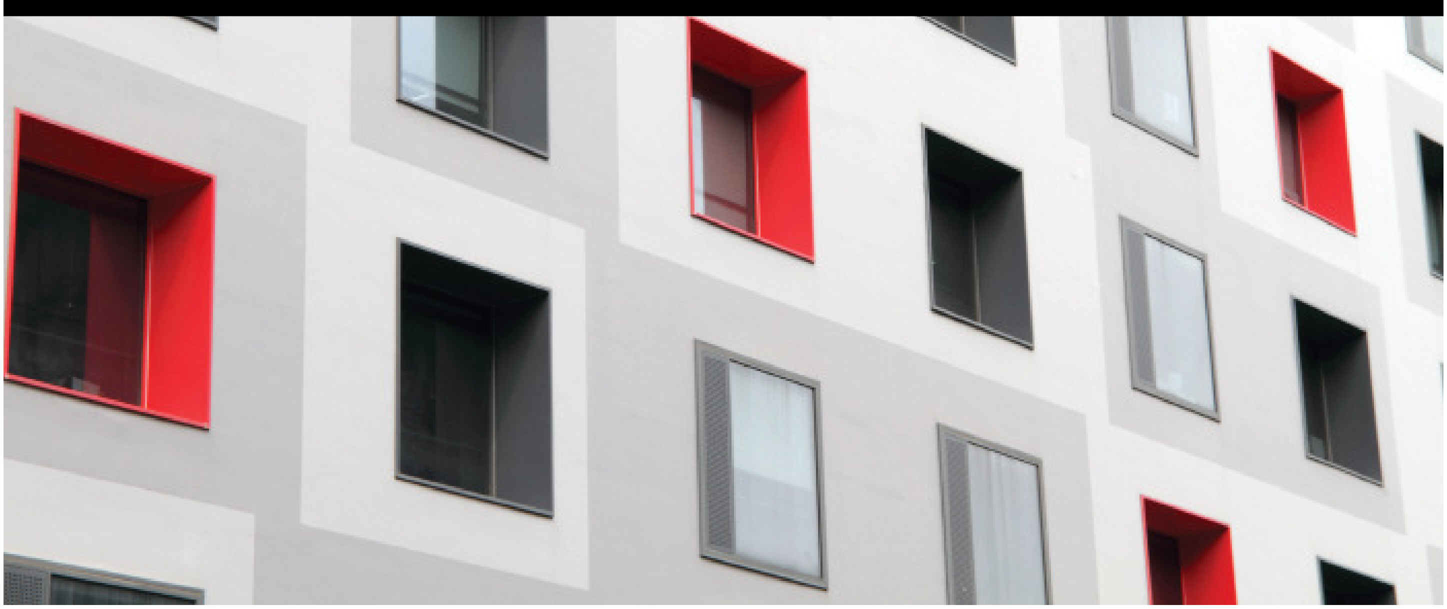
HENRY S. MILLER

2015 TRENDS 2016 OUTLOOK



Methods change.
Principles endure.
Service and integrity since 1914.

Brokerage - All Property Types

- Commercial Sales
- Land Sales
- Investment Sales
- Commercial Leasing
- Tenant Representation
- Business Brokerage

Consulting

- Commercial Appraisals
- Market/Feasibility Studies
- Eminent Domain
- Litigation Support
- Cash Flow Modeling

Development

- Single-Family Subdivisions
- Multi-Family
- Commercial

Property Management

- Commercial Management Supervision
- Construction Management
- Budgeting, Forecasting & Accounting

Investment Partners

- Syndication
- Mortgage Banking
- Asset Management
- Equity Partnerships

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Greg Miller
President & CEO
Henry S. Miller Companies

Great things are happening at HSM

The U.S. consumer remains the growth driver for the economy. According to the June 2016 ITR Economics Report, US retail sales totaled $2,266 trillion for the 12 months ending in April, which is up 2.1% over the previous period. Retail sales, excluding gas stations, for the last 3 months was 5.8% higher than the same 3 months last year. This is encouraging because the average rate of change for the last 10 years was only 2.9%. Gas station sales are down 11.6% year over year due to persistently low gas prices. In 2015 retail sales totaled $2.224 trillion, up 2% over 2014.

