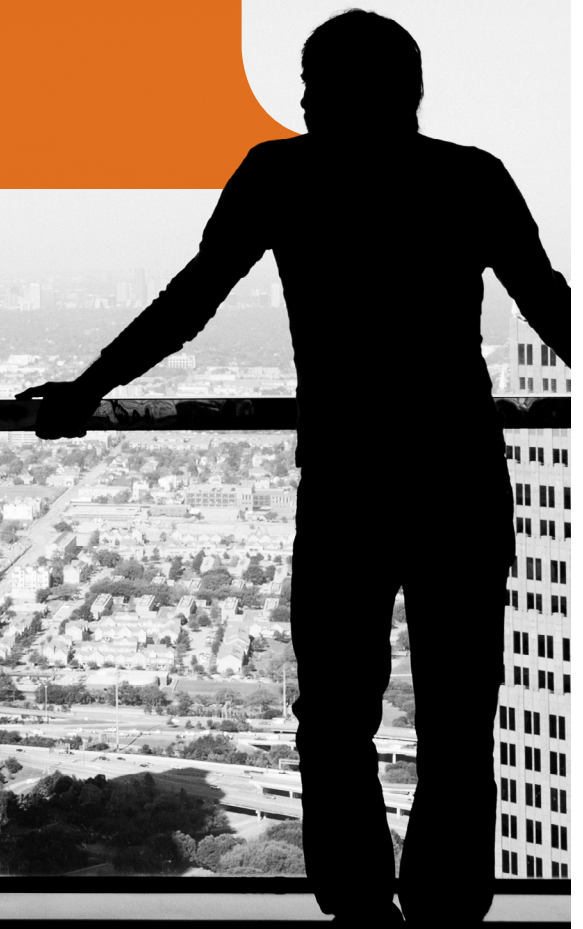


2017 MARKET OUTLOOK

Houston Commercial Real Estate



BOYAR  MILLER
ATTORNEYS AT LAW

Friends,

Commercial real estate activity in Houston is a bellwether for the city's business environment. Perhaps that is one reason it is always exciting to hear from leaders in the commercial office, retail and industrial market sectors on the current trends impacting the market. They come together at our annual BoyarMiller Commercial Real Estate Breakfast Forum to share their perspectives on the market and what they expect for 2017.

I want to thank Allen Crosswell of NewQuest Crosswell, Jonathan Brinsden of Midway, and John Nicholson of Avera Companies for their participation in our event. We have gathered some of the highlights they discussed in this ebook and a video of their full presentations is also available on our website. Two of our commercial real estate attorneys have also included an industry perspective in this ebook.

Sharing market intelligence that can impact the business success of our clients and colleagues is part of our core values. The goal of our firm, reflected at our breakfast forums, is to provide you with information and counsel to help you make better business decisions. I hope you will find this information valuable and will share it with others.

Let us know how we can help you advance your business objectives.



Regards,

Chris Hanslik

CHRIS HANSLIK

Firm Chairman

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LEARN MORE ABOUT THE FORUM

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Houston Commercial Real Estate At-a-Glance

RETAIL



2016 holiday sales forecast is significantly higher than the 10-year average of

2.5%



\$100m

acquired for new retail construction

INDUSTRIAL



Houston is #10

in top U.S. industrial markets ranked by absorption



Vacancy rates flat at

6-7%

OFFICE



Number of office projects in the pipeline

2014: 40

2015: 27

2016: 12



Vacancy rates hit high of

20%



Expert Insights

Retail Market

ALLEN CROSSWELL

Managing Principal, NewQuest Crosswell

"I'm bullish on the retail business. Rental rates have climbed and more retail construction is coming."

TRENDS AND OUTLOOK

- **LOOKING GOOD.**

Overall, the outlook for Houston's retail real estate sector is very good.

- **IT'S HERE AND INCREASING.**

E-commerce is the elephant in the room. In addition to researching what others are saying online about products, consumers will buy online, pick up in-store using retailers' apps and mobile websites. In the long-run, retailers will have to get smarter.

- **CONSUMERS ALWAYS NEED GROCERIES.**

Kroger has a 25% market share in Houston and nationally has achieved 52 consecutive quarters of positive identical supermarket sales. In the suburbs, the traditional grocery model is solid. The infill areas will need to conceptualize parking garages and deliveries to service customers.

- **GROWTH IN WEST AND NORTHWEST HOUSTON.**

Major retail developments and large anchors are following the growth of the Katy area along The Grand Parkway on the west side.

- **A BRIGHT HOLIDAY SEASON.**

2016 holiday sales are expected to be very healthy. The National Retail Federation expects sales in November and December to increase a healthy 3.6% to \$655.8 billion.



