The New York Times

A Boom in Houston Is Led by the Energy Industry

Michael Stravato for The New York Times

Office buildings under construction in the Woodlands Town Center. The taller one is for Anadarko Petroleum.

By MATT HUDGINS
Published: December 4, 2012

HOUSTON — Even first-time visitors here can tell that the city is growing rapidly. Construction cranes overhang office and apartment sites all along the Katy Freeway, a stretch of Interstate 10 that connects a string of booming submarkets west of the 610 Loop. This expanse includes the Westchase neighborhood and the Energy Corridor, home to an expanding cluster of energy companies.

The energy sector drives job growth and all manner of business activity here, with the greatest demand for office space concentrated in the west side where oil and gas companies are clustered, in the medical center just south of the central business district and in the Woodlands, a master-planned community 27 miles north of downtown.

"Houston is clearly a growth leader," said Walter Page, director of office research at Property and Portfolio Research in Boston. "It was the first major economy in the U.S. to register more jobs than it lost in the recession." Employment here is up 3.7 percent since August 2008, when it peaked before declining during the recession. That compares with New York's gain of just 0.7 percent from its peak in April 2008 before declining, Mr. Page said.

The city's office vacancy rate was 11.9 percent in the third quarter, down from 13.4 percent a year earlier, according to the CoStar Group, a real estate research firm in Washington. Developers are creating new space to meet that strong demand, completing 15 major office buildings in the first three quarters of this year alone. Of the 3.9 million square feet of office space under construction, more than 90 percent is in the western submarkets or in the Woodlands, Mr. Page said.

The energy sector accounts for 3.4 percent of the city's employment, more than five times the national average of 0.6 percent, Mr. Page said. Despite that heavy concentration, the rest of the city's economy is diverse and helps spread the wealth that energy brings into the community to other sectors.

Brisk commercial real estate sales reflect investor interest in the market. This year, an affiliate of the Houston-based Enterprise Products Company bought the Shell Plaza, a 1.8 million-square-foot office complex in the central business district, for $550 million, CoStar reported. The seller was a fund operated by Hines, a Houston-based developer that built the property in the 1970s. Last year, Shell renewed its leases for nearly 1.3 million square feet at Shell Plaza.

Hines developed much of the city's commercial real estate. Today the company's projects here include multifamily construction in the shadow of office buildings that it developed in the Galleria, a group of office towers, hotels and retail on the southwestern rim of Loop 610, with a skyline that rivals downtown's.

Mark Cover, Hines's chief executive for the southwest region, said that energy, the medical center and the Port of Houston are the three largest engines driving the economy here. "The global energy industry is headquartered here," he said. "It's not just oil and gas, it's alternatives, too. Intellectual capital in the energy field is heavily concentrated here."

In the only major city in the United States without zoning laws, developers can, in theory, build virtually anything, anywhere in the city. In practice, however, understanding and catering to local industries is a critical element in site selection, Mr. Cover says. "When you really get down to it, the city is market-zoned, because land prices are not based on zoning rights, they're based on purely capitalistic, highest and best use value," he said. "If you build the wrong product or build in the wrong place, the market is going to severely punish you."

Market forces shape the city's development in hubs, says Jim Knight, who heads land development in Texas for Bury & Partners, an Austin-based engineering firm.

Refineries and distribution centers cluster near the port, while energy companies and other major employers tend to establish a presence, either downtown or in a submarket, and stick to that area indefinitely.

1 | 2 NEXT PAGE »

A version of this article appeared in print on December 5, 2012, on page B10 of the New York edition with the headline: A Boom in Houston Is Pushed by, Surprise, the Energy Industry.