plastics, manufacturing) construction and development planned for the greater Houston area.[5]
- **New Oil** - In November 2016, the discovery of the "largest continuous oil" basin in America was announced. The Midland Basin of the Wolfcamp Shale area in the Permian Basin, estimated to have 20 billion barrels of oil and 1.6 billion barrels of natural gas, or three times larger than the mammoth Bakken formation in North Dakota.
- **Natural Gas** - Expanded and more efficient oil drilling operations have created an oversupply of natural gas in America, even forcing some wells to burn off the excess because storage facilities are full. Large liquid natural gas (LNG) shipping terminals are under construction in Corpus Christi, the Houston area, and Louisiana.

These factors have inevitably led to significantly reduced oil prices. Cost of extracting oil decreased from $75-$95 /bbl. (justifying $110 /bbl. prices) to the point where, in eight counties in Texas, the cost of recovering oil is $14 to $20 /bbl. Thus, world disruptions (such as the Arab Spring, chaos in Nigeria, Iran sanctions, Russia's invasion of Ukraine, unrest in Iraq) that normally would send oil prices even higher had little effect on oil economies and supplies.

Due to the drop in oil prices, upstream (drilling and exploration) oil & gas took the brunt of price changes. However, cost of drilling decreased due to technology and increased efficiency, and downstream oil manufacturing saw record profits due to the lower cost of raw materials. Gasoline, for example, previously at $4 /gal, is now a little over $2.

Texas employed 306,330 in the oil & gas industry at the start of 2015. Since then, upstream (exploration) has lost 60,000 in Texas, or 20% of its oil & gas workforce (including attrition). Most of the eliminated jobs were oil rig workers in outlying parts of Texas. Many capital improvement projects may have been put on hold until the market and price stabilizes, after which some of this workforce may be recalled.

In summary, the decline in oil prices have affected the local economy, the oil & gas industry and trickled down to associated businesses and employment. Growth in other areas offset this factor, especially in health, institutional, and service segments of the market, through Houston's diverse economy. Retail saw growth with more disposable income for consumers due to lower gasoline and energy costs. In general, 2016 saw an "economic trough" in the 1st half of 2016, with a moderate recovery by the 4th quarter. Over the course of the upcoming year, marginal to moderate economic growth is expected, as the oil industry and greater Houston area stabilizes and adjusts to the oil-related segment of its economy.

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[5] http://www.crewhouston.org/uploadedFiles/CREW_Houston(Chapter)/News/EconomicOutlookPresentationJan%205.pdf

By Region

Central Business District

Development in the central business district (CBD) has not picked up substantially since last year. The focus has moved from high-rise office to residential multi-family (apartments) and hotels. Most of the activity in the central business district in 2016 was in anticipation of and preparation for Super Bowl LI. This has also brought in new retail in the form of restaurants and nightlife venues.

There are 16 multi-family residential projects being developed (either proposed, under construction, nearing completion, or recently completed) in the CBD. Developers took full advantage of tax abatements being offered to construct residential in the central business district.

Seven hotels are being developed in the CBD. The most anticipated is the Marriott Marquis Houston. The 29-story, 1000-key hotel has been completed and sits across Discovery Green from the Hilton Americas. It boasts a Texas-shaped lazy river on the rooftop. The other hotels will spread throughout downtown near or on Main Street, as well as in The Pavilions, Allen Center, and Houston Center. Many of the new hotels will be conversions from office space to hotel.

Office development has slowed, and includes completion of already existing projects including 609 Main. Chevron Skanska and Crescent have proposed office towers but start dates for those projects are still unknown.

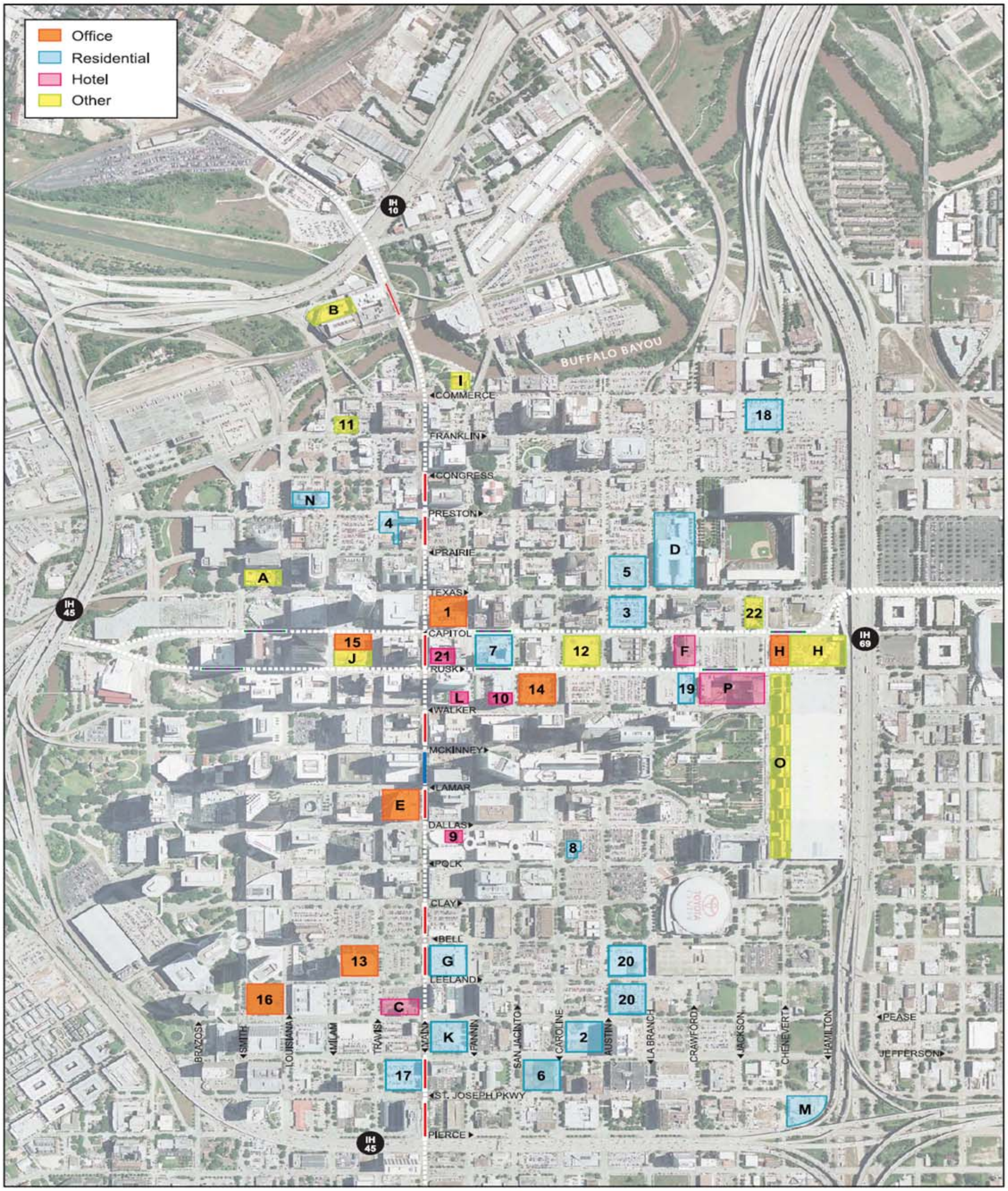
The most important projects downtown right now are several new parking garages. Parking in the CBD is becoming scarce as surface lots and older garages have made way for the projects mentioned above. There are at least five garages under construction, some of which will support specific new buildings while others will work to replace the dwindling surface parking options.

There were two sales for 2016 in the CBD. In 2015 there were seven. Land values remain flat for 2017.

The map and corresponding project descriptions on the next two pages show the activity in the CBD, including projects planned, under construction, and recently completed.[6]

[6] https://www.downtownhouston.org/site_media/uploads/attachments/2017-01-19/170118_Development_Map__Renders_11X17_o_sm.pdf

DOWNTOWN HOUSTON DEVELOPMENT MAP
UPDATED JANUARY 2017



downtown district
www.downtownhouston.org

Central Houston
www.centralhouston.org

Downtown Redevelopment Authority
www.downtowntirz.com

RECENTLY COMPLETED

A
Alley Theatre
Full restoration of historic performance hall. Completed October 2015.

B
UHD Welcome Center & Garage
3-story garage with 1 occupied floor above, plus adjacent Welcome Center. Completed November 2015.

C
Holiday Inn
Redevelopment of the Savoy Hotel into a 212-key Holiday Inn Hotel.
K&K Hotel Group.
Completed December 2015.

D
500 Crawford
7-story, 400-unit residential building.
The Finger Companies.
Phase 1 Completed January 2016.

E
1111 Travis
23-story, 475,000 SF office tower.
1110 Main Partners, LP.
Completed March 2016.

F
Hampton Inn / Homewood Suites
14-story, 173-key Hampton Inn &127-key Homewood Suites.
American Liberty Hospitality.
Completed March 2016.

G
Block 334
5-story, 207-unit residential building.
Alliance Residential Company.
Completed June 2016.

H
Partnership Tower
7-story, 120,000 SF mid-rise office building, plus 1,900-car public parking facility.
Houston First Corporation.
Completed September 2016.

I
Sunset Coffee Building at Allen's Landing
Renovation of the 3-story, 1910 building.
Buffalo Bayou Partnership.
Completed August 2016.

J
Capitol Tower Parking Garage
7-story, 260-space parking garage.
Skanska.
Completed September 2016.

K
SkyHouse Main
24-story, 336-unit residential building.
Novare Group.
Completed September 2016.

L
Aloft Hotel
Redevelopment of the Stowers Building into 172-key hotel.
William R. Franks Professional Services.
Completed October 2016.

M
The Hamilton
5-story, 149-unit residential building.
Resolution Real Estate.
Completed October 2016.

N
Market Square Tower
40-story, 463-unit residential building.
Woodbranch Tower, LLC.
Completed January 2017.

O
GRBCC Interior / Exterior Enhancements
Renovations to lobbies, retail & western facade; includes improvements to AdlA.
Houston First Corporation.
Completed December 2016.

P
Marriott Marquis Houston
Convention Center Hotel
29-story, 1,000-key hotel.
RIDA Development Corporation.
Completed December 2016.

UNDER CONSTRUCTION

1
609 Main at Texas
48-story, 1 million SF office tower. Hines.
Est. completion 1Q 2017.

2
1711 Caroline
5-story, 220-unit residential building.
Leon Capital Group.
Est. completion 1Q 2017.

3
Alexan Downtown
8-story, 285-unit residential building.
Trammell Crow Residential.
Est. completion 3Q 2017.

4
Aris Market Square
32-story, 274-unit residential building.
Hines.
Est. completion 2Q 2017.

5
Catalyst
28-story, 361-unit residential building.
Marquette Companies.
Est. completion 1Q 2017.

6
Eighteen25
8-story, 242-unit residential building.
Allied Orion Group.
Est. completion 1Q 2017.

7
The Star
Redevelopment of the old Texaco Building into 323 residential units. Provident Realty.
Est. completion 1Q 2017.

8
Marlowe
20-story, 100-unit condominium.
Randall Davis.
Est. completion 4Q 2018.

9
Hotel Alessandra
21-story, 225-key, full-service luxury hotel.
Midway Companies Inc.
Est. completion 3Q 2017.

10
Le Meridien
Redevelopment of the Melrose Building into 255-key hotel.
Services Group, Inc.
Est. completion 3Q 2017.

11
Franklin/ Milam Garage
10-story parking garage.
Stanton Road Capital.
Est. completion 2Q 2017.

12
High School for the Performing and Visual Arts
New HISD magnet school.
Est. completion 4Q 2018.

PLANNED

13
800 Bell
Redevelopment
45-story, 1.4 million SF office tower.
Shorenstein Properties.
Est. construction start date not available.

14
6 Houston Center
30-story, 600,000 SF office tower.
Crescent.
Est. construction start date not available.

15
Capitol Tower
35-story, 750,000 SF office tower.
Skanska.
Est. construction start date not available.

16
Chevron Office Tower
50-story, 1.7 million SF office tower. Est. construction start date not available.

17
1810 Main
10-story, 286-unit residential building.
Fairfield Residential. Est. construction start 4Q 2016.
Est completion 4Q 2018.

18
Planned Residential
24-story, 304 unit residential building.
Marquette Companies.
Est. construction start 1Q 2017.
Est. completion 1Q 2019.

19
Planned Residential
40-story, 314-unit residential building with 12-story garage podium.
Trammell Crow.
Est. construction start 1Q 2017.
Est. completion 1Q 2019.

20
Planned Residential
20-story, 550-unit residential buildings. Camden Property Trust.
Est. Phase 1 construction start 2Q 2017.
Est. Phase 1 completion 2Q 2020.

21
AC Hotel by Marriott
10-story, 185-key European style luxury hotel. Newcrestimage.
Est. construction start 1Q 2017.
Est. completion 1Q 2018.

22
Parking Garage
300-car parking facility for Incarnate Word Academy and Annunciation Catholic Church.
Est. construction start date not available.

Galleria/Uptown

The Galleria / Uptown area has been active, as evidenced by the number of cranes in the area. Most of these projects started late 2015 and early 2016. Many the projects under construction are multi-family residential, almost exclusively luxury condominiums. The high-rise condos are situated mostly on Westcreek Lane or San Felipe Street. The activity on Westcreek has been steady for the last few years as the area was cleared of dated apartments and retail.

There are very few prime vacant tracts in this area and anything placed on the market will command top dollar. Sales activity in the area in 2016 was so low that there are no transactions to note.

Midtown

The Midtown area has had constant activity of sales and new construction. The desirability of Midtown is as strong as ever. Since 2012, Midtown Houston has experienced 50% population growth with almost 10,000 Houstonians now calling it home. The graffiti laden building at 2850 Fannin has been demolished to make way for a 27-story apartment high-rise, to be known as Main Midtown.

Houston-based PM Realty Group has plans to build a 336-unit apartment project with retail and parking at 3300 Main Street. The complex will sit next to the new Midtown Arts & Theatre Center Houston.

The biggest project in Midtown currently is the development of the Superblock to become Midtown Park. The Midtown Redevelopment Authority (MRA) and Camden Property Trust are redeveloping the six-acre site bounded by Main St., McGowen St., Travis St., and Anita St. from a vacant space into a mixed-use complex with three acres of public urban park and open space. The larger greenspace will be located on the 2.5-acre site south of the multifamily development and include typical park amenities. The project also features a half-acre retail plaza adjacent to McGowen St., which will include a full-service restaurant, a food and beverage kiosk, and public plaza space next to the METRORail station. The Park's underground parking garage will provide 400 spaces for public use.

A sixteen-story office building that was planned for 3003 Louisiana has been cancelled. This leaves a full city block open for redevelopment.

East Downtown (EaDo)

EaDo is home to Compass BBVA Stadium and an abundance of townhomes with some nightlife and restaurants, but will soon see more. Houston-based Ancorian's East Village development is a multiphase mixed-use project nearing completion on several blocks in east downtown at St. Emanuel Street and Dallas Street. The development's first phase, which will include around 60,000 square feet of retail and office space, is set to deliver this summer. The first tenants will mainly be restaurants and bars.

The Ivy Lofts at 2604 Leeland has been delayed and is changing directions. The project is underway and estimated to be completed in 2018. Originally, the project was to construct micro-condominiums, but the plans have been redesigned to build a ‘condo hotel’ concept. The building will offer two separate lobbies, one for hotel guests and one for residential tenants and the hotel side is planned as a boutique, private-label hotel with an in-house management team and typical luxury hotel amenities.

