LOW OIL PRICES
Signal Economic Pendulum Swing

By Lee O'Brien

One of the great shining symbols of the Houston economic structure is in the midst of a downturn, resulting in a shifting demographic that's fueling growth and greater prosperity in other segments of Greater Houston.

For years, Houston's Energy Corridor has been considered by many to be the heartbeat of the city's economy, but with the slump in oil production and the subsequent reduction in rig counts in the industry, economic forecasters are seeing what could be the makings of a recession on Houston's horizon, particularly in the west and northwest communities of Katy and Cypress.

The clamor is hardly news to most within the Houston business community, and most are not entirely surprised or alarmed by this shift. In fact, economic forecasters indicated that this has happened several times—four to be exact—over the last three decades.

Bill Gilmer, director of the institute for regional forecasting at the University of Houston's C.T. Bauer College of Business, spoke earlier this year at the Houston Northwest Chamber of Commerce 7th Annual Economic Outlook Forum held at the Lone Star College-University Park campus about the shift and what it could mean to Houston's economy. His focus was the oil industry and the marked decrease in rig counts.

"What got us into this is that no one could forecast oil prices," Gilmer said. "We take the scenario that the price of oils will stay below $70 per barrel for the rest of this year, and I think we are looking at a slow and sluggish time for Houston, at best."

The first signs of change actually began in early 2014, slowly manifesting in the spring as the price for a barrel of oil began to slowly dip. However, it became a bit more noticeable by Thanksgiving, and by the start of 2015, the prosperity that buoyed the Houston economy seemed significantly diminished. By January, a barrel of oil was going for just under $50, spurring layoffs at Baker Hughes and Schlumberger in the first quarter of the year.

Rig counts also dropped 55 percent from its peak at this time last year, and the January forecast of 40,000 oil-related jobs slashed to just a projected 13,000 for 2015. Of course, there's also the plethora of "ifs."

If oil prices remain low through the end of 2015 and if there is an increase in the amount of drilling in early 2016, then possibly, there could be a sort of rebound by the mid-point of 2016. Oil production could increase along with rig counts, thereby creating more jobs, according to Gilmer.

But of course, nothing is written in stone.

In his fifth forecast of 2015, Gilmer said the decrease in drilling had occurred much quicker than many in industry experts anticipated: "The decline in the rig count has outpaced even the 2008-'09 decline that was brought on by financial crisis, major recession, and a fall in the price of oil to $35 per barrel. More than half of domestic rigs have been cut [55.5 percent], 50 fewer rigs are working than at the same point in the 2009 decline, and, while the rate of decline is slowing, no bottom has been reached yet."

Thus, a more pessimistic view might indicate the pendulum hanging for a bit longer than expected, and if that happens, then the anticipated recovery signaling a swing to higher oil prices and an increase in the rig count might not happen until late 2016 or early 2017.

CONSTRUCTION BOOM IN EAST HOUSTON REGION

Gilmer also sees the construction boom in the east Houston region, similar to what the northwestern and western areas of Greater Houston experienced in recent years, as a temporary buffer to offset the low oil prices. It is shielding the Houston economy.

"This is likely helping keep Houston out of a recession," Gilmer said. "If oil prices revive by the end of 2015 and drilling returns to high levels by mid-2016, Houston would add about 13,000 jobs in 2016 and 61,000 in 2017."

The low oil prices, however, are only part of the puzzle.

TAPPING INTO NATURAL GAS

Gilmer says the low natural gas prices have also lent fuel to the fire. “This has freed up a lot of labor; labor that would have been absorbed by drilling, or labor that would have otherwise been in Eagle Ford or Permian Basin,” he said.

In fact, many of those jobs migrated east to areas such as Baytown, where the natural gas and petrochemical industries are booming and construction is on the rise.

“We have refineries here, so it doesn’t always matter which way the price of oil goes,” said Mike Shields, executive director for the Baytown-West Chambers County Economic Development Foundation. “We have always fared well here, but now there is this abundance of natural gas.”

Many of the petrochemical facilities have moved away from using oil and are using natural gas to produce plastics instead.

