HIREBA

HOUSTON INDEPENDENT REAL ESTATE BROKERS ASSOCIATION

General Meeting
February 27, 2019
Trini Mendenhall Community Center

Houston Outlook 2019

Dr. James P. Gaines

Chief Economist

REAL ESTATE CENTER
TEXAS A&M UNIVERSITY

recenter.tamu.edu

Recessionary Fears

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

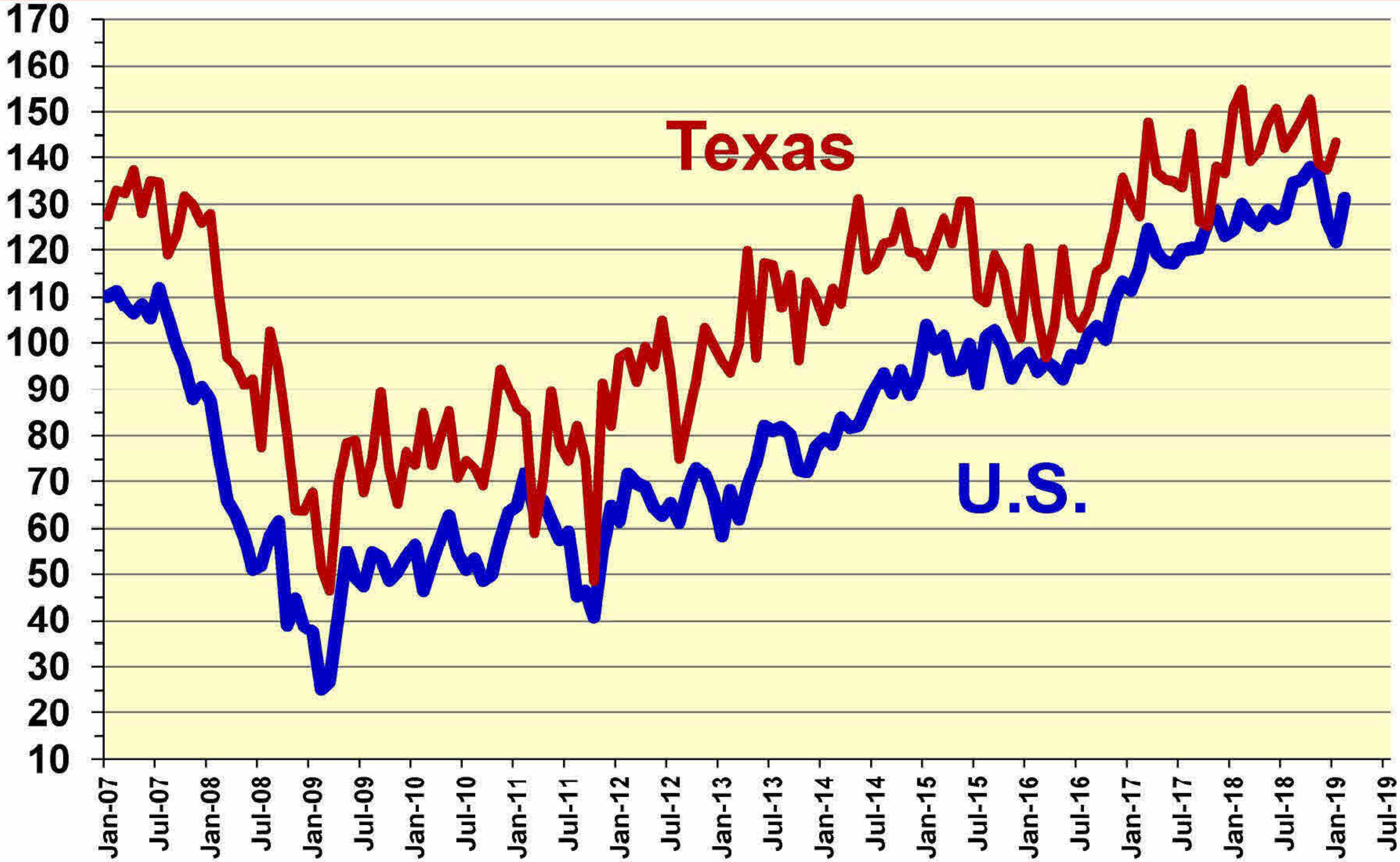
CNN BUSINESS — **Nearly half of US CFOs fear a 2019 recession**

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

2018 A Very Good Year - 2019 Definite Slowdown

- Real GDP growth 2018 ~ 3.1%+ 2019 ~2.7% – 2.9%
- Jobs expanded ~1.5%   Unemployment rate ~4.0%+
- Interest rates up during the year, but didn't rise with end-of-year Fed Funds rate hike!
- Inflation approached 2.5% and will probably stay there
- 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

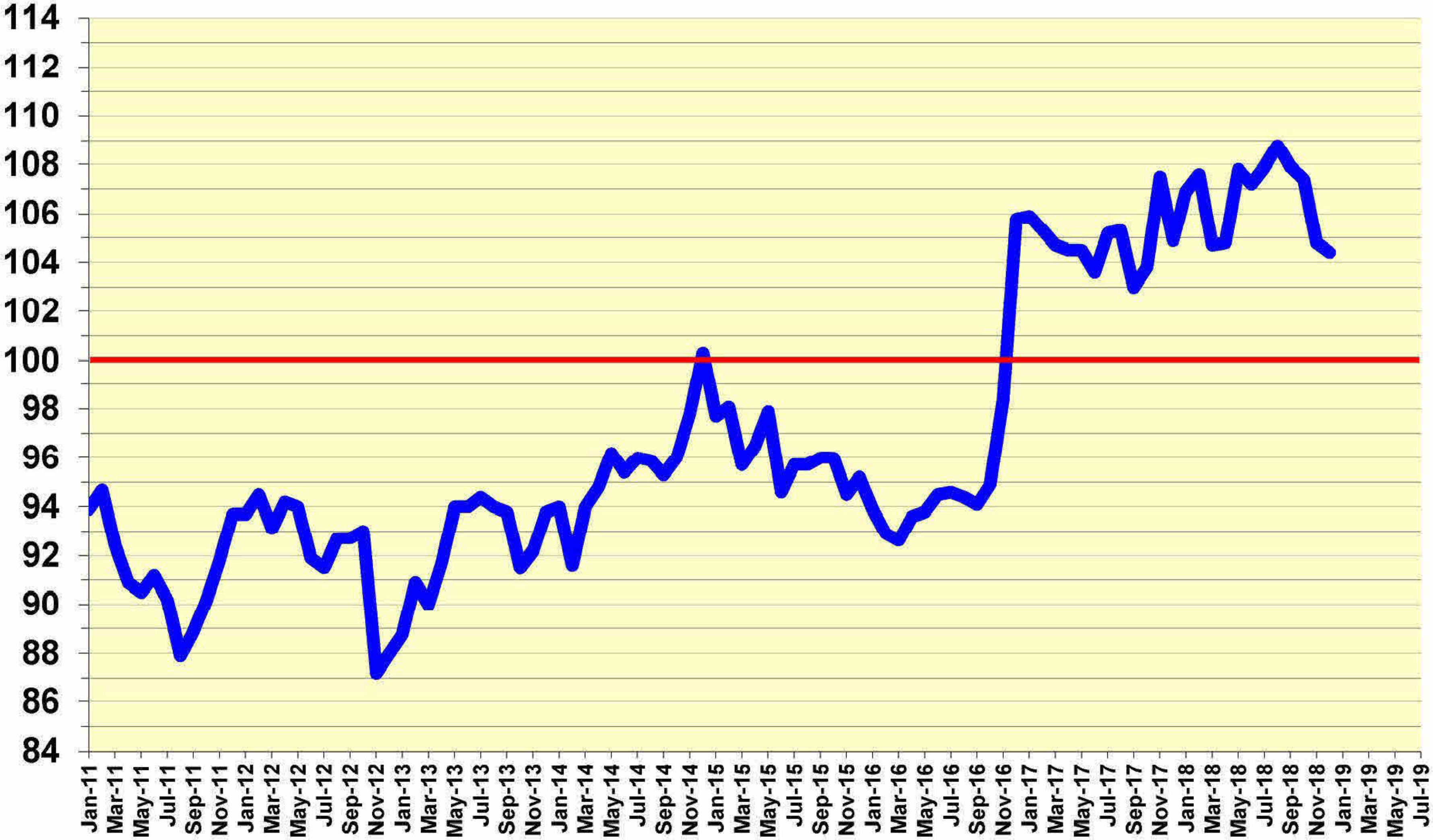
Consumer Confidence Index



Source: The Conference Board (1985=100; NSA); Haver Analytics

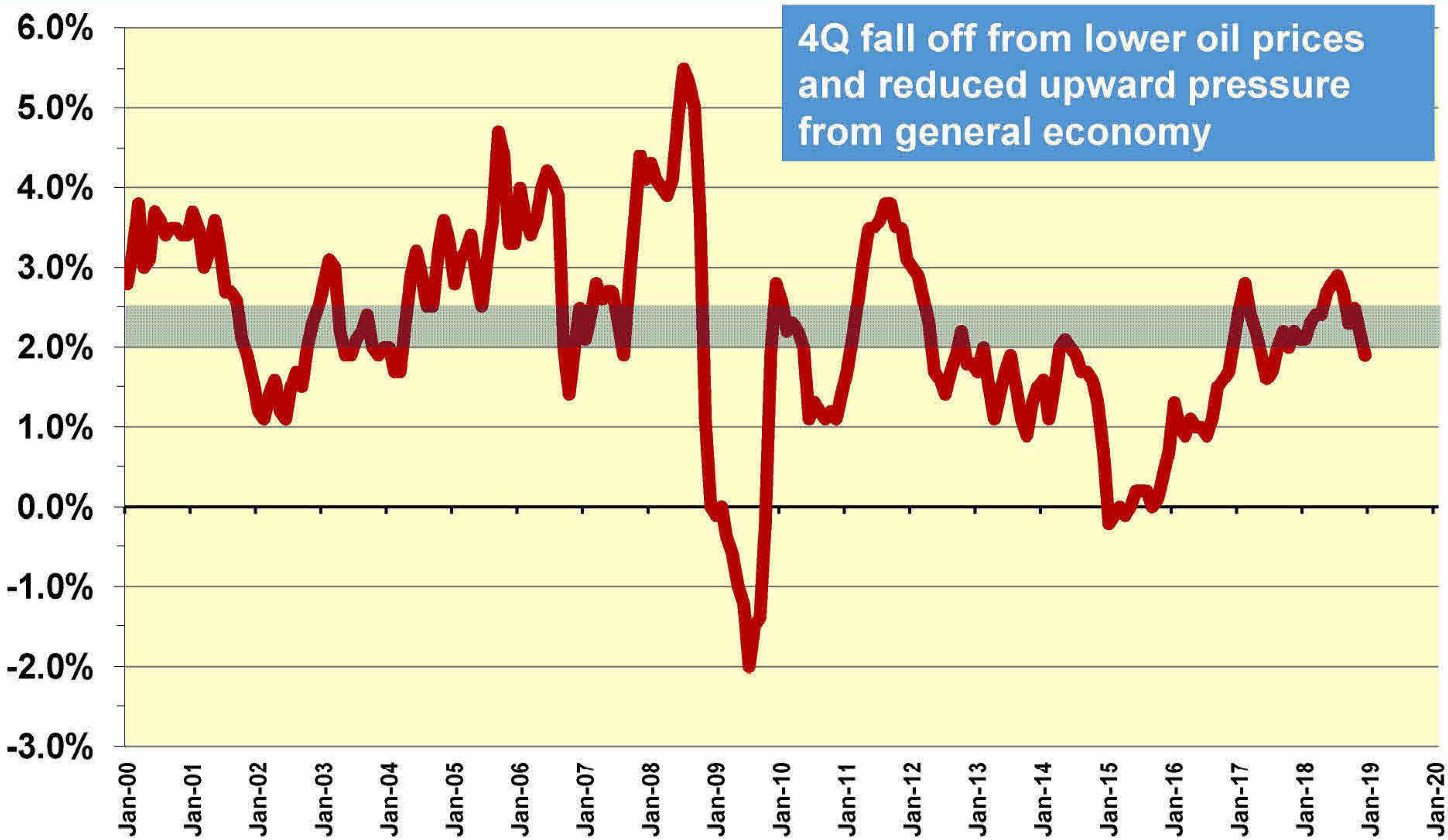
NFIB Small Business Optimism Index

(Overall Index SA 1986 = 100)



 Source: National Federation of Independent Businesses; based on ten survey indicators

Inflation Bounced Upward Then Fell Expected to Remain Within Range



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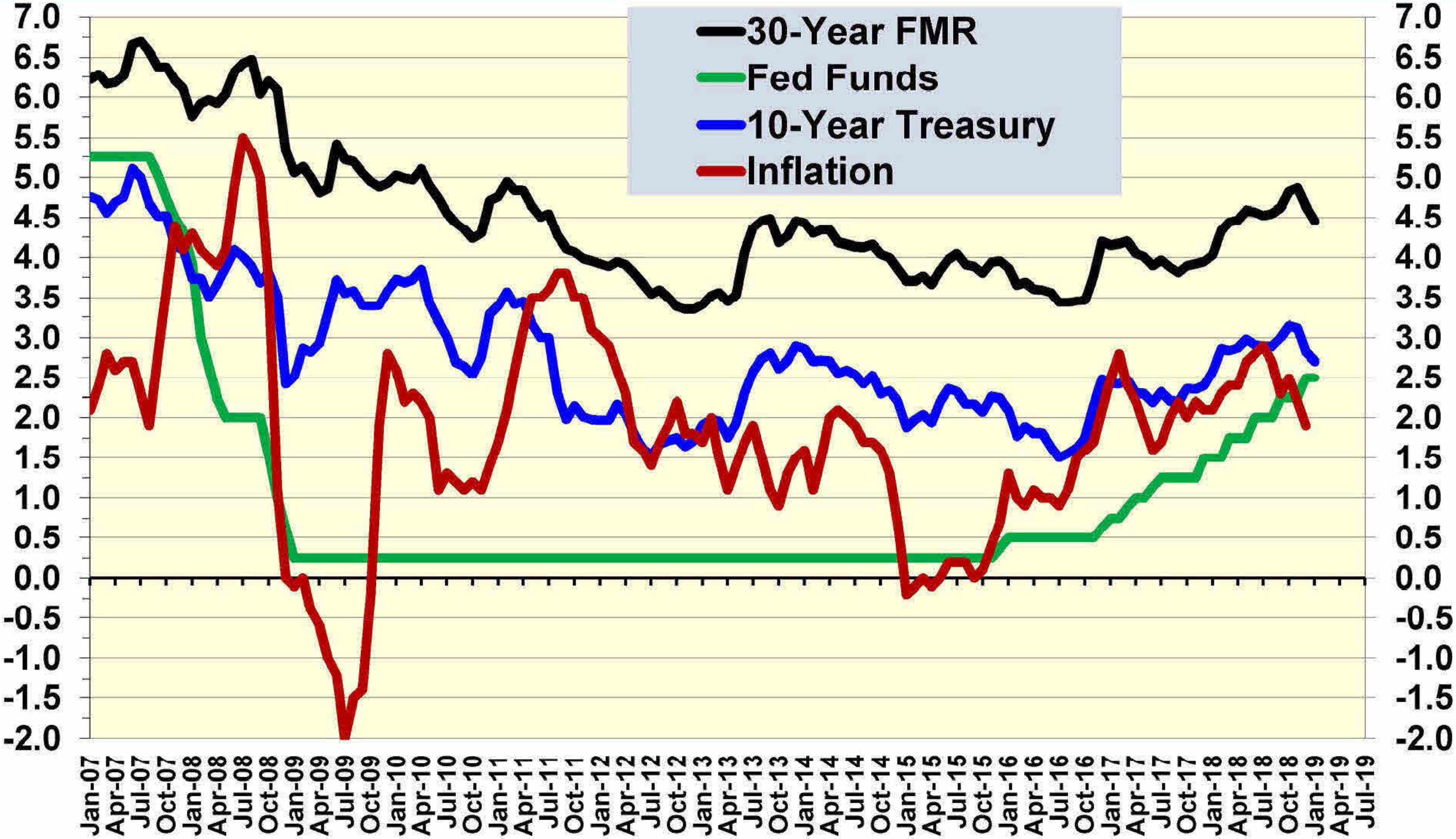
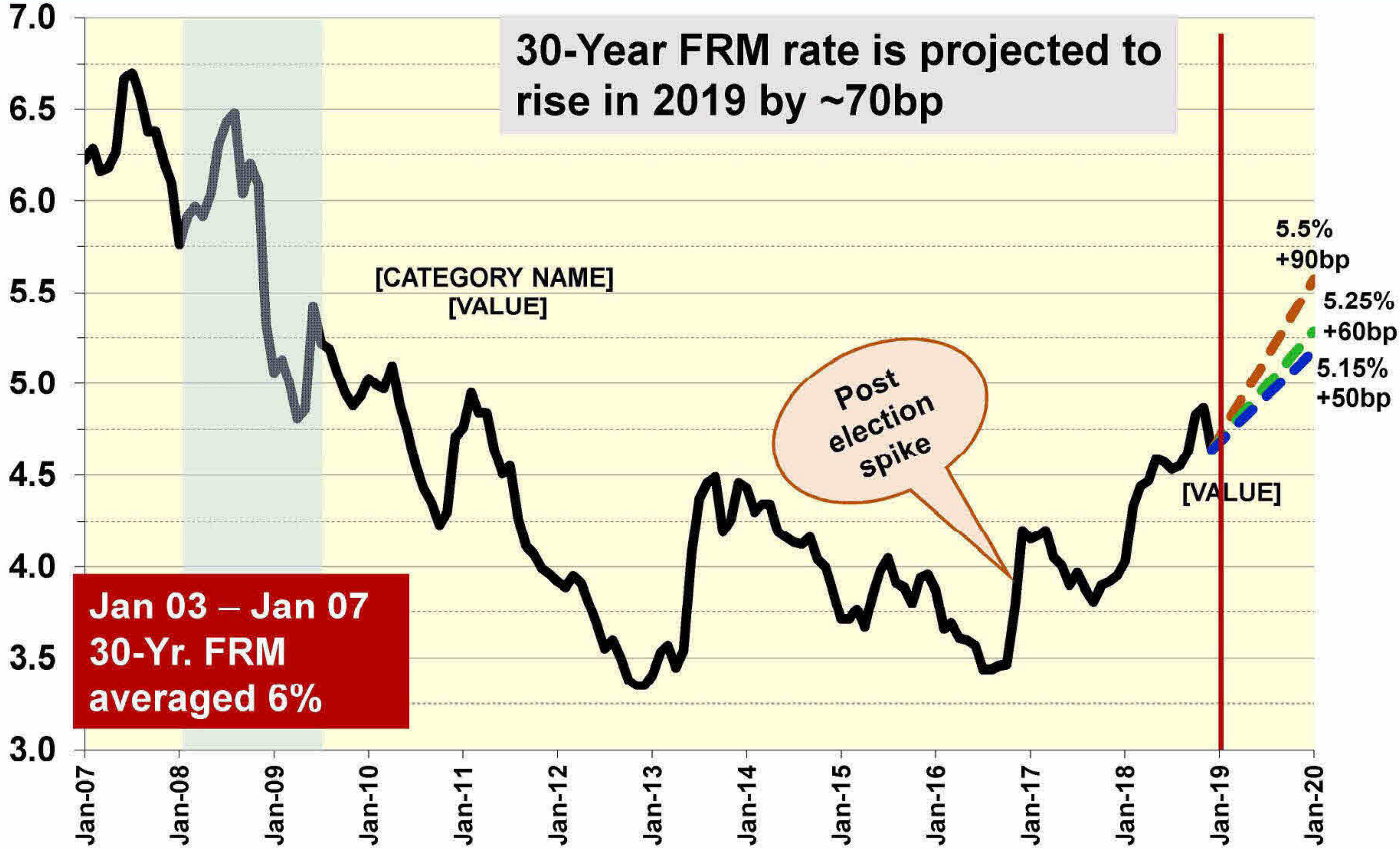
Source: BLS (Consumer Price Index for All Urban Consumers: All Items; Y/Y % change in index)