ITR Economics also reports that average U.S. personal savings increased from 4.8% in 2014 to 5.2% in 2015, which means consumers are able to maintain or increase their spending in the future. Accordingly, retail construction will likely experience accelerating growth as consumers drive retail sales higher. Furthermore, increased online purchasing activity will help keep warehouse construction expanding as online sales require new distribution centers to meet demand. Oil prices are finally on a steady rising trend and, accordingly, should help stabilize the oil and gas industry.

According to the Texas Comptroller of Public Accounts, the Texas unemployment rate last year was 4.7% in Texas and 4.9% nationally. Over the past year, Texas added 166,900 total jobs in 9 of the 11 major industries, including professional and business services, trade, transportation and utilities, leisure and hospitality, education and health services, construction, government, financial activities, information and other services. While the persistently low oil prices have taken some of the energy out of the Texas economy, the growth in jobs and population in the booming Dallas-Fort Worth metro area helped keep the Lone Star State the best economy in the country.

Great things are happening at Henry S. Miller Company. We continue to grow with many new associates through an aggressive hiring campaign. We dramatically grew our Austin office last year. Our brokerage operation is "cooking with gas" and we have several exciting new development projects in the pipeline.

On the equity side, we recently:

- added a first-class 188,000 SF shopping center in North Richland Hills to our portfolio.
- recapitalized and began multi-million dollar renovations at two of our largest shopping centers in Dallas.
- completed and sold the final lots in a single-family lot subdivision development in the affluent Preston Hollow neighborhood.
- sold a first class, 135-unit apartment project that we developed in Richardson.

We continue to work on several on-going single-family subdivision, apartment, townhome and retail development projects.

With over 100 years in the business, Henry S. Miller remains the leading independent, full-service commercial real estate development, brokerage, appraisal and consulting operation in Texas. With offices in Dallas, Houston, Austin, San Antonio and El Paso, we're your first call for any commercial real estate needs in Texas.

"Being associated with HSM for over 25 years, I have had the privilege of working with and for some of the top real estate executives in North Texas.

Having frequent lunches with Henry S. Miller, Jr. and Vance C. Miller, I had the opportunity to meet some of the real estate industry legends while dining with two of the best. I understand the principles and integrity upon which HSM was built and will continue to live by them going into the organization's next century. I am honored to be associated with the organization and very excited about what the future holds."

- Mark O'Briant

Mark O'Briant
Managing Director
Henry S. Miller Companies

Our future looks bright

Mark O'Briant was recently announced as the new Managing Director of Henry S. Miller Realty Services. Mark will now oversee HSM Brokerage, Management, Appraisal and Consulting divisions, and Equity Partners.

"Mark is an extremely knowledgeable and talented real estate professional who has played an integral part of the Miller organization for over 25 years. He earned this promotion through relentless dedication, fearless leadership and strong work ethic. He has hit the ground running and we're excited about the direction he is taking our brokerage, property management and appraisal/consulting divisions," said Greg Miller.

He began his real estate career after receiving a Bachelor of Science in December 1985 and a Masters in Land Economics and Real Estate in May 1987 from Texas A&M University, College Station. Mark received his MAI designation in 1992 and a CRE designation in 2006. He is a General Certified Appraiser and Licensed Real Estate Broker in the State of Texas. He has served as President of the Consulting and Management divisions at Henry S. Miller for many years and manages the Research and Marketing Department.

APPRAISAL & CONSULTING

Mark O'Briant
President

2015 was another great year for our Appraisal & Consulting Division which completed more than 300 assignments. The real estate market has continued to strengthen and we are seeing activity in all property types including new development.

Henry S. Miller Consulting, LLC is comprised of highly trained and experienced professionals, including four designated MAI's and six additional appraisers with almost 200 years of experience. The team has extensive experience in cash flow modeling, analysis of investment grade properties, fee simple, leased fee, and leasehold estates, as well as partial interests. The Appraisal & Consulting Division provides a wide array of services, including: traditional appraisals, market and feasability studies, investment analysis, and litigation support services. This includes expert witness testimony, as well as appraisals for eminent domain/condemnation matters.

PROPERTY MANAGEMENT

Mark O'Briant
President

As of Year End 2015, HSM realty managed in excess of 1.5 million SF of commercial space within 35 properties. Of this total, approximately 914,000 SF is located within 16 centers owned by Henry S Miller. An additional 188,000 SF of space was added in 2016 with the purchase of The Crossing shopping center in North Richland Hills. Our experienced and dedicated property management team provides the highest level of comprehensive management services in an effort to meet the goals and objectives of the tenants in a smaller, more personal environment.

