

# **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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## US Employment

## Houston MSA

**November**

**November**

**Year      Millions**

**Year      Million**

**2000**

**132.4**

**2000**

**2.275**

**2010**

**130.5**

**2010**

**2.518**

**1.81 Million Fewer Jobs**

**243,000 New Jobs**

**-1.37 Percent**

**+10.7 Percent**

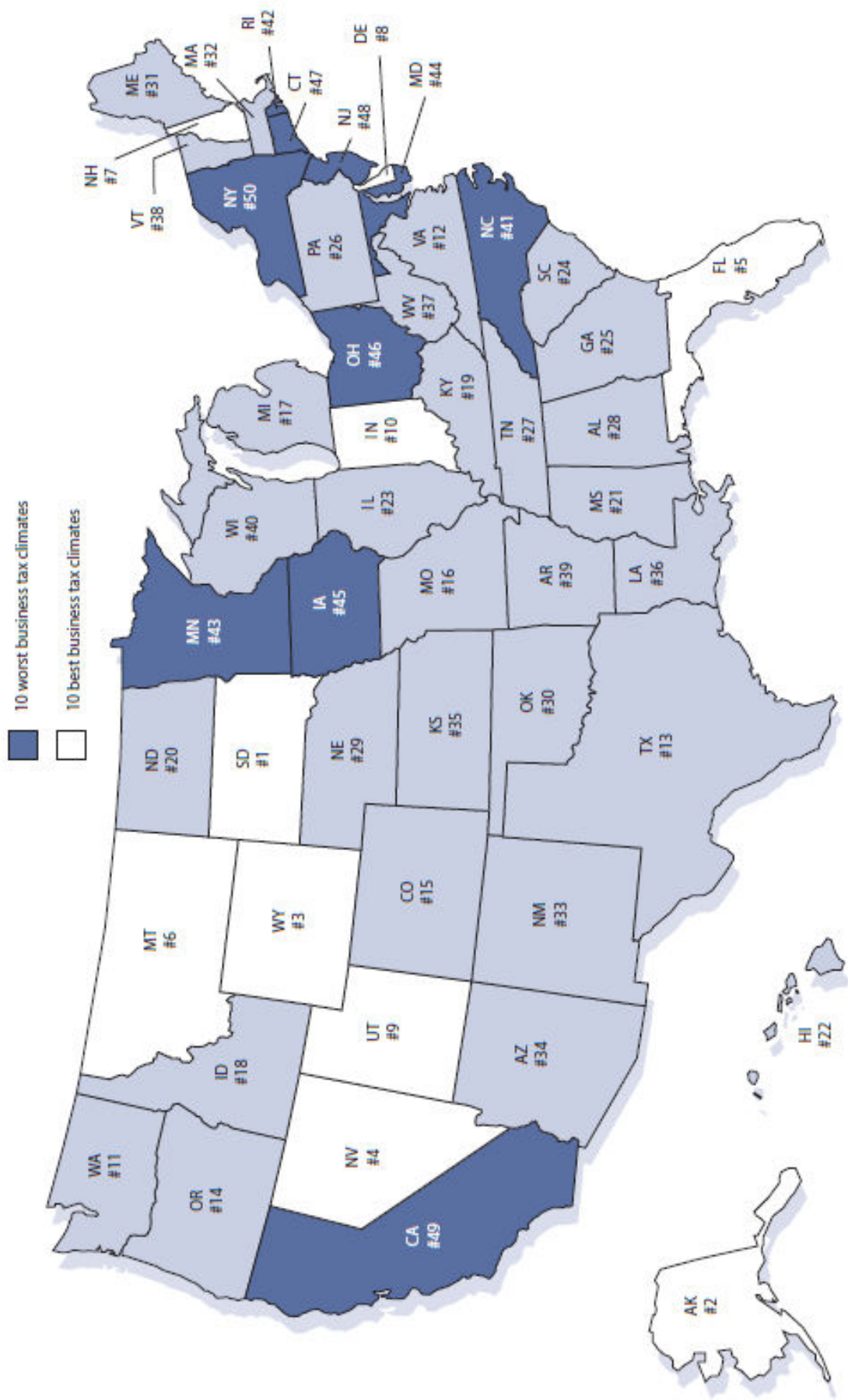
**10 Years at 100,000 Per Month**

**= 12 Million Needed Jobs**

# TEXAS – 13th Best Business Tax Environment

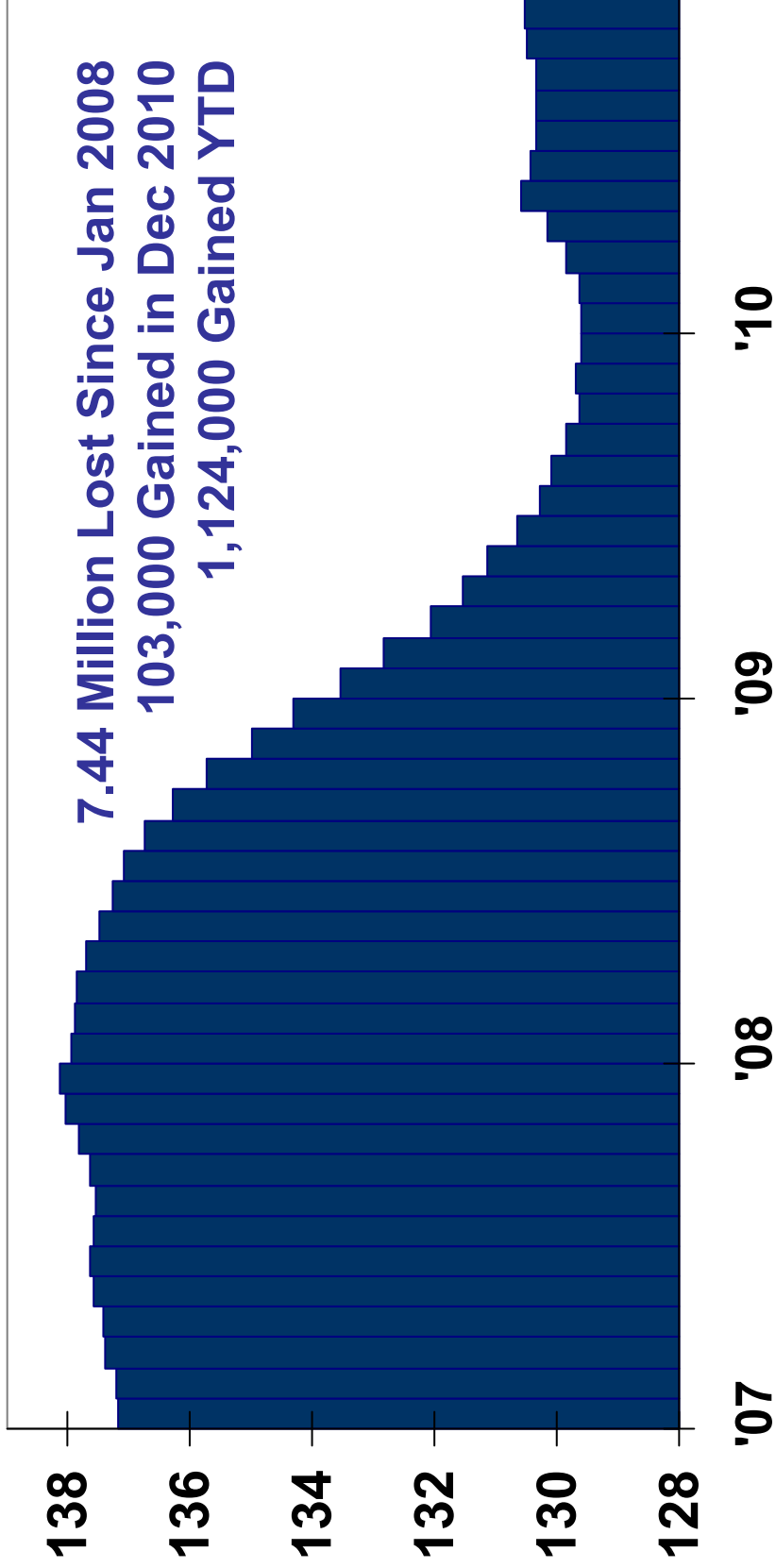
*State Business Tax Climate Index, Fiscal Year 2011*