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

Expected Interest Rate on a 30-Year, Fixed-Rate Mortgage in 2019



Source: FHLMC; 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

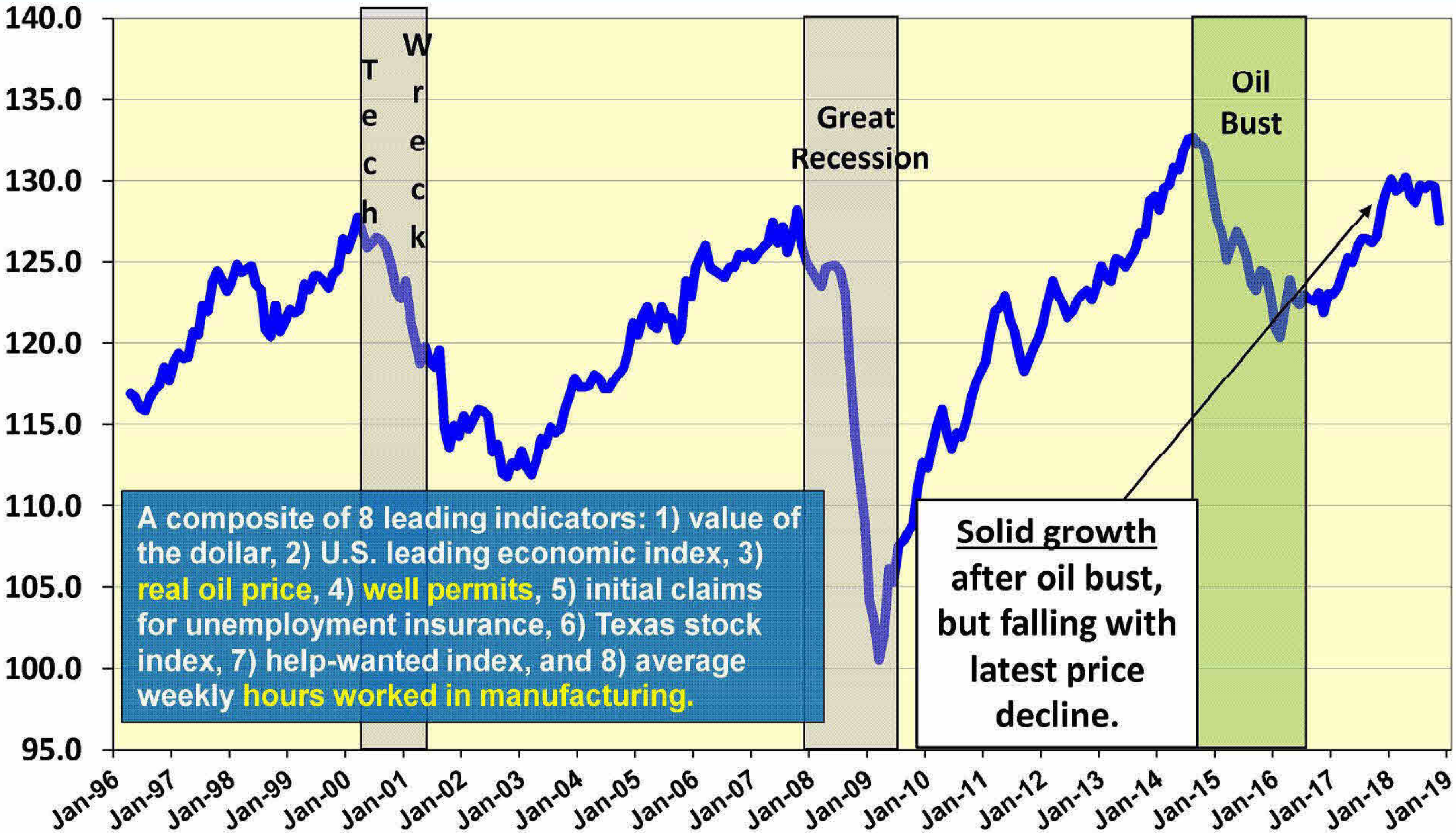
2018 a Very Good Year Economically For Texas

- Rebound from Harvey in 2017 strong, but dragging
- State GDP +6% (2Q18) #1 in U.S. [estimate ~4.5% 2018 total]
- Personal Income +5.1% (3Q17-3Q18)
- Oil Prices >$70 until 4Q
- Population increased 379,128 to 28,701,845
  - 190,951 natural increase (50.3%)
  - 104,976 foreign immigration (27.7%)
  - 82,569 domestic immigration (22%)
- Jobs increased 391,800 +3.2%

Texas Economic Outlook: 2019 Positive but Slower Growth Than 2018

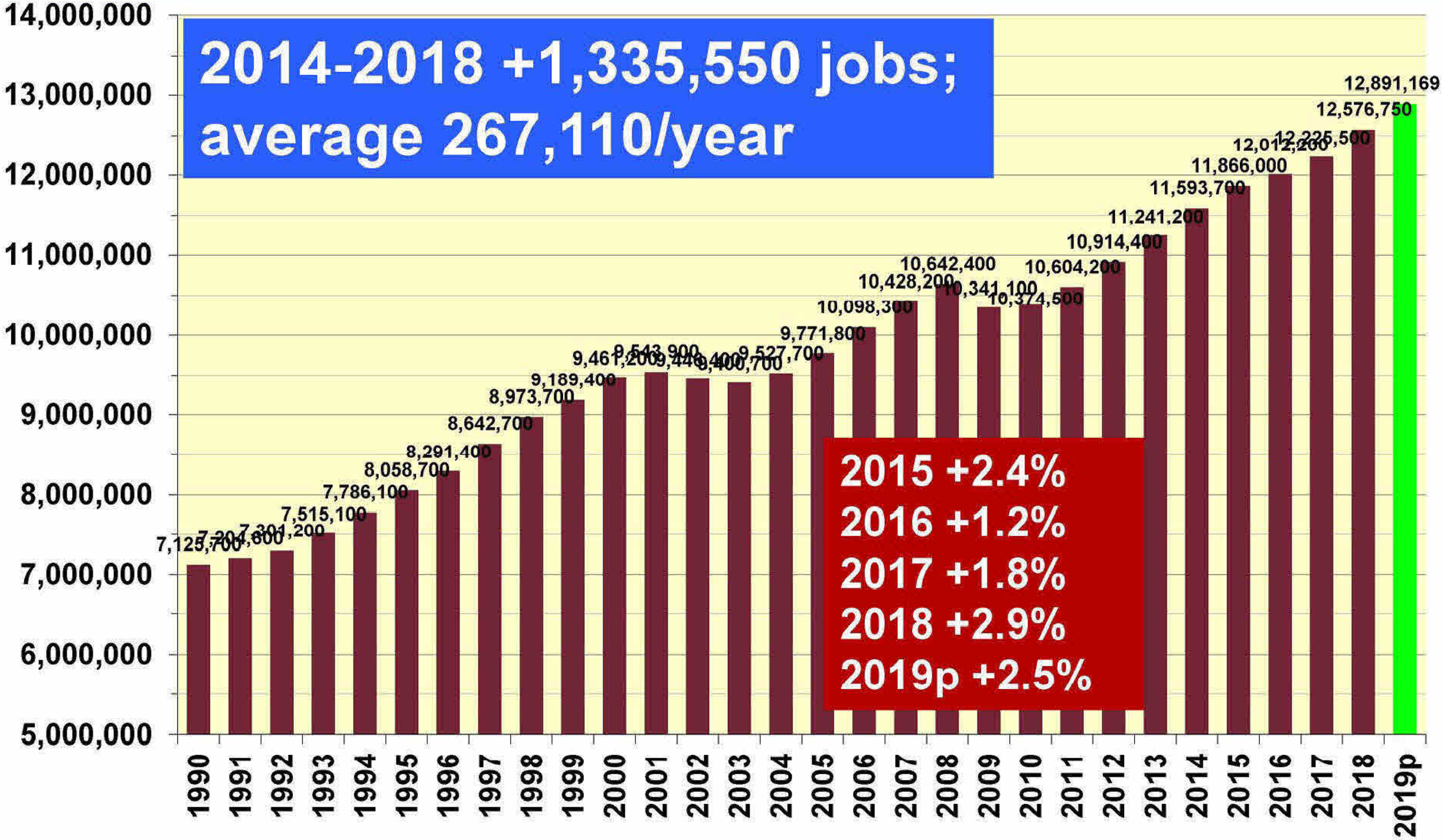
- **U.S. Economy** stays relatively strong
- **Employment:** ~2.7% from 2.9% in 2018
- **GDP**: 4% 2019 from ~4.5% 2018
- **Energy sector** neutral; oil prices $40-$60/bl., production up
- **Population** expansion continues but at slower pace
- **Exports** doing well and contributing to economy – trade agreements add uncertainty
- **Retail Sales** steady but not significantly higher

Texas' Leading Economic Index

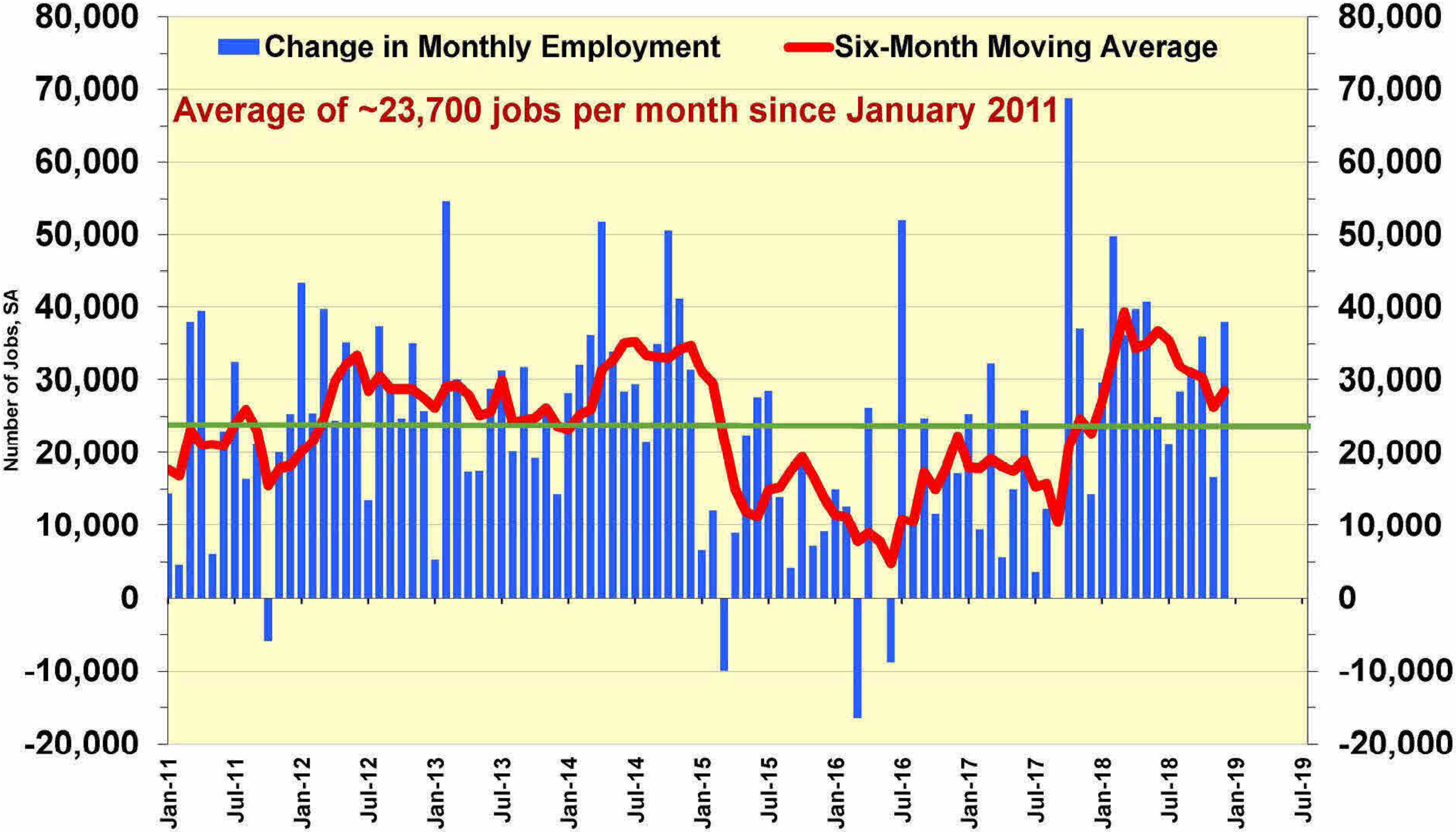


Source: Federal Reserve Bank of Dallas, 1987=100

Texas Annual Jobs



Monthly Change in Total Nonfarm Employment Texas



Texas Growth

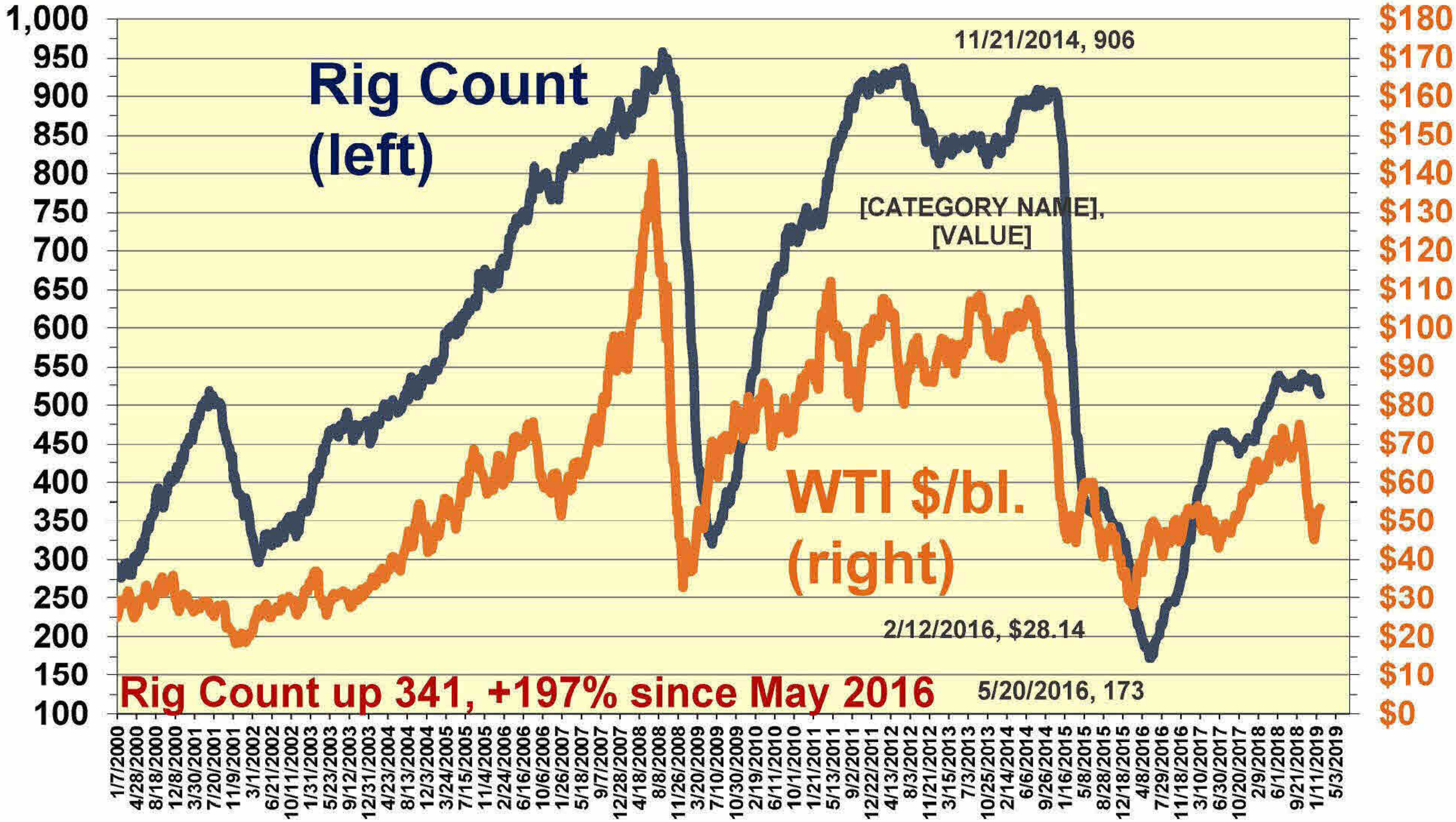
Year	Jobs, NSA (Dec-Dec)	Population (July-July)
2010	215,800	439,887
2011	236,400	402,776
2012	374,400	433,903
2013	301,400	400,952
2014	420,400	475,157
2015	152,000	500,444
2016	146,200	449,982
2017	258,300	399,734
2018	391,800	379,128

2010-2018
+3,881,963 people
+2,496,700 jobs

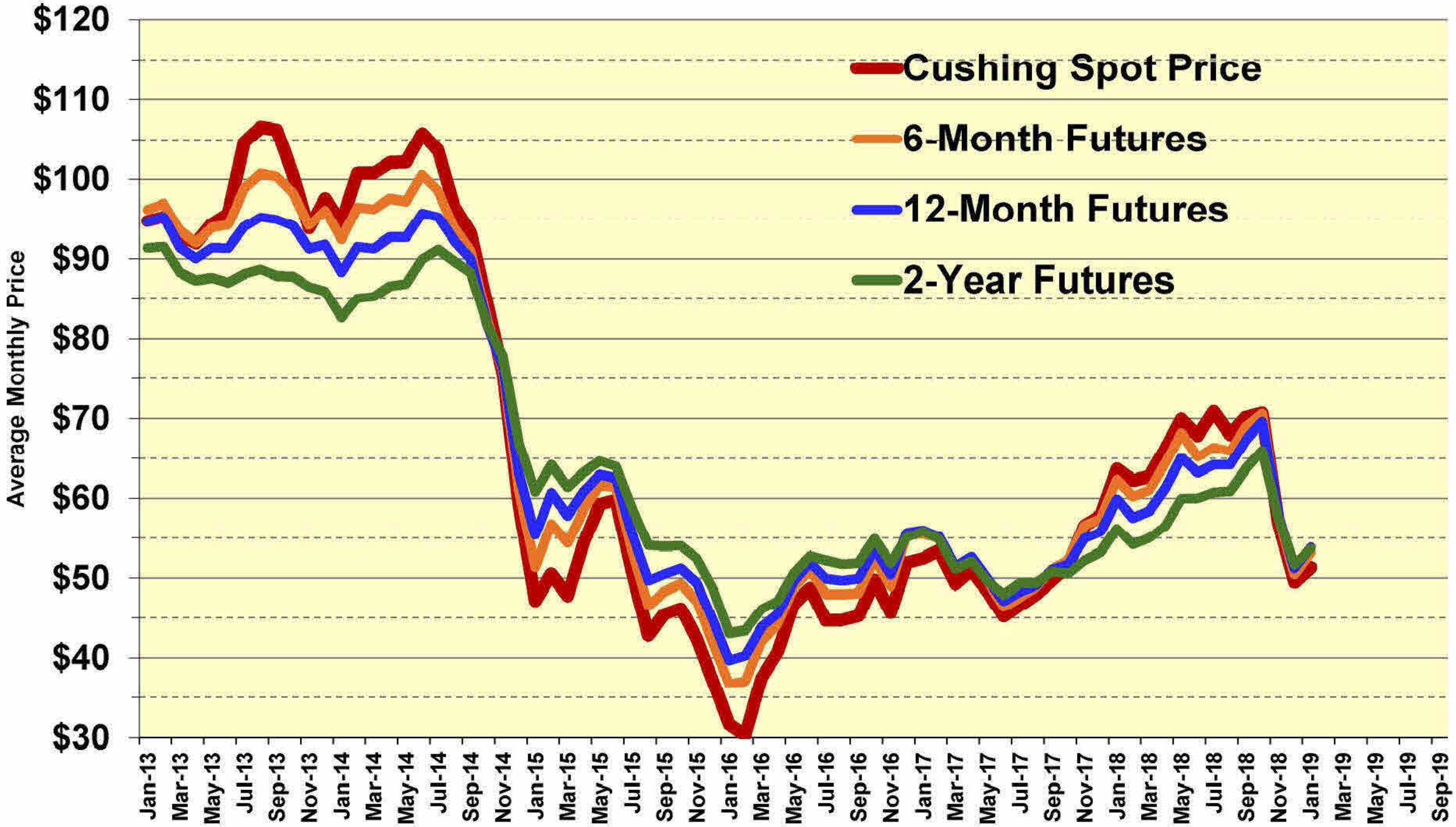
Sources: US Census Bureau; Texas Workforce Commission; Real Estate Center at Texas A&M University

