Annual Bauer Institute / UH Regional Forecasting Luncheon May 17th -Robert W. Gilmer, Ph.D.

By Ray Hankamer

Dr. Gilmore's presentation was in two parts: First, the state of the oil business and how it affects our Houston economy, and secondly, how this industry's slump is affecting our commercial real estate sectors.

The Oil Business:

- Rig count at all- time low of 402, larger drop percentage-wise that 1980s oil depression
- The 'right price' for oil seems to be about $60 per barrel, based on futures markets and other indicators, but at that price rapid growth will not resume, but instead cyclical ups and downs pivoting on that price
- Whereas OPEC used to control prices by regulating their production, they have handed off / forced that job onto the fracking industry in Texas and North Dakota
- The strong US economy is bolstering Houston's, and we have many large and small non-oil and gas companies based here which sell to national and international customers, and remain very healthy
- Our oil & gas rebound, when it starts, will begin from a lower and later trough than originally anticipated
- Lower paying jobs in hospitality and leisure and construction on the east side will slack off, and during the next 18 months Houston should see net loss of jobs
- Although our unemployment level is rising, it is now about the level of the rest of the country
- The malaise in the oil industry will spread now to Houston's other sectors such as restaurants, real estate, leisure, and government…sectors which depend on taxes and spending from high-income job holders
- Developed countries are weaning themselves off fossil fuels and the growth in demand will come from developing nations such as China and India
- Oil & gas and other industries have overbuilt based on $100 oil and very low borrowing costs

Commercial real estate:

- There is over $50 billion in chemical industry construction underway in East Houston, with some additional projects being talked about-this will create chemical products which will need to be stored and shipped, shifting warehouse needs to the east side of town
- Industrial and retail sectors are still playing catchup from the recent surge in demand, and growing, but some caution may be warranted going forward-retail still enjoys low vacancies/high demand
- Single family stats continue to look good in Houston metro area
- Commercial real estate is a *reactive non-basic industry,* reacting to decisions made by leaders of basic industries…decisions which determine if and where jobs are created, and at what salary levels
- Existing home sales have been flat since 2012, although at elevated prices, and lots are somewhat out of balance since their past creation was aimed at higher priced homes, while now the demand is for mid- and lower-priced homes
- Single family for sale inventories are climbing but still below historical norms…as inventories rise, prices should continue to moderate
- Multi-family is overbuilt with thousands of new units still under construction-incentives to renters are increasing, although select markets still have low vacancy rates-overall vacancy rates are not yet as bad as they were at some points in the past
- The office market is overbuilt, and certain submarkets such as the Energy Corridor and Greenspoint are hurting badly, while other submarkets have yet to feel a lot of pain
- In summary, according to Dr. Gilmore: "Houston commercial real estate is in good shape except for office and apartments:

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