

Optimism Reigns



Larry Vickers
Tarantino
Houston



Sunny Bathija
Satya, Inc.
Houston



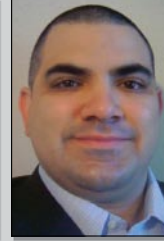
Crista Bromley
City of Burnet
Burnet



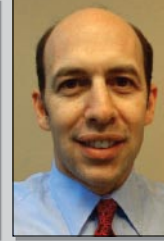
Vince Dimare
Equity Secured Capital
Austin



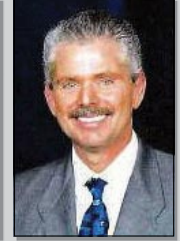
Jerry Goldstein
Marcus & Millichap
Houston



Gene Garcia
GARAN Commercial
Houston



Randy Wile
Wile Development
Houston



David Greenberg
Greenberg & Company
Houston

REDNews: Are you seeing more buyers, sellers or tenants this quarter than you did at the beginning of the year?

Vickers: Sellers: Seeing some lending institutions lower their prices on troubled assets.

Leasing: There are some concessions going to tenants – more in the retail market than in office and industrial. However, it's not as widespread as you would think. More isolated in soft markets. Some tenants are surprised that landlords are not offering substantial discounts – at least not here in Houston. There has been more of a downturn in the Mom & Pop type retail shops.

Bathija: We are gradually seeing more activities from people who have been on the fence. The buyers are still facing the uphill task of meeting more stringent terms from the banks. The sellers are willing to make a deal but no one is discounting as the bargain hunters are expecting. There is definitely more activity from the tenant side. Retail sales are to end users such as automotive & fast food. Previously we had a lot of California buyers in Texas; however, their market is so soft now that they are finding more opportunities there than they are in Texas. About 90% of the Texas market is holding steady – no one in Houston is hurting that much. Most are waiting for the turnaround. However, I purchased an \$18 million portfolio of 9 centers last November and sold four of them. I'm also looking for opportunities to buy quality properties.

Bromley: Generally, we have not seen more buyers, sellers or tenants year to date. However, a Walgreens was recently completed and we have begun to see some interest in the downtown business district.

Dimare: There seems to be more activity from buyers with cash and some sellers who are reducing their asking prices.

Goldstein: There have been progressively less buyers because there are fewer properties that fit the buyers' expectations. There are some motivated sellers but they are in the minority. There are a lot of buyers out there. The issue is still financing. Lack of financing, less leverage and a higher perceived risk means the buyers are looking for a greater return. Lenders are typically refinancing and extending loans as opposed to foreclosing.

Garcia: I handle investment properties. Funding is still the issue. Cash buyers are finding opportunities and I think there will be a lot more in the coming months. I haven't seen a lot of price reduction; however, I am hearing from more owners who want to put their properties on the market at aggressive pricing.

Wile: Yes. The free fall has abated. Consumer confidence seems to have stabilized. On the leasing side, the pendulum has swung to the tenant side in the retail. Some of the national retailers are on the fence while others are looking for opportunities. There is still some uncertainty about the credit worthiness of tenants. Real estate, like any other investment, is impaired by the ability to get reasonably priced financing. Our local economy is being affected by what has happened outside Texas. When they turned off the credit spigot, then commercial real estate became part of the problem itself. We have some structural problems in the US but its gravity didn't warrant turning off credit altogether. The Feds are talking about "stress testing" the banks' real estate portfolios, but shutting off credit has unto itself contributed to some of the "stress". Moreover, we understand that many of the local lenders have been conducting "stress tests" all along.

Greenberg: About the same. There are very few buyers for the secondary product that is available right now. Primary properties are not in abundance and there is a big gap between buyer/seller expectations in this market area. The biggest activity is in "new food" buyers. I'm seeing some people buying real estate today thinking it is a bargain because the price is substantially lower than it was a year ago. I am interested in buying in today's market; however, utilizing common sense and the experience of the 80s means primary locations at below replacement value and there aren't a lot of those out there right now.

