

Investing in Industrial:

How Texas Cities Are Booming

BY BRANDI SMITH



Though most headlines tend to focus on the negative impact of low crude prices, Texas has diversified in such a way that a single industry's slump cannot create a statewide recession as it has in the past. Instead, communities throughout the Lone Star State are flourishing, thanks to new opportunities provided by the industrial sector.

"Even in what looks like an adverse scenario, you still get some positive and pretty good job growth," said Robert W. Gilmer, Ph.D., director of the Institute for Regional Forecasting at the University of Houston Bauer College of Business.

What's happening in Houston?

Despite those historically crude low prices and layoffs within the energy sector, Houston's economy isn't suffering like it did in the 1980s. Instead, another branch within the energy field is helping prop up Texas' largest city.

"We actually have a major energy boom underway on the east side of town," Gilmer said. "It really very much depends on where you're working and where you're living right now."

While upstream companies are getting nailed by low prices, the downstream petrochemical industry is thriving because of them.

"In North America, we make plastic with natural gas liquids: butane, propane and especially ethane," Gilmer explained. "These are priced very much like natural gas, which is cheap compared to oil."

The result is more than \$50 billion in oil-industry construction in east Houston, creating thousands of jobs in the process.

"This construction could not be better timed as a counter to mounting layoffs from the drilling collapse," said Gilmer.

The plastics produced as a result of the eastside construction are helping buoy the Port of Houston, home to the largest petrochemical complex in the United States.

More than 200 million tons of cargo travels through the greater Port of Houston each year, about a third of which is plastics.

"Further expansion of plastics exports is expected in the coming year as a major wave of new polyethylene production facilities in our region come online," said Ricky Kunz, chief commercial officer of the Port of Houston Authority. "Chemical imports and exports are another large volume driver for the Port of Houston container terminals, and they also performed well in 2015 despite the weak crude oil price."

"This construction could not be better timed..., says Gilmer."

The port is also keeping an eye on warehouse construction in its core area: La Porte, Deer Park and Pasadena. The latest announcement comes from AGRO Merchants Group, which plans to build a refrigerated 300,000 square-foot cargo facility at the Port of Houston Authority's Bayport Container Terminal.

To bring in even more projects, the Port Authority created an Economic Development department as a way to "to support port-oriented development activities."

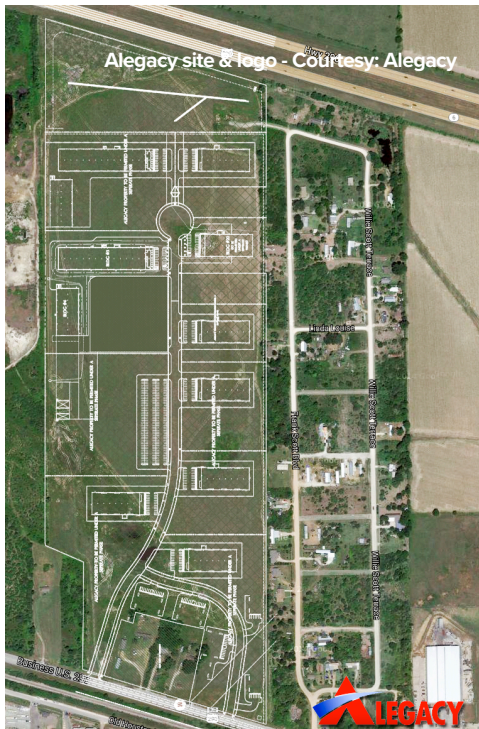
“In particular, the Economic Development department’s goals are to attract more import/export-oriented manufacturing and more import/export-oriented distribution centers to the region,” Kunz said. “Any interested parties, including industrial developers and industrial brokers, should reach out for more details.”

Petrochemicals and the port are just examples of the industrial growth underway in Houston, which may be Texas’ slowest growing economy in 2016, but nearly every major city is experiencing something similar.

Walls up in Waller County

As the Houston area grows, so has development in what was once its rural neighbor, Waller County.

“Many people don’t realize Katy is located within three counties: Waller, Harris and Fort Bend,” said Vince Yokom, director of the Waller County Economic Development Partnership. “The west side of Katy is expanding, so many of the developments coming our way will probably end up in the city of Katy, but they will be in Waller County, such as the proposed Pederson Road Business Park by Clay Development”



One project already well underway is the Alegacy industrial park, an 87-acre site situated along U.S. 290. Construction on its first phase began in November 2014 and

**"It's unique,"
Yokom says.**

three buildings are now operational.

“That’s probably the single largest industrial development we have going on in the county right now,” Yokom said.

Two buildings totaling 100,000 square feet house Alegacy Equipment, while the third building, which is roughly 33,000 square feet, was just leased to Cordyne Inc., a diversified electrical supply and manufacturing company.

“[That building] was part of Waller County EDP’s spec building abatement program,” said Yokom.

The program is an incentive for speculative building, allowing qualified businesses to get up to 100 percent tax abatement for two years or until the building is occupied.

“It’s unique,” Yokom said of the program.

He predicted Alegacy is just the beginning of a new wave of industrial development in Waller County, especially since Daikin Industries Ltd. is opening up its \$417 million campus just a few miles down the road. The heating, cooling and refrigerant manufacturer is building what will be one of the largest and most technically advanced facilities of its kind, generating up to 5,000 jobs.

“We are working with the City of Waller, the Greater Houston Partnership, Prairie View and Hempstead to attract Daikin vendors and suppliers to Waller County,” said Yokom. “Our proximity to their location should be attractive to any potential companies that work with Daikin and are considering relocating to the area.”

Demand in Dallas

Though hundreds of miles away and not nearly as reliant on the energy sector, Dallas is also experiencing a “deceleration,”



according to Cushman & Wakefield.