Houston Economic Outlook

Weekly Active Texas Rig Count & Price of WTI

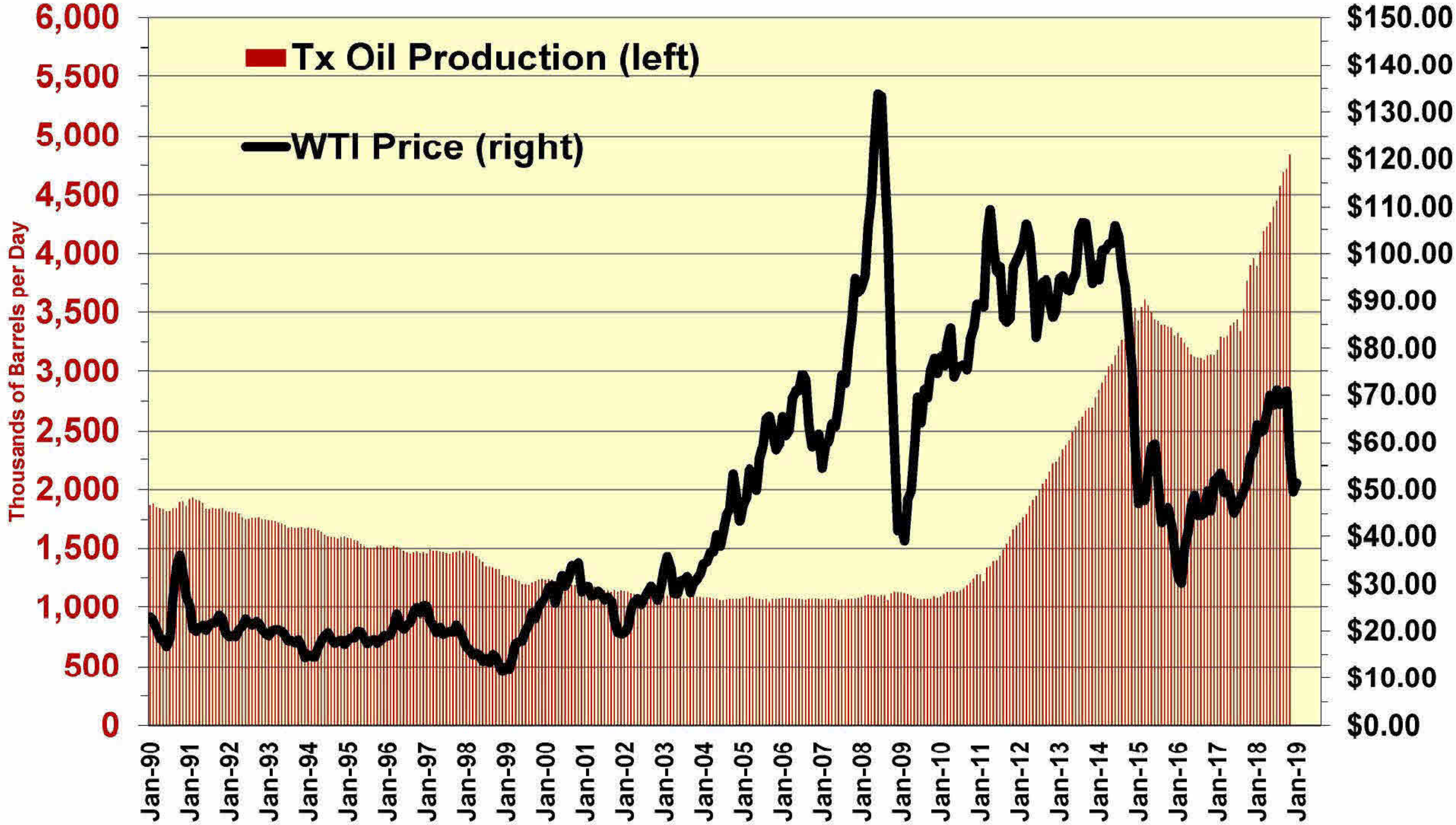


Current and Futures Monthly Average Price of WTI



Sources: EIA; Haver Analytics

Monthly Texas Oil Production & Price of WTI



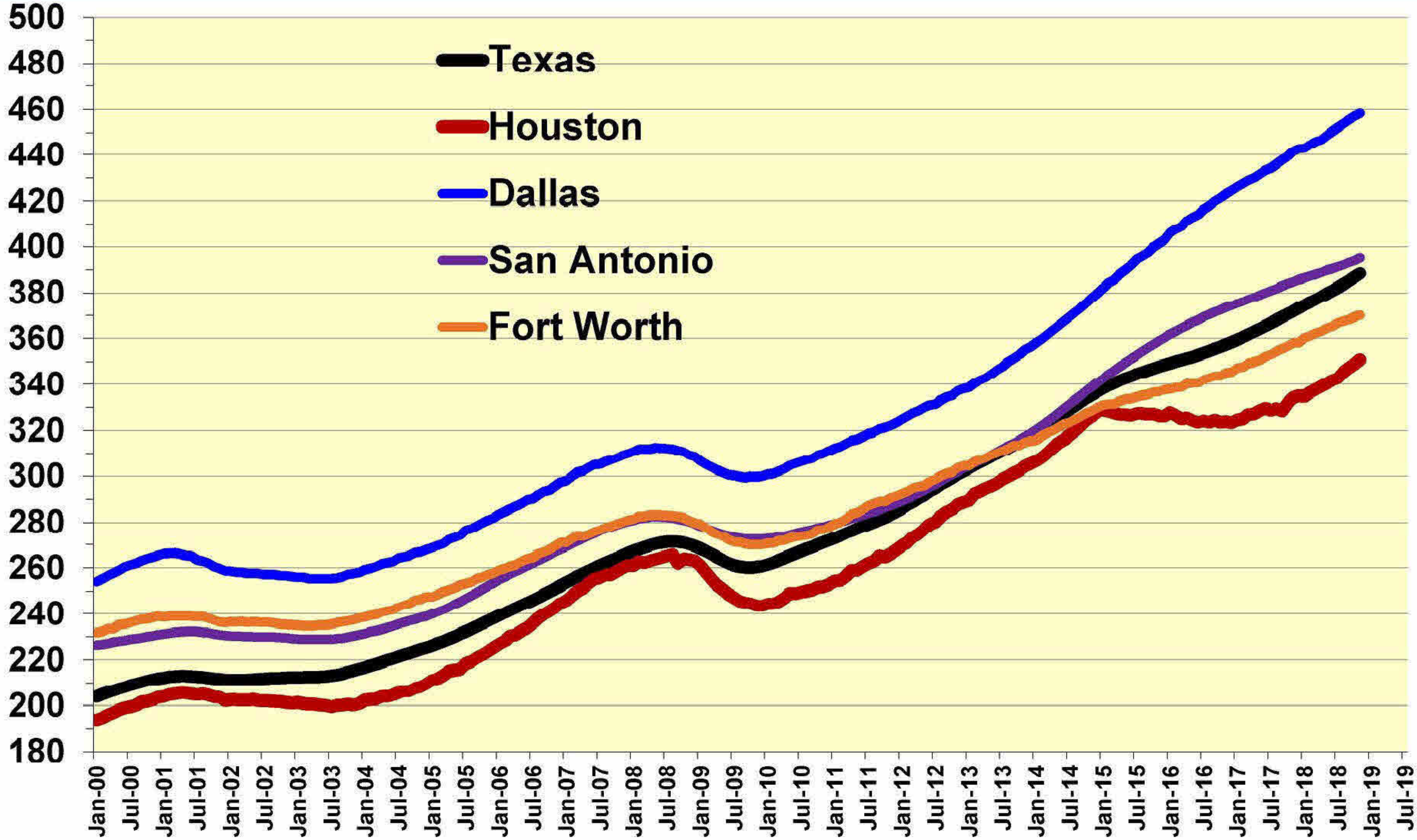
Source: EIA; RE Center at Texas A&M University

Houston Oil Jobs in the Fracking Era

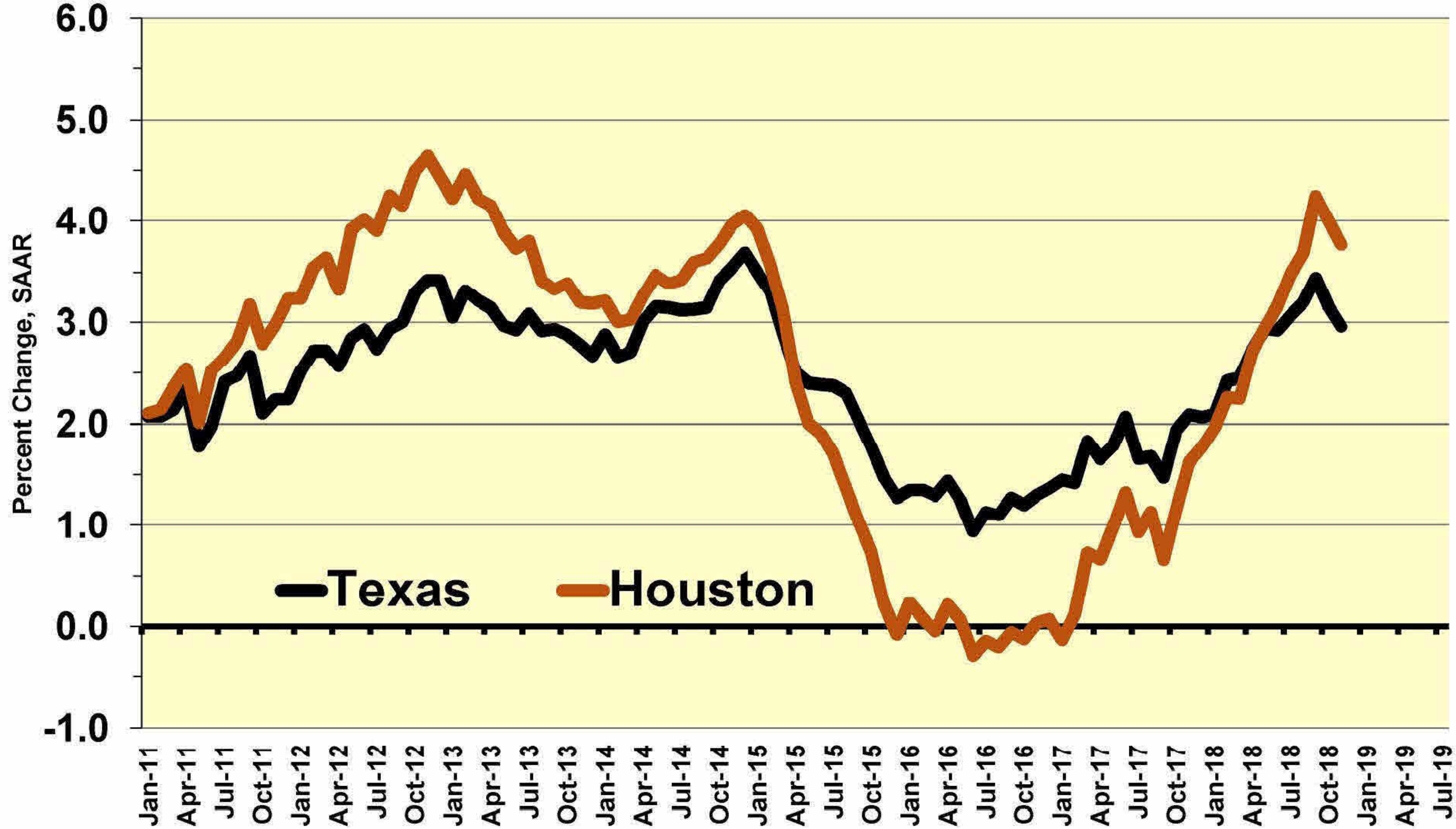
- Houston is technological and engineering heart of oil industry
- Industry consolidation has favored Houston for decades
- Rigs are fewer, but much bigger and more intensively used
  - Need for Houston-based engineering, oil services, machinery and fabricated metals does not fall nearly as fast as number of rigs.

Business Cycle Indexes: Dallas, Houston Fort Worth, San Antonio & Texas

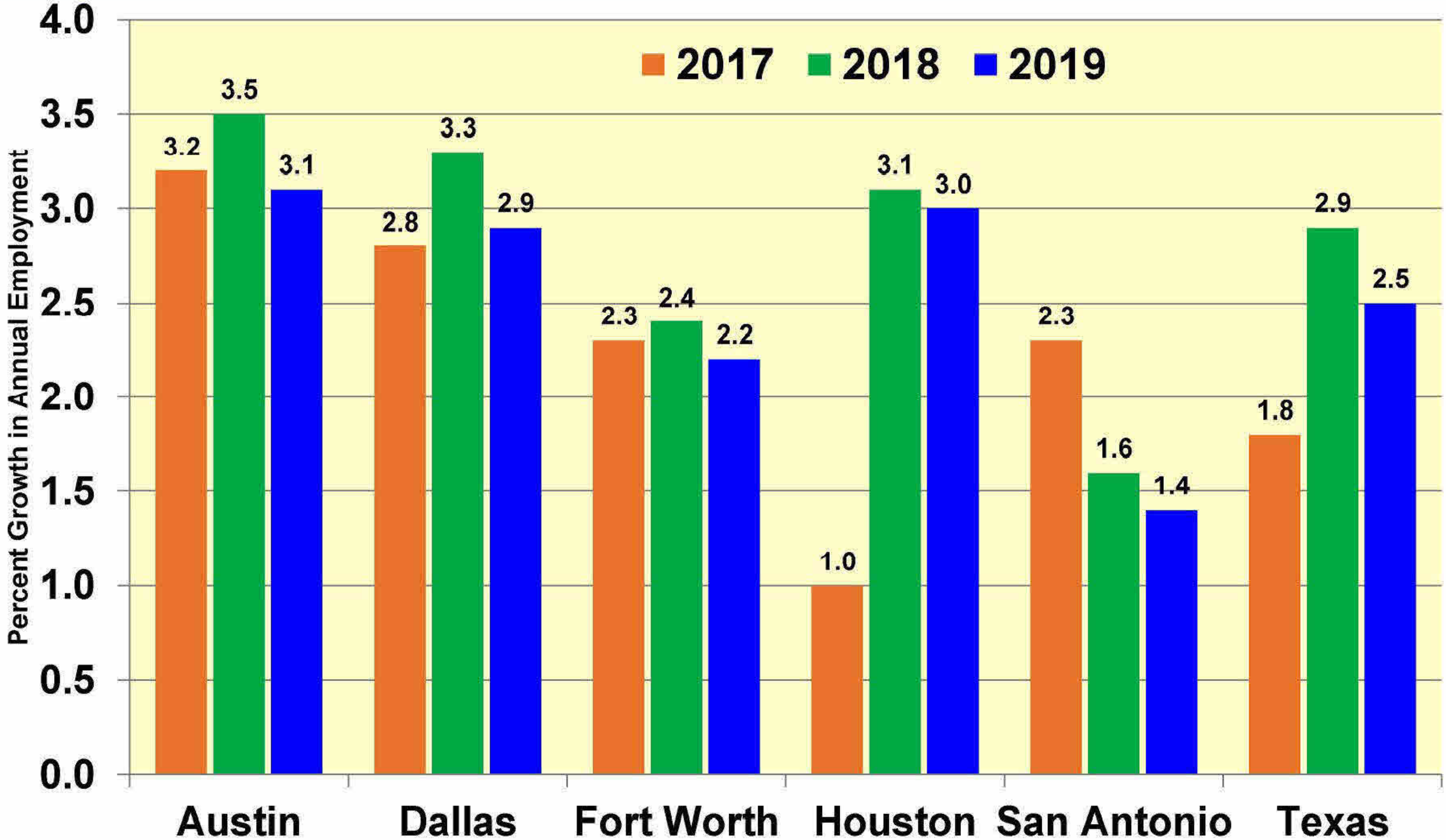
Months Seasonally Adjusted, 10/1980=100



Annual Employment Growth Rates U.S. and Houston MSA



Texas Major MSAs Employment Growth 2017, 2018 & 2019



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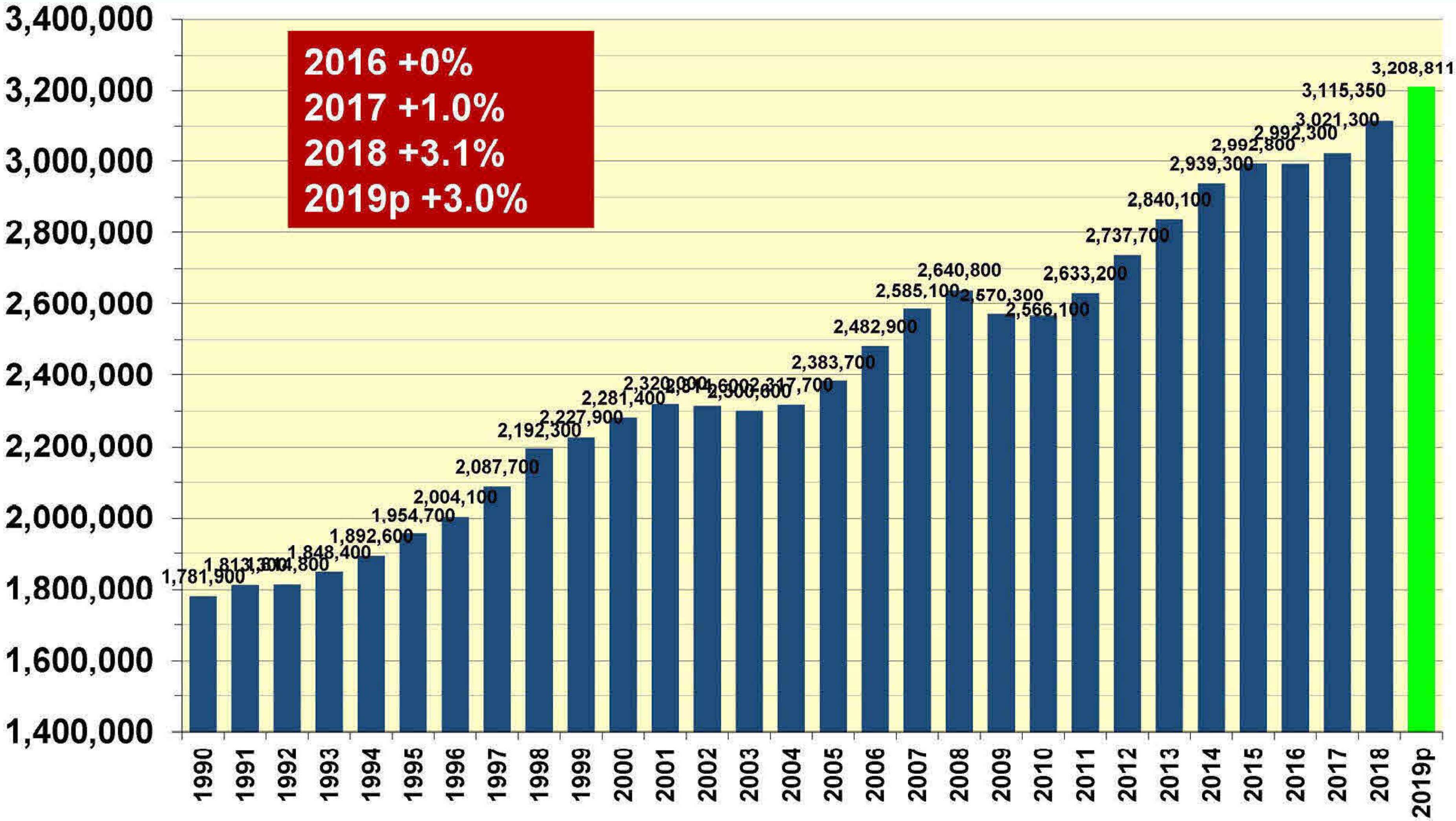
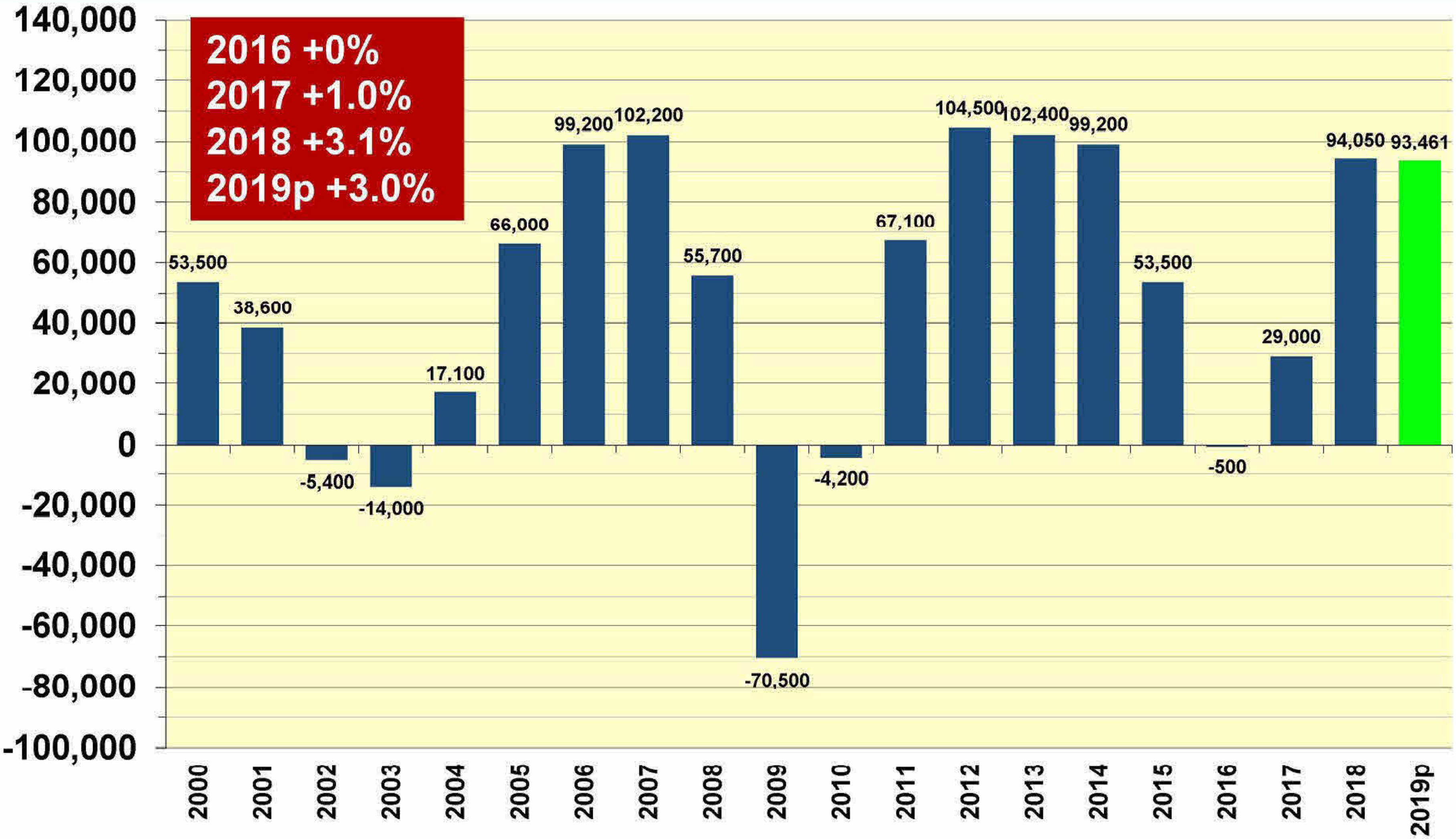
Sources: TWC; Real Estate Center at Texas A&M University