Inner Loop

Beyond EaDo, the east side will soon see the development of one of the last few large, contiguous acreage tracts inside Loop 610. Midway Company will develop the 147-acre tract, formerly home to KBR. The site boasts water and skyscraper views. The abandoned office and industrial complex offers a huge plot of mostly vacant land. Specific details are still being determined, but it could be as large as 8 million square feet of shops, offices, and entertainment venues. Over time, the investment could reach the billions.

In the spring of 2016, Houston-based private Saint Nicholas School purchased 46 acres in the Texas Medical Center and plans to build a new school campus on 25 acres and earmark the remaining land for residential development. Houston-based M. Kidd Properties is marketing the tract. The commercial brokerage is marketing the land to residential, hospitality and multifamily developers.

Thompson Hotels, a New York-based luxury hotel chain that is new-to-Texas plans a $500 million-dollar hotel near Buffalo Bayou Park, the Thompson Houston. The luxury hotel would have between 150 and 180 rooms and would open around 2020. The planned hotel is part of a mixed-use development at the southeast corner of Allen Parkway and Gillette Street. The massive mixed-use development will include roughly 200,000 to 250,000 square feet of Class A office space, a residential condo/apartment tower or a mixed-use hotel-condo-apartment tower, retail, and more.

H-E-B has signed a lease for property along the Washington Corridor. The location at the southeast corner of Washington Avenue and Heights Boulevard would be part of a larger mixed-use development proposed for the site with a 97,686sf grocery store with parking garage, along with office space and apartments, per the lease.

Cypress

Cypress-Fairbanks ISD is the fastest growing school district in Harris County. The district has expanded in large part due to the amount of available land and increasing accessibility from new roads and highways. The main freeway through the Cypress area is U.S. 290 which has been strained by increased demand. Construction expanding this freeway will bring some relief in the future. The strain of the high traffic is also receiving relief from the Grand Parkway and major thoroughfares running through the district. With new and expanded roads and highways in place, many new neighborhoods are following. The new neighborhoods, including master-planned communities like Bridgeland and Towne Lake, give rise to a need for retail, medical, and warehouse space.

Several commercial developments are underway along Fry Rd. in Cypress, including one new project that broke ground in October and two others set to be completed in November.

Cypress Creek Plaza, a shopping center at 9690 Fry Rd., is nearing completion and businesses are expected to start opening through the end of 2016 and the beginning of 2017. Chase Bank is under construction and set to open in first quarter 2017. Three buildings totaling 51,000 sf will contain restaurants, dental offices, nail salons, postal services and pet supply shops. An H-E-B opened near the development last year.

Ground broke in October on Cypress Springs Plaza, a shopping center coming to Fry at Rustic Lake Lane, just south of Longenbaugh Road. Developers are anticipating up to five tenants will sign on for the 11,750-sf property, which is set to be completed early in Q2 2017.

The Shops at Maricopa is a 21,600-sf commercial development completed near Canyon Lakes West.

Plans have been submitted to the city of Houston for Dunham Pointe, located on 1,327 acres south of 290 between Mueschke and Mason Roads, just north of Bridgeland. The developers plan 2,500 single-family homes within Dunham Pointe. A plat for the new community also calls for a major school site on 145 acres as well as more than 300 acres of commercial retail shops, medical facilities, and apartments along 290.

Northwest Quadrant

The school districts in the northwest quadrant are Aldine, Klein, Spring, Tomball, and Waller ISDs. Collectively these districts have seen substantial growth resulting from expansion into the area, including the opening of the grand parkway section F2, creating opportunities for growth and movement between Spring, Klein, and Tomball, and new construction from the energy industry, which is no longer confined to the energy corridor along Interstate 10 on the west side of Houston. ExxonMobil’s gigantic campus in Spring is a clear example of that.

The ExxonMobil campus is up and running and the surrounding area is being developed to support the campus. An entire new master-planned community, Springwoods Village, is under construction near ExxonMobil. Springwoods Village City Place will be a 60-acre mixed use development that will be the hub for Springwoods Village. It will include luxury apartments, office buildings, a full-service hotel, and a many restaurants and retail.

In addition, development is underway for a grocery and retail center called The Market at Springwoods Village. The new center, anchored by Kroger, is located along Holzwarth and Spring-Stuebner. Phase I of The Market is expected to open in the spring of 2017.

Nearby, Harper Woods is 30 percent complete and will develop through 2017, and Audubon Grove is 80 percent complete and was expected to be finished by the end of 2016.

NewQuest Properties will develop the Grand Parkway Town Center on a 63-acre site on the southwest corner of the Grand Parkway and State Highway 249. The site plan includes more than 370,000 sf of retail space and 15 pad sites. The center is projected to open in the first quarter of 2018.

In Aldine ISD, Pinto Business Park is a 971-acre industrial park that, when fully developed, will accommodate up to 7,000,000 sf of build-to-suit and user-owned distribution, light manufacturing, and corporate campus space. Drainage, detention, roads and infrastructure are already designed.

Aldine ISD will also see some growth on Aldine Mail Route with the development of East Aldine Town Center on a 61-acre plot. It will include a Harris County 9-1-1 call center, a Lone Star College campus with an Aldine ISD early college component, outdoor park features, a commercial complex to include a major grocery store, offices for the East Aldine District, and the Neighborhood Centers campus.

Not far from Bush International Airport, Clay Development & Construction will be developing two business parks known as Kennedy Green and Kennedy Green South. Kennedy Green will cover 186 acres located on John F. Kennedy Blvd south of Aldine Bender and Kennedy Green South will be 145 acres, also on John F. Kennedy Blvd with frontage on Lauder Road.

Northeast Quadrant

The Northeast quadrant is still mostly rural and includes Crosby, Huffman, Humble, and Sheldon ISDs. Apart from Humble, little activity is seen in this part of the county. The Grand Parkway Segment G now connects I-45 to I-69, giving Humble access to the ExxonMobil campus comparable to Tomball and Klein. However, Humble is seeing most its activity on the Sam Houston Tollway/Beltway 8.

Generation Park is a project that started in 2012 and is expanding. The development will eventually cover 4,000 acres. Situated near the Summerwood master-planned community, Generation Park is already home to FMC Technologies main headquarters. The park offers specific zones to accommodate office, retail/mixed use, industrial/flex, and multi-family. Two Houston-based companies are relocating their headquarters to a new office building underway in Generation Park. Apache Industrial Services Inc. preleased 35,350sf of the 86,523sf building, and McCord Development Inc., the developer behind Generation Park, is relocating its headquarters to 17,309 sf in the building, which is set to deliver in June 2017. McCord will be more than doubling its Houston-area footprint.

Construction began on the Main Event Entertainment complex in Humble last fall. The 50,000sf facility near Costco in Townsen Landing Village will offer bowling and laser tag, a swimming pool, a pizza café, and a full-service bar. Construction is expected to conclude this summer with the Main Event opening near the end of May.

Southeast Quadrant

The southeast quadrant has long been considered the industrial side of the county, due to the proximity to Port of Houston and the Houston Ship Channel. Seven school districts occupy this sector: Channelview, Clear Creek, Deer Park, Galena Park, Goose Creek, La Porte, and Pasadena ISDs. Most of these districts have not experienced the same economic growth as other parts of the county in recent years. Shifts in the energy market have caused some changes to this of late. The petrochemical and plastics markets have seen an uptick, creating some expansion in the facilities related to their production.

An estimated $35 billion worth of chemical facilities are being constructed or expanded in the region. Clay Development & Construction, Inc. has developed over 3 million square feet of industrial space. Robert Clay says the southeast side of Houston is continuing to see deals because of the refining business and because of the perceived increase in port related tonnage due to the widening of the Panama Canal. Clay Development just began construction on a 1.5 million square foot spec project in the 15,000-acre Cedar Port industrial park.[7]

In Baytown, within Goose Creek ISD, the Chevron Phillips petrochemical plant is in the process of a $6B expansion. The expansion is needed to help study how to increase the plant's capacity to produce polyalphaolefins, synthetic lubricants used in high-performance motor oils. The plant sits on the county line and Interstate 10. The expansion is moving westward past Sjolander Rd toward North Main Street. That plant growth has spurred growth in the surrounding community, specifically along Garth Road north of I-10. The growth has been in residential, retail, and hotels & motels.

Clear Creek's growth is geared more towards medical and retail. Baybrook Mall is in the middle of an expansion. Baybrook Mall is one of the prime shopping, dining, and entertainment destinations in Clear Lake. The mall has added dozens of new stores and restaurants, a new lifestyle center, and more. The addition adds around 12 acres of retail space to the existing 27-acre mall site.

Baybrook Mall

Clear Lake is still home to NASA but, since the NASA scrapped the shuttle program, the aerospace development companies have moved to other locations.

Growth in Pasadena is still mostly residential and retail to support. Growth is taking place along the Sam Houston Tollway and along Fairmont Parkway, and moving towards La Porte. The construction of the La Porte Town Center has finally started. As mentioned previously the 20-

[7] http://realtynewsreport.com/2016/07/06/clay-houstons-emerging-petrochemical-corridor-shows-signs-of-strength/

acre site located on State Highway 146 will be home to Gilley's restaurant, bar, and music venue. The center will also offer retail, professional offices, a hotel, and multi-family residential.

Southwest Quadrant

This quadrant is comprised of Alief, Katy, and Spring Branch ISDs and includes the Energy Corridor. Although there were only a small number of land sales in this area, there is still construction activity taking place. The activity is taking place in Spring Branch and Katy, while Alief has seen very little growth in the last few years.

The Energy Corridor, located along I-10 West, is home to many of the giants in the oil and gas industry and many companies focused on energy production. Since the downturn in the market, construction in the area has slowed, but it has not stopped.

In Spring Branch, construction continues in the Memorial City area. MetroNational already owns most of the properties in the Memorial City area and is mostly building on land acquired many years ago.

MetroNational, for the first time, has expanded their holdings to the north side of I-10. The development company has completed a six-story office building with 240,000 sf and a dedicated parking garage. Mexico-based CEMEX, which has had an office in Memorial City since 2005, is the building's first tenant, occupying 80,000 square feet on the building's second and third levels.

MetroNational is partnering with Z Resorts, to develop Hotel ZaZa Memorial City. At I-10 and Bunker Hill, the 17-story location will have 159 guest rooms and 10,000sf of event and meeting spaces for up to 300 people. The hotel will also have 130 apartment units. Amenities will include two outdoor pools, a spa, and restaurant lounge. The hotel will overlook a green space, which will be used for live music and festivals.

The University of Houston System has completed the purchase of 46 acres for a new campus in Katy that will offer University of Houston – Victoria classes and programs. The land, at the northeast corner of Interstate 10 and the Grand Parkway, was purchased from Parkside Capital. Houston-based Parkside Capital will develop the infrastructure, such as streets, lighting and landscaping, for the surrounding newly branded University Center on 125 acres, Parkside Capital CEO John S. Moody, said in an announcement. The University of Houston System plans to break ground on an 80,000-square-foot building at University Center in August and open it in fall 2019. The campus will initially accommodate 2,000 students, but it could eventually serve up to 10,000 students in additional buildings.

Also in Katy, new master-planned communities are popping up off the Grand Parkway along FM 529. Newland, the developer of Cinco Ranch, is now developing Elyson. Elyson comprises more than 3,600 acres and will have more than 6,200 homes. It will also feature a significant commercial core, amenities including a community center with a pool, fitness center and café in the first phase. Developers stated there will also be future on-site schools, and an open space and trail system that will connect the various neighborhoods.

Vacant Land

The table below shows summarized land sales data with per square foot price ranges and sales volume per submarket and school district. This table gives a clearer picture of hot spots for activity. The sales dates range from January 1, 2016 to December 31,2016.

Northwest					
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction
Aldine	**117**	39	62	1	15
Klein	**74**	18	54	0	2
Spring	**49**	20	25	2	2
Tomball	**41**	10	31	0	0
Waller	**34**	7	27	0	0
Total Sales	**315**	**94**	**199**	**3**	**19**

Southwest					
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction
Alief	**30**	11	19	0	0
Katy	**51**	8	42	0	1
Spring Branch	**18**	9	9	0	0
Total Sales	**99**	**28**	**70**	**0**	**1**

Northeast					
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction
Crosby	**28**	12	14	1	1
Huffman	**18**	5	13	0	0
Humble	**47**	8	27	6	6
Sheldon	**16**	4	11	1	0
Total Sales	**109**	**29**	**65**	**8**	**7**

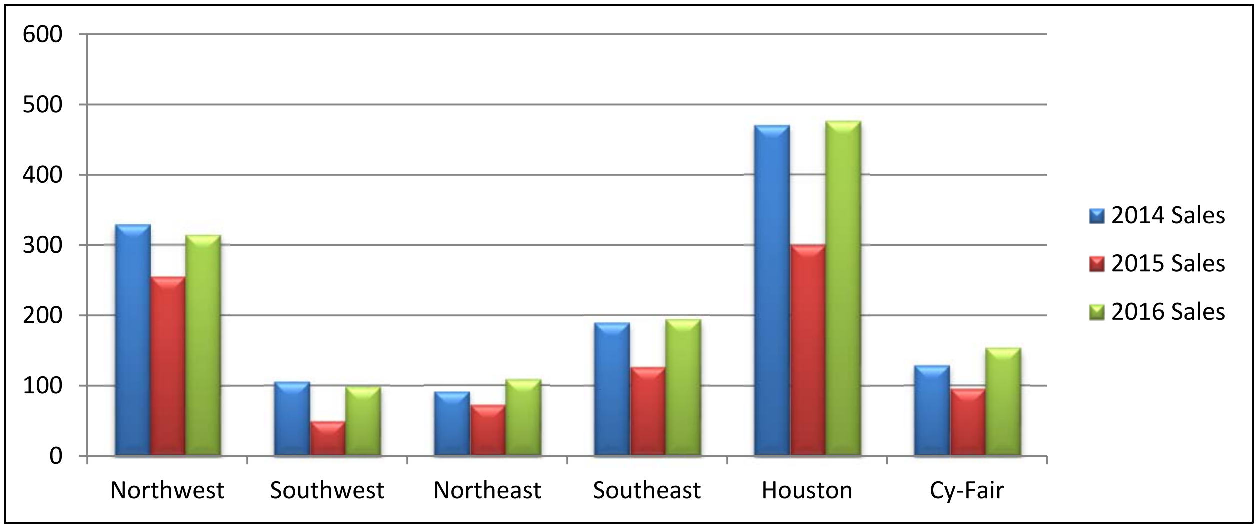
Southeast					
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction
Channelview	**6**	0	6	0	0
Clear Creek	**8**	2	5	1	0
Deer Park	**12**	3	7	0	2
Galena Park	**13**	5	7	1	0
Goose Creek	**44**	14	23	2	5
La Porte	**40**	9	23	1	7
Pasadena	**72**	23	44	3	2
Total Sales	**195**	**56**	**115**	**8**	**16**

Houston					
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction
Houston	**477**	136	261	12	68
Total Sales	**477**	**136**	**261**	**12**	**68**

Cy-Fair					
	Tot. Sales in District	Market	Non Market	Foreclosure	Auction
Cy-Fair	**154**	54	98	1	1
Total Sales	**154**	**54**	**98**	**1**	**1**

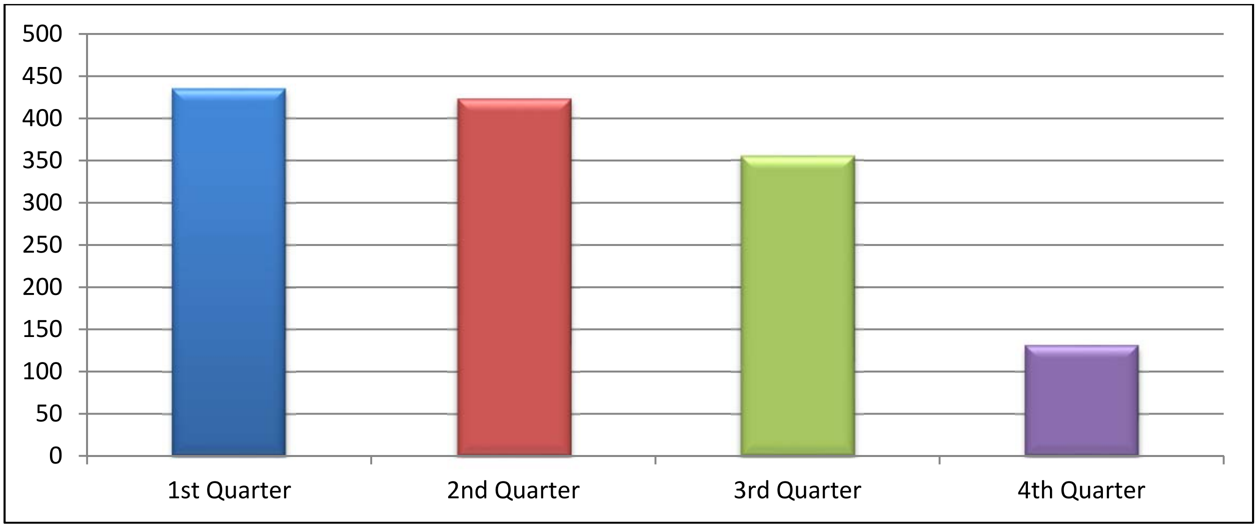
The following charts shows the sales volume by submarket for 2014 through 2016. This shows the market cooling down drastically in all submarkets in 2015 and rebounding in 2016.