Allen serves as both managing principal of NewQuest Crosswell and partner of NewQuest Properties. NewQuest Crosswell is a comprehensive commercial real estate company active in small shopping center development, single tenant development and land acquisition. NewQuest Properties is a national tenant-anchored shopping center development company with a portfolio exceeding \$1.4 billion in assets. Allen is a fifth-generation Houstonian with a long family history of politics and philanthropy.



Expert Insights

Industrial Market

JOHN NICHOLSON

Executive Vice President, Avera Companies

"We can expect a healthy industrial real estate market in 2017. The Port of Houston remains the golden goose for the sector."

TRENDS AND OUTLOOK

- **STEADY AND SOLID.**

While there may be a slight increase in leasing rates, for the most part they will remain at current rates.

- **ALWAYS IN DEMAND.**

The Port of Houston is booming and remains in demand. It continues to grow tonnage volume year over year.

- **DISTRIBUTION PARKS DRIVE ACTIVITY.**

Deals like IKEA's one million square feet at the Port of Houston and Ravago's purchase of 200 acres at Cedar Port keep the market thriving.

- **BOOMING BAYTOWN.**

Lack of available dirt on the south side of the channel has made Baytown an attractive option. Baytown has dual service, with land and rail access, and offers many incentives.

- **AMAZON MODEL SETS A STANDARD.**

Everyone is chasing the Amazon model of same-day delivery. It is the way of the future and will result in more distribution parks.



Over the last 16 years, John has negotiated more than 700 transactions providing in excess of \$750 million in transaction value. Prior to joining Avera, John served as senior vice president at Transwestern and was most recently employed by Cushman & Wakefield as executive managing director responsible for leading the industrial services group in Houston. Prior to his commercial real estate career, John was a second round draft pick by the Colorado Rockies in the Major League Draft.



Expert Insights

Office Market/ Mixed-Use Development

JONATHAN BRINDEN
CEO, Midway

"The silver lining of the office market is that a proposed 10 million square feet of space did not get built because the market reacted quickly with the energy downturn."

TRENDS AND OUTLOOK

- **FALLING MARKET.**

Houston is a down market with negative absorption and the highest vacancy rate the city has experienced in the past 10 years.

- **IMPACT OF SUBLEASE MARKET.**

There is more than 10 million square feet of sublease space available accounting for 6.8 percent of the market.

- **MIXED-USE MORE RESILIENT.**

Office workers still want the amenities and connectivity offered by mixed-use developments, which offer protection from the downside of the office real estate market. There are nine mixed-use projects in Houston that are experiencing good leasing activity.

- **FLEXIBLE LEASE TERMS.**

Employers think of office space as a tool for recruiting and retention now more than ever. As they consider various options, there has been an increase in co-working environments and flexible lease terms to stay on top of employee needs and reduce costs.

- **NOT AS MUCH ENERGY.**

The office sector thrived on the big block energy deals for a long time. While those deals are gone, there is still some office activity out there.



As one of four members of the Midway executive team, Jonathan guides the company's overall business strategy and operations. He joined Midway's development team in 2001 and was named chief operating officer in 2008 and CEO in 2013. He is a member of the Urban Land Institute Global Board of Directors, Board of Trustees and the Governance Committee, as well as past chair of ULI Houston. He is also a board member of NAIOP and an active member of the International Council of Shopping Centers.

Attorney Insights

How Market Trends Toward a “Sense of Place” is Changing Houston’s Commercial Real Estate

BLAKE ROYAL
Shareholder, Business Group

HILARY TYSON
Shareholder, Business Group

Current trends in real estate development throughout greater Houston, in both the urban and suburban communities, are moving beyond the stand-alone, dramatic structures of the past. Although those structures were visually innovative, the trend now is toward “destinations” that provide a sense of place and an experience for visitors and tenant.

This change in focus is in response to market trends that parallel the demographics of greater Houston with millennials and baby boomers as the fastest growing segment. Both of these generational groups seek out quality of experience in choosing where to live, work and shop. This preference increases demands on developers to produce walkable, urban (or suburban) areas and mixed-use developments that provide upscale amenities to retain consumers’ interest and that are a destination in itself. A prime example of this trend is at the location of BoyarMiller’s office in Midway’s Kirby Grove development at Levy Park, combining office, restaurant, retail, and multi-family with innovative public park and event space.

