

A tale of two cities: Houston real estate development moves east amid oil slump

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Jim Zimmerman, vice president of Crescent Communities, at a home under construction in... [more](#)

Houston's residential development is a tale of two cities.

Over the past decade, developers have focused new home construction on Houston's west side, where the energy boom pumped thousands of upstream oil and gas jobs into the Energy Corridor and The Woodlands area.

The growing energy sector fueled a homebuilding frenzy across the western swath of the Bayou City, from Sugar Land through Katy up to Spring. New homes followed the expansion of Interstate 10 and the Grand Parkway, helping more homebuilders venture as far north as Conroe and west to Fulshear.

However, as oil prices have plummeted to near six-year lows, the tide of development is shifting to the east side, industry observers say.

After oil prices fell from \$100 a barrel in July to about \$60 currently, energy companies swung into crisis mode, announcing massive job and budget cuts. Experts predict west Houston — with its emphasis on upstream businesses — will bear the brunt of the oil downturn.

On the east side however, the downstream energy sector is on the upswing. Billions of dollars of new refineries, petrochemical plants and natural gas power plants, like Pondera King Energy Center, are rising. At the same time, industrial developers are building more than 3 million square feet of industrial parks, warehouses and distribution centers, according to Transwestern. And once the Panama Canal project is completed in 2016, the Houston port and ship channel will see a boost in economic activity.

Developers — buoyed by the abundance of mostly cheaper, undeveloped land — are building Class A office, retail and mixed-use developments in the Lake Houston area. Thousands of new affordable and luxury homes are going up in sleepy southeast suburbs like Baytown and Clear Lake City, where large-scale new residential construction had been largely non-existent for decades.

Industry observers say this confluence of factors — the oil slump and population growth — is primed to transform Houston's east side.

“During the energy boom, most of the oil and gas jobs were out west, and so developers built there,” said Pat Duffy, president of Colliers International's Houston office. “Now, they're looking at the east side of Houston where demand is still there for plastics, chemicals and liquid natural gas. The east side is in great shape.”

Growth in the northeast

The Lake Houston area has long been a quiet bedroom community.

After Lake Houston was filled in the 1950s, developers created several master-planned communities northeast of Houston. Friendswood Development, the former real estate arm of Exxon Mobil Corp. (NYSE: XOM), launched Kingwood in 1971. In the early 2000s, other communities, like Eagle Springs by San Diego-based Newland Communities, Fall Creek by Houston-based Johnson Development and Summerwood by Houston-based McCord Development, followed Kingwood and are now nearing capacity.

“Those communities are nearing build-out after a long successful life, but there's still demand,” said [Lawrence Dean](#), a senior adviser at Metrostudy, a Houston housing research firm. “Developers are realizing that there are opportunities to meet unmet demand.”

Today, the population of the Lake Houston area has swelled to a quarter of a million people, roughly the same size as Lubbock, Texas. The population growth has now reached a tipping point where demand for larger commercial and mixed-use projects is at its apex.

McCord Development is under construction on Generation Park, a 4,000-acre business park and mixed-use project on the northeast corner of Beltway 8. FMC Technologies (NYSE: FTT), which ranks No. 23 on the Houston Business Journal's List of the largest Houston-area public companies, plans to consolidate its Houston operations and bring at least 1,400 employees to its new 173-acre corporate headquarter under development inside Generation Park. Additional retail, dining and luxury residential components are planned in Generation Park. At the same time, developers are building millions of square feet of new Class A offices, hospitals, petrochemical plants, warehouses and distribution centers for the likes of Amazon, GE Oil and Gas, and Koch Industries.

Unlike developers in The Woodlands area however, Lake Houston-area developers and homebuilders never planned for large-scale projects, like high-rise offices and dense multifamily buildings. Residents always commuted to other part of Houston to work, shop and play.

Despite having one of the wealthiest ZIP codes in Houston, high-end retail and restaurants are lacking in the northeast corridor. The one major mixed-use development in the region — Kings Harbor in Kingwood — teems with activity. Cars overflow from the small parking lot into side streets, and some shops have been converted into office space for Orion Engineered Carbons.

