CENTRAL TEXAS COMMERCIAL ASSOCIATION OF REALTORS

Your Central Texas Source for Commercial Networking

2019 Austin Economic & Housing Outlook

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REAL ESTATE CENTER
TEXAS A&M UNIVERSITY

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Recessionary Fears

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

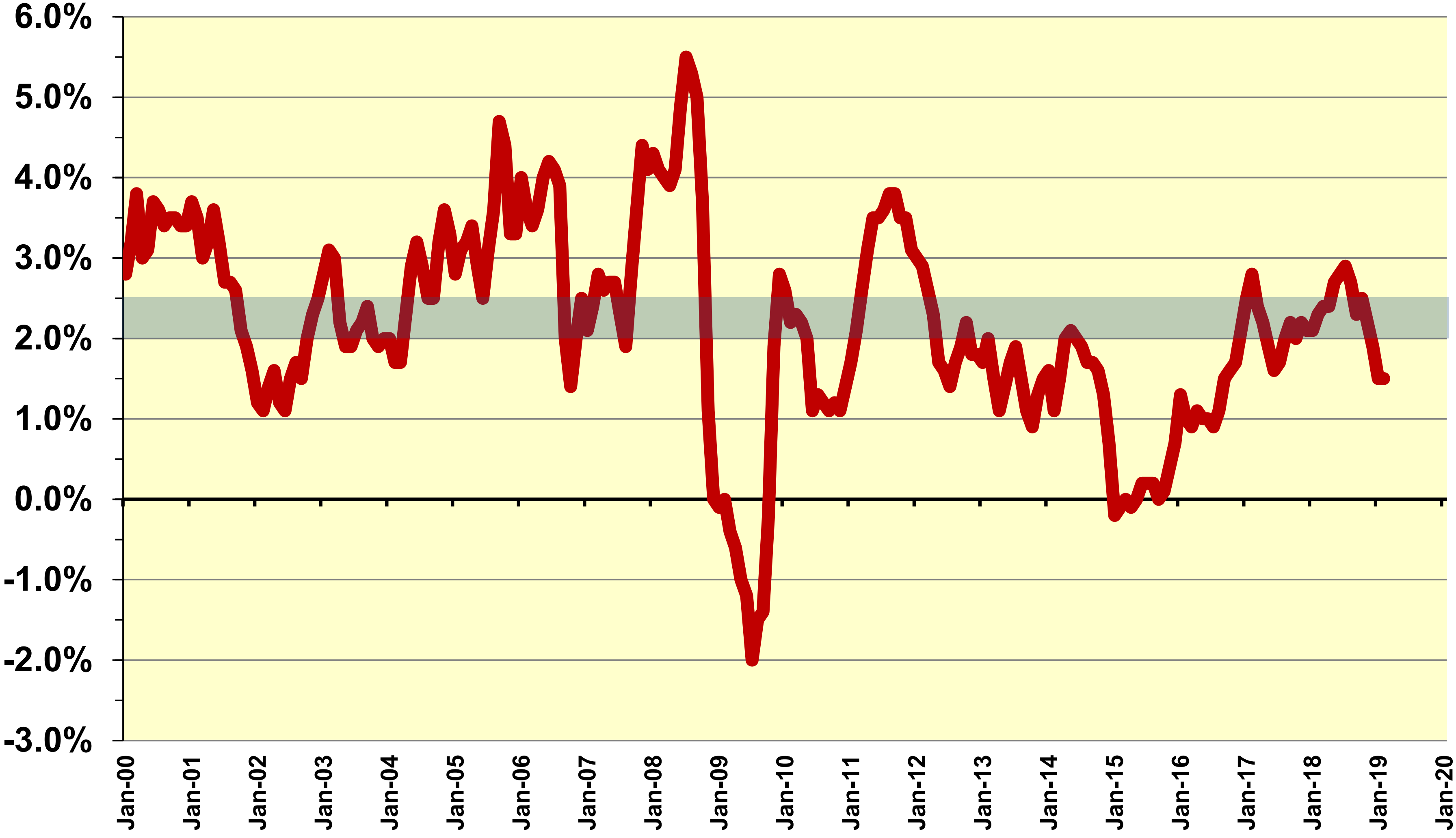
CNN BUSINESS — **Nearly half of US CFOs fear a 2019 recession**

BARRON'S — People Are Really Worried About a Recession.

2018 A Very Good Year - 2019 Definite Slowdown

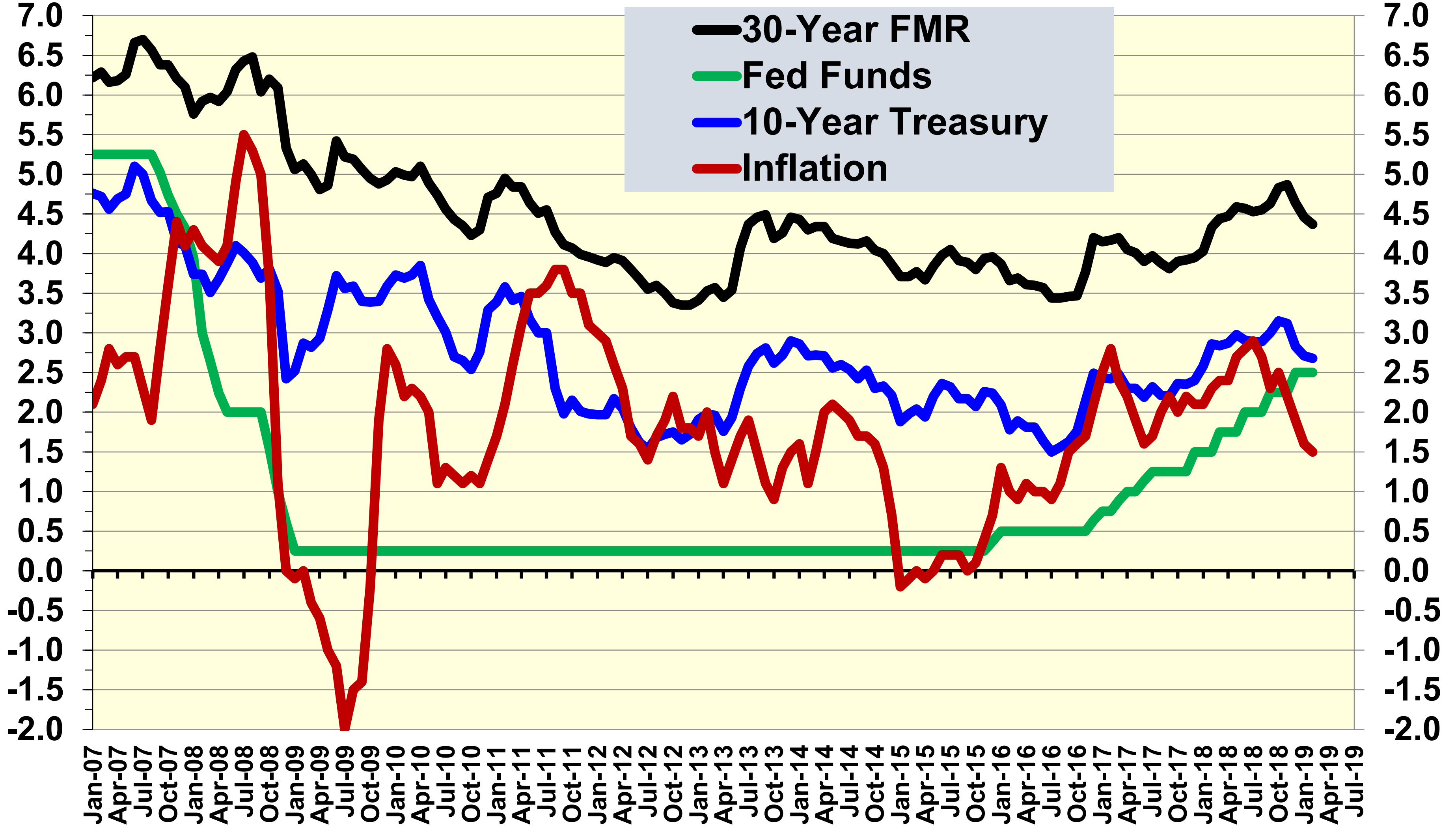
- Real GDP growth 2018 2.9%+ 2019 ~2.5%
- Jobs expanded ~1.5% Unemployment rate ~4.0%+
- Interest rates up/down during the year;
- Inflation approached 2.5%
- Tax Cuts added positive impacts
- Industrial Production high but less labor
- Income and spending growing
    - Real Disposable Personal Income +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

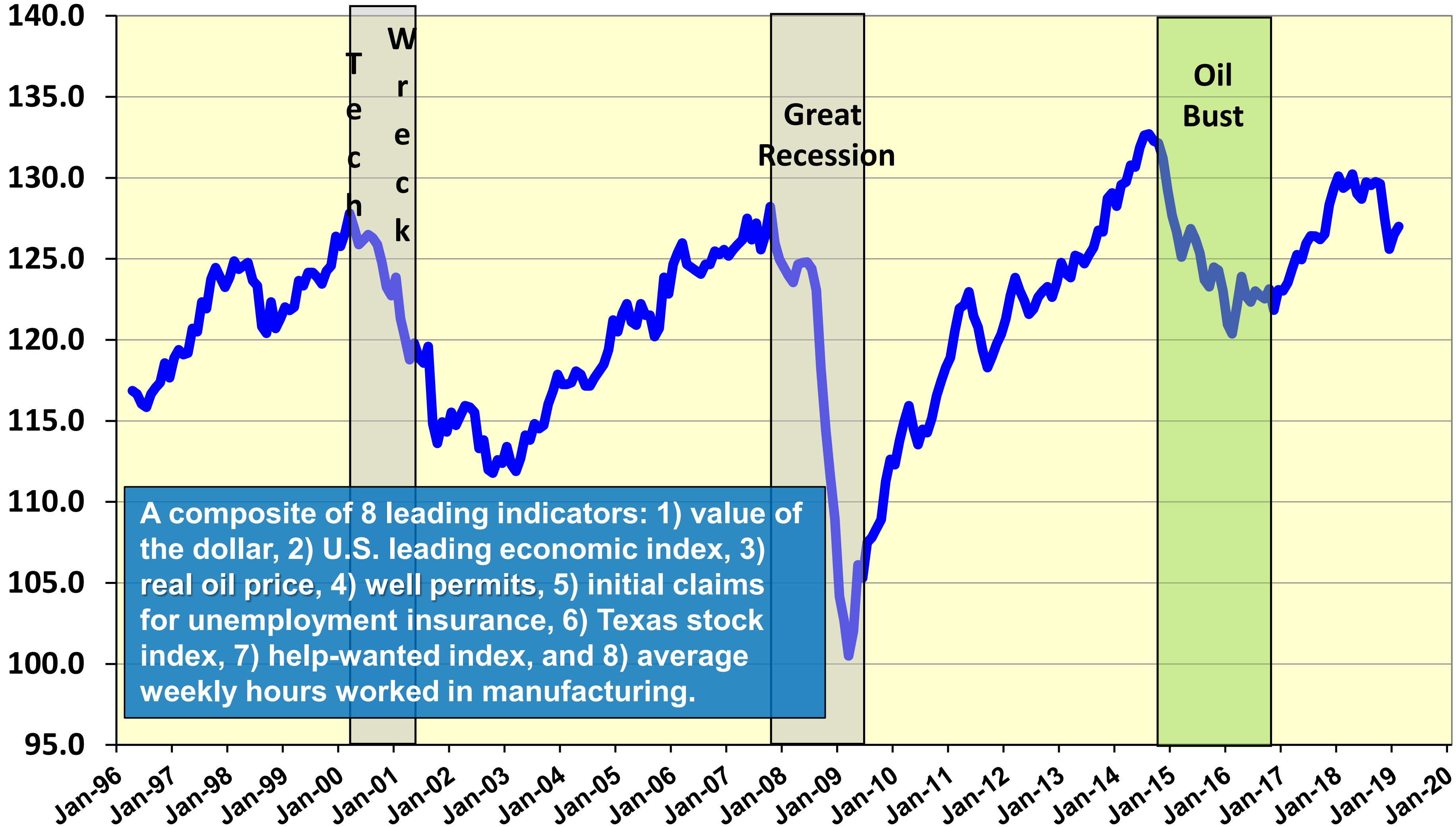
2018 a Very Good Year Economically For Texas

