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Report: Houston one of best real estate investment markets

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The strong energy industry has made Houston one of the nation's Top 10 real estate markets for the first time in more than 10 years, according to a report by the **Urban Land Institute** and **PricewaterhouseCoopers LLP**.

Describing the Bayou City — which ranked sixth in the nation for real estate investment prospects — as a "hot-growth market," the Emerging Trends in Real Estate 2009 report says the city will continue to stay that way as long as oil prices remain high.

Market strengths include the **Johnson Space Center**, the Texas Medical Center, the Port of Houston and trade with Mexico, the report says.

"The population keeps expanding due to the high-octane job engine and reasonable cost of living (land is cheap and so is housing)," the report says. "Home prices never escalated dramatically, so values hold better in the mortgage crunch.

"Remarkably for this construction-crazed market, office vacancies drop close to 10 percent — surveys signal a good buy opportunity, but apartments soften — still too much new construction.

"Traffic congestion and a lack of mass transit inevitably will constrain sprawling growth. More cars and high oil prices signal mostly good times, helping overcome the effects of Hurricane Ike," the report says.

Seattle took the top spot in terms of investment prospects followed by San Francisco; Washington, D.

C.; New York City and Los Angeles.

According to the report, real estate investors and professionals believe financial and real estate markets in the United States will hit bottom in 2009 and continue to slump for much of 2010.

The annual industry outlook includes responses from more than 600 real estate experts, including investors, developers, property company representatives, lenders, brokers and consultants.

The report projects 15 percent to 20 percent losses in real estate values next year from the mid-2007 peak on a national level.

In general, respondents say financial institutions will continue to be pressured into moving bad loans off balance sheets, using auctions to speed up the process.

“The industry is facing multiple disconnects,” said Stephen Blank, senior resident fellow for real estate finance at Washington, D.C.-based Urban Land Institute. “Many property owners are drowning in debt, lenders are not lending, and for many industry professionals, property income flows are declining. There is an unprecedented avoidance of risk. Only when financing gets restructured will pricing reconcile, giving the industry a point from which to start digging out of this hole.”

According to the report, moderate-income apartments in core urban markets near mass transit offer the best investment opportunities, a consistent trend from the previous year. Distribution/warehouse facilities were the next best investment, according to the experts.

Downtown office space is expected to outperform suburban markets, according to the report, and retail development is generally near the bottom but still has farther to fall. The housing industry faces more foreclosures and no rebound in values for 2009, according to the report.

Savvy investors will be able to cash in on the inevitable recovery, according to experts.

“Money will be made on riding markets back to recovery and releasing properties, not on financing structures,” according to the report.