HOUSTON

EXECUTIVE SUMMARY

- Positive job growth, low unemployment and increased population contribute to Houston's healthy economy.
- The metro's industrial market is experiencing record construction levels with land prices prompting "out migration" from parts of the city.
- Major retailers are expanding e-commerce operations into larger warehouse and distribution centers due to the area's growing consumer base.
- Following a global trend, developers are incorporating new technology into buildings as tenants seek both efficiency and amenities to recruit and retain top talent.
- Innovation and technology are increasingly important economic drivers as Houston's research community expands in the healthcare and aerospace industries.

Houston's 2020 commercial real estate market outlook is positive with a few challenges in the office sector. The metro's economy continues to recover from a lackluster energy market amid a general slowdown of global trading; nonetheless, job growth should remain positive through 2020. Despite global trade stagnation, Port Houston, a major economic driver, reports increasing volume and value, which should carry over into 2020 to remain among the top ports in foreign and domestic tonnage.

Houston's economy will continue to prosper in 2020, fulfilling its 2019 Business Facilities' fourth-place ranking for both economic growth potential among large metro areas and the nation's best start-up ecosystem. Innovation is sparking excitement as technology start-ups and business incubators are attracted to Houston's custom-designed work spaces. The world's largest medical center is expected to break ground on a 36-acre research campus in 2020, while space technology development at NASA-Johnson Space Center sets up a 2024 moon-landing crew and the Houston Spaceport.

The prevailing flight-to-quality office trend is evidence that new technology is appealing to tenants. Law firms are leasing the city's best offices with both efficient yet flexible working space and high-class amenities to attract top-notch employees. Owners of older class A and B office buildings are recognizing that heavy investment in upgrades and amenities is a must to stay competitive. This healthy competition among traditional class A and new class A properties puts tenants in the driver's seat as occupiers lock in low rental rates and aggressive concession packages. Although new speculative development will be limited as demand warrants, the flight-to-quality trend will continue to stimulate build-to-suit development.

AVISON YOUNG

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	↑	↑
Vacant Space	↑	↓	↑
Construction Levels	→	↑	↑
Leasing Volume	↑	↑	↑
Investment Volume	↑↑	↑↑	↑↑

Owners of older class A and B office buildings are recognizing that heavy investment in upgrades and amenities is a must to stay competitive.

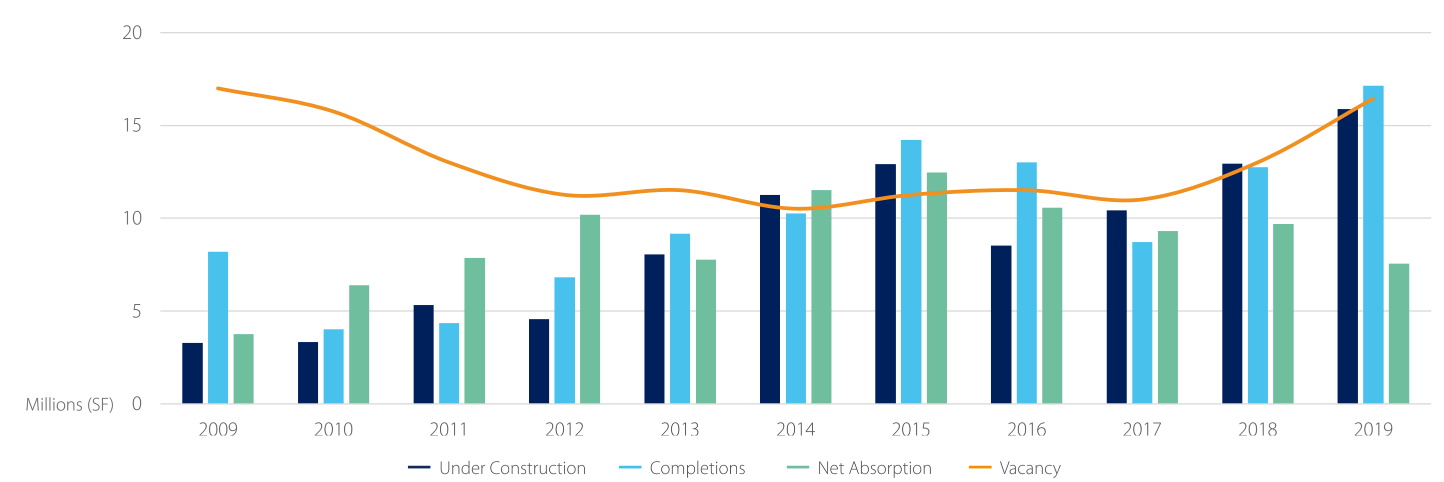
The industrial market remains Houston's best-performing product type as big-box retailers such as Home Depot, Ross, Dollar Tree and various furniture companies like Rooms to Go and American Furniture Warehouse expand to satisfy increased consumer demand. Houston boasted the third-largest population gain in the U.S. during 2018, establishing the region as a distribution hub. Cited by the Urban Land Institute in late 2019 as one of six dominant U.S. markets for industrial supply, Houston has experienced record-level construction which will extend into 2020.

Houston's multi-family market will remain strong through 2020 as record-level construction and escalating rents endure. Occupancy levels should stay above 90% as climbing single-family home prices contribute to increased multi-family absorption.

Houston's retail market will continue to adapt to nationwide trends of increasing on-line commerce and changing consumer preferences with re-purposing vacant mall space. Food halls, food trucks and various pop-ups compete as they deliver changing retail concepts with occupancy also remaining above 90%.

Investor activity in retail and multi-family slowed in 2019 after higher-than-average volume in 2018. Stronger investor interest should return to the nation's fourth-largest city in 2020 amid low interest rates and stability in the energy sector.

INDUSTRIAL SUPPLY AND DEMAND



Source: CoStar Realty Information, Inc.