

2012



Chamber of Commerce
Bryan/College Station

2012 Economic and Real Estate Outlook **Are We There Yet?**

2012

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Bentley's First Law of Economics: "The only thing more dangerous than an economist is an amateur economist!"

Bentley's Second Law of Economics : "The only thing more dangerous than an amateur economist is a professional economist."

**Remember:
Amateurs built the Ark
Professionals built the Titanic**

US Economy in 1996



US Economy in 2008



US Economy in 2012

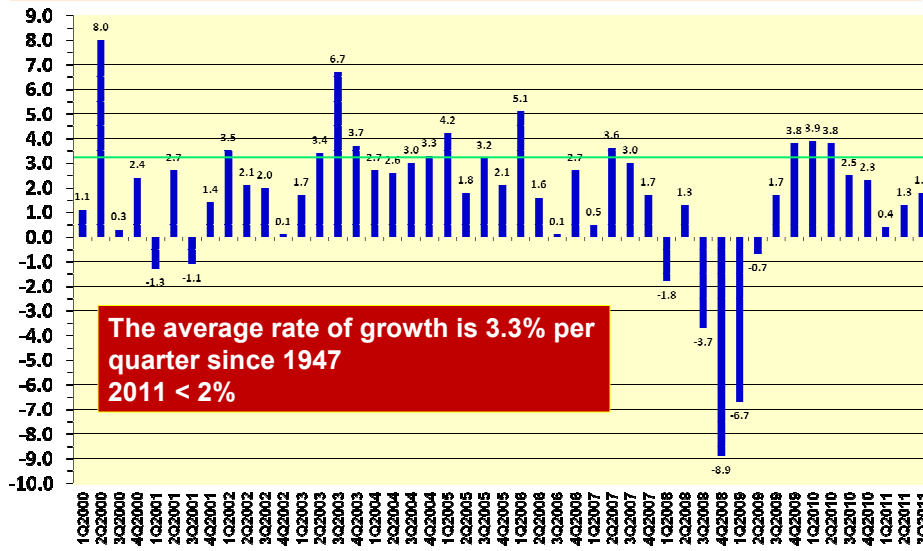


Economy is Trying to Recover, but Slow Going

- **Great Recession Officially Declared Over**
- **Employment – Texas twice rate of US growth**
- **Retail Sales and Consumption**
- **GDP**
- **Unsustainable Government deficits**
- **Corporate Earnings**
- **Housing**

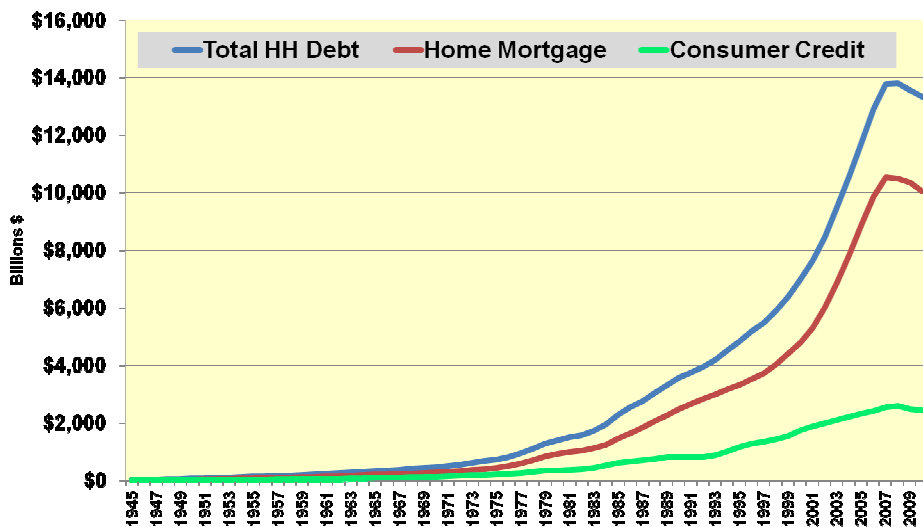
Projections for the next couple of years indicate substantive growth doesn't occur until 2013-14

Percent Growth in Real GDP



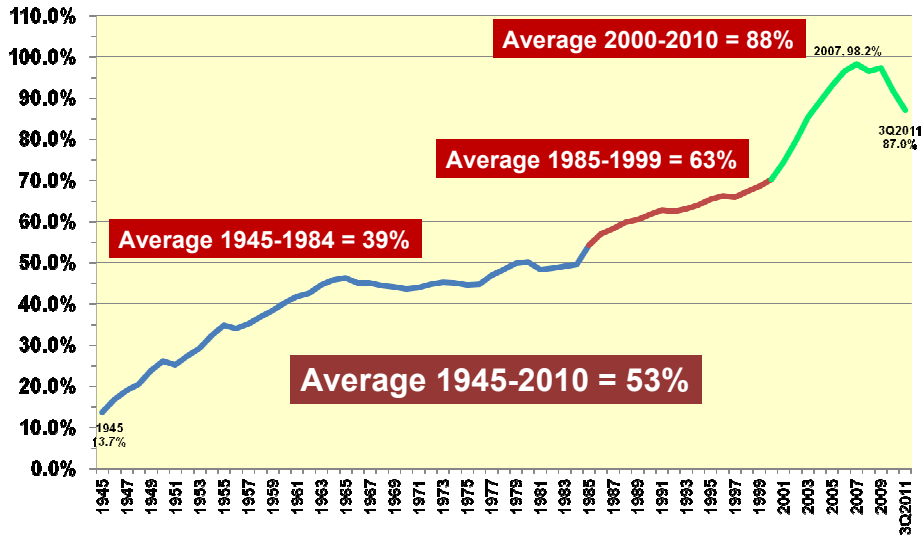
Source: Bureau of Economic Analysis

Household Debt



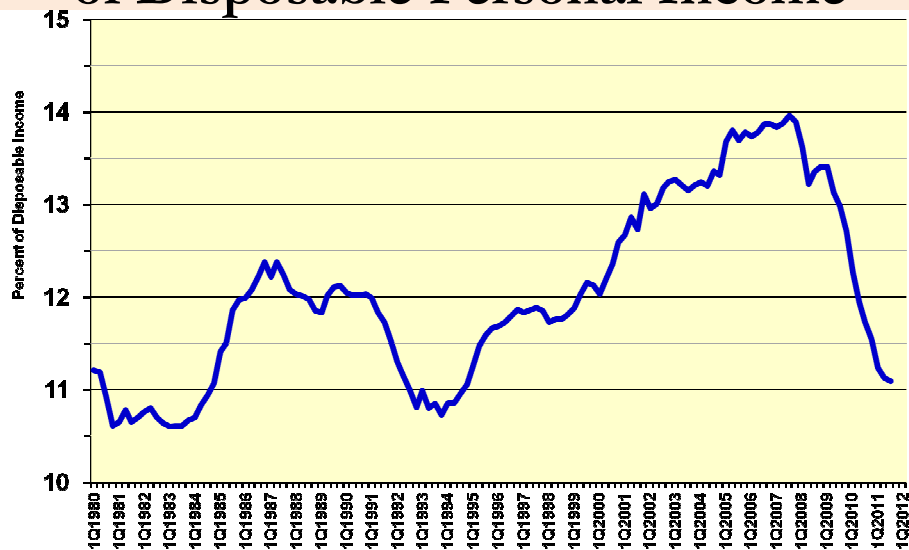
Sources: Fed Flow of Funds, Real Estate Center at Texas A&M University

Total HH Debt as Percentage of GDP Households Continue Way Over Levered



Sources: Fed Flow of Funds, Real Estate Center at Texas A&M University

Debt Service Payments as a Percent of Disposable Personal Income



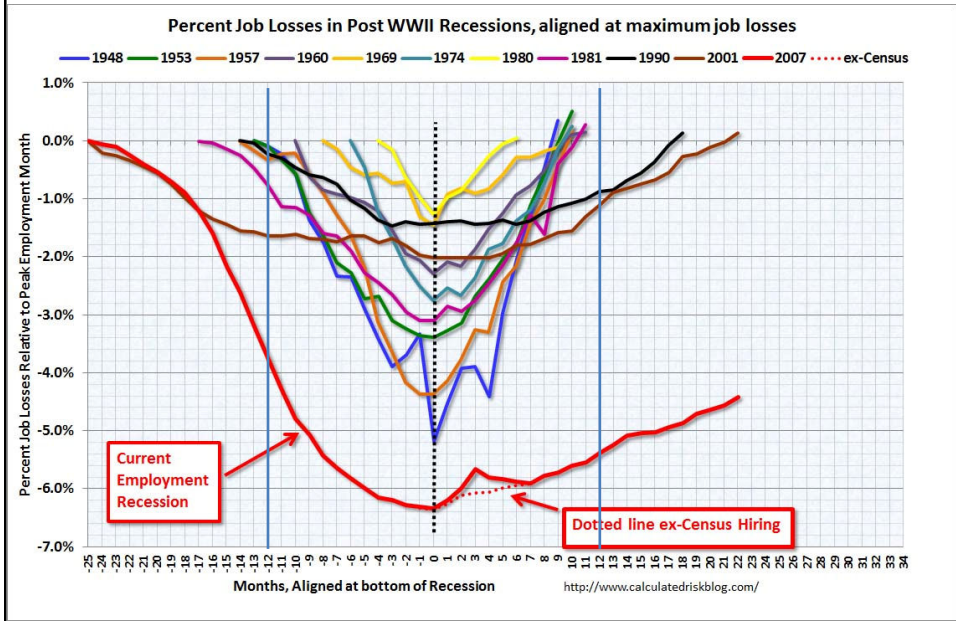
Source: Federal Reserve Board

“Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established.”

