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Once again the eyes of the nation are upon Texas. This time, however, it's not a presidential candidate or the price of gasoline in the spotlight. It's technology. Technology is humming and attracting new residents like bugs to a porch light in the summertime.

The Texas Comptroller's Office sees state employment growing 2.1 percent this year. That is good news after a 1.7 growth rate in 2000. It was 4.3 percent just four years ago.

But while jobs seem to abound, Texans remain cautious. They remember the early 1980s when the boom real estate market went bust. They do not want to be caught off guard again. Experts reassure them that there will not be many surprises in 2001.

Many economists see more moderate economic growth and market activity for the next year or so. If this occurs, Texans will have little room to complain. This annual review of the past year and outlook for the coming year only hits the highlights. For a complete guide to issues and trends relevant to real estate professionals, obtain a copy of the complete report by visiting the Real Estate Center's website at http://recenter.tamu.edu.

The Texas economic engine is slowing gradually. It is likely the state will have its own version of the "soft landing" toward which the Federal Reserve has been piloting the national economy.

Before the soft landing occurs, however, the economy must navigate around some cloudbanks. The comptroller's office forecast predicts construction will play a much smaller role in this year's growth. Ditto for real estate. In fact, the latter is expected to shrink as the expected cyclical downturn takes hold.

Higher interest rates, effects of technology and competition will combine to reduce the number of people in the real estate field. The Internet allows fewer agents to serve a higher volume of sales, and mergers and buy-outs make big companies even bigger. Even if the economy improves on its 2000 growth rate, real estate is expected to lag.

Fastest Growth in Per Capita Personal Income 1988–98

MSA	%
Austin	85.6
Bryan-College Station	77.0
Laredo	75.1
Houston	73.6
Victoria	68.6
Dallas	65.7
Tyler	65.6
San Antonio	63.2
Brownsville	62.7
Corpus Christi	62.0

Source: Bureau of Economic Analysis

Fastest Growth in MLS Home Sales 1999–2000

MLS	Homes Sold 2000*	Annual change (%)
Sherman-Denison	1,051	16
Collin County	9,256	11
Denton County	5,957	11
Brazoria	1,168	10
Paris	495	10
Abilene	1,465	9
Montgomery County	4,567	8
Arlington	4,855	7
Temple-Belton	1,119	7
Dallas	44,925	6

Source: Real Estate Center at Texas A&M University
*projected

Continued overall growth is anything but assured. Many questions remain unanswered. Here is what the experts believe the new year holds.

Housing outlook. If net migration into Texas were to continue at the 1990–1998 rate, the state would have 22.4 million residents by 2005. There were 20 million in 1999. That many Texans would require more than 8.5 million housing units. There are about eight million now.

To accommodate the population growth, production of single-family homes needs to average about 90,000 per year from 2000 through 2005, while 30,000 multifamily units and 36,000 manufactured homes will be needed (per year). These projections represent a reduction from 1999 numbers but are higher than numbers for each of the previous eight years.

Housing markets. More than 500,000 homes were sold through the state's Multiple Listing Services during 1998–2000. The National Association of Realtors estimates total existing home sales were about three times that amount. Estimated sales in 2000 were up 1.2 percent from 1999, despite higher interest rates for much of the year.

For the first time, the median sales price of a Texas home exceeded $100,000 in 1999. It rose another 8 percent in 2000. For home sellers, these have been great years.

Home sales. Slower economic growth could diminish sales for the next several years. This could be truer in regions where economies are dependent on single industries. Even if personal income does not diminish, a flat stock market could mute the "wealth effect" that motivates consumers to buy more houses.

The Conference Board's poll of those who say they plan to buy a home in the next six months peaked in early 1999 and has been going down ever since. As an economic bellwether, new home sales may foreshadow slowing of the resale market.

Less than half of homebuilders replying to a National Association of Home Builders survey reported "good current sales" in early 2000. In late 1998, 80 percent were in that category.

