

**BUSINESS**

# The year ahead in business

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The bulk carrier Yuanping Sea docked along the Houston Ship Channel in January 2018.

Photo: Bill Montgomery, Houston Chronicle

Whether it's oil prices, health care, real estate or technology, some twists and turns are likely for the Houston region in the new year. Chronicle business reporters asked their sources to predict what's ahead in 2019. Here's what they had to say.

## Houston area's economy

### will keep growing

Houston's economy will slow slightly but continue to grow as it will see above-average job gains in 2019.

"The Houston economy will continue to perform well," said Patrick Jankowski, an economist and senior vice president of research for the Greater Houston Partnership.

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Jankowski projects the Houston metropolitan area will add about 71,000 new jobs in 2019, slightly above a typical good year, when 60,000 to 65,000 jobs are created.

He expects the price of oil to stabilize at around \$50 per barrel.

### Moderate growth,

### but partly cloudy

Bill Gilmer, the director of the Institute for Regional Forecasting at the University of Houston, expects moderate growth in the region, but he says changes in the oil industry could be clouding forecasts.

"We have a new and evolving fracking industry that has moved into the driver's seat of the American oil industry," Gilmer said. "Frankly, it has not been a very cautious driver so far, spending cheap money far too freely. And the industry uses technology and employs people in new and different ways. Even in the current good times, this new American oil industry affects Houston's economic growth in ways we have not seen before."

For example, technical innovations that have reshaped the industry are requiring fewer workers in the field. Houston is not a center of drilling activity, but Gilmer questions whether Houston-based oil workers could be affected by these innovations at some point as well.

"The answer matters a lot as we think about the future relationship between oil and the Houston economy," Gilmer said.

*John C. Roper*

## **All eyes on Texas**

### **over Affordable Care Act**

December's decision by a federal judge in Texas declaring the Affordable Care Act unconstitutional has produced rumbles in the health care world that won't be going away soon.

“Obviously, the Texas federal court decision declaring the ACA unconstitutional will be a key issue in 2019. There is a certain poetic irony in declaring the law unconstitutional based on the removal of the tax penalty. Chief Justice Roberts' 5-4 decision originally held the law constitutional based precisely on the federal government's ability to tax. This action may delay Medicaid expansions and ACA waiver requests in some states. That said, I suspect that the Texas decision will be overturned after some consternation in the Congress and the media,” said Michael Morrissey, professor and head of the department of health policy and management at Texas A&M School of Public Health.

“The bigger health policy issues still revolve around the ACA. The surprisingly lower than anticipated ACA enrollment is likely to lead to efforts to enhance subsidies or penalties in the exchange. These are likely to go nowhere in the divided Congress. However, 2019 is the first year in which insurers can offer new short-term policies. They are medically underwritten, so health status matters, but premiums can be much lower for some. We should see substantial advertising and perhaps substantial enrollment in these new plans.”

*Jenny Deam*

## **Innovators, heavy hitters**

### **will try to steer health care**

Many players will be exerting influence on health care in the year ahead.

“There will be plenty of surface turbulence in health care in 2019 as politicians ramp up the health policy rhetoric, but the underlying change will flow from the innovators and power brokers in the industry. These include hospital systems, third-party payers, mega physician groups, retail giants, investors, and Fortune 500 employers like Amazon, all of which will be pursuing ways to make health care more accessible, more affordable and more tied to quality.

The pressure to get there will be more intense, and we will see if bringing handheld technology, the Uber model and other consumer concepts to health care really works or not,” said Travis Singleton, executive vice president of Merritt Hawkins, a Texas-based national physician staffing and health care consulting firm.

“For patients, this means more points of entry that stress convenience, such as urgent care centers, retail clinics, telemedicine and self-monitoring technology. First encounters are more likely to be with physician assistants or nurse practitioner than with physicians, who will continue to be in short supply. The physician you eventually see, the hospital you are admitted to and the insurance entity that pays your bill are more likely to be under the same umbrella. What will be gained in convenience and in the name of cost control may be lost in continuity of care. We will take another step in toward Health Care, Incorporated, and away from Marcus Welby, MD.”

*Jenny Deam*

## **Hospitals must offer**

### **clarity on pricing**

Consumers should be getting a clear view of hospital prices soon.

“Health care pricing transparency is here to stay, particularly with Centers for Medicare and Medicaid Services beginning to enforce on Jan. 1, regulations enacted under the Affordable Care Act requiring all hospitals to be transparent with their standard charges for medical procedures and disclosing them publicly. Consumers will see not only increased transparency of pricing, but also have additional tools and programs available to help them choose less costly sites for quality treatment and reward them for doing so,” said Dr. Robert Morrow, president of Houston and Southeast Texas at Blue Cross and Blue Shield of Texas, the state’s largest insurer.