Sales Volume

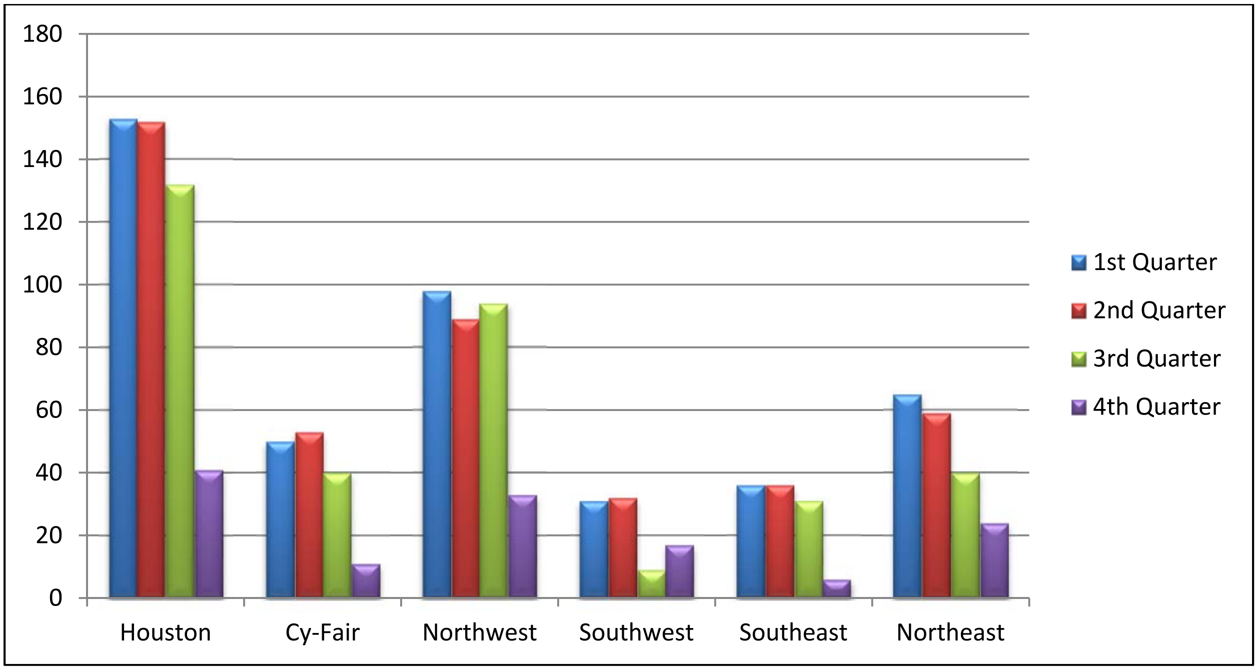


The following charts show sales volume for the entire county and by Submarket, over the four quarters of the year. Like most years the fourth quarter shows the least amount of activity.

Sales by Quarter



Land Sales by Quarter and Submarket



Apartments

An accelerated Houston economy in 2013 and 2014 attracted investment for new projects. Then the economic adjustment resulting from declining oil prices caused Houston's economy to first decelerate and then experience marginal recessionary conditions at the beginning of 2016, just as multifamily units planned during the stronger economy were being delivered. Demand responded accordingly and adjustments in occupancy and concessions were evident, but not at levels reflective of a recession. Houston's economy had done better in 2016 than expected.

TransWestern indicated in their 3rd quarter 2016 "The Houston Metro Multifamily Market" report,

> The Houston multifamily sector has softened through 2016 due to significantly inflated construction levels coupled with slow to no job growth … Houston's frenzied development pace has resulted in a glut of available units that is affecting all core metrics. Looking forward, we forecast occupancy rates to continue their decline as face rates slide, a trend primarily focused in Class A, but extending through to B & C properties as well. Concession packages will remain prevalent as landlords compete for a more modest pool of tenants.

Apartment Data Services (ADS) indicated that by the end of 2016, 12,133 units were under construction, and the occupancy rate for existing apartments was 88.5%. In 2016, 19,940 units totaling were delivered. There are 20,426 proposed projects, but it is anticipated that many of these projects will be on hold until absorption rates increase to meet new supply of units. Absorption rate for all 2016 was 4,195 units. However, the last quarter of 2016 had a negative absorption rate of -2,960 units, and the last half of the year -1,030 units. Marcus & Millichap, in their 3Q2016 report, indicated that because the absorption rate "does not exceed the forecasted new construction, the market vacancy rate will rise by 30 basis points to finish 2018 at 7.9%. Between now and year end 2016 asking rents are expected to increase 1.1% to a level of $997 [per unit per month], while effective rents will advance by 1.0% to %929. On an annualized basis through 2017 and 2018, asking and effective rents are expected to climb by 2.9% and 2.8%, respectively, to finish 2018 at $1,056 and $961."

Per REIS, with the number of new deliveries, higher vacancy rates were expected, but did not happen. Their estimation was that vacancy rated did not rise because landlords were offering concessions to retain or attract tenants, rather than decrease rental rates. Effective rents (i.e., market rents less concessions) rose only 0.2% in the 4th quarter of 2016, the lowest quarterly effective rent increase since 2010. In 2015, asking rents increased 5.8%, as did Effective rents. In 2016, asking rents increased 3.7% and Effective rents 3.6%. Here is a comparison as indicated by REIS for the fourth quarter 2016.

REIS stated the national vacancy rate at the end of the third quarter of 2016 was 4.4% (same as for 2015, and up from 4.2% for 2014), 5.6% for Southwest United States and 6.7% for greater Houston. REIS also indicated that 1 year annualized vacancy rate for Houston was 5.8% and 3 year annualized was 6.2%. Their 5-year forecast for Houston is 7.8% vacancy rate.

There is strong demand for student housing, especially in areas around the University of Houston and other large post-secondary institutions. Fred Pierce, president and CEO of Pierce Educational Properties, stated that nationally "Investors have purchased more than $3 billion in student housing properties from the start of 2016 through mid-May. That is up from $2.1 billion over the same time period in 2015." With the expansion of METRORail from downtown to the University of Houston, conversions, renovations and new construction for student housing is expected to continue in the university's immediate area. With the population growth in the area, and associated growth in senior/retiree population, an increase in multifamily subsidized housing and assisted living apartment complexes is expected to continue as well.

Rental Rates

After having increases in rental rates of 5.0% for 2015 and 8.1% for 2014, apartments in the Greater Houston area registered no change in rental rates for 2016.

Total absorption for the twelve months ending in December 2016 was 4,195 units, compared to 13,262 units for the year ending 2015, per ADS. With near record number of units added to the market for 2016, newer multifamily product was prone to offering concessions. Per ADS, as of January 2017, 33% of apartment communities are now offering concessions (all classes) in comparison to one year ago when 22% of communities were giving some free rent concessions, and 33% of multifamily properties in the Greater Houston Area are giving concessions to rental rates. For Class A properties, 57% of the Class A properties are offering concessions, averaging almost 1 month free rent. However, this includes new construction that has not stabilized occupancy as of the offering, as virtually all new construction is Class A, except for newly constructed subsidized and tax credit apartments as Class B. Thirty-three percent of Class B properties are offering concessions, Class C 26%, and Class D 9%. Concessions, when given, average 1.3 months for Class A to 2/3 month for Class B and C.

Of the forty-one (42) submarkets analyzed by ADS, six (6) had rental rate increases and 36 had decreases. A major noticeable change in 2016 is a trend toward increasing rent growth in suburban market and decreasing rent growth in the urban core. I-10 East/Woodforest/Channelview had the largest rental rate increase of 9.2% in 3Q2016, followed by Hwy 288 South/Pearland West at 5.6%. The Med Center/Braes Bayou submarket had the largest rental rate decrease over the last quarter of 2016 at -17.5%, followed by Memorial/Spring Branch at -14.4%. Braes Bayou may have had an increased turnover of tenants due to the Tax Day Flood that occurred in that area and greater Houston in April 2016. For the metro area overall, ADS reports that the vacancy rate at the end of 2016 was 11.5%, up from 2015's 9.4%. Rents changed from an average went from $1.054psf per month ($12.65/sf per yr.) for December 2015, to $1.099psf per month ($13.18psf per year) for December 2015, to $1.096psf for December 2016, for the overall market. Previously, the vacancy rate at the end of 2013 was 9.5% and average rent was $0.97psf ($11.64psf per year).

Market Performance

Class	Number of Properties	Average Rate (/ sf / mo.)	Occupancy (%)	ALL PROPERTIES % Effect of Concessions on Market Price *	ONLY PROPERTIES W/CONCESSIONS % Effect of Concessions on Market Price *
A	516	$1.488	79.6%	-6.9%	-11.0%
B	1,045	$1.071	91.4%	-2.2%	-5.6%
C	840	$0.872	91.2%	-1.6%	-5.0%
D	278	$0.716	89.1%	-0.7%	-4.9%
OVERALL	**2,679**	**$1.096**	**90.6%**	**-3.7%**	**-8.3%**

Note: One Month Free = -8.3%
Class A properties include multifamily projects that may have been delivered within the last 2 years, and may not have stabilized or are out of their lease-up period
** On Street Price (s): Based on only those properties with concessions*
Source: ADS – January 2016

Market Trends

Marcus & Millichap, in their 4th quarter 2016 "Multifamily Research Market Report – Houston Metro Area", stated that after a peak in 2013, "sales velocity has been slowing. Trades in the first half of 2016 are down 14% from the previous six months, and 25% percent lower than the first half of 2015." The largest drop occurred with Class A assets. As with office and retail properties, investors anticipated distressed or discounted properties due to the decline in oil prices. However, few properties were offered with above market cap rates. Properties that were going to be sold did so during the economic recovery period of 2011 to 2014. In place of buying properties, investors instead opted to develop and construct new multifamily projects instead. There was a lack of multifamily sales, not from any lack of demand, but because property owners fared better than expected in the oil adjusted economy.

Since 2015, Class A units traded on average at $150,000 per unit (16% higher than 2013), per Marcus & Millichap. The average price for Class B & C units was in the mid$70,000 range (12% higher than average for 2013). Since there are considerably more Class B and C units than Class A, the average sale price was $83,000 per door. They state that average cap rate over the previous 12 months was in the low-7% range. Price Waterhouse Cooper indicated that for the nation, multifamily overall cap rate for 3Q 2016 was 3.50% to 7.50%, with an average of 5.25%, down from 5.39% from a year ago. For the Southeast Region of the US, overall cap rates ranged from 3.50% to 6.50%, for an average of 5.10%, down from 5.48% a year ago.

Apartments Recently Opened - January 2016 through February 2017

Name	Address	Units	Move In Date
Avenue Grove	3815 Eastside St.	3	Dec 16
Hamilton	1800 St. Joseph Pkwy.	11	Dec 16
Village at Palm Center	5110 Griggs Rd.	12	Dec 16
Ascension on the Bayou	150 W Sam Houston Pkwy N	6	Nov 16
Preserve at Baywood II	8300 Red Bluff Rd.	14	Nov 16
Everlee	23902 Kuykendahl Rd.	25	Nov 16
Alexan Yale Street	525 Yale St.	2	Nov 16
The Carter	4 Chelsea Blvd.	1	Oct 16
Market Square Tower	777 Preston St.	11	Oct 16
Crescent Northpoint	23550 Northgate Crossing Blvd.	25	Oct 16
Waterford Trails	21201 Emerald Mist Pkwy.	25	Oct 16
Post at Afton Oaks	3131 W Loop South	3	Oct 16
Apex, The	8520 Madie Dr.	20	Oct 16
Residences at Fannin Station	10000 Fannin	9	Oct 16
Alexan Ashford	1200 N Dairy Ashford	6	Sep 16
Broadstone Energy Park	880 Highway 6 S	6	Sep 16
Echelon at West Lake	16755 W Lake Houston Pkwy	19	Sep 16
Hanover Montrose	3400 Montrose Blvd.	1	Sep 16
One Hermann Place	1699 Hermann Dr.	10	Sep 16
San Marino	15255 Vintage Preserve Pkwy.	24	Sep 16
Solana Preserve Vintage Park	14221 Vintage Preserve Pkwy.	24	Sep 16
Haven at Highland Knolls	20801 Highland Knolls	28	Aug 16
Jefferson Heights	1520 N Memorial Way	2	Aug 16
SkyHouse Main	1725 Main St.	11	Aug 16
Sovereign Spring Cypress	2539 Spring Cypress	24	Aug 16
Tate Tanglewood	5880 Inwood Dr.	4	Aug 16
West and Fondren	8820 Westheimer Rd.	5	Aug 16
Landmark at Spring Cypress	3223 Spring Cypress	25	Jul 16
Trails at Lake Houston	13922 Woodson Park Dr.	19	Jul 16
Elan Heights	825 Usener St.	2	Jun 16
Pearl Washington	5454 Washington Ave.	2	Jun 16
Watermark at Spring Cypress	22803 Tomball Pkwy.	25	Jun 16
Willowbend	9393 FM 1960 Bypass W Rd.	21	Jun 16
Alexan Spring Crossing	21525 Spring Plaza Dr.	25	May 16
Block 334	1515 Main St.	11	May 16
Champions Creek Forest	13606 Walters Rd.	13	May 16
Elan Memorial Park	920 Westcott St	2	May 16
Lynd at Greenhouse	2040 Greenhouse Dr.	28	May 16
Pearl Residences at CityCentre	10401 Town & Country Way	6	May 16
Watercrest at Katy	200 Katy Fort Bend Rd.	28	May 16
1300 North Post Oak	1300 N Post Oak Rd.	22	Apr 16
2121 Ella	2121 Ella Blvd.	22	Apr 16
Grayson, The	4115 Louetta	25	Apr 16
Millennium Kirby	7600 Kirby Dr.	10	Apr 16
Pearl at the Mix	2910 Milam St.	1	Apr 16
Pearl CityCentre	10402 Town and Country Way	6	Apr 16
500 Crawford	500 Crawford St.	11	Apr 16
5755 Hermann Park	5755 Almeda Rd.	10	Mar 16
Catalon	6013 Queenston Blvd.	27	Mar 16
Crenshaw Grand	5400 Crenshaw Rd.	14	Mar 16
Domain Memorial	14800 Memorial Dr.	6	Mar 16
Grey House, The	4444 Westheimer Rd.	3	Mar 16
District at Memorial	10300 Katy Fwy.	6	Feb 16

