2015 Real Estate Trends

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Denton CAD
About Me

- Denton CAD – (2002 – Present)
- UNT – BBA Finance
- UNT – MPA Public Finance
- TAAD/TAAO Instructor
- Adjunct Professor Real Estate -UNT
- Licensed Texas Real Estate Broker
- Married to Angie - 9 yrs
- Three Children— John David (6), Marcus Jr. (4), Emily (2)
Overview

• Big Picture Stuff
• State/Regional Stuff
• Metroplex Stuff
  – Residential
  – Retail
  – Office
  – Industrial
• Things to Watch For
Big Picture

Consumer Confidence @ Highest Since ‘07-’08

Conference Board Consumer Confidence Index
Recessions Highlighted in Gray, Real GDP Shown Below

Index Value: 1985 = 100

Regression

GDP

“Alex from Target”
Big Picture

Stock Markets Up Nearly 30% from 2007 Peaks
Up 200-300% from 2009 Lows
Big Picture

Mortgage Rates Still At All Time Lows
How Low Can You Go??
What About Negative Interest Rates??

Average 30 Year Fixed Mortgage Rates
Mortgage News Daily, MBA, and Freddie Mac

<table>
<thead>
<tr>
<th>Zoom</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>YTD</th>
<th>1y</th>
<th>5y</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>From</td>
<td>Feb 28, 2004</td>
<td>To</td>
<td>Feb 19, 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Graph showing the trend of average 30-year fixed mortgage rates from 2006 to 2014.
The backwards world of negative rates:

• Pay a fee to hold $ in your savings account
• Get Paid to Borrow
• Banks actually come out ahead if you don’t pay
• What a deal!!
Big Picture

Unemployment Continues to Decline Nationally
Lowest Since 2008
Big Picture

• Possible Headwinds....
  – Potential for Deflation
  – Interest rates already near 0%
  – Economic Data At or Above Previous Peaks
  – Some indicators showing signs of divergence
Now It's Time To Think About What Will Happen When Companies Stop Buying Back So Much Stock...

Ultimately, stock prices are determined by...
Opinion: He called $50 oil, now he says it’s going lower
Published: Jan 27, 2015 7:00 AM ET

If oil drops below $30 a barrel, brace for a global recession
Published: Jan 22, 2015 6:33 p.m. ET
U.S. Producers Ready New Oil Wave

Even as crude plummets, energy firms are waiting to unleash more supply, capping any price gains.

Strategic Drilling
Capital spending by energy companies and the U.S. rig count have fallen...

Capex for biggest U.S. shale firms

2014 $129.7B
2015 expected $78.1B ▼40%

...but U.S. production remains robust, thanks to a focus on the best fields, keeping prices down.

Daily oil production
10 million barrels

2010 | 11 | 12 | 13 | 14 | 15

9 | 8 | 7 | 6 | 5

9.4M barrels

Sources: the companies (capex); Baker Hughes (rigs); Energy Information Administration (production); SIX Financial Information (price)
Manufacturing showing signs of sputtering

ISM manufacturing index
Reading above 50 indicates expansion in manufacturing activity

Source: Institute for Supply Management via FRED
State/Regional

How the rest of the world sees us:
State/Regional

The Dallas Morning News

Biz Beat Blog
Texas led the nation in job creation in 2014

Business > Biz Beat Blog

About This Blog
Daily breaking news alerts from the Business

Residential Real Estate
Analysts split over whether oil plunge will hammer Texas’ housing market

Trending
Downtown Dallas’ Chase Tower to get first makeover since 1980s
New management hopes to revitalize Cedar Hill’s Uptown Village
Richardson is getting massive development and does it to State
New report: Texas home prices overvalued, “may be unsustainable”

North Texas home price history
Median sales prices of preowned single-family homes sold by real estate agents through their multiple listing services:

(Monthly)

<table>
<thead>
<tr>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$225,000</td>
</tr>
<tr>
<td>$200,000</td>
</tr>
<tr>
<td>$175,000</td>
</tr>
<tr>
<td>$150,000</td>
</tr>
<tr>
<td>$125,000</td>
</tr>
</tbody>
</table>

November: $189,950

SOURCE: Real Estate Center at Texas A&M University

Staff Graphic
State/Regional

- Over 1,000 people a day are moving to Texas
  - Lower cost of living
  - (Relatively) Cheap Land
  - Lots of jobs
  - Fleeing states like CA, NY
State/Regional

So, what’s the impact??

