

The Houston Commercial Real Estate Markets: *What's Ahead for 2016*

Breakfast Forum



December 10, 2015

Real Estate Market Overview

Jimmy Hinton
HFF



Disclaimer

Forward-Looking Statements

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Industry and Market Data

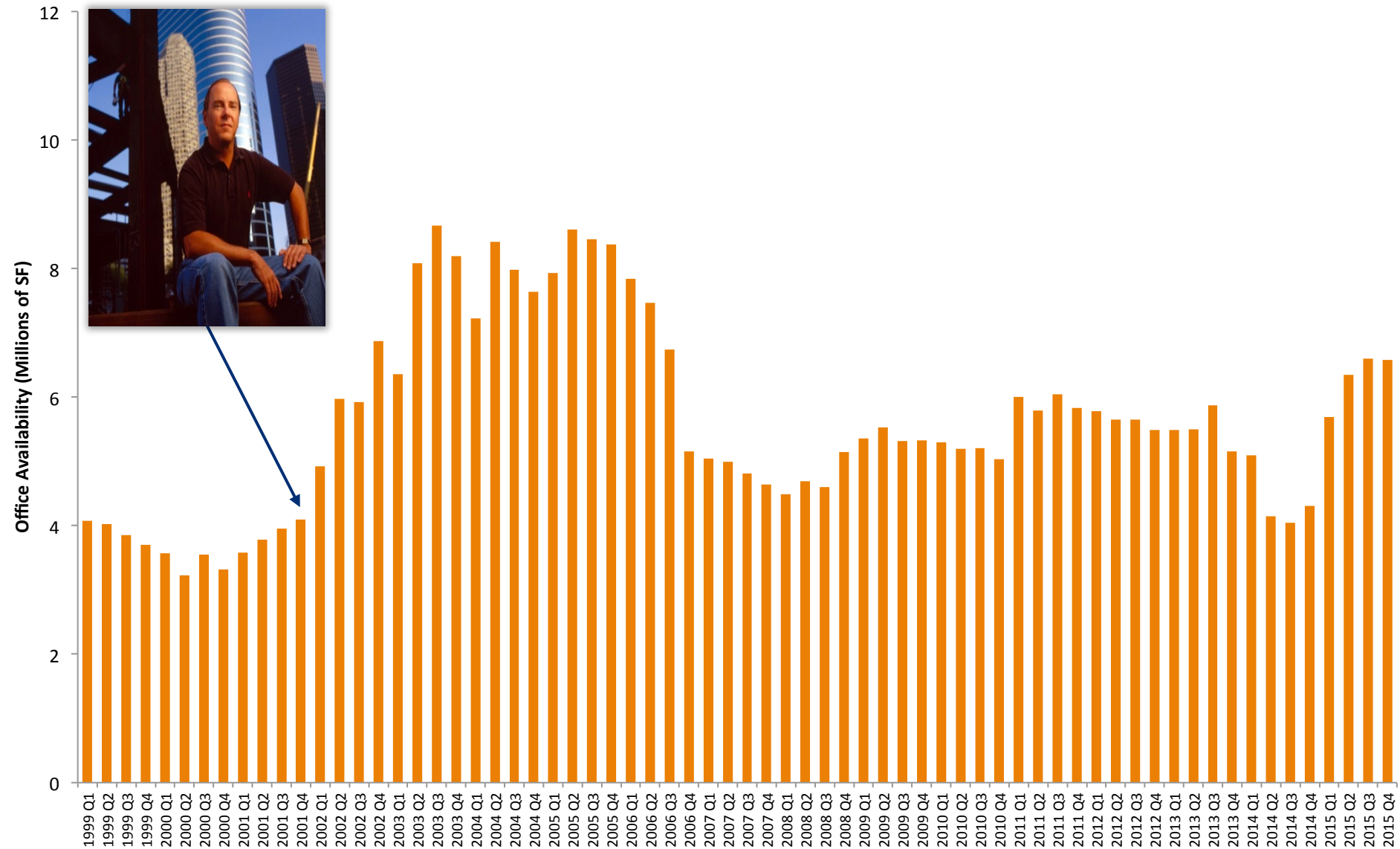
In this presentation, we rely on and refer to information and statistics regarding economic conditions, trends, and our market in the sectors of that market in which we compete. In particular, we have obtained general industry information and statistics from certain third-party sources. We believe that these sources of information and estimates are reliable and accurate, but we have not independently verified them.



December 2001 – Bankruptcy



December 2001 – Start Of A Four-Year Hangover

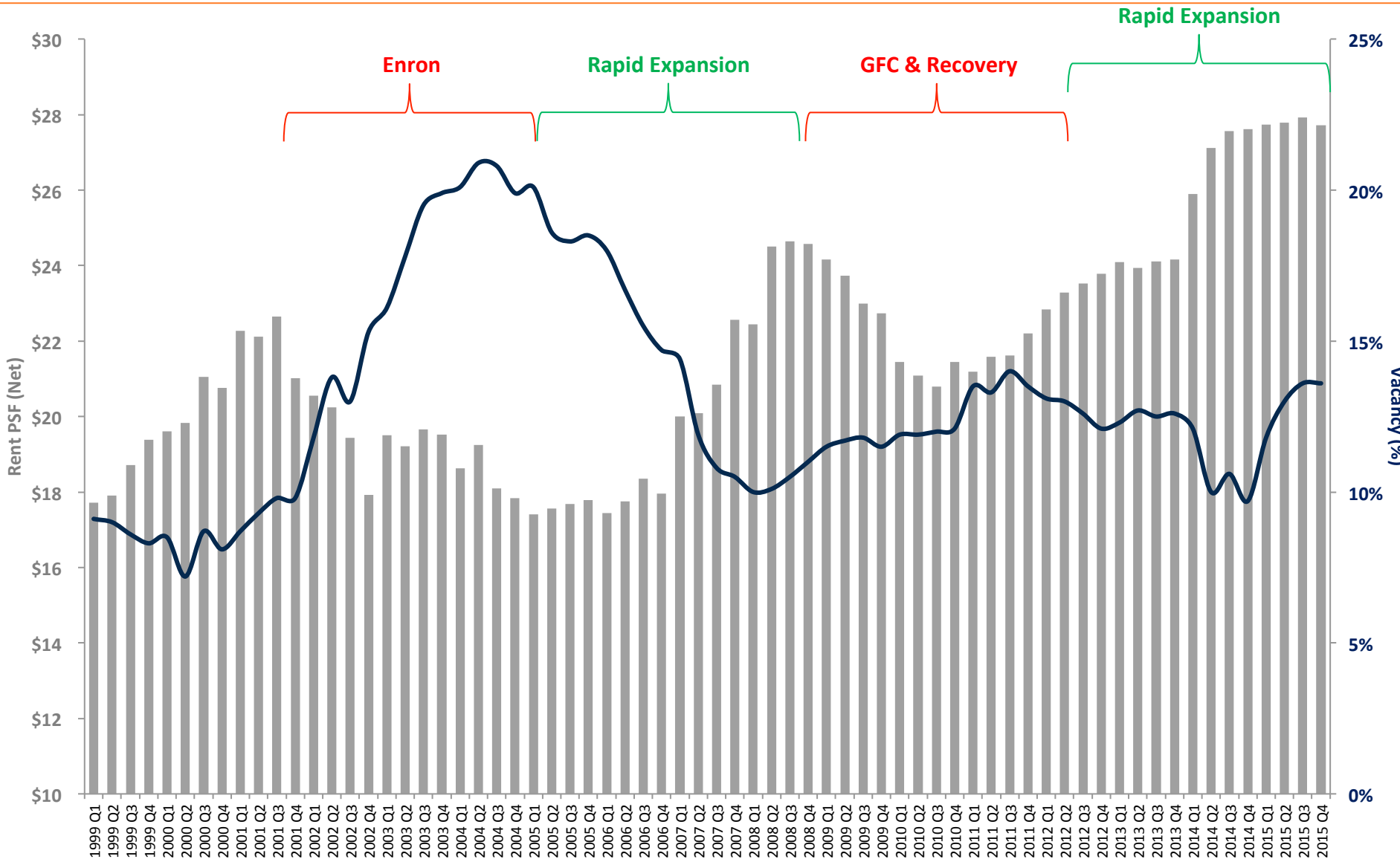




Late 2005 – Clouds Begin To Part



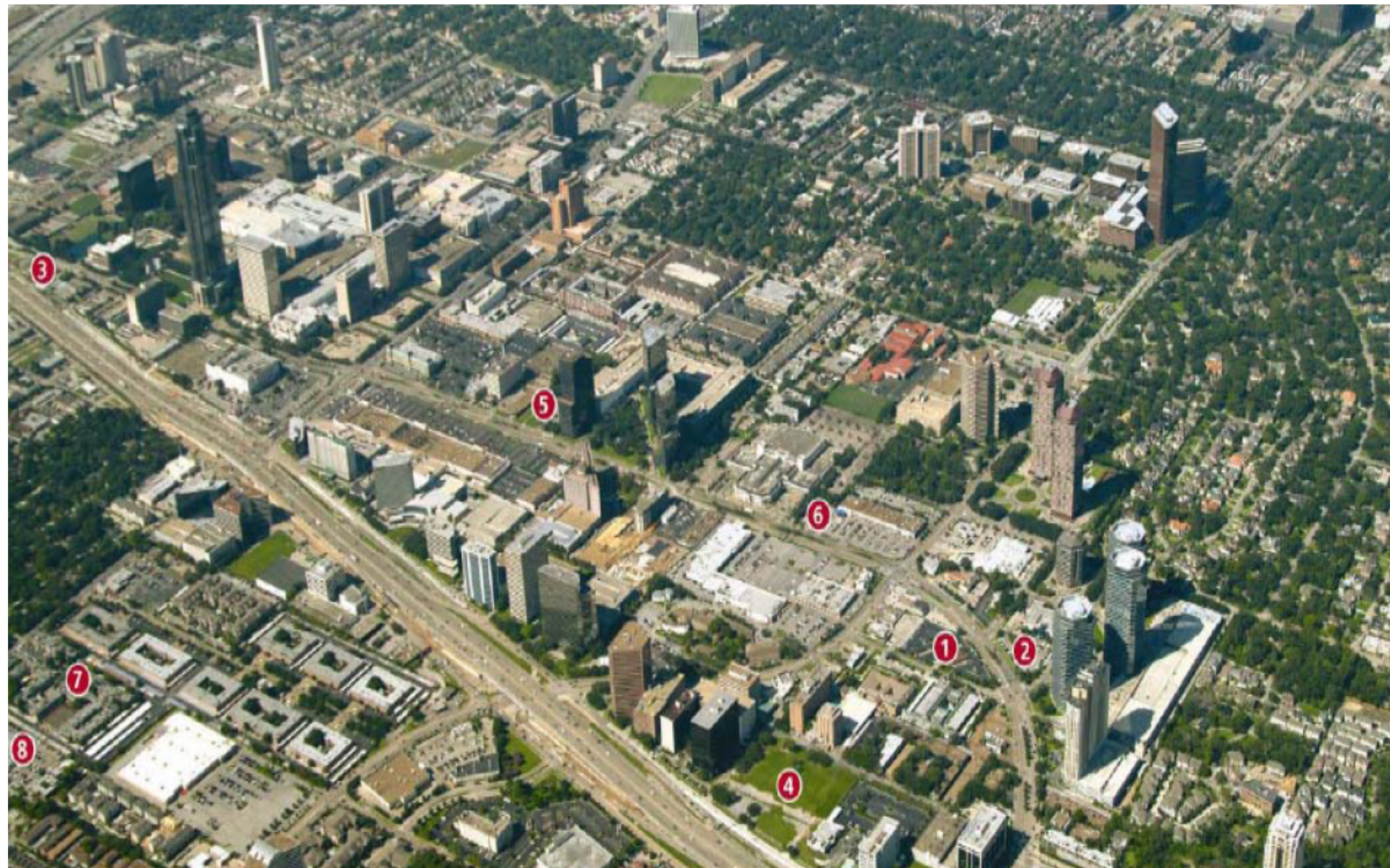
2005/2006 – Vacancy Tightens, Rents Expand



