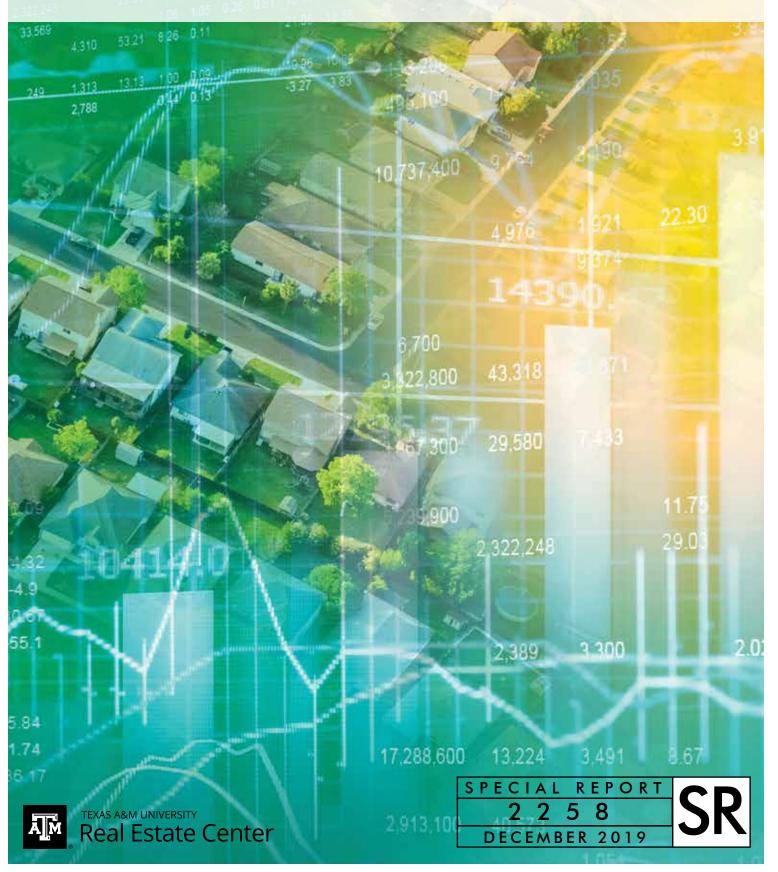
2020 TEXAS HOUSING & ECONOMIC OUTLOOK REAL ESTATE CENTER RESEARCH STAFF



2020 Texas Housing & Economic Outlook

Research Staff



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Less But Solid Growth

The U.S. and Texas economies are expected to slow in 2020 but still register solid positive growth.

In an environment of slow economic growth and well-anchored inflation expectations, the Real Estate Center expects interest rates to remain low with possibly another rate cut by the Federal Reserve of around 25 basis points. The rate cut will depend on whether weaker than anticipated economic growth occurs and/or if the trade disputes continue or escalate.

Last year, the Center predicted a slowdown in the U.S. and Texas employment that will continue through 2020. The labor market should tighten with upward pressure on wage growth.

The border metros will suffer from the U.S. and world manufacturing slowdown and low economic growth in Mexico. World economic growth will remain sluggish, especially if a U.S.-China trade agreement is not resolved.

Headwinds related to trade relations with China and slowing global economic growth will create uncertainty for business investment and hamper economic growth in the process.

Oil and Gas Not Looking Good

Based on the current crude oil price trajectory (in the \$50s per barrel), drilling activity should gradually slow in 2020. For now, investors have little interest in the oil and gas sector. As a result, capital market constraints will hamper drilling expansion.

Growth in oil-and-gas-related employment will be stifled as well. Job losses in mining employment statewide could occur.

Texas Housing Market Continues Expanding

Low mortgage rates and steady employment growth will support ongoing housing demand in 2020, resulting in a greater number of sales and higher prices than in 2019.

On the supply side, increased single-family permits, housing starts, and lot development indicate positive momentum for construction in 2020. Builders are trying to build homes priced from \$150,000–\$350,000.



The strong run-up in single-family home prices over the past few years will reduce affordability given that household incomes are increasing at a lower rate than prices.

