

Cup Mostly Full

Austin 4Q13 report and 2014 forecast

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2013 Was a Good Year!

- Record year for Austin home resale's
- 2013 was the year Austinites felt and saw the recovery
- Austin economy is in expansion mode, rather than recovery
- More demand than inventory in most channels
- Austin is one of nations top job markets
- Austin residential investment properties 95+% occupancy with continued rental income increases. Commercial, retail, industrial at 90+% occupancy
- Austin has enjoyed double-digit growth in GDP, jobs, population and birthrate since 2007
- Milken Institute named Austin top performing metro 2013
- Austin leads nation in economic and job growth – *Forbes*
- Austin is No. 1 on list of the Cities Creating the Most Middle Class Jobs – *Forbes*



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Where are we in the cycle?

- **US – Stabilization** – The Federal Reserve lowers rates, then gradually allows increase, as housing and job growth historically follow. When the rates are at zero, the Federal reserve uses other means, such as quantitative easing (QE) to encourage growth. Mildly effective. As Fed reduce stimulus, rates should rise
- **Texas – Recovery/Expansion** – Supply / demand is in balance, and home / land value appreciation meets or beats inflation
- **Austin – Expansion** – Economic housing formation as well as other real estate channel demand exceeds supply. Housing and real estate appreciation stronger
- **Houston – Expansion** – Economic housing formation as well as other real estate channel demand exceeds supply. Housing and real estate appreciation stronger
- **San Antonio – Recovery** – Demand has picked up, putting pressure on supply
- **Dallas/Fort Worth – Recovery** – Demand has picked up, putting pressure on supply

All of this is caused by dynamic job growth in Texas.



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2014 key strengths

- American economy improving. Slow national recovery
- Texas economy strong. 7 other states to prerecession numbers
- Energy and new technology have put US on top of oil/gas producers
Texas energy businesses lead nation
- Federal Reserve begins slowing tapering
- Mortgage and interest rates historically low
 - Mortgage interest rates in the 4-percent range were unheard of until 2010, and rates in the 5-percent range were unknown prior to 2003
 - 1970s, rates hovered in the 7-percent range and spiked up above 9 percent in late 1975, late 1976 and most of 1978
 - In the early 1980s, mortgage interest rates brushed the stratospheric highs of 18 percent and even 19 percent
 - During the 1990s, mortgage interest rates ranged from around 7 percent to roughly 9 percent.. They held at less than 9 percent in 2000, less than 8 percent in 2001 and less than 7 percent in 2003
- 6+ years of economic negativity, replaced by positive outlook
- Consumers and businesses spending
- Texas sustains economic growth through year into 2015
- Low inventory – better than the alternative
- Resale / new homes sales continue positive appreciation / sales
- Other real estate channels strong though 2014
- Sustained GDP growth (below average)



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2014 key strengths

- Continued low inflation
- Job creation. More people are working, more jobs created
- On average in the past 12 months employer payrolls have increased 182,000 a month, almost exactly the rate of gain we saw in 2012. All the gains took place in the private sector. Government employment fell slightly over the year
- Interest rates will continue at low levels but gradual increase to low 5's. Consumers continue to watch Federal Reserve
- Americans have credit capacity again, but lenders slow to lend
- Mortgage rates still low. What's the mortgage market going to look like post Dodd-Frank, post QE taper?
- Regulatory uncertainty & political risk continue to fuel business indecision
- National rebound started in 2011, slow progress 2012, 1st 8 months 2013
 - Austin and other major Texas metros rebound started in 2Q2010
 - Regional real estate and economy show strength 2013, continue through 2014
 - Slow improvement nationally from worst economy in 60+ years



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2014 economic forecast

- Employment – Nationally very slow recovering
 - Unemployment – US 6.7% (U6 13.9) / Texas 6.0% / Austin 4.5%
 - Austin has 3rd lowest unemployment of top 50 large US metros (over a million)
 - Austin and Texas have been lower than the national avg. the last 84 months (7+ years)
 - 11.8 million Americans remain unemployed. In Texas there are 776,119 without jobs, in Central Texas with an estimated 50,572 workers looking for work
- Home, car and retail sales have improved dramatically
- Consumers are spending
- Real estate construction stronger across all channels nationally, Texas leading
- Interest rates have stayed low through most of 2013, improving economy should cause rates to rise in 2014
- 5+ years of household formation pent up demand
- Corporate earnings continue to improve
- Housing and real estate slowly stabilizing, putting more people to work

Projections for the next couple of years indicate substantive national growth still challenged. Texas growth strong in 2014, continuing through 2015



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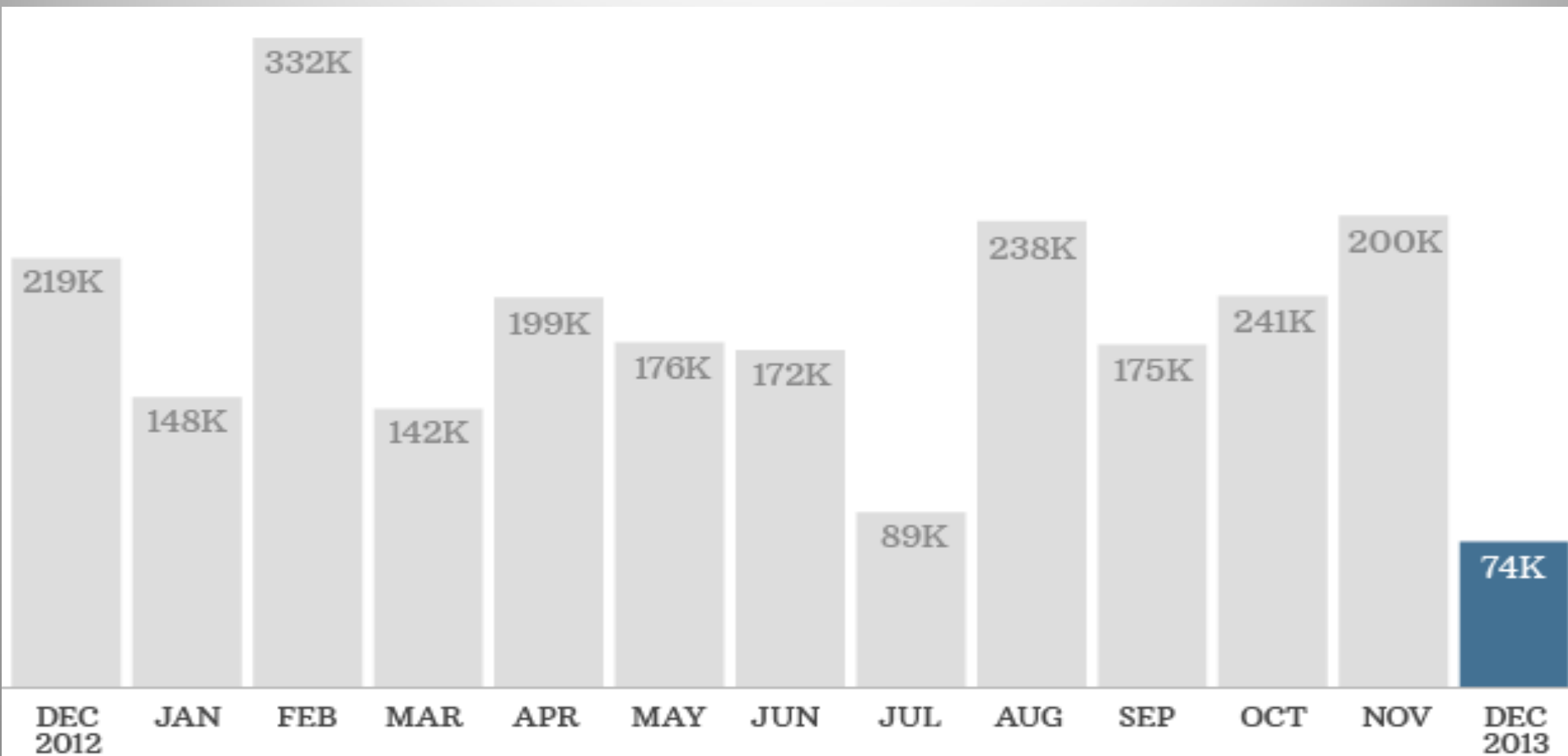
2014 economic concerns

- Concern over below average GDP growth
- Continued low inflation / deflation? US & global
- National job recovery slow. More people are working and more jobs created, but we are still 2+ million short of peak
- Interest rate shock, consumer hopes that rates won't increase. Watch Federal Reserve closely. End of QE tapering. Fed actions key
- Interest rates probably increase. Impact?
- Cautious optimism by households and businesses through 2014
- Home mortgage financing concern. New QRM guidelines stricter than past 10 years
- Regulatory guidelines for small business and lending slowing growth.
- Regulatory uncertainty & political uncertainty continue to fuel price uncertainty.
- Higher consumer credit leading to increased spending without increased income
- Lifting US export restrictions on oil and natural gas
- Regulations on private investment in Mexican oil and gas by (US) companies
- Another debt crisis in congress (spring & summer)
- Implementation effects of Dodd Frank, CFPB and Healthcare initiative



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2013 ends with weakest job growth in years



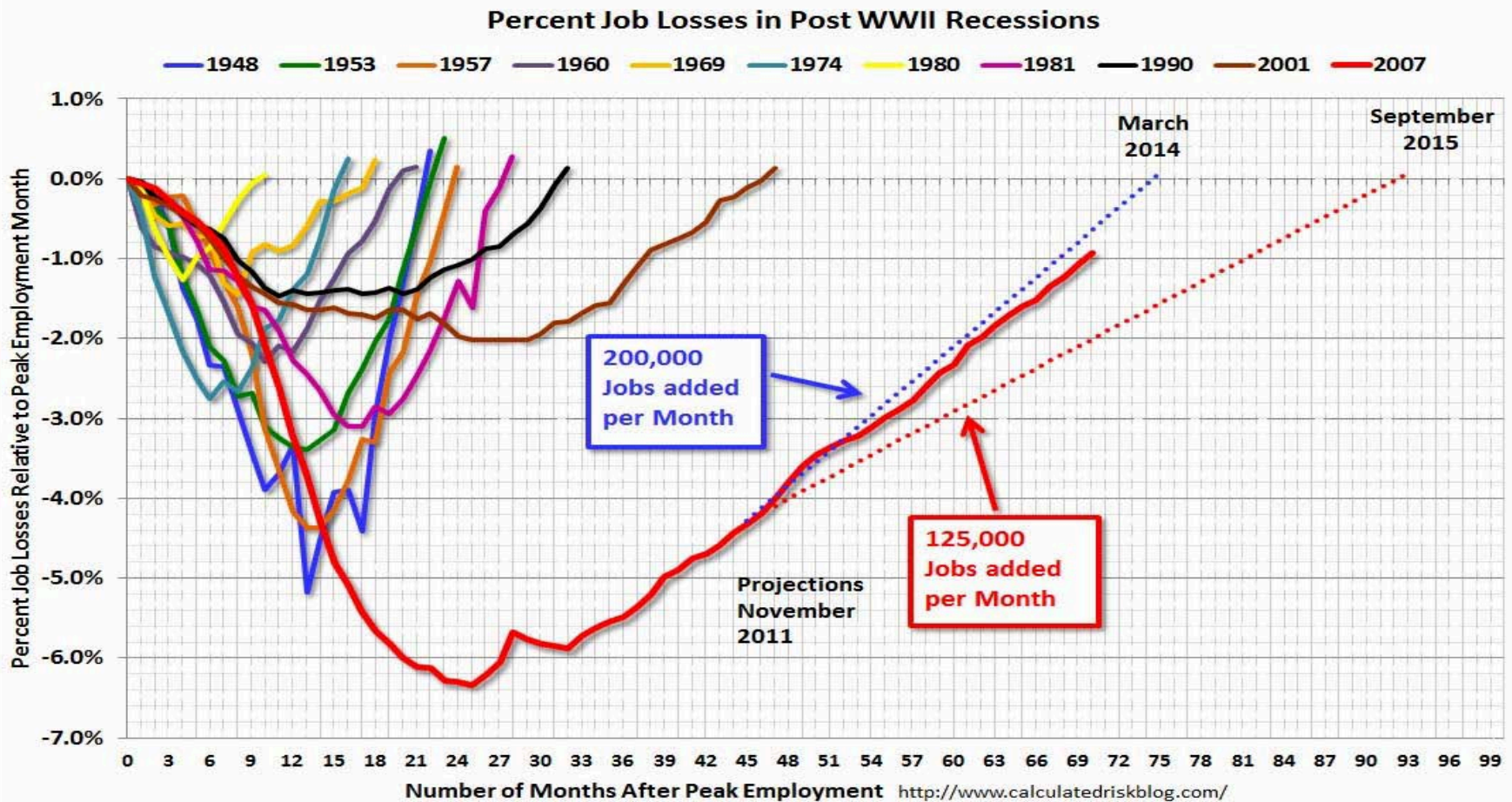
*NUMBERS ARE SEASONALLY ADJUSTED; SOURCE: BUREAU OF LABOR STATISTICS



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When will payroll exceed prerecession peak?



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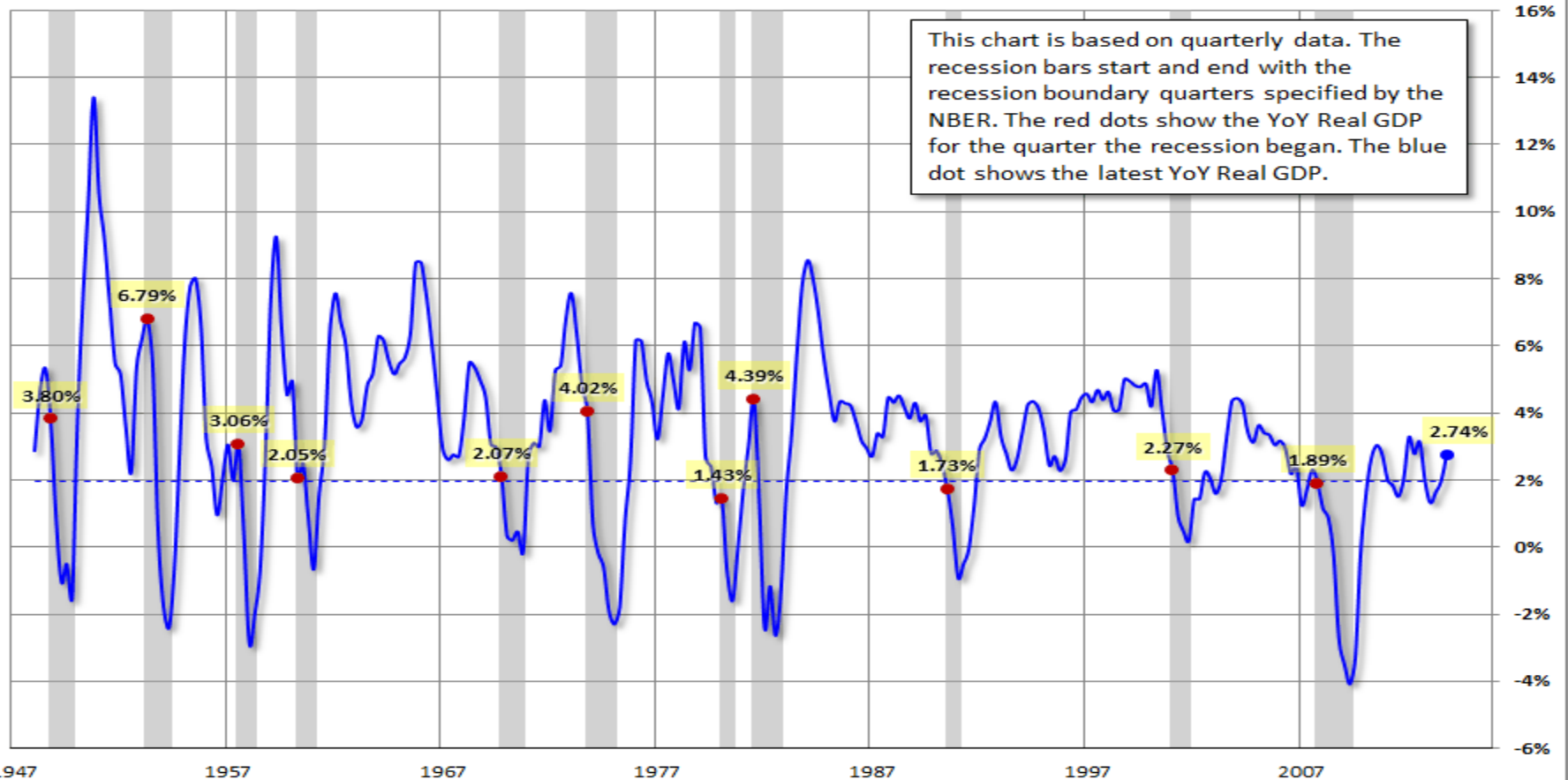
Change in national GDP

Data Through 2013
Q4 Advance Estimate

Real GDP Year-Over-Year Percent Change

dshort.com
January 2014

Recessions YoY Real GDP Recession Starts Current Level

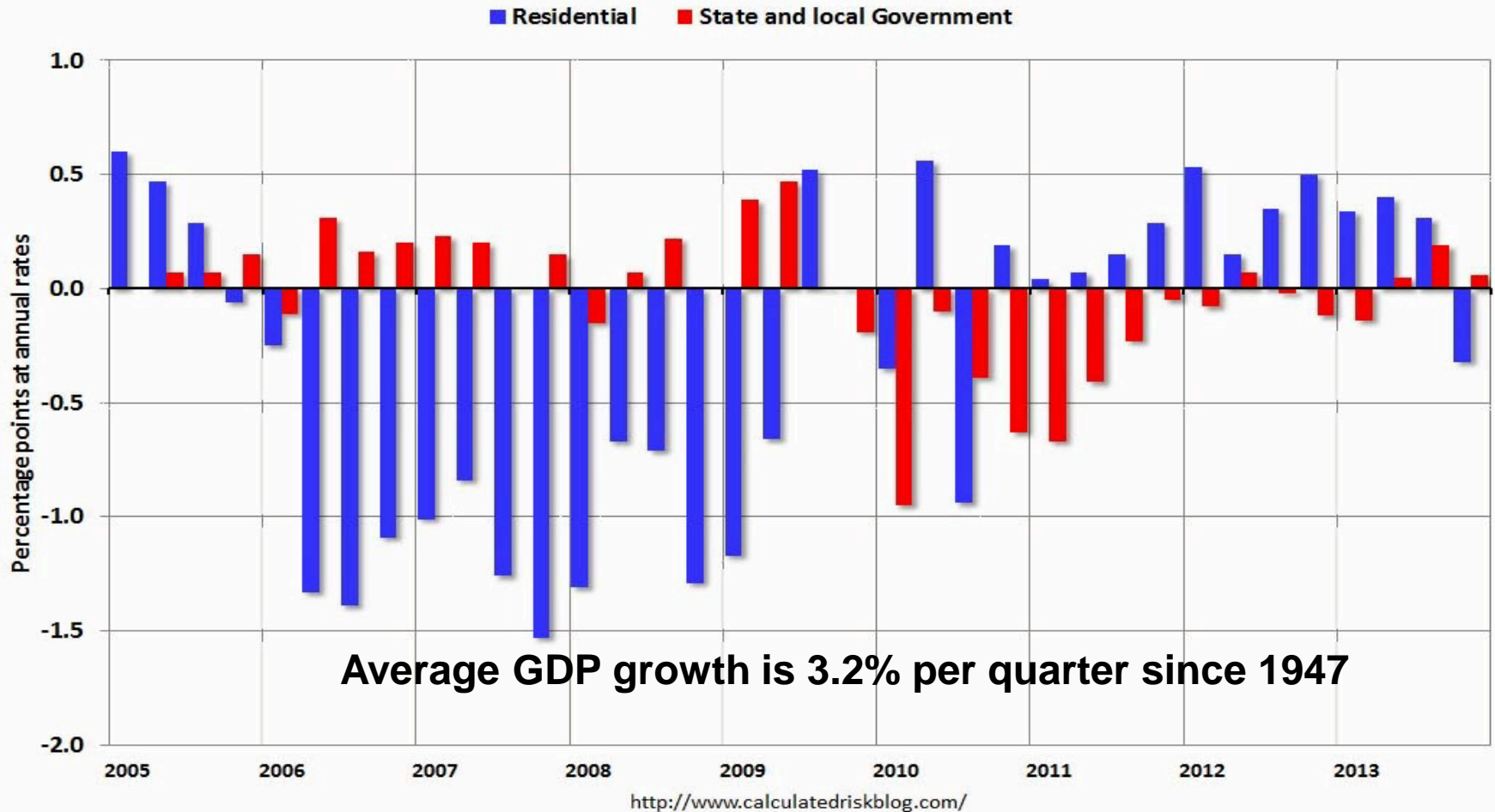


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Change in national GDP

Contributions to Percent Change in Real Gross Domestic Product



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Historic interest rates since 3000BC

Part III. Markets Since the Beginning of Civilisation

Interest Rates

Lending rates in Mesopotamia 3000 BC-600 BC, in Greece and Rome 600 BC-300 AD; Yields on Western government bonds 1150 to date

Decennial high-low bars, linear scale

From c. 3000 BC: use of metals as money by weight in Mesopotamia. Temples as proto-banks: repositories of wealth and lending at interest

Ancient Sumer:
Custom of 1 shekel per mina per month = 20%
Rates of 25% also documented
(see also India c.2400 BC: Laws of Manu, 24% rate)