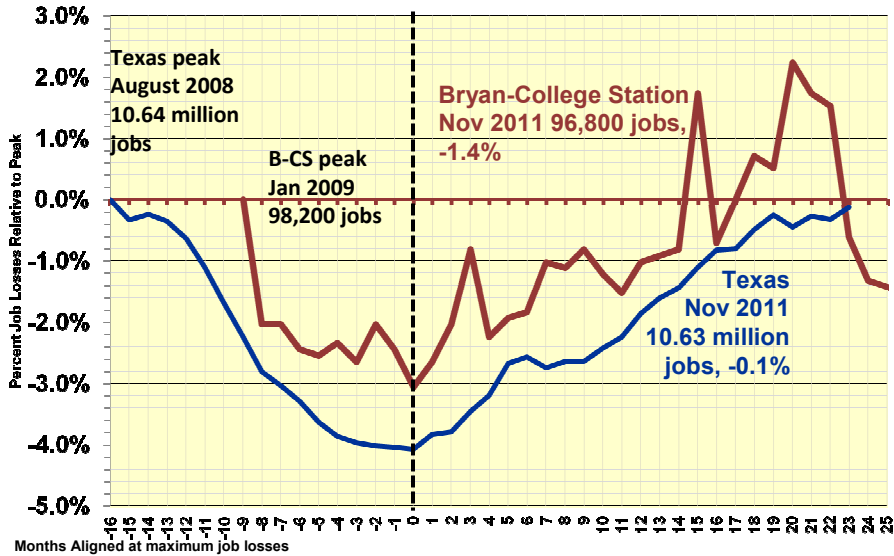
Ben Bernanke

June 7, 2011, International Monetary Conference, Atlanta, Georgia

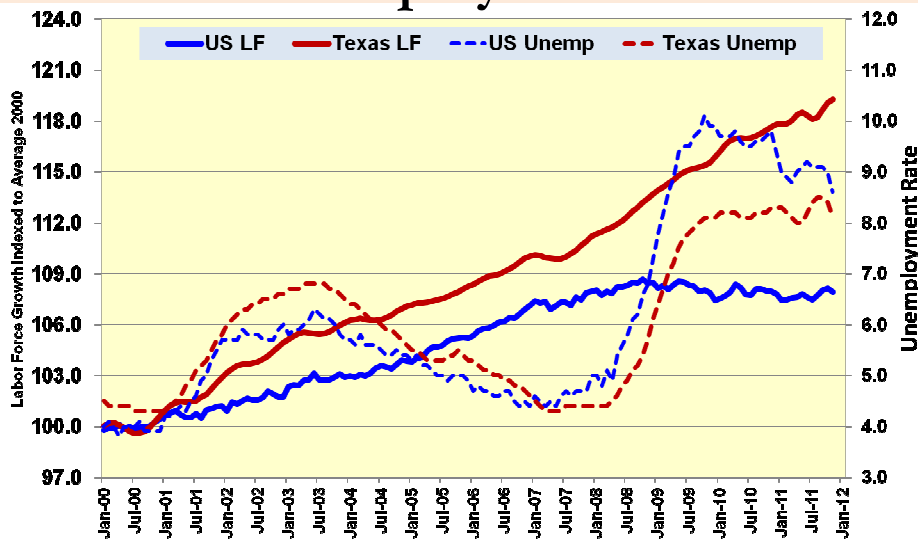
Recovery May Take a While



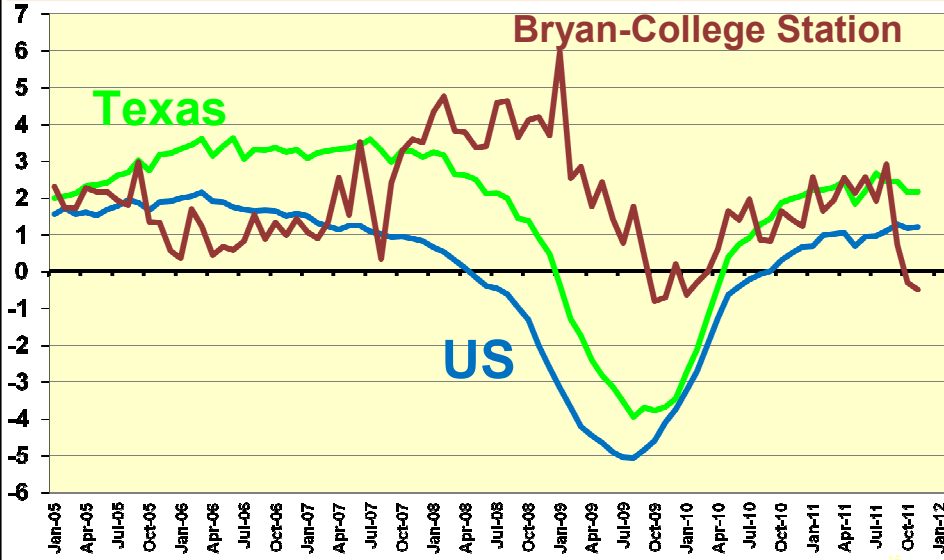
Texas and B-CS Employment Recovery Percent Job Losses From Peak



US and Texas Labor Force Growth and Unemployment Rates

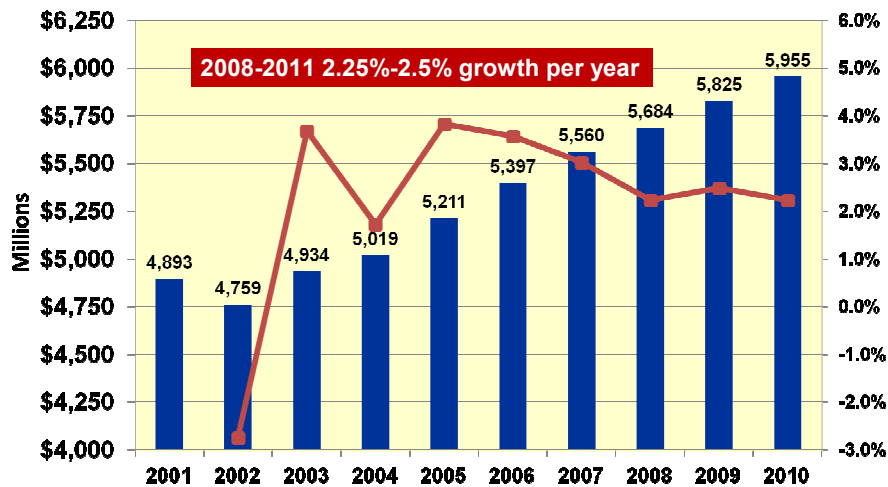


Annual Job Growth Rates for US, Texas and BCS MSA



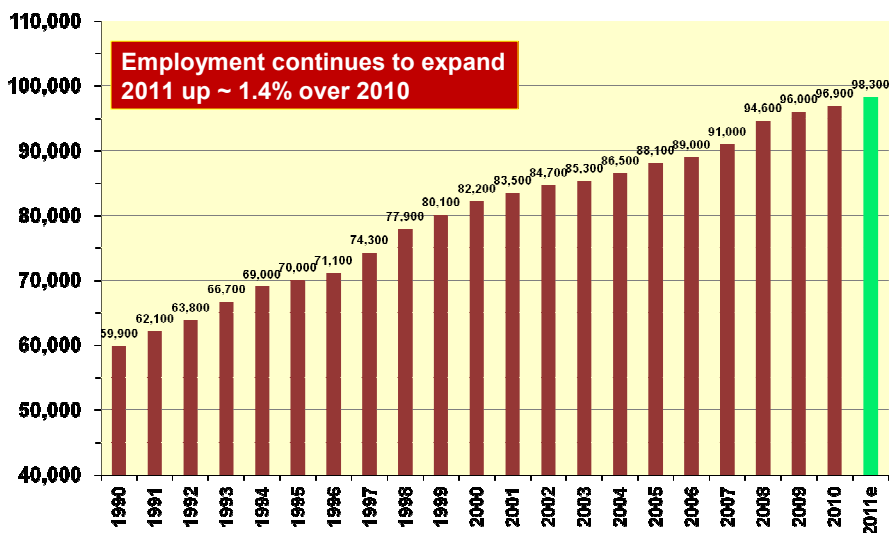
Source: TWC, Real Estate Center at Texas A&M University

