O'Connor & Associates Land Forecast

Speakers: Kirk Laguarta/Land Advisors Organization; David Marshall/ARA Newmark


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Takeaway from presentations: There has been a sharp shift in developer/investor/lender interest from West- to East-Houston, driven by $50 billion in petrochemical construction

- Broadly there is skepticism from equity and loan providers for Houston overall, but quality new projects in certain commercial real estate (CRE) segments such as single family, retail, and healthcare are still attracting capital
- The number of high-rise apartments and condos has tripled in Houston in the last three years-26 built or still under construction-this is 'normal progression/density' in a city at our stage of development
- Houston's economic diversity will largely offset oil & gas industry job losses
- We may see a mild "pause" in several of our CRE segments
- For the past several years U-Haul has rated Houston as the #1 inbound city, but that has now slowed
- Houston has added 736.000 population since 2010
- Higher construction costs due to shortages of construction crews and labor are adding to developer costs in all segments, and these costs could double in next 24 months
- 13/17 employment sectors will have added jobs in Houston in 2015 & 2016
- International capital still coming in from countries like Brazil, Canada, and China
- The short pre-development (entitlement) time in Harris County and our business-friendly climate makes our area very attractive to national developers

Land Prices

- Fallen by half in Energy Corridor, from $80 SF to $40
- Tripled in Inner Loop in last five years, and almost impossible to find tracts of 3 acres or more; land scarcity drives up per SF rental rates
- Should hold up in Inner Loop due to scarcity
- Recent sales of $170 SF on Westcreek/Galleria; $300 SF San Felipe at Post Oak Blvd; $200 SF behind BLVD Place; $170 SF Midtown-most sales for apartments or condos
- Land market holding up pretty well overall in Houston Metro area, except for Energy Corridor area

Retail

- Developers still "catching up with the single family housing boom" in many areas of the city, especially around the Grand Parkway
- 2.2 million SF under construction-35% of it is grocer anchored

Office

- 8.5 million SF of sublease space dampening market, 1/3 of it in Energy Corridor
- No interest in new developments, unless a rare owner-occupied by credit tenant comes up
- Very difficult time for this segment until at least 2018

Multi-Family

- The next two years will be tough as absorption progresses with big landlord concessions and new units continuing to come on stream
- New development might be able to find capital even yet in East Houston, Med Center, or other "Main at Main" location, but with difficulty

Single Family

- 2015 was one of strongest years in Houston's history, and strength will continue until 2017 when slight slackening may occur-this segment will not come close to being overbuilt
- Homebuilding not always in synch with oil & gas prices-other factors in lending industry affect it-we are still playing catchup from boom in population since 2010
- Lot development must be closely coordinated, since homebuilders need to know they control lots 2 years before actual building begins-we could run short of lots in 2-3 years
- 90% of lot developers have been financed with all cash, not debt, so there is rare lender pressure on raw land owners to unload their property prematurely, thus stabilizing prices
- Since 2012 there have been on average 26,400 annual home starts-expect 30,000 starts average by 2020-builders have lots of confidence, and 25,000 starts will be the bottom
- 44,000 acres have been sold since 2012 for master-planned communities, which average 2.5 lots per acre including amenities/infrastructure
- Houston has the fewest number of available lots of any major city in the country, because of continuing demand for homes
- $250,000-$300,000 is the current pricing 'sweet spot' for new home pricing

Industrial

- Slowing development on NW and N side and growing on East side of the county due to demand to store and ship products made by new petrochemical plants

Healthcare

- Still very strong, as major hospitals continue to build satellite facilities in the far suburbs, "following the rooftops" like retail does