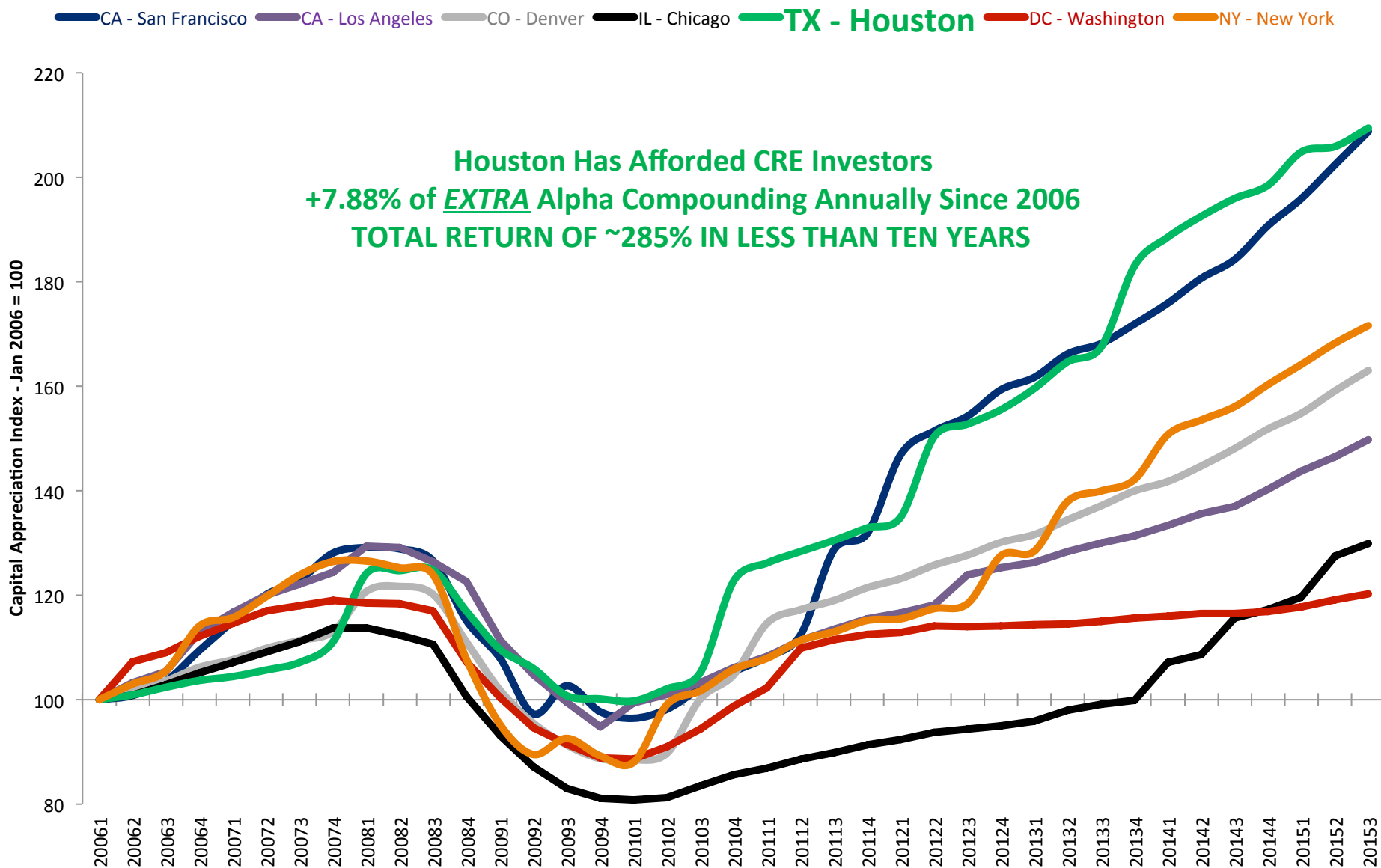
Bear Stearns Sold For \$2/Share



“Governing Event” Prevented Overheating Prior To GFC

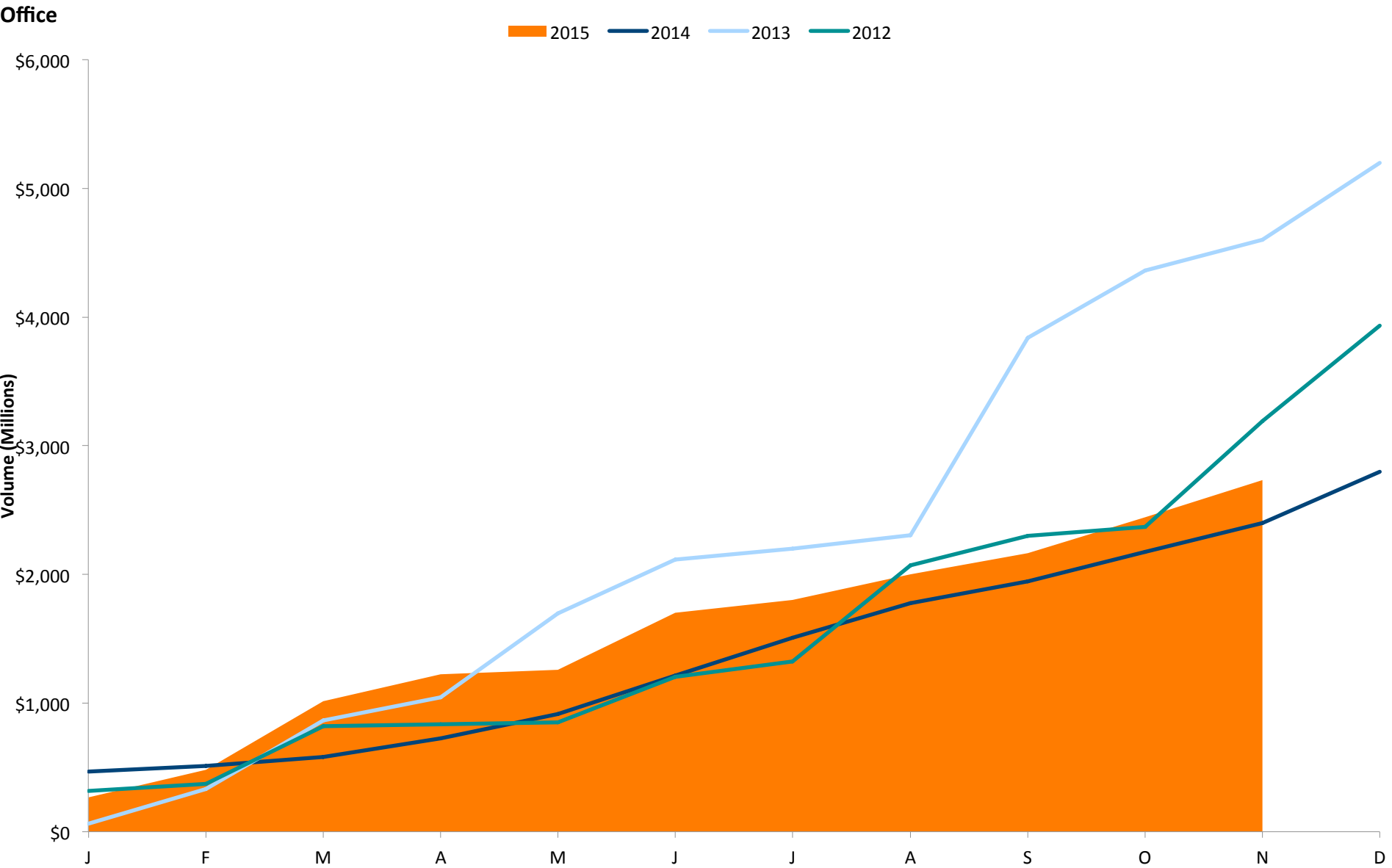


Shallow Correction + Parabolic Expansion = Outsized Returns



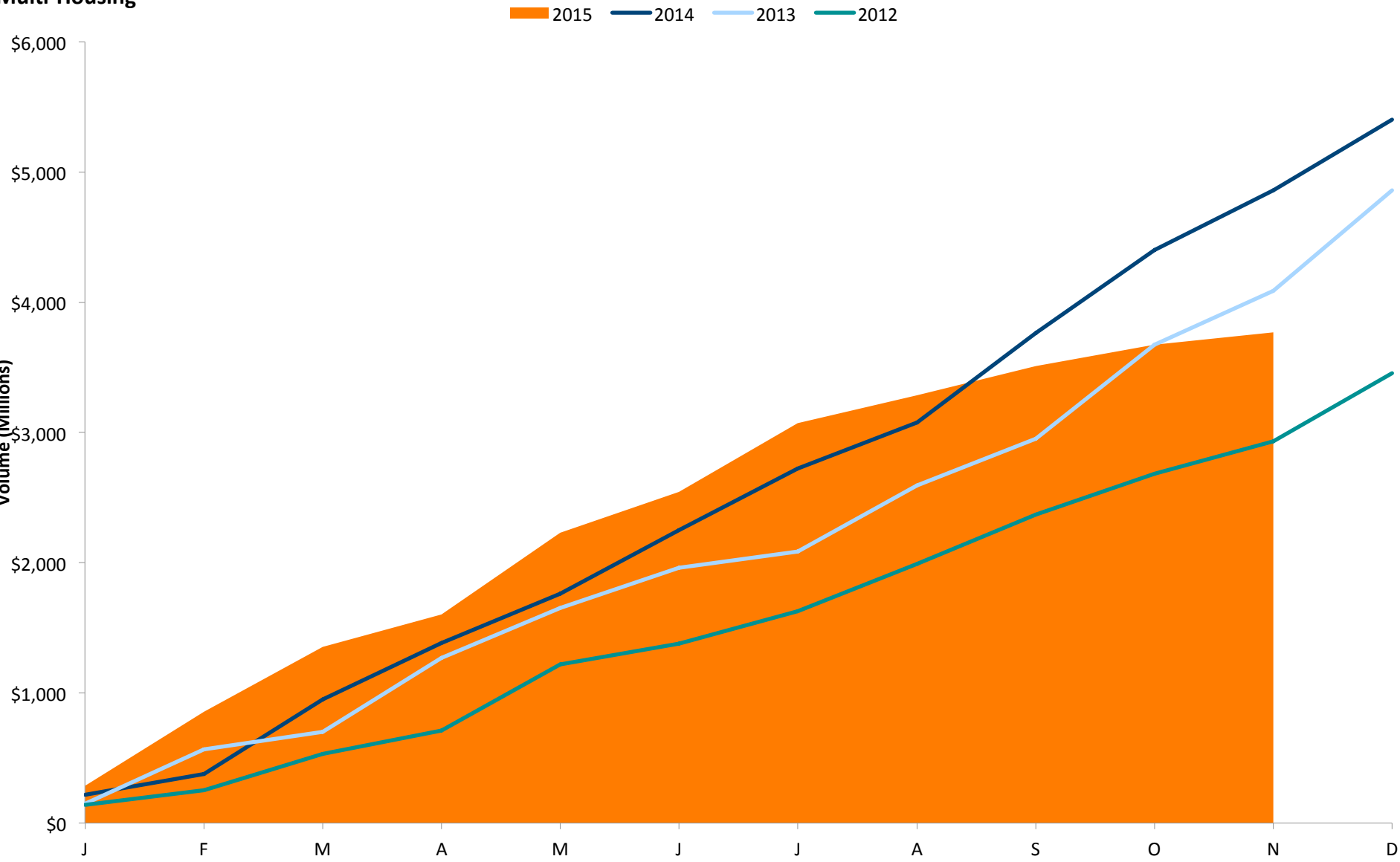


Office



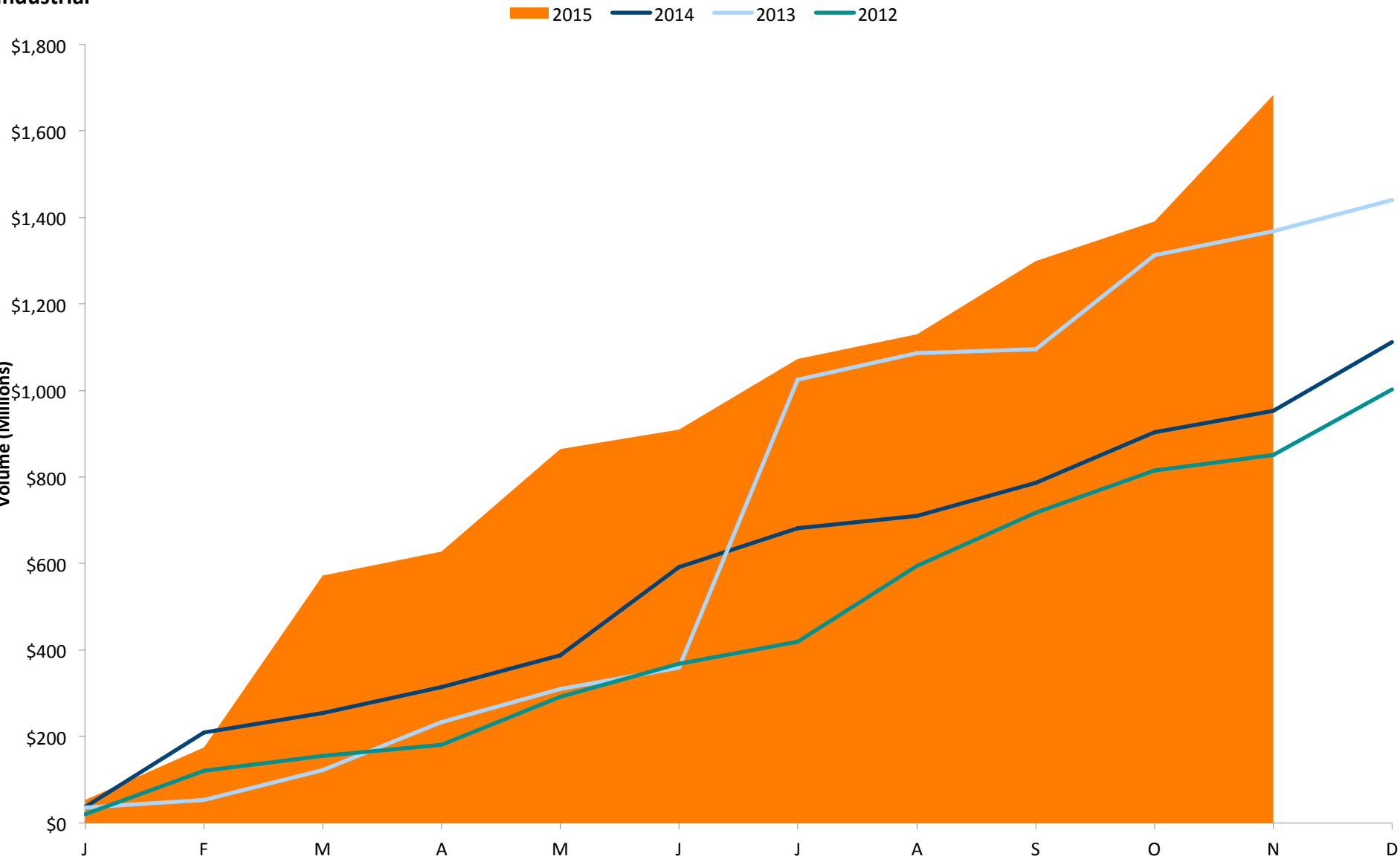
Multi-housing

Multi-Housing

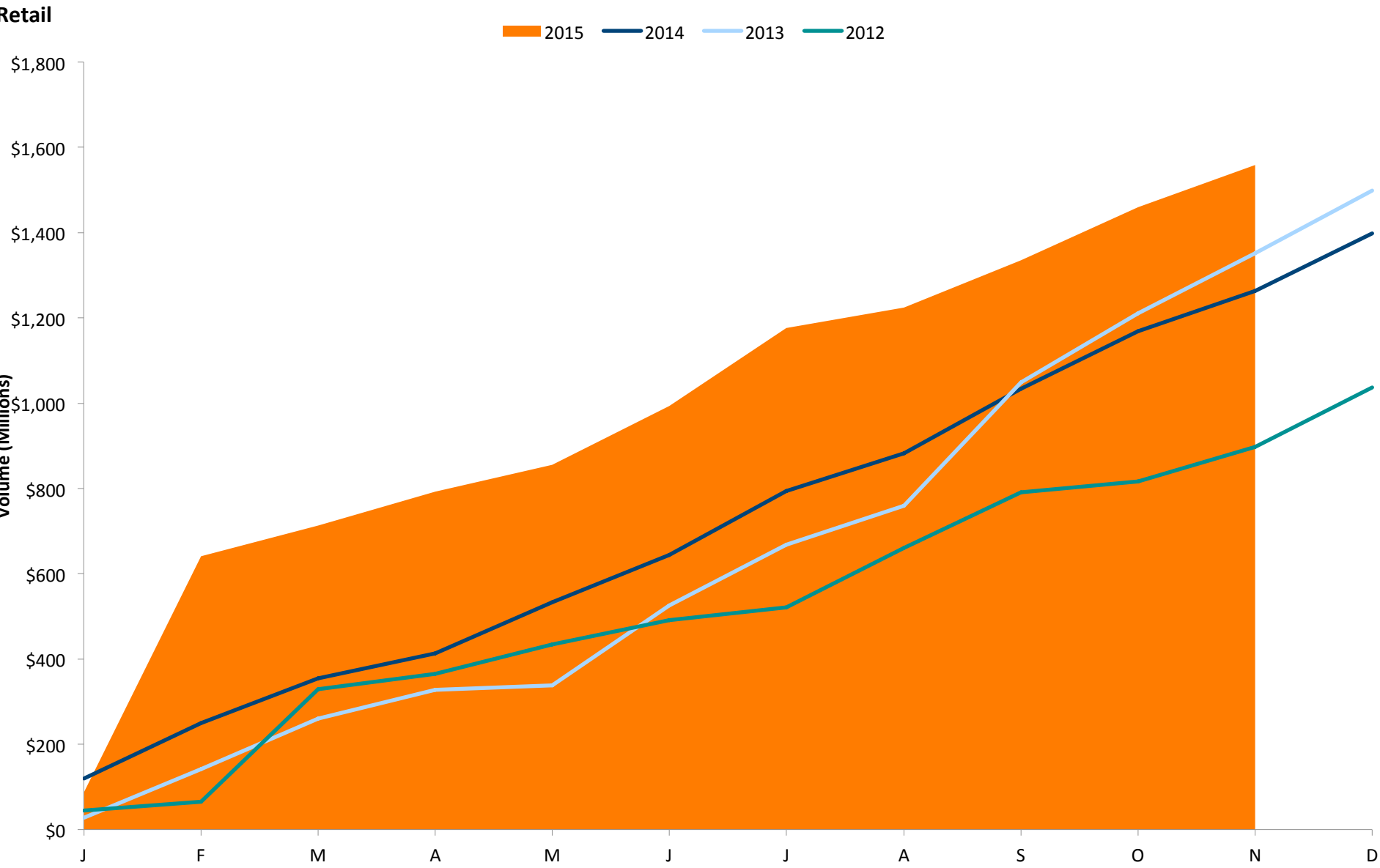


Industrial

Industrial



Retail

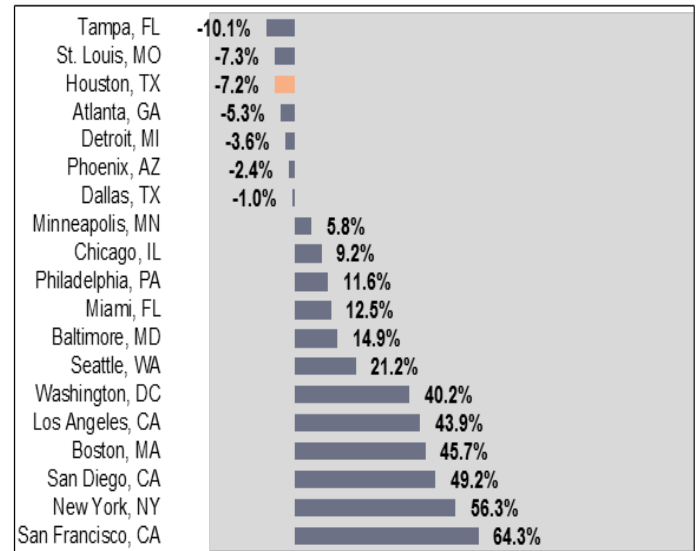


Retail

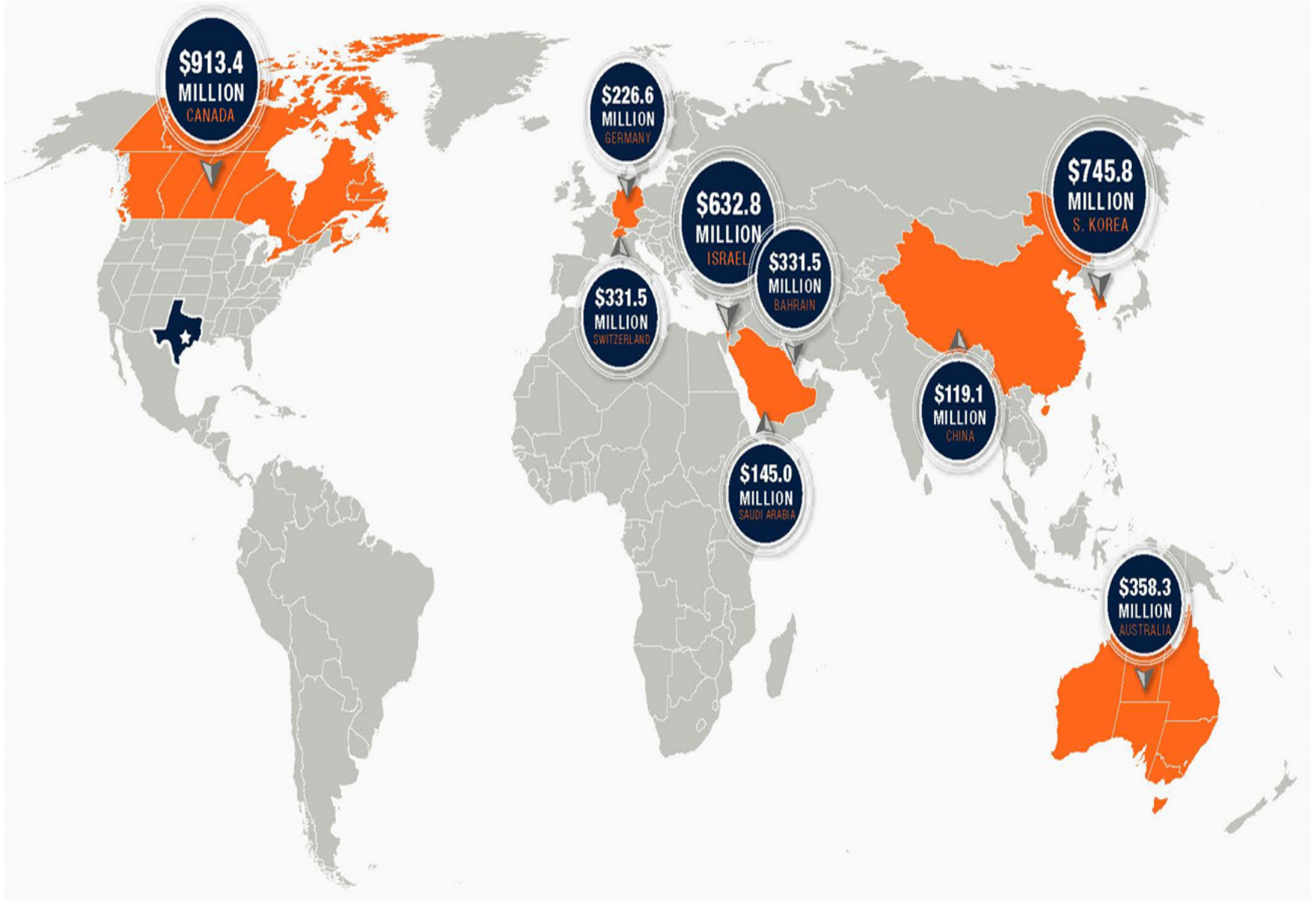
Metropolitan Average Annual Earnings Adjusted for Cost of Living and Home Values		
Rank	MSA Name	Adjusted Ave Annual Earnings
1	Houston-The Woodlands-Sugar Land, TX	\$62,136
2	San Jose-Sunnyvale-Santa Clara, CA	\$56,147
3	Detroit-Warren-Dearborn, MI	\$55,950
4	Hartford-West Hartford-East Hartford, CT	\$54,590
5	Dallas-Fort Worth-Arlington, TX	\$54,497
6	Atlanta-Sandy Springs-Roswell, GA	\$53,922
7	Cleveland-Elyria, OH	\$53,841
8	Pittsburgh, PA	\$53,726
9	Cincinnati, OH-KY-IN	\$53,405
10	St. Louis, MO-IL	\$53,115
11	Charlotte-Concord-Gastonia, NC-SC	\$52,508
12	Birmingham-Hoover, AL	\$51,710
13	Kansas City, MO-KS	\$51,460
14	Memphis, TN-MS-AR	\$51,339
15	Boston-Cambridge-Newton, MA-NH	\$50,373
16	Columbus, OH	\$50,369
17	Chicago-Naperville-Elgin, IL-IN-WI	\$50,351
18	Nashville-Davidson--Murfreesboro--Franklin, TN	\$50,168
19	Austin-Round Rock, TX	\$50,154
20	Minneapolis-St. Paul-Bloomington, MN-WI	\$50,117
21	Indianapolis-Carmel-Anderson, IN	\$49,790
