

HOUSTON'S TROPHY TOWERS: BREAKING THE \$400 PER SF BARRIER; SALE OF HERITAGE PLAZA SOLIDIFIES PRICE TREND



Heritage Plaza

HOUSTON – AEW Capital's purchase of the Heritage Plaza tower in downtown Houston continues to support trends for trophy building sales over \$400 per square foot – rarified pricing that was once thought to be unattainable.

AEW Capital has agreed to acquire a controlling interest in the 53-story Heritage Plaza for approximately \$475 million, or \$413 per square foot, according to the Real Estate Alert newsletter.

The rise past \$400 per square foot has been fueled by a boom in the energy industry, which brought on reduced vacancies in downtown towers. Investors flocked to Houston to lock-in a piece of the action.

Although the inventory of available trophy investment properties is shrinking, the upward movement in prices is a strong trend throughout the office market.

"The sales prices for most Texas office towers will continue to increase in 2014. Houston has seen significant increases in office rental rates as energy firms have expanded and occupancy rates have risen," says commercial appraiser Matthew Deal, principal, Deal Sikes & Associates, a Houston-based valuation and consulting firm. "As office leases become available for renewal, tenants are signing new leases with major increases in rents. Those higher rents lift the values of office assets."

The sale to AEW is expected to come in at approximately \$413 per square foot. It will be among a handful of downtown Houston deals bringing in more than \$400 per sf.

The record PSF is the price H&R REIT paid \$524 per square foot or \$442 million for the 845,000-square-foot Hess Tower in 2011, according to Real Estate Alert newsletter.

The 973,000-square-foot BG Group Place tower, purchased by Invesco in 2013, sold for about \$485 per square foot, believed to be the second-highest per square-foot sales price ever in Houston.

In 2012, Invesco paid \$334.8 million, or \$400 per square foot to buy the 837,000-sf Reliant Energy Plaza from German fund operator KanAm.

This sale of the landmark Heritage Plaza to AEW Capital is not the first time the building has sold in recent years. Brookfield Office bought Heritage Plaza in 2010 for \$321 million or \$280 per square foot from Goddard Investment of Atlanta. Since that time the Heritage Plaza occupancy rate has gone up from 84 percent to 98 percent.

The 1.15 million-sf Heritage Plaza building, known as one of Houston's most distinctive towers because its top resembles a Mayan temple, is located at 1111 Bagby.

AEW, a Boston-based investment manager, is believed to be acquiring at least an 85 percent stake in the tower, perhaps more, the Real Estate Alert Newsletter said. The seller, a Brookfield Office Properties partnership, retained Eastdil Secured last year to market the building. Major tenants include Deloitte and EOG Resources.

RealtyNewsReport first reported on AEW's purchase of Heritage Plaza on Jan. 15. <http://realtynewsreport.com/2014/01/15/aew-capital-buying-majority-stake-in-heritage-plaza-in-downtown-houston-in-400-million/>