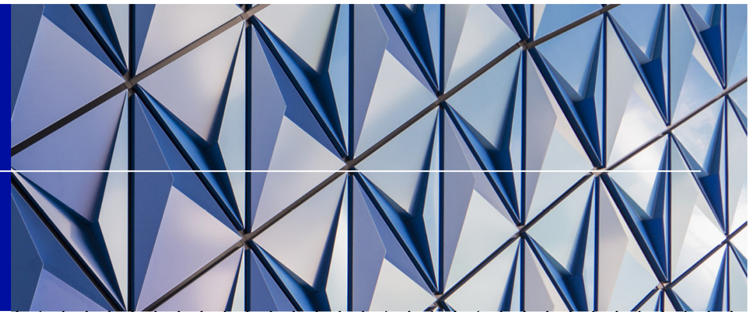


RESEARCH Q1 2021

Houston Industrial Market

Industrial Rebound Already Seen As 2021 Begins

Houston's industrial market felt the pains of the COVID impact in 2020, juts not on the same scale as other property types. As the calendar turned to 2021, the industrial sector of Houston's commercial real estate has shown to be the first to begin to emerge from the downturn. As the year continues however, Houston's industrial market as a whole is forecast to continue on a more tenant-favorable tract as the vaccine role out will continue to dominate the market discussion. As it continues to warrant watching, the COVID-19 impact for distribution may be seen as Industrial should continue to fare best among major property types, particularly as continued on-line or BOPIS dominate the new normal on how consumers purchase goods, making last-mile distribution and logistics space all the more valued. As consumers' changing demand and spending habits for food and grocery delivery continue to evolve in 2021 and even after a return to normal, continued demand for cold storage and last mile distribution will be key to a stabilized industrial market in Houston. A stabilized WTI price of greater than $55/bbl over the past 90 days has started to alleviate concerns about longer term oil price instability and also helps to shape a more positive outlook for industrial during the coming year.

Current Conditions

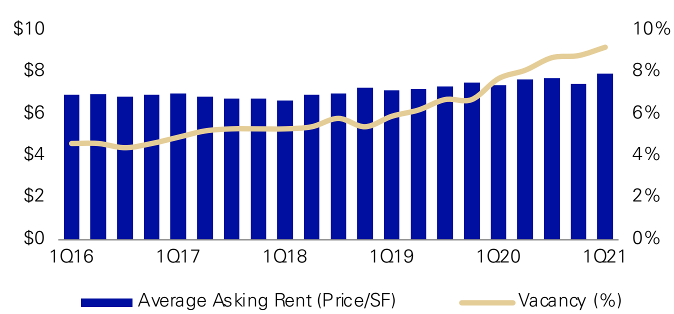
- Quarterly absorption 1/10th of Q4 2020's mark; leasing activity though on par with Q4
- Sublease space remains above 5.0M SF but slow growth
- Rental rates approach $8.00/SF across all property types
- U/C adds 2.4MSF over past 90 days as developers begin to take advantage of COVID driven demand for cold storage and other projects

Market Summary

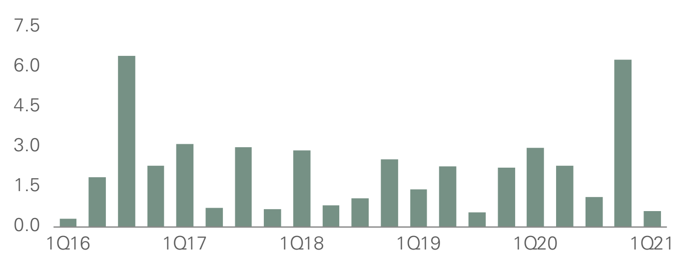
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	639.8 MSF	633.4 MSF	614.4 MSF	↑
Vacancy Rate	9.2%	8.8%	7.6%	↑
Quarterly Net Absorption (SF)	590,951	6,280,140	3,350,391	↓
Average Asking Rent/SF	$7.95	$7.45	$7.16	↑
Under Construction (SF)	14.4 MSF	12.0 MSF	20.8 MSF	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Analytics Show a Rebounding Industrial Sector