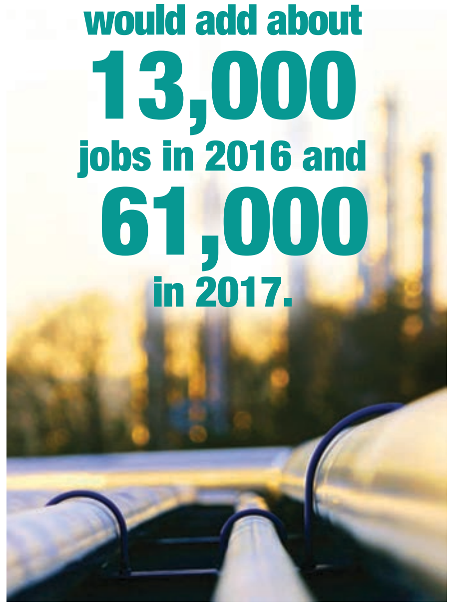
That level of production has spurred growth in the Baytown region and resulted in $14 billion in investments, an estimated 20,000 temporary construction jobs, and upwards of 3,000 new permanent jobs, all in a variety of industries. B.J. Simon, associate executive director for the Baytown-West Chambers County Economic Development Foundation, has studied many of Gilmer’s assertions for economic forecasting and called his observations “spot on.”

“I think the Baytown and West Chambers County area, because of the stability and growth of the petrochemical cluster here, along with the logistics and distribution… these expansions are going to be built. Downstream projects are going to be built. Polyethylene is going to be produced, and it’s going to have to be moved,” Simon said. “The inter-modal structure that exists in our area will facilitate that movement, so the logistics and distribution will continue to grow as well.”

THE MULTIPLIER EFFECT

While much of the growth cited by Gilmer is regarded as temporary, Simon said a lot of those jobs are staying put. He claims the level of growth happening on the east side will change the trajectory the local economy is taking right now.

If oil prices revive by the end of 2015, and drilling returns to high levels by mid-2016, Houston would add about 13,000 jobs in 2016 and 61,000 in 2017.



Although not as populous as their neighbors in west Harris County, west Chambers County has seen a decrease in unemployment that has accompanied an increase in sales tax revenues and an increase in population in Baytown by 5,000 new residents since 2010.

“We think it’s greater than that,” Simon said. “All you have to do is come to Baytown and look over the horizon and see all the cranes in the air. That’s kind of the physical indicator of what’s going on here.”

The expansion and growth of the petrochemical industry in Baytown and Chambers County has likewise spurred growth in other parts of the local economy, specifically in areas of higher education, retail, and the healthcare industry. All are having what Simon called, “the multiplier effect,” resulting in an infusion of indirect jobs within communities in eastern Harris County and western Chambers County.

“Clearly, there are varying schools of thought on the effect these multipliers have on any local economy,” Simon said. “The degree of belief in the market is being validated by people entering into the market, so the vertical market [construction] is visible.”

Scott Davis, regional director for the Houston office of Metro Study, spelled out the significance of the swing from the Energy Corridor to east and northeast regions of Greater Houston during a recent panel discussion as part of the Urban Land Institute.

“Energy in Houston is not just something that happens in an office building on the Katy Freeway,” Davis said. In fact, a quick trip down Texas Highway 225 toward Baytown reveals an ever-evolving skyline of refineries that provides nearly 42 percent of petrochemical producing capacity in the U.S. They boast more than 400 chemical plants that are connected to other plants and facilities through a 200-mile maze of pipelines.

“Collectively, more than 33,000 people are employed at those refineries alone,” Davis said.

That number is expected to increase with ExxonMobil and Chevron both building plants in Baytown at a cost of $6 billion.

“There are about $140 billion in projects proposed between Corpus Christi and Lake Charles that will all focus on East Houston,” Davis added. “Exploration and production creates about three jobs in our economy. Petrochemical production creates about six and a half jobs in our economy, so it’s very impactful and presents a great opportunity for our market to continue to expand and drive activity on the Northeast side of the market.”

GENERATION PARK FUELS GROWTH

Further north, in what is now being re-branded as “West Lake”—much like Greenspoint, Midtown, and Montrose—and encompassing a small area around and near Generation Park, the surge in growth is happening, much of which is being spurred by Generation Park.

“Being in Houston as a whole, it’s a great region, and we work very hard to sell the story of Houston—about the low regulatory environment, the great housing, and the great labor force,” said Ryan McCord, president of McCord Development and Generation Park. “But then, once the opportunity to come to Houston [for the perspective tenant], we fight aggressively to win it at Generation Park.”

Located along Beltway 8, and not far away from Interstate 69 and Bush

Intercontinental Airport, the 4,000-acre, mixed-use Generation Park is becoming both a primary business hub for companies associated with the oil and gas industries and a place to live and play. As recently as 2012, FMC Technologies announced plans to build its 173-acre headquarters at Generation Park.