Single-Family Forecast	2018 (%)	2019 (%)	2020 (%)	1991-2018 (%)
Texas				
Housing permits	4.6	1.9	10.3	5.4
Sales	2.3	4.2	6.4	4.6
Price per square foot	4.4	4.3	5.2	4.7
Austin				
Housing permits	9.3	9.2	10.4	11.3
Sales	3.0	8.2	9.2	6.1
Price per square foot	4.1	4.5	7.9	6.3
DFW				
Housing permits	3.4	-1.7	8.7	4.7
Sales	-1.4	3.7	4.0	5.0
Price per square foot	5.3	3.2	5.4	4.6
Houston				
Housing permits	2.5	-1.8	8.6	5.8
Sales	3.5	3.4	4.0	3.9
Price per square foot	3.2	3.1	4.8	5.3
San Antonio				
Housing permits	7.5	6.6	10.9	7.9
Sales	3.0	6.4	6.6	6.8
Price per square foot	5.1	5.1	5.0	4.6

Note: Annual numbers represent the 12-month total for single-family sales and housing permits and the average for the price per square foot of the seasonally adjusted data. Price per square foot is nominally estimated from the previous year's average. Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Young Adults Look at Apartments

Texas' apartment markets should continue to perform well in 2020 given the low inventories of starter homes available for purchase by young adults. Millennials, still in their 20s and early 30s, continue to show more interest in leasing than buying. Consequently, vacancies should remain relatively low and rents will continue to increase.

	Vac	ancy Rates	(%)	Effecti	ve Rents (Y-	O-Y %)
Overall Multifamily Forecast	2018	2019	2020	2018	2019	2020
Austin	8.2	7.7	7.6	3.3	4.3	3.8
DFW	8.2	7.9	7.7	3.0	3.5	4.6
Houston	9.7	9.3	9.5	3.7	1.9	2.0
San Antonio	9.4	8.9	8.6	3.1	3.5	3.4

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Real Estate Center at Texas A&M University



	Vac	ancy Rates	(%)	Effectiv	ve Rents (Y-	O-Y %)
Class A Multifamily Forecast	2018	2019	2020	2018	2019	2020
Austin	11.2	10.2	10.6	2.9	4.0	4.2
DFW	13.3	12.3	12.0	1.3	2.4	3.0
Houston	11.1	9.8	10.7	2.9	1.4	3.0
San Antonio	11.9	10.3	10.0	1.8	3.0	3.5

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Real Estate Center at Texas A&M University

Commercial Looks Good in Texas (with Some Caveats)

Texas industrial markets have been quite strong in recent years. However, uncertainty over U.S.-China trade negotiations could negatively impact the market in 2020 if there is no resolution or if the trade war escalates.

The retail sector should continue to perform well in 2020 with muted new construction combined with solid consumer spending.

Austin, DFW, and San Antonio office markets will continue strong. Houston, however, faces challenges with flat oil and gas activity, lingering negative effects from the 2014 oil bust, and aggressive levels of new construction.

Overall, the Center expects slower rent growth in non-residential commercial real estate in 2020.

	Vac	ancy Rates	(%)	Askin	g Rents (Y-C	O-Y %)
Austin CRE	2018	2019	2020	2018	2019	2020
Office	9.4	9.8	10.5	2.0	3.2	2.6
Office Class A	9.7	10.2	10.7	1.9	2.3	2.8
Retail	4.1	4.4	4.5	3.7	0.6	1.0
Warehouse	6.0	7.2	7.2	2.1	2.5	1.5

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Real Estate Center at Texas A&M University



	Vac	ancy Rates	(%)	Askin	g Rents (Y-C	D-Y %)
DFW CRE	2018	2019	2020	2018	2019	2020
Office	17.7	17.9	17.9	2.5	2.0	1.8
Office Class A	21.0	20.7	20.2	1.7	1.7	2.3
Retail	5.5	5.5	5.6	3.2	-0.1	-0.5
Warehouse	7.7	7.8	7.7	4.0	7.0	3.2

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Real Estate Center at Texas A&M University

	Vacancy Rates (%)			Askin	g Rents (Y-C	D-Y %)
Houston CRE	2018	2019	2020	2018	2019	2020
Office	19.9	19.9	20.2	2.6	2.6	1.0
Office Class A	23.8	22.8	23.0	1.6	3.1	1.0
Retail	6.0	5.9	5.8	3.4	4.7	3.0
Warehouse	6.7	8.2	8.4	4.0	3.0	1.4

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Real Estate Center at Texas A&M University

	Vacancy Rates (%)			Askin	g Rents (Y-C	O-Y %)
San Antonio CRE	2018	2019	2020	2018	2019	2020
Office	11.4	11.7	11.8	2.7	2.7	2.1
Office Class A	14.4	13.4	13.6	3.7	2.3	2.1
Retail	4.6	5.3	5.4	4.8	2.2	2.4
Warehouse	6.6	7.2	7.4	-1.2	1.0	1.5

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Real Estate Center at Texas A&M University

Rural Land Prices Up, Sales Down

Based on current trends, the Center expects:

- Overall land prices to increase 0.5 percent in 2020.
- The number of sales to drop 6.7 percent.
- Total dollar sales volume to drop 6.2 percent.

Activity may vary by region.





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