RETAIL

The DFW retail market reported strong growth trends in 2015. With net absorption outpacing deliveries by nearly 1.3 million square feet, overall occupancy increased to 94% and the average quoted rental rate increased to $14.47 per square foot. Continued growth is anticipated through 2016. With more than 3.97 million PSF of space under construction as of the 1st Quarter 2016, occupancy increased another 20 basis points and lease rates increased 1.3% (to $14.66 per square foot). This is the highest average quoted lease rate for the DFW area since 2001.

CORPORATE SERVICES

Dan Arnold
EVP

Dallas-Fort Worth again led the nation in job growth in 2015, which has been primed by corporate headquarters and regional consolidations including Toyota, Liberty Mutual, Chase Bank and State Farm. The Dallas Chamber announced a staggering 65 corporate relocations to DFW in 2014 and another 54 in 2015. And all indications are that it is just the tip of the iceberg as more relocation announcements are expected in 2016. Markets in Frisco, Las Colinas, Richardson and Uptown have seen tremendous growth in the newer live, work and play developments. Office absorption for 2015 was 1.52 million in rentable square feet and, even though rental rates continue to rise with Class A rates now over $30.00 and in a few buildings over $50.00 per square foot, the market is still a bargain on a national perspective. Expect 2016 to be another blockbuster year in the office market.

EQUITY PARTNERS

Mark Smith
VP
HSM Equity Partners

DFW is a GREAT market to be in! 2016 should be another good year for retailers, new development, retrofitting of existing properties and acquisitions. Continued job growth, corporate relocations and low interest rates all contribute toward maintaining retail demand in our market.

Rising construction costs and rising land prices continue to force developers to perform more due diligence that will keep our market in balance. We expect the retail market to maintain a 90+% occupancy rate in 2016 and keep the momentum going for an extended period of time.

DEVELOPMENT

Jeff McKenney
VP

The DFW market remains strong for new single-family housing. With an increase of close to 100,000 new jobs in the DFW market in 2015, the need for new homes is still a top priority. Even with the downturn in the energy sector, DFW remains very strong economically due to the diverse business sectors. Increasing incomes will allow more consumers the ability attain ownership in single-family homes versus renting. The pro-business environment in DFW and Texas will continue to draw companies and workers to the DFW area. The economics during 2016 for the single-family housing market will remain very strong.

INDUSTRIAL

Dan Spika
EVP/Principal

The Industrial market will remain strong throughout 2016. It is truly a landlord's market. Rates are sky high and concessions are almost non-existent. Construction costs are at an all-time high, labor and material prices are up over 30% and, as usual, land sites are tough to find. North Texas ranks 2nd nationally in industrial building demand. Only Southern California's Inland Empire has more demand for warehouse space. A few developers are building newer small product, but the big players in the market prefer the large box development. Owner-occupant buildings in the 30,000-100,000 SF range north of I-30 and along I-35 are almost impossible to find. Asking prices have escalated to $50-$60.00 PSF!

INVESTMENTS/LAND

Darrell Hurmis
EVP/Principal

2015 continued the amazing run on investment properties that we experienced in 2014. The hottest segment was multi-family followed closely by retail. Positive absorption numbers and major corporate relocations to the area have spurred construction and have fueled a single-family land rush. This trend should continue this upcoming election year and through 2017. Interest rates increased in January and another small rise is anticipated later this year. This interest rate increase should motivate buyers to take advantage of record low rates before more increases occur. The recent oil & stock market slide will continue to move investors to solid real estate investments.

CAPITAL MARKETS

Chris Farrar
Director
HSM Equity Partners

Transaction volume in 2015 was slightly lower than in recent years, with the first half of 2015 exhibiting more favorable conditions. While interest rates remained low for the majority of 2015, the recent volatility in the capital markets was felt in early 2016. However, historically speaking, rates are still competitive and transactions will continue to close. Lenders have adjusted their underwriting standards to adapt to the current environment. Sources of lending capital that are still active include life companies, commercial banks, CMBS and private debt funds. Similar to the debt markets, private equity has also become more selective in investments. Investors have adjusted their targeted returns and also conformed to the lower leverage requirements. As a result, buyers are now focused on shorter investment horizons and more off-market transactions which yield quicker returns.

Going forward in 2016, transaction levels are expected to remain consistent, while rates will hover around their current levels. Both capital and equity investors are plentiful, which bodes well for all aspects of commercial real estate, specifically Texas!

