REAL ESTATE CENTER
TEXAS A&M UNIVERSITY

# Helpful & Interesting Tidbits from CRE Continuing Education Course -Texas A&M Real Estate Center October 2016

**BY RAY HANKAMER**
*rhankamer@gmail.com*

*Note: The following "bullet points" are excerpted from a long list of speakers over nineteen hours of presentations.*

**Investment Climate in Houston:**

- There is ample capital seeking yields…"dry powder" in closed-in funds at all time high; cash more available for mergers & acquisitions, not so much for new construction except retail and industrial
- Lenders and investors are upping the percentage of capital available to commercial real estate (CRE); however construction debt is difficult in this economic and regulatory climate
- National economy still in slow recovery, while Houston is flat or in mild recession
- Worst is behind us here & 'people are becoming able to breathe again'
- We are seeing lower and lower break-even costs due to technical innovations and reduced oil service company pricing
- Thousands of wells drilled in 2014 have been shut in, but can be 'turned on' as prices rise…this will work to keep pricing down into the future for oil and gas
- The U.S. supplies about 11% of oil production worldwide
- We have identified at least 100 years of natural gas reserves at current rates of usage; Canada has mammoth oil and gas reserves as yet not fully appraised
- Houston population has doubled since the oil recession of the '80s

**Office:**

- 12 million SF of sub-lease space on market, about ¼ of all space in Houston; however, rent is being paid on most of this space although empty, because it was leased to credit tenants such as Big Oil
- Almost 4 million SF of office space still under construction, to come on line by end of 2017
- Most landlords are doing ok
- Tenants are shuffling up to higher class space as their regular leases come up for renewal, taking advantage of great deals (up to 35% discount from asking rate, including concessions)-From "C" to "B" & from "B" to "A"
- Parking is a problem for many landlords as tenants try to cram more workers per SF onto the office floors
- Our current oversupply of office space is due to falling user demand, NOT overbuilding by developers
- On the investment side, outside buyers are looking for "fire sale" deals on office buildings here and there are none
- Mergers and acquisitions in the Oil Patch result in further declining needs for space
- Bankruptcies put sub-lease space on market as companies get to void their leases
- We have a 10 year supply of office space currently in the city's inventory

**Multi-Family (MF):**

- In 2016, over 125,000 people will have moved to Houston, in spite of the downturn
- 25% of current Houstonians are foreign-born
- It is extraordinary that in spite of oil downturn we have not had negative job growth; new jobs = demand for housing
- We have added 200,000 MF units since 2000, & rents are up 75% over the past 16 years
- Due to glut, discounts over asking rates are available up to 25% when concessions are dialed in
- In Houston CBD there is strong growth of high end residential; soon 7,000 units up from only 500 in 1990 [!]
- George R. Brown Convention Center is being re-done to make it the center of a "village", with parks, retail, residential, & other pedestrian-friendly amenities; close-by within walking distance are three of Houston's professional team stadiums
- Marvy Finger has been a trail-blazer with high quality developments which have set the bar very high in the CBD
- The tax abatement program to encourage residential development has just expired but has resulted in thousands of units coming to downtown

**Port of Houston & how growth in logistics affects CRE:**

- 44% of Americans have amazon.com accounts, & the effect on logistics- from ships to rail to warehouses to delivery trucks- has been seismic
- Port is adding rail, highways, docks, warehouses, & other infrastructure to handle this surge-almost everything we use each day comes from a warehouse & at least one truck
- Ships come to our port via Suez & Panama Canals, with the larger ships coming from Asia through the Suez
- Houston handles about 25% of the container traffic currently handled by L.A./Long Beach, but this should grow as our infrastructure is improved to allow us to offload & serve the Midwest of the country, competing with Chicago

**Petro-chemical / East Houston:**

- Today Hwy 59 / I-69 divide the Houston Metro area into growth & retrenchment: upstream slowdown is centered in CBD, West, & NW, while petrochemical growth is in the East & SE
- Texas has lowest cost of shale oil & gas production in the world & this will remain a fact, ensuring a cheap supply to our petrochemical industries, which are in booming expansion mode along the Gulf Coast in TX & LA
- The building blocks for different plastics for which we supply the feedstocks will be shipped from our port for many years to come, & in increasing quantities
- Billions are being invested today in the Port of Houston to ensure that we remain one of the most cost- and time-effective ports, which is what world shippers require

**Retail:**

- The regional mall is going extinct, except for 'super malls' like The Galleria. Reason: decline of large department store anchors, as their business has been challenged by online stores & neighborhood retailers such as Target, WalMart, Costco, & Home Depot
- Restaurants are now bringing the energy to retail centers, energy that was once created by big department stores, & in addition to creating traffic, restaurants can pay high rents
- Fancy cinemas with food & drink & entertainment concepts such as Dave & Busters, also create traffic
- Brick and mortar locations must have convenient online platforms for both to be successful
- Supermarkets & urgent care centers are taking more & more retail space in Houston & the healthy competition benefits the consumer…some food market concepts have failed
- Retail concepts come and go, such as Dick's coming into Houston & Sports Authority closing down; Cabela's & Bass are combining; Fresh Market is gone from Houston; this is 'the nature of the beast'
- Most retailers in Houston are experiencing higher sales this year, in spite of the high level job losses in the Oil Patch