

Market Intelligence Report: Houston, Texas - By Shannon Sampson

2007-12-12

Once thought of as a big oil town, Houston's vast array of new developments are taking off throughout 'Space City'.

Houston is perpetually reinventing itself. No longer typeset as the 'Energy Capital of the World,' the city's economy has diversified greatly over the past two decades, with growth outpacing national standards. Natural resource exploration and production still play a hefty role in Houston, to be sure, especially following the recent resurgence of the energy markets. But another of Houston's nicknames is 'Space City,' referring to NASA's famous Manned-Space flight and Mission Control Centers-and major new office and retail developments, the expansion of the convention center, and the renaissance of the downtown area encourage a broader interpretation of this moniker. Once susceptible to a homogeneous energy industry, Houston now boasts a diversified economy that can withstand major economic interruptions. This article explores how Houston is using its 'space' in vastly diverse ways-from skyscrapers to boutique hotels, from the Museum District to the port, from its stadiums to its world-class shopping mall-and how hotel properties fare on the grid.

During the third quarter of 2007, Houston's office space occupancy reached nearly 90% of an inventory spanning roughly 180 million square feet, with approximately 1.3 million square feet positively absorbed. An additional 24 buildings currently under construction will add another four million square feet of Class A space to Houston's office market.[1] Significant growth in office construction is occurring in the western submarkets of Westchase and the Energy Corridor, and two office towers are slated to begin construction in 2008 within the Central Business District, further pillaring the third-largest skyline in the United States. As a result of this westward expansion, several new hotels are expected to enter the market, including a twin-tower Westin and Sheraton within the Energy Corridor.[2]

Major development is underway to augment Houston's nationally eighth-ranked[3] retail market. The city has issued permits for construction projects valued at roughly \$3.4 billion, representing 12.3 million square feet of new space.[4] The Houston Galleria shopping mall completed an 800,000-square-foot expansion in 2003, ushering in over 70 new stores. A new luxury mixed-use development is underway in the River Oaks area, scheduled for completion in 2010, this \$750-million project will feature a 200-unit Le Meridien and 250-unit W Hotel in addition to numerous luxury retail shops and restaurants. Located just blocks from the Galleria in Houston's most exclusive neighborhood, this development is expected to capture high-rated corporate business, as well as Free Independent Travelers that are less sensitive to elevated rates.

With convention, sports, and leisure visitation up 130%.[5], Houston's downtown area is not just for business any longer. The Main Street Square complex complements Houston's world-renowned Theatre district, and downtown is consistently brewing up new attractions. The Greater Houston Partnership reports that public and private investors have spent nearly \$8 billion since 1999 to revitalize downtown, including a light rail system to make public transportation around the city much more accessible and convenient, this rail system connects downtown to midtown, the Texas Medical Center, and the Museum District, enabling transients to more freely traverse Houston's most congested areas. Two new stadiums were built in the urban core: Minute Maid Park (opened in 2000), home to the Houston Astros, and Toyota Center (opened in 2003), which, in addition to hosting the Houston Rockets, Comets, and Aeros, also acts as a major concert and entertainment venue. More than 30 new projects are underway in the downtown area, representing approximately \$3 billion in development activity.[6]

The Houston Business Journal reported that four boutique hotels have opened since 2002, these include the 314-room Magnolia, 97-room Alden, 201-room Inn at the Ballpark, and the 135-room Hotel Icon. The emergence of these luxury boutique hotels is a logical consequence of downtown Houston's rebirth as an 'international' city, capturing demand generated by foreign travelers whose tastes lean to more upscale lodgings. Given downtown's relatively small room inventory, this new supply has been quickly absorbed, as occupancy is estimated at roughly 70% through October 2007, an increase of approximately 2% over the same period in 2006. Average rates have also climbed roundly \$8 per room night, according to HVS estimates.

Convention activity in Houston is also pushing record levels. In 2003, a \$165-million expansion project nearly doubled the space of the George R. Brown Convention Center complex to roughly 1.2 million square feet. The expansion also addressed one of the center's most significant drawbacks: the lack of a dedicated hotel for conventioners. The \$285-million, 1,203-room Hilton of the Americas headquarters convention center hotel opened in December of 2003, and connects to the Convention Center via skywalks on the second and third floors. According to the Greater Houston Convention and Visitors Bureau (GHCVB), the expansion led to a record high in conventions (309) and delegates (995,679) for 2006, with an economic impact of roughly \$1 billion for the year. While 2007 bookings are expected to be down from this banner year in 2006, the GHCVB notes that Houston's convention cycle is strongest in even-numbered years, and 2008 and 2010 bookings are on pace to surmount those of 2006.

Houston's tourist attractions are diverse and abundant. Houston is one of the few cities in the United States to offer four major performing arts disciplines (ballet, opera, symphony, and theatre) and five professional sports franchises (NHL, NBA, NFL, MLB, and MLS). Houston's Museum District annually receives over seven million visitors[7] at its 18 institutions, which include museums, art galleries, and the Houston Zoo. The Hotel ZaZa, a luxury boutique hotel catering to a discerning clientele, is advantageously located among these cultural attractions. This hotel ensconced itself within the district by incorporating designs and themes of surrounding museums into its design, and, in turn, played a key role in furthering the district's reputation as a nationally desired destination. The Bay Area of Houston is home to Space Center Houston, the Kemah Boardwalk, and a cruise terminal. According to the Port of Houston, an additional cruise terminal is scheduled to open in 2008. A 250-unit Westin is scheduled for completion in 2011 as part of a luxury mixed-use development, offering a

modern and stylish product never before available to this area of Houston. Once known as a sleepy fishing hamlet, the Bay Area is undergoing a transformation similar to those seen in other areas of Houston. Upon completion, this mixed-use development and hotel should become the jewel of this now upscale community.

Houston is a city that defies convention, even its own. The previously cited examples of new and existing developments demonstrate that the city is big enough, both literally and figuratively, to host its many niches and not be wholly defined by a larger-than-life scale or single industry. Hoteliers have drawn particular benefit: The city's diverse economy, surging convention activity, and numerous tourist attractions have enabled hotel development to occur throughout Houston's districts without suffering contracted occupancy levels, which, in turn, has allowed hotels to achieve higher average rates. With a dynamic economy that shows little signs of slowing, Houston has reappeared as a world-class city.

[1] CB Richard Ellis 3rd Quarter 2007 Office MarketView

[2] Houston Business Journal, 2007

[3] CB Richard Ellis 3rd Quarter 2007 Retail MarketView

[4] City of Houston, Planning and Development Services Division

[5] Central Houston, Inc. 2007 State of Downtown

[6] Ibid.

[7] GHCVB

About the Author

Shannon Sampson is an Associate with the HVS Dallas/Fort Worth office. Shannon earned his Bachelor's degree from the University of Texas Austin and has extensive experience in hotel operations and management. Shannon lives in Austin and works extensively in the central and south Texas region for the D/FW team. Contact Shannon at (512) 698-7325, or ssampson@hvs.com.

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article30477.html>

© 1998 - 2007 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html