2019 Austin Economic & Housing Outlook

Dr. James P. Gaines
Chief Economist

recenter.tamu.edu
Recessionary Fears

Stock Market Woes Raise a Nagging Fear: Is a Recession Near?

Nearly half of US CFOs fear a 2019 recession

People Are Really Worried About a Recession.
2018 A Very Good Year - 2019 Definite Slowdown

- Real GDP growth 2018 2.9%+ 2019 ~2.5%
- Jobs expanded ~1.5% Unemployment rate ~4.0%+
- Interest rates up/down during the year;
- Inflation approached 2.5%
- Tax Cuts added positive impacts
- Industrial Production high but less labor
- Income and spending growing
  - Real Disposable Personal Income +2.9% thru 3Q18
  - Real PCE +2.6% thru 3Q18
- Housing improving, not fully recovered; recent stalling
- U.S. became #1 oil producer and net exporter
Inflation Bounced Upward Then Fell
Expected to Remain Below Range

Source: BLS (CPI for All Urban Consumers: All Items; Y/Y % change in index)
Fed Funds Rate, 10-Year Treasury, 30-Year FMR & Inflation

Source: Haver Analytics; FHLMC; St. Louis FED; Real Estate Center at Texas A&M University
Texas Economy

2015-2016 Oil Decline; Down Years

2017 Recovery – A Good Year

2018: Better than 2017

2019 Some Headwinds, but Not Bad
2018 a Very Good Year Economically For Texas

- Rebound from Harvey in 2017 strong, but dragging
- State GDP +6% (1Q17-2Q18) #1 in U.S. [~5% 2018 total]
- Personal Income +5.1% (3Q17-3Q18)
- Oil Prices >$70 until 4Q; lately $50-$55
- Population increased 379,128 to 28,701,845
  - 190,951 natural increase
  - 104,976 foreign immigration
  - 82,569 domestic immigration
- Jobs increased ~276,100
Texas Economic Outlook: 2019
Positive but Slower Growth Than 2018

- **U.S. Economy** stays relatively strong
- **Employment**: ~1.5% - 2.0% from 2.3% in 2018
- **GDP**: 4% 2019 from ~5% 2018
- **Energy sector** neutral; oil prices $40-$60/bl.; production up slower
- **Population** expansion continues but at slower pace
- **Exports** doing well and contributing to economy – trade agreements and value of dollar add uncertainty
- **Retail Sales** steady but not significantly higher
A composite of 8 leading indicators: 1) value of the dollar, 2) U.S. leading economic index, 3) real oil price, 4) well permits, 5) initial claims for unemployment insurance, 6) Texas stock index, 7) help-wanted index, and 8) average weekly hours worked in manufacturing.

Source: Federal Reserve Bank of Dallas, 1987=100
Rig Count up 324, +187% since May 2016

Weekly Active Texas Rig Count & Price of WTI

Source: Baker Hughes; EIA; RE Center at Texas A&M University
Texas Annual Jobs

2014-2018 +1,262,200 jobs; average 252,440/year

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Jobs, NSA (Dec-Dec)</th>
<th>Population (July-July)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>216,200</td>
<td>439,887</td>
</tr>
<tr>
<td>2011</td>
<td>236,200</td>
<td>402,776</td>
</tr>
<tr>
<td>2012</td>
<td>373,300</td>
<td>433,903</td>
</tr>
<tr>
<td>2013</td>
<td>300,800</td>
<td>400,952</td>
</tr>
<tr>
<td>2014</td>
<td>420,900</td>
<td>475,157</td>
</tr>
<tr>
<td>2015</td>
<td>151,800</td>
<td>500,444</td>
</tr>
<tr>
<td>2016</td>
<td>150,000</td>
<td>449,982</td>
</tr>
<tr>
<td>2017</td>
<td>253,900</td>
<td>399,734</td>
</tr>
<tr>
<td>2018</td>
<td>276,100</td>
<td>379,128</td>
</tr>
</tbody>
</table>

2010-2018 +3,881,963 people +2,379,200 jobs

Sources: US Census Bureau; Texas Workforce Commission; Real Estate Center at Texas A&M University
Austin Economy
Austin Annual Jobs

Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University
Annual Employment Growth Rates
U.S. and Texas

Source: BLS, Real Estate Center at Texas A&M University
Texas Demographics
Estimated Population Change, Texas Counties, 2010 to 2017

Source: U.S. Census Bureau, 2017 Vintage Population Estimates; Texas State Demographer’s Office
Texas Population 1910-2050

2018 Population Projection

From 1970 to 2010 (40 years), Texas added 13.9 million people

2000-2010 Projection

Revised 2018 Projection (2010-2015 Rate)

From 2010 to 2050 (40 years), Texas will probably add ~22 million people (revised)

Sources: U.S. Census Bureau, Texas State Data Center 2018 Population Projection
Projected Population Change, Texas Counties, 2010-2050

-6,200 - 0
1 - 2,000
2,001 - 10,000
10,001 - 100,000
100,001 - 1,000,000
1,000,001 - 3,480,000

Source: Texas State Data Center 2012 Population Projections. 2000-2010 Migration Scenario
Austin MSA Population
Bastrop, Caldwell, Hays, Travis & Williamson Counties

2010-2050 2,826,538; 165% increase
70,663/year average

Source: U.S. Census Bureau; Texas State Demographer’s Office 2018 Projection; 2000-2010 Scenario
Housing Markets
2018 A Very Good Year For Housing Around the State

