

The Economic Outlook for Texas Real Estate Markets: 2008



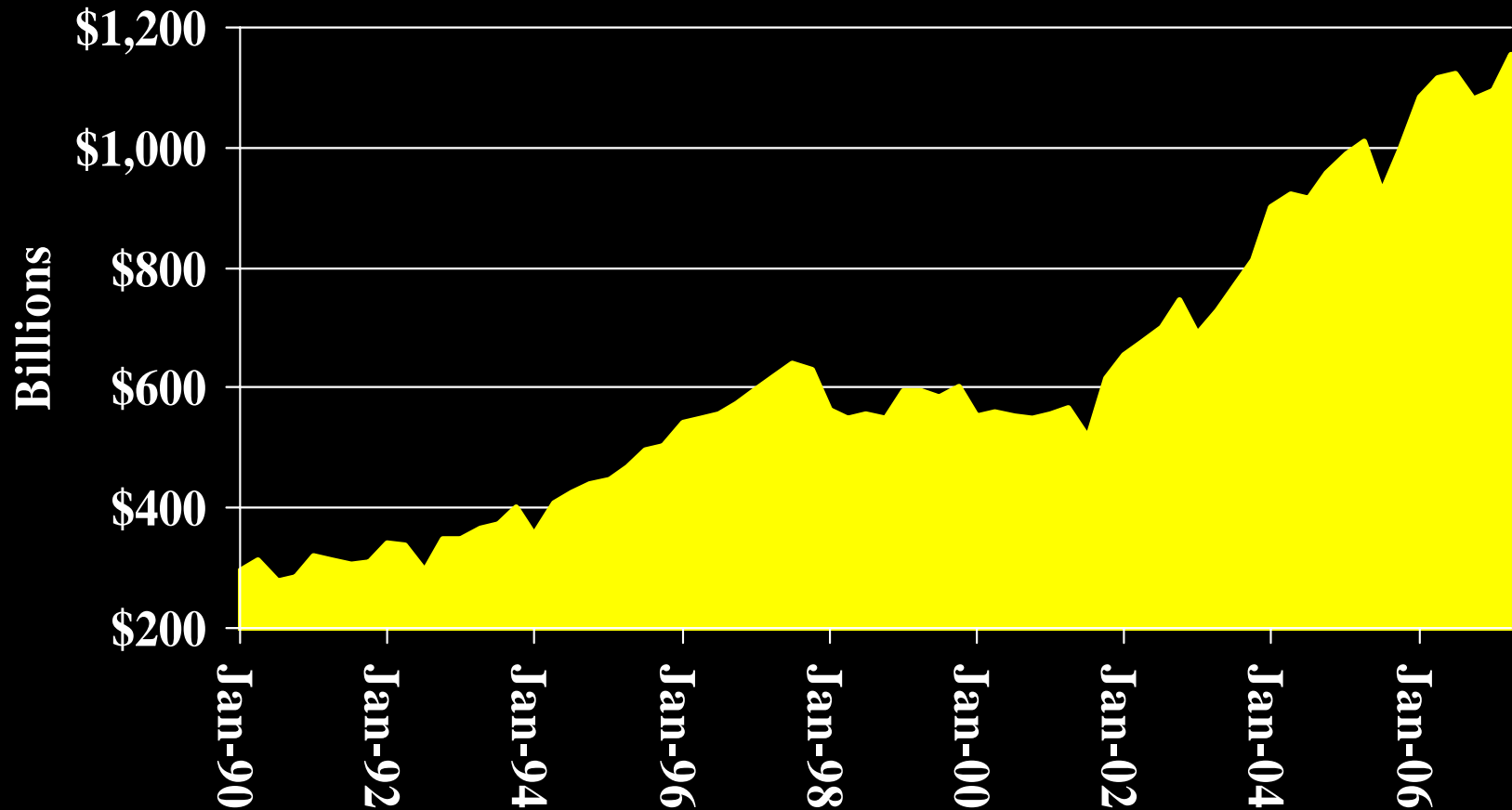
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Today's Topics

- National and Local Employment Outlook
- Texas Multi-Family Markets
- Chaos in the Credit Markets
- Still Too Much Money Chasing Deals

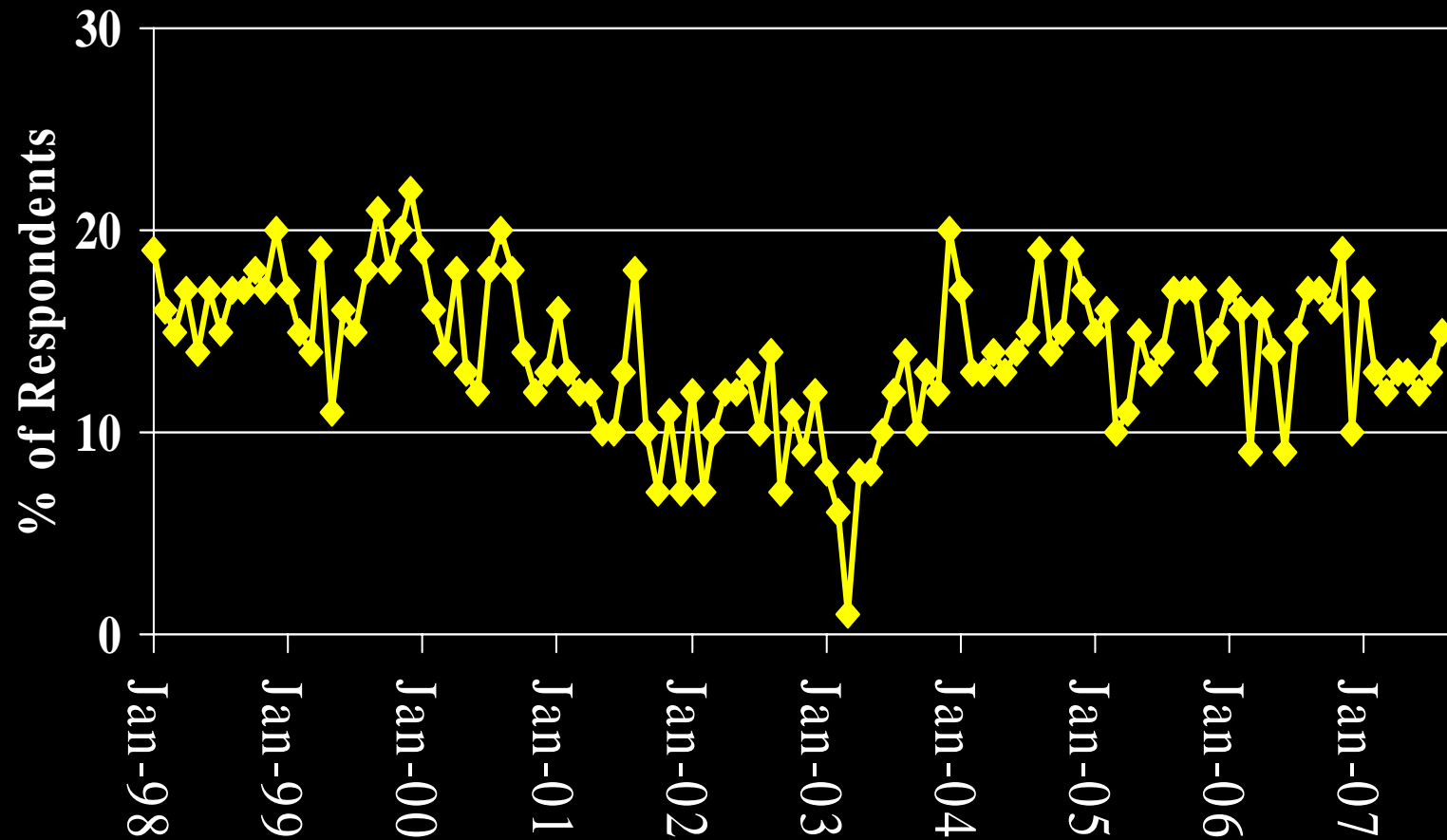
Corporate Profits

(With Inventory Valuation Adjustment & Capital Consumption Adjustment)



