



Modernization, Mobility and Momentum

2019 HOUSTON COMMERCIAL REAL ESTATE MARKET TRENDS

BOYAR  MILLER
ATTORNEYS AT LAW

Friends,

Exciting times are ahead for all of us.

Our panel of commercial and industrial real estate leaders told attendees at our annual BoyarMiller Real Estate Forum about change—including shifting consumer behaviors, Houston's recognition as a gateway market, the city's advancement as a regional hub, and the future impact of technology on real estate.

There was such an abundance of interesting information and thought-provoking insights presented at this year's breakfast forum. We gathered the highlights in this eBook and hope you will enjoy reading it and will share it with others.

At BoyarMiller, we believe that having a pulse on Houston's key business sectors—like real estate—provides a strong foundation for strategic business decisions. We are business partners with our clients, as well as legal counselors, and measure our success in the advancement of our clients' business goals. Contact us if you would like to know more about how we do that and what is different about our firm.

We appreciate Jimmy Hinton of HFF, Trey Odom of Avera Companies, and Abbey Roberson of the Texas Medical Center for sharing their expertise and citing the many changes under way along with the ones we can anticipate in Houston's real estate future.



Best regards,

Chris Hanslik

CHRIS HANSLIK
Firm Chairman

CONTACT

2925 Richmond Avenue, 14th Floor
Houston, Texas 77098

713.850.7766

Visit boyarmiller.com

LEARN MORE ABOUT THE FORUM

TABLE OF CONTENTS

- 03 : Breakfast Forum Stats and Statements
- 04 : Tech Talk and Real Estate
- 05 : Expert Insights
- 08 : Attorney Insights
- 10 : BoyarMiller Real Estate Practice Leaders



Breakfast Forum Stats and Statements



“

We are going to compete a little differently this year for industrial space.”

TREY ODOM**80%****ABSORPTION**

of industrial real estate
in 2018

“

Houston was the number one growth market in the U.S. for jobs last year.”

JIMMY HINTON

STAGGERING STATS:

- 58,000 TMC parking spaces
- 150,000 TMC employees and students
- Even more patients and visitors

e-Commerce growth:

**1% SALES GROWTH =
400 MILLION SQ. FT.
OF WAREHOUSE SPACE**

Office tenant
new preference:

**5,000 – 20,000
SQ. FT. DEALS**



“

We cannot continue to densify at TMC without collaborations for mobility and transportation.”

ABBEY ROBERSON



Tech Talk and Real Estate

“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10 years.”

BILL GATES



There is an unintended consequence of technology that creates a whole new market of consumers that didn't exist before. We are definitely seeing that in real estate.



Twenty years ago we told our kids not to meet people over the Internet and not to get into strangers' cars. Now, with rideshare apps we are doing just that. Real estate professionals have to plan for this shift.



A company in France built a single-family home in nine days at a 40 percent cost savings, which is amazing. That is not going to be an office building in downtown Houston in two years, but those types of changes are in the future.



Technology will soon allow us to automate redundant processes, like leases. It will be easier for people to do business with you.



The rise of PropTech or CREtech for commercial real estate is under way. It is used to transform how we think about, sell, lease, manage or rent real estate property.



Expert Insight

“I am optimistic this year, for sure.”

JIMMY HINTON
Managing Director, HFF



Jimmy Hinton is responsible for the firm's research. He develops in-depth analyses of economic, property and capital market trends for debt placement and investments.

- Houston is finally being recognized as a top-tier investment market by those outside of the city. This is a significant shift.
- It feels amazing that the city is operating as a gateway market and starting to perform more like a coastal market.
- Houston's perceived lack of diverse corporate headquarters, and executives seeking a peer set, puts Dallas on top as a favored corporate relocation center.
- The price of oil still matters, and currently it is just right like a goldilocks analogy—not too high, not too low—allowing profitability for companies that are run efficiently and are not highly leveraged. That is the perfect environment in which to sustain growth.
- I prefer entrepreneurial and organic growth in Houston over acquired growth. It does not completely turn the marketplace upside down and has a better internal rate of return.
- In real estate matters as well as mobility issues, Houston is adapting to massive changes in consumer behavior and recognition of what its citizenship wants. We are not a mass transit or carpooling city. 95 percent of vehicles on the road in Harris County are single occupant. We are a clean slate in terms of efficient mobility options, which might lead us directly to adapting solutions for new technology such as autonomous cars.
- Houston not being included in Amazon's consideration set for a second headquarters city, informally known as HQ2, was a wake-up call for city leaders. It forced a change in thinking and that's a good thing.



