

2011–2012 Real Estate Center Annual Report



REAL ESTATE CENTER
TEXAS A & M UNIVERSITY

DIRECTOR'S MESSAGE

As I write this, the nation is still trying to emerge from the fog of recession as well as election results that may bring more public policy uncertainty than closure. But there is good news.

Texas recovered all the jobs lost in the Great Recession and then some. In fact, Texas can boast of having 2 percent more jobs than it had entering the recession in 2008. With oil shale exploration and production leading the way, Texas is on track to outpace the nation's economic performance by a factor of two to three times.

It has been a good year for the Center, too. Our research staff, led by Chief Economist Mark Dotzour, made the call that housing was turning the corner and moving into recovery mode. We were one of the first research organizations in the nation to herald this. Make no mistake about it, there will be some bumps in the road to a full recovery, but the recovery has started, and the Center was at the vanguard, pointing the way with facts to back it up.

The Center also made our constituents and others who follow our research online aware of the impending "fiscal cliff" long before it became commonly known and reported by the media. We became well known and respected at the national level, a goal set by our Advisory Committee. Mark Dotzour was a featured presenter at seven prominent national association conventions. Other research staff joined him in addressing audiences across the country and state, giving a total of 217 presentations through the third quarter of the year. Relevance is a powerful attribute.

The Center published its 2,000th title, a true milestone. Researchers quantified the "shadow inventory" of troubled single-family housing units, which should allay fears of further housing price declines in the state.

In a bold, new initiative, we instituted a series of industry sector intelligence panels. This led to a better understanding of the issues behind both the constraints and drivers of economic activity in the state. Three panels of leaders have convened at the Center so far: mortgage lenders, home builders and appraisers. More are planned.

One of the most validating points we gleaned from the builders is that the Center's research and data are viewed as part of the reason the state did not overbuild. Home builders had the information they needed to make better decisions about how many units to build (or not to build). That feedback alone pretty well confirms we are fulfilling our mission of helping Texans make better real estate decisions.



Maler Named Texas A&M's College of Architecture Outstanding Alumnus

Center Director Gary W. Maler was one of nine Texas A&M graduates named 2012 College of Architecture outstanding alumni.

The selection committee said Maler, who earned a master of architecture degree at Texas A&M, "has lifted the Real Estate Center to global prominence after a private-sector career spearheading some of Houston's most notable developments."

Susan Combs, Texas comptroller of public accounts, said "Under his leadership, the Center has become one of the most highly respected and trusted sources of research and information and is heavily relied on by members of the legislature, the governor's office, state agencies and the business community."

"Gary provides unparalleled industry knowledge and energy," said Jonathan Brinsden, Midway Companies' chief operations officer. "His powerful combination of strategy and creativity make him a profound and powerful industry leader."

Maler led the establishment of Texas A&M's comprehensive institutional real estate asset management plan and was part of the team that developed Texas A&M's Research Park.

His passion for architecture is apparent in the many drawings he has done featuring patterns observed in indigenous Texas architecture.



IT'S WHAT WE DO

Here at the Center, constituent feedback received in person, by email and through social networking sites reminds us that our work is important to Texas licensees. They frequently let us know how presentations to industry groups, online data and information and the publications we produce have been valuable in their day-to-day business activities.

But we seldom think about our efforts changing Texans' lives. That's why this letter, received by Chief Economist Mark Dotzour, was so thought-provoking.

First and foremost, I extend my gratitude for your research and numerous presentations that I viewed over the course of the past several years. A year ago, both my wife and I made the very difficult decision to step off early as Lieutenant Colonels and retire from our respective military careers in order to give our children the supreme benefit of having full-time parents and to better our chances at a successful "second" career. As we researched and mulled over several cities to plant our family, your data was absolutely essential in developing the criteria and closing arguments for Texas — and eventually Georgetown.

Not only are we enthused by the current and future economic growth potential we see all around us, but we remain elated by the business-friendly environment and willingness to assist at state, county and city/chamber levels. Let me assure you that this environment is in stark contrast to our last two assignments — Washington, D.C. and Seattle/Tacoma, Washington.

With your assistance, we are confident and extremely happy to have chosen Texas to begin our business, raise and educate our beloved children. Thank you, sir.

At some point in the future, I hope to trek over to A&M in order to attend one of your next seminars or presentations.

With deep respect and admiration,

Charles S. Chenoweth
Georgetown, Texas



Chenoweth now owns rental properties in Georgetown.



Dr. Ali Anari, Research Economist

Dr. Anari explains why his research findings are significant.

Fostering Innovation: Texans Create Business Opportunities *Tierra Grande*, October 2011

Higher unemployment rates and lower employment growth rates since 2008 have been a cause of concern for Realtors because sales of real estate properties are related to higher employment growth rates. My research shows that in times of economic slowdowns and recessions, more Texans create new firms, leading to a growing number of self-employed people. This finding is important because official employment data do not include self-employed persons. The biggest challenge in this research was the issue of how to measure and quantify new business opportunities and new business formation. The research results were encouraging and more than expected given that the nation's economy has not yet fully recovered from the Great Recession.

