

# TEXAS REAL ESTATE BUSINESS®

Connecting Real Estate in Texas



Houston-based Kirksey served as architect for Energy Center 3, Energy Center 4 and Energy Center 5 in West Houston. The buildings total nearly 1.7 million square feet.

## DESIGNING THE FUTURE

Top firms share what's happening — and what's next — for architecture in the Lone Star State.

By Lindsey Walker Marcec

**F**ueled by steady job growth and a continued move toward urbanization, commercial development is active in Texas' major cities — and the state's leading architecture firms are benefiting.

"We have probably \$2.5 billion of construction and design in our pipeline, and 90 percent of that is in Texas," says Scott Ziegler, senior principal of Houston-based Ziegler Cooper Architects. "We have a very brisk market at our office right now."

Dallas-based firm HKS, Inc., is experiencing similar levels of activity.

"We have a number of large projects underway in Austin, Dallas and Houston that run the gamut from hospitality and healthcare to sports and commercial," says Mark Buskuhl, associate principal and director of com-

mercial architecture for HKS. "The year 2016 has proven to be another robust year globally for HKS in the commercial market, and we are projected to significantly outpace 2015."

The American Institute of Architects (AIA)'s latest Architecture Billings Index reflects this increased level of design services nationally. Known as ABI, the index looks at the nine-to-12-month lead time between architecture billings and construction spending and is considered a leading economic indicator of construction activity. In May, after four months in a row of increased billings, the ABI score was 53.1 — the highest score since June 2015 (55.7). This June's score was slightly lower at 52.6 indicating a slightly slower pace of bill-

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## SUBURBAN HOUSTON GETS NEW ENERGY

Diversification helps metro Houston manage downturn.

By Brian A. Lee

**A**s the sagging energy sector has had an ill effect on property performance in metro Houston, but energy was far from the lone star of the city's suburban commercial real estate sector.

"Rumors of our death have been greatly exaggerated," says David Boyd of Boyd Commercial LLC/CORFAC International. "Without question, the low energy pricing environment and related layoffs and closures have had a dramatic impact in certain areas, primarily west Houston office space. However, the effects on the industrial market have been much milder."

Everything is still bigger in Texas. At least, it seems that way judging by Daikin Industries' huge new Houston HVAC development. Slated for com-

pletion later this year, the 4 million-square-foot, \$417 million manufacturing and logistics campus is expected to employ 4,000.

Located in the northwest area of metro Houston near U.S. Hwy. 290, the development is one of the largest tilt-wall construction projects in the world and will produce high-efficiency heating and cooling systems for residential, commercial and industrial uses.

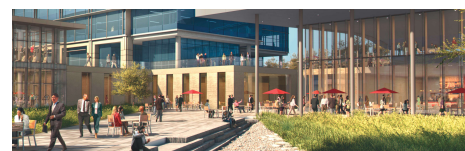
Overall, metro Houston's direct industrial vacancy has only increased from 4.5 to 5.5 percent in the last 12 months, according to Boyd. In comparison, Houston's citywide office vacancy rate rose 1 percent during the second quarter alone and 220 ba-

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In Pasadena, this 95,000-square-foot FlowServe Corp. facility will serve the company's valves and seals division, and an adjacent project will house the pumps division.

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sis points year-over-year, according to Colliers International.

Boyd reports that while many oil service and manufacturing companies, as well as their suppliers, have scaled back or closed facilities, their footprint in the overall industrial market is relatively small. Those smaller service-related businesses that didn't survive the energy sector slowdown typically only occupied 10,000 to 30,000 square feet per company, which means that not an enormous amount of available inventory returned to the market.

Boyd also reports that the availability of industrial sublease space has doubled to more than 3.5 million square feet.

"Subleases are tricky due to lease term, infrastructure requirements and other factors," Boyd says. "In most cases the landlord is still receiving rent, at least for now, and they may not be in a position to contribute to a sublease deal. As these 'shadow spaces' roll over the next few years we will see more of an impact on rental rates and direct availability."

