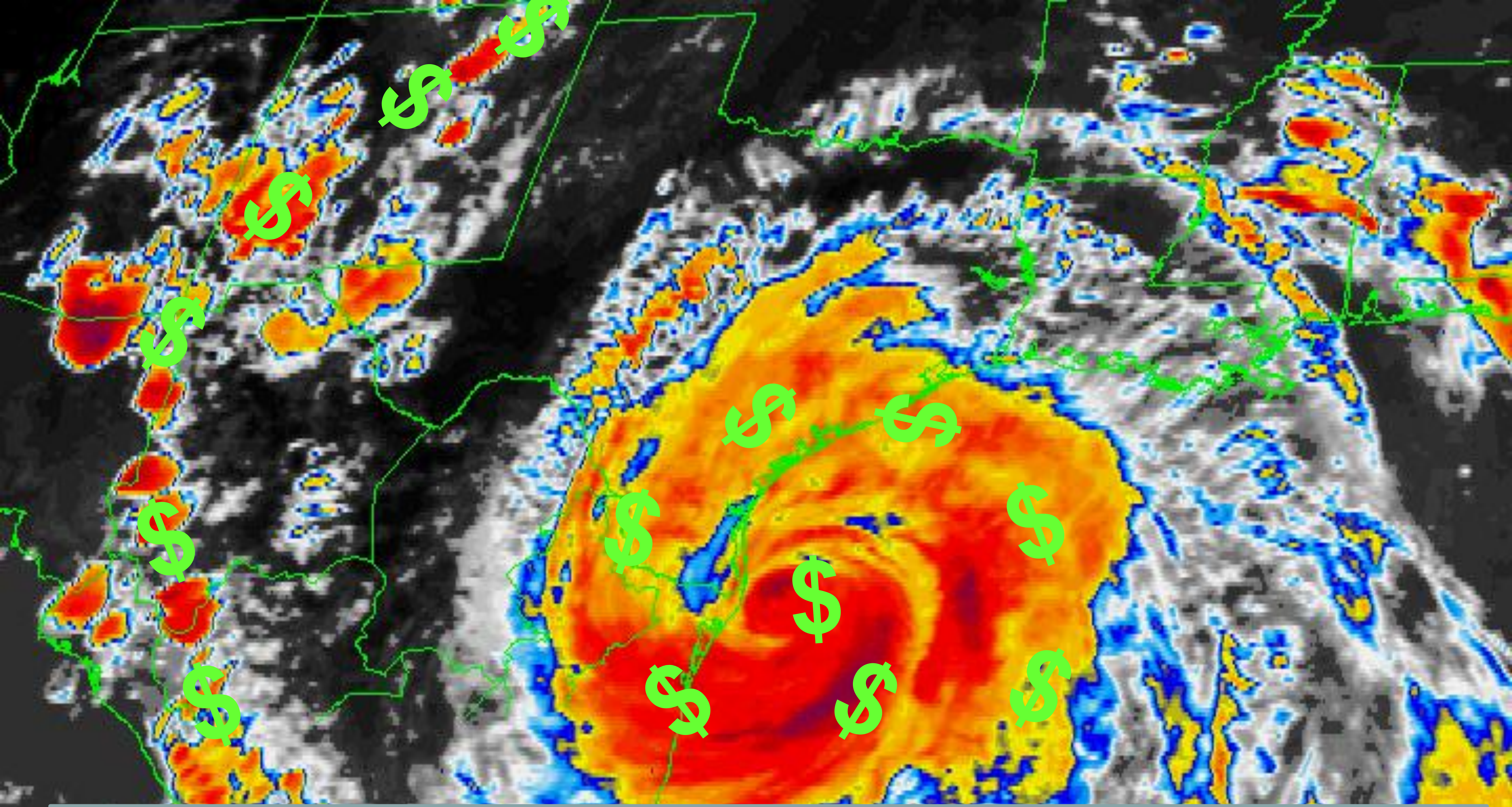

Things Are Looking Up After the Economic Hurricane
An Economic and Real Estate Outlook for 2013

Ted C. Jones, PhD, Chief Economist, Stewart Title Guaranty Company

Mega Themes

- Time to Over Weight in Real Estate
- Residential Renting vs. Owning
- Fiscal Cliff – Deficit, DEBT CEILING, Entitlements
- Massive Uncertainty from Washington, DC…… and Stalemate Once Again From the Election

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Capital Gains Rate in 2013?