Nine Reasons to Invest in Texas (with Mark Dotzour) *Tierra Grande*, October 2011

The Center's economists are frequently asked about Texas' economic outlook and whether it is profitable to invest in the state's economy. In the aftermath of the Great Recession, many firms and consumers postponed investment programs because of economic and political uncertainties. This article examines reasons to invest in Texas in the current economic environment and optimistically concludes that investment prospects are good. The optimism is based on the most important objective indicators of the state's economy rather than on hopes. The key

finding of this research is the high level of consistency of several indicators, given that the consistency of economic signals and indicators is always a challenge in economic research.

The Great Recession: Why Intensity and Duration Varied *Tierra Grande*, January 2012

The Great Recession was the strongest headwind the U.S. economy faced since the Great Depression. Its causes and impacts on the nation's economy as well as local economies will be debated for many years to come. This research project examined why recession intensity and duration varied across Texas metropolitan areas. The biggest challenge I faced in this research was to identify and measure the most important factors that influenced macroeconomic activities in the state's local economies. The most significant finding was the importance of a college degree during difficult economic times. The unemployment rate among those with a college degree was never more than 5 percent, even at the trough of the recession.

Income Factor *Tierra Grande*, April 2012

Texas home prices vary from as little as \$10,000 to more than several million dollars. This research finds income to be the single most important determinant of home prices. Given the close association between home price distribution and income distribution in the state's economy and its metropolitan areas, the research shows that the likelihood of a home price collapse in Texas is very small.

Rent or Own? What Influences Decision *Tierra Grande*, July 2012

This article had the honor of being the 2,000th research paper in the history of the Real Estate Center. The research attempted to determine why rented residential properties as a percentage of total residential properties vary across the state's metro areas. Results revealed that the percentage of college students in the total population was an important determinant of rented residential properties.



Dr. Charles Gilliland, Research Economist

Dr. Gilliland explains the thought behind his research.

Appraising the Appraisal Process (with John Gabriel Garcia)

Tierra Grande, October 2011

The housing bust brought many changes to the way market participants do business. Efforts designed to place an impenetrable firewall between lenders and appraisers in residential markets caused major changes in residential markets. The resulting regulations caused many lenders to employ appraisal management companies to act as a buffer between lenders and appraisers.

This development caused many complaints about the quality of appraisals resulting from this process. Horror stories mingled with rumors, obscuring the truth about the current state of affairs in residential appraisal practice. This research set out to establish as many facts as possible about the swirl of complaints from appraisers, brokers and lenders struggling to adapt to the new market realities. We found a profession in flux, waiting for the Consumer Finance Protection Bureau to clear the air. In the process, we waded through mounds of bureaucratic regulations as well as the morass of the Dodd-Frank Act.

Beyond a Reasonable Drought (with Joe Outlaw)

Tierra Grande, January 2012

In “Beyond a Reasonable Drought,” we learned from agricultural expert Joe Outlaw that although the 2011 drought was devastating for crop production, most farmers were insured. Crop insurance allowed them to weather crop failures without facing a financial firestorm.

Cropland in Demand But Large Tract Sales Wither (with Gerald Klassen and John Gabriel Garcia)

Tierra Grande, April 2012

Land market studies revealed a continuing lack of activity, especially in the large property market. Overall prices did improve, but not many acres changed hands.

Through the Roof: Delinquent Property Taxes Prove Costly (with Sarah Whitmore)

Tierra Grande, July 2012

The resurgence of property tax lending for owners with delinquent taxes following the financial crisis caused us to explore the real cost of paying property taxes late. Calculating the annualized rate of penalty plus interest revealed a staggering cost to taxpayers allowing their liabilities to go delinquent. We identified a variety of strategies designed to avoid this costly mistake.



Dr. Harold Hunt, Research Economist

Dr. Hunt discusses his research.

Texas or Bust! *Tierra Grande*, October 2011

As the recent economic downturn began to unfold, we noticed that

Texas was experiencing the best job growth in the country. It seemed obvious that the state's population was increasing. However, we had no idea where the in-migration was coming from specifically. The thought was that more specific data about where migrants were coming from, what their education level was and what job sectors they were choosing would benefit real estate professionals and economic development departments throughout Texas.

The Trouble with Troubled Assets *Tierra Grande*, January 2012

Both lenders and government entities such as the FDIC for some time had been playing "extend and pretend" with commercial loans and commercial properties they had

foreclosed on. As a result, potential investors were working under a great deal of uncertainty relating to when these loans and properties would be either written down or sold off. The hope was that we could provide more transparency to real estate investors regarding the status of these assets by publishing the insights of folks dealing with these entities on a daily basis.