<http://taxfoundation.org/files/bp60.pdf>



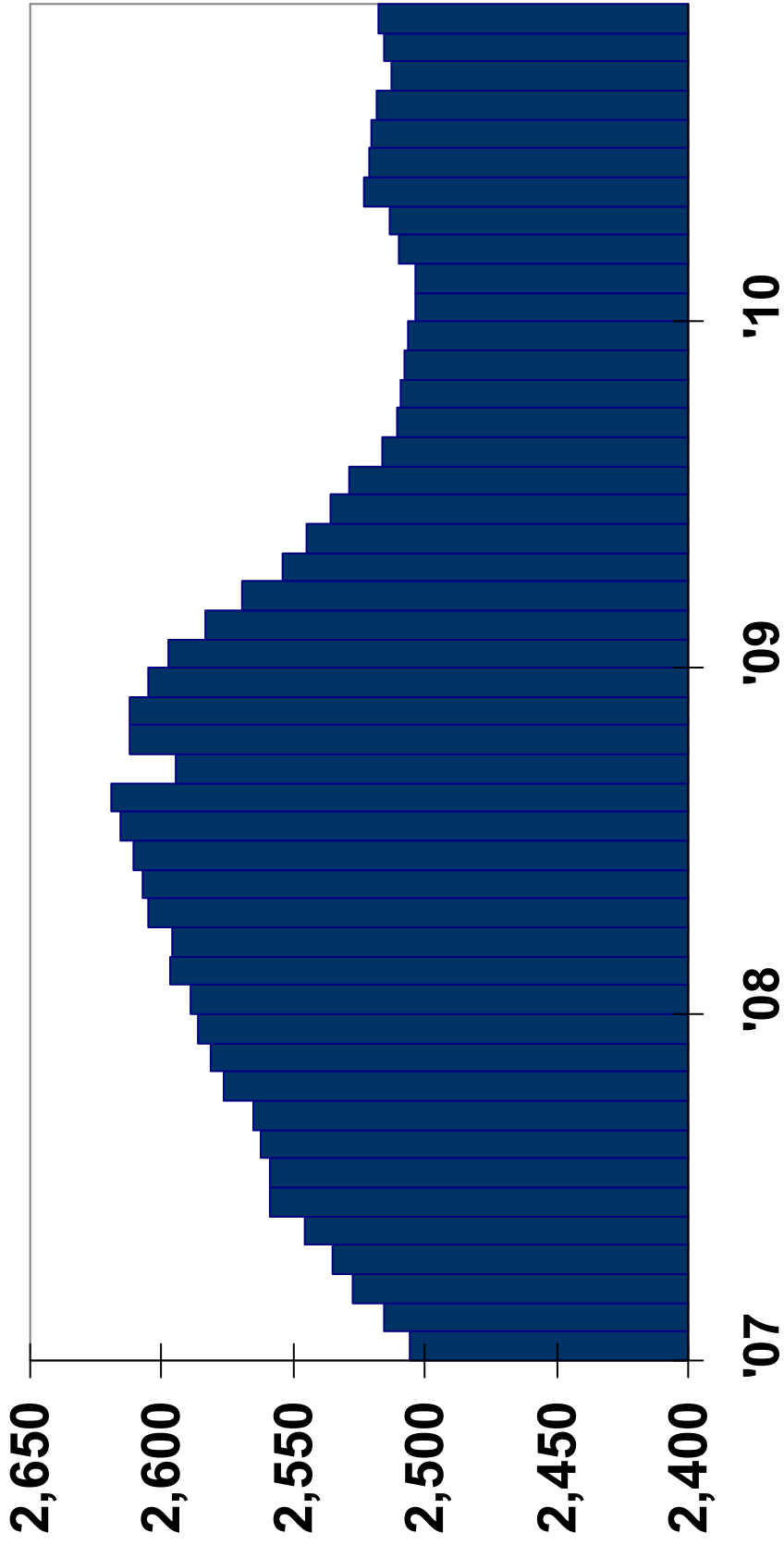
# U.S. Job Numbers

Jobs (Millions) Seasonally Adjusted



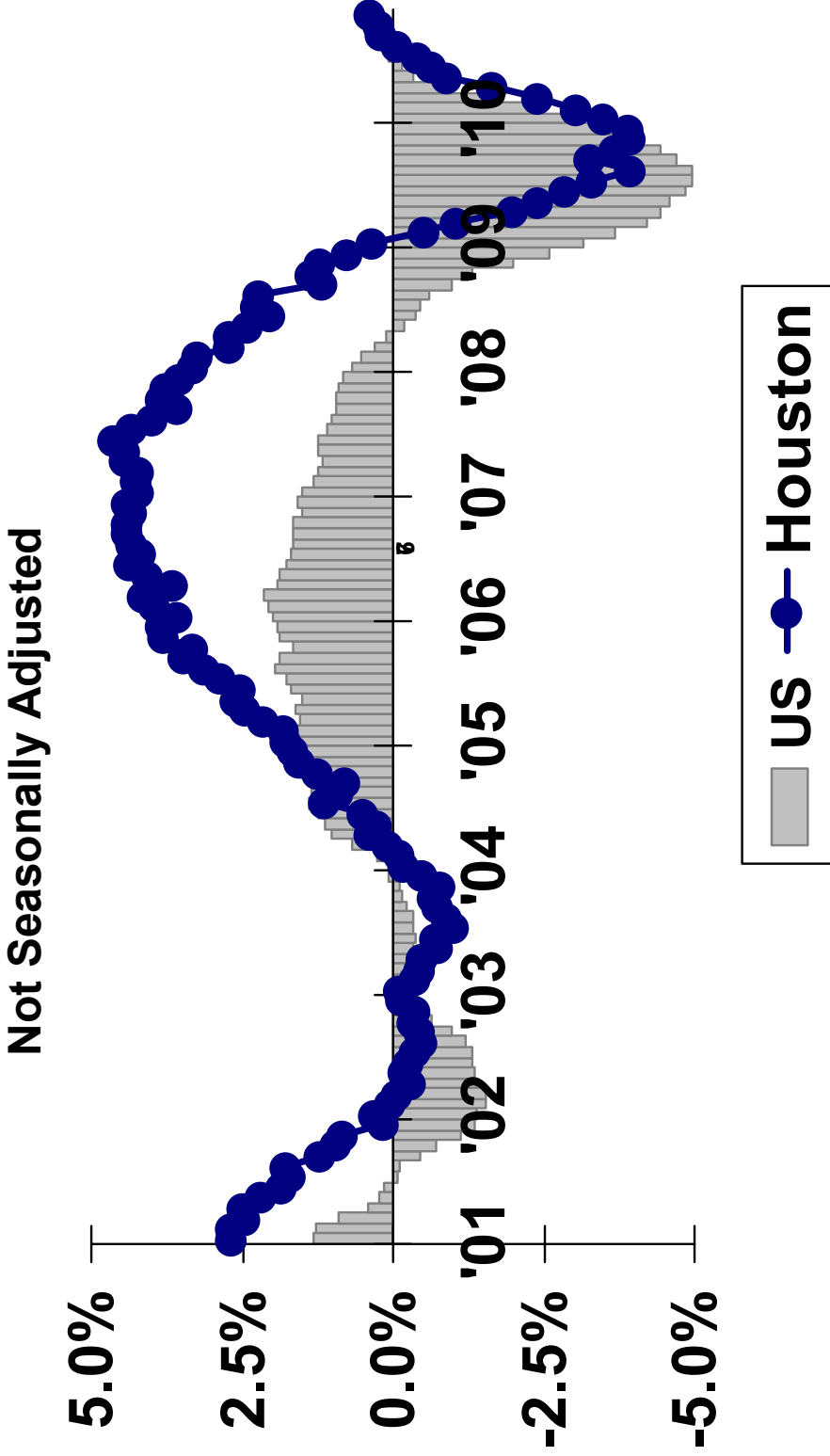
# Houston MSA Jobs

Jobs (Thousands) Seasonally Adjusted



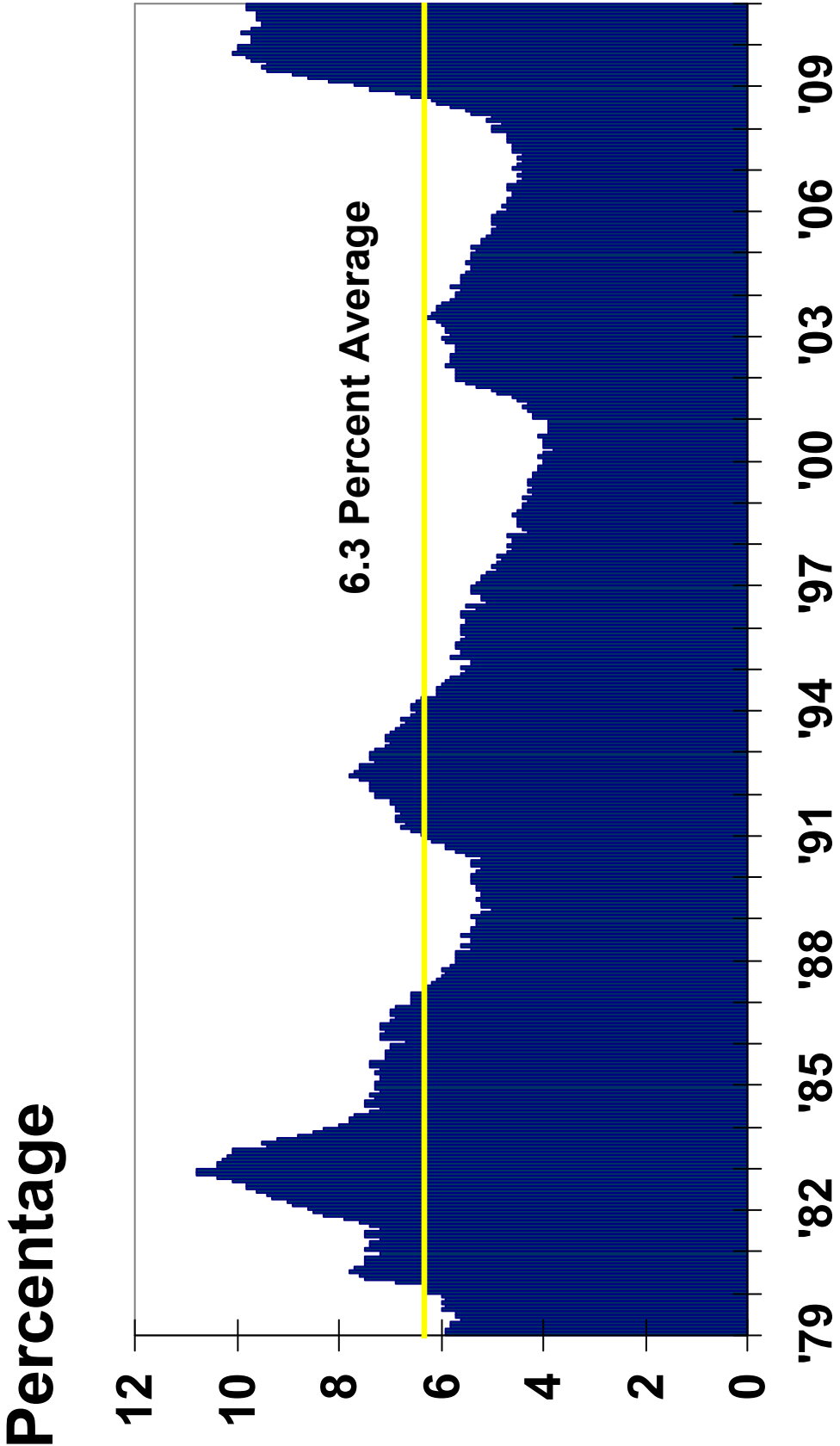
# Houston MSA Jobs

Percent Change from Same Month Prior Year

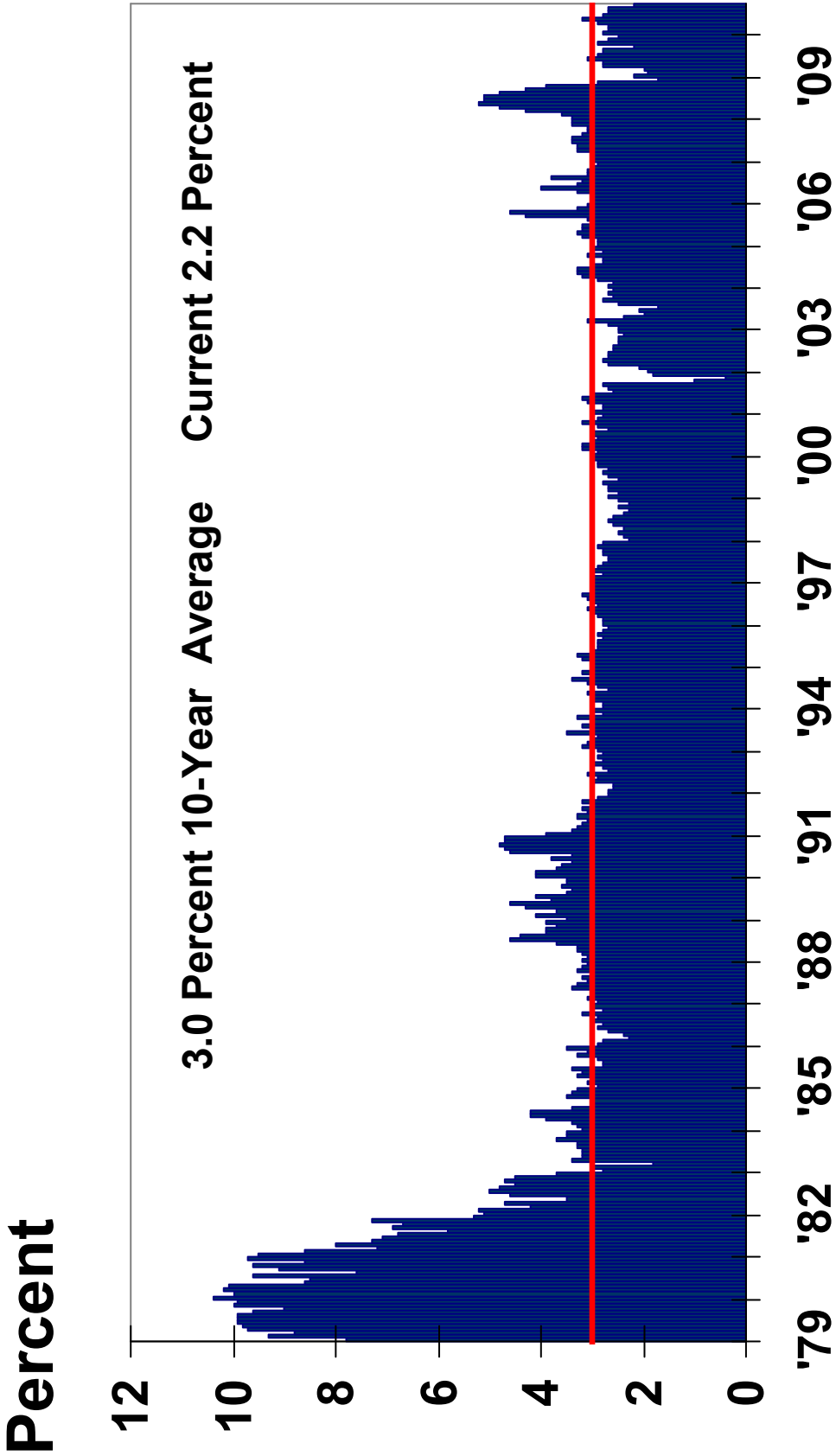


9,500 Net New Jobs in the Past 12 Months

# U.S. Unemployment Rate

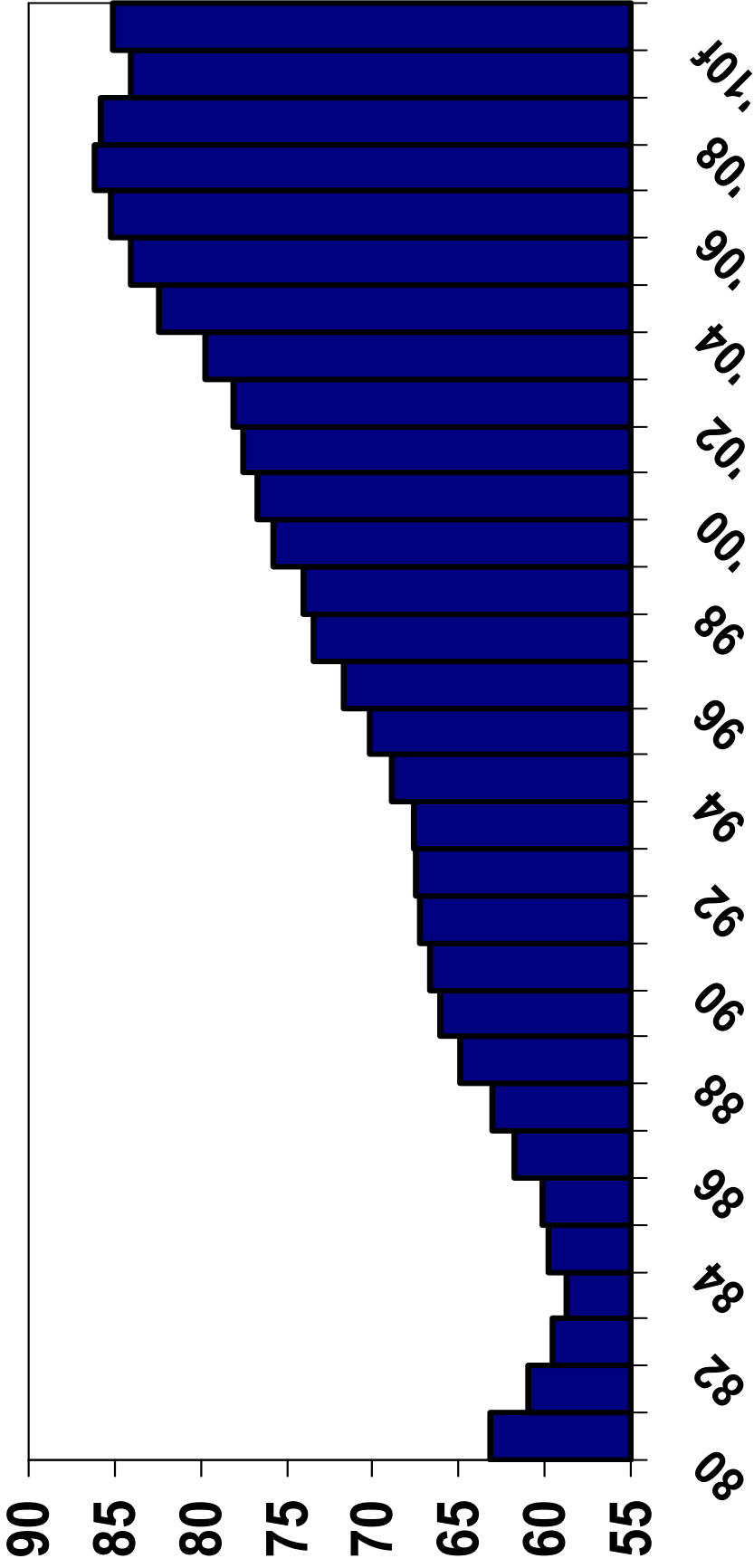


# Inflation Expectations



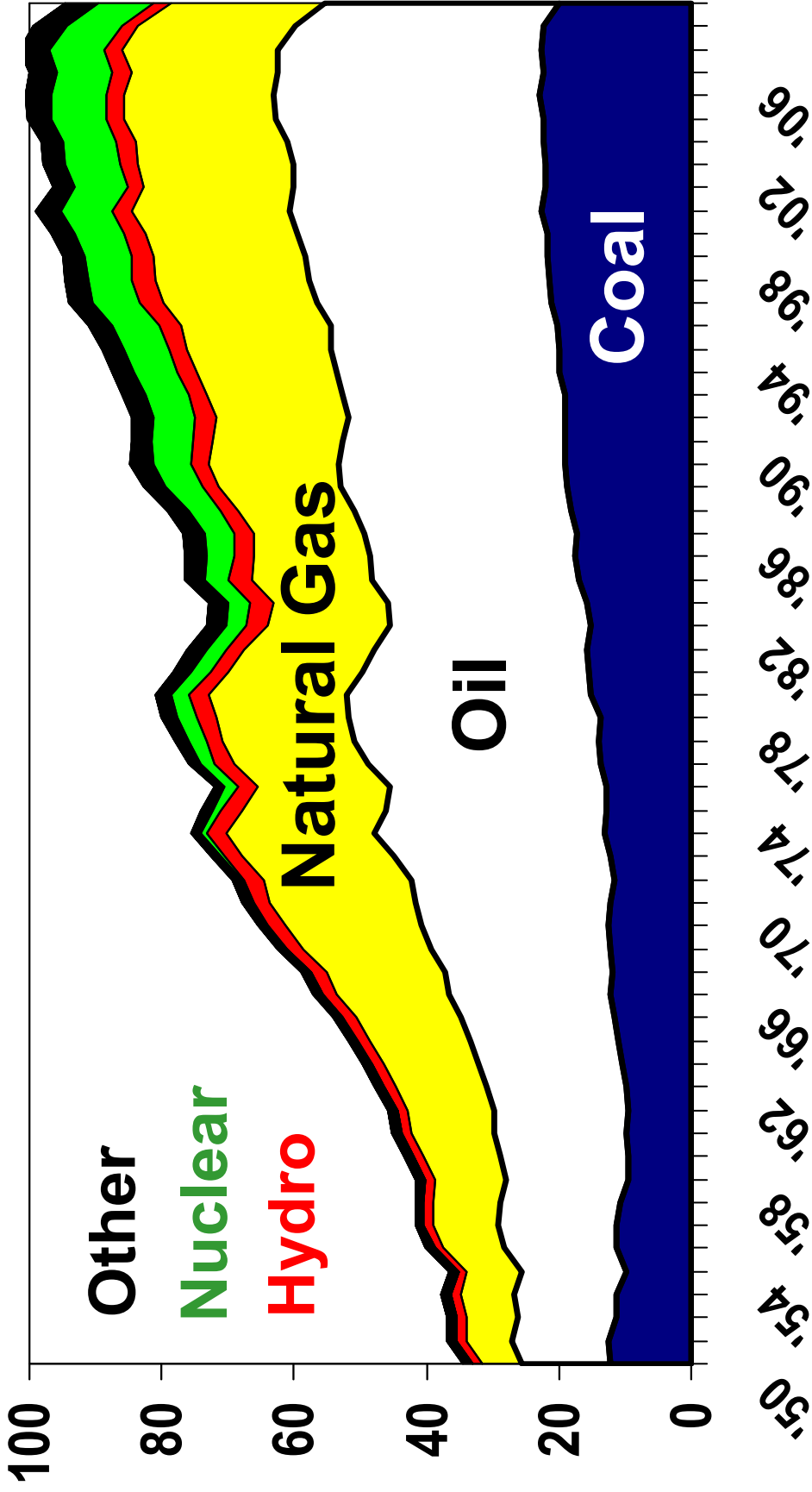