Was 15 Percent

20 Percent for some

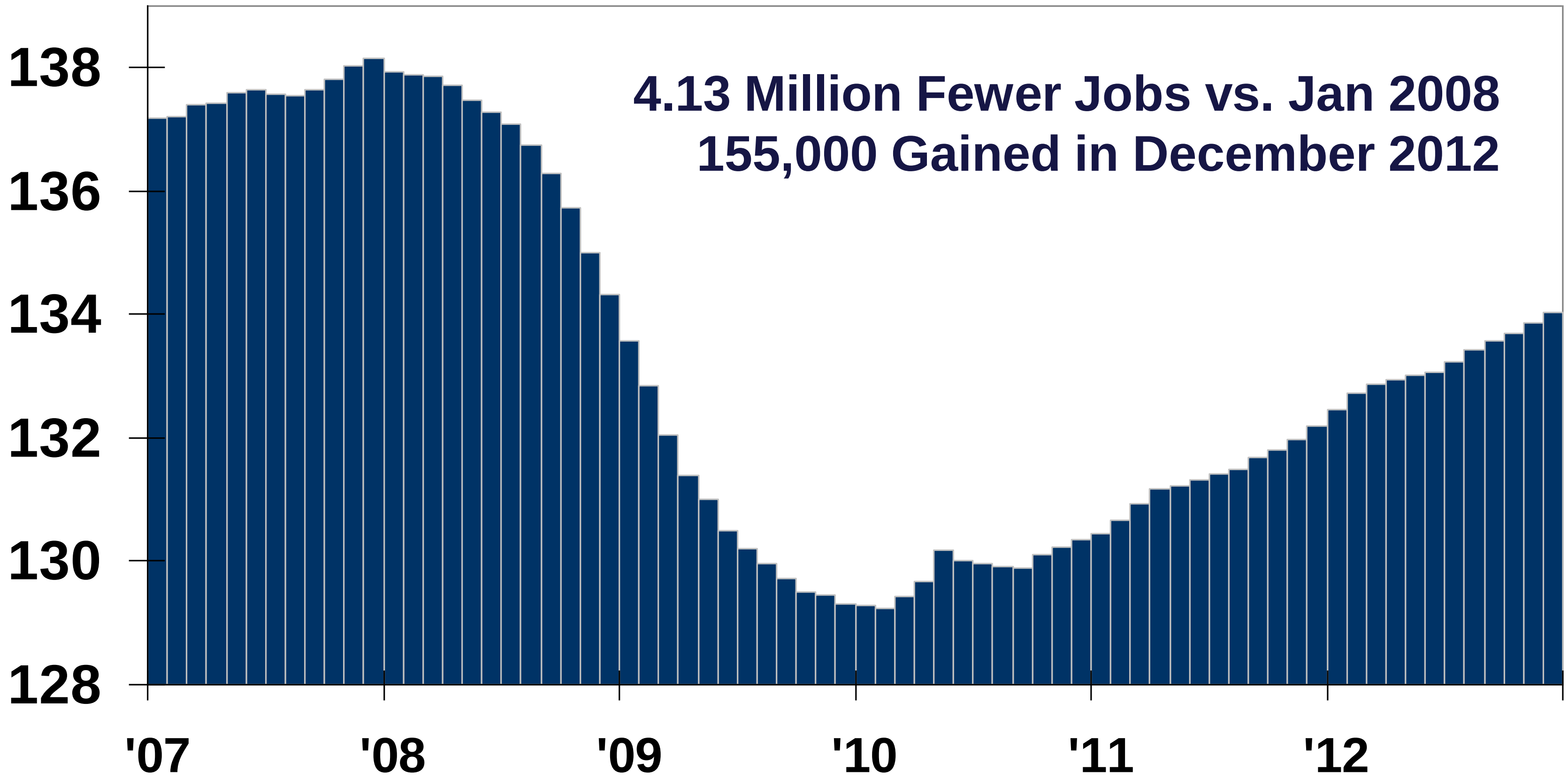
3.8 Percent Obamacare Tax

SO Minimum increased 23.8 Percent

It is Still on the Table……

U.S. Job Numbers