A slower-growing economy could mean fewer people moving into Texas. As a result, housing market volume will be more dependent on existing renters becoming first-time homebuyers. Given the high volume of recent years, however, many willing-and-able-to-buy renters may have already done so.

Single-family housing. Texas builders constructed almost as many homes between 1996 and 2000 as in the previous ten years. Two-thirds of a million single-family homes were authorized in the 1990s. The pace of the last few years cannot be maintained, particularly if interest rates continue to climb or the economy stumbles.

Multifamily housing. The trend in Texas apartment construction has been downward for a number of years. This should stabilize markets for existing properties but indicates that investor interest is down, and developers do not see increased demand in the near future.

Housing affordability. Low interest rates in the late 1990s were a boon to the housing market. Many who never could have afforded to buy when rates were in double digits have done so. In mid-2000, buying moderated as rates rose to their highest level since 1993. The rise in interest rates, however, does not compare to the increase in prices.

The Texas Housing Affordability Index indicates the median-income household can afford the median-priced home with income to spare, if a 20 percent down payment is made. The First-Time Homebuyer Affordability Index is less than 1.00, indicating the median-income renting Texas household cannot afford the median-priced home. In other words, homes are affordable but not as affordable as in the last few years.

Credit markets. The nationwide effort to raise homeownership rates has been successful. However, there is concern over the level of risk being carried by the mortgage industry.

The federal government is going after so-called predatory lenders. Will this lead to a contraction of subprime loan availability? If delinquency and foreclosure rates rise in the wake of slower economic growth, access to easy credit could be diminished, reducing the flow of new homebuyers into the market.

Such a development would be significant for Texas because of the large number of young and minority families who are not yet homeowners. This pool of nonowners represents future home sales if they can access affordable mortgage credit.

Despite these factors, drastically lower home sales are not predicted. That is because conditions for housing markets remain good.

Slower growth is not recession, which occurs when employment shrinks. Most people who want jobs will be able to find them. Most homeowners who can no longer afford their mortgage payments should be able to sell their homes for more than they owe. Slower growth may result in lower interest rates, which will make home loans even more affordable. A tight labor market may lead to higher wages and also boost affordability. Furthermore, home price appreciation may ease somewhat.

***LOW INTEREST RATES** fueled rocketing home sales in the second half of the 1990s, but that pace is expected to slow in 2001.*

Traditionally, recession has followed periods when yields on short-term securities exceed those on long-term securities. Because such inversion occurred in mid-2000, some wonder if recession is ahead.

Some experts argue the "new economy" means old economic relationships do not apply. The current economic boom is not the product of expansive monetary policy or government overspending; therefore, this inversion may have no relation to economic activity.

In many markets, sellers have had their pick from several offers within days of listing a home. In contrast, comments from buyers reflect the frustration buyers feel in strong sellers' market.

Real estate professionals see the market cooling in coming months. That is because factors that fueled recent hot markets — employment growth and affordable and accessible mortgage credit — may not remain as favorable.

Brokerage. Fundamental change is occurring in the real estate brokerage industry. Many homebuyers want market information but do not want to pay for unwanted services. Information is more accessible but less valuable to those who hold it. Such forces are changing the real estate agent's role.

There remains a need for impartial, professional guidance through the transaction process. Firms are discovering new profit opportunities in related fields, such as mortgage lending and insurance. Companies providing referrals are demanding a share of commission income via affinity marketing arrangements.

Commercial real estate. Austin's boom is not just in housing. All types of real estate are benefiting from a prosperous, tech-fueled economy. According to the National Real Estate Index, prices for downtown Austin office buildings exceed $140 per square foot, up from $80 in the early 1990s. Retail space is almost $120 per foot, up from $60 in 1991. Apartments sell for almost $80 per square foot compared to $25 in 1992.

The Index's Market Score rating of investment potential ranks Austin highest among Texas cities. Austin's suburban office market ranks number one nationally for "highest potential return."