Name	Address	Units	Move In Date
Elan 99 West	23400 Kingsland Blvd.	28	Feb 16
District 28	2828 Old Spanish Trail	10	Dec 16
Alta West End	4020 Koehler	2	Jan 16
Alexan Midtown	2310 Main St.	1	Sep 16
Eighteen25	1825 San Jacinto	11	Jan 17
Estates at Ellington	635 Genoa Red Bluff	14	Feb 16
Everly	2827 Dunvale Road	5	Dec 16
High Point Uptown	807 S Post Oak Lane	4	Jul 16
Dolce Living at Midtown	170 W Gray St	1	Jan 17
Meadows at Cypress Creek	12353 Huffmeister Road	32	Oct 16
Mid Main Lofts	3550 Main Street	1	Nov 16
Oak Park Retirement Resort	1921 S Mason Road	28	Oct 16
Oaks at Wayside	6520 Jamail Drive	11	Sep 16
Regalia Bella Terra at Katy	24151 Bella Dolce Lane	28	Feb 17
San Palmilla	18833 Town Ridge Lane	13	Jan 17
Southmore, The	5280 Caroline	1	Jan 17
Star, The	1111 Rusk	11	Jan 17
Towers of Seabrook, The	3300 Towers Blvd.	13	Jan 16
H6	14805 Grisby Rd.	6	Jan 16
Ravella at Eastpoint	7447 Eastpoint Blvd.	16	Aug 16
TOTAL		**19,940**	

Source: ADS

New Construction

With the downturn in the oil & gas industry, but offset by strong growth in population and other economic sectors and population, new construction activity for apartments is expected to tighten somewhat for the next two years. Newly delivered apartment complexes (most or all as Class A) may see a decrease in demand and will offer concessions to support rental rates. 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 can build all the new projects largely because investment grade buyers and large cash-rich companies/institutions are looking for a safe haven for equity. Banks have been more cautious in lending during the economic adjustment period Houston is experiencing. Lending rates are starting to edge up as the Federal Reserve marginally raises the central bank rate.

The total number of units in the Greater Houston Area at the end of 2016 was 626,027. Currently, 15,713 units are under construction. Last year, 4,195 units were absorbed. Since 2004, most years range between 10,000 and 12,000 of new units added to the market, with 1,000 units a month being typical for stable economic years. The economic recession year of 2008 saw 21,862 units delivered. Between 3,900 to 5,900 new units per year were delivered during the economic recovery years of 2010 to 2012. During the recent oil & gas “adjustment” period, 17,697 units were delivered in 2014 plus 20,187 in 2015 and another 20,702 in 2016.

Per ADS, eighty new complexes totaling 20,702 units were added to the Houston market during 2016. This is slightly more than the seventy-four new complexes and 20,148 units added during calendar year 2015. (For 2014, there were 54 new complexes totaling 14,559 delivered.) In addition, there are 61 complexes consisting of 15,713 units under construction as of January 2017. In January 2015, there were 69 complexes with 19,286 units under construction. Of the new apartment complexes delivered to the market in 2016, none were tax credit properties and two were subsidized housing complexes.

Apartments Under Construction - through April 2017

Name	Address	Units	Move In Date
1711 Caroline	1711 Caroline St	220	Jan 17
Alexan 5151	5151 Hidalgo St	398	Mar 17
Alexan City Centre	905 Town & Country Blvd	354	Feb 17
Alexan Downtown	1414 Texas St	267	Jun 17
Alexan Southside Place	4139 Bellaire Blvd	269	Jan 18
Aris Market Square Hi-Rise	900 Preston St	274	Jan 17
Altura Heights	S Post Oak & Allum Rd 77085	124	Mar-17
Beacon at Buffalo Pointe	10301 Buffalo Speedway	281	Jan 17
Boterra Bay	4711 N Main St	384	Oct 17
Brazos Lofts	2727 Brazos	15	
Brittmoore, The	6725 Brittmoore Rd, 77041	152	Mar 17
Broadstone Skyline	707 Saulnier St	269	Feb 17
Broadstone Tinsley Park	919 Gillette	365	Jan 17
Catalyst Hi-Rise	1423 Texas Ave	361	Mar 17
City Centre At Midtown	1920 W Alabama St	258	Apr 17
Discovery Towers	800 Crawford St	314	Jan 17
Encore CC&G	1341 Castle Ct	250	Dec 16
Folio West	2520 Rogerdale Rd	266	Jan 17
Fore Washington Avenue	1111 Durham	190	Oct 17
Hawthorne at Pasadena	4811 E Sam Houston Pkwy	294	May-17
Haven at Augusta Woods Village	25802 Kuykendahl Rd	246	Nov 16
Haven at Lakes of 610	8900 Lakes at 610 Dr	276	Jan 17
Haven at Liberty Hills	6810 E Sam Houston Pkwy N	246	Dec 16
Haven at Main	8700 S Main	256	Dec 16
Haven at Westheimer	13250 Westheimer	230	Dec 16
Haven on 11th	2205 W 11th St	120	Jan 17
Hayworth, The	1414 Wood Hollow Dr	246	Apr 17
Highbank	8877 Frankway Dr	284	Jan 17
Ivy Hi-Rise, The (Azalea Court)	2307 Mid Lane / 4200 Westheimer	301	Feb 17
Kirby Collection	3200 Kirby Dr	199	Oct 17
Latitude Med Center Hi-Rise (Condo)	6750 Main St	376	Oct 18
Le Palais	1916 W Gray St	165	Jun 17
Lennox Trails	1002 Katy Gap Rd	389	Jan 17
McGowen Station	2727 Travis St, 77006	315	Mar 17
Mark at City Place	23153 Springwoods Plaza Dr	268	Dec16
Marq31	3131 Timmons Ln	449	Mar 17
Memorial	2018 N Memorial Way	198	Sep 15
Modera Shepherd	611 Shepherd	245	May 18
Overture Tanglewood (Senior)	504 Bering Dr	192	Jun 17
Parklane Cypress	18515 Bridgeland Creek Pkwy	288	Nov 16
Parkway Flats	13328 Westheimer Rd	300	Jun-17
Pierpoint	23770 Springwoods Village Pkwy	300	Jan 17
Residences at Hardy Yards	1550 Leona St	350	Nov 17
Retreat at Westlock (Senior)	24055 SH 249	140	Jan 17
Solea Copperfield (Senior)	8300 Queenston Blvd	129	Jan 17
Streamsong	21001 Kingsland Blvd	290	Jan 17
Studemont (Condo)	1011 Studemont	30	
Tuscany Walk	2001 S Voss Rd	150	Jan 17
Venue, The	21145 Spring Plaza	340	Dec 16
Vantage Med Center Hi-Rise	1911 Holcombe Blvd	375	Jan 17
TOTAL		**12,133**	

Source: ADS

The prosperous times of 2013 and 2014 sparked an elevated level of new starts to fill the anticipated growth in the region. The decline in oil prices beginning in 2014 led to reduced demand. In 2016, 24,700 units were delivered, yet net absorption was 4,200 units. Developers will likely pull back from building many proposed projects. New starts may be around 5,000 units per year for 2018 and 2019 until demand catches up with supply and the market stabilizes.

Office

In comparison to previous years in Houston's office market, 2016 has been a year of adjustment. According to REIS, "Total employment … decreased by 960 jobs during the 3rd quarter [of 2016], while in the dominant office-using industries, employment expanded by 2,600."

REIS states, "The metro experienced negative absorption of 1.0 million square feet during the third quarter (of 2016)." In comparison, in 2014 leasing activity absorbed 2.56 million sf. However, "over the last four quarters (4Q2015 to 3Q2016) market absorption totaled (positive) 814,000 square feet." Projects that started construction in 2014 or 2015 were introduced to the market in 2016. The absorption rate in combination with new deliveries "placed upward pressure on the vacancy rate, which increased 130 basis points to 17.7%."

Marcus & Millichap, in a November 2016 webinar, indicated that foreign investors and cash rich institutions came to Houston looking for deals on real estate because of the oil & gas downturn. However, the oil & gas industry had prepared for the market adjustment and distress situations were far and few between.

REIS states, "Contraction in the energy sector tenant base has brought substantial increases in sublease availability." Sublease space accounts for fully 16.0% of total vacancy, about 2.8% of the vacancy rate, and about 5.1 million square feet. Only two quarters earlier, these estimates ran at 12.0% and 3.3 million square feet. The national third quarter rate was 13.0%.

Although space may be physically vacant, primary tenants are still paying rent to building owners. Commercial leasing realtors, at a forum last October sponsored by the Houston Business Journal, indicated most of the large office leases were long-term and would only come due after the oil & gas industry stabilizes, in the next two to three years.

Chip Colvill of Colvill Office Properties handles one third of the downtown office space (17 million sf). He indicated at the forum that there would be "12 to 18 months of tough times." Steve Burkett, Executive VP of JLL, said the office market would be "a little down for a few years."

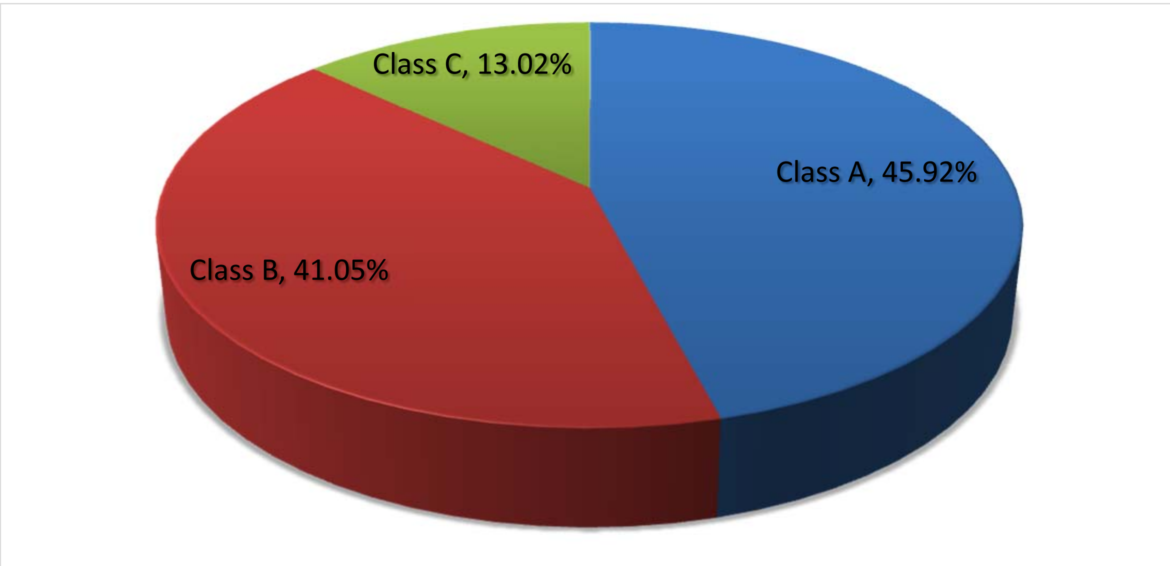
Eighty-five percent of the net office absorption is Class A. Class B and C space is struggling to compete. Class A rents are not dropping to Class B levels. Instead, tenants are demanding more Tenant Improvements (fitness gym, food court and/or restaurants, Wi-Fi, subcontractor meeting room, etc.). Concessions are being considered to attract new tenants and retain renewals. However, there has been significant growth and potential in the healthcare, higher education, and technology office markets. Among office buildings in the greater Houston area built between 1970 and 1989, 5% of the tenants are energy related, 12% financial institutions, and 12% law firms. Of these older buildings, 17% of the total inventory is in the CBD.

The Houston office market is adjusting to the challenges of changes in vacancy rates and availability of sublease space but the market is not considered distressed and shows signs of improvement. It appears that new construction will decrease to balance the effects of market changes. 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

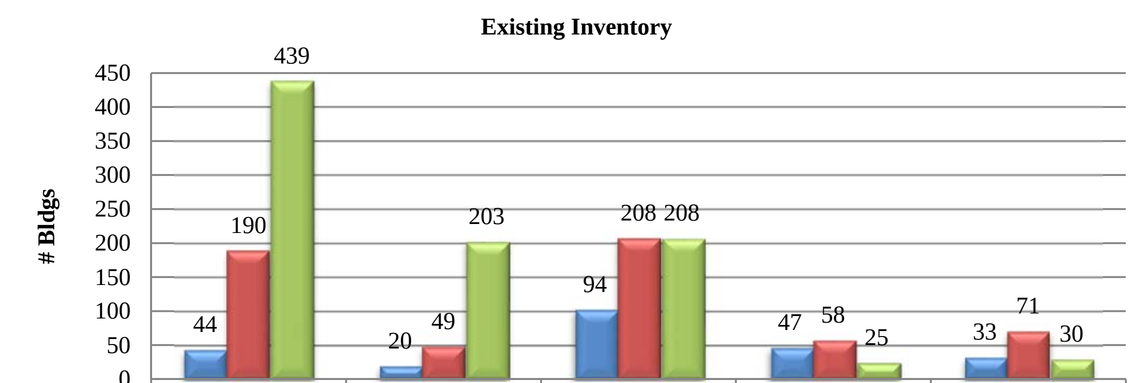
At the end of 2016, there was 304,100,825 sf of office space in 7,150 buildings. This is up from 297,844,163 sf in 6,910 buildings at the end of 2015, and 280,416,894 sf in 6,547 buildings in 2014. Class A had 139,601,730 sf in 470 projects, Class B 124,822,508 sf in 3,011 buildings, and Class C 39,676,587 sf in 3,559 buildings. Owners occupied 594 buildings with 45,513,192 sf or about 15% of the office space in the greater Houston area. Per REIS, 20.4% of office building inventory is in downtown (36.8 million sf), followed by Katy Freeway West (15.2%) and Galleria/West Loop North (15%).

Office Inventory by Class



Source: CoStar

Existing Inventory in Select Submarkets



	Downtown	Greenway Plaza	Katy Fwy West	West Loop	Westchase
Class A	44	20	103	47	33
Class B	190	49	208	58	71
Class C	439	203	208	25	30

Source: CoStar

New Construction

There were 71 newly constructed office properties delivered in 2016, primarily in the Class A sector. Most office space under construction is in Katy/Grand Parkway West (294,324 sf), Katy Freeway (603,128 sf), and East Fort Bend County/Sugar Land (252,244 sf). The 48-story 609 Main at Texas building is the only office project currently under construction downtown. Per CoStar, the 71 new office buildings completed in 2016 totaled 6,001,350 sf, compared to 12,218,875 sf in 2015 and 7,576,793 sf in 2014. There was 3,976,899 sf of office space under construction at the end of 2016 versus 8,613,186 sf at the end of 2015.

Deliveries by Quarter

	Buildings	Square Feet
1st Quarter	18	1706638
2nd Quarter	20	2493899
3rd Quarter	19	1700099
4th Quarter	14	100714

Source: CoStar

Some notable deliveries/completions for 2016 include:

- Philips 66 Global HQ, a 1.1 million sf facility delivered 2nd Quarter,100% occupied
- 1500 Post Oak, HQ for BHP Billiton, a 593,850sf building delivered in the 3rd Quarter

The largest projects under construction at the end of 2016 include:

- 609 Main at Texas, a 1,056,658sf building 42% pre-leased
- Amegy Tower, a 380,000sf facility 90% pre-leased

REIS reported nearly 9 million sf in a combination of speculative and single-tenant projects was under construction at the end of 2015. Per CoStar, about 4 million sf of construction was underway at the end of 2016, with 51% pre-leased.