Jobs (Millions) *Seasonally Adjusted*



Bureau of Labor Statistics

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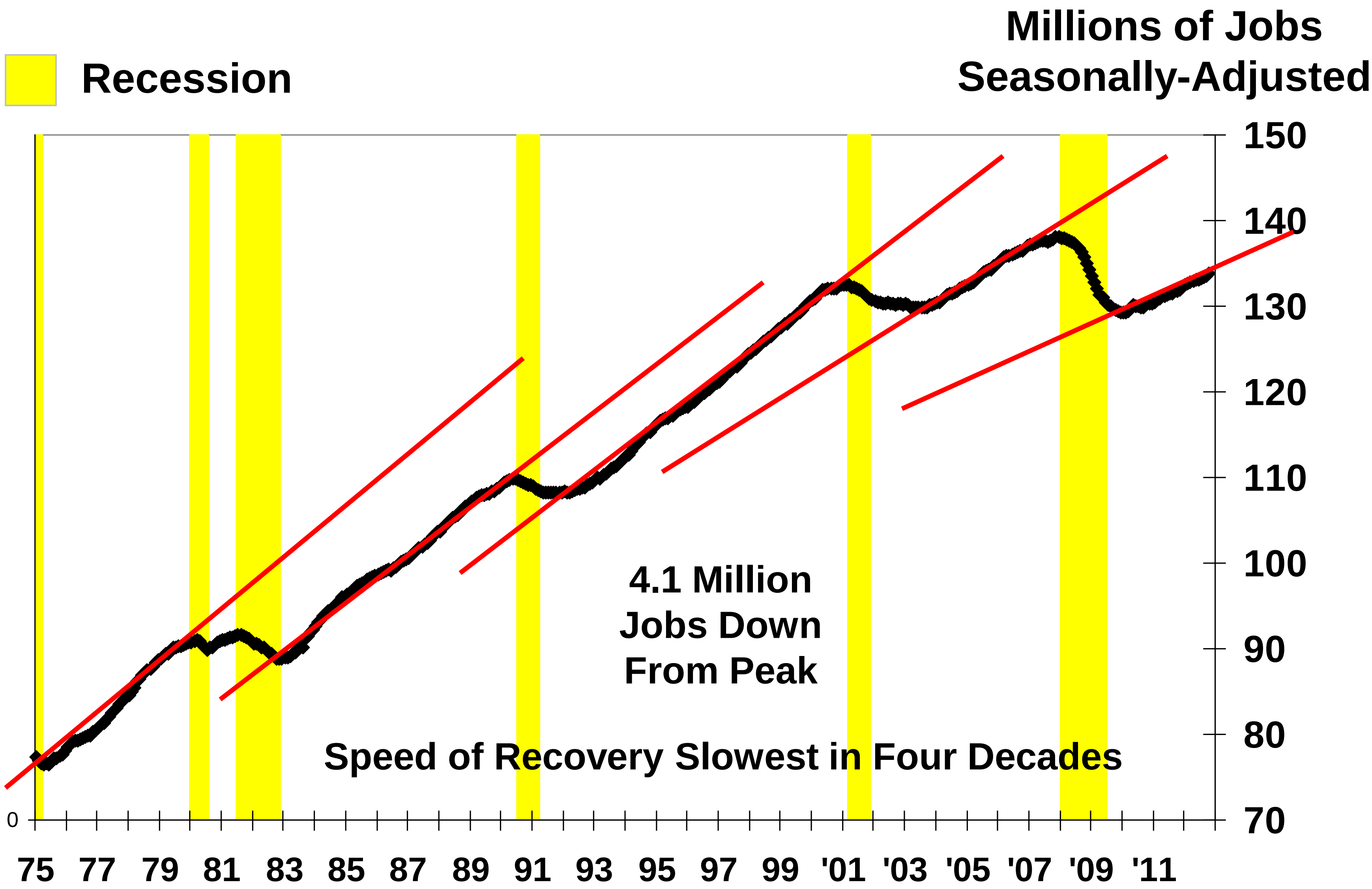
U.S. Job Numbers