COVID-19's impact can most readily been seen in the trends currently underway in the Houston industrial market. In terms of overall leasing demand in the Houston market, the metrics during the quarter showed a market that still sees strong demand and activity. Just over 8.9 million square feet of new leases took place across 495 transactions. Overall transaction size of just over 18,000 SF represented the 7th out of 9 quarters where the transaction size grew against the prior quarter. This metric shows the continued growth that tenants in the market are experiencing as well as the demand that the market has continued to see despite any economic or pandemic related downturns. Overall, the market saw nearly 80 total transactions greater than 40,000 square feet in nature, and more than 30 over 75,000 square feet each. The largest 3 leases of the quarter totaled more than 1.0 MSF and saw such large users as Rooms to Go and Amazon execute new deals for additional growth during the quarter. The overall leasing demand since the "start" of the COVID pandemic, or March 1st, 2020 for the industrial sector in Houston has now topped more than 40 MSF of transactions, with nearly 100 total transactions in that time period being greater than 100,000 SF in nature. As repeatedly highlighted, COVID-19 sparked a large scale demand by purchasers for same day or immediate fulfillment of purchases, ranging from every day consumer goods to groceries to home goods, and as a result, potential tenants will be looking to meet these demands by being closer and closer to rooftops with their new locations. Additionally, as consumer purchasing habits continue to shift away from brick and mortar experiences during the COVID pandemic, industrial space that has a strong cold storage component will continue to see increases in both demand and development. With such retail giants as Amazon, Wal-mart and others, as well as grocers such as HEB, Krogers and Albertsons continuing to see increased demand via on line channels for grocery purchase and delivery, they will need larger warehouses with a significant cold storage component in order to keep up with this demand. Developers and owners will be looking to build new locations and build-out existing space to meet this demand in the next 12 months and beyond. Additionally, cold-storage demand is expected to grow as a result of the multiple vaccines coming on line in the next 12 months throughout the US and beyond. The vaccine demand drive will be impacted the further reaches of the Houston industrial market as medical development companies from College Station to Galveston

Rental rates remained fairly flat, but saw a 50 basis point rise to $7.50 per square foot on a quarter-over-quarter basis. Total vacancy reached 9.2% with total availability rates rising to 12.4%. Both of these metrics are a cause for concern, but the total availability rate did drop 50 basis points on quarterly comparison, although it remains up on a year over year comparison. Likewise, vacancy was up minimally on a 90 day comparison, but saw a nearly 200 basis point jump on a full year. These lagging metrics show the full impact of the COVID crisis is just now cycling through the industrial market, and can be seen as an indicator that 2021 should be a more promising year.

In the construction pipeline, the market currently holds 14.4 MSF of space under construction, with nearly 10 MSF of that total in the Southwest and North submarkets as developers continue to follow rooftops and distribution arteries. This tracks with the continued rise in demand for last mile, 3PL and fulfillment sites closer to the roof tops to where everyone can be reached in a day. However, the fact that more than 40% of the under construction product is being developed on a speculative basis, combined with almost 30 MSF of deliveries in the past 18 months has caused availability rates to spike and concerns that supply may soon exceed demand if developers are not more wary of the type of stock being built.

Asking Rent by Submarket

ASKING RENT	1Q2021	1Q2020	
Southwest	$8.71/SF	$8.30/SF	↑
North	$8.39/SF	$8.17/SF	↑
Northwest	$7.76/SF	$7.48/SF	↑
CBD	$5.22/SF	$5.57/SF	↓
South	$6.26/SF	$6.06/SF	↑

Vacancy Rate by Submarket

VACANCY RATE	1Q2021	1Q2020	
North	11.2%	9.3%	↑
Northwest	9.7%	8.2%	↑
Southwest	8.0%	7.2%	↑
Southeast	10.2%	7.6%	↑
CBD	5.7%	5.2%	↑