The Memorial City area has seen strong new construction, with pre-leasing ranging from 80% to 100% occupancy. Galleria and the CBD are still considered good locations for attracting tenants, however there is some resistance by tenants to lock into long term leases. Class A leases tend to be 5 to 7 years, with most new buildings signed to longer term 15 year leases.

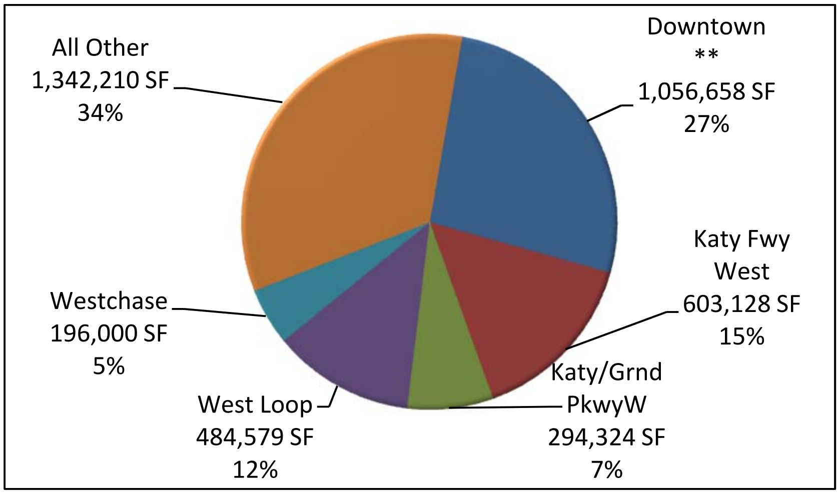
Best and Worst Houston Market Areas Ranked by Vacancy Rate and Rental Rate

Vacancy Rate		
Rank	**Rate**	**Area**
1.	5.3%	South Hwy 35
2.	7.3%	Near NE
3.	7.5%	Medical Ctr.
…		
22.	19.3%	West Beltway
23.	20.0%	Westchase
24.	35.8%	North Beltway
Avg	**15.1%**	

Quoted Rates per square foot		
Rank	**Rate**	**Area**
1.	$38.02	CBD
2.	$34.38	West Loop
3.	$33.45	Greenway Plaza
…		
22.	$17.38	Richmond/Fountain View
23.	$17.18	Southwest
24.	$16.25	South Hwy 35
Avg	**$27.52**	

Source: CoStar Year End 2016 Houston Office Market Report

Construction Activity



*** Per CoStar, Class A office under constructionin CBD: 609 Main at Texas (1,056,658 sf)*

Notable Year-to-Date deliveries based on square footage

Submarket	Leasing Co.	Property	Sty	NRA	% Leased	Delivery Date
Westchase	Phillips 66	2101 Citywest Blvd.	15	1,100,000	100%	2Qtr 16
West Loop	Transwestern	BHP Billiton Petroleum	30	593,850	100%	3Qtr 16
Katy Fwy	CBRE	Energy Center Five	18	524,744	0%	2Qtr 16
Westchase	Woodbranch Mgmt.	Millennium Tower II	24	445,000	100%	1Qtr 16
CBD	New Regional Planning	Hilcorp Energy Tower	23	406,600	96%	1Qtr 16
Katy Fwy	Skanska	W Memorial Place Phase II	14	385,532	43%	3Qtr 16
NE Near	Trammel Crow	FMC Technologies Campus – Phase I	6	369,000	100%	1Qtr 16
Woodlands	J Beard R.E.	Havenwood Office Park	4	240,470	18%	2Qtr 16
Woodlands	CBRE	Wildwood Corporate Center II	8	201,933	0%	3Qtr 16

All are Class A buildings or better

Data provided by CoStar

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

Submarket	Leasing Co.	Property	Sty	NRA	Pre-Leased	Delivery Date
CBD	Colville	609 Main at Texas	48	1,056,658	42%	1Q 2017
NE Near	Cushman & Wakefield	Amegy Bank HQ	5	380,000	90%	1Q 2017
South	Pinchal & Co.	Lonza Houston	1	250,000	100%	4Q 2017
Katy Fwy	MetroNational	Memorial City	6	238,173	35%	1Q 2017
Katy Fwy	Methodist Hospital	Texas Medical Center Tower	6	228,700	100%	2Q 2018
Greenway Plaza	JLL	Kirby Collection	13	212,878	11%	3Q 2017
Westchase	Triten R.E. Partners	Lockton Place	8*	186,000	100%	4Q 2017
Katy/Grand Pkwy W	CBRE	One Grand Crossing Bldg. 1	3	171,538	0%	3Q 2017
West Loop	JLL	The Post Oak	36	104,579	0%	4Q 2017
Kingwood/Humble	Insperity	Insperity Centre 4	4*	100,000	100%	1Q 2017

*Data provided by CoStar Class A properties, except for *Class B*

Leasing Activity

Per CoStar, although the 1st quarter of 2016 had a positive absorption of 416,843sf, the net absorption of office properties in the overall Houston area for 2016 was negative 240,794sf. This compares to positive 2,653,459sf for 2015 and positive 7,783,390sf for 2014. CoStar reported that Class A saw a negative net absorption of 901,909sf in 2016 (3,930,825sf for 2015). That included a positive absorption of 884,733sf for the 1st quarter of 2016 and 213,540sf for the 3rd quarter. For 2016, Class B had a negative absorption of 1,087,693sf and Class C a negative 55,501sf. This compares to the Class B market net absorption of negative 1,438,138sf and Class C's positive 160,762sf in 2015.

Furthermore, the Central Business District absorption for 2016 was a negative 752,732sf. For 2015, it was a positive 28,264sf, and positive 571,341sf for 2014. The suburban market absorption was a positive 511,447 sf for 2016, compared to 983,336sf for 2015 and 7,212,049sf for 2014.

Per REIS, the 2016 net office absorption in the metropolitan area was negative 39,300sf, decreasing from 2015's positive 505,300sf and positive 3,481,000sf net absorption for 2014. The forecast for the Houston area was a net absorption of 1,560,000 over the next 5 years, and 2,396,200sf of office constructed.

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

Submarket	Leasing Co.	Property	Tenant	Qtr	NRA
Woodlands	Cushman & Wakefield	CityPlace 2	American Bureau of Shipping	2nd	303,137
CBD	CBRE	609 Main at Texas	United Airlines	3rd	237,708
Westchase	Colliers	Lockton Place	Lockton Houston	2nd	127,875
CBD	N/A	Heritage Plaza	N/A	4th	109,476
Westchase	Colliers	Richmond Park Westchase	Neighbors Health System	1st	99,088
Katy Fwy W	Transwestern	Cardinal Health*	Lloyd's Register	3rd	86,892
Gulf Fwy / Pasadena	Avison Young	300 Beltway Green Blvd	N/A	4th	82,800
Gulf Fwy / Pasadena	CBRE	Deerwood Glen Bus. Park Phase III	Dow Chemical	1st	75,920
E Fort Bend Co / Sugar Land	N/A	Sugar Creek on the Lake	ABM Industries Incorporated	4th	62,457
CBD	CBRE	BG Group Place	Thompson & Knight LLP	4th	60,655
Greenspoint / N Belt W	N/A	Belchase Building	Insperity	3rd	58,408
CBD	CBRE	609 Main at Texas	Orrick, Herrington & Sutcliffe	3rd	56,806
E Fort Bend Co / Sugar Land	N/A	Three Sugar Creek Center*	Aetna	2nd	52,000
Westchase	N/A	CityWest Place Bldg. 4	American Midstream	3rd	50,929
Galleria / Uptown	N/A	Galleria Tower I	Citigroup	1st	49,730

Source: Costar

** Renewal*

Vacancy

According to CoStar, the total average vacancy rate for all classes of office buildings increased gradually from 13.9% at the end of the 1st quarter to 15.1% at year end. This compares to year-end total average vacancy of 13.6% for 2015 and 11.30% at the end of 2014.

CoStar reported vacancy rates for the end of the year to be: 17.4% for Class A buildings (14.5% for year end 2015); 15.0% for Class B buildings (14.3% for year end 2015); and 7.3% for Class C buildings (8.1% for year and 2015 and 9.5% for the end of 2014). The overall ending vacancy rate for the CBD in 2016 was 15% (13.6% ending 2015, 8.9% for end of 2014). Suburban office market increased from 13.6% at the end of the first quarter of 2016 to 15.1% at year's end.

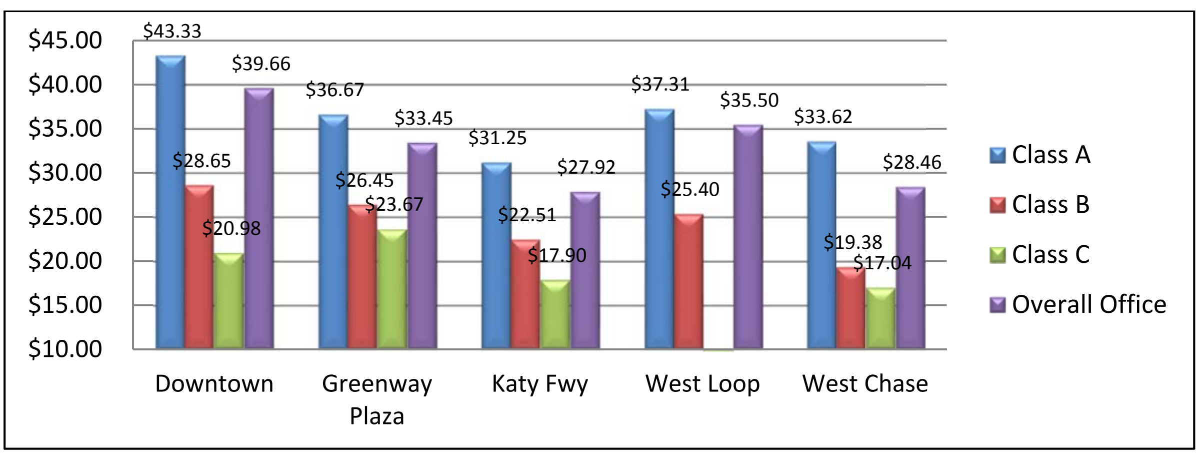
Vacant sublease space in Houston reached 5,152,569sf at the end of 3rd quarter 2016 to 4,772,581 at year end (3,816,078sf at year end 2015, a little more than double that of the end of 2014). Per CoStar, Class A properties reported vacant sublease space of 3,718,588sf at the end of 2016 (2,773,601sf at the end of 2015). Class B properties reported vacant sublease space of 1,047.973sf (2015 ended at 1,024,125sf), and Class C properties reported vacant sublease space of 6,020sf (compared to 13,446sf at the end of 3rd quarter 2016, and 18,352sf at the end of 2015). In the CBD, there was 1,185,157sf of sublease space available at year end. Suburban markets ended the year at 3,587,424sf of available sublease space. In all vacant sublease situations, end of fourth quarter figures were lower than end of third quarter.

Rental Rates

CoStar reported that overall market rental rates were $27.52psf for 4th quarter 2016, a decrease of approximately 2.0% from the prior year. The average rental rate at the end of 2016 for Class A spaces was $33.26psf, Class B $21.63psf, and Class C $17.86psf. For the end of 2015, average rental rates were Class A $34.31psf, Class B $21.56psf, and Class C $16.92psf.

According to REIS, the average asking rents for office was $28.01psf at the end of the third quarter of 2016. This is up from $27.83psf at the end of 2015, $27.20psf at the end of 2014, and $25.90psf in 2013. REIS projected asking rents to be $28.32psf for year-end 2016, $29.34psf for year-end 2017, and $30.39psf for 2018.

Quoted Rental Rates



Sales Activity

The number of sales of office buildings in 2016 was down considerably from 2015. Per Integra Realty Resources, 15-20% of commercial real estate sales in Houston are to foreign investors. Investment companies make up about 40% of commercial property investors.

According to CoStar, the first nine months of 2016 saw 10 office sales transactions with a total volume of $92.6M, average of $137.44psf. This compares to $1.251B for 26 buildings averaging $237.39 for the same period the previous year. In 2014, 39 office buildings sold totaling $1.7B, average price of $200.49psf, and in 2013, there were 41 office sales transactions with a total volume of close to $1.96B with an average sale price of $217.70psf.

Capitalization Rates

CoStar reported that cap rates were lower in 2016, at 6.25%, less than the average cap rate of 7.12% for 2015, 7.30% for 2014, and 8.29% in 2013. Per PwC, the overall national average cap rate for the 3rd quarter of 2016 was 5.57% for CBD office building sales, down from 5.66% for the previous 3rd quarter. For the national suburban office market, for 3Q 2016 it was 6.43%, up marginally from 6.42% a year earlier.

Summary

For 2017, the outlook for the office market is cautionary, with little rise in rental rates, concessions and tenant improvements offered to retain or attract tenants, a decrease in new construction which will reduce the supply of available space, vacancy rates remaining high but leveling off; and continued low capitalization rates. The demand is for Class A office space, but tenants will use the availability of sublease and Class B space to negotiate for favorable leases.

Retail

The sector of the Houston economy that appeared to be strongest over 2016 was retail. Job creation in retail offset negative changes from oil & gas. As oil prices declined, the price of gasoline also fell, giving consumers more disposable income. The retail real estate market improved in 2015 and 2016. With a lack of listings for investment grade apartment complexes, and adjustment in the office market demand, quality retail properties provided an investment alternative for foreign as well as cash rich institutions and companies. Thus, almost 5.6 million square feet of retail space was under construction in 2016, compared to 5.77 million square feet for the previous two years combined.

The greater Houston area has seen an introduction of new designs and development in the retail market. As land values increase in demand areas, multi-story retail projects are being developed. The European design of multi-family apartment buildings with ground level retail is also planned, creating “urban villages” like Gables West Avenue apartments located at Westheimer and Kirby, and the premium residential condominium complex redevelopment at Bagby and Gray.

There is a trend for shopping centers to be retail complimented with entertainment centers. For example, The Fountains in southwest Houston lost big box retail tenants Office Max, Sports Authority, and Barnes & Nobles, but, in their place, the center now has a Main Event entertainment complex, movie theater, Guitar Center, bars and restaurants. Upscale entertainment/retail centers are also being developed, such as the River Oaks District, with its iPic Theater with luxury seats, full-service bar, and reclining seats (with movie tickets at $35 each), surrounded by restaurants and other upscale retail stores. Similar upscale entertainment/retail projects are slated for Katy and for Baybrook Mall within the next year.

Big box retailers are actively building, with at least 2 new Lowe's, a Home Depot, Target, Kroger, and Sam's Club, each from 100,000 to 130,000sf, going up.

The success of the Houston Premium Outlets at 290 and Grand Parkway has prompted more development of upscale retail outlets. The Tanger Outlet Houston was developed in League City. Paragon, the developers of the Houston Premium Outlets, have secured a 4-acre site next to the Brazos Town Center in Rosenberg, with 300,00sf of upscale outlet retail development scheduled for 4th quarter 2017 completion.

Houston auto dealers sold 275,395 vehicles in the first 11 months of 2016, down from a record year for sales in 2015.

Net Absorption

Although the Retail net absorption for the first quarter of 2016 was only 415,541sf, leasing activity was positive in 2016, absorbing 5,567,146sf. This compares to 4,148,587sf for 2015 for an annual increase of 34%. Absorption in 2014 was 4,232,709sf.

