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Business

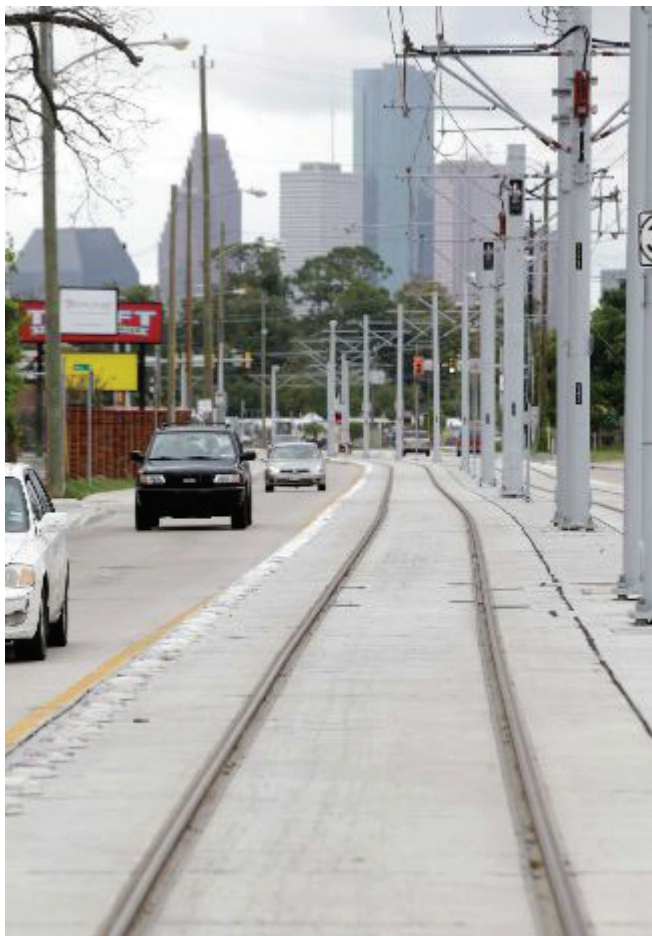
fuel fix *Sunday:*
Lessons on leadership from
a Baker Hughes executive in Africa. D3

HOUSTON CHRONICLE | HoustonChronicle.com and chron.com | Sunday, November 10, 2013 | Section D ***

in Houston Chronicle in FuelFix

ECONOMY

New retail, rail line keep city advancing



Melissa Phillip / Houston Chronicle

A real estate appraiser says expansion of the light rail line will create a new dynamic for mass transit in Houston and will spur more development along all sections of the line.

Though job growth is slowing, confidence about the area's future is growing along with demand for homes

By L.M. Sixel

The Houston economy appears to be at a turning point. While some parts are robust - think of the bidding wars for homes - job growth is slowing.

Yet consumers and business leaders are confident as they look out and see construction cranes dotting the sky, new retail development taking shape and lower gasoline prices putting more money into the pockets of Houstonians. The new rail line extension has boosted hopes for even more growth.

To get a better handle on where the Houston economy is headed, we asked an economic developer, a real estate appraiser, an educator and a bar owner for their opinions. Here is what they said:

Q: What word or phrase would you use to describe the Houston economy?

A: "Hot," said Matthew Deal, a partner with Deal Sikes & Associates in Houston, commercial real estate appraisers and consultants.

The population is growing and so is job growth, which is spurring a surge in residential development, Deal said. With all the

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Four views of where Houston is going



Matthew Deal of Deal Sikes & Associates says, "Outside my office, I can see at least 10 cranes."



Latha Ramchand, a dean at UH, says that in Houston, it doesn't matter what your name is or what you look like.



Fred Welch, a vice president at the Greater Houston Partnership, says the city has become a center of innovation.



Alba Huerta of Anvil Bar & Refuge says many new Houston residents are interested in arts and entertainment.



Melissa Phillip / Houston Chronicle

Metro's North Line light rail tracks are shown along Fulton Wednesday, Nov. 6, 2013, in Houston.

new rooftops, demand is increasing for new retail such as grocery stores, dry cleaners and nail salons.

"Outside my office, I can see at least 10 cranes," said Deal, referring to the apartments going up near his office at Memorial and Waugh.

"Dynamic" and "innovative," are the words Fred Welch uses to describe Houston. He is vice president for economic development at the Greater Houston Partnership.

