

Houston



Trends to Watch

10-Year Trend Current Quarter

Unemployment Rate



3.6%

In December, down from 3.9% YOY

Job Growth



88,000

Jobs created 12 months ending December

Industrial Market Vacancy



6%

Direct vacancy rate in December 2019

Purchasing Managers Index



52.5

In January, up from 47.4 in December

Office Market Vacancy



16.7%

Direct vacancy rate in December 2019

Overview

Houston's healthy economy, large population gains and increased Port of Houston activity are keys to the area's continued growth. The U.S. Bureau of Labor Statistics ranked the metro Houston area as the second top metro for job growth between October 2018 and October 2019, and in late 2019, the Urban Land Institute cited Houston as one of six dominant U.S. markets in industrial supply.

Employment

Houston's strong employment growth and low unemployment during 2019 are positive signs for the city's overall economy, which indicates increased diversification while the energy business continues its recovery. Metro Houston created 88,000 jobs, a 2.8% increase, in the 12 months ending December 2019, according to the Texas Workforce Commission (TWC). The December unemployment rate is 3.6%, unchanged from November but lower than the 3.9% reported in December of last year. However, the Greater Houston Partnership (GHP) advises that this level of reported job growth is unsupported by other economic indications and suggests a downward revision to 50,000 to 60,000 jobs after the TWC issues its benchmark revisions this year.

Professional and business services, a sector which could fill office space, added the most jobs,

26,300. Other sectors gaining employment were mining, logging and construction (13,600); trade, transportation and utilities (10,400); and education and health services (10,300).

Population

The Houston metro area had the third largest population growth in the country between April 2010 and July 2018, according to the U.S. Census Bureau. More than one million residents were added between 2010 and 2018, a rate increase of 18.2%. Between 2017 and 2018, greater Houston's population grew by 91,689 – the third largest increase in the country – to 6,997,384. This population upsurge is fueling e-commerce and distribution facilities. Houston is the nation's fifth most populous metro area and the fourth most populous city.

Housing

Low mortgage interest rates and a stable supply of homes created record-breaking home sales in 2019. Houston-area realtors sold 7,505 single-family homes in December 2019, up 14.7% from 6,567 homes in December 2018, according to the Houston Association of Realtors (HAR). Single-family sales recorded a 4.8% improvement year-over-year for an annual total of 86,205. The single-family home median sales price of \$251,000 reflected a 4.4%

increase year-over-year, while the average price was also up 2.5% year-over-year to \$312,922. January sales continued the strong pace with the monthly total up 14.3% from last year and the best January on record.

Purchasing Managers Index

The Houston Purchasing Managers Index (PMI), a short-term leading indicator for regional production, registered 52.5 in January, up from 47.4 in December. Readings above 45 signal overall economic expansion over the next three to four months while readings above 50 signal expansion in the manufacturing sector. The region's January PMI reading breaks a two-month streak of below-50 readings for Houston.

Port of Houston

The Port of Houston continues to break its own records as container volume surged 11% in 2019 compared to the previous year, marking the 18th consecutive year of container growth at the largest container port on the U.S. Gulf Coast. Among the nation's top 10 container ports, the Port of Houston was 2019's fastest-growing, according to IHS Markit PIERs, and accounted for more than 69% of all U.S. Gulf of Mexico container traffic. The Port nearly hit the 3 million mark for 20-foot equivalent units (TEUs), recording 2,987,291 TEUs, the third consecutive year for double-digit TEU growth.

Loaded container exports jumped 17% in 2019, buoyed by historic increases in the export of raw polyethylene resin. Loaded imports grew 5% in 2019, driven by a broad spectrum of sectors including retail, alternative energy, food and beverage and industrial materials. Strong demand for these products remains the driving force of Houston's robust industrial market as the Southeast submarket records the highest net absorption of all sectors during 2019.

The Port of Houston extends its reign as the No. 1 U.S. port by foreign waterborne tonnage and No. 2 by foreign and domestic waterborne tonnage. To maintain that status, the Port of Houston Authority's top priority is the acceleration of the planned widening and deepening construction project, dubbed Houston Ship Channel Project 11. Seeking federal authorization for the expansion, Port officials testified in Congress and are working with the U.S. Army Corps of Engineers and ship channel stakeholders to fast track the 10-year project to five years.

