Houston Office Vacancies Raise Concerns for Owners Making Loan Payments

Houston commercial real estate is still suffering from the collapse of oil prices and loss of tens of thousands of jobs, according to a post of the website of **Androvett Legal Media & Marketing**. The latest estimates are that more than a fifth of Houston office space sits empty as landlords struggle to find new tenants and existing tenants struggle to sublease unused space. Commercial real estate firm NAI Partners calculates that more than 2 million square feet in office space is expected to be returned to property owners in the next two years.

Houston commercial real estate lawyers **Douglas Yeager** and **Jeffrey M. Smith** of **Winston & Strawn LLP** have witnessed several real estate cycles in their careers. Their experience includes handling the purchase and sale of non-performing loans, as well as advising tenants, owners and developers.

"Without sufficient tenants in these buildings paying rent, the owners may not be able to service their debt. In a couple of years, once this sublease space comes back onto the market, there could be a number of workout agreements and foreclosures of office buildings," said Yeager. "This is something we have not seen for a few years."

Smith notes that "lenders will be keeping a close eye on properties as deadlines to extend leases approach. Will the owners be able to service debt if occupancy rates fall as tenants decide not to extend leases, or if they continue operations in less space? Owners that are unable to backfill space will be anxious to see whether lenders will work with

them or whether they will try to unload non-performing loans. We would expect to see an uptick in not only workouts and foreclosures, but also opportunistic investors seeking to purchase non-performing loans.

“Tenants may be in a better position to negotiate moving forward, particularly in certain submarkets where vacancy rates are higher,” Smith said. ”On the flip side, tenants will need to get assurances from lenders that they have approved lease terms and, in a worst-case scenario, that the lender will allow the tenant to continue occupying the space if the lender forecloses on property.”

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