B-CS Real GDP and Percent Growth



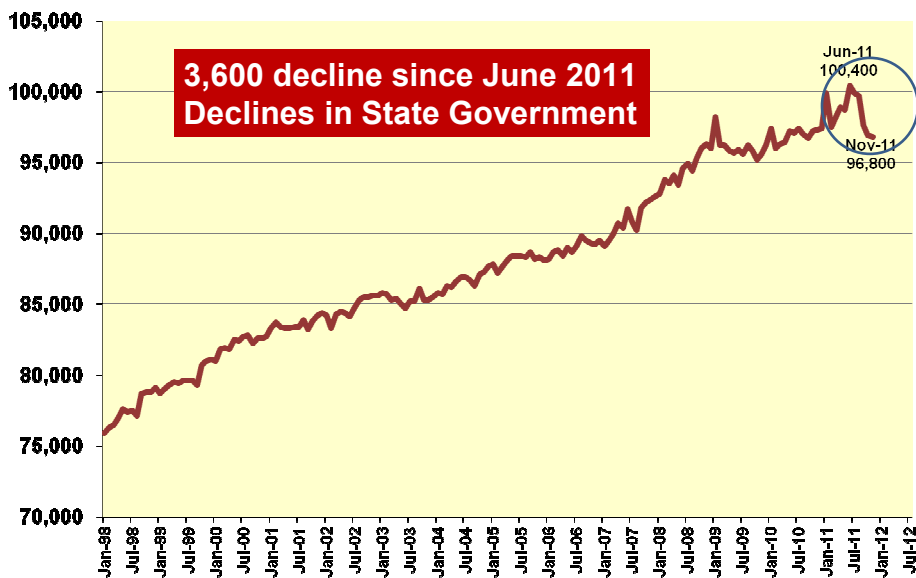
Source: Bureau of Economic Analysis

BCS Annual Jobs



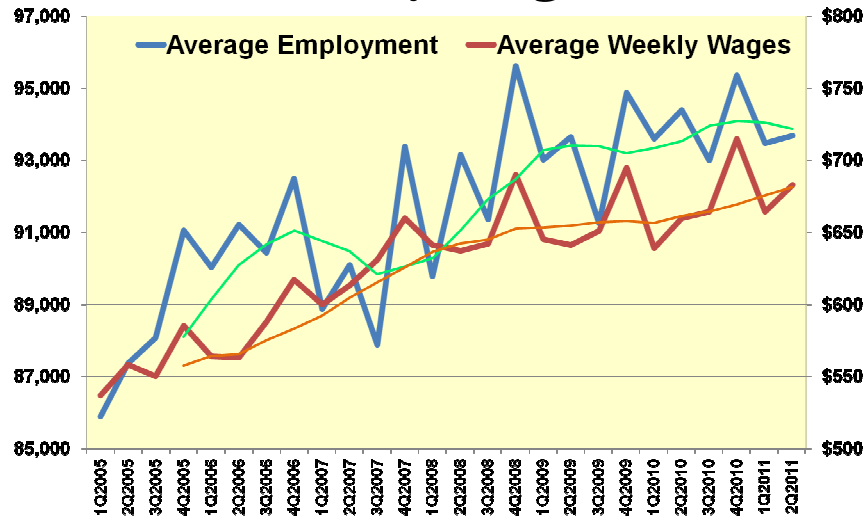
Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

BCS Monthly Jobs Since 1998



Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University, Seasonally Adjusted

B-CS Average Employment and Weekly Wages

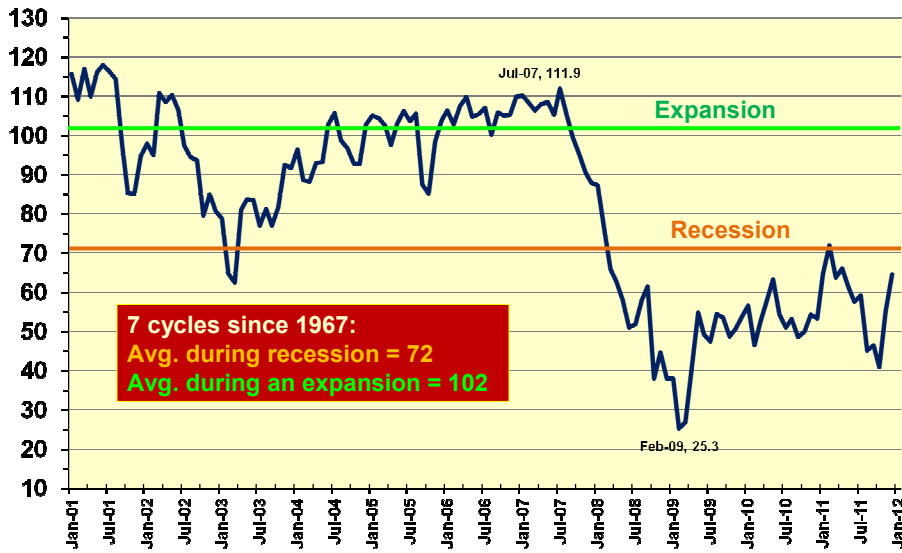


Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

Major Hurdles for 2012

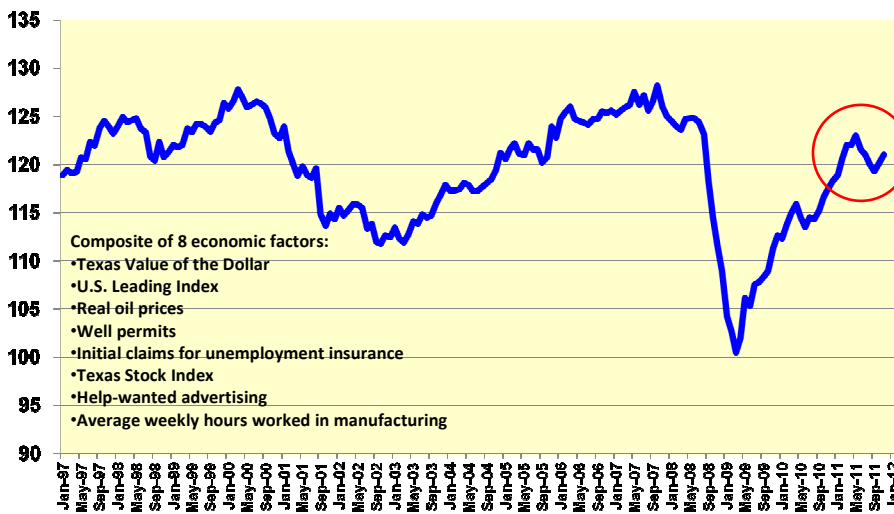
1. Tepid growth in private sector: jobs and spending
2. Continued Government constriction
3. Credit tightening continues for businesses, consumers, mortgages – except government
4. Housing: prices declining; foreclosures; new construction down
5. Commercial real estate drag
6. **UNCERTAINTY & Lack of CONFIDENCE**
government actions, regulations and taxes;
national debt & deficits; global disruptions

Consumer Confidence Index



Source: The Conference Board (1985=100)

Texas Leading Economic Index



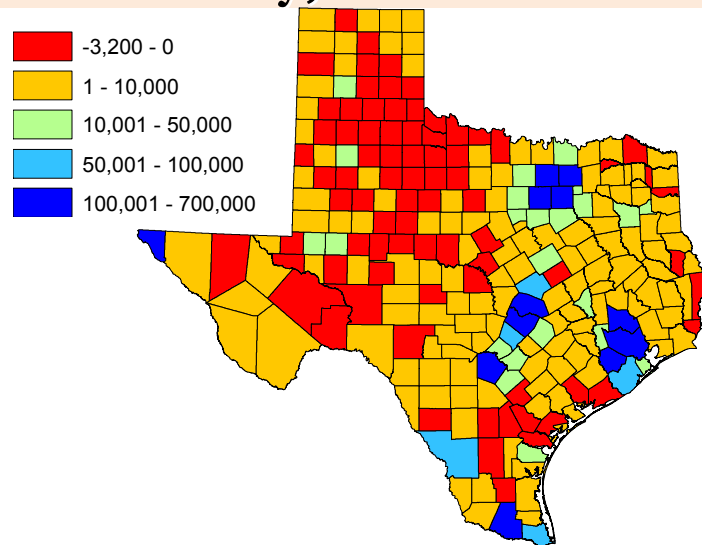
Source: Dallas Federal Reserve

Reasons for Optimism

- ❑ Texas job growth double the national rate
- ❑ Relentless population growth in Texas
- ❑ Government budgets finally getting real - maybe
- ❑ Four years of pent up demand
 - Retiring
 - “Undoubling” & Parents tired of kids
 - Move Up & Move In
 - Expanding a business
 - Relocating a business to Texas

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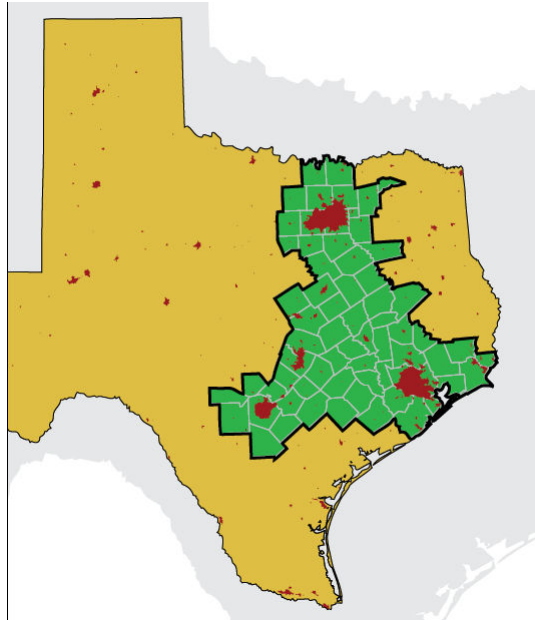
Change in Total Population by County, 2000 to 2010



Source: Texas State Demographer's Office, U.S. Census Bureau 2000 and 2010 Census Counts

Texas Urban Triangle

In 2007, 15.3 million people, about 90% of the total population in the area, lived in the four principal metro areas in the triangle



By 2040, 33.7 million people will live in the four principal metro areas in the triangle, a 120% increase

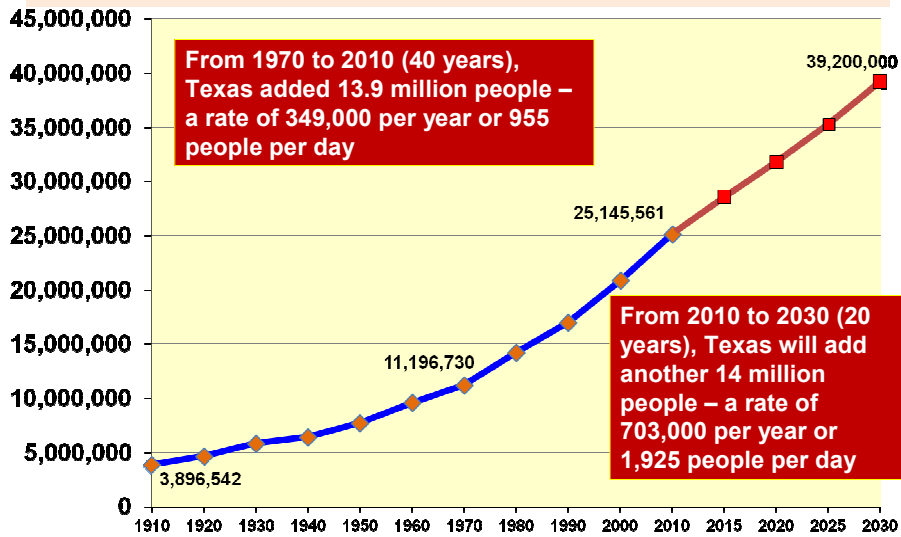
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States with Largest Unauthorized Immigrant Populations, 2010