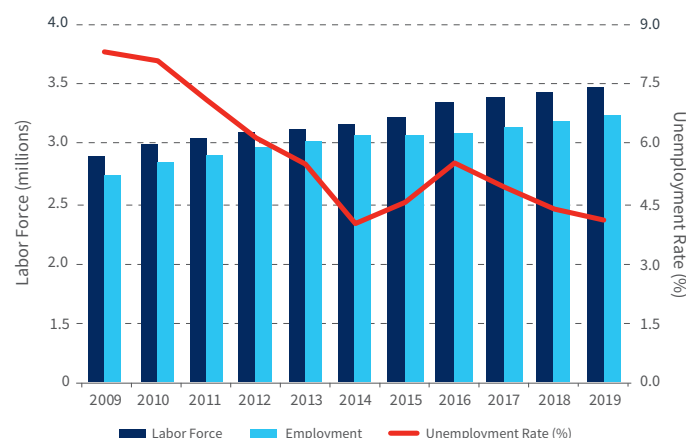
Construction

Overall construction starts slowed for the year but increased 33% when comparing December 2019 to December 2018. Residential construction skyrocketed 75.8%, totaling \$960.2 million compared to December 2018's \$546.1 million. Nonresidential starts were up 2.6%. For the 12 months ending 2019, starts dropped to \$16.6 billion from \$20.7 billion in 2018. The overall total dropped 19.9% from the comparable period in 2018, according to Dodge Data & Analytics.

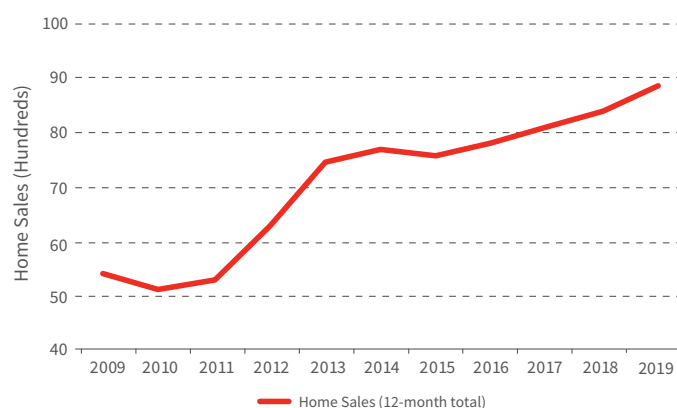
Commercial Real Estate

All commercial real estate sectors are healthy at yearend, with industrial and retail boasting vacancies of 6% and 5.6%, respectively. Multi-family's

Employment

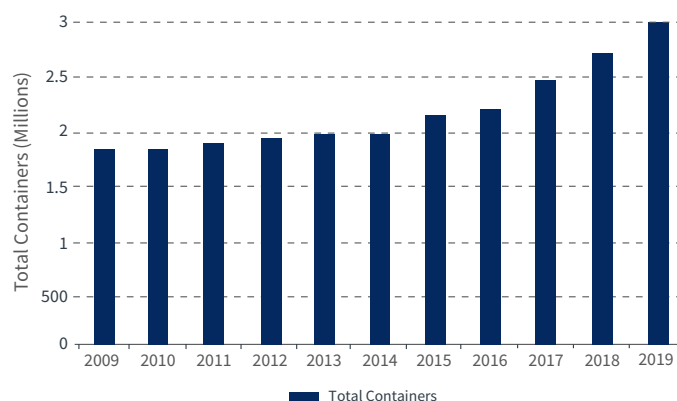


Home Sales

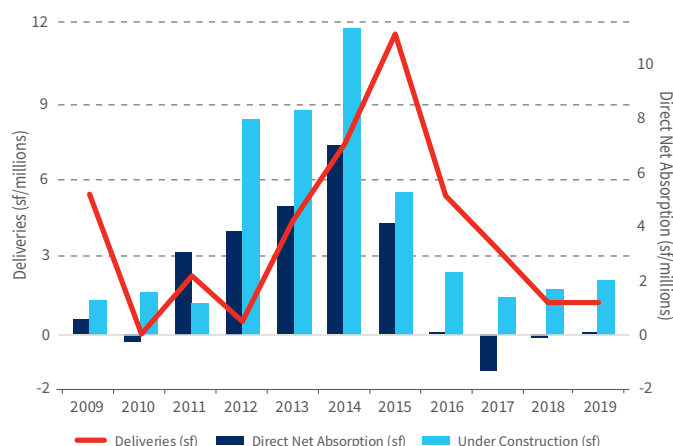


All Property Types			
	December 2018	December 2019	% Change
Sales	7,741	8,879	14.7%
Volume (\$billions)	2,287	2,698	18.0%
Active Listings	37,173	38,504	3.6%
Single Family Homes			
Sales	6,567	7,505	14.3%
Average Price	\$305,376	\$312,922	2.5%
Median Price	\$240,000	\$251,000	4.4%
Pending Sales	4,722	5,796	22.7%