% Planning to Increase Employment

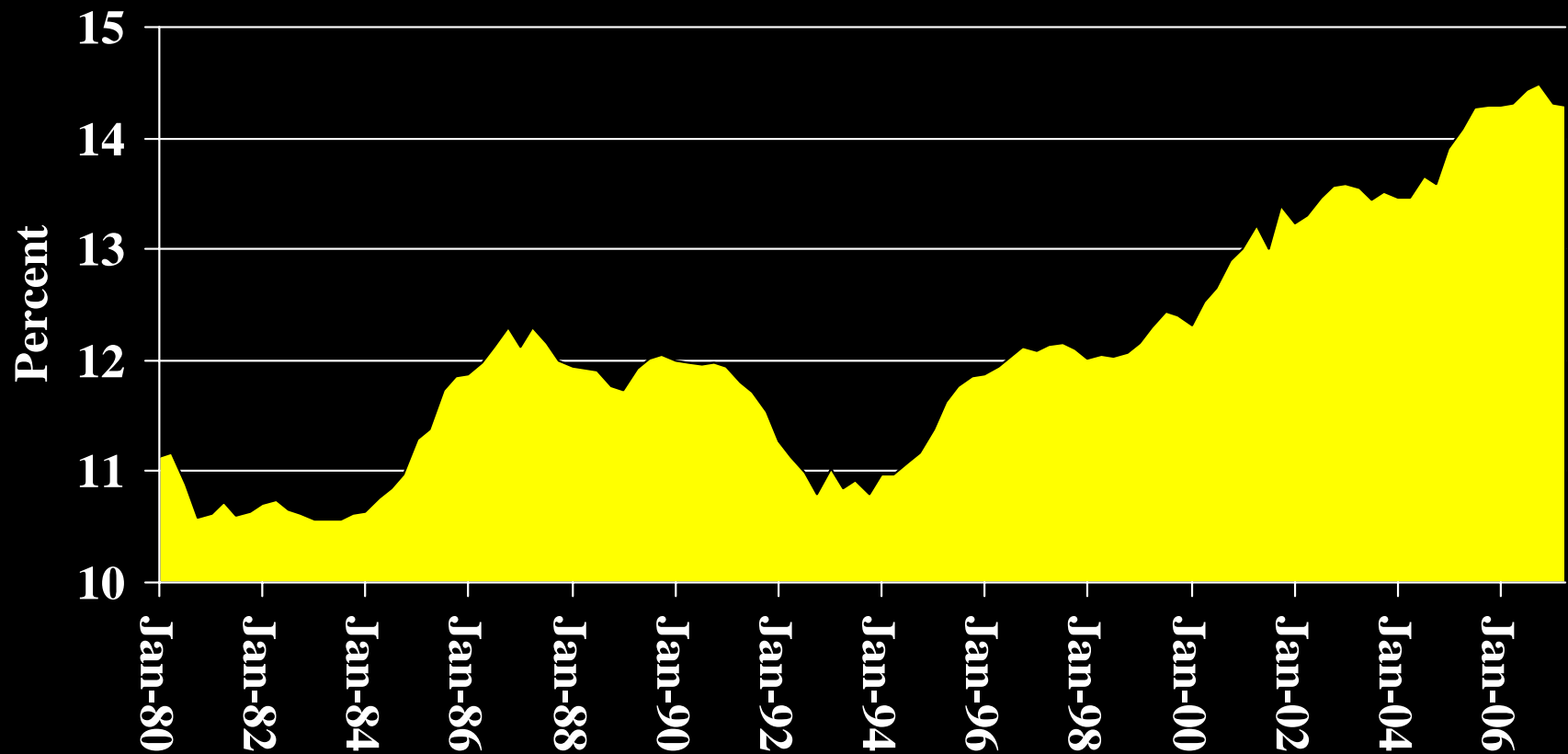
Small Business Outlook



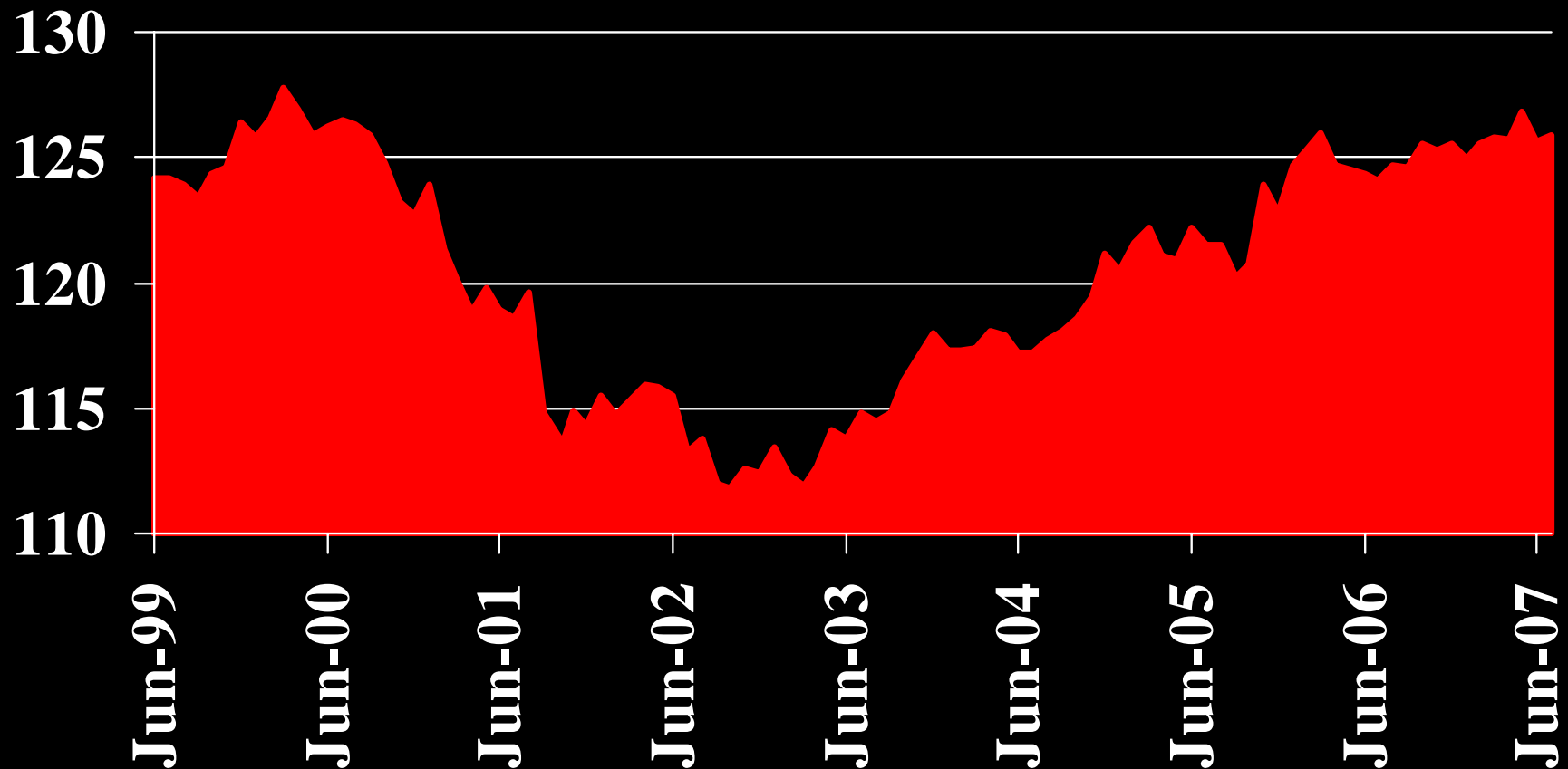
Corporate Hiring Plans in Next 6 Months

	Q3-07	Q2-07	Q1-07	Q4-06
More Jobs	33%	42%	33%	37%
Less Jobs	26%	25%	21%	23%