State	Estimate (thousands)	Range	Percent of 2010 Pop
California	2,550	(2,350 - 2,750)	6.8%
Texas	1,650	(1,450 - 1,850)	6.5%
Florida	825	(725 - 950)	4.4%
New York	625	(525 - 725)	3.2%
New Jersey	550	(425 - 650)	6.3%
Illinois	525	(425 - 625)	4.1%
Georgia	425	(300 - 550)	4.4%
Arizona	400	(275 - 500)	6.3%

Sources: Texas State Demographer's Office; Pew Hispanic Center estimates based on residual methodology applied to March Supplements to the Current Population Survey (February 1, 2011)

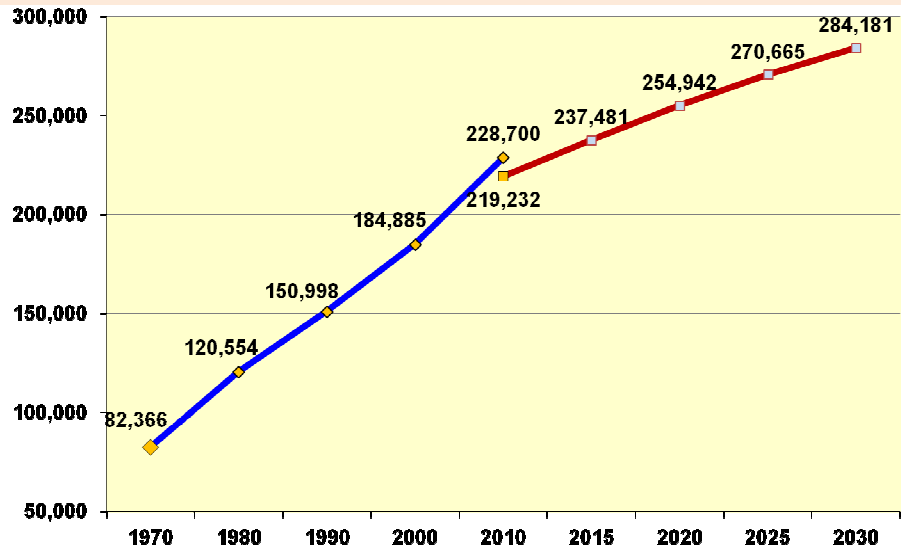
Texas Population 1910-2030



Sources: U.S. Census Bureau, Texas State Demographer 2008 Projections (average of 2000-2007 and 100% 1990-2000 immigration scenarios)

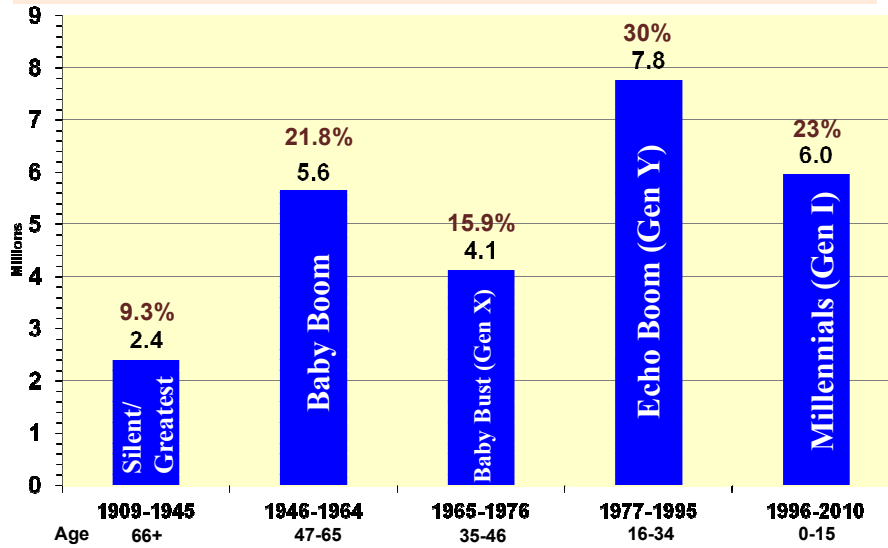
BCS MSA Population

Brazos, Burseson and Robertson Counties



Sources: U.S. Census Bureau, Texas State Demographer 2008 Projections (1990-2000 scenario)

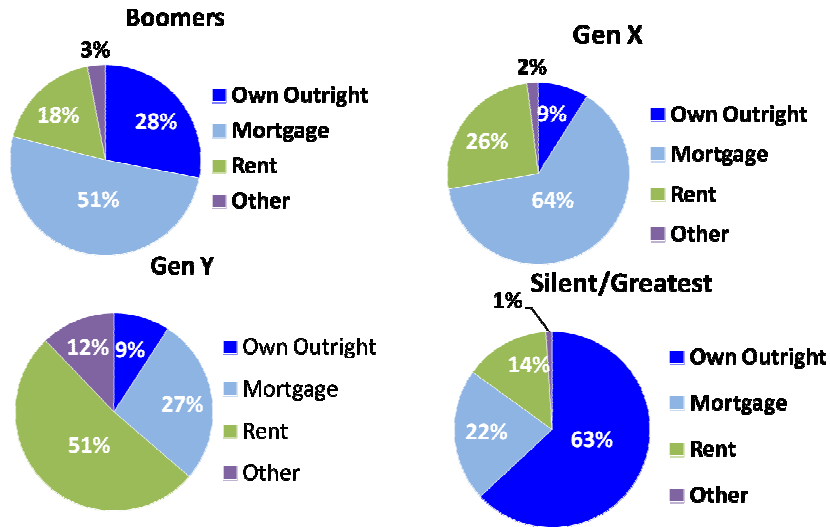
Texas Population Groups 2011



Source: U.S. Census Bureau; 2009 National Population Projections (Supplemental)

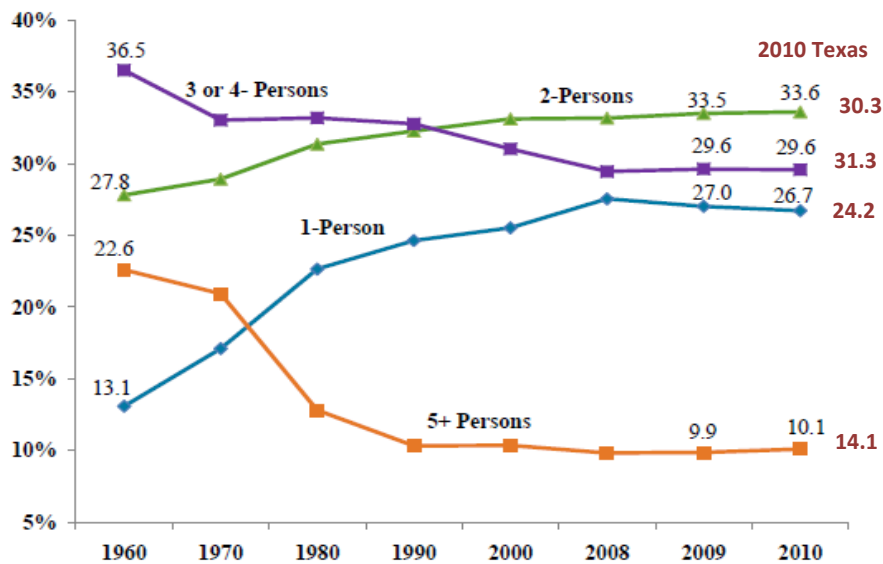
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Boomers Own - Gen Y Rents



Source: FNMA National Housing Survey, 4Q2010

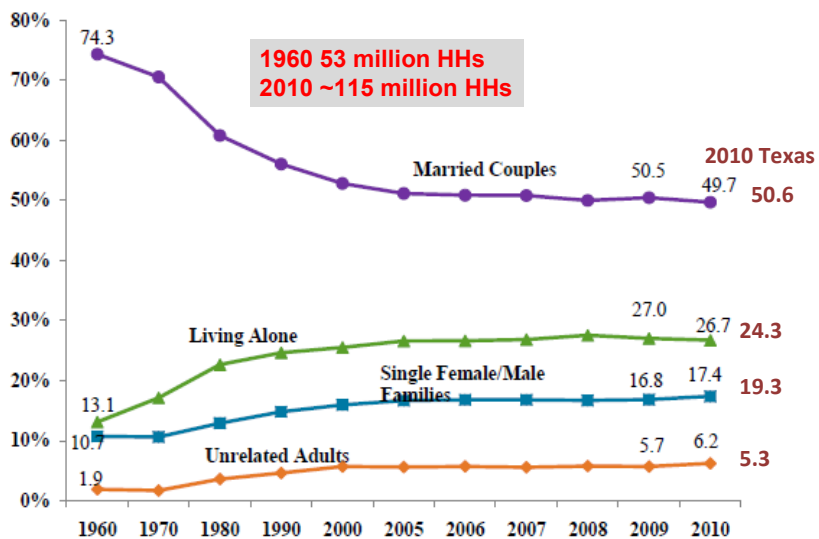
Size of US Households



Source: NAHB Economics and Housing Policy Group, "The New Home in 2015," December 2010

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Types of US Households



Source: NAHB Economics and Housing Policy Group, "The New Home in 2015," December 2010