Port of Houston Container Growth



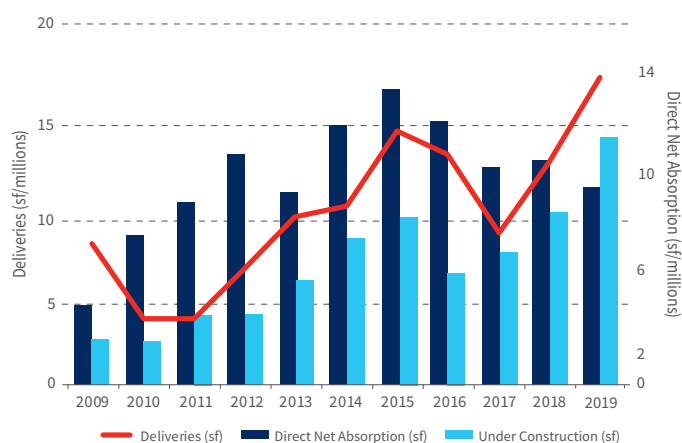
Office Supply & Demand



vacancy is at 9.7% with 27,419 units currently under construction and rental rates increasing. Industrial projects continue to break ground with construction at 19.1 million square feet (msf) at year-end 2019, with another 6 msf breaking ground in early 2020. Deliveries totaled 17.2 msf, with annual net absorption at 8.5 msf.

The office pipeline is at 3 msf, and 42% is attributed to the Central Business District's (CBD) two buildings: Texas Tower's 1.1 msf and Post Houston's 150,000-sf project. The office vacancy is 16.7% for direct space with an additional yet stable 6.6 msf of available sublease space. Net absorption for office properties turned positive in fourth quarter, offsetting previous quarters of negative absorption to end the year with 68,704 sf of positive absorption. The flight-to-quality trend continues as tenants lease the more costly but amenity-rich spaces in the newer and modernized projects. To compete with new buildings, older projects are spending millions of dollars to upgrade; in the CBD alone, more than 12.6 msf of office space is under renovation throughout 13 buildings.

Industrial Supply & Demand



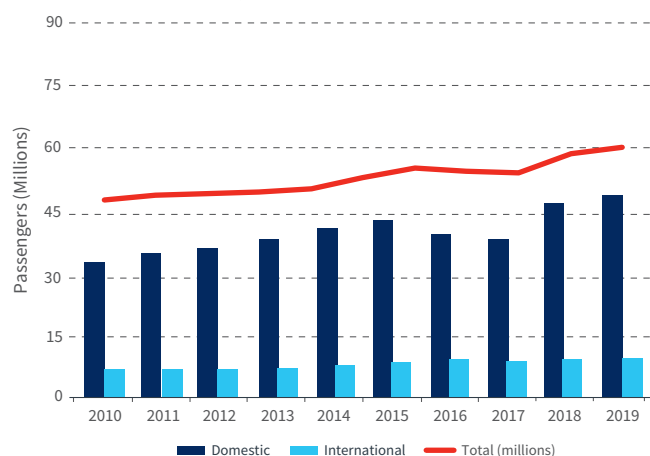
Aviation

Passengers continue to set record-breaking numbers as the Houston Airport System handled 59.7 million passengers in the 12 months ending December 2019, surpassing the 58.3 million passengers during 2018 in both George Bush Intercontinental Airport and William P. Hobby Airport. Bush offers more flights to Mexico than any other U.S. airport, while both airports are highly rated. Both Bush and Hobby airports were ranked in the Top 10 airports in the J.D. Power 2019 North America Airport Satisfaction Study, while Houston continues to be the only city in the Western Hemisphere with two 4-star airports, a global benchmark of airport standards rated by international air transport group Skytrax.

Energy

The closing spot price for West Texas Intermediate (WTI) oil was \$49.57 per barrel as of February 10, down from last year's \$57.00 average. News of the global virus is tumbling world stocks and affecting other economic areas. WTI prices peaked at \$76.40 in early October last year. Baker Hughes reports 796 active drilling rigs as of early February, an 18.5% decrease from 2019's average 943 active drilling rigs, and 24.5% fewer rigs from the same time last year.

Houston Airport System Traffic



(12-Months Ending in June)

Startups and Incubators

Innovation is sparking excitement among Houston's major universities and corporate and medical sectors as technology startups and business incubators are attracted to custom-designed workspaces. The Innovation Corridor, a four-mile stretch along Main Street between the Texas Medical Center (TMC) and downtown with light rail, is housing many new firms. Two nationally ranked, top 15 programs recently opened in the CBD, Boston-based business accelerator MassChallenge and Milwaukee-based gener8tor. Contributing to this excitement are three recent rankings: SmartAsset recognized Houston as the top city in the state and sixth overall nationally for women in technology and sixth for diversity in its STEM workforce.