- Increased Demand for Housing
- Increased Construction
- Increased Labor Costs for Construction
- Increased Existing Home Prices
- Increased Traffic/Congestion
- Increased Prison Population
- Etc...

“YOU MAY ALL GO TO HELL AND I WILL GO TO TEXAS”

Davy Crockett
For $82 a Day, Booking a Cell in a 5-Star Jail

SANTA ANA, Calif., April 25 — Anyone convicted of a crime knows a debt to society often must be paid in jail. But a slice of Californians willing to supplement that debt with cash (no personal checks,
DALLAS 2015 EARTHQUAKE

WE WILL REBUILD!
Metroplex Residential Market
Metroplex
Residential Market

- Values up 5-25% in many areas (NTREIS)
- Many Areas Seeing Double-Digit Increases in Value (NTREIS)
- New Home Construction is On Fire
- Many houses selling in “hours”
- Multiple Offers and Bidding Wars are common
- “Hip Pocket” and “Off Market” sales becoming common
- Sellers receiving Offers “Substantially Over List Price”
- Pre-Owned Inventory at all time low (2.6 Months)

Source: NTREIS
Metroplex
Residential Market

• Housing Affordability Declining – Nearing ‘08 Levels
• Sellers can’t replace what they have and keep the same payment – Don’t Sell!
• Home equity rising rapidly for most homeowners – Feelin’ Good!
• Potential for rising interest rates in near future – Affordability will decline more
• Will “Real” wages Increase? Decrease?
Metroplex

Months Supply of Inventory

The inventory of homes for sale at the end of a given month, divided by the average monthly pending sales from the last 12 months.

<table>
<thead>
<tr>
<th>Month</th>
<th>Prior Year</th>
<th>Current Year</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>4.1</td>
<td>3.2</td>
<td>-21.8%</td>
</tr>
<tr>
<td>March</td>
<td>4.1</td>
<td>3.3</td>
<td>-19.9%</td>
</tr>
<tr>
<td>April</td>
<td>4.1</td>
<td>3.4</td>
<td>-17.1%</td>
</tr>
<tr>
<td>May</td>
<td>4.1</td>
<td>3.6</td>
<td>-14.4%</td>
</tr>
<tr>
<td>June</td>
<td>4.1</td>
<td>3.6</td>
<td>-12.6%</td>
</tr>
<tr>
<td>July</td>
<td>4.2</td>
<td>3.8</td>
<td>-9.2%</td>
</tr>
<tr>
<td>August</td>
<td>4.1</td>
<td>3.9</td>
<td>-5.8%</td>
</tr>
<tr>
<td>September</td>
<td>4.0</td>
<td>3.6</td>
<td>-9.6%</td>
</tr>
<tr>
<td>October</td>
<td>3.9</td>
<td>3.3</td>
<td>-14.2%</td>
</tr>
<tr>
<td>November</td>
<td>3.6</td>
<td>3.0</td>
<td>-16.3%</td>
</tr>
<tr>
<td>December</td>
<td>3.2</td>
<td>2.5</td>
<td>-20.7%</td>
</tr>
<tr>
<td>January</td>
<td>3.2</td>
<td>2.6</td>
<td>-20.3%</td>
</tr>
<tr>
<td>12-Month Avg</td>
<td>3.9</td>
<td>3.3</td>
<td>-14.9%</td>
</tr>
</tbody>
</table>

Historical Months Supply of Inventory
Residential Hot Spots – New Growth
Residential Hot Spots – Value Growth
Metroplex Retail Market
Metroplex - Retail Market

• Rooftops drive demand for Retail
• Large Population Influx
• California Dreamin’ …
  – Lower Cost of housing = Discretionary Income
  – Discretionary Income = Retail Dreamland
  – See Frisco, Trophy Club, McKinney, Plano, Flower Mound..
• “Urbanized Suburbia”
  – New residents are accustomed to urban environments and seek urban lifestyle in suburbs
  – Retail will find a way to accommodate Urban customer base
Metroplex - Retail Market