• Total Housing activity strong
  • Sales +2.3%  DoM 57  MOI 3.7
  • Average Price +4%  Median Price +4.5%  Price/sq. ft. +4.4%

• New Home construction lead the nation
  • State 168,500 total starts, 121.9k SF  46.6k MF
  • DFW 57.9K (35.1k SF, 22.8k MF); Houston 50.8k (41.3k SF, 9.5k MF)

• New Home sales activity stayed strong
  • New home sales +8.1%  DoM 93  MOI 5.1
  • Average price -0.4%  Median price +0.2%  Price/sq. ft. +2.9%
2019 Home Market Slowdown

Factors that may create a drag on home-buying demand

• Limited inventory availability
• Higher prices - affordability
• Increasing interest rates
• Concerns about general economy – fear of recession or jobs
• Stock market volatility
• Negative press coming off record year(s)
Annual Texas Home Sales & Prices

2018
Sales 1.7%, Prices ~4%
2019p
Sales ~2.0%, Prices ~3.5%

2010-2018
Sales +63%, Average Price +49%, Median Price +59%

Source: TAR Data Relevance Program; Real Estate Center at Texas A&M University
Texas Home Sales per 1,000 Households

1990-2000 Average 20.8

2001-2017 Average 30.6

Source: TAR Data Relevance Program; US Census Bureau; Real Estate Center at Texas A&M University
Texas Median HH Income & Median Home Price Indexed to 1989

1989 Median Price = 2.65 x Median HH Income
2017 Median Price = 3.76 x Median HH Income

Median Home Price +226%
Nominal HH Income +129%
2017 Adjusted HH Income +20%

Sources: U.S. Census Bureau; Haver Analytics; Real Estate Center at Texas A&M University
Texas Months’ Inventory Still Quite Low

Mo. Inventory = Current month’s total listings / 12 mo. moving avg. of monthly sales

Source: Real Estate Center at Texas A&M University (New & Used Homes Sold thru MLS’s)

“Balanced” Market

Seller’s Market Since June, 2012
Texas SF Building Permits

1995-2017 average 104,854/year

Source: US Census Bureau; NAHB; Real Estate Center at Texas A&M
Texas MF Building Permits

1995-2016 average 45,444/year
2017 -1.7%; 2018p -3%

Source: US Census Bureau, Real Estate Center at Texas A&M
Texas Residential Construction Leading and Coincident Indexes

Jan 2000=100

Source: Real Estate Center at Texas A&M University
The Austin Housing Market
What We Can Look Forward To ...

NEW HOMES
IN SAN FRANCISCO
FROM THE LOW
$1,000,000s
Summit800Homes.com

SUMMIT
Austin Annual Home Sales

Source: ABOR; Real Estate Center at Texas A&M University
Low inventory inhibiting sales growth

Average since 1990 5.1 months

Source: ABOR: Real Estate Center at Texas A&M University
Austin 2018 YTD Sales and Current Months Inventory by Price

About 64% of sales in $250k to $750k range

Source: ABOR Regional Association of REALTORS®; Real Estate Center at Texas A&M University
Austin Median Home Prices

2015 +8%; 2016 +7.7%; 2017 +5.4%
2018 +3.7%; 2019p +3%

Source: ABOR; Real Estate Center at Texas A&M University
The Austin CRE Market
An attitudinal survey of local markets completed by commercial real estate market experts (SIOR members).
CoStar U.S. Repeat-Sale CRE Price Indices (Dec. 2000 = 100) “Value Weighted” by Property Type

Source: CoStar Group; Real Estate Center at Texas A&M University
Industrial Warehouse Rent Rates
(Triple-Net Asking Rent Overall)

Source: CoStar; Real Estate Center at Texas A&M University
Overall Office Rent Rates
(Asking Base Rental Rates)

Source: CoStar; Real Estate Center at Texas A&M University
Retail Rent Rates
(Triple-Net Asking Rent Overall)

Source: CoStar; Real Estate Center at Texas A&M University
Class A Office Rent Rates (Asking Base Rental Rates)

Source: CoStar; Real Estate Center at Texas A&M University
Austin & U.S. Office Cap Rates

Source: Real Capital Analytics; Real Estate Center at Texas A&M University
Austin & U.S. Industrial Cap Rates


Source: Real Capital Analytics; Real Estate Center at Texas A&M University
Austin & U.S. Retail Cap Rates

Austin & U.S. Retail Avg. Price per Sq. Ft.

Source: Real Capital Analytics; Real Estate Center at Texas A&M University
Austin & U.S. Apartment Cap Rates

Austin & U.S. Apartment Avg. Price per Unit

Source: Real Capital Analytics; Real Estate Center at Texas A&M University
## Austin Projected Percentage Vacancy Rates and Changes in Asking Rents

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Natural Vacancy Rate</th>
<th>Vacancy Rate(%)</th>
<th>Asking Rent(Δ%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>13%</td>
<td>9.2</td>
<td>9.3</td>
</tr>
<tr>
<td>Retail</td>
<td>6%</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Warehouse</td>
<td>11%</td>
<td>5.9</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Note: Annual numbers are the four quarter average of the seasonally adjusted data. The rent growth is nominal estimated from the previous year average.

Source: Texas Quarterly Commercial Report, Real Estate Center at Texas A&M University
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