- 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

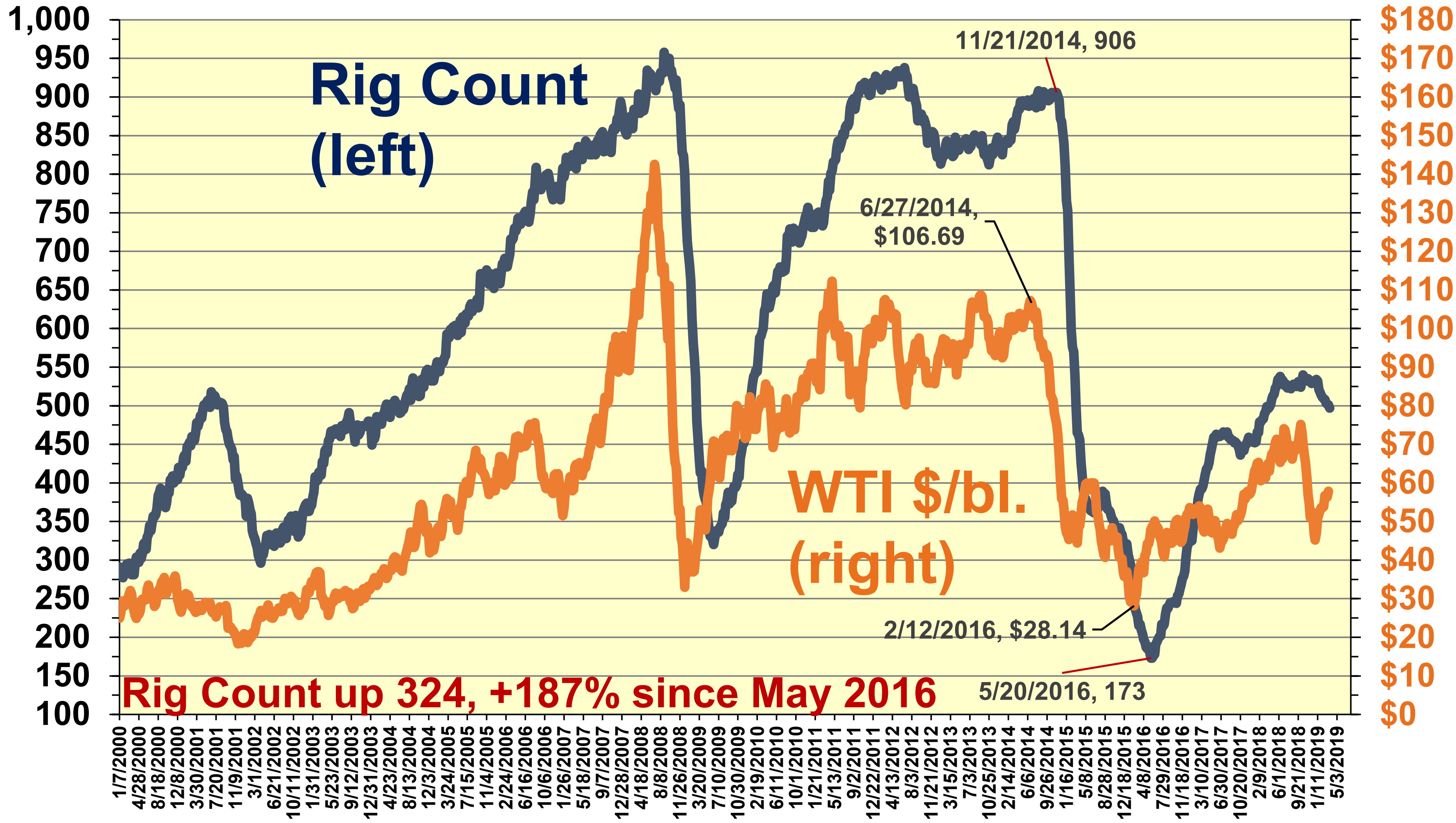
Texas' Leading Economic Index



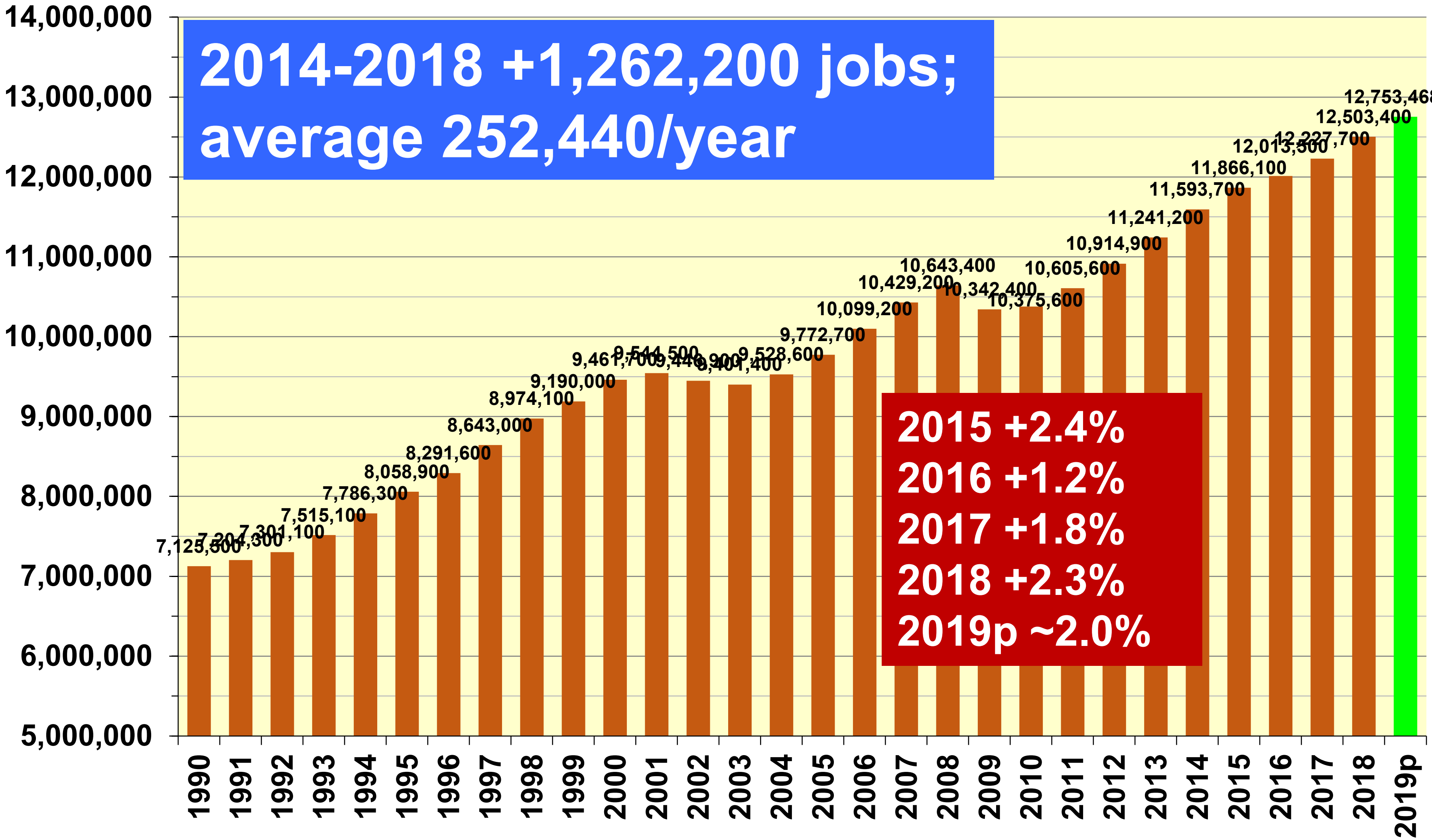
A composite of 8 leading indicators: 1) value of the dollar, 2) U.S. leading economic index, 3) real oil price, 4) well permits, 5) initial claims for unemployment insurance, 6) Texas stock index, 7) help-wanted index, and 8) average weekly hours worked in manufacturing.

Source: Federal Reserve Bank of Dallas, 1987=100

Weekly Active Texas Rig Count & Price of WTI



Texas Annual Jobs



Texas Growth

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

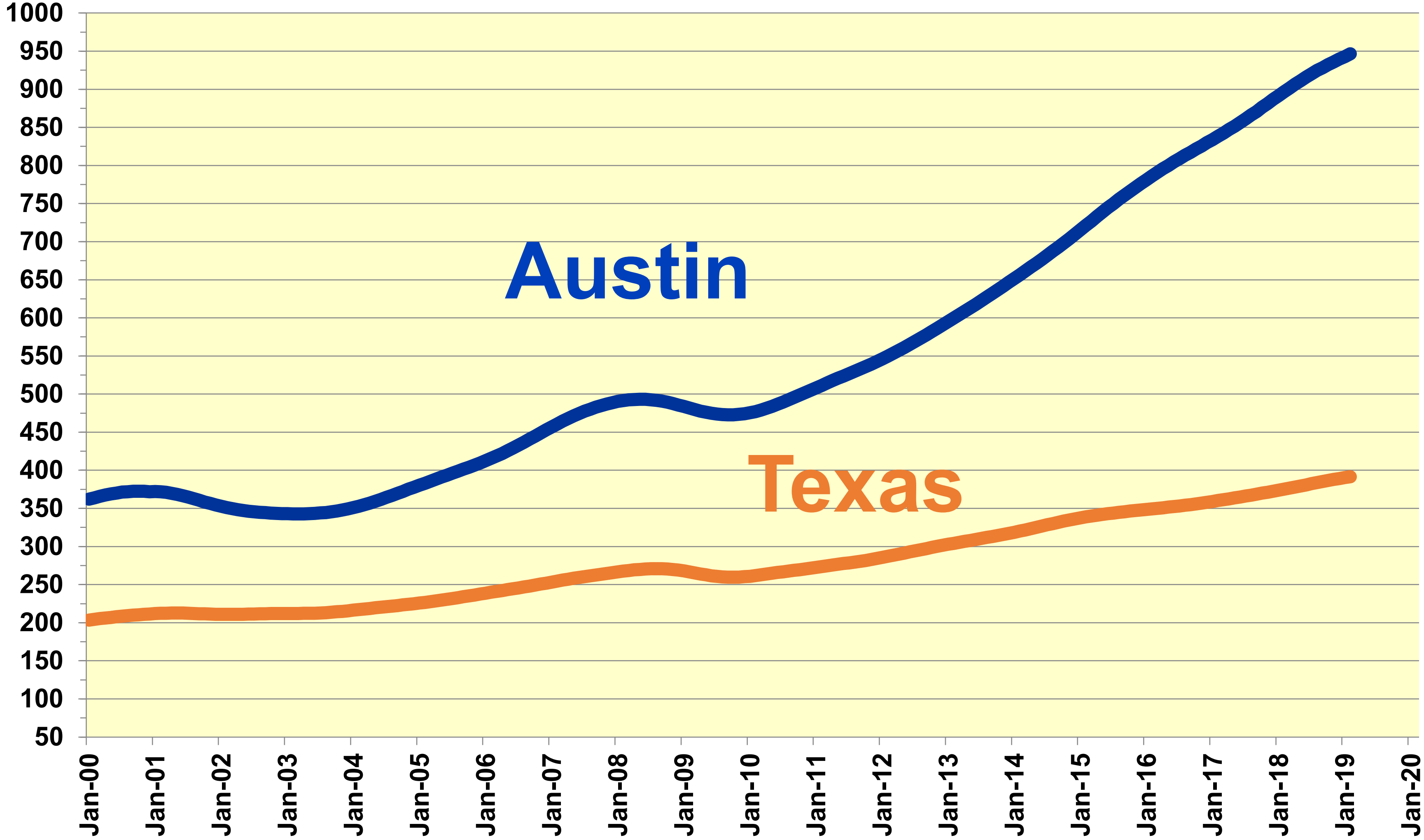
2010-2018
+3,881,963 people
+2,379,200 jobs

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

Austin Economy

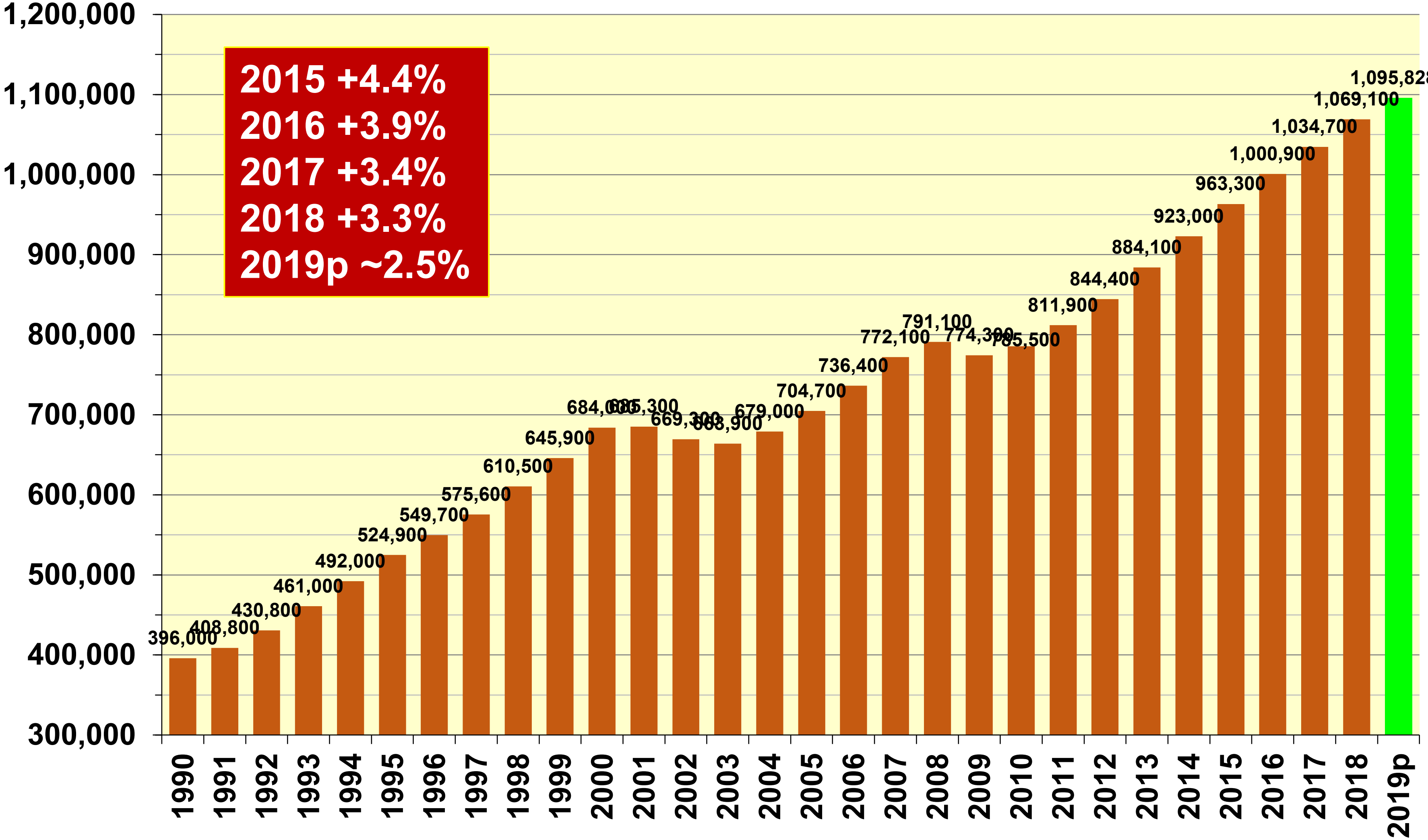
Austin & Texas Business-Cycle Indexes

Monthly, Seasonally Adjusted, 10/1980=100



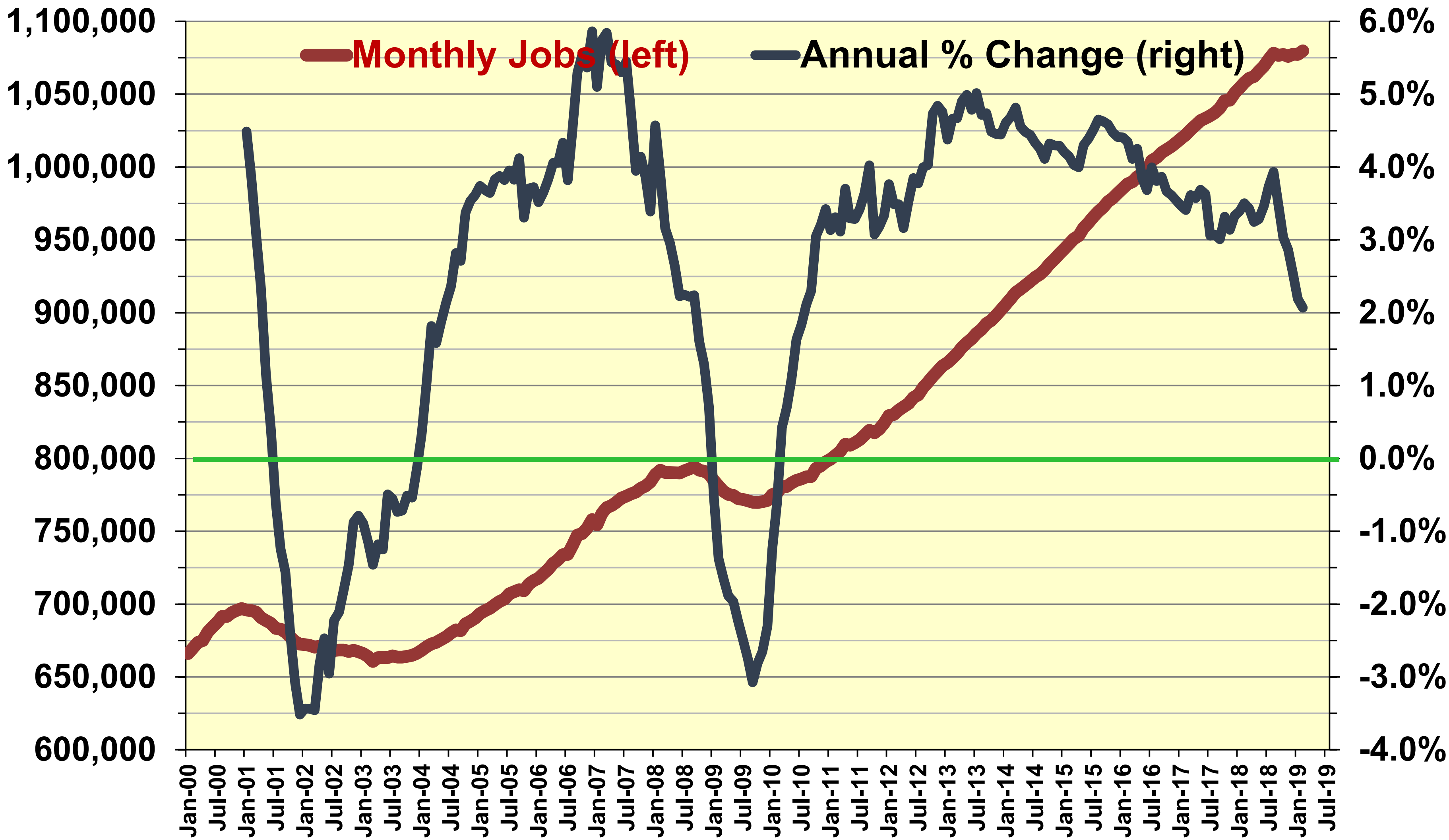
Source: Federal Reserve Bank of Dallas

Austin Annual Jobs



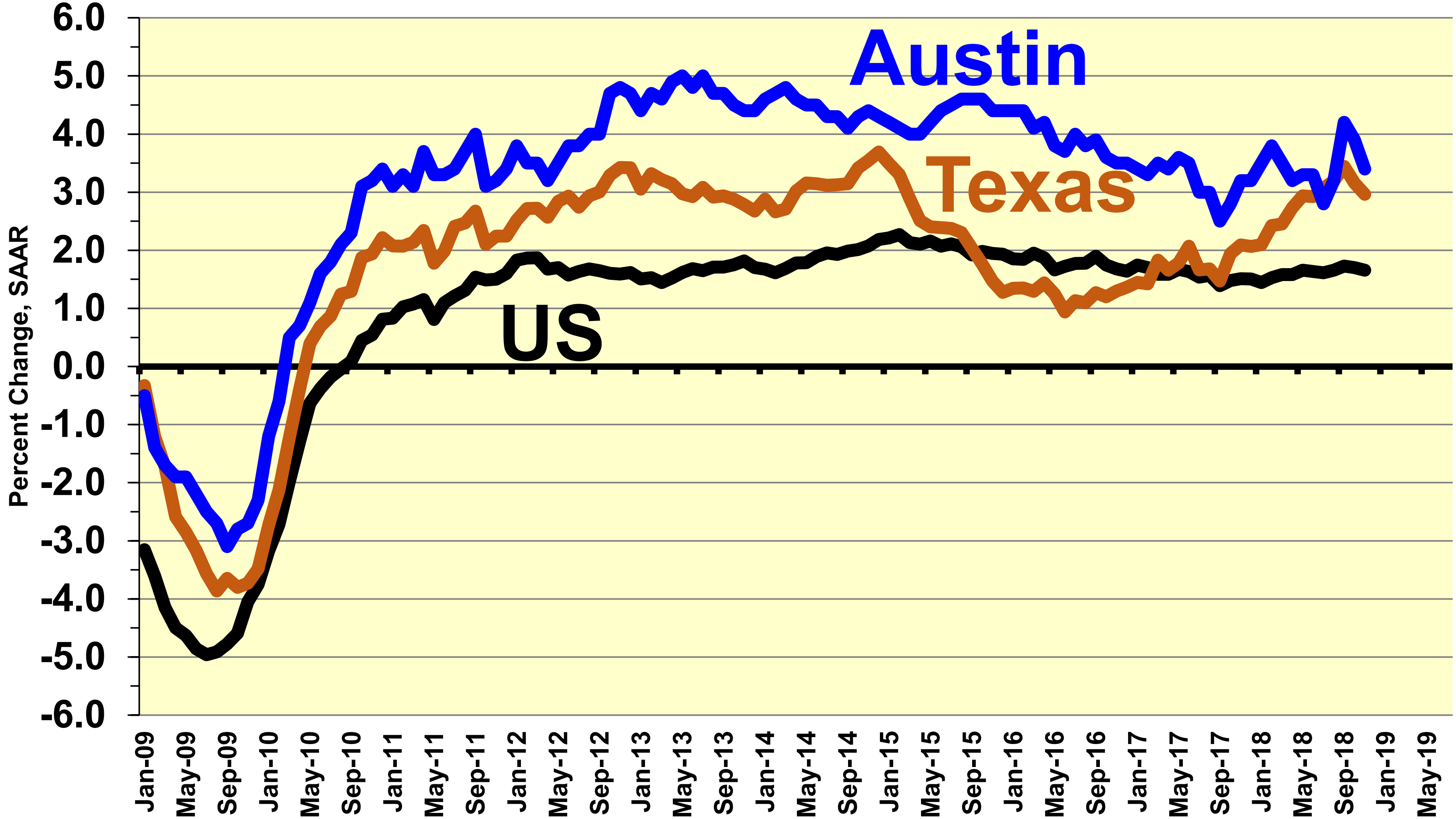
Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