• Big Box vs The Internet – Who’s Gonna Win?
• Walmart – The Beast!
• Traditional Shopping Malls are Dying
• Power Centers... Meh..
Why Drones Won't Work In Texas
AMAZON DELIVERY DRONES

SKEET SHOOTING WITH PRIZES
How do People Really Feel?
Metroplex - Retail Market

Key Market Indicators – All Retail

- **Vacancy**: Down 7%
  - 7.2% -> 6.7%
  - Trending to 6.5% Vac

- **Rental Rates**: Up 2%
  - $13.82 -> $14.11
  - Trending to $15.00

- **CAP Rates**: Down 10%
  - 7.75% -> 7.0%
  - Trending to 6.75%

**Translation**: Retail Values Up 10-15%

Source: CoStar Group
Metroplex - Office Market
Metroplex – Office Market

- Growing/New Companies Driving Demand for Office
- Many New Startups and Relocations to DFW
- Mega HQ/Complexes (State Farm, Toyota, Chase)
- Consolidation of Multi-Branch Operations
- Data/Tech Centers
Metroplex – Office Market

• Lots of New Construction
• Vacancy Still Declining
• Medical Office Space in High Demand
• Medical Groups Forming/Consolidating
Metroplex – Office Market

Working @Home vs Going In
  • Accountability & Productivity vs Job Satisfaction
Metroplex – Office Market

Hot Spots – New Office
Metroplex – Office Market

Key Market Indicators – All Office

Vacancy

Down 5%
15.1% -> 14.3%
Trending to 14% Vac

Rental Rates

Up 2%
$20.90 -> $21.62
Trending to $22.00

CAP Rates

Down 3%
9.6% -> 9.3%
Trending to 9.0%

Translation: Office Values Up 6-8%

Source: CoStar Group
Metroplex – Industrial Market
Metroplex – Industrial Market

• Major Intermodal Hubs Continuing to Develop
• Storing goods waiting for the next truck/train takes space
  • E-Commerce is booming!

• Multiple 500k-1M sqft Facilities Ready or Under Construction Now
• Over 17 Million total sqft Under Construction Now
• 7 Million Sqft New Space Completed in Q4 - 2014
Metroplex – Industrial Market

• More Companies will Look at Large Distribution Centers
  • Cost Savings, Inventory Control, Transit Time Reductions
  • Just In Time Delivery Concept Reduces Retail Sqft Needs
• Walmart – The Beast!
### Metroplex – Industrial Market

- Examples of Shifting Retail Concepts

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Old Concept</th>
<th>New Concept</th>
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<tbody>
<tr>
<td>Best Buy</td>
<td>38,500</td>
<td>2,000</td>
</tr>
<tr>
<td>Office Depot</td>
<td>24,500</td>
<td>5,000</td>
</tr>
<tr>
<td>WalMart SuperCenter</td>
<td>207,000</td>
<td>100-185k</td>
</tr>
<tr>
<td>Sports Authority</td>
<td>40,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Old Navy</td>
<td>25,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>
Metroplex – Industrial Market

Hot Spots – New Industrial
Metroplex – Industrial Market

Key Market Indicators – All Industrial

- **Vacancy**: Down 8%**
  - 7.3% -> 6.7%**
  - Trending to 7.0% Vac

- **Rental Rates**: Up 4%
  - $5.14 -> $5.34
  - Trending to $5.50

- **CAP Rates**: Down 2%
  - 8.9% -> 8.7%
  - Trending to 7.75%

Translation: Industrial Values Up 5-7%

**Adjusted for 5mm sqft of speculative inventory delivered Q4
Recap..

- **Residential**: Up 8-15% *Caps @ 10%
- **Office**: Up 6-8%
- **Retail**: Up 10-15%
- **Industrial**: Up 5-7%
Recap...
Things To Watch For...
Things To Watch For...

• Interest Rates/Inflation/Deflation
• Stock Market & Response to Shift
• Oil Prices & Fallout From Decline
• “Global Events”
• Continued Evolution in Retail Concepts
• Speculative Building Patterns