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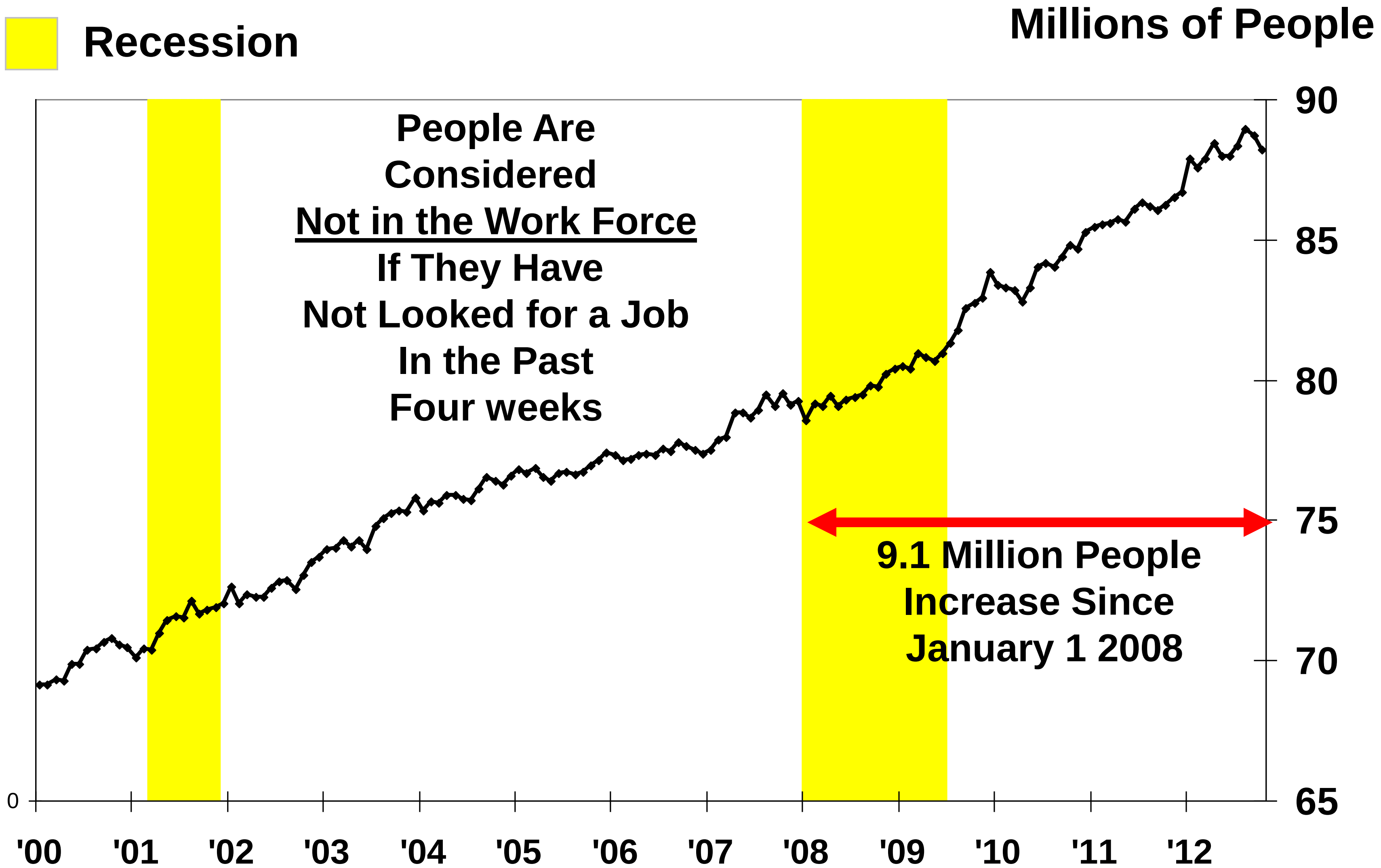
