The City of Houston, the largest city in Texas and the fourth largest city in the United States, is located on the coastal prairies of southeast Texas and is home to a diverse array of industries and cultures. Houston is located in Harris County, the nation’s third most populous county. The Houston region, officially designated as the Houston - Woodlands - Sugar Land Metropolitan Statistical Area (MSA), comprises Harris County and eight other counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Liberty, Montgomery, and Waller. The Houston MSA has a population of approximately 6,656,947 according to new U.S. Census Bureau estimates. The nine county metropolitan area is the fifth-largest metropolitan area in the nation and covers 9,444 square miles. The most urbanized portions of the Houston area are in Harris County, the southern part of Montgomery County, and the eastern section of Fort Bend County. Houston is home to the tenth largest port in the world and is in close proximity to Mexico, a key trading partner. It has a temperate climate and an affordable cost of living.

With a population exceeding 2.3 million, the population base includes a wide variety of racial and ethnic groups that give Houston a rich diversity and cosmopolitan feel.

The U.S. Bureau of Economic analysis estimates metro Houston’s Gross Domestic Product (GDP) at around $503.3 billion. If the MSA were an independent nation, its economy would rank 23rd largest in the world, behind Taiwan ($523.6 billion), but ahead of Sweden ($499.4 billion).

6.6 million
residents in the 9-county Houston-Woodland-Sugarland MSA

Race/Ethnicity: Houston MSA
Houston today mirrors the U.S. in 5 decades

- 37.3% Anglo
- 36.5% Hispanic
- 16.9% Black
- 7.5% Asian
- 1.8% Other

Source: Greater Houston Partnership Research, December 2016
Ever since its founding as a port city, Houston has been a dynamic international marketplace, attracting capital and people from all over the world. Today, Houston is the nation's fourth largest economy, and what Forbes calls “America's next great global city.”

- Houston's annual trade growth is among the highest in the nation with a total annual trade value growth of 84.6 percent, from $136.451 million in 2005 to $251.855 million in 2015; exceeding the nation's growth rate of 45.2 percent during that same period.
- Houston is already a leading exporter, and our exports have increased 189% since 2003. In fact, Houston is the #1 metro exporter in the top energy related industries. But recent low oil prices have slowed our rate of growth. A plan to boost goods exports can further diversify our economy, help existing companies grow, and create more jobs.
- Houston's export plan will connect small and medium-sized enterprises to growing markets, while positioning the region as a location of choice for global investors.

Source: Greater Houston Partnership Research, December 2016
Despite Setbacks Houston Still has a Strong Economy

From 2010 to 2014, Houston added nearly half a million jobs. This period of phenomenal growth provided the momentum needed to sustain the region through the early stages of the energy downturn that began at the end of '14. As oil prices and rig counts fell through '15 and early '16, Houston's job growth began to slow. In '15, the region added 15,200 jobs, and added 13,400 jobs in the 12-months ending Oct '16. In spite of the energy industry's worst downturn in history, Houston managed to post 12-month net job gains throughout this period.

A strong U.S. economy, momentum from the previous economic boom, robust population growth, and the $50 billion in petrochemical plant expansions have helped offset losses in upstream energy and manufacturing.

Houston is home to 91,800 engineers and architects, more than any other U.S. metro area.

Approximately
230,000
people work in the region's manufacturing industry

39
of the 137 publicly traded oil and gas exploration firms are housed in Houston

750,800
exploration and production firms, oilfield services companies located in the Houston region

Houston employs nearly 1/3 of the nation's oil and gas extraction jobs

Houston's Service-Providing Sector Continued to Add Jobs During the Energy Downturn

The goods-producing industries (mining and logging, construction, and manufacturing) peaked at 586,300 jobs in December '14, then fell to 536,400 jobs in October '16. Mining and logging, primarily oil and gas extraction and support activities, lost 25,600 jobs, a 22.9 percent decrease. These losses rippled through the economy, triggering declines in other sectors, particularly durable goods manufacturing, wholesale trade and professional and business services.

Construction, helped by the petrochemical plant expansions on the eastside of Houston, gained 6,100 jobs over the same period.

Manufacturing lost 30,400 jobs and fabricated metal products lost 12,100 jobs. Construction and mining machinery lost 14,200 jobs, and computer and electronics lost 2,300 jobs.

The service-providing industries added 66,600 jobs between December '14 and October '16. Gains in industries that rely on population growth offset losses in sectors tied to energy. Trade, transportation, and utilities lost 1,400 jobs, financial activities added 3,000 jobs, and professional, scientific and technical services cut 7,700 jobs.

Healthcare and social assistance added 24,500 jobs, accommodation and food services added 27,600, and government gained 14,700 jobs.

The service industries account for 4 out of 5 workers in the region

The goods-producing sector accounts for nearly 1 in 5 of the region's jobs

The Texas Medical Center is the world's largest medical complex.

$3 billion
in construction projects underway

1,345 acres:
Total size of all campuses

8 million
annual patient visits

180,000+
annual surgeries

Source: Greater Houston Partnership Research, December 2016
According to an article by Jim Gaines, a research economist at the Real Estate Center at Texas A&M University, dated January 6, 2017, in the Houston Business Journal, the economic downturn that began in November 2014 seems to be over. Jim Gaines states there's generally a two-to three-year lag between the time the energy sector goes into a slump and all of its impacts on the economy are felt. Houston's energy slump unofficially began on November 27, 2014, when OPEC announced it wouldn't adjust oil production levels. Gaines said that Houston should see some of the slump's final lag effects this year.

