

History May Not Repeat Itself, But it Certainly Does Rhyme*

**Mark Twain*

An Economic and Real Estate Forecast

**Ted C. Jones, PhD
Chief Economist, Stewart Title**

<http://blog.stewart.com/>

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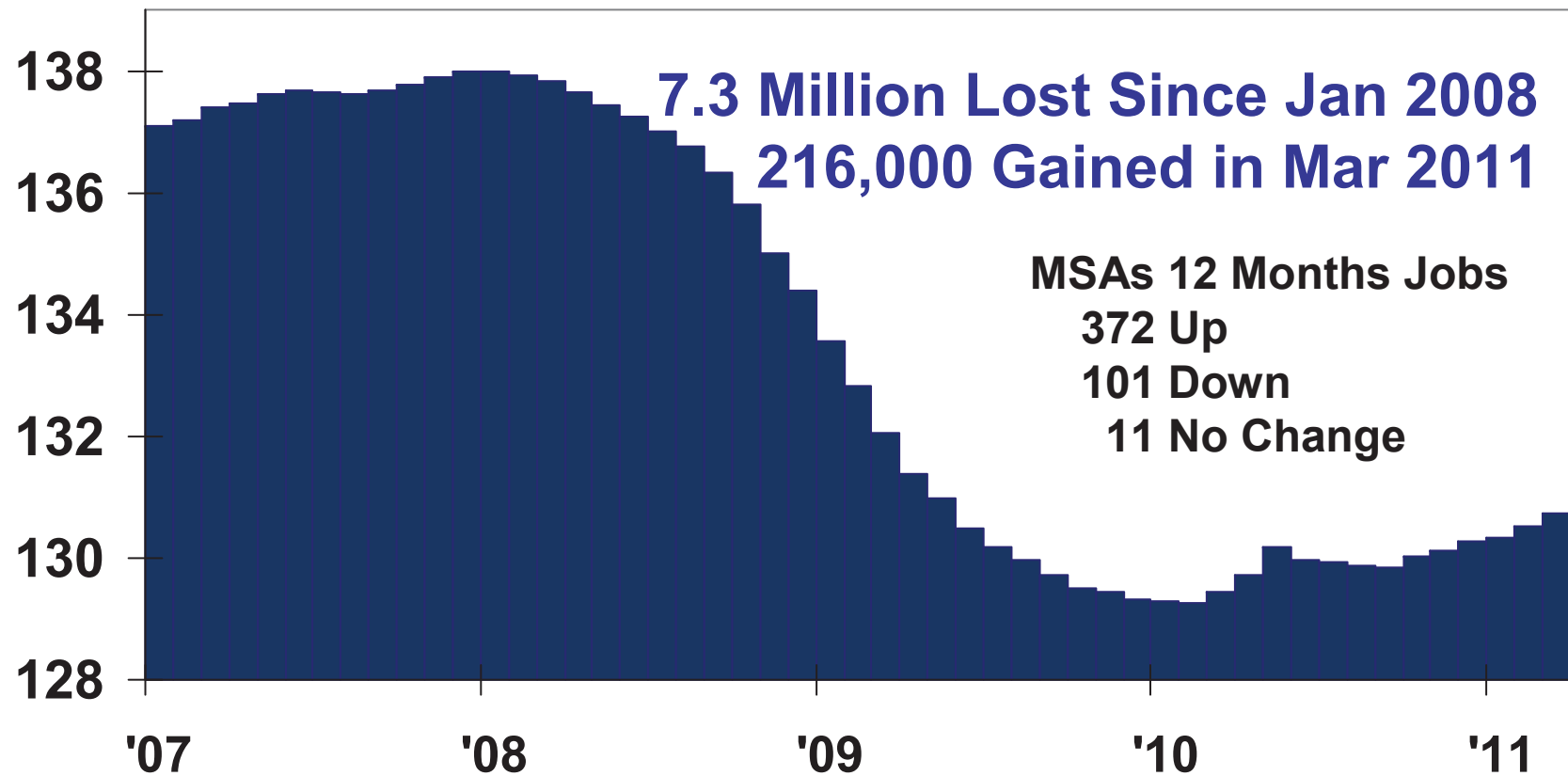
Jobs Are Everything

Period.

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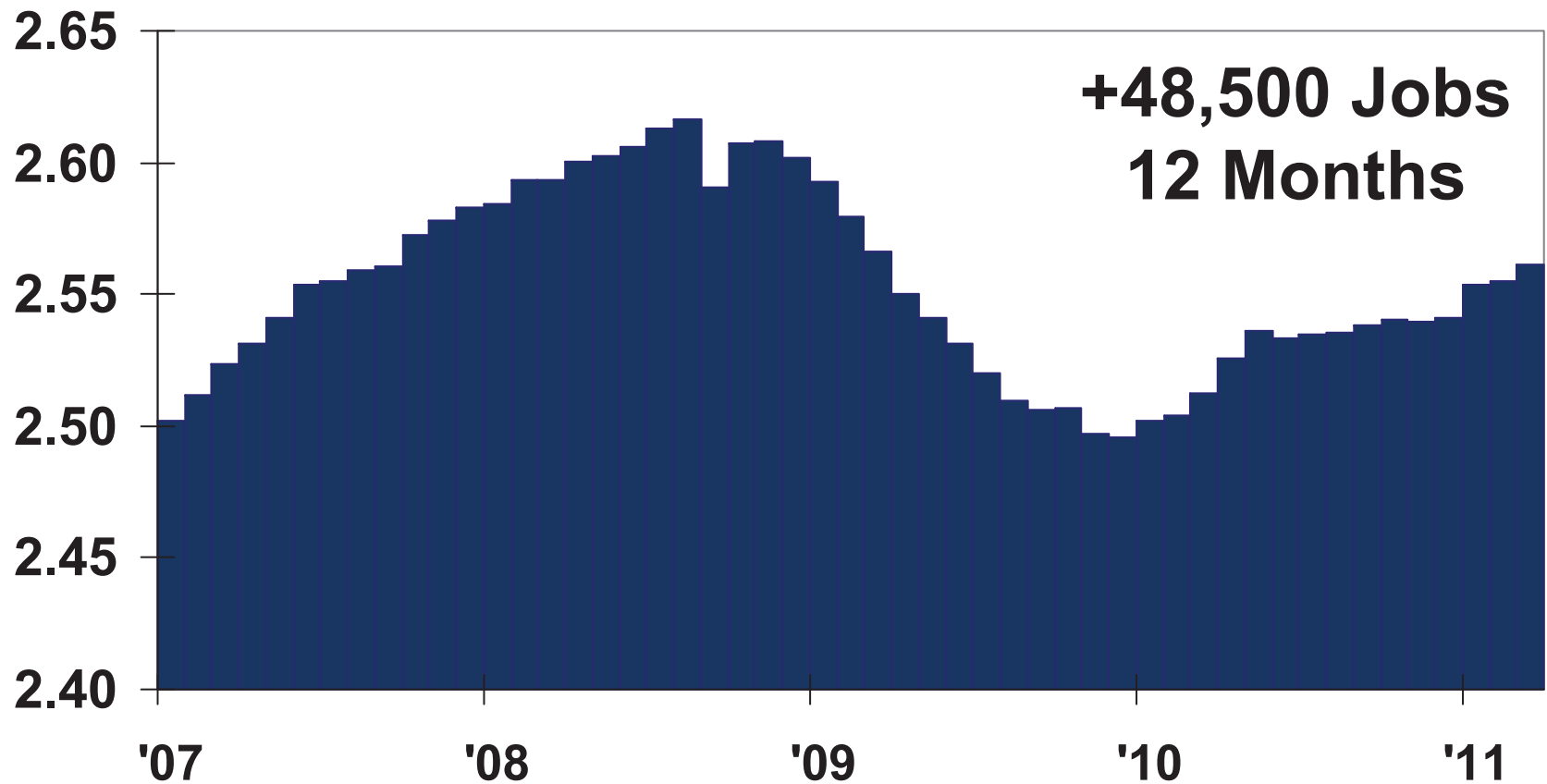
U.S. Job Numbers