Shale of the Century: Small Towns Dazed by Eagle Ford Influx *Tierra Grande*, April 2012

Parts of South Texas were experiencing dramatic population and employment growth with the introduction of new technologies for oil and gas drilling. Hydraulic fracturing and horizontal drilling were bringing about a renaissance in the industry, and towns in the shale plays were feeling the positive and negative effects of it. The thought behind the research was to give real estate professionals a feel for the potential risks and rewards of new development in these regions.

Texas First-Time Homebuyer Program *Tierra Grande*, July 2012

This project was done to familiarize Texas real estate licensees with existing homebuyer assistance programs. The Texas First-Time Homebuyer Program was showcased to educate real estate professionals and the public in this area.



Judon Fambrough, Senior Lecturer and Attorney at Law

Judon Fambrough is the man to see if you need to know about oil and gas leases.

Increasing activity in the oil and gas sector put his expertise in great demand. His publication *Hints on Negotiating an Oil and Gas*

Lease was accessed 19,438 times this year, often by people who were contacted by companies wanting to secure mineral rights.

"[Your report] was extremely helpful in clarifying many of the points of the lease, and your advice was very much appreciated and put to (hopefully) good use," wrote Michael Pondrom.

After making a presentation to a Texas Farm Bureau AgLead class, Fambrough heard from Ernest Bailes. "You were extremely helpful in explaining water, oil/gas and wind rights," Bailes wrote. "I travel a great deal and hear several talks each year,

and yours was definitely one of the best and probably the most beneficial of all. You are a true asset to the industry and I am thankful that you are willing to share your knowledge with others."

Fambrough explained the ins and outs of oil and gas leases on a South Dakota Public Broadcasting radio show, and wrote an article entitled "Negotiating an Oil and Gas Lease: Five Key Issues to Consider" that was published in *Landscapes*, the quarterly magazine of Capital Farm Credit. He also was cited in a bankrate.com article, "How Oil, Gas and Mineral Rights Affect Mortgages."

Another of his oil and gas related articles, "Mineral Mayhem: Deeds with Omissions," was used by a practicing attorney to win a case. Fambrough received a thank-you e-mail that included the following:

The 'other side' was finally convinced that what they were trying to do was wrong. All of your compelling information played a part in their decision. The attorney who drew the original deed also came forward and admitted that he made an error in the deed preparation.

TIERRA GRANDE

Fan mail is great. Stanley Miller, a real estate agent in Brady, positively made us blush with his review of the April 2012 issue of *Tierra Grande*.

First you give us a realistic position of China and Japan, Miller said.

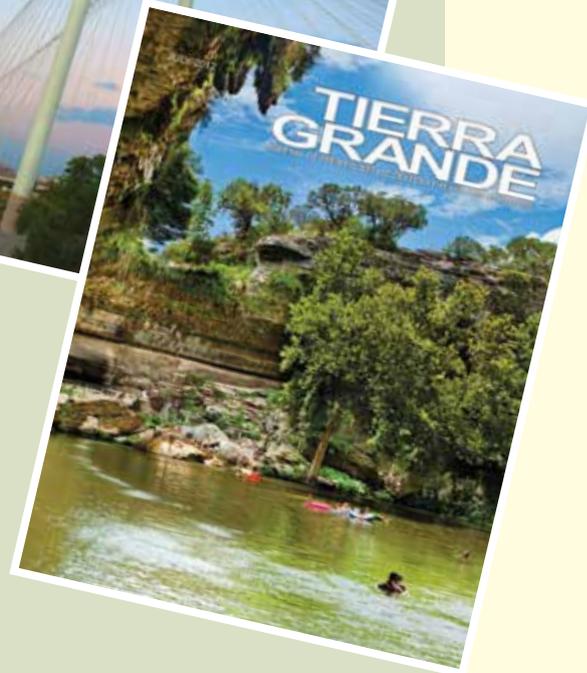
Then you give us an insightful analysis of the housing and land markets in Texas. Then you throw in the Eagle Ford story, and finish us off with the Alternative Minimum Tax article that makes the Buffet controversy look like a joke. There is only one act that can follow that: retire. *The Wall Street Journal*, *Forbes*, *Time*, Fox News, CNN and the rest better be looking over their shoulders. You are blowing them away.

And Miller wasn't in the minority of readers. Our 2012 *Tierra Grande* Reader Survey revealed that 77.8 percent of respondents rated the magazine overall as "very good" or "excellent." When we asked specifically about the relevance of the magazine's content, 97.1 percent of respondents agreed or strongly agreed that "Articles contribute to knowledge/understanding of real estate."

Evan Matzner wrote Mark Dotzour to say, "I really enjoyed your article about what happened in Japan after the real estate crash ["Land of the Setting Sun," *Tierra Grande*, April 2012]. Your story makes total sense to me and should be a wakeup call for everyone so we don't make the same mistakes."

The Center's best-known publication looks expensive, but when you break it down to a per-issue cost, *Tierra Grande* is a real bargain. At only 50 cents per issue (including postage), it's significantly cheaper than a pre-Starbucks era cup of coffee.