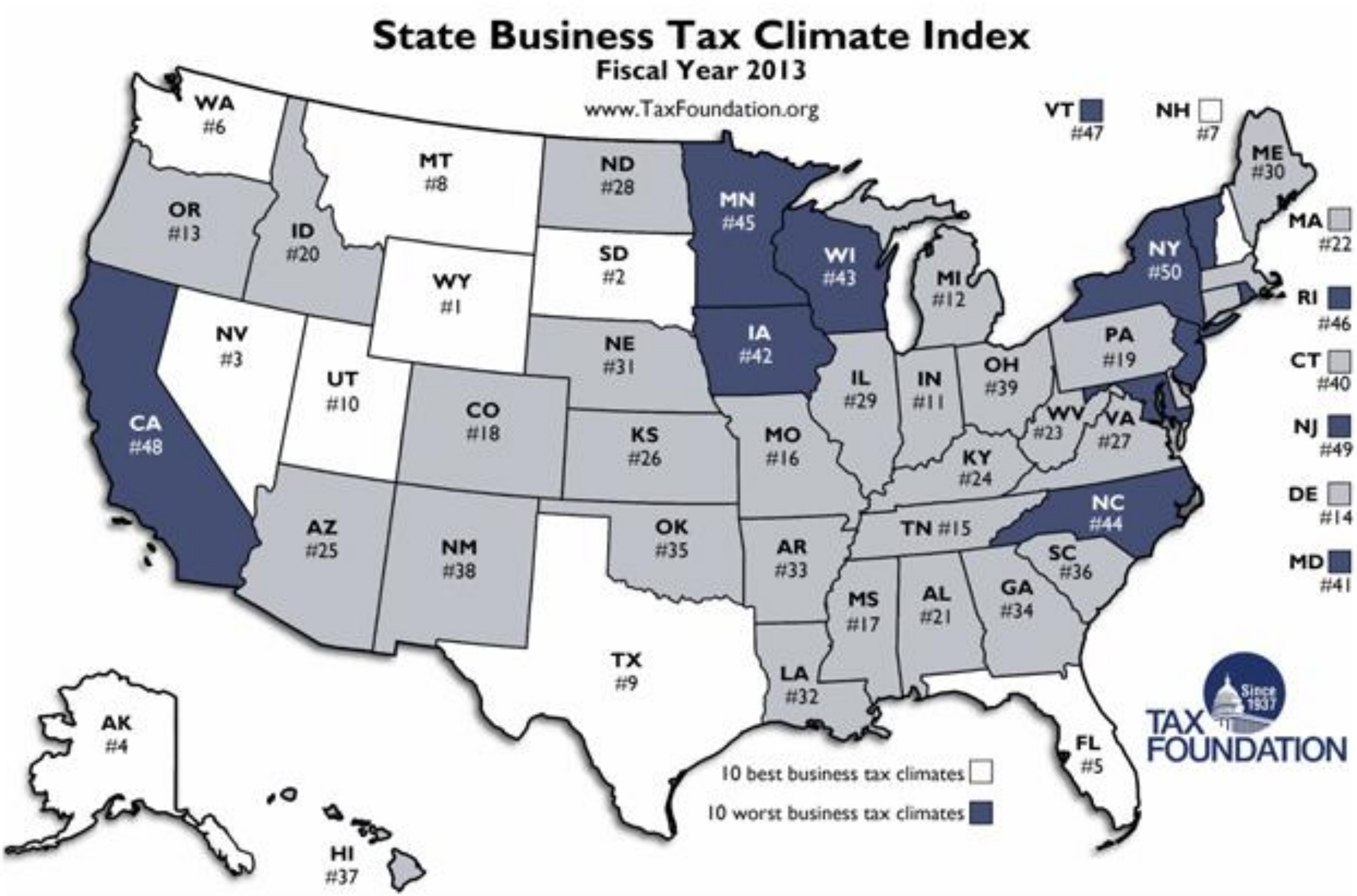
Not in the Work Force – *Seasonally Adjusted*