22	Oklahoma City, OK	\$49,771
23	Seattle-Tacoma-Bellevue, WA	\$49,514
24	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	\$48,976
25	Louisville/Jefferson County, KY-IN	\$48,807
26	Milwaukee-Waukesha-West Allis, WI	\$48,341
27	Denver-Aurora-Lakewood, CO	\$48,287
28	Washington-Arlington-Alexandria, DC-VA-MD-WV	\$48,102
29	Buffalo-Cheektowaga-Niagara Falls, NY	\$48,071
30	New Orleans-Metairie, LA	\$47,956

Metropolitan Average Annual Earnings Adjusted for Cost of Living and Home Values		
Rank	MSA Name	Adjusted Ave Annual Earnings
31	San Antonio-New Braunfels, TX	\$47,837
32	Rochester, NY	\$47,660
33	New York-Newark-Jersey City, NY-NJ-PA	\$47,649
34	Jacksonville, FL	\$47,230
35	Raleigh, NC	\$47,164
36	Richmond, VA	\$47,002
37	Grand Rapids-Wyoming, MI	\$46,480
38	Phoenix-Mesa-Scottsdale, AZ	\$46,281
39	Tampa-St. Petersburg-Clearwater, FL	\$45,826
40	Baltimore-Columbia-Towson, MD	\$45,184
41	San Francisco-Oakland-Hayward, CA	\$45,082
42	Portland-Vancouver-Hillsboro, OR-WA	\$44,451
43	Salt Lake City, UT	\$43,857
44	Sacramento--Roseville--Arden-Arcade, CA	\$43,254
45	Miami-Fort Lauderdale-West Palm Beach, FL	\$42,976
46	Las Vegas-Henderson-Paradise, NV	\$42,960
47	Providence-Warwick, RI-MA	\$42,827
48	Orlando-Kissimmee-Sanford, FL	\$42,463
49	Tucson, AZ	\$42,264
50	Virginia Beach-Norfolk-Newport News, VA-NC	\$42,226
51	San Diego-Carlsbad, CA	\$37,395
52	Los Angeles-Long Beach-Anaheim, CA	\$35,691
53	Riverside-San Bernardino-Ontario, CA	\$34,040

COST OF LIVING COMPARISONS (U.S. Average = 0)



