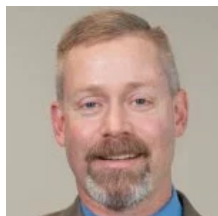




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Q&A STEVEN SPILLETTE: 2016 PRESENTING CHALLENGES TO HOUSTON HOME BUILDING, MULTIFAMILY AND OFFICE SECTORS



Steven Spillette

HOUSTON – Few people can judge the lay of the land better than an urban planner. Steven Spillette, an urban development strategist also experienced in real estate and urban planning, has done a variety of market studies and financial pro-forma analyses for private and public clients related to single family and multifamily residential, retail, office, industrial, hotel and meeting facilities, among other things.

A native Houstonian, he was educated at UC Berkeley, Texas A&M and Stanford. He launched his own firm, Spillette Consulting, in 2001 and recently merged with CDS Market Research.

He shared some of his prognostications for 2016 with **Dale King**, a contributor to the Realty News Report.

Realty News Report: The price of oil dipped to its lowest level in seven years in December, a major concern to Houstonians. What's your outlook for Houston real estate for 2016?

Spillette: Even though Houston's economy is more diversified than it was 30 years ago, the recent surge in hiring was spearheaded by upstream gas and oil. This boom has stopped and some layoffs are happening. Construction sectors like multifamily, suburban single-family and Class A office space will be much weaker in the coming year. There will be little demand for large-scale office space. Rents will plateau. We don't need any more upscale apartments in some parts of town. Other aspects of the economy independent of gas and oil seem relatively stable. The southeastern part of town which has other industries will also remain stable or will grow. That area won't suffer as much as the petrochemical sector. Logistics tied to the Port of Houston and consumer products distribution is strong and should remain so. The things that primed the pump for the massive boom since 2011 have largely gone away. The multiplier effects will still be felt in 2016, but things won't be crazy. I'd call them unremarkable.

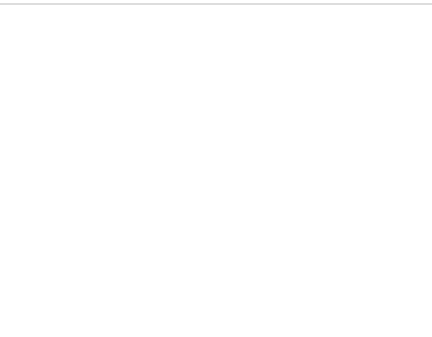
Realty News Report: What about home building? Will 2016 be better or worse than 2015 for new home construction?

Spillette: With the recent boom, demand vastly outstripped supply. A hallmark of our region has been the ability to provide quality new housing at reasonable prices. This started to go away with the massive increase in demand for rental and for-sale properties. The anticipated slowdown in the market will give supply a chance to catch up with demand. The multi-family market will be adding a lot of supply over the next 12 months. The weaker market will take longer to play itself out in the single-family sector. Price appreciation should level off.

Realty News Report: Where are the hot areas for new home development?

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Spillette: The east sector has been neglected for decades. There will definitely be an uptick here, and that's a nice alternative for people. With some employment growth, Class A apartments will be built, but not as fancy as in the urban core or some other parts of town. But they will be nicer than the ones that are there. Construction will not be of the magnitude of the massive boom. We'll have to see what happens around the Spaceport and Ellington Field. There will be moderate growth in Clear Lake, which will add residential and retail. They have one of the top malls in that area, and it's expanding. In Pearland, there will be growth tied to the Medical Center.

Realty News Report: Do you believe the areas east of Houston can be established as great places for residential communities?

Spillette: NASA is located on the southeast side, near Clear Lake and Lake City. They have had cutbacks, but when this sector comes back, there will be another spurt of growth. There's a small market that's growing quickly east of Baytown, in the Mont Belvieu area. It has a reputation as a quality area for single-family homes. It has been announced that it is getting its first major chain supermarket.

Realty News Report: Any new trends arising in the new developments? Any new wrinkles being introduced by home builders?

Spillette: Builders have to be at the top of their game. There is so much uncertainty because of economic conditions and changes in consumer preferences. Builders have to adapt their designs to what buyer preferences are. There is also uncertainty in how the millennial generation will deal with home ownership. Will they enter the market and what will they want out of their homes and surrounding communities? Developers are making sure that recreational and commercial amenities are included. You see a lot more walkable town center-style developments being planned.

Realty News Report: You've said Houston's urban core is a popular destination for residents. Please explain.

Spillette: The real change in Houston in the past 15 years is the desirability of living in the urban core. There is a massive, massive boom in both multi-family and attached single-family townhomes, with rapid price appreciation. A lot of the growth is from empty nesters, renters, older home buyers and young couples who do not yet have kids. This is something interesting to watch as we go forward.

Realty News Report: What's going on with master planned communities? Any new ones in the pipeline?

Spillette: Earlier generation developments are building out their lifespan as new complexes, such as The Woodlands area. A new generation is in the middle of its development life, as in Bridgeland and Towne Lake. They are trying to provide a well-rounded set of community amenities. Bridgeland and Towne Lake are going to have town center-like developments, as will the northeast section north of Kingswood. Johnson Development is building a new one north of The Woodlands called Grand Central Park. A large share of the development will be very urban.

Realty News Report: How about downtown? Three thousand residential units are under construction, plus hotels and other developments. What is going on?

Spillette: This is kind of a pioneering effort. Downtown lacks the array of neighborhood services, but they are not far away. It's not like you're living on a remote island. Our downtown office market has remained competitive compared to, say, Dallas. We expect a large office building project to come on line in 2017 which is still looking for tenants. There is also a boom downtown in the construction of hotels – business hotels rather than tourist locations. Midway Cos. has a mixed use project called GreenStreet that is making some progress.

Realty News Report: What is the biggest land-planning challenge facing Houston today?

Spillette: Two come to mind. Since our economy still has a large oil and gas component, and with global leaders calling for an end to the use of fossil fuel, how much growth do we expect? Also, do we have the infrastructure to serve the Port of Houston and others, and really capitalize on what they offer?

By Dale King, Contributing Writer, Realty News Report

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