This year marked a milestone of sorts for *Tierra Grande*. The July 2012 issue contained the 2,000th title published in the Center's 41-year history.



RECON

Fifteen years.

Hard to believe, but that's how long it's been since the Center sent out the first edition of its twice-weekly e-newsletter, Real Estate Center Online News (RECON).

Since then, readership has ballooned to well over 40,000 worldwide. For a publication that ended its first year with less than 1,000 subscribers, that's quite a following. Also a devoted one. Here's what readers had to say about RECON this year:

"[RECON] is convenient for those of us who are busy and do not have time to do our own research. I read it because I want to know what is going on around the state." ~ Ricardo Flores, Austin

"I like that you do not focus entirely on the big three or four MSAs, but include news from smaller towns. It helps to get a big picture of the entire state." ~ Jamie Poirier, League City

From activity in the Eagle Ford Shale to the gradual upswing in the state's residential market, there was plenty of Texas real estate news to sift through this year. No small task for Associate Editor Bryan Pope and RECON intern Chris Lazaro, who spent hours each week compiling the week's biggest stories and delivering them to subscribers in a format that's a quick and easy read.

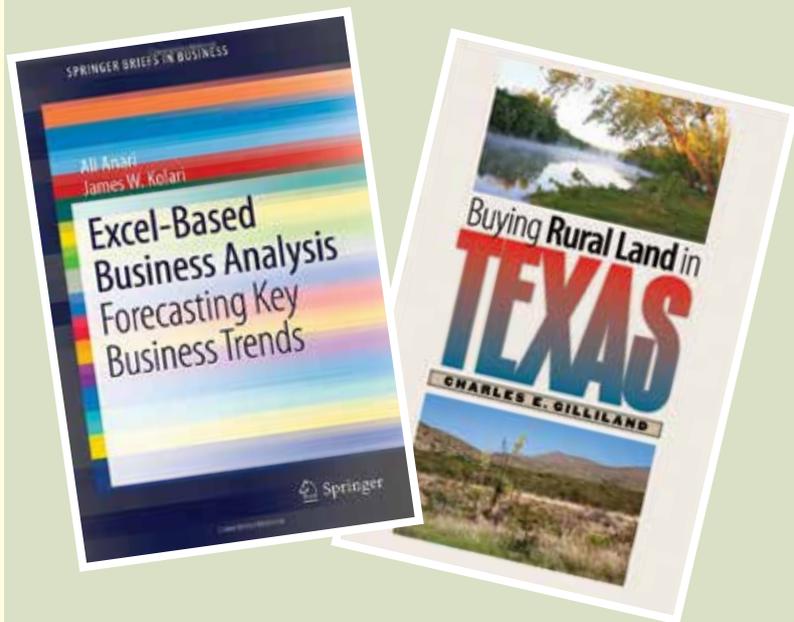
2012 Market Reports



It's gratifying to discover that people not only value our Market Reports, but actually champ at the bit while waiting for them to be published. Market Report/NewsTalk Texas Coordinator Edie Craig got an e-mail from a gentleman named Darrell Wodowski asking when the 2012 reports would be published. Turned out Wodowski is a Senior Airport Properties Representative for FedEx. It doesn't take a lot of thought to figure out how the data included in the reports would be relevant to his field.

Market Reports are a snapshot of each of Texas' 25 MSAs, with information on demographics, education, employment, infrastructure, housing, retail, hotel, office and industrial markets.