Metro Houston industrial asking rental rates have held fairly steady as effective rates decline due to the free rent factor and above-standard tenant-improvement packages. New construction deliveries in the north and northwest submarkets, as well as in-

stitutional owners competing to lease up properties, have pushed market dynamics toward the tenant's advantage. Approximately 12 million square feet of industrial space is under construction, with about 60 percent pre-leased or owner occupied, according to Boyd Commercial.

"There has no doubt been a slowdown in overall lease activity," Boyd says. "Tenants are more cautious and deals take much longer, but let's not forget the upcoming presidential election, which has many tapping the breaks at the moment."

## Petrochemical Growth

Dan Seal, executive director of special initiatives for the Bay Area Houston Economic Partnership, maintains that the biggest business trend occurring in southeast Harris and Galveston counties is the infusion of up to \$50 billion in capital investment for new and expanding petrochemical and specialty chemical plants.

"These plants will be coming online in 2018 and already there is an uptick in other new building development, which will be occupied by companies affiliated and working with these new and newly expanded plants," he says.

Boyd adds that consumer-products consumption, Internet retailing and businesses associated with construction materials are absorbing space.

"Coupled with explosive growth in



**David Marshall**  
ARA

## Few U.S. metro areas are growing faster than Houston, and population growth is a primary driver for warehouse space.

— David Boyd,

Boyd Commercial LLC/CORFAC International

petrochemicals and plastics manufacturing, there is a lot of absorption taking place," Boyd says.

Boyd Commercial reports a scarcity of developable land and available owner-occupied industrial facilities. Stand-alone buildings still can sell quickly with warehouse product fetching between \$65 and \$80 per square foot. New industrial construction in the Houston metro is still relatively expensive.

"Few U.S. metro areas are growing faster than Houston, and population growth is a primary driver for warehouse space," Boyd says. "Add to that our deep-water port and chemical manufacturing, and I believe good times are ahead for Houston's industrial market."

ARA's David Marshall agrees and expects to see continued development in the Houston suburbs for the retail, single-family, healthcare and, in east Houston, industrial asset classes.

"Office development will be non-existent and only a few multifamily development deals in select areas like east Houston and the Texas Medical Center will get capitalized," says Marshall, executive managing director for ARA's Houston office. "Retail and single-family development are

still extremely active in the Houston suburbs. Expect to see continued retail development around the newly opened Grand Parkway. Single-family inventories are still at historic lows in Houston, with 2015 being one of the strongest years on record for Houston home sales."

## Retail Follows Rooftops

The Bay Area Houston Economic Partnership points to the healthcare industry for another expansion trend to monitor in suburban Houston.

"Our regional hospital systems are purchasing significant land tracts and buildings, with plans for internal growth or maybe to partner with groups such as biotech and pharmaceutical companies that will complement healthcare activity," says BAH-EP's Barbara Cutsinger. "Sure to follow will be hotels, restaurants and medical suppliers."

Marshall notes that the market currently has more than 2 million square feet of retail space under construction, with grocery-anchored offerings making up 35 percent of that total.

In first quarter 2016, year-over-year home sales in Houston increased 1 percent and sales figures jumped 10 percent year-over-year in May, according to Marshall.

While not a direct commercial real estate metric, single-family sales growth does reflect consumer demand, which in turn means favorable employment numbers. Pro Teck Valuation Services found that the core-based statistical area of Houston-The Woodlands-Sugar Land showed "normal" market conditions. Contrast that with Midland, Texas, where sales are down 15 percent and active listings increased 111 percent.

The price at the pump might not be as strong for oil and gas companies in Houston, but many other areas are energized across the southeast Texas market.

"All in all, Houston looks okay," says Tom O'Grady, CEO of Pro Teck. "It's not the boom town like it was for a few years, but it seems like the industrial base has diversified enough to manage a dip in energy." ■



Located just outside Houston, the Bayport Container Terminal includes a 376-acre container yard and a 123-acre intermodal facility.