What capitalization rates are being achieved, or do you see reflected by the market?

Capitalization Rates (%)

Class	Property Type	Going In Avg	Going In Low	Going In High	Stabilized Avg	Stabilized Low	Stabilized High	Reversion Avg	Reversion Low	Reversion High
CLASS A	**Apartments**	5.12%	4.00%	6.50%	5.42%	4.25%	7.25%	5.60%	4.50%	6.50%
	Office	5.69%	3.20%	7.00%	6.42%	4.00%	7.50%	6.81%	5.00%	8.00%
	Retail	6.33%	4.00%	10.00%	6.65%	5.00%	8.00%	7.08%	5.50%	8.50%
	Industrial	5.90%	5.00%	7.50%	6.28%	5.25%	7.00%	6.56%	5.50%	7.50%
	Hotel	6.83%	6.00%	7.50%	7.83%	7.50%	8.00%	8.67%	8.50%	9.00%
	Net Lease	5.21%	4.50%	6.50%	5.67%	4.50%	7.00%	6.23%	5.00%	8.00%
CLASS B	**Apartments**	5.92%	4.50%	7.50%	6.22%	5.00%	7.50%	6.46%	4.00%	8.00%
	Office	7.06%	6.00%	10.00%	7.34%	6.50%	8.25%	7.85%	6.75%	9.00%
	Retail	7.13%	5.00%	10.00%	7.50%	6.30%	9.00%	8.05%	7.00%	9.00%
	Industrial	6.88%	5.00%	10.00%	6.90%	5.00%	7.50%	7.56%	6.50%	8.50%
	Hotel	7.38%	7.00%	8.00%	7.88%	6.00%	8.50%	8.13%	5.00%	9.50%
	Net Lease	5.75%	5.00%	7.00%	6.03%	5.00%	7.00%	6.47%	5.50%	8.00%
CLASS C	**Apartments**	6.89%	6.00%	8.00%	7.44%	6.00%	8.50%	7.48%	6.50%	8.50%
	Office	7.94%	4.50%	12.00%	8.21%	7.50%	9.00%	8.61%	8.00%	9.25%
	Retail	8.21%	6.13%	11.00%	8.36%	7.50%	9.00%	8.86%	8.00%	9.50%
	Industrial	8.20%	7.00%	12.00%	7.96%	7.25%	8.50%	8.21%	7.50%	9.00%
	Hotel	8.25%	7.50%	9.00%	9.25%	9.00%	9.50%	9.75%	9.50%	10.00%
	Net Lease	7.08%	6.00%	8.00%	7.50%	6.50%	9.00%	7.71%	6.00%	10.00%

What are your IRR requirements for the following?

Required Land Yields (%)

Property Type	Leveraged Equity Rates Avg	Leveraged Mode	Leveraged Low	Leveraged High	Unleveraged Equity Rates Avg	Unleveraged Mode	Unleveraged Low	Unleveraged High
Residential Lot Development	22.45%	20.00%	12.00%	35.00%	18.00%	15.00%	12.00%	35.00%
Speculative Land Purchase	29.00%	25.00%	15.00%	75.00%	25.00%	20.00%	15.00%	75.00%

What are your anticipated required equity returns for the following investment types?

Equity Returns (%)

Property Type	Leveraged Equity Rates Avg	Leveraged Mode	Leveraged Low	Leveraged High	Unleveraged Equity Rates Avg	Unleveraged Mode	Unleveraged Low	Unleveraged High
Apartments	11.60%	10.00%	9.00%	18.00%	8.40%	8.00%	7.00%	12.00%
Office	14.10%	12.00%	12.00%	20.00%	9.60%	10.00%	8.00%	12.00%
Retail	14.00%	12.00%	12.00%	18.00%	11.40%	8.00%	8.00%	20.00%
Industrial	14.00%	11.00%	10.00%	25.00%	9.50%	8.00%	7.00%	15.00%
Hotel	16.00%	15.00%	12.00%	22.00%	9.70%	10.00%	9.00%	10.00%
Net Deals	8.30%	8.00%	7.00%	10.00%	7.00%	6.00%	6.00%	8.00%

What are typical finish-out costs per square foot for the following?