Debt Service Payments as a Percent of Disposable Personal Income

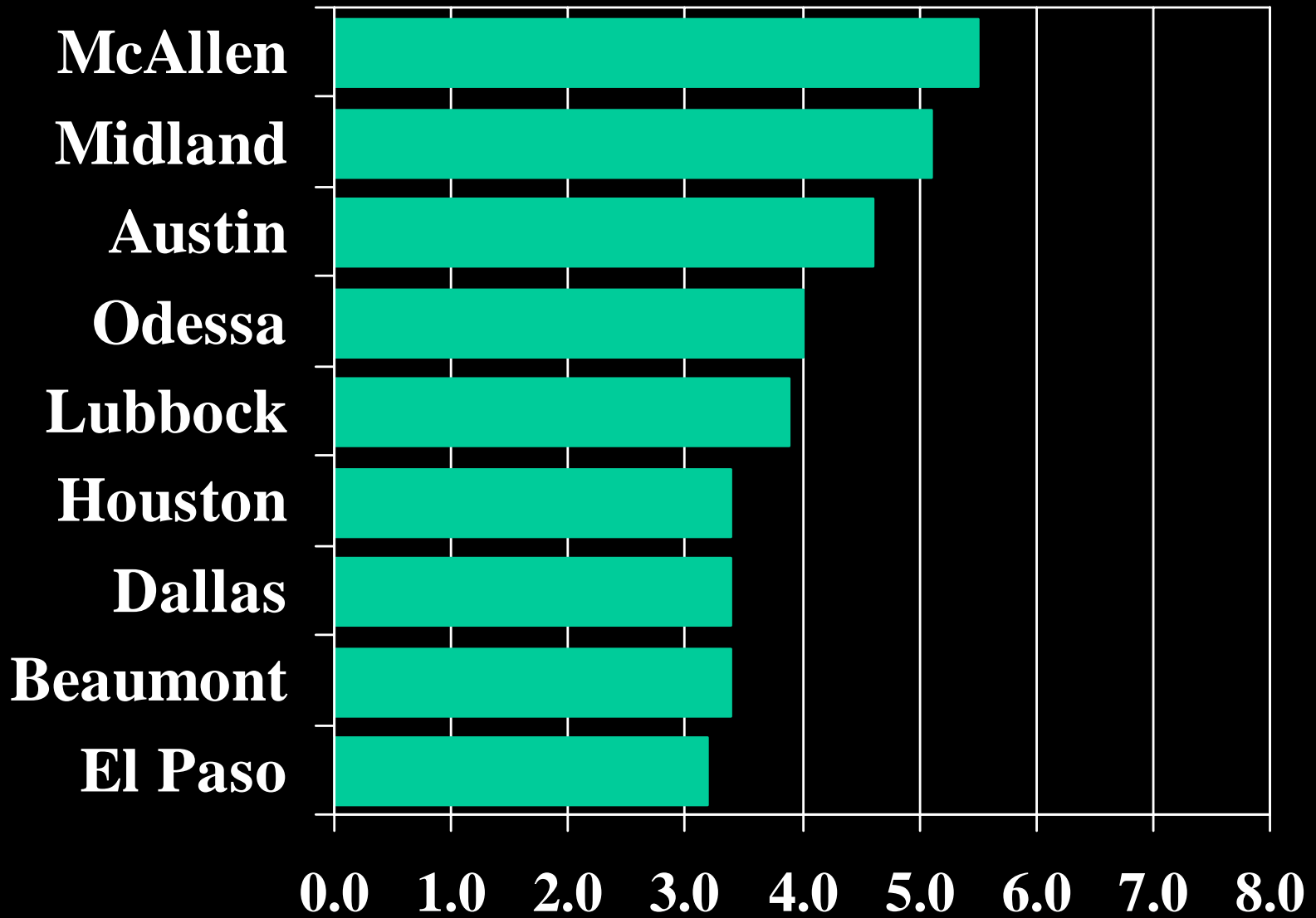


Texas Index of Leading Indicators



Job Growth Past 12 Months

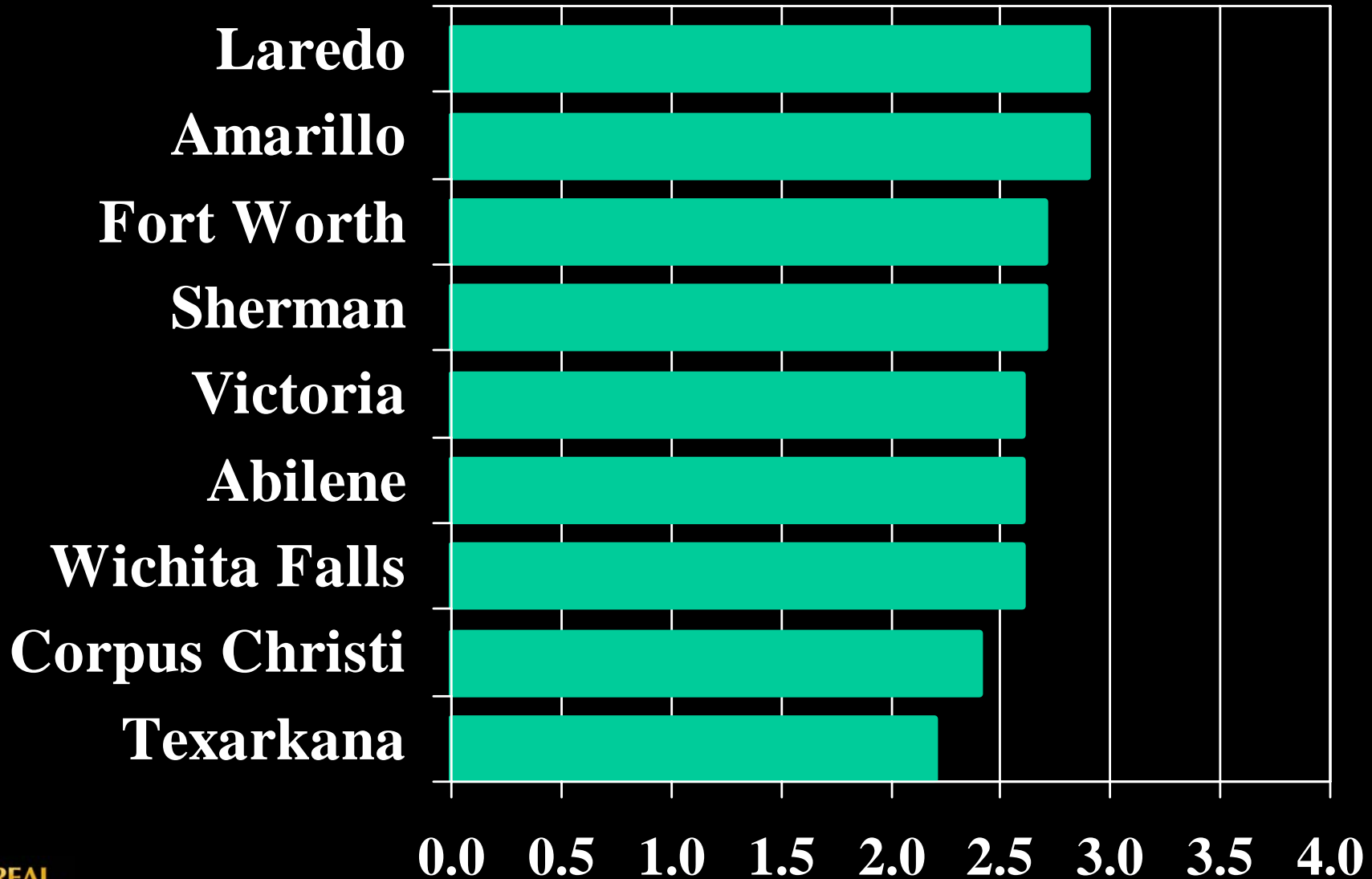
Ending July, 2007



Source: Texas Workforce Commission

