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A case for why lower oil prices are good for Houston

Posted on November 7, 2014 | **By Nancy Sarnoff**

Yes, lower oil prices will result in slower job growth and perhaps fewer real estate developments in energy-centric Houston, but there's also some sliver linings to cheaper oil, said housing expert Scott Davis of Metrostudy.

In **this blog post**, Davis argues the fall in oil prices will benefit the construction industry, entry-level housing and the pipeline and chemical manufacturing businesses. Here's his take:

> 1. Declining energy employment, particularly in the downstream sector, will relieve pressure on labor shortages for the construction industry, reducing one of our market's key cost drivers.
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> 2. Lower gas prices will favor development in more remote markets, opening up lower cost sources of land and encouraging development of lots at the lower range of the market; about one third of new home buyers in Houston are in the under $200K price band, a segment increasing difficult to meet.
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> 3. Lower energy prices may assist improving economies in other markets which should help the share of Houston's economy dependent on national economic performance.
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> 4. Houston's energy economy includes upstream, midstream and downstream energy. Downstream energy, exploration and production, will likely suffer from extended low energy prices. The two other sectors, midstream (pipelines) and upstream (petrochemical manufacturing) will likely improve as lower prices encourage more consumption nationwide requiring more oil/refined products to be transported (midstream) or manufacturing sees lower costs for feedstock (upstream).

Based on historical data, oil priced at between $55 and $90 per barrel products produces the highest demand for housing in the Houston area, Davis said.

He explains what the market looks like when prices are higher or lower than the range:

> Above $90 it would appear that high energy prices dampen demand for housing because of the squeeze on consumer budgets for housing and in a market the size of Houston, transportation. Below $55 it appears that demand is lessened because of weaker job growth.
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> The Energy Information Administration's pricing forecast for oil in 2015 is $91, and Saudi Aramco needs oil at about $93 to be profitable. We expect oil prices to rise slightly to that level through the quarter and remain there on average through the balance of 2015.

In a separate report, a Houston appraisal firm said Texas real estate values will withstand the oil price decline.

"The fundamentals of Texas real estate remain strong and this retreat in oil prices will not deflate realty markets," Matthew Deal, principal of Deal Sikes & Associates, said in a statement. "Texas has more commercial real estate projects under construction than almost any place in the world, but many of these developments have tenants committed to pay sizable rents."

Still, if oil prices fall "precipitously and oil rigs are mothballed" — **which has already started** — real estate would be impacted later in 2015 with softening land prices, he said, the company said.