Books Published



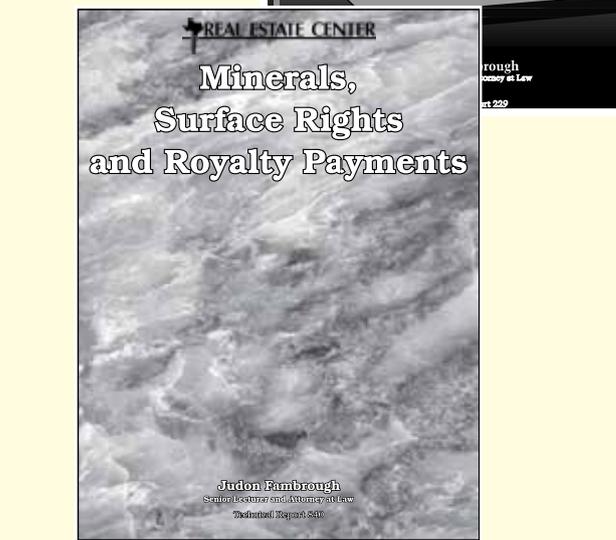
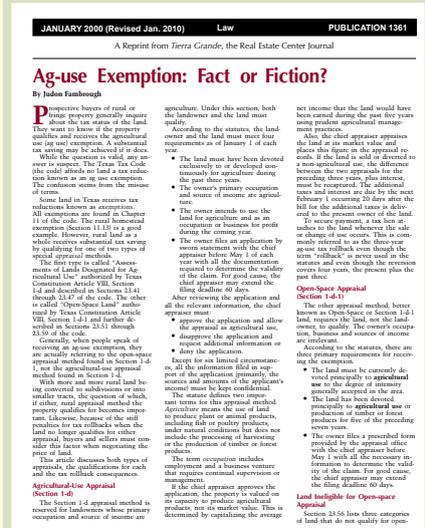
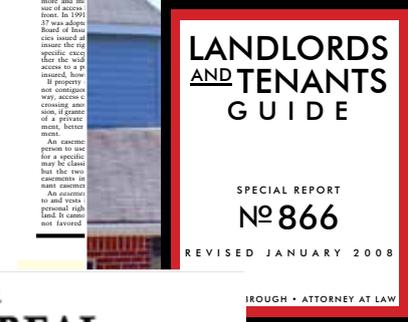
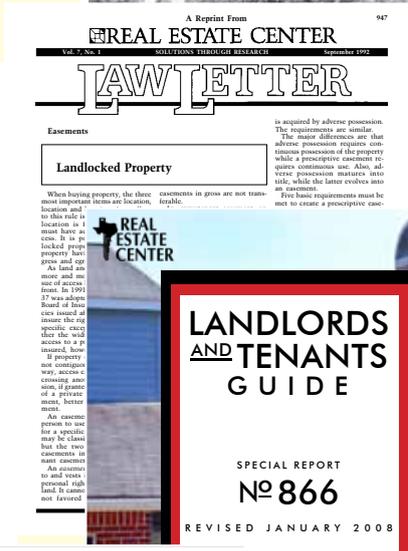
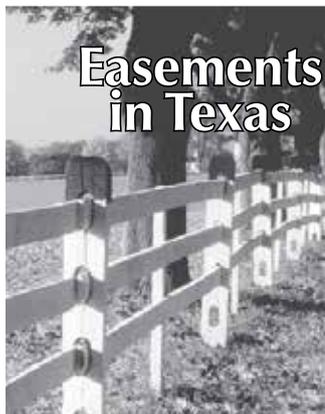
In addition to his *Tierra Grande* articles, Dr. Ali Anari published *Excel-Based Business Analysis* with Dr. James Kolari of Mays Business School. He also presented a paper entitled "The Wicksell Solution to the Fisher Puzzle" at the Eastern Economic Association conference in New York and the Western Economic Association conference in San Diego.

Dr. Charles Gilliland, research economist, published *Buying Rural Land in Texas*, a guide for prospective land buyers who want to learn everything they can before embarking on the search for their "perfect" properties. From thinking carefully about the type of land you need to signing on the dotted line, the book covers the land-buying process and potential problems that may occur.

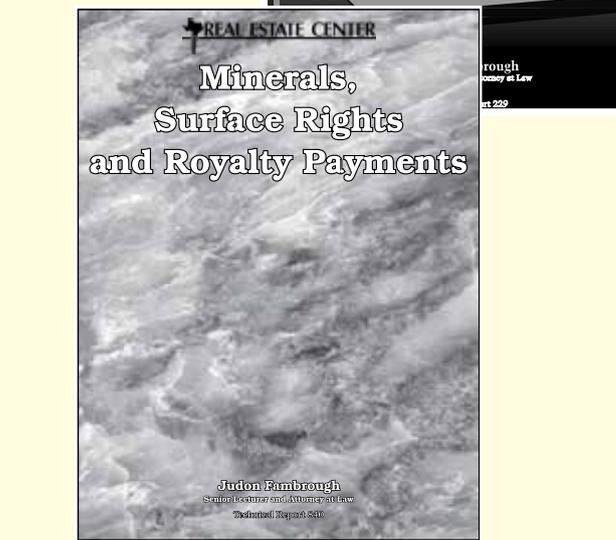
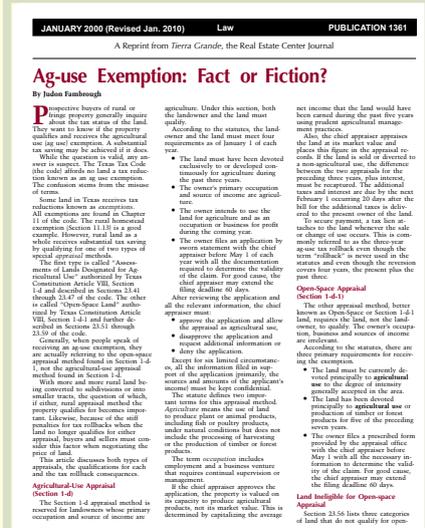
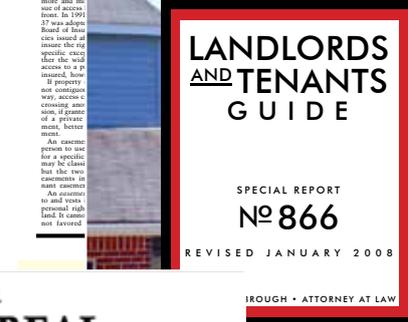
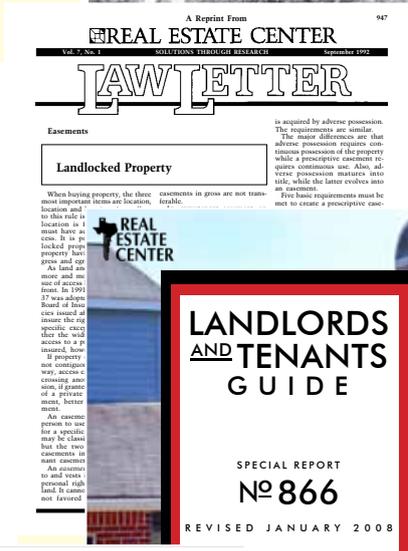
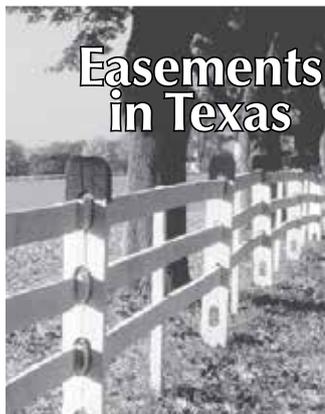
PUBLICATIONS