While energy is still mightily important to the city, Houston has become a center of innovation, Welch said, pointing to a fledgling business accelerator at the Johnson Space Center that is working with startup companies to combine technology advances with space and energy.

The startups are beyond the incubation stage and are moving to raising money and getting their products to the market, he said.

Houston is also emerging as a player in the life sciences. A dozen years ago, Houstonians could count the number of life-science-related research firms on one hand; today, there are more than

200 stretching from Galveston to College Station, he said.

"Strong" is what comes to mind for Alba Huerta, general manager of Anvil Bar & Refuge, when she is describing Houston.

Sales this year sales have not dipped during the traditional slow months as they have in previous years, said Huerta, who is also part-owner of two other bars, Pastry War and Trigger Happy, and is planning to open another, Julep, at the end of the year.

Typically, sales slow at the end of the winter and again in the summer, only to pick back up for the holidays, she said. This year, there weren't valleys. Just peaks.

Q: What sectors of Houston are especially strong? Which are weak?

A: Energy is doing well, but the big growth in jobs is beginning to plateau, said Latha Ramchand, dean of the C.T. Bauer College of Business at the University of Houston. But she isn't worried.

"You expect that," Ramchand said, referring to the cooling off after a period of exponential growth.

The growth has put demands on Houston's infrastructure, she said. Freeways and roads haven't kept up with the region's growth, and neither has housing.

But as housing capacity is added, Ramchand said, she worries about overbuilding.

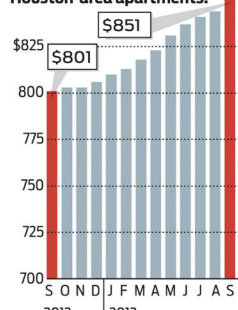
That surge of new residents is one of the biggest things going for Houston.

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Apartment rents

Rental rates rose sharply.

Average monthly rent for Houston-area apartments:

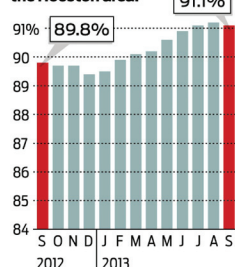


Source: Apartment Data Services

Apartment occupancy

Occupancy rates were above the year-ago level.

Monthly occupancy rates for apartments in the Houston area:

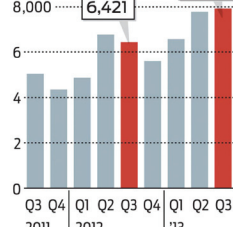


Source: Apartment Data Services

Home building

The number of homes started by builders was up 23 percent from the year-ago level.

Quarterly home starts in the Houston area:

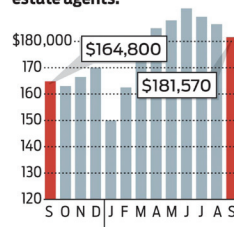


Source: Metrostudy

Home prices

Year-over-year home prices rose 10.2 percent in September.

Monthly median price of single-family homes sold in the Houston area by area real estate agents:

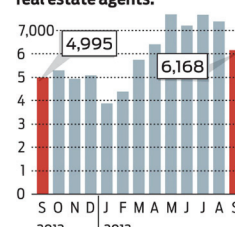


Source: Houston Assn. of Realtors

Home sales

Year-over-year sales activity rose 23.5 percent in September.

Monthly number of single-family homes sold in the Houston area by area real estate agents:

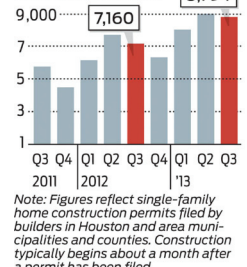


Source: Houston Assn. of Realtors

Home permits

Permit requests for new homes showed an 18 percent year-over-year gain in third quarter

Quarterly home permits in the Houston area:

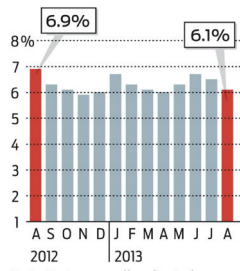


Note: Figures reflect single-family home construction permits filed by builders in Houston and area municipalities and counties. Construction typically begins about a month after a permit has been filed. Source: Bohlke Consulting Group

Unemployment

The August jobless rate fell to 6.1 percent.