Ur: financial centre of Sumer until crash of 1788 BC caused by cancellation of debts under Rim-Sin

Babylon: Code of Hammurabi, 1772 BC, Codified earlier Sumerian custom of 20%. Average rates of 10-25% recorded through Old Babylonian, Assyrian and Neo-Babylonian iterations, until Persian conquest 539 BC, then rates of 40+%

Adoption of Near Eastern financial practices by Greek city states

Dark Ages in the West: Anti-usury laws, e.g. Capitularies of Charlemagne 814 AD

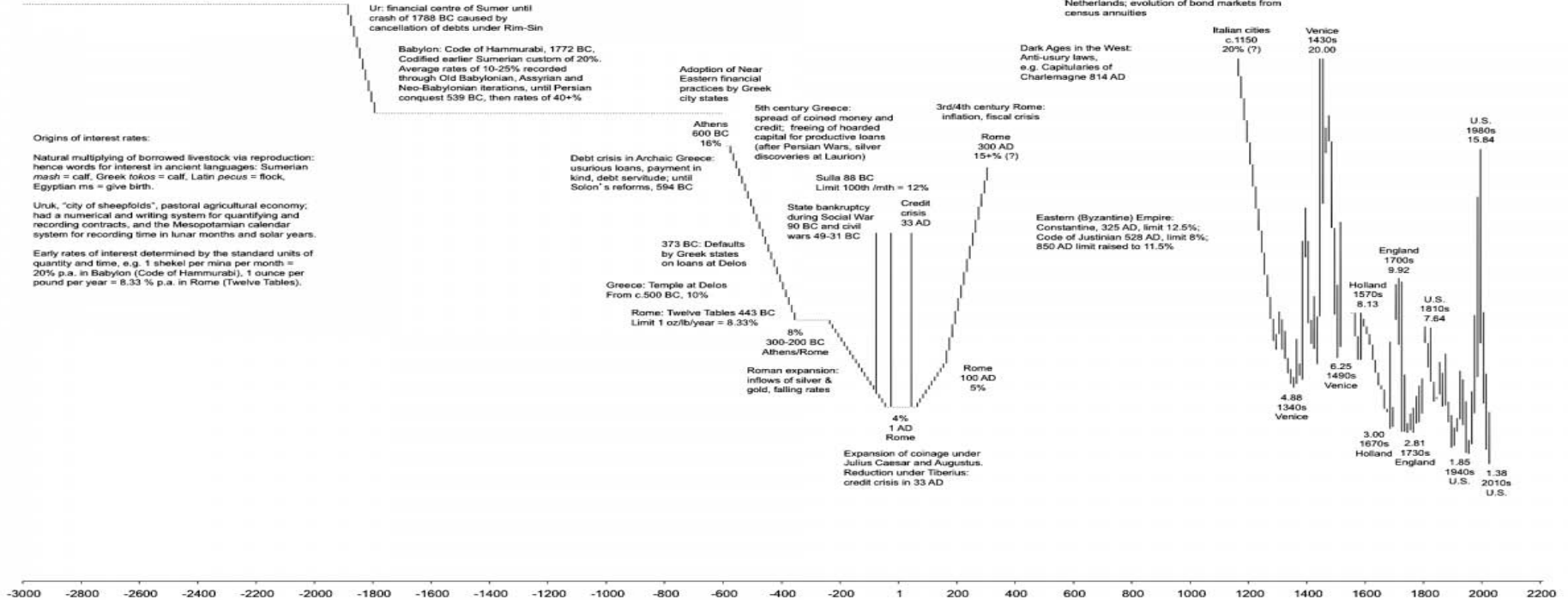
Commercial Revolution of the Middle Ages: easing of prohibitions on usury, rise of banking and state finance in Italy and the Netherlands; evolution of bond markets from census annuities

Origins of interest rates:

Natural multiplying of borrowed livestock via reproduction: hence words for interest in ancient languages: Sumerian *meah* = calf, Greek *tokos* = calf, Latin *pecus* = flock, Egyptian *ms* = give birth.

Uruk, "city of sheepfolds", pastoral agricultural economy: had a numerical and writing system for quantifying and recording contracts, and the Mesopotamian calendar system for recording time in lunar months and solar years.

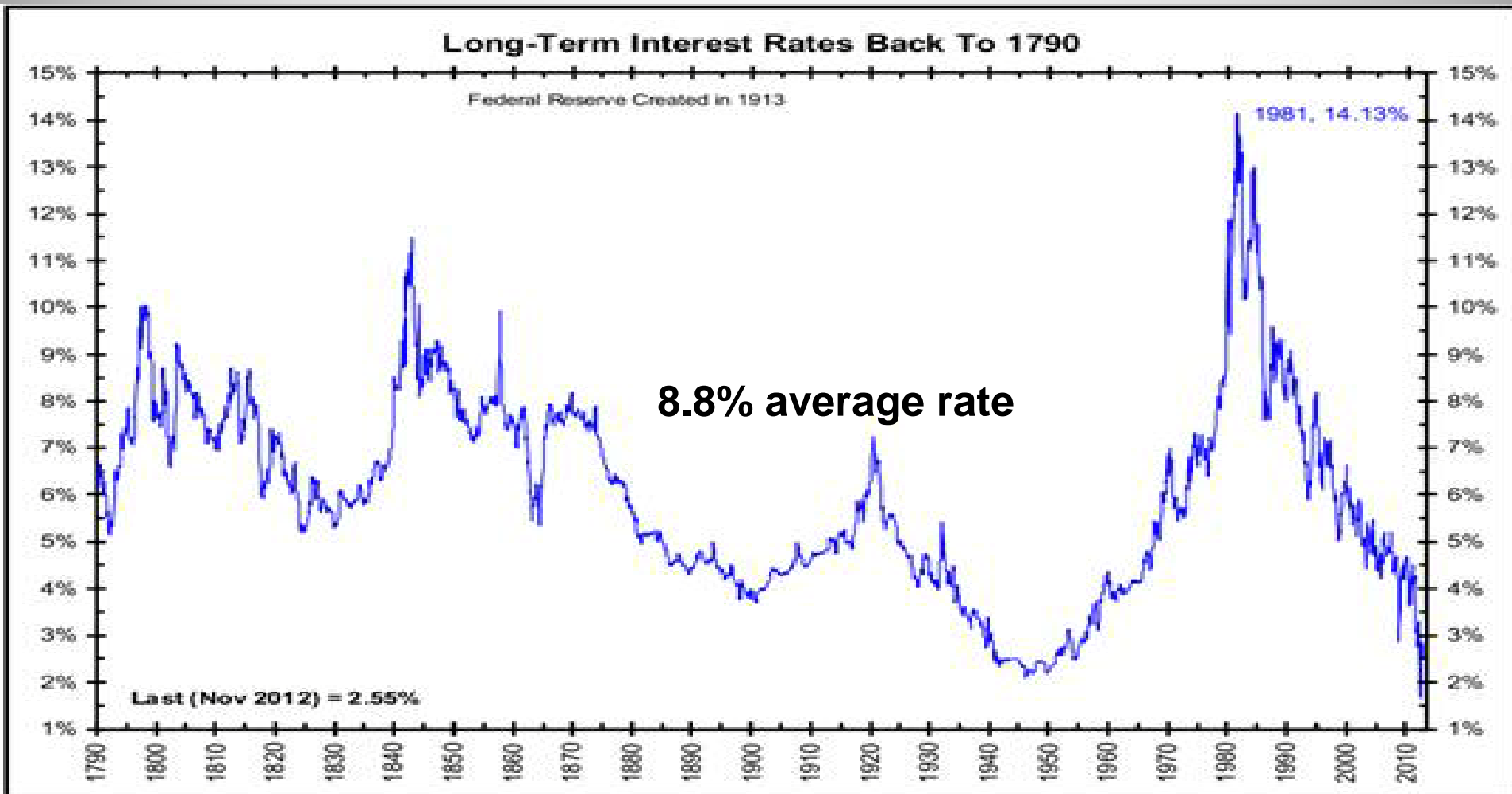
Early rates of interest determined by the standard units of quantity and time, e.g. 1 shekel per mina per month = 20% p.a. in Babylon (Code of Hammurabi), 1 ounce per pound per year = 8.33 % p.a. in Rome (Twelve Tables).



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Historic interest rates since 1790

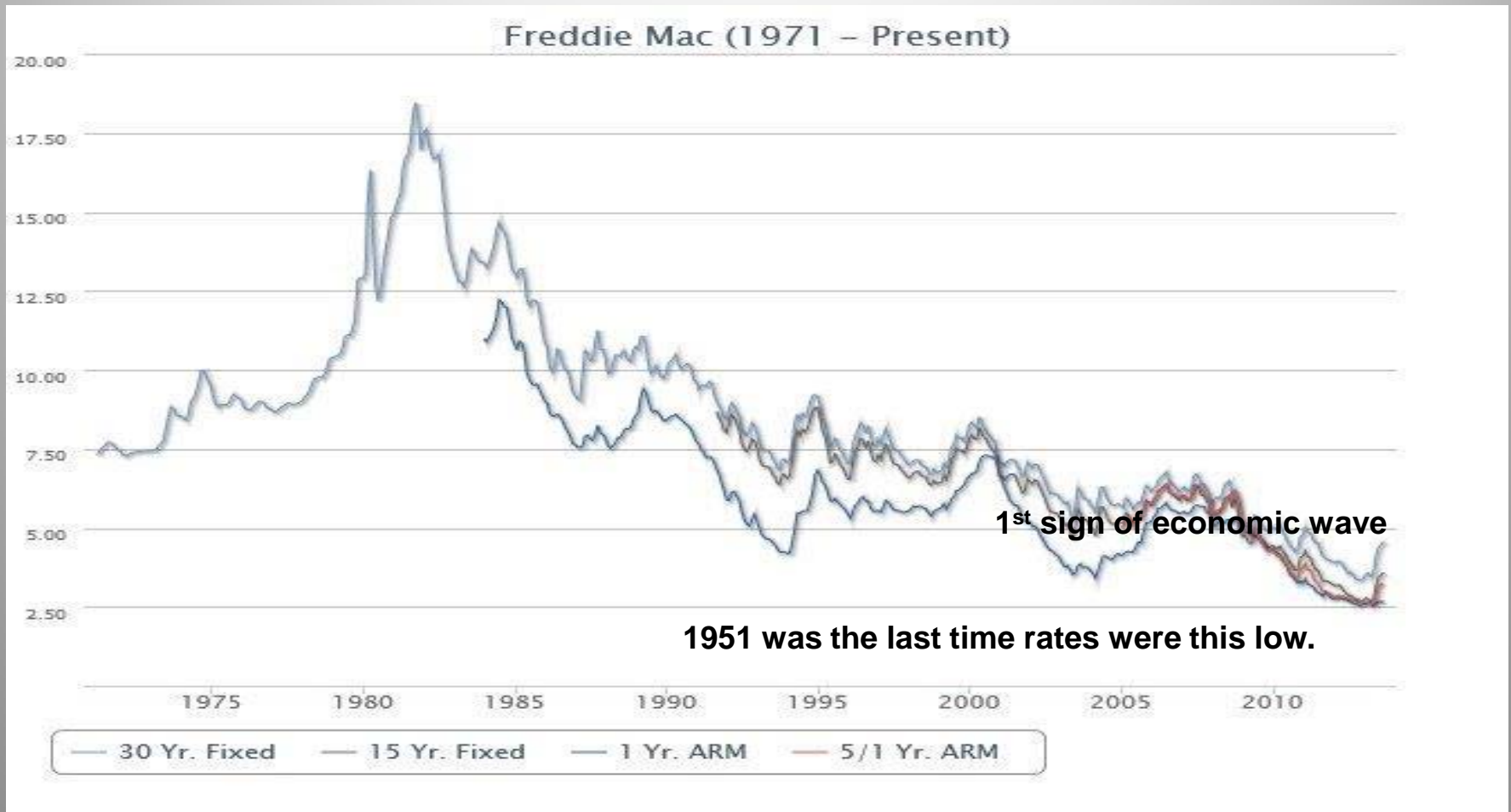


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Mortgage Rates

Why wait?



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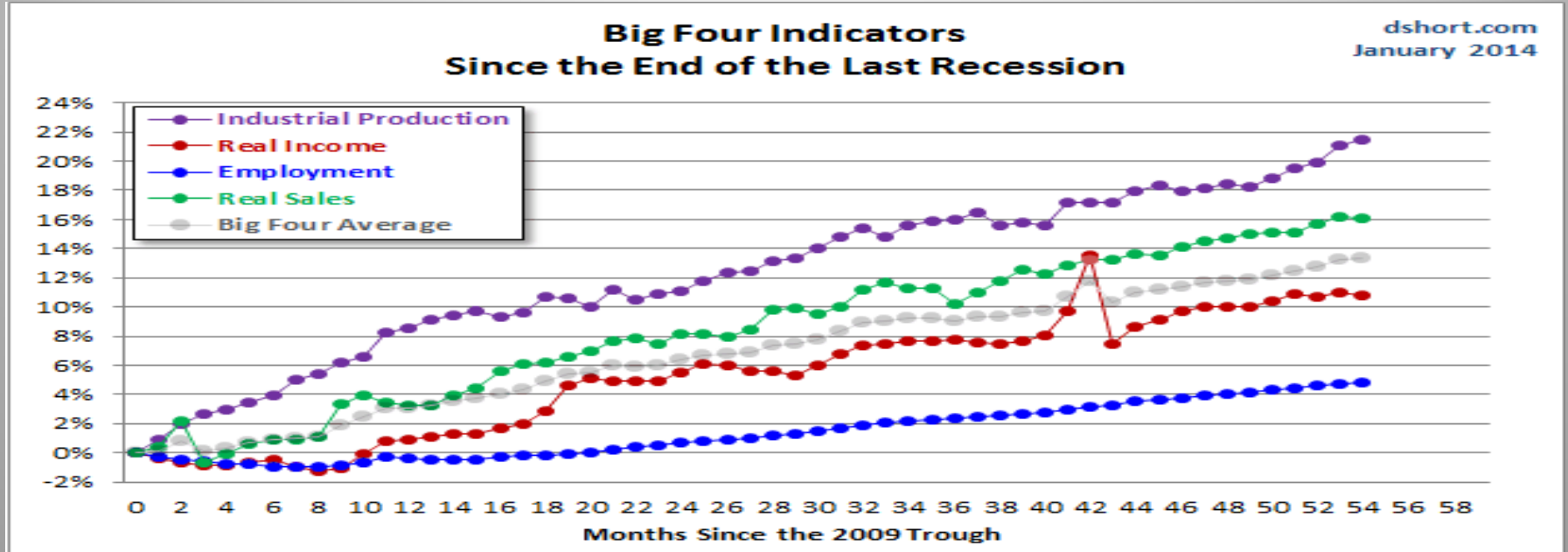
Reasons mortgage rates will continue to rise

- **No more cheap money. Fed has announced the move to higher borrowing costs**
- **The End of Freddie and Fannie;**
 - Don't know what it will be, but every one wants a change
 - 95% of all loans are done by the government presently, 60% prerecession. Hard to replace or compete against
- **Inflation is on the march**
 - Mortgage rates have a direct correlation to demand
 - As the economy improves, inflation will begin to set in naturally. To offset the risk of drastic rising inflation, the federal government (Federal Reserve) will be forced to raise their interest rates
 - Supply and demand
 - Something's go to give and it doesn't look like it will be inflation
- **History**
 - Interest rates have risen....however they are still at near 60 year lows
 - 30 year mortgage rates have averaged 8.88 percent over time. They have been under 5 percent in just 41 of the 524 months on record or about 4+/-% of the time. Just a return to the lower 25th percentile of all time mortgage rates would see rates rise to 6.92%
 - Interest rates are expected to go up! Not down!
 - For every point increase, there is a loss of 12% buying power



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Four big national economic indicators continue to be positive



Big Four Indicators Month-over-Month

| Indicator | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------------------------------|-------|------|-------|-------|------|------|-------|------|-------|-------|------|-------|
| Industrial Production | 0.0% | 0.7% | 0.3% | -0.3% | 0.2% | 0.2% | -0.2% | 0.5% | 0.6% | 0.3% | 1.0% | 0.3% |
| Real Income | -5.4% | 1.1% | 0.5% | 0.5% | 0.2% | 0.0% | 0.0% | 0.4% | 0.4% | -0.1% | 0.2% | -0.2% |
| Employment | 0.1% | 0.2% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.2% | 0.1% | 0.1% | 0.2% | 0.1% |
| Real Sales | 0.0% | 0.4% | -0.1% | 0.5% | 0.3% | 0.2% | 0.2% | 0.1% | -0.1% | 0.6% | 0.4% | -0.1% |
| Big Four Average* | -1.3% | 0.6% | 0.2% | 0.2% | 0.2% | 0.1% | 0.0% | 0.3% | 0.3% | 0.2% | 0.5% | 0.0% |

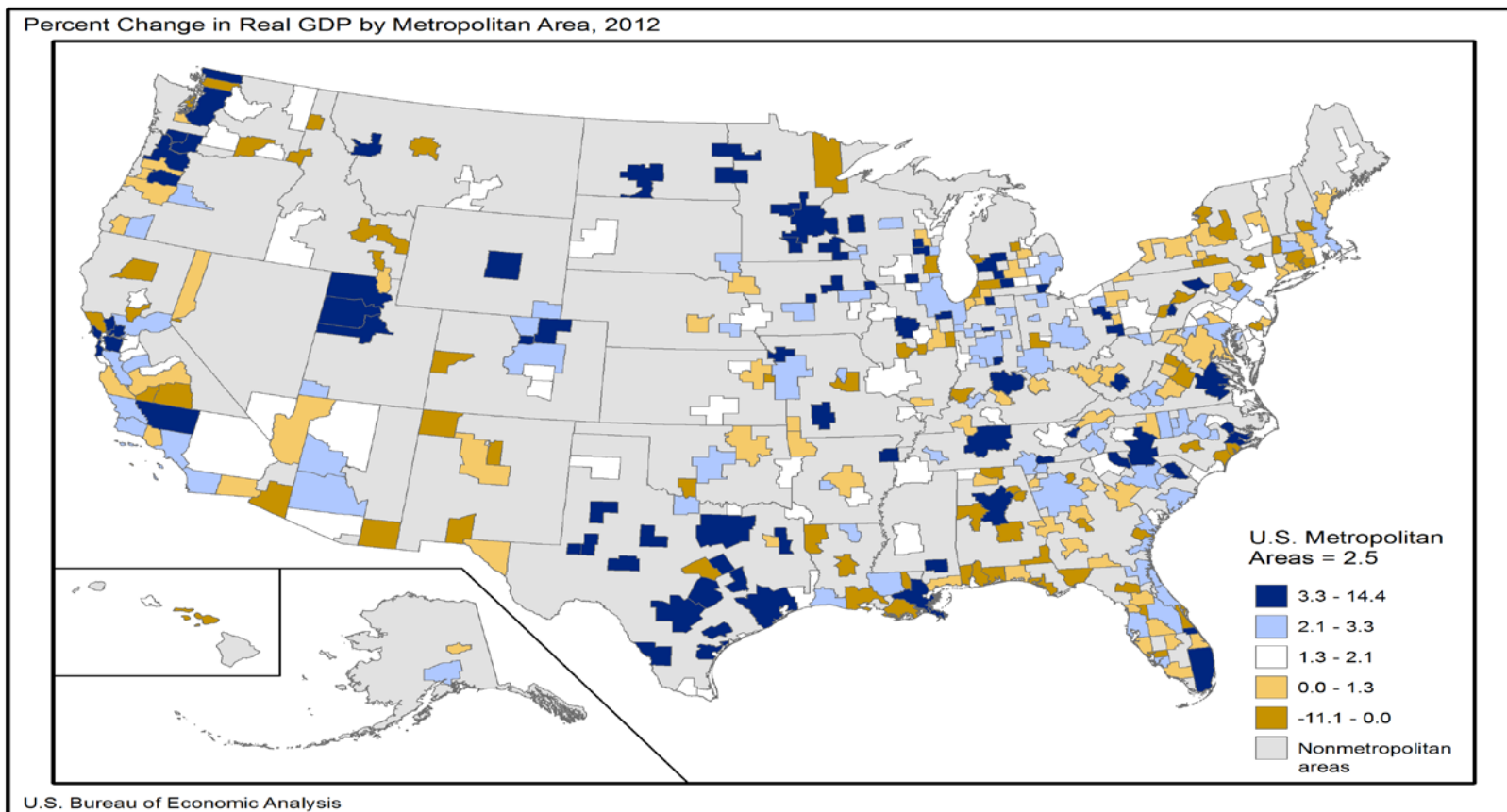
*Employment is released the first week of the month, Income the last week, Industrial Production and Sales mid-month.
The Big Four Average is based on four data points, the most recent in each series.



