

# Special Research

## R E P O R T

Marcus & Millichap

The State of Texas

Fall 2008

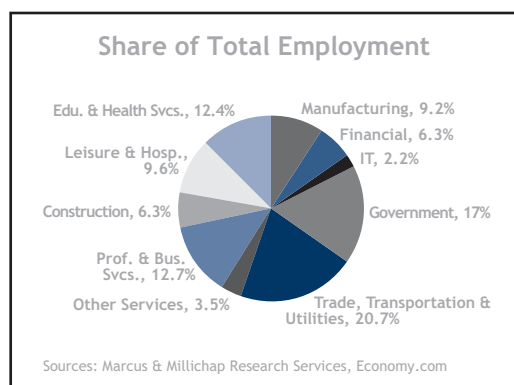
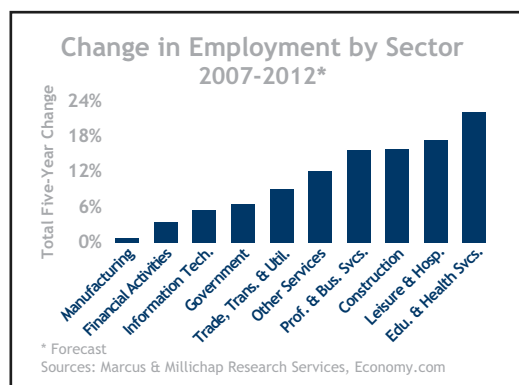
## TEXAS BOASTS STRONGEST ECONOMY IN THE NATION THIS YEAR

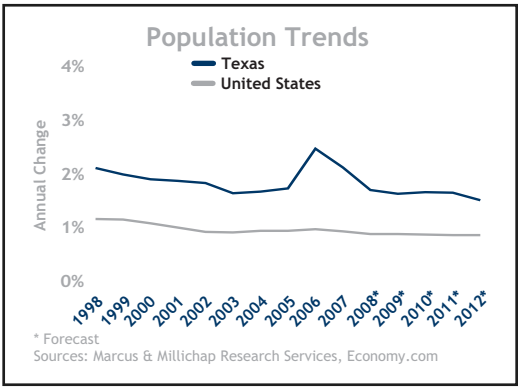
Nation-leading job growth continues to set Texas apart from the floundering national economy. With the addition of nearly 155,000 jobs through July, a 1.5 percent gain over year-end 2007 and a 2.4 percent bump from July of last year, employment gains have provided the state with an unaccompanied position at the apex of the U.S. job market. Indeed, no other state comes close to Texas in terms of absolute job growth, while only two have recorded similar percentage gains. The state's largest metros were all included in the nation's top 10 metro areas with more than 500,000 residents for employment growth through July, with Dallas/Fort Worth and Houston ranking first and second, respectively. In Houston, however, employment gains will likely be mitigated in the aftermath of Hurricane Ike.

Strong population gains also persist in Texas, as housing affordability and expanding payrolls are enticing in-migration. Population growth has averaged nearly 2 percent annually since 2000 and is expected to stay in the high-1 percent range through 2010. The state's median age is currently 33 years old, four years younger than the national median. Additionally, only 10 percent of the population is older than 65, compared with almost 14 percent for the nation. As a result of these demographic trends, population-driven industries have led the Texas market in job growth over the past several years, a trend expected to continue through the foreseeable future. In fact, the state's educational and health services sector is poised to generate over 275,000 new positions through 2012, an average annual increase of 3.2 percent.

In other industries, elevated oil prices have bolstered energy employment in Texas, recording growth of 8.1 percent so far this year, after a 9.6 percent gain in 2007. Approximately 50 percent of employees in the U.S. oil and gas extraction industry work in Texas. It has taken more than the energy industry and oil, however, to facilitate robust population growth during the last 20 years; without a doubt, the region's diverse employment base has served as the primary driver behind the state's robust population increases. As such, Texas has become one of the nation's leaders in expanding private enterprises. A positive attitude by companies toward doing business has been further amplified by a low cost of living and an economy that is more globally integrated than other states. According to a recent Manpower survey, 31 percent of Texas firms planned to grow in the third quarter of 2008, compared with 26 percent of employers nationwide.