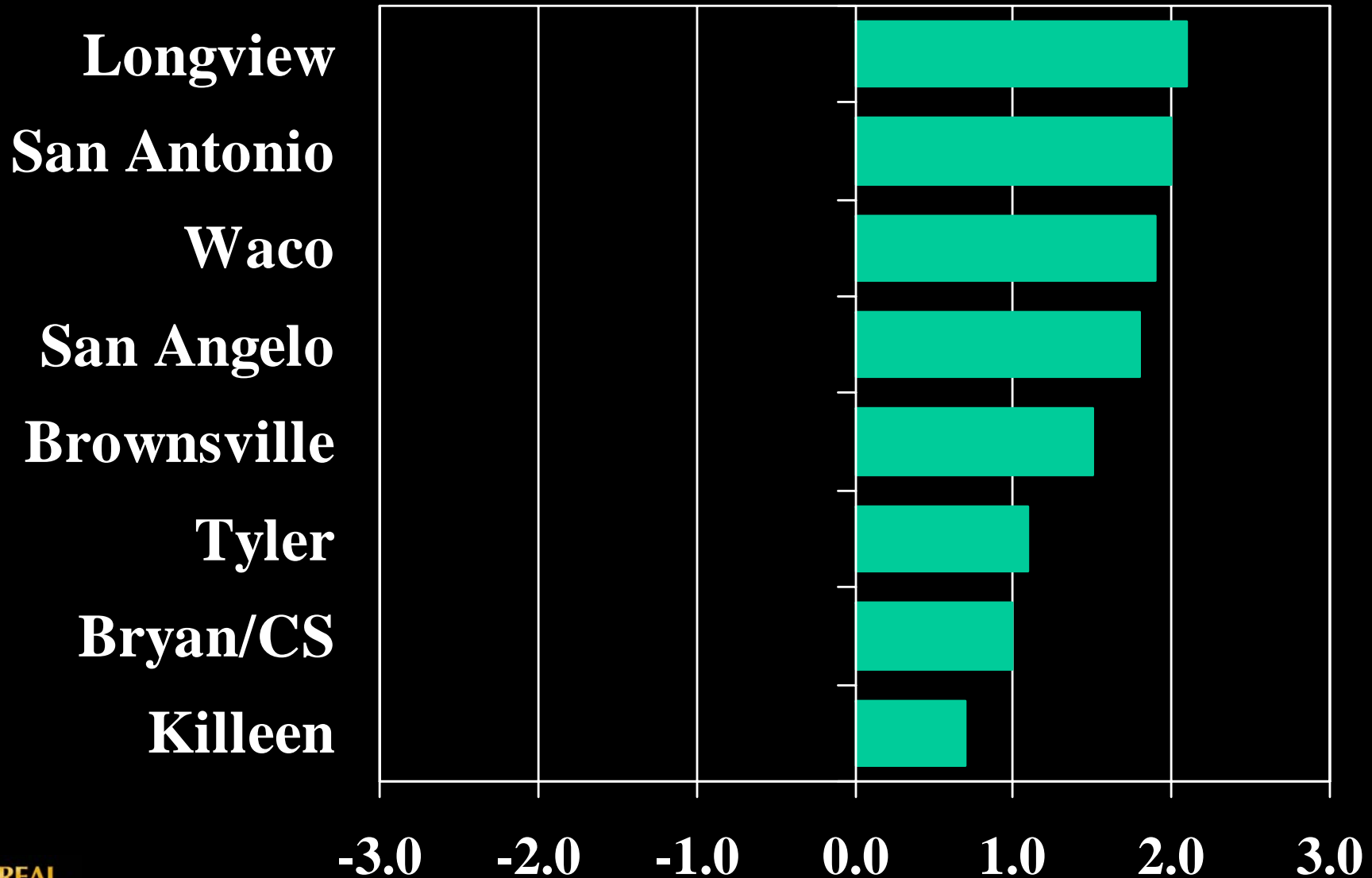
Job Growth Past 12 Months

Ending July, 2007



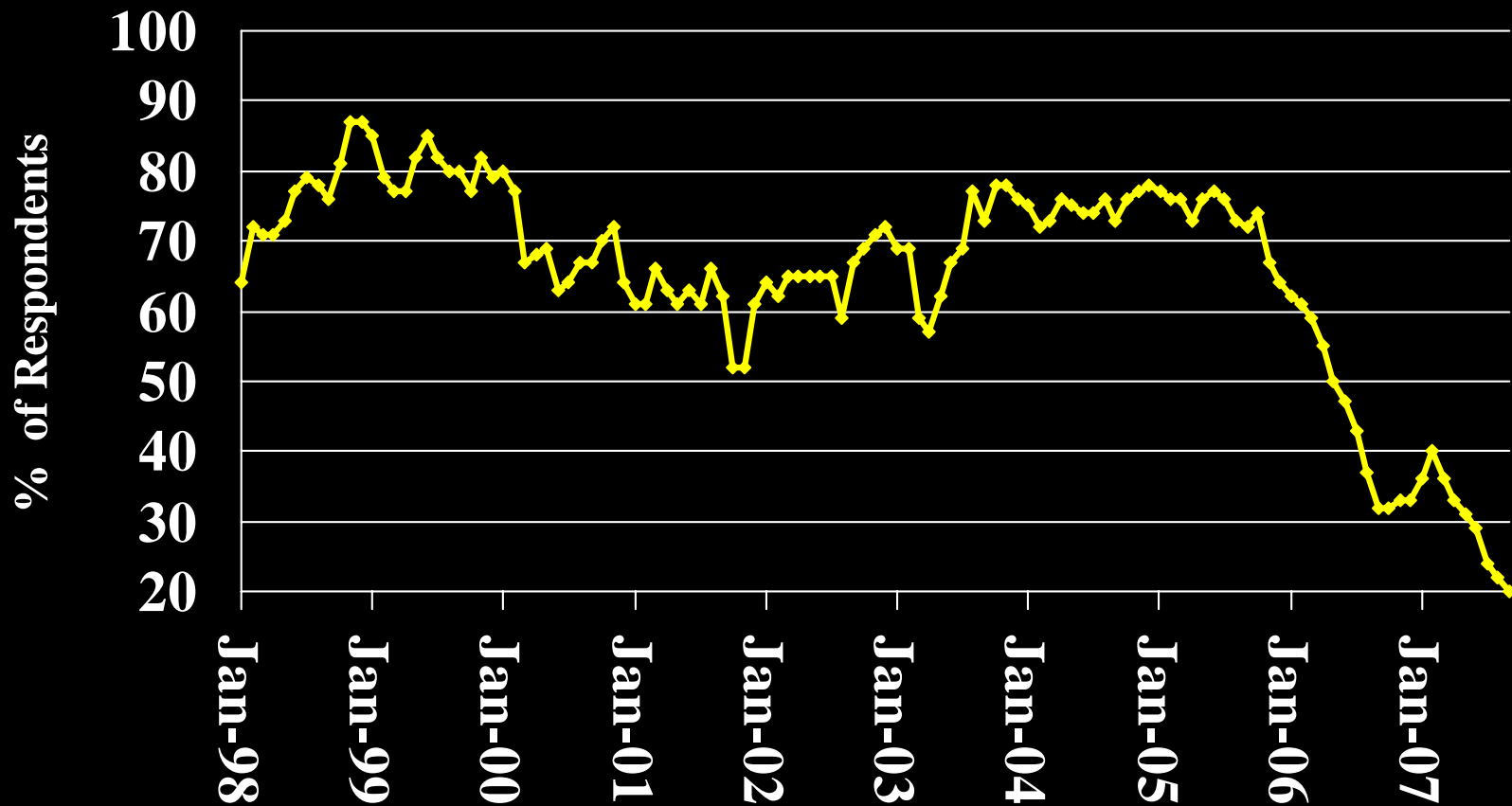
Job Growth Past 12 Months

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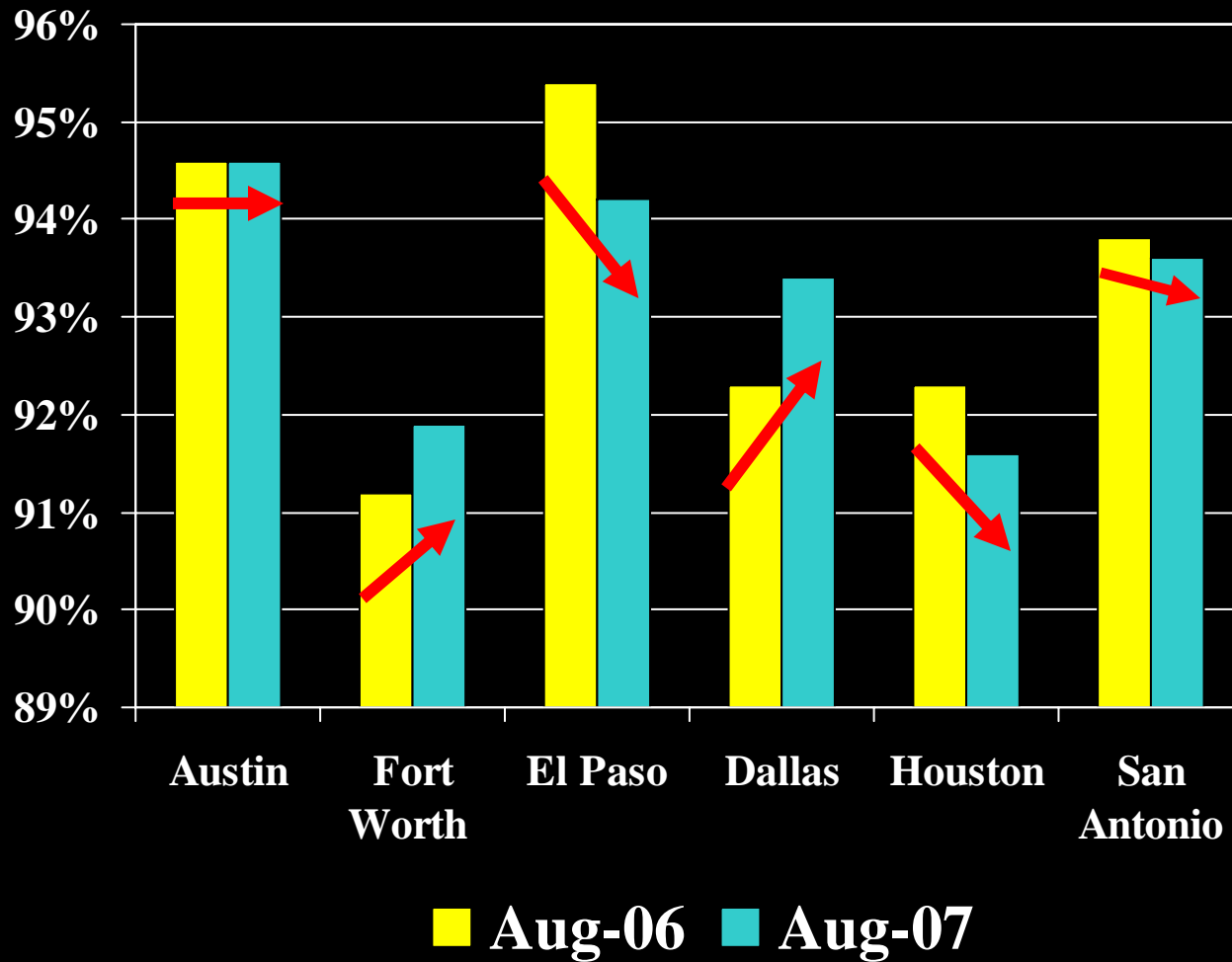