Finish Out ($ PSF)

Property Type	Shell Avg	Shell Mode	Shell Low	Shell High	New Avg	New Mode	New Low	New High	Renewal Avg	Renewal Mode	Renewal Low	Renewal High
Office	$40.73	$35.00	$30.00	$70.00	$21.91	$20.00	$5.50	$40.00	$10.03	$15.00	$0.00	$18.00
Offiice/Medical	$72.73	$40.00	$40.00	$150.00	$28.50	$25.00	$10.00	$50.00	$10.50	$10.00	$5.00	$20.00
Industrial Flex	$23.11	$15.00	$15.00	$35.00	$10.61	$10.00	$5.50	$15.00	$4.44	$5.00	$0.00	$10.00
Industrial Bulk	$8.29	$3.00	$3.00	$25.00	$4.06	$2.00	$2.00	$10.00	$1.63	$1.00	$0.00	$5.00
Retail Anchored	$30.63	$25.00	$20.00	$40.00	$21.48	$15.00	$10.00	$50.00	$6.33	$5.00	$4.00	$10.00
Retail Unanchored	$32.50	$30.00	$25.00	$40.00	$17.89	$15.00	$10.00	$40.00	$5.78	$5.00	$4.00	$10.00
Restaurant	$51.88	$40.00	$40.00	$80.00	$26.67	$25.00	$20.00	$40.00	$8.00	$10.00	$2.00	$10.00

What do you consider to be a reasonable holding (acquistion to resale) period?

Holding Period (years)

Property Type	Average	Mode	Low	High
Apartments	5.60	5.00	3.00	10.00
Office	6.10	5.00	3.00	10.00
Retail	7.00	5.00	2.00	15.00
Industrial	6.70	10.00	3.00	10.00
Hotel	6.50	5.00	5.00	10.00
Ground Leases	8.50	10.00	2.00	10.00

What leveraged yields or discount rates do you see reflected by the market?

Discount Rates (%)

Property Type	Average	Mode	Low	High
Apartments	8.10%	7.00%	7.00%	12.00%
Office	8.30%	7.50%	7.50%	10.00%
Retail	8.90%	8.50%	7.50%	10.00%
Industrial	8.40%	9.00%	7.00%	10.00%
Hotel	9.50%	-	8.00%	11.00%
Ground Leases	7.00%	7.00%	5.00%	9.00%

What growth rates do you anticipate for revenue and expenses during the next few years?

Revenue and Expense Expectations (%)

	Property Type	Year 1 Rev	Year 1 Exp	Year 2 Rev	Year 2 Exp	Year 3 Rev	Year 3 Exp
AVERAGE	**Apartments**	2.96%	2.58%	2.77%	2.54%	2.65%	2.63%
	Office	3.11%	3.10%	3.05%	2.91%	2.82%	2.99%
	Retail	2.44%	2.19%	2.44%	2.31%	2.81%	2.71%
	Industrial	3.11%	3.00%	3.00%	3.11%	3.00%	3.17%
	Hotel	2.50%	2.00%	2.50%	2.00%	2.50%	2.00%
MODE	**Apartments**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Office	3.00%	4.00%	3.00%	3.00%	3.00%	3.00%
	Retail	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Industrial	2.50%	4.00%	4.00%	4.00%	3.00%	3.00%
	Hotel	3.00%	3.00%	3.00%	3.00%	2.50%	3.00%
RANGE	**Apartments**	2.00%	5.00%	2.00%	3.00%	1.00%	4.00%
	Office	2.00%	5.00%	2.00%	4.00%	2.00%	3.00%
	Retail	1.00%	4.00%	1.00%	3.00%	1.00%	5.00%
	Industrial	2.00%	3.00%	2.00%	4.00%	2.00%	5.00%
	Hotel	2.00%	3.00%	2.00%	3.00%	2.00%	3.00%

What do you consider to be a reasonable marketing period?

Reasonable Marketing Period (months)

	Property Type	Average	Mode	Low	High
Apartments	**Class A**	4.62	6.00	1.00	9.00
	Class B	5.65	6.00	1.00	12.00
	Other	6.81	6.00	3.00	12.00
Office	**High Rise**	6.11	6.00	1.00	12.00
	Class A Suburban	6.53	4.00	4.00	12.00
	Class B	7.95	8.00	3.00	18.00
	Other	8.64	10.00	4.00	12.00
Retail	**Regional**	5.79	6.00	1.00	9.00
	Community	6.5	6.00	3.00	12.00
	Neighborhood	6.65	6.00	4.00	12.00
	Unanchored	7.31	6.00	3.00	12.00
Land	**Ground Leases**	5.19	6.00	3.00	9.00
	Net Leases	5.11	4.00	2.00	0.00
Industrial	**Bulk Warehouse**	5.76	6.00	2.00	12.00
	Office/Warehouse	6.45	6.00	2.00	12.00
	Tech Flex	7.47	8.00	3.00	12.00
Hotels	**Full Service**	7.00	7.00	3.00	10.00
	Limited Service	6.60	6.00	4.00	10.00
	Economy	6.50	6.00	4.00	10.00

