THE IndependenceVoice

From: MARK SPRAGUE, ITC State Director of Information Capital

Texas continues to lead the national economic recovery. Home prices are on the rise, businesses are relocating here, and jobs are being created. I wanted to revisit the major Texas metros and examine all channels of real estate to really show how well we are doing.

First, understand that the median price for homes in the state of Texas hit another all-time high in the second quarter of 2013 as demand for homes in the Lone Star state continues to rise as supply struggles to keep up. On a statewide basis, 79,760 single-family homes were sold in the second quarter of 2013, up 17.78% from the same quarter of last year. This also represents the most homes sold in a single-quarter since the Texas Association of Realtors began this report in 2009. Austin had their best month ever since records were started in the early 1960's, with 3,135 single-family homes sold in the Austin area, which is 35% more than July 2012.

To put that in perspective, realize that there were only 6,100 listings, so a little over 50% of all listings sold in central Texas. San Antonio had a record month with 2430 listings sold, over a 24% increase in sale over a year ago. Dallas had a record month with close to 9,400 home sales in July. Houston also had a record month. In Texas, demand in the state was strong as ever, with 43 out of the 47 markets included in the report showing an increase in sales year-over-year.

More homes are selling, and for higher prices. The median price in Q2 2013 was up 9.98% from the prior year, reaching $177,300. The average price rose 10.44% from the prior year to $235,075. According to the Texas Association of Realtors, those are the highest figures for median and average price ever seen in Texas real estate. All of us living in one of the Texas metros sees or hears about the strength of the residential market, with home values increasing at around 10% this year.

The economy is booming with job and population growth. And, for the first time perhaps ever, home values are appreciating at double digit rates. We don't believe this will last forever. But for a limited time, we have the opportunity to experience what the rest of the country has had in appreciation in the last boom and now.

Houston

Houston's economy continues to remain well positioned with over 99,000+ jobs created this year. This continued increase in employment will feed housing, office, and retail absorption. The rapidly expanding energy and medical sector are the major economic catalysts for Houston. New and resale residential properties are doing well, with the lowest supply of homes on the market since December 1999. Houston is leading the nation in home starts, adding pressure to an all ready tight market. 2013 should bring in excess of 27,000 starts. This is still far below the boom days of 2006, when home starts neared 50,000, but a strong recovery compared to other cities. Rental rates are also way up — in office towers, in apartments, warehouses and even for people who are leasing single-family homes.

Metro wide, over 9,200 apartment units are under construction with another 20,000+/- planned. While new apartment supply continues to increase, demand is outstripping development, putting pressure on rents, particularly in class A complexes. With the potential of overbuilding, and with average Class A vacancies below 7% and rents spiking, developers have been hustling to be first in line to bring new multifamily product out of the ground and to the Houston inner loop market. Apartment absorption has caught up with new construction, shown by the 92% occupancy citywide, even though there was a 77% increase in construction the last twelve months rental rates have increased 5%. With the continued strength of the market, we see sales continuing to improve particularly in the B and C class with apartment communities that have less than 100 units.

Over five million square feet of new office space will be delivered this year. That said, vacancy rates stayed stable with not a dramatic increase in the 85% occupancy even though over twice the amount of space as last year was brought to market and rents continue to increase. With the strength of the energy sector and all its support industries, CBD and the energy corridor have put pressure on raising rents. That has been offset by slower interest in non-core areas such as Greenspoint where office leasing continues to be a challenge. Because of the strength of employment, many institutional investors continue to show high interest in core office space. Sales velocity increased more than 50% over the previous 12 months.

With over two times the national employment growth, retail continues to buck the national trend. Retail rents and sales continue to improve with a conservative (220,000 sq ft in 2012 and 240,000 in 2013) amount of space coming on the market. There has been a flight to quality on the loops and areas of high housing growth which should continue into 2013.

San Antonio

San Antonio employment grew this year by 32,000 jobs, or a 3.6% increase. San Antonio's future continues to look bright, thanks in part to the strength of oil and gas production in the Eagle Ford Shale, which continues to strengthen renter demand in south SA and counties south of the city. In the northwest and west, Nationwide's new campus along with expansion in the growing bioscience sector will continue to drive the market.

Apartment leasing is still strong at just under 95% occupancy and rents and sales are still rising, even with over 4,000 units coming on line this year, another sign of a good market. Rising construction costs, particularly framing and lumber may slow down development with lower paying industries adding jobs primarily. There is some chance of higher vacancies with the amount of units coming on this year.