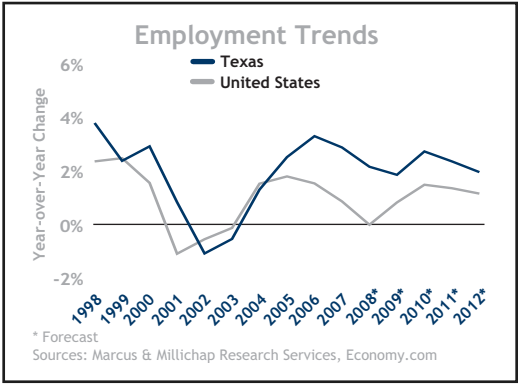
Following the economic plunge spurred by the dot-com bust, Texas' technology industry has been steadily recharged, with significant inroads made over the past two years. Both Applied Micro Circuits and Google plan to expand their software design operations for state facilities. Sun Microsystems' Ranger supercomputing system, brought into production in February, is one of the vital drivers for this growth. Persistence of these encouraging trends will allow the state's economy to remain one of the healthiest in the nation during the current national turmoil.





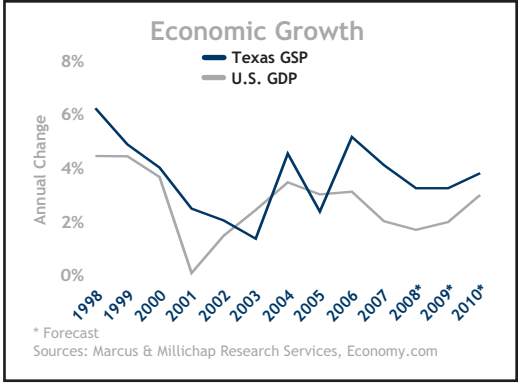
## DEMOGRAPHICS

- ◆ Texas' population continues to expand, fueled by solid job growth and a high quality of life. In-migration is forecast to average almost 142,000 residents annually through 2012.
- ◆ The state's population is expected to grow by 1.6 million people through 2012, an average annual increase of 1.6 percent, nearly twice the national average. The four largest Texas metros are all forecast to average population gains in excess of 2 percent per year over the same period.
- ◆ Incomes are steadily increasing across the state, with the median household income expected to rise nearly 13 percent by 2012 to almost \$56,000 annually. Currently, median household incomes are highest in the Dallas/Fort Worth and Austin metros at approximately \$55,500 per year and \$54,200 per year, respectively.



## EMPLOYMENT

- ◆ Employers in Texas continue to buck the national employment trend by adding positions at a robust pace. Payrolls are expected to expand by a nation-leading 1.8 percent in 2008 with the addition of nearly 250,000 positions. Job growth is forecast to average 2.2 percent annually through 2012.
- ◆ The educational and health services and leisure and hospitality sectors are projected to record the most significant expansion in terms of percentage growth through 2012, adding 22.1 percent and 17.4 percent to their respective headcounts. Combined, the two sectors will create almost 550,000 jobs by 2012, accounting for 40 percent of the state's work force expansion.
- ◆ In the trade, transportation and utilities sector, the state's largest employment division, and the professional and business services sector, employers are forecast to generate just under 400,000 workers through 2012. Moreover, strong housing permitting activity will necessitate approximately 100,000 additional jobs in the construction sector.