# Average Daily Global Oil Consumption

Millions of Barrels Per Day



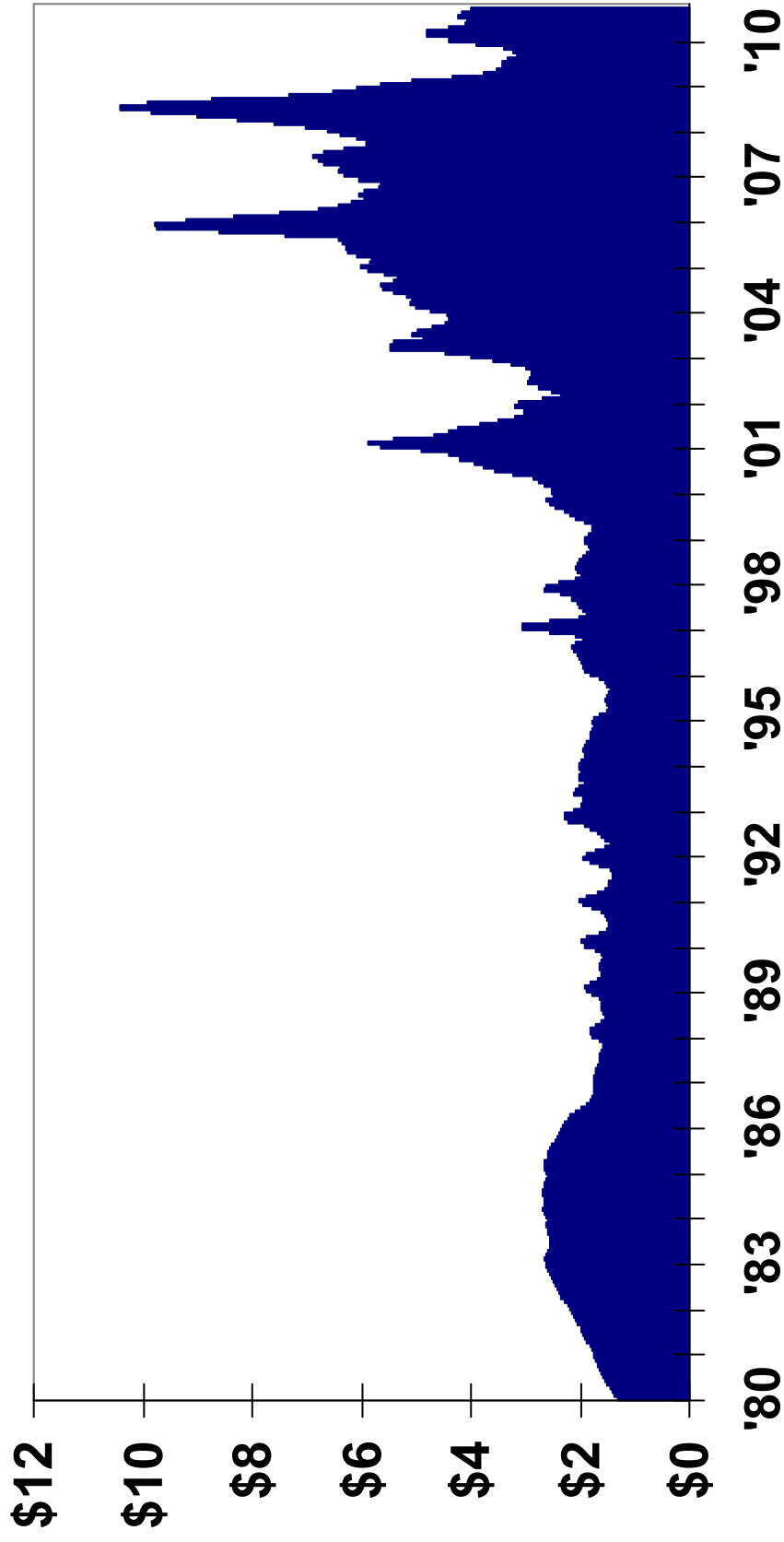
# US Energy Consumption

Consumption – Quadrillion BTUs

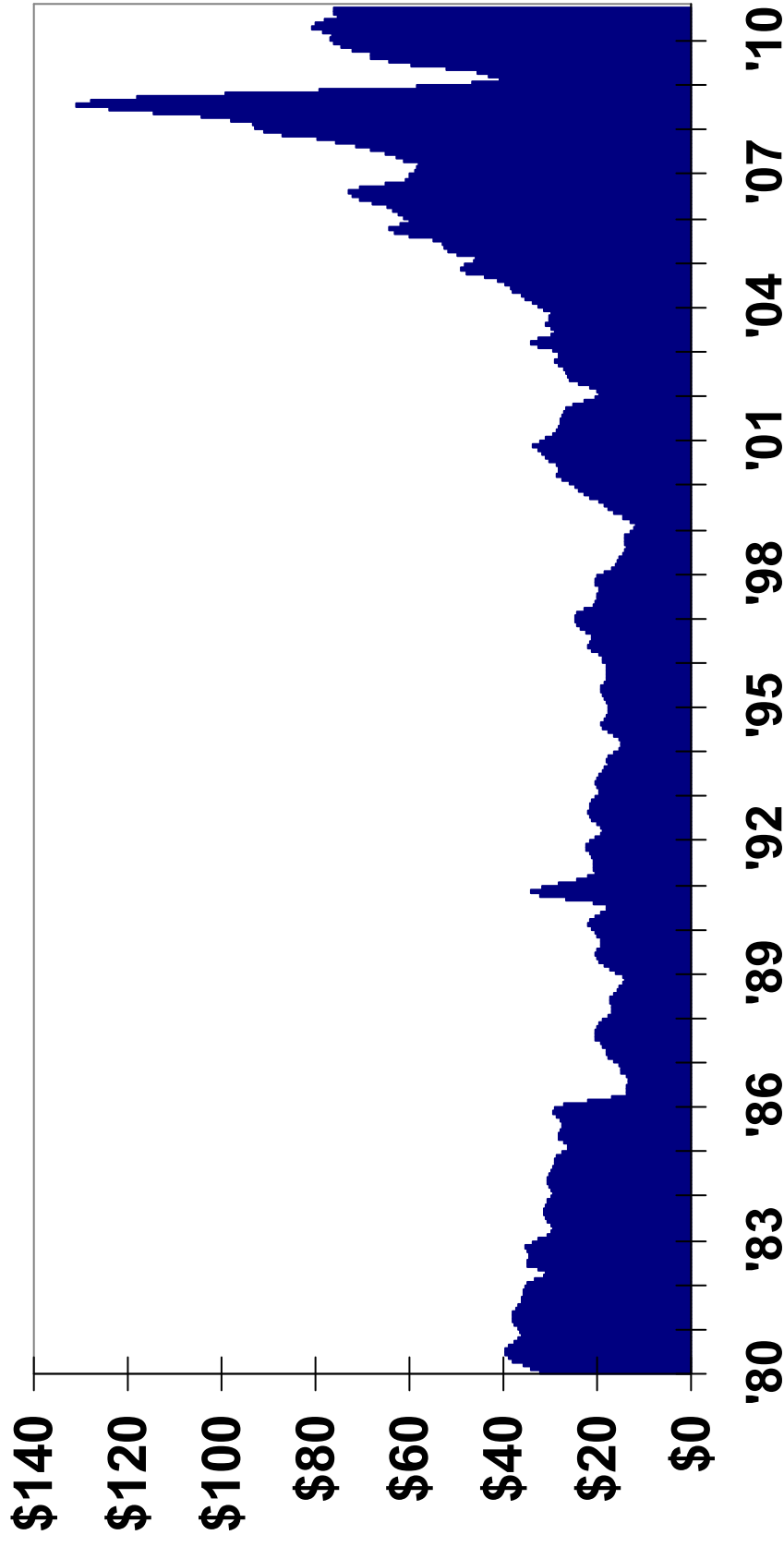


# Well Head Natural Gas Price

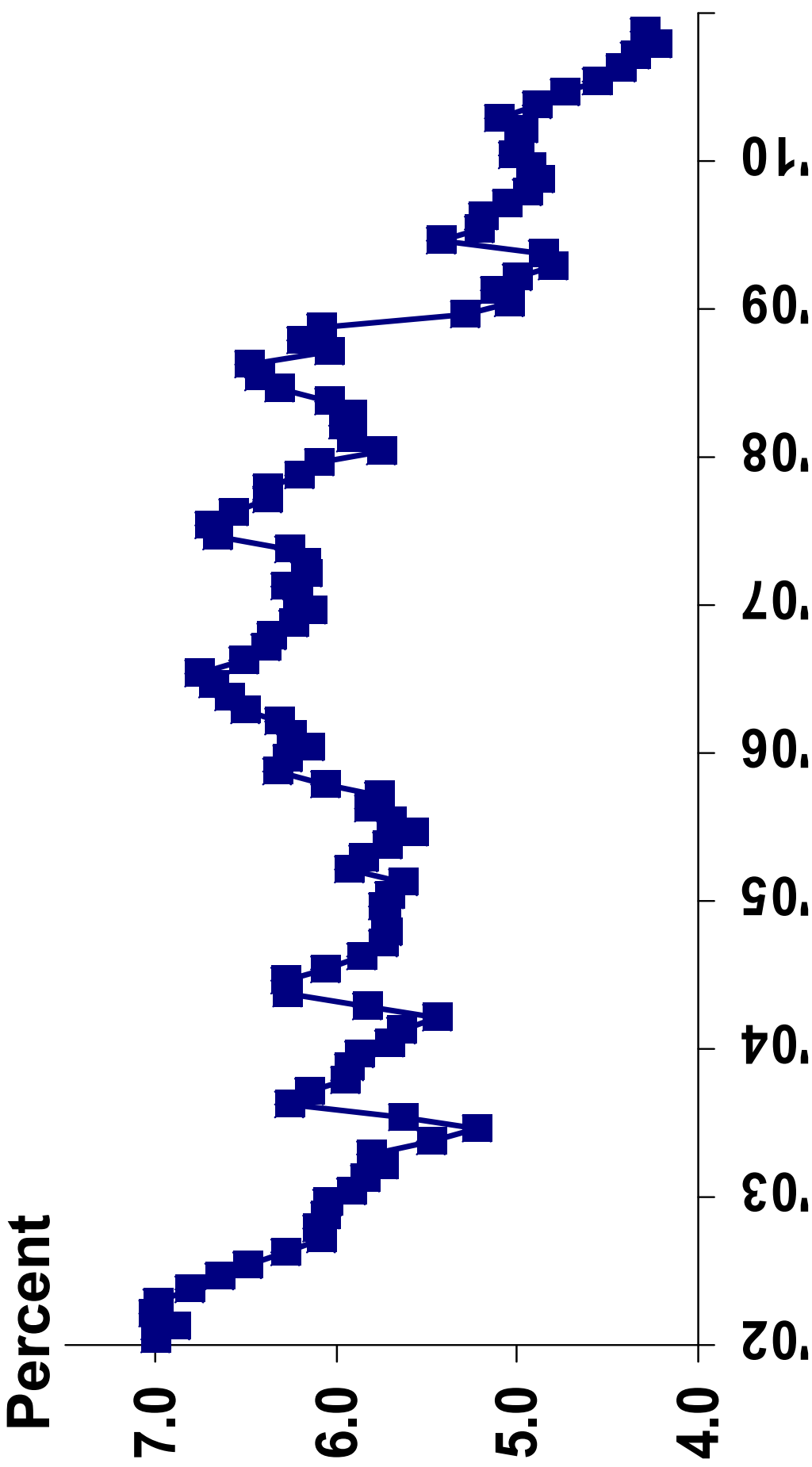
Price Per 1,000 Cubic Feet – 3 Month Moving Average



# Spot Oil Price – West Texas Intermediate Price Per Barrel – 3 Month Moving Average

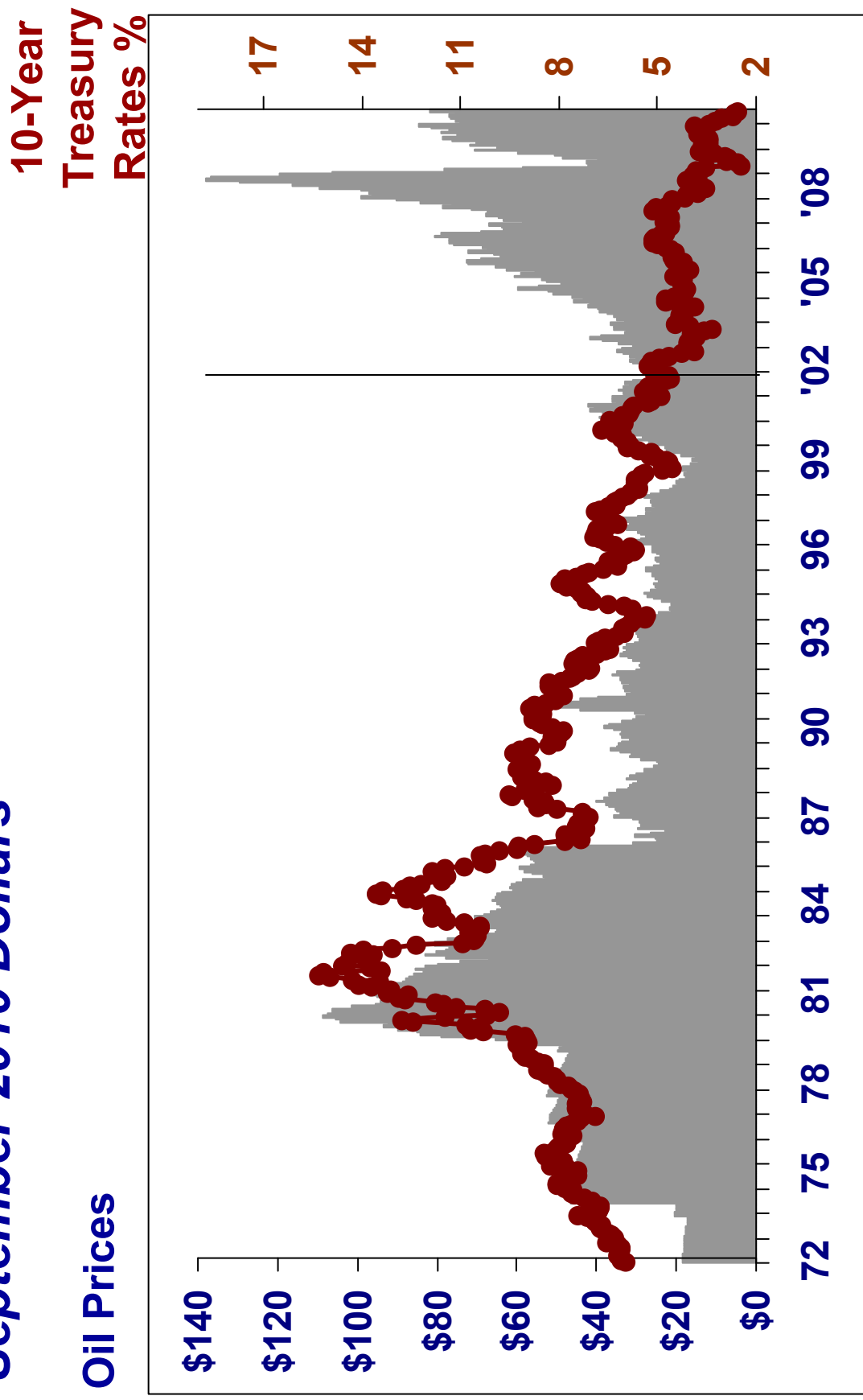


# 30-Year Residential Mortgage Rate



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# Oil Prices & 10-Year Treasury Note Rates September 2010 Dollars