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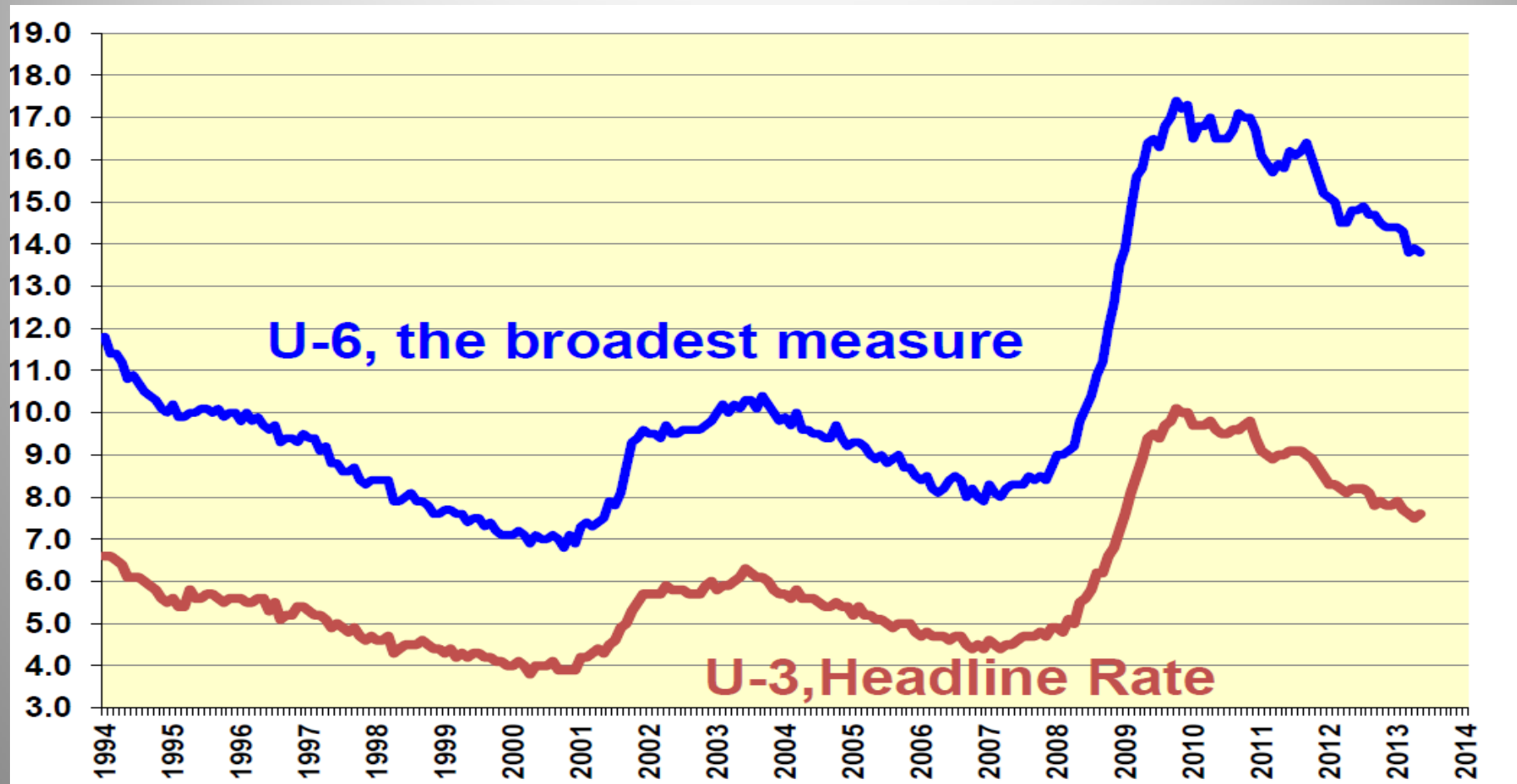
Texas region continues to lead nation in GDP growth



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True National Unemployment vs. Headline



Source: BLS 8 2013



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Unemployment has persisted longer than in previous recessions

Average (Mean) Duration of Unemployment
measured in weeks

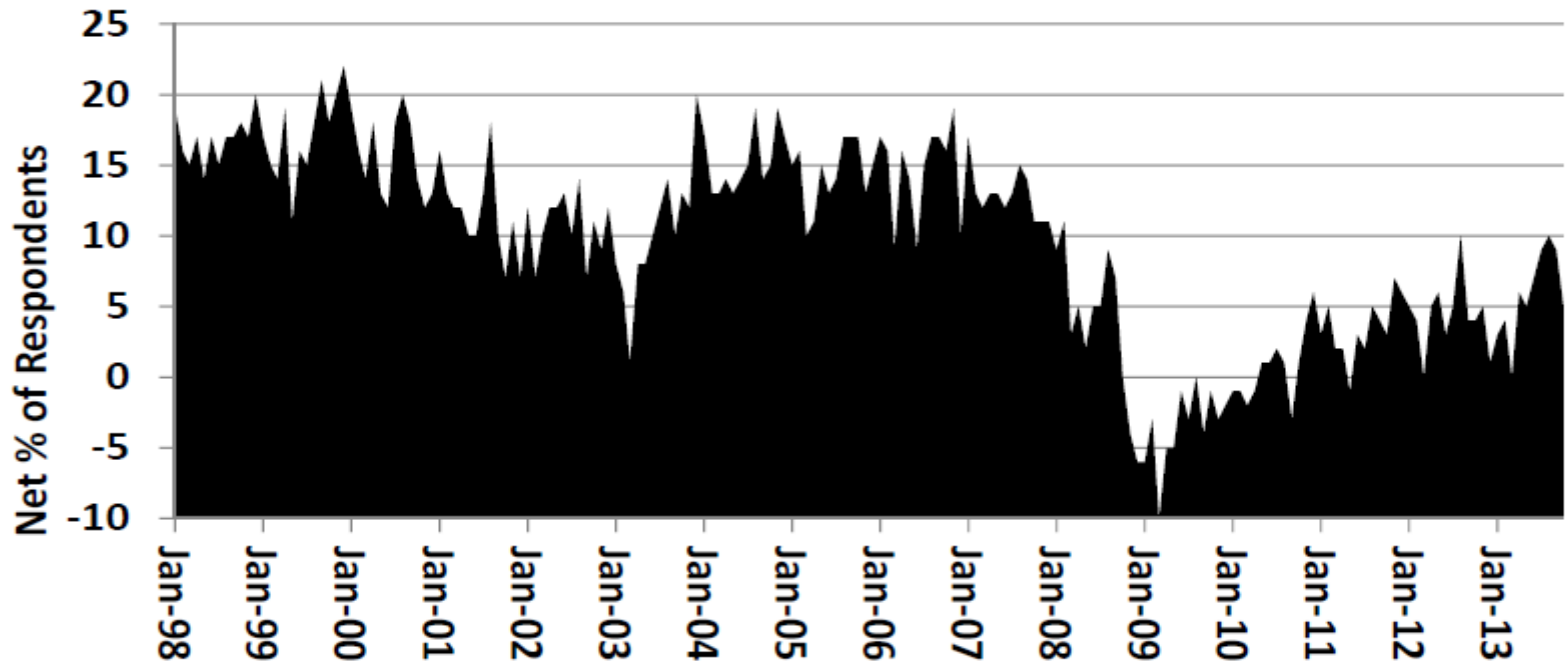
dshort.com
January 2014
Data through December



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Small Business Looking to Hire in Next 3 Months



National Federation of Independent Business



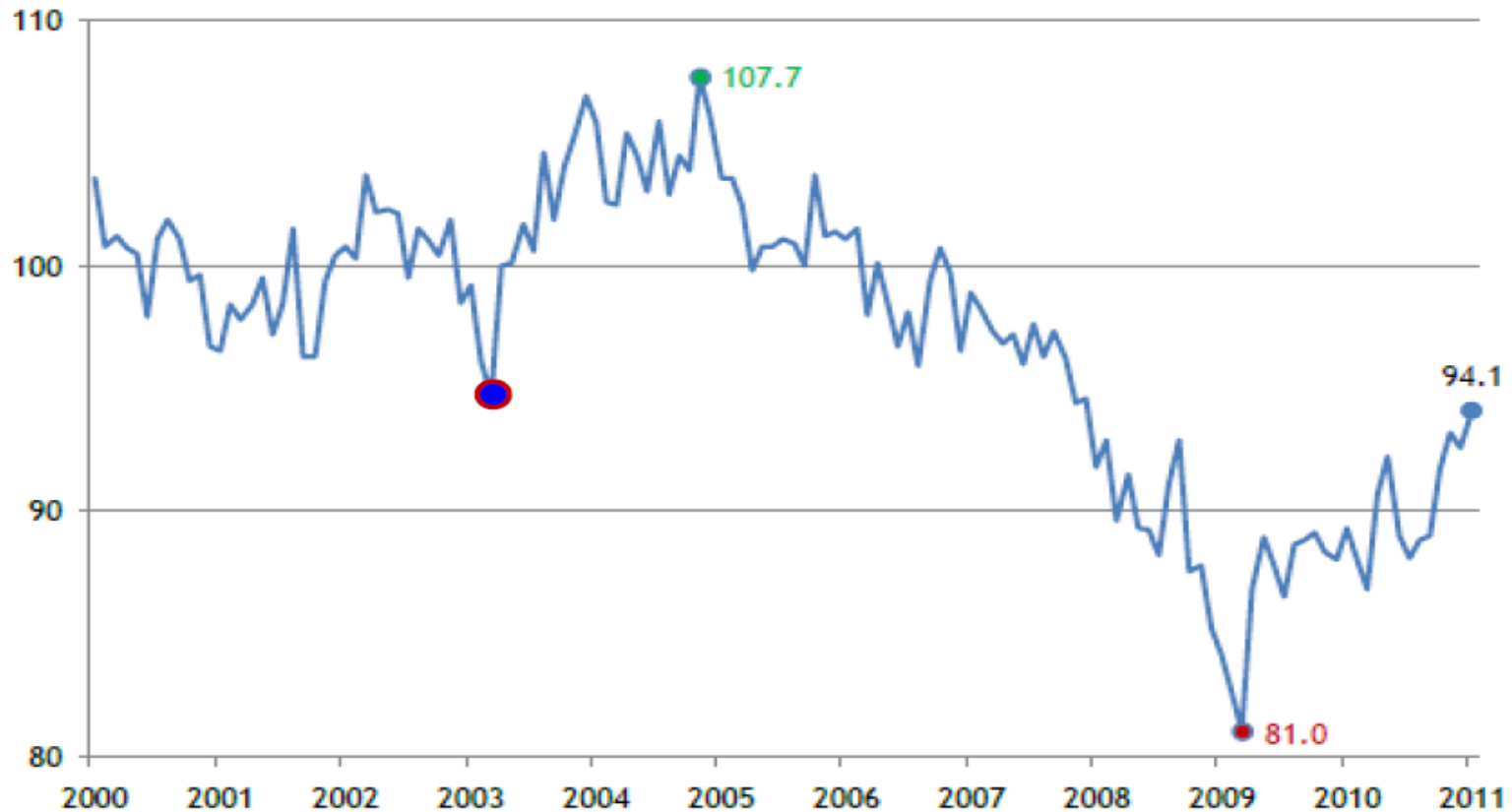
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Small Business Optimism

Rebounding to 2003 recession trough

Small Business Optimism Index (SA, 1986=100)



Source: National Federation of Independent Business

21

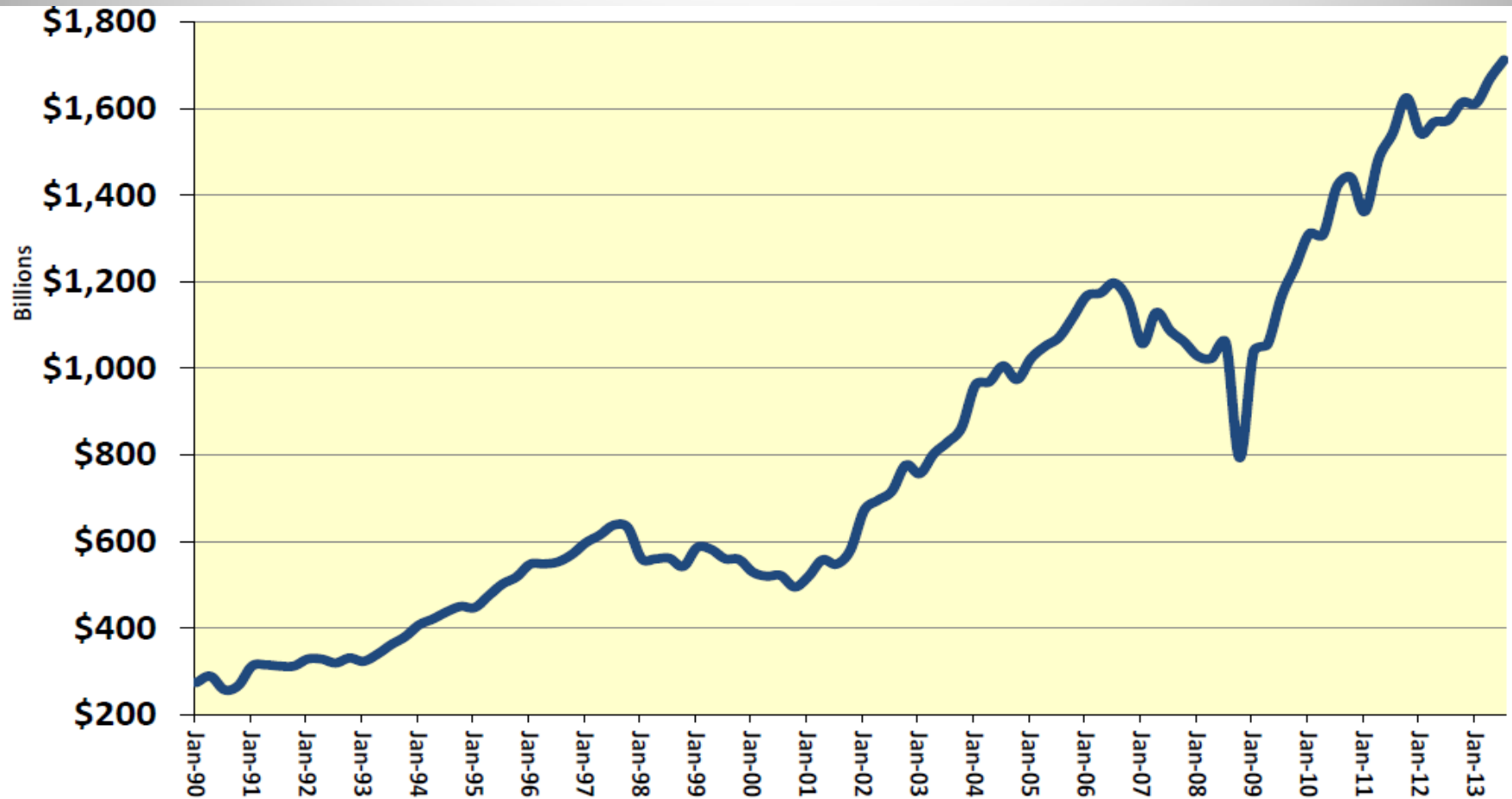


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Corporate profits

Continue to be record breaking



Source: US Chamber of Commerce 12/13



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Non-Financial Corporate Cash at All Time High



Source: Federal Reserve; BofA Merrill Lynch Global Research



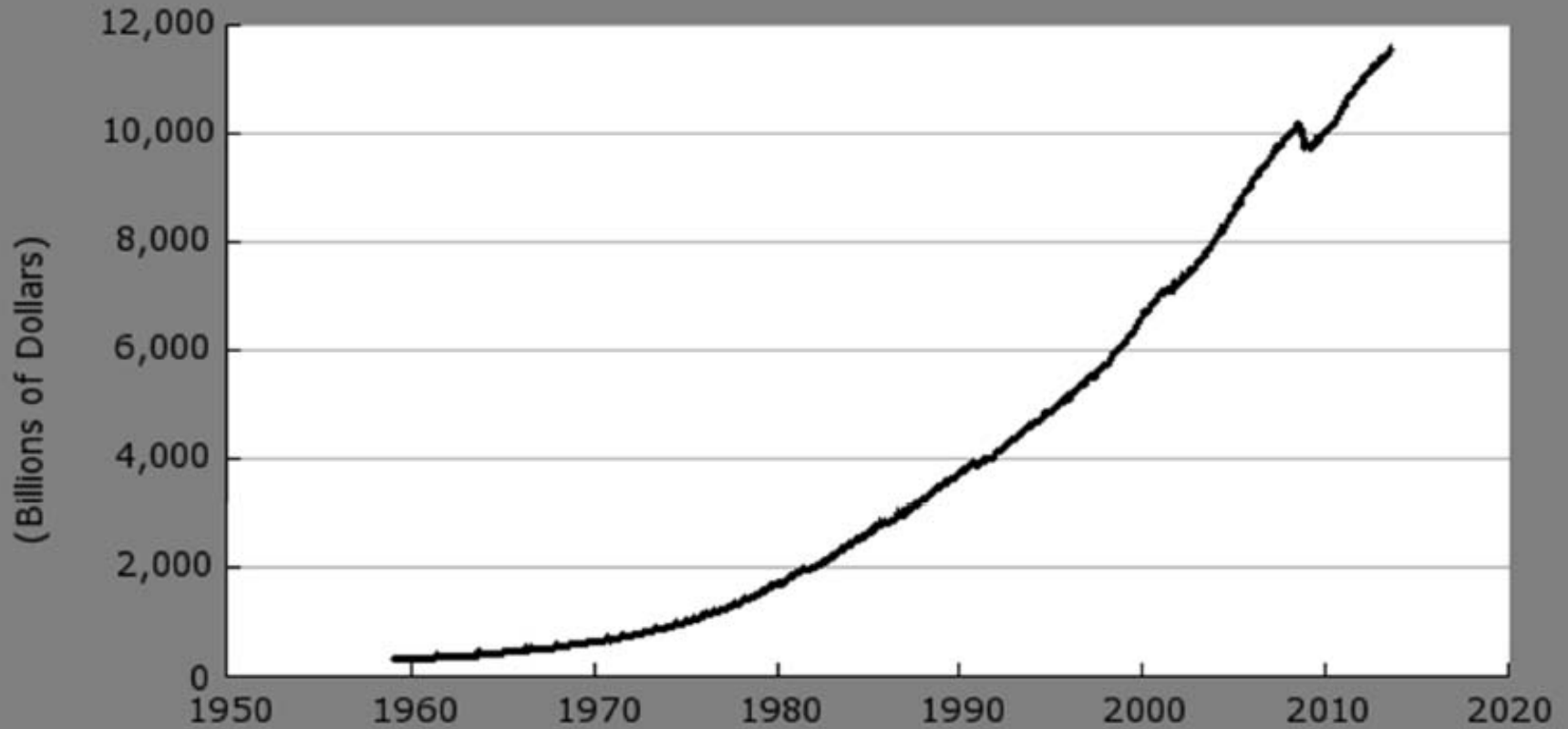
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Consumers are spending again 2014

Personal Consumption Expenditures (PCE)

Source: U.S. Department of Commerce: Bureau of Economic Analysis



2013 research.stlouisfed.org

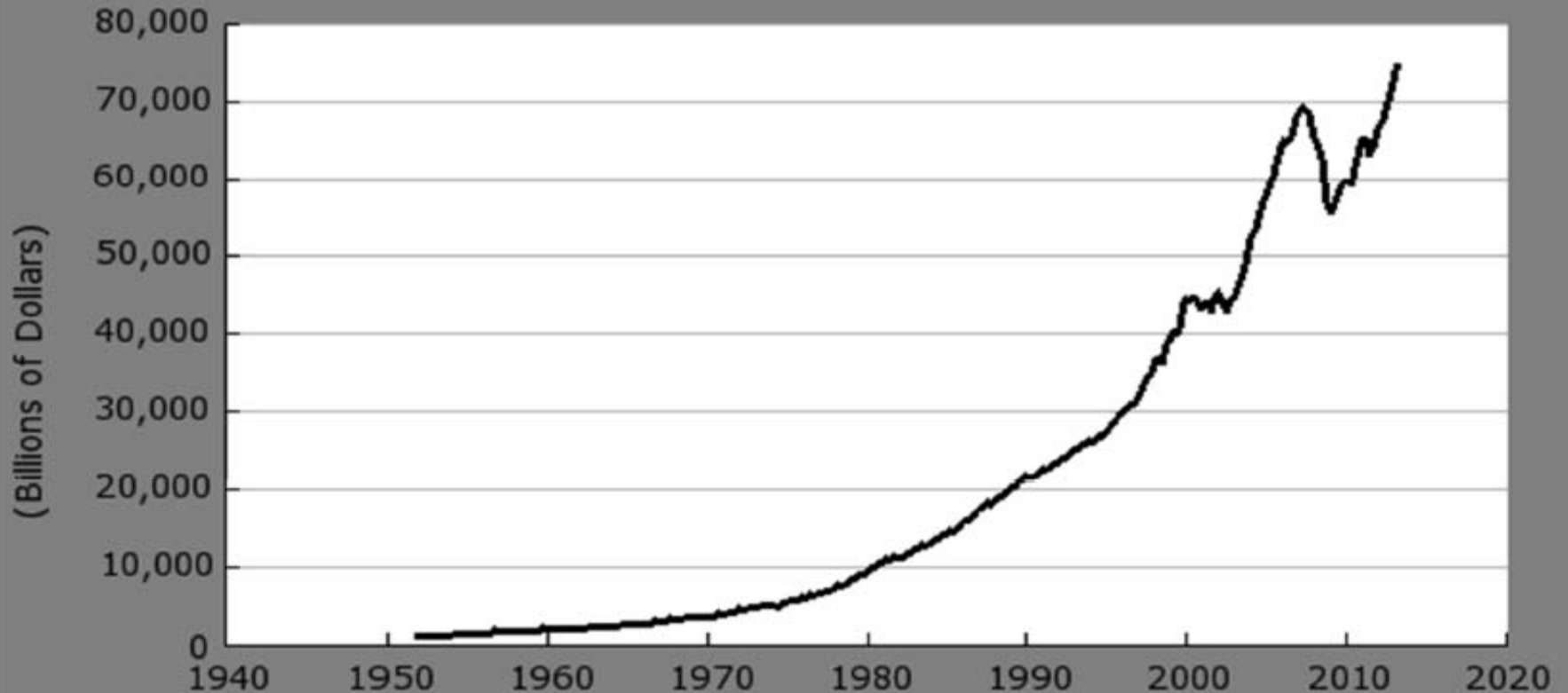


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Household Net Worth Recovering 2014