“This has been a neglected part of the city for so long,” said Michael Prats, economic development coordinator for the Lake Houston Area Economic Development Partnership. “No one thought this area would be the size of Lubbock, so no one prepared for the type of growth we saw. Now we’re trying to catch up.”

Residential Runway

Amid the flood of new commercial, industrial and mixed-use development, more than 13,000 residential units are planned or under construction in the Lake Houston area, representing a 15 percent increase in households and potentially as many as 37,320 new residents to the region, according to the Lake Houston-area economic development group.

Many of these new communities are under construction on West Lake Houston Parkway, south of Kingwood near Beltway 8. The homebuilding activity is so frenzied, McCord Development has dubbed this parkway a “residential runway” to Generation Park.

Crescent Communities recently opened The Groves, a 993-acre master-planned community off West Lake Houston Parkway, between Atascocita and Summerwood,

The Charlotte, North Carolina-based developer has the first 189 of an estimated 2,200 homes under construction. The homes range from the high \$200,000s to \$500,000.

Jim Zimmerman, vice president of Crescent's residential group, said the opening weekend brought more than 1,000 interested visitors to The Groves to take a peek inside six model homes from Darling Homes, based in Frisco, Texas; David Weekley Homes,

based in Houston; Highland Homes, based in Plano, Texas; Taylor Morrison, based in Scottsdale, Arizona; Trendmaker Homes, based in Houston; and Village Builders, based in Houston.

“We had fantastic crowds and lots of really interested buyers,” Zimmerman said. “The northeast has always been value oriented.”

Other communities in the West Lake Houston submarket include Bridges on Lake Houston by Fort Worth, Texas-based D.R. Horton (NYSE: DHI), Lakewood Pine Estates by Los Angeles-based KB Homes (NYSE: KBH) and Stillwater by Scottsdale, Arizona-based Taylor Morrison (NYSE: TMHC).

Although new demand for homes has attracted residential developers to the northeast region, low oil prices — and its boon to Houston’s downstream sector on Houston’s east side — is accelerating interest in the area, Dean said.

“I think it’s definitely a factor that is drawing investor and developer interest in the area,” Dean said. “It’s making them take a second look at those areas.”

Far northeast

Meanwhile, Danny Signorelli has a vision for lands to the north of Kingwood.

The founder and principal of The Woodlands-based Signorelli Co. hopes to transform this sleepy far northeast Houston corridor into a powerful economic juggernaut of homes, offices, shops and hospitals. Today, the unincorporated Montgomery County area is largely undeveloped, lacking Class A offices, retail and hospitals.

“This is a very underserved area,” Signorelli said. “The Interstate 69 corridor is absent of so many amenities.”

With the expansion of the Grand Parkway, Signorelli is poised to deliver on his vision for Valley Ranch, a 1,400-acre master-planned community in Porter. Thousands of new homes and a major commercial development are planned for Valley Ranch.

Work is underway on The Azalea District, a new 130-acre neighborhood on the southeast corner of Valley Ranch. The Azalea District will feature 440 homes amid lush azaleas and dogwoods, lakes and trails, and will complement some 900 homes already built in Valley Ranch. The community is expected to have about 3,000 homes at build-out.

Signorelli also recently launched Valley Ranch Town Center, one of the largest retail centers north of Houston. This power center, located on 240 acres in the north section of Valley Ranch, will feature 1.8 million square feet of stores and restaurants anchored by a Sam’s Club, Kroger and other big box stores expected to open in early 2016. Just south of the town center, Signorelli plans to build a 70-acre commerce district with 1 million square feet of Class A office space as well as a conference center, hotels and multifamily development. On the southern border of Valley Ranch, site work has begun

on a 100-acre medical district, which will house two acute-care hospitals and half a million square feet of medical offices.

Farther north, Friendswood Development is planning its next Kingwood in the form of a 3,100-home community called Tavola on 1,560 acres in New Caney.