US Builders Reporting

That Current Sales Are Good

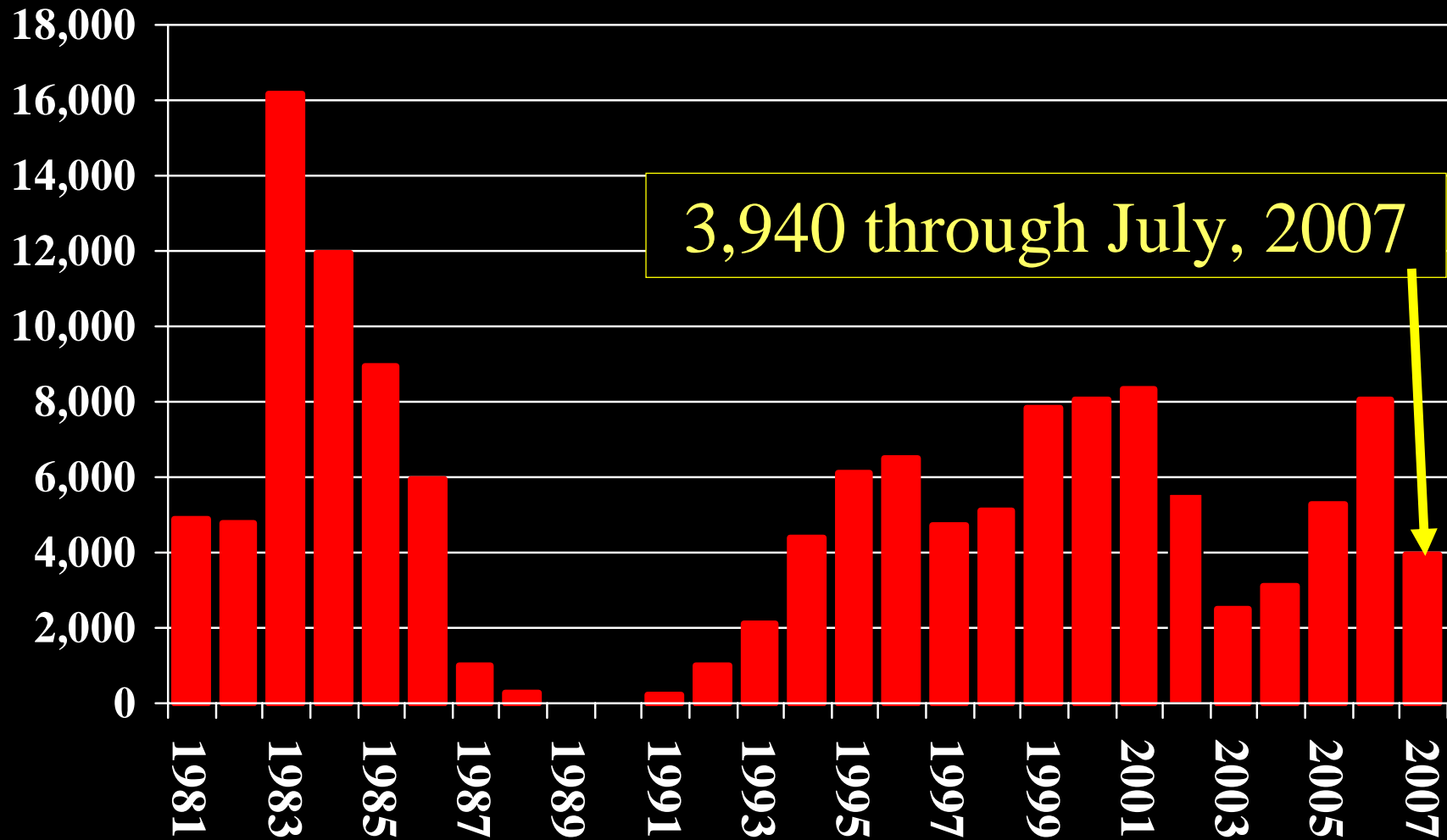


Apartment Occupancy Rates



Multi-Family Building Permits

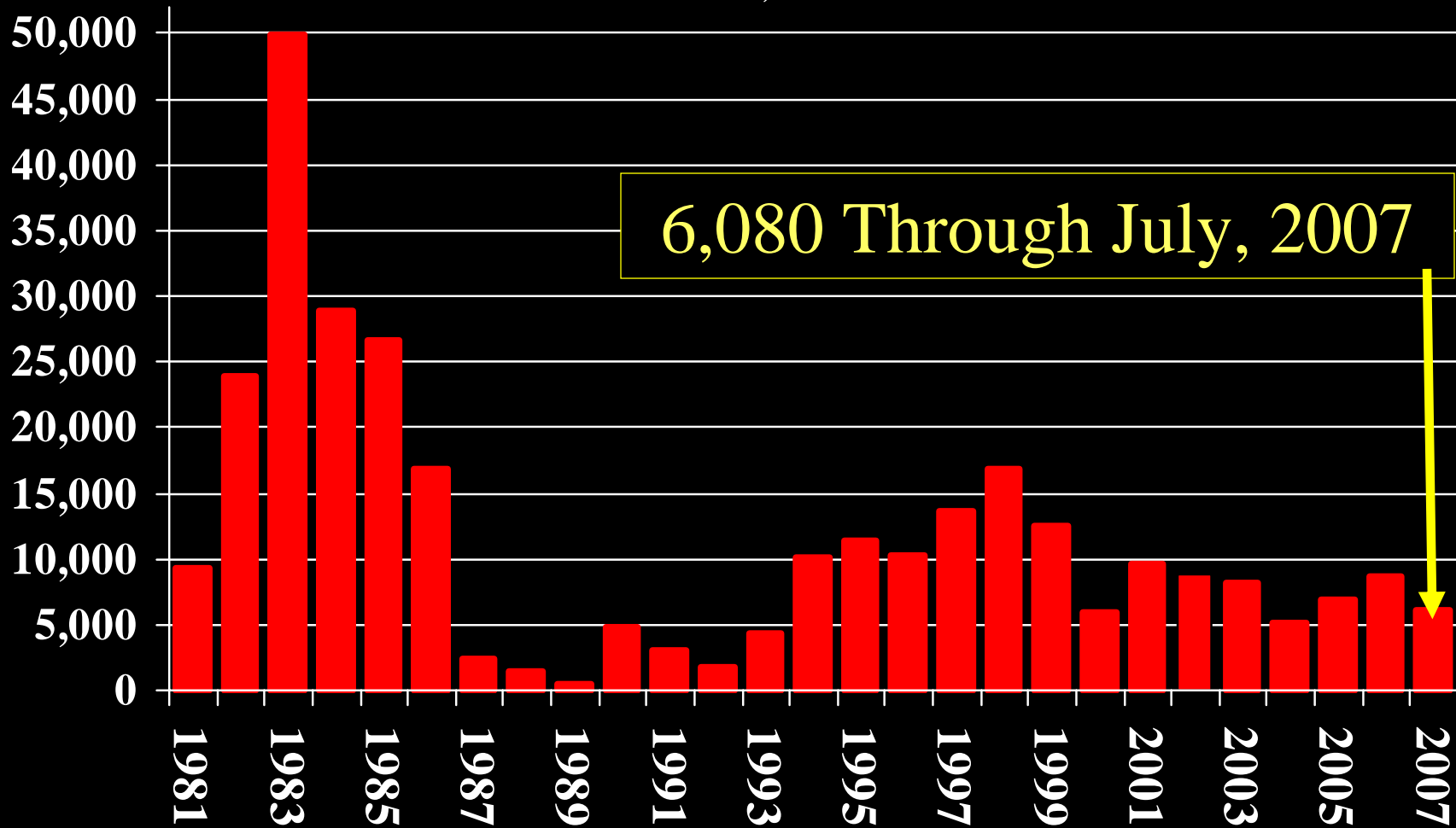
5+ Units per Building
Austin, TX



Source: Real Estate Center - Permits for Buildings with 5+ Units

Multi-Family Building Permits

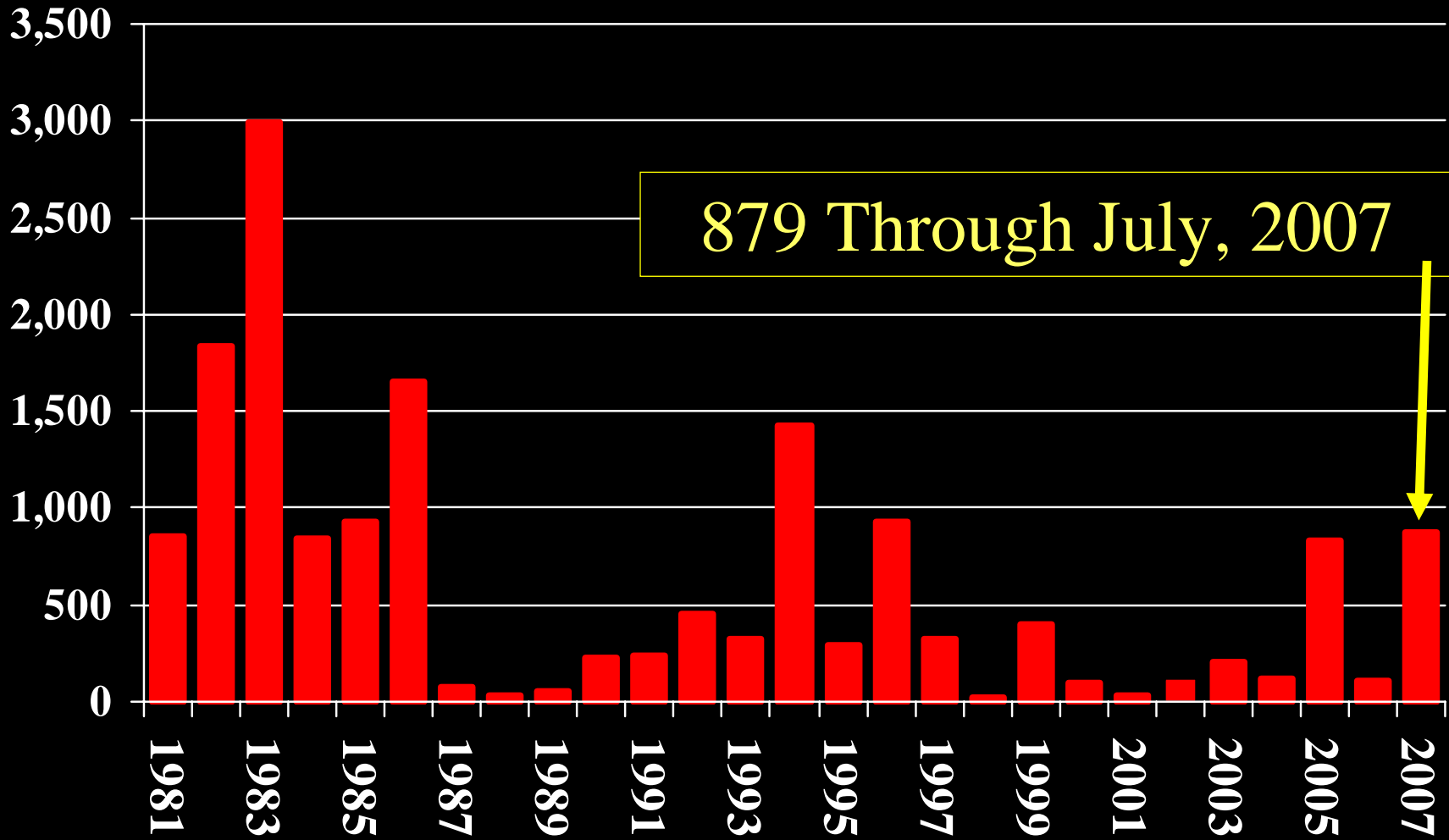
5+ Units per Building
Dallas, TX



Source: Real Estate Center - Permits for Buildings with 5+ Units

Multi-Family Building Permits

5+ Units per Building
El Paso, TX



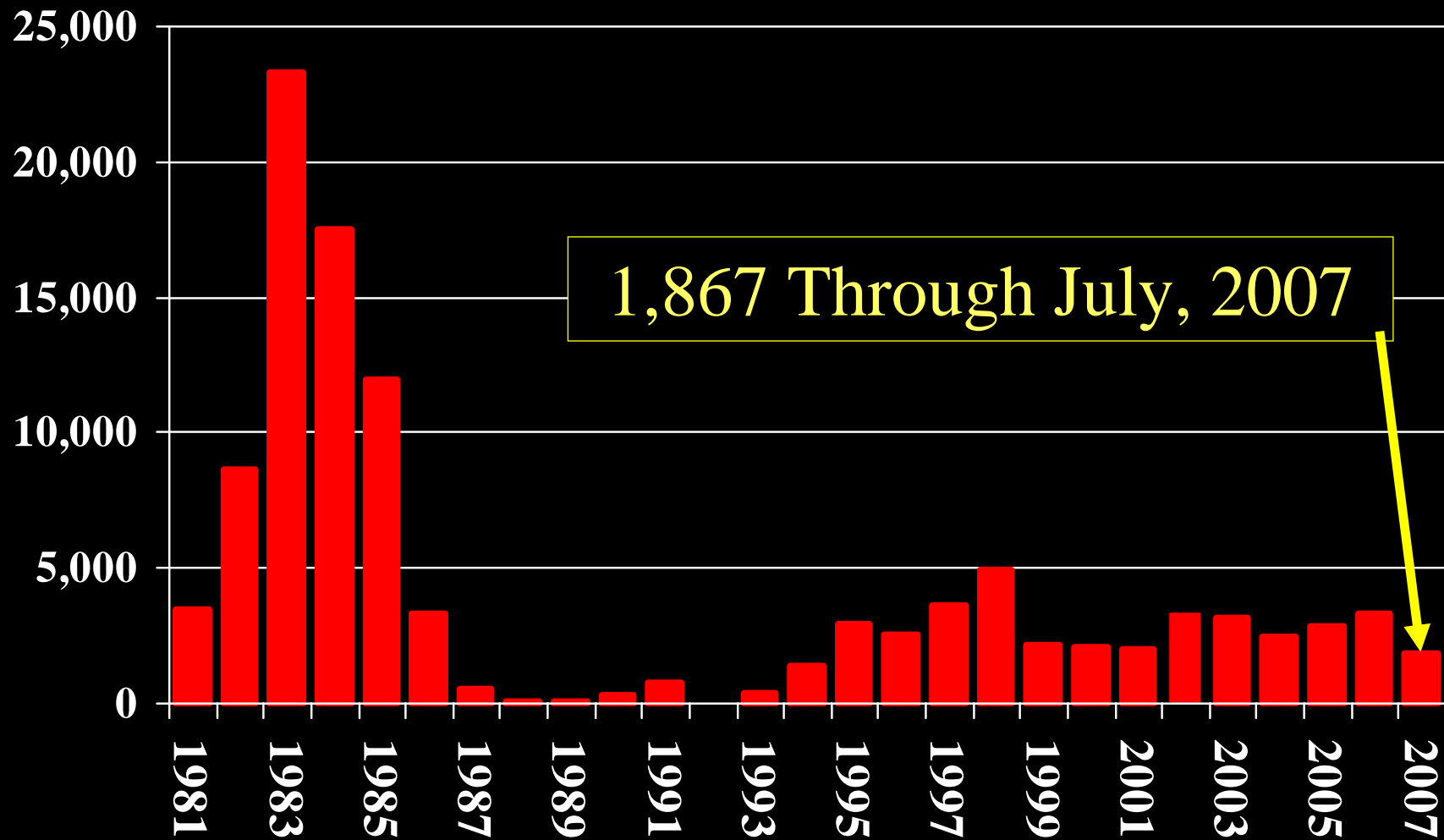
879 Through July, 2007



Source: Real Estate Center - Permits for Buildings with 5+ Units

Multi-Family Building Permits

5+ Units per Building
Fort Worth, TX



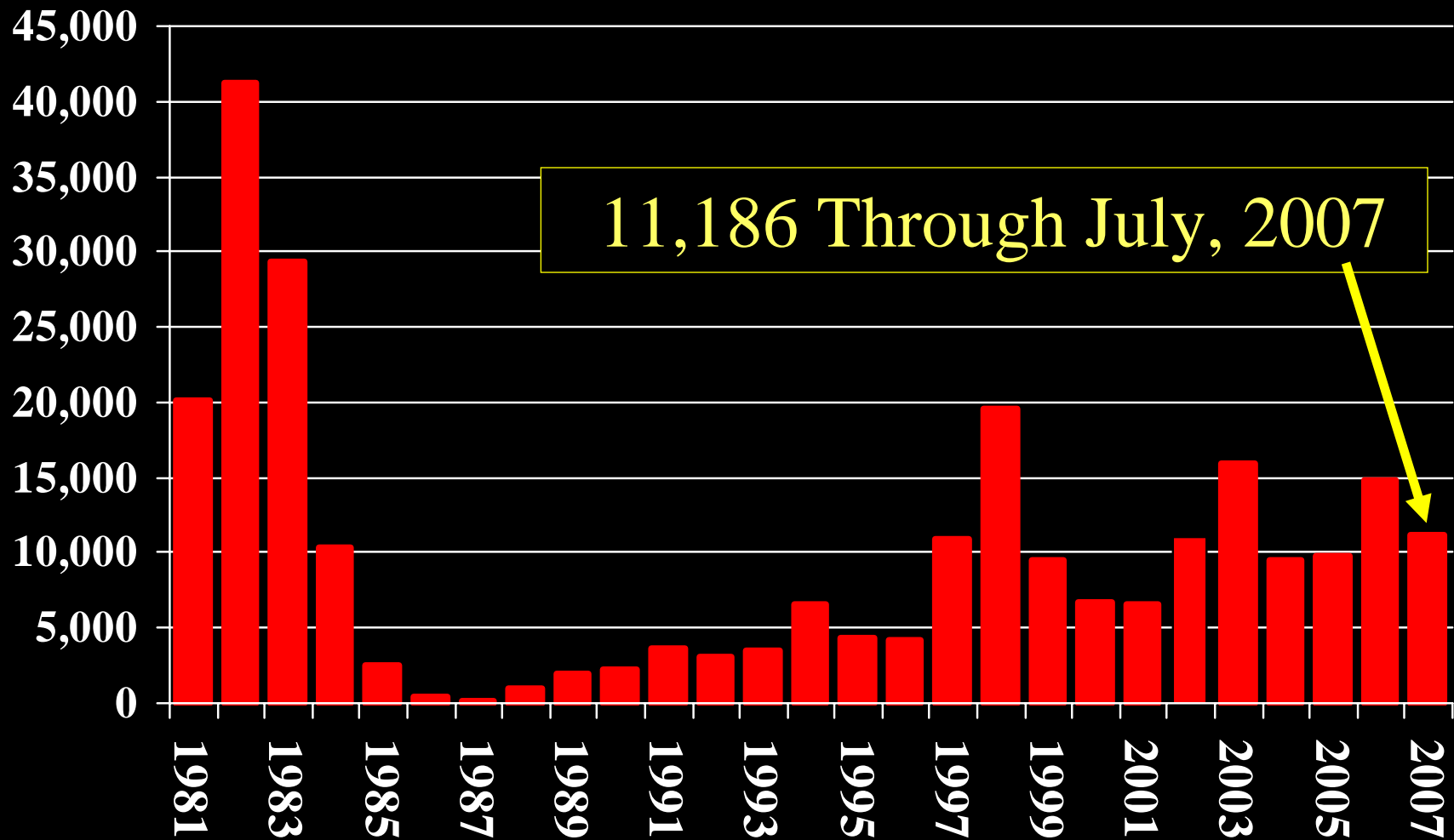
1,867 Through July, 2007