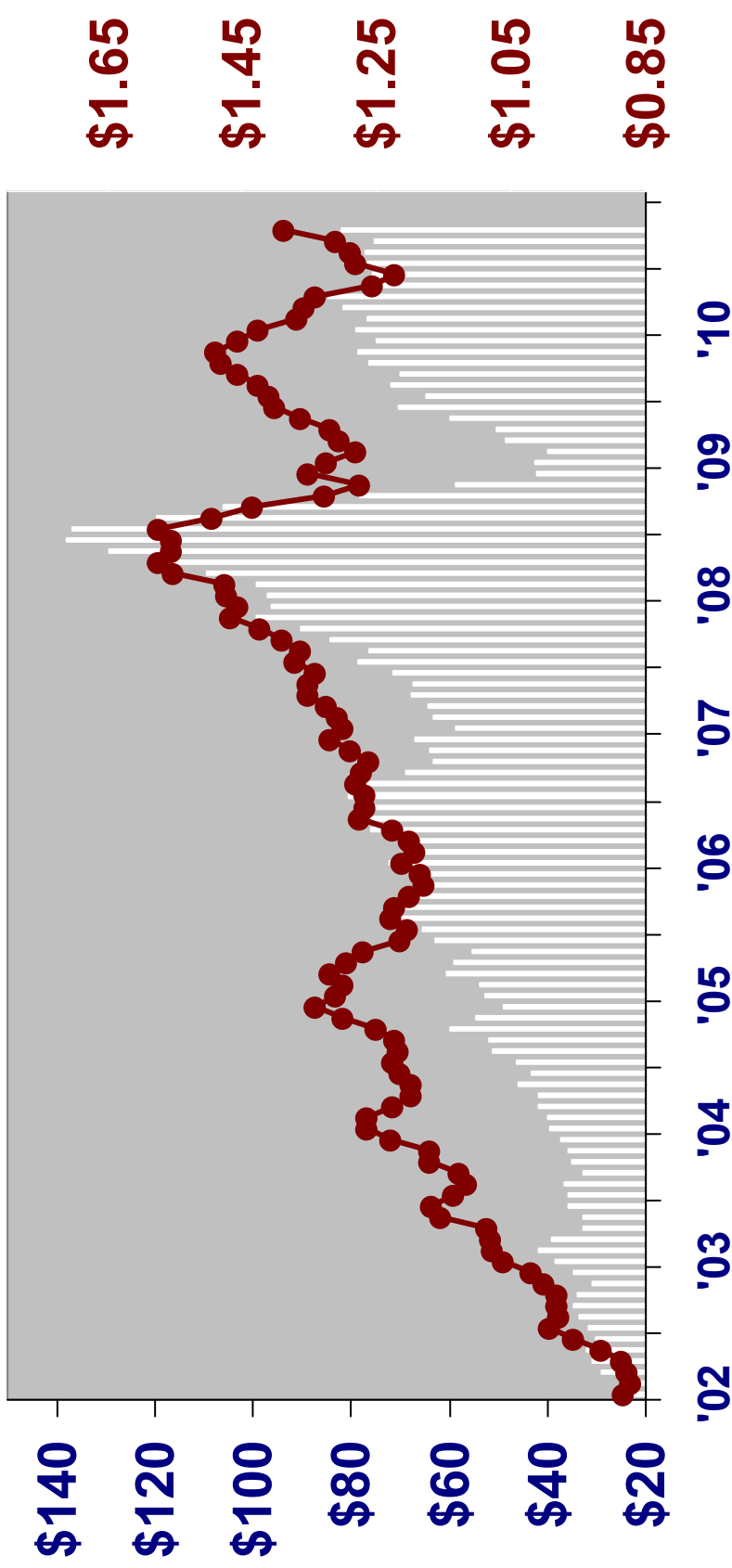


# Oil Prices & Exchange Rates \$US Per Euro

*Oil in September 2010 Dollars*

Dollars  
Per  
Euro

Oil Price



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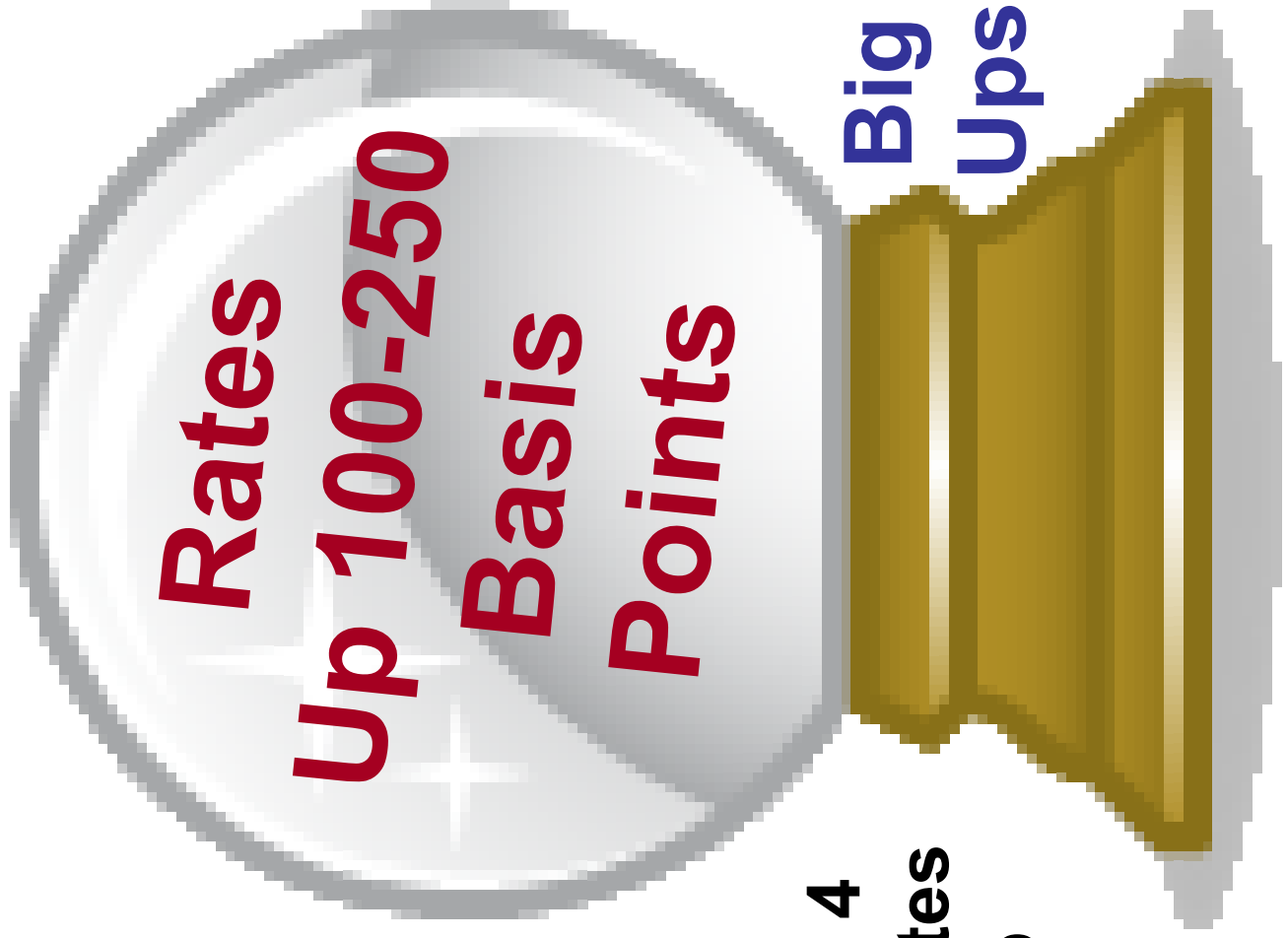
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# Why Interest Rates Are Going To Increase

## Japanese Buyer of 2-Year Treasury Note in September 2008

Date	Event	Dollar-Yen Exchange		Yen	
		U.S. Dollars	Rate		
9-2008	Purchase the Bond	\$ (100,000.00)	106.6 \$	(10,660,000)	
3-2009	Interest Payment	\$ 480.00	97.9 \$	46,992	
9-2009	Interest Payment	\$ 480.00	91.3 \$	43,824	
3-2010	Interest Payment	\$ 480.00	90.7 \$	43,536	
9-2010	Interest Payment	\$ 480.00	83.3 \$	39,984	
9-2010	Bond Redemption	\$ 100,000.00	83.3 \$	8,330,000	
Total (With No Time Value of Money)				\$	(2,155,664)
Return (No Time Value of Money)					-20.2%

**Ted's Forecast**  
**11 - 4-2010 to 12-31-11**



**Rates**  
**Up 100-250**  
**Basis**  
**Points**

**Since Nov 4**  
**30-Year Rates**  
**Up 69 bp**

**Big 2011**  
**Upside...**

**10-Year Treasuries**

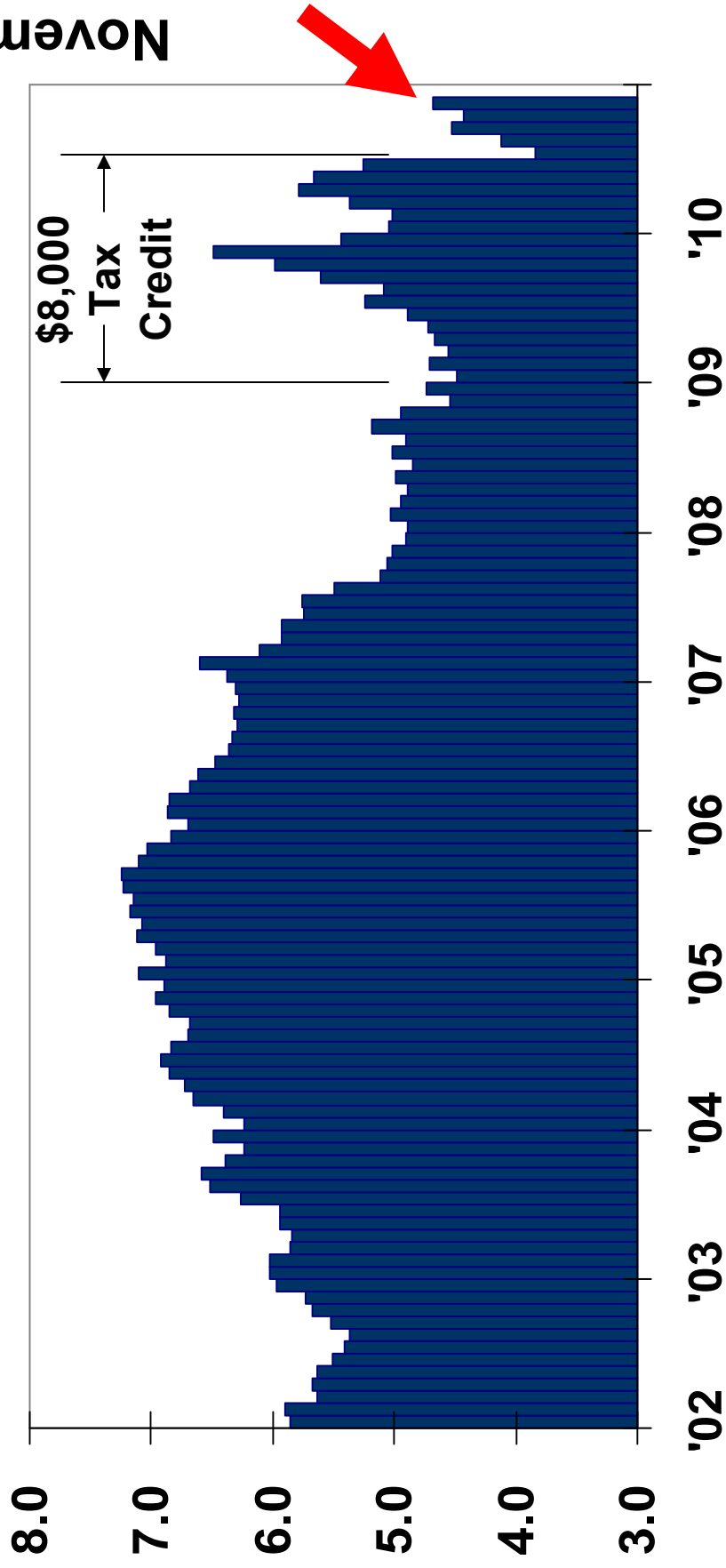
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**So Goes Jobs,  
So Goes  
Housing.....**

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# US Existing Home Sales

Sold (Millions)