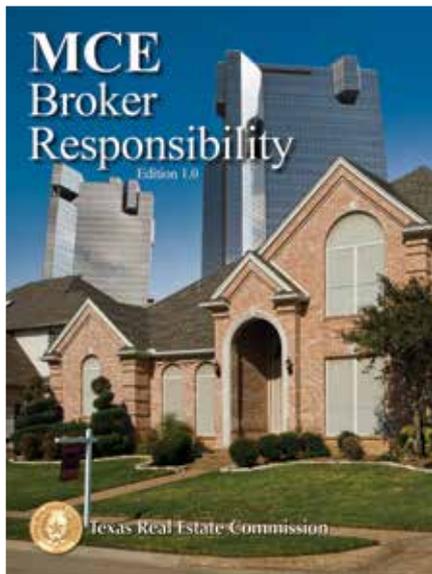
Top Ten Publications in 2011

- *Obtaining a Texas Real Estate License*
- *Hints on Negotiating an Oil and Gas Lease*
- *Landlords and Tenants Guide*
- "Ag-Use Exemption: Fact or Fiction?"
- "Priority of Mortgage and Tax Liens"
- "Minerals, Surface Rights and Royalty Payments"
- "Easements in Texas"
- *Monthly Review of the Texas Economy*
- *Dallas-Fort Worth-Arlington Market Report*
- "Landlocked Property"



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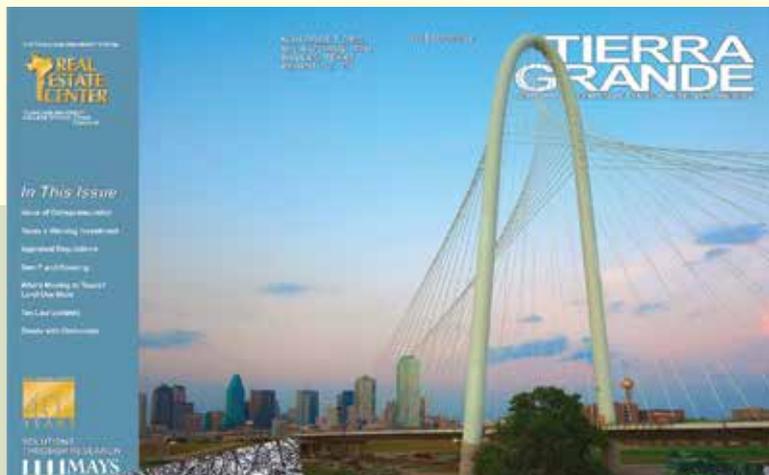




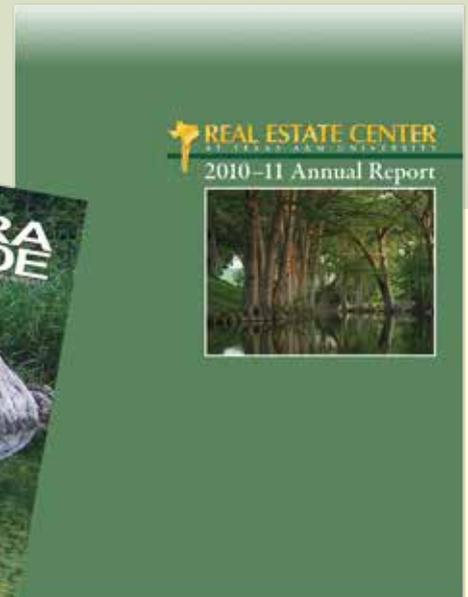
MCE Broker Responsibility Course Textbook

Education Coordinator Denise Whisenant is a member of the Texas Real Estate Commission's (TREC) Mandatory Continuing Education (MCE) writing group, which she hosted at the Center in January 2012. Group members Loretta Dehay, David Dickson, Charles Jacobus, Lori Levy, Philip Schoewe, Ron Walker, Reid Wilson, Avis Wukasch and Whisenant wrote a textbook for the new Broker Responsibility course. The book was approved by TREC in May, and training for course instructors was done during the summer.