Source: Real Estate Center - Permits for Buildings with 5+ Units

Multi-Family Building Permits

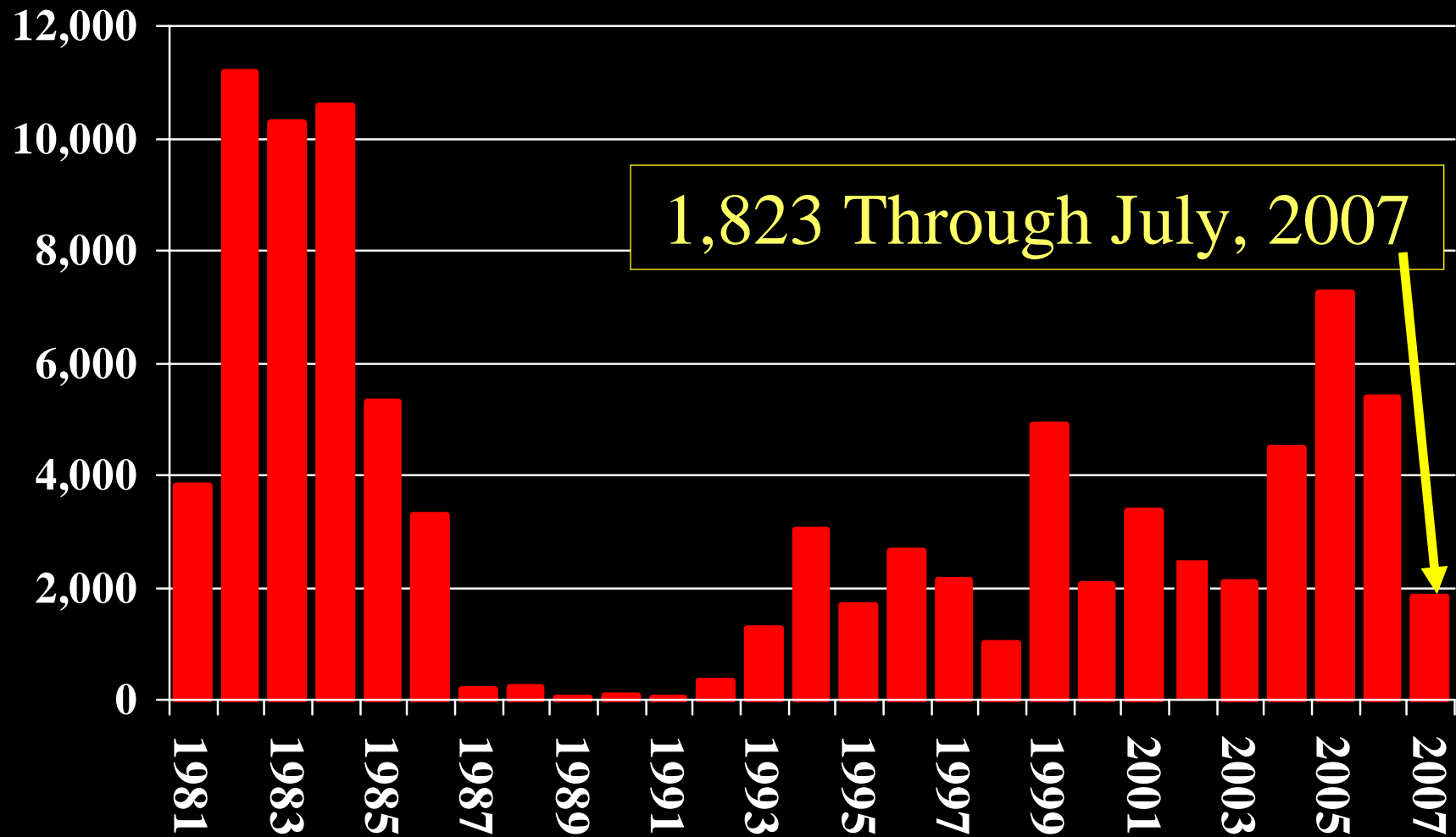
5+ Units per Building
Houston, TX



11,186 Through July, 2007

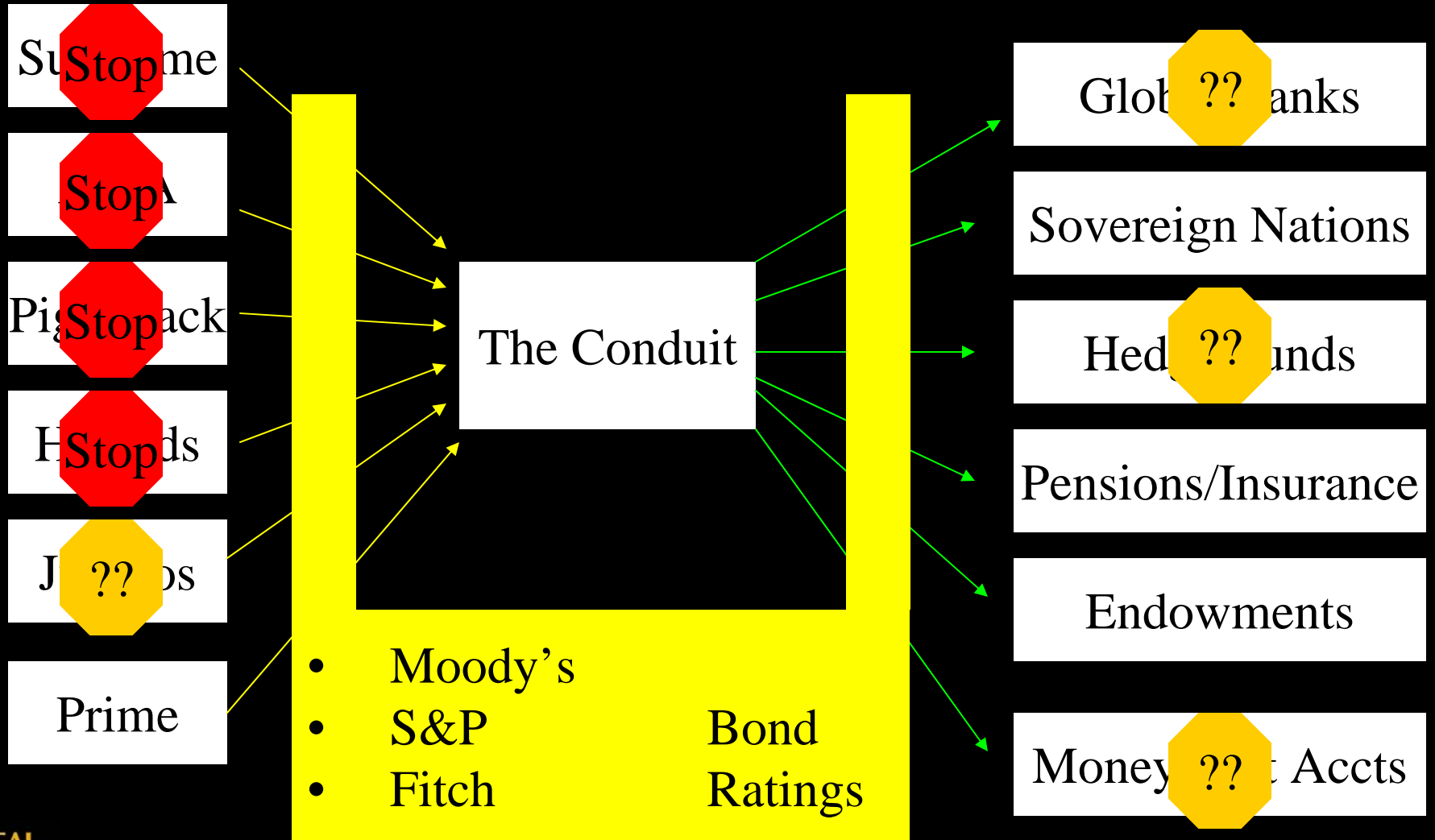
Multi-Family Building Permits

5+ Units per Building
San Antonio, TX

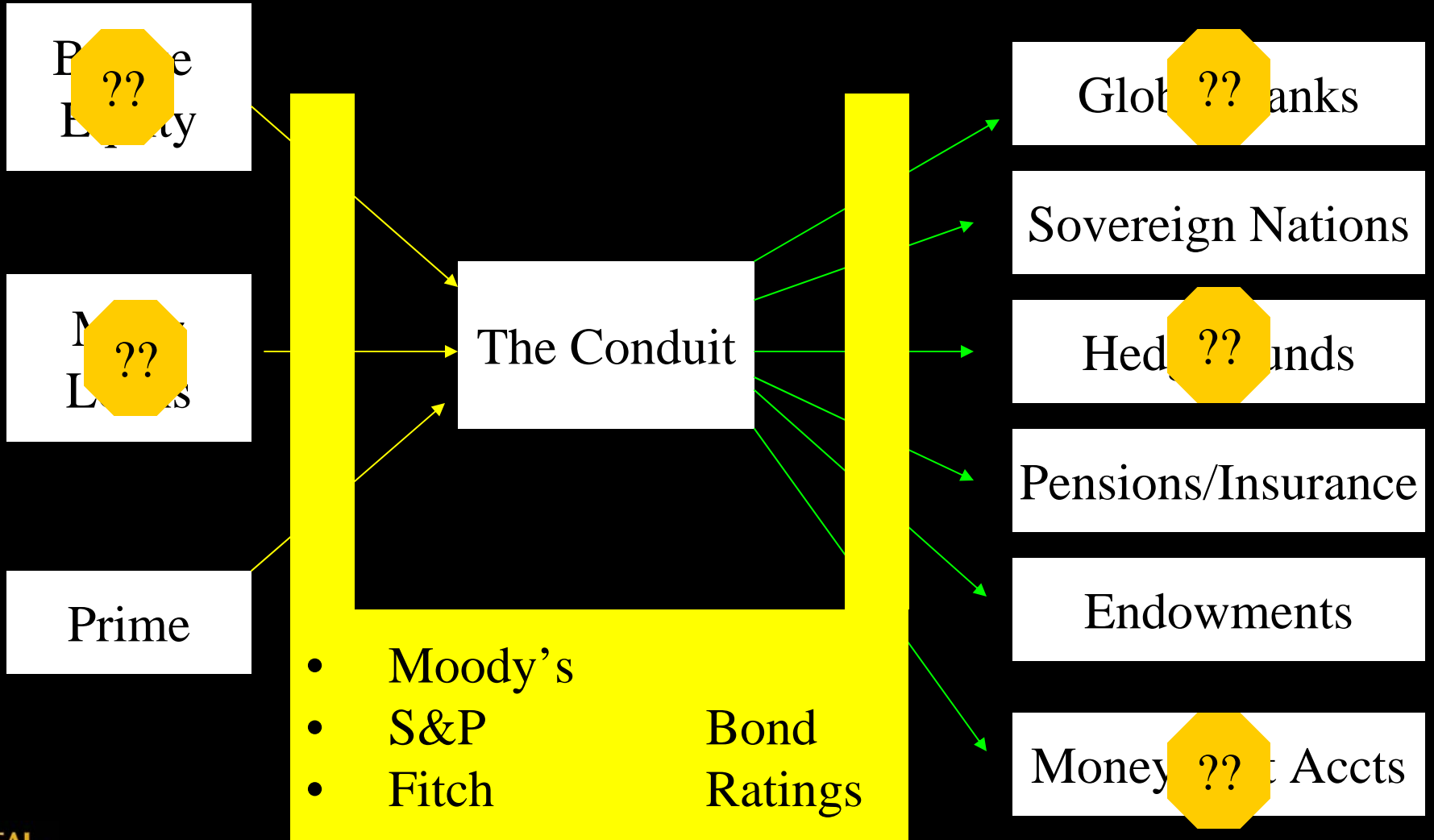


Source: Real Estate Center - Permits for Buildings with 5+ Units

The Residential Mortgage Market Chaos



The Commercial Mortgage Market Chaos



Silly Residential Mortgage Underwriting Is Over for This Decade

- You need to have a job
- You need to have some income
- You need to have some skin in the game

Silly Commercial Mortgage Underwriting Is Over for This Decade

- 10 year interest only loans
- DCR at 1.0 or below
- Assuming double-digit rent bumps for the life of the loan

Residential Foreclosure Situation