Austin Monthly Jobs



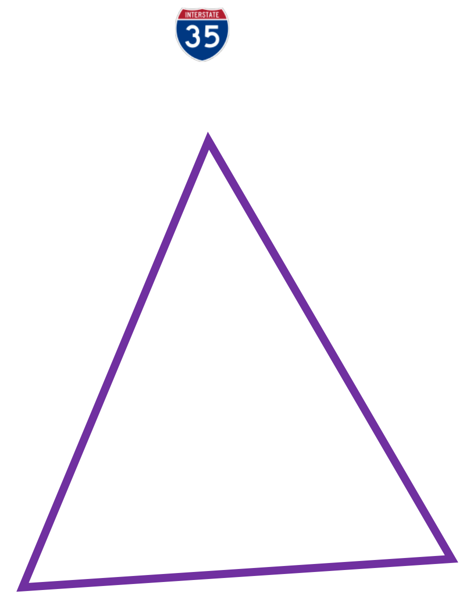
Sources: Texas Workforce Commission, SA,
Real Estate Center at Texas A&M University

Annual Employment Growth Rates U.S. and Texas



Texas Demographics

Estimated Population Change, Texas Counties, 2010 to 2017



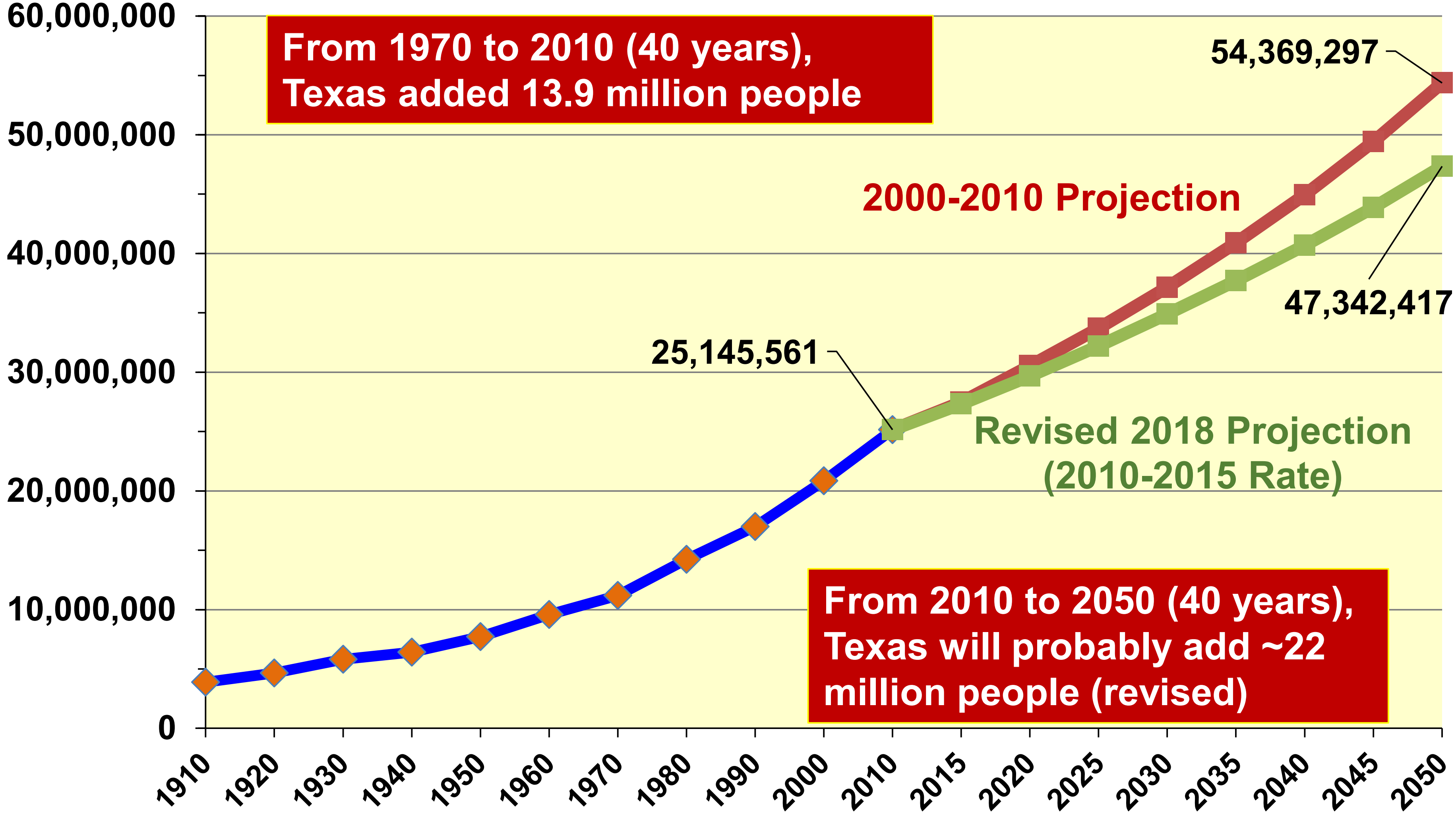
87% E of I-35

67% in Urban Triangle

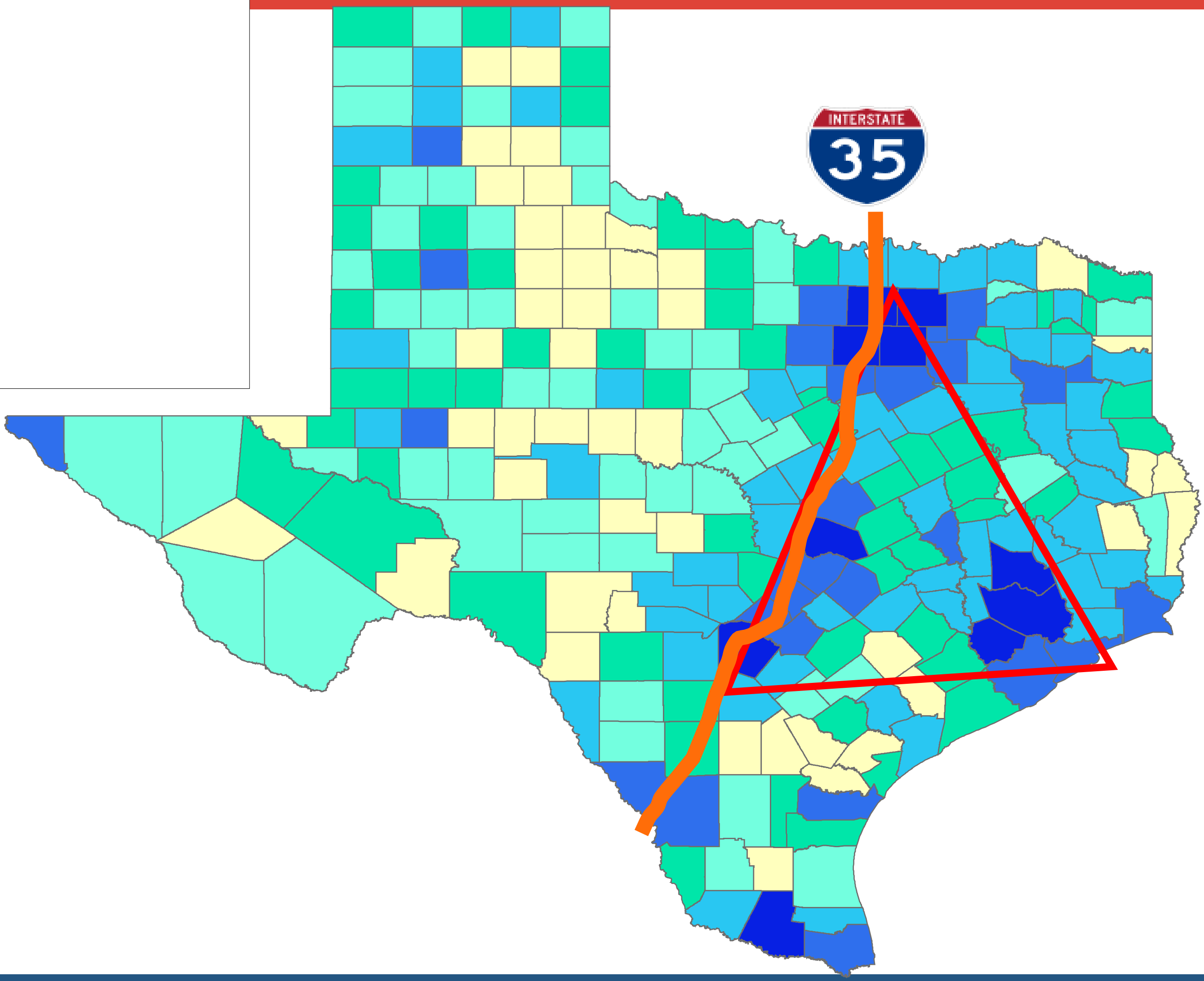
Source: U.S. Census Bureau, 2017 Vintage Population Estimates; Texas State Demographer's Office

Texas Population 1910-2050

2018 Population Projection



Projected Population Change, Texas Counties, 2010-2050

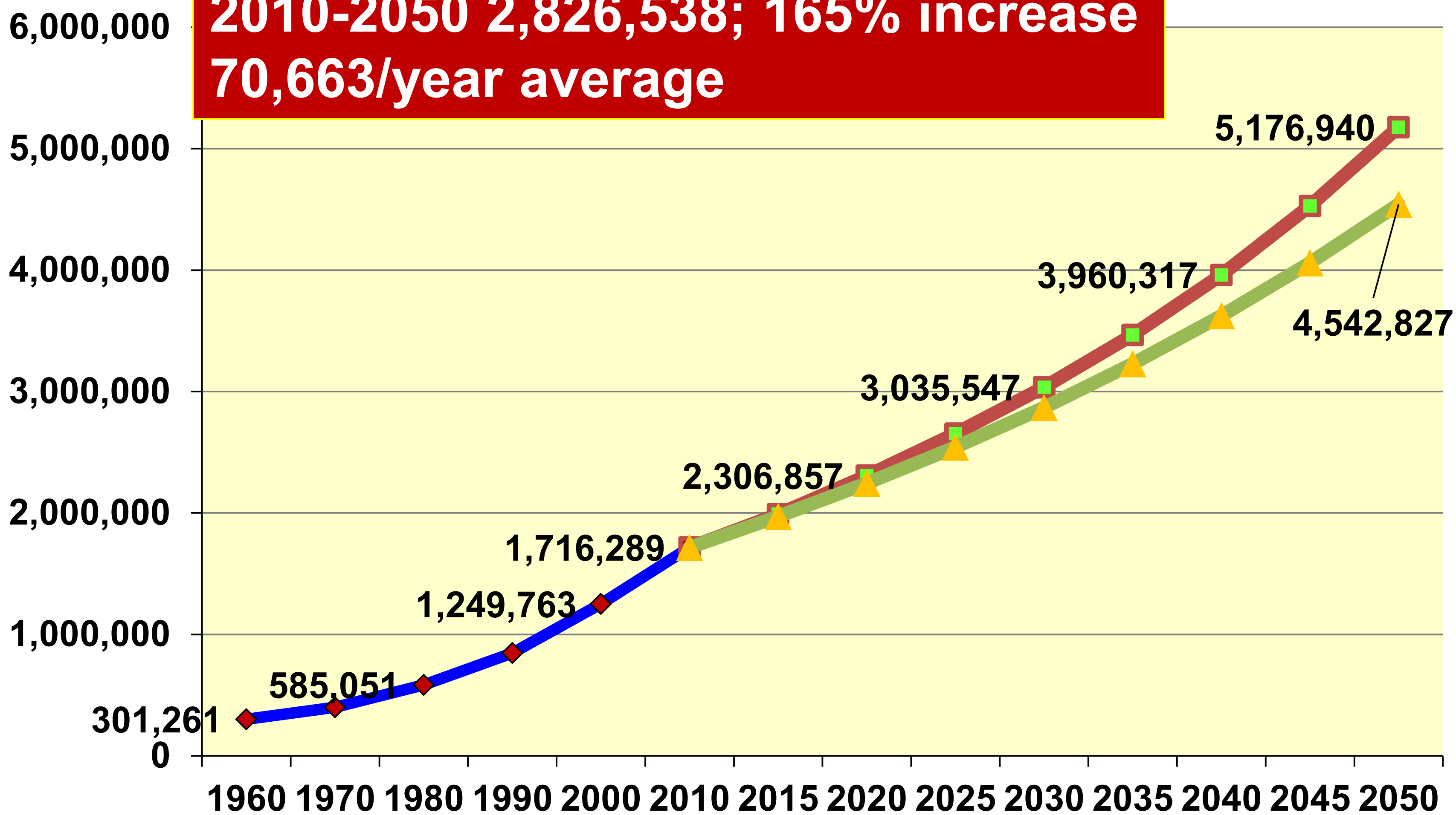


Source: Texas State Data Center 2012 Population Projections . 2000-2010 Migration Scenario