Tenants moving into large blocks of space in 2016 include:

- Costco moving into 148,000sf at 21802 Townsen Blvd. W in Humble
- Farmers Copper Ltd. moving into 133,762sf in Texas City (Galveston County)
- Kroger Marketplace moving into 123,531sf at Grand Morton Town Center in Katy

Market Occupancy

Houston's retail vacancy rate went from 5.2% in the 1st quarter 2016 to 4.9% in the 4th quarter. Over the past four quarters, the market has seen an overall decrease in the vacancy rate while the amount of vacant sublease space has trended up over the same period. The current vacant sublease area is still lower than any point of 2014. Although shopping centers showed a vacancy rate of a little more than 7% at the end of 2016, general retail had a vacancy rate of just over 2%.

Largest Lease Signings

The largest lease signings taking place in 2016 are: the Kroger Marketplace mentioned above, the 100,000sf Kroger at The Village at Riverstone in Sugar Land, and the 62,943sf Academy Sports at Spring Stuebner Road & Kuykendahl near the new Grand Parkway.

Rental Rates

According to CoStar, the "average quoted asking rental rates in the Houston Retail Market are up over previous quarter levels, and up from their levels four quarters ago." Rents ended 4th quarter 2016 at $16.19psf, up from $15.61psf in 1st quarter, a 5.0% annual increase.

Inventory & Construction

During 2016, 5,594,864sf of retail space in 277 buildings was built in Houston. In 2015, there was 3,748,942sf in 137 buildings. In 2014, 2,323,829sf in 127 buildings. The amount of retail space constructed in 2016 is 92% of the two-year total of 2014 and 2015.

There was 3,180,565sf of retail space under construction at the end of 2016, an increase of 8.1% at the same time the previous year, when there was 2,943,436sf. There was 2,355,126sf at the end of 2014.

Some of the notable completions/deliveries in 2016 are:

- Power Center, 270,000sf, 100% occupied
- A 200,000sf facility delivered 2nd quarter 2015, now 100% occupied
- A 125,000sf building completed and delivered 1st quarter 2015, now 100% occupied.

The retail inventory at the end of 2016 totaled 370,255,541sf in 24,532 buildings and 4,048 centers, up from 360,647,992sf in 23,444 buildings and 3,981 centers at the end of 2015. That is an additional 67 shopping centers from 2015 and 168 from 2014.

Sales and Cap Rates

Total retail center sales activity in 2016 was down compared to 2015. In the first nine months of 2016, the market saw 26 transactions with a total volume of $134,124,439 and an average price per square foot of $125.15. In the first nine months of 2015, the market posted 28 transactions with a total volume of $311,990,732 at an average of $160.08psf.

Cap rates have been higher in 2016, averaging 8.21%, compared to the same period in 2015 when they averaged 7.769% (7.72% for 2014).

Summary

In the last two years, 162 shopping centers were delivered. Although shopping centers showed a vacancy rate of a little more than 7% at the end of 2016, of note is that general retail had a vacancy rate marginally more than only 2% in the greater Houston area. Big box retailers are continuing to build. The net absorption for Power Center retail for 2016 was 5.5 times that of 2014 and 2015 combined.

Not only is the retail market experiencing growth in quantity of retail space, but it has adapted and evolved to include multi-story projects, "urban villages" with ground floor retail in apartment/condominium complexes, entertainment/retail centers, upscale retail, and premium retail outlets. Together with the long-term and consistent population growth projected for the greater Houston area, retail will similarly expand to remain one of the leading sectors of the region's economy.

Warehouses

The warehouse market is fueled by the export of petrochemicals and associated goods. But the warehouse market in the greater Houston area remains strong due to the growing demand for a regional major distribution center with the Panama Canal expansion, railway hub and development of the I-69 NAFTA Superhighway. Markets are becoming more global, in part due to the explosion of e-commerce activity, which benefits the warehouse market in Houston. In addition, TGS Cedar Port Industrial Park in Chambers County (north shore of Galveston Bay with barge canals) is complimenting the Houston Ship Channel as a significant distribution center with large scale warehouse development. This recently developed distribution park includes 15,000 acres for development for heavy industrial, manufacturing and distribution warehousing.

New Construction

According to Cushman & Wakefield, nearly 14.9M sf of industrial construction was completed in 2016. The Daikin HQ project in northwest Harris County and IKEA in the Cedar Port complex were some of the largest pre-leased projects in 2016.

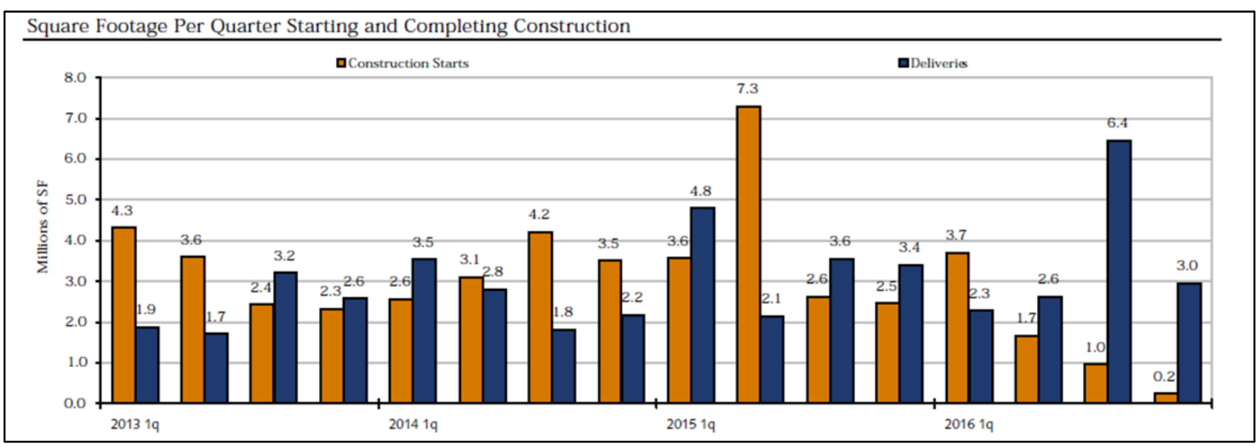
Some noted deliveries include:

- Daikin HQ, a 3.9M sf industrial facility, delivered 3rd quarter 2016, 100% occupied
- Fallbrook 1, a 500,400sf facility, delivered in the 2nd quarter 2016
- 1919 FM 565 Rd in Chambers County, a 481,000sf facility, delivered 4th 2016

Currently, most warehouse construction is concentrated in the far north, northwest and southeast parts of the region. These areas are perceived as most desirable to tenants and investors based on their proximity to highways, airports, and the Port of Houston.

According to CoStar, new construction deliveries in 2016 totaled 14,301,26sf, compared to 13,881,422sf in 2015 and 10,315,950sf in 2014.

Historical Construction Starts and Deliveries



Source: CoStar

The largest projects underway at the end of 2016 are 8787 W Grand Parkway N, an 800,000sf facility 100% pre-leased and Cedar Port Distribution Park – Building II, a 501,020sf facility 100% pre-leased in Chambers County. Overall there are 5,223,750sf of industrial space under construction as of the fourth quarter of 2016.

More new construction can be expected with the doubling/expansion of the Panama Canal (Panamax) which began commercial operation on June 2016. Other driving influences include continued expansion in the chemical industry, progression of e-commerce and manufacturing 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, interior crane use and floors that can support heavier loads of equipment and goods.

Projects of note under construction

Submarket Corridor	Description	Square Footage	Pre-Leased	Estimated Completion Date (2017 Quarter)
Northwest	FedEx	800,000	100%	3rd
Southeast	Cedar Port Dist. Bldgs. I & II *	996,482	100%	2nd
Southeast	Ameriport Ind. Park Bldg. V&VI *	785,880	100%	1st
Southeast	Carson Bayport Bldg. I-1 & 3	339,274	0%	1st
Southern	FloWorks International	210,000	100%	1st
Southeast	IPT LaPorte Distribution Center	193,586	0%	1st
Southwest	Homelegance, Inc	175,000	100%	1st
North	2626 Spring Cypress	120,000	0%	4th
Northwest	Pepperl+Fuchs	110,000	100%	2nd
Southwest	Dow Chemical Bldg. I	100,000	100%	3rd
Southwest	Dow Chemical Bldg. II	100,000	100%	1st
Southwest	Stafford Grove Indus. Park Bldg. A **	95,400	73%	1st

Source: CoStar

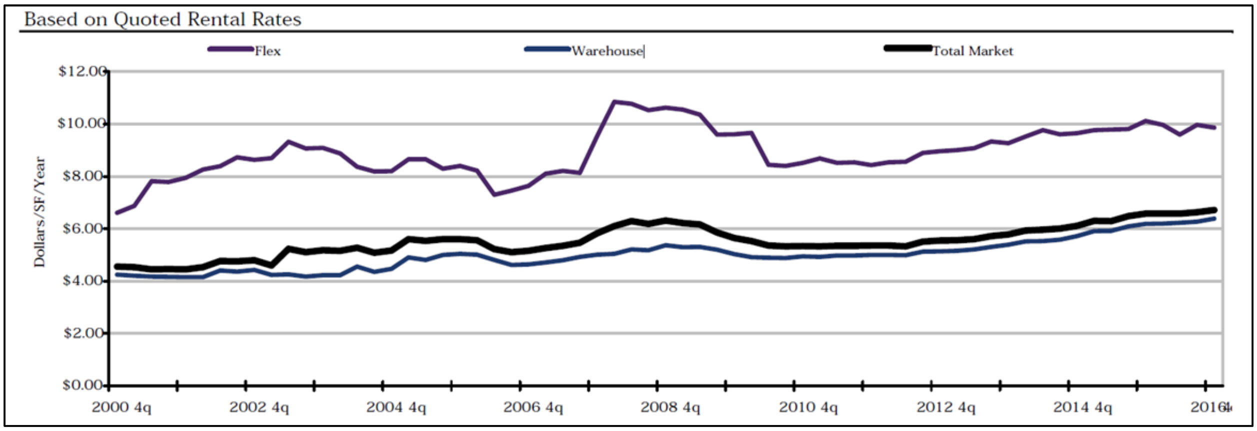
** Chambers County ** Fort Bend County*

Leasing Activity and Rents

According to Colliers International 3rd quarter 2016 report, industrial leasing activity decreased 10% on a quarterly basis and 17% on an annual basis, recording 4.9M sf including renewals.

Cushman & Wakefield's 4th quarter 2016 report indicates that average rents for warehouse distribution at $6.05psf triple net (NNN), an increase when compared to $5.89 NNN average rents in the 1st quarter. Flex average rents decreased from $8.25 NNN for the 1st quarter to $7.70 NNN at the end of the 4th quarter 2016. Per CoStar 4th Quarter report, the city wide average industrial rental rate is $6.72psf NNN, a 2.1% increase compared to $6.58 4Q 2015 ($6.11 4Q 2014).

Rental Rates by Type



Source: CoStar

Notable Leases

Sub market	Tenant	Property	SF
Hwy290/Tomball Pkwy	Advance Auto Parts	Beltway Crossing NW	441,000
Hwy290/Tomball Far	Daikin	Prologis Park Jersey Village	403,200
Hwy290/Tomball Pkwy	Serta	Fallbrook Pines Business Park	268,482
East-Southeast Far	N/A	Underwood I	225,000
Hwy290/Tomball Pkwy	United Stationers Supply	Cole Creek #3	211,680
Hwy290/Tomball Pkwy	N/A	Jersey Village Corporate Ctr.	203,426
Downtown Houston	A1 Warehouse	Lockwood Distribution Ctr.	154,144
East-Southeast Far	American Packing & Crating	404 N. Witter St	140,782
Northeast Inner Loop	VEE Express	Portwall Distribution Ctr.	140,000
East-Southeast Far	XPO Logistics	Bayport North Industrial Park	115,284
Northwest Inner Loop	Dealer Tire LLC	Claymoore Business Park	109,756
Hwy290/Tomball Pkwy	Amazon	Beltway Crossing NW	100,000
East-South East Far	IKEA	Cedar Port Distribution Park *	996,482

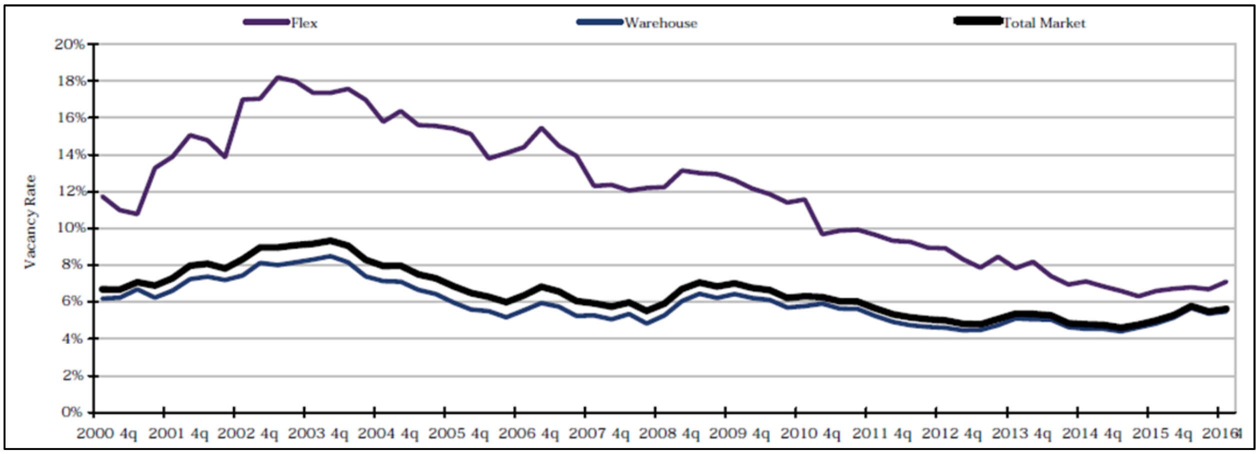
Source: CoStar

** Chambers County*

Vacancy/Absorption

CoStar’s 4th quarter 2016 report indicates vacancy for Houston’s industrial market went up sixty basis points year-over-year, to 5.6%. Flex projects reported vacancy of 7.1% at the end of 2016 versus 6.6% at the end of 2015 and 7.1% at the end of 2014. Warehouse projects vacancy rate was reported to be 5.5% at the end of the 2016 versus 4.8% at the end of 2015.

Vacancy Rates by Building Type



Source:CoStar

The local industrial market has recently shown signs of its positive net absorption losing momentum after having rapidly grown in recent years. CoStar stated net absorption for the overall Houston industrial market was positive, at 8,595,224sf for 2016, compared to 9,467,091sf for 2015.

Sales and Capitalization Rates

Interest rates are still relatively low and the region has institutional investors vying for newer well-positioned, higher occupancy properties. Per CoStar, "Total year-to-date industrial building sales activity in 2016 is down compared to the previous year. In the first nine months of 2016, the market saw 30 industrial sales transactions with a total volume of $263,343,500. The price per square foot has averaged $67.76 this year. In the first nine months of 2015, the market posted 39 transactions with a total volume of $408,803,819. The price per square foot averaged $88.57. Cap rates have been lower in 2016, averaging 7.08%, compared to the first nine months of last year when they averaged 7.26%."

Summary

The Houston warehouse sector remained active through 2016 with positive net absorption, increased rental rates, and vacancy remaining low. Cushman & Wakefield, in their US Industrial Snapshot Q4 2016, forecasts a decrease in overall vacancy by mid-year and new construction to continue to fuel activity. Looking forward to 2017, the Houston industrial warehouse income sector should stabilize with an anticipated moderate increase in value based on preliminary figures.

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 24 economic areas, with the highest concentration of development in the Texas Medical Center.