Austin is the exception. Other major cities report commercial values have been flat for the last few years. Houston's office sector is doing well, propelled by strong tenant demand, but Dallas-Fort Worth has one of the highest office space vacancy rates in the country. The Federal Deposit Insurance Corporation has warned member banks of potential Metroplex overbuilding.

If markets are peaking, does that portend the type of overbuilding that sent markets crashing in the mid-1980s? Not likely. The overbuilding that does occur likely will be absorbed without much disruption. There appears to be little speculative excess in the markets.

Rural property. Texas land prices continue to rebound, and a prime impetus is the demand for hunting and other recreational uses. Such demand is a byproduct of the increasing number of affluent city-dwellers looking for leisure.

Second or vacation homes are getting a boost from those looking for future retirement home sites. These factors contribute to higher land prices.

__AUSTIN'S OFFICE MARKET__ is booming, while Dallas has one of the highest office vacancy rates in the country.

Land within a one-hour, nonpeak commute to major metropolitan areas is in demand. Buyers desire country-like amenities, but they do not want to forego urban services. This tends to concentrate development in satellite towns within commuting distance of the urban centers.

The following factors will likely have an influence on Texas' economy and thus have an indirect influence on Texas' real estate.

Oil and gas. No longer the linchpin of the state economy, petroleum is still important to many Texas regions. Oil and gas prices started up in late 1999 and ended the state's declining mining employment. Years ago, such increases would have set off a wave of expansion, but not today. A restructured Texas economy that consumes large amounts of energy is as vulnerable to high prices as any other.

Agriculture. Last summer's drought has once again delayed the move to a market-driven system. While old federal farm programs have been dismantled, emergency assistance has kept the government involved in Texas agriculture.

Technology. High-tech manufacturing not only creates jobs, but the jobs it creates pay high wages. Employment in high-tech Texas industries grew from 415,000 to 557,000 during the 1990s, while the sector's contribution to the gross state product rose from $26.9 billion to $64.5 billion.

Each new high-tech job has a significant impact on the service sector because high salaries encourage a higher level of buying. A study by techies.com ranks Austin, Dallas and Houston as the most affordable areas nationally for high-tech workers. While Austin home prices are high, they compare favorably with other markets.

Texas likely will attract more high-tech industry. The question is whether the maturing industry can generate the amount of growth and income seen lately. The recent thinning of the ranks of dot-com companies may be only a preview of what is to come.

Health care. An aging population demands many health care services. How services will be provided is the question. The degree of government involvement in shielding Texans from paying full medical costs adds regulatory and legal uncertainties to an already cloudy industry.

Fastest Growth in Population 1990–99

MSA	1999 Population	Annual change (%)
Laredo	193,180	4.2
McAllen	534,907	3.8
Austin	1,146,050	3.4
Brownsville	329,131	2.6
Dallas	3,280,310	2.3
Brazoria	234,303	2.3
Houston	4,010,969	2.1
Fort Worth	1,629,213	2.0
El Paso	701,908	1.9
San Antonio	1,564,949	1.9

Source: Census Bureau

Retail. Although not often touted as an economic development tool, retail trade is important to many Texas cities serving as regional commerce centers. More Texans work in the retail sector than in government. So far, the fear that e-commerce will siphon significant business from local stores has been unfounded.

International trade. The new political leadership in Mexico is enthusiastically promoting open trade with the United States. To the extent this occurs, both Texas and the border region will benefit.

Air pollution. Texas' largest cities are under mandate to reduce levels of air pollution. The problem is that many pollution sources — such as automobile traffic — cannot be pinpointed geographically. Houston tried automotive emission inspections but declared the system unworkable because it adversely affected the working poor. Final plans are certain to impact major Texas cities.

Water. The drought of the past few years has made water availability a more critical issue than ever before. Future development will necessarily be planned around water resources. Ownership of water in the future will be much like ownership of oil in the past, and this precious commodity will exert a powerful influence on development patterns within the state.

As usual, the more these trends and possibilities are considered, the more questions emerge. Real estate professionals need to monitor the effects these economic factors have on the industry during the new year.

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