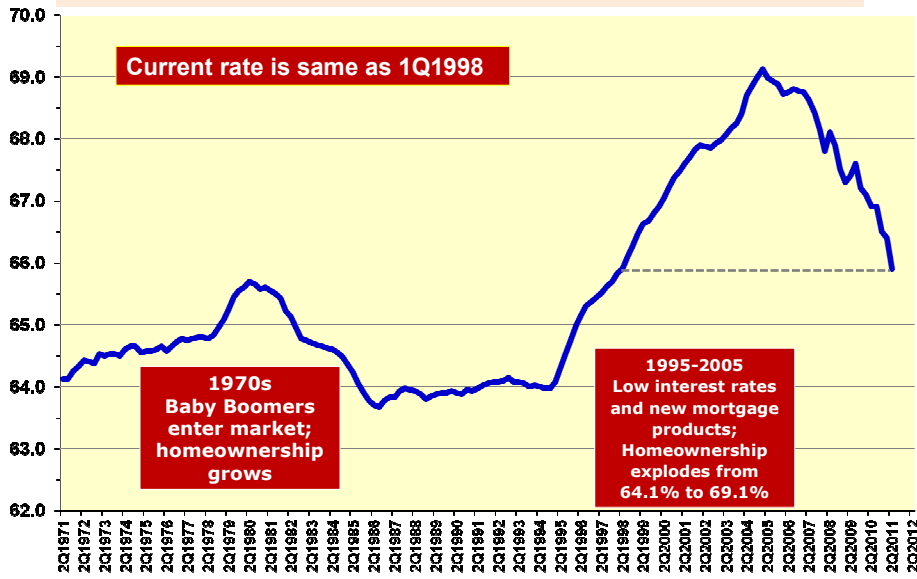
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The Housing Market Must Mend to Lead a General Economic Recovery

Current Housing Issues

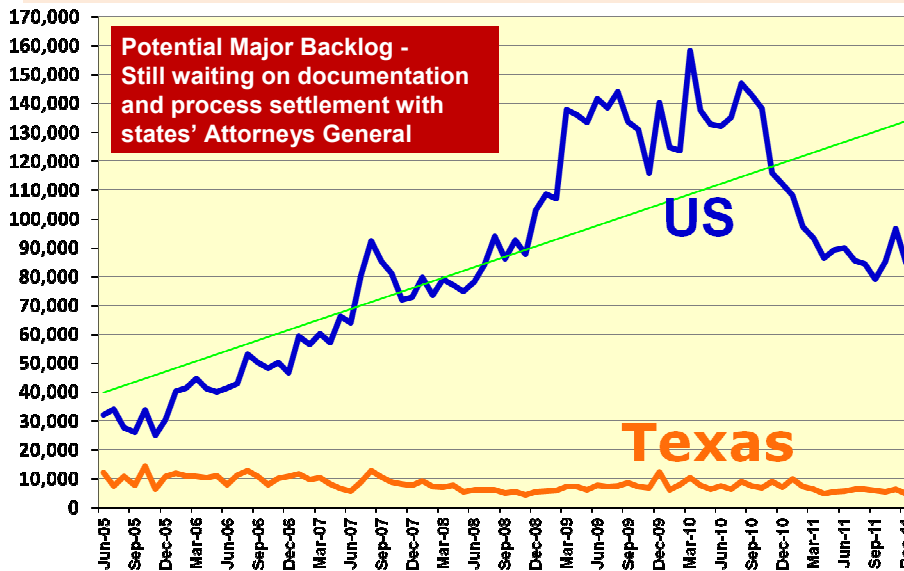
- **Government stimulus efforts prolonged market recovery**
- **Low Demand - High Supply = Weak Home Values**
- **FNMA/FHLMC resolution**
- **Lenders remain sensitive & reflexive: CRE and other bad loans have not been cleared; QRM; CMBS market**
- **Renting regarded as viable option to buying**
- **First-time buyers financially unable to buy**
- **FHA essentially a subprime lender**

US Homeownership Rate



Source: US Census Bureau; FHLMC (4-quarter moving average homeownership rate)

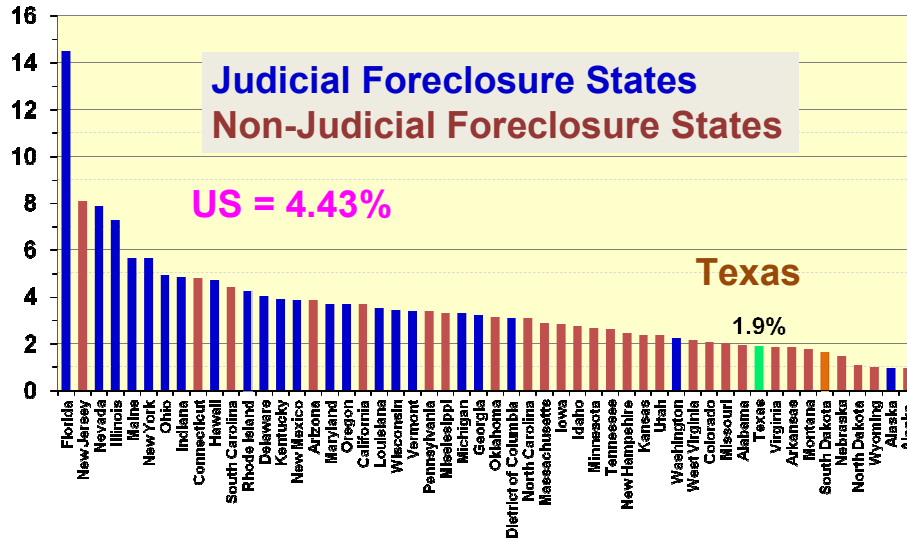
Monthly Foreclosure Filings



Source: RealtyTrac, Inc.

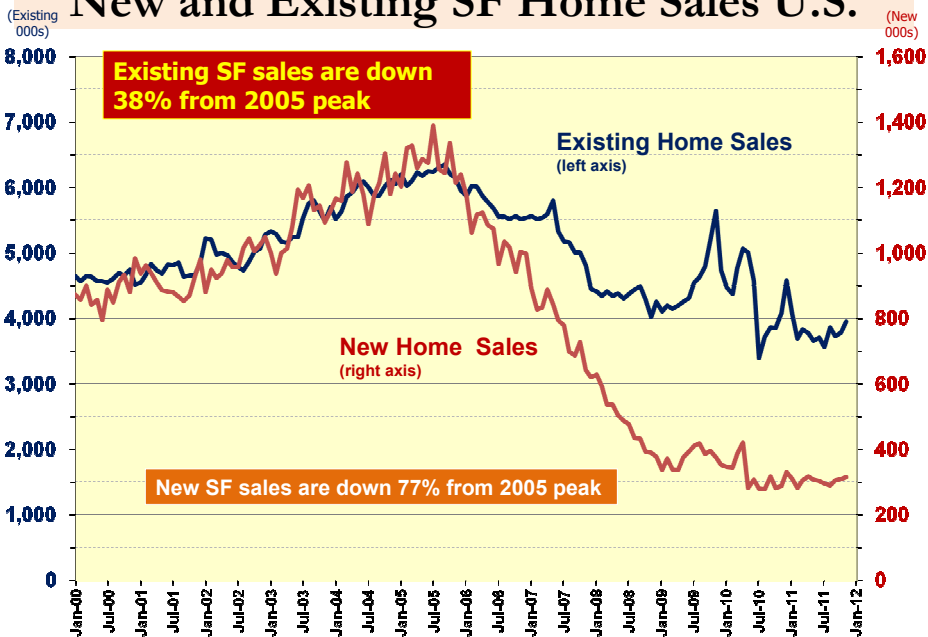
Data include Notices of Trustee Sales plus Notices of Foreclosure Sale

Percent of Loans in Foreclosure End of 3Q2011



Source: Mortgage Bankers Association, National Delinquency Survey

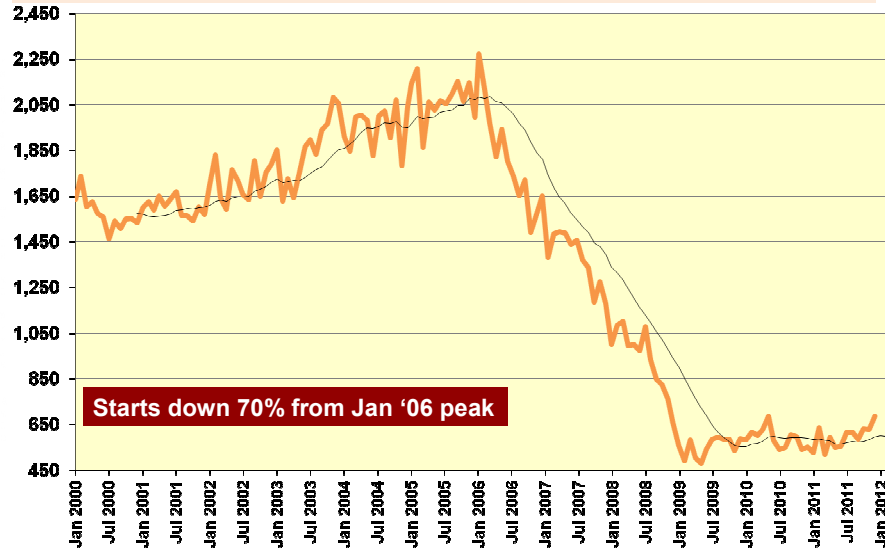
New and Existing SF Home Sales U.S.



