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November 3, 2014

Has the Energy Corridor Peaked?

The Energy Corridor has absorbed **4M SF** in the last three years, keeping occupancy well above 90%. That absolute sprint may be winding down, but even with a 5% increase in vacancy, it'll remain one of the strongest submarkets in town.



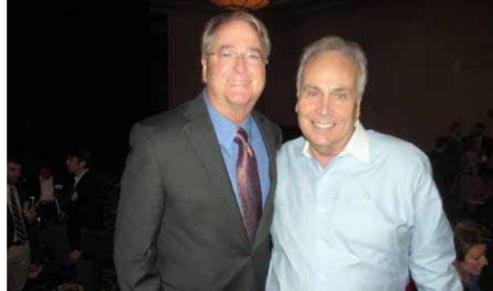
At *Bisnow's Future of the Energy Corridor* event Friday morning, Lincoln Property SVP **Kevin Wyatt** said he had projected it would take three years to lease up **Energy Crossing I** when the firm bought it in 2010. It took **15 months**, and an amazing pre-leasing pace spurred Lincoln to expand the design of Energy Crossing II. Now the submarket is slowing to a **sustainable** growth of 3% to 5%. Occupancy has dropped to about 92%, and he says we'll probably stabilize around **87%**, which is a healthy stat and **keeps rents increasing**. That said, he's probably **not going spec** on his next project.



In the **18 months** since our last Energy Corridor event, it's had **double-digit rent growth** and construction has **doubled** (but it's 60% pre-leased), says Moody Ramin managing director **Bob Cromwell**. He says tenants' **flight to quality** is expanding; now even **service companies** (which have always been Class-B users) are in the game—look at **NOV** going into a new A building. Meanwhile, Class-B buildings have to upgrade to stay relevant. **Parking** is one of the biggest issues for older buildings—most were built at 3:1,000 but 4:1,000 is the new normal. Pictured: **700 attendees** joined us at the Omni West Houston.



Hicks Ventures principal **Pat Hicks** (pictured with his daughter, Transwestern's **Sydney Hicks**) says the good thing is the delta between -A and -B rates gives you money to **renovate** older properties. Moderator Q10 Kinghorn, Driver, Hough & Co principal **Ray Driver** called Pat a renegade for his penchant to buy and redevelop while everyone else is building new—Hicks Ventures just kicked off its major renovation at **16900 Park Row** to help it compete.



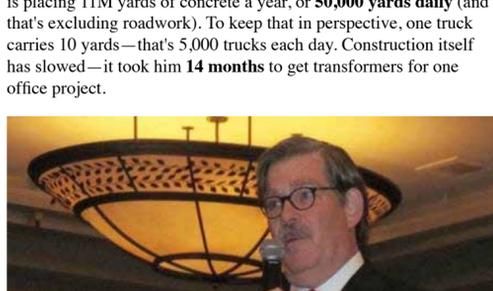
It's smart to get started on those Class-B upgrades now; Mac Haik Enterprises director of leasing **Steve Bryant** says he's watching **M&A activity** among oil and gas companies—consolidated companies often look for big Class-A spaces, and leave **Class-B vacancies**. Steve says the wave of development means tenants have more options. That's made them **lose their urgency**, and although it's still an active market, deals are taking **longer**. Here's Steve with Ray, who joked his firm changed its motto from "growth through relationships" to "**we just give free money away.**"



The Energy Corridor is even more popular to **outsiders** than to local companies, says Avison Young principal **Charlie Neuhaus**. The submarket is in the discussion for 85% of existing Houston companies looking for new space, but it's in the discussion **100% of the time** for newbies. He says **amenities** and **commute** are especially important to people entering Houston for the first time, and both really need to be a focus moving forward. Drive time has been skyrocketing—two years ago, you could get from Pin Oak to Downtown in 20 minutes. Last year, that leapt to **37 minutes**, and he's expecting another big increase this year.



EE Reed Construction VP **David Zebold** says his firm has built **2.2M SF** in the Energy Corridor in the last 18 months. Construction costs rose 4% to 6% in high-rise product, largely thanks to a **40% bump in concrete pricing**. That has a huge impact on us—Houston is placing 11M yards of concrete a year, or **50,000 yards daily** (and that's excluding roadwork). To keep that in perspective, one truck carries 10 yards—that's 5,000 trucks each day. Construction itself has slowed—it took him **14 months** to get transformers for one office project.



Wolff Cos EVP/Energy Corridor District prez **David Hightower** agrees transportation is the Corridor's biggest challenge—its new 20-year plan is looking at public transit (including a **circulator** running through the Addicks Park & Ride) and making the area more bike friendly and **walkable**.



To celebrate Halloween, the panelists tossed **candy** to the audience...



...And Pat came dressed as **Elvis**.



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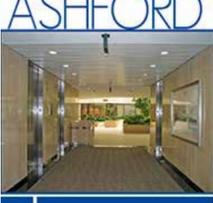
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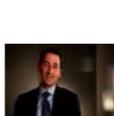
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