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**FORT WORTH CONVENTION CENTER
TEXAS REAL ESTATE MARKET OVERVIEW
AND PREDICTIONS 2005-2010**

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*The opinions, notions, and projections expressed in this outline are those of the author/speaker and not of UNT. No person can project the future—although a wise and educated person should “know what time it is” in the cycles of life, business, and economics. Plan for the future and act on it . . . most of us will spend most of our time in the future.

Dr. John Baen’s link to some interesting reading:
www.coba.unt.edu/firel/baen

**National and International Factors for
Texas Real Estate
By John S. Baen, Ph.D
University of North Texas**

- **Hard Assets** - Real Estate, Land, Oil & Gas, Commodities Investments will be Super Stars in 2005/2006.
- **Value of U.S. dollar** - the real value of the dollar may stabilize after dropping another 15 - 20%
 - **Inflation** will be 3 -5% (Real) for 2005
 - **Imports** will continue to drop in price due to future drops in labor prices in China, India, etc.
 - **Jobs exports/brain drain** will continue to spread between U.S. salaries and Overseas Professionals will accelerate.
 - **Interest rates** will rise to a Fed Rate of 3.5 in 2005
 - **U.S. Dollar** support will be required to trade with U.S.
- **Interest rates**
 - **Housing markets** (new starts/refinancing) will not be greatly effected by homes in the medium price range and below
 - **FNMA** - new standards and reporting will tighten mortgage lending rules in local markets. The value of FNMA stock for will drop as interest rates rise.
 - **Consumer credit cost (retail)** Banks will continue to lessen standards. Increased interest rates will hurt consumers “discretionary spending”
 - **Bankruptcy rates (1.6 million in 2003)** will increase in 2005
 - Senior citizens
 - Middle class
- **Immigration polices**
 - Many new Americans are buying homes in Mexico with U.S. earnings (exporting US\$)
 - Hispanics have become the majority of the population in Texas
 - Construction labor will migrate to other jobs (cycles)

- Housing sales will increase due to new loan programs
- Cheap labor for manufacturing plant/2000 Acres (Toyota in San Antonio) will accelerate immigration in Texas
- Homeland Security issues will reduce “Raids and Roundups” of New Americans at work.
- Federal monetary polices
 - Printing dollars (inflationary) will continue
 - Borrowing dollars from Foreign Investors (65%) will continue.
 - The Euro will become a serious threat to U.S \$ strength
 - Bank reserve policies will increase with consumer loan defaults
 - Equity requirements (by type of property) will slightly increase
 - Stock market and corporate reporting laws are paperwork only and will be ineffectual.
 - Growth of government and spending will continue
 - Federal income tax polices/rates will hurt average tax payer in 2005 Alternative Minimum Tax (AMT)
- Acts of terrorism and cost of security
 - A central Business District (CBD) “event” will crash consumer confidence and Stock Market
 - Will have negative effects on travel, tourism, and business meetings
 - Suburban growth and investments will skyrocket
- The International cost/value of labor for manufacturing and exportable services/real estate demand
 - GDP per person:
 - United States: \$34,940/year per person
 - China: \$ 850/year per person
 - India: \$ 450/year per person
 - EDS workers in India \$ 1.50/hour (customer service)
 - Engineers in India: \$16,000/year
 - The cost of Manufacturing and High Tech Labor will drop 20 - 40% in China and India (2005) dropping Consumer Item prices even further.

**Texas factors for Texas Real Estate
Investments 2005 - 2010
By John S. Baen, Ph.D.
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- The \$10 billion state budget shortfall has been repaired through:
 - Even higher university tuition (hurts families) will occur due to high demand (students, mature students) and limited supply - Universities are at 110% capacity.
 - Top 10% of graduating class to University of Texas and Texas A & M is not working and hurting these Universities and many great students
 - New income for state from business and oil and gas severance taxes is expanding rapidly
 - “Robin Hood” local school tax reallocations or funding system for Texas Education will go nowhere in 2005
 - Dropping new road projects and shifting costs to developers (i.e., service roads) and toll roads will change the urban growth patterns of Texas forever.
- National political power - will continue to help Texas
 - President
 - Congressional power
 - Military contracts/manufacturing (New types of war =many high tech contracts being canceled - shift from high tech jets (@\$40 million each) to low-tech urban gorilla war (\$7 pocket knives).
 - Military and National Guard families are financially hurting while their loved ones are overseas in Iraq
- Property tax levels and policies
 - “AG” Exemptions will be challenged by urban dwellers
 - Roll-back taxes and penalties are misunderstood and rarely reported in the press

