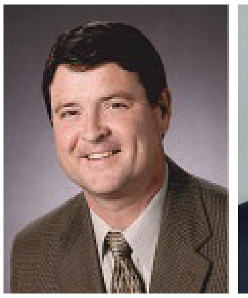
O'Connor & Associates Industrial Forecast



Tom Lynch

Blake Warren

Speakers: Tom Lynch-CBRE; Blake Warren-Stream Realty Partners

BY RAY HANKAMER
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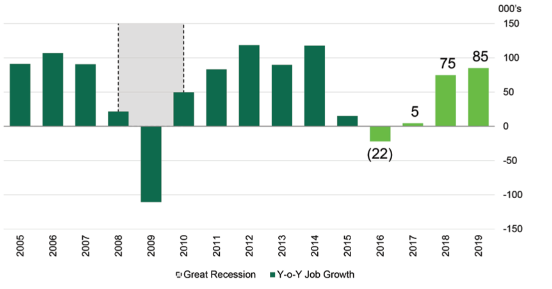
Takeaway: Industrial vacancies in Houston overall are so low that Houston is the envy of most other markets in the country: 6% average vacancy over last ten years. In spite of vigorous new delivery of product all around Houston, absorption is strong, especially in NW and SE, with some weakness (believed to be temporary) in North-IAH sector. Houston is healthy and Industrial is very bullish.

- Lots of economic drivers will keep industrial strong
- Only 10% of Industrial deals since 2011 have been energy-driven, a testament to Houston's multiple economic drivers
- Ironically Wall Street still thinks Houston will have real estate bankruptcies but instead we continue to grow, giving local private investment a chance to take advantage of the best opportunities
- With the south side of our ship channel providing twenty-five miles of developable sites, we have a unique situation not matched anywhere in the world
- Some cities have 2 or 3 economic engines-we have 5 or 6
- 70% of our industrial product was built in the 80s or before, so moving forward we will have demand for new state-of-the-art product, and absorption prospects for it look good
- The industrial sector has been responsive to the slowdown and end of the cycle, so there is not a large overhang of unleased space
- In the SE sector shovel-ready industrial land values have doubled in recent few years from $3 SF to $6 SF
- Overall demand for rail-served sites is shrinking, but those industries that have to have it, have to have it, so where it is available it is valuable
- Projected ongoing demand and absorption is strong across the Houston Metro area
- Needs for local distribution to local population drive location and product type-the closer a facility can be to the end user, the lower the transportation costs
- Since 2012, 24 million SF of new industrial projects have been delivered or under construction and this new product is already 72% leased when taken as a whole

UH IRF JOB 2017 FORECAST REVISED UPWARD
THE WORST MAY BE BEHIND HOUSTON



Source: BLS, Institute for Regional Forecasting, November 2016.

CBRE 9 HOUSTON Q2 MARKET OVERVIEW

FASTEST GROWING U.S. METROS
HOUSTON INCOME GROWTH RANKS SECOND OVER 45 YEARS

Annualized % Income Growth		
Rank	Metro Area	Annual Growth Percent
1	Phoenix	8.5
2	Houston	8.3
3	Dallas-Fort Worth	7.9
4	Atlanta	7.9
5	Riverside	7.8
6	Denver	7.7
7	Miami	7.6
8	San Jose	7.4
9	San Diego	7.3
10	Seattle	7.2

Source: Moody's Analytics, UH IRF, Q3 2016.

JOB GAINS

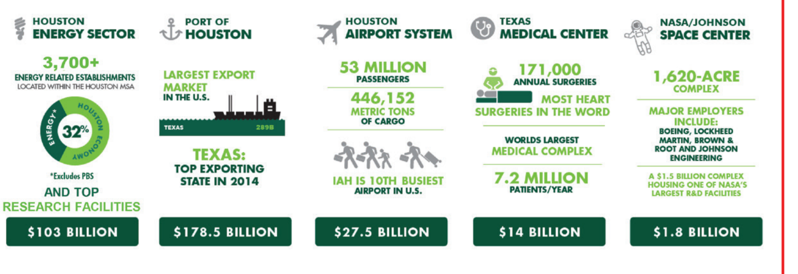
- Houston on track to add about 200,000 jobs through 2020

ECONOMIC EXPANSION

- GMP projected to grow by $60 billion through 2020
- Houston Med Center and downstream petrochemical manufacturing remain key economic drivers

CBRE 4 HOUSTON Q2 MARKET OVERVIEW

HOUSTON'S OTHER ECONOMIC DRIVERS
O&G IS IMPORTANT, BUT IT ISN'T THE WHOLE STORY



Houston is situated at a confluence of industry, technology, logistics, and demographics for long-term economic growth and stability.

Source: CBRE Research, Greater Houston Partnership, 2016.

CBRE 11 HOUSTON Q2 MARKET OVERVIEW