Households and Nonprofit Organizations; Net Worth, Level (TNWBSHNO)
Source: Board of Governors of the Federal Reserve System



2013 research.stlouisfed.org

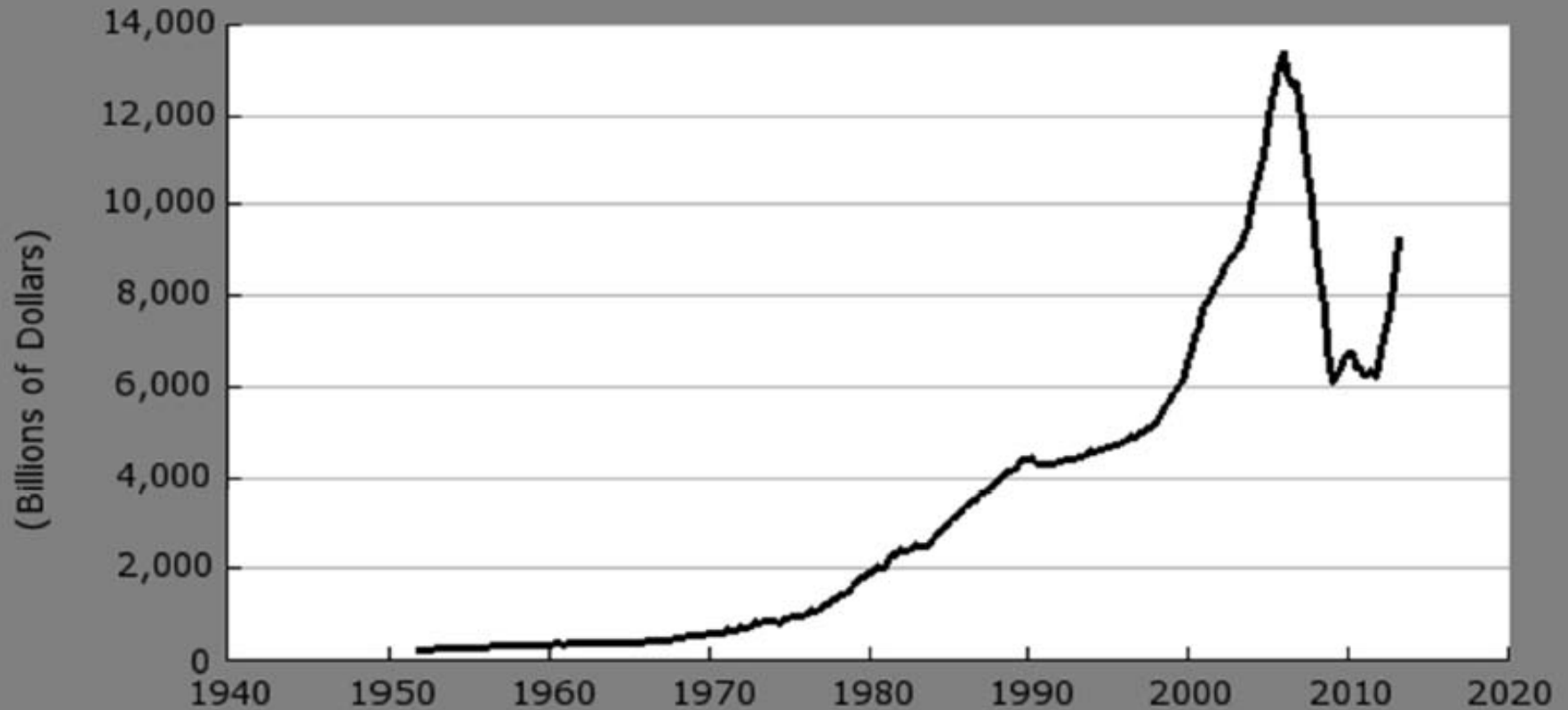


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Households Lost \$8 Trillion in Real Estate Equity During this Recession

Households; Owners' Equity in Real Estate, Level (OEHRENWBSHNO)
Source: Board of Governors of the Federal Reserve System



FRED 

2013 research.stlouisfed.org



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Payment on Long Term Debt vs. Personal Income

Household Debt Service Payments as a Percent of Disposable Personal Income (TDSP)

Source: Board of Governors of the Federal Reserve System



FRED

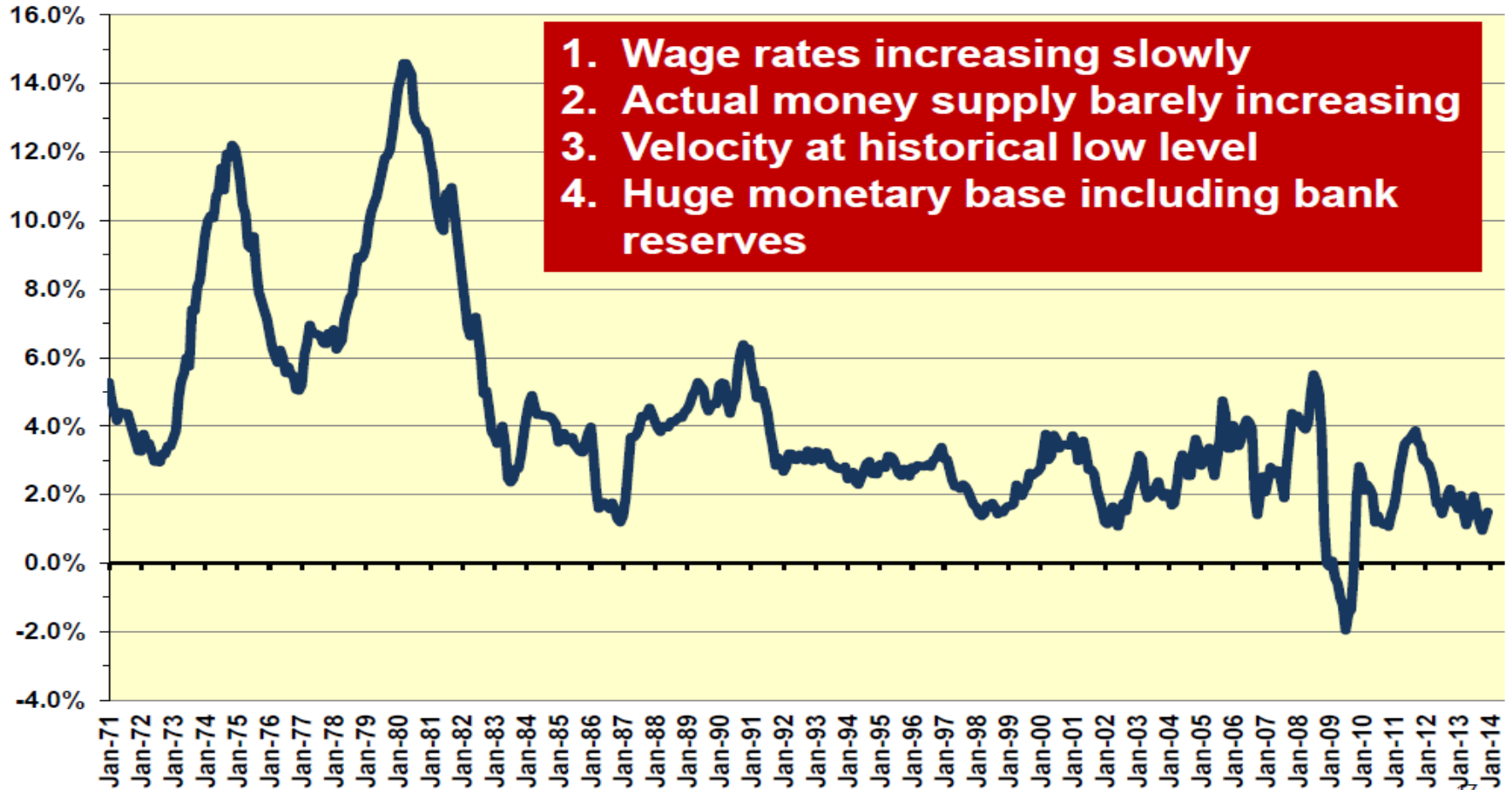
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Inflation Remains Relatively Low



Source: BLS, Federal Reserve Bank of St. Louis



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Traditional real estate economic indicators in Texas remain strong

- Texas and Austin indicators continue to show strength
- Job gains
- Improving real estate values (residential, commercial, retail, industrial, etc.)
- General business growth
- Continued population growth
- Demand greater than supply in all Texas metros
- Real estate and land values continue improvement
- All channels have appreciated this last 2 years
 - Central and south central Texas area leading the state with a 6+% increase in rural values sold over the previous year, 2012. Texas leads the nation in number of farms and ranches, with 247,500 farms and ranches covering 130.4 million acres as well as the highest average value of farm and ranch real estate in any state.



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Housing market conditions

- Affordability – price / payment to income (rates still at near historic lows)
- Pent up demand. Household formations – 1 million+ in 2012, 550K to 600K annually last 5+ years
- Rising rents (nationally, regionally and locally)
- Fewer distressed sales. Foreclosures on downward spiral (especially in Austin / Texas where they make up less than 1% of market)
- Smaller inventory of new and resale homes
- A sellers market locally and regionally
- Nationally improving, but not yet whole. Texas continues to improve
- Mortgage and bank rates creeping up
- Expectations – the market has turned. Set proper expectations

‘The house or apartment you look at today will be gone tomorrow!’



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Now is the time to buy!

- **Austin area resale home inventory is at 2.0 months (seller's market)**
 - 4545 single family listings.
- **New and resale home inventory levels tight**
 - Values appreciating in most Austin sub markets
- **Austin home values remained positive during recession and continue to gain value**
- **Record affordability, 2nd lowest mortgage rates in 60+ years**
- **1 out of 3295 properties in Travis County, 1 in 4338 in Austin are in foreclosure**
- **Residential, rental and office entitlements at lowest levels in 6+ years**
- **Lending requirements still tight, causing fewer opportunities**
- **Rentals –95% occupancy / less than 7,384 units left in five county area**
- **56,000+ people annually moving to Austin annually**
- **Lower Supply + Higher Demand = Value improvement**



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The numbers...

- **147,684 total rental units in Austin**
 - 95% occupancy = 7384 units available + 5880 units under construction to be completed 2014

Total of 13,264 rental units available in the next 12 months.
- **9,000 to 12,000 home starts this year**
 - For every 2 jobs / one home start
- **4,545 listings presently**
- **Total shelter 29,809 units available**
- **Total annual immigration 56,000+**



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Top Selling MLS Areas 2013

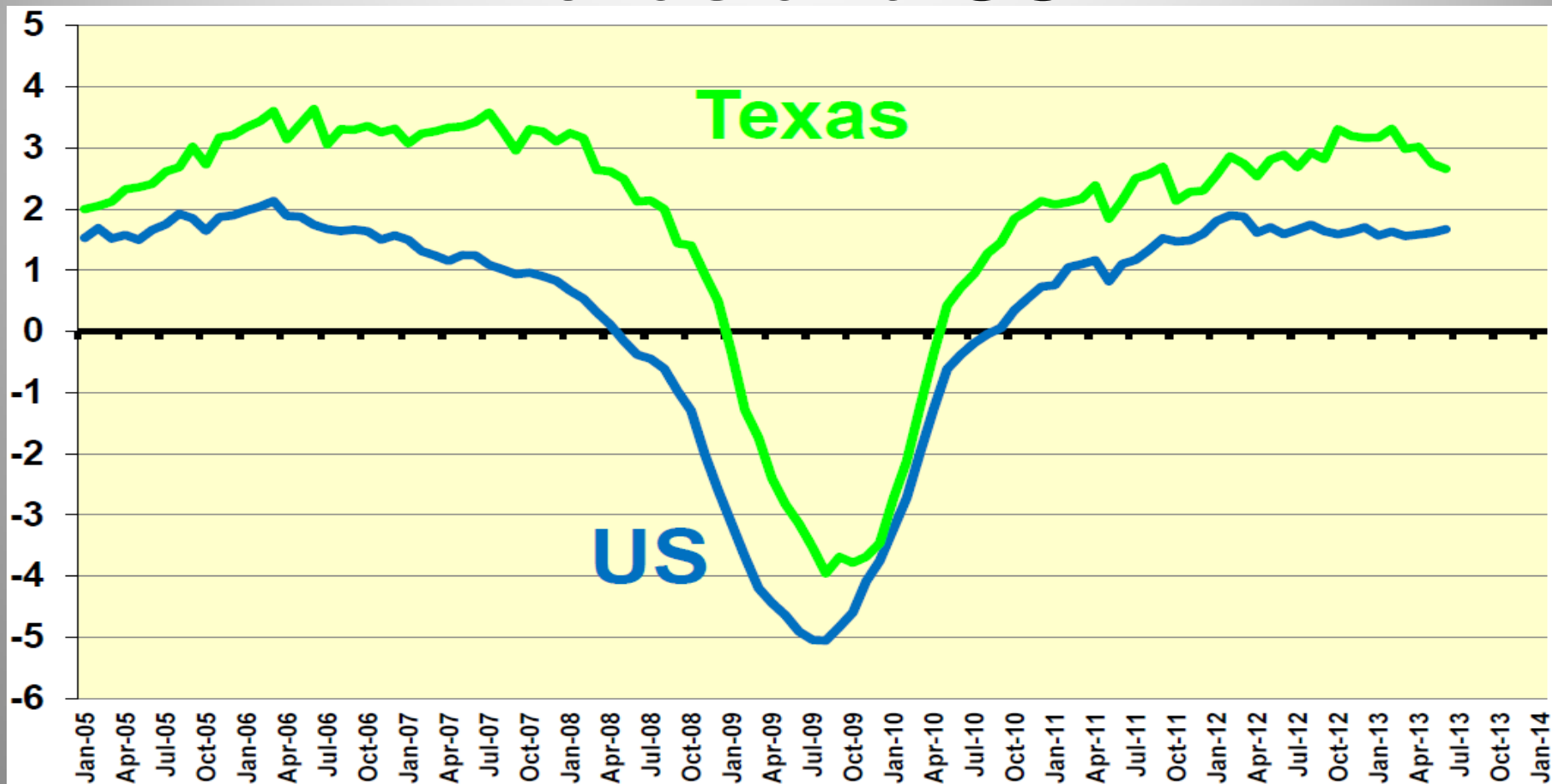
| MLS Area | Sales |
|----------|-------|
| RRE | 1722 |
| PF | 1676 |
| CLN | 1658 |
| RRW | 1569 |
| CLS | 1416 |
| HH | 1380 |
| LS | 1320 |
| GTW | 1320 |
| NW | 916 |
| 10S | 791 |



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Annual Employment Growth Texas and US



Source: TWC, Real Estate Center at Texas A&M University

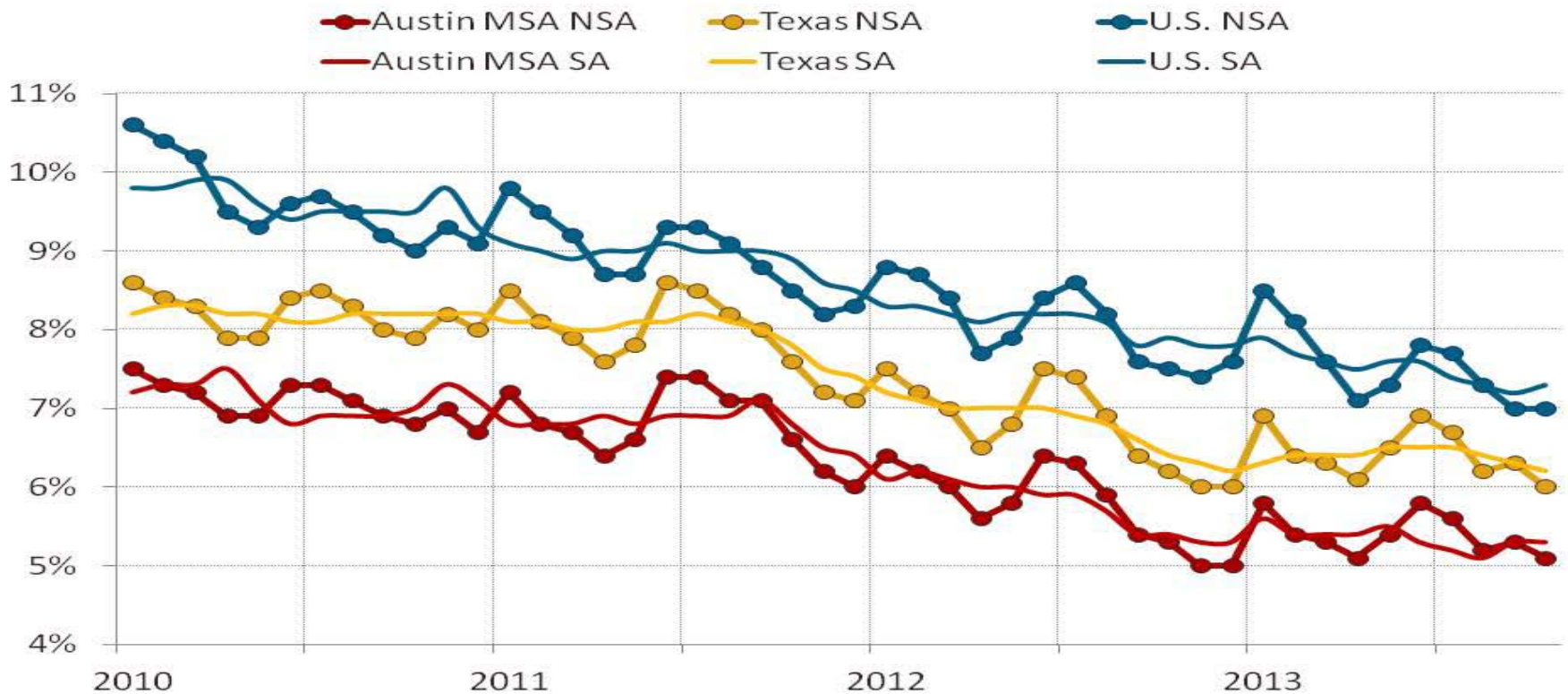


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Unemployment Rates for Austin, Texas, and US

Unemployment Rates



Source: Texas Workforce Commission & Federal Reserve Bank of Dallas, LAUS.

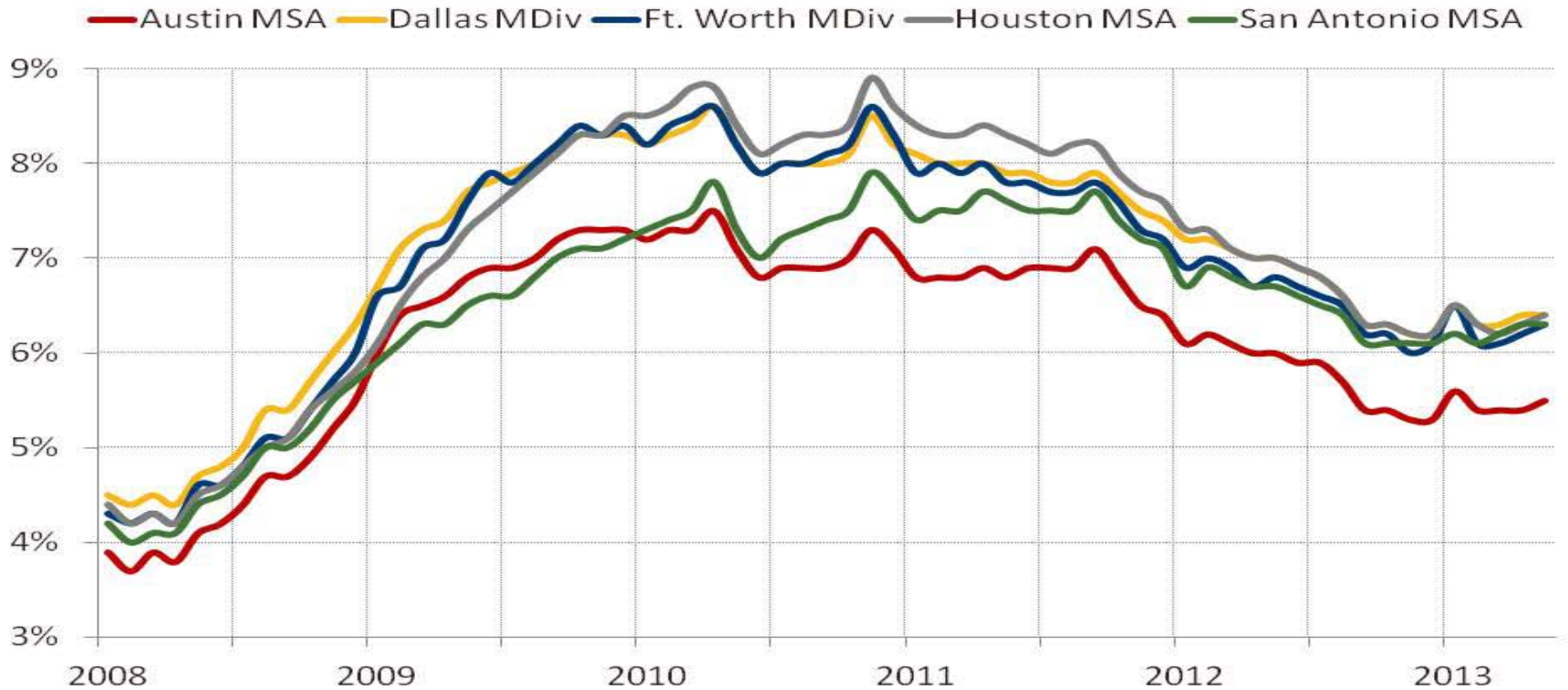


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Unemployment Rates for Texas Metros

Unemployment Rates
Seasonally Adjusted



Source: Federal Reserve Bank of Dallas, LAUS.