Jobs (Millions) *Seasonally Adjusted*



Houston MSA Jobs

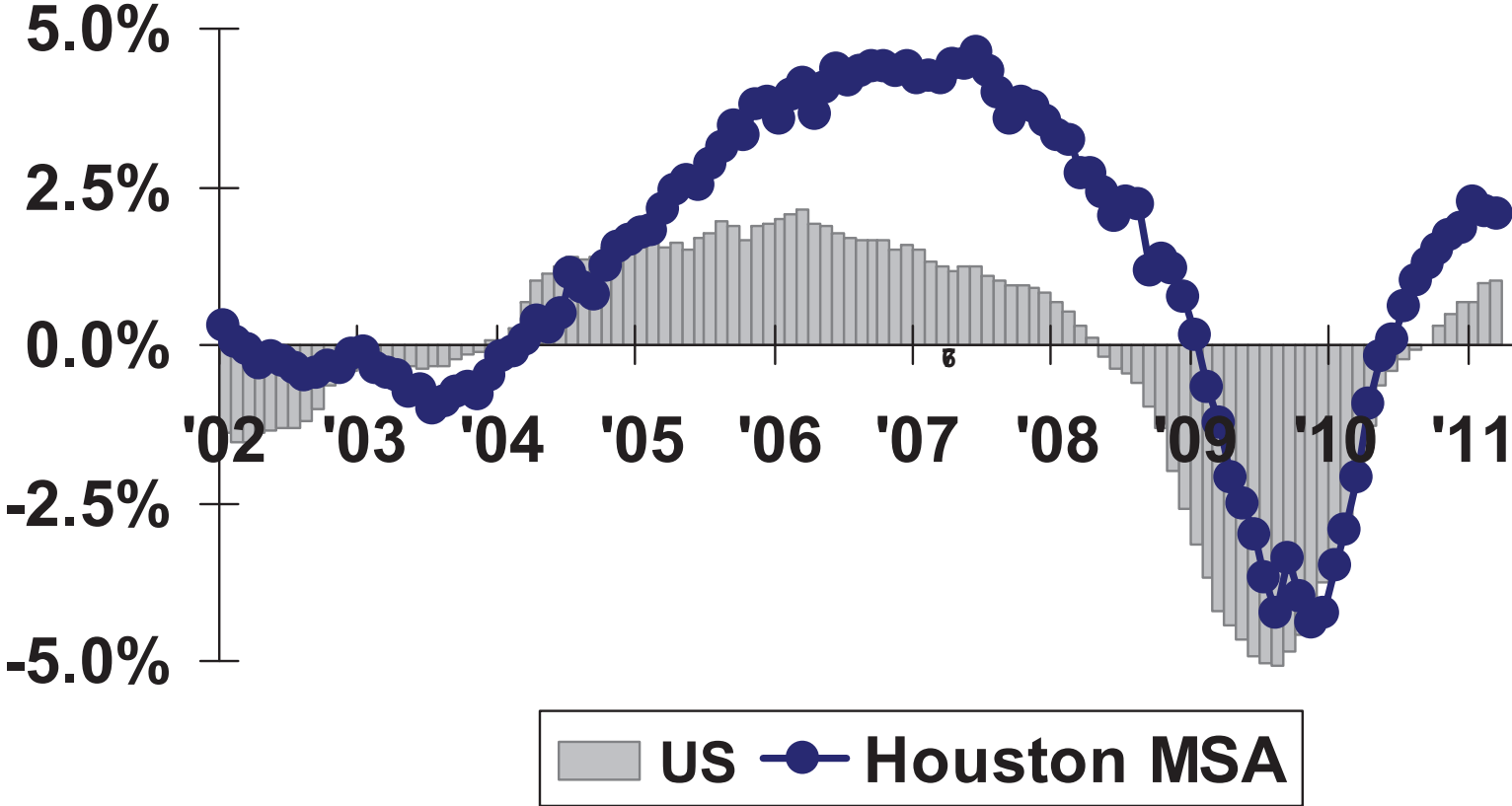
Jobs (Millions) *Seasonally Adjusted*



Houston MSA Jobs

Percent Change from Same Month Prior Year

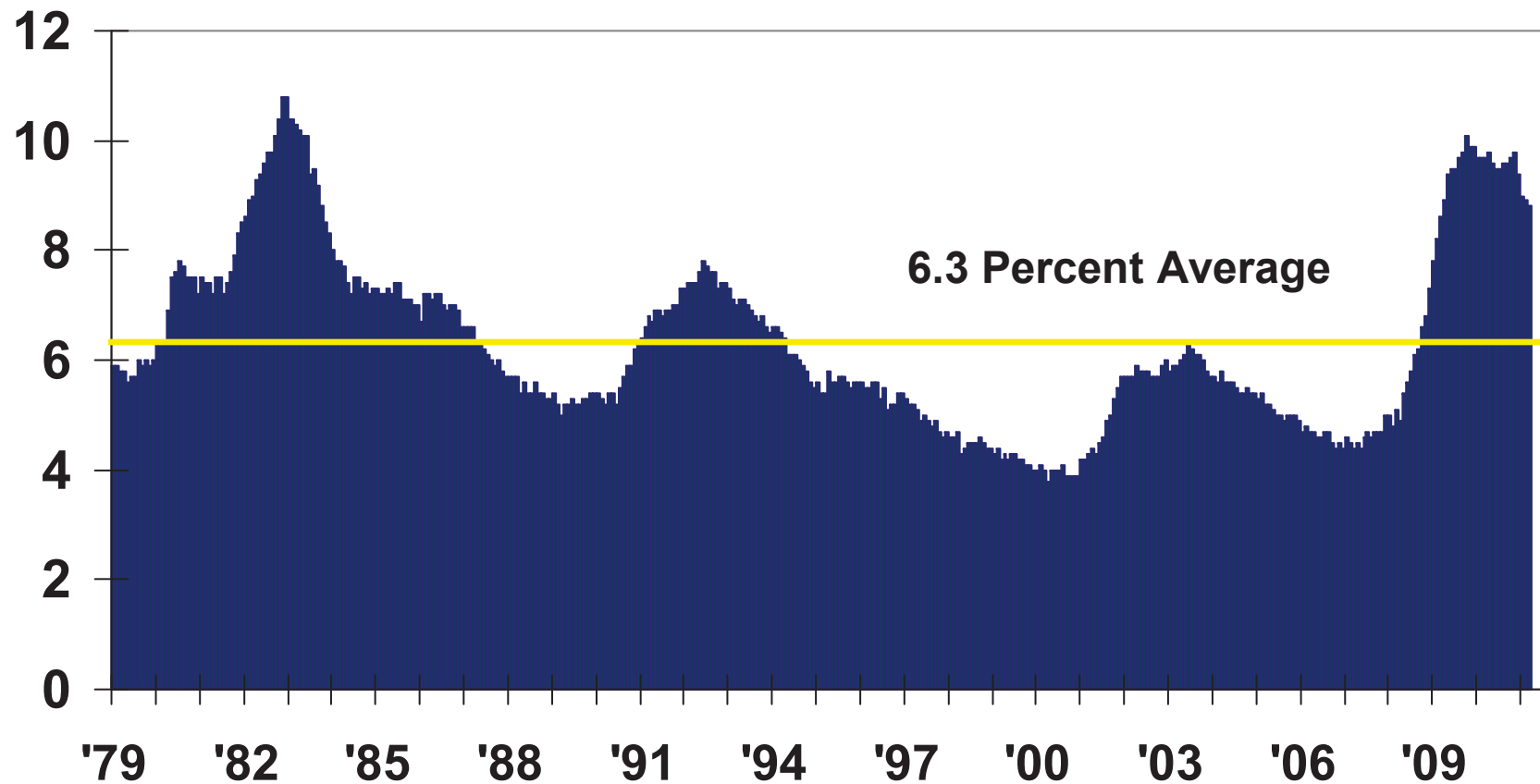
Not Seasonally Adjusted



51,800 Net New Jobs in the Past 12 Months

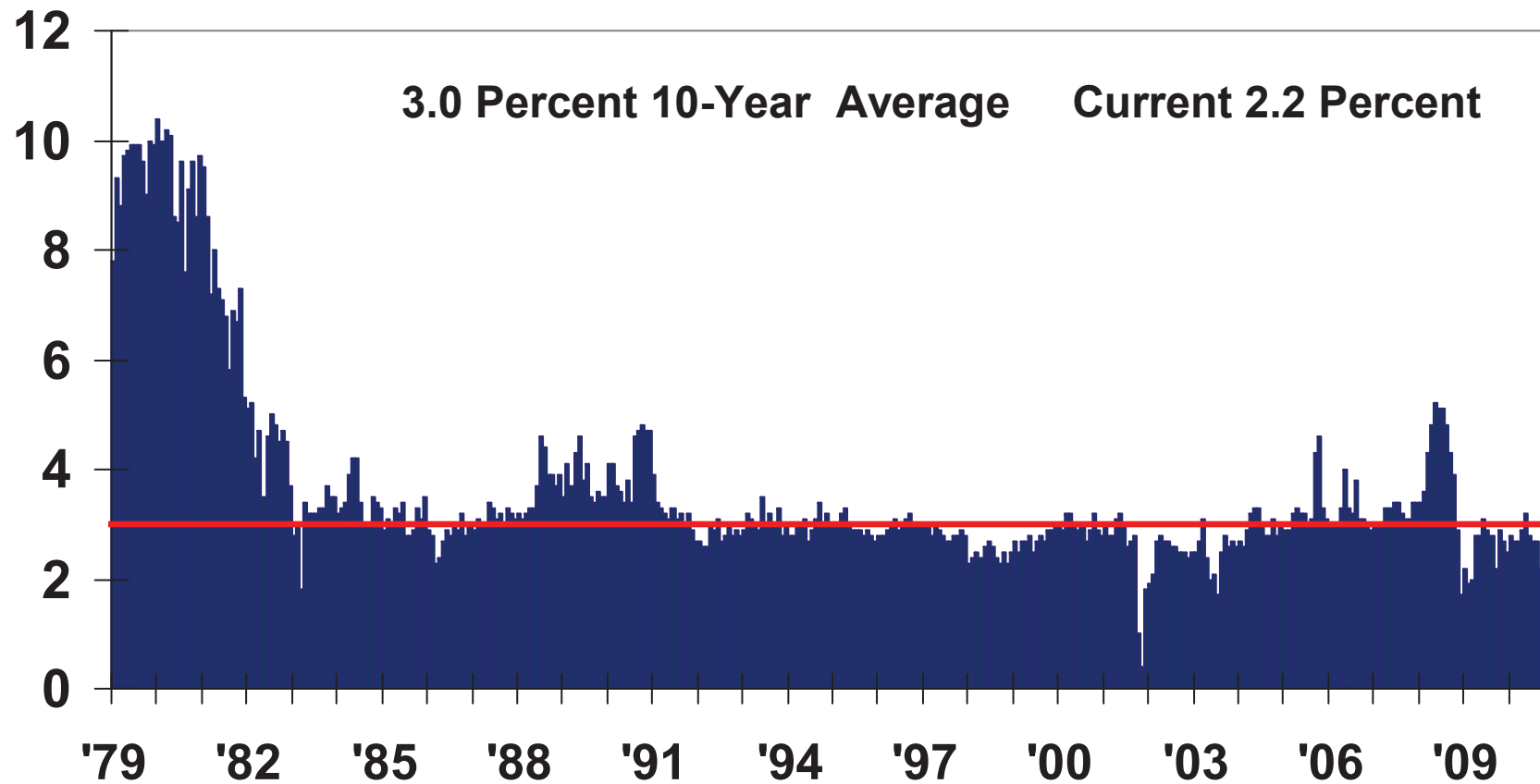
U.S. Unemployment Rate

Percentage



