Trends 2016 Colliers International/Houston

Speakers: Pat Duffy, President/Houston; Brandon Blossman, Managing Director/Research-Tudor, Pickering, Holt & Co.

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- Daily supply of crude oil only exceeds demand by about one per cent, and demand worldwide is growing at approximately one per cent per year-so the balance is not far off; however, only one per cent imbalance was enough to send prices plummeting from $100 to $30!
- Worldwide supply has been stable for last few years and is slightly declining due to aging infrastructure and political situations in producer countries other than the US
- Supply growth has been almost exclusively in the US, where “the spigot can be turned on and off quickly” in response to market forces
- Shale production takes huge capital outlays during drilling and ongoing throughout the life of the well, creating lots of work for oilfield supply companies
- Capital outlays have come mostly from private equity and lender services, less from banks-so “the banks are not in trouble” overall
- Shale oil production got started 2009-2012 and really built momentum, zooming up in 2013-2015 causing present oversupply
- With all the boom in shale oil, the US still imports about 40% of its needs, so relations with countries like Saudi Arabia are still vital to us-our exports of oil are tiny in the overall equation and it is a question of exporting certain grades to certain offshore refineries
- Rig count at all-time low of 600, going to 500-this is from peak of 2,200 rigs-this represents huge hit to service companies in the Oil Patch
- The “fix” to the supply/demand imbalance is already well underway, and by the end of this year prices around $60 per barrel are predicted, going to $70 in 2017...but, “this could be wrong”
- Asian economies are continuing to grow and transportation and demand for fuel is growing too
- Iran production will not be a big factor, but it has been a scare factor to the market
- “Falling demand for petroleum products” in Asian countries means only that demand there will grow at 15% per year and not 18%, so not a consequential negative
- Shale oil wells deplete 30-40% each year from the previous year, unlike conventional wells, so new drilling must continue for overall production to stay even
- Demand worldwide for Liquified Natural Gas continues to grow and exports will increase
- Pipelines cost half as much as rail to ship petroleum products and with lots of pipelines under construction, most basins in US will be “overpiped” by 2016
- Some pipelines are being built to export natural gas to Mexico, but Pemex is experiencing managerial and financial weakness on its end, delaying progress
- Office Market: vacancies rising in sub-markets where O&G layoffs are happening, and lots of sub-lease space is coming on market, putting downward pressure on rates
- Hotel Market: starting to see weakness as supply of rooms catches up, just as demand from O&G business travel slacks off
- Retail Market: still strong and playing catch-up; some regional malls being renovated/reconcepted
- Industrial Market: still strong with vacancies up only from 4 to 5%
- Multi Family: WAY overbuilt, and net absorption at zero with almost 30,000 units still under construction-ouch!
- Single Family: still only about 3.5 months inventory in re-sale market; demand for new homes and lots remains good
- Construction prices still high and contractors still have backlogs
- Positive job growth in Houston predicted this year in the 21,000 range-as high salaried O&G jobs shrink, lower pay hospitality and leisure and government and medical and education job openings will grow