Office continues to be a bit challenged compared to other Texas metros, with 85% occupancy and the hardest hit classes being b and c class properties. This is due primarily to corporate relocations and owner-occupied and/or build-to-suit properties. That said, rents are stable with a little rise, due to the Eagle Ford Shale play south of SA. Corporate relocations to owner occupied and build-to-suit have caused office vacancies to increase over last year. However, the strength of the Eagle Ford Shale play and stronger housing market conditions are working to revive previously stalled developments.

Eagle Ford drilling has had a dramatic effect on boosting retail in San Antonio. San Antonio experienced a spike in buyer demand as in Class A properties, which in turn has encouraged more sellers to enter the market. Rents continue to rise despite the fact that occupancy dropped just over 1% due to over 400,000 sqft coming to market. Retail should continue to improve with modest increases this year, as continued job growth in most sectors has allowed San Antonio families an increase in spending in San Antonio. Most tenants are concentrating in areas with high home sales and job growth, causing retail space demand to exceed supply this year, gearing the market toward healthy vacancy improvements and modest rent growth.

Dallas / Fort Worth

The DFW economy has turned the corner with over 96,000 jobs created last year, a 3.2% increase. Of all four major metros, D/FW has lagged behind the others in returning to prerecession employment. However it is doing better than most of the country at 99% recovery. The economic slowdown and hesitancy to build is apparent in the tightness of the market.

With apartment occupancy at 94%, and a limited number of new apartment communities coming on line (13,500+/-), rents should continue to rise and lease negotiation should remain firmly on the sides of the landlords. While this is sizeable increase from 2012, when just fewer than 7,500 units were delivered, the market remains 25+% under the metros cyclical peak in 2009. Construction was slower than other Texas metros till 2012 because of the competition from the large amount of foreclosures. Now that these have largely disappeared, the market is prime for growth.

The DFW office market continues to post improvements in occupancy as new supply continues to stay current with demand. Over 2.6 million sq. ft. will come online this year, more than doubling last year's output of 1.2 million square feet. DFW vacancy is still challenged at 80 to 85% occupancy. However, with 80% absorption of new product this year, rents are still improving for lessors. Dallas offices include the homes of 24 Fortune 500 companies. Demand for retail continues to tighten the market. Over 2.1 million square feet of new retail space is planned to be finished by the end of 2012, a 100% increase over last year. Occupancy is good at 90% and should continue to improve with the uptick in housing demand in the outlying suburbs. Commercial real estate in rural Texas towns has also improved from demand in the energy sector as evidenced by the strength of rents south of San Antonio and in the energy counties around Midland/Odessa. Barring a catastrophic event in the Texas economy, we should continue to see strength in most portions of the commercial market in our state. With an improving market, office sales have improved 40+% with over 50% of the transactions being under 50K sq. feet.

With improved employment, over 800,000 sq ft of retail space will be delivered to the market, and another 4 million planned. Rents are slowly improving even though vacancy has grown to 12.8%. Buyers are pursuing high quality, triple net in prime locations. The trend should continue till saturated, and the attention will turn to the lower rated tenants and locations.

Austin

Austin continues to be an economic success story in the face of nationwide uncertainty, with employment at an estimated 4% annual growth rate and the addition of 33,700+/- jobs annually. Austin is coming off of their best home resale market since the records started in the 1960's. Austin has an extremely limited supply of resale homes – 2.6 months of inventory, which is a 40% decline from a year ago. Residential and commercial rents continue to rise due to lack of supply.

Austin apartment owners are in an enviable position with 94+% occupancy, even with 9,000 new units coming on line. Almost all channels of Austin's economy are comfortable at or above prerecession values and income. Apartment sales continue to improve with almost a 40% increase in sales from 2012. Median prices have improved to $86,500. Compared to a cyclical low in 2010, the median price per unit has increased approximately 80%. With the good fortune of job creation, drawing over 60,000 people per year to the Austin area, the market should continue to hold its values and strength. Asking rents will continue to rise 5% or more, which means the housing affordability gap has closed for class 'A' renters with upward pressure on 'B' and 'C' renters.

With employment improving 4+% annually, office space continues to see rents and sales improve even as occupancy drops to 88%. Of the 520,000 sq. ft. being delivered this year, over 45% is medical. Medium sized transactions of 50,000 sq feet or less accounted for the majority of the activity this year and the potential of continued strong values in sales and rents over the next few years seems probable.

Retail continues to be challenged nationally as evidenced by the downsizing of most retailers, except grocery and medical. That said, local retail is doing ok with approximately 120,000 sq feet brought on line this year. Rents and sales should continue to rise with some concessions.

The bottom line is that our metros offer the amenities and economic stability that so many investors are looking for. Texas real estate will continue to grow as individuals and businesses move here. The bottom line is the same across all channels: the property you look at today is going to be more expensive or gone tomorrow.

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