Houston Annual Jobs

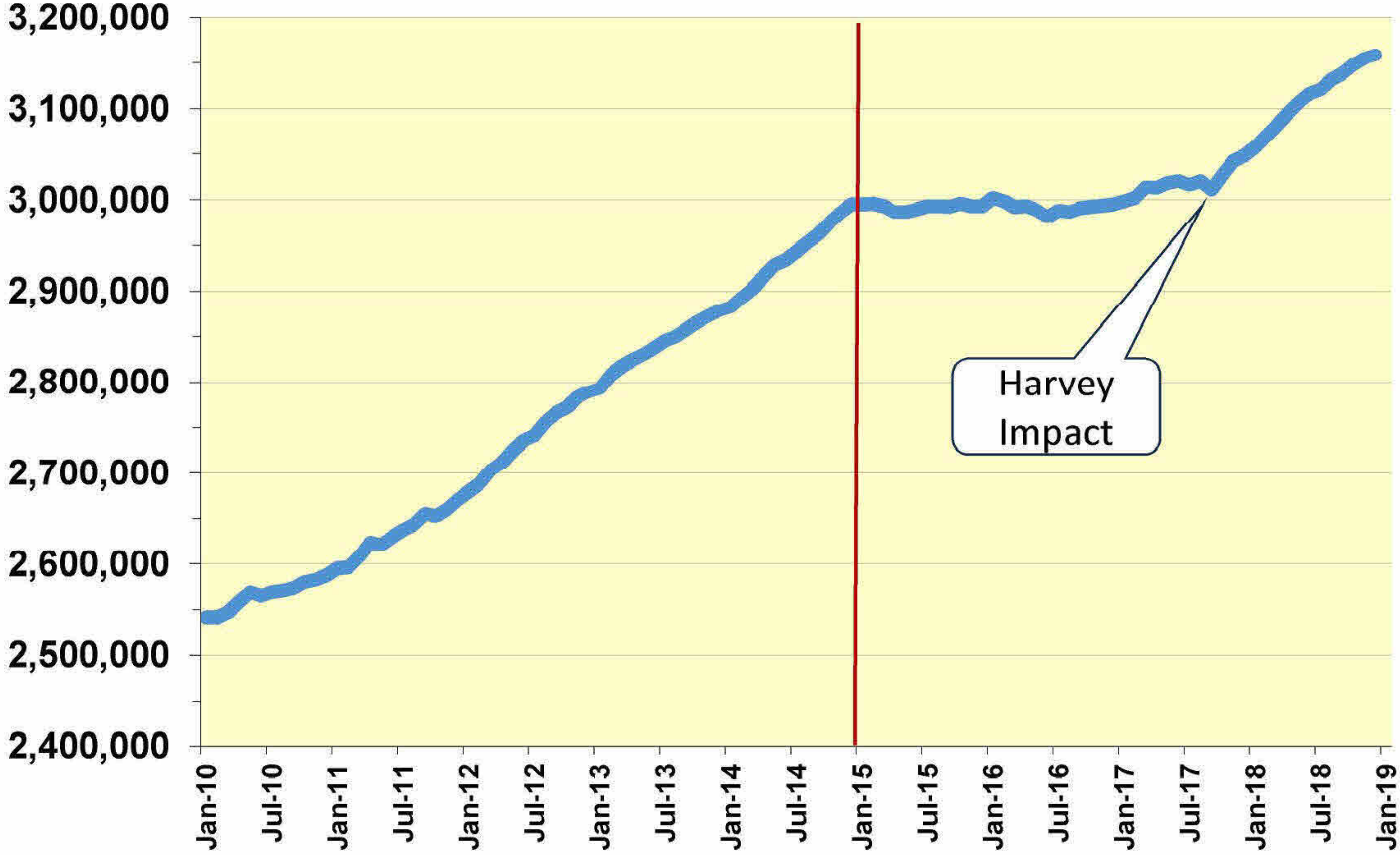


Houston Annual Jobs



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

Houston Monthly Jobs



Houston Economic Summary

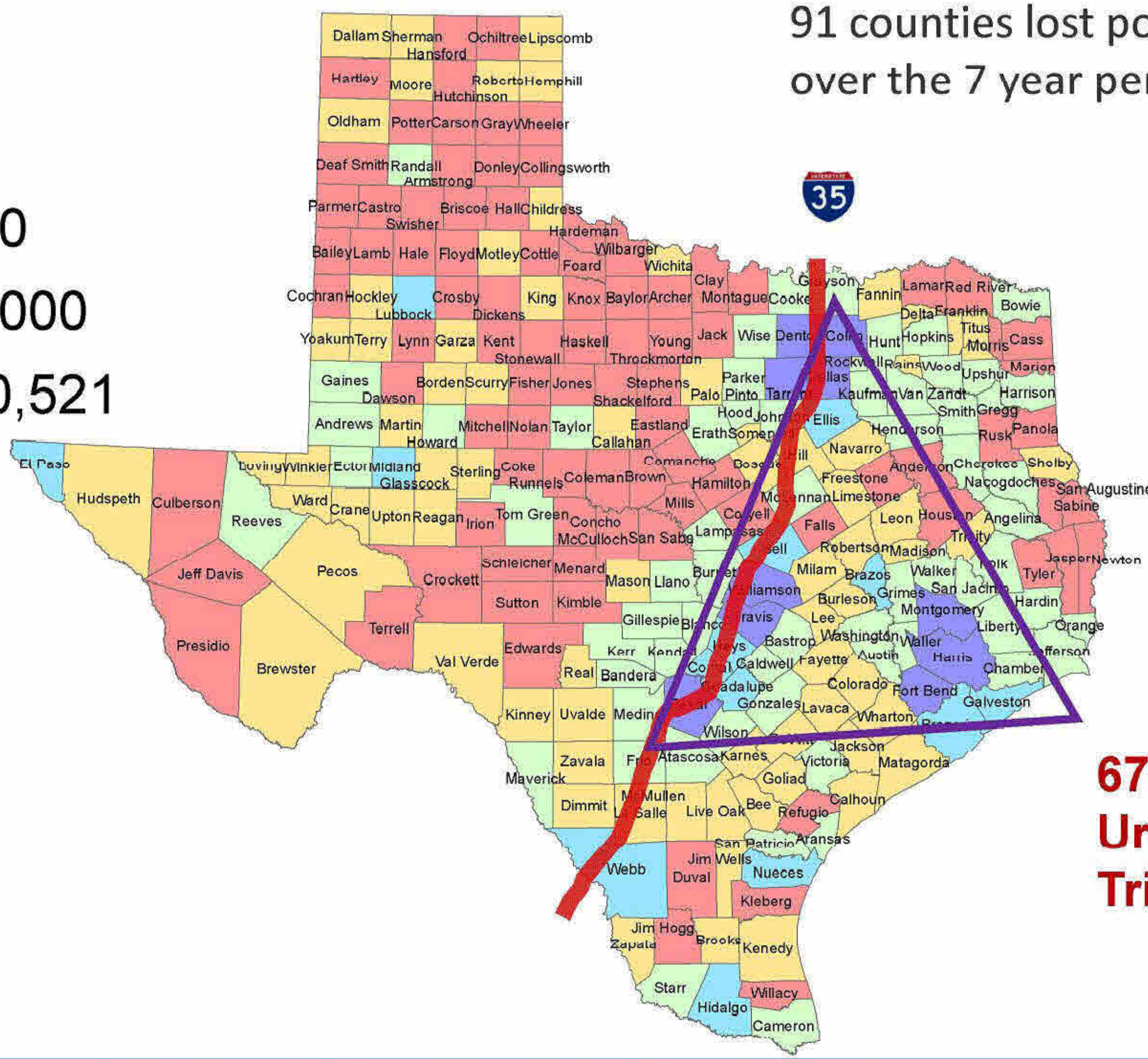
- Upstream energy relatively stable; expect mostly neutral impacts; Oil prices \$40 - \$60/bl.
- Around \$50B in downstream construction finished or near completion
- Expect good employment growth but slower rate (70,000 – 90,000 jobs, 3% growth) in 2019
  - Healthcare, Construction, Admin. Support, Professional Services, Manufacturing, Restaurants, Retail & Government
- Trade at Port of Houston remains robust, key upside for future as well (~17% of Houston GDP); trade agreements uncertainty may create problems
- U.S. and Global economies fuel Houston's growth

Texas Demographics

Estimated Population Change, Texas Counties, 2010 to 2017

(red)	-2,139 - 0
(yellow)	1 - 1,000
(green)	1,001 - 20,000
(blue)	20,001 - 100,000
(purple)	100,001 - 560,521

91 counties lost population over the 7 year period.

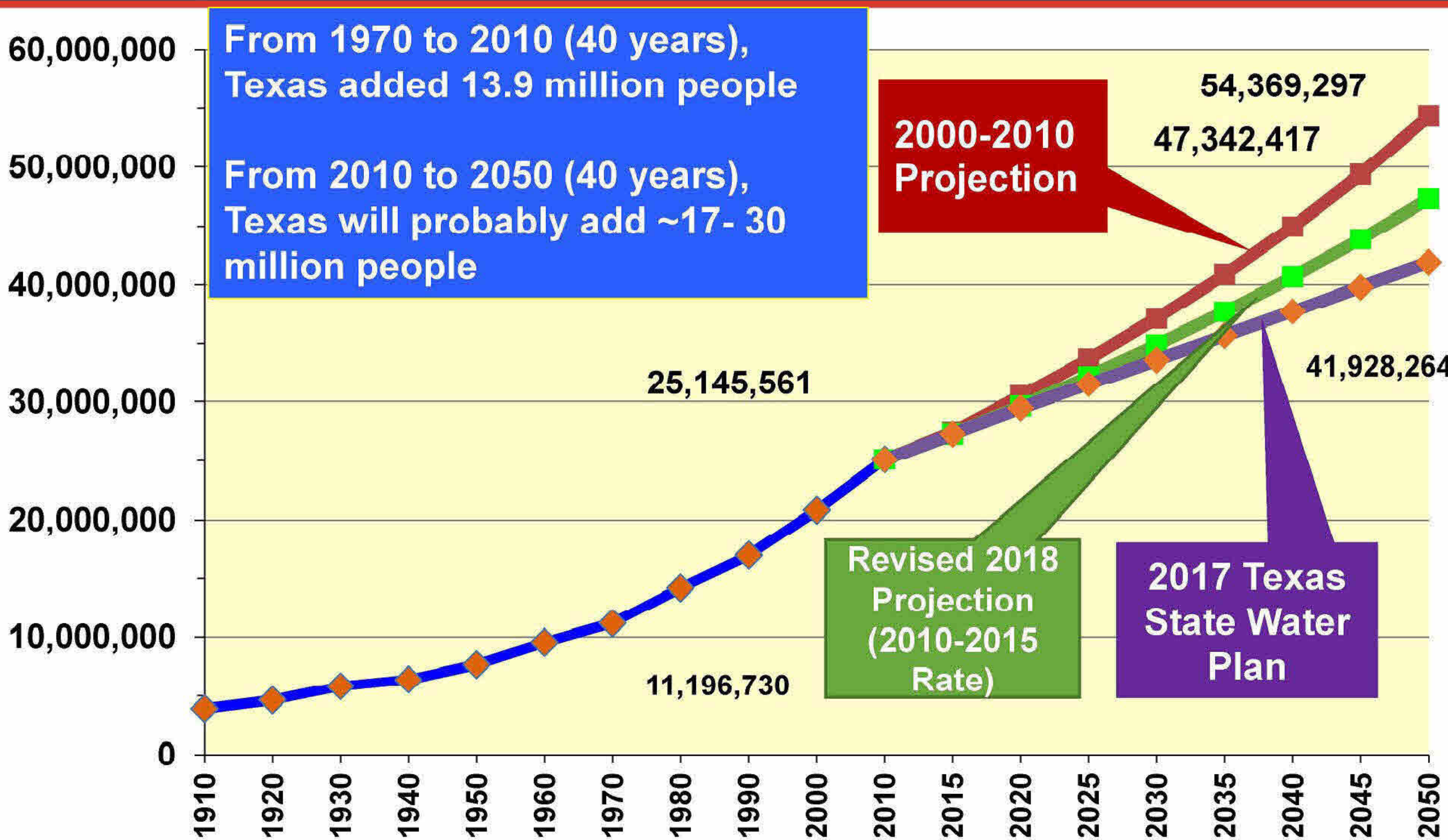


87% E of I-35

67% in Urban Triangle

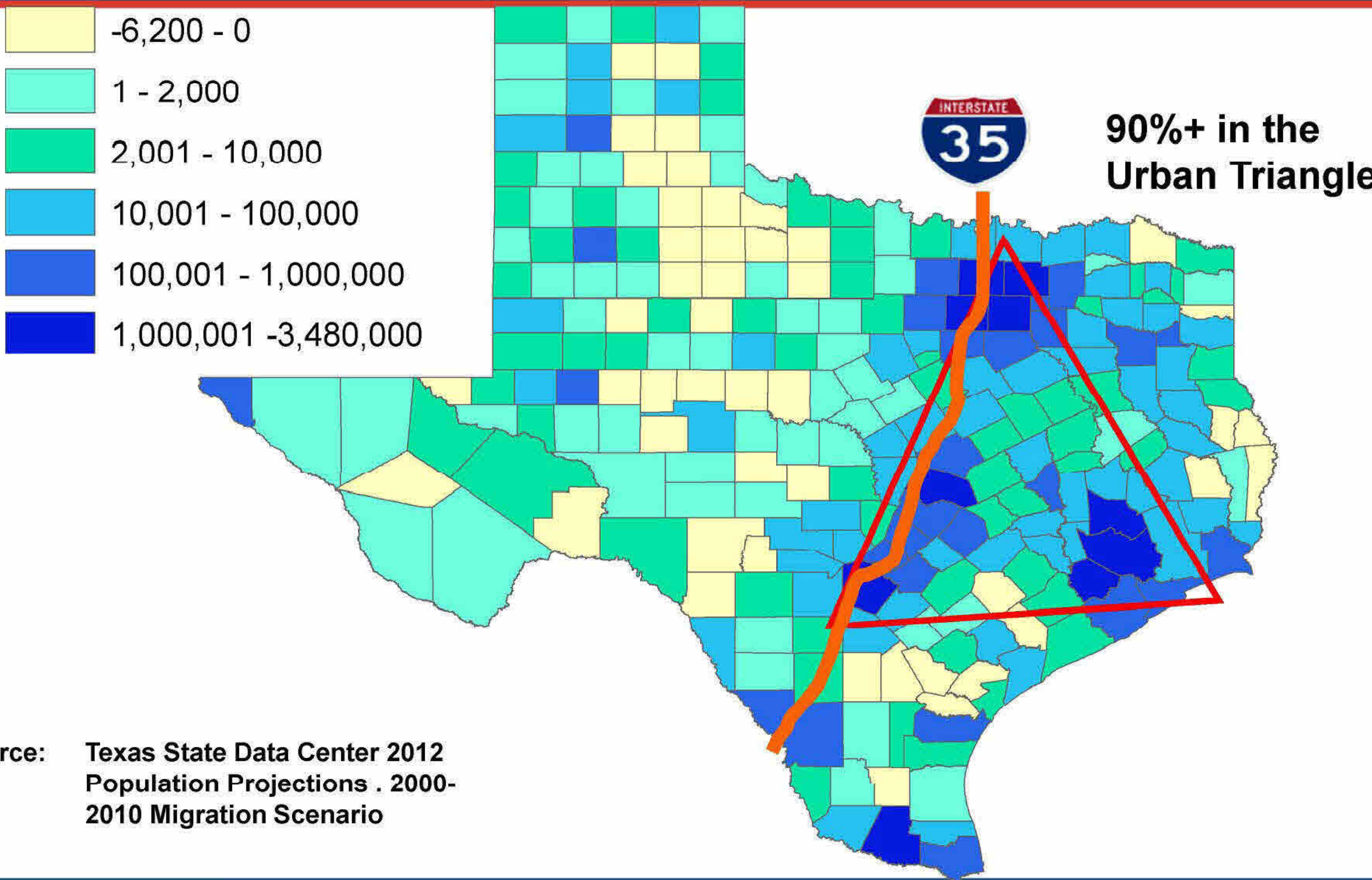
Texas Population 1910-2050

2018 Population Projection & 2017 Texas Water Plan



Sources: U.S. Census Bureau; Texas State Demographer's Office 2018 Projection & 2000-2010 Scenario; Real Estate Center at Texas A&M University

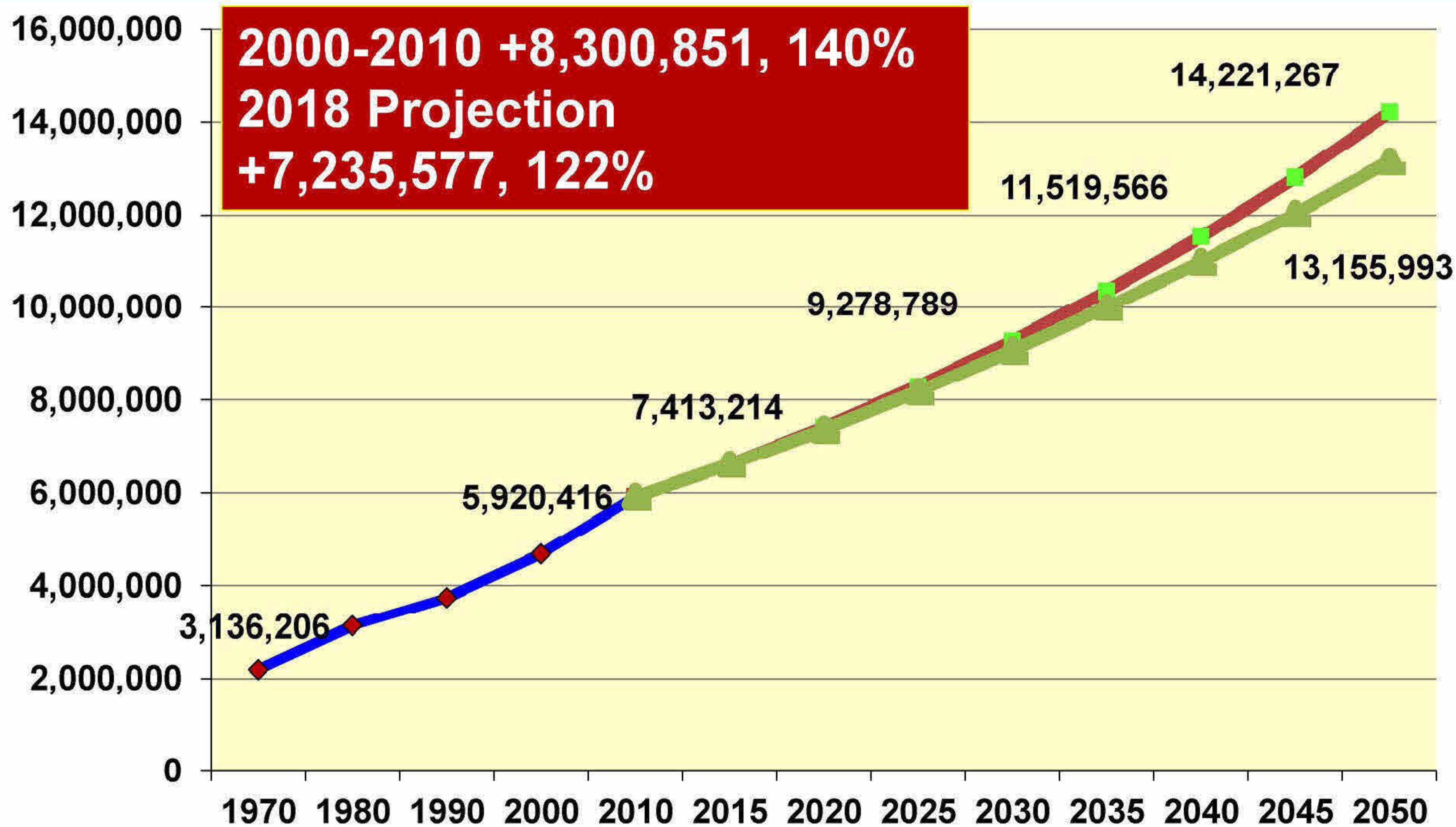
Projected Population Change, Texas Counties, 2010-2050