Texas – 9th Best Business Tax Environment



http://taxfoundation.org/article/2013-state-business-tax-climate-index

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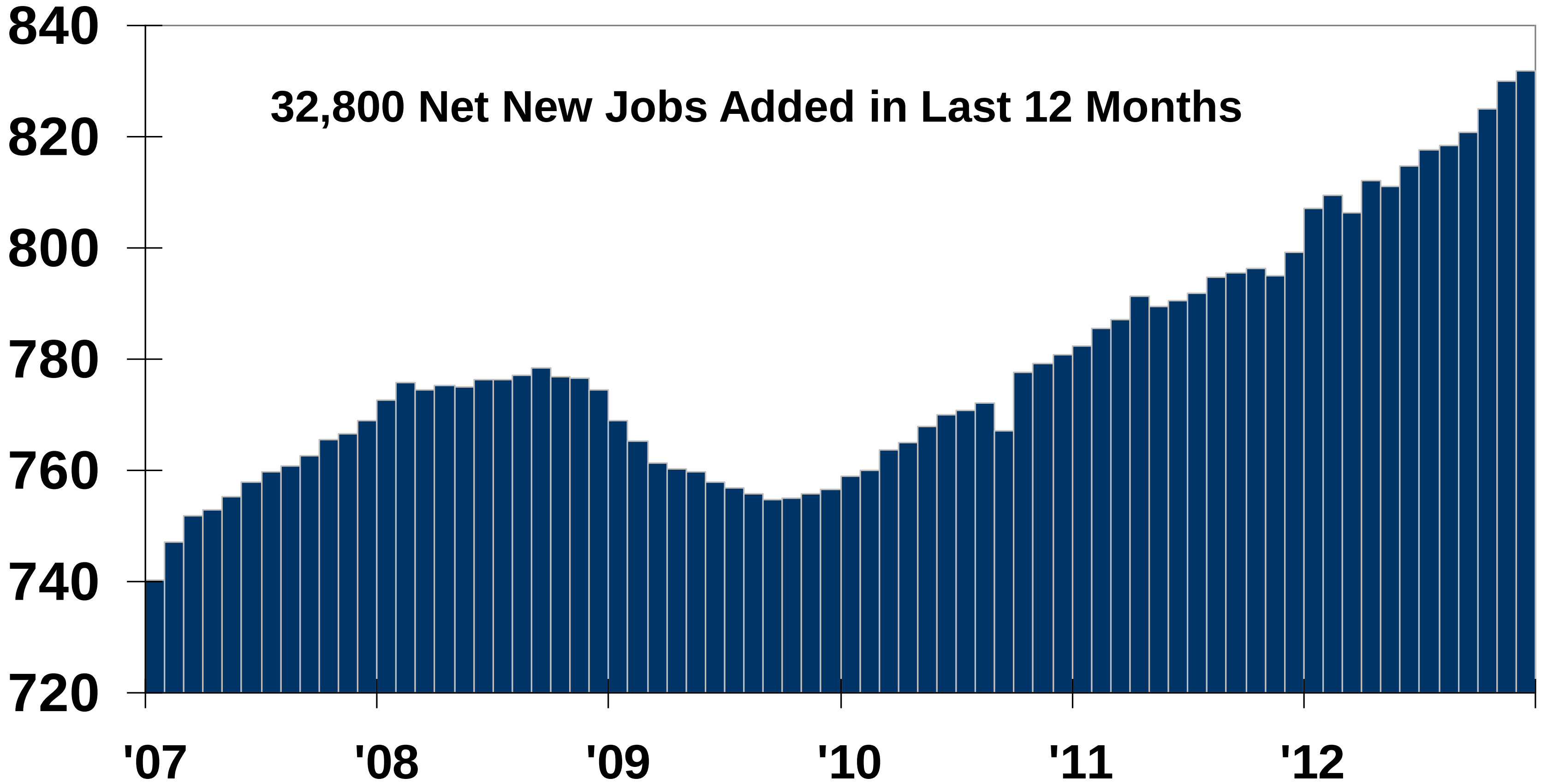
Austin-Round Rock MSA Jobs