**Forecast for Real Estate Investors by
Property Type 2005 - 2010**

Land

**By John S. Baen, Ph.D
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- **Rural Market will be strong but affordable land (<\$1,000/acre) will be much further out - 3 hour drives vs 2 hour drives**
 - **Recreational uses (hunting, fishing, etc.)**
 - **West Texas/Alpine Trans Pecos are on the verge of becoming the next Arizona and Sante Fe Markets for retirees**
 - **Retreats**
 - **Future retirement home sites**
 - **Trending toward larger ranch/farm subdivisions**
 - **Agricultural tax exemptions important (Phase out in California), under threat in Texas**
 - **Return on investment for cattle and hunting leases has dropped due to increasing land prices and fixed incomes will equal 1% to 2%. Land costing \$1,000 per acre should yield 10 to 30 per acre per year (net) on an all-cash purchase price.**
 - **Premium paid for land within 1 1/2 hours from metroplexes**
 - **Appreciation appears to be 6% - 10% in Texas markets.**
 - **Water rights and mineral rights have become serious issues for buyers and sellers (retaining some or all rights by sellers).**
 - **Cattle Prices will crash in 2005**
 - **Land values are first to go up and first to crash in the Real Estate Cycle. Careful! Land is illiquid, makes “no” money until you sell it. Rural Cemeteries are booming and more are needed!**

**Forecast for Texas Real Estate Investors by
Property Type 2005 -2010
By John S. Baen Ph.D.
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Land/Mineral Rights in North Texas**

- Future drilling will occur on every 40-120 acres available and permissible (cities) in Denton (western half), Tarrant (western two-thirds), Wise, Parker, Johnson, Palo Pinto and Hill Country
 - Value implications to surface estate can be slight or serious depending on mineral/surface owner's lease negotiations and patience.
 - Unbiased and knowledgeable surface owner advocates and consultants working with or against oil companies during negotiation *and* drilling are rare.
 - All lease hounds and most attorneys are unfamiliar with serious land owner issues and reality on the ground.
 - Everyone claims to be an expert when a lease shows up. (Read important articles on oil and gas issues and leases at www.coba.unt.edu/firel/baen before even considering a lease.)
 - \$3 billion has been added to the tax rolls of Denton County alone in the last two years (tax rolls).
 - The "average" well makes \$3,000+/day gross
 - \$600,000,000 in royalty has been paid in Denton County in 2004
- The Oil and Gas Industry will become the most important single industry in the Region.**
- Mergers will continue
 - Consolidations and acquisitions will accelerate in 2005
 - Antevco to TXO (685 million 2005)
 - Progress to ENCANA (2005)
 - Rumors abound with smaller operators obtaining NYSEEx company offers
 - 3200 wells drilled in 30 months
 - \$3.2 billion cost equates to \$5-6 billion added to tax base
 - Areas of expansion
 - Shortage of Drilling Rigs will cause leases to expire 2005 -2007

- **Urban Drilling regulations need to seriously be written to be more flexible and friendly to all parties**
- **Taxes paid will be both a boom and bust if drilling stops (valuation and decline curve comments.)**
- **Some high energy industrial users will be attracted to National Gas availability. New jobs will come to North Texas!**
- **Perot/Chief will drill 18,000 acres in a very organized and non-disruptive land plan.**
- **Royalty paid to Mineral owners will pay large property taxes and later will cause financial heartburn for the “Nuvo” Rich...decline curves.**
- **Cities, Counties, School Districts need to really study Gas well Valuation and Production Models**
- **Gas Wells have become part of the Urban Landscape**
- **Many Cities need to embrace drilling, with fewer restrictions. The cost/benefit analysis is fantastic to their budgets with little harm to the environment and quality of life.**
- **Oil and Gas companies and activities in North Texas have become the most underreported and most important economic engine/industry in Texas.**
- **The Barnett Shale Gas Field has become the largest in Texas (size and production) and new areas include the counties of Cook, Montague, Parker, Palo Pinto, Hood, Jack, Erath, Somerrell, Bosque, and Hill Counties.**
- **Fort Worth will announce one new regional and national oil and gas offices building and headquarters.**
- **Local mergers and acquisitions have been wild, fantastic, and important XTO, Cautera, Devon, ENCANA, etc.**
- **Local mineral/royalty owners are getting rich, important sources of investment cash, liquidity and long-term income stream.**
- **New property taxes on Gas Wells and Royalty have become the most important City, County, and School District new income sources.**
- **There will be several lawsuits against cities claiming a “taking” without compensation for overly strict drilling ordinances.**
- **Decline curves and well valuation for Assessed Values drop drastically per well and hurt government budgets unless new wells are allowed to be drilled**