“You have major economic engines of development going on in this corridor that tends to be overshadowed by the brightness of the Exxon campus (in north-northwest Houston),” Signorelli said. “But these new developments are a substantial economic engine in its own right. Families are realizing that you can have closer commutes, excellent schools and new developments that’s just really stirring a boom in the northeast corridor.”

Southeast Houston

In the southeast Houston corridor, homebuilders are spurring a resurgence of residential development.

CastleRock Communities acquired 106 acres in Baytown for a new residential community called Goose Creek Landing. The Houston homebuilder didn’t disclose the purchase price or how many homes will be developed, but Goose Creek Landing is expected to be the first major residential development north of Interstate 10 since the Great Recession.

“It’s good to see something new coming to the east side of Houston,” said McAlister Real Estate’s Chris Hutcheson, one of the land brokers on the CastleRock deal. “That’s where you’re seeing most of the growth now.”

Houston-based McAlister Real Estate received a “significant” amount of interest in the Baytown property from homebuilders, Hutcheson said. Despite being in an industrial part of Houston, Baytown properties have piqued homebuilder interest because it’s relatively affordable and job growth on the east side is boosting demand for more homes.

“(Homebuilders) are excited about Baytown, because it’s insulated from the near-term price of oil,” Hutcheson said. “These are necessary jobs that are well-paying and aren’t going to be cut.”

Nearby, Trendmaker Development has launched The Reserve at Clear Lake City. The new 372-acre luxury community — located southeast of Sam Houston Parkway and Interstate 45 near Ellington Field — is the first new home development in the southeast Houston suburb in nearly two decades.

Trendmaker Homes and Village Builders plan to build 740 homes ranging in price from \$300,000 to \$1 million. Earlier this year, both Houston homebuilders held pre-sale events at an area hotel meeting room.

More than 100 prospective homebuyers lined up — some overnight — to purchase a new home, said Will Holder, president of Trendmaker Homes.

“We had people wait in line overnight to be able to pick their lot,” Holder said. “I’ve been building in Houston for 35 years and never seen such strong interest.”

Population has surged in Lake Houston area

The Lake Houston area includes Atascocita, Fall Creek, Humble, Kingwood and Summerwood and comprises six ZIP codes: 77330, 77338, 77345, 77346, 77396, 77044.

Lake Houston area population

- 2014: 240,000
- 2019 projection based on historical average: 257,729
- 2019 revised projection, taking into account new home construction and job growth: 277,320

