



CBRE's "What to expect in 2017, given a year of the unexpected." Jan. 31

RANDY MCCASLIN, CBRE MANAGING DIRECTOR, HOTEL MARKET:

- "Hoteliers are smiling this week," says McCaslin
- 2017 will be the Year of Transition
- Expect demand to increase, while supply is reaching its peak. This "will cause a little bit of a dip in 2017" but Super Bowl LI "is helping," says McCaslin
- 2018-2020 supply & demand should rebalance. "It's the light at the end of the tunnel," jokes McCaslin
- Possibly 29,000 new employees in 2017
- New hotels that popped up due to Super Bowl LI are mainly downtown, but spread throughout Houston, "which is good. We need that absorption," says McCaslin.
- The sweet spot for hotels being built is a 65-68% occupancy rate. And Houston is definitely above that rate.
- "Lenders are very scared of Houston, but it's good because it allows things that haven't been financed to be financed."

HAL HOLLIDAY, CBRE CAPITAL MARKETS, HOUSING MARKET:

NATIONAL HOUSING MARKET

- Describes the current, national housing market as a healthy one
- Banks down nationally 9% because conservatism and management
- Life companies down nationally about 3%
- "Interest rates themselves are terrific," says Holliday about national interest rates
- Takeaways: (1) "Capital is absolutely plentiful" (2) Near consensus "can sometimes worry me... but investors will want to own apartments by the end of 2019." However, you'll want to develop early

HOUSTON HOUSING MARKET

- Houston's housing market is "certainly adequate" with "ample financing"
- "With the two 'down' years, we've done quite well," says Holliday
- 626,000 units total, with an 88.5% occupancy rate, so 89.9% is stabilized
- With Class A properties, "some select properties are raising rent"
- Class Bs are "great deal of the sales in the market"
- "The apartment market has fared better than we thought," says Holliday
- "Leasing is seasonal...All eyes are on Spring leasing....Q4 is always the weakest"
- 15,000 units are under construction

LUCIAN BUKOWSKI, CBRE OFFICE TENANT REPRESENTATIVE, OFFICE MARKET

- Volume in the market. Where is it? Where's it going? (1) The lack of energy demand "may fall to mid-40%" (2) Average deal size is a lot smaller in 2016. Adding that the "numbers don't add up." (3) Volume decreases in terms of square footage (4) take note on high-quality subleases
- Subleasing space is big in the office market. Noting that "sublease space peaked, but now it's falling"
- Bukowski compares "this cycle to post-Enron"
- "Rates may slip little further, little faster, but it could bounce back quickly," says Bukowski
- Expect recovery in 2018

Bukowski has received a lot of (more so than usual): Is now the right time to buy? Has it bottomed out? Companies are "just waiting," says Bukowski. Adding that the time to buy is dependent on a company's assets.

FARON WILEY, CBRE, INDUSTRIAL MARKET

- Oil & gas industries no longer a headwind
- Vacancy rates: 5.5%. "Most people would kill for 5.5% & we've had it this whole time."
- 2016 was good for industrial
- Ecommerce is big in the industrial market
- Theme for 2017 will be companies, like IKEA, coming in. "Handful of big-box retailers rolling out warehouses... & they've got to be close to the people," says Wiley
- "These guys, I think, will prefer Northwest/West Houston... maybe even North," says Wiley
Although NW Houston land is "reasonably priced...the submarket has lots of vacancies"
- Houston is "not being a high-beta market... We're a lot more resilient than people would think," says Wiley
- Warehouses making smaller footprints for companies. Possible average: 3,000-6,000 SF

JAZZ HAMILTON, CBRE, RETAIL MARKET

- "Retail, I think, was healthy in 2016. I think it will remain that way," says Hamilton. "There is consumer optimism"
- Riverstone and Aliana in Houston are both master stores at the top of the national list
- Rate of people moving to Houston "may decrease next year, but it will still be positive," says Hamilton
- National holiday sales: ~ \$260 billion. Hamilton pointed that out because Houston is third, only to New York and Los Angeles
- (Houston) 4 million SF absorbed in 2016. 3.9 million SF delivered in 2016
- Expect strong rent growth in 2017
- Super Bowl LI will have strong impact in 1Q 2017, with a lot of the impact coming from the retail market
- (1) Total Wines & More will continue to open up stores (2) HEB is doing urban concepts, which are smaller (3) Audi is expanding, & "very accepted by this market"

- **2017 TRENDS**

(1) high-end barber shop wars are coming back (2) dine-in movie theatres are increasing (3) curb-side delivery, “consumers are getting lazier,” which is good for companies, jokes Hamilton. Some stores include: Lowes, Home Depot, Target (4) Urban Retail: reuse, refurbish. The Heights and Montrose area are following this trend. “& they’re really pushing the price on rent” (5) Companies putting products into warehouses to save costs (see industrial market about warehouses). Hamilton told his audience how recently he went to Lowes & Home Depot for a washing machine, and didn’t pick it up in the store. Instead, it was delivered to him.

- Entertainment groups in Houston are “becoming more active”

ROBERT KRAMP, CBRE DIRECTOR OF RESEARCH & ANALYSIS – CLOSING REMARKS

- “Texas is going to be a state to keep eyes on, because of our trading,” says Kramp
- Kramp also notes his excitement for Texas Central’s high-speed rail. “It really positions Texas to compete on a global scale.” (Look for REDNews’ March issue for an exclusive on Texas Central!)

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