Despite the uncertainties surrounding the 2014 Patient Protection and Affordable Healthcare 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. If anything, the AHCA provided more access to healthcare for people previously not in the insured pool of patients.

New Construction

TransWestern, in their third quarter 2016 *Real Estate Outlook: Houston Healthcare Market*, report that there is currently almost 5M sf of hospital and medical office building construction underway. “Large institutional construction remains extremely active, while MOB construction projects are occurring in several growing submarkets such as the West, Northwest and Northeast. Memorial Hermann and Houston Methodist comprise over 3.0 million square feet of current projects under construction with more expansions planned.” Development is projected to remain strong.”

Texas Children’s Hospital, the world’s largest children’s hospital, recently announced details for a $506M expansion, adding six floors and 640,000sf to their Pavilion for Women. The University of Texas M.D. Anderson Cancer Center is spending $198M on a hospital expansion and renovation project to add 185,00sf. M.D. Anderson is also adding nine floors to the Alkek Hospital at a cost of $293M. Baylor College of Medicine with CHI St. Luke’s are building a $1.1B clinic and hospital with 420 beds in the TMC’s mid-campus, to be completed in 2019.

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

Memorial Hermann announced plans for a Convenient Care Center in Kingwood in northeast Harris County. The 45,000sf medical center is expected to be completed in mid-2017. Memorial Hermann completed construction in 2016 on another patient tower at its Katy campus location. The 155,555sf tower will almost double its current emergency department and operating room capacity and add 58 patient beds. The project is in phase two of its master plan, which originally began in 2007. Memorial Hermann also recently announced the purchase of a 32-acre parcel of land at 290 and Grand Parkway in Cypress, with plans to build a medical center with in-patient and out-patient capabilities. The $168M project began 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. Phase 2 will include completion of the hospital. 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.

Last year, TMC market area in Parc Binz opened in the Texas Medical Center, a 50,000sf 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. Parc Binz was 50% pre-leased with asking rents of $30psf.

At their Humble campus (northeast Houston), Memorial Hermann plans to build a five-story patient tower with 90 patient rooms. In the Woodlands in north Houston, Memorial Hermann is building a 176,000sf six-story medical office building. It also has a $14M expansion project scheduled for completion in southeast Houston.

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann - Medical Plaza 4	The Woodlands	173,000	Feb-17
Memorial Hermann Convenient Care Center	Northeast	45,000	Jun-17
Memorial Hermann Convenient Care Center	Tomball	30,000	May-17
Heritage Place II	Conroe	20,000	Apr-17
Altus Surgical Hospital	Near Southwest	15,000	Apr-17
Shadow Creek Ranch Professional Plaza I	South	101,000	Oct-17
Cypress Creek Lakes	290 Corridor	29,000	Dec-17
Total		**413,000**	

Source: Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann Cypress Medical Center	290 Corridor	321,000	May-17
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19
Memorial Hermann The Woodlands	The Woodlands	34,000	Sep-17
Houston Methodist	Texas Medical Center	1,000,000	Dec-17
Houston Methodist The Woodlands	The Woodlands	470,000	Jul-17
Houston Methodist West Campus	Far West	228,700	Jul-18
Houston Methodist Willowbrook	Tomball	25,000	Apr-17
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Mar-19
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19
Texas Children's West Campus	Far West	75,000	Jun-17
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18
Bay Area Regional Medical Center	Clear Lake	100,000	May-17
Ben Taub General Hospital	Texas Medical Center	140,000	Feb-19
Edith Irby Jones Healthcare Center	South	118,000	Feb-17
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17
Total		**5,176,800**	

Source: Revista, Transwestern

Sales

Houston's University General Hospital, which filed for bankruptcy in 2015, was acquired by Foundation HealthCare Inc. of Oklahoma City. The Foundation Surgical Hospital of Houston purchased 69-bed hospital at 7501 Fannin Street on the south side of the TMC. Healthcare Trust of America acquired seven properties in the TMS, including the 251,000sf building next to Tenet

Healthcare's Park Plaza on the north side of the TMC. In September 2016, it was announced that the O'Quinn Medical Tower & Baylor Clinic Building in the Texas Medical Center sold to Texas Children's Hospital, but the price and conditions were not disclosed. The Tower includes 445,772sf of office and clinic and the Baylor building is a 15-story with 227,670sf of rentable area.

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 safer investment vehicles than other property types due to their long-term leases, credit-worthy tenants, and stable income streams. Consequently, REIT's consider medical properties to be prime investments. MOBs 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. In addition, foreign investors have been acquiring investment grade real estate as a safe place to store and invest their equity.

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. According to Colliers International, 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.

Per Collier's 1^{st} half 2016 report, Class A asking rates of MOB space increase from $27.64psf gross from a year earlier to $28.23psf gross. Class B decreased from $24.78psf the previous year to $24.68psf gross. However, recently constructed MOBs range from $27 to $32psf NNN. Operating expenses range between $12 and $14psf of net rentable area per year.

Hospitals

According to the Texas Hospital Association (THA), there are 83 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 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 2015-16 list included several nationally ranked hospitals in Harris County either overall or in various specialties, including Houston Methodist Hospital, CHI St. Luke's Hospital, University of Texas MD Anderson Cancer Center, Menninger Clinic, TIRR Memorial Hermann, and Texas Children's Hospital.

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, 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.

The county's steady population growth has been a contributing factor to the increase in demand for new medical property development. The demand for senior care is particularly strong given the aging population of baby boomers. More than 426,000 (9.3%) of the 4,574,000 Harris County residents are 65-years of age and older. The percentage is expected to climb to 19.4% by 2030, according to the Texas Demographic Center.

Summary

The future looks bright for all property types in the medical segment for 2017. 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 healthcare 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.

The availability of financing remains healthy, particularly for senior housing and small medical office buildings, as more private investors, pension funds, REITs, and foreign investors 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 compressed and steady with values increasing as supply struggles to keep up with the rising demand.

Hotels and Motels

In preparation of Houston hosting the 2017 Super Bowl, new construction and expansion occurred, adding to the stable supply of hotel rooms in the area. Additional rooms were built to capture convention business, and new hospitality properties developed to service the recently built ExxonMobil's new campus in The Woodlands (north greater Houston.

For the 3rd Quarter of 2016, there were 91,426 hotel/motel/accommodation rooms in the greater Houston area, per Strategies in Source Strategies Inc. in their *Texas Hotel Performance Factbook 3rd Quarter 2016*.

Integra Realty Resources Houston in their 2017 Annual Viewpoint reports the hospitality transaction volume for the greater Houston area was $250M for 4Q 2015 to 3Q 2016. This was a

-71.9% drop in transaction volume compared to the $890M for 4Q 2014 to 3Q 2015. For the previous year, greater Houston ranked fourth highest in the nation's markets, behind only Orlando, Miami, and Boston. For the 12 months ending 3Q 2016, Houston ranked 45th out of 52 markets in transaction volume.

According to IRR, for 2017 the hotel industry in the US is expected to post a marginal 0.2% increase in occupancy to 66.1%. The Average Daily Rate is forecast to rise 4.3% to $130.63, with a RevPAR increasing 4.5% to 86.28. Demand growth is currently reported at 1.6% for 2016 and slowing, while supply growth was 1.7%, a new high for the last 8 years. Even though demand and supply growth were even last year, demand growth for 2017 is expected to be 2.1% while supply growth to be 1.9%.

For the South Region of the US, IRR quoted the Full Service national hotel average daily rate was $153.20, up from $147.65 per room the year before. The occupancy rate was 73.77%, up from 72.81% for 2015. The cap rate was 7.94%, up slightly from previous year's 7.86% but lower than 2014's cap rate of 8.34%. For Limited Service hotels, South Region, the hotel average daily rate was $100.84, occupancy 68.12%, and cap rate 8.78%. For the previous year, the average daily rate was $87.18/room, occupancy 66.26%, and cap rate 8.52% (down from 9.21% for 2014), according to IRR. Integra Realty Resources also noted, "

According to Marcus & Millichap's National Hospitality Group, the hotel industry has enjoyed almost 85 months of growth. "Healthy job growth has translated into continued demand for business and, more importantly, leisure travelers leading to strong ADR and RevPAR growth." Occupancy rates are leveling and hotel/motel owners will find it a challenge to attempt to sustain ADR growth.

Revenue

The total room revenue for the Houston-Baytown-Sugar Land area was $516.9M for 2016. This compares to $570.9M for 2015, a decline of -9.5%, per Source Strategies, Inc.

Room-Nights sold

Third quarter room-nights sold decreased by -0.4% state-wide in the 1st Quarter of 2016, increased by 2.5% for the 2nd Quarter, and declined -0.5% for the 3rd Quarter. In 2014, 4.8% more rooms sold than the previous year, and for 2015 it increased 0.6%. 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 was down -4.2%, after a 1.1% gain for the 2nd Quarter and -3.4% loss in the 1st Quarter. Annual gains in RevPAR for Texas were 8.1% for 2014 and 1.1% for 2015.

For the 3rd Quarter, Average Daily Rate for Houston increased from $106.92 to $108.78 for 2014 to 2015, but declined to $103.13 for 2016. RevPAR (Revenue per available room) for the Houston area went from $71.03 for 3Q 2015 to $61.47 for the same quarter in 2016.

Occupancy

Third quarter occupancy for 2016 reached 59.5% in the Houston area, down from the 65.4% in the 3rd Quarter the year before. Annual occupancy was 66.4% in 2014, 63.6% in 2013 and 62.5% in 2012. The long-term Texas average is 60%.

Room Supply

Room supply grew in Texas by 3.2% for the 3Q 2016, and except for the 3.1% room supply growth for 2Q 2015, this was the highest since 2010. For all of 2015, net supply gained 2.4%. With addition of new rooms through construction or property conversions, RevPAR levels are expected to continue to decline moderately.

Capitalization Rates

Capitalization rates are expected to remain constant over the next 12 months. The strong U.S. dollar may continue to limit the amount of travel foreign tourists can afford. The downturn of oil prices has increased disposable income to roughly $4,000 per adult consumer. This has fueled domestic tourist travel over the past year and increased revenues for affordable and suburban roadside hotels and motels and American tourist destinations.

Full Service Class A hotels will continue to see an effect from the downturn of oil price/activity as the large oil companies are adjusting to the new economics, and potentially cutting expenditures for executive travel, meetings and lodging.

New Construction

At least 40 hotels were either built or scheduled to be built during 2016 and 2017. There appears to be strong demand for nightly accommodations in the Texas Medical Center area.

IRR noted that Airbnb (largest worldwide booking agency in the world, for tourist to rent hosts/proprietors' residences while on vacation) is artificially creating a "new supply." The impact of this innovative accommodation booking system has yet to be defined. It is reported that hosts in New York City generated $1 billion in revenue in 2015.

Marriott Marquis - Houston First Corporation selected RIDA Development Corporation to build a convention hotel downtown. The 1,000-room hotel was developed on the block immediately north of Discovery Green and connects to the George R. Brown Convention Center via a skywalk. It has "a Texas-shaped lazy river, Houston's largest ballroom, a custom wine cave and the latest restaurant concept. The hotel broke ground in 2014, and opened in 2016.

Aloft Houston – Downtown- Aloft delivered its second Houston property Downtown at Fannin and Walker streets, opened in fall 2016. The hotel with 515 rooms was a redevelopment of the historic, 10-story Stowers Building, now known as the Aloft Houston by the Galleria.

Hotel RL Houston Downtown – Located at 1005 St. Emanuel St., "the 150-room Hotel RL Houston Downtown will make room for retail space, a signature restaurant, bar and meeting space." Construction is scheduled for completion in late 2018.

Intercontinental Houston Medical Center – This 21-story, 353-room hotel in the Texas Medical Center will include 11,800sf. of meeting space and a 7,80sf. ballroom. Slated to open late 2018. Developers are TRC Capital Partners and Medistar Corp. This project is located at 6750 Main Street.

Le Meridien – Downtown – The vacant, historic downtown office building, originally constructed in 2952, will be renovated to become an upscale hotel with a rooftop pool, outdoor sundeck, restaurant and bar. Originally the Melrose building, it is being redeveloped as a Starwood Hotel and Resort luxury brand hotel. It was Houston's first skyscraper, and is listed on the National Register of Historic Places. The 225 room, 21-story design has completion set for the fall of 2017.

South Shore Harbour Resort and Conference Center – A $15 million-dollar overhaul and refurbish, the 238-room property took nine months for the renovation, completed in mid-2016

Hotel ZaZa – Memorial City – Z Resorts partnered with MetroNational Corp to "bring the sophisticated boutique hotel brand to Memorial City at the intersection of Interstate 10 and Bunker Hill Road. It will have 158 rooms, 7 specialty suites, 22,000sf. of event and meeting spaces, outdoor pool with pool bar, ZaSpa, and fine dining restaurant. Scheduled to open in the fall of 2017.

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 was originally to be in time for the Super Bowl, but has been delayed until the mid-2017.

Additional Projects

Name	Address	Units	Built
Days Inn & Suites	10650 Huffmeister Rd		2016
Sleep Inn	Wilcrest Dr		2016
Staybridge Suites	9001 United Dr		2016
Home2 Suites by Hilton	N Texas Ave		2016
Woodspring Suites	5350 W Sam Houston Pkwy		2016
Holiday Inn Express	6175 E Sam Houston Pkwy	96	2015
Holiday Inn Express & Suites	9185 Gulf Fwy		2015
Hilton Garden Inn	160 Wagon Point Dr		2015
Palacio Royale Inn	1410 Cypress Station Dr		2015
America's Best Value Inn	13438 FM 529		2015
Palace Inn	8635 Gulf Fwy		2015
Towne Place Suites	5315 S Rice Ave	120	2015
Best Western Plus	353 E Louetta Rd	69	2015

Summary

Houston's hotel market had a noted decrease in revenue from the previous year. New construction anticipating continued economic and population growth, as well as changes in booking technology and consumer practice, reduced demand while increasing the supply of rooms. The Super Bowl provided a much needed and timely boost to the market. It is expected that new construction of hospitality properties will slow down as the area stabilizes with adjustments to the market.

Golf Courses

The National Golf Foundation reports that after a few years of moderate decline in rounds played, results show for 1st Quarter 2016, rounds and revenues are up 13.2% and 5.5% respectfully from the previous year. Comparing the 1st quarter of 2016 to 2015, in the South-Central region (TX, OK, AR, LA, MS), rounds played are up 17.1%, average temperature is up 4.1°, and precipitation is up 26%. So even with an increase in adverse conditions (heat, rain), rounds played were up significantly from the previous year.

During the "Tax Day Flood" in April 2016, about two-thirds of the 18-hole Raveneaux Country Club in Spring was under water. Other golf courses impacted minimally by the rain include the 36-hole Champions Golf Club, River Oaks Country Club, and Memorial Park Golf Course. As of January 2017, all these courses were operational except for planned renovation projects.

New Construction

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

At the beginning of 2016, the Houston Golf Association took control of the historic Gus Wortham Park Golf Course built in 1908, and have raised more than $7.4M with an additional $6M needed for a two-year restoration. The renovation will include a new 12,000sf clubhouse and conference center, a 6,000sf storage facility, additional maintenance facilities and offices, improve parking and accessibility, and upgrades to the golf course itself. Plans include setting up a maintenance endowment fund. This project is the first initiative of the HGA's The First Tee of Greater Houston. The Gus Wortham course will be run as a non-profit self-supporting business enterprise under the initiative. The course closed January 20, 2017 to begin Phase I of the renovation construction.

The 18-hole Houston Oaks Family Sports Retreat underwent a renovation, with rough shaping of holes, tree removal/transplanting, lake redesign, re-grassing, sodding, and irrigation control. The project was scheduled for completion in March 2016. There are preliminary designs for the next phase of real estate development located on 53 acres to the north of the golf course, called "The Links at Houston Oaks."