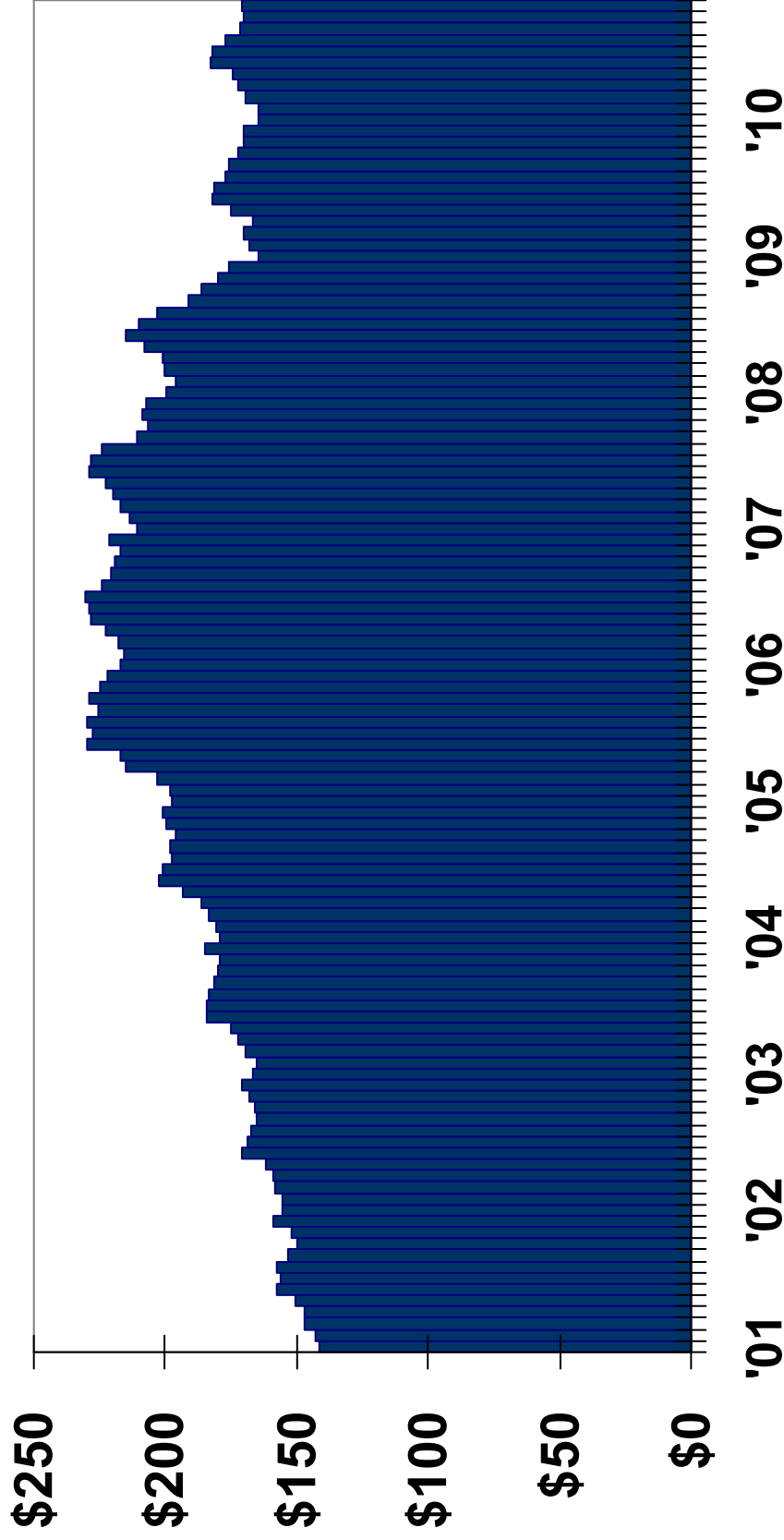


November 2010

# U.S. Existing Home Sales

## Median Price -- \$ Thousands

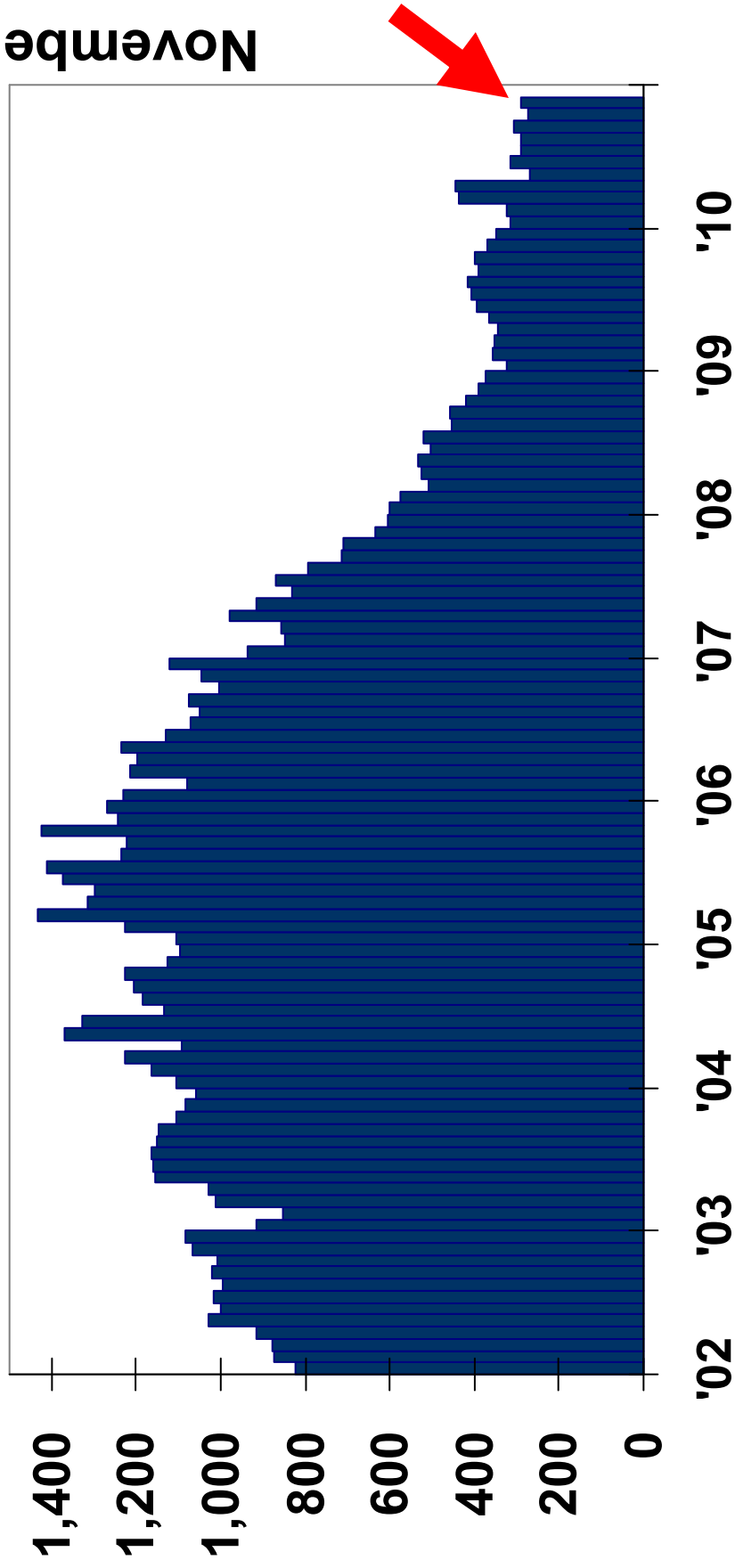
Down 23 Percent From 12-Month Average Peak in July 2006