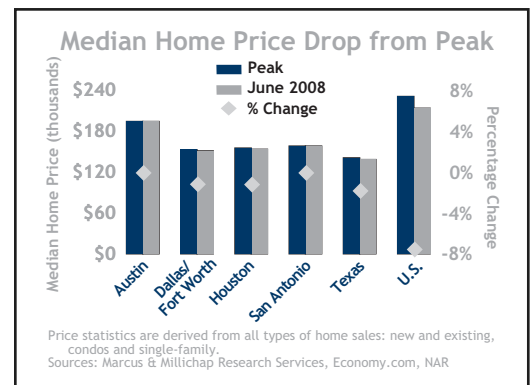
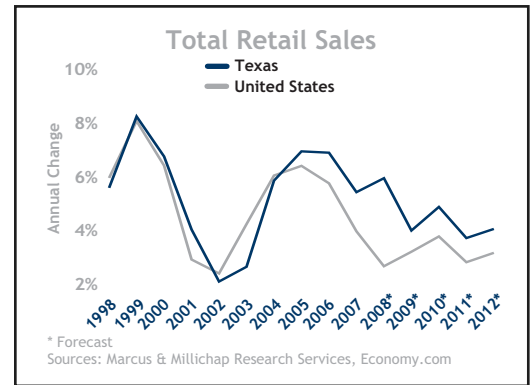


## ECONOMY

- ◆ The Texas economy remains more favorable than that of the nation, driven by a powerful energy sector and significant gains in service-producing industries. Economic growth in the state has exceeded U.S. GDP for eight of the last 10 years and is expected to do so again in 2008, with Texas GSP growing 3.3 percent, compared to the national rate of 1.7 percent.
- ◆ Texas is historically a top performer, even in periods of national economic hardship. During the recession of 1990-1991, the state's companies did not shed jobs. More recently, through the 2001-2003 economic downturn, employers cut around 1.4 percent of the state's work force, while the national average reduction was 1.8 percent.
- ◆ Austin has led the state in GMP growth for seven of the last 10 years, averaging a robust 6.5 percent annual expansion. Growth is expected to stall this year but remain well above the national rate for 2008, at 4 percent. Additionally, GMP growth in the metro is forecast to average over 5 percent per year through 2012. Houston will lead the state in GMP gains this year, propelled by strong performance in the energy sector. GMP growth in the city is expected to finish 2008 at a hearty 4.4 percent and average 3.7 percent annually through 2012.

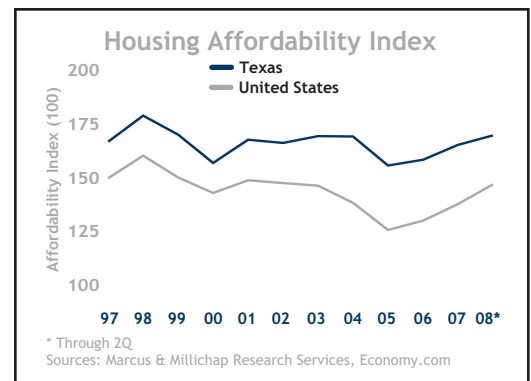
## RETAIL SALES

- ◆ High home affordability, solid income gains and nation-leading job growth are rapidly increasing the state's population, boosting consumer spending. Over the past 12 months, retail sales in Texas have risen nearly 5.4 percent, exceeding the national rate of 3 percent. Although a modest slowdown will occur, retail sales growth in the state is expected to remain healthy in the mid-4 percent range through 2012.
- ◆ Retail sales in the Austin metro have advanced 7.5 percent during the last year due to the market's expanding population. Population growth and sales of big-ticket items will generate retail sales in the city, with gains projected in the low-7 percent range, one of the highest rates in the country.
- ◆ Retail sales expansion of 3.6 percent this year is expected for the Dallas/Fort Worth Metroplex, after sales climbed 4.3 percent in 2007. Much like other Texas metros, population gains driven by affordability and robust job growth will facilitate increased retail sales throughout the region.
- ◆ Retail sales growth for Houston will be buttressed by an expanding job market and population, both of which are being fueled by strong gains in the energy sector. Employment growth of 3.6 percent in this segment has helped to facilitate population expansion of nearly 120,000 residents over the last 12 months, providing for a 5.2 percent bump in local retail sales. In addition, billion of dollars in federal and insurance funds flowing into the market after Hurricane Ike will boost retail sales into 2009.
- ◆ Annual retail sales gains in San Antonio have slipped to 4.9 percent during the past year, still well above the national average. Sales growth is anticipated to slow further in the second half of 2008 to 3.8 percent, with an annual average in the high-3 percent range expected through 2012.