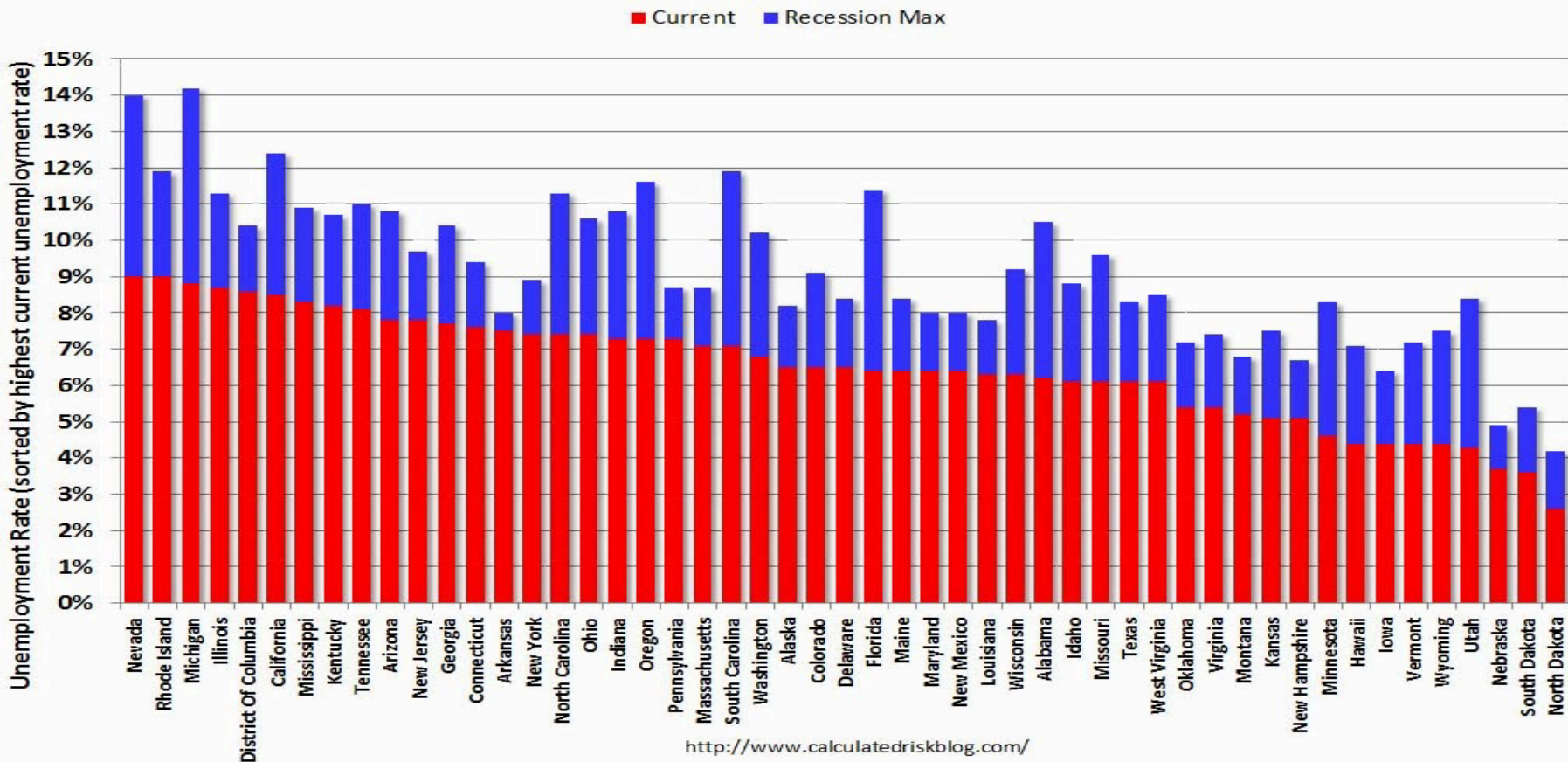


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State Unemployment Rate and Max for 2007 Recession

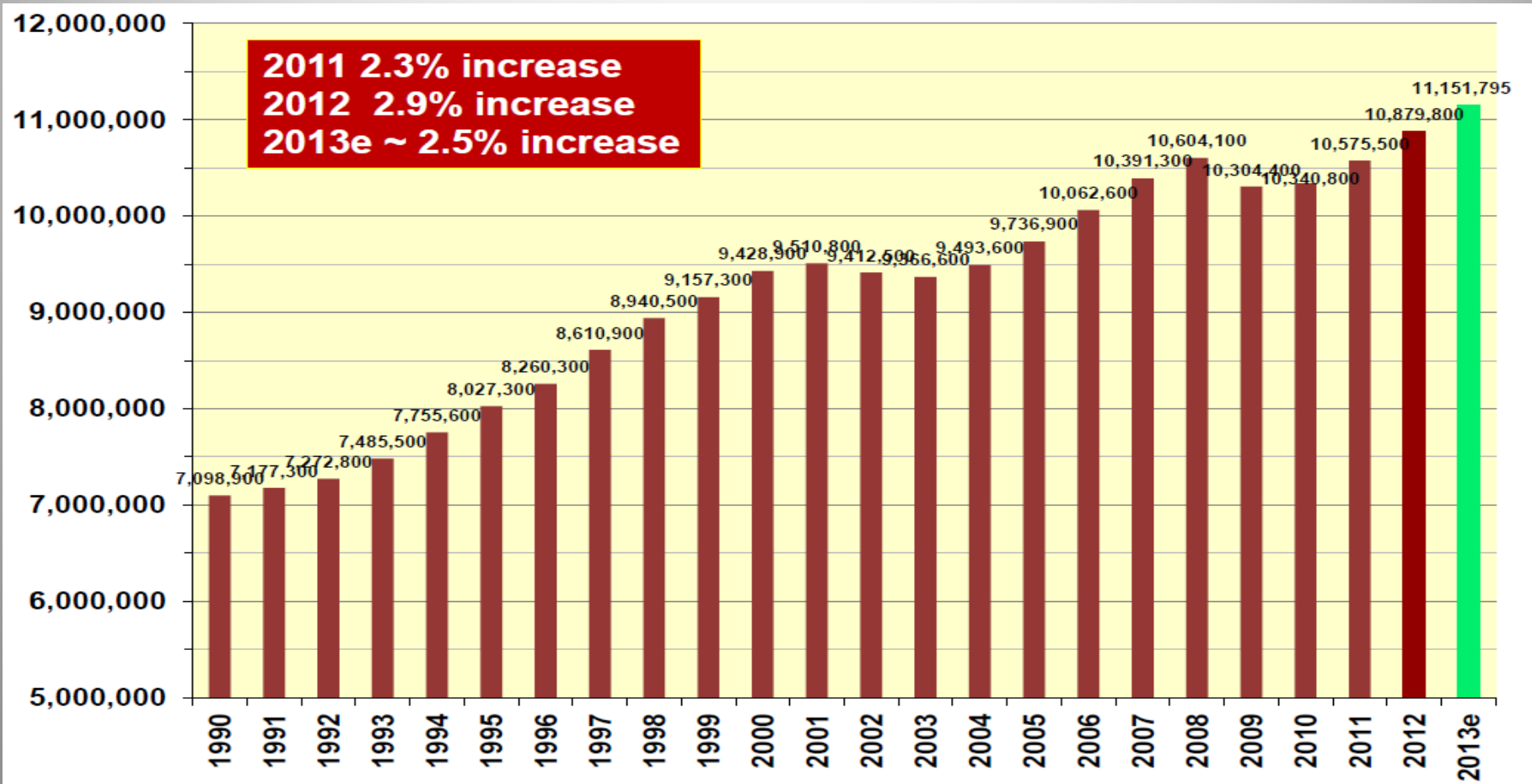
State Unemployment Rate: Current Rate and Max for 2007 Recession



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Texas Jobs at Record High



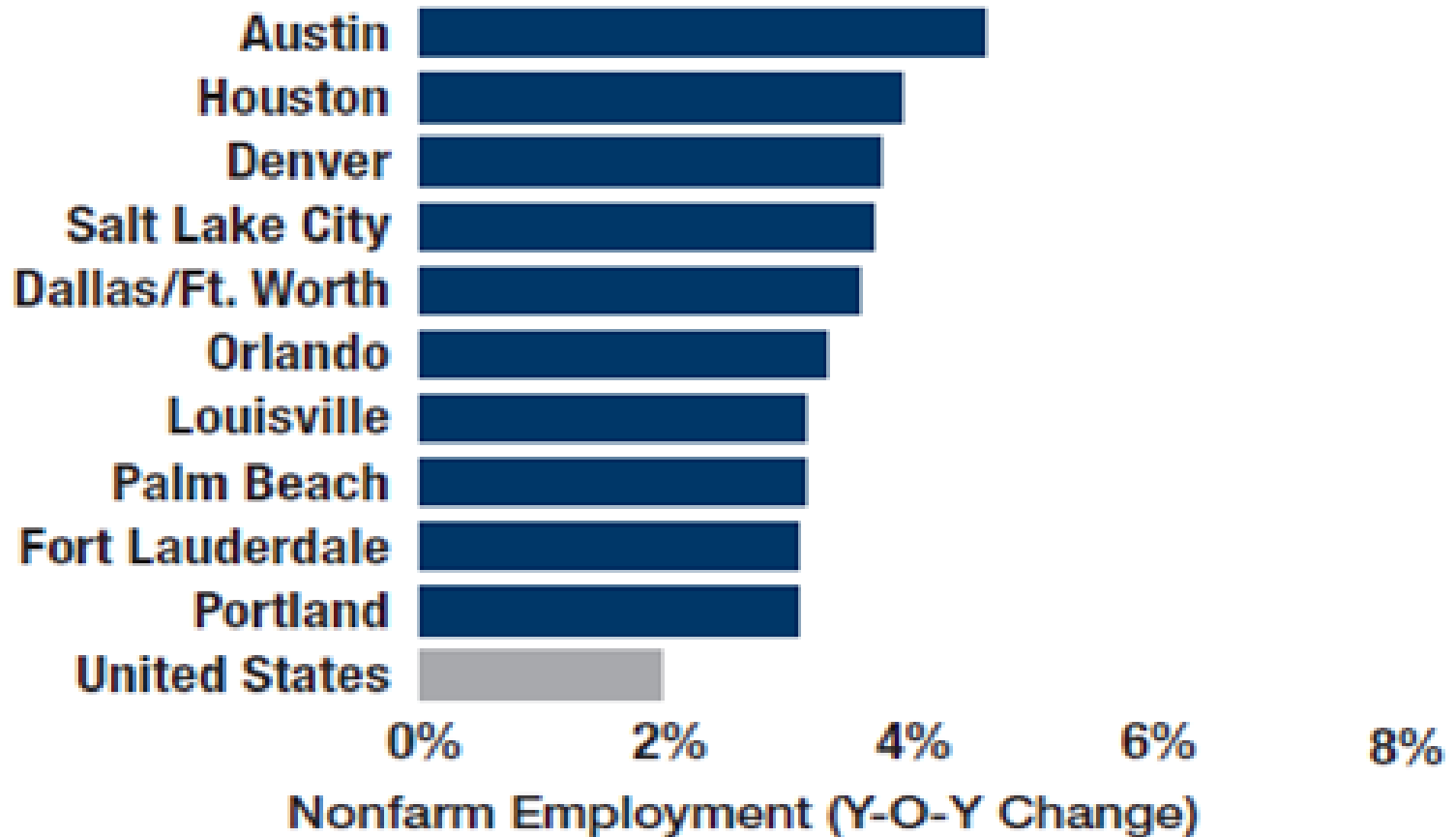
Source: Texas A&M Real Estate Center



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Markets with the Highest Expected 2014 Employment Growth



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Fastest Growing Among Top 50 Metro Areas

| | Nonfarm payroll jobs December 2013 | Dec. 2012-Dec. 2013 | | Rank |
|----------------------|--|---------------------|-------------|------|
| | | Difference | Percent Ch. | |
| San Jose MSA | 955,100 | 31,000 | 3.4% | 1 |
| Orlando MSA | 1,091,100 | 32,300 | 3.1 | 2 |
| Tampa MSA | 1,214,600 | 35,400 | 3.0 | 3 |
| Houston MSA | 2,837,200 | 82,000 | 3.0 | 4 |
| Seattle MDiv | 1,508,000 | 43,500 | 3.0 | 5 |
| Oklahoma City MSA | 620,900 | 17,800 | 3.0 | 6 |
| Austin MSA | 865,900 | 23,700 | 2.8 | 7 |
| Fort Lauderdale MDiv | 767,400 | 20,500 | 2.7 | 8 |
| Fort Worth MDiv | 945,300 | 24,900 | 2.7 | 9 |
| San Francisco MDiv | 1,050,300 | 26,800 | 2.6 | 10 |

Data is not seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES).



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MSA Population Projection: 2012-2042

MAJOR METROPOLITAN AREAS: FASTEST GROWTH

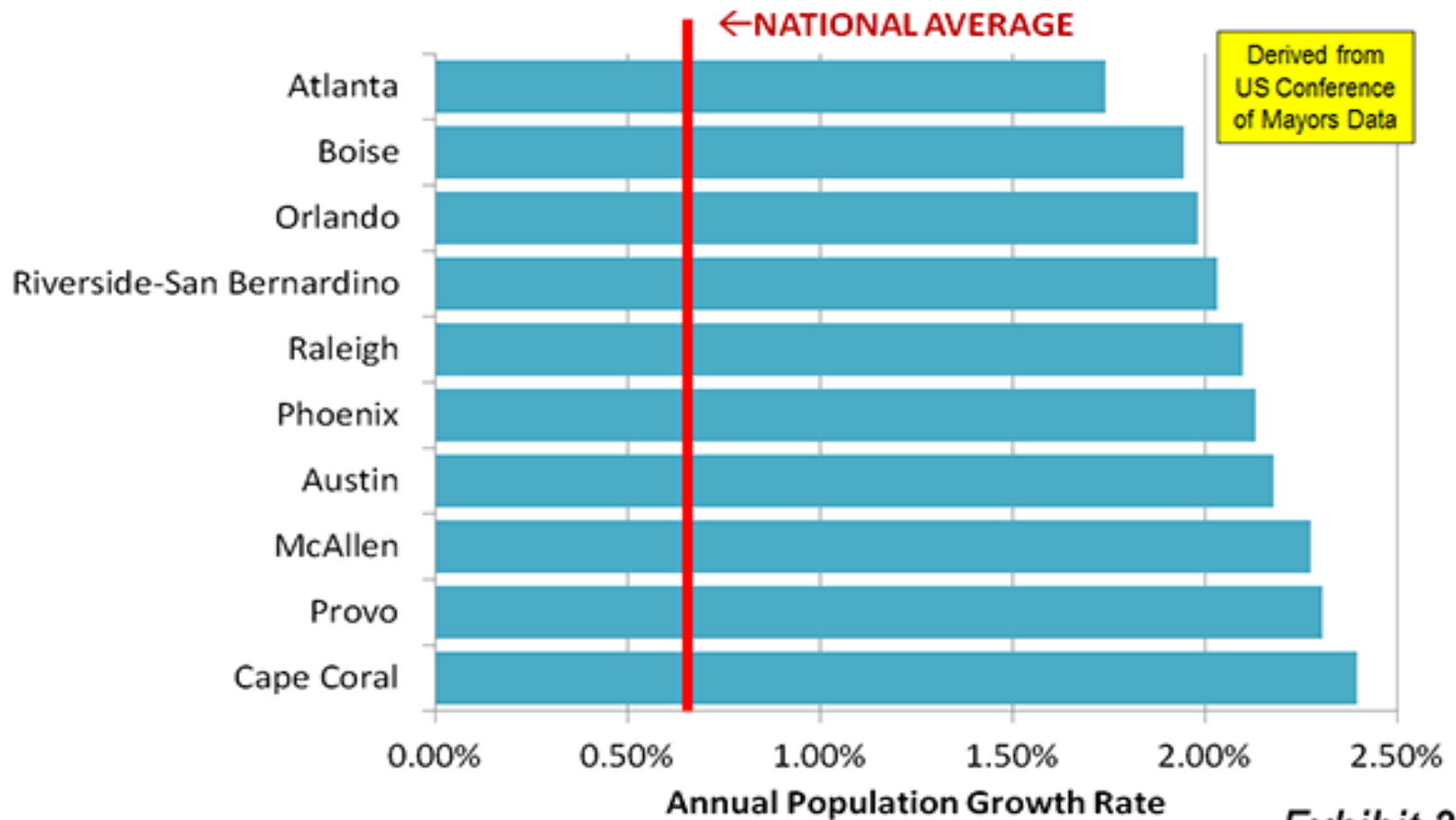


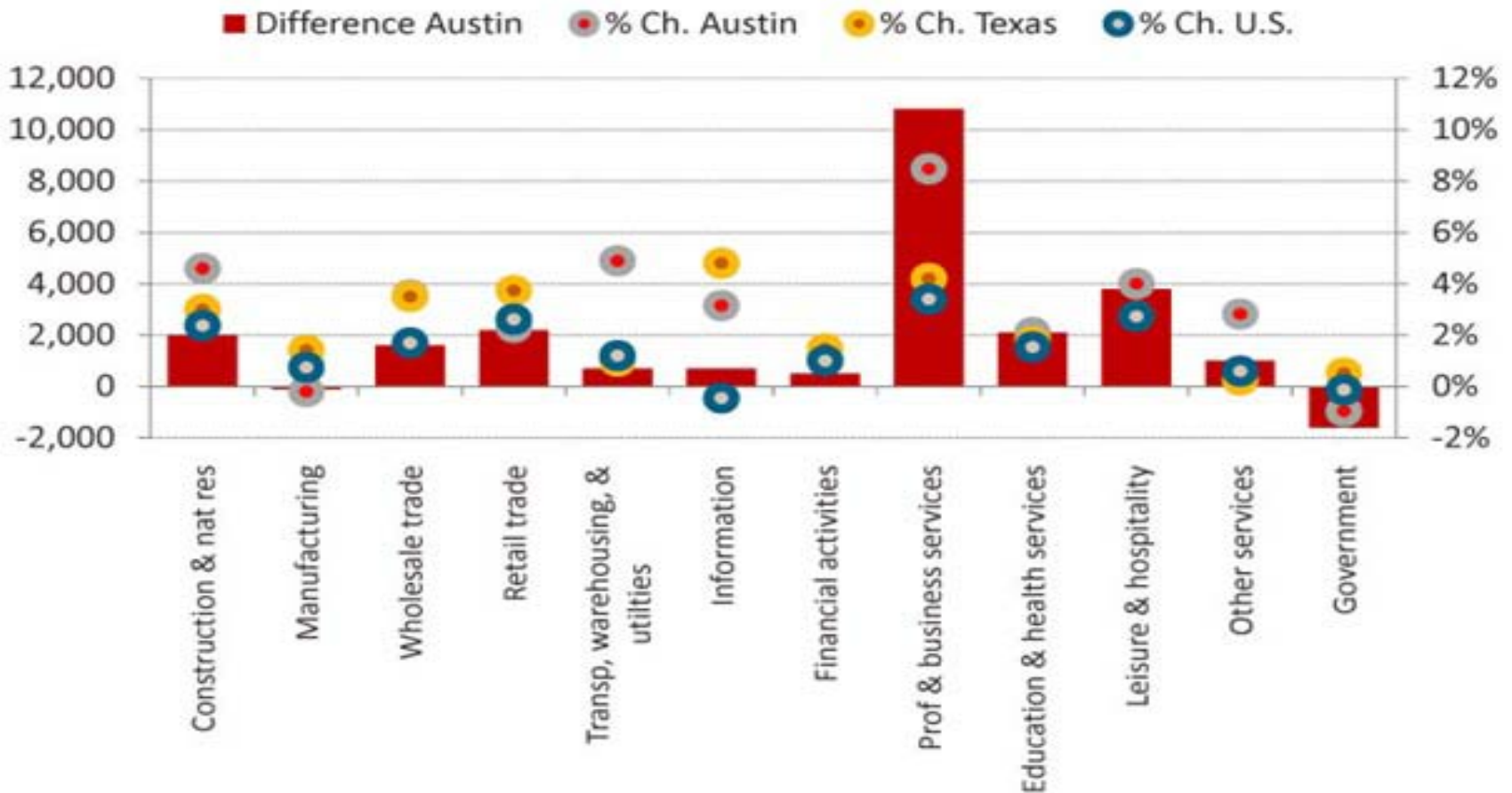
Exhibit 2



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New/Lost Jobs by Industry: Dec. 2012-Dec. 2013



Source: Texas Workforce Commission & U.S. Bureau of Labor Statistics, CES.