Global Capital Seeking Houston

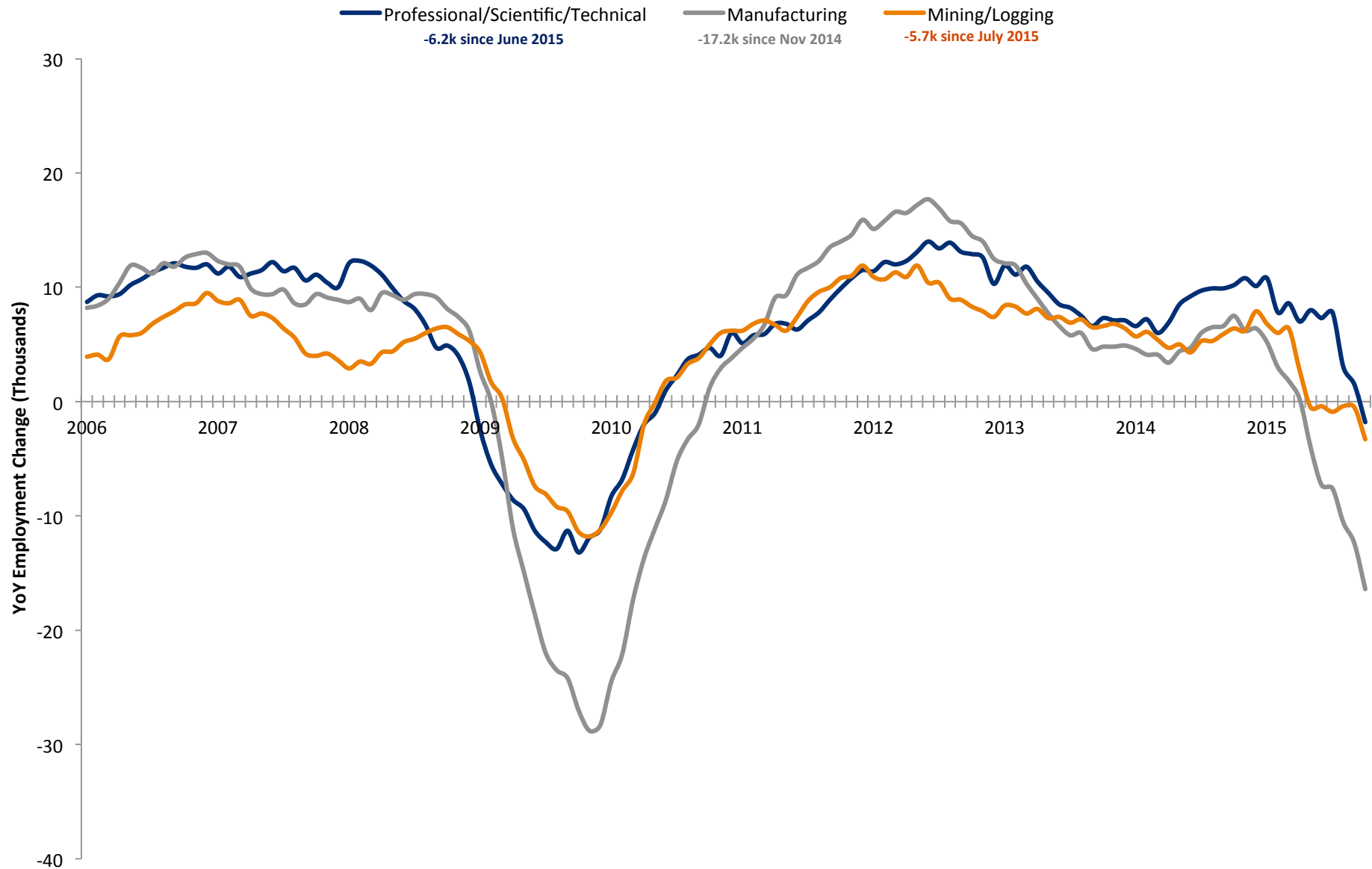




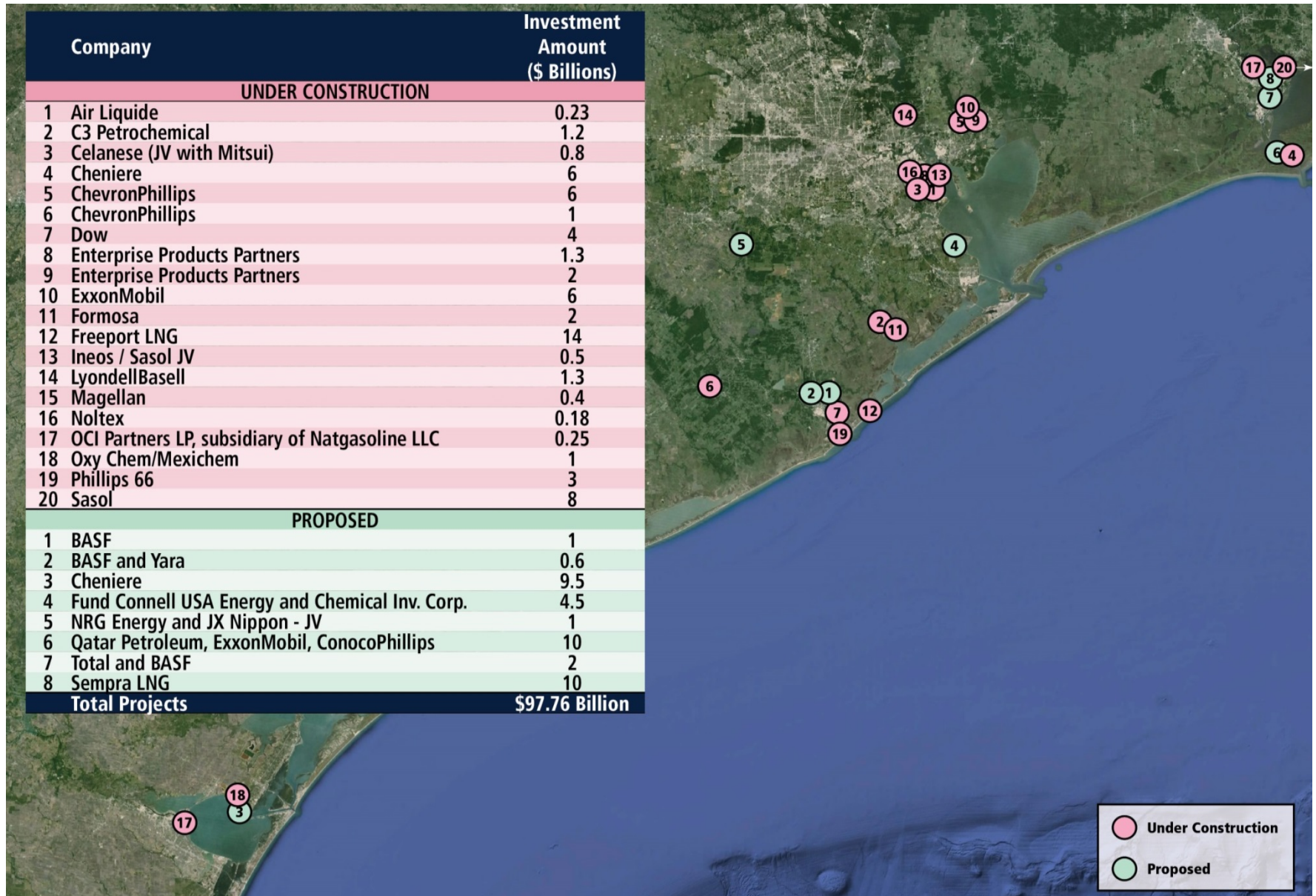
HFF®

What To Expect

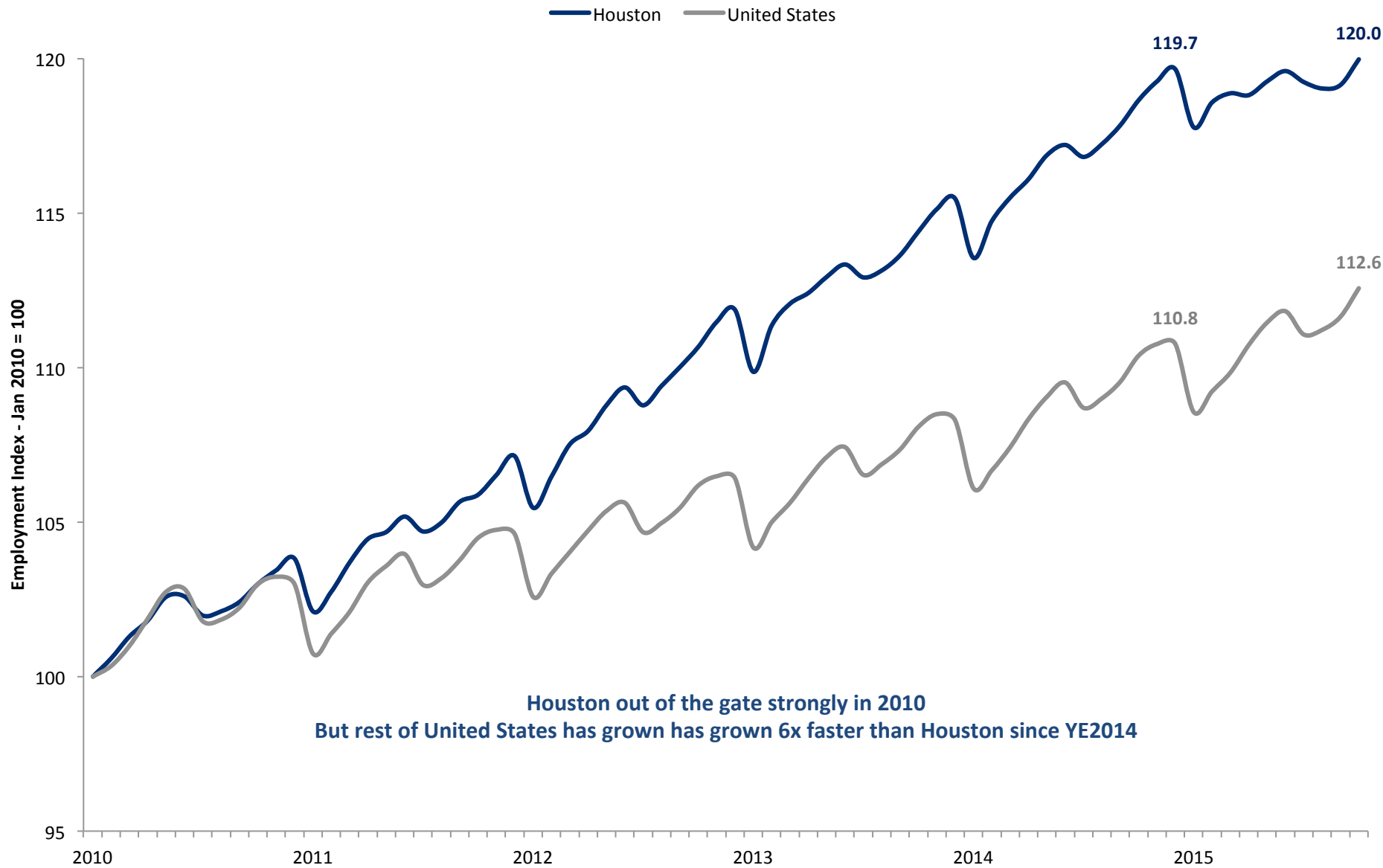
Concentration Of Layoffs



Petrochemical Industry



Relativity – Growth Since Bottom



Relativity – Are Things That Bad?

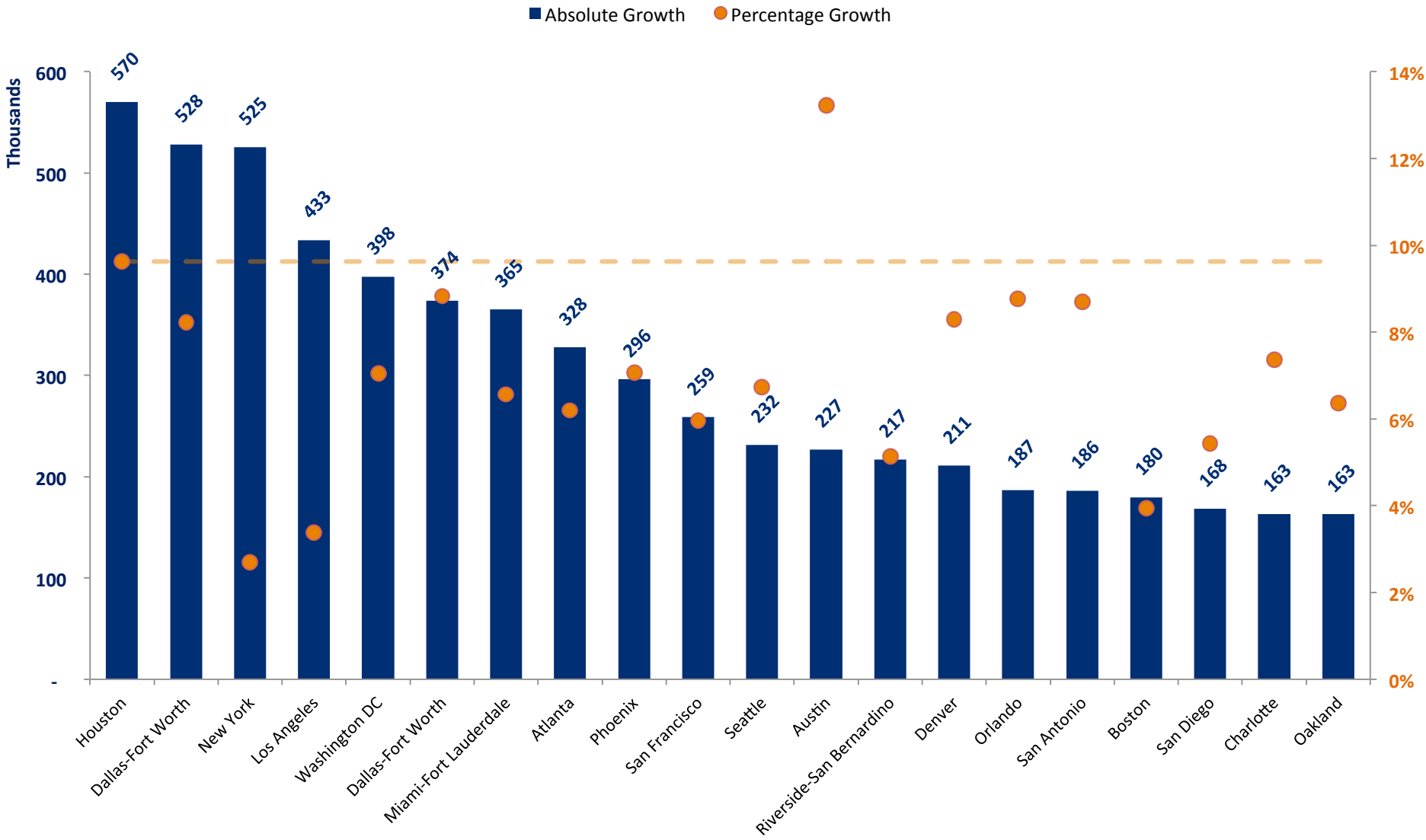
RANKINGS (by Absolute Growth)

Rank	Metropolitan Statistical Area	Total Jobs		Total Change		Rank	Metropolitan Statistical Area	Total Jobs		Total Change	
		October 14	October 15	Absolute	Percent			October 14	October 15	Absolute	Percent
	National	141,000,000	143,739,000	2,739,000	1.94%		National	141,000,000	143,739,000	2,739,000	1.94%
1	New York-Northern New Jersey-Long Island	9,245,800	9,402,900	157,100	1.70%	26	Philadelphia-Camden-Wilmington	2,816,500	2,848,100	31,600	1.12%
2	Los Angeles-Long Beach-Santa Ana	5,798,800	5,925,100	126,300	2.18%	27	Las Vegas-Paradise	895,100	926,100	31,000	3.46%
3	Dallas-Fort Worth-Arlington	3,324,700	3,423,100	98,400	2.96%	28	Indianapolis-Carmel	1,007,800	1,036,100	28,300	2.81%
4	Atlanta-Sandy Springs-Marietta	2,539,900	2,628,000	88,100	3.47%	29	Columbus	1,026,000	1,051,600	25,600	2.50%
5	San Francisco-Oakland-Fremont	2,217,700	2,292,000	74,300	3.35%	30	Nashville	891,300	916,600	25,300	2.84%
6	Washington-Arlington-Alexandria	3,138,900	3,206,000	67,100	2.14%	31	Cincinnati-Middletown	1,054,800	1,076,500	21,700	2.06%
7	Seattle-Tacoma-Bellevue	1,869,200	1,926,300	57,100	3.05%	32	Salt Lake City	665,800	686,800	21,000	3.15%
8	San Jose-Sunnyvale-Santa Clara	1,020,800	1,074,300	53,500	5.24%	33	Sacramento-Arden-Arcade	899,300	920,300	21,000	2.34%
9	Miami-Fort Lauderdale-Pompano Beach	2,454,900	2,507,600	52,700	2.15%	34	Cleveland-Elyria-Mentor	1,048,000	1,068,300	20,300	1.94%
10	Chicago-Naperville-Joliet	4,559,600	4,611,300	51,700	1.13%	35	Kansas City	1,029,300	1,048,100	18,800	1.83%
11	Boston-Cambridge-Quincy	2,621,200	2,672,000	50,800	1.94%	36	Louisville-Jefferson County	638,900	654,200	15,300	2.39%
12	Phoenix-Mesa-Scottsdale	1,883,700	1,932,000	48,300	2.56%	37	Pittsburgh	1,177,200	1,191,300	14,100	1.20%
13	Riverside-San Bernardino-Ontario	1,306,400	1,349,600	43,200	3.31%	38	St. Louis	1,331,700	1,345,400	13,700	1.03%
14	Orlando	1,123,400	1,166,400	43,000	3.83%	39	Oklahoma City	624,400	637,200	12,800	2.05%
15	San Diego-Carlsbad-San Marcos	1,364,400	1,404,600	40,200	2.95%	40	Jacksonville	629,200	641,900	12,700	2.02%
16	Detroit-Warren-Livonia	1,920,400	1,959,100	38,700	2.02%	41	Newark-Union	1,194,900	1,205,600	10,700	0.90%
17	San Antonio-New Braunfels	958,800	996,900	38,100	3.97%	42	Milwaukee-Waukesha-West Allis	855,800	865,700	9,900	1.16%
18	Portland-Vancouver-Hillsboro	1,091,300	1,128,400	37,100	3.40%	43	Virginia Beach-Norfolk-Newport News	753,200	762,500	9,300	1.23%
19	Tampa-St. Petersburg-Clearwater	1,220,100	1,257,200	37,100	3.04%	44	Hartford	572,400	581,400	9,000	1.57%
20	Charlotte-Gastonia-Rock Hill	1,084,800	1,120,500	35,700	3.29%	45	Raleigh-Cary	568,700	577,400	8,700	1.53%
21	Denver-Aurora-Broomfield	1,362,600	1,397,300	34,700	2.55%	46	Providence	575,800	584,200	8,400	1.46%
22	Minneapolis-St. Paul-Bloomington	1,919,500	1,953,700	34,200	1.78%	47	Buffalo-Niagara Falls	562,900	570,600	7,700	1.37%
23	Baltimore-Towson	1,359,600	1,393,100	33,500	2.46%	48	Richmond	635,400	641,600	6,200	0.98%
24	Houston-Sugar Land-Baytown	2,967,500	3,000,600	33,100	1.12%	49	Memphis	621,100	624,400	3,300	0.53%
25	Austin-Round Rock-San Marcos	924,300	956,400	32,100	3.47%	50	New Orleans-Metairie-Kenner	566,500	567,100	600	0.11%

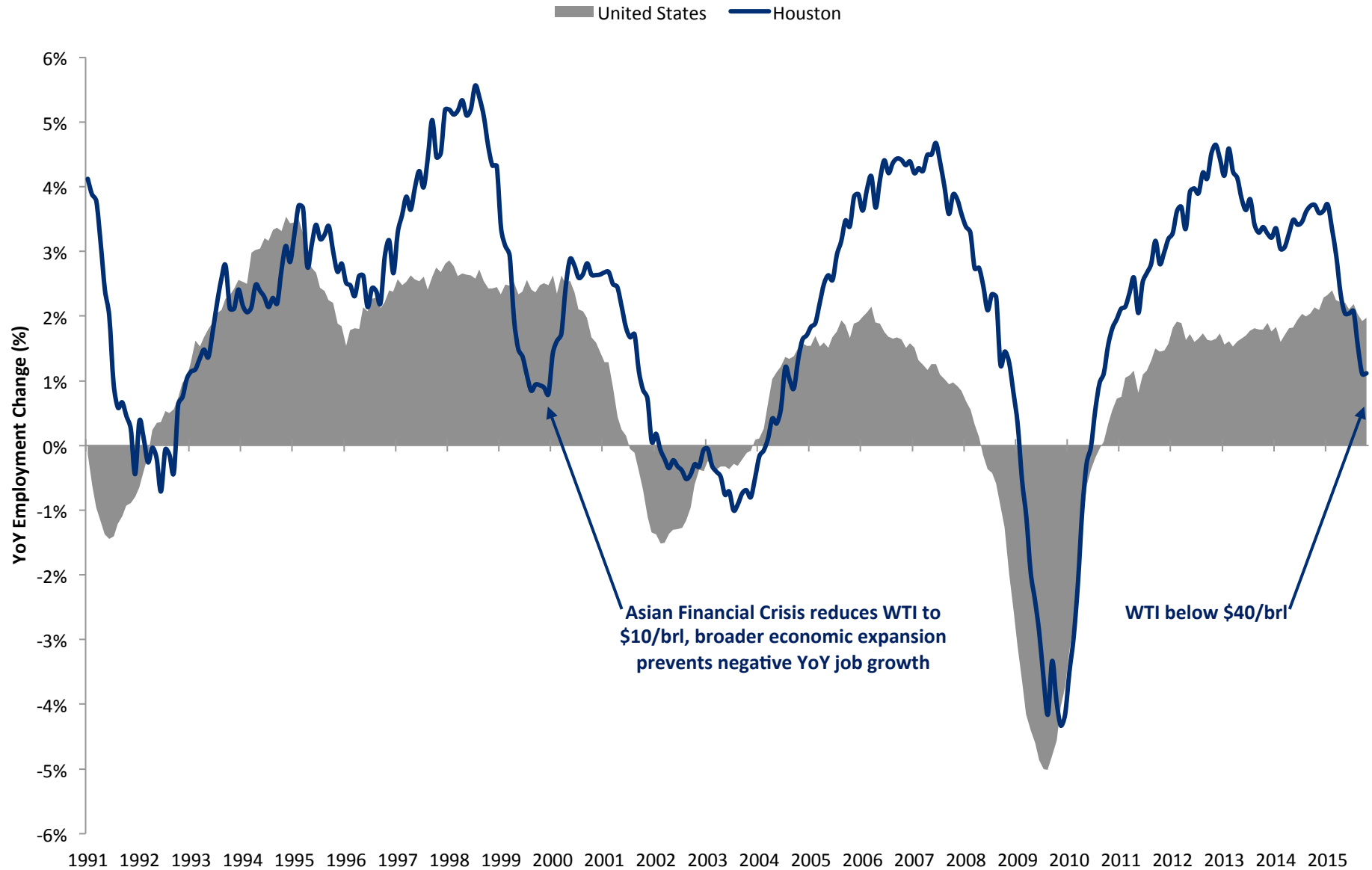
YE Employment Growth Prediction



Population Growth – Embrace It!