- Sub-primes are not the only iceberg in the choppy waters
- \$515B in ARMs reset in 2007
- \$680B in ARMs reset in 2008
- The foreclosure pressure will continue to increase into mid-2010 and then drop off dramatically

Global Credit Re-Pricing

- What are the implications going forward?
 - Higher borrowing costs for developers
 - Less money flowing into new development
 - Traditional lenders will gain market share at the expense of Wall Street
 - Less likely to have a wave of overbuilding in commercial and residential real estate
 - Higher cost of borrowing for everyone, with the possible exception of prime mortgage borrowers
 - Uptick in cap rates

Too Much Money Chasing Deals

- US Money market funds at record \$2.5T
- ECB money supply up 10.4% (24 yr high)
- China money supply up 18.5% (July to July)
- US MZM is up almost 10% from last year
- MZM Money Stock up from \$4.2T in Jan, 2000 to 7.5T in July, 2007
- \$300B invested in credit hedge funds
- \$1T in debt held in CDOs at end of 2006

Too Much Money Chasing Deals

- Mark Rothko's "White Center" painting sold for a record \$73 million at Sotheby's.
- Texas land has risen from \$1200 to over \$2,000 per acre in past three years.
- NYC office sold for \$1,589 per square foot, the highest price in US history.
- Inflation is a concern all over the world.

Conclusions

- Expect job growth at the national level to continue to slow
- Texas employment should double the national average
- Foreclosure rates to continue to increase in 2008 and 2009
- Apartment owners will press hard for large rent hikes
- Credit chaos will limit funds for new development in 2008, which will keep overbuilding in check.