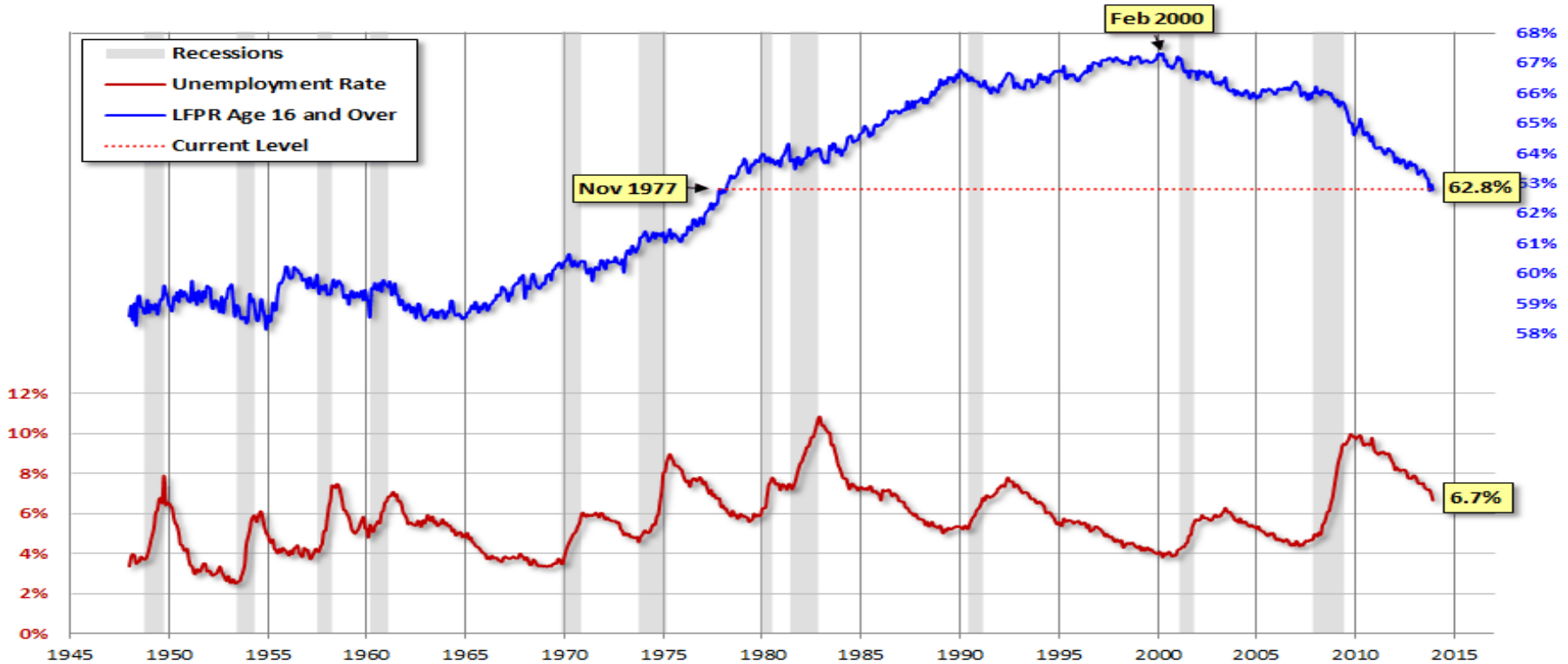
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Monthly Unemployment Rate vs. Labor Participation Rate

Monthly Unemployment Rate and the Labor Force Participation Rate

dshort.com
January 2014
Data through December



Source: BLS and DShort

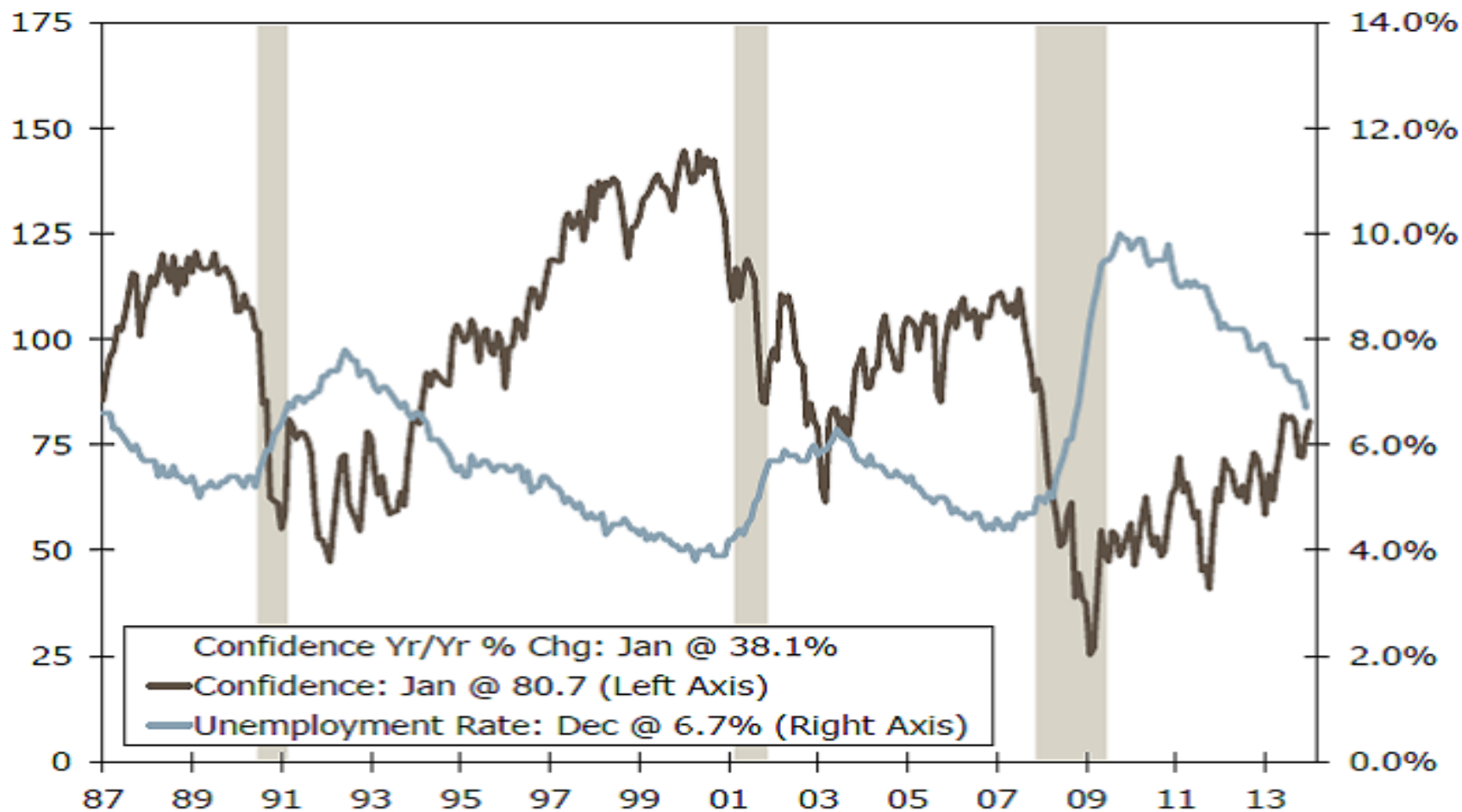


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Confidence vs. Unemployment

Conference Board Consumer Confidence, Unemployment Rate



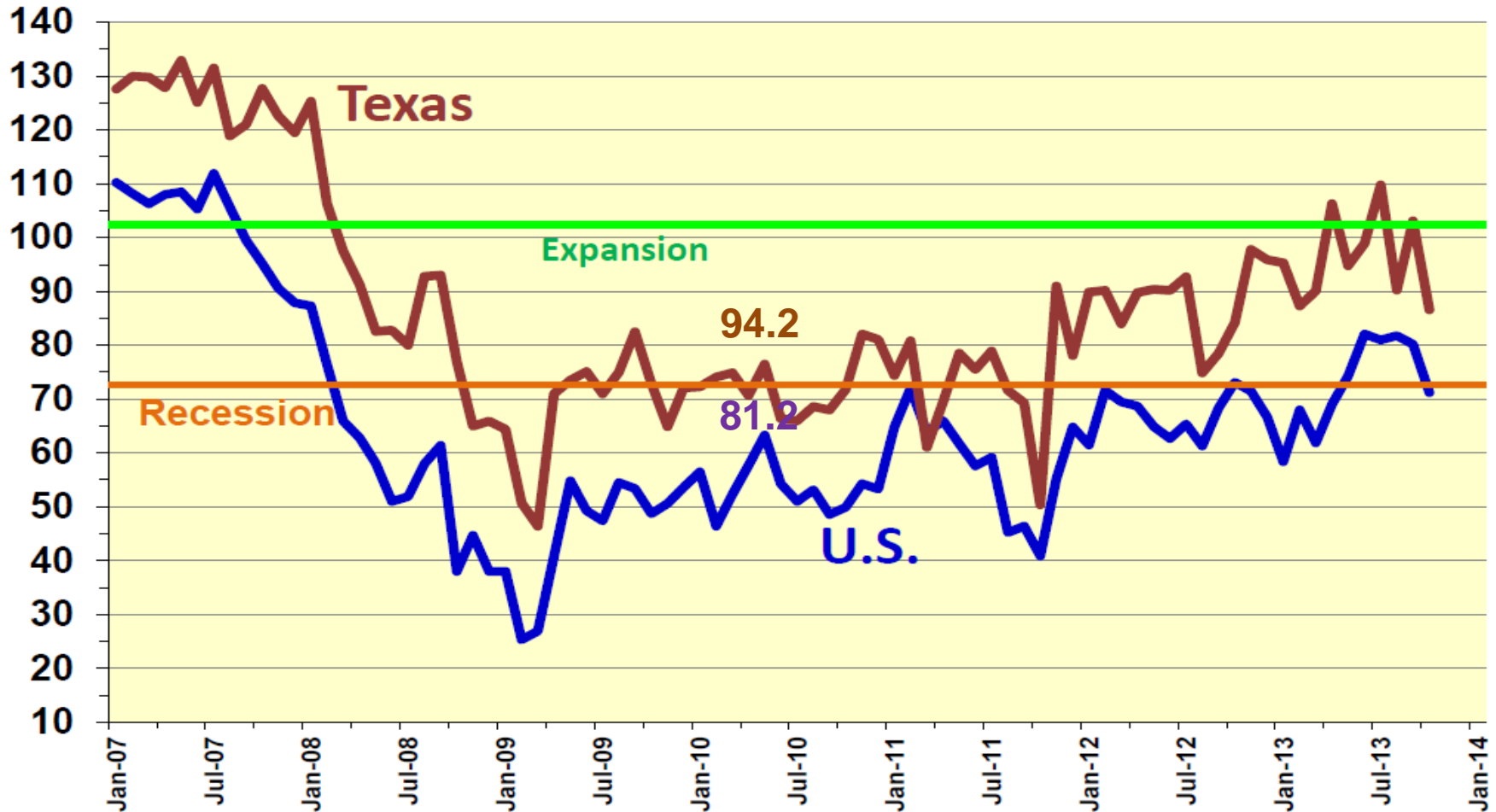
Source: BLS / Conference Board



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Consumer Confidence Level



Source: Texas Comptrollers Office; The Conference Board (1985=100); Texas is the West-South-Central Region including Texas, Arkansas, Louisiana and Oklahoma (per source's data groups)



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2014-15 outlook for Texas economy

- **Downside risks:**
 - National (global) recession
 - National slow economic growth and recovery
 - Energy sector slower growth
 - Tech decline and new technology
- **Texas job growth continues to outpace national rate**
- **Energy industry slowing expansion**
- **State and local budget deficits and level spending**
- **Federal furloughs – defense, education, etc.**
- **Population growth continues even stronger with continued job creation**
 - The need for ‘tech’ workers in all metros, across the state
 - Continued immigration from California due to ‘business friendly’ / less tax burden environment
- **New construction rebound continues, but far from ‘recovered’**
- **Pent up demand for all channels of real estate driven by investment, affordability, low interest rates**



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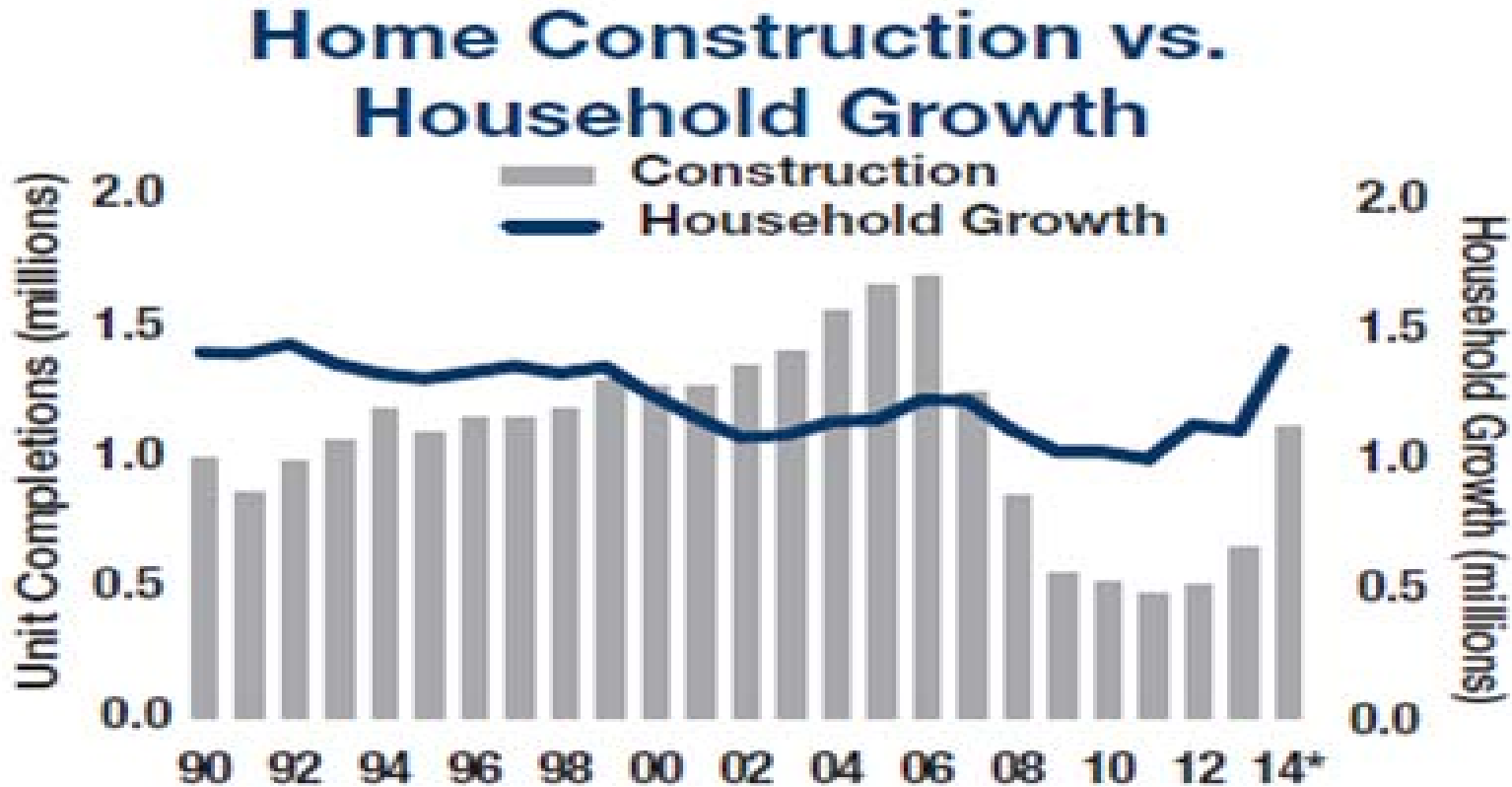
National and local housing is improving

- **Nationally the housing market is improving**
 - National 2013 –914,000 projected starts (off 49%)
 - Austin SMSA - forecast 2013 – 9800 to 12,000 (Austin could do 15,000+ if desirable lots were available.)
- **Nationally and locally, lack of inventory still a challenge**
- **Housing inventory back to more balanced levels**
 - Resale listing inventory
 - US avg. 5.1 months / 2.09 Million
 - Austin SMSA 2.0 months / 4,545 listings
 - **Inner Core Neighborhoods:** tight
 - **Close in Neighborhoods:** tight
 - **Suburban Neighborhoods:** Improved to tight. Most have become ‘sellers’ market
- **House price trends** (annual basis / median value)
 - US 4 to 6% / Texas 8% / Austin 8 to 12+% SMSA



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National and local housing is improving



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HOUSEHOLDS

in the U.S.*

2014-2017



*Urban Land Institute's 2014
Emerging Trends
in Real Estate

121M

Current Households
in the United States

3.7%

Projected Growth over
the Next 3 Years

4.48M

Additional Households
to be Formed



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National economic outlook 2014

- **Most indicators positive, but not robust**
 - Job formations & employment slow nationally
 - Real income not increasing
 - Local example: last 10 years / home appreciation 58% / rent appreciation 38% / wages flat
 - Personal consumption / economic activity (GDP) slow
 - Inflation dangerously low
- **Sluggish growth through end of the year**
- **Interest rates increase but stay low comparatively thru 2014**
- **Bank and mortgage credit attractive, but still tight**
 - Still dependent on major government support: interest rates, MBS purchases by Fed, FHA and GSES
- **Housing challenged with lack of inventory as well as appraisals nationally thru 2015**
- **Construction Recovery mostly in MF as rental markets remain strong**
- **Only 7 states are at prerecession employment**
- **International and national economy uncertainty**
- **Good news – you live in Texas! You live in Austin!**



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Outlook for 2014

| Outlook: | Pros | Cons |
|--|---|---|
| Mortgage Rates Increase Slightly (25-100bps) | FED Tapering; Dodd-Frank regs finalized | Overall econ not recovered; Fed outlook/actions |
| Home Price Increase Slows; Affordability declines | Recovery in hard-hit metros; investor buying slows; higher rates & tight credit | Strong pent up demand; S still lagging D; prices highly volatile locally |
| Mortgage Credit Remains Tight | D-F regs & uncertainty; no sig. private money; higher loan fees | Fin Institutions need business; stronger purchase & weaker refi D |
| Homeownership slips some more; rental market stays strong | Income/employment restricting D; young (25-35) renting | Opportunity to buy before further price & int. rate increases; more confidence in investment |
| Home building up, but still sig below L-T norm | Financing still tight; lot inventory; mortgage rates | HBs more confident; strong D for new, higher-priced |
| Home Sales Volume Increases Modestly | Continued overall D; favorable prices and mtg. rates; repeat buyers major influence | Institutional buyers decline; 1 st timers constrained; inventory constraints; qualified optimism |
| High Variation Among States, Metros, Sub-Metro | Catch up and recovery uneven; location effects | |



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Where are we comparatively?

