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O'Connor & Associates Office Forecast-Bruce Rutherford, International Director JLL, Speaker

By Ray Hankamer for REDNews, January 2016

Takeaway/Summary: Houston office market will suffer extreme weakness in those submarkets depending on the Energy Sector: The Energy Corridor, Greenspoint, Westchase, & The Woodlands. Less pain in the CBD, but still some, and some in the Galleria. Oil prices should be in the \$60-62 range by end of 2016, but will have to stabilize for a period of many months before any new hiring by oil companies. Mergers & acquisitions and bankruptcies will continue to throw sub-lease space into an already glutted market in these submarkets.

- Oil traders, not refineries or end-users, establish the price of a barrel of oil
- Supply is falling off dramatically as it becomes un-economic to produce, but demand, while slowing a little, continues to grow worldwide
- China's middle class is burgeoning and vehicle ownership will create ongoing rising demand into the foreseeable future
- US has become the world's swing producer, replacing OPEC in years past; US is very nimble in responding to market forces and can turn the spigot on or off more efficiently than many other producer countries
- Some countries whose production costs are high will cease producing altogether, while American engineers are resourceful and will continue lowering the cost of bringing a barrel to market
- Offshore is more expensive and development there takes a very long time; it will be the last to resume exploration after prices stabilize
- For tenants, now is the time to move up to quality and to lock in long-term deals at lower rates
- For landlords, lead the market down by being pro-active to get / keep the best tenants; don't 'follow the market down'
- Energy Corridor office has 17% vacancy including sub-lease and it may be 35% by end of the year
- Houston is where the core employees of the worldwide oil and gas industry are working and they are far less likely to be laid off than blue collar or other employees in far-flung branch locations
- "2018" should be a super year for Houston-ongoing from there will be ups and downs but nothing so dramatic as we have experienced recently