“Party Like It’s 1999”



Retail & Office Markets/ Mixed-Use Development

Jonathan Brinsden
Midway



THE HOUSTON COMMERCIAL REAL ESTATE MARKETS – WHAT'S AHEAD FOR 2016

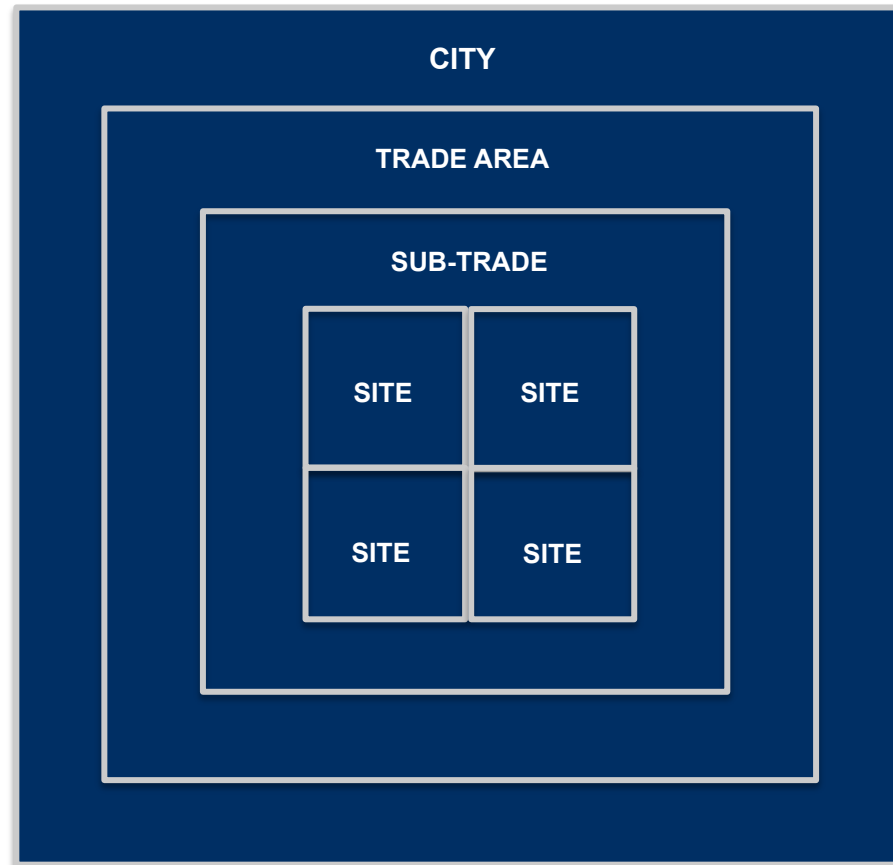
DECEMBER 10, 2015

MIDWAY

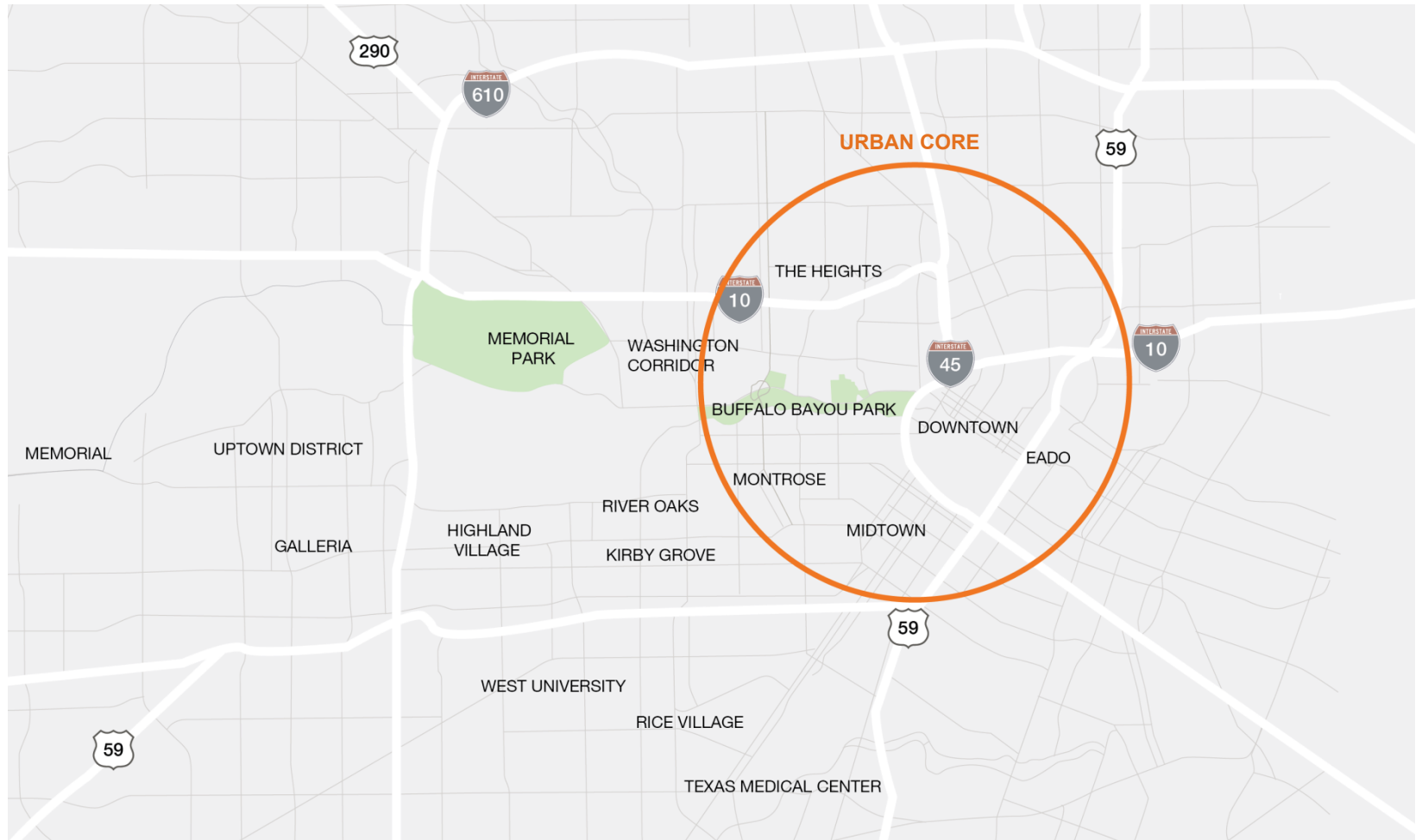
HOUSTON MACRO

- Oil Prices – Lower for Longer
- Jobs – 30-40k in 2015, 20k in 2016, Moving West to East
- Diversification
- The Long View
- Real Estate – Timing is Positive

REAL ESTATE IS A MICRO BUSINESS



HOUSTON'S URBAN CORE



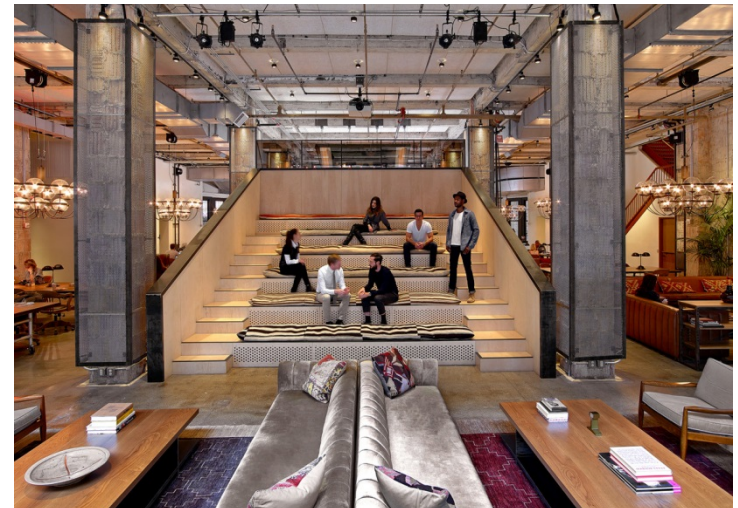
An aerial photograph of a modern office building at dusk. The building features large glass windows and a brick facade. Light trails from traffic are visible on the street in front of the building. The word "OFFICE" is overlaid in white text.

OFFICE

MIDWAY

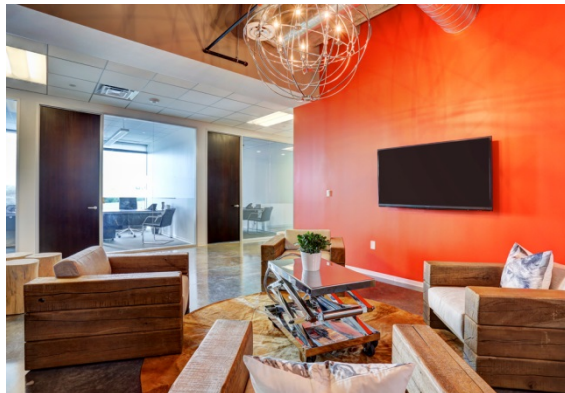
BIG PICTURE OFFICE

- Densification of Knowledge Workers
- Cost vs. People Investment
- Amenities & Connectivity
- Rapid Obsolescence of Product
- Business Clarity vs. Flexible Lease Terms
- Co-Working Environments

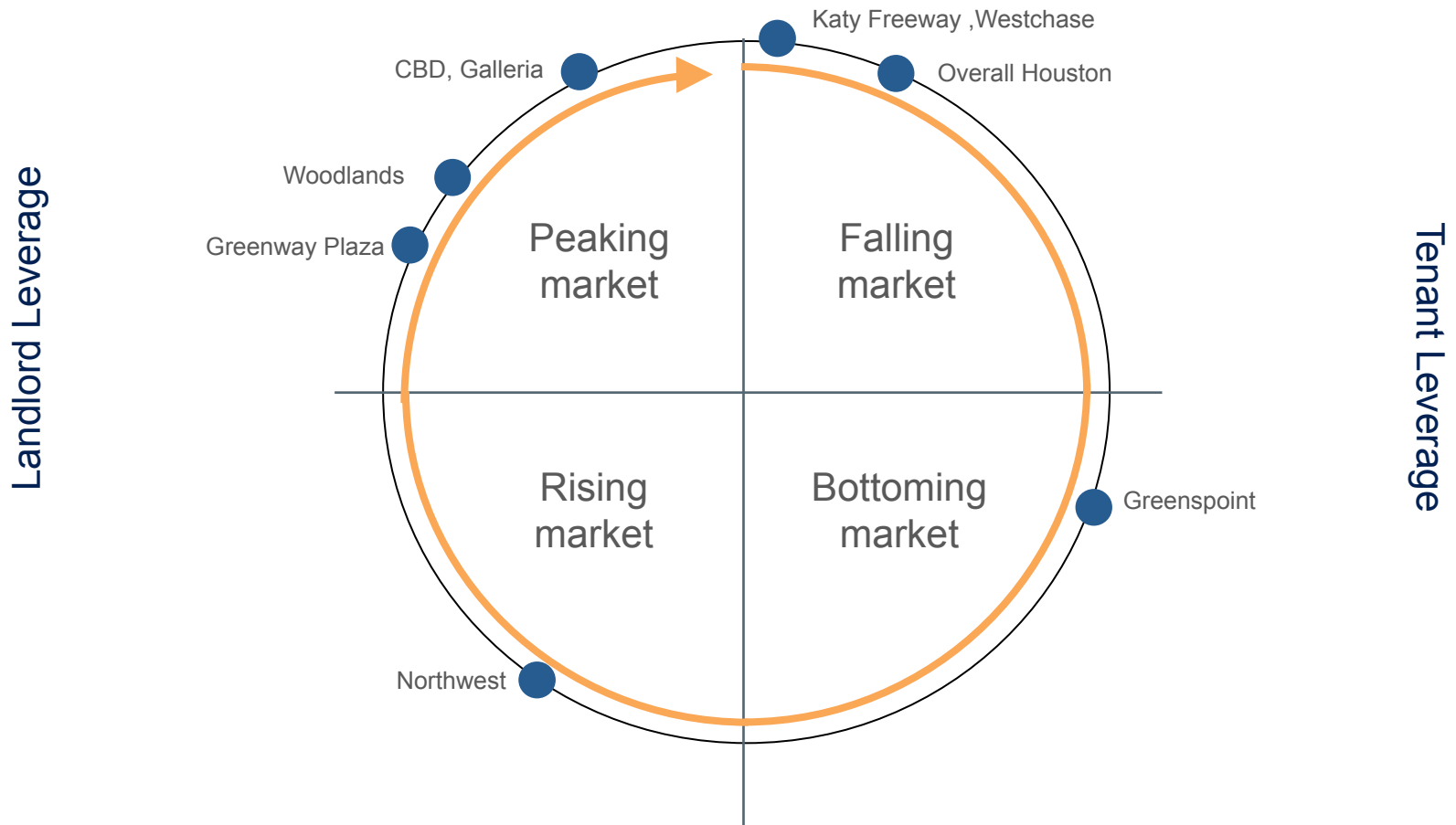


HOUSTON OFFICE

- Oil Prices
- Development Pipeline Decline
- Sublease Space
- Businesses Continue to Operate & Evolve
- Flight to Quality (Real Estate is a Micro Business)



2015 SUBMARKET OFFICE

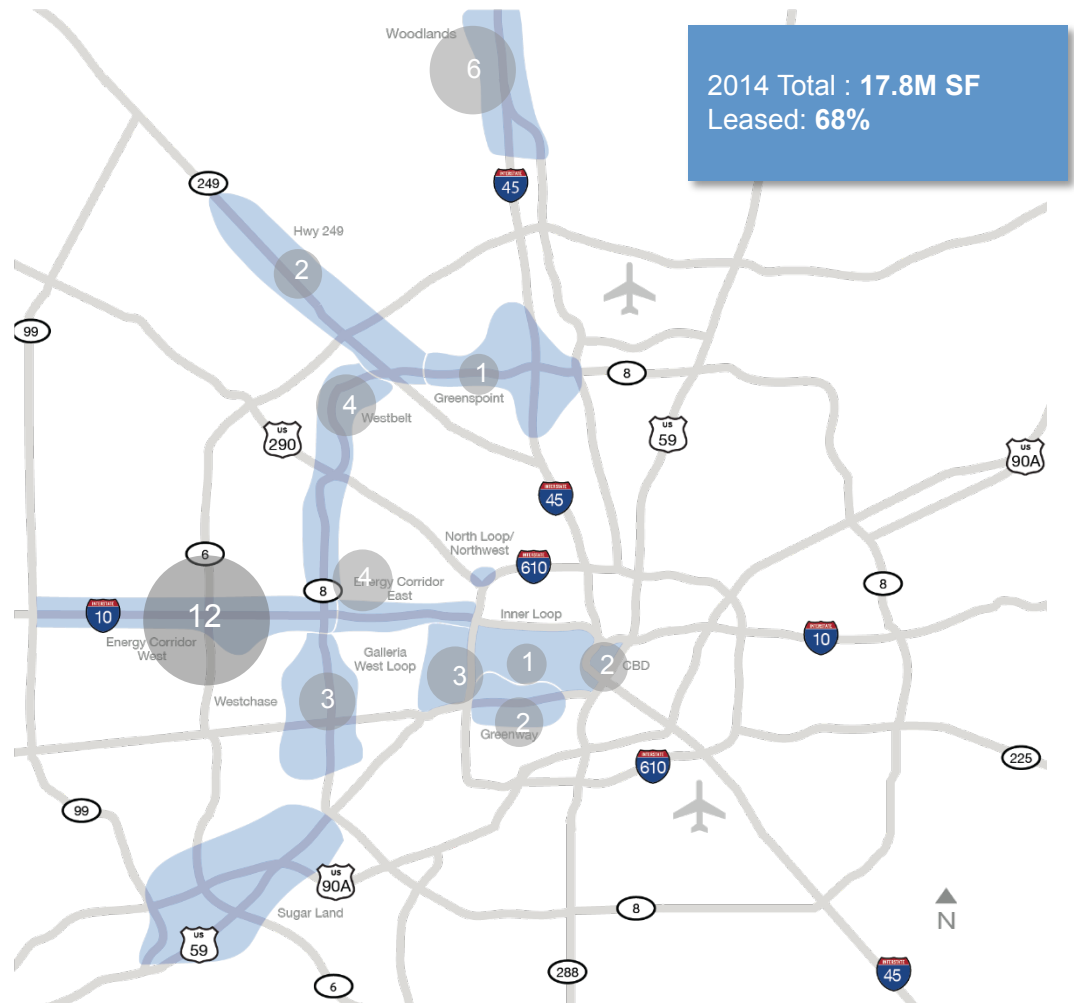


Source: JLL Research

2014 OFFICE MARKET DEVELOPMENT

SUBMARKET	# OF PROJECTS
CBD	2
Inner Loop	1
West Loop	3
Upper Kirby / Greenway	2
Sugar Land	0
North Loop / Northwest	0
Energy Corridor West	12
Energy Corridor East	4
Westchase	3
West Belt	4
Highway 249	2
Greenspoint	1
The Woodlands	6
TOTAL	40*

* Represents total projects in Houston's major submarkets; not indicative of the total number of projects in the entire market.



