Investors shell out for local commercial real estate

Houston is on track to log $11.6 billion in sales for this year

By Katherine Feser | December 18, 2015

Investors pumped plenty of money into Houston commercial real estate in 2015, but low oil prices could dampen activity next year.

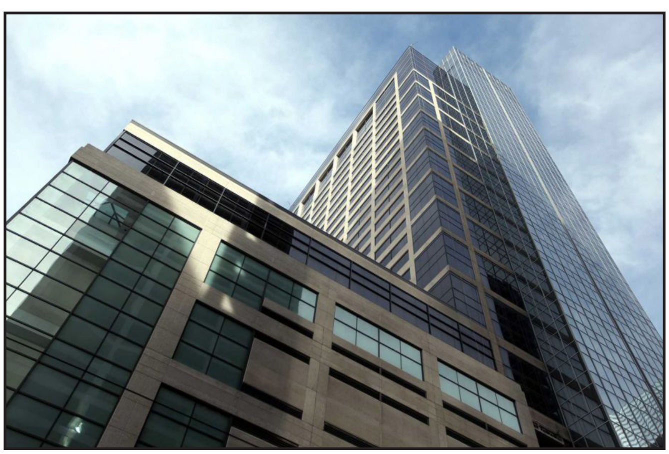
Overall office vacancy rates are 16 percent and rising as energy companies cut jobs, consolidate and put sublease space on the market, according to commercial real estate firm JLL. So owners of buildings filled with companies in good financial shape will likely keep their properties rather than sell them in a less-than-stellar market.

“You’re not going to see trophy properties trading at depressed prices,” said Bruce Rutherford, global head of the energy practice for JLL. “You will see some buildings given back to the lenders because they couldn’t attract tenants, and those will eventually probably have an effect on market prices.”

Including deals expected to close by year’s end, Houston is on track to log $11.6 billion in sales, according to research firm Real Capital Analytics. That is down slightly from $12.3 billion in 2014.

The top sale of 2015 - and possibly ever - was German realty fund Union Investment’s purchase of 1000 Main for a reported $440 million. The 36-story downtown building was purchased from Invesco Real Estate in March.

“An American pension fund adviser had the bid on that and dropped out, out of a concern for falling oil prices in Houston,” Rutherford said. “The Germans continued. The Germans wanted very much to be in North America and especially Houston.”



German realty fund Union Investment bought 1000 Main for $440 million in March. (Photo: © 2013 Houston Chronicle)

Edens Investment Trust gained a number of local properties including Uptown Park with the acquisition of publicly-traded AmREIT in February. (Photo: Dave Rossman, Freelance)

Office sales amounted to $2.9 billion of the $11.4 billion in sales so far this year, Real Capital Analytics found. The firm tracks sales of commercial real estate including apartments, industrial and retail properties valued at $2.5 million or more.

Investor interest remains strong in older Class B and Class C buildings if they have some vacancy that could be leased up and house tenants from a variety of industries, Rutherford said.

Sustained low oil prices, which have fallen to $35 recently from more than $100 a barrel in mid-2014, could hurt some areas of town, such as the Energy Corridor on the west side, more than others.

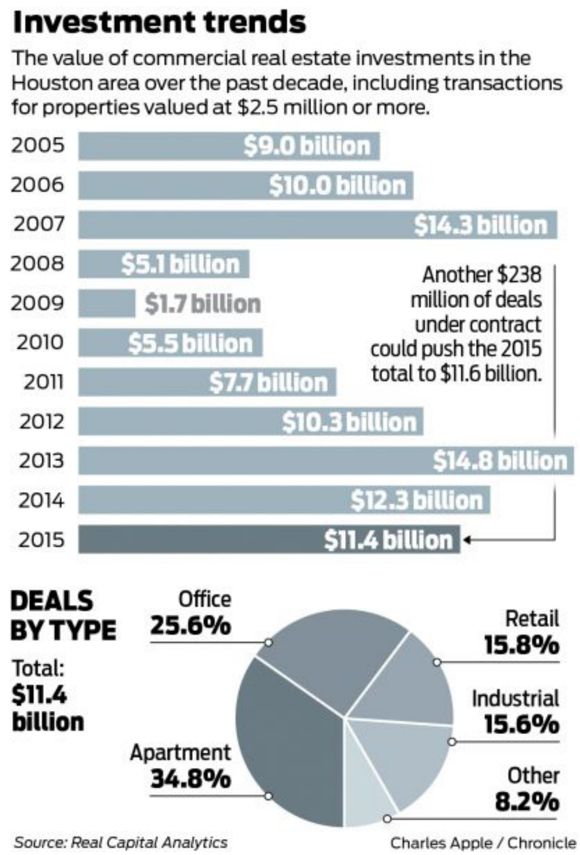
“Demand for land and certain types of buildings will weaken in 2016, particularly in areas where the energy industry is a dominant economic force,” Matthew Deal, principal of Houston-based valuation firm Deal Sikes & Associates, said in a report.

“While the fundamentals of the office market are somewhat unfortunate, we believe valuations will remain stable. There will be no fire-sale pricing in 2016.”

Among other top deals, Memorial Hermann sold 11 medical office buildings with 1.2 million square feet across the Houston area to HCP for $225 million. Memorial Hermann continues to occupy the buildings as a tenant.

In northwest Houston, Select Income REIT paid $127.6 million for Noble Energy Center I, a 500,000-square-foot office building at Texas 249 near Louetta. The building was purchased from Cole Corporate Income Trust in January.

Only the apartment sector, which accounted for $4 billion, or 35 percent, of the total sales so far in 2015, was bigger than the office sector. The top apartment deal, according to Real Capital Analytics, occurred on Post Oak Boulevard, a street that’s drawn a lot of international investors recently.



Uptown Post Oak, a 392-unit community at 1111 Post Oak Boulevard, sold for $90.1 million to IMT Capital. (Photo: DirectToArchive)

California-based IMT Capital paid $90.1 million for Uptown Post Oak, a 392-unit community at 1111 Post Oak. That works out to nearly $230,000 per unit. The complex was purchased from Plano-based Monogram Residential Trust.

Other big deals in the Uptown area included China-based CSCEC's purchase of the Broadstone Post Oak apartments at 3100 Post Oak Blvd. through its Strategic Capital division; and a Spain-based investor's purchase of BBVA Compass Plaza, a 22-story office building at 2200 Post Oak Blvd.

Retail and industrial properties each made up 16 percent of the sale activity this year, totaling about $1.8 billion each, according to Real Capital Analytics. Hotels made up $583 million and development sites made up nearly $356 million of the 2015 investments.

"The industrial market is better off than the office market by a long shot," Rutherford said. "That's because of the significant industrial activity on the east side of Houston."

Growth in container shipments at the Port of Houston factored in to Liberty Property Trust's decision to invest in La Porte. The company paid $93 million for the Port Crossing Commerce Center, consisting of 921,000 square feet of buildings and 139 acres of land for future development.

Retail was among the strongest sectors, with the value of deals, including properties under contract, totaling $1.9 billion this year, according to Real Capital Analytics. That's up from $1.5 billion in 2014.

The pace of retail construction has lagged other sectors, including office, multifamily and industrial, said Mark Sikes, a principal of Deal Sikes & Associates.

"We're forecasting retail to continue to increase. There's a shortage of space," Sikes said.

Commercial land prices are up about 10 percent on average in the last year, according to Sikes. Areas such as downtown and Uptown are showing strength in addition to suburban areas with population gains.

"You're seeing a real increase in areas where you continue to see residential growth: Pearland, Katy, northwest Houston, The Woodlands," Sikes said.