Monthly unemployment rate for the Houston area:

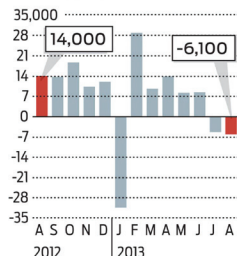


Note: Not seasonally adjusted
Source: Texas Workforce Commission

Job growth

Houston gained 80,700 jobs over from September to August.

Monthly job growth in the Houston area:

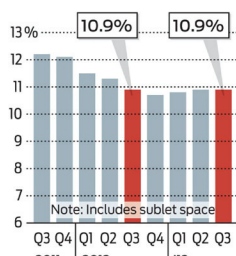


Note: Not seasonally adjusted
Source: Texas Workforce Commission

Office market

The vacancy rate was unchanged from a year ago.

Overall vacancy rate for office buildings in the Houston area:

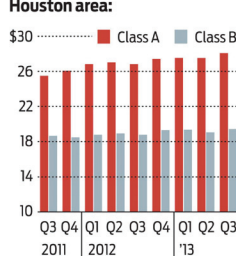


Note: Includes sublet space
Source: Transwestern/Delta Associates

Office rents

Rental rates were higher than the year-ago level.

Average asking rates per square foot per year for office buildings in the Houston area:

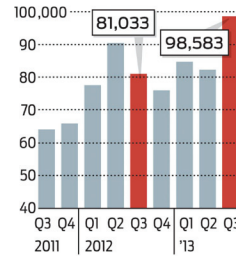


Note: Includes sublet space
Source: Transwestern/Delta Associates

Auto sales

Sales rose 22 percent from the comparable period a year ago.

Sales of new vehicles in the Houston area:

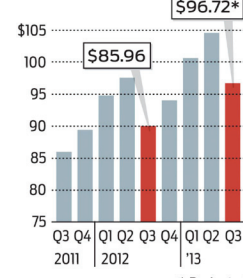


Note: Includes sublet space
Source: TexAuto Facts Report published by InfoNation, Sugar Land

Hotel rates

Hotel room prices were above year ago level.

Average daily room rates in the Houston area:



Note: Includes sublet space
Source: PKF Consulting USA

The “transplants” are interested in arts and entertainment, Huerta said. Many of the new residents are looking for culinary adventures such as festivals devoted to beer and wine.

Q: How will the run-up in house prices affect the Houston economy? Will the higher prices and spike in demand affect people’s ability to buy residential real estate?

A: “I suspect it will,” said Welch, who also believes the tighter rules on lending will make it more difficult to qualify for loans.

You have to have more equity to get into a house, he said. That will affect some buyers. But Houston is adding about 100,000 new residents a year, so there are a lot of potential buyers.

Welch is not eager to see real estate become overvalued. The market was resilient during the last recovery, yet didn’t become overbuilt.

“We need to match demand with the absorption rate,” he said, speculating the region will likely see the creation of more master-planned communities during the next three years or so.

Prices will only go as high as people can afford, Deal said. If buyers get priced out of the homes they want, they’ll set their sights on less expensive neighborhoods.

And if the market sees significant demand for lower-priced products, Deal said, he believes homebuilders will meet that.

It’s a great time to be a seller, he said. The problem is: Where do you go once you sell? Many buyers may find themselves priced out of the market and will have to go farther out or opt for smaller houses.

Q: Has the light rail line that stretches from downtown Houston to Reliant Park created a sufficient amount of retail and other development? And what is the effect of the expanded rail line to other parts of Houston?

A: The expansion will create a new dynamic for mass transit for Houston, said Deal, who is predicting it will spur development along the rail line.

The original line has been popular, but it needs connections going in other directions to make mass transit more useful, he said. That, in turn, will stimulate development all along the rail lines, including the existing one.

The rail line has created a hub of foot traffic in the Market Square area that is essential in creating a nexus of bars and restaurants, Huerta said.

“At some point we share the traffic,” she said.

The rail line has spurred real estate development, and she predicted more will come as a result of its expansion. It has opened up more possibilities.

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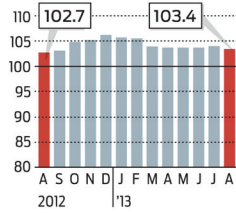


A Metro train tests the North Line light rail along North Main this month. The extension has boosted hopes for even more economic growth in the Houston area.

Melissa Phillip / Houston Chronicle

Texas Economic Activity Index

Comerica Bank's Texas Economic Activity Index dipped from July to August.



