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By: Ray Hankamer

BoyarMiller Breakfast Forum

Panelists: Will Holder, President, Trendmaker Homes; Allen Crosswell, NewQuest Crosswell; Jonathan Brinsden, Midway; Welcome Wilson, Jr, Welcome Group

Will Holder:

- We are moving full steam ahead with new homes to meet demand
- Even if job growth in Houston falls by 50%, that is still a strong number for us
- There is only a 3.5 month used-home inventory, which offers a small selection by historical standards
- We have the most spec homes under construction in 4 years and our inventory of completed spec homes is low
- Since 2008, creation of new lots has lagged home starts, so we still have a bottleneck with lots, which takes about 18 months to develop
- Builders are committing to lots years in advance, to have something to build on
- Builder costs are rising due to shortages of concrete, licensed plumbers, framers and trim carpenters, architects and engineers and surveyors, site work contractors, and factory components such as windows and cabinets
- Higher new home prices are resulting in some market resistance, causing people to stay put and remodel in some cases
- Renting becomes more attractive as new homes become more expensive
- Lots of new builders from other states are setting up shop in Houston

Allen Crosswell:

- Grocery-anchored shopping centers follow residential rooftops and there is a lot of growth in this niche of the retail sector, which provides good developer returns

- E-commerce continues to grow but it is not really impacting brick-and-mortar stores, and some brick-and-mortar retailers began with e-commerce
- Since 2011 Houston has added 450,000 residents, and this requires lots of new retail
- There is a finite amount of available retail space in Houston now, and finally rents in this sector are rising, with demand by national tenants pushing rents up 35% in some cases
- Improvement in rental rates in retail has lagged behind what multi-family and office developers have been able to achieve, but things are improving now
- Cap rates for investment sales in retail range from 6.5 for credit deals to 8.5 to 9 for older product
- There is no pushback yet from tenants on rents
- NewQuest Crosswell has \$300 million in the development pipeline

Jonathan Brinsden:

- Office leasing will feel the effects of falling oil prices first
- Some investors are already pulling back to wait for good buying opportunities
- Some oil companies are already starting to re-negotiate their deals with the service companies, putting pressure on their margins
- The spec office space that is being built will probably not enjoy any more large bloc leases, but instead will have to lease up with smaller tenants, so it will take longer to absorb the space
- Hiring in west Houston will slow while hiring of blue collar workers in east Houston will pick up, since industries there do better with low costs of their feedstocks: oil and gas
- Houston is creating more WOW! factor as a nice place to live, with infrastructure improvements such as Buffalo Bayou Park
- The need for connectivity and mobility is becoming more crucial in the band of densification stretching from the Energy Corridor to Westchase to Uptown to the CBD
- National and international investor eyes will be on Houston now with falling oil prices to see how this new “third coast core market” fares
- Houston is in the “rising and peaking” phase of the real estate cycle, and we are about to see if we really do have a diverse economy
- We have not had a lot of speculative development this cycle-most developments have been pre-leased
- We are at a point of equilibrium now so “let’s not get ahead of our skis”
- As for mixed-use developments, there is a very delicate balance between “Stay, Play, Work, Live, Shop”-all the elements need to complement one another
- We are starting construction of the 5 star Hotel Alessandra early in 2015 in the CBD in Green Street (former Pavillion)

Welcome Wilson, Jr.:

- Houston has been getting a lot of “Best...” awards in many categories
- There has been a construction boom in industrial build-to-suit, but supply-demand is still tightly in balance
- There is less than 5% vacancy in the industrial sector
- 2.9 million SF of industrial space was absorbed this year
- There is such a high demand for crane-served space that none is currently available
- Investment sales in industrial are capping out at around 7
- Oil prices have always moved like a yo-yo and we will have to wait while they adjust again, since there are geopolitical forces at work as well as regular supply and demand issues
- Houston is a good logistics hub for movement of product, and it is getting better, especially with the larger Panama Canal opening in 2016
- Lots of rail is being laid in Cedar Park / Baytown to handle this area's transshipment needs
- Industrial still looks good for 2015, although land costs have doubled in the last three years

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