Inflation Expectations

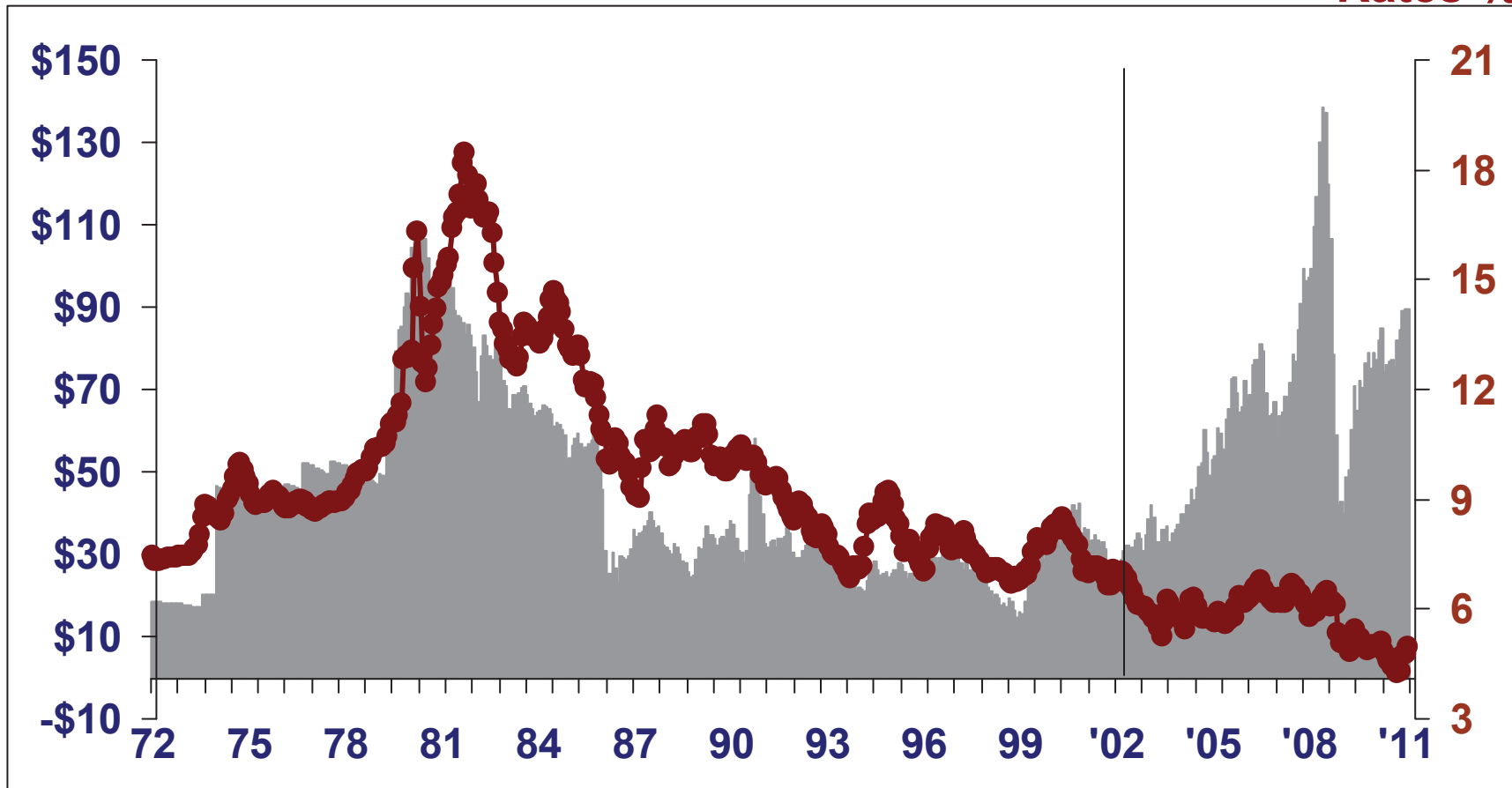
Percent



Oil Prices & 10-Year Treasury Note Rates *February 2011 Dollars*

Oil Prices

10-Year
Treasury
Rates %

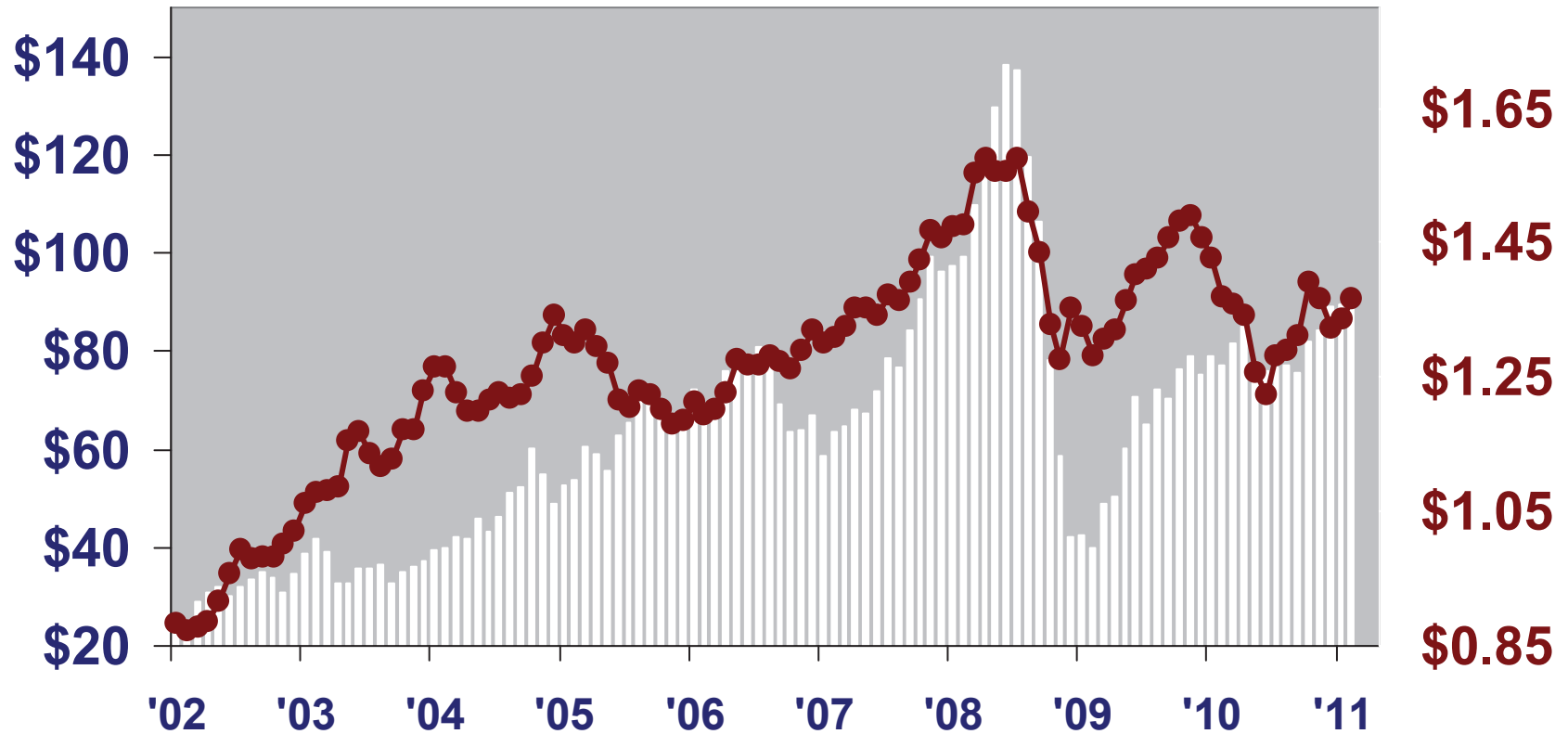


Oil Prices & Exchange Rates \$US Per Euro

Oil in February 2011 Dollars

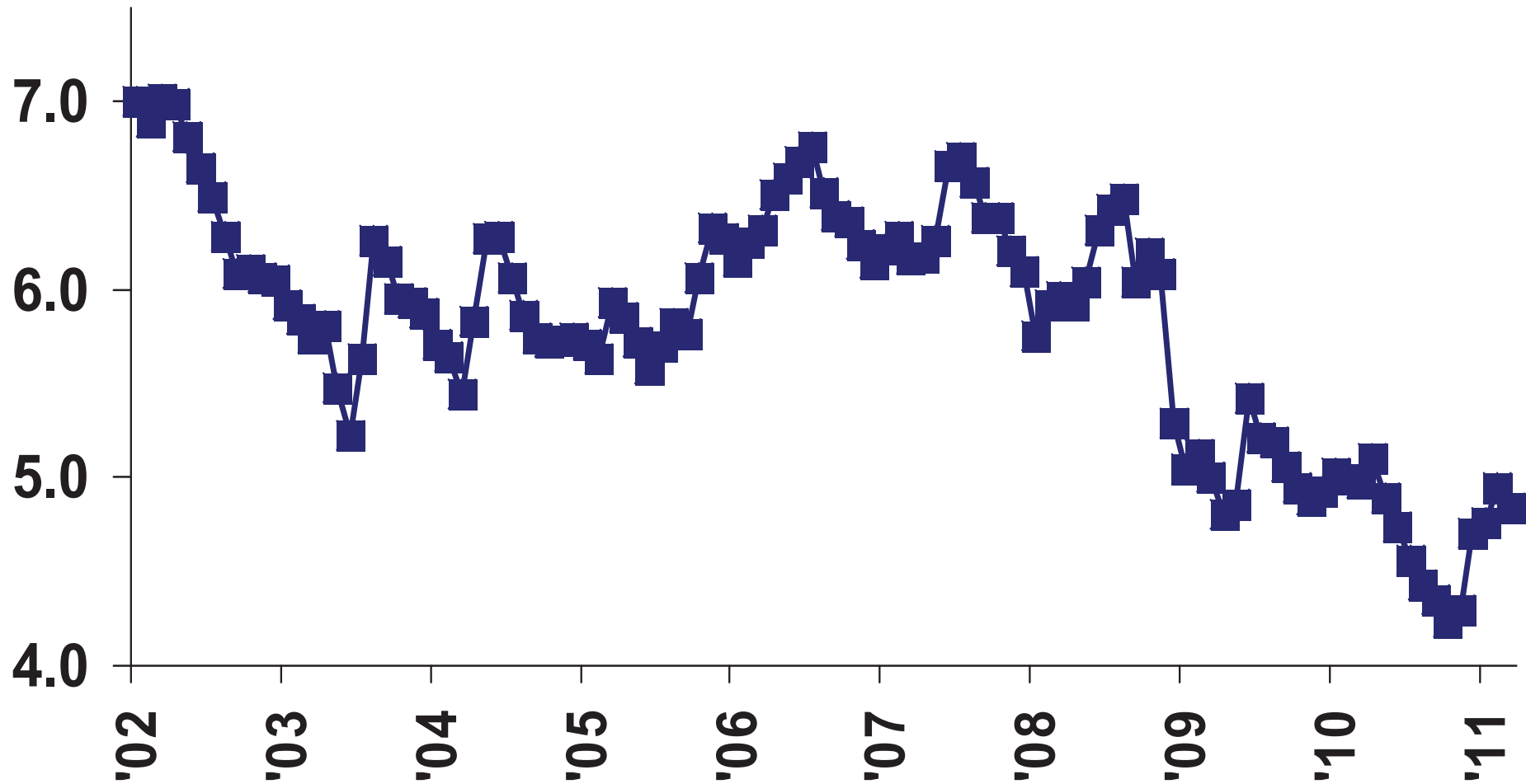
**Dollars
Per
Euro**

Oil Price