Sources: US Census Bureau, NAR, SAAR

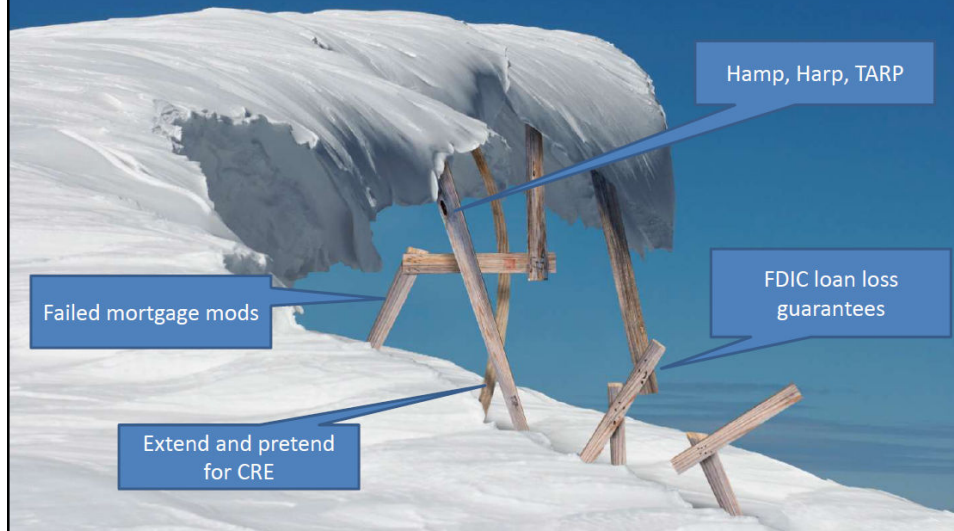
US Total Housing Starts

Total Units & 12-Month Moving Average



Source: US Census Bureau, Real Estate Center at Texas A&M

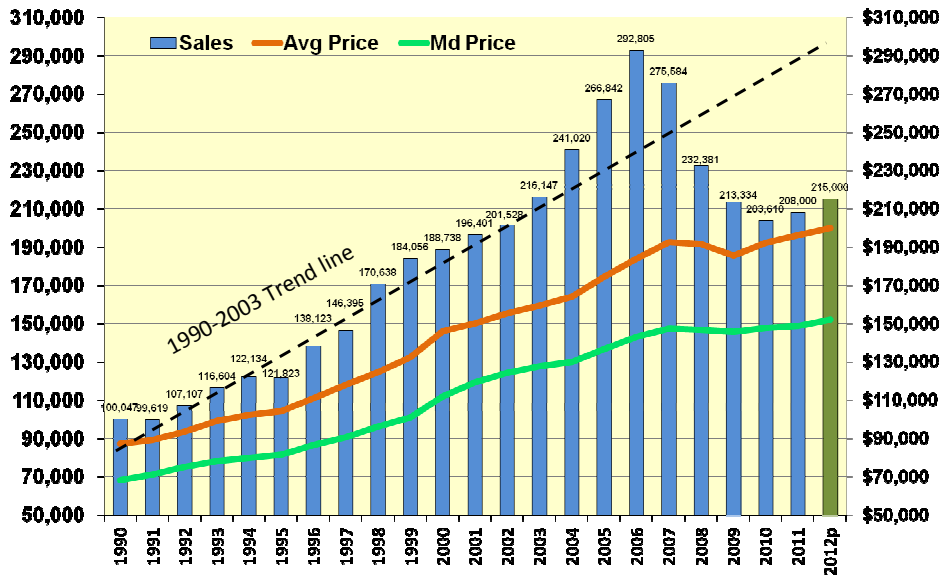
The overhang of shadow inventory is killing the housing and CRE markets



Texas & B-CS Housing Markets

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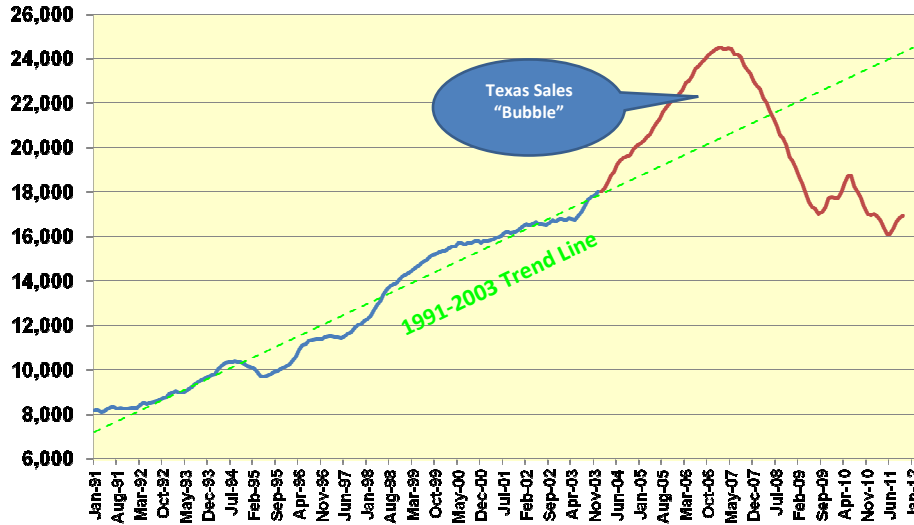
Annual Texas Home Sales



Source: Real Estate Center at Texas A&M University

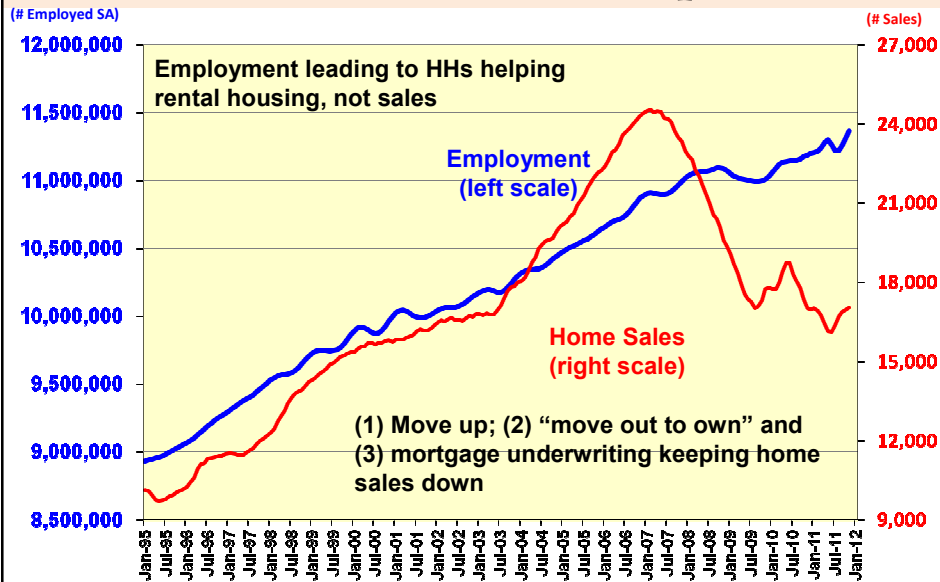
Texas Home Sales

12-Month Moving Average



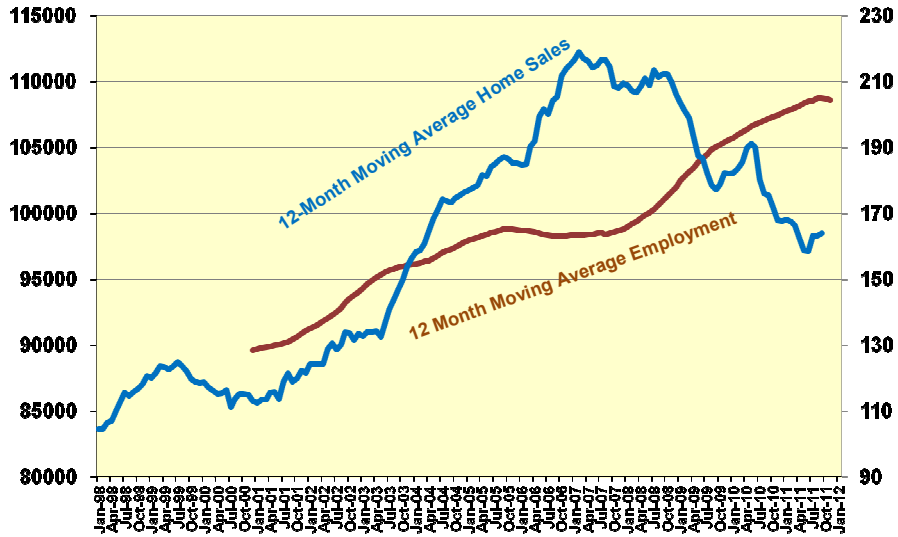
Source: Real Estate Center at Texas A&M University

Texas Home Sales and Employment



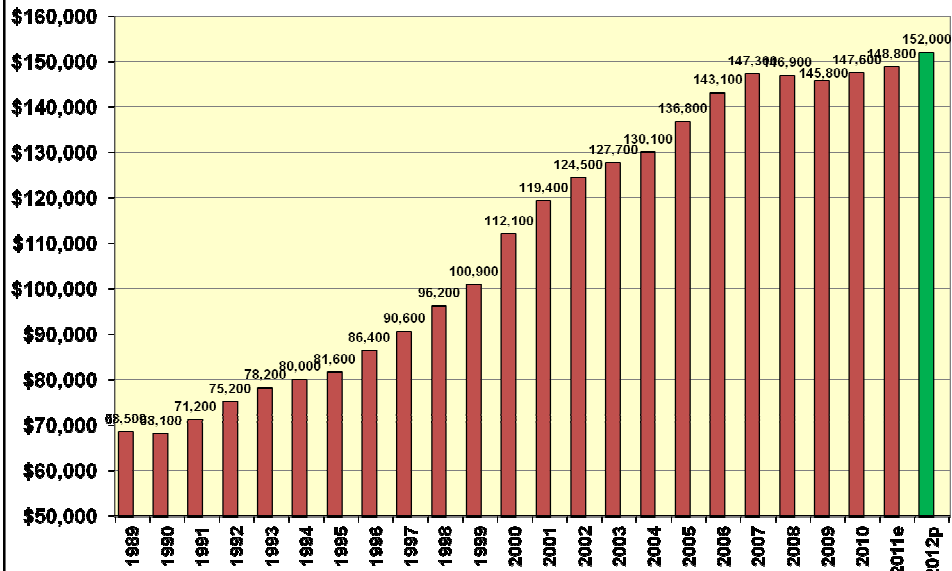
Source: Texas Workforce Commission; Real Estate Center at Texas A&M University