# U.S. New Home Sales

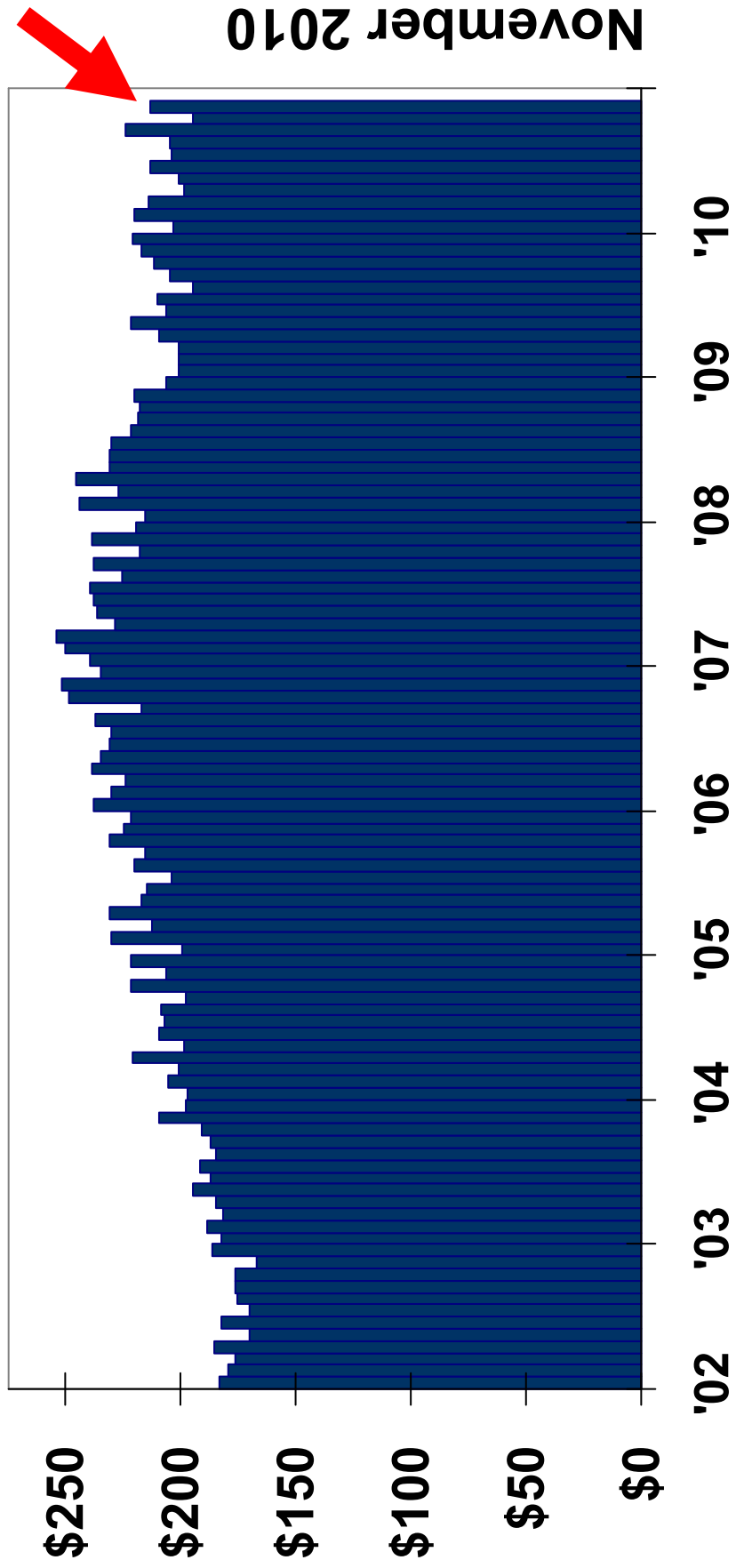
Sold -- *Thousands*

November 2010



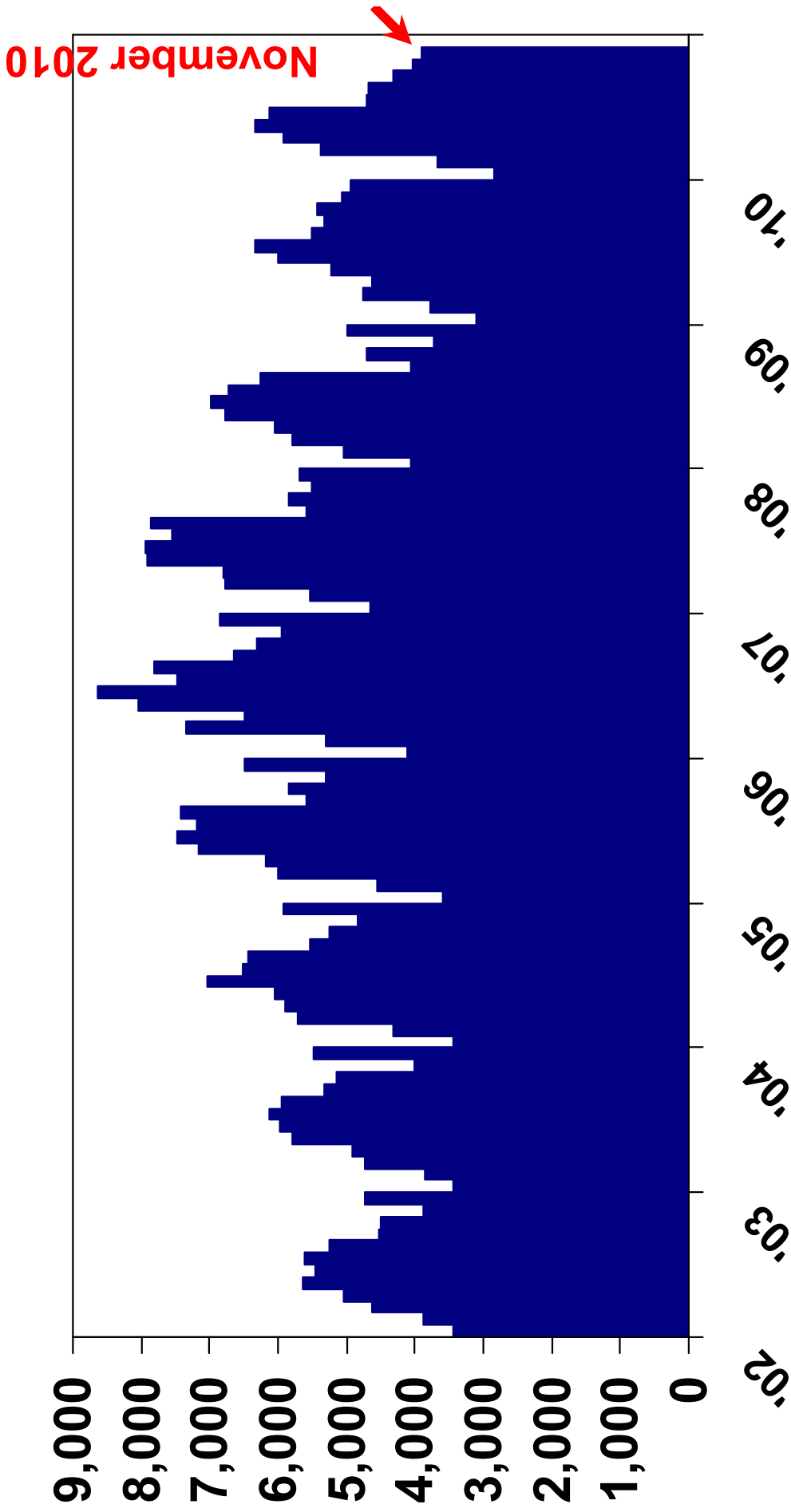
# U.S. New Home Sales

Median Price \$ Thousands



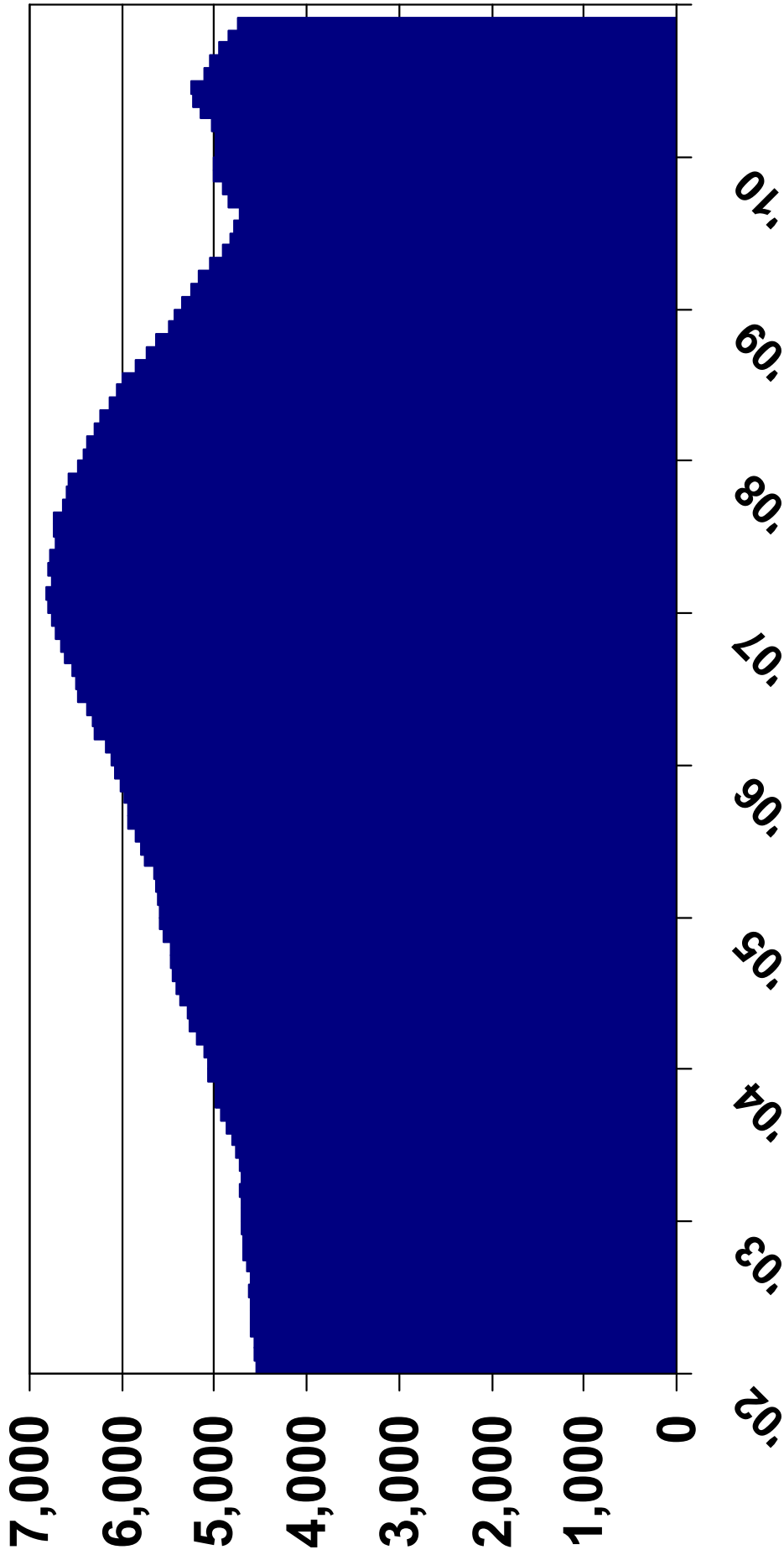
# Houston Existing Home Sales

Number Per Month



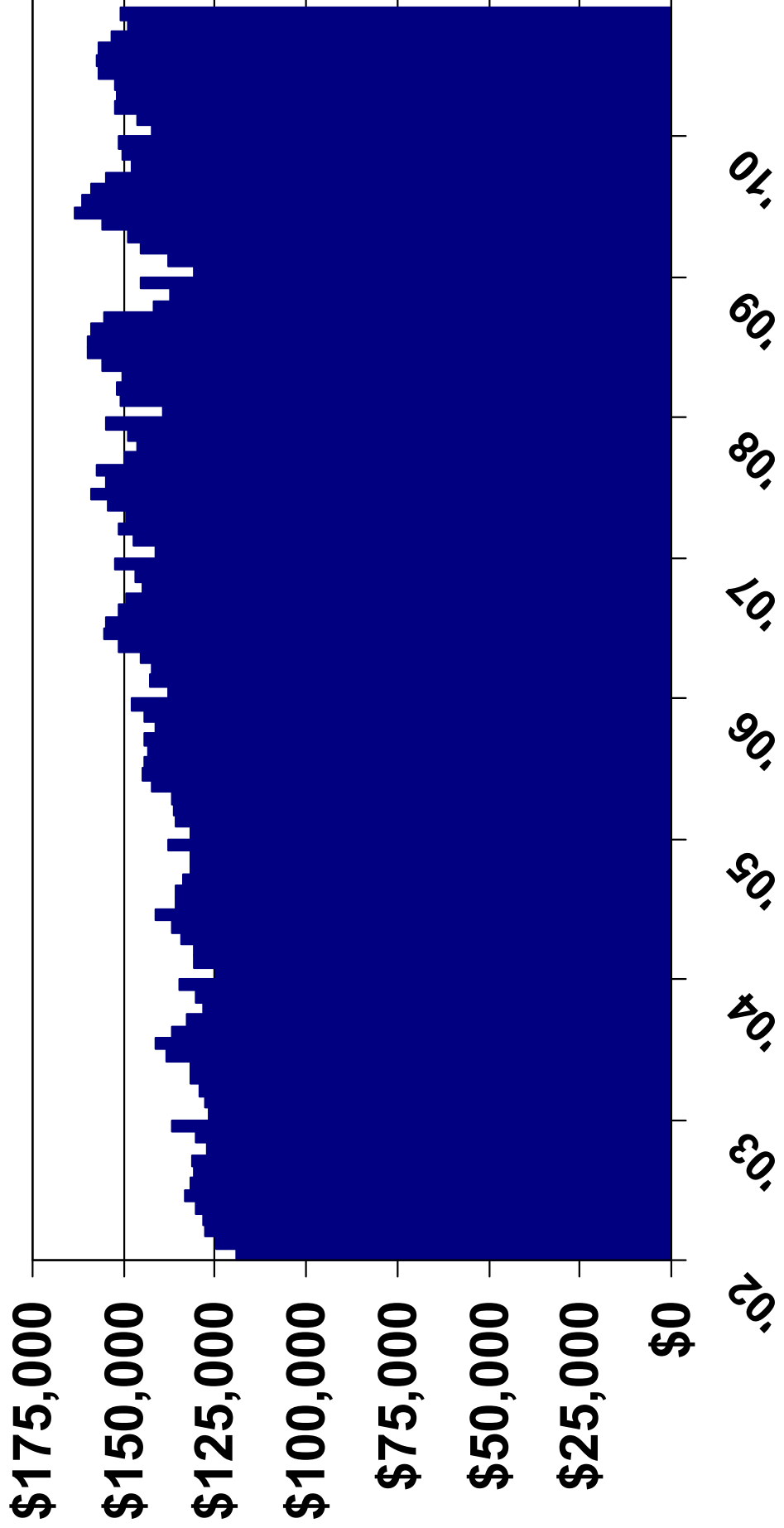
# Houston Existing Home Sales

Average Number Per Month For Prior 12 Months



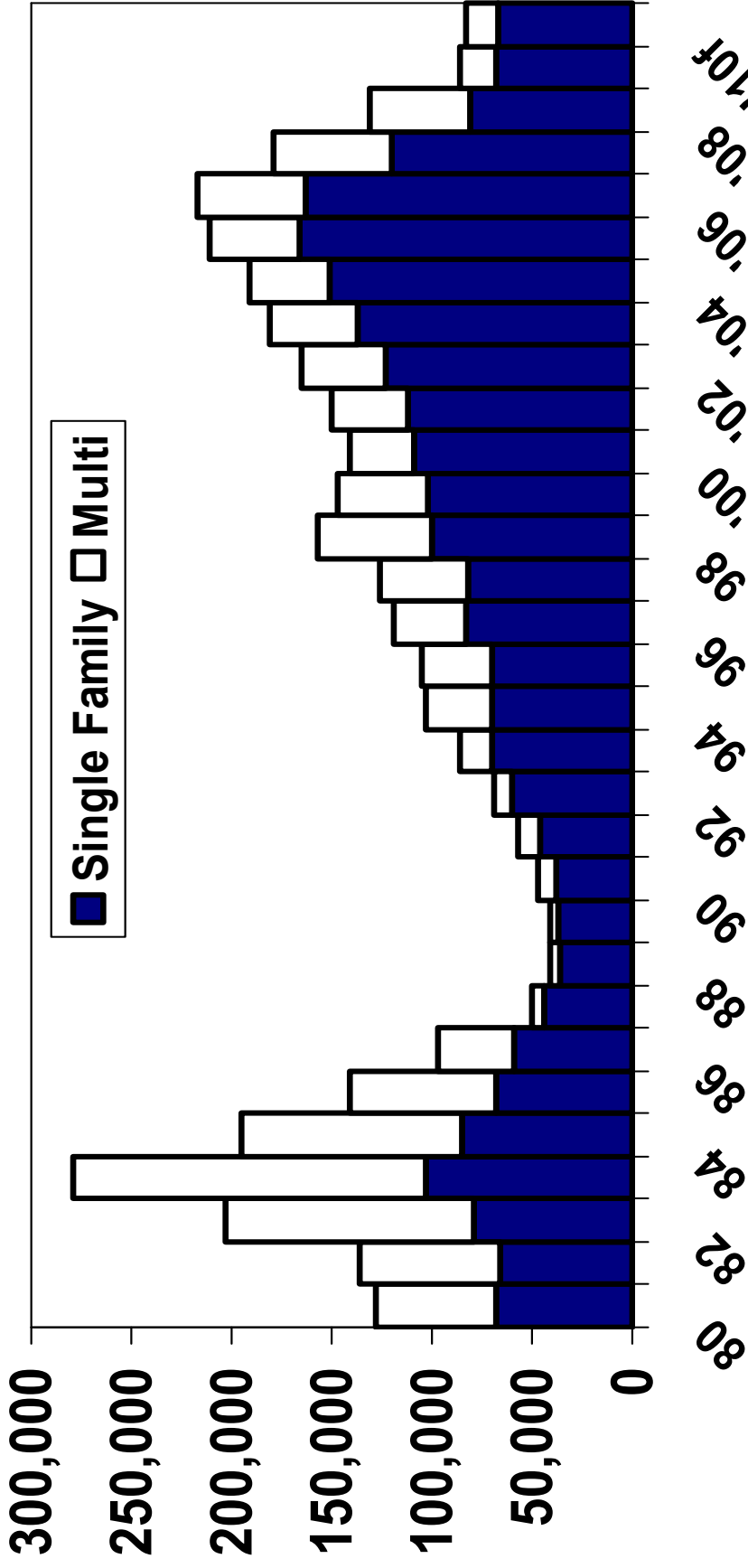
# Houston Existing Home Prices

## Median Price

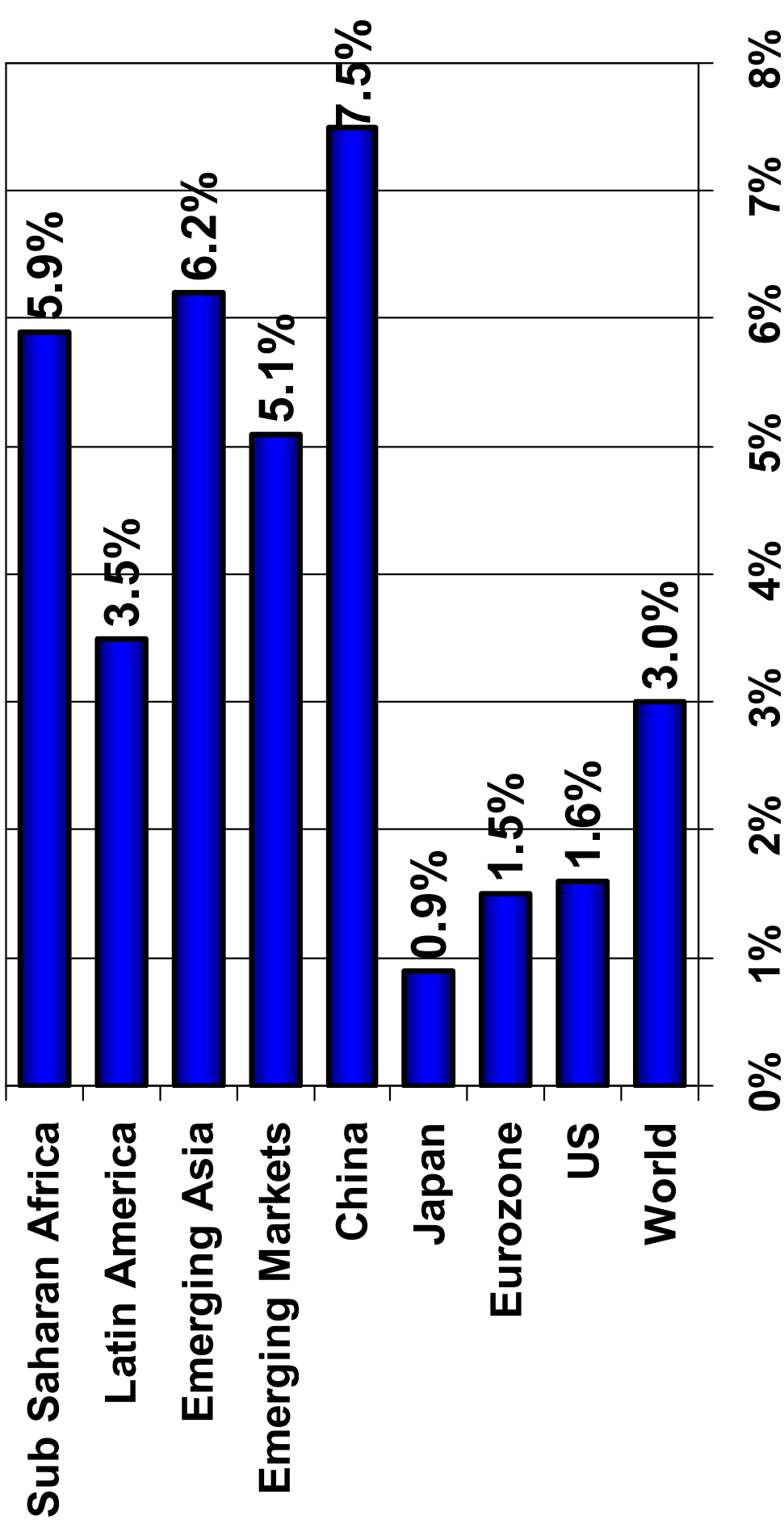


# Houston MSA Residential Building Permits

## Number of Dwelling Units

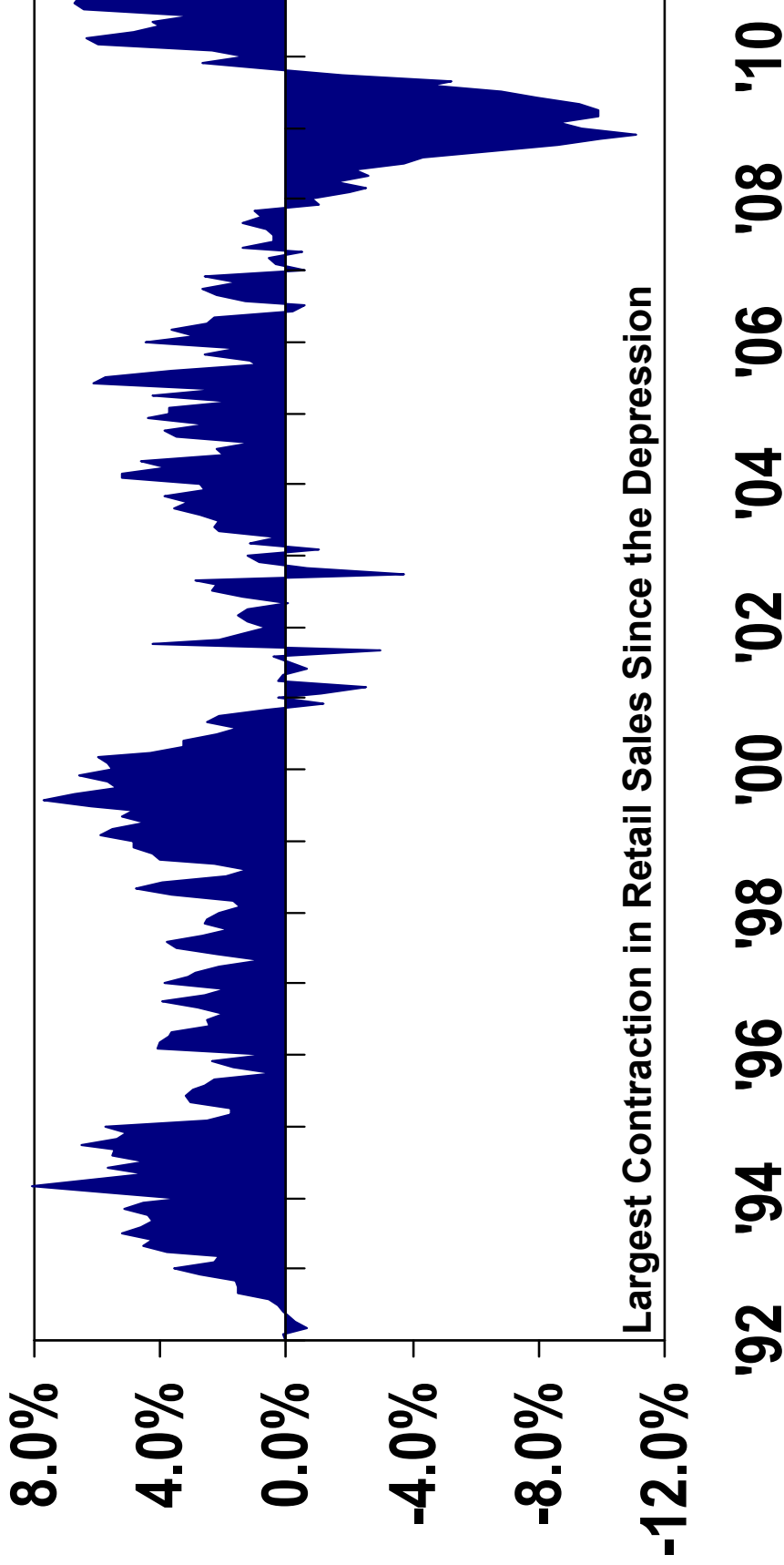


# Real 2011 GDP Forecasts



# Retail Sales – Real, Inflation Adjusted

Percent Change From Same Month in Prior Year

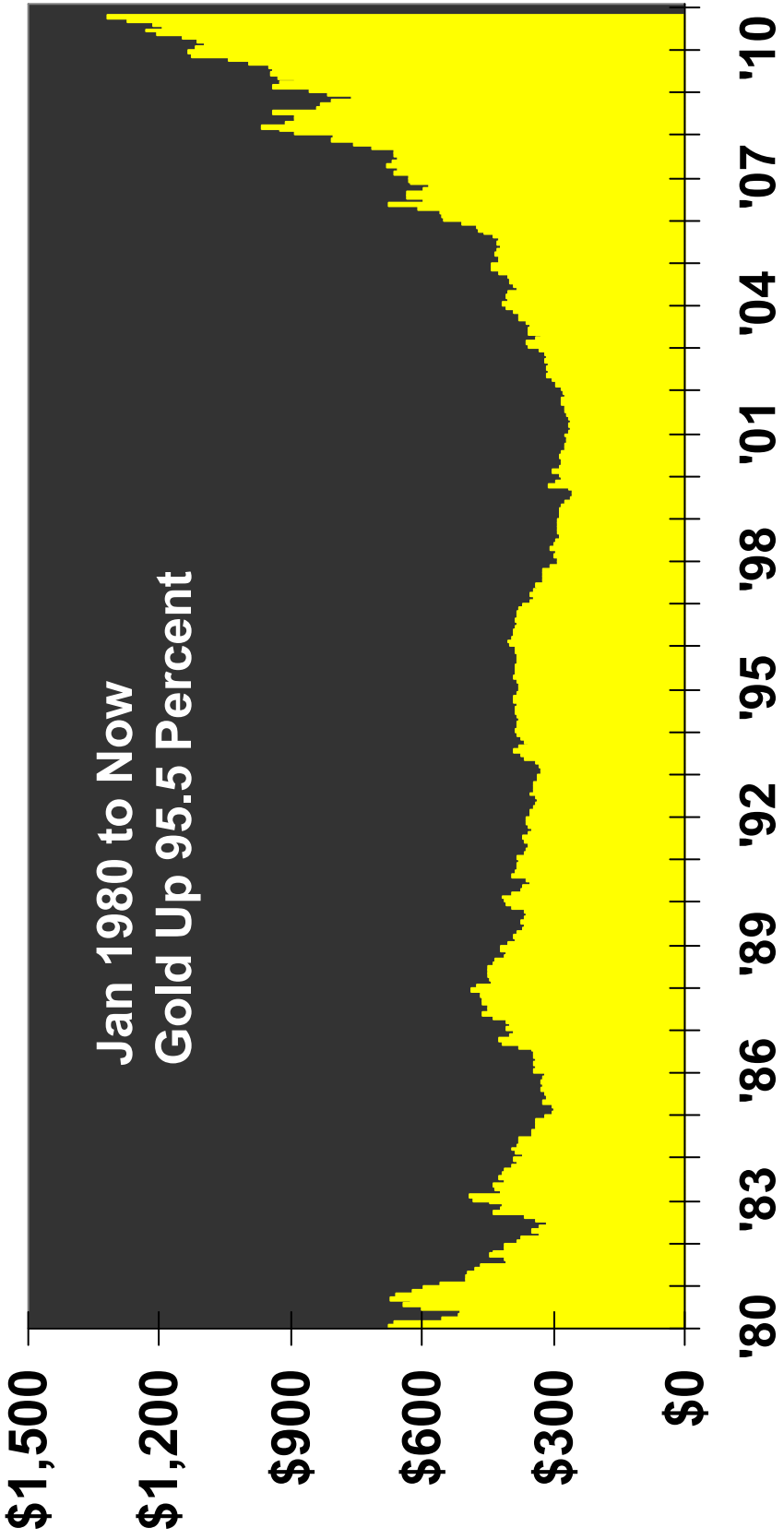


# Investments

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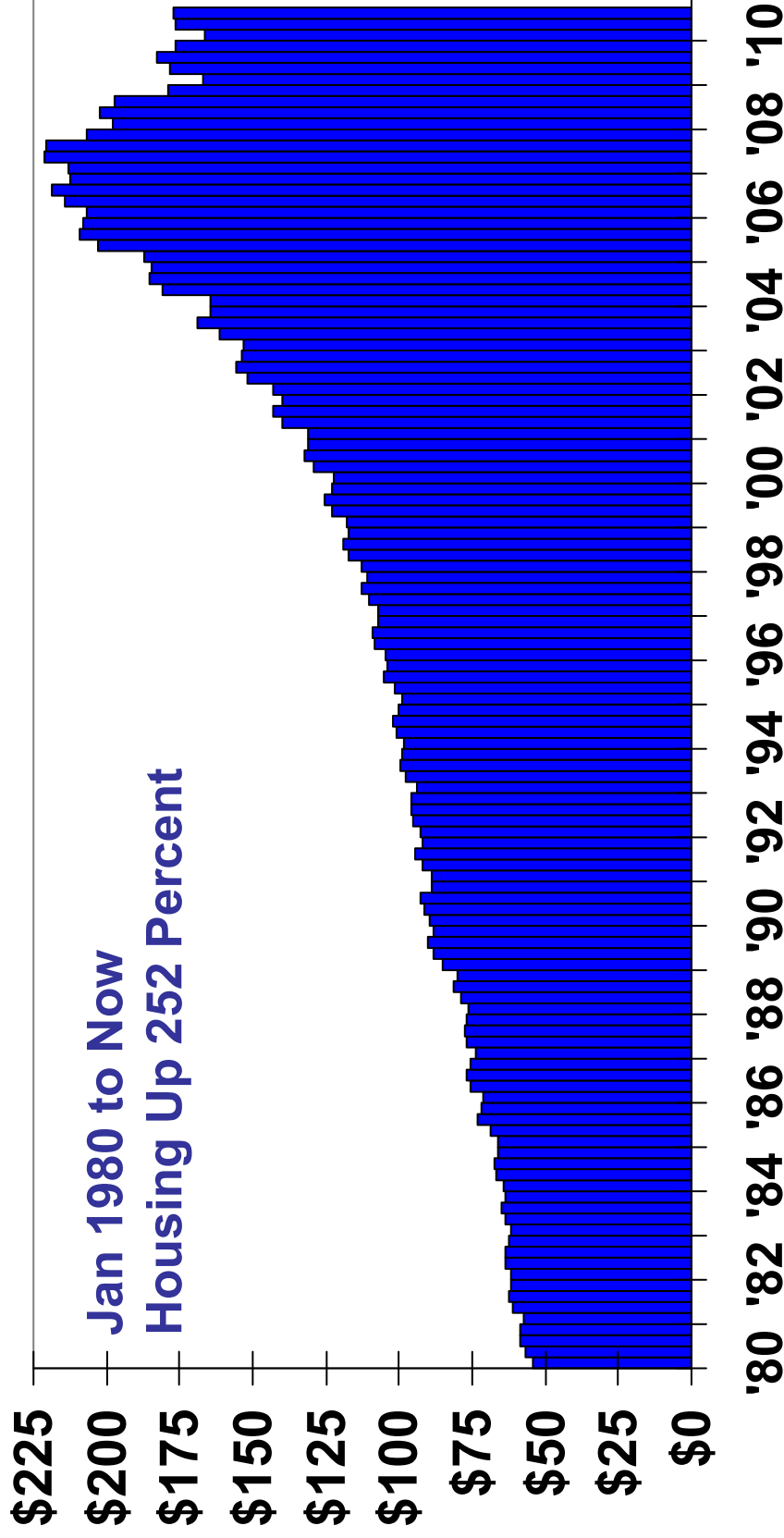
# Gold

Price Per Ounce – Nominal (Not Inflation Adjusted)



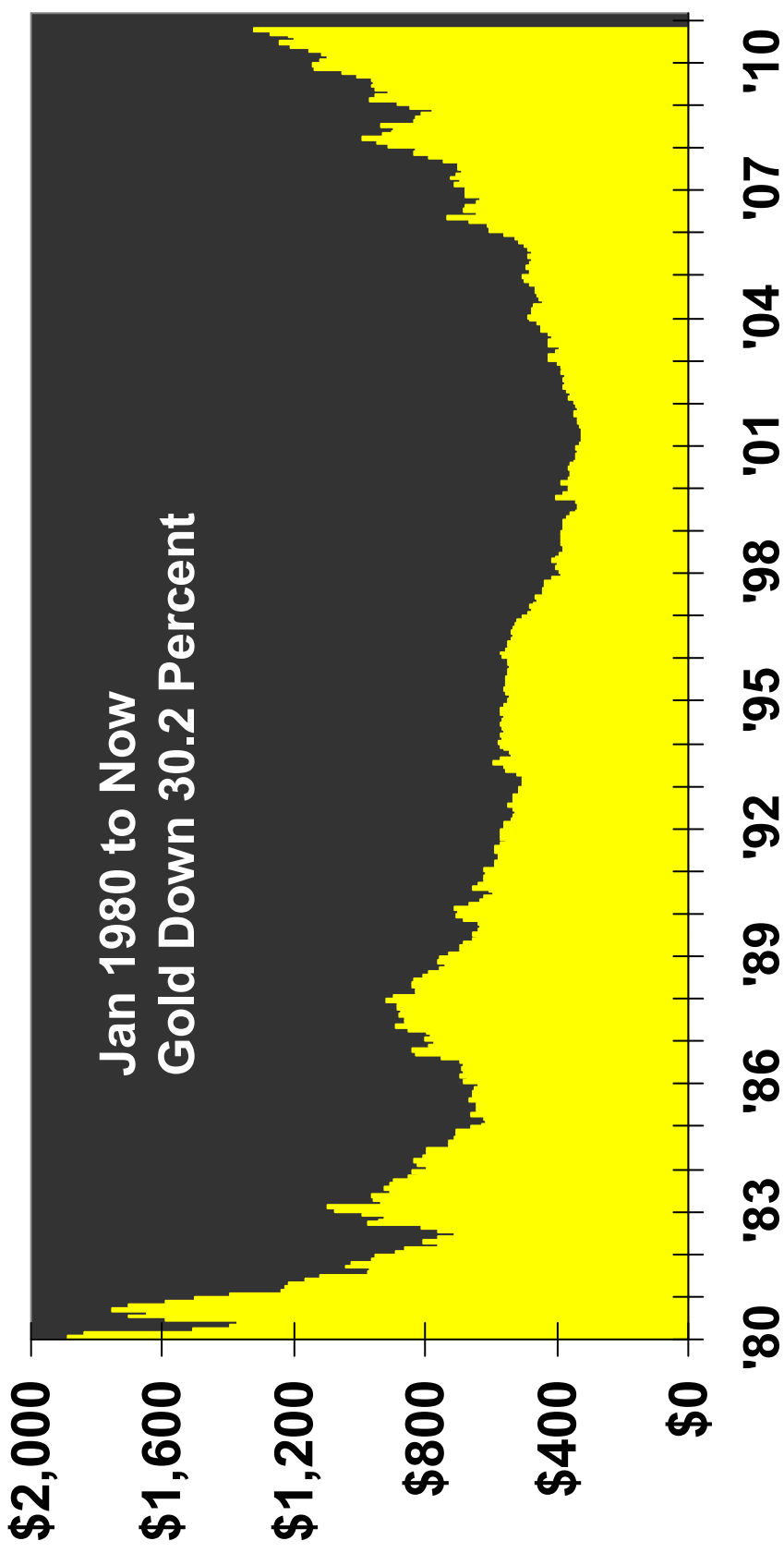
# Existing Home Prices

\$ Thousands --Nominal Average of MSA Medians



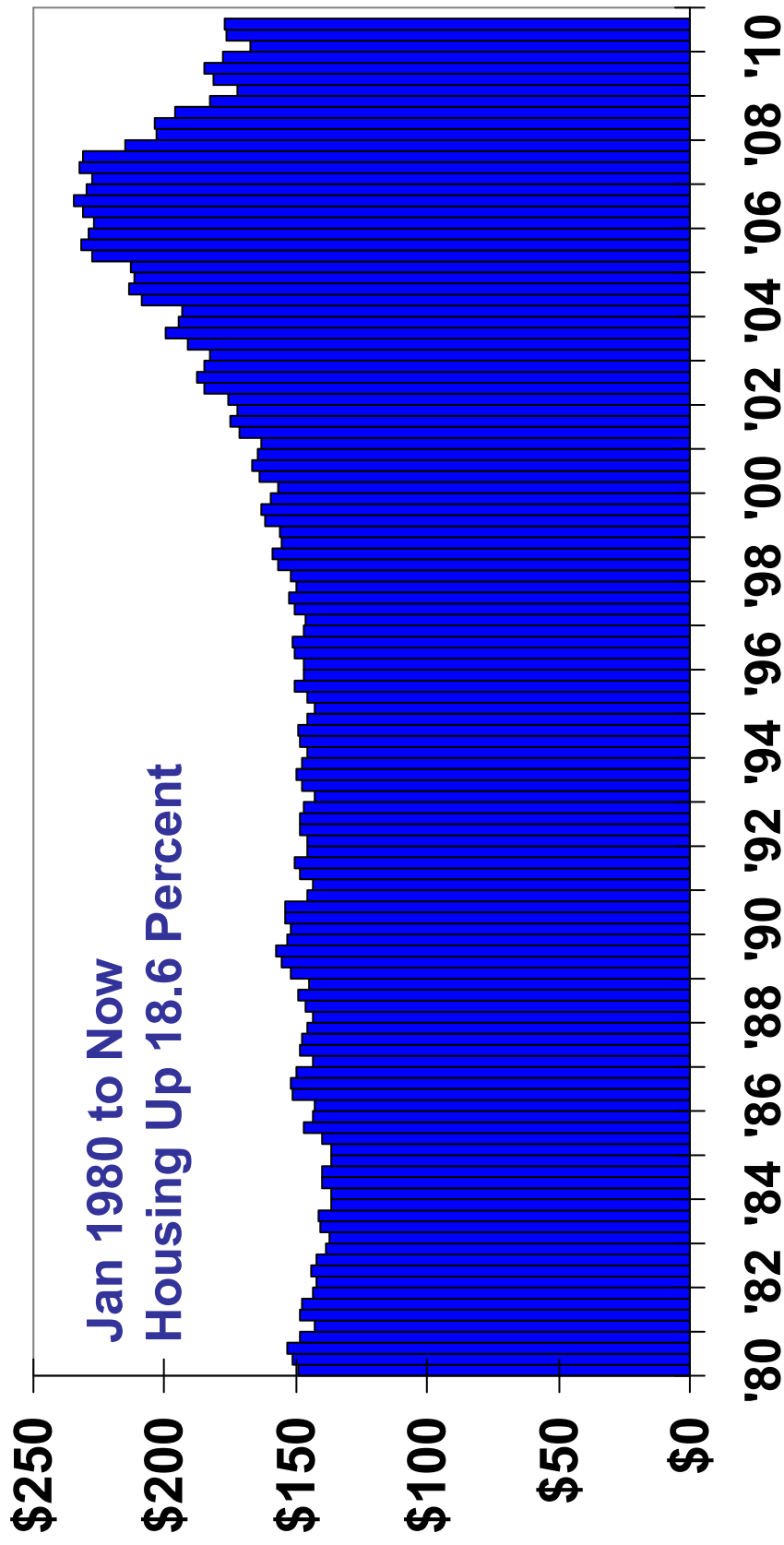
# Gold

Price Per Ounce – Real -- September 2010 \$Dollars