As land prices rise and availability of sites for redevelopment in the Inner Loop constricts, developers are seeking creative ways to meet the demands for “experiences.” However, these destination spaces for retail and commercial development are essential to support increased residential density in the Inner Loop. With the help of special public districts and private foundations, there has been a resurgence and investment in (re-)creating public spaces and amenities within the Inner Loop, including Levy Park, Buffalo Bayou Park, Discovery Green, Hermann Park (Centennial Gardens), Market Square and Bayou Greenways projects at Brays Bayou and White Oak Bayou, among others. Many areas inside the Loop have seen improvements made to neighborhood “pocket

¹For an interactive map examining trends in demolition and construction in the city of Houston, see the Kinder Institute for Urban Research’s Houston In Flux report at houstoninflux.com.

Attorney Insights, cont.

parks,” such as Ervan Chew Park and Mandell Park. These public parks and spaces provide components of the “sense of place” essential to support real estate developments that meet consumer demands.

It is no coincidence that many new residential, mixed-use and office developments have developed around or in the vicinity of these public spaces. This has in part been a coordinated effort between the public/non-profit sectors and private for-profit developers. The development costs inherent to green space and park amenities essential to the real estate experience, which would otherwise stifle or lessen the quality of new developments through a reallocation of costs away from the product itself, can be absorbed by coordinating private development with existing or planned public amenities. The result is a higher-quality development that is economically feasible and provides a better quality of experience not just for the private development but for the surrounding community as a whole.

Suburban markets are also adjusting traditional development patterns and development ordinances and restrictions to address consumers’ demand for an enhanced “experience.” As the urban core grows, suburban areas are becoming more urban in design and density. Examples of this include CityCentre, The Woodlands Market Square, and the in-development Imperial Market in Sugar Land. While suburban areas have more available land area for development and redevelopment, many are constrained by existing deed restrictions and zoning ordinances that fail to anticipate

the trend toward mixed-use, experience-oriented development. Municipalities and development authorities have realized these higher-density projects in suburban areas create less demand on public infrastructure and provide a more reliable long-term sales tax revenue stream by diversification in uses. In many cases, this encourages restructuring or rewriting existing restrictions and ordinances limiting development to allow for higher-density, mixed-use projects in suburban markets.

These new trends in development require creative legal documentation, such as agreements between multiple stakeholders including public and private entities, condominium regimes to provide segmentation of physical space between uses necessary for ease of access to financing and investment, and re-thinking of traditional retail and commercial use restrictions to allow the flexibility to incorporate future trends essential to ensuring a market-sustainable development. Negotiation of development agreements and financing arrangements with municipalities and other public players is also essential to ensure incentives to make high-quality, experience-driven developments economically feasible.

Houston has a reputation – right or wrong – of ignoring its history at the expense of redevelopment. However, the city’s constant redefinition also allows immense experimentation. The greater Houston area’s latest real estate experiments show that all of its stakeholders, both private and public, are seeking sustainable communities in which to live and work for both the near term and beyond.

Practice Leaders



BLAKE ROYAL

Shareholder, Business Group

Blake's practice includes acquisitions and dispositions of equity and assets, including recapitalization transactions with venture capital and private equity funds; entity and capital formation, including private placements, in domestic and international jurisdictions; and general contractual drafting and negotiation.



HILARY TYSON

Shareholder, Business Group

Hilary Tyson's practice focuses on commercial real estate and business transactions. She joined the firm and returned to Houston in June 2015 after practicing in the Dallas area for more than 11 years. She represents developers, home-builders and equity investors in a wide range of real estate related transactions including land acquisition and dispositions, residential subdivision development, financing, entity formation, and office development and leasing.



BILL BOYAR

Founding Shareholder, Business Group

Bill's practice focuses on representing parties involved in the acquisition, disposition, capitalization and financing of assets and businesses on a national and international level. He has served as lead counsel on numerous complex, multi-party acquisitions and project financings, with significant experience in corporate finance, private equity, mergers and acquisitions, real estate and hospitality.

Practice Leaders, cont.



LEE COLLINS

Shareholder, Litigation Group

The goal of Lee Collins' practice is to provide innovative and value-driven solutions to the litigation-related problems facing the client. This objective has been successfully achieved through his direct and open communication with the client, an early and immediate assessment of the issues, strategic evaluation of the problem and its solution, and aggressive representation.



CASSIE STINSON

Senior Counsel, Business Group

Cassie Stinson's practice is focused on commercial real estate and finance, public/private projects, business transactions and public law, with a particular emphasis on complex projects and multi-party transactions. She handles real estate acquisitions and dispositions; leasing; project structuring, development, design and construction; formation of business and non-profit entities, corporate governance, and business contracts; and foreign investment in US real estate and businesses.