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Houston's Commercial Real Estate Market Should Weather Declining Oil Prices Say Experts at BoyarMiller Real Estate Forum

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"We're at equilibrium now" and Houston is smarter, more resilient

HOUSTON, Dec. 18, 2014 /PRNewswire/ -- While the impact of declining oil prices on Houston's economic and real estate growth may be top-of-mind, speakers at the **BoyarMiller Real Estate Forum** expressed comfort in the city's resiliency.

Four local experts shared their predictions for 2015 activity in retail, mixed-use, residential and industrial real estate markets at the annual event attended by about 200 business influencers. The panelists included: **Will Holder**, President of Trendmaker Homes; **Allen Crosswell**, Managing Principal of NewQuest Crosswell; **Jonathan Brinsden**, CEO of Midway; and **Welcome Wilson Jr.**, President and CEO of Welcome Group.

"As media headlines heed almost daily warnings about a possible economic slowdown due to oil prices, the panelists agreed that Houston would weather the storm and the market can adjust," said **Chris Hanslik**, Chairman of BoyarMiller. "Some of that is because we have been there before, but most of the assurance is because Houston is so quick to recover. My takeaway is that our city is still the best place to be for jobs and opportunity."

Residential outlook – full-steam ahead

Will Holder of Trendmaker Homes confirmed that the key driver of residential real estate is job growth and cited 119,000 new jobs in Houston through September – the largest the city has seen and the fastest growing in the country at a 4.3 percent increase.

"We have enough steam to push through this dip in oil. Houston housing is resilient and flexible," said Holder. "Existing homes cannot keep up with the demand and we have more spec homes under construction than in the last four years."

He cited the typical ratio of jobs to home sales as three-to-one; 60,000 jobs mean 20,000 homes are needed in the market. The challenge may be with supply meeting demand.

Holder said the key challenge impacting the residential market involves the low inventory of completed spec homes and vacant lots. "Lot shortages persist and that creates some havoc in the market. We are at full employment buying lots years in advance."

Additionally, Holder said there is much cost escalation in homebuilding because of capacity restraints that create market resistance and hesitancy for new listings. Homebuilders are seeing higher costs for raw materials, licensed contractors and skilled labor.

He closed by confirming that the "fundamentals" are in place for the foreseeable future and new homes are still priced within the medians.

Retail market expands north and west

Allen Crosswell of NewQuest Crosswell is an expert on the retail real estate market, which is driven by home sales and population growth.

"Houston's population has grown by 450,000 people since 2011," said Crosswell. "That growth fuels a lot of retail activity and the National Retail Federation forecasts holiday sales will increase four percent this year, higher than the 10-year average."

Retail activity in Houston is centered in the north and west quadrants of the city with large grocers – like Kroger, HEB and Walmart – as primary anchors in shopping centers, according to Crosswell. There are 15 new shopping centers planned in the city through early 2017 with either new retailers entering the market or expanding.

"There is finite retail space available that is driving up rent prices about 35 percent," said Crosswell. "However, the increase in retail rent prices is counterbalanced by higher land costs."

Looking ahead, Crosswell cited the Grand Parkway as the catalyst for much speculation about new retail as it offers access to new areas. He said, Newquest has approximately $300 million of retail development in its pipeline for 2015/16 and the retail market growth cycle should continue in the period ahead, making continued investment attractive.

Energy Corridor fuels office market

The office market is where Houston first experiences the effects of declining oil prices according to Jonathan Brinsden of Midway. "There is a lot of sensitivity around that $60 per barrel price and concern that it may continue to drop," he said. "So in 2015 and 2016, you will see vacancy rise a bit."

In Houston, one direct energy job results in four additional jobs, said Brinsden. The Energy Corridor accounts for about 40 percent of office development with 16 projects under way.

"Leasing activity in the Energy Corridor has been in big blocks by major employers," said Brinsden. "Now we may see a different dynamic with leasing in smaller chunks meaning it will take longer to absorb the space and there will be an uptick in vacancy."

Brinsden said that pre-leasing and new construction activity will be "just about at an equilibrium" by 2016. There are 17.8 million sq. ft. of new construction under way with about 12.1 million of it leased representing 68 percent, down from about an average of 70 percent.

The mixed-use market in Houston is still strong and defined by having three or more significant revenue-producing uses with integrated project components and a coherent design plan. Brinsden mentioned BLVD Place, Regent Square, Kirby Grove and Hughes Landing as examples of mixed-use projects either under way or expanding.

"Connectivity is important for successful mixed-use projects," said Brisden. "Houston's infrastructure and mass transit is vital, so Metro's bus reimagining plan, with a new grid system, will have a positive impact."

Bullish on the industrial market

An enthusiastic outlook for Houston's industrial market was delivered by Welcome Wilson Jr. of the Welcome Group as one of Houston's all-time largest land sales – the 11,000-acre Cedar Crossing Industrial Park – had just closed.

"Houston has had such enormous success with around 300 percent of jobs recovered since the recession," said Welcome. "However, in 2015 Houston will be observed nationally to see how our economy is affected."

There is demand in Houston for crane-served buildings and no availability, according to Welcome. With supply trailing demand, there is 532 million sq. ft. of industrial space and 6.3 million sq. ft. of new space under construction. The 2014 vacancy rate for industrial space is five percent.

"Low oil prices are temporary, and with the backlog of industrial activity in Houston, we can coast through it," said Welcome.

Two major projects that incite the industrial market are the completion of segment E of the Grand Parkway, which has brought a lot of new companies to the city, and the pending 2016 completion of the Panama Canal expansion, that will facilitate LNG exports from Houston.

"Additionally, land costs for industrial development have doubled, which makes our existing properties look really good," said Welcome. "The industrial real estate sector in Houston is resilient; we have a lot to be grateful for."

To view the presentations from the BoyarMiller Real Estate Forum visit www.BoyarMiller.com.

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BoyarMiller, a Houston-based law firm, is comprised of two practice groups: business and litigation. The business group serves multinational companies, middle-market businesses and entrepreneurs in need of collaborative and strategic representation. The litigation group represents organizations of all sizes, from entrepreneurs to Fortune 500 companies, seeking to resolve complex business issues and employment disputes. See www.boyarmiller.com for more information.

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