Gaines also noted that 2016 is poised to be the best year on-record for Houston home sales. The Greater Houston Partnership recorded that November 2016's home sales were the best November on-record for single-family home sales.

**Much of that boom can be attributed to Houston's population growth. Despite the oil slump, few residents are leaving Houston. In 2016, Houston welcomed 132,000 new residents (45,600 households). Gaines also states that Houston's population is expected to rise to 7.4 million by 2020 and should double to 14 million by 2050.**

Additionally, according to an article dated January 11, 2017, by G. Scott Thomas of Buffalo Business First, a sister paper to the Houston Business Journal, Houston is on the brink of a population milestone. Buffalo Business First has developed a computer formula that uses 15 years of demographic data to estimate the population of any community at any given moment, and according to predictions by Business First Houston will reach 6.9 million on March 13, 2017 and 7.0 million on November 17, 2017.

What are other signals the downturn is over?

As stated by the Greater Houston Partnership's '2017 Houston Employment Forecast':

- West Texas Intermediate (WTI) the U.S. benchmark for light, sweet crude, now trades near $50/barrel. WTI traded as low as $26 in mid-February 2016.

- The number of drilling rigs working in the U.S. reached 593 in mid-November. Only 404 rigs, the fewest in recent history, were in the field in mid-May.

- After 21 months below 50, the Houston Purchasing Managers Index hit 51.1 in October 2016. Readings above 50 signal pending expansion; below 50, contraction.

- The region created 13,400 jobs in the 12 months ending October '16. Annualized growth had sunk as low as 3,200 jobs in May '16.

The forecast also asserts, "the recent downturn could be compared to a tropical storm. The damage done depended on where one stood as the system passed over Houston. Those businesses closest to the energy industry felt the full fury of the storm. Those distant from oil and gas, to extend the metaphor a bit further - on the dry side of the storm - were buffeted but not blown away."

The forecast calls for the strongest job growth in manufacturing, wholesale trade, retail trade, finance and insurance, real estate, business, professional and technical services, other services and government.

Source: Greater Houston Partnership Research, December 2016
Since December '14, developers have added more than 37,000 units to local inventory. Another 15,000 are under construction, the majority scheduled to open in the next 12 months. That equates to 52,000 units delivered in a market that's just beginning to recover. Over the past 12 months, the region has absorbed about 6,500 units.

The glut cut overall occupancy to 88.9% in November '16, down from 91.5% at its June '15 peak. Occupancy rates below 90% favor tenants. Rents have responded accordingly, dropping between 2% and 6% depending on the apartment class.

The market absorbed 14,000 Class A units through the first 10 months of '16, but this performance came at the expense of Class B, C and D properties, which collectively lost 7,500 tenants over the same period. Traditional Class B and C tenants have been enticed into the Class A market with deposit waivers, free rent (as much as 3 months) and other enticements. Whether these tenants renew their leases remains to be seen, but is however, doubtful.

If one uses the industry rule of thumb that for every six jobs created, the market absorbs one unit, then Houston needs to add 156,000 jobs to cut the current surplus in half. Once the economy recovers, growth should return to the long-term trend - 50,000 to 60,000 per year.

Source: Greater Houston Partnership Research, December 2016

**MULTI-FAMILY..... Moving Forward Cautiously**

**Ignoring Class B and C Apartment Market is a 'Big Mistake'**

Despite the fact that during the economic downturn some Class B and C tenants were lured into the Class A market with large free rent waivers and other concessions, with the improving conditions a large portion of them most likely will not renew and will return to the Class B and C market. In an article in the Houston Business Journal, dated September, 28, 2016, by Paul Takahashi, Todd Marix of Holliday, Fenoglio, Fowler (HFF) observed that ignoring the Class B and C apartment market is a 'big mistake'.

As stated by the article, when Todd Marix brought Broadstone Grand Parkway to market he expected he might receive bids from six or seven interested buyers - par for the oil downturn.

The 342-unit garden apartment complex, built in 2009, had solid occupancy in the high 90th percentile but was offering two months free rent amid increasing competition from nearby apartments in Katy.

However, Marix's multifamily investment team at HFF received a whopping 18 bids for the property. The deal is still under contract but Marix said it sparked a bidding war between local and out-of-town private equity firms.

"We were shocked by the level of participation," Marix said. "We haven't seen this kind of bidding behavior in a long time. It tells me there's some optimism in the market."

Despite the oil slump, many opportunistic apartment buyers are returning to Houston in search of good deals, according to Marix.

Young apartment investors are also looking to get into the market during the oil slump, Marix said. These buyers are willing to accept lower rents for one or two years and hope that Houston's apartment market will recover around 2018.

"Buyers like Advenir are relatively new to Houston, but they like the recovery aspect," Marix said. "These buyers have patient capital and want to buy in Houston at an advantageous time. They know things will be bumpy for the next year or two but are hoping they will come out the other end with a great deal."

Most of these new Houston buyers are focusing on the city's Class B and C apartment market during the energy downturn, Marix said.

Marix estimates there are about 620,000 apartment units in Houston, of which the majority - two-thirds - are Class B and C apartments.

Source: www.bizjournals.com, 9/28/16, Paul Takahashi