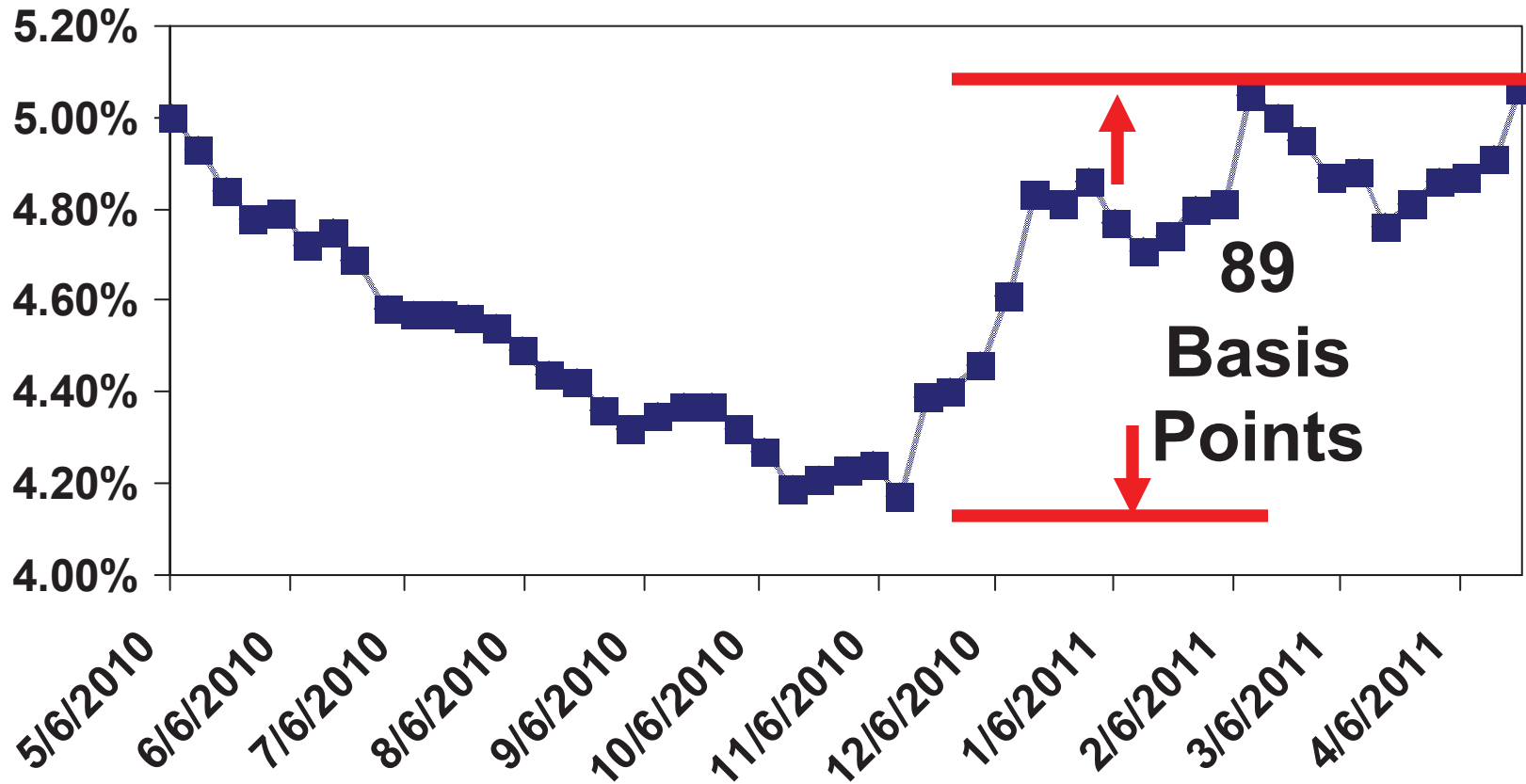


30-Year Residential Mortgage Rate

Percent



30-Year Residential Rate



100 Basis Points = 1 Percent

Ted's Forecast

11-4-2010 to 12-31-11

Since Nov 11
30-Year Rates
Up 89 bp



**Big 2011
Upside...**

10-Year Treasurys

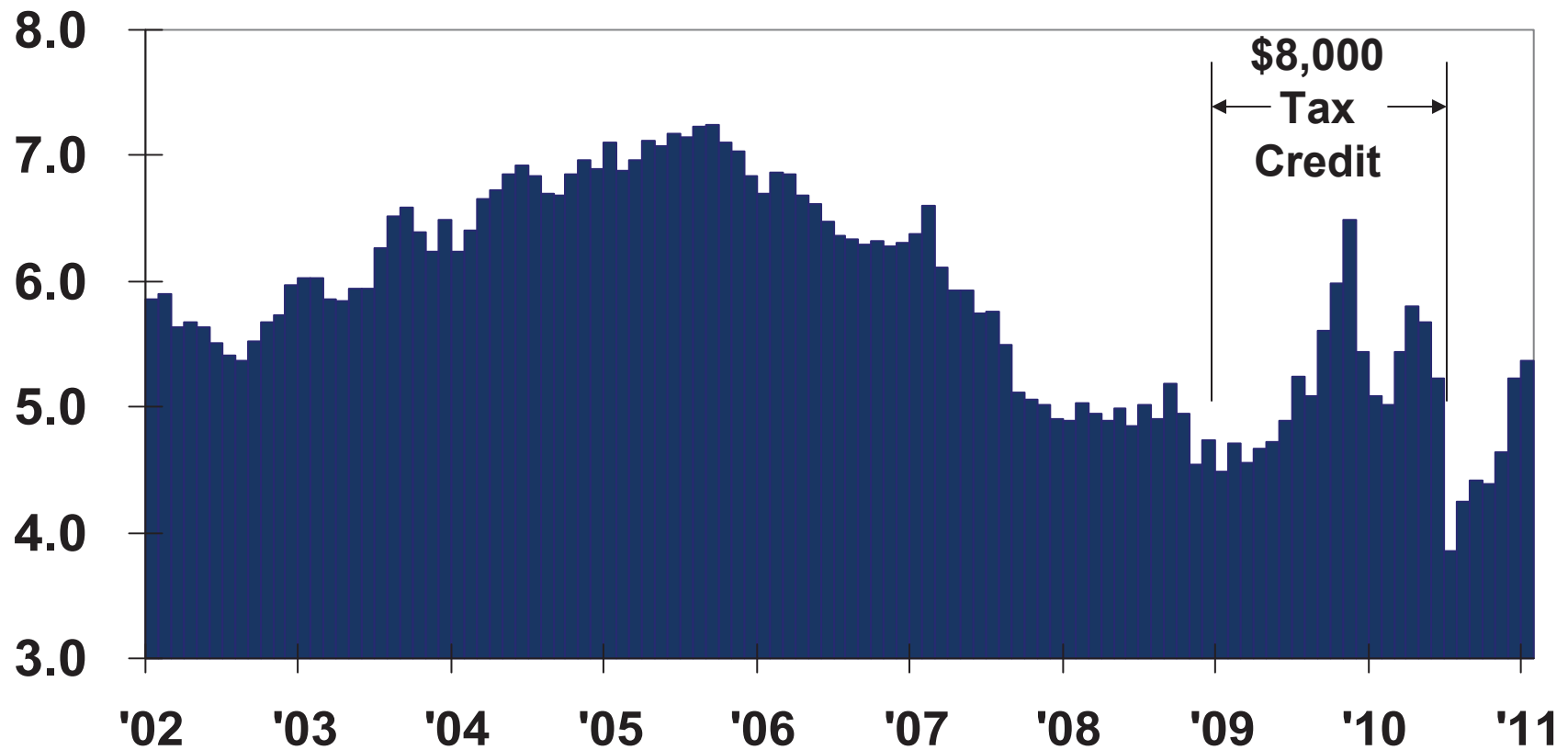
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**So Goes Jobs,
So Goes
Housing.....**