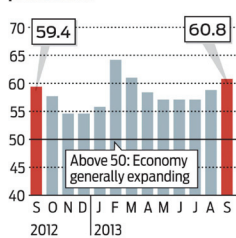
The index reflects economic activity such as manufacturing, travel, trade, job growth and consumer outlays in Texas. It is a 3-month moving average and is seasonally adjusted. 2008 = 100.

Source: Comerica Bank

Business climate

An index of business rose from August to September.

The Houston Purchasing Managers Index is an indicator of regional production.

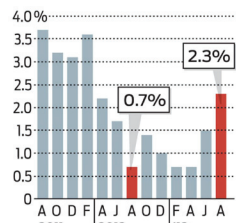


Source: Institute for Supply Management - Houston

Consumer prices

Higher shelter costs contributed to a gain in consumer prices over last year:

Over-the-year change in the value of the Consumer Price Index in the Houston area:



Source: Bureau of Labor Statistics

Q: What is the biggest challenge facing Houston?

A: It's the lingering perception that Houston is backward and intolerant toward outsiders, Ramchand said.

Nothing could be further from the truth, she said, pointing to the entrepreneurial spirit of the city, where it doesn't matter what your name is or what you look like if you want to become successful.

The negative image is important to change, not only to make Houstonians feel better but also because of the economic link.

"We need the best talent to come here," Ramchand said.

From an academic perspective, Ramchand wants the best students to come to the University of Houston.

"We need incentives to move here," she said, referring to how other schools try to lure students with scholarships and other offers.

Houston needs to do more bragging about what it has to offer to attract the talent it needs, Welch said, referring to the museums, theater and other amenities that characterize the region.

Houston is dynamic, vibrant and innovative, he said. The city also has to continue to make sure it has plenty of employment opportunities to attract the best and the brightest.

Q: Will Houstonians spend freely during the holidays? Or has the recent government shutdown and the chance another will happen early next year upset consumer confidence?

A: "In comparison to other cities and states, Houston is in as good a shape as any," said Deal, who predicted a good shopping season for retailers.

Retail real estate developers are also adding space, Deal said, which tells him they are seeing increased demand from consumers. Grocery stores are expanding as anchor tenants in shopping centers, which in turn attract smaller retailers such as nail salons and barbershops.

Huerta is already feeling bullish about the season. Companies are booking their holiday parties earlier this year, she said, referring to the law firms and oil and gas companies that are willing to spend to entertain their employees and clients.

With gasoline prices going down, Ramchand hopes Houstonians will have more disposable income to shop this year.

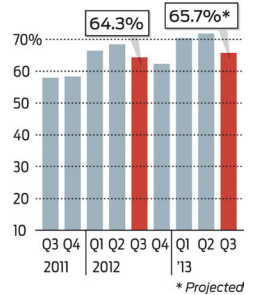
The business dean said it's harder to tell what consumer confidence will be like. Job growth has been strong, she noted, yet the unemployment rate has not fallen much.

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Hotel occupancy

Hotel room occupancy projected above year ago level.

Occupancy rates for hotel rooms in the Houston area:

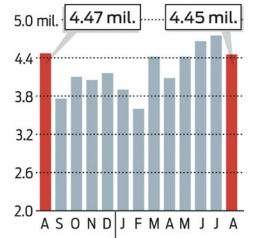


Source: PKF Consulting USA

Airport traffic

Year-over-year activity fell in August.

Total numbers of passengers traveling through Bush Intercontinental and Hobby each month:

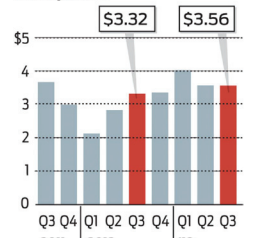


Source: Houston Airport System

Natural gas

Price ended third quarter above the year-ago level.

Closing price per million British thermal units of natural gas at the end of each quarter:

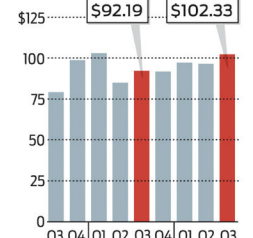


Source: Bloomberg

Oil prices

Price ended third quarter above the year-ago level.

Closing price per barrel of crude oil at the end of each quarter:



Source: Bloomberg

Metro's North Line light rail tracks are shown along Fulton Wednesday, Nov. 6, 2013, in Houston.

Melissa Phillip /
Houston Chronicle