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

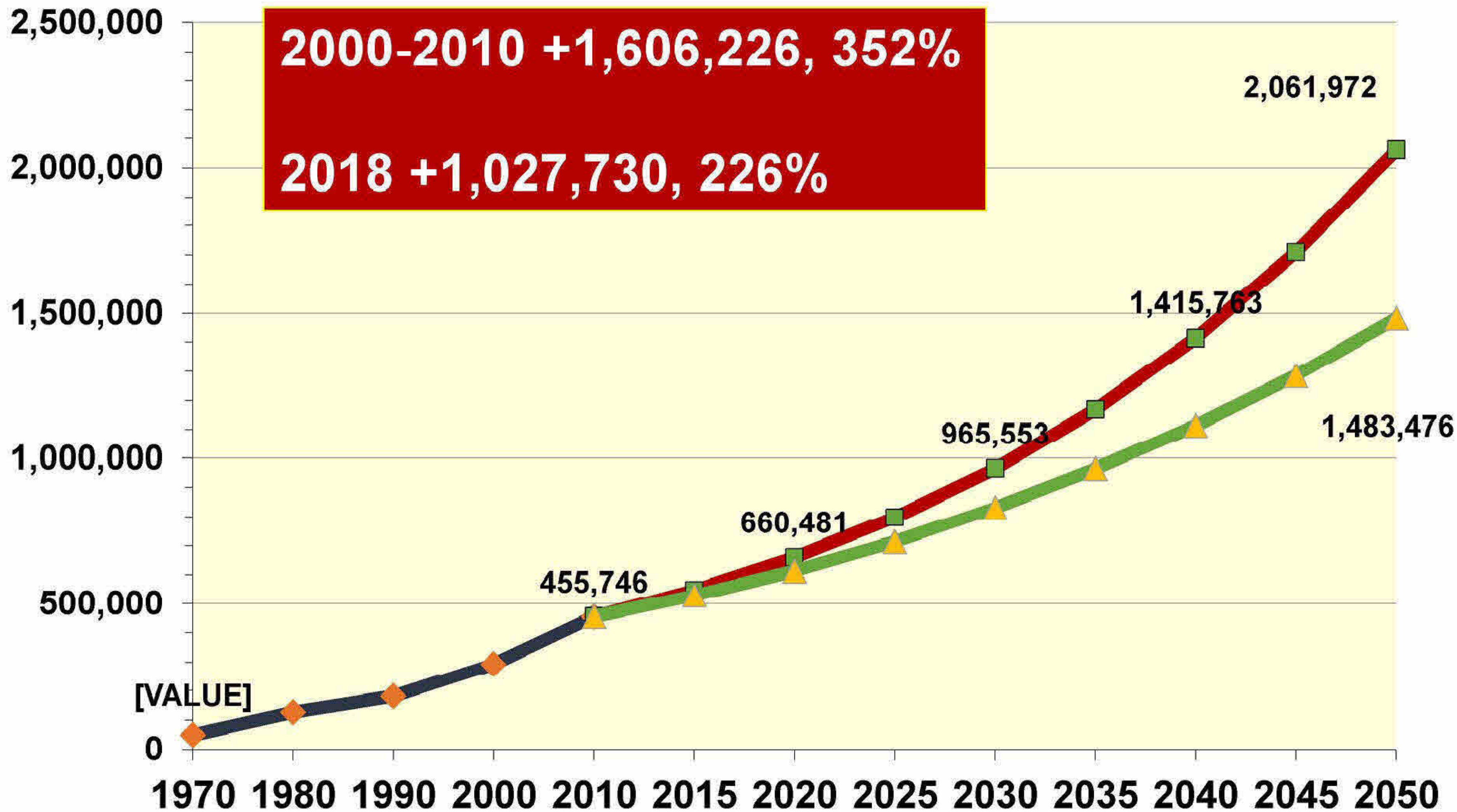
Houston MSA Population

Brazoria, Chambers, Fort Bend, Galveston, Liberty & Montgomery Counties



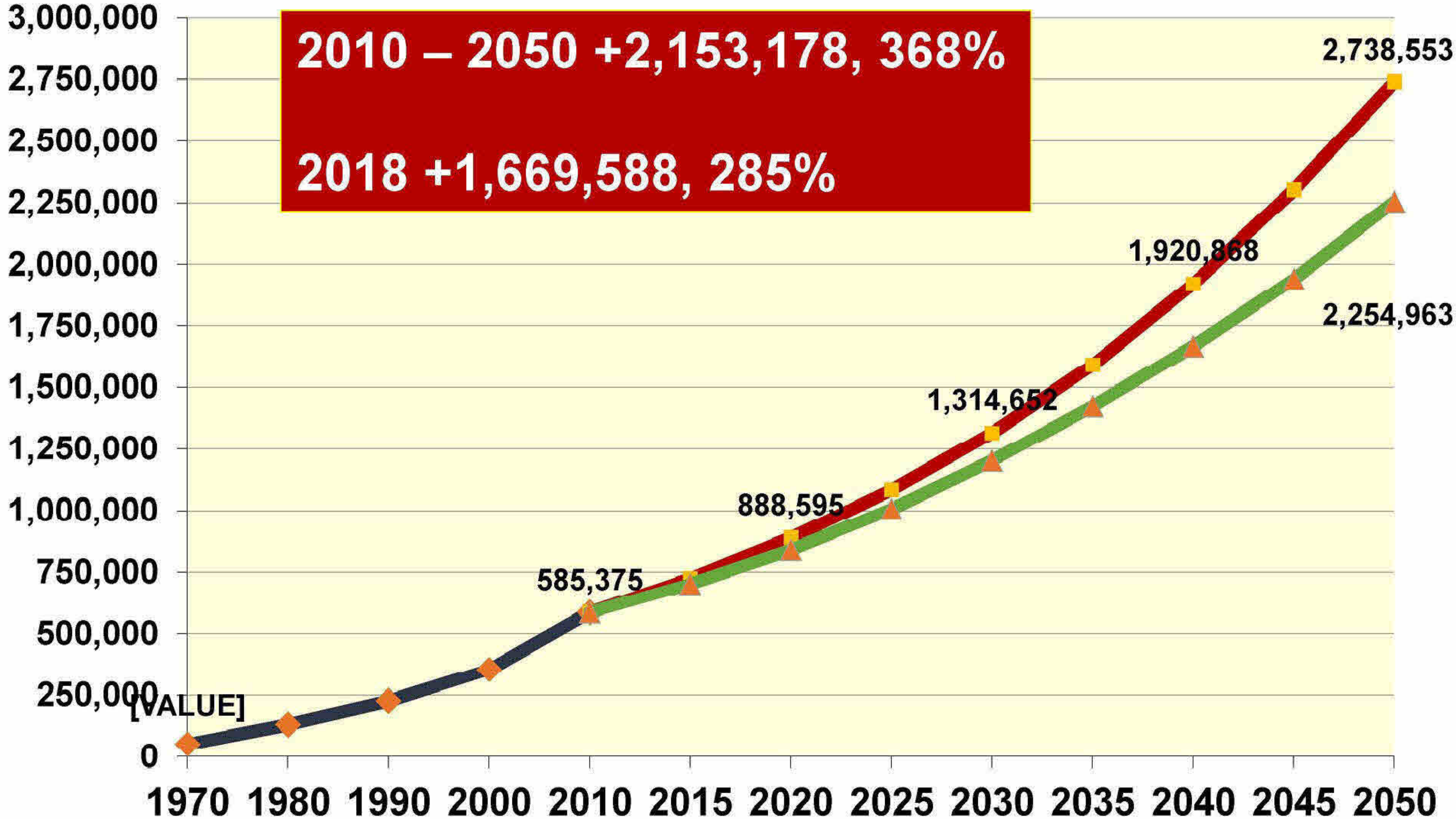
Sources: U.S. Census Bureau; Texas State Demographer's Office 2018 Projection & 2000-2010 Scenario; Real Estate Center at Texas A&M University

Montgomery County Population



Sources: U.S. Census Bureau; Texas State Demographer's Office 2018 Projection & 2000-2010 Scenario; Real Estate Center at Texas A&M University

Fort Bend County Population



Sources: U.S. Census Bureau; Texas State Demographer's Office 2018 Projection & 2000-2010 Scenario; Real Estate Center at Texas A&M University

Texas Housing Market

2018 A Solid Year For Housing Around the State

- **Total Housing Activity: 2018 vs. 2017**
  - Sales +1.7% 343,833 vs. 336,502 $97.7B vs. $92.4B
  - Listings +1.4% 101,603 vs. 100,664
  - DoM 58 vs. 57
  - MOI 3.4 vs. 3.1
  - Average Price +3.7% $284,173 vs. $274,580
  - Median Price +4.5% $233,000 vs. $223,990
  - Md. Price/sq. ft. +5% $116.37 vs. $110.55
  - Avg. Price/sq. ft. +4.3% $128 vs. $122

2018 A Solid Year For Housing Around the State

- **New Home Construction lead the nation**
  - State 168,500 total starts, ~122k SF ~47k MF
  - DFW 57.9K (35.1k SF, 22.8k MF); Houston 50.8k (41.3k SF, 9.5k MF)
- **New Home Sales 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%

2018 Percent Changes in Key Housing Measures

	Sales	Average Price	Median Price	Months Inventory	Median Price/sf
Texas	1.7%	3.7%	4.5%	9.8%	5.0%
Austin	1.4%	4.2%	3.9%	9.7%	3.9%
DFW	-2.4%	4.1%	3.9%	19.7%	5.7%
Houston	3.4%	2.7%	3.1%	13.5%	4.2%
San Antonio	2.9%	4.2%	5.2%	8.0%	5.5%

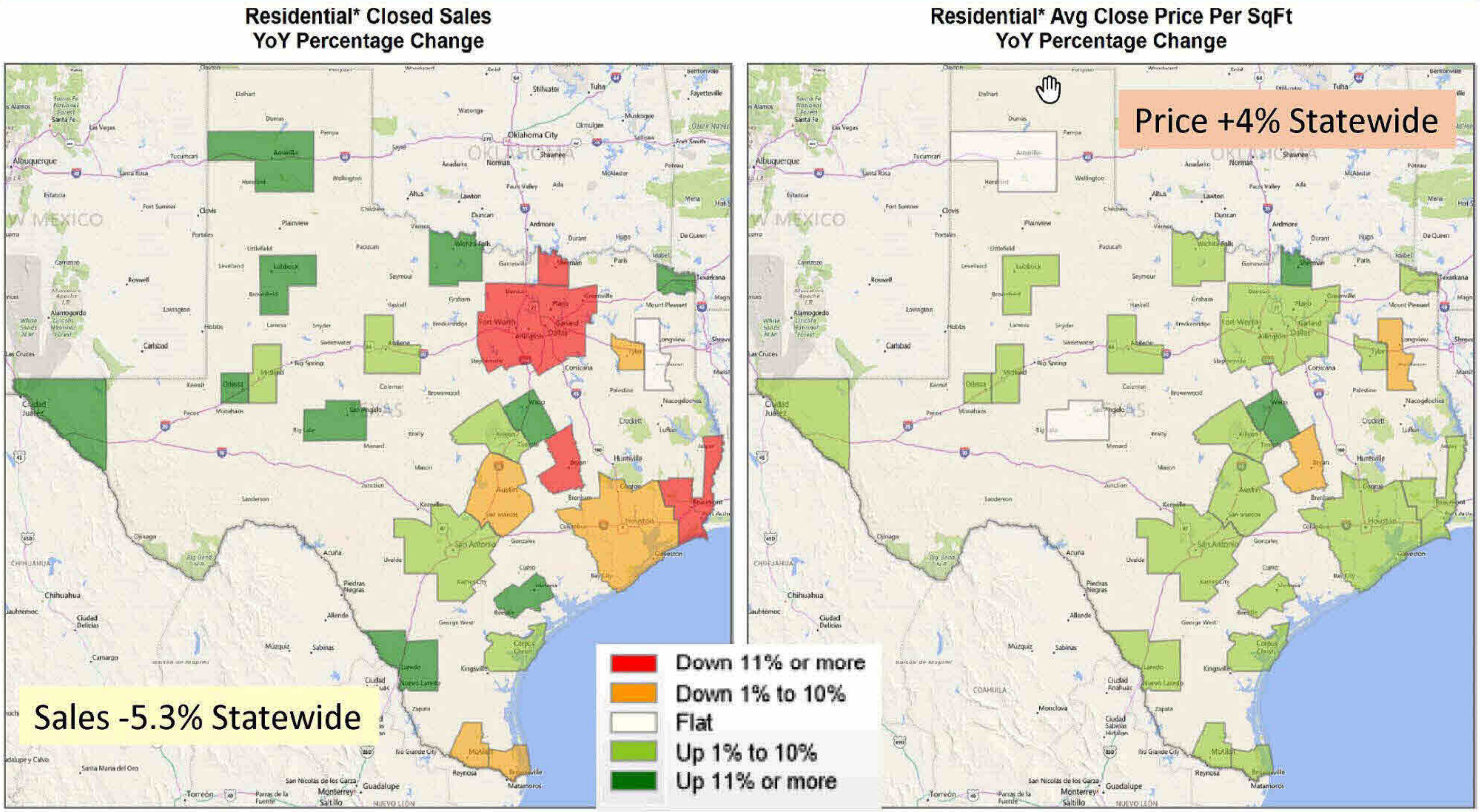
Source: TR Data Relevance Program; Real Estate Center at Texas A&M University

2019 Home Market Slowdown

Factors that may create a drag on home-buying demand

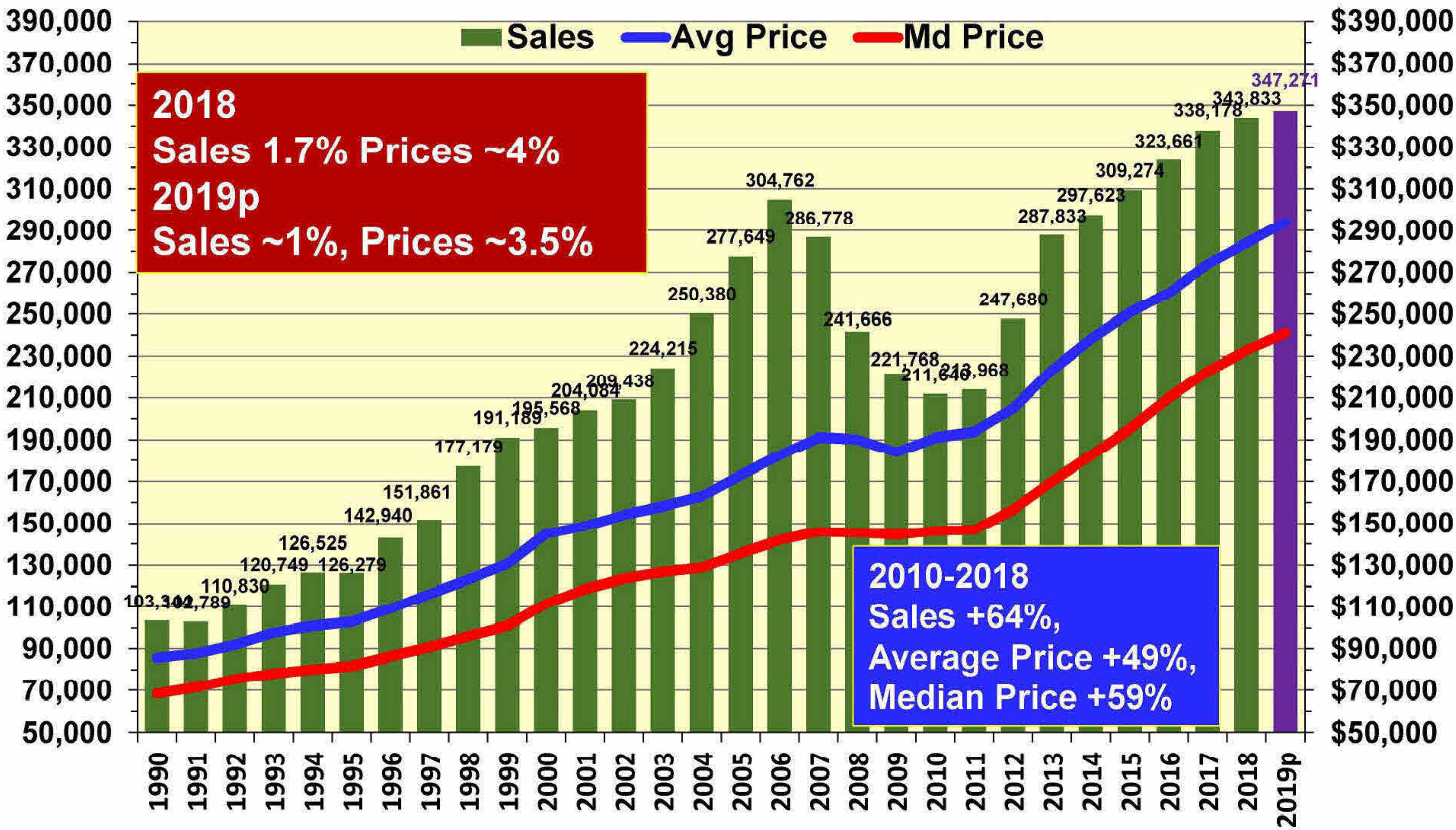
- Limited inventory availability
- Higher prices - affordability
- Increasing interest rates
- Concerns about general economy – fear of recession or jobs
- Stock market volatility
- Negative press coming off record year(s)