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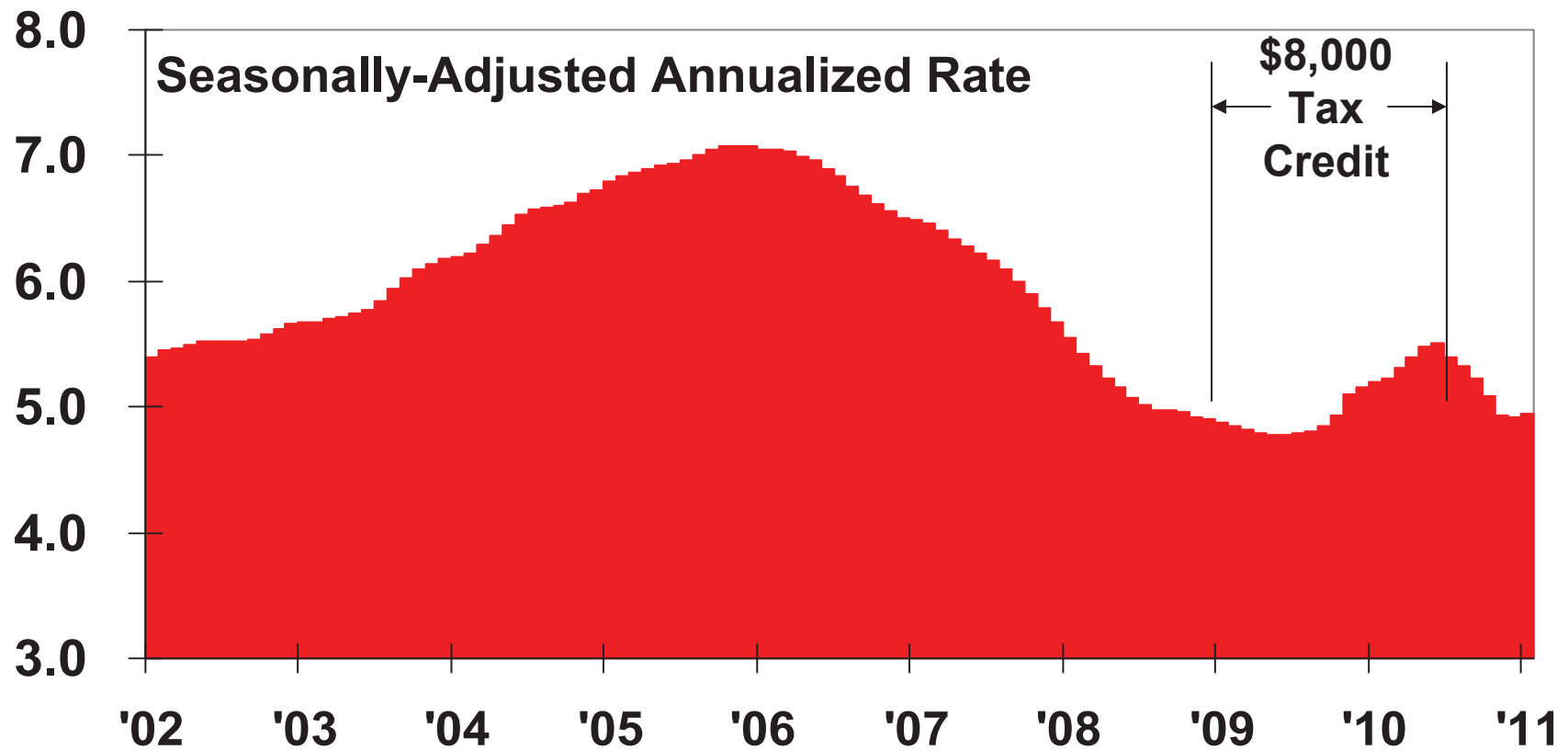
US Existing Home Sales

Sold (Millions)