BCS Monthly Employment & Home Sales



Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

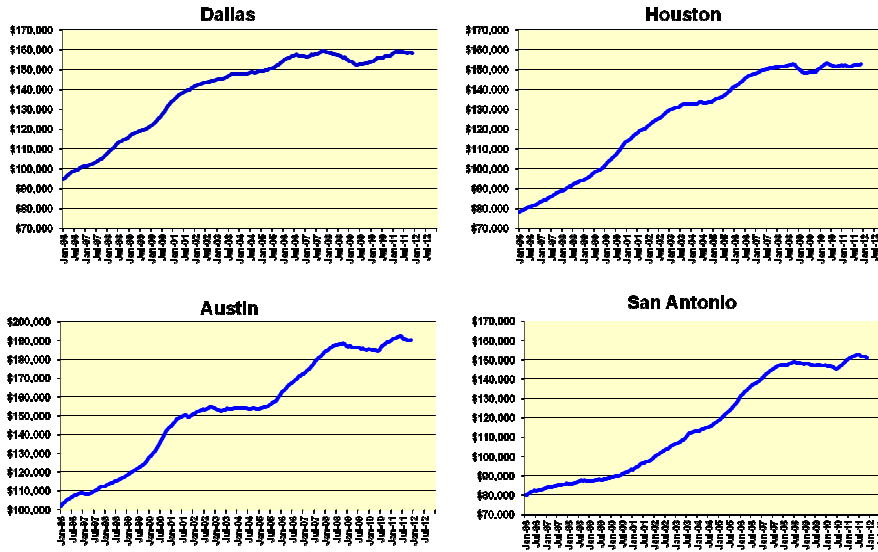
Texas Median Home Prices



Source: Real Estate Center at Texas A&M University

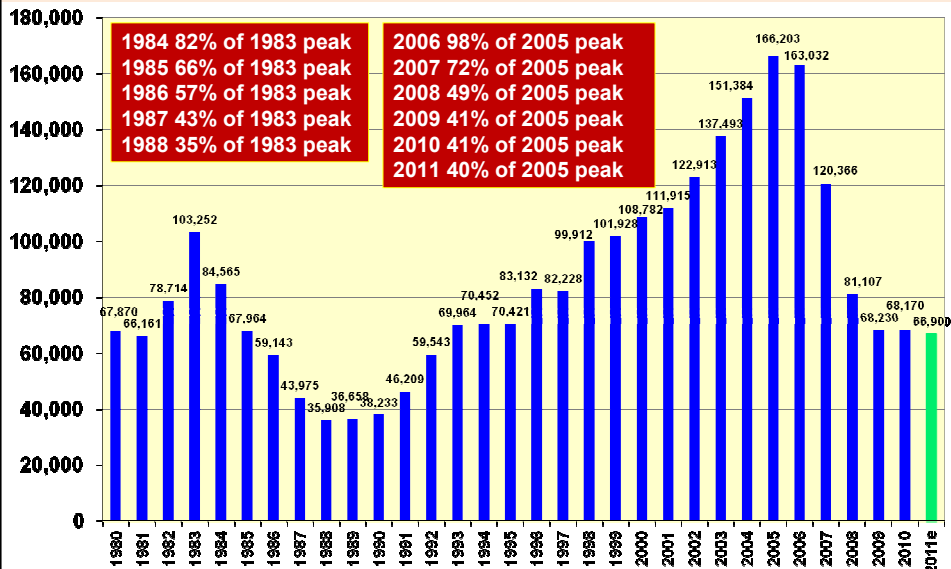
Texas Metropolitan Home Prices

12-Month Moving Average



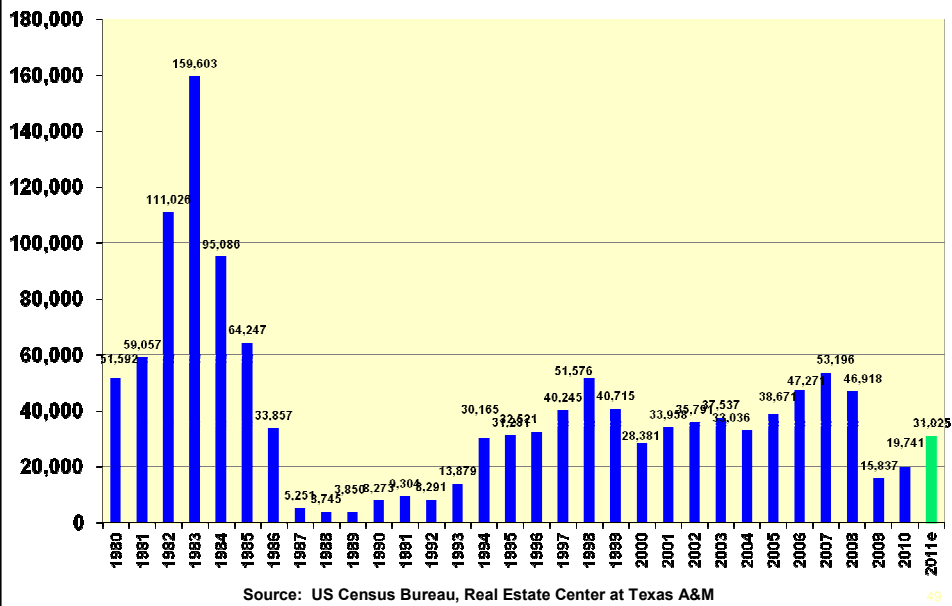
Source: Real Estate Center at Texas A&M University