- Urban drilling applications fees and requirements need to soften further.
- Gas wells have become part of the urban landscape.
- Surface and subsurface development can co-exist and occur with very low risk and maximum with
 - Reasonable city policies
 - Well structured leases
 - Surface estate owners land planning
 - A broad view of long-term - 30 years land development plans
 - Nature of all estates
 - Mineral rights
 - Surface rights
 - Condemnation rights (pipelines)
 - Compatible uses of pad-sites
 - Boundaries/spacing of leases
- The Cost /Benefit Analysis of drilling to all parties far exceed the costs to the “Environment”.

**Forecast for Texas Real Estate Investors by
Property Type 2005 - 2010
(continued)
Land/Mineral Rights in North Texas
(continued)**

- Retain your mineral rights in *any* contract when you sell *any* property-even houses! Better yet, deed the mineral rights “out” to another entity.
- Baen’s firm has land planned and negotiated over 12,000 acres of leases and personally coordinated the drilling of over 80 wells in the last 24 months.
- When buying development or rural land check for leases and leases details...be educated about oil and gas! See oil and gas articles by Baen at www.coba.unt/firel/baen.
- Get a lease then find unbiased and experienced help. Check references of land owners with completed wells for any consultant, attorney, or “expert,” etc.

Fort Worth Housing Trends 2005 - 2010
By John S. Baen Ph.D.
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Tarrant County Convention Center
January 18, 2005

- Foreclosures Rates will continue to increase in 2005 (1,000 in December 04) due to low loan standards in 2003 -2004.
- Interest Rates will increase causing bigger demand for affordable houses
 - New starter homes and Retirement homes (<\$150,000)
 - Young professionals (with brains)
 - Newly weds
 - Baby Boomers moving “down” for retirement
 - Empty nesters
 - New Americans
 - 1500sq.ft, \$150,000/5 - 6 lots per acre
 - Small yard to water and maintain
 - Superior construction and energy efficient
 - Growing areas with increasing tax base
 - Superior schools (Northwest ISD, etc.)
- Loan Standards in originations and sale of mortgages will increase as foreclosures increase in various types of house price ranges.
 - Down payments- up
 - Higher credit scores - up
 - More cosigners - required
- Higher Mortgage Insurance Standards (FHA, VA, PMI)
 - Home Appreciation Rates will vary:

TYPE	PRICE	FUTURE	APPRECIATION
Starter/Senior	<\$150,000	Booming/	+10-12%
Move-up Homes	\$175K - 250K	Flat	+0-3%
	\$275K - 400K	Falling	-10%
Luxury	\$500K - 1 Million	Crash	-20-%

- **New City Development standards and fees to home costs and will add a real burden to Total new home and may really hurt new home sales cost ...transfer growth to other communities**
 - **Park requirements**
 - **Park fees per acre of parks**
 - **Inspection fees vs bonding**
 - **Road/future road dedication and costs to be past on to home price**
 - **Lot sizes/density (keep them affordable!)**
- **Starter homes are the springboard to new citizens who will move to larger homes later...and will want to stay in Fort Worth!**
- **Move residents = more taxes = larger population = move Federal/Political Power and Grants/Programs!**
- **Foreclosure in North Texas will continue to increase in 2005 due to low loan standards in 2003/2004.**
- **New inner-city developments, town homes, high rises, and condo projects are booming: (at least one (1) major failure within 24 months)**
 - **Young professionals**
 - **Retired and semi-retired professionals**
 - **Overbuilding occurring**
 - **Resale potential and appreciation are worrisome and will ultimately determine this market as “real”.**
 - **Many resale units will become rentals.**
- **Rural mobile home boom is really slowing down:**
 - **County subdivisions ordinances**
 - **Environmental issues**
 - **High-very high-default rates (\$85,000 packages with 1 acre home sites are reselling for \$35 - 45K @ taxpayer expense)**
 - **Negative “appreciation”**
 - **Fractional resale rates at public auctions, tax sales, etc.**
 - **Foreclosure inventory**
 - **Loan standards are increasing**
 - **Community standards as increasing**
 - **Sanity of buyers improving!**
- **Upscale retirement communities:**
 - **Booming in Texas**