During a recent community meeting at Summer Creek High School in the Humble Independent School District (ISD), Bob Houlgrave, FMC Technologies project manager for the Generation Park campus, indicated the first phase of the project, located on 71 acres of that campus, is expected to be completed in by the end of 2015.

"What you see under construction is phase one, and we have phase two under design," Houlgrave said. The first phase will include a parking garage and five industrial buildings that will be used for subsea development at the new site.

Many of those buildings are 60 to 70 percent complete with only interior work left to be done.

The office facility will be 360,000 square feet and house about 1,200 employees by early 2016.

Counter this with the 600,000 square foot subsea facility that will open at the same time, and FMC will have 1,700 working at Generation Park early next year. "We are obviously very excited about that and what they bring to the table," said John Flournoy, vice president for sales and leasing at McCord Development and Generation Park.

FMC Technologies, however, is also getting families involved in relocating and has sponsored bus trips to Generation Park to allow employees and their families who work at any of the 10 FMC Technologies locations in Houston to visit the new campus and tour the community. The draw for them is the rapidly expanding Humble ISD, which will have nearly 40,000 students enrolled at the start of the 2015–2016 school year.

Neighborhoods keep cropping up. Summerwood was the first successful subdivision within Generation Park. The Groves is a 2,200-home community situated on 1,000 acres with prices ranging between $250,000 to $400,000, and the Bridges of Lake Houston is a 1,000-home community on 332 acres, priced from $200,000 to over $1 million.

However, mobility is the key driver for all of this growth, and much of that is coming from the Grand Parkway, which will open segments F1, F2, and G, between U.S. 290 to I-69 before the end of 2015, opening another avenue between business segments and the Houston Ship Channel that will increase access to the port, as well as Hobby and Bush Airports.

"I think this is going to help start to rebalance Houston a little bit with respect to infrastructure investment being ahead of development," McCord said. "When we look at northeast Houston and the trade area and we do our own forecasting for Generation Park, we look at ratio with respect to office and industrial space, retail, multi-family, and a variety of other property groups…On office [in the northeast region] has the least amount of office space per capita of any region in all of Houston, which truly doesn't make sense, given the demographics. It should arguably be average with the rest of Houston. Having that capital investment coming to this part of town will continue to be a great catalyst for development."

The mobility factor played a key role in luring London-based Stolt-Nielsen Limited, which has offices world-wide, to purchase six acres of property in Generation Park along Beltway 8, which will provide greater access to the Port of Houston.

Another piece of the puzzle in Generation Park puzzle came in June when San Jacinto College announced its intent to build a new campus across the street from the FMC Technologies headquarters, which will allow the college to foster a working relationship with FMC Technologies, translating into greater job creation in the northeast region.

"What we've found in working with these larger corporate consolidations is that workforce training is a critical component to people and companies looking in this area," Flournoy said. "We are already seeing that helping us win other deals."

"Collectively, more than 33,000 people are employed at those refineries alone," Davis said. That number is expected to increase with ExxonMobil and Chevron both building plants in Baytown at a cost of $6 billion.

KATY ECONOMIC COMMUNITY OPTIMISTIC

Of course, while the pendulum may have swung, it's likely to swing back west sometime within the next few months. In fact, the economic development community in Katy is optimistic that the jobs will return with much the same force that was seen in 2013, especially if the oil prices rally as Gilmer indicates will happen in the coming year.

Lance LaCour, president and CEO for the Katy Area Economic Development Council, said businesses that have long been a fixture in Katy and the Energy Corridor aren't going anywhere.

"The Energy Corridor is not just oil," he said. "When you think of the Energy Corridor, you think of Conoco and BP, but those companies are pretty diversified in what they do."

LaCour said it wasn't a stretch for companies like FMC Technologies, which already had locations on the north side of Houston, to make the move northeast.

Another factor is the opening of the ExxonMobil campus on Interstate 45, which transferred 20,000 of their employees from Fairfax, Virginia, and opened their doors in March.

"Regardless, the Energy Corridor is still fully entrenched as the heartbeat of Houston's economy," LaCour said.

"I think you still have a great deal of energy-related employment that's in this area that will continue to stay here," he said. "What we are hearing is that the downstream side of the industry is in more of a growth mode, so the east side is certainly going to benefit more in the short term from this situation." N

Lee O'Brien is a Houston-area freelance writer who has covered a variety of news beats ranging from crime, politics, and business, to transportation, and education. O'Brien, a news veteran and award-winning journalist, has been recognized by the Texas Press Association and the Texas Associated Press Managing Editors for news and column writing. For more information, or to learn more, send request to coldcoffeebuzz@gmail.com.