CURRENT OFFICE MARKET DEVELOPMENT

SUBMARKET	# OF PROJECTS
CBD	3
Inner Loop	0
Galleria/Uptown	3
Upper Kirby / Greenway	3
Sugar Land	0
North Loop / Northwest	0
Energy Corridor West	6
Energy Corridor East	2
Westchase	2
West Belt	2
Highway 249	0
Greenspoint	1
The Woodlands	5
TOTAL	27*

* Represents total projects in Houston's major submarkets; not indicative of the total number of projects in the entire market.



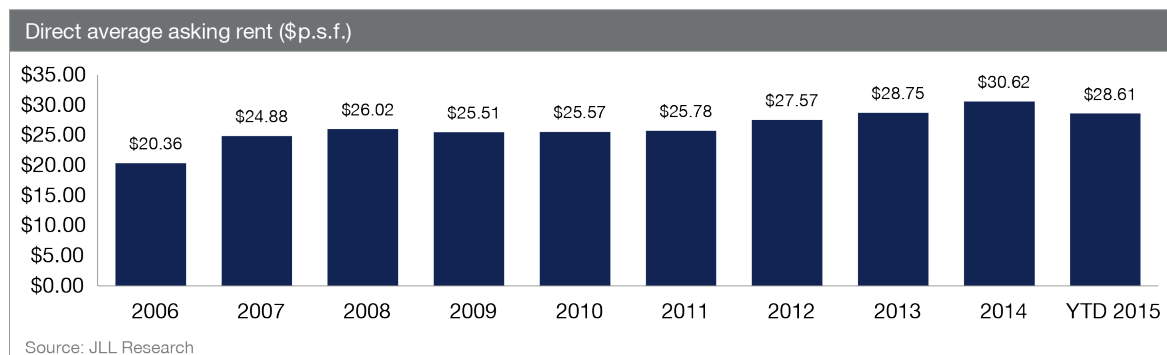
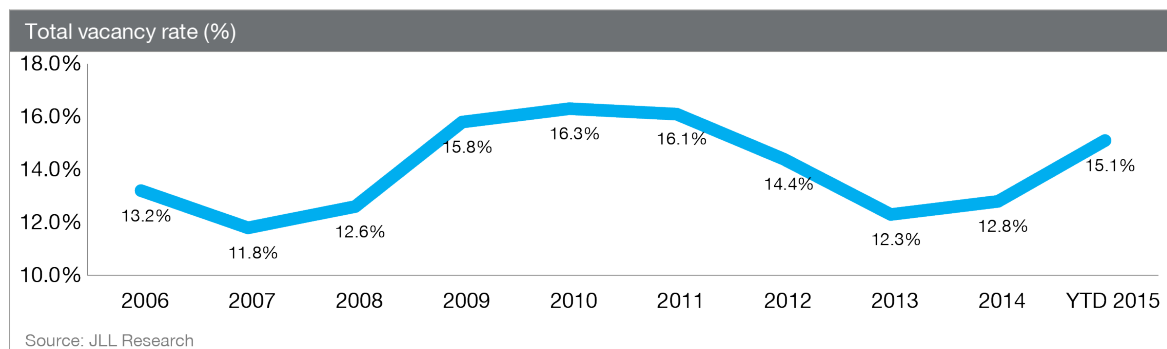
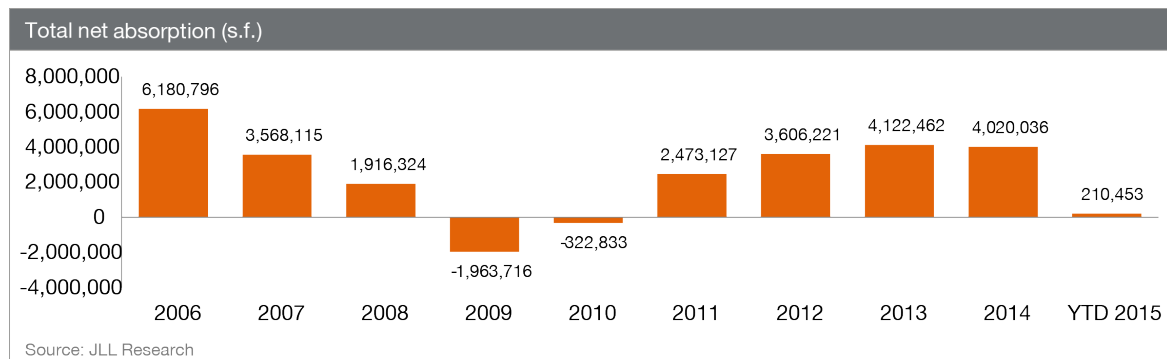
CURRENT OFFICE MARKET DEVELOPMENT

	SQUARE FEET	LEASED
2015	2.7M SF	
2016	5.2M SF	
2017	1.7M SF	
Total	9.6M SF	58.8% Leased
Less	3.8M SF (Build to Suit + Owner/User)	
Total	5.8M SF (Under Construction)	32% Leased

CITYCENTRE NORTH



CURRENT OFFICE MARKET CONDITIONS



CURRENT OFFICE MARKET CONDITIONS_SUBLEASE SPACE

For each submarket, tracking Class A & B, full floor and larger subleases, the information depicts:

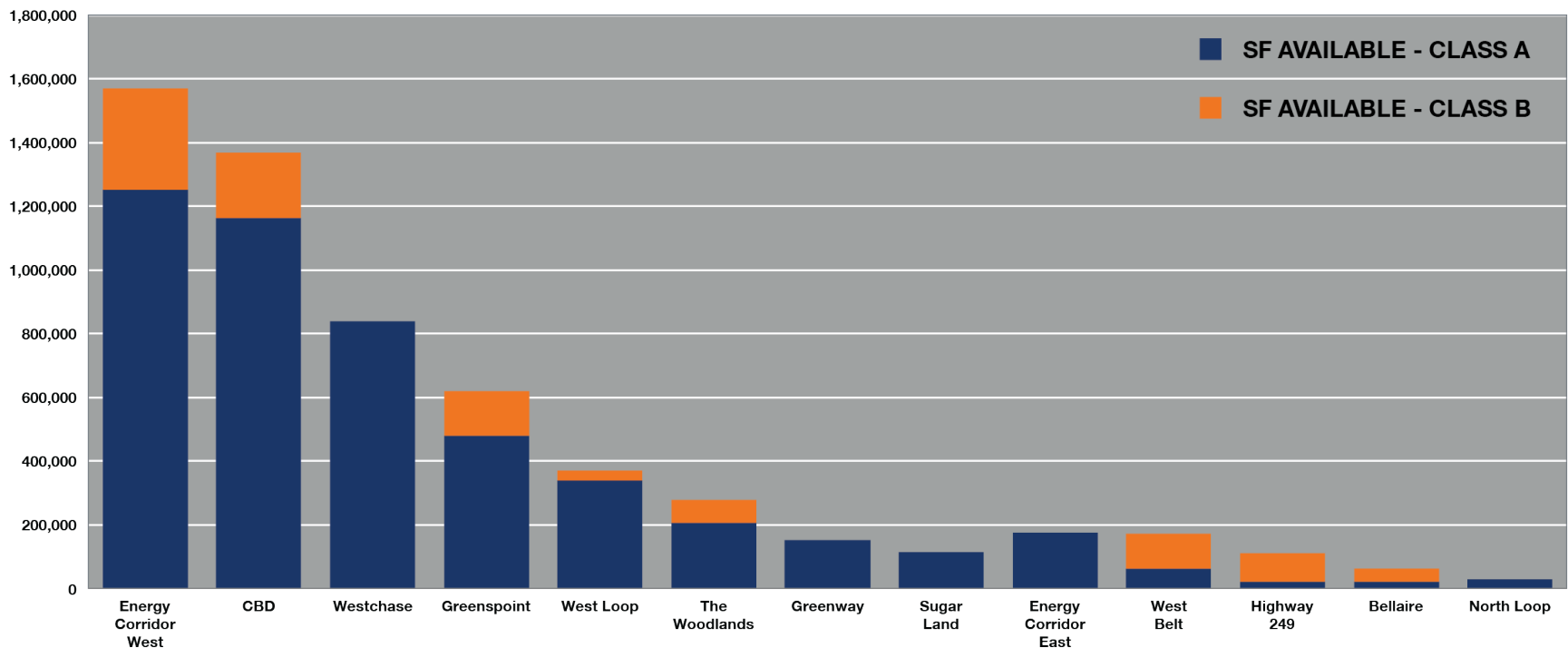
Total amount of sublease space available.

Total number of sublease listings.

Percentage of sublease space available.

TOTAL SUBLEASE AVAILABLE

Class A	4,842,595 SF	5.1 % of market
Class B	1,002,040 SF	2.0 % of market
Total	5,844,635 SF	4.0 % of market



CURRENT OFFICE MARKET CONDITIONS_SUBLEASE SPACE

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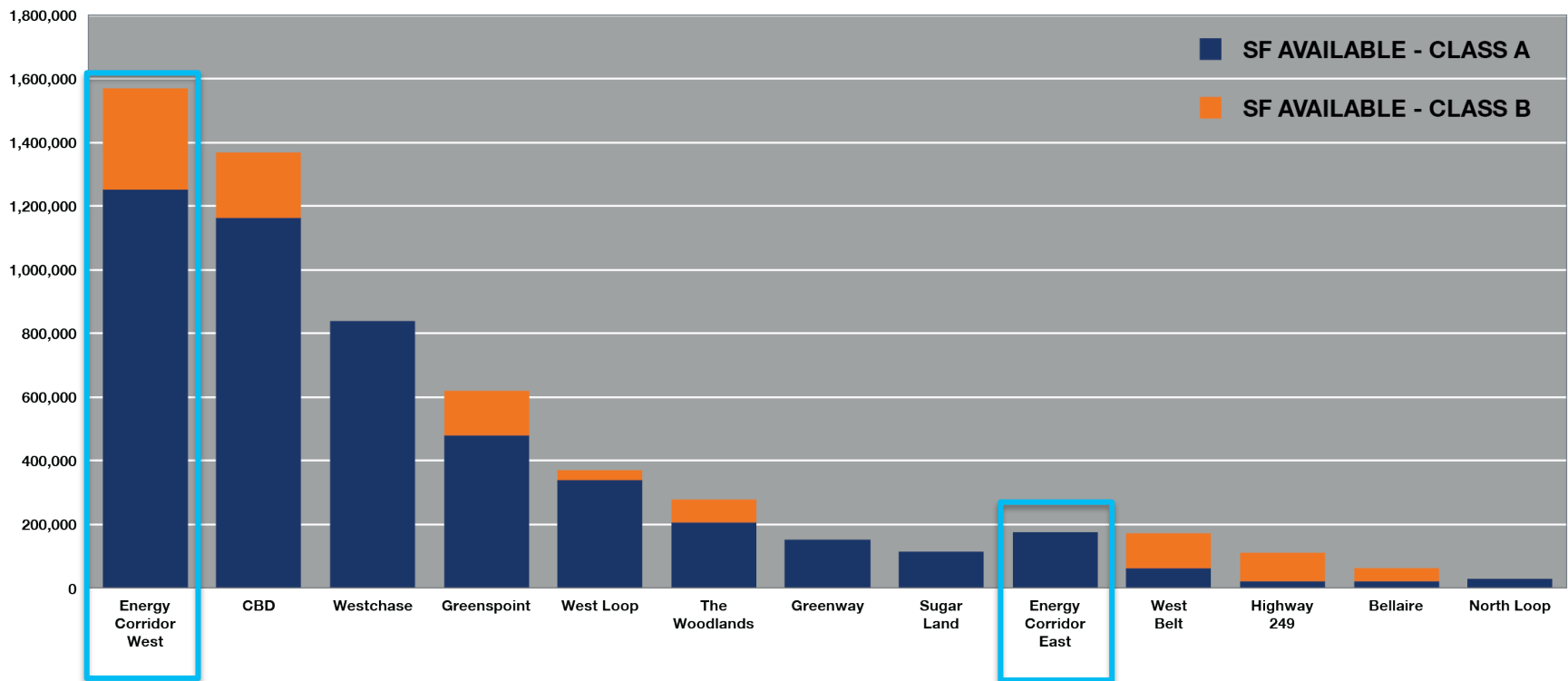
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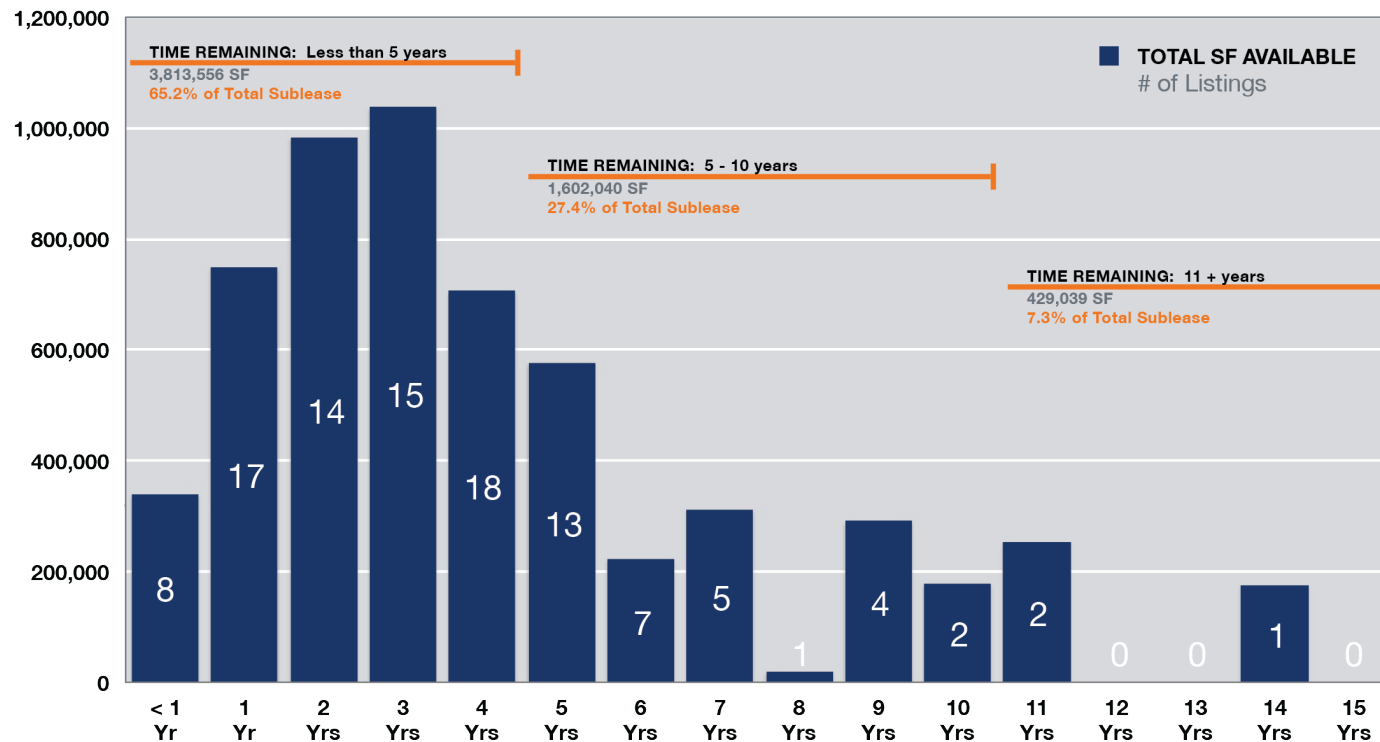
CURRENT OFFICE MARKET CONDITIONS_SUBLEASE SPACE (cont.)