Expert Insight

“The industrial real estate market is in a really good place.”

TREY ODOM

President & CEO, Avera Companies



Trey Odom founded Avera Companies in 2002 to provide a full range of development projects for corporate clients. The firm specializes in the industrial real estate market.

- Houston will continue to attract large regional facilities. It's the next wave as Amazon and others continue to penetrate the market with fulfillment centers like the one in Katy.
- There are a number of driving factors that have caused capital to move toward investment in the multifamily and industrial sectors; much of it based on population growth and recent historical yield performance.
- The industrial real estate transactions we did in the last 18 months showcased Houston as an international city with deals based in India and Japan. International companies now have more confidence and preference for deals in Houston over markets like Dallas/Fort Worth.
- Technology has had a deep impact on our lives and translates to how we buy goods, and that translates to the need for more industrial warehouse space.
- Because of our industrial growth, Houston is pushing the outside boundaries for large contiguous land sites. We are good with that, but we will also see some infill sites within the city of 30,000 to 40,000 sq. ft. buildings. It's coming.
- In 2018, Houston was being recognized as a regional hub and expanding its presence. Today, we are competing with other markets like Dallas, Phoenix and Memphis and we are well-positioned.
- We will continue to witness further build out of regional facilities such as those for Home Depot, Lowe's and other big-box retailers seeking to catch up to Amazon.



Expert Insight

“Initiatives that foster an innovation eco-system at TMC will have an impact on the rest of Houston.”

ABBIE ROBERSON

Vice President of Planning, Texas Medical Center



Abby identifies opportunities to enhance the TMC campus and oversees development plans for TMC's assets. She also serves as Houston District Council Chair of the Urban Land Institute.

- TMC has incredible density and is often referred to as a medical city. But it doesn't stand alone. Development occurring in other parts of the city is just as important for attracting talent as what is happening at TMC itself.
- We are examining what we can do within TMC and in collaboration with the city's transportation network and mobility partners to address changing consumer behaviors and the future growth of autonomous vehicles and rideshare services.
- From a real estate perspective, how people are working, connecting and going about their business translates into a built form. Will people need the same amount of physical space when they have more technology that connects them?
- TMC³ is a translational research campus for the commercialization of health solutions. Over the next five to 10 years, areas in TMC's mid and south campus along the Old Spanish Trail corridor will be transformed with development of research facilities and office buildings.
- TMC was founded in a unique way that placed restrictions on much of its land prohibiting for-profit entities, which hindered the commercialization of pharmaceuticals and technologies in this market. However, TMC³ allows the potential for private or for-profit entities to be located on the 30-acre campus.
- We receive more funding grants from the National Institutes of Health here in Houston than anywhere in the world. We have more patients than anywhere in the world. So there is a huge opportunity for Houston and our economy to commercialize health solutions tested and proven at TMC. That is the goal of TMC³.

Attorney Insights

Houston's Growing Pains

BLAKE ROYAL
Shareholder, Business Group

MARCY WINTER WILKINS
Associate, Business Group

Houston's real estate roots are grounded in the city's foundation as the world's energy capital. This foundation is in part a coincidence of geography and history, and in part the result of Houston's political and industry leaders of the early 20th century who recognized that energy companies did not have to be located right in Houston city limits, and in fact many were not.

To solidify Houston's status as the worldwide energy leader, the city's leaders capitalized on the abundant land available for development – helped in part by the lack of incorporated cities in close proximity to Houston – and resisted zoning restrictions. As a result, Houston was able to adjust quickly to needs in the market and became a favorable place for real estate development of all types, at least when times were good for the energy industry.



Houston earned a reputation in the real estate industry as a city that stands apart – in its own class – and subject to separate analysis when compared with other major markets.

