

# DOWNTOWN REAL ESTATE UPDATE

THIRD QUARTER 2012

## LEASING ACTIVITY

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Recent leasing activity of a floor or more includes the following:

- New to downtown: Superior Energy has leased approximately 50,000 sf in the Kinder Morgan Building, taking floor 29 and part of floor 30. Floors 28, 31 and 32, and the remainder of 30 are being marketed.
- Baker McKenzie signed a 50,700 sf lease in Bank of America Center, relocating from Pennzoil Place South.
- Breitburn Energy has grown in Chase Tower from two floors to four, for a total of 66,045 sf.
- Linn Energy has expanded in Chase Tower from five full and a partial floor to eight full floors.
- McGraw Hill expanded by a floor in Heritage Plaza.
- Tudor Pickering expanded by a floor in Heritage Plaza.
- Ryder Scott, a petroleum consulting group, renewed and expanded in 1100 Louisiana for 58,762 sf. The firm will occupy 2+ full floors.
- Ziegler Cooper Architects will relocate to the third floor in Bank of America Center and expand to 25,000 sf. See AIA Houston's [article](#).

Historically, the bulk of downtown's growth has come from existing downtown tenants, growing internally or through M&A activity. But this year and last, we have seen more full-floor tenants relocate to downtown, such as two that we reported last quarter (Pan Atlantic Energy, 2 floors, formerly in Greenway Plaza, and Quorum Business Solutions, 2 floors, formerly in Westchase), and now Superior Energy. Additional relocations to downtown are in the works, too.

## LARGE OFFICE SPACES BEING MARKETED

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Downtown currently has only eight blocks of space of more than 100,000 sf being marketed. The following identifies building, floors, space and current/former use.

- 1 Allen Center, 3-20, 490,000 sf (former Hess + Kinder Morgan)
- 2 Allen Center, 25-36, 345,000 sf (currently Devon)
- Pennzoil North, 16-29, 294,000 sf (currently Shell)
- 2 Houston Center, 4-10, 280,200 sf (currently Shell)
- 1600 Smith, 17-22, 142,000 sf (former Continental)
- Travis Place, 8-9, 120,000 sf (currently Kinder Morgan)
- 919 Milam, 11-15, 110,000 sf (former US Attorney)
- Pennzoil South, floors 6-10, 104,000sf (currently Energy Transfer)

## HOTEL ACTIVITY

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- Houston First has chosen Houston-based developer Rida to negotiate final terms for a second convention center hotel. Houston First's goal is the development of a ~1,000-room hotel within two blocks of the George R. Brown, and an ~800-space parking garage. The hotel will be constructed on [Block 99](#). Construction could begin in the first quarter of 2014, and the hotel should open in 2016, prior to the Final Four. Houston First is also seeking additional commercial and residential development in the immediate vicinity, which were recommended in the GRBCC's recent [master plan](#). See articles published 9/25/12: Nancy Sarnoff/[Chron](#) and Olivia Pulsinelli/[HBJ](#).
- Hotel Alden has been purchased by American Liberty Hospitality, which also owns and operates the downtown Embassy Suites. See "[Hip Houston hotel sold to power players Name change considered for historic building](#)".

## RESIDENTIAL DEVELOPMENT ANNOUNCED

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The Finger Companies' One Park Place opened in 2009. That 37-story, 346-unit apartment development is 96% leased, with prices in the range of \$2.80 to \$3.00 per square foot per month. The Finger Companies is now planning a 7-story, 380-unit apartment development on two blocks next to Minute Maid Park ([Blocks 50 and 51](#)). The project has been announced, and design is being finalized. See 7/15/12 [Chron](#) article.

## PROGRAM TO INCENT ADDITIONAL RESIDENTIAL

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To incentivize the development of new residential product in downtown, two new programs have been created. Downtown Living Initiative Chapter 380 Program (generally east of Fannin), and the Downtown Redevelopment Authority's program. Highlights:

- To create urgency, the program will expire July 1, 2016 or when commitments have been made for 2,500 residential units.
- For every residential unit constructed, the developer would receive a reimbursement of the lesser of \$15,000 or an amount equal to 75% of the incremental City property tax and 75% of the Houston Downtown Management District's incremental assessment for the property, paid annually over 15 years.
- A qualifying residential project would have to meet certain design guidelines to encourage more pedestrian friendly development.
- Geography: the area on the east side of downtown bounded by Runnels on the north, Fannin (generally) on the west, Pierce Street on the south and Chartres Street on the east, plus the Downtown Redevelopment Authority's [boundaries](#).

See the [program info](#), located on the downtown information portal, and a [Chron editorial](#).

## NEW HOUSTON PAVILIONS OWNERSHIP

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Midway Cos. and Canyon Johnson Urban Fund have purchased Houston Pavilions, the three-block, mixed-use project that includes a fully occupied (by NRG/Reliant), 200,000 sf office tower

and retail and entertainment venues such as House of Blues, Forever XXI, McCormick & Schmick's and more. The new ownership will invest additional funds to revitalize the property, but details have not been announced. This is Canyon Johnson's second investment in downtown – last year it purchased Hotel Icon and reflagged it as a Marriott Autograph property. See also the official 8/12/12 [press release](#) and an 8/21/12 [Chron](#) article.

## **ESPERSON BUILDINGS OWNERSHIP**

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Cameron Management again owns, leases and manages the Esperson Buildings. Cameron sold the property in 2004, but this year building ownership was transferred to Cameron in a deed in lieu of foreclosure transaction. Cameron will invest in the buildings with major capital improvements to include an escalator from the first floor to an enhanced tunnel-level food court. Their other classic landmark building, 1001 McKinney, has achieved LEED Gold EB O&M, and Cameron is hoping to attain the same level for the Esperson Buildings. See [HBJ's blog](#).

## **NAU CENTER FOR TEXAS CULTURAL HERITAGE**

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Fundraising is well under way for this exciting planned addition to downtown. See the press release with [the details](#), and their [website](#).

## **THE FUTURE OF DOWNTOWN AND CITIES**

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On October 5, Bruce Katz of the Brookings Institution delivered an insightful, thought-provoking speech at Central Houston, Inc.'s annual luncheon of more than 700 attendees. We have had requests for a video and/or the speech. The video is posted on [YouTube](#), and the [written speech](#) can be found on the Brookings website.

## **“THE FUTURE OF DOWNTOWN”**

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On October 25 from 7:00 a.m. to 10:00 a.m., Bisnow will host an event at the Hilton entitled “The Future of Downtown” Bob Eury, president of Central Houston, Inc. will provide opening remarks, Bob Fretz/Fretz Construction/ Preservation Houston will make welcoming remarks, and Jeff Webb/Old Republic Title will moderate. Speakers will include Paul Frazier/Brookfield, John Spafford/PM Realty, Brad Fricks/Stream Realty, Tim Relyea/Cushman & Wakefield, Rob Neblett/Avison Young, and Chrissy Wilson/Hines. For information, go to the [event website](#).

## **CLEAN STREETS**

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The Downtown Street Team Program is now in its 20th year. This group of dedicated folks do an amazing job keeping downtown clean, 365 days a year. Here's a link to Wells Fargo's Chip Carlisle's op/ed in the [Chron](#) and a 2.5-min news piece on [My Fox Houston](#).