Capital Markets Recovery Continues in 2021

Houston's industrial market began to show signs of re-emergence during the past 2 quarters as investors began to cautiously come back to the value-driven "3rd coast". Transaction volume during the first quarter of 2021 continued the slow and steady climb that was seeing in the second half of 2020. The number of transactions overall taking place in the market during the past 90 days were greater than 20, with the majority of the action taking place in the outer reaching Northwest and West submarkets as investors look towards rooftops. While the amount of powder being deployed appears to be less than the prior quarters' marks, the amount of activity taking place gives confidence to investors as the year continues and the state begins to return to normalcy from the pandemic. Additionally, as both the pandemic and oil prices return to a new normal, forecasts show a continued rebound tied largely to a return spike of oil prices within the market in 2021 and 2022. As always, Houston remains the "Energy Capital of the World" and industrial commercial real estate will feed off of that in a large way despite inroads made by additional demand drivers. A key subset to watch over the next 12 to 18 months is investor demand for new product with cold-storage and grocery capabilities as more and more consumers begin to get their grocery and staple goods via online rather than in-person shopping.

COVID-19 Impact Entering 2021 For Houston

While Houston has performed well in terms of overall job losses relative to other major US markets, the Covid-19 virus pandemic impact remains a stressor for all aspects of the Houston market. The latest forecast in terms of net new jobs for the Houston market in 2021 has been revised to show perhaps as many as 60,000 net new jobs returning to the market. However, in the short and mid-term, the COVID-19 pandemic dominates daily life in the city. Many companies have now pushed return-to-work plans to the second half of 2021. Additionally, as variants of the virus continue to spring up, state officials must be vigilant as the state returns to 100% openness. Understanding the long-term effect of this virus regarding the Houston market is something economists and researchers will be studying long after the virus is brought under control.

Despite the best efforts by local, regional, national, and international agencies, the COVID pandemic continues to impact all aspects of life. As a result, the economic forecast for the Houston region remains uncertain and bleak. Houston's economy is driven approximately 60 percent by the U.S. business cycle, 30 percent by oil markets, and 10 percent by long-term factors such as demographics. As COVID-19 is expected to remain a market driver for the remainder of 2021, Houston's economy is not fully forecast to recover from the current U-shape until early 2022.

Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Rooms To Go	Houston – Far West	1006 Jordan Ranch Blvd	New	498,231
Amazon	Houston – Northwest	9155 Derrington Rd	New	368,467
4PX Express	Houston – Southeast	5880 W Fuqua St	New	347,730
Vee Express	Houston – North	8711 Citypark Loop	New	218,015
Soft-Tex	Houston – Southwest	1407 Gillingham Ln	New	166,970
Tramontina USA Inc	Houston – Far West	32045 US Highway 90	New	163,144

Sales Transactions

Buyer/Seller	Market	Building	Price	Price/SF
Sealy/First Industrial	Houston – Northeast	8800 Citypark Loop	$42,000,000	$63
Steve Arnold/Dynamic	Houston – Northwest	9419 Windfern	$16,500,000	$102
Ultimate Construction/Centerpoint	Houston – Northwest	8100 Kempwood	$8,000,000	$37

Submarket Statistics (Combined Class A&B)

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	52,324,966	-	9.7%	-159,483	-159,483	$5.38	$4.10	$5.22
North	121,186,232	3,358,816	14.2%	831,244	831,244	$8.59	$6.18	$8.39
Northeast	39,793,193	-	11.5%	-46,665	-46,665	$6.11	-	$6.11
Northwest	181,933,637	1,758,458	12.1%	-313,767	-313,767	$7.95	$6.43	$7.76
Southeast	114,057,336	2,821,708	14.1%	268,301	268,301	$6.57	$5.09	$6.39
South	48,573,701	475,416	9.2%	44,164	44,164	$5.98	$6.28	$6.26
Southwest	81,962,493	6,044,673	12.1%	419,118	419,118	$8.98	$4.77	$8.71
Market	**639,885,014**	**14,479,867**	**12.4%**	**590,591**	**590,591**	**$7.51**	**$11.23**	**$7.95**