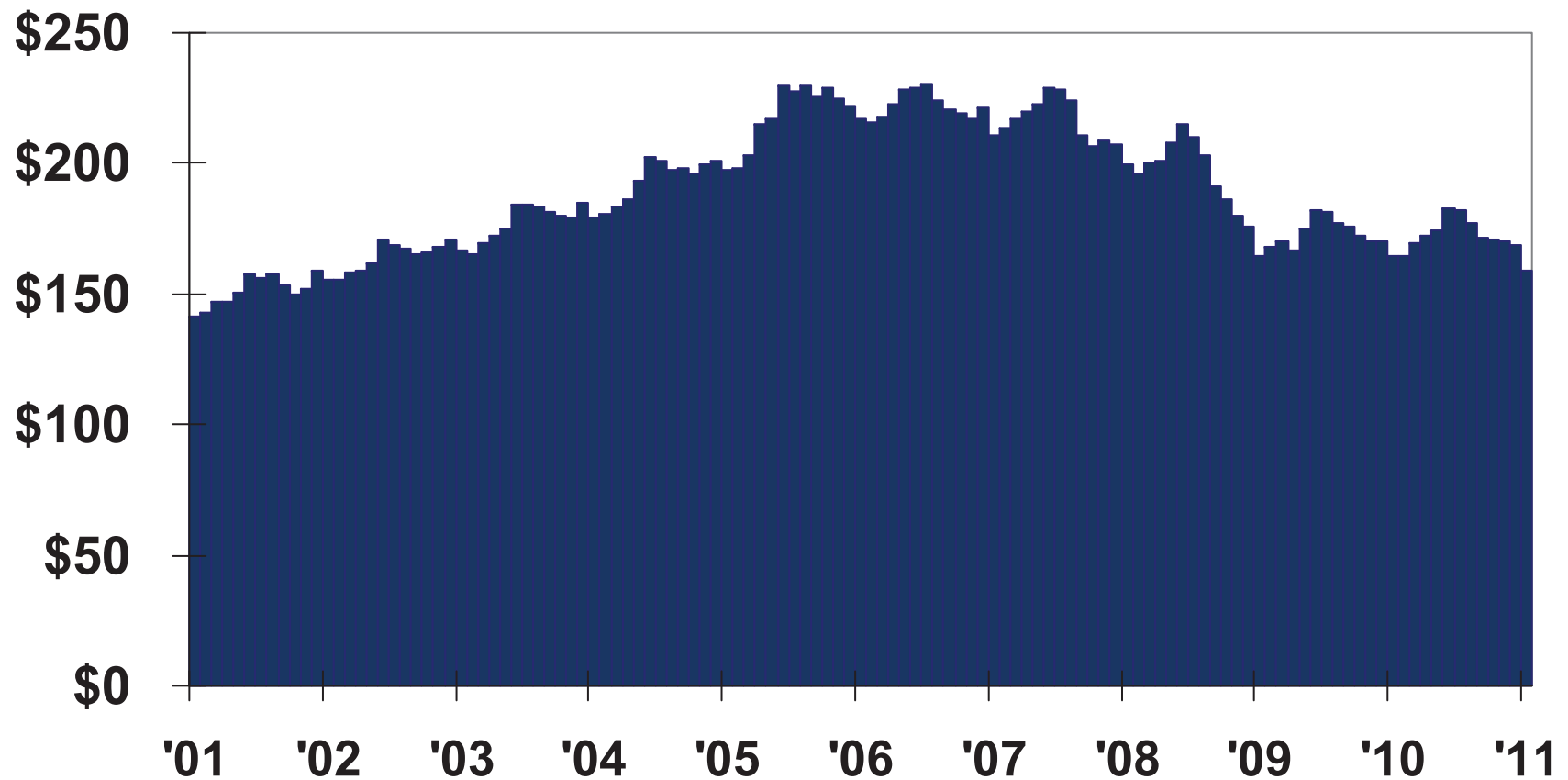
US Existing Home Sales

Sold (Millions) *Average Per Month For Prior 12 Months*



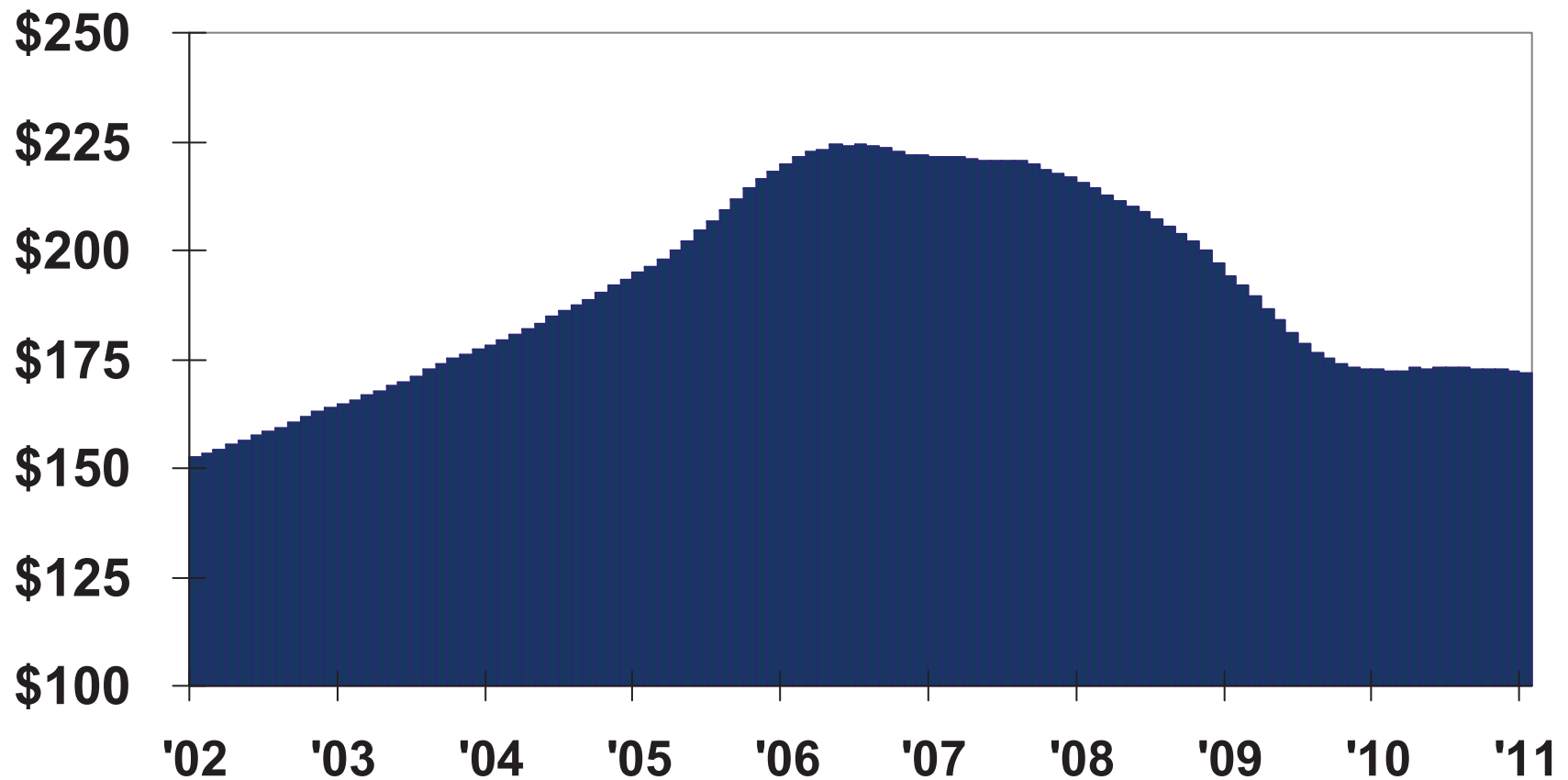
U.S. Existing Home Sales

Median Price -- \$ *Thousands*



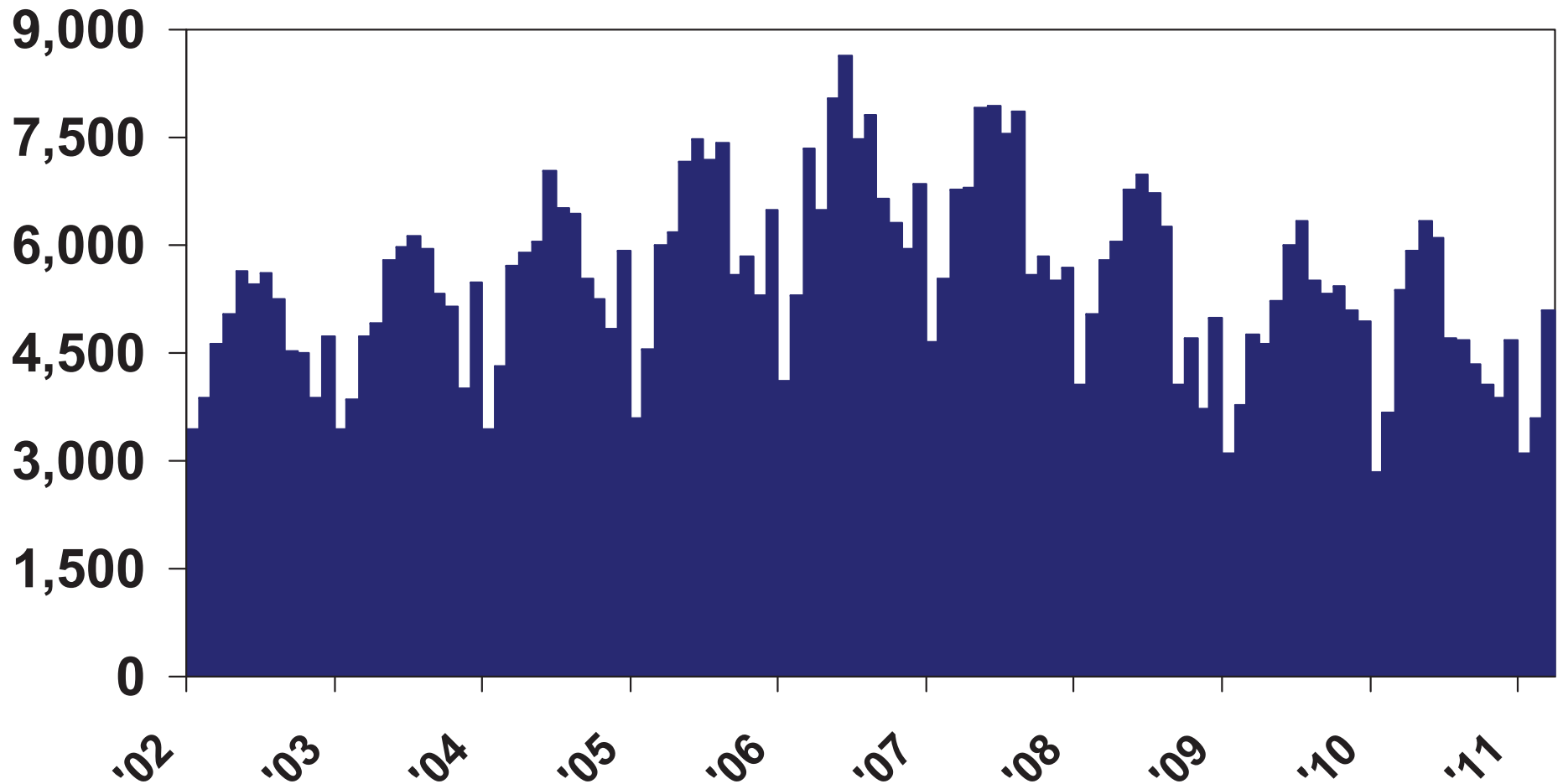
U.S. Existing Home Sales

Median Price -- \$ Thousands 12 Month Average



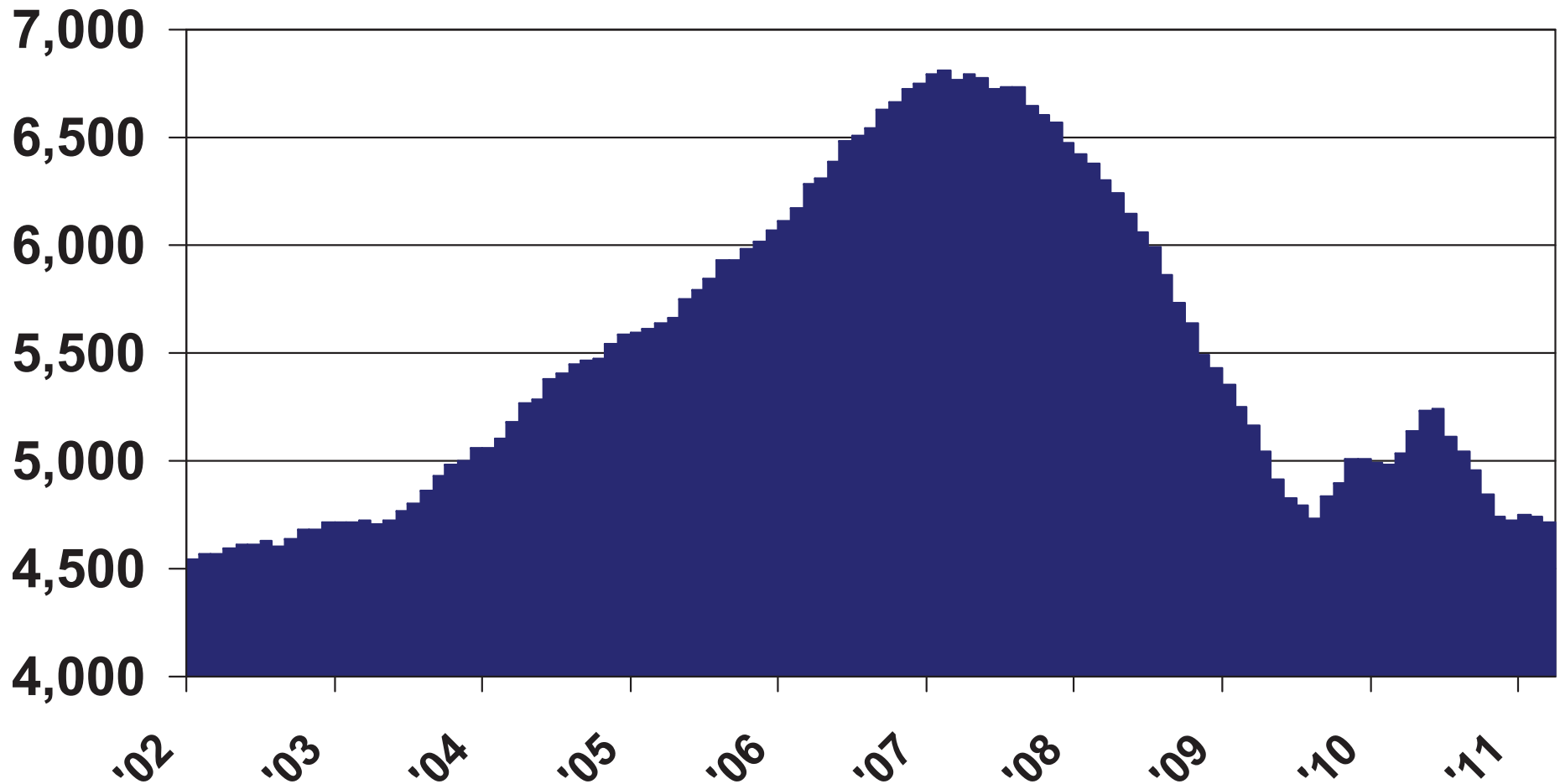
Houston Existing Home Sales

Number Per Month



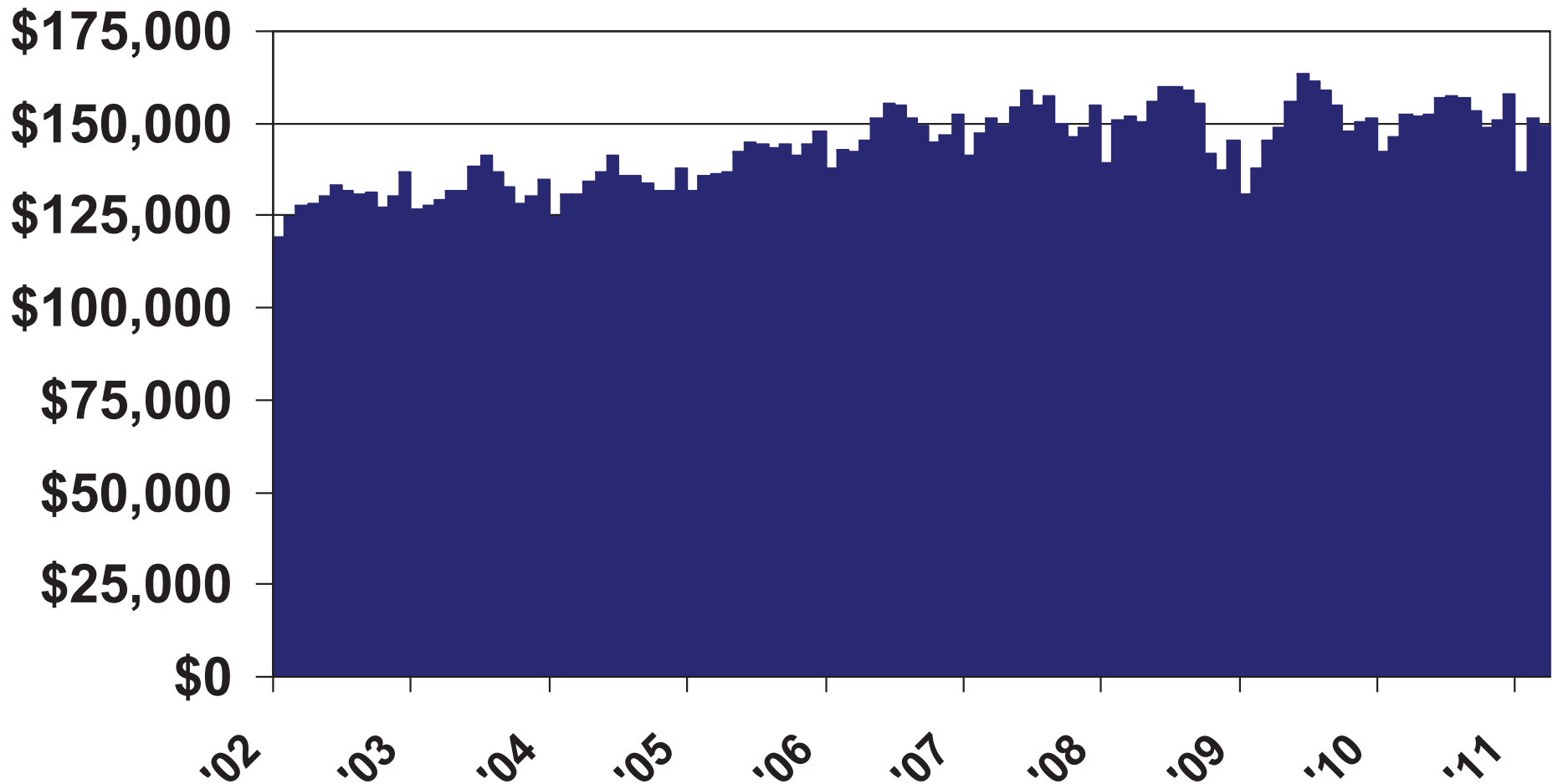