For the total Houston market, tracking Class A & B, full floor and larger subleases, the information depicts:

The remaining lease term on each sublease listing.

Total number of sublease listings within each time frame.

Total amount of sublease space available within each time frame.





RETAIL

MIDWAY

BIG PICTURE RETAIL

- The US is Over Retailed
- Brutally Competitive
- Faster Obsolescence
- Cost & Convenience vs. Experience
- Online

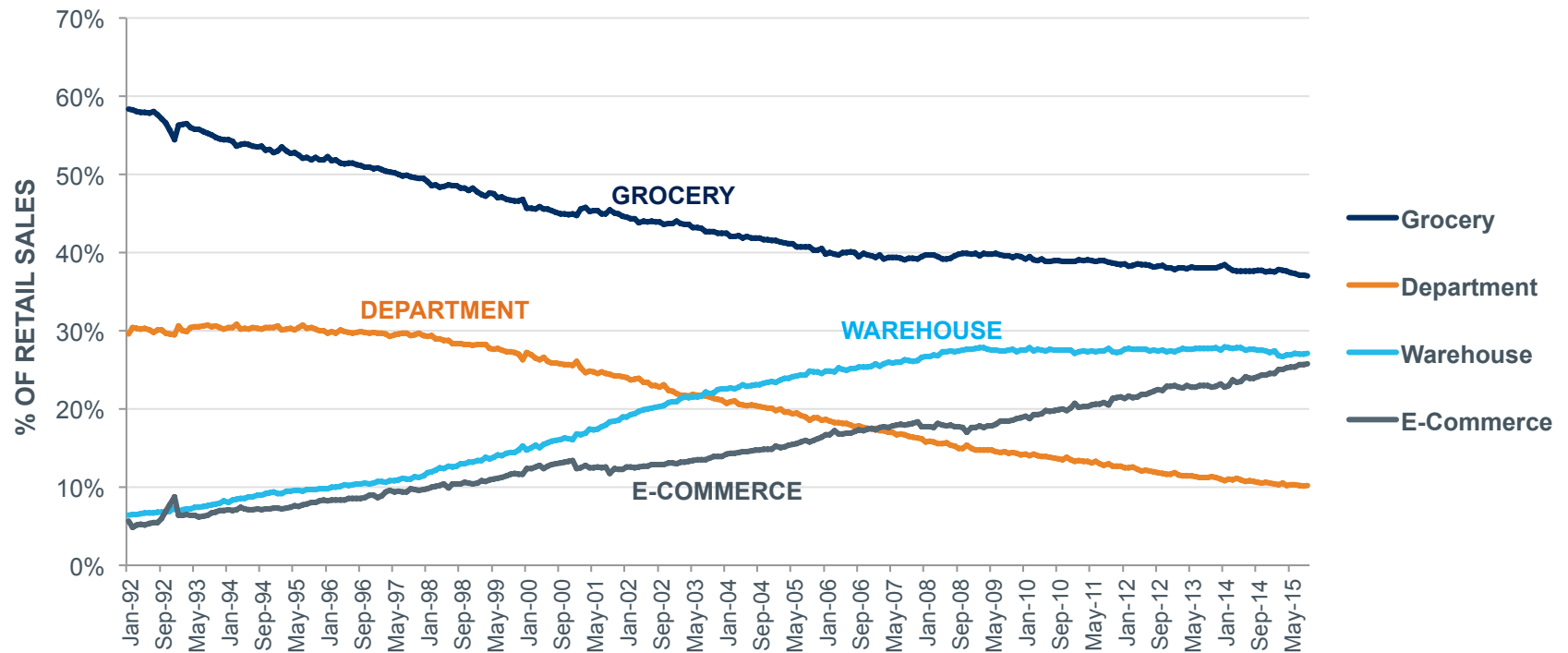
RETAIL
MARKET

PRICE

It's all about Time

EXPERIENCE

RETAIL SALES



Latest Data as of May 2015 | Source: Census

HOUSTON RETAIL

- Occupancy increased to 94.6%, rents averaging \$15.14 PSF NNN—highest they have been since 2008
- Suburban Areas accounting for much of the retail growth, despite a few urban infill projects, retail follows rooftops
- Significant construction activity in Katy & North Houston due to Grand Parkway expansion and new ExxonMobil campus
- Growth in Grocery-anchored centers

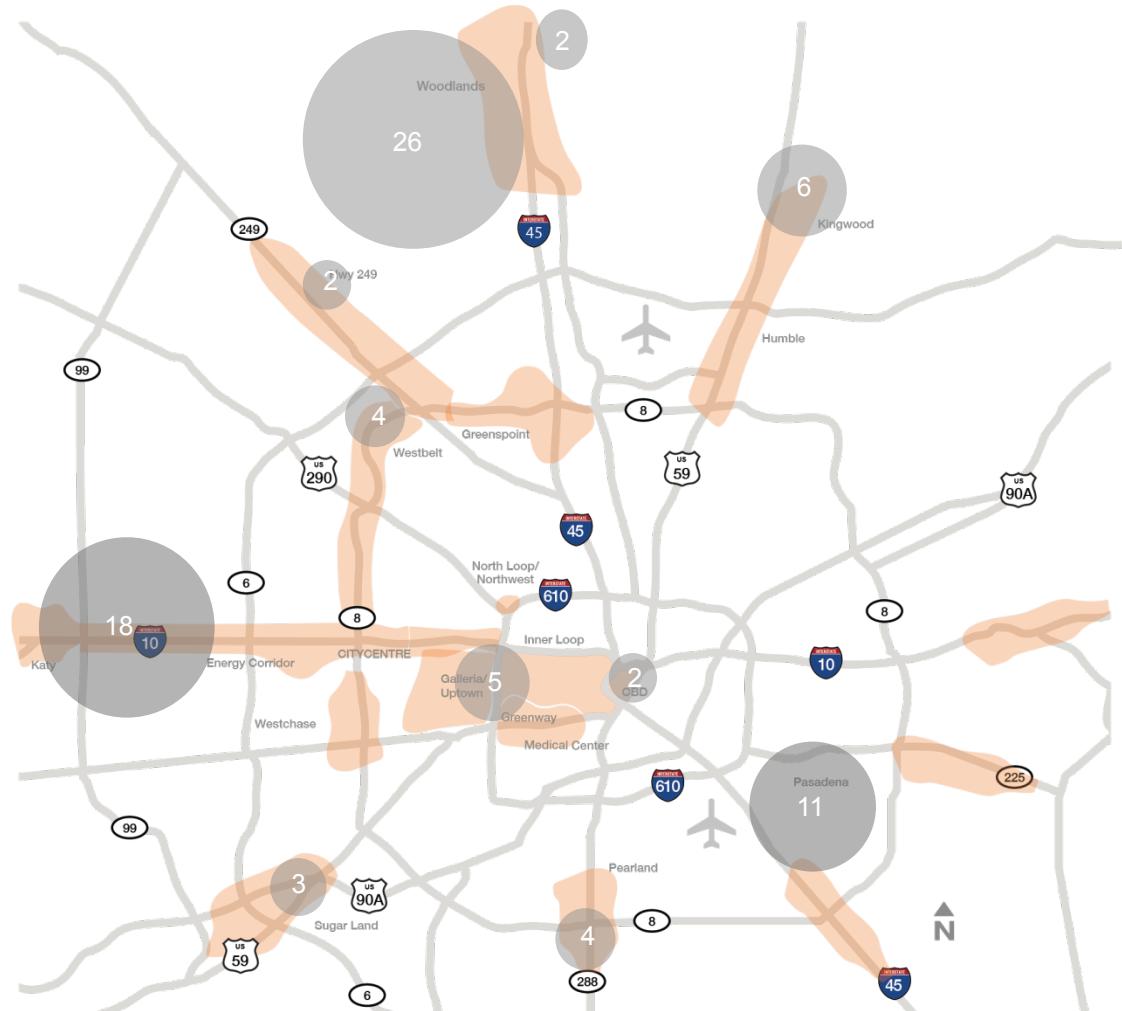


2015 CURRENT RETAIL MARKET_RECENTLY COMPLETED / DEVELOPMENT / PROPOSED

SUBMARKET	# OF PROJECTS
Northwest	26
Southeast	11
Inner Loop/Galleria	5
Southwest	3
South	4
West	18
Northeast	6
North	2
CBD	2
East	5
TOTAL	82

Source: CoStar, Inc., HFF Research

HFF makes no guarantee of the information provided in this report, but believes it to be accurate and from a reliable source.

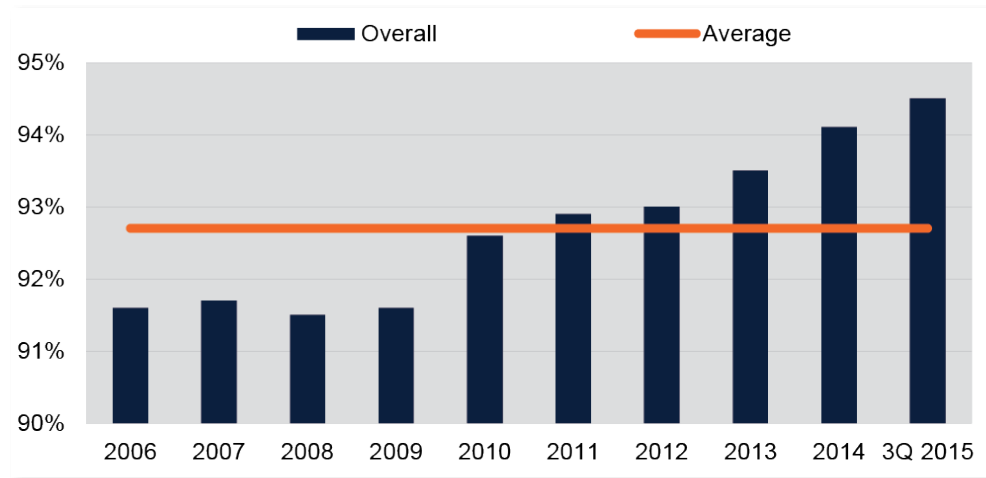


2015 CURRENT RETAIL MARKET_RECENTLY COMPLETED / DEVELOPMENT / PROPOSED

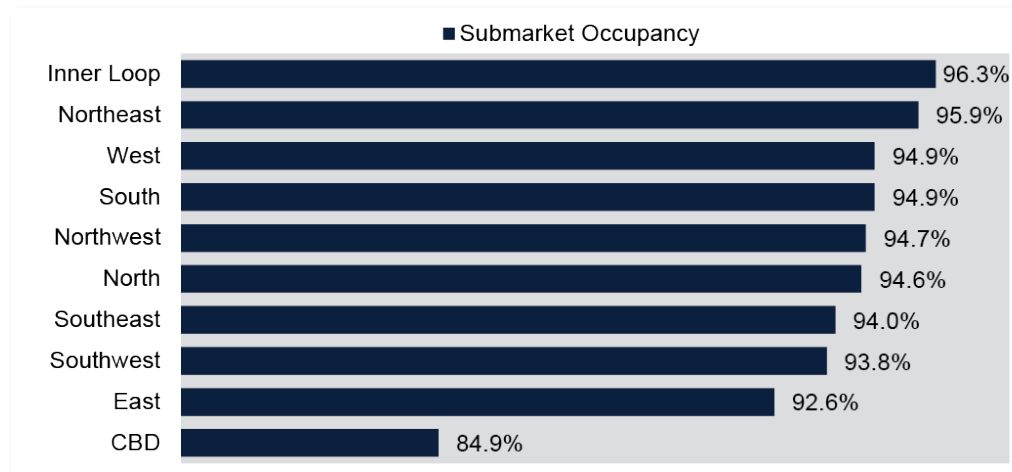
	GROCERY		DISCOUNT		LIFESTYLE		OTHER		TOTAL	
	#	SF	#	SF	#	SF	#	SF	#	SF
Delivered	12	1,303,000	7	805,000	2	428,000	1	235,000	22	2,771,000
Under Construction	9	1,141,000	10	4,113,000	1	175,000	0	-	20	5,429,000
Proposed	8	1,062,000	11	2,290,000	0	-	0	-	19	3,352,000
Total	29	3,506,000	28	7,208,000	3	603,000	1	235,000	61	11,552,000

HOUSTON RETAIL

MARKET OCCUPANCY



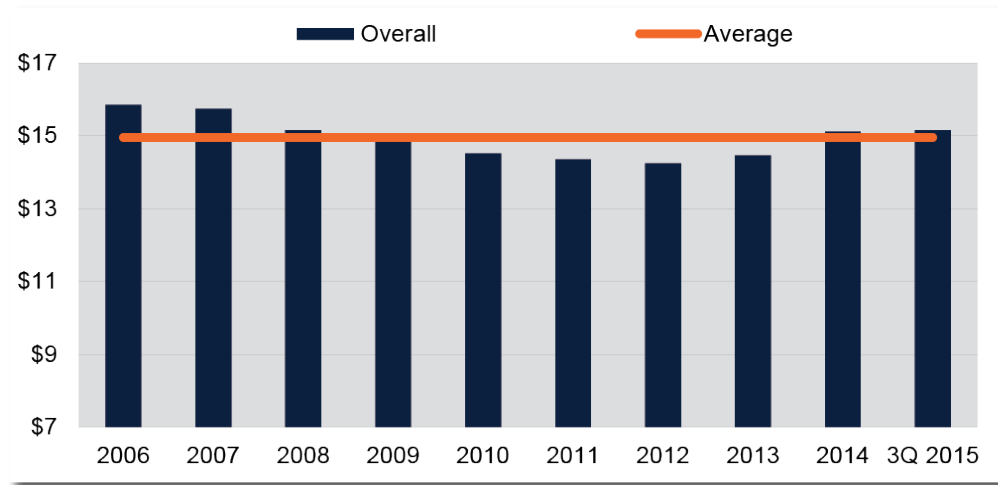
Source: CoStar, Inc.



