

World U.S. New York Business Markets Tech Personal Finance Life & Culture
Opinion Careers **Real Estate** Small Business

Dow Jones SmartDarts

DOW JONES
A NEWS CORPORATION COMPANY

Think you know global markets?
Give it a shot!

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL

WSJ.com

COMMERCIAL REAL ESTATE | AUGUST 25, 2010

Sturdy Houston Sees Its Market Go Wobbly

Aviation and Energy Have Boosted the Bayou City During the Downturn, but Changes in the Industries Loom

By ANTON TROIANOVSKI

Continental Center I, an iconic skyscraper in downtown Houston, is home to giants in the aviation and energy industries that kept Texas's biggest city humming through the downturn. But by the end of next year, the building could be emptier.

The 51-story tower's namesake, [Continental Airlines Inc.](#), is merging with United Airlines parent [UAL Corp.](#), and some expect it to move office jobs to Chicago. A Continental spokeswoman said the merged company will maintain a significant presence in Houston but that decisions on office-space needs haven't been made yet.

[Chevron Corp.](#), the building's other major tenant, says it will trim its office space in downtown Houston by the end of 2011 as it reduces the size of some business lines.

The headwinds buffeting the skyscraper and other properties have Houston's office market suddenly feeling the jitters. In addition to the changes at Continental Center I, the White House wants to revamp NASA's manned space-flight program, a key source of jobs for the Houston suburb of Clear Lake.

"Right when you think the market is looking great long-term, here comes another curve ball from left field," says Steven Biegel, who leases Houston office space for brokerage Studley.

For Houston landlords, the depth of this downturn is a far cry from the devastation of the 1980s, when a construction boom left the city with vacancy rates higher than 30%. The Wall Street Journal reported at the time that the city had more empty space than Philadelphia had occupied space.

This time around, new supply is more limited, and the booming oil-and-gas industry has helped keep the region's economy afloat. Houston's unemployment rate hit 8.3% in July, according to the Federal Reserve Bank of Dallas, more than a point below the national rate of 9.5%. The 36 million square feet of office space in the central business district is 12.9% vacant, nearly three percentage points below the national average for downtowns, according to brokerage Cushman & Wakefield Inc. The nearly 130 million square feet of suburban office space is



Brookfield Properties

IN HOUSTON, A PROBLEM? Chevron, a tenant in Continental Center I, is trimming its office space in Houston.

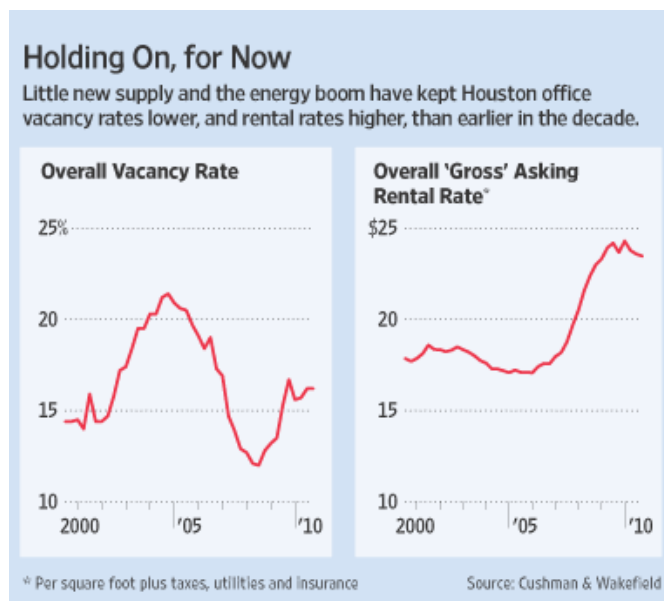
17.1% vacant, almost two points below the national rate for suburban space.

But the events of the last six months have injected a new degree of uncertainty into Houston's economy—and, by extension, the office market. "The wonderful rebound spurt in the Houston economy has slowed down significantly," says Barton Smith, a University of Houston economist. Mr. Smith says the slowdown appears to have happened independent of recent events like the Continental merger and the government moratorium on deepwater drilling. That followed the explosion of the rig leased by BP PLC in the Gulf, the consequences of which are still hard to measure.

Houston is BP's biggest U.S. employment center, and brokers and landlords are scratching their heads about the company's long-term real-estate plans there. David Hill, an executive vice president in Dallas for Falcon Real Estate Investment Company LP., says he started negotiating a lease renewal with BP at one of his Houston buildings shortly before the Deepwater Horizon rig exploded in April. Since then, those talks have been on hold. "When they're ready, they'll give me a call," Mr. Hill says.

A BP spokesman said the company had "no plans whatsoever" to reduce its office space in Houston.

"Their space needs in the short term will be stable," says Jones Lang LaSalle Inc. broker Louis Rosenthal, who represents BP in Houston's office-space market. "Beyond the next 12 months, I don't know what it will mean....It could mean a smaller company and fewer people in Houston."



Another big energy company already has plans to consolidate office space. "Chevron will be reducing its office footprint in downtown Houston by the end of 2011," a spokesman for the company said in a statement. He said the company's plan to reduce the size of some operations has helped lower the amount of office space it needs downtown.

Chevron occupies about 475,000 square feet at Continental Center I, where its lease comes due in 2012. Paul Layne, who oversees Houston for the building's owner, Brookfield Properties Corp., says he expects both Chevron and Continental to move at least some of their operations out of Continental Center I. But he says the moves could provide an opportunity to draw new tenants into Houston's downtown.

"Yes, there are some blocks that are going to become available, but it really provides an opportunity for us as landlords to attract not only people from the suburbs but also from other cities," Mr. Layne says. Continental's lease expires in 2014, Mr. Layne said.

Meanwhile, a 20-mile drive from downtown, the Clear Lake suburb is feeling pressure from Washington, where President Obama has proposed a revamp of NASA's manned space-flight program that could draw business away from the contractors that serve the Johnson Space Center. "There's no question there is going to be some bad news with regard to that," Newmark Knight Frank broker Robinson Neblett says of Clear Lake. "You'll see occupancy levels decrease."

A NASA spokesman said the future of the agency's manned space-flight program still isn't clear because Congress hasn't approved Mr. Obama's budget recommendations.

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com