# U.S. Existing Home Prices

\$ Thousands – Real Inflation Adjusted Sept 2010 \$\$



# Gold vs. U.S. Home Prices

January 1980 - October 2010

Percent Change

	Nominal*	Real**
Gold	95.5%	-30.2%
Housing	252.0%	18.6%

\* Not Adjusted for Inflation

\*\* Adjusted for Inflation

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**\$3.5**

**TRILLION**

**Total Amount of Commercial  
Loans Outstanding**

**2.5**

**MILLION**

**U.S. Commercial Office  
Space Absorbed in Q4 2010  
(first positive in 3 years)**

# I.I.2

## PERCENT

**Ted's 2011 Forecast of  
Houston Job Creations  
32,000 New Jobs**

# Commercial Loans

- \$400 Billion Due in Next 12 Months
- 9.2 Percent of CMBS Loans in Default
- 354 Loans Modified in First 11 Months of 2010 – Up from 216 in 2009
- \$15.6 Billion Modified in 2010 (less than 1/2 Percent)
- \$7.06 Billion Modified in 2009

**A Rolling Loan Gathers No Loss**

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## Real Estate

# Commercial Sales

	<b>\$ Billion</b>	<b>Change</b>	<b>Percent</b>
<b>2007</b>	<b>\$ 557.8</b>		
<b>2008</b>	<b>\$ 181.6</b>		<b>-67.4%</b>
<b>2009</b>	<b>\$ 54.4</b>		<b>-70.0%</b>
<b>\$58 Billion Q1+Q2+Q3 2010</b>			
<b>Forecast 2010 = \$77.3 2010 +42%</b>			
<b>2011 \$120 Billion</b>			