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

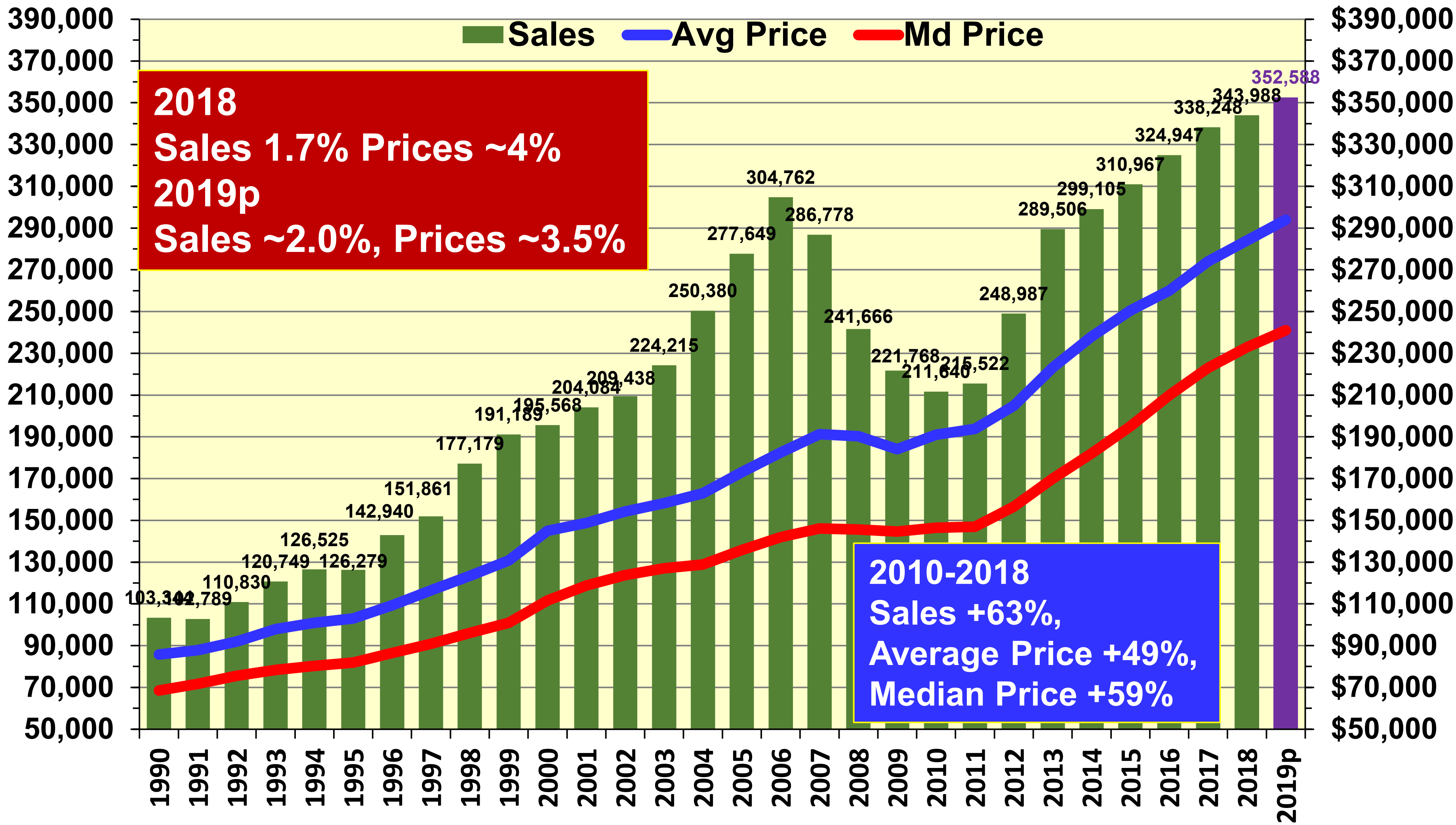
- Total Housing activity strong
  - Sales +2.3%   DoM 57   MOI 3.7
  - Average Price +4%   Median Price +4.5% Price/sq. ft. +4.4%
- New Home construction lead the nation
  - State 168,500 total starts, 121.9k SF 46.6k MF
  - DFW 57.9K (35.1k SF, 22.8k MF); Houston 50.8k (41.3k SF, 9.5k MF)
- New Home 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



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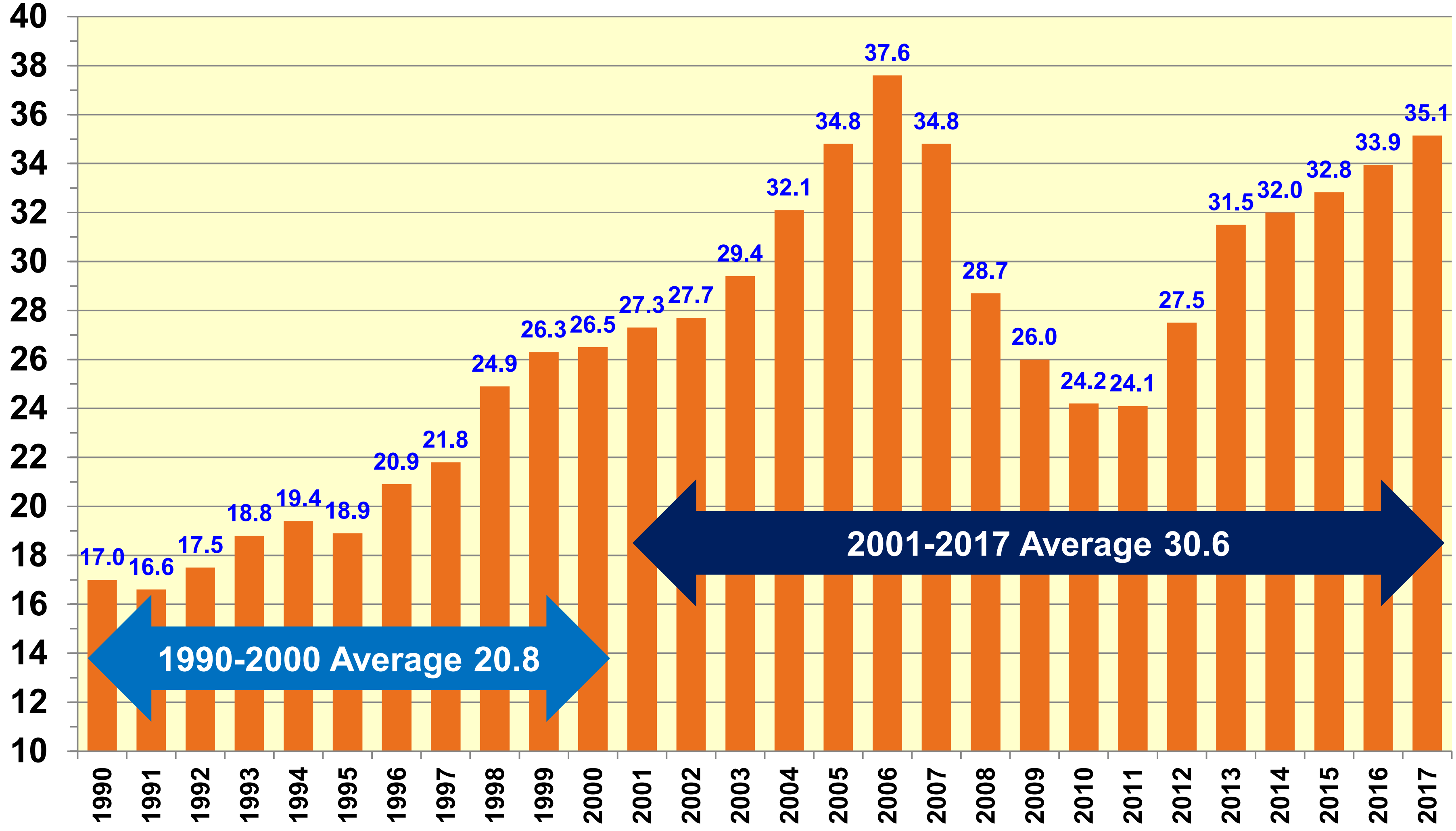
Source: TAR Data Relevance Program; Real Estate Center at Texas A&M University

Texas Home Sales per 1,000 Households



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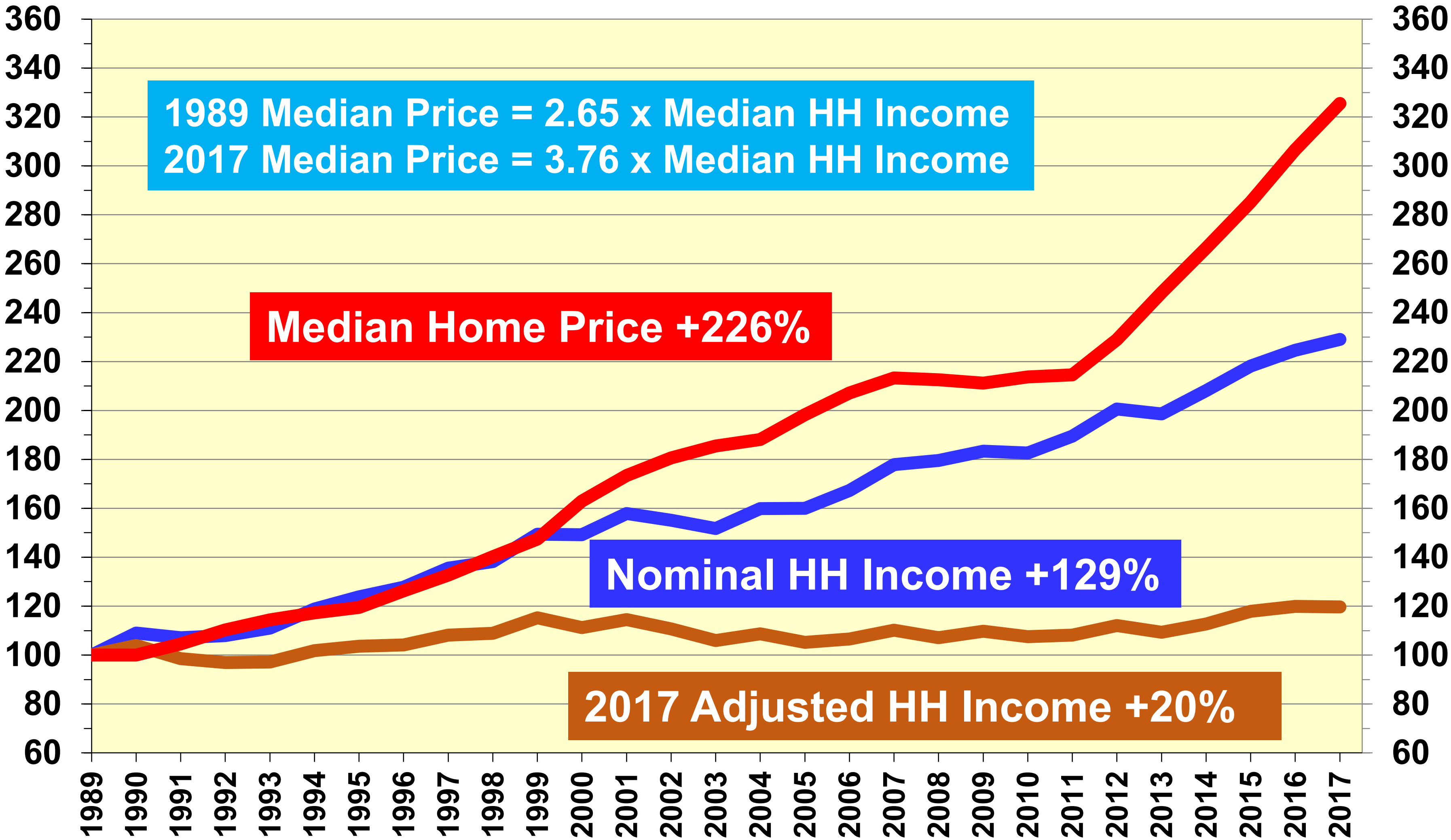
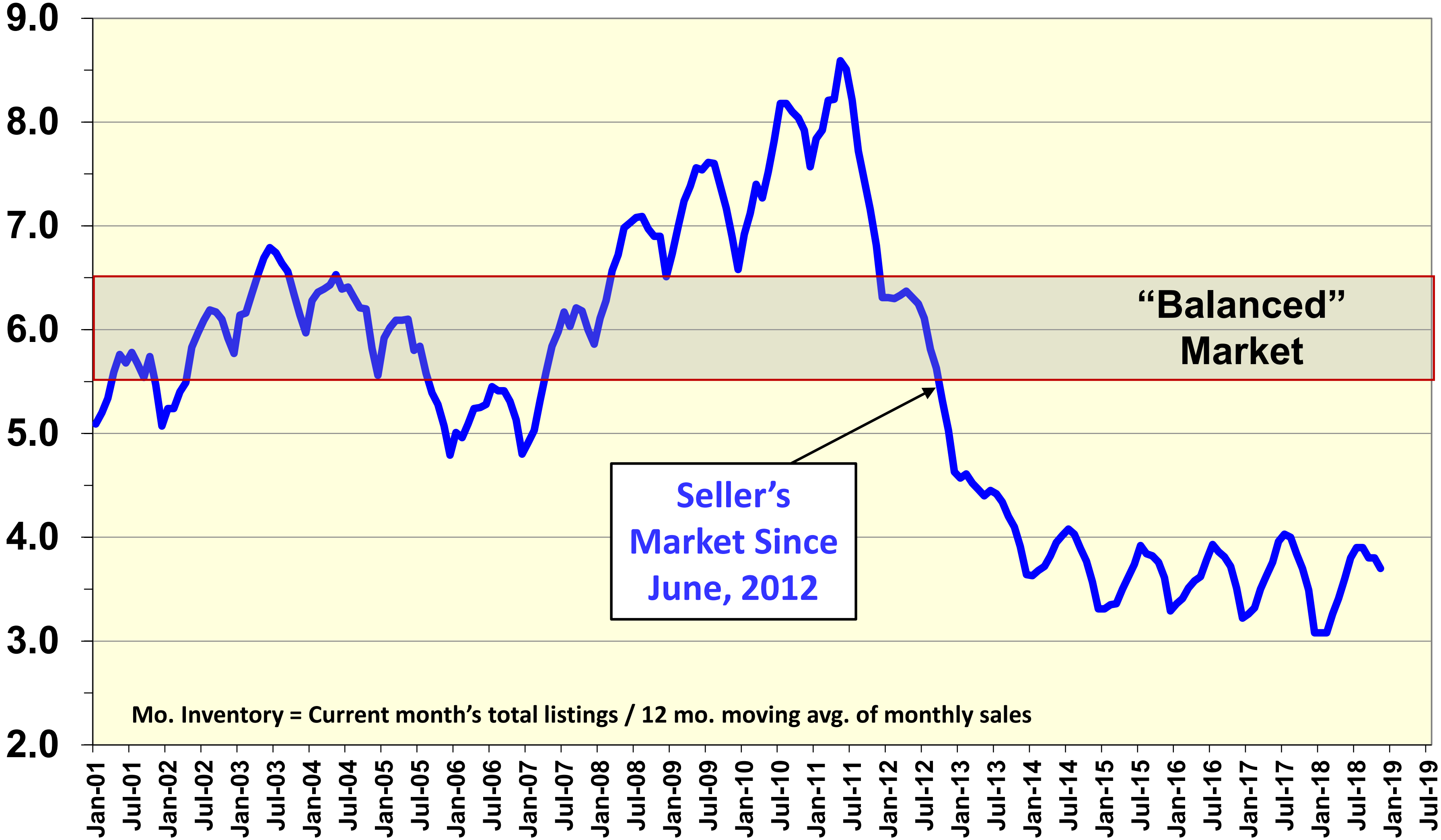
Source: TAR Data Relevance Program; US Census Bureau;
Real Estate Center at Texas A&M University

Texas Median HH Income & Median Home Price Indexed to 1989



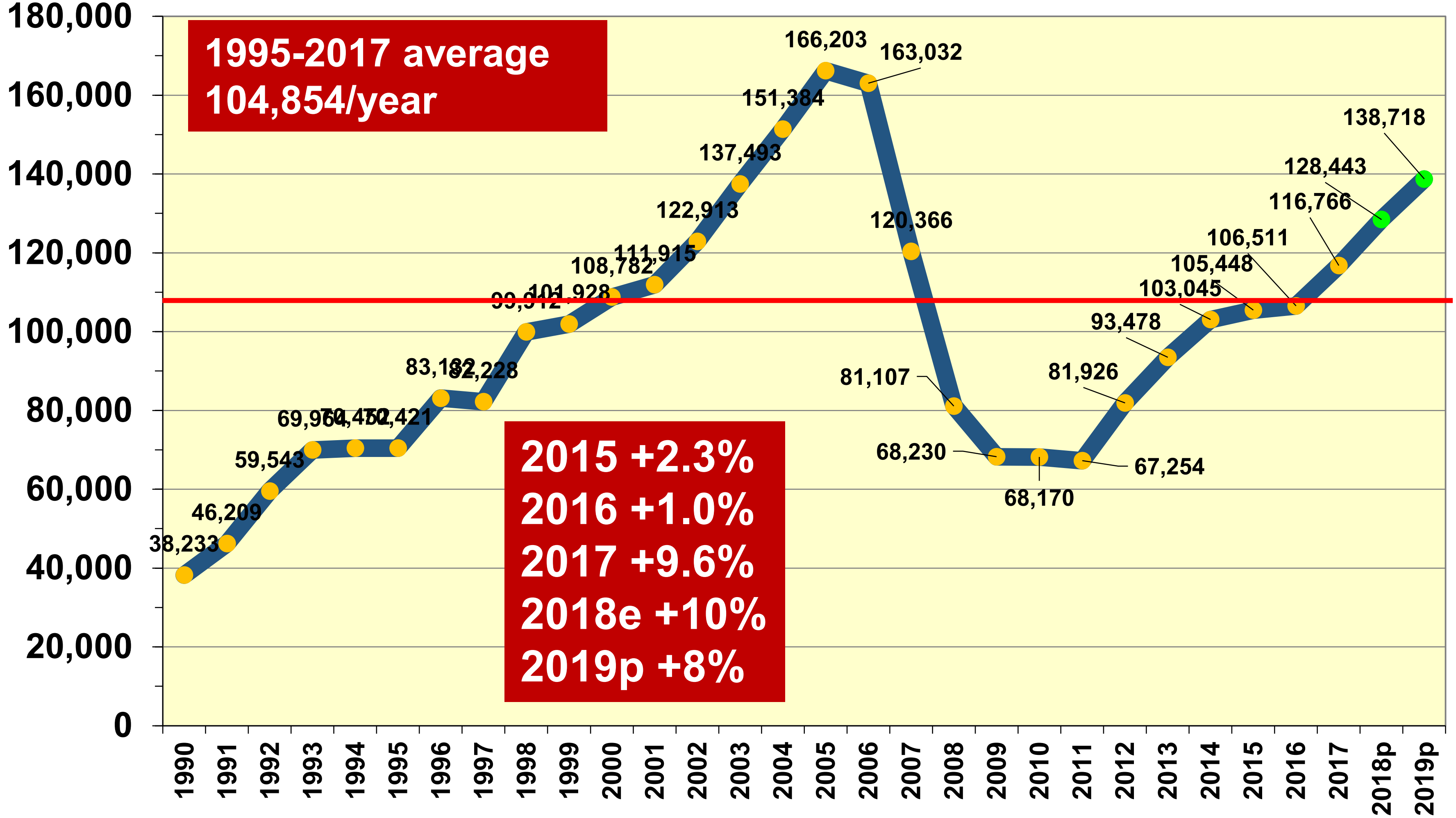
Sources: U.S. Census Bureau; Haver Analytics; Real Estate Center at Texas A&M University

