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O'Connor & Associates Land Forecast Luncheon-Speaker: Davis Adams, Managing Director, JLL

Davis Adams

Takeaway: Although projections for new job growth for the Houston area is slowing somewhat, land sales/purchases-a precursor of development-continue active. Industrial is the 'darling' segment, office is mostly out of favor, and the other segments are healthy. Compared to other markets across the U.S., Houston is a relatively easy market for CRE development, hence lower cost of living.

Bullets-General:

- As infill development continues in multi-family and retail, land prices continue to rise
- Increasing density equals increasing traffic on our streets-we are all noticing that
- Houston area population has grown from 6 to 7 million in last ten years, and is projected to grow by 3 million more in the next 10-15 years...the equivalent of moving the combined populations of Austin and San Antonio into Greater Houston-how will all the cars fit?
- In spite of our hearty growth rate, the DFW Metroplex is growing just a little bit faster
- Oil industry technology continues to lower the cost of producing oil & gas, which has mixed results for the Houston economy
- Infill land prices are ranging from $80-120 in The Heights and from $20-35 in nearby Garden Oaks

Office:

- We still have a vacancy rate of 28%, although four or five new buildings are going up-new supply overall is slowing dramatically, though
- Class A buildings built prior to 2014 are losing tenants to newer buildings, with their newer amenities,
- Even in this period of overall stagnant absorption, newer state-of-the-art buildings are filling up-even under construction they are experiencing vigorous pre-leasing

Multi-Family:

- Lots of development in this segment
- Strongest markets are Heights/Washington, Montrose, Galleria, Medical Center, Midtown, North, and Katy
- It takes 1-3 years to deliver new units
- 20,000 units are under construction due to open in 2020, and there is a concern that this is too many given the slowing of job growth
- 16,500 units are currently in lease-up stage
- Overall MF occupancy is 90%; rates are at an all-time high, with an average continuing growth year to year of 3-4%

Retail:

- In spite of the growth of online retail, bricks and mortar development continues in infill sites inside the Beltway, and in the far suburbs, following residential growth
- Retail is evolving, with few to none 'power centers' focused on big box retailers such as Lowes, Target, or Home Depot; todays retail anchors are large grocers instead
- We are seeing 4-6 million SF per year of retail and specialty retail coming in to our metro area
- Many retailers are not abandoning brick and mortar locations, but are making their stores smaller; many new retail shops are designed to sell goods but also to serve as pick-up and return centers for their brands' online purchases

Industrial:

- We have just over 13 million SF of industrial under construction, the most in modern times
- Favored areas are I-10 west of Katy, and off-I-10; the Southwest; the Southeast (Baytown and Ship Channel/Port); the Northwest (290 @ BW-8)
- Investors/lenders are lined up to provide funds for this segment, and although a healthy supply of new spec space is in the pipeline, there is not currently a fear of oversupply

Single Family

- This segment of commercial real estate is consuming about 20,000 acres per year, and is producing about 27,000 homes per year
- Our single family growth is slightly behind that of DFW but ahead of Phoenix and Atlanta
- Growth is directly connected to job growth, which is leveling out for the moment with slowdown in oil & gas