Nationally

- Home prices down 35+% since 2006 peak
- \$7.5 trillion, over 49% lost equity in housing meltdown
- Defaults, delinquencies, and foreclosures improving
- New home starts improved for last 12 months, 34.5 % annually. 50+% less than 2006 starts
- New household formation 25% of historic annual rate
- Federal government mortgage programs have had little impact to national economy
- Federal Reserve policies have helped
- CFRB continues to affect mortgage / bank lending

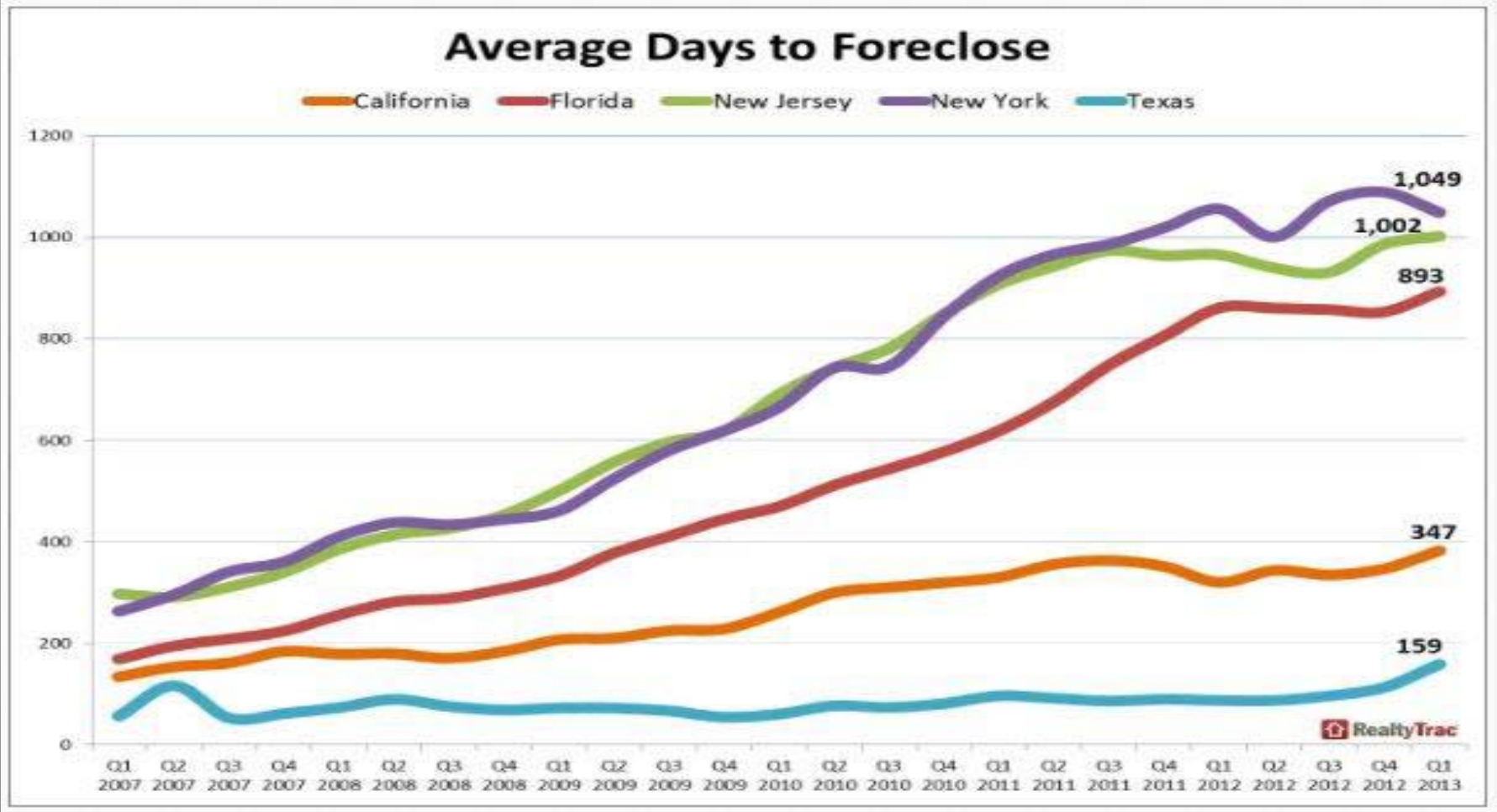
Texas

- Home prices improving statewide. Austin maintains good appreciation
- All major Texas metros have turned positive
- Labor and materials costs dramatically up
- Texas foreclosures minimal, small impact
- Austin foreclosures minimal
- Texas and metros doubling in population next 20 years
- Not enough inventory in most real estate channels in Texas metros
- State job creation 43+% of national growth
- Regional banks are healthy



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Foreclosure process and its challenges



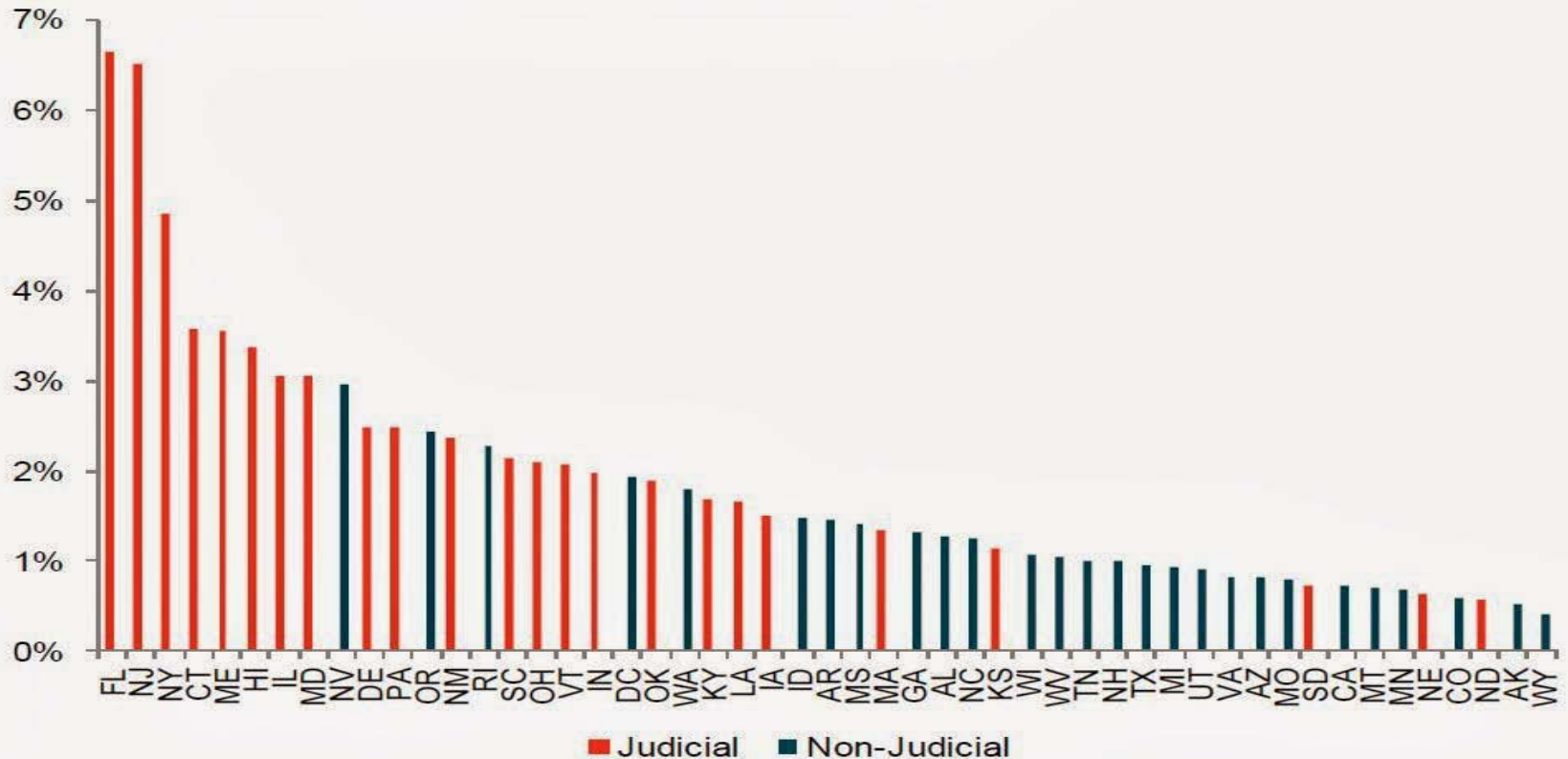
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Percent of loans in foreclosure 4Q13

Figure 2 – Foreclosure Inventory as of December 2013

Judicial Foreclosure States vs. Non-Judicial Foreclosure States



Source: CoreLogic December 2013

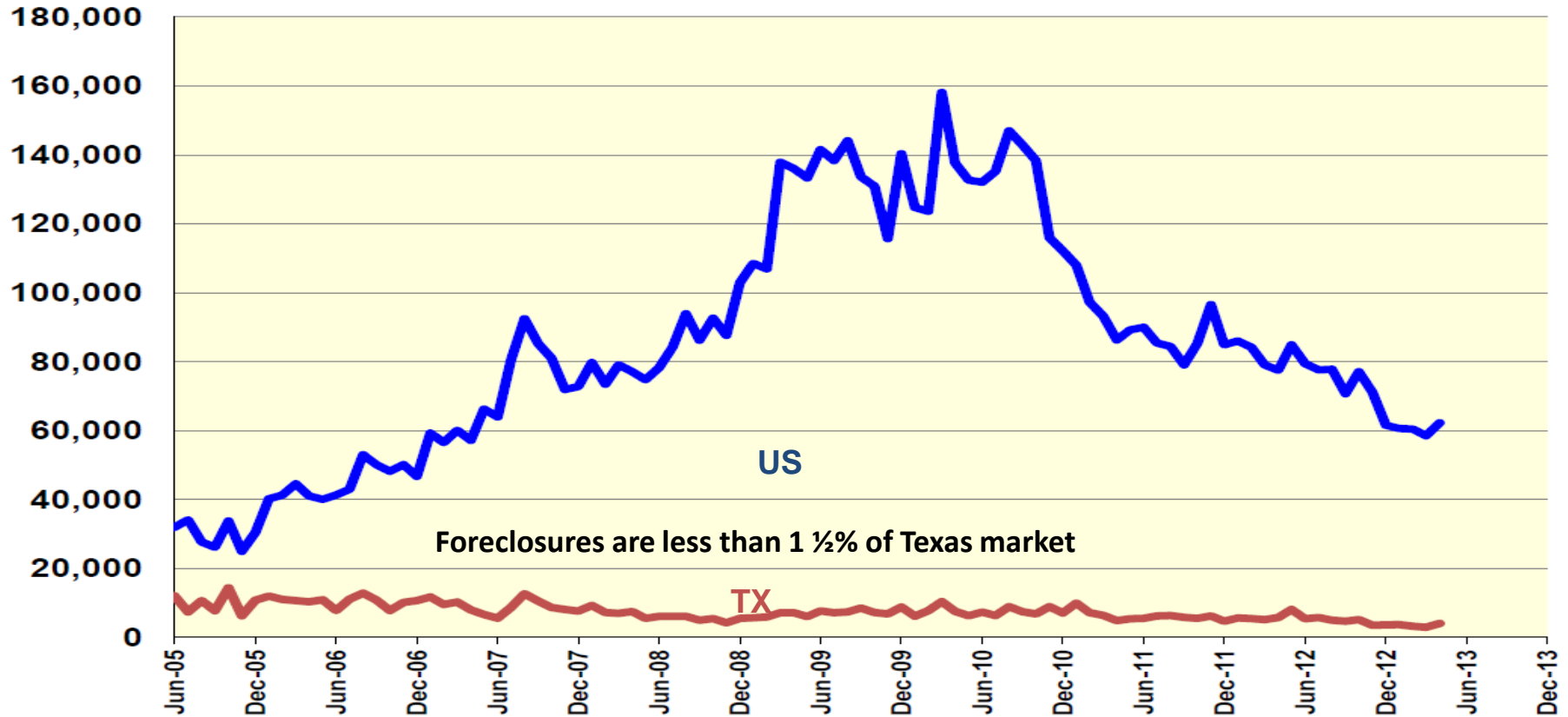
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Monthly Foreclosure Listings



Source: RealtyTrac, Inc.; Real Estate Center at Texas A&M University (Notice of Trustee/Foreclosure Sale)

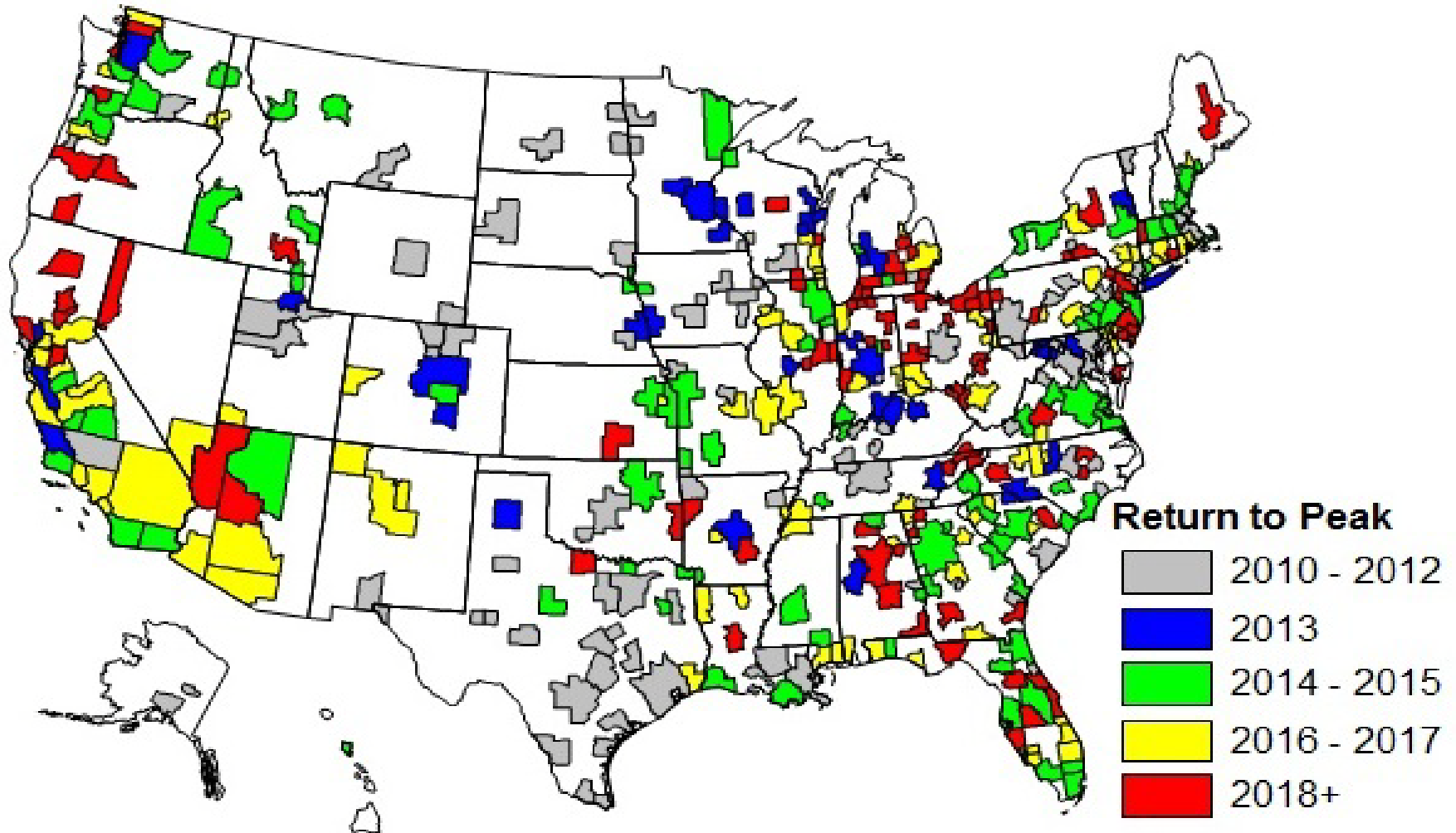
Source: RealtyTrac 5/13



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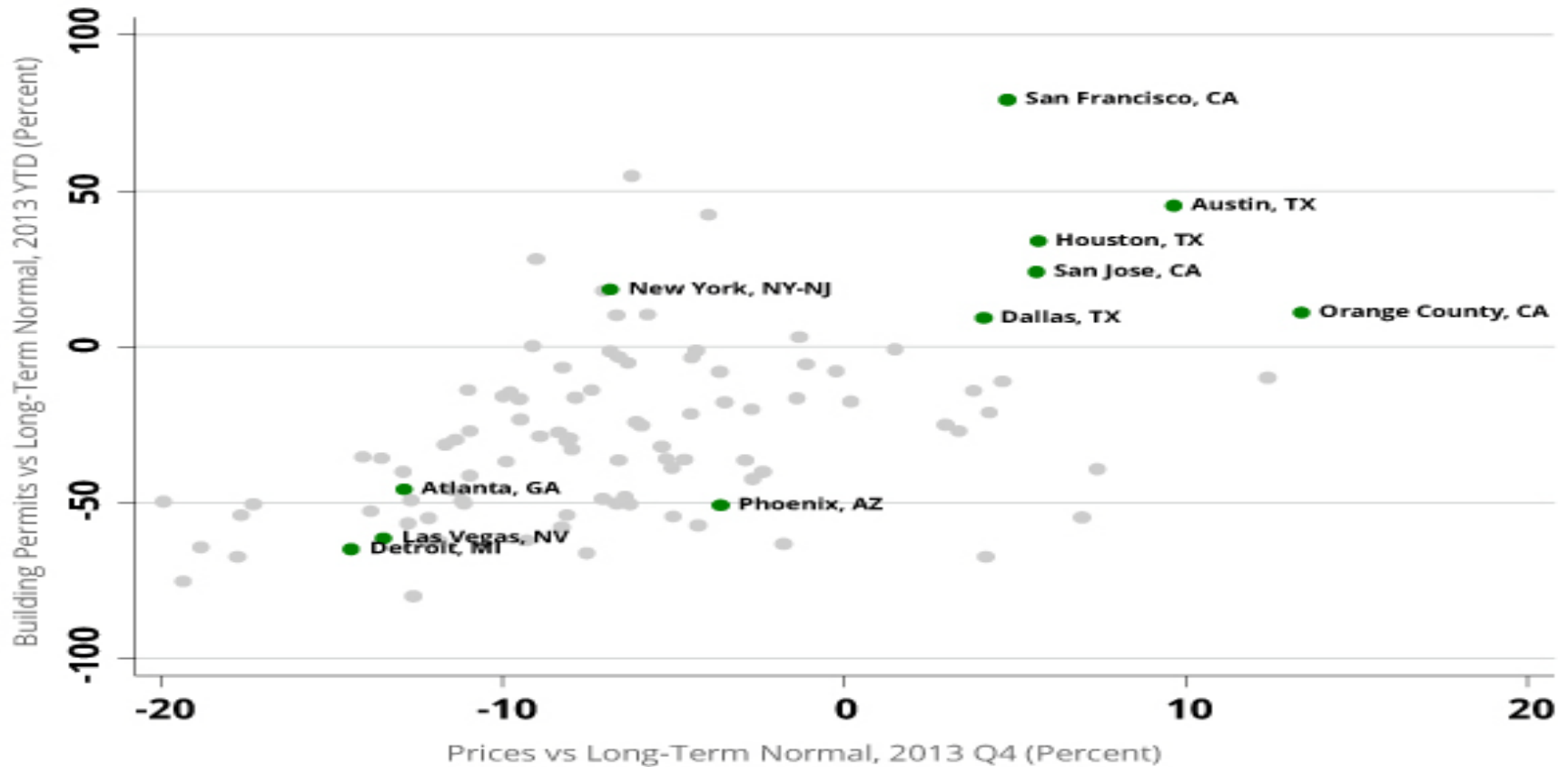
Where housing markets have recovered



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trulia where housing markets have recovered



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Texas on the top of many lists!

Top 10 Healthiest Housing Markets in 2013

Among the 100 largest U.S. metropolitan areas



Note: Peabody, MA refers to the Essex County metropolitan division, which includes the suburbs north of Boston, with a population of 740,000.

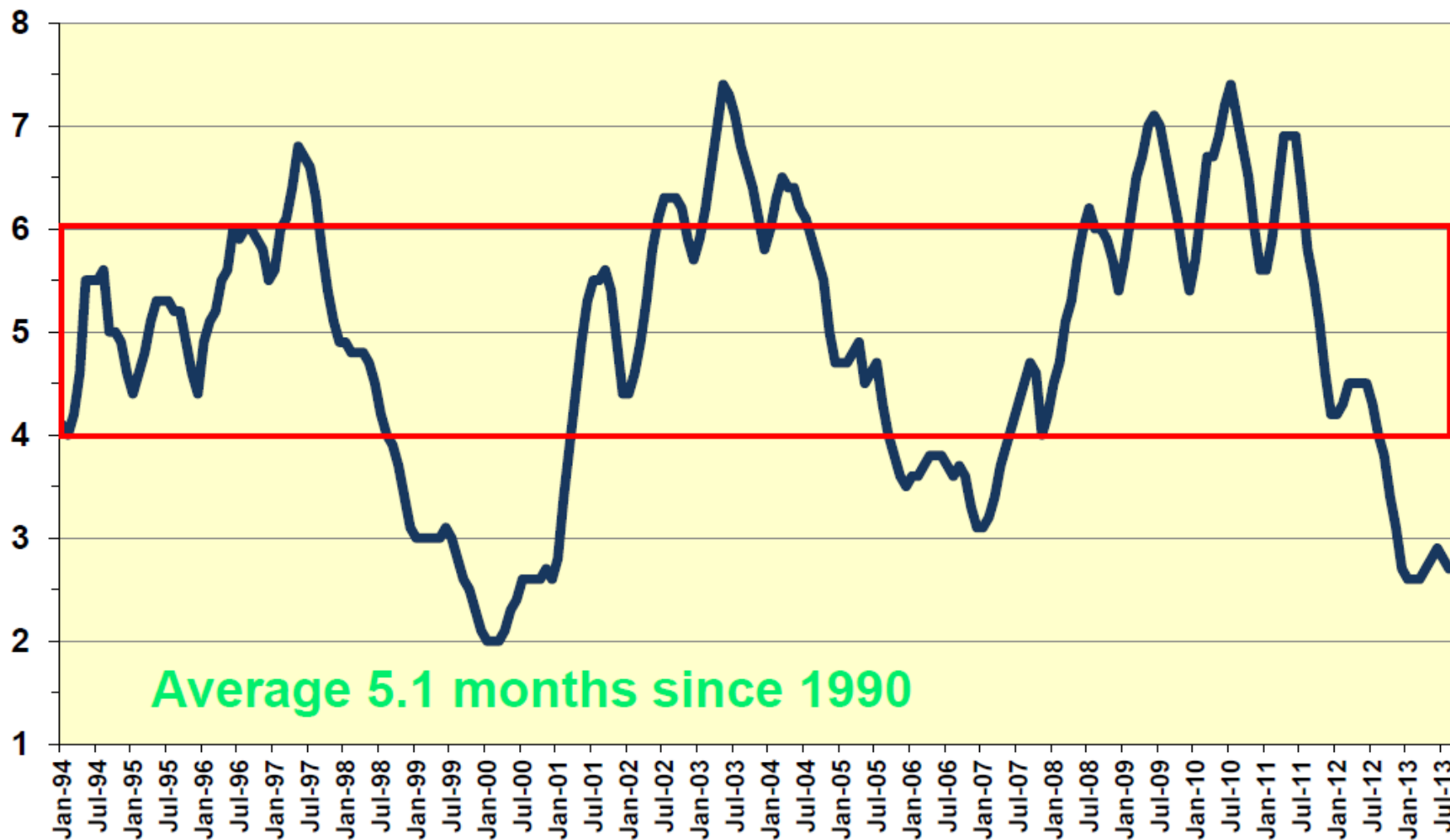


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Months Inventory of Unsold Homes