Houston Existing Home Sales

Average Number Per Month For Prior 12 Months



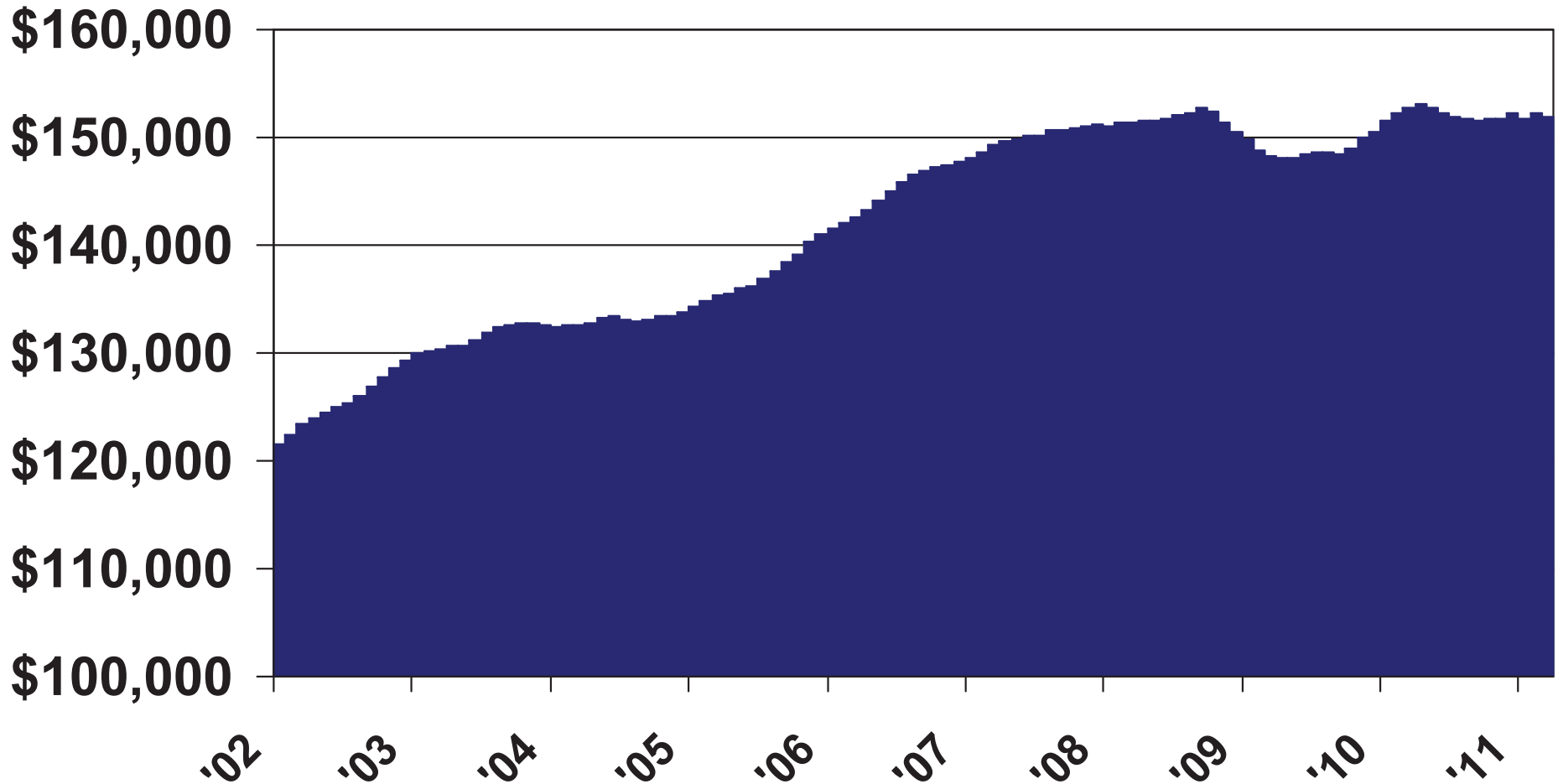
Houston Existing Home Prices

Median Price



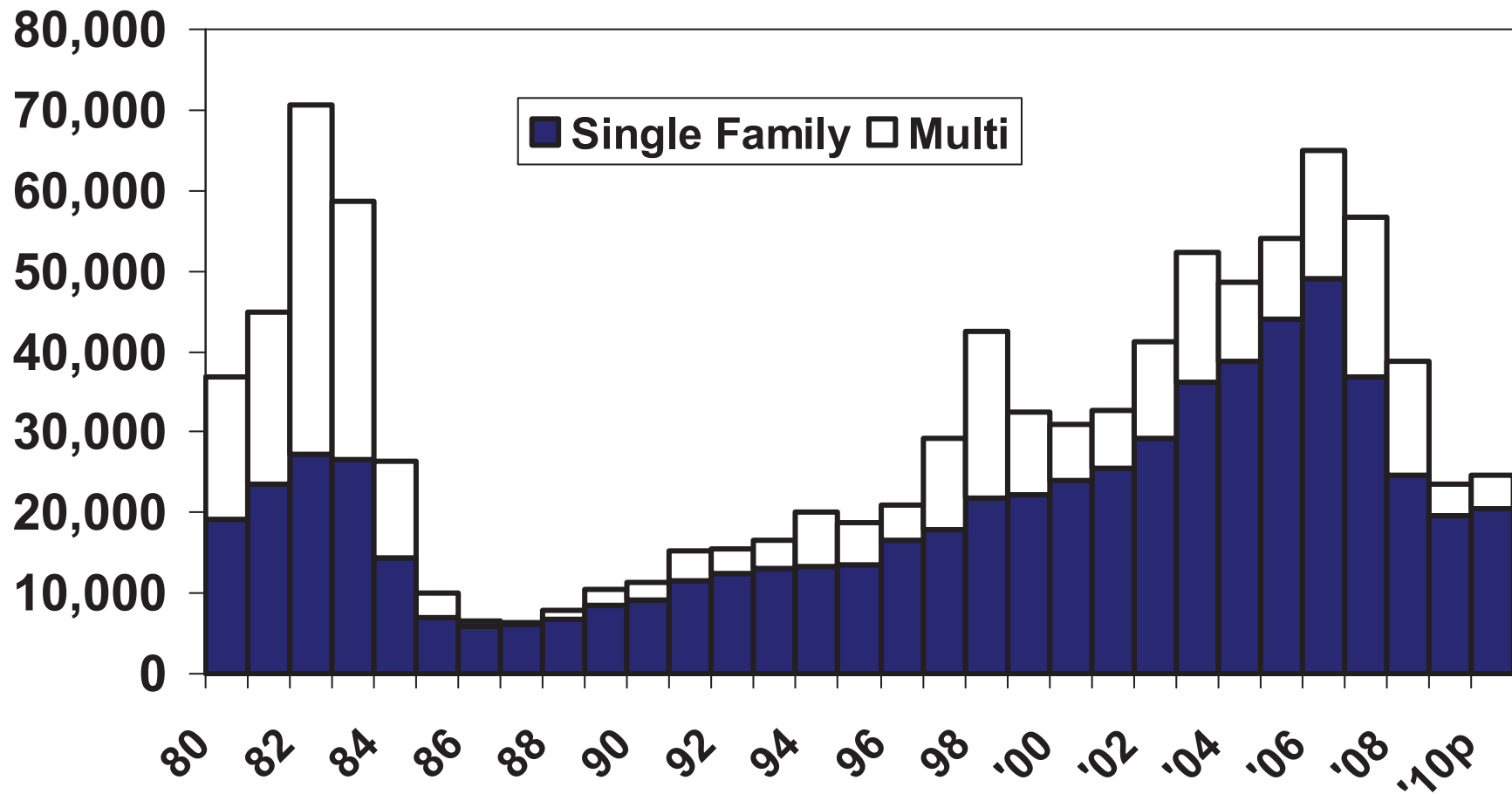
Houston Existing Home Prices

Median Price *Prior 12 Month Average*



Houston MSA Residential Building Permits

Number of Dwelling Units



50,000 New Jobs and Less Than 25,000 New Dwelling Units

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\$3.4 Trillion in Total Commercial Loans