**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**

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**MIT Real Estate Group**

**NCREIF**

**Commercial Real Estate Property Value Indices**

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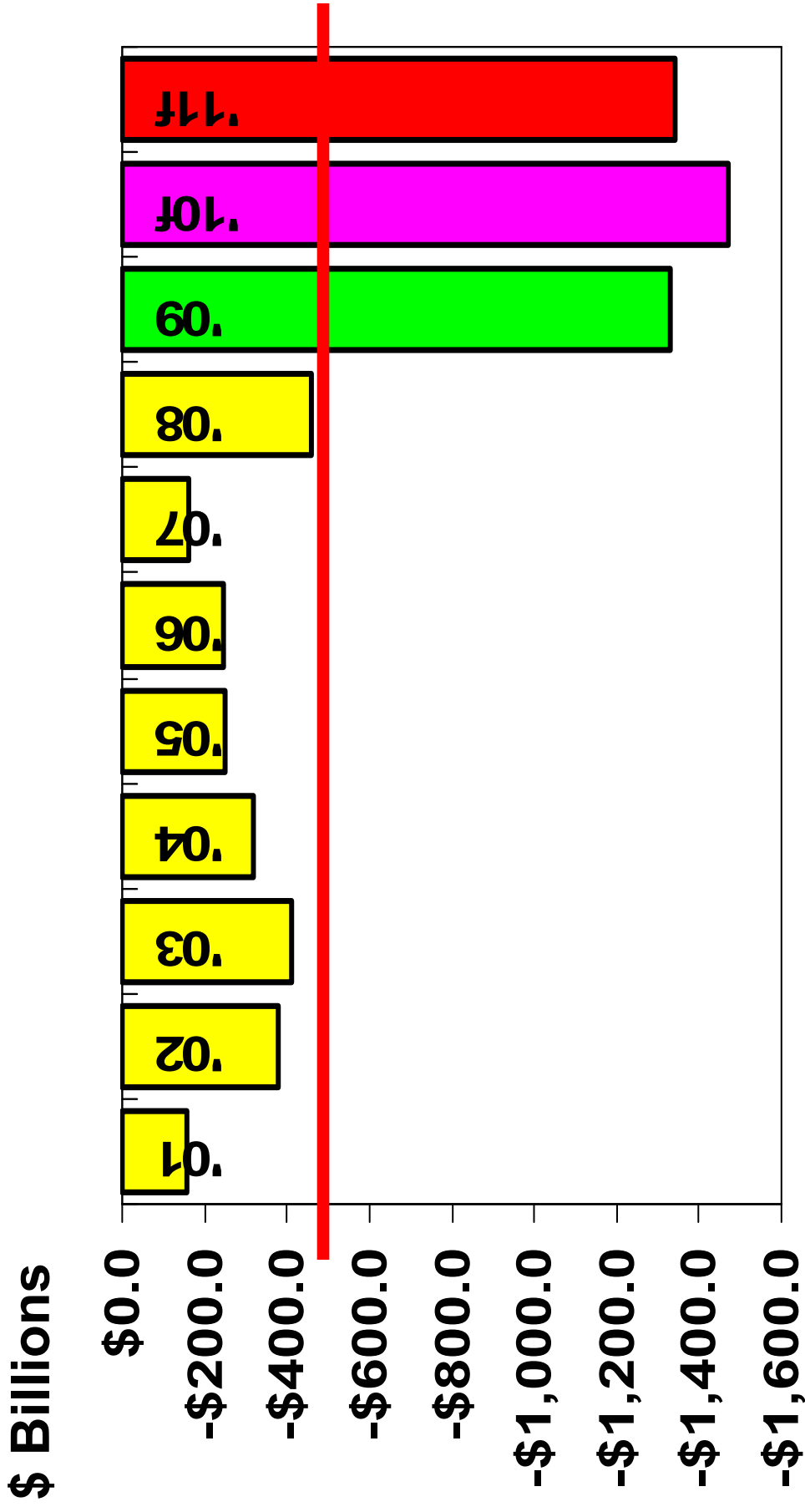
# Estimated Current Property Value Compared to Q3 2010

Acquisition Date	Estimated Percent Change in Value Since Acquisition			
	Apartments	Industrial	Office	Retail
2000				
Q1	50.7%	22.6%	22.3%	33.3%
Q2	44.9%	19.5%	19.2%	36.4%
Q3	39.2%	15.9%	16.5%	36.8%
Q4	37.9%	16.3%	15.9%	42.7%
2001				
Q1	39.5%	12.1%	16.9%	45.8%
Q2	29.7%	9.2%	19.7%	38.8%
Q3	30.4%	10.5%	24.2%	35.9%
Q4	30.6%	13.0%	28.0%	37.2%
2002				
Q1	29.4%	18.6%	22.4%	33.7%
Q2	33.3%	16.0%	26.8%	30.6%
Q3	32.8%	14.5%	18.7%	25.4%
Q4	28.5%	9.4%	20.8%	18.0%
2003				
Q1	29.7%	13.5%	19.4%	19.1%
Q2	30.5%	8.9%	21.2%	11.9%
Q3	26.7%	2.8%	17.5%	22.1%
Q4	25.9%	1.8%	17.1%	14.2%
2004				
Q1	27.3%	0.5%	16.9%	9.7%
Q2	22.4%	-5.6%	12.5%	4.5%
Q3	15.7%	-4.9%	11.4%	-1.4%
Q4	13.3%	-5.3%	7.2%	-5.2%
2005				
Q1	4.3%	-2.1%	4.3%	-3.9%
Q2	4.2%	-21.4%	-4.8%	-21.9%
Q3	-11.6%	-22.3%	-10.9%	-24.6%
Q4	-15.6%	-22.0%	-18.8%	-24.6%

# Estimated Current Property Value Compared to Q3 2010

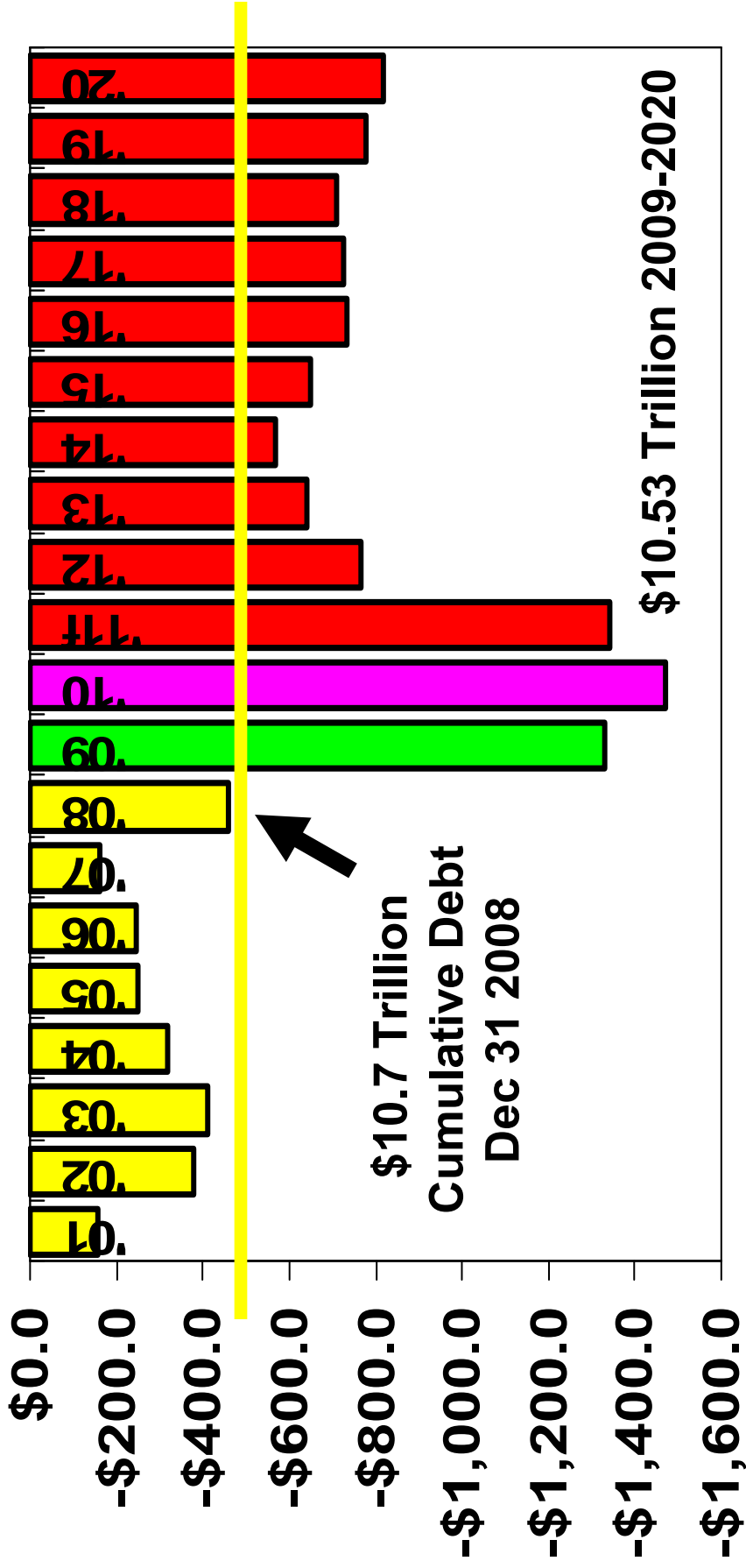
Acquisition Date	Estimated Percent Change in Value Since Acquisition			
	Apartments	Industrial	Office	Retail
2006				
Q1	-18.7%	-29.5%	-22.2%	-25.7%
Q2	-16.6%	-30.8%	-22.2%	-27.8%
Q3	-15.9%	-29.3%	-27.1%	-29.3%
Q4	-16.1%	-35.3%	-31.0%	-30.9%
2007				
Q1	-14.2%	-36.6%	-33.3%	-31.9%
Q2	-19.0%	-40.8%	-37.4%	-31.7%
Q3	-22.9%	-38.9%	-37.9%	-30.8%
Q4	-22.4%	-34.8%	-37.6%	-29.5%
2008				
Q1	-21.9%	-35.0%	-36.0%	-25.8%
Q2	-20.5%	-29.8%	-30.5%	-25.0%
Q3	-19.4%	-28.4%	-29.2%	-25.2%
Q4	-7.2%	-21.2%	-23.5%	-22.4%
2009				
Q1	-2.2%	-0.8%	-20.2%	-19.1%
Q2	5.2%	-0.7%	-9.4%	-10.3%
Q3	5.5%	0.6%	-4.0%	-6.1%
Q4	15.3%	2.7%	5.4%	-0.9%
2010				
Q1	11.0%	5.2%	0.4%	-1.6%
Q2	5.1%	-1.8%	-3.8%	-5.4%
Q3	0.0%	0.0%	0.0%	0.0%

# Federal Budget Surplus (Deficit)

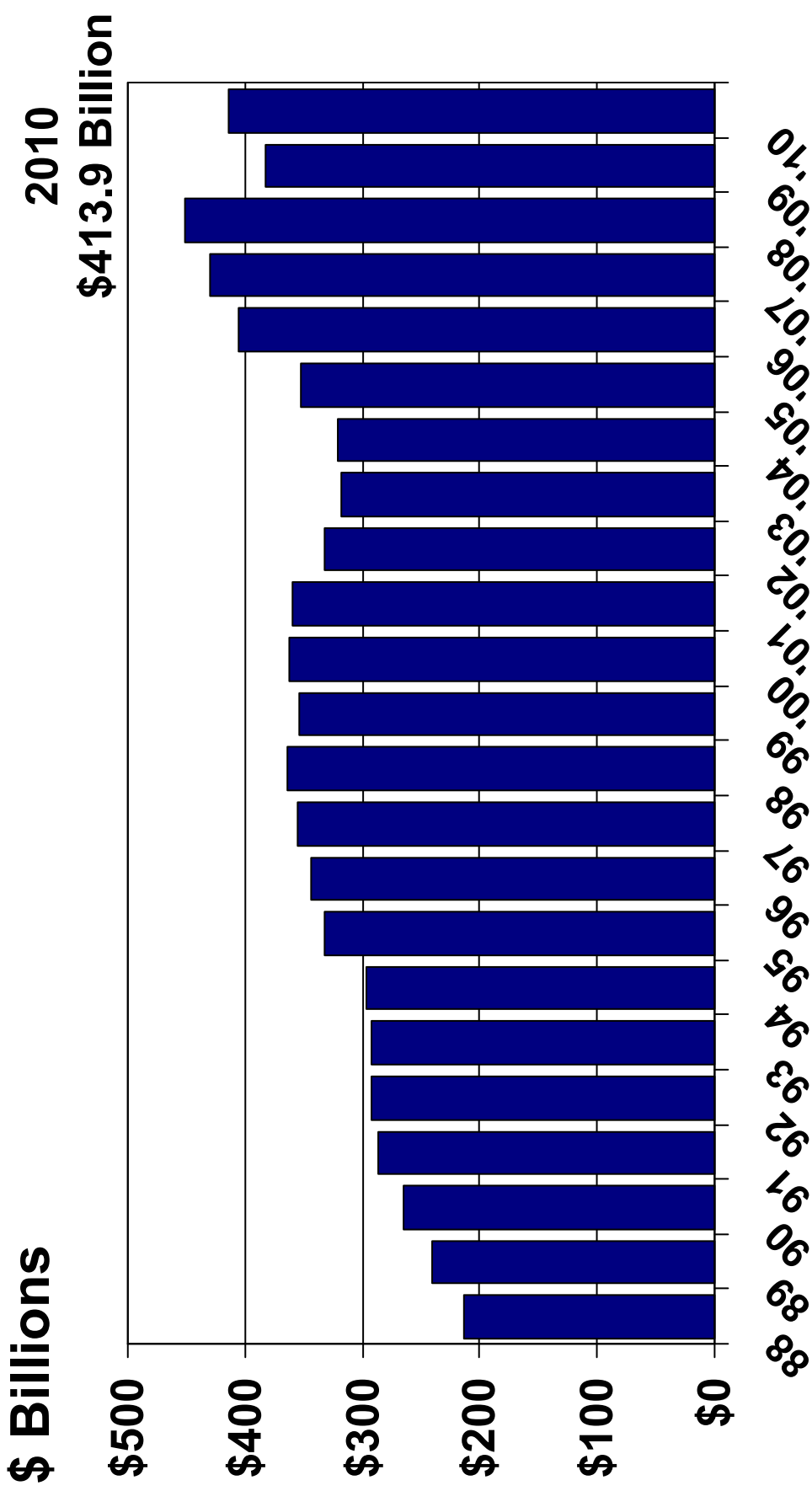


# Federal On-Budget Deficit Forecast

**\$ Billions – Baseline (\$10.7 Trillion Total Debt 12-31-08)**



# Interest Expense on Debt Outstanding



# Federal Debt Interest Payments

## 2010 Average Rates

<b>1-Year T-Bill</b>	<b>0.318 Percent</b>
<b>2-Year T-Note</b>	<b>0.703 Percent</b>

**If 1-Year Rates Rise to 1 Percent, Then Annual Interest Payments Triple to \$1.23 Trillion**

**If the Debt Doubles (as projected) Then Annual Interest Payments Rise to \$2.46 Trillion**

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# Houston MSA

## Population Forecast

2000	4,715,407
2005	5,295,975
2010	5,979,911
2015	6,754,896
2020	7,599,748
2025	8,515,677
2030	9,504,335
2035	10,570,390
2040	11,717,086

**Scenario  
2000-2007**

**Texas  
State  
Data  
Center**



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# 2011 Economic Concerns

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

# May 24, 2011

## An Economic and Real Estate Forecast

UNIVERSITY of **HOUSTON** | IRF

**Ted C. Jones, PhD**  
**Chief Economist, Stewart Title**  
<http://blog.stewart.com/>

U N I V E R S I T Y of  
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