Texas Months' Inventory Still Quite Low



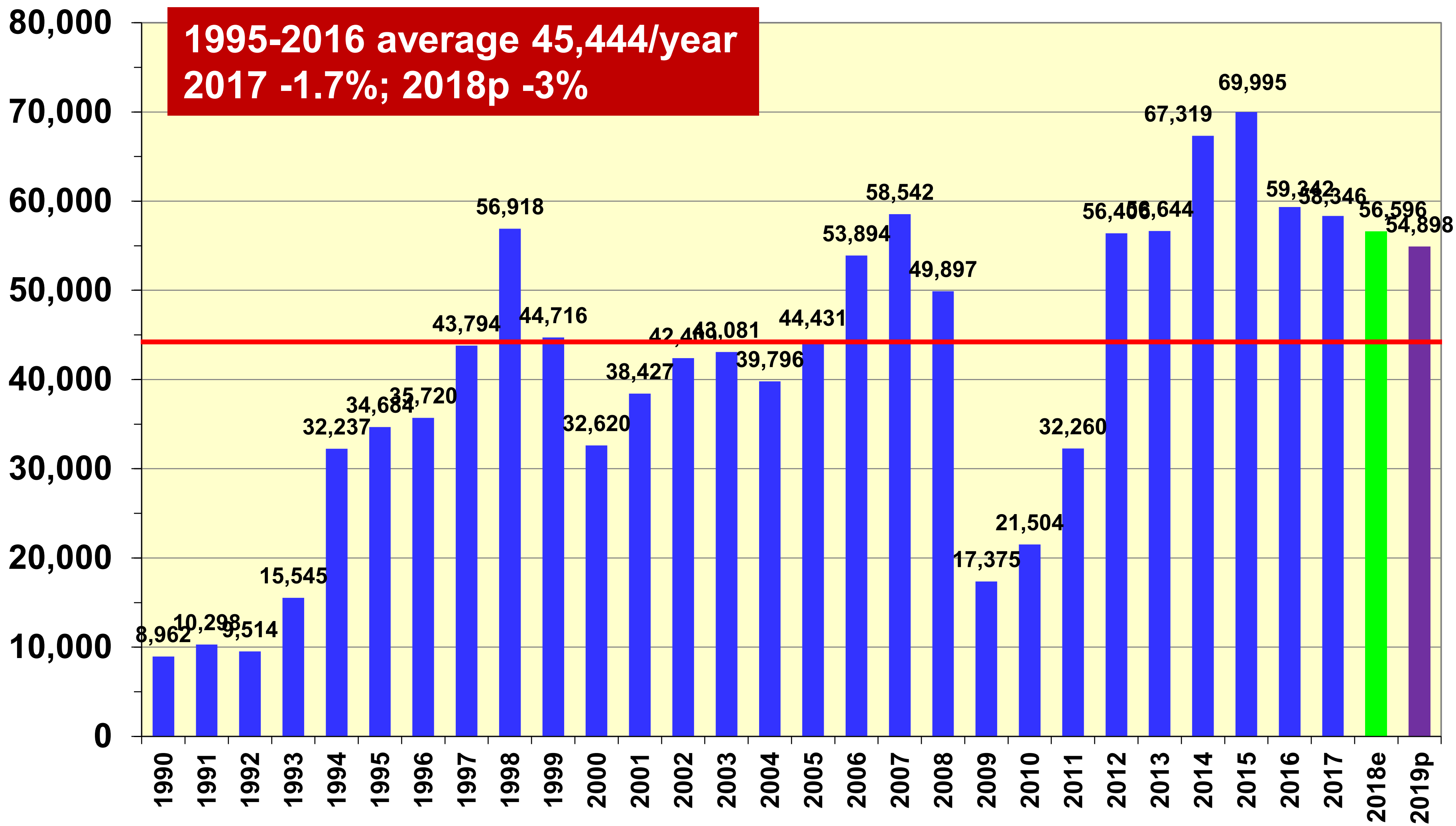
REAL ESTATE CENTER TEXAS A&M UNIVERSITY Source: Real Estate Center at Texas A&M University (New & Used Homes Sold thru MLS's)

