

# Building the Bakken: Days gone by

Over the past six to seven months, the Bakken has rapidly evolved into something of a new or different play. What began as an oil play quickly transitioned into a technology play to satisfy the hydraulic fracturing and horizontal drilling process.



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*For Bakken Breakout Weekly*

This was so new to the oil world, many energy experts refer to the Bakken the world's test market for the modern shale revolution. Next, securing mineral rights at frenzy-like speed began, followed by the rapid spike in traffic, workers and construction. Now, the frenzy-like boom of 2009-2012 has leveled out, many of North Dakota's private mineral rights have been secured, and oil and gas has begun to streamline their costs into an operational phase.

To many this is new information. To others, they observed the trends as the operational transition has been taking place over the past year or so. One individual who has noticed the change with oil and gas's activities is Michael Houge, vice president capital investments, Transwestern. Transwestern, based out of Houston, has offices in 31 cities across the nation with "connections in Europe through another agency." Houge spends the majority of his time in Williston and their Minneapolis offices.

"Our Minneapolis office began following the Bakken early on and became very interested," Houge said. "Recently I decided, at my age, to take another run at something I can get wealthy with. Rather than just being a broker, I can help build a community and get wealthy in the Bakken."

Individually, Houge has over 25 years of high level real estate experience compiling over a billion dollars of sales nationwide and has been extremely busy in the Bakken for the past three years.

Additionally, Houge works as a consultant and strategist for many builders, investors and businesses across the United States.

"The Bakken created a tremendous opportunity for me to use my marketing and networking skill set to this place and provide services for those who really need them," Houge said. "One thing that I think is evident here in the Bakken is they need everything. They need retail space, retail properties, industrial space, office space and there are investment properties

all over the place in various stages in the Bakken."

I asked Houge about the anecdotal rumblings I have heard about Bakken's high real estate pricing and investments. The gist of the question was why is there so much demand when there is an abundance of construction happening and so many workers are making top dollar? This question caught Houge's attention as his entire demeanor shifted from a general conversation to specifics.

Houge has already orchestrated a strategic plan and analysis for the Bakken and is one of those individuals who believes another change or transition will happen this year in the Bakken. Only he believes this transition will happen in the real estate world, not oil and gas.

"In fact one of the assignments I have right now is that exact story,"

Houge said. "This developer, slash hedge fund venture capitalist in Connecticut hears about the Bakken and decide to get into it and build a 240 room hotel on the north side of Williston called the Dakota Landing.

"It just opened in the fall at about the same time the hotel market had maxed out."

Houge felt that group got into the hotel game a little late in the Bakken and even perhaps are behind the curve in apartment complexes too.

Houge said in addition to the Dakota Landing property, the Connecticut investor is also building apartments in Williston completing 81 units with a plan to phase in and build 340 total. The timeline of these projects and trends have Houge a bit concerned entering the spring and summer of 2014.

"As you look at the apartment market in the Bakken, I am not too sure how many people want to come and live in an apartment out here right now," Houge said. "It's sort of like, 'Hmm maybe,' so they might be maxed out. Only time will tell so they are going to phase that in and build as needed."

Circling around to answer the questions regarding the demand and current state of the real estate market, Houge said it really depends on what kind of space it is, the location and what is happening in that marketplace.

"I would say from laying my eyes on things, and I have driven all over Bakken looking at sites and properties, in some places they still need housing," Houge said. "In Tioga and Stanley they need housing. I think Watford City still has a need because it is the hub of everything, and New Town is in need too."

Houge added that in his opinion pretty much every town in the Bakken needs retail. He believes there is a demand and

a vacuum in commercial real estate right now. He added there isn't much construction happening with offices buildings but believes there will be in the coming years as usually they are one of the last things built in a community experiencing a building boom. As far as industrial, Houge believes it depends on where you are at and who is funding the project and what their strategy is.

Houge addressed the "tension" that can occur when dealing with projects and monies of this magnitude.

"There's tension between the cost to build and the cost of land, which is too high," Houge said. "So when the cost of land as a component becomes that high, it doesn't make sense to build. So that's when you have a situation where there is all this demand waiting to be serviced.

So it becomes very hard to build, say a conventional strip mall, and make any money at it."

Unconventional high rents in the Bakken are causing people to become hesitant to take real estate risks because they are waiting for the prices to come down, according to Houge. This makes it difficult for the investor or builder to factor those timelines and numbers into the financial projections. However, all that may change.

"On the other side of the tension is there is still a huge demand of money that wants to come out to the Bakken," Houge said. "Now that Goldman Sachs has come out and done an analysis of the marketplace and put a stamp of approval on it, and the Department of Energy said the oil is double what they thought, we are looking at a 25 year run here versus a seven year run."

Houge said these trends and financial milestones allow an investor or company to reevaluate their projections and stay competitive or even get new financing. He also believes the Goldman Sachs accreditation will produce a new influx of investments into the Bakken from all over the country.

"Now you can put an analysis on the Bakken and figure out how to do financing," Houge said. "You can have a long term approach to it now. You couldn't do that two years ago. I really think the global credibility factor went up big time with the Goldman Sachs report.

"Since then I have been talking to more serious potential investors who want to get money out here and am pretty gung-ho about the future."

When asked to "bottom line" the risk factor of the Bakken, Houge was quick to answer demonstrating his research and due diligence with a quick and confident response.

"I think the risk versus return ratio isn't very accurate," Houge said.

"I believe this is a long term situation and the rewards will outweigh the risks in the end and the Bakken is a legitimate place to invest."

He might be on to something as the Bakken activity has been picking up once again for Houge, only it is increasing more than even he anticipated.

"My original plan (to commute to the Bakken from Minneapolis) was every other week, splitting time with my business partner," Houge said.

"However, lately it has been more often and I have been staying out there longer."

In the long run, the time and travel is worth it in Houge's eyes. He believes you only get a couple of these type of opportunities in a lifetime and the Bakken play is the real deal.

"For me, I have had a couple of great runs in the early '90s and also right before what we call our Great Recession of commercial real estate which hit me pretty hard," Houge said. "I owned a company that was involved with selling investment properties, pieces of deals, so when the market fell, we got hurt."

Houge elaborated how when the commercial market fell in the mid to late 2000s, his operating company and investments were involved and "everything went down at the same time."

"I've been clawing and climbing back ever since doing brokerage work but what I saw here was an opportunity to take the my skill set, my ability to communicate and my professionalism to a place that is missing some of that," Houge said. "There are good people out here, please don't misunderstand what I am saying, it's just none of the big companies are here yet."

Houge cited Goldman Sachs and CB Richard Ellis as "big" companies. He said CB Richard Ellis already has a couple signs up in North Dakota and are beginning to increase their Bakken portfolio. Houge said he wanted to get out to the Bakken and get established before the big companies arrive.

"I am sure you have heard this before, but you just have to get in the truck or car — a truck preferable over a car — and get out here and see it," Houge said. "Once you put your eyes on the Bakken, you will see we are experiencing a modern day gold rush."

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