“I also think the health care industry will be going back to the future with more physician groups and facilities being paid under value-based care arrangements, not only to decrease cost but to significantly increase customer service and satisfaction. Risk-based models for providers are being encouraged by commercial plans and Medicare. But these aren’t your grandparents’ health maintenance organizations. These are HMOs 2.0 and better.”

*Jenny Deam*

**Fossil fuels to be attacked,****but maybe not effectively**

“With Democrats taking control of the House, you’re going to see a much more aggressive attack on fossil fuels. But it’s not going anywhere, because the Senate is not going to act,” said Frank Maisano, a Washington energy consultant and partner at Bracewell.

*James Osborne*

**Permian Basin shows****no signs of losing steam**

West Texas’ Permian Basin is likely to keep barreling ahead.

“I feel that the Permian will still lead the show because it is not as price sensitive as other plays. I am extremely bullish on the eastern shelf of the Permian in Scurry and Fisher counties, which has not attracted the attention yet on the larger players in the Permian but soon will. Smaller operators have found they can use horizontal drilling and fracs in conventional reservoirs to unlock tight sands in the Strawn formation that will give up 500,000 barrels per well,” said Cactus Schroeder an Abilene oilman and the owner of Chisholm Exploration.

*James Osborne*

**Energy will be seeing****clean trend pick up**

The move to cleaner energy shows signs of picking up speed.

“I have three main predictions for 2019. One, there will be multiple new carbon-capture projects announced that will take advantage of the passage of the new and improved 45Q tax credit. Two, another advanced nuclear company will follow NuScale Power’s path and start the process toward NRC approval and licensing. And three, more major utilities will launch long-term and highly ambitious low-carbon clean energy plans a la Xcel Energy,” said Rich Powell, executive director of ClearPath, a Washington-based advocacy group promoting conservative solutions to climate change.

*James Osborne*

## **Backlash to continue**

### **on regulatory retreat**

Reactions to the Trump administration's efforts to undo environmental regulations are likely to continue to reverberate.

"We continue to expect the Trump administration's deregulatory agenda to motivate subnational decarbonization efforts, a trend we describe as the 'regulatory rollback rebound.' Indeed, Democrat wins in state legislatures during the November midterms could accelerate this trend in 2019," said Timothy Fox, vice president, Clearview Energy Partners, a Washington consulting firm.

*James Osborne*

## **Imminent domain cases**

### **to focus on pipelines**

West Texas is facing a boom these days, and oil and gas producers need newly constructed pipelines to move their newly found supplies to Houston and other cities to be refined.

Look for plenty of imminent domain claims next year as oil and gas producers use the condemnation process to get the land they want to build hundreds of miles of pipelines across the state, said Houston eminent domain lawyer Justin Hodge. The shift to oil and gas pipelines is only accelerating as more energy producers announce big drilling projects and pipeline plans.

In years past, most imminent domain claims were for transmission lines to move wind power from West Texas to Houston, Dallas and other population centers.

Today?

"It's all oil and gas pipelines," he said.

*L.M. Sixel*

## **More competition ahead**

### **in electricity retail sector**

The retail electricity market became more competitive this year with bigger companies buying up their smaller competitors, including NRG Energy's purchase of Volterra Energy Holdings, the Houston-based provider that owns the Discount Power brand, and Direct Energy's acquisition of Source Power & Gas of Sugar Land.

Look for more consolidation next year, said Jim Steffes, executive vice president of Direct Energy, the third-biggest seller of electricity in Texas. Reserve margins are expected to tighten to record levels next summer, according to the Electric Reliability Council of Texas, which calculates whether Texas has enough cushion to prevent power shortages during the next heat wave. Those tight margins will likely put a squeeze on profits, making it more difficult for electricity sellers that haven't branched off into selling higher profit home-related services like security and appliance warranties to compete.

"The market will ultimately shrink," Steffes said.

*L.M. Sixel*

## **An even bigger presence**

### **for renewables in Texas**

Texas is already the nation's No. 1 wind energy generator, producing nearly 20 percent of the state's power supply. Expect wind energy along with its renewables cousin, solar energy, to get even bigger next year, said Michael Skelly, who specializes in renewable energy as senior adviser with the asset management firm Lazard in Houston.

Wind turbines are getting bigger, making them more efficient, and two-sided solar panels are capturing more energy from the sun, said Skelly, who before joining Lazard, headed Clean Line Energy, a company that built long-distance power lines to carry green energy.

"It is a very bright future for renewables next year," he said. And at a very low cost.

*L.M. Sixel*

## **Mexico's energy reforms**

## **are suffering setbacks**

All eyes in the energy sector are on Mexico's new president Andres Manuel Lopez-Obrador and his energy secretary, Rocio Nahle. Sworn into office on Dec. 1, Lopez-Obrador wasted no time in putting the brakes on Mexico's energy reforms.

