

Houston Market Outlook 2009

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To understand the value of land, you have to understand the uses of land.

What are the drivers that give (or take) value to land?

Factors Affecting Houston's Economy

POSITIVE FACTORS

- Above average job growth
 - Housing affordability
 - Low cost of Living
- Expected Population Growth

NEGATIVE FACTORS

- Global recession
- Rising unemployment rate
- “Tight” financial markets
- Economic uncertainty



Land Overview 2008

- Strong First Quarter
 - Deals terminated in 3rd and 4th Quarter
 - Transaction volume ↓ slightly from 2007
 - Price expectations continued to increase

Land Outlook 2009

- More owner-financed deals
- Little to no Spec Development
- SF Lot inventory relatively in balance with Demand
- More cash-buyers

Office Overview 2008

- Vacancy ↑
 - Large amount new supply, slowing economy & reduced demand
- Rental rates ↑
- Sublease space ↑ – 1.6% of overall inventory which is lower than the national average of 2.3%.
- CBD relatively tight market
 - Hess 1,000,000 SF Discovery Green



Office Outlook 2009



- Vacancy will continue to ↑
 - Estimated delivery of 5 million sf of new product, even slower economy, companies consolidating & downsizing
- Will become “tenant” market
 - Negotiable rents & more concessions from Landlords
- Sublease space will continue ↑

Retail Overview 2008

- Occupancy Rate ↓
 - 2008 was 87.8%
 - 2007 was 88.5%
- Factors contributing to decline in occupancy
 - Store closures, 4 million new square feet delivered
- Asking rents remained flat
- Suburban retail hit hardest
 - Too much product, along with inferior locations



Retail Outlook 2009

- Vacancy will continue to ↑
 - Company bankruptcies, more store closures, delivery of new product without leasing commitments
- Will become “tenant” market
 - Negotiable rents & more concessions from Landlords
- Any growth will be with value-oriented retailers
- Retailers will scale back or put a hold on expansion plans until the market bounces back

Industrial Overview 2008



- Developers delivered 10 million sf of new product
 - High energy prices, expansion of the Port & the strong local economy
- Vacancy started to ↑ in response to a drop in leasing demand toward year-end & the influx of new projects

Industrial Outlook 2009

- Houston remain one of the top markets nationwide
- Overall vacancy ↑
 - Increased inventory, slowdown in leasing activity
 - Will be more prevalent in areas where construction activity has been hurdling along at fast speeds, for example, the east southeast far and northwest far submarkets.
- Will become “tenant” market
 - Negotiable rents & more concessions from Landlords
- Construction announcements ↓ with developers having difficulty getting financing for new developments
 - Hopefully will allow the market to recover quicker & avoid an overbuilt scenario
- Renewals Key
- SE Corridor is most significantly overbuilt
(Port – 225 Corridor)

Multi-Family Overview 2008

- Leasing demand ↑
 - Employment growth beginning of year, tighter financing in obtaining home ownership, increasing # of foreclosures
 - Increase in rents – especially in Houston's more prestigious neighborhoods
- Delivery of nearly 13,000 units – 13% increase from 2007

Multi-Family Outlook 2009



- Leasing demand ↓ slightly
 - Economic conditions, supply outpacing demand
- Construction activity ↓ due to softening demand and difficulty of developers obtaining construction loans
- Houston's market should remain relatively steady
 - Above average population growth, increase in foreclosures & the inability of renters to obtain mortgages
- Bright spot Fannie & Freddie still lending permanent loans

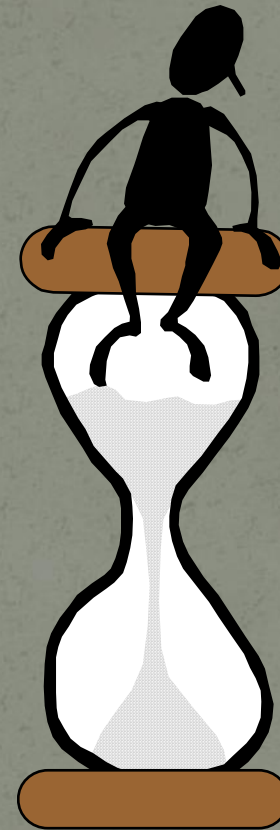
Investment Outlook 2008

- Total transactions ↓ 52% from 2007's \$12 billion volume
- Office & Multi-family were the most popular investments –
Approximately 75% of deal volume





Investment Outlook 2009

- Transaction volume ↓
- Fewer buyers, Fewer offerings as Sellers “wait & see”
- Cap Rates ↑
- Houston still one of the more attractive markets in the US.



Residential Market

- Foreclosures have  but not nearly at the pace seen elsewhere around the country
- New home sales pretty strong according to builders
- Home builders decreasing production of new homes
- Sales in 4Q 2008  15% from 4Q 2007
- Values of homes have remained relatively stable
- Houston is one of the top markets nationwide
- Low Mortgages still helping qualified buyers

What to look for throughout 2009

- Tenant's market throughout all markets
- Transaction volume ↓ , but hopefully will pick up in 3Q and 4Q of 2009
- Banks back in the game
- Close the gap between Bid-Ask prices

Land Forecast for 2009

- End Users with capacity to close will make acquisitions when comfortable that they know the rules. (Buy during a Buyer's Market).
- Development Opportunities will focus on quasi-institutional transactions (student housing, senior/assisted living, HUD financing).
- Delta between Bid and Ask will narrow in 3rd Quarter and deals will start to happen. Opportunistic Purchasers will start to pull the trigger.
- TRUST is now key for investors. Good for local real estate transactions.



Q & A