



RALPH BIVINS' REALTY NEWS REPORT TOP 7 PREDICTIONS FOR 2014

HOUSTON – The Boom is not over. Houston's real estate market is respected as one of the hottest markets in the world. With a few exceptions, both residential and commercial real estate will continue to sizzle in 2014 and produce as much pop as we saw in 2013.

Here are the top seven predictions for Houston real estate in 2014 from RealtyNewsReport editor Ralph Bivins:

ONE: A tenant arrives at what may be the biggest spec project in North America – A 47-story office tower under construction by Hines in downtown Houston. Construction has just begun and the 1 million-sf tower delivers in 2017. Hines blows out the also-rans and pretenders that have floated skyscraper proposals amid rising rents and high occupancy. Proposed buildings are a dime-a-dozen, a truth forgotten by governmental officials who lined up \$12 million in incentives for Chevron, which said it would create 1,700 jobs and build 50-story tower at 1600 Louisiana St. Chevron also bought a full block bounded by Milam, Travis, Leeland and Pease. But the energy giant said its tower is on hold until at least 2015. **Bottom line:** Hines is the real deal. But only weeds will rise on the Chevron site in 2014.

TWO: The Houston industrial market, with a glamourless role usually reserved for NFL offensive linemen, turns in an all-star performance in 2014. Houston industrial real estate ranked No. 2, behind only Miami, as the best of 51 markets with strong industrial investment potential in 2014, according to the Urban Land Institute and PwC's Emerging Real Estate Trends. Plus, the Port of Houston is ranked at the top of a recent study by Colliers International. Warehouse construction is surging, but space is filled by completion. Container shipping is promising, especially if government officials tackle dredging improvements in time to cash-in on Panama Canal expansion. **Bottom line:** Investors swoop in fast to buy warehouse deals in Houston and prices are going up. "Houston's industrial market has some of the highest occupancy rates in the nation. With growing activity at the Port of Houston we see this scarcity of vacancy pushing up values for distribution buildings in a significant way in 2014," says Mark Sikes, principal in the Deal Sikes & Associates valuation firm.

THREE: Real estate history is written as Houston's home sales soar; and prices reach a historic climax. The inventory of homes-for-sale was at a record-low at year-end 2013. The pent-up demand is gigantic. Thousands of buyers, frustrated with losing in bidding wars and today's small selection of options, jump into the market and buy houses as spring uncoils. Hordes of relocation buyers swarm into Houston as Exxon Mobil, Geico, Chevron and other corporations shuffle employees in 2014. Look for the median home price in Houston to rise 8 percent in 2014. Mortgage interest rates rise. Lawrence Yun, chief economist of the National Association of Realtors, predicts 30-year fixed-rate mortgages will be at 5.4 percent by the end of 2014, up from the current rate of 4.5 percent. It won't make things any easier for the first-time homebuyer. **Bottom line:** 2014 is a high-water mark for Houston home market. Young Realtors will fondly reflect on 2014 for the rest of the careers.

FOUR: Great fundamentals encourage apartment construction to surge before a sobering sets in during fourth quarter of 2014. New multifamily projects pop up fast. Downtown residential excites in 2014 with Marvy Finger's midrise next to Minute Maid stadium and Hines erecting high-rise at Market Square. Developers build apartments in far-out suburbia in addition to the phenomenal mid-rise and high-rise boom in the Inner Loop. Rents have gone up 6 percent over the last year or so and more rent hike arrive in 2014, according to Delta Associates. Apartments attract renters who don't like this year's higher priced mortgages facing homebuyers. Young professionals abhor the suburbs and don't buy into the American Dream of homebuying like prior generations, providing more fuel for multifamily. **Bottom line:** Even with Houston's strong job growth, sometime late in 2014, the voice of moderation will echo across the marketplace: "Do we really need to break ground on another apartment?"

FIVE: Shopping center market finally takes off, turns on the after-burners. Retail-oriented real estate (shopping centers, etc.) has been left behind in Houston's recent real estate surge. Apartments, the office market and residential boomed, while retail was a modest performer. But never forget this eternal truth: "Retail follows rooftops." Houston has added a lot of rooftops, from new apartment towers in the Inner Loop to single-family homes in the suburbs, so retail is blossoming. Lots of retailers have arrived and more to come: from grocers to fast food outlets. Fresh Market, Sprouts, HEB, Whole Foods, Aldi, Kroger all adding new locations. Plenty of new centers and mixed-use projects under development now. Landlords have moaned as rents have been declining in many shopping centers. But the turnaround is happening and rents will increase in 2014. Count on it. **Bottom line:** Time for a rotation into retail.

SIX: The drought is over. New hotels rise again. Houstonians can't ignore the hotel building boom breaking out in 2014. Citywide hotel occupancy is near 70 percent, up sharply from the 55 percent in the depths of 2009 downturn. Most noteworthy of the new hotels will be the 1,000-room Marriott Marquis, adjacent to Discovery Green and the George R. Brown Convention Center. When that 30-story hotel is completed in 2016, Houston will be able to attract larger conventions with double-barrel of Hilton and Marriott at convention center. Hotelier Nick Massad adds to downtown package with Hampton Inn and a Homewood Suites on Crawford Street. A JW Marriott will open on Main Street. Across the street from the Galleria, a 350-room Hyatt Regency is under construction. The national economy recovery lifts hotel business everywhere. The PKF hotel consulting firm predicts that national hotel profits will be up 13 percent in 2014. **Bottom line:** Houston hoteliers have a long way to run before they overbuild this market.

SEVEN: Little-known fact: Houston has the best home building market in the nation. Houston home builders continue revival from recession doldrums. After a solid 2013, expect to see more than a 10 percent increase in construction starts in 2014. New builders enter the market, eager to get a piece of the Houston action. Lack of available lots and labor shortage hold back the pace. The market for residential land is white hot. The hard years – 2009 and 2010 — weeded out the weak operators, so the surviving home-builder corps is outstanding. Mortgage rate hikes will put a damper on sales, particularly for starter homes. Builders will compensate by cutting size or amenities to keep affordability. Finding financing remains difficult for smaller developers and builders, but big builders can write own ticket. Houston is the strongest home building market in the nation with more single-family building permits than any other city, according to John Burns Real Estate Consulting. **Bottom line:** Houston home-building will remain the national leader in 2014.

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