

Houston Office Highlights Q4 2009

Barclays takes control of Morgan Stanley's Crescent portfolio

Although recent national economic indicators suggest that a recovery is underway, at the end of 2009 Houston's office market reflected further softening conditions. Leasing velocity and volume continued to drag with the most significant transaction activity occurring in the sublease market. More than half of the notable leases signed in the fourth quarter involved sublease agreements, further evidence that tenants are actively capitalizing on these bargain opportunities given the glut of aggressively-priced sublease availabilities. In terms of supply, three recently-completed office buildings, totaling approximately 620,000 square feet, delivered with 9.3 percent of the space pre-leased and slow demand for the remaining space.

In the capital markets, despite a 77.1 percent decline in Houston's office property sales between Sept. 30, 2008 and Sept. 30, 2009, five sales occurred in the fourth quarter. Even more significant was Barclays Capital taking control of Morgan Stanley's Crescent portfolio, including Houston's Greenway Plaza, Post Oak Central and Houston Center.

Looking towards the coming year, the Greater Houston Partnership (GHP) recently reported that "Houston's recovery has begun" and that the city's employment outlook will improve in 2010. GHP forecasts a net gain of 1,900 jobs for Houston in the coming year.

Leasing activity

- NRG leased 84,644 square feet on the 6th through 9th floors at 1301 Travis Street (Travis Tower). The firm will relocate from 1201 Louisiana (Total Plaza) and will take occupancy of the space in the first half of 2010.
- Eagle Rock Energy Partners LP inked a three-year sublease for 53,000 square feet on floors 27 through 29 at 1415 Louisiana Street (Wedge International Tower). The firm has already moved into the space, which was formerly occupied by Dominion Exploration & Production.

- Willis of Texas signed a 10-year sublease for 45,766 square feet on the 4th and 5th floors at 920 Memorial City Way (Cemex Center). The move is a consolidation for the company; occupancy will occur in the first quarter of 2010.
- Sigue Corporation, a California-based provider of electronic money services, sublet 35,790 square feet at 11310 Greens Crossing Boulevard (The Reserve at Greens Crossing II). The three-year sublease, which commenced this quarter, is Sigue's first Houston location.
- Excelebrate Energy is doubling the size of its headquarters and leasing 23,242 square feet on the second floor of 1450 Lake Robbins Drive (Town Center I) in The Woodlands.

Tenants in the market

- McDermott International, 190,000 square feet, (West Houston)
- GSA, 130,000 square feet, (CBD)
- Horizon Wind, 75,000 square feet, (CBD)

Sales activity

- Hariri Interests Inc. purchased Chase Center (450,000 square feet, Class B) located at 601 Travis Street from J.P. Morgan Chase & Co. reportedly for \$51 million (\$113 per square foot). J.P. Morgan Chase will vacate 250,000 square feet but will keep 26,000 square feet on the 17th floor.
- WP Carey acquired the U.S. Oncology building (204,000 square feet, Class A), located at 10101 Woodloch Forest Dr. in Spring, Texas, from U.S. Oncology for \$45 million (\$221 per square foot).
- One Park Ten Plaza (163,000 square feet, Class A) is reportedly under contract.
- Timberway II (130,600 square feet, Class B) is reportedly under contract.
- Fausset-Neely bought Northwest One building (126,015 square feet, Class A), located at 13100 Northwest Freeway, from RPD Catalyst LLC for \$5.1 million (\$40 per square foot).
- Khoshbin Properties purchased 6001 Savoy Drive (121,603 square feet, Class B) from BGK Equities for \$4.4 million (\$36 per square foot).
- Emor Enterprises acquired One Harbour Square (58,204 square feet, Class B), located at 3027 Marina Bay Drive in League City, from One Harbour LP for an undisclosed amount.
- Buildings on the market include:
 - 15375 Memorial Dr (350,000 square feet, Class A).
 - 1177 W Loop S (341,947 square feet, Class A).
 - Two Sugar Creek Center (143,410 square feet, Class A).
 - River Oaks Plaza (104,671 square feet, Class A).

Construction activity

- Three Eldridge Place (305,528 square feet, Class A), located at 737 Eldridge Parkway in the Katy Freeway submarket, has been completed by Behringer Harvard. The 13-story, LEED® registered building delivered without any pre-leasing and is entirely vacant.
- Waterway Square (218,551 square feet, Class A), located in the Woodlands, has been completed by the Woodlands Development Company. The building is approximately 30.0 percent pre-leased to tenants including:
 - BeUSA for 24,952 square feet
 - Vitruvian Exploration for 15,333 square feet
- Two Westway (95,269 square feet, Class A), located at 11025 Equity Drive in the Northwest submarket, has been completed by Opus Corporation. The building delivered without any pre-leasing and stands entirely vacant.