

Land Advisors-Houston Land and Housing Forecast - 11/15/16



Speakers: Duane Heckman, Land Advisors; Travis Nichols, Tudor, Pickering, Holt & Co.; Kirk Laguarda, Land Advisors; John McKinnerney, Castle Hill Partners; Mike Inselmann, Metrostudy; Jesse Thompson, Federal Reserve Bank; Dan Naef, Rise Communities

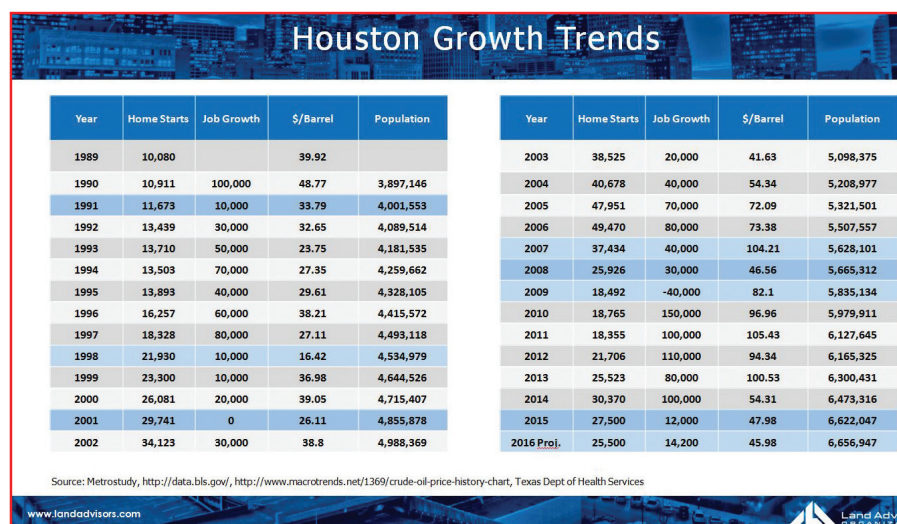


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TAKEAWAY: There is not an oversupply of lots, and given the lengthening time periods for entitlements and development, it will be tricky keeping enough new lots in the pipeline to satisfy expected near and intermediate term demand for them. Houston has led US cities in new home starts over last 20 years and this is not expected to change.

- As investments, high net worth individuals are buying up 300 acre + tracts around the Houston Metro area suitable for residential development, as bets on Houston's future
- Grand Parkway and ease of commuting on it stimulates lots of residential growth
- We are seeing about 25,000 annual home starts on average, 2nd highest in US, even while we are in a bit of a slowdown
- From land acquisition to delivery of finished lot to a homebuilder can take up to 30 months, so judging the cycles so as to not have a lot of capital tied up is challenging
- Houston is a land of opportunity and our population will double to 9 million in the Metro area in next 20 years, creating demand for hugely expanded transportation, drainage, and utility infrastructure
- We will need to convert 200,000 acres of raw land to builder lots in next 20 years, an astounding number
- Much of this growth will come west, northeast, and south of Grand Parkway, as well as along 288 south
- Texas GDP growth will take it from 10th in the world to 8th in the world by the end of 2016, moving our state ahead of Russia and Canada
- Houston contributes 1/2 of state's GDP
- Some restraints on housing growth are shortage of capital from skeptical Wall Street lenders, corporate uncertainty, affordability, crude oil prices
- With the slowdown in oil prices however, development prices are coming down as contractors and their subs struggle to adjust to slightly lower demand

- Some homebuyers are holding off to watch the job economy before committing to a new home
- These times are difficult for homebuilders, but they are still profitable
- Homes are going on smaller lots so developers can afford all the amenities in their communities; buyers are more knowledgeable and are more careful shoppers
- It is challenging as always to keep lot inventory and home sales in equilibrium



- Developers are challenged by the long wait to recoup their infrastructure investments from Municipal Utility Districts (MUDs), unlike markets like Las Vegas, where recoupment comes quickly
- Global demand for oil will continue to increase, ensuring Houston's overall growth and economic health
- Houston attracts people from other states and other countries because it is so affordable to live here

- Driverless car technology will enable commuters to live further out and to work during their commutes
- New homes now including locked 4' x 4' doors next to garage doors for delivery of groceries and packages-the delivery company will have a code-doors can be opened by homeowner from inside the garage to retrieve deliveries
- The sheer magnitude of Houston's future growth is very difficult to imagine because of its projected scale ●