

2023

Texas Economic Forecast



Research Staff



TEXAS A&M UNIVERSITY

Texas Real Estate Research Center

TECHNICAL REPORT

2 3 7 0

DECEMBER 2022

TR

2023 Texas Economic Forecast

Research Staff



December 2022

© 2022, Texas Real Estate Research Center. All rights reserved.

2023 Texas Economic Forecast

Economic forecasts are tricky, what with so many state, national, and global variables at play (to say nothing about how a devastating weather event such as a hurricane or winter storm can reshuffle the deck mid-year). But using their collective understanding of current economic and market conditions and by looking at past market trends, the Texas Real Estate Research Center's (TRERC) research team has made some educated guesses for 2023.

A few known risks in the near term may impact this forecast, and exactly how these scenarios play out will shift TRERC's expectations. The direction and intensity of the following national and international factors will have a large influence on the Texas economy:

- China's zero-COVID policy and responses to ongoing public protests, which are hampering the global economy.
- Russia's war against Ukraine, which has disrupted the global grain and energy markets, increasing instability across the globe.
- Europe's energy situation (related to Russia's war), which is especially dire and could worsen depending on the severity of winter.
- The outcome of the Federal Reserve's attempts to control inflation through higher interest rates.

With that in mind, here is TRERC's forecast for 2023, given current conditions.

General Economy

- Inflation will likely stay elevated through 2023.
 - The Federal Reserve continues raising interest rates to attempt to rein in inflation. Even if successful, that success will not likely be reflected immediately and completely.
 - If a recession occurs, consumer prices would fall faster than otherwise due to a lack of consumer demand related to a loss in consumer income.
 - Inflation could be pushed higher if supply constraints from China and Europe increase or if volatile energy prices are higher than expected.
- Employment growth will moderate.
 - Employment has increased over the last 18 months because of the recovery from COVID shutdowns.
 - Texas has now more than recovered jobs lost during COVID and has returned to the long-term trend line of employment. Going forward, the state is expected to return to the longer-term trend rate of growth.

Housing

- The mortgage interest rate's annual average will likely be higher in 2023 than it was in 2022.
 - The recent increase in mortgage interest rates has been in response to both high levels of inflation and increases in interest rates from the Federal Reserve to combat inflation.
 - Interest rates will largely follow a similar path as inflation with similar forecast risk factors.
- Existing single-family rent and price growth will moderate with the potential to turn negative on a year-over-year basis.
 - The rapid pace of rent and purchase price appreciation over the last two years was never sustainable and would have been forecast to slow even in the absence of other headwinds.
- Home price growth was largely supported by the fall in interest rates from 2019 through 2021. An increase in the 30-year mortgage interest rate to 7 percent from the January 2021 low of 2.65 percent decreases the purchasing power of principle and interest payments by 40 percent. The same increase to 7 percent from January 2020's 3.65 percent represents a 30 percent loss of purchasing power.
- Texas builders and developers have faced similar supply constraints as the rest of the economy over the last few years. This has led to a backlog of under-construction homes that will continue to come to market.
- Existing-home sales will likely be lower in 2023 than they were in 2022. Elevated mortgage rates combined with elevated asking prices will slow sales even as price growth moderates.

Commercial Real Estate

- Industrial deliveries will pull back from 2022's record highs while vacancies remain low.
 - Tighter credit and slower consumer demand will shelve plans for many speculative distribution buildings on the drawing board.
 - Reshoring, foreign direct investment moves to establish footprints in the U.S., and regional population growth will drive continued manufacturing projects in Texas.
- The office market will further segment as newer buildings maintain occupancy and older buildings lower rent to attract tenants.
 - A new segmentation in Texas office markets will become pronounced in 2023. The newest Class A buildings and properties built in the last decade will enjoy high occupation rates even as firms stick with hybrid work policies.



- Vacancies will increase in older buildings, even those that would have been considered Class A before the pandemic. Many Class B buildings could see a freefall in occupancy.
- Many older properties will drop in value as a result of market forces. Refinancing deadlines will see creditors and debtors renegotiate deals.
- Major rental rate drops are in line for many second-tier buildings to attract some tenant interest and generate at least some cash flow.
- Occupancy and rents will stabilize some in brick-and-mortar retail.
- The booming online sales growth rates of the pandemic will fall back to the merely fast double-digit growth seen before.
- However, brick-and-mortar retail may not see much recovery if households pull back in the face of actual or expected income losses.
- Restaurants and “experience” submarkets with walkable synergies will continue to do better than some big-box mega centers.
- Expect to see more life in the best traditional indoor malls as people restore long-neglected social habits.

Rural Land

- 2023 will have fewer rural land transactions than 2022.
 - Rising interest rates will continue to lower demand.
 - A recession would place further downward pressure on transactions.
- Prices for lower-quality land will fall, while prices for high-quality properties will remain steadier.

Oil and Gas

- Oil will likely average between \$80 and \$100 per barrel.
- The global response to Russia's war on Ukraine will play a large role in the path oil takes as well as any decision by OPEC.
- A recession would place downward pressure on prices.





TEXAS A&M UNIVERSITY

Texas Real Estate Research Center

DIVISION OF ACADEMIC AND STRATEGIC COLLABORATIONS

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

EXECUTIVE DIRECTOR

GARY W. MALER

ADVISORY COMMITTEE

DOUG JENNINGS, CHAIRMAN Fort Worth	DOUG FOSTER, VICE CHAIRMAN Lockhart
TROY ALLEY, JR. DeSoto	BESA MARTIN Boerne
RUSSELL CAIN Port Lavaca	TED NELSON Houston
VICKI FULLERTON The Woodlands	BECKY VAJDAK Temple
PATRICK GEDDES Dallas	BARBARA RUSSELL, EX-OFFICIO Denton



LinkedIn
[linkedin.com/company/recentertx](https://www.linkedin.com/company/recentertx)



Instagram
[instagram.com/recentertx](https://www.instagram.com/recentertx)



YouTube
[youtube.com/@recentertx](https://www.youtube.com/@recentertx)



Facebook
[facebook.com/recentertx](https://www.facebook.com/recentertx)



Twitter
[twitter.com/recentertx](https://www.twitter.com/recentertx)