Texas SF Building Permits



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

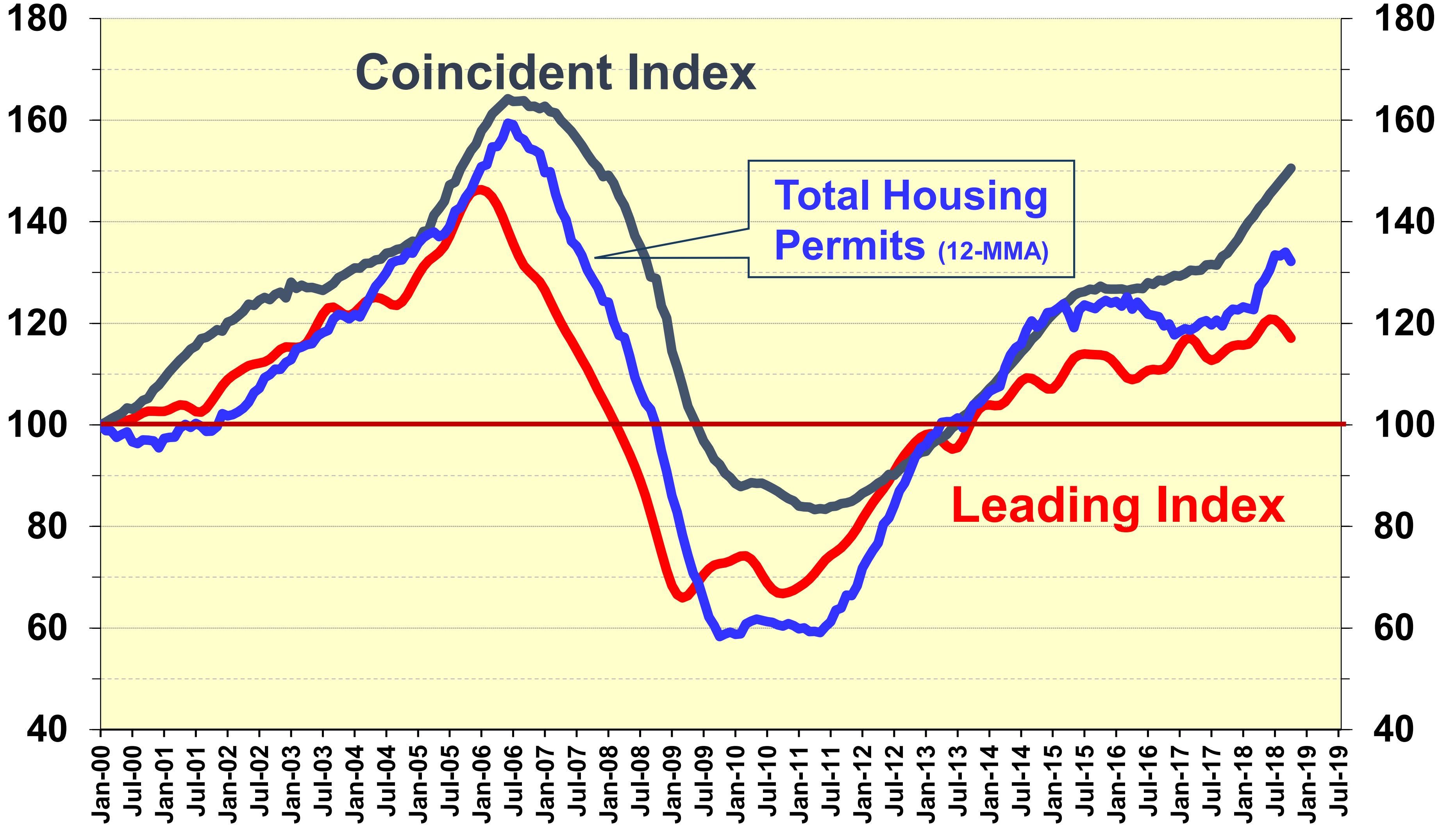
Texas MF Building Permits



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

Texas Residential Construction Leading and Coincident Indexes

Jan 2000=100

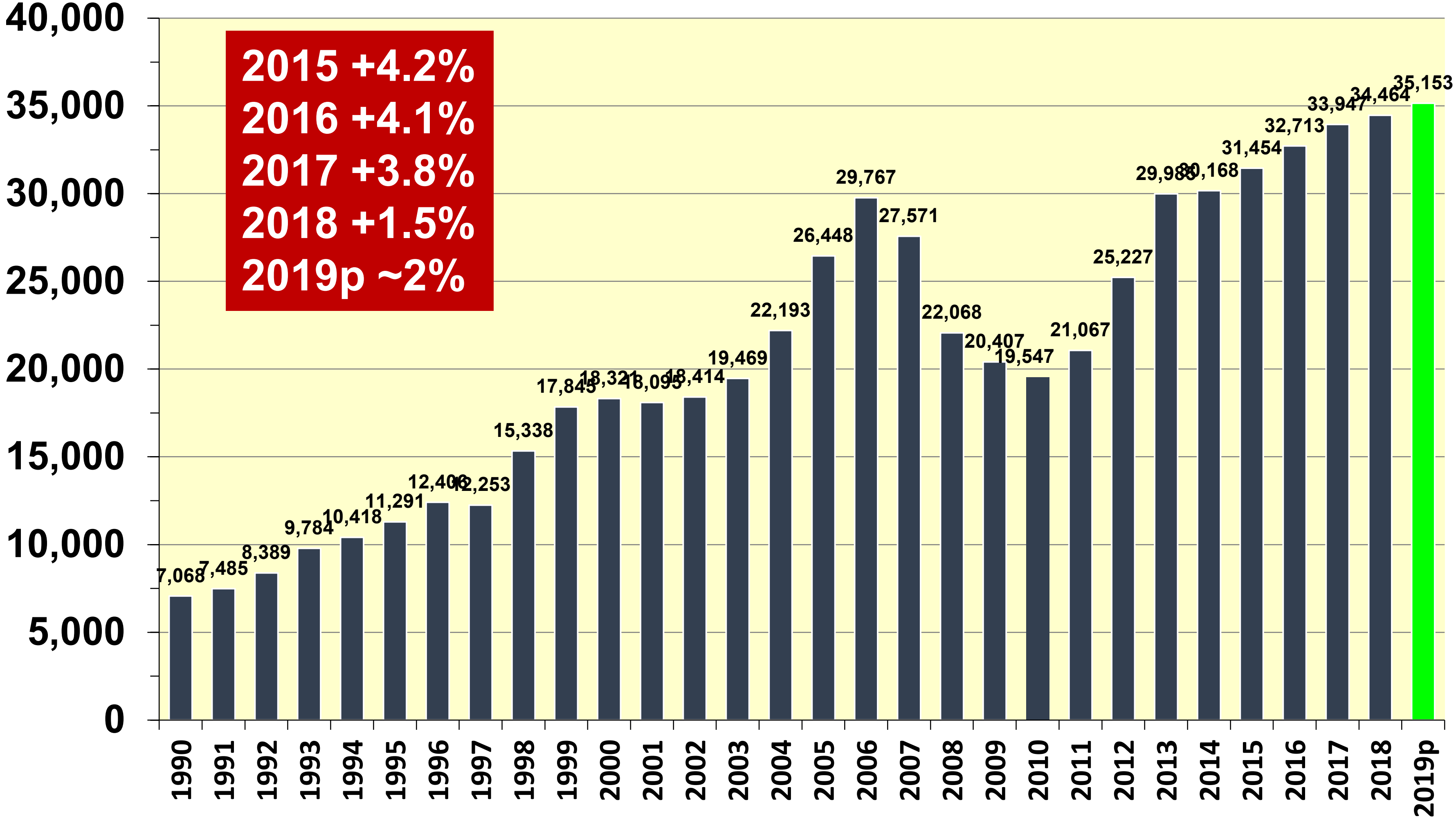


Source: Real Estate Center at Texas A&M University

The Austin Housing Market

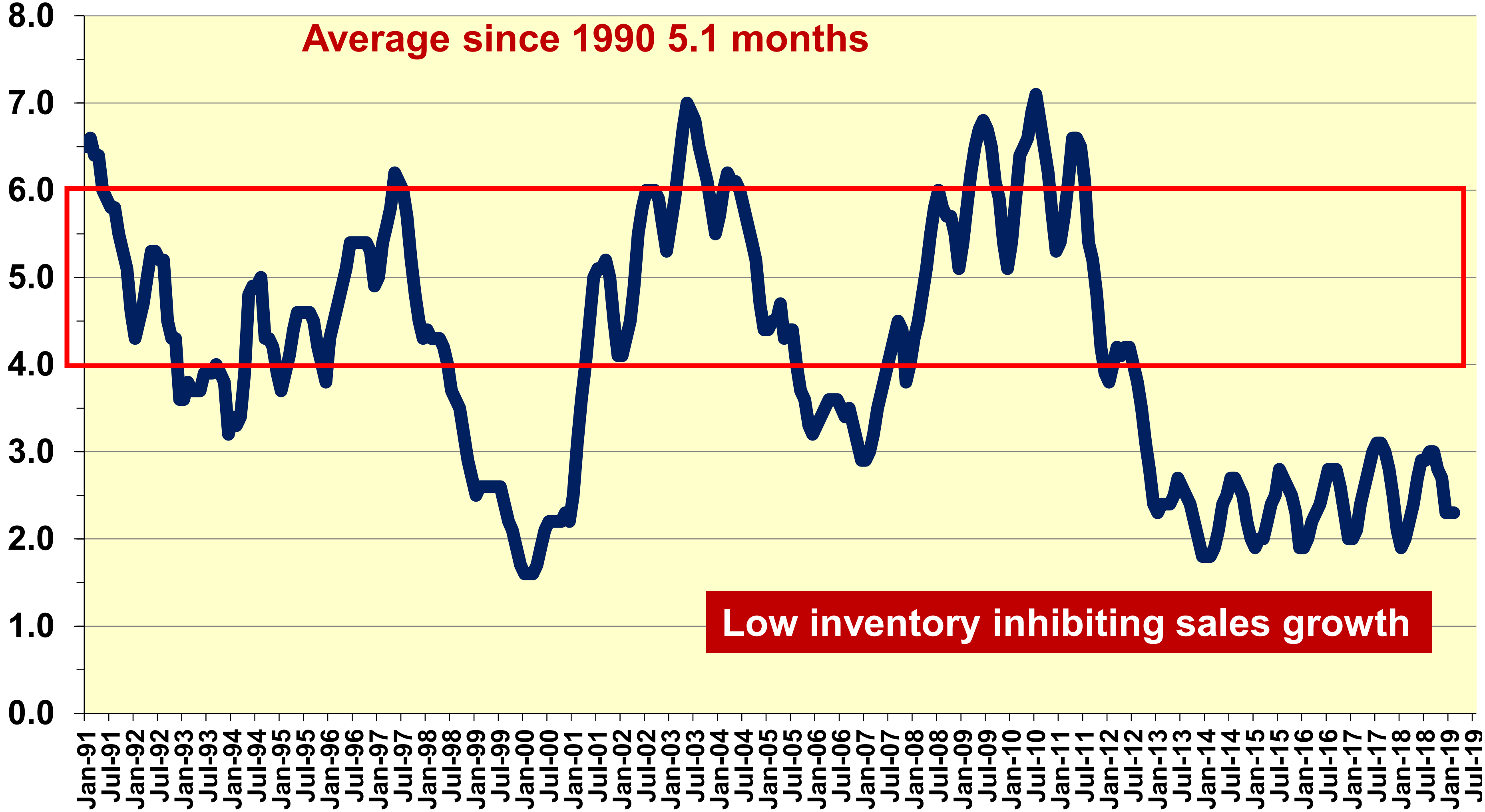
What We Can Look Forward To …

Austin Annual Home Sales

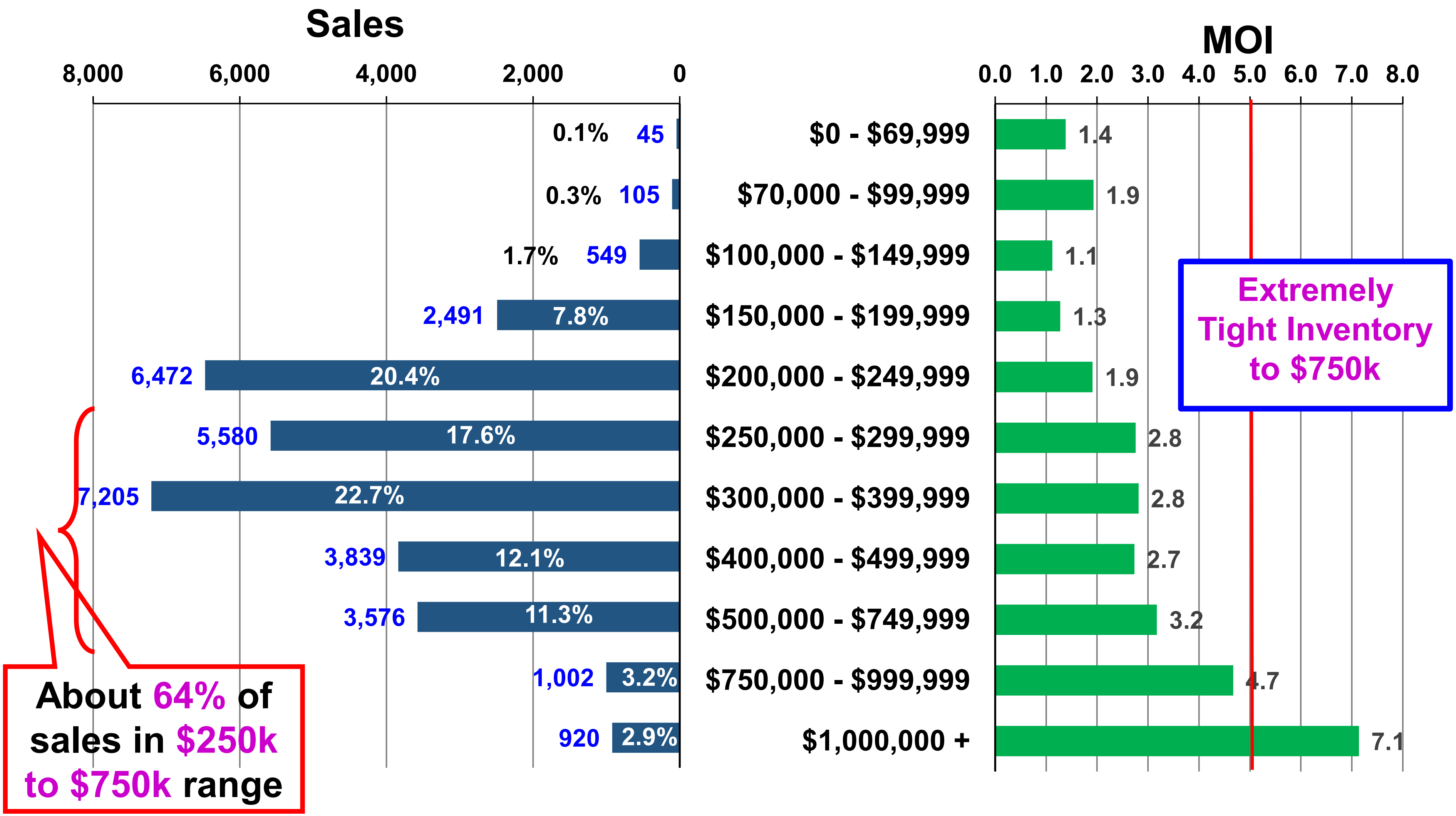


Source: ABOR; Real Estate Center at Texas A&M University

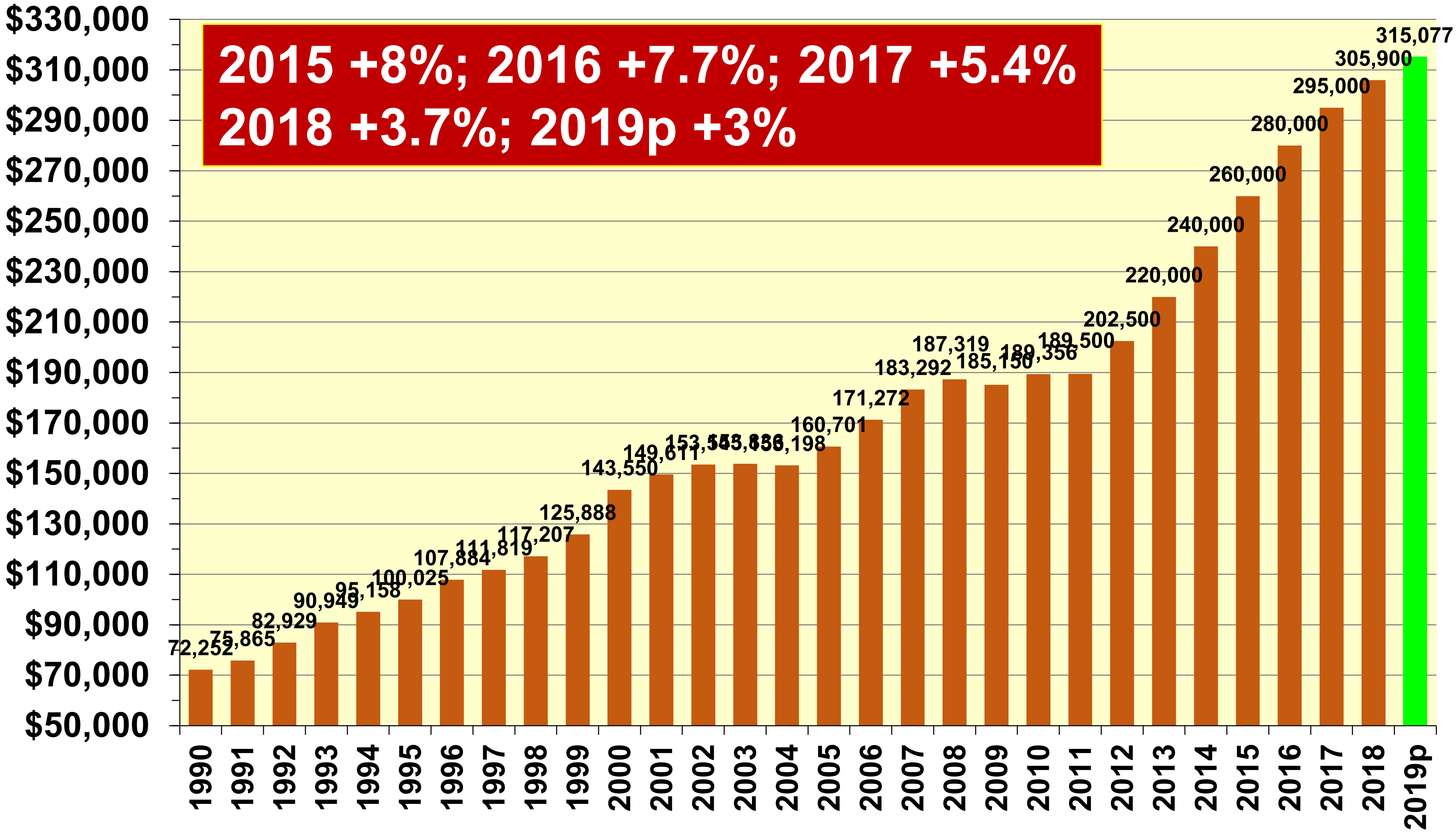
Austin Months Inventory



Austin 2018 YTD Sales and Current Months Inventory by Price



Austin Median Home Prices

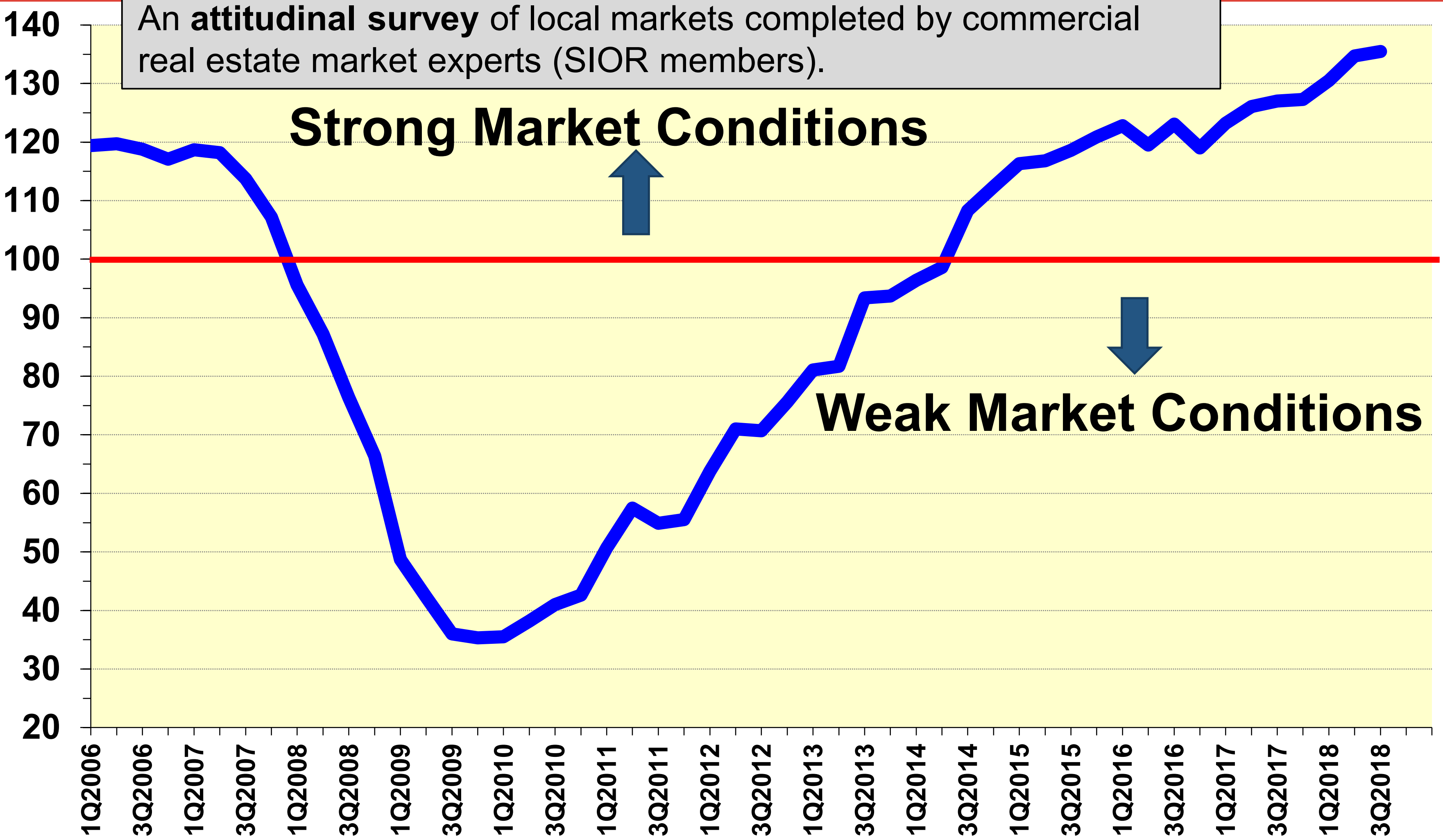


Source: ABOR; Real Estate Center at Texas A&M University

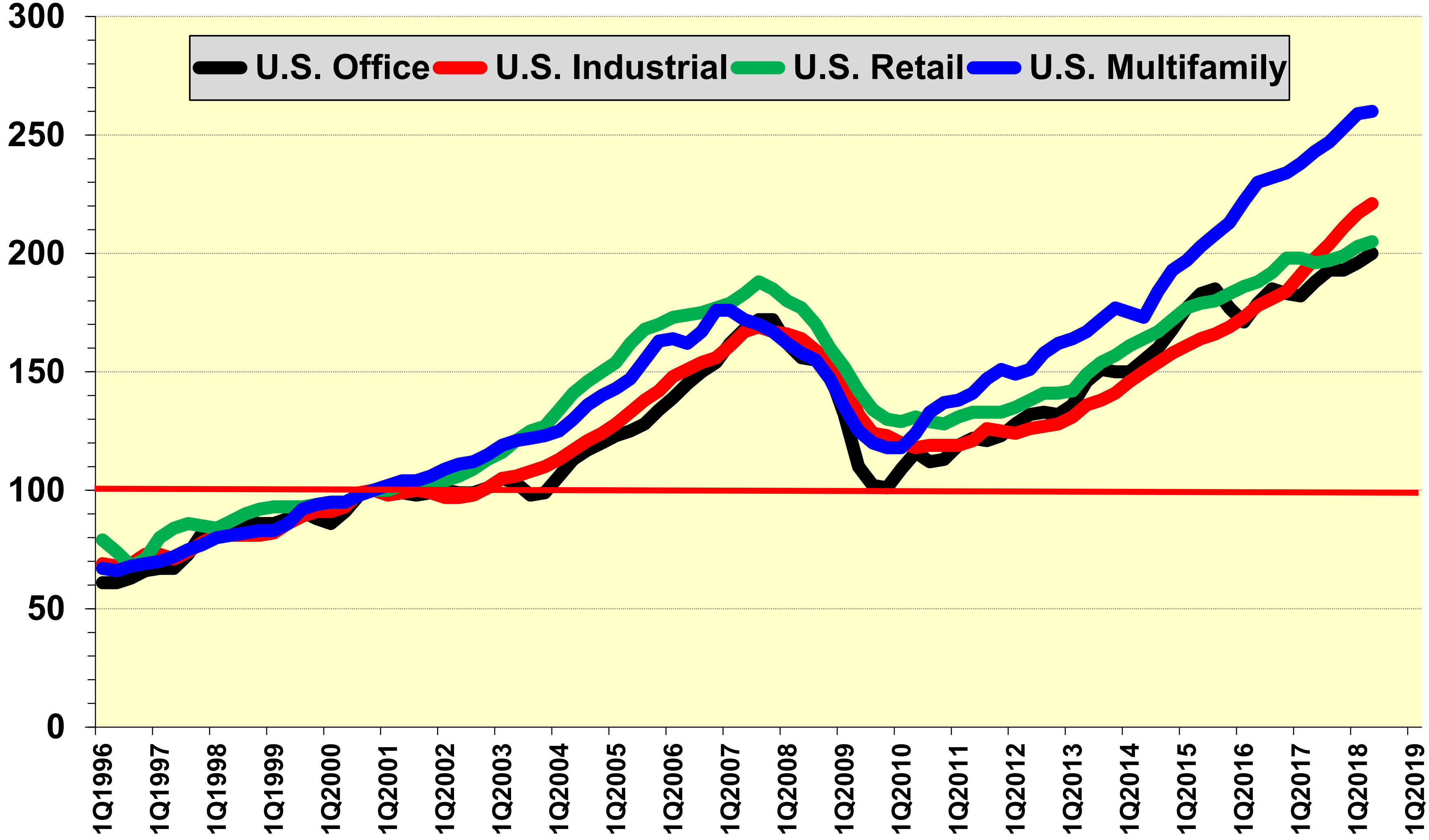
The Austin CRE Market

SIOR U.S. Commercial RE Price Index

An **attitudinal survey** of local markets completed by commercial real estate market experts (SIOR members).