River Oaks Country Club (opened 1923) underwent a renovation including the building for three new golf holes, development of a comprehensive short game area, and replanting all services with Celebration Bermuda grass, including fairways, tees and roughs, completed in June 2015. It also included course layout reshaping, new cart paths, new golf shop and computerized irrigation system. An 8,400sf two-story pro shop and halfway house addition was constructed onto the existing 1920s club house.

Other golf courses undergoing renovation in the greater Houston area include the Moody Gardens Golf Course in Galveston County, Pearland Golf Club at County Place in Brazoria County ($2M, reopened late 2015), and Sugar Creek Country Club in Fort Bend County ($2M, under construction).

Industrial Property

Refineries

The price of crude oil has begun to rebound. On the first trading day of 2016, the price of West Texas Intermediate (WTI) was about $37 per barrel. It now stands around $52 (NYMEX; first trading day 2017). All other benchmark crudes have experienced similar price increases. The OPEC production restraint announced in late 2016 along with reduced tight oil (shale) production in the U.S. has allowed pricing to firm from the short-term lows of 2016.

Year-over-year crude runs at Gulf Coast refineries have slackened. The Texas Gulf Coast refinery average annual capacity utilization, as defined by the Department of Energy, for 2016 (data through October) was 87.0 percent compared to 91.7 percent for the same period in 2015. Texas Gulf Coast refineries reduced rates and scheduled maintenance outages as their margin environment weakened.
The Muse, Stancil U.S. Gulf Coast composite refining margin (*Oil & Gas Journal*) for 2016 is about 18 percent lower than it was for 2015. Through the first three quarters of 2016, Baker & O'Brien Inc.'s PRISM® cash margins for the Gulf Coast averaged $3.65 per barrel lower than the same period of the prior year. Another third-party subscription service also reflects a year-over-year decline in margin as well as a forecast for reduced refiner earnings in 2017 and 2018. It seems that forecasts reflect a market pessimism regarding earnings as global refining capacity outstrips product demand.

Specific Gulf Coast refining margins are mixed depending on refinery configurations, the types of crudes processed, and the degree of the distillate production compared to gasoline. Similarly, some refiners have associated retail outlets (to different degrees) and some do not. This has led to complaints about the RINs (Renewable Identification Numbers; the renewable fuels trading/compliance mechanism) market. RINs continue to have a sizeable impact on the merchant (a refiner with no, or minimal wholesale/retail fuels outlet) refiner's bottom line. Over the course of 2016, the price of a RIN increased over 50 percent from the prior year to roughly 8 cents per gallon. In the "grand scheme" the RINs process is supposed to hold the refiner neutral with the blend cost being passed on to the consumer at the retail pump. In short, the refiner that doesn't blend his product (because he has no retail outlet) with a renewable component must acquire a RIN to conform to the renewable fuels standard mandated by the EPA. To comply, he can buy that RIN from a wholesale/retailer who did the blending and generated the RIN "credit." Part of the complaint with this process is that outside market "participants" are trading, adding speculation, and generally interfering with the price of the RIN. Because of the significant cost (hundreds of millions of dollars) to some, this trading can artificially distort a refiner's "market" earnings.

The only significant new construction in the Harris County refining space for 2016 is Valero's crude expansion project. At an announced cost of $400 million, the project was completed and began operating in summer of last year.

In November, Tesoro Corporation announced its intent to purchase Western Refining Company. If the transaction closes, it will be very difficult to glean meaningful market data from the sale unless it is disclosed by Tesoro. As announced, it is a business acquisition comprised of 3 refineries (inland) and various logistics assets that appear to have been arranged at a specified price for the equity (stock) plus outstanding debt.

Chemicals

The chemicals industry is heavily dependent on auto manufacturing and home building and, as the economy goes, so goes the chemical industry. Retail sales for vehicles have been on the rise lately and it appears that the close of 2016 may be a record for new vehicle sales nearing 17.5 million units. Housing is still picking up as well with new construction up 12.9 percent in the south over last year with the latest figures from the census bureau.

Texas has been blessed with oil and natural gas fields that continue to be discovered, or through newer technologies, have been newly developed. The glut of natural gas that has hit the market in the last 5 years has caused a tremendous amount of new construction to process the gas. Around the state, there have been many proposed projects for building facilities to use the natural gas found in south Texas and along the East Coast. Cheap natural gas means lower raw material costs for many chemicals and possibly greater profit margins for their products.

Oil prices began cratering in 4Q14 and have begun a very slow rebound with prices going from the low $40s per barrel to the low $50s per barrel year on year. While this has made an impact on what is being paid at the pump, it may have a positive impact on the chemicals market that is dependent on oil-based feeds having the oil prices relatively low. The plants that will benefit from the drop in oil are the facilities that are flexible enough to take advantage of whichever feed is the cheapest. And while oil has dropped significantly from previously being over $100 per barrel, natural gas is likely to continue as the preferred feed product for chemical manufacturing for the near future.

In Harris County, there have been several announcements of increased capacity or new unit construction. LyondellBassell has increased capacity at their La Porte and Channelview facilities which completed in 2015. ExxonMobil and Chevron Phillips are building a new olefins plant at their facilities near Baytown that should be operational by late 2017 or early 2018. These projects have been delayed by about 8 months, but the plan is to complete them as soon as possible. The ethylene margins are not stellar currently and are likely to take a big hit once these facilities come online. This could mean that for 2018 and 2019 the economics of these units may become poor. This is especially of concern if foreign countries decide that they don’t want our plastics, or that they can get them cheaper for the Middle-East or Asia.

Operation rates specifically for olefins units have been steady and hovered above 90 percent on average through October of 2016, but slightly less than last year with a year to date operating rate at 92.1 percent through October. Oil prices appear to not have any effect on olefin unit run rates at this point, but oil is impacting the overall economy of Texas and the US which does impact profitability. It appears that 2016 may end up flat or down a little in production, but down in overall economics. All together this industry appears to have peaked for the 5-15 year cycle we are on and values will likely decline over the next few years especially with the impact of the massive new plants coming online in the next few years.

Chemical-related inventory volumes should be near the levels they were on January 1, 2016, and prices are up or down depending on the chemical. Value changes for most chemical facilities look to be down for commodity chemicals going into 2017 but may be down more for specialty chemicals that depend on oil-based feedstocks.

Utilities

Electric

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, natural gas), however the addition of wind projects and the transmission lines from West Texas built for these projects is negatively affecting power prices. Combining this with the very mild weather for the past year and it's no wonder why power prices have been so soft.

The Competitive Renewable Energy Zones (CREZ) initiative was adopted by the Public Utility Commission of Texas (PUCT) in April 2008, with a $5 billion plan to add transmission infrastructure to move electricity from wind farms in West Texas to markets in the North, South, and Houston zones. Wind energy has zero fuel cost and is a clean alternative to burning hydrocarbons. However, many of the wind farms in Texas began production between 2004 and 2007 and will be losing their 10-year federal tax incentives which allow windfarms to sell power at negative prices (loss of ~20 dollars per Megawatt) and the federal government to make up the difference. When the government incentives go away, the wind power producers must bid in at positive costs making the average price for electricity higher but this has not yet happened.

What has been typical recently is the proposal to install peaker capacity. Electricity producers have been testing the waters in different areas of the state looking for options to build new capacity only for the summer and winter months where the price gets high enough to justify running. These units are significantly cheaper than a combined cycle natural gas plant or a coal fired plant though they are not as efficient, but when you are running less than 10 percent utilization, efficiency is not a concern. While many peakers have been proposed around the state, no movement has been made to build them yet.

Older power plants will continue to be permanently shut down and abandoned. 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 in previous years. Unfortunately, that appears to no longer be the case any longer and the old stationary boilers are near their true end of life.

Most the power in Harris County is from cogeneration facilities that produce both steam for an adjacent facility as well as power. If the power prices are affected up or down, it will impact the value of the facility, but the steam will help offset the impact. Steam prices typically track with the price of natural gas, and while natural gas is stable the value of these older Cogen facilities will not be significantly impacted up or down.

Natural Gas

Natural Gas Distribution utility companies are always requesting that regulators allow them to charge higher rates to their customers, resulting in higher returns to pay for the cost of expansion when needed, repair storm damage at times, and maintain reliable service overall. However, the main goal of regulators is to make sure gas distribution companies remain operational while keeping service costs as low as possible, in return for the monopoly power given to these companies over designated service areas. Because both revenues and expenses tend to be held in line with this process, the values of property owned by these natural gas distribution businesses tend to be rather stable. Other factors that augur well for continued healthy future demand for utility services are: a) the nation's population appears to be on a steady upward growth course; b) limited practical alternatives exist for consumers seeking a steady supply of natural gas; and c) natural gas supplies in this country are abundant thanks to proficient drilling and extraction technologies. Unseasonably warm or cold weather can always cause substantial volatility in quarterly operating results; however, companies strive to counteract this exposure through long-term oriented temperature-adjusted rate mechanisms. For 2017, the values of businesses in this sector are expected to reflect confidence in the continued improvement in the nation's economic outlook. An improving job market and housing sales also underpin solid revenue growth and earnings potential.

Telecommunications

Most telephone companies in addition to the traditional land lines have a thriving cell phone business which currently is the most profitable portion of the communications sector. For the traditional portion of telephone utilities, the number of phone lines in the United States continues to decrease. Many people are dropping traditional phone lines for internet phone services or have chosen to carry just cellular phones. In 2013 (latest available data) 42 percent of adults in the South live in homes without a traditional wired telephone which is down 2.5 percent from 2003. 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. AT&T has lost approximately 80 percent of its POTs service due to the move to cell phones and VoIP. Bundling packages that include voice, internet, and television programming over some phone systems still cost more to provide than the revenue it generates. Traditional telephone property across the state is expected to continue declining over the next few years. It should be noted that all telephone calls, including cell calls, are still directed through the traditional telephone switching system,

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

The wireless companies will be very cautious with heavy spending since the future technology referred to as 5G is being worked on. Currently, 5G is under development and will take a while before it is completed and rolled out. It is unclear if 5G will be exclusive or inclusive technology so uncertainty remains.

Wireless communications carriers' expenditures on infrastructure will decrease in 2017 as the major cellular carriers have already deployed the next generation of wireless technology referred to as LTE (Long Term Evolution). However, to meet increased demand for mobile data and internet traffic, the carriers will have to add equipment to keep up with the demand which is growing exponentially. The new equipment includes the Hetnet concept of small cells, DAS (distributed antenna system) and WIFI equipment working in conjunction with the cellular towers to increase capacity.

Replacement costs for voice and data equipment will continue to decrease with design and manufacturing improvements. Overall, value for cellular companies increased 7.49 percent in 2016 over 2015. The value increase represents a heavy investment on part of Verizon and T-Mobile in deploying LTE and associated equipment to meet its data demand. The older generation equipment 2G, 3G & 4G (2^{nd}, 3^{rd} & 4^{th} Generation) will experience expedited obsolescence due to the efficiencies of the current LTE devices. Depreciation on existing plant assets will continue to outweigh new construction and this trend should continue for the foreseeable future.

Data centers will probably experience slow growth due to the slowdown in the energy sector. The data centers business has rapidly developed in Harris County within the past few years. There are several new data centers that were completed in 2015 and 2016 that are on line currently. This increase in capacity (available space) will probably prompt more competition among the data centers. However, the development of new data centers will probably slow until the current capacity is absorbed. Many companies are choosing to host in data centers as compared to building their own centers because of the high cost of infrastructure and equipment associated with this business.

Fiber Optic long distance transmission carriers' will see only continued depreciation for 2017. The increase in data demand has been a positive for the communication industry as the older underground cable is getting better utilized. There is the possibility of major consolidation with CenturyLink looking to purchase Level 3 Communications if approved by FCC. There have been new cable deployments happening in most major metro cities.

A few tower companies are also getting into the business of acquiring and installing fiber for selling small cell spaces to major carriers. The fiber installation is done within cities with heavily populated areas where the demand is great or expected to grow. This fiber installation includes connecting utility poles (light poles, traffic signals etc.) and commercial buildings for small cell, WIFI and DAS (Distributed Antenna System).

Manufacturing

Texas factory activity increased in December according to business executives responding to the Texas Manufacturing Outlook Survey, which polls businesses on whether key indicators of activity have increased, remained the same, or decreased from the previous month. This survey is conducted monthly by the Dallas Fed. Survey responses are used to calculate an index for each indicator. The production index, a key measure of state manufacturing conditions, ended the year at 13.8, after Texas factory activity increased for the sixth straight month in a row in December. This index was at 12.7 for December 2015, seasonally adjusted. Overall, perceptions of broader business conditions are improving over 2016. The utilization capacity, finished goods pricing, and future company outlook indices are all the highest they have been since the petrochemical industry took a downturn in the end of 2015.

Commercial Personal Property

Per the International Monetary Fund, after a lackluster outturn in 2016, economic activity is projected to pick up the pace in 2017 and 2018, especially in emerging market and developing economies. However, there is a wide dispersion of possible outcomes around the projections, given the uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications. Goldman Sachs' Chief Economist Jan Hatzius expects global growth will accelerate to the top end of the 3-3.5 percent range that's prevailed for the past five years, largely driven by a positive impulse from financial conditions in the US and parts of the emerging world.

Texas is the best state for business in 2015, according to a survey by Chief Executive Magazine of the U.S.'s top CEOs. Texas has taken the top spot every year since the beginning of the survey in 2005. Key factors in the ranking include taxation and regulation, workforce quality and living environment. With a strong economy and growth prospects, Texas is a national leader in attracting and cultivating business.

According to the U.S. Bureau of Labor Statistics, the cost of consumer goods and services as measured by the Consumer Price Index for All Urban Consumers (CPI-U) rose 2.1 percent in Houston from December 2015 to December 2016. The Harris County commercial personal property of general personal, dealer inventory, transportation, and multi/leasing accounts tax base increased approximately 3.53 percent for the tax year 2016. It is anticipated that this sector will show a minimal change for 2017 as the Houston economy continues slow growth.

The Houston Retail market did not experience much change in market conditions in the fourth quarter 2016. The vacancy rate went from 4.8 percent in the previous quarter to 4.9 percent in the current quarter. A total of 49 retail buildings with 1,474,467 square feet of retail space were delivered to the market in the quarter, with 3,180,565 square feet still under construction at the end of the quarter.

The Houston Office market ended the fourth quarter 2016 with a vacancy rate of 15.1 percent. The vacancy rate was up over the previous quarter, with net absorption totaling negative (240,794) square feet in the fourth quarter. A total of 14 buildings delivered to the market in the quarter totaling 100,714 square feet, with 3,976,899 square feet still under construction at the end of the quarter.

The total value of the leased asset component of commercial personal property increased 1.62 percent in the tax year 2016. The value for this sector may increase slightly for 2017 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 299,461 vehicles in 2016, a 20.5 percent drop from 376,481 vehicles in 2015, per TexAuto Facts, published by InfoNation, Inc. of Sugar Land. December 2016 sales totaled 24,066 vehicles, a 12.4 percent drop from 27,478 vehicles sold the same month last year. The December reading marks 12 straight months of over-the-year declines for automobile sales in Houston. Weakened demand pushed vehicle prices lower in the Houston area in 2016. InfoNation forecasts a slight increase next year with sales projected to reach 308,500 vehicles.

Unlike business vehicles, dealer inventory values are directly tied to vehicle sales and should see a decrease for 2017 because of sluggish sales. The tax base for business vehicles for the tax year 2016 increased by 7.053 percent from 2015. The value for this sector, however, is expected to show less growth for 2017.