January 2019 Residential Sales Slowed Down & Price/Sq. Ft. Still Up

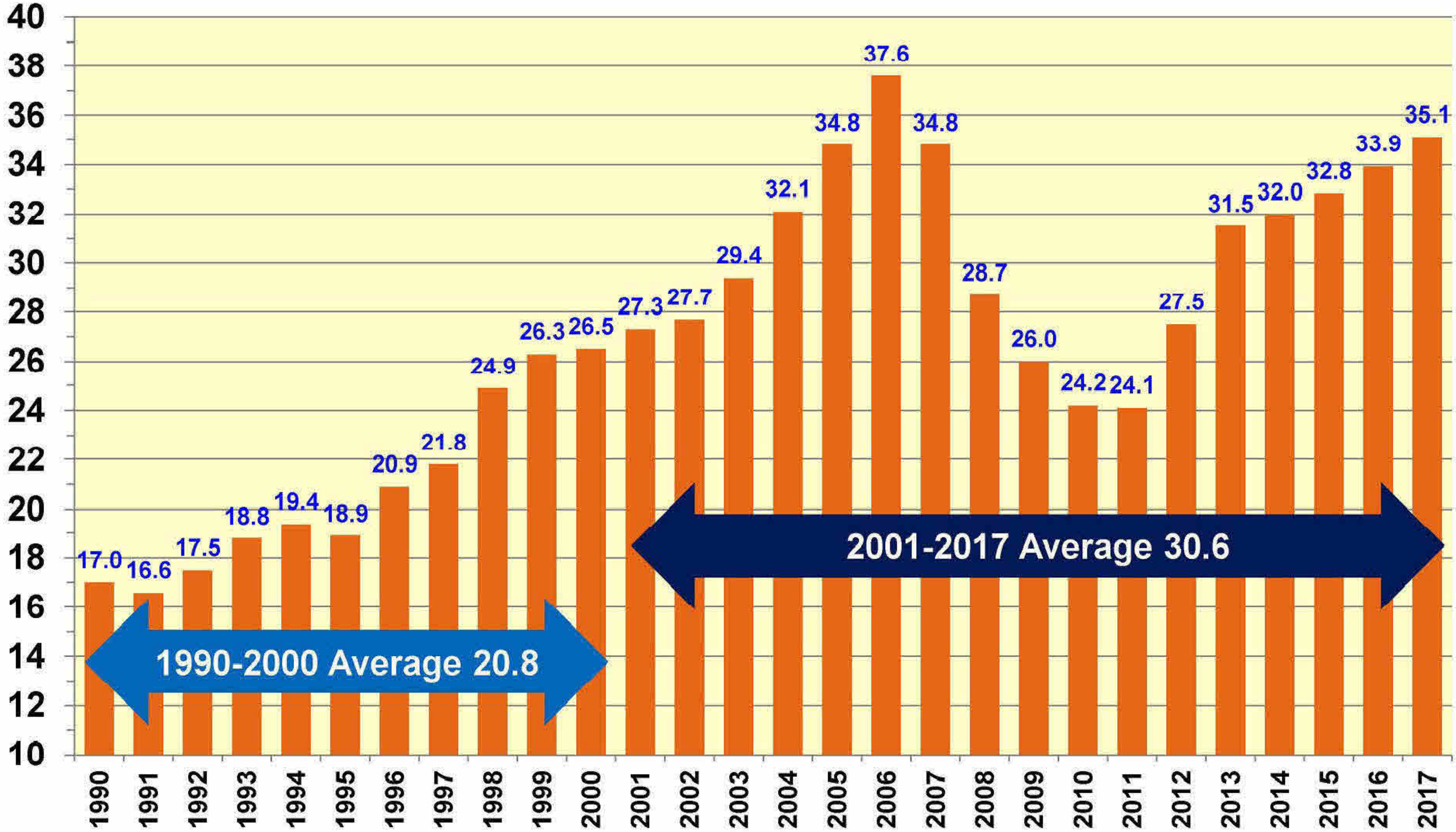


Source: TR Data Relevance Program; Real Estate Center at Texas A&M University

Annual Texas Home Sales & Prices



Texas Home Sales per 1,000 Households



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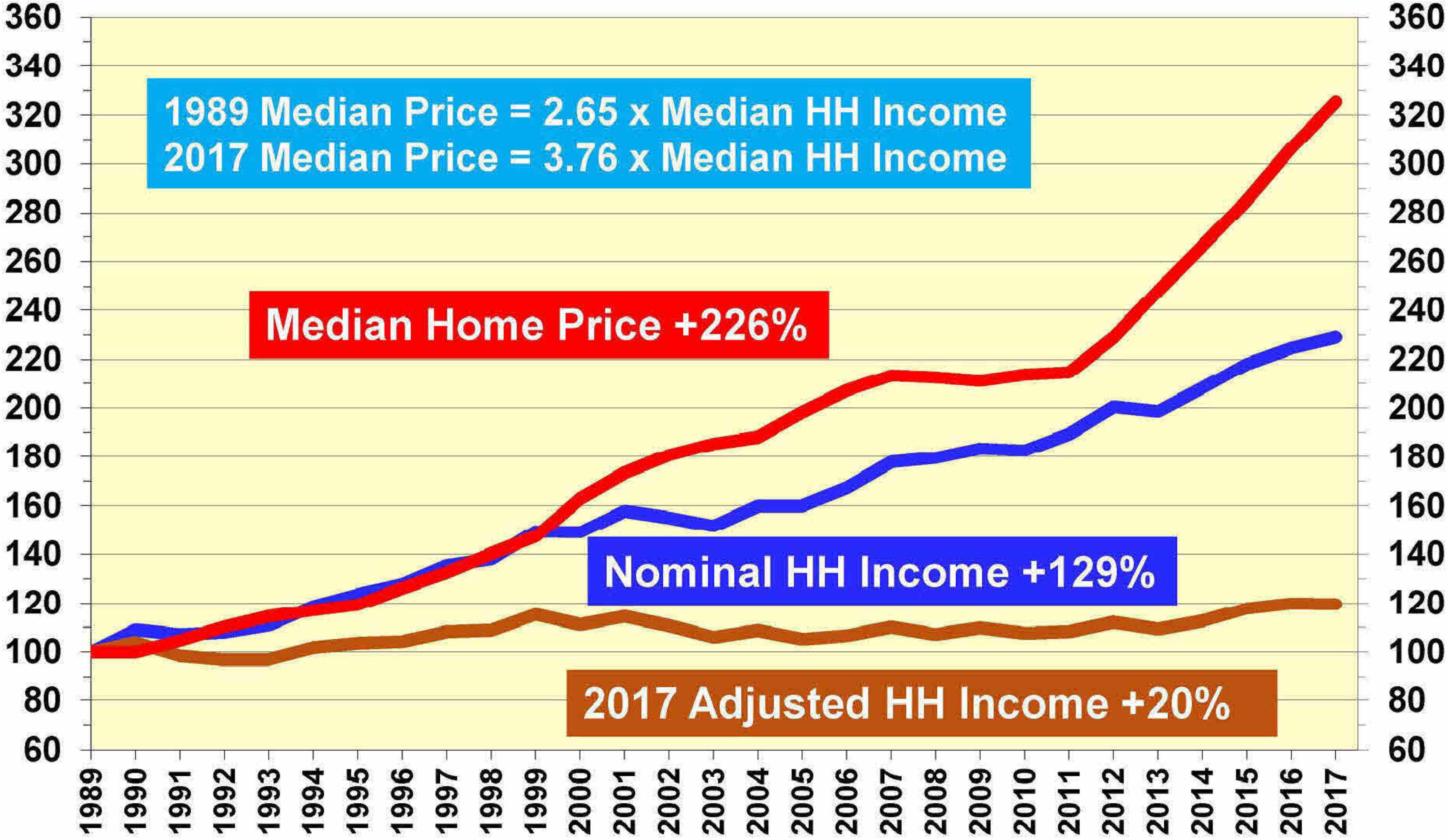
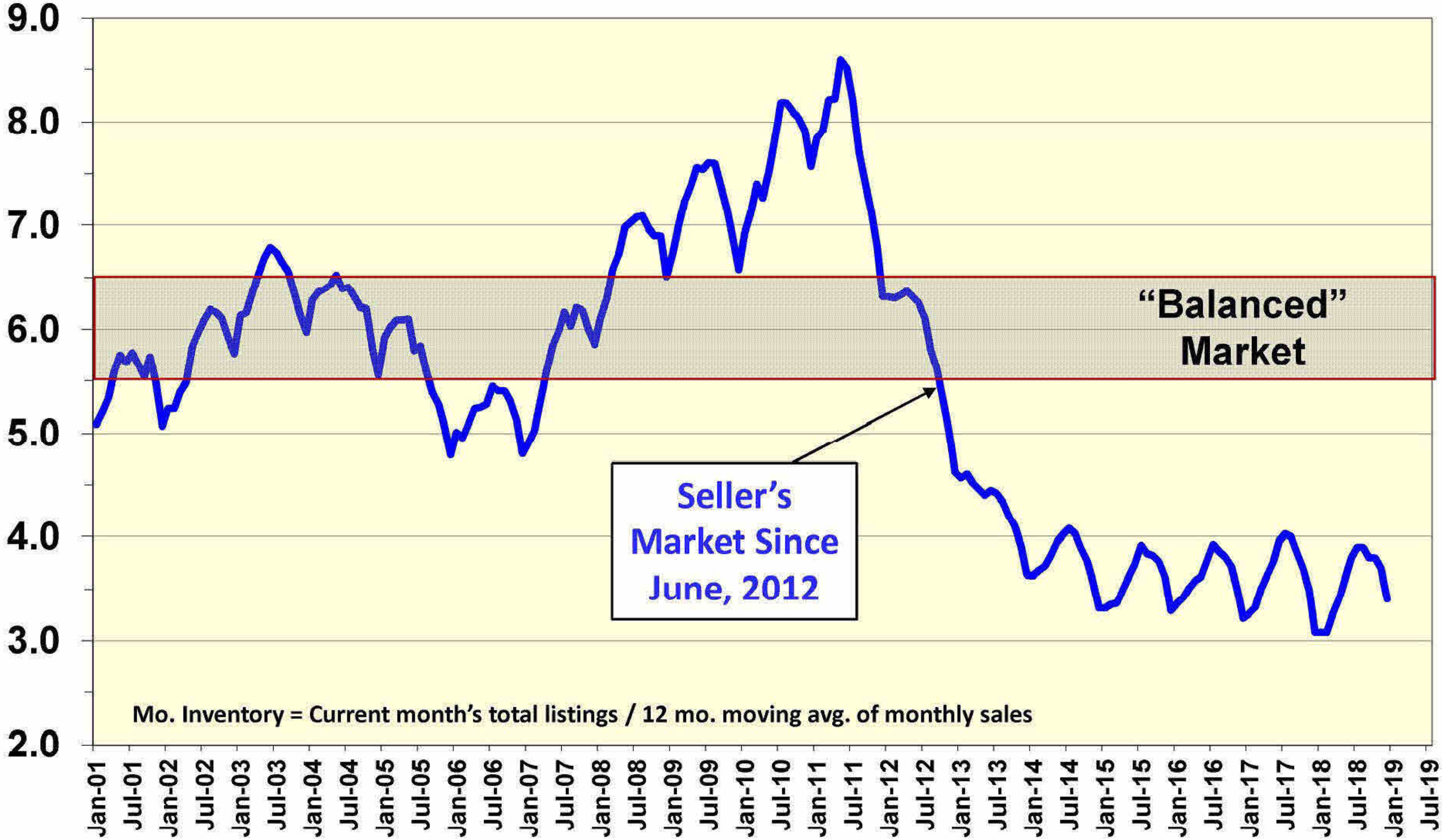
Source: TR Data Relevance Program; US Census Bureau; Real Estate Center at Texas A&M University

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



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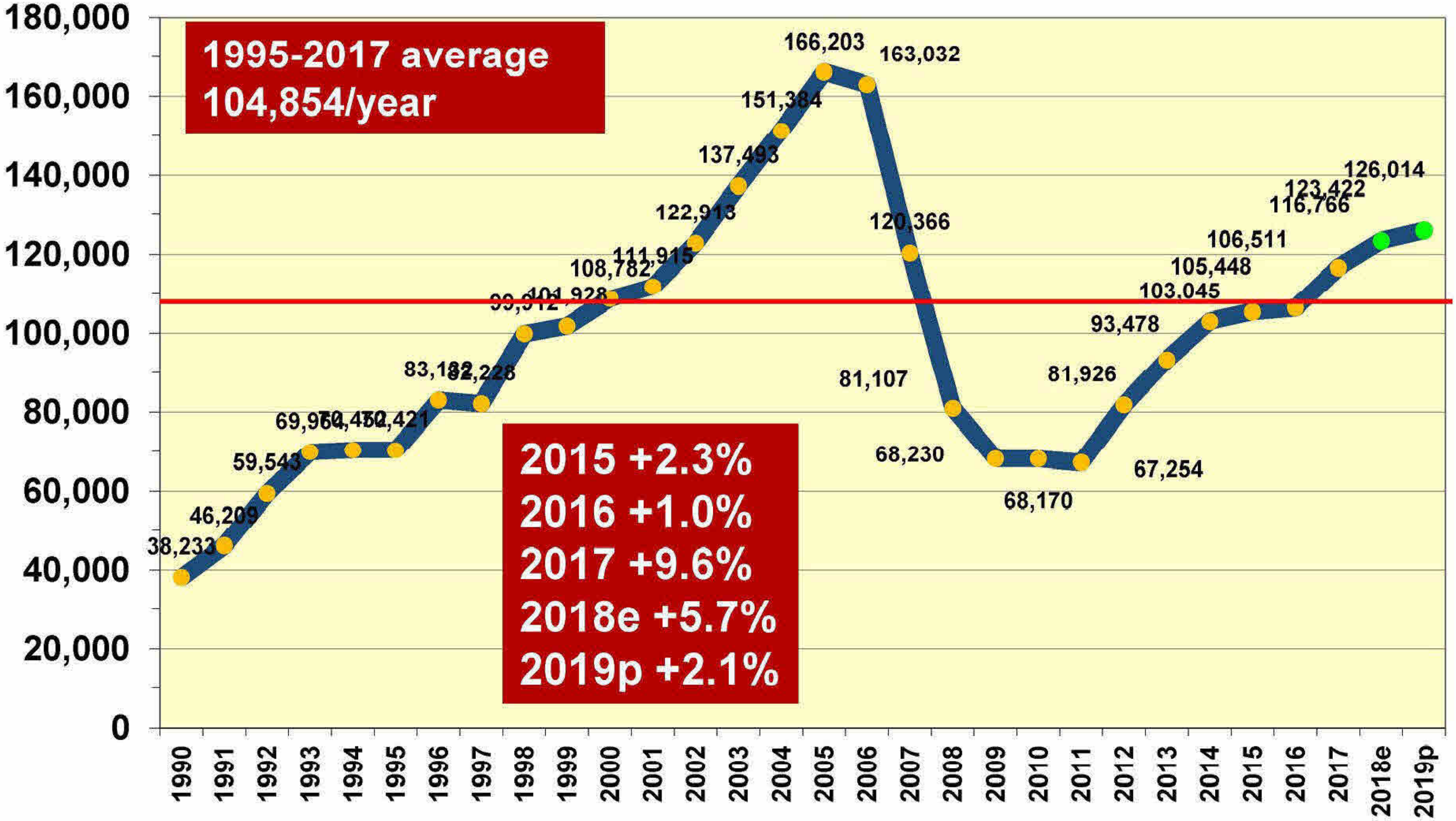
Texas SF Building Permits



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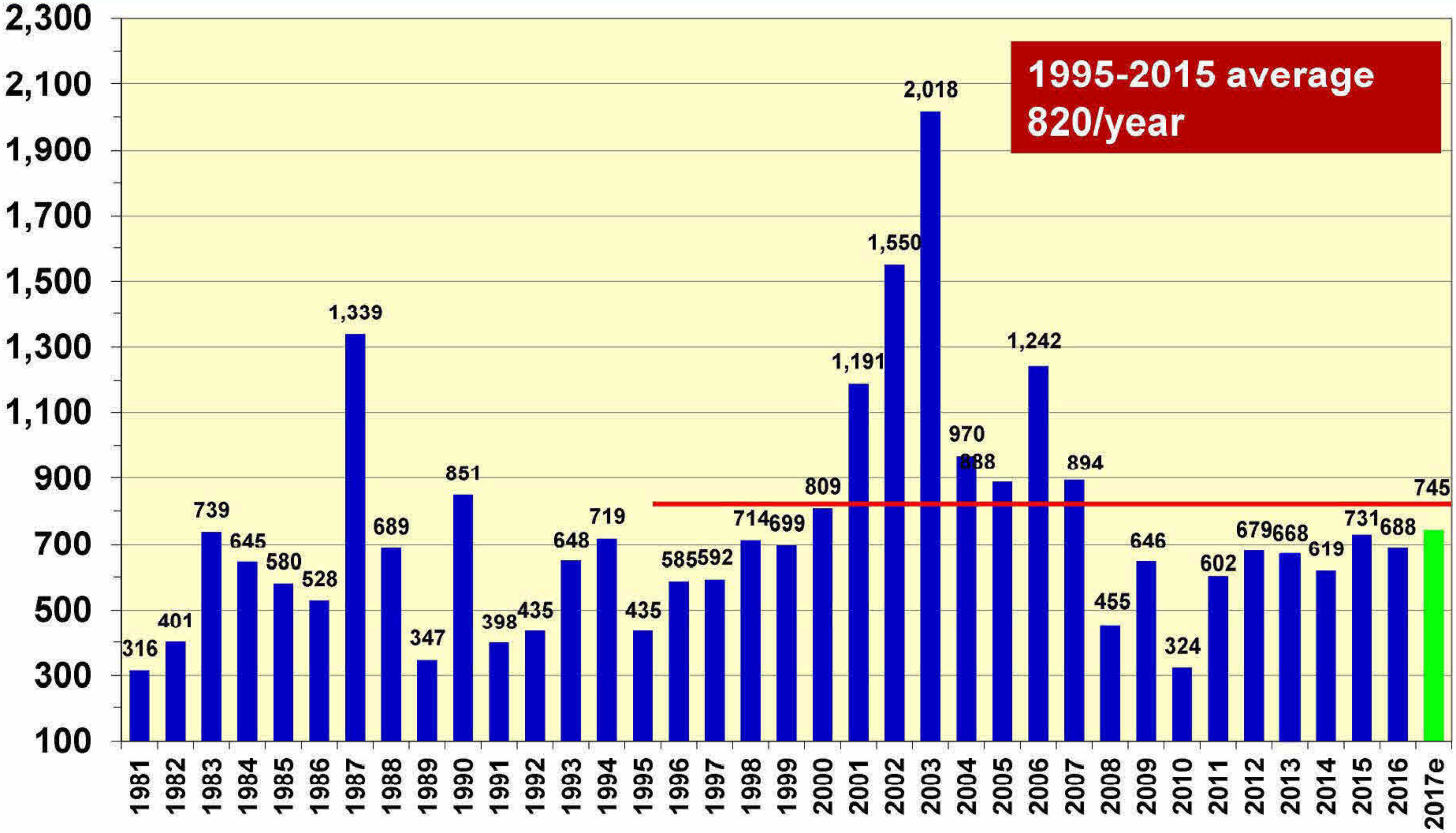
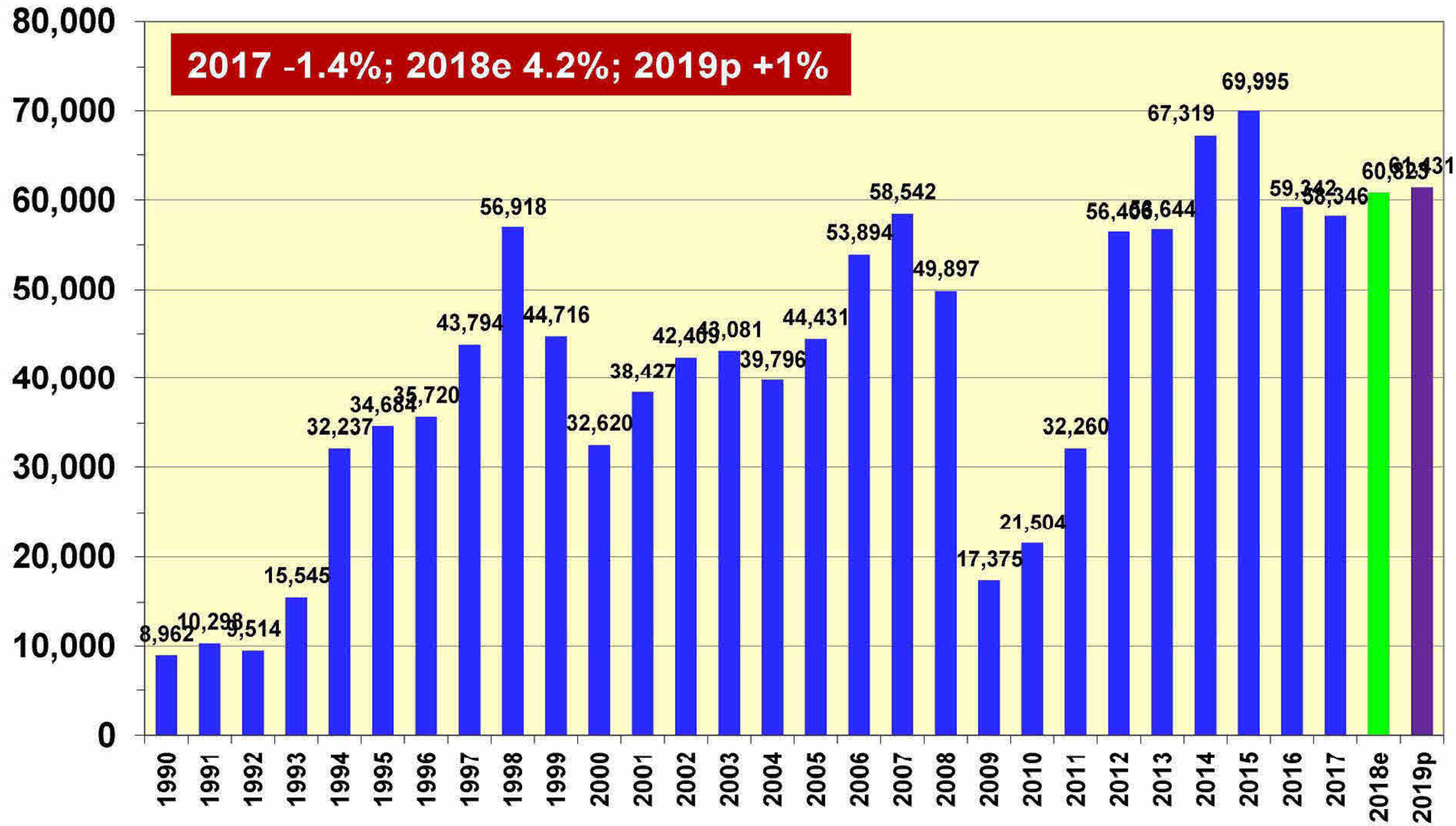
Source: US Census Bureau; NAHB; Real Estate Center at Texas A&M