Texas SF Building Permits

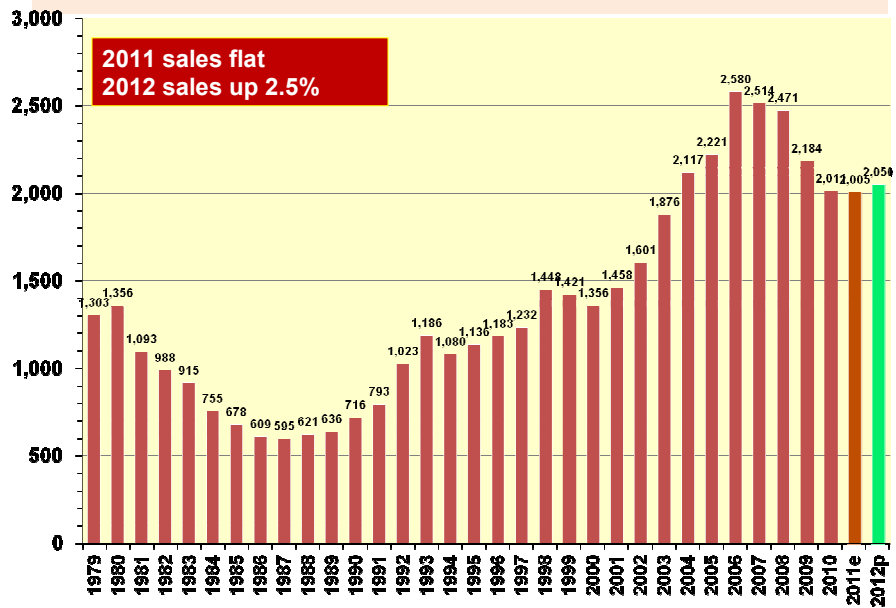


Source: US Census Bureau, Real Estate Center at Texas A&M

Texas MF Building Permits

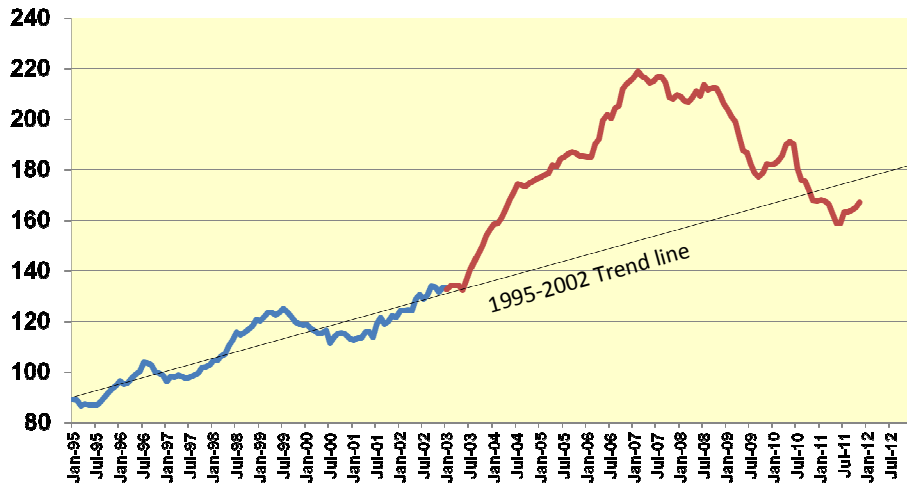


BCS Annual Home Sales



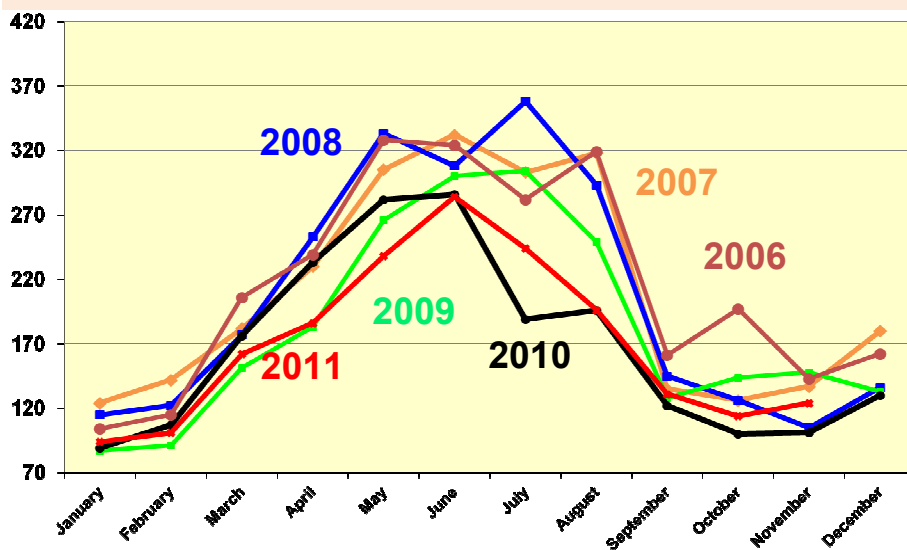
B-CS Home Sales

12 Month Moving Average



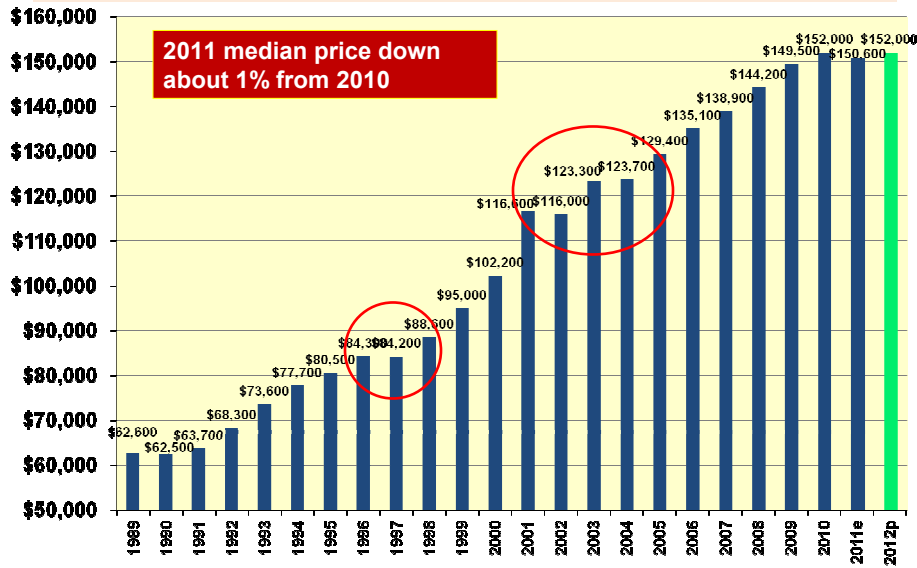
Source: Real Estate Center at Texas A&M

Monthly Sales in the BCS Area



Source: Real Estate Center at Texas A&M University

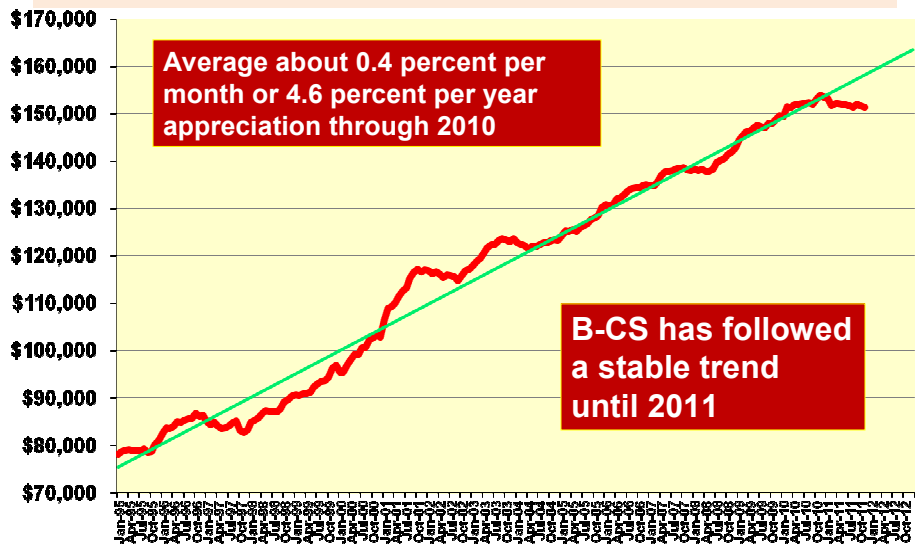
BCS Median Home Price



Source: Real Estate Center at Texas A&M

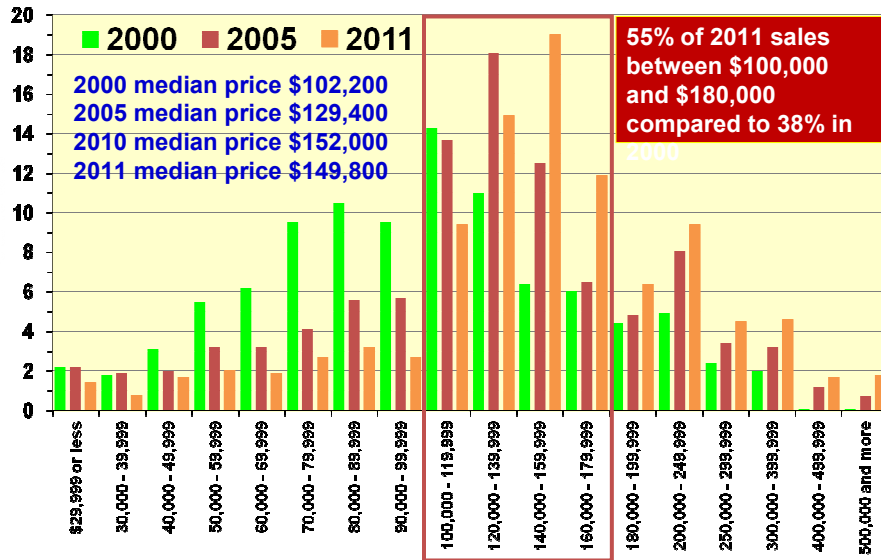
BCS Median Home Price

12-Month Moving Average



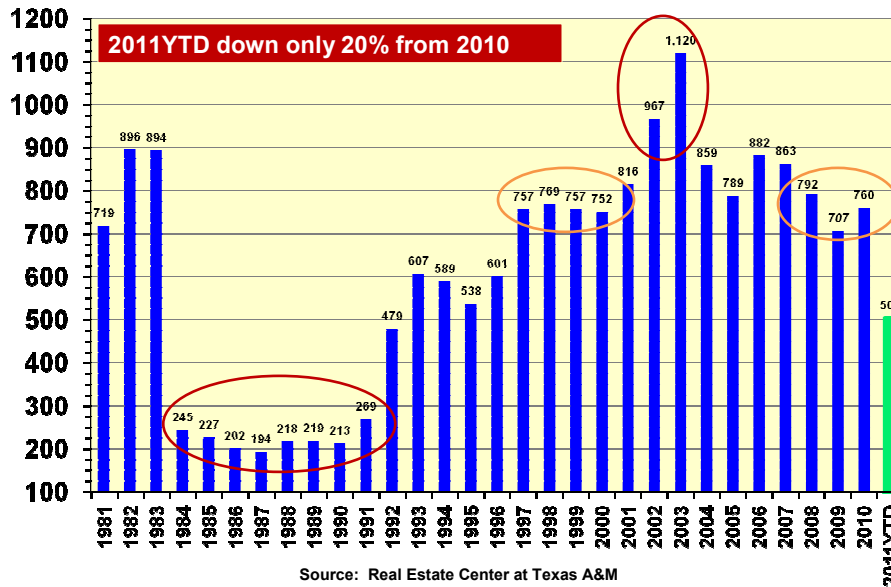
Source: Real Estate Center at Texas A&M

Percent of BCS Home Sales by Price



Source: Real Estate Center at Texas A&M

BCS Single-Family Building Permits



Source: Real Estate Center at Texas A&M

2012+ Economic Outlook

- ❑ 2011 ended generally positive – but without substantial rebound
- ❑ Major business, investment and political decisions postponed
- ❑ Sluggish growth into the first quarter of 2013.
- ❑ Interest rates stay low through 2013, at least.
- ❑ Housing cannot be counted on to help
- ❑ Recession exposed credit dependency of US households and government
- ❑ Limited government resources leads to inability to cover spending promises of prior generations
- ❑ International capital market highly uncertain
- ❑ BCS housing & commercial markets should show some modest improvement but no major upgrade

2012 Housing Outlook

Market Headwinds

- Distressed/Investor sales: ~1/3 of market (~10%-20% in Texas) at much lower prices
- Tight lending & low appraisals leading to 33% cancellation rate on new and existing contracts
- Crisis of Confidence
 - No feeling of “well being”
 - Lost wealth: real estate & other assets
 - Flat income (declining real income)
 - No confidence in future: job, home value
- New wave of foreclosures hit market in 1H2012 adding to distressed inventory
- Move-up & move-over buyers can't sell current home
- Move-out still renting or doubling up
- Unknown & problematic political decisions-policies

Reasons for Optimism

- ❑ General economic improvement – jobs especially
- ❑ Very low interest rates but little impact
- ❑ Pent up demand by those who've postponed housing or doubled-up
- ❑ Many markets have simply bottomed and will show statistical improvement
- ❑ Investors buoy sales but not prices
- ❑ Price effect - Affordability
 - Long-term opportunists looking to buy at bottom
 - Prices more in line with current income levels
- ❑ Rent-Own “gap” closing: \$'s & quality
- ❑ Sellers and sellers' agents working harder to find qualified buyers
- ❑ Home builders still offering substantial incentives
- ❑ Population and household growth, especially in Texas, strong

Albert Einstein

“If we knew what we were doing, it wouldn't be called research, would it?”

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