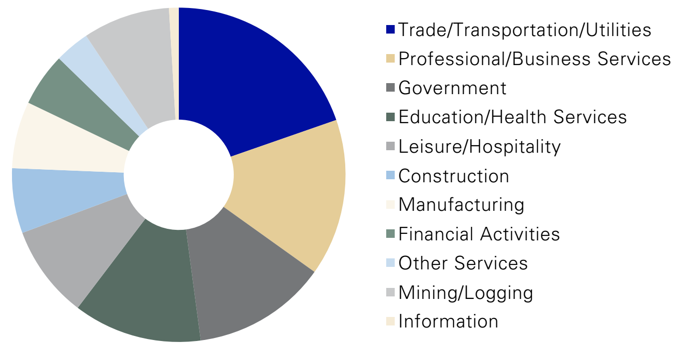
Economic Indicators

As the economy slowly begins to recover from the COVID slump, Houston remains challenged. Most economic forecasts show the Houston economy recovering by mid-year 2022, driven first by recovery in the U.S. economy beginning in Q1 2021 and then by rising oil prices in 2022 and 2023. The Greater Houston Partnership has revised their most recent job growth numbers and is forecasting gains of at least 60,000 net new jobs in 2021.

While positive momentum has been seen in the last 180 days, unemployment rates in Houston remain north of 8.0%, or double the mark at the beginning of the crisis. Continued impact is felt across all subsets of employment, with 12 month growth registering an average 9.0% negative for the top 11 BLS-measured industries in Houston, with the biggest areas of impact in the oil/gas/mining sectors along with retail and hospitality.

Employment By Industry

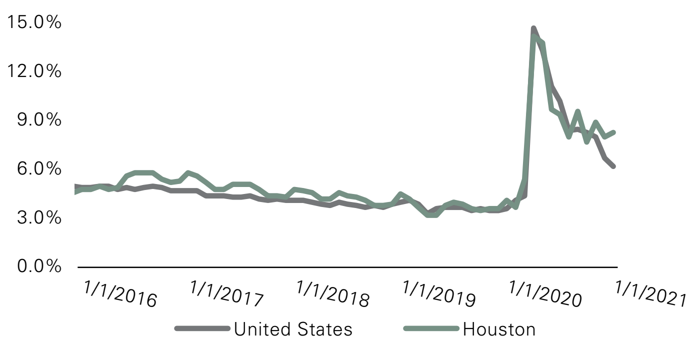
HOUSTON, JANUARY 2021



Source: US Bureau of Labor Statistics, November 2020

Unemployment Rate

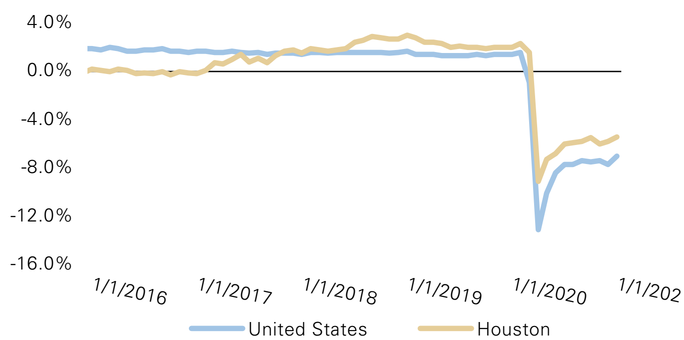
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

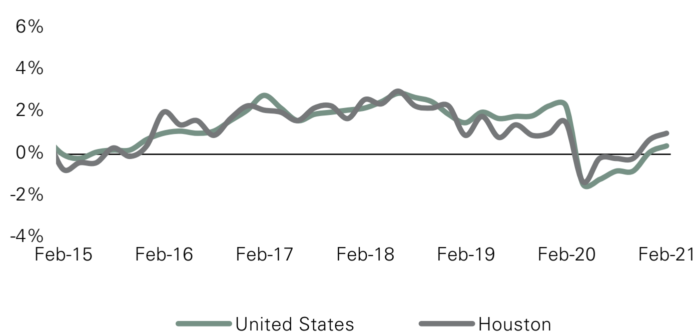
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2020

Consumer Price Index (CPI)