Berry: Our industrial division has stayed strong throughout this year. The office market started showing strength again in May.

Turner: January was a pretty good month for us as usual. February and March were dead. In April and May we had a surprising number of showings and made a couple of deals. There is not a lot of activity from national companies. Typically our lease prospects are +/-5000 SF users and that seems to be picking up slightly again. Tenants are shopping hard and it takes quite a few showings per lease.

Bath: Yes, we are in all categories. We are a full service company and we promote our services through advertising and client referral. Professional customer service and value is what our clients receive and as a result we have not seen a downturn.

Rubenstein: We have had more leasing activity in the second quarter than in the first. However, it depends upon location. Office medical has remained strong as well as "primary" retail locations. Rental rates have dropped a little and we're giving more concessions, but we're seeing a dip in expenses to offset this somewhat.

Opatmy: I don't see a lot of change. I have 30 listings, mostly land, and there is not a lot of activity, although there have been more buyers making inquiries the past month vs. the beginning of the year.

Dilick: There is not a substantial amount of more activity than at the first of the year but the market continues to change and if you land a credible user then your goal has been achieved.

Beard: There are more industrial buyers and more industrial & office tenants. Also more land for sale.

Crosswell: The smaller user type operation - fast food, the smaller retail pad site type operations are still moving; we're still making progress; we're still doing a deal a month there. We're still doing business on sale of sites to apartment developers. The Medical center, Pearland area, Conroe area, west Houston and the area where the Grand Parkway will connect I-10 and 290 and are the most active areas. But for the most part there's no speculation as far as land is concerned.

There will be a substantial change in outlook: first quarter 2010, second quarter. Some people say that's when we'll go from feeling hopeless to hopeful.

REDNews: Where are the opportunities in today's market?

Vickers: Reasonable buy/sell opportunities exist, but in smaller quantities, especially if financing is being offered.

Bathija: It seems that for every good opportunity there is definitely an opportunity for those with cash in today's market. These opportunities are short term and once the economy rebounds, they will not be there. There are opportunities in land and buying portfolios as they require a more qualified buyer in these markets. If you have cash and an ability to close soon, there are willing sellers. Many big real estate companies are trying to clear their balance sheet by cashing in on inventory, especially on non-income producing assets, mainly land or un-stabilized centers. They will make a deal if you can close before the end of the year. We are doing some of those deals and buying land which was not on the market and has now become available at reasonable pricing.

Bromley: There are a lot here. We're 45 minutes from Austin so consider ourselves to be a suburb of Austin. We're seeing a lot of people leave urban areas to move here for a quieter lifestyle. Our growth rate has typically been 4% a year and we're anticipating 3% this year, plus we have a few land opportunities in terms of



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The Woodlands



Allen Crosswell
Crosswell Torian
Houston

residential and retail property, one of which includes developed lots at aggressive pricing.

Dimare: Cash buyers can find opportunities right now. However, we're seeing more activity now in people looking for 3 month - 3 year bridge loans.

Goldstein: Motivated sellers are offering properties at deep discounts versus where they were before. Some are excellent buys if they have the right economics. Distress property opportunities are problematic. Most of the shopping centers being foreclosed are nearly vacant. Lender note sales are becoming more prevalent and could produce high returns for the right deal with higher risk. Some are available on an individual basis. We are actually listing and marketing distressed loans. There are large pools of loans from failed institutions that are being offered by FDIC. However, these are priced out of the market for the small - mid size investors and they are only being offered to "qualified investors". Let's hope that the government has made the first move toward helping CRE owners with TALF CMBS program.

Garcia: Opportunities for the cash buyers and the sellers with aggressive pricing.

Wile: There are great opportunities for those who are well placed financially and can act quickly. However, some buyers are reticent because they think and hope that prices will drop further.

Greenberg: I'm seeing a lot of owners/users looking for 5000 - 15,000 SF properties and the majority have established banking relationships. Whereas lenders were looking for 20%/80%, they are now looking for 35/65. However, some sellers are offering short term secondary financing.