But times have changed. Over the last decade, Houston, its real estate landscape, and its economy have been evolving. While still recognized as the energy capital of the world, the city is more diverse, and its economy is not as connected to the ever-changing price of oil. Industries including health care, technology, manufacturing, and energy sectors beyond oil and gas, have provided a platform for growth. City planners and developers are taking a deeper look at the impact of this diversification on the city's real estate dynamics and what is needed for the future.

Houston has grown in all directions. Although the suburban sprawl has not reached its limits, the end is in sight. Commuters are begrudgingly willing to drive an hour to work, but not 90 minutes or two hours, leading to an increased desire to live in an urban environment and resulting in denser development in the city, where undeveloped land is limited.

The growth of Houston continues to areas surrounding the city. Once far-flung towns such as Sugar Land, The Woodlands, Katy, and Pearland, they have grown into cities in their own right, and they are building their own economic centers that compete for office and retail developers who are attracted by the influx of residents. After all, “retail follows rooftops” as developers are fond of stating.

The real estate industry, investors and consumers are aware of what key players in other markets are doing to remain competitive and to increase profitability. Now, it is not enough to have an excellent location or competitive rent pricing. Amenities rule, and the desire for conveniences and preferences like food halls, park and trail connectivity, mobility solutions, an Instagram-worthy backdrop, and communal spaces, is strong.

Houston still faces several challenges in further development and luckily political and business leaders who could affect change recognize these challenges. One obvious major challenge is Houston’s mobility and transportation infrastructure. The increase in car ownership has mirrored Houston’s growth.



Houston is a driving city with 95 percent of the vehicles on the road in Harris County occupied by a single person.

The sprawled-out city was designed with cars in mind, and it is difficult to alter the cultural connection between individuals and their vehicles.

However, transportation improvements are under way.



Highway and roadway expansions like the Post Oak Boulevard project and the I-69/I-610 interchange reconstruction are vital, although painful to endure.

Houston must also address its drainage infrastructure. The city adopted new development regulations, but it is too soon to gauge their impact.

Finally, Houston faces the potential of running out of attractive locations. Land is still abundant, but it is further away from economic centers. New projects – particularly commercial projects – are increasingly utilizing previously developed sites, which results in higher land costs and higher development costs. This pressure on expenses will ultimately affect Houston’s reputation for being an affordable place to live and work. Not being all that different from other markets can have a downside too.

Houston’s changes have occurred slowly, so the market has had time to adjust and to adapt, which results in relative stability. The stability will hopefully continue as the city addresses its challenges and embraces its future.



Covering the Full Spectrum of Commercial Real Estate Representation



We handle the capitalization, acquisition, development, leasing, financing and disposition of all product types of commercial real estate with specialty in office, mixed-use industrial, hospitality, healthcare, master-planned communities, retail projects, non-profit entities and governmental institutions.



We have extensive experience with major public/private partnerships for the development and preservation of parks, public spaces and conservation easements; economic development initiatives; and community redevelopment using mixed public and private financing and tax increment financing.



We help business owners and individuals who have invested in real estate navigate the probate process.



Our litigation attorneys represent developers, owners and managers of commercial real estate in state and federal court, including landlord-tenant disputes, condemnation, adverse possession, construction litigation, restrictive covenant enforcement, use of air rights and title disputes.



Real Estate Practice Leaders

**BILL BOYAR***Founding Shareholder, Business Group*

Bill's practice focuses on representing parties involved in the acquisition, disposition, capitalization and financing of assets and businesses on a national and international level. He has served as lead counsel on numerous complex, multi-party acquisitions and project financings, with significant experience in corporate finance, private equity, mergers and acquisitions, real estate and hospitality.

**HILARY TYSON***Shareholder, Business Group*

Hilary Tyson's practice focuses on commercial real estate and business transactions. She joined the firm and returned to Houston in June 2015 after practicing in the Dallas area for more than 11 years. She represents developers, home-builders and equity investors in a wide range of real estate related transactions including land acquisition and dispositions, residential subdivision development, financing, entity formation, and office development and leasing.

**BLAKE ROYAL***Shareholder, Business Group*

Blake's practice includes acquisitions and dispositions of equity and assets of both real estate and operating businesses, including entity and capital formation, such as private placements in domestic and international jurisdictions; recapitalization transactions with venture capital and private equity funds; and general contractual drafting and negotiation.