- **Aggressive sales of new units**
- **Current residents seem to enjoy the lifestyle**
- **Surprising strong starts and sales**
- **Unproven appreciation and resale track record (untested)**

Forecast for Texas Real Estate Investors by Property Type 2005 -2010

Texas Apartment Market

- Investment performance projection:
 - Class “A” luxury \$1,000/month+ = weak
 - Class “B” average: \$ 850/month = “flat”
 - Class “C” old: \$ <500/month = strong
- DFW apartment market “average” occupancy: 89%
- Units under construction will be reduced in 2005
- Absorption will be steady, if interest rates peak, a huge increase
- Student apartments in every major university town are *extremely* overbuilt: Denton, college station, Arlington, etc.
- All bills paid “class” units are struggling *to pay all the bills.*
(Example: \$375/month efficiencies in Denton),
- The Texas Apartment association (TAA) has funded a Chair at UNT for research and teaching the RPM Program Residential Property Management/TAA Chair is endowed with \$500,000.
- More Apartment = More home sales later
- More Apartments = Large affordable workforce for new North Texas Industries!

Fort Worth Retail Trends 2005-2010
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Tarrant County Convention Center
January 18, 2005

- Retail Sales are up 3.2 % but includes cars (real 1.3%)
This has sales tax consequences to cities
- Local/US Franchises will continue to expand overseas (Radio Shack, Sally Beauty Supply, Kinkos, etc.)
- 2004 saw record retail leasing at levels 75% above 2003 (DMN Jan.05)
- Families will continue to fund retail purchases at increasing credit card debt/home equity levels rather than by increased income or savings...CAUTION! Interest rate increase on credit card balances could shut down retail sales and increase bankruptcies.
- As consumer prices fall, due to Wal-Mart and falling cost of Chinese labor, prices will fall, shrinking profit margins for retailers.
- Clothes prices will crash (cotton and labor prices are falling)
- Grocery chains with 1% profit margins will be under pressure (Wal-Mart Groceries now). This will cause at least one major grocery chain to fail or be merged.
- Free standing retail will be under pressure (small retail boxes)
 - Schlotzkies (Filed Chapter 11)
 - Blockbuster (under internet pressure)
 - Krispy Kreme Donuts (still 300 calories each)
 - Starbucks (an expensive place to see people @\$4.00/cup of coffee)
- Cities who fight super Wal-Marts will only lose tax revenues to another city
- Tarrant and Dallas County Car Sales will crash (2/3rds of total retail sales) as dealerships and buyers “drive a little” and save a lot. (Taxes and dealer real estate costs are lower further out)

Fort Worth/DFW Office Trends 2005 - 2010

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Tarrant County Convention Center

January 18, 2005

- **North Texas Regional and National Companies Occupancies rates are increasing greatly (They often own vs lease)**
 - **Radio Shack (own) Regional/National Company**
 - **Sally Beauty Supply (own) New HQ Building in Denton - 3,000+ Stores**
 - **Country wide Leasing on North Beech Street (huge news - *Marketing Loans, Servicing, Collections)**
 - **Centrex Mortgage...huge expansion**
 - **Banks are expanding in many growing areas with branches etc,**
 - **Local and National Oil and Gas Companies (TXO, ENCAN, Devon, Quicksilver, etc. as part of the Barnett Shale Fabulous Gas Field - 8 Counties)**
- **Limited New Inventory of offices being built**
- **Conversion of older Office Buildings to Condo Residential**
- **New Suburban Professional Office - Largest Opportunity**
- **Consolidation of space form several locations to one seems to be a big trend leaving vacancies in the smaller buildings.**
- **Predictions One (1) very large building being announced for the Oil Industry . . . major building . . . another Enron Deal?**
- **Booming Education and University Enrollments**
- **Construction booms will occur as college students' flock to TCU, UTA, UNT, and T.C.C.C.**
- **Enrollments are at 100% capacity even after 30% increases in tuition.**
- **Real Estate Investment opportunities will follow**
- **Private downsizes/student housing apartment deals have been exhausted and have impacted local apartment occupancies**