**\$400 +/- Billion to
Refinance**

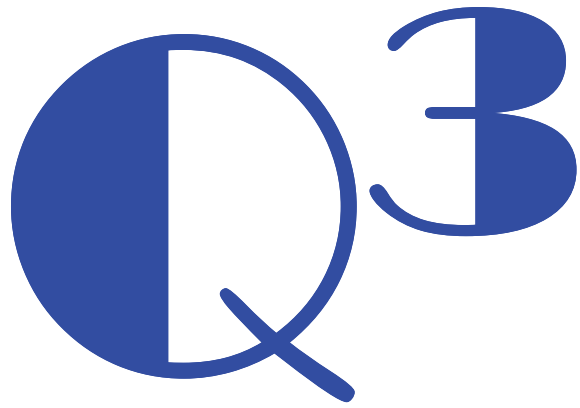
**Per Year for Next
10 Years**

U.S. Real Estate

Commercial Sales

	\$ Billion	Percent Change
2007	\$ 557.8	
2008	\$ 181.6	-67.4%
2009	\$ 54.4	-70.0%
2010	\$ 120.0	120.6%

2011 \$200 Billion (Ted's Forecast)



Quality

- **Location**
- **Property**
- **Tenants**

Mortgage Bankers Association Office Building Washington, DC

Purchased 2007	\$79.0 Million
Sold Feb 2010	\$41.3 Million

Loss	\$37.7 Million
	47.7 Percent

Mortgage Bankers Association Office Building Washington, DC

Purchased 2010

\$41.3 Million

Sold Feb 2011

\$101.0 Million

Gain

\$59.7 Million

145 Percent

MIT Real Estate Group

NACREIF

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Estimated Current Property Value Compared to Q4 2010

Acquisition Date	Property Type				
	Apartments	Industrial	Office	Retail	
2000	Q1	53.6%	37.2%	30.5%	36.7%
	Q2	47.6%	33.8%	27.3%	40.0%
	Q3	41.9%	29.7%	24.4%	40.3%
	Q4	40.5%	30.2%	23.8%	46.4%
2001	Q1	42.1%	25.5%	24.8%	49.5%
	Q2	32.1%	22.2%	27.8%	42.4%
	Q3	32.9%	23.7%	32.6%	39.5%
	Q4	33.1%	26.5%	36.6%	40.7%
2002	Q1	31.9%	32.8%	30.7%	37.1%
	Q2	35.9%	29.9%	35.4%	34.0%
	Q3	35.4%	28.2%	26.7%	28.7%
	Q4	31.0%	22.5%	28.9%	21.1%
2003	Q1	32.2%	27.1%	27.5%	22.2%
	Q2	32.9%	21.9%	29.4%	14.8%
	Q3	29.1%	15.1%	25.4%	25.3%
	Q4	28.3%	14.0%	25.0%	17.2%
2004	Q1	29.7%	12.5%	24.8%	12.5%
	Q2	24.7%	5.6%	20.1%	7.2%
	Q3	17.9%	6.5%	18.9%	1.2%
	Q4	15.5%	6.1%	14.4%	-2.8%
2005	Q1	6.3%	9.5%	11.3%	-1.4%
	Q2	6.1%	-12.0%	1.6%	-19.8%
	Q3	-9.9%	-13.0%	-4.9%	-22.6%
	Q4	-14.0%	-12.7%	-13.3%	-22.6%
2006	Q1	-17.2%	-21.1%	-17.0%	-23.7%
	Q2	-15.0%	-22.6%	-17.0%	-25.9%
	Q3	-14.3%	-20.8%	-22.2%	-27.5%
	Q4	-14.5%	-27.5%	-26.4%	-29.1%

Estimated Current Property Value Compared to Q4 2010

Acquisition Date		Estimated Percent Change in Value Since Acquisition			
		Property Type			
		Apartments	Industrial	Office	Retail
2007	Q1	-12.6%	-29.1%	-28.7%	-30.1%
	Q2	-17.4%	-33.7%	-33.2%	-29.9%
	Q3	-21.4%	-31.6%	-33.7%	-29.0%
	Q4	-20.9%	-27.0%	-33.3%	-27.6%
2008	Q1	-20.4%	-27.2%	-31.7%	-23.8%
	Q2	-19.0%	-21.5%	-25.8%	-23.0%
	Q3	-17.9%	-19.8%	-24.4%	-23.3%
	Q4	-5.5%	-11.8%	-18.4%	-20.3%
2009	Q1	-0.3%	11.0%	-14.8%	-17.0%
	Q2	7.2%	11.1%	-3.3%	-7.9%
	Q3	7.5%	12.6%	2.5%	-3.7%
	Q4	17.5%	15.0%	12.5%	1.7%
2010	Q1	12.4%	16.5%	6.6%	0.1%
	Q2	6.2%	9.2%	1.7%	-3.4%
	Q3	1.7%	11.5%	4.4%	0.6%
	Q4	0.0%	0.0%	0.0%	0.0%

Cells this color indicate market peak price

Texas Multifamily

**Prices Down 10 to 15 Percent
Since 2007 Peak**

Texas Industrial

**Cap Rates Up 100 Basis Points
From 6.5 Percent
Value Down 13+ Percent**

History May Not Repeat Itself, But It Certainly Does Rhyme

A Lesson in Commercial Real Estate Values

The infamous author and humorist Mark Twain once said, “History may not repeat itself, but it certainly does rhyme.” Twain may not have been directly referring to commercial real estate cycles when making that statement, but it suitably applies to commercial real estate markets and property values today.

Property values have declined precipitously since the peak in 2007, just as they did in the late 1980s, but this time the driver

Today’s market is different. Current depreciation schedules run 27.5 years for residential rental property and 39 years for non-residential real estate (versus 15 years in the 1980s). Marginal tax rates are much lower. Rather than

and expenses have not changed.

This table is not just for buyers and sellers, but also is a key tool in one of the most important issues facing property owners today: analyzing the potential to appeal and reduce ad valorem

property taxes. Every owner should aggressively pursue assessed values reflective of lower property values seen in today’s market.

Are these indications of value declines in the table at all reflective of the market? Unfortunately, yes.

No matter which data source you examine, commercial real estate values appear to be off 30 to 40-plus percent from the market peak of 2007.

Capitalization Rate Impact — Percent Change in Property Value as Cap Rates Increase

New Rate	Original Rate									
	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
5.0%										
5.5%	-9.1%									
6.0%	-16.7%	-8.3%								
6.5%	-23.1%	-15.4%	-7.7%							
7.0%	-28.6%	-21.4%	-14.3%	-7.1%						
7.5%	-33.3%	-26.7%	-20.0%	-13.3%	-6.7%					
8.0%	-37.5%	-31.3%	-25.0%	-18.8%	-12.5%	-6.3%				
8.5%	-41.2%	-35.3%	-29.4%	-23.5%	-17.6%	-11.8%	-5.9%			
9.0%	-44.4%	-38.9%	-33.3%	-27.8%	-22.2%	-16.7%	-11.1%	-5.6%		
9.5%	-47.4%	-42.1%	-36.8%	-31.6%	-26.3%	-21.1%	-15.8%	-10.5%	-5.3%	
10.0%	-50.0%	-45.0%	-40.0%	-35.0%	-30.0%	-25.0%	-20.0%	-15.0%	-10.0%	-5.0%
10.5%	-52.4%	-47.6%	-42.9%	-38.1%	-33.3%	-28.6%	-23.8%	-19.0%	-14.3%	-9.5%
11.0%	-54.5%	-50.0%	-45.5%	-40.9%	-36.4%	-31.8%	-27.3%	-22.7%	-18.2%	-13.6%
11.5%	-56.5%	-52.2%	-47.8%	-43.5%	-39.1%	-34.8%	-30.4%	-26.1%	-21.7%	-17.4%
12.0%	-58.3%	-54.2%	-50.0%	-45.8%	-41.7%	-37.5%	-33.3%	-29.2%	-25.0%	-20.8%

Source: Ted C. Jones, PhD Chief Economist

Multifamily Assessed Value

2007
Texas
Apartment
Resales

Years	Percent Change
2007-2008	-1.4%
2007-2008	22.6%
2007-2008	59.4%
2007-2009	-3.2%
2007-2009	8.7%
2007-2009	20.6%



2011 Economic Concerns

- Wall Street—Washington DC—Liquidity
- Jobs – *Stimulus Not Working* **GDP=C+I+G**
- Time Bomb Loans *Now Commercial*
- Cold War II—Terrorists
- Rural Land Bubble
- Inflation (and Cap Rates)--*Recession*
- Energy: US Imports 70+ Percent of Oil
- Real Estate-Autos-Credit Cards-Banks

May 24, 2011

<http://www.uh.edu/irf/>

An Economic and Real Estate Forecast

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