The writing group's hard work was rewarded when the textbook won an award from the Association of Real Estate License Law Officials (ARELLO).



Publication Awards



The International Association of Business Communicators, Brazos Valley Chapter, awarded the Real Estate Center the following:

- Award of Excellence, Publication Design category for *Tierra Grande*,
- Award of Excellence, Photography category for *Tierra Grande's* October 2011 cover shot (Margaret Hunt Hill Bridge over the Trinity River),
- Award of Merit, Magazines category for *Tierra Grande* and
- Award of Merit, Publication Design category for the 2010–11 Annual Report–Calendar.

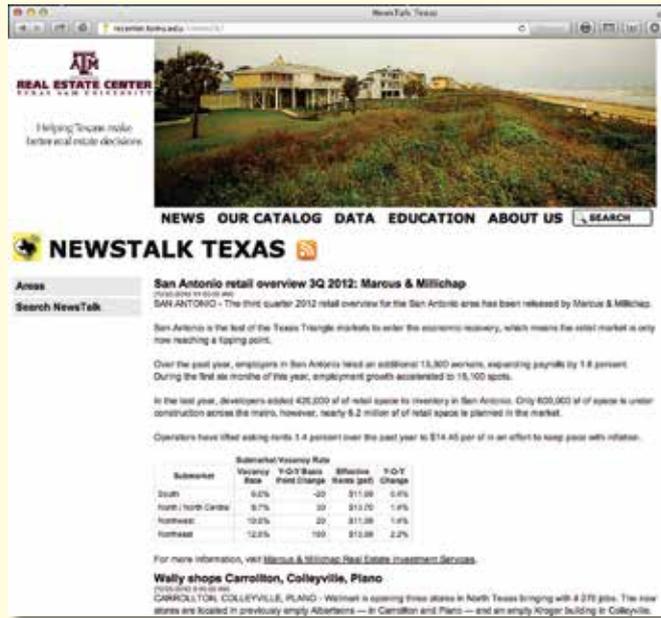
NewsTalk Texas

Our NewsTalk Texas database on the Center's website complements RECON by covering news from outside the state's four major metropolitan areas (Austin-Round Rock, Dallas-Fort Worth-Arlington, Houston-Sugar Land-Baytown and San Antonio).

Sometimes NewsTalk Texas has news even the locals don't know about. George McMahan of Lubbock wrote to NewsTalk Texas/Market Reports Coordinator Edie Craig to thank her.

"Thanks for the link to all of your Lubbock news! I didn't know we had that much stuff going on. Great stories. I read some of those when they were happening, had forgotten most and missed several, so good to see them all in one place," McMahan said.

A team of student employees searches for real estate news and enters items into the database throughout the day on weekdays. Items such as residential and commercial sales data, deals, groundbreakings and openings are pulled from newspapers, city websites, economic development corporations, chambers of commerce and state economic data.



The Blog



The Center's blog, which is cleverly titled "The Blog," has been around for a year now. This less formal format allows Chief Economist Mark Dotzour and other Center research staff to veer off the highway of total objectivity and onto the side roads of their personal perspectives on the day's news.

If you haven't checked it out yet, you have a lot of catching up to do. Posts have passed the 100 mark and are still climbing.

Real Estate Red Zone Podcast

Red Zone hosts Bryan Pope and Edie Craig are two peas in a podcast.

In their weekly show, they present "portable" real estate news for people who prefer to get the what's what while on the go. The show highlights items from RECON, the Center's popular electronic newsletter, and, in the segment called "Small Towns, Big Deals," stories from communities outside the big metro areas. Interviews with Center researchers and special guests regularly round out the podcast.

It's all done with camaraderie and a dollop of humor that keeps it entertaining. No wonder the Red Zone podcast won an Award of Excellence this year from the International Association of Business Communicators, Brazos Valley chapter.

The program can be downloaded to an iPhone or smart phone to be played at the listener's convenience and is available on the Center's website.



Data and News

Our reputation as a source of both data and news is well established throughout the state (and beyond).

A constituent who frequently accesses Center data and other information said it best: "You're the gold standard."

Texas Rising, a newsletter published by the State Comptroller's office, cited the Center as a source of business expansion details from around the state in its Winter 2012 issue.