**Forecast for Texas Real Estate Investors
by Property Type 2005-2010
(Continued)
North Texas Industrial Outlook**

- Oil and gas activities will offer a huge increase in supplies and equipment storage opportunities.
- Toyota chose south San Antonio for their largest plant, purchasing 2,000 acres. Cars produced in USA will help Alliance and City of Fort Worth.
- Manufacturing buildings will remain soft with vacancies a concern.
- Regional opportunities in Texas
 - Alliance will become powerhouse for jobs and warehousing
 - Military towns/Fort Hood/Wichita Falls/etc. Are having constructions booms (Iraq effects when war is over?)
 - New Trans-Texas I-35 toll road will change urban growth pattern.
- Manufacturing uses will generally shift to low-cost storage and the competing Class “D: office/retail vacant space.
- While manufacturing indexes are increasing, there are fewer workers needed and higher automation.
- High-Tech Military hardware and airplanes will be severely impacted by the new “Low Tech” wars to be fought in the future. (\$40 million aircraft per copy being replaced with \$200 assault weapons and shot guns for new urban/gorilla warfare.)
- Less effect need to be utilized try to attract manufacture jobs that will continue going overseas. Many vacant buildings are available now all over the US (i.e. TI plant in Denton sold for \$9 million and cost (\$25+ Million).
- Move light Industrial/Affordable small business location and tracts of land (2+ acres) are in huge demand:
 - Small tracts of land
 - Metal buildings for repair shops
 - Affordable rents
 - Plain-Jane cheap buildings need for small business!

Tarrant County Real Estate Projections and Forecasts 2005 – 2010
Tarrant County Convention Center
January 18, 2005
By John S. Baen Ph.D.
University of North Texas
College of Business Administration

- **Traffic and Travel times will increase and worsen by 30 – 50% on 35-W, 820, 114, 183, and I-20 and I-30.**

Why?

- **Arlington Stadium**
- **Jobs transferring from Dallas to Fort Worth**
- **Alliance Jobs/Growth**
- **DFW Airport Avon West development**
- **Bottle necks around DFW Airport**
- **More Retail Traffic**
- **The new “captured” land lock resident**
- **Many will opt due to traffic will be a reality to go through downtown Fort Worth and give up on 820**
- **The only thing worse than getting to DFW Airport will be trying to get around it to Dallas**
- **New toll roads will change urban growth trends forever**
- **Tourism will continue to blossom with increasing foreign visitors. The new Gaylord Project and stockyards “Lake/Riverwalk” projects will try to short stop San Antonio, Convention and Tourism with same “Atmosphere”. (Tourism Cohesive)**
 - **Tourism employment will attract low paying jobs...housekeeping, porters, cooks, etc,**
 - **Hotels, Restaurants and Tourist attractions will pay serious property taxes and sales/occupancy taxes**
 - **Hotels/motels along interstate will do very well**
 - **Hotels requiring public bonds are worrisome. Let the private market work!**
 - **The New Dallas Cowboy/Arlington project will be slow to happen although fully funded...the cost benefits analysis**

may hurt Arlington's fiscal status but raise their "Brand Name,"

- **Texas Motor Speedway will become extremely important and even more profitable with additional races and events.**

Conclusion
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- Texas is the only place to be for the next decade.
- Many more people will be moving to Texas:
 - New Americans
 - Military families
 - Retirees returning to Texas
 - Snowbirds that stay
 - New Businesses
 - New corporate headquarters
- Any investor who has:
 - Borrowing power
 - Reasonable credit
 - Long-term views
 - Staying power
 - Adequate equity
 - And a *hair* brain—should do well in real estate.

<http://www.coba.unt.edu/firel/realesate/REALnewsletter.pdf>