Building Permits, Population and Employment Data

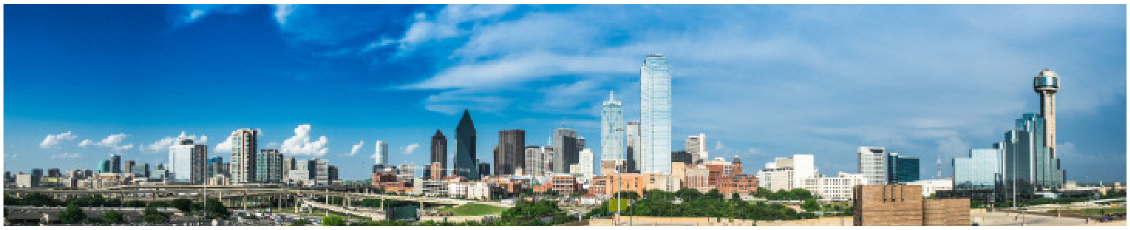
Year	Building Permits DFW MSA			Population DFW MSA			Employment DFW MSA		
	Single Family	Multi Family	Total Permits	Total Population	Population Growth	Population Growth/ Total Permits	Total Employment	Employment Growth	Employment Growth/ Total Permits
1994	22,378	11,621	33,999	4,426,050	104,349	3.07	2,336,107	79,048	2.33
1995	22,125	14,517	36,642	4,536,179	110,129	3.01	2,401,437	65,330	1.78
1996	25,540	13,289	38,829	4,664,290	128,111	3.30	2,478,005	76,568	1.97
1997	26,580	17,730	44,310	4,808,429	144,139	3.25	2,573,895	95,890	2.16
1998	32,063	22,541	54,604	4,957,705	149,276	2.73	2,644,958	71,063	1.30
1999	32,596	15,121	47,717	5,101,405	143,700	3.01	2,726,834	81,876	1.72
2000	36,164	8,604	44,768	5,204,126	102,721	2.29	2,771,957	45,123	1.01
2001	37,844	11,990	49,834	5,376,413	172,287	3.46	2,783,449	11,492	0.23
2002	38,357	13,330	51,687	5,482,944	106,531	2.06	2,757,964	-25,485	-0.49
2003	41,283	12,278	53,561	5,575,785	92,841	1.73	2,758,848	884	0.02
2004	48,220	8,281	56,501	5,666,333	90,548	1.60	2,806,821	47,973	0.85
2005	49,644	10,420	60,064	5,776,543	110,210	1.83	2,866,912	60,091	1.00
2006	43,780	12,923	56,703	5,942,755	166,212	2.93	2,936,864	69,952	1.23
2007	29,878	15,412	45,290	6,081,907	139,152	3.07	2,974,884	38,020	0.84
2008	19,327	18,438	37,765	6,211,115	129,208	3.42	2,992,924	18,040	0.48
2009	15,180	6,331	21,511	6,341,740	130,625	6.07	2,938,618	-54,306	-2.52
2010	15,581	5,146	20,727	6,426,214	84,474	4.08	3,034,168	95,550	4.61
2011	15,350	11,120	26,470	6,574,298	148,084	5.59	3,119,143	84,975	3.21
2012	20,229	17,272	37,501	6,709,559	135,261	3.61	3,198,330	79,187	2.11
2013	23,646	16,718	40,364	6,822,353	112,794	2.79	3,272,454	74,124	1.84
2014	25,126	18,868	43,994	6,958,092	135,739	3.09	3,357,272	84,818	1.93
2015	29,038	28,108	57,146	7,102,796	144,704	2.53	3,438,520	81,248	1.42
AVERAGE Past 22	29,542	14,094	43,636	5,761,229	126,413	3.12	2,871,380	53,703	1.32
AVERAGE Past 10	23,714	15,034	38,747	6,517,083	132,625	3.72	3,126,318	57,161	1.51
AVERAGE Past 5	22,678	18,417	41,095	6,833,420	135,316	3.52	3,277,144	80,870	2.10
AVERAGE Past 3	25,937	21,231	47,168	6,961,080	131,079	2.80	3,356,082	80,063	1.73

Source: Real Estate Center at Texas A&M University

Projected Population & Population Growth

Year	Total Projected Population	Projected Population Growth
2016	7,268,910	166,114
2017	7,424,256	155,346
2018	7,584,701	160,445

Source: TXDOSHS



Featured In: TEXAS REAL ESTATE BUSINESS

Are We Over Building Multi-Family in Dallas?