SEMINARS

Seminars and Training Events

Commercial Real Estate Seminar (Fort Worth)
September 2011, 65 attendees

Commercial Real Estate Course (Houston)
October 2011, 182 attendees

Legal Update/Ethics Instructor Training (Fort Worth,
Midland, Austin, Dallas)
November 2011, 225 attendees

Legal Update/Ethics Instructor Training (San Antonio,
Houston)
December 2011, 140 attendees

East Texas Real Estate Summit (Lufkin)
March 2012, 57 attendees

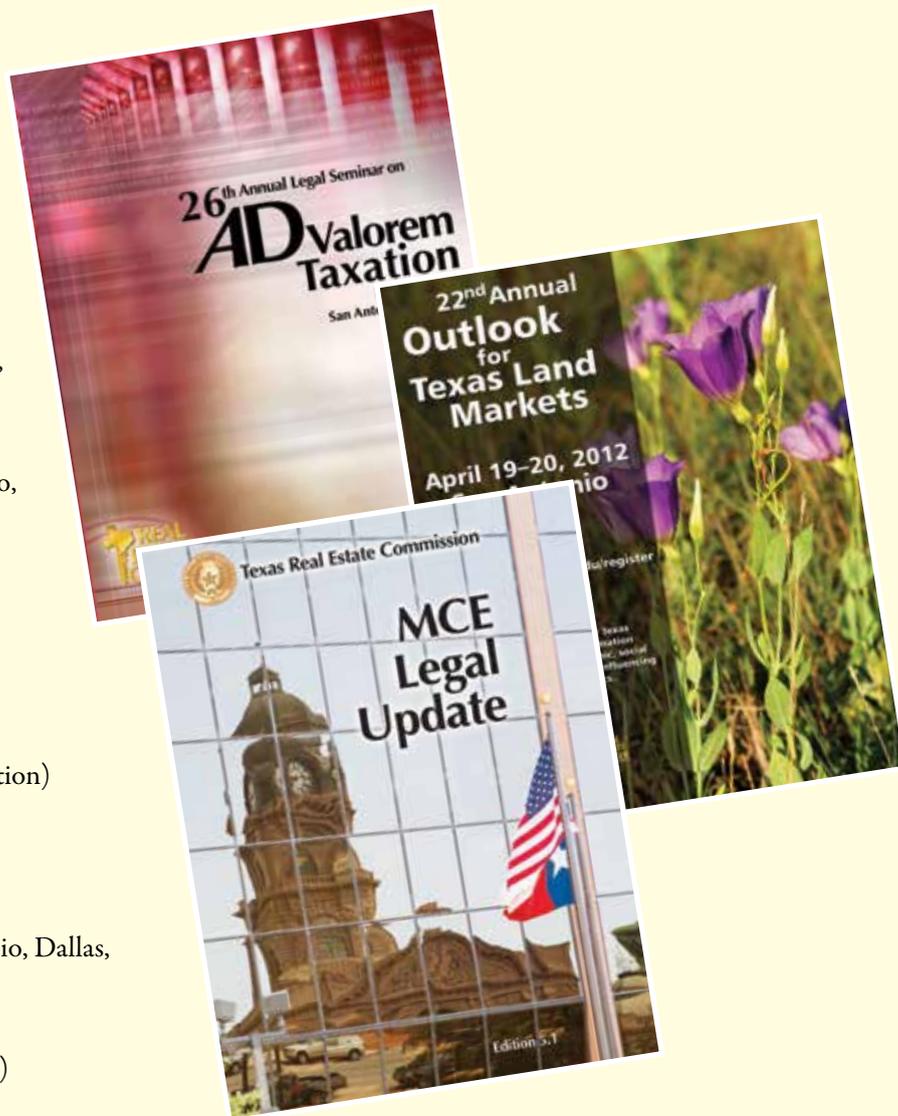
Outlook for Texas Land Markets (San Antonio)
April 2012, 365 attendees

Legal Update/Ethics Instructor Training (College Station)
May 2012, 39 attendees

Broker Responsibility Instructor Training (Midland)
May 2012, 17 attendees

Broker Responsibility Instructor Training (San Antonio, Dallas,
Fort Worth, Austin, Houston)
June 2012, 220 attendees

Legal Seminar on Ad Valorem Taxation (San Antonio)
August 2012, 623 attendees



Real Estate Center Advisory Committee

The Center's Advisory Committee reviews the research agenda, offers advice and counsel as needed, and approves the operating budget. Research results must have the committee's stamp of approval before distribution.

Joe Bob McCartt (Amarillo) served as chairman during the fiscal year. Mario A. Arriaga (Spring) served as vice chairman.

Mona R. Bailey (North Richland Hills), James Michael Boyd (Houston), Russell Cain (Port Lavaca), Jacquelyn K. Hawkins (Austin), Kathleen McKenzie Owen (Pipe Creek), Kimberly A. Shambley (Dallas) and Ronald C. Wakefield (San Antonio) served on the committee during this fiscal year.

Avis Wukasch (Georgetown) served as ex-officio representing the Texas Real Estate Commission.

Produced by the Real Estate Center at Texas A&M University

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College Station, TX 77843-2115.

Written by the Center's Communication Staff