



2014 Market Trends and Reappraisal

Board of Directors Meeting

March 19, 2014



Business & Industrial Property Division

**Industrial Market Trends
Houston/Harris County**



Industrial Property

Harris County

Date



Refineries

- This summer, the U.S. passed Russia to become the largest non-OPEC producer of liquid hydrocarbons
- In October, the U.S. overtook Saudi Arabia to become the world's biggest oil producer
- As defined by the Dept. of Energy for 2013, the Texas Gulf Coast Refinery average annual capacity utilization was 87.7 percent compared to 91.3 percent for 2012



Refineries

- Gulf Coast refining margins will be mixed depending on refinery configurations, the types of crudes processed, and the degree of the distillate production (diesel and jet fuel) for 2014
- Continuing production of oil in the U.S. midcontinent stemming from shale region production provides an advantage to refiners who are able to process the domestic light, sweet crude



Refineries

- Gulf Coast composite refining margin is down about 18 percent for 2013 due to increased cost of Renewable Identification Numbers (RINs) and the narrowing of the WTI-Brent crude price difference between it and heavy crude
- It is anticipated that 2014 refinery real property values will be flat or slightly less and inventories will be similar to 2013



Chemicals

- In Harris County, there have been several announcements of increased capacity or new unit construction
 - Lyondell Bassell is increasing capacity at their La Porte facility where the Ethane unit addition is approximately 35 percent completed and the Channelview facility has brought the Methanol unit back on-line for 2014
 - Exxon Mobil is constructing a new lubes unit at their Baytown facility and it is 85 percent complete and the Ethylene cracker is still waiting for permits



Chemicals

- Chevron Phillips has announced major new construction that will be going on-line over the next several years
 - The Hexane unit is 50 percent completed for 2014
 - As of January 1, clearing has started for the new Ethane unit
- Operation rates, specifically for Ethane units have been steady and hovered just above 90 percent on average and should continue into 2014



Chemicals

- Chemical-related inventory volumes should be near the levels they were in 2013 and prices could be up or down depending on the type of chemical
- Value changes look to be up for commodity chemicals (pharmaceuticals, inorganic chemicals, and biofuels) going into 2014, but may be down for specialty chemicals that depend on oil-based feed stocks



Utilities: Electric

- CenterPoint Transmission and Distribution operating income were down slightly in the third quarter of 2013
- Since income is a major factor in the unit valuation for CenterPoint, the total value may be down slightly for 2014



Utilities: Gas

- Because both revenues and expenses tend to be held in line due to government regulation, value of property owned by these natural gas distribution businesses tend to be stable
- For 2014, the values of this sector will be helped by the expected growth of the nation's Gross Domestic Product (GDP) of 2.5 percent, which has been fueled by:
 - Improved job market
 - Recovering housing sector



Utilities: Telephone

- The number of phone lines in the United States decreased by nearly one-third over a four-year period (2008-2012)
- Traditional telephone property is expected to continue to decline over the next few years
 - Customers relying solely on cell phones and Voice Over Internet Protocol (VOIP) offered by cable companies will continue to keep the values down



Utilities: Cable

- The ability for both the Cable companies and Telephone companies to provide phone, television, and Internet has reduced the ability for both industries to earn a profit
- Revenue for Comcast was up early in the year, but slumped 18 percent in the third quarter of 2013 while Time Warner's revenue is showing a slight increase
- The value of these companies should show little change for 2014



Gas Storage Facilities

- Spot gas prices are trending upward in the short-term due to increased demand from cold weather in the Northeast and reductions of stored inventories
- Long term price increases are not expected until excess production is curtailed



Gas Storage Facilities

- Bammel working gas inventory should be similar to 2013 volumes
- Kinder Morgan, owner of West Clear Lake's facility, is subletting storage space and the working gas inventory volumes should be up slightly for 2014
- Gas storage plant infrastructure will experience little value change for 2014



Manufacturing

- Manufacturing activity reflected minimal growth toward the end of 2013
- The new orders index came in near zero, suggesting demand was largely unchanged in November
- The shipments index also fell to near zero, coming in at 0.7
- A rise in new orders and a lower shipment index may point to higher inventory values for 2014, which may result in L2 values increasing between 5.0 percent and 7.0 percent over 2013



Business Personal Property Market Trends

Houston/Harris County



Business Personal Property

- The Houston Business Journal has been predicting that there will be more:
 - High-end grocers
 - Retail centers
 - Mixed-use centers
 - Office and residential components
- 2014 L1 values are expected to increase by approximately 1.0 percent over 2013 values
- The leased component may increase slightly for 2014 as office market vacancy rates decline



Dealer Inventory

- New vehicle sales for the Houston region were strong in 2013 with a 7.0 percent gain over 2012
- Since the value of the dealer inventory component is directly tied to prior year vehicle sales, this indicates an anticipated increase in value for this sector for 2014
- Increases in new vehicle sales are expected to continue for 2014