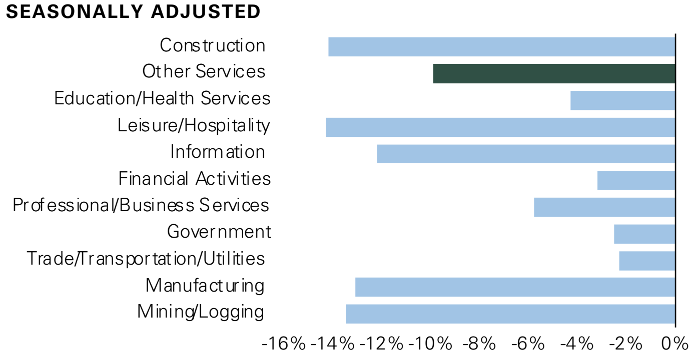
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

Employment Growth (Industry)

HOUSTON, JANUARY 2021, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

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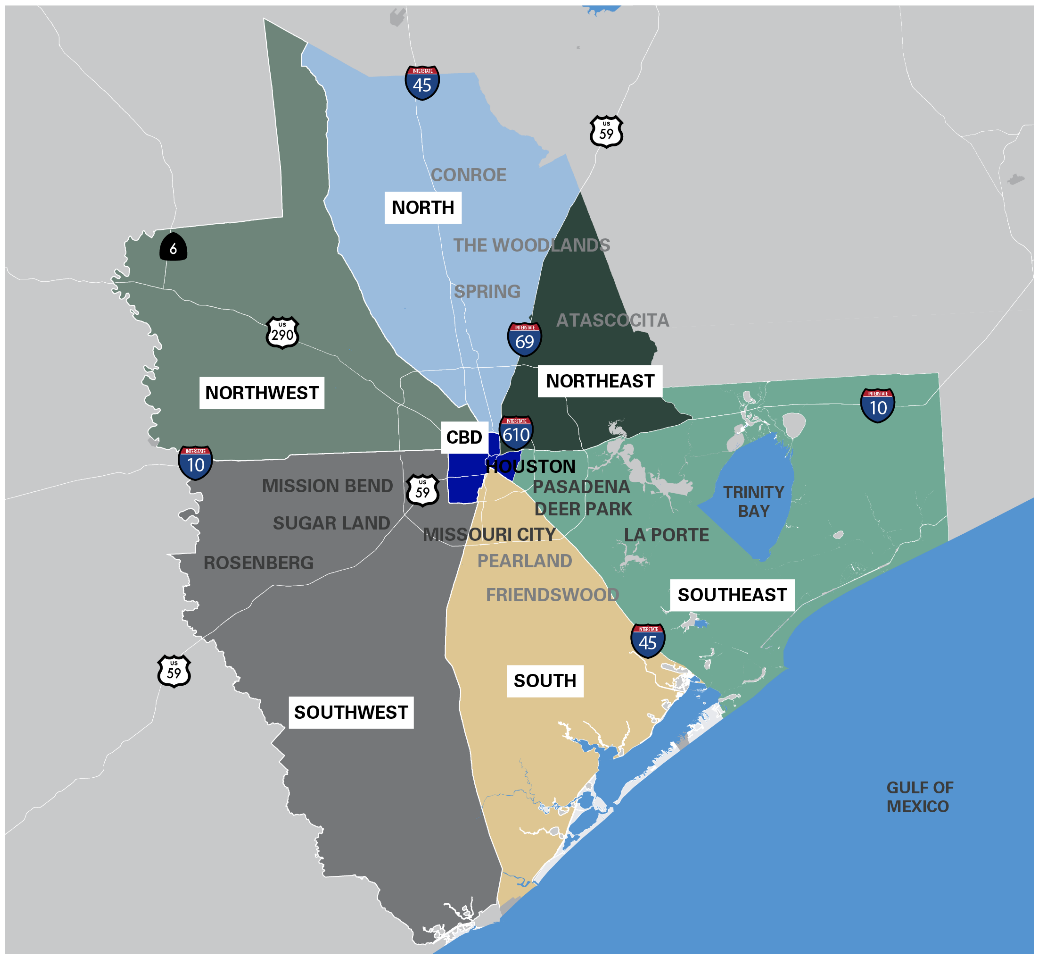

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