Texas SF Building Permits per 1,000 New Households



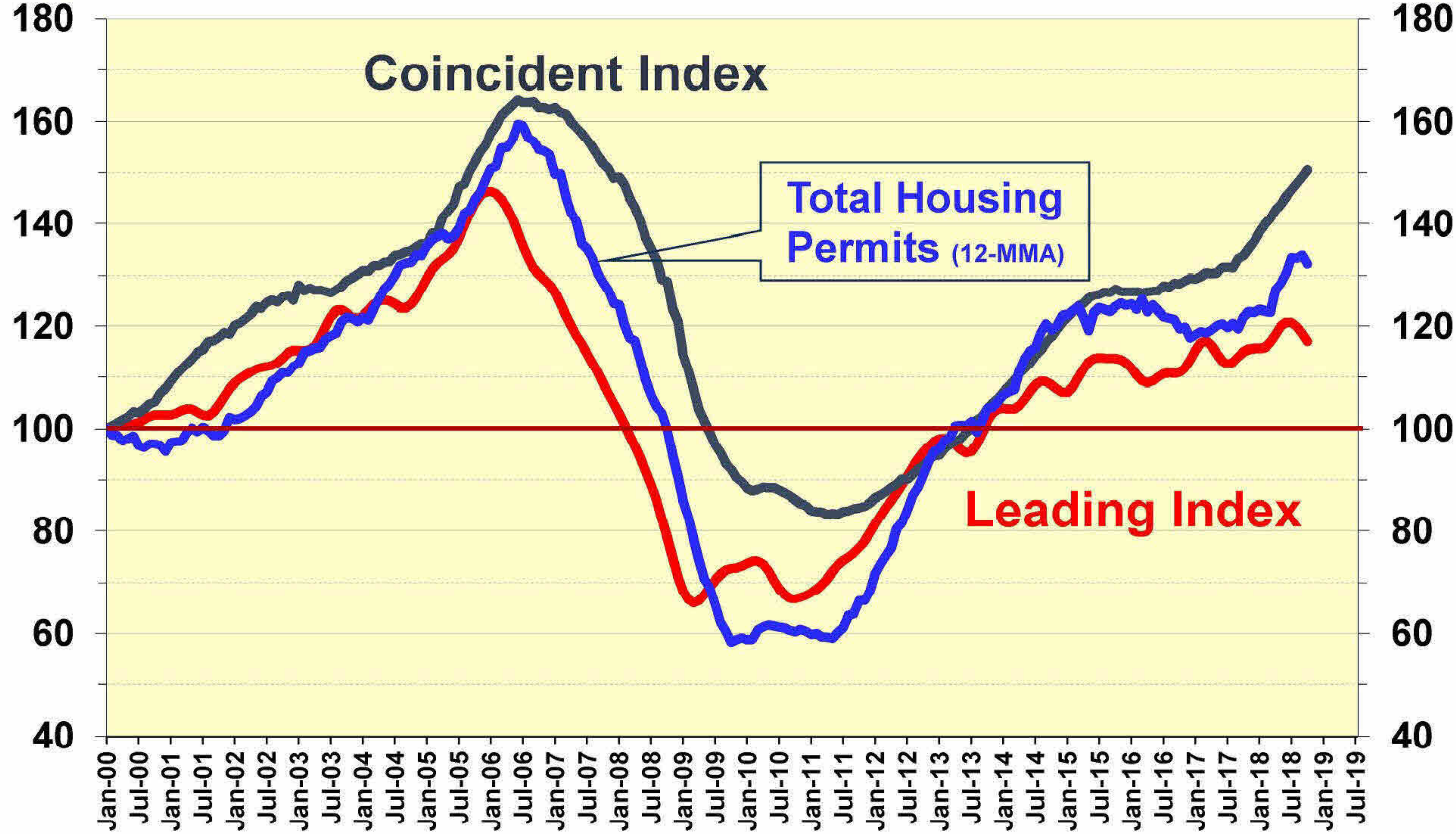
Texas MF Building Permits



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

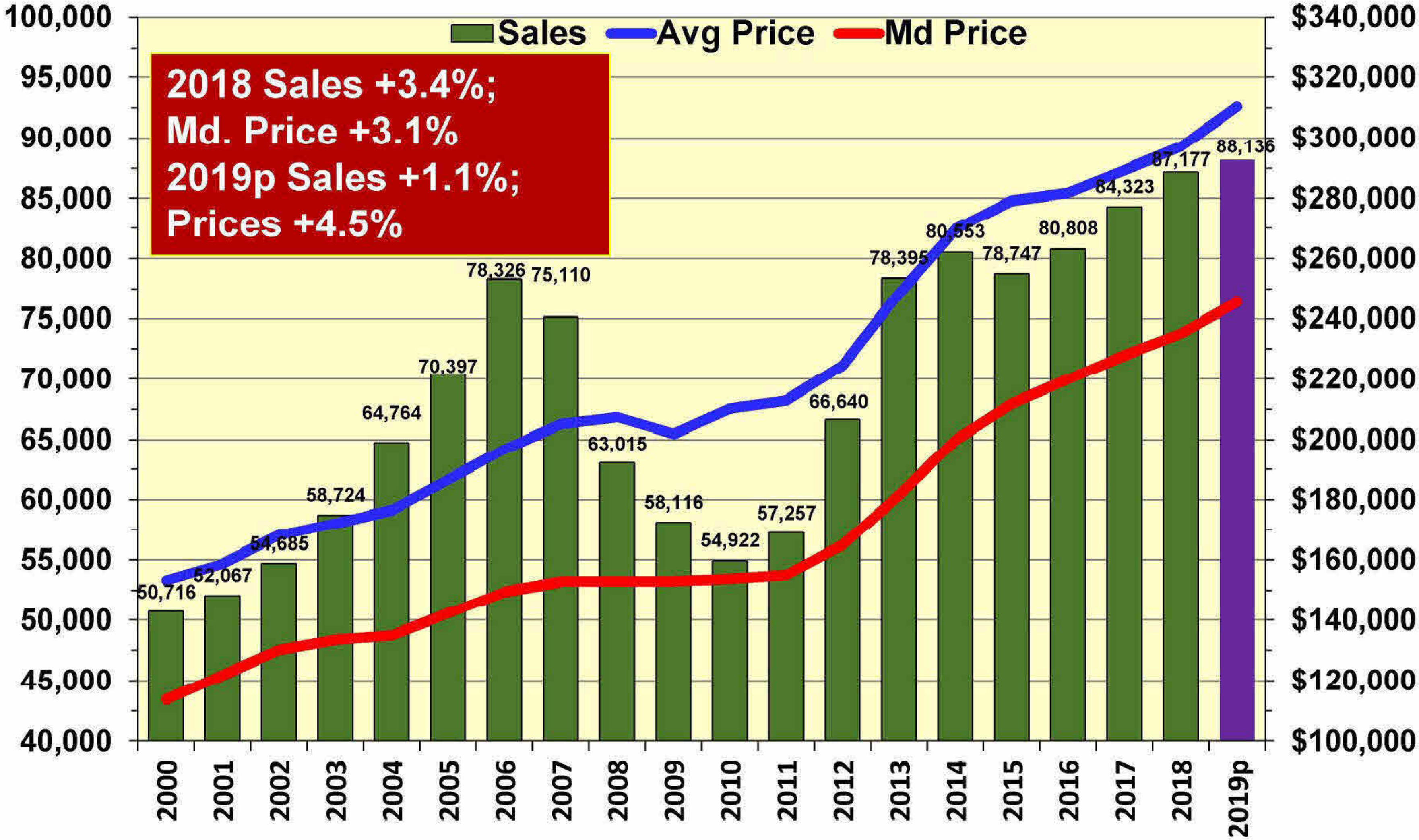
Texas Residential Construction Leading and Coincident Indexes

Jan 2000=100

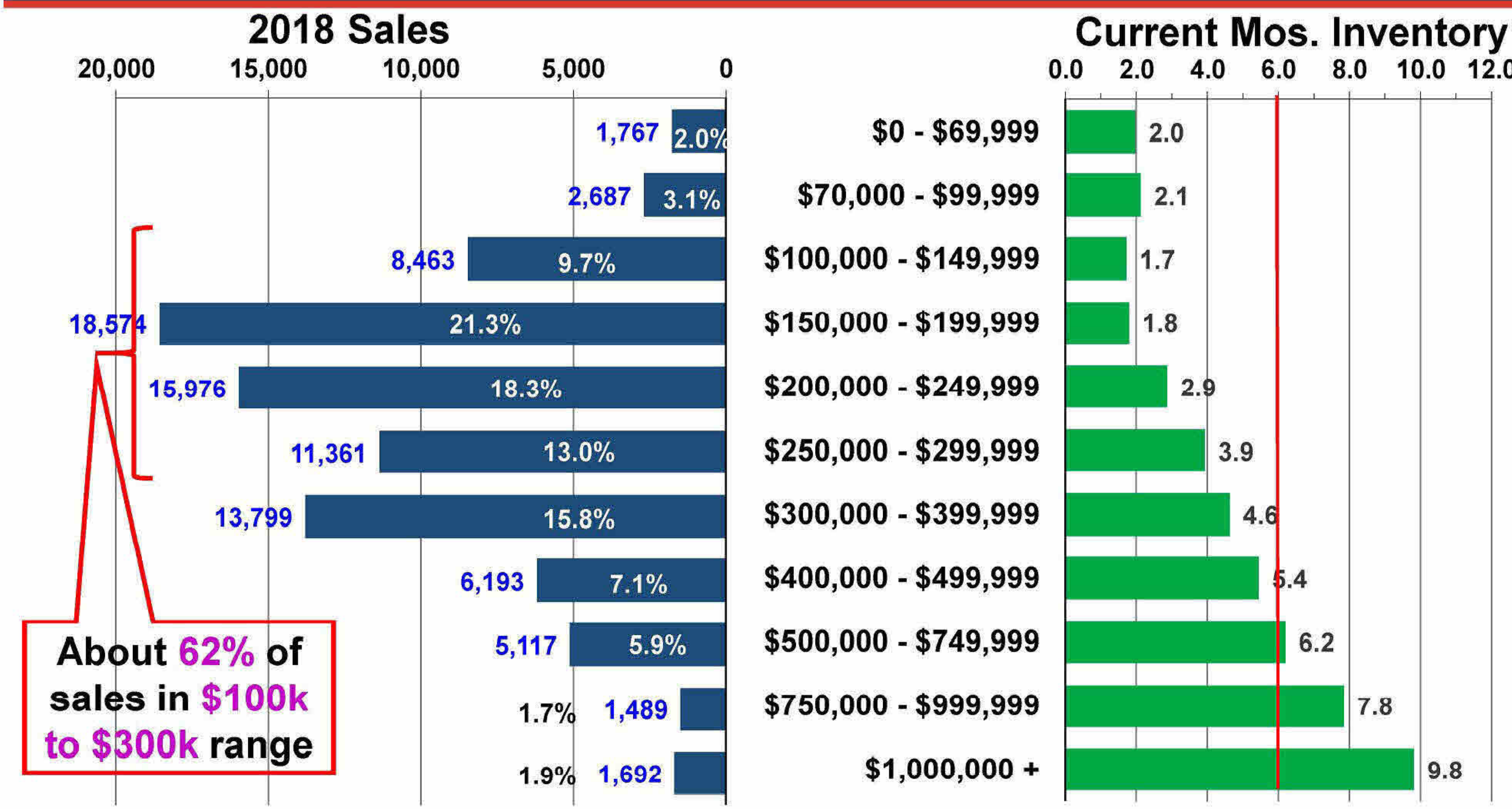


Houston Market

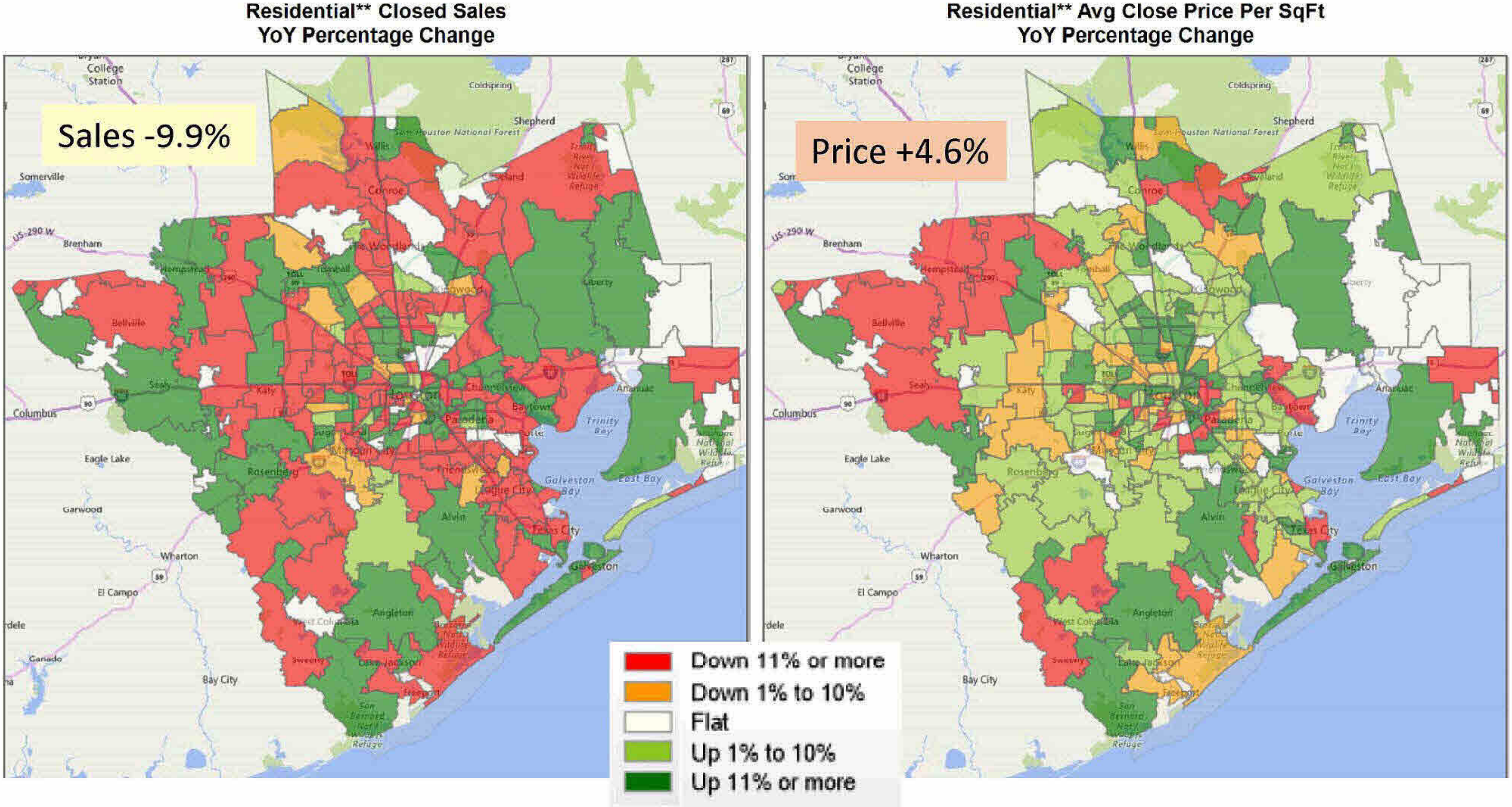
Annual Houston Home Sales, Average & Median Prices



Houston 2018 Sales and Months Inventory by Price



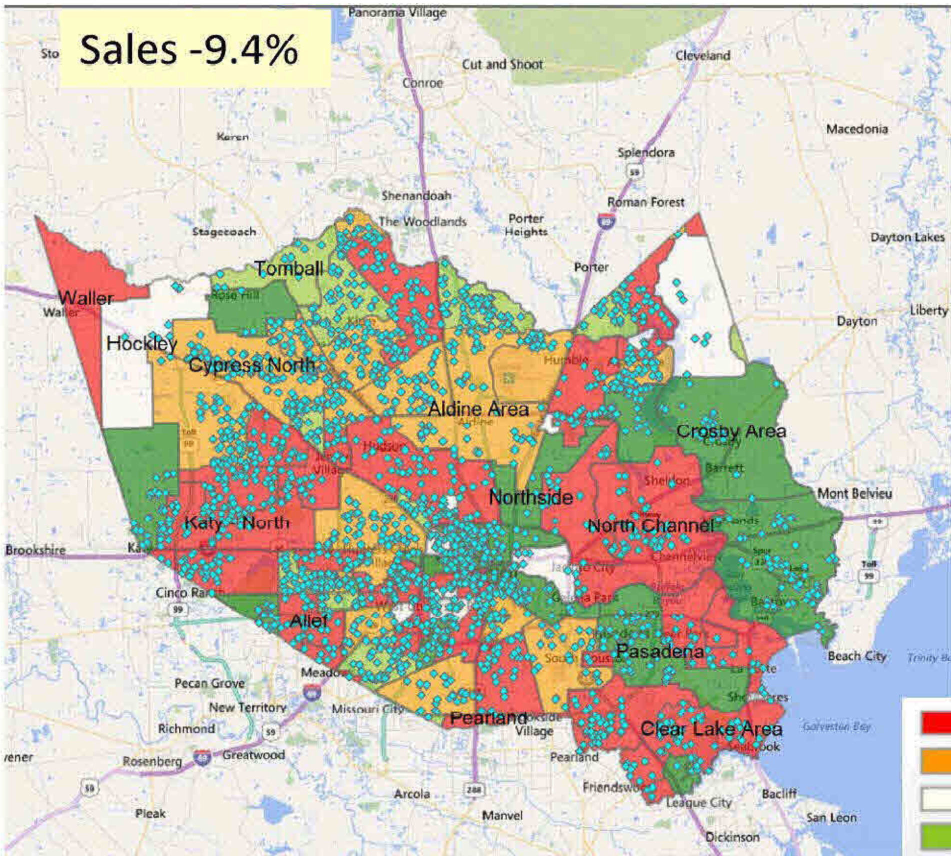
January 2019 Houston Residential Sales Slowed Down & Price/Sq. Ft. Still Up



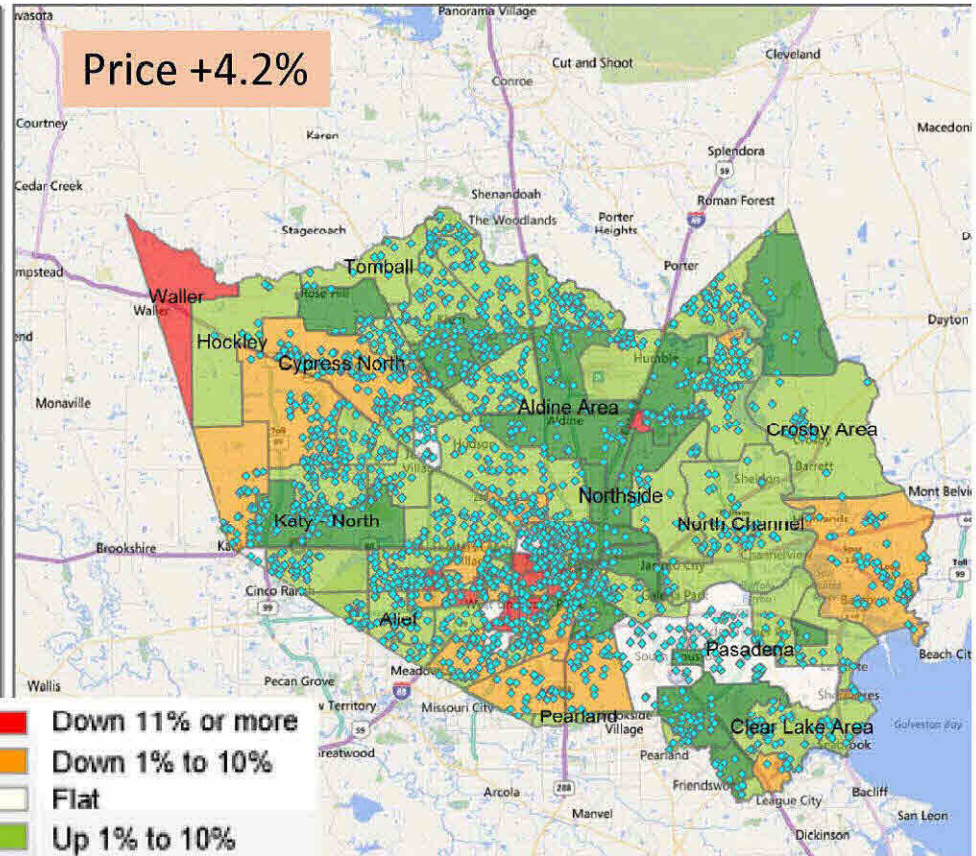
January 2019 Harris Co. Residential Sales Slowed Down & Price/Sq. Ft. Still Up