Austin



Average 5.1 months since 1990

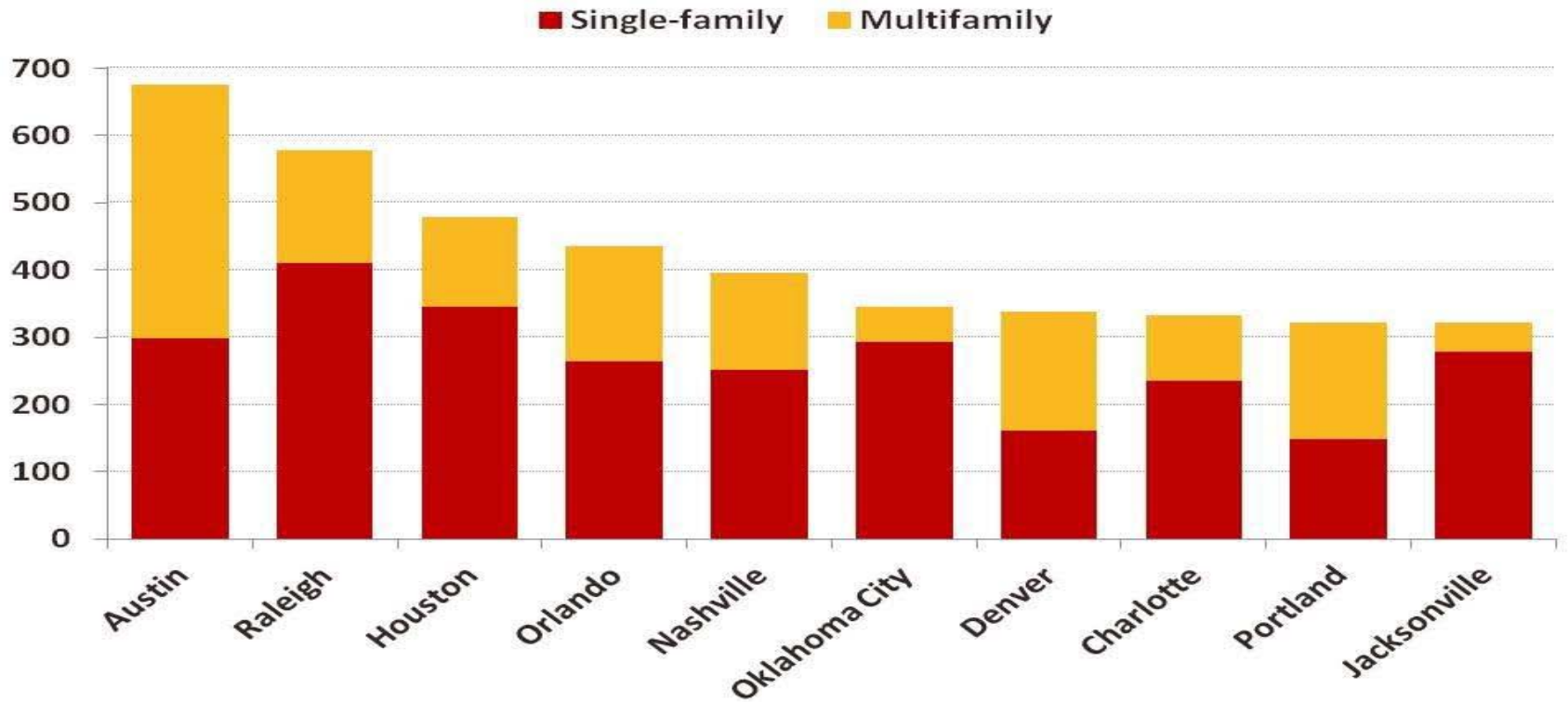


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Metro Comparison Housing

2013 Residential Permits per 100,000 Population
Best Performing Major Housing Markets by Per Capita Permitting Activity



Source: U.S. Census Bureau.

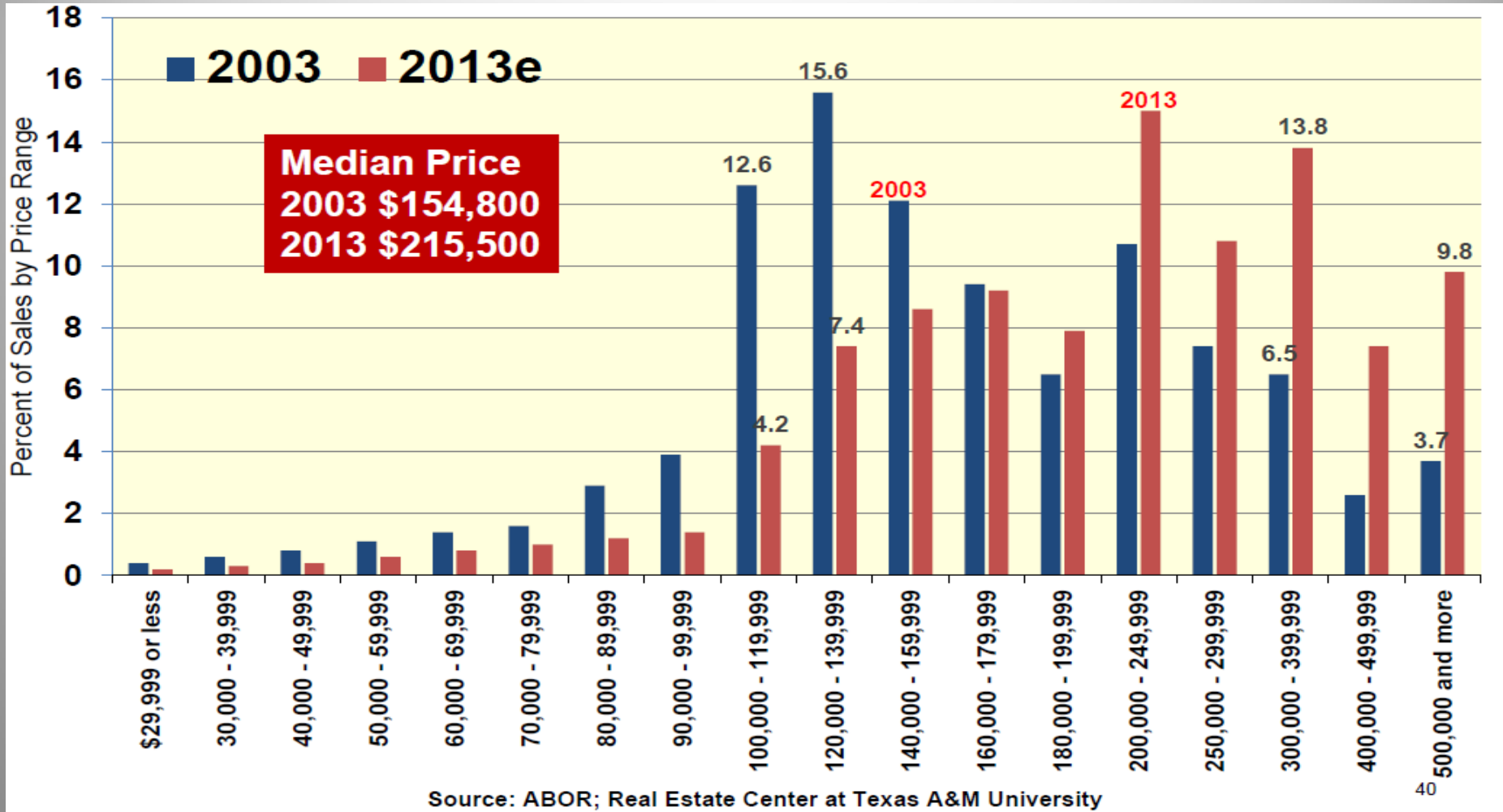


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Austin Sales Price Distribution

2003 - 2013

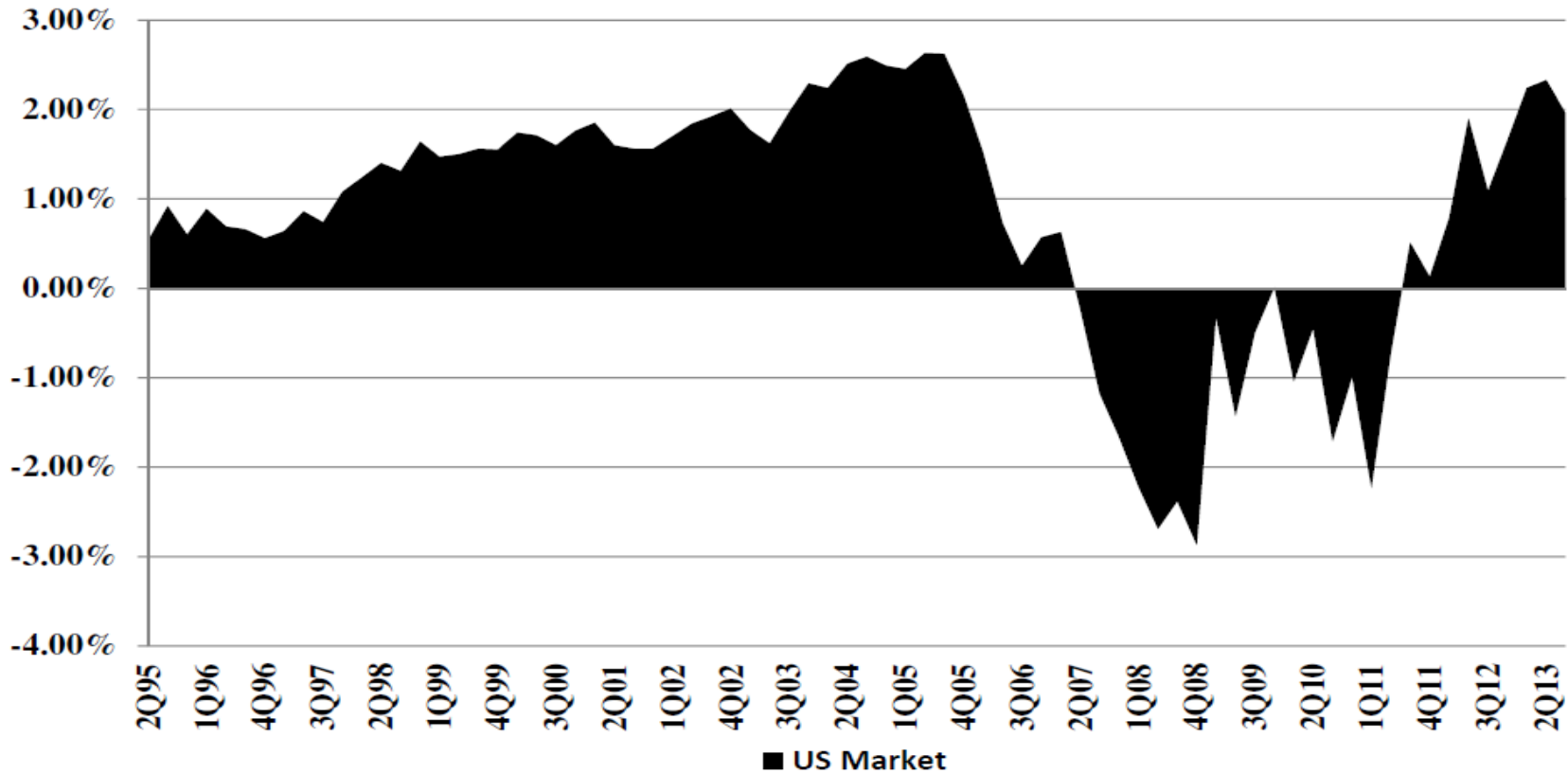


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House Price Appreciation

National



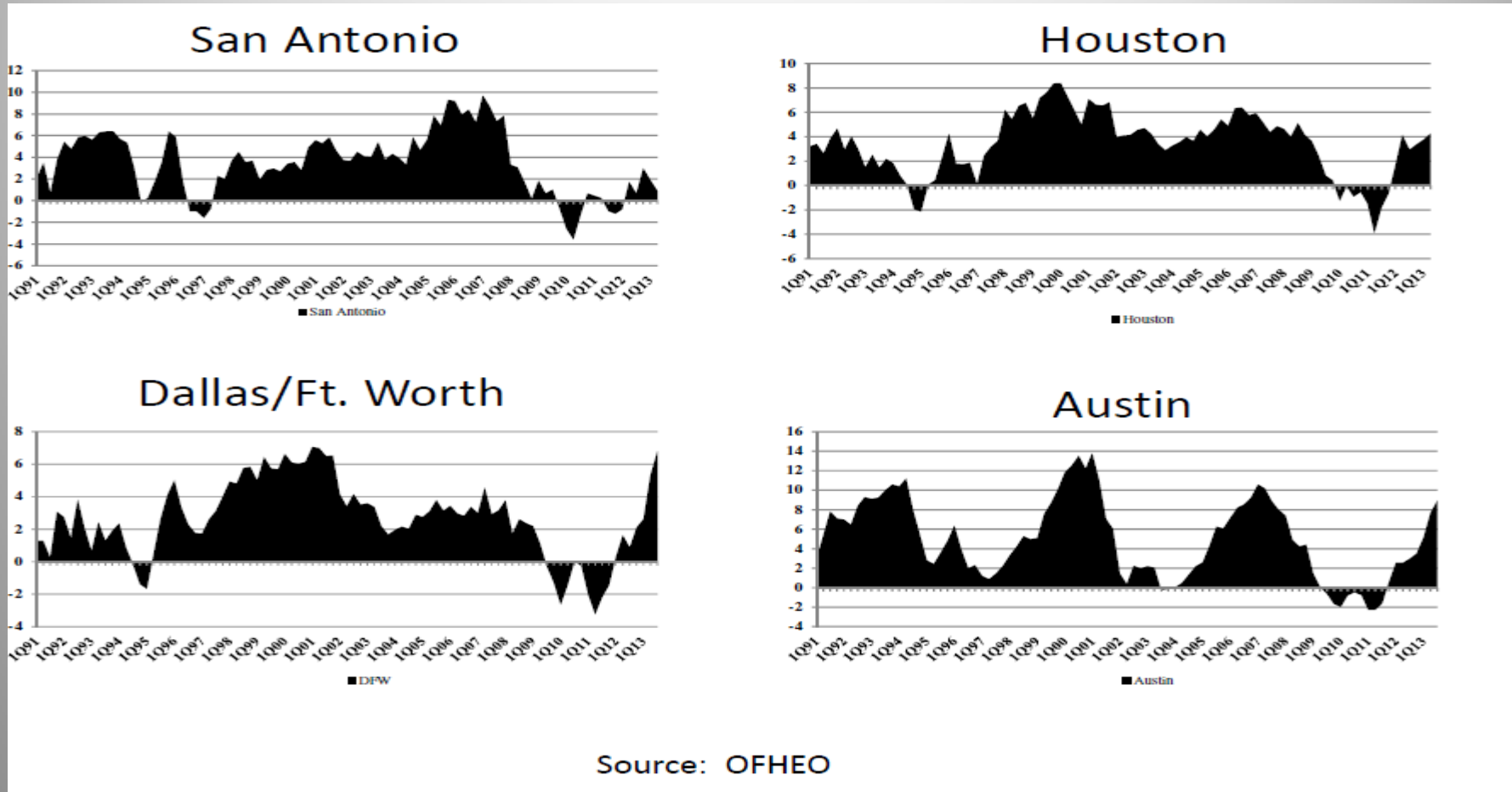
Source: OFHEO-HPI



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House Price Appreciation



Source: OFHEO



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National perspective

Mortgage qualification changes

- In wake of credit issues, mortgage originators raised the bar on the qualification process for those buyers that were on the peripheral. (Low doc / no doc / no credit score / no down payment, etc.)
- Sub – prime is non existent. Jumbo has eased up
 - No down payment loans with FICO scores <740 very difficult to obtain.
 - Modest down payment loans will not work without documentation.
- American Mortgage Bankers Association research indicates that latest changes in mortgage qualification standards will increase percentage of buyers unable to qualify.
 - Previously thought that 10% of buyers that purchased in 2006 would not qualify today



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QRM

What are the new rules?

QM loans cannot:

- Contain risky features, such as terms that exceed 30 years, interest-only payments or payments that are less than the full amount of interest so that the home loan debt grows each month.
- Carry more than 3% in upfront points and fees for loans above \$100,000.
- Push a borrower's total debt load above 43% of his or her monthly income, unless the loan is eligible to be backed by Fannie Mae or Freddie Mac, or a federal housing agency such as the FHA, or is made by a small lender that keeps the loan on its books.

Ability to repay standards QRM / ATR guidelines are as follows;

- Current or reasonably expected income or assets
- Current employment status
- Monthly payment on the covered transaction
- Monthly payment on any simultaneous loan
- Monthly payment for mortgage-related obligations
- Current debt obligations, alimony, and child support
- Monthly debt-to-income ratio or residual income
- Credit history



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Reasons mortgage rates will continue to rise

- **No more cheap money. Fed has announced the move to higher borrowing costs**
- **The End of Freddie and Fannie;**
 - Don't know what it will be, but every one wants a change
- **Inflation is on the march**
 - Mortgage rates have a direct correlation to demand.
 - As the economy improves, inflation will begin to set in naturally. To offset the risk of drastic rising inflation, the federal government (Federal Reserve) will be forced to raise their interest rates.
 - Supply and demand
 - Something's got to give and it doesn't look like it will be inflation.
- **History**
 - Interest rates have risen....however they are still at 60 year lows
 - 30 year mortgage rates have averaged 8.88 percent over time. They have been under 5 percent in just 41 of the 520 months on record or about 4+/-% of the time. Just a return to the lower 25th percentile of all time mortgage rates would see rates rise to 6.92%.
 - Interest rates are expected to go up! Not down!
 - For every point increase, there is a loss of 12% buying power



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How do you build confidence in the housing market?

- Realtors / mortgage professionals need to explain to buyers why the market has changed and now is the time to buy
- It would be helpful to see what the months inventory number looks like in their community and the city as a whole. Explain why prices are firm when monthly inventory drops below 6 months
- It would be helpful to show buyers the mortgage interest rate chart to help buyers to get a perspective of the current rates and affordability. Be sure to use more than 5 years of history
- Purpose of this is to **show them there never will be a better time to buy!**



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Conclusions

- **Austin and Texas Metros continue to grow in jobs and population**
 - How much more can it grow with constrained supply?
- **Years of pent up demand – 5+ years**
 - We are 2+ years into local recovery
- **Interest rates stay low through 2014, great time to buy**
 - Affordability; prices and interest rates. Rate increase will slow sales temporarily
 - QE3 and monetary policy changing. In healthy economy, rates should go up
- **Real estate to get stronger and hotter**
 - Under supply of homes. less downward price pressure
 - Not many 'A' opportunities left; housing, land, commercial. Where is the opportunity?
 - Rents are up, as are values. Bottom of market was 3 years ago
 - For qualified buyers, an ideal time to buy, selection and inventory a problem
 - Housing inventory looks like it bottomed in 2013
- **National housing market will remain slow and steady, local and regional continue to strengthen through 2014**
 - Homebuilding and Realtors more optimistic than previous 5+ years
 - Homebuilders constrained to respond
- **National and regional rental market will strengthen through mid 2014**
- **National economy slow improvement, Regionally and locally the economy should remain strong 2014/15**
- **Best Austin market in 35 years+**



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If not now, when?

- The market is not going to improve for buyers. Waiting will be easily a 12+% annual cost. Just because they couldn't buy at the bottom, no reason to wait.
- The supply of U/C inventory is dropping; won't be able to replace at values sold. Resale has picked up in all neighborhoods this year, showing strength of market
- Rates are inching up.....(These are the lowest rates in 60+ years)
 - 12% rule
- Owning is cheaper than renting!
- Finished vacant housing and real estate inventory is a thing of the past! Its either sold or leased, creating a limited purchasing opportunity
- Builders aggressive on land, concerned about enough capacity in 2015, driving values up
- Labor and materials increasing in cost
- There is not many deals in the market today. If on the market more than 45 days, value or product needs to be 'reviewed'.
- Discounted housing is a thing of the past.



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Texas and Austin are different from the rest of the country!

- Home and real estate prices continue to appreciate in Austin
- The wide value swings of the rest of the country were never present here
- Austin is still an affordable metro market in comparison to the nation
- Texas has one of the lowest tax burdens in the country (46th)
- Continued positive job growth
- Over 50% of all jobs created last two years were in Texas
- Limited supply of Inventory / rental homes / apartments
 - Rent values increasing
 - Rental occupancy has been steady at 94+ % average last 3+ years
 - Not enough developed land and lots
- More Fortune 500 corporate headquarters are located in Texas than any other state



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Why buy Austin today?

- Of all the markets, Austin has seen little to no price erosion over the past few years
- Hard costs for development and housing continue to rise at about 18% to 22%
- Austin and Texas are strong short and long term investments
- Barring a catastrophic event, values will continue to improve in Austin and other Texas Metros
- Investment income has continued to rise in Austin, and they have stabilized in the Texas Metros. As the national economy improves, Austin, etc. is at the top of most lists for relocation, corporate and personal.



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Thank you



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