

Houston Offers Solid Values Based on Long-Term Picture

By **Richard J. DiGeronimo**, President
R.D. Investment Services, Inc.

Houston continues to experience one of the worst slumps in its history, yet its present economic condition represents a unique investment opportunity for a cash-heavy REIT and/or deep pocket investment groups. Both entities are well suited to trade off or blend, through a proper portfolio selection process, passive losses with passive gains, with minimum cash outlays for the purchase of prime Houston real estate. Other options include the pooling of marginal properties having high risk due to negative or zero cash flows with more viable interests which provide for limited risk and positive cash-on-cash returns.



This investment opportunity can be structured on either a secured or conventional basis vis-a-vis a cash equity or debt fund. Favorable financing, at an initial face value of 2%, is also being made available on properties held in foreclosure, simply to reduce the lenders' negative debt or book value basis. These properties, upon sale, increase the lenders' asset base which simultaneously reduces their respective reserve ratios, thus inducing the lenders to liquidate at favorable terms and distressed prices.

The residual effect of the downturn in Houston's economy has been a drastic reduction in real estate values, with prime office buildings being offered for sale at prices of \$30 per square foot, or less, versus their original cost of over \$100. Major hotel facilities

are being bought or foreclosed at one-third of their replacement value or initial cost. Apartments and rental housing are being priced at less than one-half of their initial cost three to four years ago. Single-family home values have either plummeted or remained flat with a large inventory of homes available. This drastic reduction in pricing is not only being experienced by the small- or medium-sized developer/investor, but also by some of the major players (insurance companies, lenders, developers, etc.).

So, why invest in Houston? Because Houston will recover, and will continue to be a focal point of international commerce, aerospace and medical research. Unemployment by December 1987 was down to 7.6% versus 11% + a year ago. A transition in Houston's predominantly energy related economy to a more diversified base (81% versus 65%) will help spur its economic recovery on a more solid footing in the future. Invest now in Houston's prime real estate, which over the long term will provide substantial profits when the city returns to its international cosmopolitan status, and expect profits of three to four times your current investment. ■