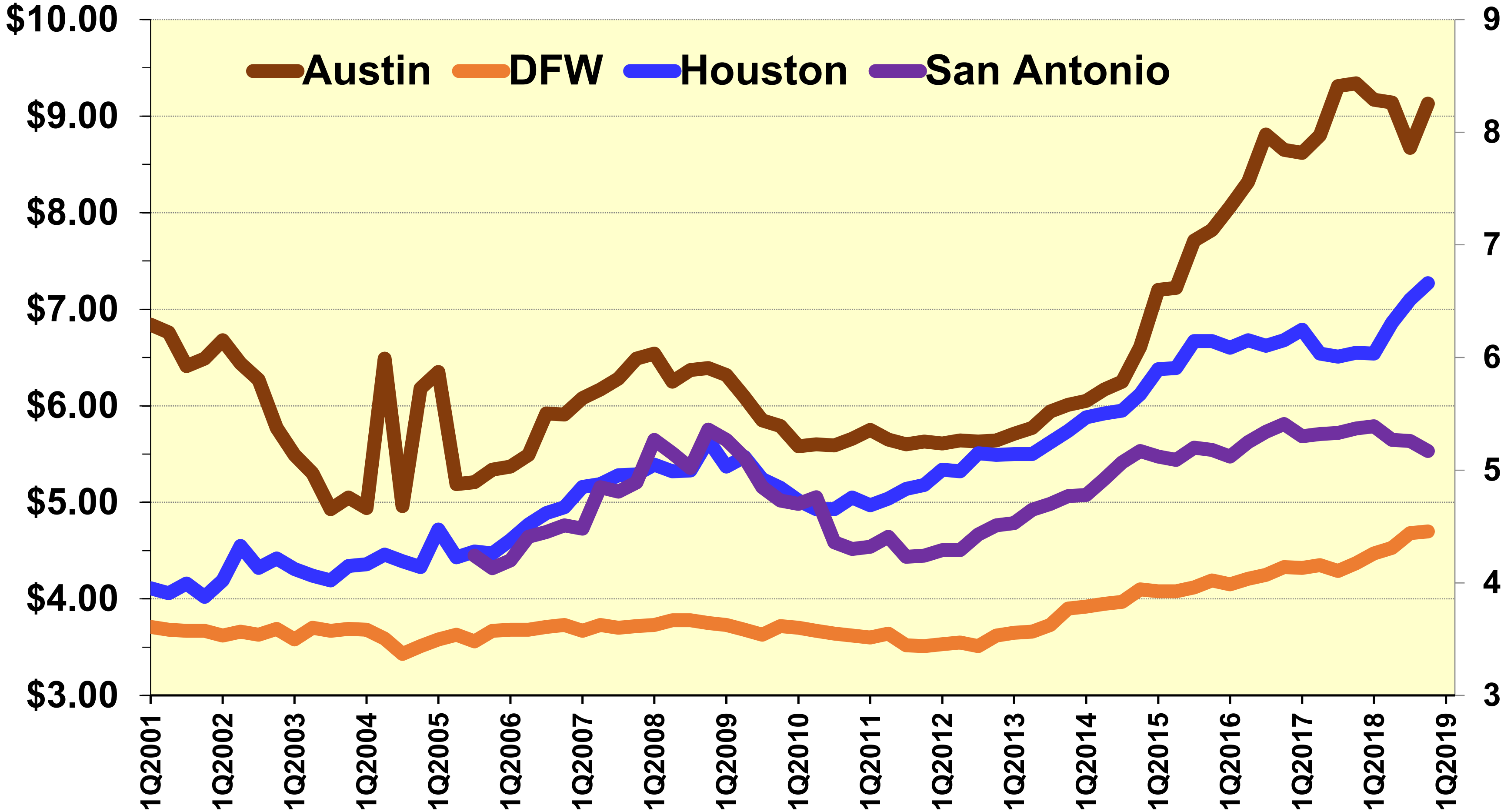


CoStar U.S. Repeat-Sale CRE Price Indices
(Dec. 2000 = 100) "Value Weighted" by Property Type



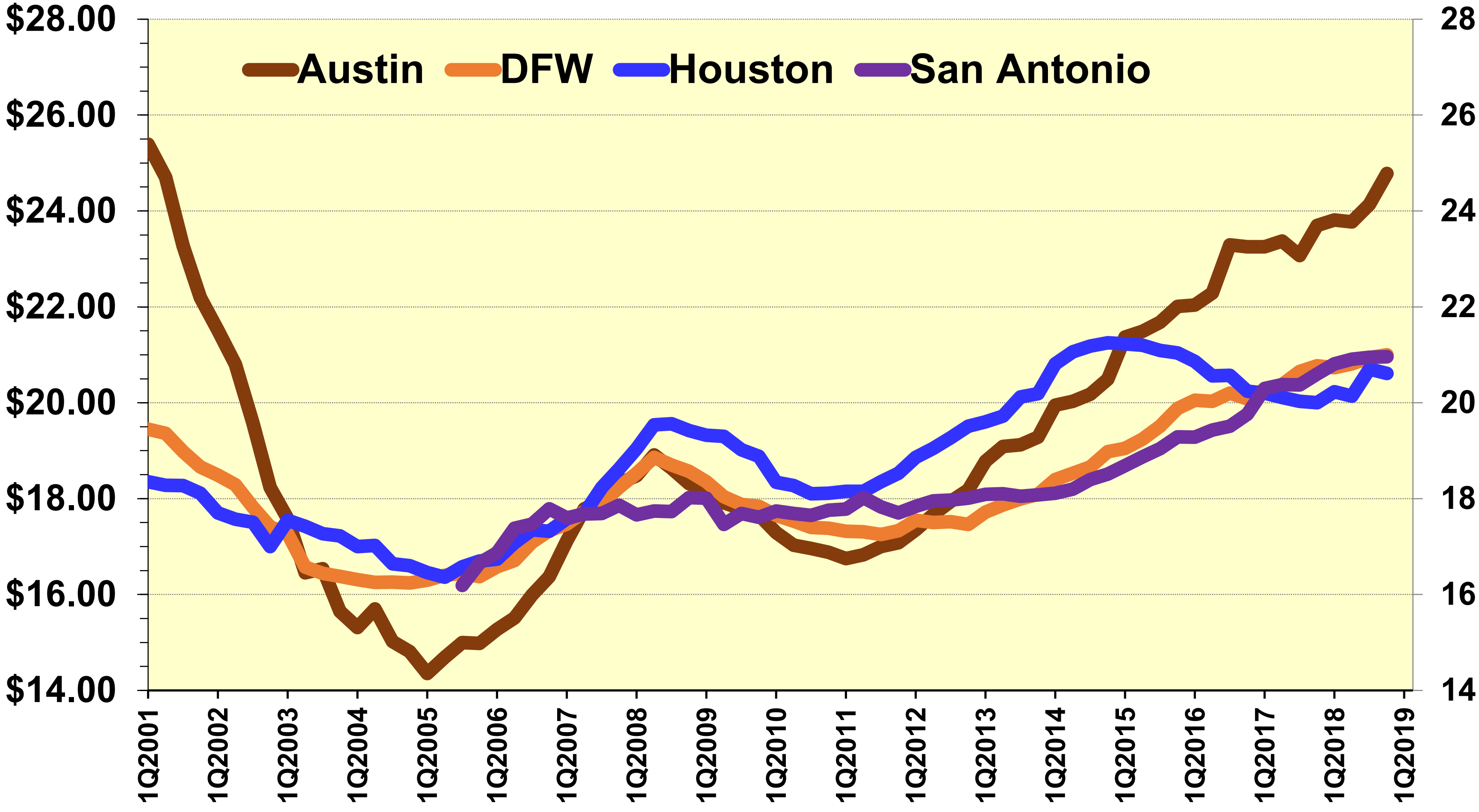
Source: CoStar Group; Real Estate Center at Texas A&M University

Industrial Warehouse Rent Rates
(Triple-Net Asking Rent Overall)



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

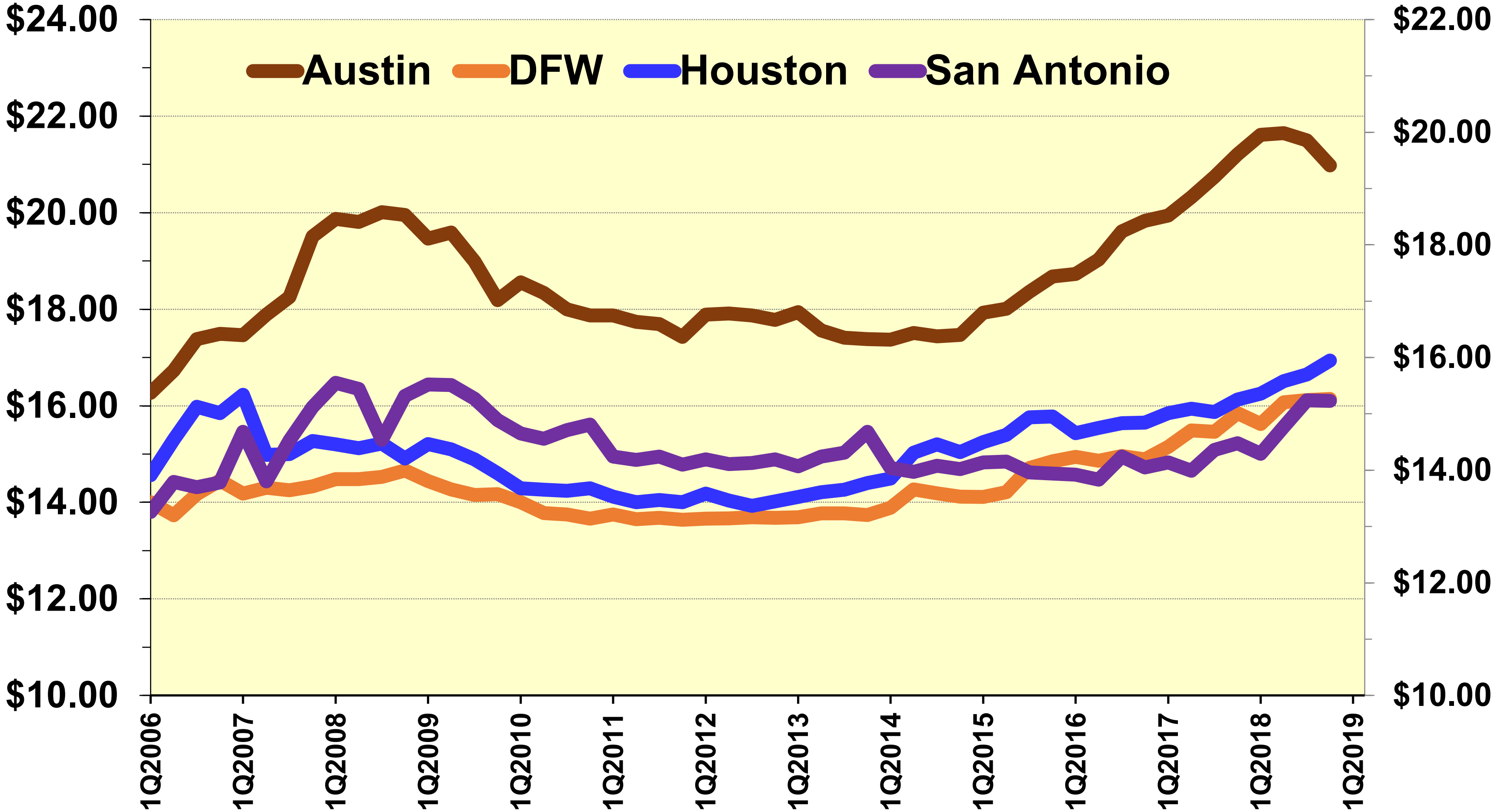
Overall Office Rent Rates
(Asking Base Rental Rates)



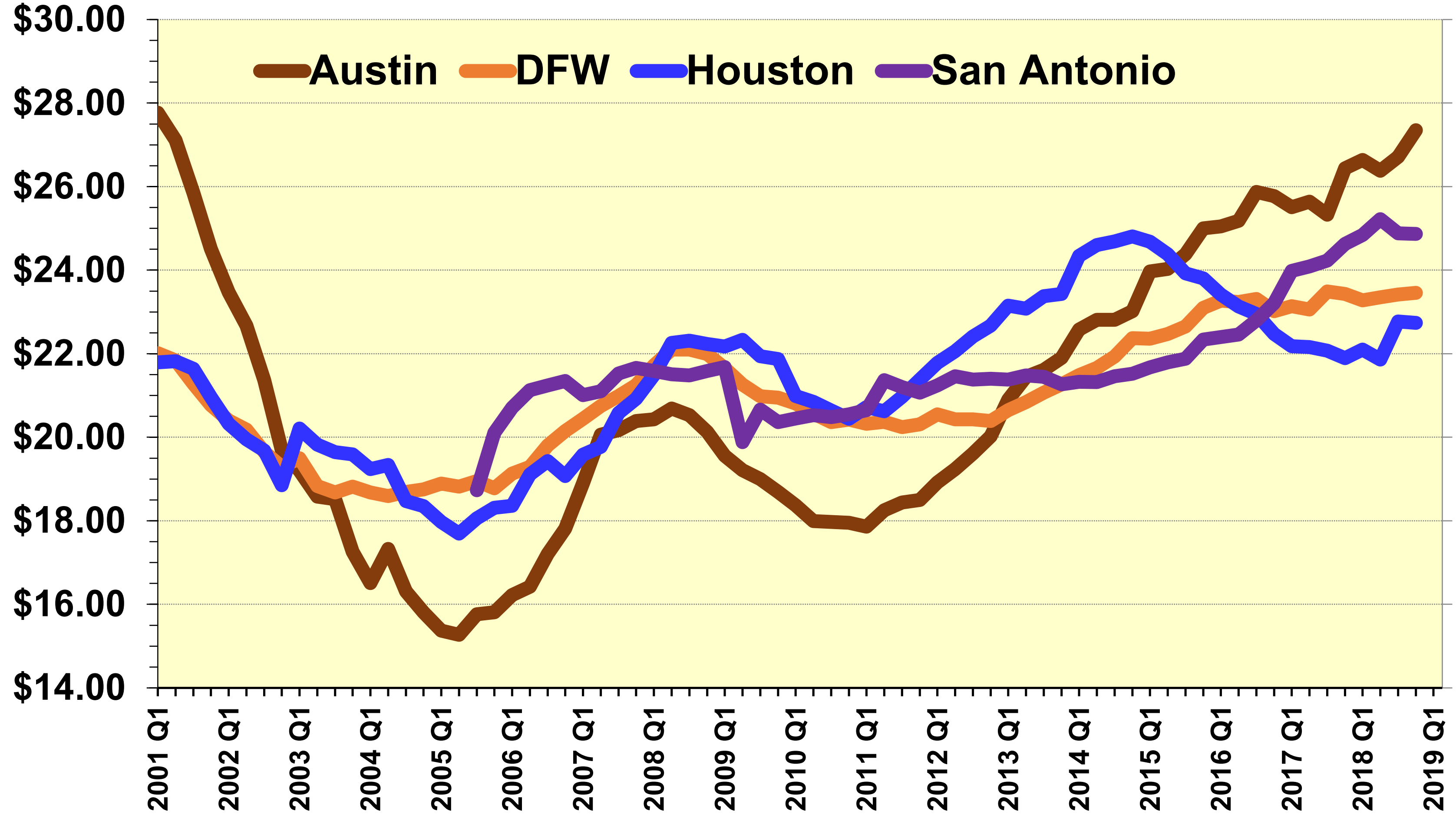
Source: CoStar; Real Estate Center at Texas A&M University

Retail Rent Rates

(Triple-Net Asking Rent Overall)

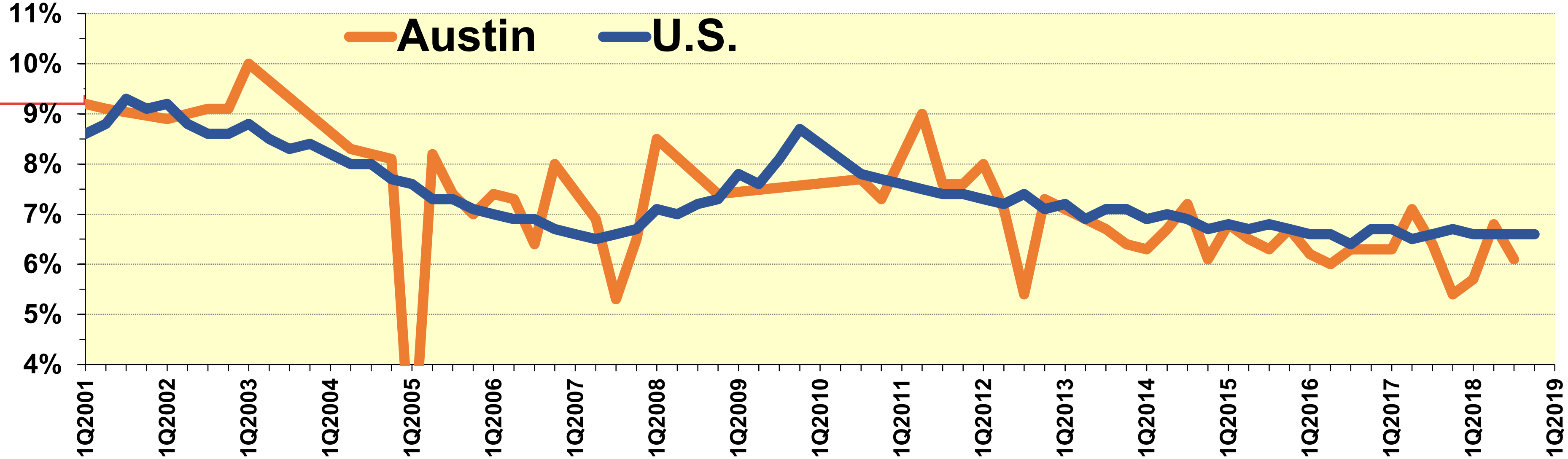


Class A Office Rent Rates
(Asking Base Rental Rates)