Rice University's The Ion broke ground in July converting the former 270,000-sf Sears building to a high-end office and collaboration center. Set to open in late 2020, The Ion is part of a 16-acre, Rice-led innovation district in Midtown. And in the Texas Medical Center is the TMC Innovation Institute, a network of accelerators across America promoting national health security innovation. The TMC is also expanding collaborative research capabilities in its future 36-acre TMC³ translational research campus, anticipated to break ground in 2020 and to open in 2022. With multiple new coworking spaces, the GHP estimates that Houston is home to more than 500 digital technology companies. Amazon recently joined them by opening a North American Tech Hub in CityCentre.

Texas Medical Center

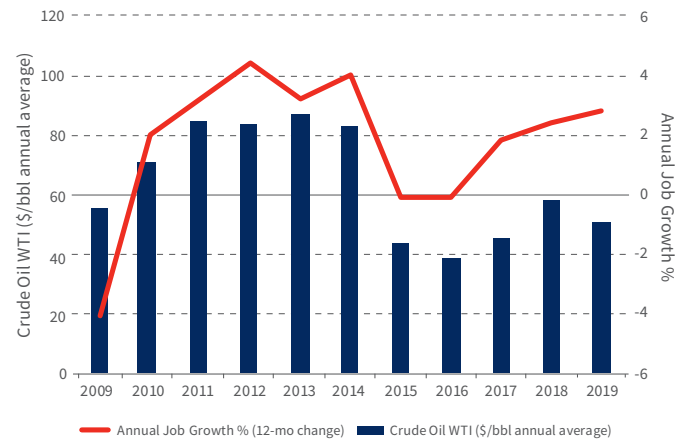
The Texas Medical Center is the largest medical complex in the world and is one of the area's main economic drivers. It is home to both the world's largest children's hospital and the world's largest cancer hospital. Employees working in the 50-msf campus total more than 106,000, and expansion plans currently include \$3 billion in construction projects. Texas A&M recently announced a new complex to include two new towers, the purchase and renovation of a third building, a new student housing project and a mixed-use development for medical offices and retail to break ground in the late 2021, and completion is in mid-2023.

NASA Johnson Space Center

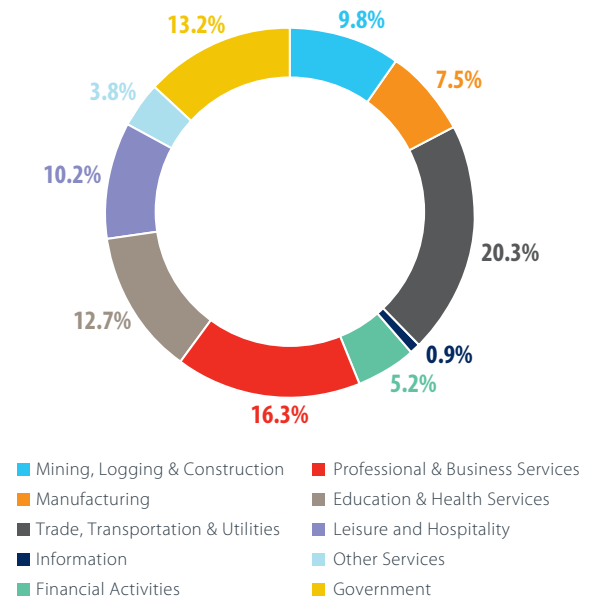
NASA Johnson Space Center (NASA-JSC) is a \$1.5 billion complex housing one of NASA's largest R&D facilities with the nation's most talented, high-tech professionals in science and engineering. Houston's aviation/aerospace community includes more than 150 companies involved in aircraft or space vehicle manufacturing, engineering, space research and technology. NASA has developed technologies for space exploration that also have applications in other industries, such as in energy and healthcare, and is encouraging more private sector involvement in aerospace.

NASA is currently working on landing a crew on the moon by 2024 through its Artemis project, which includes the Space Launch System heavy-lift rocket, Orion crew vehicle and the Gateway outpost. Another ongoing project is the Houston Spaceport located at Ellington Airport and part of the HAA. Key infrastructure upgrades recently delivered include a new state-of-the-art air traffic control tower that supports general aviation and will be crucial for the Houston Spaceport. Construction of streets along with other infrastructure is underway in the Spaceport's Phase 1 expansion.

Oil Prices and Job Growth



MSA Employment by Industry (December)



Sources: Texas Workforce Commission, U.S. Census Bureau, Houston Association of Realtors, Greater Houston Partnership, Port Houston, U.S. Energy Information, Baker Hughes Rig Count, CoStar, Dodge Data & Analytics, Houston Airport System, Bay Area Houston Economic Partnership, NASA, Avison Young Research

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