

Last week we talked about the major 2012 happenings in Austin real estate. This week we wanted to focus on the other Texas metros and the strength of their markets.

## **San Antonio**

Over the last year, San Antonians have shown more confidence as the city's economic base expands – signs of an improving metro economy and of higher wages in a city that has long been known as a low-wage town.

Sales tax revenues jumped 12.2% in the six months from April through September compared to the same period in 2011, a pace of growth that was the highest since 2006, when the metro area showed robust expansion. On a percent basis, the bump in sales tax revenues in San Antonio was greater than in Houston, Austin, Dallas and Fort Worth in the same six-month period.

And the good news didn't stop there. 2013 census data will show that San Antonio incomes are rising. With new jobs in fields like medical technology, personal income prospects go up, and that attracts better possibilities for retail activity and a whole range of services. The San Antonio economy stands to record better job creation over the next year as drilling in the Eagle Ford Shale intensifies, development accelerates, and the local leisure and hospitality sector continues to post strong growth.

Year to date through the third quarter, businesses in San Antonio added 18,400 jobs. While employment in most major metros remain shy of pre-recession levels, San Antonio has surpassed their late 2007 pre-recession number by over 25,000 jobs.

That growth continues to attract investors from across the continent. 2012 payrolls in San Antonio rose 3% with the addition of over 26,000 jobs. This is a dramatic improvement over 2011, when metro wide growth increased just .5%.

If present growth trends for new jobs continue through 2013-14, the city would add about 20,000 positions by late spring, even after accounting for losses in city, county and state government positions. That would take the area closer to the record 31,000 jobs created during the boom year of 2006.

That improvement is evident when looking at real estate. Single family permits year to year are up 20% from 2011, while multifamily permits are ahead by 18%. San Antonio's population grew by approximately 47,000 people, which includes about 26,500 prime renters in the 20 to 34 age range. With only 1,000 units are being constructed this year, up from 400 last year, demand should outstrip construction.

Downtown SA revitalization efforts are beginning to show strength along the Broadway corridor with over a 1,000 apartment units coming on line in the next couple of years with continued strong absorption.

Regional office, industrial, and retail properties posted an expansion of 2.3 percent in square footage. This is impressive due to the amount of large office space vacated over the last couple of years. The city's industrial

properties showed strong growth in rental revenue of 6.8 percent in the six-month period, largely as a result of the Eagle Ford Shale.

The tourism sector continues to be a strong performer. Combined room demand and rental revenues showed a growth rate of 7.3 percent in the April-September period. Although still healthy, it was slower than the 9.2 percent for the same period in 2011.

Christus Santa Rosa, a health care group, purchased 50 acres within the 2,400-acre Word-Borchers ranch along the Guadalupe River, which will be turned into a master-planned development over the next 15 to 20 years. The health system plans to develop a short stay surgical hospital, emergency center, and medical offices to supply the growing retirees' boom in the area.

Expansion of the Texas Biomedical Research Institute will solidify San Antonio's place in the biomedical industry and help create strong demand for office, retail and residential in Western SA. Activity in the Eagle Ford Shale made a \$25 billion dollar impact on South Texas economy, which in turn made San Antonio's south submarket one of the tightest in residential, office and industrial absorption.

San Antonio is the last of the Texas Triangle markets to enter the economic recovery. This means most of the markets in the SA metro area are just at their tipping points, which in turn is attractive to investors as they look to getting in on the upside of the market. Buyers looking for distressed or value-add opportunities will look to SA in an effort to locate opportunity that has become scarcer in the other Texas metros.

San Antonio's west side saw the doubling of SeaWorld San Antonio, which aided surrounding retail and hospitality. The expansion of the Port San Antonio East Kelly Railport should continue to attract suppliers for the shale boom south of SA and in turn help all channels of real estate and finance in the area.

All in all San Antonio's economic forecast for 2013-14 will continue to improve.

## **Houston**

Houston has one of the strongest economies in the nation, accounting for one out of every ten jobs created in the US. Analysts expect continued job growth for the next two years. The greater Houston area added 98,000 jobs in 2012, almost a 4% growth from the previous year. Conservative estimates forecast 72,400 jobs in 2013 and 74,400 jobs in 2014. Residential and commercial real estate sectors are poised for growth as a result.

Growth is similar to the experiences in the early 80's, but with a better balanced economy with energy making a smaller percent of employment growth. Houston's employment options and affordable cost of living have made it an attractive destination for people from all over the country.

Existing home sales increased by 7.5 percent this year and are forecasted to rise to 8.1 percent in 2013. Houston currently has the highest home prices it has ever had. The metro market cannot have this strong job growth and some of the strongest rent increases in the nation on multifamily rental rates and not have home prices rise in the next 12 to 24 months.

