

COMMERCIAL REAL ESTATE

Principal Global Investors & CB Richard Ellis would like to thank the Brokerage community for their continued support in 2011!



45,000 RSF contiguous still available

LEASING INFORMATION

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The Centre at
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Looking ahead in 2011

Experts provide outlook for local real estate market

What can the Houston commercial market expect in 2011? Six local real estate professionals gave HBJ their expert predictions for the local economy, property values and lending in the coming year:

WE'RE GROWING IN HOUSTON

NAI Houston added the following professionals to our office in 2010:

- Brian Thompson
- Jill Bond
- Joel English
- Josh Lass-Sughrue
- Scott Cowan
- Scott Davis
- Tom Ewing

NAI Houston, an Arcadian Real Estate Group Company, is a full service commercial real estate brokerage firm. We have 36 brokers and are active in markets across the US and abroad. Our mission is to be the best full-service commercial real estate firm, while consistently providing quality results that always exceed our clients' highest expectations. We are dedicated professionals focused on assisting our clients in achieving their strategic objectives.

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DAVID HIGHTOWER

Executive Vice President
Wolff Cos.

LOCAL ECONOMY: Houston entered the recession late, but looks like it may recover more quickly. Our recovery is tied more to the world economic recovery and the demand for energy than the national economy. Growing energy demand will help spur Houston's recovery.

COMMERCIAL PROPERTY VALUES: Overall, commercial property values will continue to be depressed as a result of slow economic activity. However, values of investment-grade "trophy properties" will continue to be strong due to high investor demand for product.

LENDING: Real estate lending will continue to be a major challenge. Higher equity requirements and underwriting standards, especially for residential land development, will suppress delivery of supply. Prices of residential lots can be expected to increase as delivery of new lots will not keep up with new home demand.



DOUG BATES

Executive Associate, Office/Industrial
Henry S. Miller
Brokerage LLC

LOCAL ECONOMY: From all indications, the recession in Houston is not as severe as in other parts of the nation, and Houston will begin to exit the recession fourth-quarter 2011. The owner of an engineering company that provides engineering services and construction for industrial projects across the spectrum — chemical plants, oilfield suppliers, etc. — recently told me they are responding to more RFPs than ever, an indication that many Houston-area businesses are wanting to and beginning to plan to expand their operations. If these business decision-makers can get comfortable with the federal fiscal policies, they may very well kick off a new wave of growth in the Houston economy, my guess starting in the latter part of 2011. Only time will tell.

COMMERCIAL PROPERTY VALUES: Well-located commercial properties

COMMERCIAL REAL ESTATE

of all types in Houston should see a slight increase in value during 2011, due primarily to job increases in the area from company expansion projects/company relocations to the area.

LENDING: Do not expect to see an increase in either commercial or residential lending during 2011 — unless, if by some miracle, credit markets really open up and lender qualification requirements become less stringent along the way. Interest rates will remain near current levels during 2011.



MAURY BRONSTEIN

*Director of Brokerage Services
The Situs Cos.*

COMMERCIAL PROPERTY VALUES: The decrease in net income generated from commercial real

estate properties continues, and the three-year trend shows little indication of improvement. Consequently, loan delinquency rates have increased dramatically, resulting in investors and lenders repricing risk. Additionally, nearly \$1 trillion of CRE loans are scheduled to mature by 2013, many of which are underwater. These conditions have contributed to an environment of significant value decline.

LENDING: Underwriting standards for new loans are more stringent than they have been in years, and many property owners are and will experience difficulty refinancing. Alternatively, a sale or de-

fault becomes imminent. These cumulative circumstances will likely result in little or no appreciable rise in value for many CRE assets over the near term.



KEVIN BLOCK

*Senior Research Analyst
Jones Lang LaSalle Inc.'s
Houston office*

LOCAL ECONOMY: Houston is pulling out of the recession sooner than the rest

of the country, as evidenced by several upward-trending economic indicators. The strongest indicator is the 6,200 jobs gained between October '09 and October '10, which marked the second consecutive month of year-over-year increases in Houston-area employment.

COMMERCIAL PROPERTY VALUES: Transaction volume will increase based on the availability of capital and the pressure to provide investor returns. Stabilized trophy properties will continue to be in demand at low cap rates. Otherwise, values will remain soft, as price discovery and the market correction continue to play out.

LENDING: While many loans are set to mature in the next 12 to 24 months, most lenders will continue to extend performing loans for 12 to 24 months in order to avoid writing down assets and incurring the cost of assuming ownership. Interest rates will likely remain low next year as a result of the Federal Reserve's decision to buy U.S. Treasury securities.



GEORGE CRAFT

*Partner
Porter & Hedger's LLP's Houston office*

LOCAL ECONOMY:

Houston's economy is slightly lagging the recovery in

other areas of the country; however, the recession was late to reach Houston. Although Houston's economy is still lagging, one must keep in mind that Houston property values did not decline to the same extent as other areas in the country such as Phoenix, Las Vegas and Florida. Accordingly, a return to pre-recession prices is not as steep a climb for Houston as it is for many other U.S. cities.

COMMERCIAL PROPERTY VALUES:

It is predicted that, in 2011, commercial property values will remain below pre-recession valuations. It is expected that there will be more sales and refinancings during 2011 than in 2010, once buyers and sellers accept the reality of lenders' adjusted underwriting criteria. Multifamily properties lead the list of desirable assets, which is primarily due to the rigorous standards for homeownership, coupled with first-time homeowners becoming unenamored with the burden of homeownership. Increased sales and refinancings are also anticipated for well-leased office buildings, retail centers and industrial properties.

LENDING: There will be plenty of capital available in 2011 for acquisitions and refinancings; however, the same

will be subject to stricter underwriting criteria with emphasis on realistic net operating income, stricter vacancy test, tougher lease reviews and extensive due diligence.

Demand for construction loans in 2011 is expected to be higher than in 2010, and lenders will be selective. Local banks are making construction loans on selected properties with real equity, including build-to-suit projects or projects fully leased with credit tenants. There are even rumors of new multifamily projects on the drawing board for 2011 because of a solid demand and lower construction costs. Accordingly, it is anticipated that construction lending will see moderate increases in 2011.



STAN CREECH

*President
Stan Creech Properties Inc.*

LOCAL ECONOMY:

Houston, along with Dallas, Austin and San Antonio, are the only cities creat-

ing jobs in the current economy. Houston is the Energy Capital of the World, and, along with the Port of Houston and Texas Medical Center, provides us with a unique and diversified economy.

COMMERCIAL PROPERTY VALUES:

Should also stabilize and grow. **LENDING:** Loan demand will increase as the Houston economy improves. Interest rates will remain stable and gradually increase. ■

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