Let's Review the Data...

Mark O'Briant, MAI, CRE

Most of us have read articles or seen reports that suggest we are building too many apartment units in the DFW metroplex. Thus, we potentially could have a surplus of multi-family units resulting in lower occupancies and rents stabilizing (sorry to all the apartment renters - don't anticipate rents going down). Let's review historical data and trends, then see if we are truly over building. The table on the facing page presents building permits for single and multi-family units for the past 22 years. The table also provides population and employment figures along with the annual growth over the past 22 years. This data reflects the Dallas-Fort Worth-Arlington MSA.

Over the past 22 years single-family permits have averaged 29,542 annually although they have only averaged 22,678 annually from 2011 to 2015. Thus, over the past five years there were 34,320 less single-family units delivered than what the market has historically absorbed (29,542 – 22,678 X 5). In comparison, multi-family permits (2+ units) have averaged 14,094 annually over the past 22 years and 18,417 annually from 2011 to 2015. The averages for the past three years, 2013 through 2015, demonstrate an increase in annual permits for single-family (25,937) and multi-family (21,231). The combined past three year average of 47,168 permits is above the 22 year average of 43,636 permits.

Multi-family permits have most likely increased as a result of a significant decrease in single-family permits, especially when comparing the single-family permits which occurred from 2000 to 2006. We have only recently seen the single-family permits reach the levels achieved prior to 2007. Considering the increased cost of land, materials and labor, we do not anticipate a significant increase in single-family units for 2016 and 2017.

Population and employment trends and projections, noted in the facing table, would suggest an annual need for between 48,000 to 65,000 residential units, based on average household size of 2.5 to 3.5 persons. So if we only add 30,000 single-family units then the multi-family segment would need to make up the difference and add 18,000 to 35,000 units annually.

As of the 1st Quarter 2016, MPF reports that there are 43,185 multi-family units under construction or basically coming on-line over the next two years. Of this total, 27,334 are slated for completion by the end of the 1st quarter 2017. Based on typical construction times of 12 to 16 months, the overall total for the two year period could potentially increase. Considering the projected population and employment growths, the number of multi-family units under construction appear reasonable.

As with any statistical data and real estate markets there are exceptions and yes there could be some multi-family submarkets that see a decrease in occupancy based on deliveries exceeding demand; however, as previously noted, it is extremely doubtful that there would be a decrease in rents. As previously noted, the rising cost of land, materials and supplies for single-family construction has also increased the demand for multi-family units. The increasing cost of single-family units has also allowed multi-family owners to increase rents, as the monthly cost of the mortgage, homeowners insurance, property taxes and general upkeep and maintenance would exceed $2,000 per month on a $250,000 home, which in and of itself is becoming harder to find.

The projected employment and population growth within the metroplex will continue to fuel the housing market and, based on the data presented, it would appear that multi-family developers are simply providing or filling a void of demand not being met by single-family builders.

What stabilized vacancy and collection loss percentage do you use when analyzing the following?

Vacancy and Collection Loss (%)						
Property Type			Average	Mode	Low	High
MULTI TENANT	Apartments	Class A	5.69%	5.00%	4.00%	10.00%
		Class B	6.29%	5.00%	5.00%	8.00%
		Class C	7.96%	7.00%	5.00%	10.00%
	Office	Class A	7.13%	5.00%	5.00%	10.00%
		Class B	8.89%	10.00%	5.00%	15.00%
		Garden (Class C)	9.91%	10.00%	5.00%	15.00%
		Small	10.25%	10.00%	7.00%	15.00%
	Retail	Strip Center	8.00%	10.00%	4.00%	10.00%
		Neighborhood	7.63%	5.00%	4.00%	15.00%
		Anchored	6.38%	5.00%	4.00%	13.00%
		Multi-anchor	6.04%	6.00%	4.00%	10.00%
	Industrial	Bulk	6.06%	5.00%	3.00%	10.00%
		Flex	8.06%	10.00%	5.00%	10.00%
SINGLE	Retail	Credit	1.33%	0.00%	0.00%	5.00%
		Non-Credit	5.80%	8.00%	0.00%	10.00%
	Industrial	Credit	2.63%	0.00%	0.00%	5.00%
		Non-Credit	6.50%	6.00%	0.00%	10.00%
	Office	Credit	4.11%	5.00%	0.00%	7.00%
		Non-Credit	7.45%	10.00%	5.00%	10.00%