Sales & Prices by Local Market Areas

Residential Closed Sales**
YoY Percentage Change



Residential Avg Close Price Per SqFt**
YoY Percentage Change

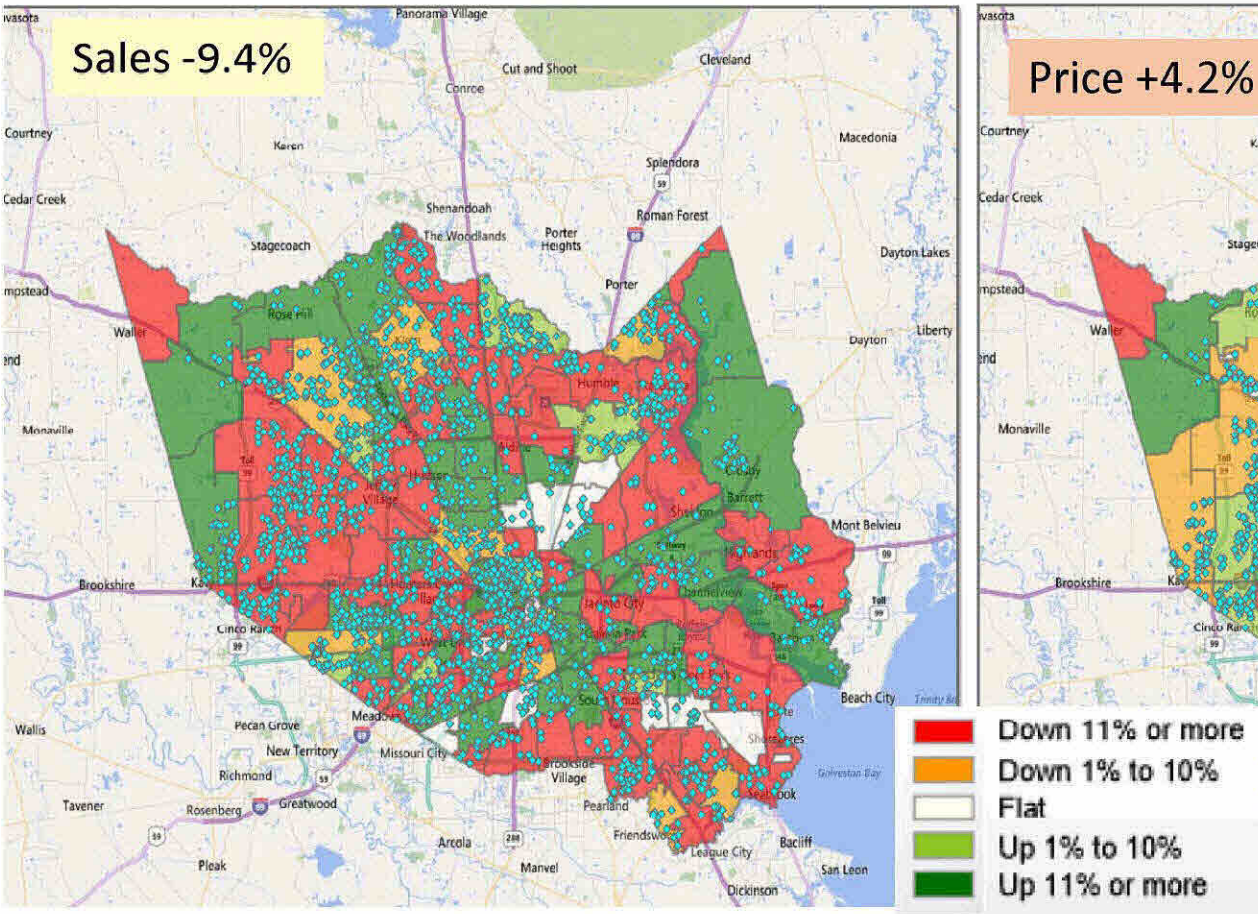


- Down 11% or more
- Down 1% to 10%
- Flat
- Up 1% to 10%
- Up 11% or more

January 2019 Harris Co. Residential Sales Slowed Down & Price/Sq. Ft. Still Up

Sales & Prices by Zip Codes

Residential Closed Sales**
YoY Percentage Change



Residential Avg Close Price Per SqFt**
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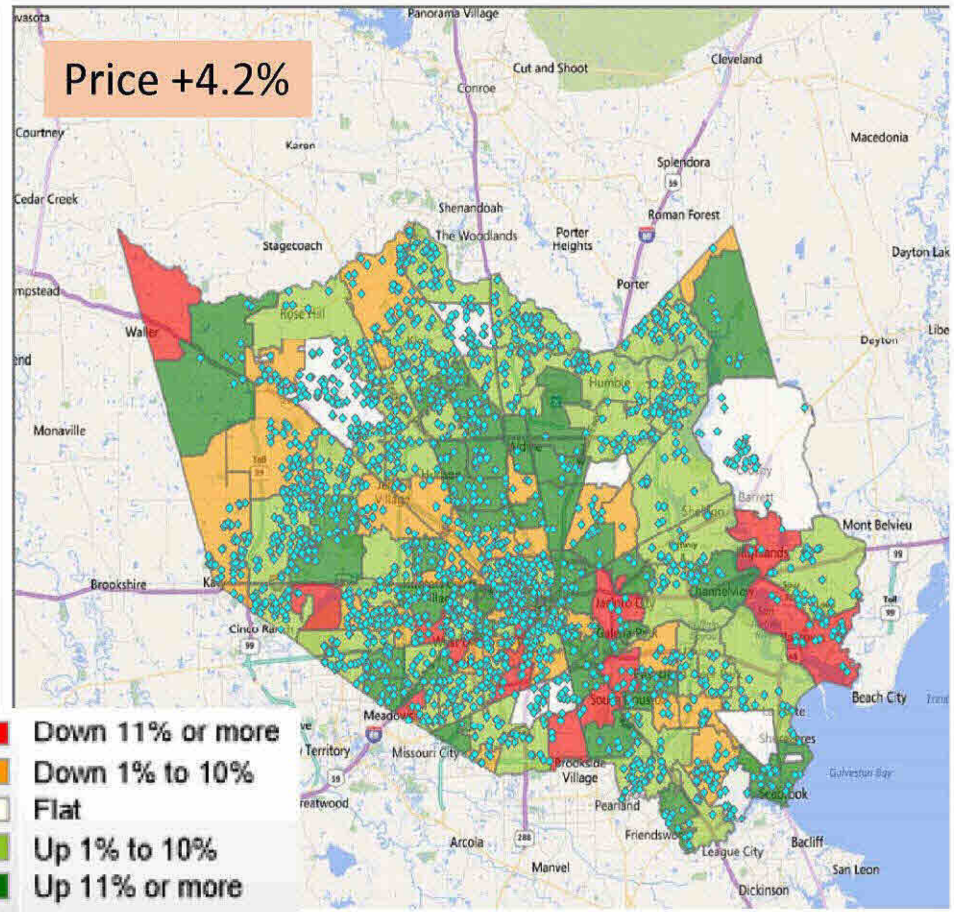
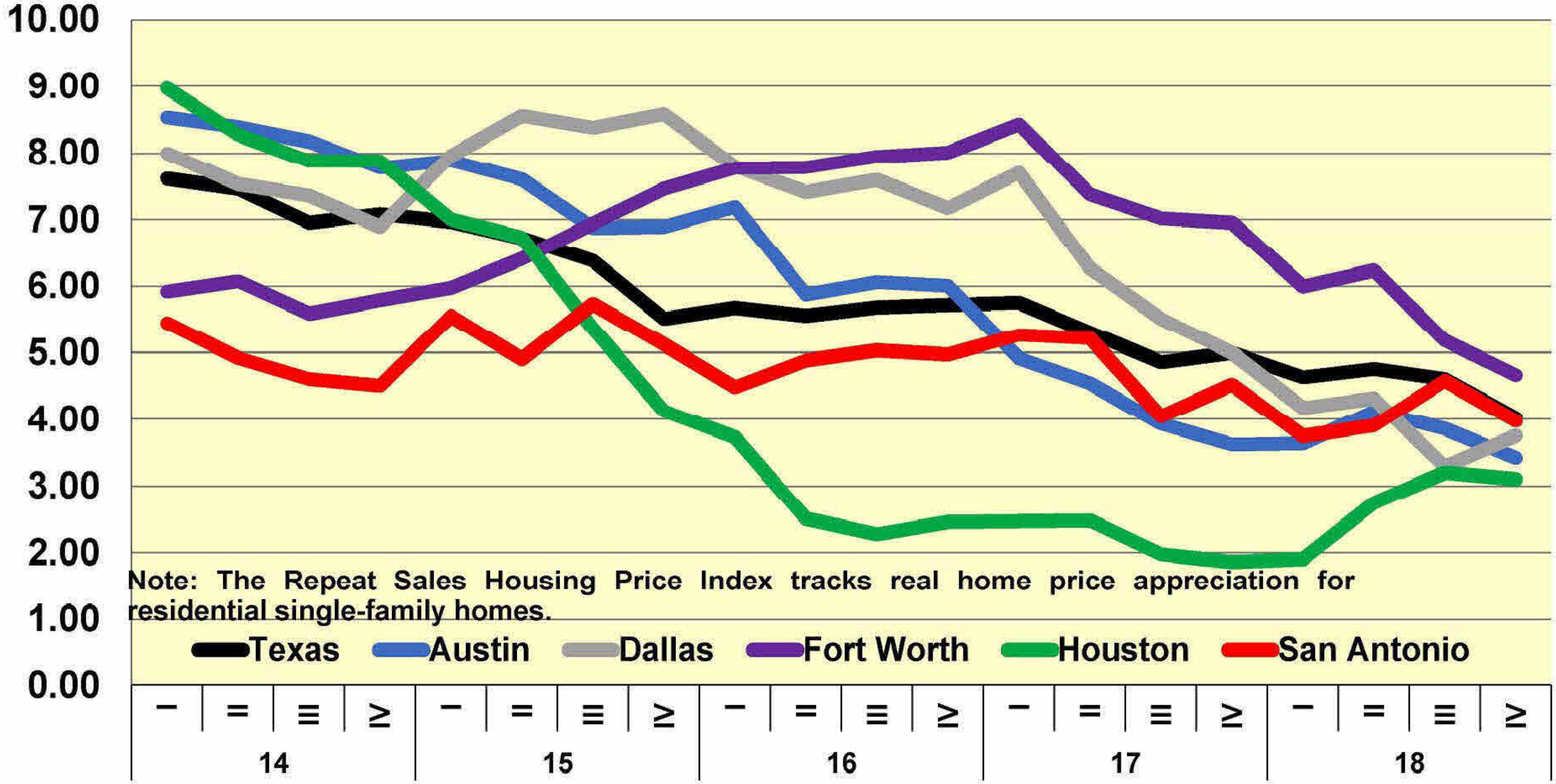


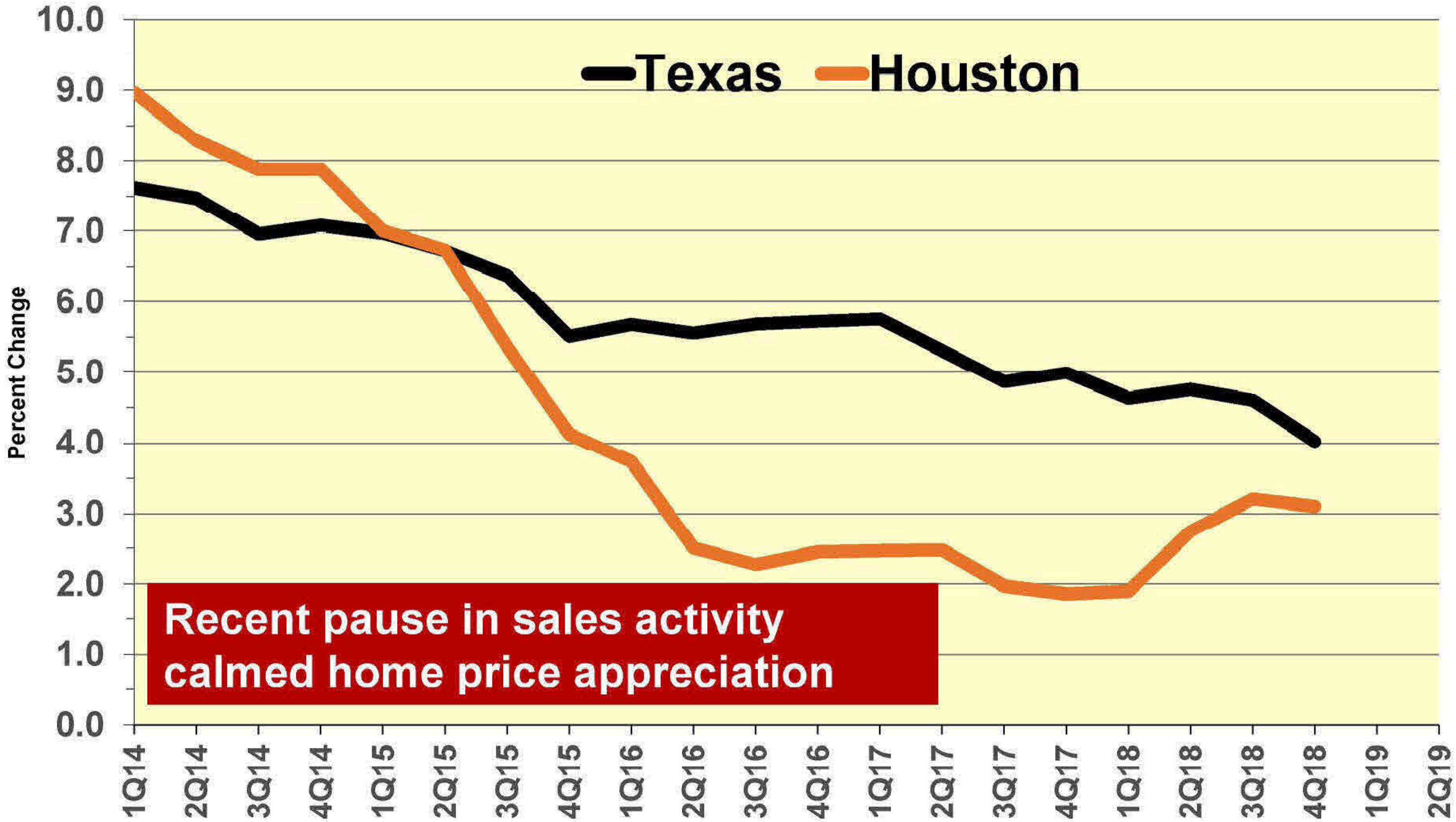
Recent pause in sales activity calmed home price appreciation

Real Estate Center Repeat Sales Housing Price Index
(Year-over-Year Percentage Change)

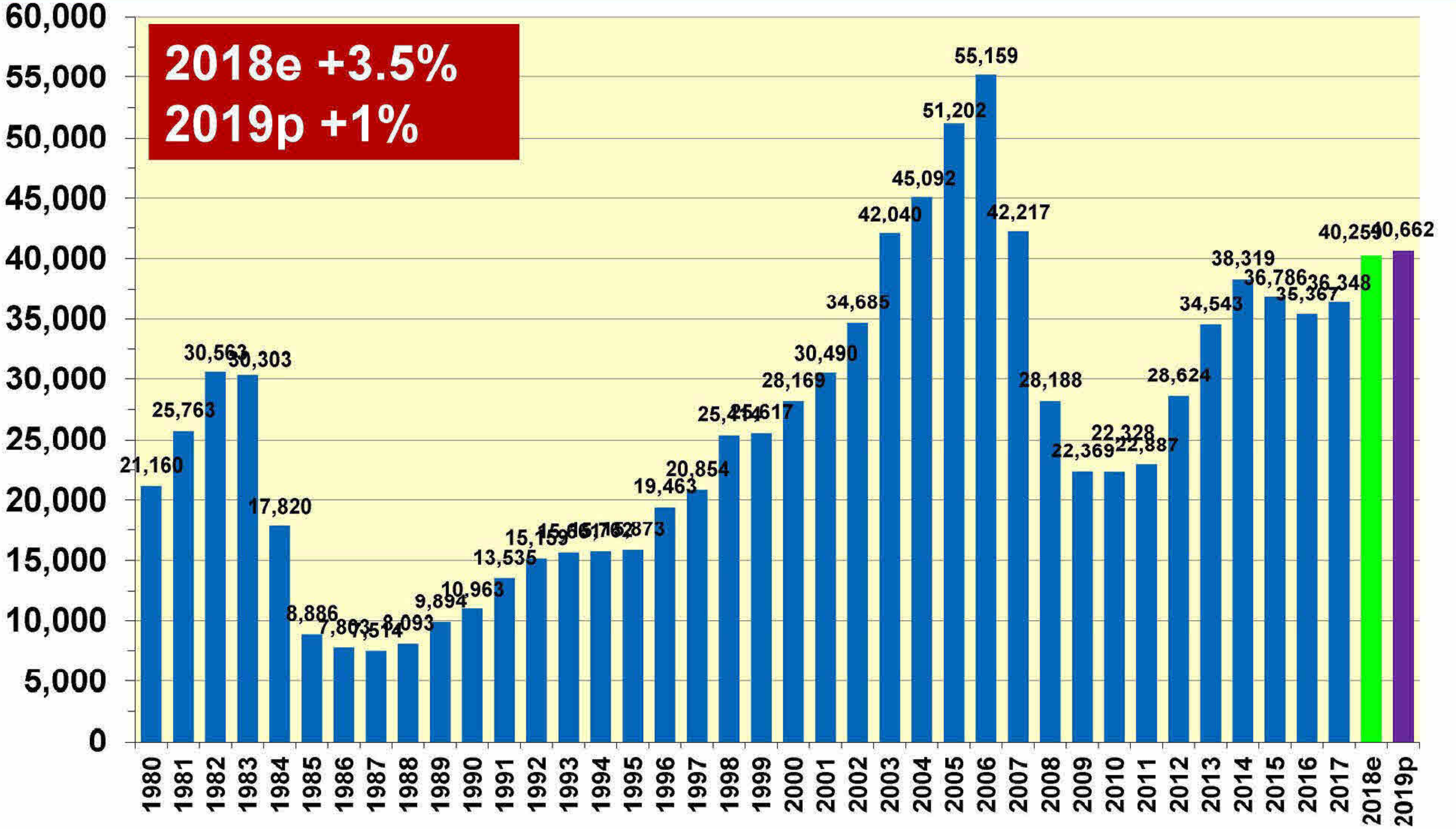


Source: Real Estate Center at Texas A&M University

Texas and Houston Repeat Sales Index



Houston SF Building Permits



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

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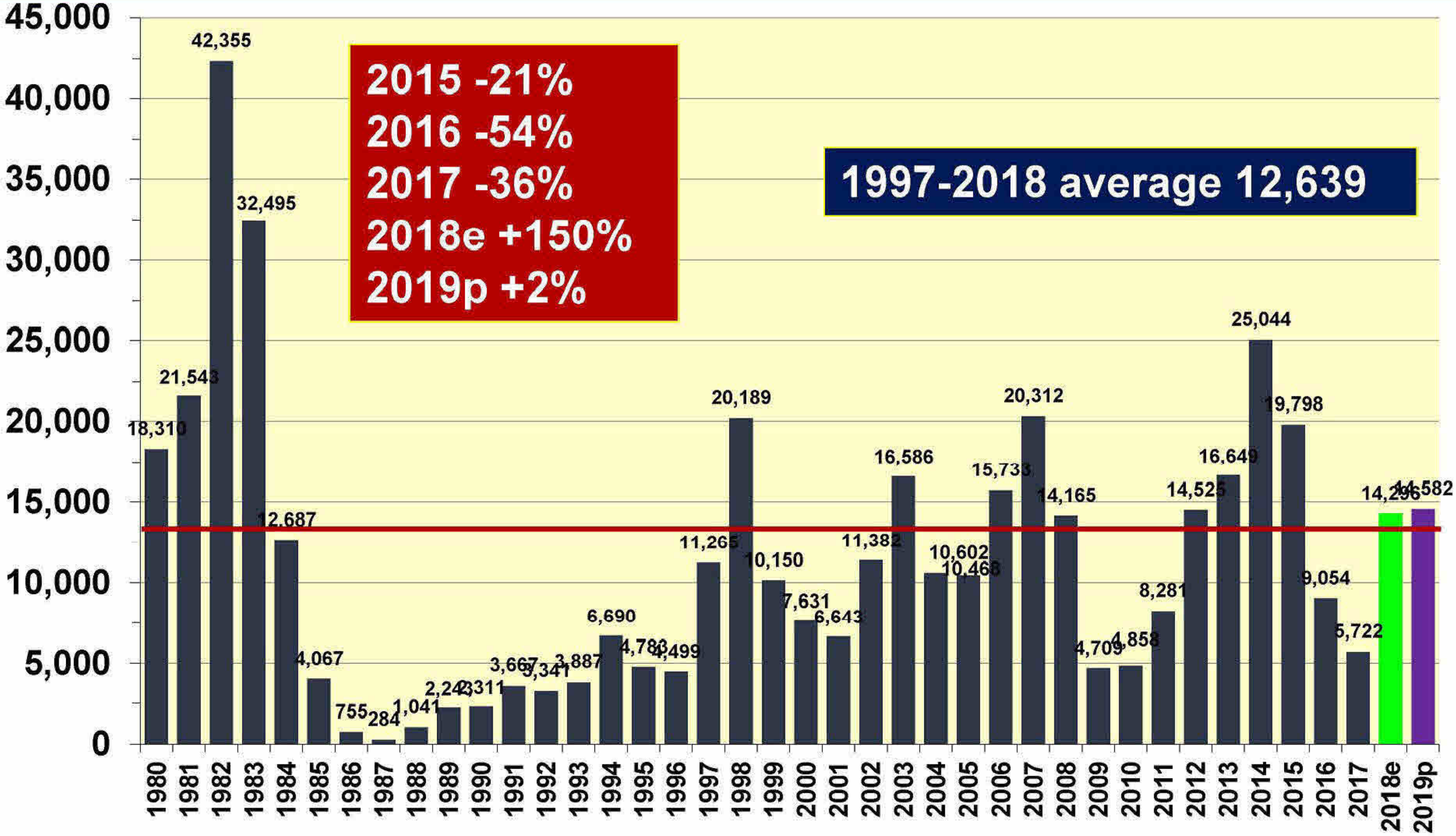

Source: US Census Bureau; Real Estate Center at Texas A&M University

2019 Single-Family Housing Sales Projected to Slowdown

Single Family Forecast	2018 (%)	2019 (%)	2020(%)	1991-2018 (%)
Texas				
Housing Permits	5.7	2.1	1.0	5.4
Sales	1.8	0.9	3.4	4.6
Price per square foot	4.4	4.0	4.7	4.8
Houston				
Housing Permits	4.1	0.1	3.0	5.9
Sales	3.5	1.1	4.3	3.9
Price per square foot	3.1	4.6	5.1	5.3

Note: Estimated with October/December 2018 data. 2018 Housing Permits are forecasted.

- Slowing economic and employment growth causing housing demand to soften.
- Price pressures projected to ease as housing demand weakens.
- Homebuilders stretch to increase production in entry and first move-up markets.

2019 Outlook for Commercial Real Estate is Positive

Projected Overall Vacancy Rates and Asking Rents							
		Vacancy Rates (%)			Asking Rents (y-o-y %)		
Property Type	Natural Vacancy Rate	2017	2018	2019	2017	2018	2019
Office	14.0	19.5	20.1	20.2	-0.8	2.4	2.5
Retail	7.0	5.7	5.6	5.7	2.6	4.2	3.7
Warehouse	8.0	6.9	6.8	6.6	-0.6	5.2	2.9

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: Co-Star; Real Estate Center at Texas A&M University

2019: Cautious Optimism

- Economy is still doing fine; 2019 Positive Growth at Slower Rate
- Uncertain interest rates
- Selective, limited housing inventory available to sell
- Different marketing and communications to prospective buyers
- Builders/Developers Rethinking Designs & Processes
- Changing loan underwriting requirements and standards
- Pricing difficult both for listings and for sales
- Office market seems to have reached bottom, while retail and warehouse will continue to register strong growth

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Chief Economist

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