The Dallas Fed reports that in January 2016, DFW added just 2,000 jobs. That number doesn’t tell the whole story, which varies by metro. Dallas saw a 2.6 percent increase in payroll enrollment, while Fort Worth dropped 3.9 percent.

Those numbers aside, there continues to be strong demand in industrial. Last year, the area saw nearly 18 million square feet of industrial square footage absorbed and vacancy rates near historic lows.

The Dallas industrial boom can be attributed to the region’s position as “one of the major trade and distribution centers in the U.S.,” according to the Dallas Fed.

“[Its] central U.S. location, pro-business environment, world-class international airport and its population of nearly 7 million lend itself to being a major logistics hub on a global scale,” CBRE said in its Q4 industrial report.

Nearly 20 million square feet of industrial space is currently under construction, including Kimberly-Clark’s new distribution center in the Mountain Creek business park. The 55-acre site will house an 874,214 square foot regional distribution center, which is scheduled to open soon.

In the same development, speculative warehouse construction appears to be paying off: Niagara Bottling just announced plans to lease a 630,00 square foot industrial building. Other tenants include Nestle Waters, American Leather, Strategic Partners and Cummins Southwest.

Though Cushman & Wakefield reports warehouse vacancy rates are at a 15-year low across the U.S., 2016 could see a bit of a slowdown.

“The industrial sector does face significant headwinds going into 2016 related to the stronger U.S. dollar and slowing global growth,” Kevin Thorpe, Cushman & Wakefield’s chief economist, said in a January report. “The core of the U.S. remains solid enough to weather the storm, but demand for industrial space is expected to cool down this year.”

Shakin’ things up in San Marcos

Texas is home to many of the country’s fastest-growing cities, but San Marcos has claimed the top spot for three years in a row and there is no sign of slowing.

“We have roughly a thousand people moving to the state every day and a lot of those decide to come to the central Texas region,” said Adriana Cruz, president of the Greater San Marcos Partnership. “There are so many things in San Marcos and our surrounding communities that are attractive for these people who are coming here.”

One of the keys to the city’s success has been a steady balance of skilled workforce with job creation.

“Since our formation we’ve announced 2,300 new jobs and more than \$245,000,000 in capital investment,” Cruz said. “Last year alone we announced 1,400 of those new jobs and \$225,000,000 in new investment.”

Roughly 1,000 of 2015’s new jobs will be at Amazon, which picked San Marcos as the site of its fifth Texas fulfillment center. The new 855,000 square foot facility is part of the company’s 2.3 million square foot property, a major coup for the Partnership.

"Having a brand name like Amazon select your community is just a great thing for us," says Cruz.

“Having a brand name like Amazon select your community is just a great thing for us,” said Cruz. “It really helps to solidify our reputation as an up-and-coming community that people are taking a close look at.”

Many more big announcements appear to be on the horizon for San Marcos and Hays County, as Texas State University churns out doctorals from its material science engineering and commercialization Ph.D. program.

“Those companies that are making carbon composites, polymers or the next generation of nanomaterials, are very interested in working with Texas State and its research capabilities,” Cruz said. “We’re seeing a lot of interest on that end as well.”

Lone Star State leads the way

These are just a few examples of communities throughout Texas that are thriving as a result of years of careful planning and

diversification. Despite obstacles, such as low crude prices, these areas have proven the strength and resiliency of our region.

“It’s the next frontier,” said Yokom. “We’re the pioneers. We’re here. We’re open for business. We’re ready to rock and roll.” ●

CCIM LUNCHEON SPEAKER: R.D. Tanner, SR. Director-Real Estate - Port of Houston

Takeaway: R.D. Tanner had lots of positive news concerning the Port of Houston, reconfirming that the East Side is booming while the West Side of our metro area is experiencing some pain.

- The Port is an immensely complex operation, including dredging, pipelines, railroads, storage, container operations, bulk liquids transport, and much else
- The Port owns/controls 34 square miles of land and facilities (!), with \$8.5 billion+ of market value...“controlling its own destiny” - this is not to say that commercial real estate brokers are not involved, since there are myriads of leases to many varied entities along the channel
- We have two weekly scheduled container services to China, and we own state of the art computer controlled loading/unloading cranes which speed up the turn-around of these massive vessels
- Our port is the largest general cargo facility in the world-all 52 miles of it-with containers now the ‘bedrock’ of the port’s trade-the container segment is turning record profits for the port
- We have taken a lot of business from West Coast ports and will take more once expanded Panama Canal is operational
- Our Port and related industries contribute 16% of the GDP of the STATE of Texas...[Texas economy is roughly the size of Canada’s, so our port alone is 16% of entire Canadian economy]
- To handle the immense container ships under construction now, we would have to deepen and lengthen our ship channel eleven miles further out into the Gulf south of Galveston, since the continental shelf is so shallow-we need to stay competitive with ports which have naturally deep water
- 40% of America’s gasoline and 33% of its jet fuel are refined in and around our port, so it is vital to keep the port accident-free and open
- Constant dredging is required to keep the waterway open, and this is done in cooperation with the Corps of Engineers
- Bulk liquid storage and bulk liquid handling is growing by leaps and bounds
- The Houston Maritime Museum is under development and it will be a major world-class museum
- We have a worldwide competitive edge in the manufacture and shipping of plastic resins
- There is huge export demand out of our port-our port is not pausing in its growth but increasing its growth
- 1,200 acres on Pelican Island belong to Port of Houston and new vehicular and rail bridges are under development from Galveston Island to Pelican...
- The rail network on the north and south side of the channel is expanding
- 8,000 ships and 220,000 barges call on the port each year
- Export of liquefied natural gas (LNG) is becoming more and more important to port

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