Turner: We still see a lot of entrepreneurs and some well funded start-ups. A lot of our small business tenants are starting new ideas I would never have foreseen and they are across all industries.

Bateh: There is still plenty of opportunity and activity in the environment we are in today - our clients tend to pay extra attention to the appearance of their centers making them more attractive to prospective tenants. As a result, we are steadily cleaning, completing build-outs and vanilla boxing vacancies for immediate lease in and around the Houston Metro area.

Rubenstein: Most of the opportunities we're finding today are on the buying side in trying to grow our business. It's no secret that it's a buyer's market. But availability of capital is still the big issue.

Opatrny: The opportunities are with land that is or was earmarked for residential development. Distressed properties in Houston are not easy to find. There are cash buyers in the market today but they are all looking for deals. On the other hand, sellers in Houston are not discounting their prices much.

Dilick: Opportunities exist and some are being solidified but because of limited lender financing you must have a sound location with strong users.

Beard: All types. Everyone - tenants, investors and buyers - are all looking for "below market" deals. As balloon notes come due, lease up struggles or occupancies decline, participants are looking to capitalize on these retailers.

Crosswell: I think the opportunities have not shown themselves yet. It was a great run we had, and a lot of the developers and land owners, commercial real estate owners have staying power. You won't see a whole bunch of give-back (default) But some of the properties that were built and the acquisitions made in 2006, 2007, 2008 might have been bought on highs with too much leverage and they may have some issues trying to keep those properties through a downtrend.

REDNews: Are you more optimistic today than you were at the beginning of the year?

Vickers: I could be more optimistic about the future if we could have silence from Washington for 60 - 120 days! Just about the time the buyers and tenants start thinking about doing deals again, some goofy policy/legislation comes out of Washington!

Bathija: Yes. The New TALF program which launches in June should help CRE lending.

Bromley: Absolutely! We are beginning to see some interest in all sectors - retail, commercial and residential.

Dimare: Yes, I think the worst is behind us.

Goldstein: Yes, we're seeing more activity.

Garcia: I've always seen this downturn as "opportunity". That hasn't changed!

Wile: We understand the gravity of the issues: which ones are within our control and which ones are beyond our control. However, as developers, we're naturally optimistic!

Greenberg: I expect it will be 2010 yearend before we see a turnaround. There is a lot of CRE money maturing and unless you have a solid relationship with your lender, it could be a problem. However, banks are not in the real estate business. The last thing they want to do is take back property. They want back what they gave out - their money, so they are inclined to work out loans if possible. I think we may be looking at hyper-inflation in the future.

Berry: Yes. Our phones are beginning to ring.

Turner: I have no expectations that 2009 will be as good as 2008 overall, but our occupancy rate across all of our properties is up slightly from January 1.

Bateh: Yes, we are. Early on market outlook may have been uncertain; however, Houston is still one of the most attractive cities for real estate investment and business opportunity. I don't think we will be adversely affected as we come out of this recession. Houston markets will continue to gain strength.

Rubenstein: We're optimistic about opportunities to increase our market share, but we're still doing everything we can to shore up our existing portfolio. The struggles in the oil and gas energy in Houston will continue into the foreseeable future and this impacts every other industry in our area.

Opatrny: Yes. My general sense of the market is that a shift is taking place. Lenders are beginning to lend and there is a bit more confidence that the economy and real estate markets are slowly improving.

Dilick: Yes. Business is a progressive state of improvement of performance and our job is creating optimistic opportunities that make economic business sense.

Beard: Yes, although I feel we still have some downside to go in this market, especially in a few sectors. However, once signs of stabilizing values appear, that will give participants some added confidence.

Crosswell: I'm more optimistic now than I was a year ago, primarily because I felt this coming and now we're in it so we're closer to being out of it. It's kind of like when you were a kid and you did something bad and you knew you were going to get a spanking. Well, now we're getting the spanking, but it's almost over.