CHRIS HANSLIK
FIRM CHAIRMAN

With more than two decades of experience as a litigator, Chris Hanslik's practice has spanned the full spectrum of commercial and business litigation, including representing clients in the real estate industry. Recognizing that the last place most business clients want to be is in the courtroom, Chris strives to develop creative, practical, and value-driven solutions to complex problems and disputes from the outset. However, as a trial lawyer, he provides the skills necessary for success in the courtroom.



LEE COLLINS
Shareholder, Litigation Group

The goal of Lee Collins' practice is to provide innovative and value-driven solutions to the litigation-related problems facing the client. This objective has been successfully achieved through his direct and open communication with the client, an early and immediate assessment of the issues, strategic evaluation of the problem and its solution, and aggressive representation.



JILL WILLARD YOUNG
Of Counsel, Litigation Group

With more than two decades of experience, Jill has tried cases to verdict in all areas of the law. She represents trustees, administrators, executors, beneficiaries and guardians in litigation concerning trusts, wills, gifts, estates and guardianships. She also focuses her practice on commercial litigation matters and represents businesses and individuals in disputes involving contracts, fraud, misrepresentation, breach of fiduciary duty and administration litigation claims.



Real Estate Attorneys

**LYNDSAY FINCHER***Senior Associate, Business Group*

Lyndsay Fincher joined the Business Group in January 2013. Her practice is primarily devoted to representing domestic and foreign entities and individuals in a wide range of corporate and real estate matters including private securities, complex mergers and acquisitions, corporate formation and restructuring, leasing and land acquisition, disposition and development.

**ALEX PARKER***Associate, Business Group*

Alex Parker joined BoyarMiller in 2017. Her practice is primarily devoted to representing clients in a broad range of corporate and real estate transactions including complex mergers and acquisitions, corporate formation and restructuring, corporate governance, leasing and land acquisition.

**CORINNE SULLINS***Associate, Business Group*

Corinne Sullins joined BoyarMiller in 2016 after participating in the firm's Summer Associate Program the previous year. Her practice consists of representing clients in a broad range of corporate matters, mergers and acquisitions, corporate formation and restructuring, corporate governance, real estate transactions, contract negotiation and other general business matters.

**MARCY WINTER WILKINS***Associate, Business Group*

Marcy's practice is devoted to representing businesses and individuals in a variety of commercial real estate, residential real estate and business negotiations and transactions, including acquisitions, leasing and entity formation. In addition to serving clients, Marcy has worked as an adjunct professor at Baylor Law School where she taught a second-year course in transactional writing. Her strong communication skills enable her to help clients understand the complexities of their transactions.

**CALEB DUNSON***Associate, Business Group*

Since joining BoyarMiller in 2017 after participating in the Summer Associate Program, Caleb Dunson has been involved in a wide range of corporate and real estate matters. His practice includes representing foreign and domestic clients in general business matters, corporate formation and restructuring, complex mergers and acquisitions, leasing and land acquisition, disposition and development.

**CRAIG LAUCHNER***Associate, Litigation Group*

Craig joined BoyarMiller's Business Group in September 2016 after participating in the firm's Summer Associate program. His practice consists of representing clients in a wide range of business, commercial, and employment disputes.

**MOLLY HUST***Associate, Litigation Group*

Molly Hust joined BoyarMiller's Litigation Group in August 2015 after participating in the firm's Summer Associate Program. Molly's practice is primarily focused on serving clients in a wide range of complex commercial and employment law disputes. Molly successfully represented a mixed-use real estate developer in claims for breach of contract, breach of warranty and construction defect against its former general contractor involving substantial water infiltration in two luxury apartment buildings.

**CHRISTOPHER C. BURT***Senior Associate, Litigation Group*

Christopher is a native of the Houston area and joined BoyarMiller through the acquisition of Young, Graves and Burt. His experience is centered on probate, trust and fiduciary litigation matters. A strong advocate for his clients, Christopher works toward positive outcomes both inside and outside the courtroom. He has significant trial and courtroom experience and has participated in all phases of pre-trial and trial proceedings.