Apartments still a great investment

The consensus among respondents, when asked to rank opportunities in 2016, is that apartments are still the top investment opportunity, followed by industrial, retail, office and land. Oil and gas prices were still anticipated to have the greatest impact on the North Texas commercial real estate market, followed by interest rates and population growth/relocations.

You are invited to participate in our 2016-2017 TRENDS REPORT SURVEY

Survey of the North Texas Real Estate Market

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Please help us gather the data!

To make the Henry S. Miller Annual Trends Report as accurate as possible, we need your help! Keep an eye out for an invitation to our 2016-2017 survey your email inbox. The more responses that we get from knowledgeable people like you, the better and more reliable our data is. After you fill out the survey, feel free to send it along to your friends and colleagues. We greatly appreciate your responses and support.

Franchise Market Update

SAN ANTONIO

Keith Coelho

Sellers have remained firm on land pricing over the last seven years and are now seeing developers and end users more willing to pay the price. Occupancies appear stable for industrial properties although demand slipped with the price of oil. For multi-family users, the Pearl, Southtown, and IH 10/Loop 1604 areas show high occupancies for the new product being delivered for the millennials. The hottest retail sectors are the Pearl District and the IH-10/Loop 1604 corridor.

In demand, smaller retail centers are being delivered and are leasing well. Currently, approximately one million square feet of office space is under construction. In the hospitality market, with the return of the NCAA Final Four in 2018, hotel developers are trying to secure sites in and around the CBD and Riverwalk. A $43 million renovation of the Alamodome is underway and the NCAA Final Four will be one of the 1st events in the revitalized facility.

AUSTIN

Dustin Graf

The Austin commercial real estate market continues to remain in hyperdrive. This is mostly due to high demand and low supply of retail and office product. Retail rents are increasing to all-time highs as it becomes more difficult for tenants to find sites. New development cannot keep up with demand which has driven rental rates in suburban markets to levels only previously thought achievable in the high demand markets such as CBD, Central and the Domain. High rental rates and low vacancy have understandably given way to very low cap rates across all retail property types.

The office market has had a historically large amount of competition in recent quarters, yet hit another all-time record high in asking rental rate, in the 2nd Quarter. The additional supply has been met with an almost equal absorption rate and has historically had positive absorption for over 7 years consecutively. Overall, the rates are increasing and demand is very steady, which is leading to even more new project starts, therefore making the Austin office market as strong as ever.

The multi-family market might be the most impressive of all. Supply is continuing to hit the market but is being absorbed just as quickly across the MSA. The downtown market has seen rates soar to $3.40 per square foot and the newest development is predicted to exceed the $4.00 per square foot mark for the first time in Austin leasing history. Another 1,000 luxury units are due to be completed in the coming months with over 6,000 units possible in the CBD, East and Domain markets alone.

Development is not slowing nor are the sales prices being paid by buyers. The latest luxury apartment building to sell was approximately $500,000 per door and the next one is predicted to fetch over $700,000 per unit. Austin seems likely to experience continued growth in population and jobs along with a decreasing unemployment rate for the near future. With so many positives in the Austin market the trend does not seem to be coming to an end anytime soon.

HOUSTON

Shawn Ackerman

Texas continues to be one of the highest growth markets in the country and is on every retailer's expansion plan. Houston, Dallas and San Antonio are the trifecta of retail with both strong infill development and suburban sprawl. Houston housing and retail markets are booming due to solid population growth despite the drop in oil prices. In 2016, the retail in the Lone Star State will shine brightly!

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TRENDS is published annually by Henry S. Miller Companies. The information contained herein represents the results of participants surveyed in the commercial real estate markets of North Texas for year-end 2015.

The respondents include:

- local and national developers
- asset managers
- loan officers in local and national lending institutions
- brokers
- appraisers/consultants
- mortgage bankers
- individual investors

The Appraisal & Consulting Division uses this information as a tool to support the expectations of buyers and sellers identified in the data obtained from the market.

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Over 200 years combined industry experience

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