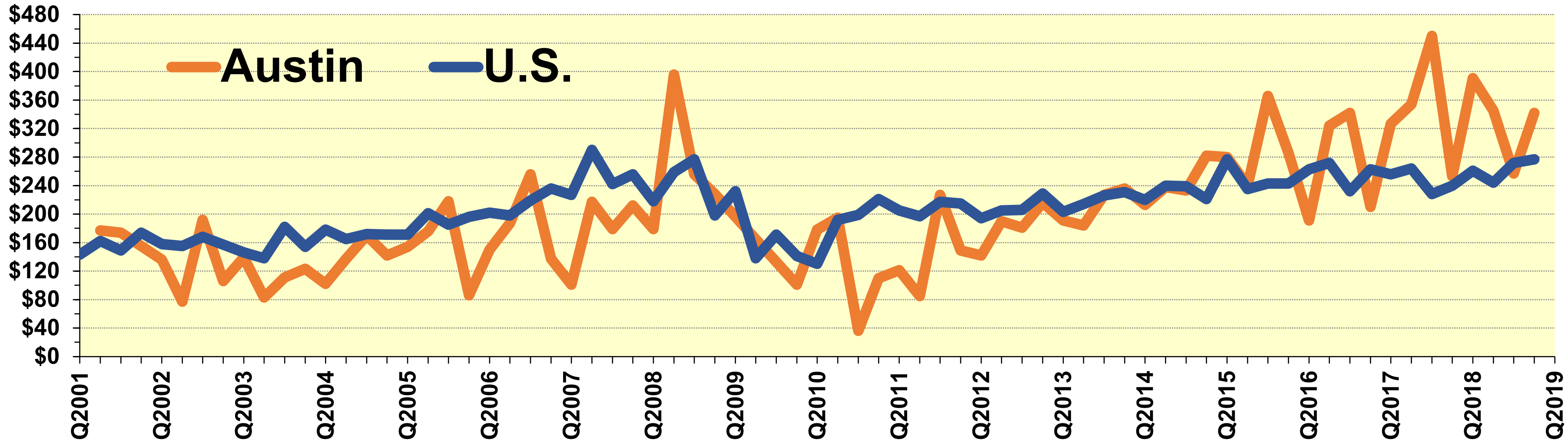


Source: CoStar; Real Estate Center at Texas A&M University

Austin & U.S. Office Cap Rates

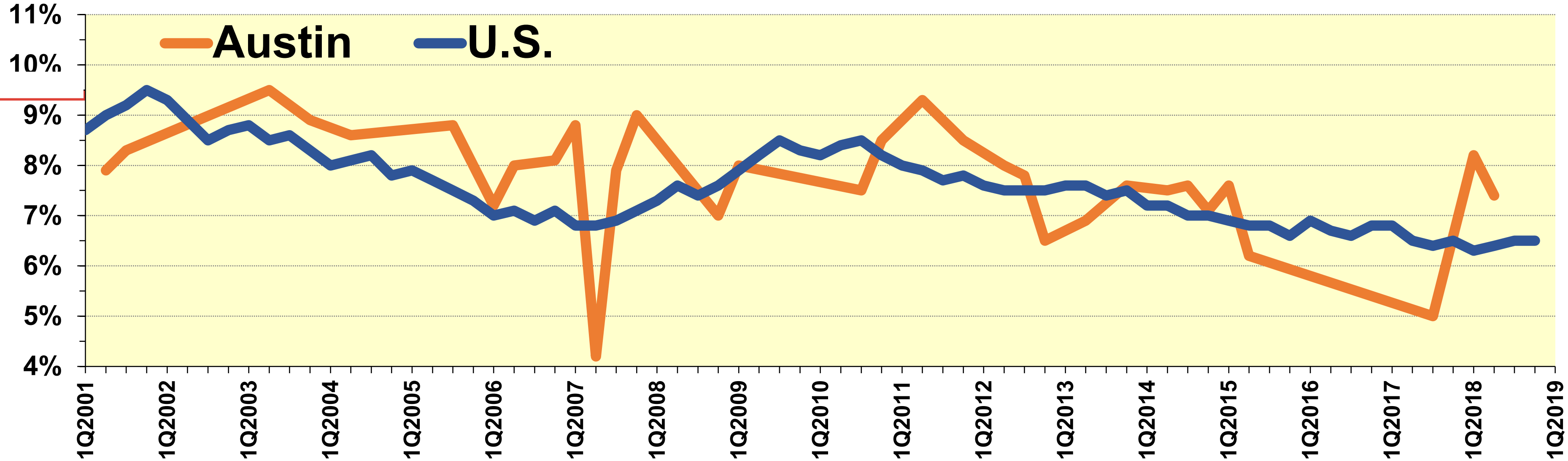


Austin & U.S. Office Avg. Price per Sq. Ft.

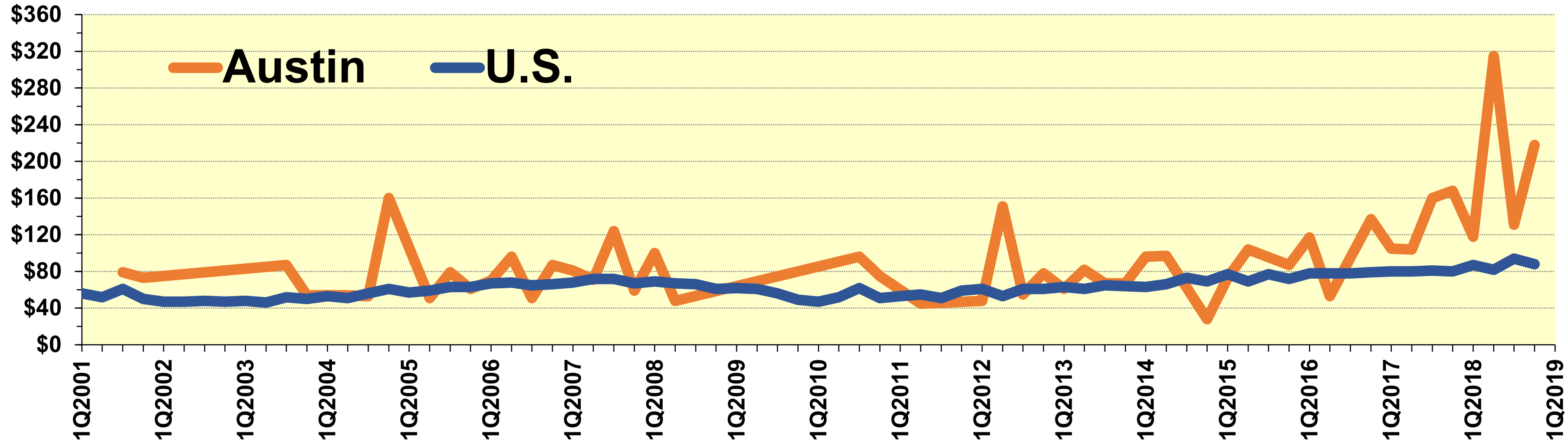


Source: Real Capital Analytics; Real Estate Center at Texas A&M University

Austin & U.S. Industrial Cap Rates

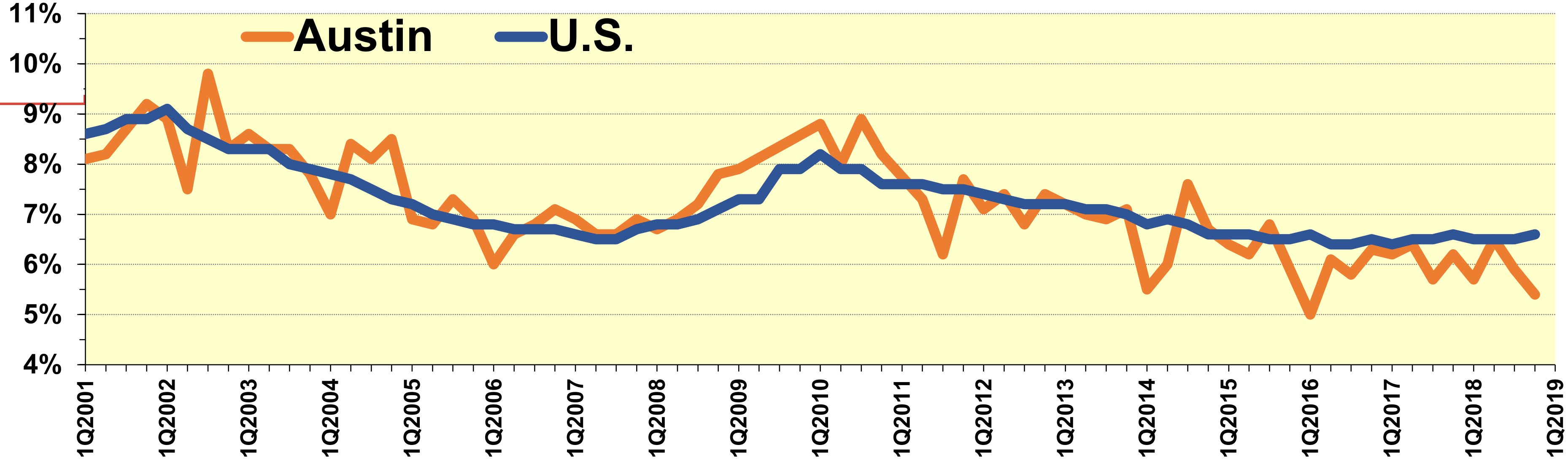


Austin & U.S. Industrial Avg. Price per Sq. Ft.

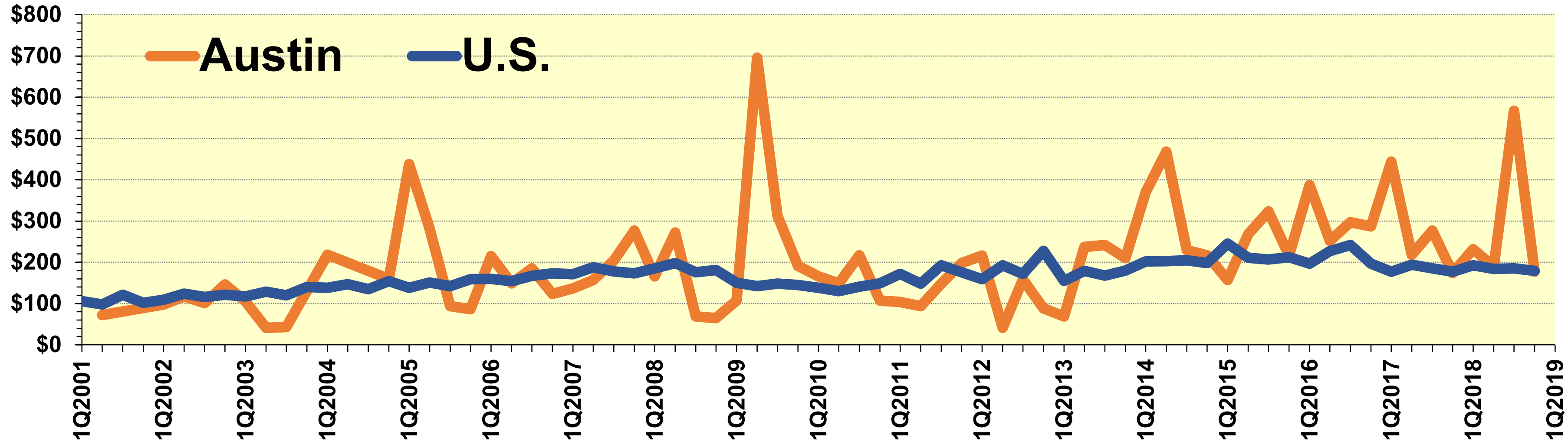


Source: Real Capital Analytics; Real Estate Center at Texas A&M University

Austin & U.S. Retail Cap Rates

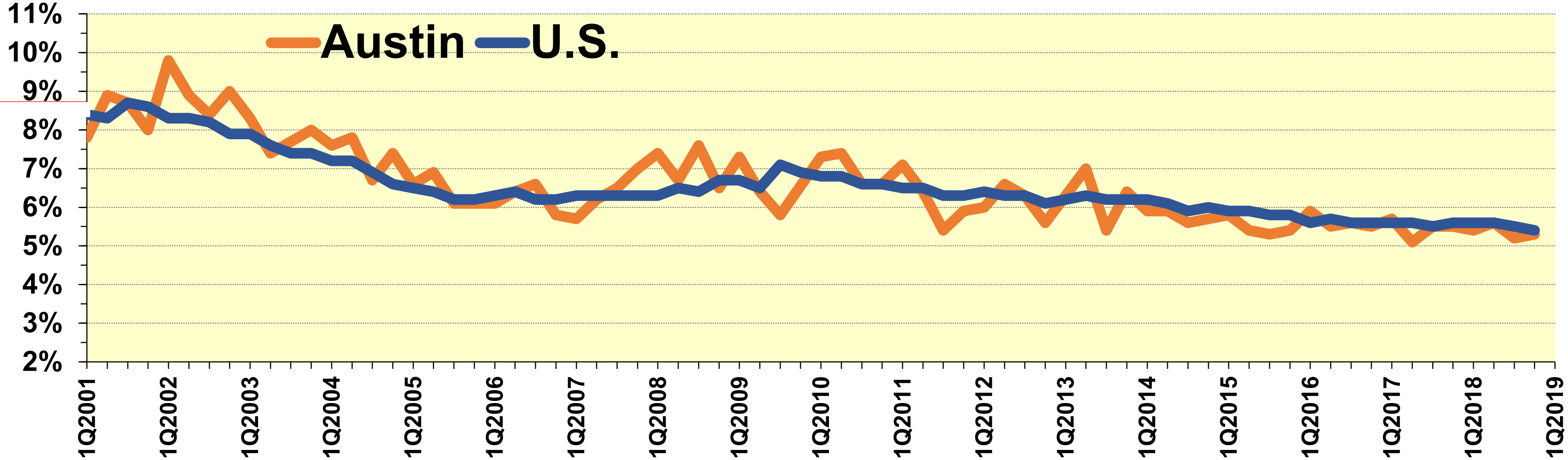


Austin & U.S. Retail Avg. Price per Sq. Ft.

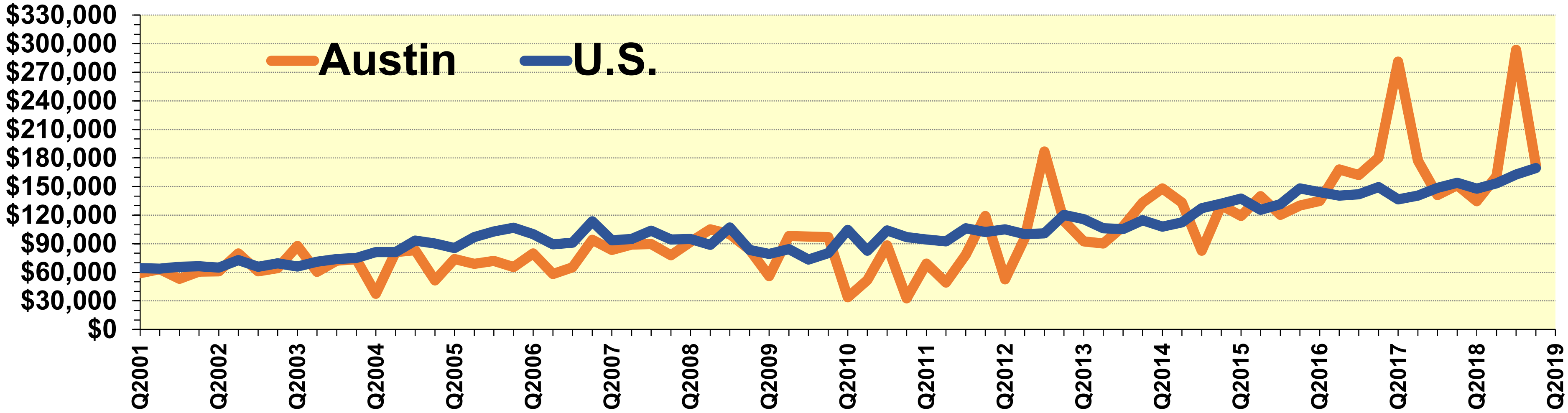


Source: Real Capital Analytics; Real Estate Center at Texas A&M University

Austin & U.S. Apartment Cap Rates



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



Austin Projected Percentage Vacancy Rates and Changes in Asking Rents

		Vacancy Rate(%)			Asking Rent(%Δ)		
Property Type	Natural Vacancy Rate	2017	2018	2019	2017	2018	2019
Office	13%	9.2	9.3	9.4	3.5	2.6	2.0
Retail	6%	4.0	4.0	4.3	6.5	4.3	1.0
Ware-house	11%	5.9	5.5	4.8	6.6	0.1	1.5

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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