Lake Houston area households

- 2000: 46,776
- 2014: 79,678

Kingwood population

- 2014: 67,697
- 2019 projection: 79,624

Kingwood households

- 2014: 24,975
- 2019 project: 36,902

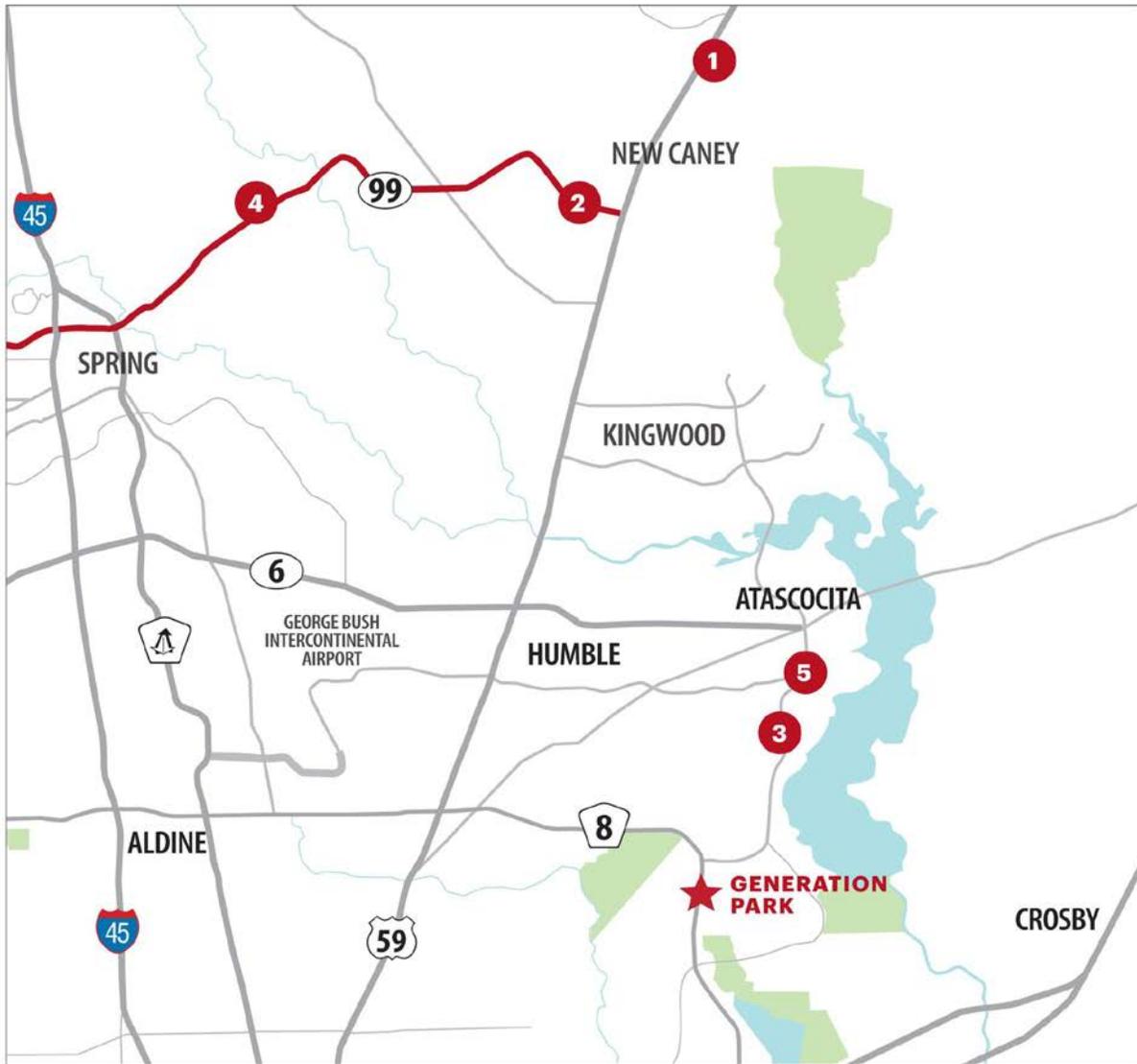
Humble Independent School District student population

- 2014: 40,000
- 2019 projection: 53,000

\$91,017 — Lake Houston area average household income

77345 — The third-wealthiest ZIP code in the Houston metro area

SOURCE: Lake Houston Area Economic Development Partnership



MAJOR RESIDENTIAL COMMUNITIES IN EAST HOUSTON

- 1 TAVOLA**
 A 3,100-home community on 1,560 acres in New Caney, north of Kingwood on U.S. Highway 59. Home prices are between \$140,000s and the \$400,000s. The developer is Houston-based Friendswood Development Co.
- 2 VALLEY RANCH**
 A 3,000-home community on 1,400 acres in New Caney, north of Kingwood on Highway 59. Home prices are between \$200,000s to \$400,000s. The developer is The Woodlands-based Signorelli Co.
- 3 THE GROVES**
 A 2,200-home community on 1,000 acres on West Lake Houston Parkway, north of Beltway 8. Home prices are between \$250,000 to \$400,000. The developer is Charlotte, North Carolina-based Crescent Communities.
- 4 WOODSON'S RESERVE**
 A 1,000-home community on 700 acres south of the Grand Parkway expansion between I-45 and I-69, near the new Exxon Mobil Corp. (NYSE: XOM) campus. Home prices are between \$300,000 to more than \$600,000. The developer is Houston-based Cernus Development LLC.
- 5 THE BRIDGES OF LAKE HOUSTON**
 A 1,000-home community on 332 acres on West Lake Houston Parkway at Will Clayton Parkway. Home prices are between the \$200,000s to more than \$1 million. The developer is Fort Worth-based D.R. Horton.