The reforms ended a 70-year monopoly by state-owned oil company Petroleos Mexicanos and opened up Mexico's energy sector to domestic and foreign competition and investment. A vocal critic of those reforms, Lopez-Obrador has canceled two energy auctions less than two weeks in office. One of those auctions would have opened up the border state of Tamaulipas to hydraulic fracturing.

Lopez-Obrador's administration is reviewing energy contracts awarded by his predecessor. The leftist president also pledged to end Mexico's energy dependence on the U.S. by building a new refinery for gasoline and diesel.

Many in the energy sector are waiting to see how the administrations will handle previous contracts and if Lopez-Obrador will be able to deliver on his promises to boost Mexico's sagging oil and gas industry.

## ***Sergio Chapa***

### **LNG export capacity**

#### **to more than double**

The United States will be able to export more than double the amount of liquefied natural gas by the end of next year, the Energy Information Administration reports.

LNG producers have the ability to export 3.6 billion cubic feet of natural gas per day, but that export capacity is expected to grow to 8.9 billion cubic feet per day by the end of 2019.

Cheniere Energy, Sempra Energy, Kinder Morgan and Freeport LNG are expected to bring 18 LNG production units into service over the next 12 months.

The new facilities are coming online at a time when global demand for natural gas used to generate electricity is increasing.

## ***Sergio Chapa***

## **Offshore revival?**

Will it or won't it happen? Many in the energy sector are wondering if 2019 will finally revive the waning offshore oil & gas industry.

A 2½-year crude oil price downturn caused a sharp decrease in offshore exploration and production activity. Recovering oil prices in 2018 and recent discoveries in the Gulf of Mexico and South America sparked interest in offshore again.

But given the crude oil price fall at the end of 2018, it remains to be seen how the volatility in the commodity markets will affect the offshore industry.

*Sergio Chapa*

## **Upsides and downsides**

### **of home flipping**

After the 2016 floods in Baton Rouge, Daren Blomquist of Attom Data saw a year of increased foreclosures followed by a year of home flipping. He predicts that Houston, which similarly saw a wave of foreclosures, will soon enter the home flipping phase. Home flipping could benefit Houston's housing stock, but it also presents potential risks.

"At its best, home flipping is taking distressed properties and fixing them up and making them better," Blomquist said. "The worse side is folks who may be taking advantage and buying these distressed properties at a bigger discount than really they should be bought at and just flipping them without adding a lot of value."

*R.A. Schuetz*

## **Trend in the making:**

### **industrial tear-downs**

Largely driven by e-commerce, the Houston region has 10 million square feet of industrial projects under construction or in the pipeline, and land prices are way up.

"It's really hard to find large pieces of land these days," said Robert Clay, president of Clay Development & Construction. "You're going to start seeing a lot more redevelopment of older

properties closer to the Beltway.”

At U.S. 290 and Beltway 8 in northwest Houston, known as the Main and Main for industrial projects, Clay said sites for new developments have been scarce for a while.

“There’s been zero redevelopment where you’re tearing buildings down to put up new buildings,” Clay said. “You will start to see that.”

*Katherine Feser*

**Rents may inch up,**

**but discounts remain**

Landlords should be able to raise rents moderately in the coming year, assuming Houston employers add 71,000 new jobs, the Greater Houston Partnership’s projected figure.

But the health of the apartment market could be uneven, as current demand is largely for suburban properties.

“If you do a survey around the city, you’ll find a lot fewer concessions in the suburbs and rents closer to what the developer projected than what you’ll find inside the Loop, which is a different story,” said Stacy Hunt, executive director of real estate services for apartment developer and manager Greystar.

Many of the new apartment buildings in downtown, Montrose and around Washington Avenue are still offering deep concessions — some as much as three months of free rent.

The good news is that of the 8,000 units to open next year, only about a third will be inside the Loop.

“Smart developers are hedging their bets,” Hunt said. “We can’t keep building everything downtown.”

*Nancy Sarnoff*

**Shortage of lots**

**to limit homebuilding**

Builders are projected to start construction on fewer homes in 2019 than the nearly 30,000 they started this year, said Lawrence Dean, regional director of Metrostudy.

That's in part because they're facing a dearth of new-home lots to keep the supply flowing. There are more residential communities that are reaching build-out than there are new ones starting, Dean said.

Labor, building materials and land development costs continue to rise making moderately priced housing even more difficult to build. And that's where the strong demand is. To supply those homes, builders will have to look farther out.

Splendora and Needville could be the new frontiers.

"We're kind of in discovery mode of how desirable the next ring is for homebuyers," Dean said.