## HOUSING

- ◆ Unlike many areas of the country, Texas has not recorded significant turmoil in the residential real estate market. While statewide prices have increased nearly 35 percent since 2000, the median home price has dropped just under 2 percent from a peak of \$141,000 in August of 2007. The national median has risen 42 percent since the beginning of the decade but declined 10 percent from its peak.
- ◆ As of July, home prices were up in all but one of Texas' largest metros, Dallas/Fort Worth. The median home price in the Metroplex had dropped a modest 1.1 percent from July of last year, identical to what was posted for the entire state during that period. The U.S. median home price fell 6.8 percent during the 12 months ending in July 2008.
- ◆ Affordability is one reason the Texas population continues to swell. With a median home price that is currently about \$75,000 below that of the nation and a median household income of almost \$50,000 per year, almost equal to the U.S. median, housing in Texas remains among the most affordable in the country.
- ◆ After dropping 27 percent last year, permitting activity for single-family homes is expected to decrease 26 percent in 2008. Nonetheless, permits will total nearly 89,000 units this year, still well above the annual average from 1980 to 1999. Robust population growth, however, is expected to necessitate additional housing, allowing permitting activity to pick up from 2010 through 2012 to levels last posted earlier in the decade.



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## TEXAS HIGHLIGHTS

According to the Real Estate Center at Texas A&M University, "Despite recent falls in oil prices, the state's natural resources and mining industry continues to create more jobs. The industry posted an annual employment growth rate of 7.3 percent from August 2007 to August 2008 and ranked first among Texas industries in employment growth rate."

New York-based economic development firm Development Counsellors International recently asked 281 corporate executives to vote for the top U.S. state for conducting business. For the fourth year in a row, Texas ranked first in the nation, with almost 41 percent of the top votes.

Consulting firm OCO Global ranked Texas at No. 1 nationally for foreign direct investment in 2006 and 2007, with over \$14.9 billion invested into the state in 2007. The ranking validates Texas' ability to compete in both the domestic and global marketplaces by highlighting its favorable business climate and proximity to other large markets.

Per the November 2007 issue of Site Selection, "Texas ranked No. 1 according to corporate real estate executives across the country polled for the Executive Survey Business Climate Rankings 2007." Texas was also named the nation's No. 1 state in the 2007 Legislative Quotient by Expansion Management magazine for the most business-friendly legislative climate.

From an editorial in The Wall Street Journal, dated March 8, 2008: "El Paso, San Antonio and Houston have become gateway cities for commerce with Latin America and have flourished since the North American Free Trade Agreement passed Congress in 1993. Texas has gained 36,000 manufacturing jobs since 2004 and has ranked as the nation's top exporting state for six years in a row. Its \$168 billion of exports in 2007 translate into tens of thousands of jobs."

Texas continues to lead the nation in wind capacity added to the electric grid. The state's cumulative wind-generating capacity, at 4,356 megawatt, is 26 percent of all wind power installed in the United States, according to the American Wind Energy Association in January 2008.

Texas also ranked as the No. 1 U.S. exporting state for six straight years; Texas' exports were approximately \$168 billion in 2007, representing an 11.45 percent increase from the preceding year, per WISERTrade in February 2008.

Business Facilities magazine listed Texas as the 2007 State of the Year. The publication's first annual ranking ranked Texas at the top of the nation by the most economically significant relocations and expansion projects.

In April 2008, FORTUNE magazine ranked Texas No. 1 for the number of firms on the 2008 FORTUNE 500 list, with 58 companies headquartered in the state. Texas was also placed at the top in the 2008 FORTUNE 1000; 113 companies are headquartered in the state.