Since construction debt remained non-existent through the first of 2011, most developers were not ready for the post-recession renter surge. As of the end of this year, over 14,000 rental units were under construction with much of the focus on the 1960 corridor, yet absorption has kept pace, forcing interest from equity sources for more apartment building through 2013. West inner core, class 'A' apartments continue to be the most desired, leading a thirteen year high on rent rates.

The foreclosure problem in Houston has improved dramatically. For every two existing home listings in Houston, there is one home destined for foreclosure that makes up a set of shadow inventory. This is much improved from 2007, when there was one existing home listing for every four to five Houston foreclosures.

How did the recession and downturn in the national housing market affect the prices of homes in the Houston area? The Houston housing market has fared much better than the national housing market. Prices in Houston started declining in July of 2007 and fell approximately 7% (based on incomplete data for 2012). Mid-year we began to see values stabilizing. You should keep in mind that this figure is for the overall market, not for individual areas. Above average job creation and limited new office supply will continue to support Houston's market recovery through 2013, although area wide vacancy will end up over pre-recession levels. That said, Houston will be one of the tightest office markets in the nation. The continued expansion of energy and technology support the increased space demands of office and industrial. With just 450,000 square feet delivered in 2012 (a fifteen year low) several large projects have been announced, and the planning pipeline continues to expand.

Phillips 66 split from ConocoPhillips, and will look for a new headquarters in the Houston area, most likely in the Katy energy corridor area. ExxonMobil continued staff consolidation will bring 2,000 more employees to the Woodlands campus from Virginia. These expansions, with supporting industry, have pushed the planning pipeline to over 13 million square feet of competitive office space in the future. The market continues to be tight presently, but should continue to be monitored as these many projects come on line.

The medical center continues to expand with over a million square feet having come on line this year. However, absorption continues to be good with little contiguous space left over 50,000 square feet.

Houston's strength of job creation and the world's continued need for energy will allow all channels of real estate to be good through 2014.

## **Dallas / Fort Worth**

D/FW real estate has been slower than the rest of the Texas metros, but finally turned to near pre-recession levels by mid-2012. Because of the lack of new development, inventory fell and has put positive pressure, finally causing appreciation in most channels.

The DFW region has experienced a 32% jump in starts the third quarter of 2012, and new home inventory is at a twenty year low with little development in the pipeline. Lot inventory is challenged with less than an 18 month supply in most desirable areas (24 months being equilibrium). 21,000 of those lots had little to no activity this last year, so it shows the need for new residential development.

Couple that with some of the tightest rental conditions since 2001 and its clear that all residential should see values rise, including rents. Apartment and office deliveries accelerated this year but fell short of historical norms. 9,600 apartment units were delivered this year with 15,000 under construction and over 35,000 in the planning pipeline. That said, rents and values should continue to improve for the next couple of years. Even though housing is on the rebound, the bounce back is stronger in more affluent neighborhoods, like in the loop areas.

With over 75,000 jobs created this year, apartment developers continue to focus on close in locations in northwest and central Dallas. Fort Worth saw strength in the southeast quadrant, north Arlington, and Grapevine. Since peaking in 2009, vacancy has almost been halved to less than 6%.

Office continues to be challenged with an overdeveloped office market still not recovered, particularly in the outer rim areas. The overall market vacancy still hovers around the 20% mark, higher than the other Texas metros.

2013 should be stronger for retail, particularly with grocery retailers expanding with 5 percent sales growth in the metro area. Overbuilding of retail in other portions of the DFW market will continue to be a challenge through 2014, but an opportunity for investors.

Two important finance and real estate figures live and work in Dallas - Richard Fisher, President of the Federal Reserve Bank of Dallas, and Harvey Rosenblum, the Director of Research. These men are some of my favorite financial writers and mentors. They both want to see the big banks broken up. Me, I'd shatter them into itty bitty pieces.

Still, it's not a bad idea to listen to one of the big banks - J.P. Morgan CEO Jamie Dimon – when it comes to real estate. He says housing is positively flashing green. Now, if we could only get federal regulators to loosen up the banking and mortgage rules.

As you can see, Texas metros continue to be the bright spot in the nation's economy, but come with their challenges. Each metro continues to have challenged sub markets that may take years to fully recover, but all in all Texas real estate continues to improve and grow.



Independence Title

Explore [www.IndependenceTitle.com](http://www.IndependenceTitle.com)

MARK SPRAGUE, State Director of Information Capital

Office: 512/454-4500 – Mobile: 512/563-4764 – Fax: 512/454-4559

The opinions expressed in this publication are solely those of the author and may not necessarily reflect those of Independence Title Company. The information contained herein was obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made by the writer, Independence Title Company, or any other person to its accuracy, completeness or correctness. © Copyright 2012, Independence Title. All rights reserved.