*Nancy Sarnoff*

## **Grocery to dominate**

### **new retail construction**

Developers in 2019 are forecast to build as much as 4 million square feet of new retail space in Houston, according to Houston-based retail brokerage Wulfe & Co.

Much of the new retail construction will be dominated by grocery stores, furniture stores and fitness clubs, chairman and CEO Ed Wulfe said.

Mixed-use projects, which incorporate retail, office and residential, will continue to proliferate in Houston.

"Mixed-use development will occur inside the Loop, but also outside the Loop," Wulfe said.

"Developers understand the need to create people places."

*Paul Takahashi*

## **Banks may confront**

### **a tougher environment**

A volatile stock market and low oil prices are affecting Texas banks as they head into 2019.

“There’s just a lot of speculation that we’re moving into a more difficult economic environment, and the banks feel that,” said Dan Bass, managing director of investment banking for bank advisory firm Performance Trust Capital Partners.

An uncertain economy usually prompts banks to tighten their underwriting, which could make it more difficult for some people to get a loan. Uncertainty has also put merger and acquisition activity on hold, which had been pretty active prior to three months ago.

As of Dec. 21, Bass said the stocks of publicly traded Texas banks were down an average of 17 percent year-to-date.

The next two quarters of earnings releases will see extra scrutiny on banks. He said the stock market tends to overreact, lumping all Texas banks together, but banks that manage to report strong earnings should see their stock prices go back up.

*Andrea Leinfelder*

## **NanoRacks’ air lock**

### **may go to space station**

A Webster-based company could see its air lock launched to the International Space Station in 2019.

NanoRacks has led the design and construction of an air lock that would provide more opportunities for commercial companies to launch satellites and access the Space Station’s exterior. Its air lock will be five times larger than the air lock currently on the space station in the Japanese Experiment Module.

The project was first announced in 2016. The hardware is now in final fabrication with Thales Alenia Space in Italy. The NanoRacks team in Webster is working on the electronics.

“Over 2019, we’ll be mating that all together,” NanoRacks CEO Jeff Manber said.

He said the company has been getting “strong inquiries of interest.” He’s hopeful that the air lock will be scheduled for the last launch in 2019, but NASA has yet to verify this. If not 2019, then Manber is shooting for early 2020.

*Andrea Leinfelder*

## **Innovation district**

### **to pick up momentum**

Rice University is preparing to release more details on how it will help transform the former midtown Sears building into an innovation district.

“We’re on track for a fourth-quarter 2020 opening,” said David Leebron, president of Rice University. “And that means 2019 is entirely the year of launch.”

Rice will begin construction next year and unveil plans about the types of programming that could be offered to entrepreneurs, said Allison Thacker, president of the Rice Management Co. and Rice’s chief investment officer.

“I think people are going to be stunned by what they see here,” Leebron said. “It takes a lot of imagination to take a building that was purposefully designed as a windowless facility so people would stay inside shopping, and transform it into a destination.”

He’s envisioning a destination for startups and for those interested in learning about Houston’s innovation ecosystem.

*Andrea Leinfelder*

## **Port Houston to pursue**

### **widening of Ship Channel**

Port Houston will examine new ways to widen the Ship Channel.

A four-year plan detailing the future of the channel is supposed to come out in October 2019. Port Houston wants the Army Corps of Engineers to widen the it through Galveston Bay, but the Army Corps is recommending that just 40 percent be widened.

The Army Corps has said that Port Houston would have to find money for the other 60 percent if it wanted to widen the Ship Channel, so officials are looking at alternatives.

They're going to do a feasibility study that examines how a wider ship channel could allow for two-way traffic and help the port's booming petrochemical business. They're also going to directly ask for funding and project approval from Congress and the Assistant Secretary of the Army for Civil Works.

"What we've laid out are some options to both get the Ship Channel improvements authorized as fast as possible," said Rich Byrnes, chief port infrastructure officer for Port Houston, "and to accelerate the implementation, the actual construction of the widening of the bay."

*Andrea Leinfelder*

## **Institutional investors**

### **to leave mark on housing**

Brian Spitz, founder of Big State Home Buyers, says the future of the single homes lies with institutional investors such as hedge funds.

"The big target for Wall Street is single-family homes in markets all over the country," he said. And as mortgage rates rise in 2019, Spitz believes institutional investors, which can secure alternative funding, will increasingly have the edge.

The impacts, Spitz says, could be far-reaching, both because institutional buyers often buy from iBuyers, which reduces the need for real estate agents, and because once a home is purchased by an institutional buyer, it is unlikely to be resold on the market anytime soon.

"If there's no strong field activity, all of those ancillary businesses are going to have less income," he said. "I think 2019 will be a real year of awakening to a lot of people for that."

**R.A. Schuetz**

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