Source: CoStar, Inc. 3Q 2015

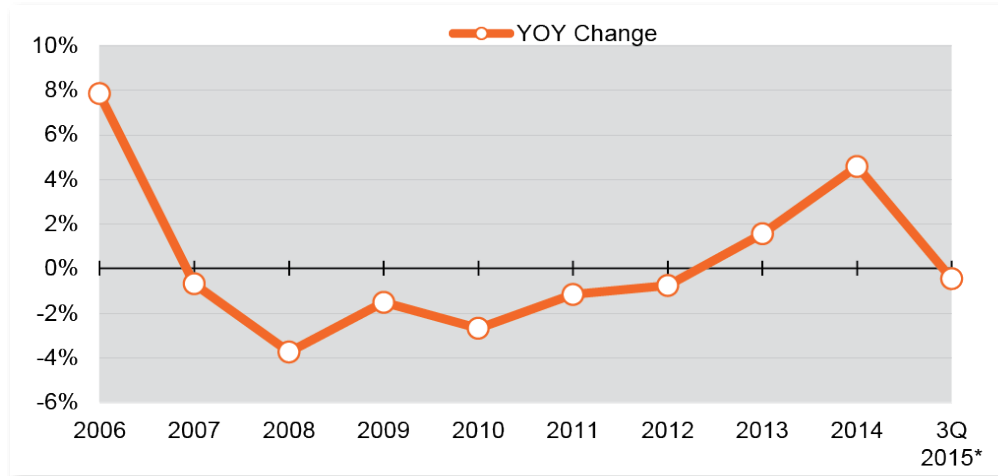
HOUSTON RETAIL

MARKET RENTS



Source: CoStar, Inc., all rents triple net

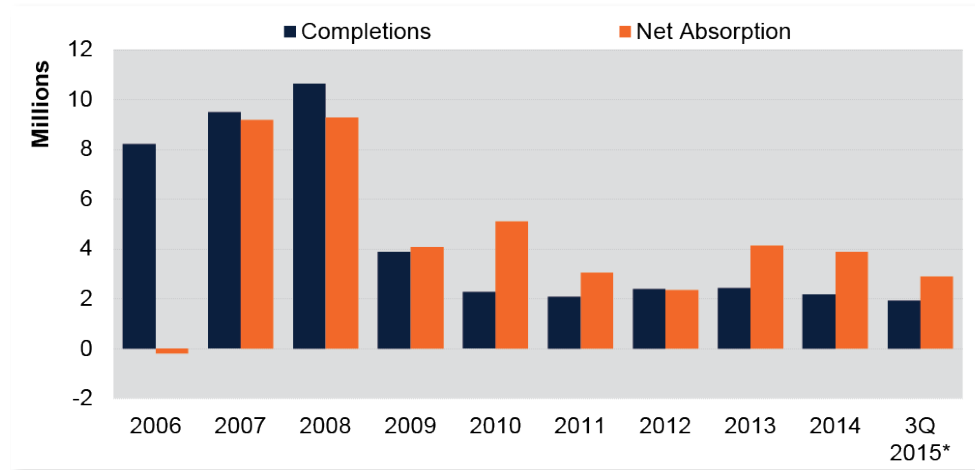
ANNUAL RENT RATE GROWTH



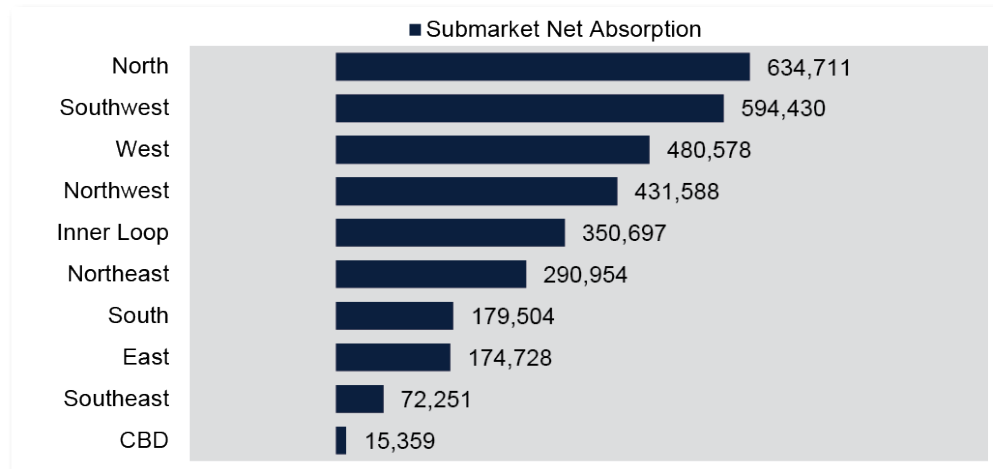
Source: CoStar, Inc., * Twelve months ended September 2015

HOUSTON RETAIL

COMPLETIONS & NET ABSORPTION



Source: CoStar, Inc., * Twelve months ended September 2015



Source: CoStar, Inc., * Twelve months ended September 2015

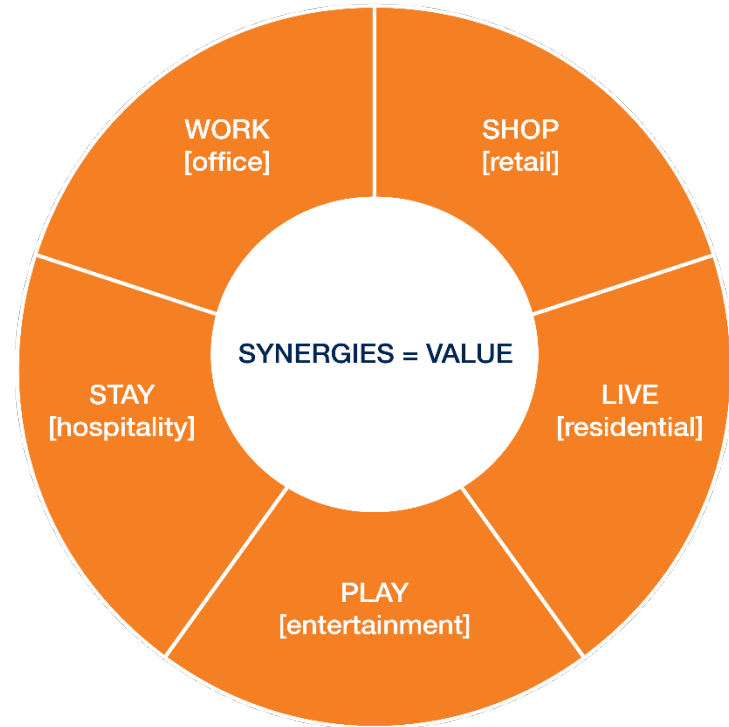
A nighttime photograph of a city street corner. On the left is a curved building with large windows; one window displays the text 'STAY OUT OF BUTTER'. On the right is a taller, more industrial-looking building with a sign that reads 'WOODS BLOOM'. The street is illuminated by a tall street lamp, and there are blurred figures of people and cars, suggesting movement. The word 'MIXED-USE' is overlaid in large, bold, light blue capital letters in the center of the image.

MIXED-USE

MIDWAY

BIG PICTURE MIXED-USE

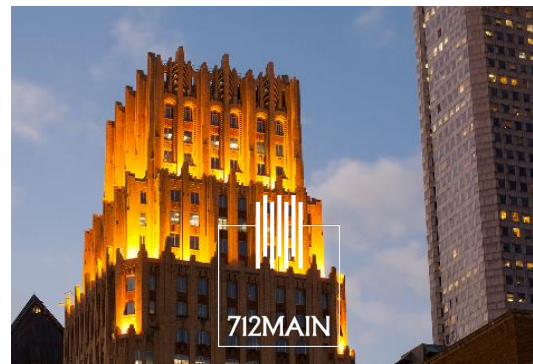
- Three or more significant revenue-producing uses
- Significant physical & functional integration of project components in conformance with a coherent plan & scale of uses



INVESTMENT PHILOSOPHY

STRATEGIC OPPORTUNITY	+	GENERATIONAL REAL ESTATE	+	REMARKABLE PLACE	+	INVESTMENT DISCIPLINE
+ Purpose		+ Demographics		+ Mixed-Use / Synergies		+ Risk < Reward
+ Exponential		+ Highly Productive Workforce		+ Experience [Place]		+ Capital Availability
+ Relationship		+ Transportation / Infrastructure		+ Connectivity / Walkability		+ Cost Basis
+ Human Capital		+ Scarcity / Density		+ Innovative		+ Income Growth
+ Financial Capital		+ Man-made Amenities		+ Differentiated		+ Exit Strategy
+ Competition		+ Natural Amenities		+ Design		+ Long-Term Value

MIDWAY PORTFOLIO



Industrial Market

Trey Odom
AVERA Companies



INDUSTRIAL MARKET SNAPSHOT



Vacancy Rate
4.7%



Net Absorption
1,796,337 SF



Construction
9,346,187 SF



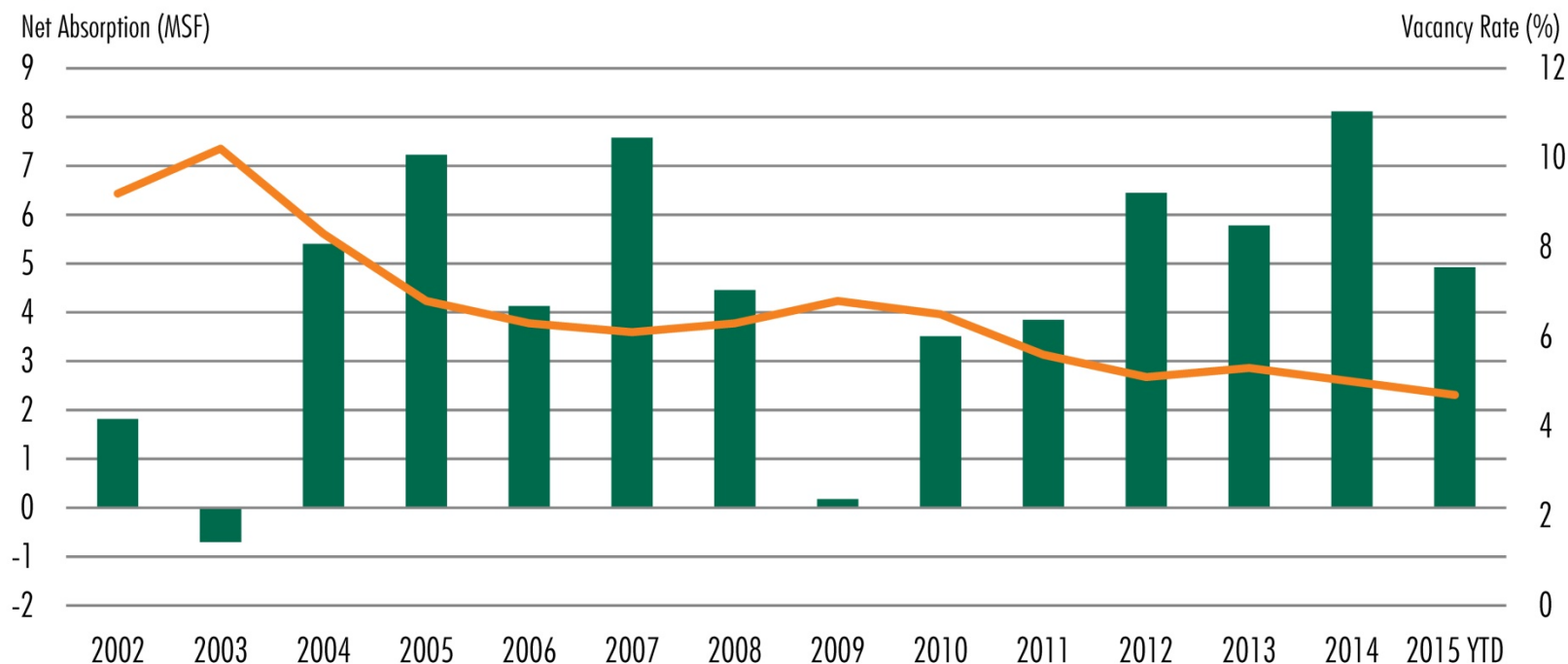
Completions
1,267,695 SF



Avg. Asking Rate
\$0.69 PSF

*Arrows indicate change from previous quarter.

Figure 1: Industrial Demand



Source: CBRE Research, Q3 2015.

■ Annual Net Absorption — Vacancy Rate

HOUSTON LEASING TRANSACTIONS



Houston Market Leasing Transactions YTD through Q3 2015

Tenant	Building(s)	SF	Quarter
United Stationers Supply	Cole Creek Business Park	211,680	1Q15
Niagara Bottling	Bayou Bend Business Park	207,230	1Q15
Banta Corp.	Bay Area Business Park	201,600	1Q15
Foxconn	Fallbrook Distribution Center II	400,000	2Q15
CVS	Imperial Distribution Center	328,020	2Q15
Polytex	Northwest Industrial Park	319,520	2Q15
Delta Petroleum	Ameriport Industrial Park	252,720	2Q15
Trans-Hold Inc.	Navigation Business Park	251,600	2Q15
GE	Port Northwest	261,990	3Q15
Cameron	First Northwest Commerce Center	203,748	3Q15

PANAMA CANAL



Started in 2007 at a total cost of \$5.2 billion

Expansion to double the waterway's capacity to 13,000 TEUs (twenty foot equivalent unit) vs. 5,000 TEUs. (61% increased capacity)

As of October 31, 2015, the project is 95% completed

- Pacific Access Channel: 98.2% completed

- Gatun Lake & Culebra Cut Dredging: 92% completed

- Design & Construction of Third Set of Locks: 94% completed

- Pacific Entrance Dredging: 100% Completed

- Atlantic Entrance Dredging: 100% Completed

- Raising Gatun Lake's Maximum Operating Level: 95% completed

As of November 2, 2015, the New Pacific Access Channel has reached the level of Gatun Lake.

Completion is set for early 2016.

PANAMA CANAL - HOUSTON IMPACT



Panama Canal allows for larger ships to serve Port of Houston

Port of Houston is expanding to allow for container-ship sizes up to around 8,000 TEUs vs. current 5,000 TEUs. (37.5% increased capacity)

Port of Houston is also investing on infrastructure improvements to accommodate the demand due to Panama Canal Expansion.

Leads to larger demands in industrial needs for Port and Houston area

26% increase from June 2014 to June 2015 import volume at Port of Houston with 452,998 TEUs as of 6/30/15.

Blackstone's IndCor to GIC

\$8.1 billion
117 million SF

February 2015

All major U.S. markets

KTR to ProLogis

\$5.9 billion
70 million SF

May 2015

All major U.S. markets

Industrial Income Trust to GLP

\$4.55 billion
58 million SF

November 2015

All major U.S. markets

2015 SIGNIFICANT TRANSACTIONS - HOUSTON



Hines/KKR to TIAA

Pinto Business Park

950,000 SF

HD Supply, Alfa Laval

AVERA Companies

1.95 million SF

Houston, Dallas, Fort
Worth, Austin

Daiken, ABC Supply,
Restoration Hardware,
Sunbelt

2015 SIGNIFICANT TRANSACTIONS - HOUSTON



ML Realty to Liberty Property Trust

Port Crossing

920,000 SF

Anheuser-Busch, Gulf Winds, Ferguson Enterprises, Overland Distribution

Daikin Industries

4 million SF campus

Hwy 290 in Waller County

Class B

Exeter to CenterPoint
3.6 million SF

Mayfield Properties to Crow Holdings
2.35 million SF

AEW/Sealy to Greenfield
1.5 million SF

MARKET	RANGE
Atlanta	5.75 - 6.00
Baltimore	5.00 - 5.50
Chicago	5.00 - 5.25
Dallas/Fort Worth	4.75 - 5.25
Houston	5.00 - 5.50
Miami/S. Florida	4.75 - 5.25
N. New Jersey	4.50 - 5.00
Philadelphia/PA Corridor	5.00 - 5.75
San Francisco Bay Area	4.25 - 5.00
Seattle	4.25 - 5.00
S. California	4.25 - 4.75

MARKET DYNAMICS/PROJECTIONS



Capital continues to be under-allocated to core industrial

Cap rates remain in 2015 range

Leasing activity and rental rates to remain constant

Year-end momentum to continue through 2016

BOYAR  MILLER

ATTORNEYS AT LAW