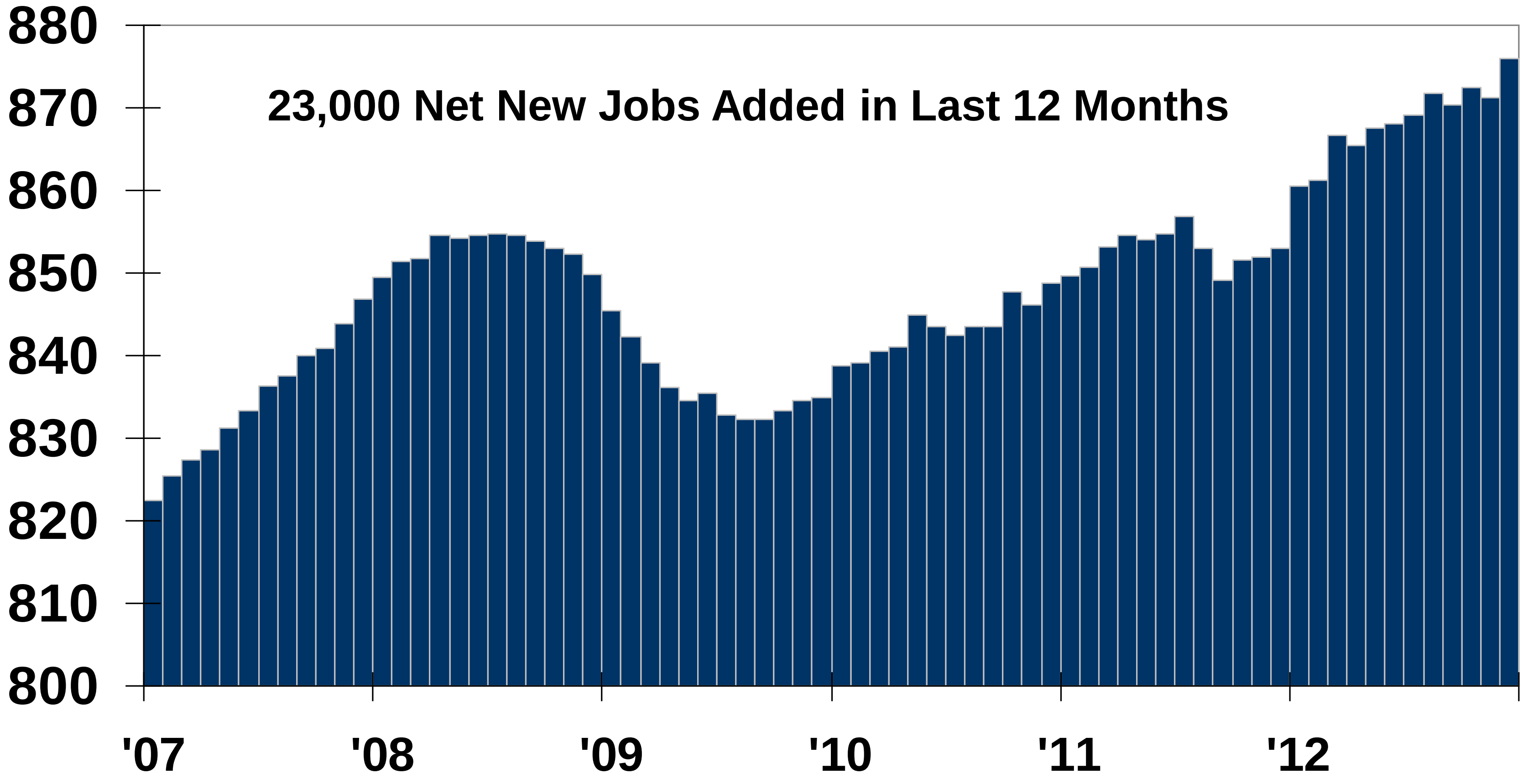
Jobs (Thousands) *Seasonally Adjusted*



Bureau of Labor Statistics

San Antonio MSA Jobs

Jobs (Thousands) *Seasonally Adjusted*



BUREAU OF LABOR STATISTICS

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Liquidity Has Returned to Commercial Real Estate

* 30 to 35 Percent Equity
* 125 Percent Debt Coverage Ratio
* Quality Tenant(s)
* Longer-Term Lease

Dichotomization of Commercial Real Estate Properties

* Those That Qualify

* The Rest are Considered Distressed Real Estate

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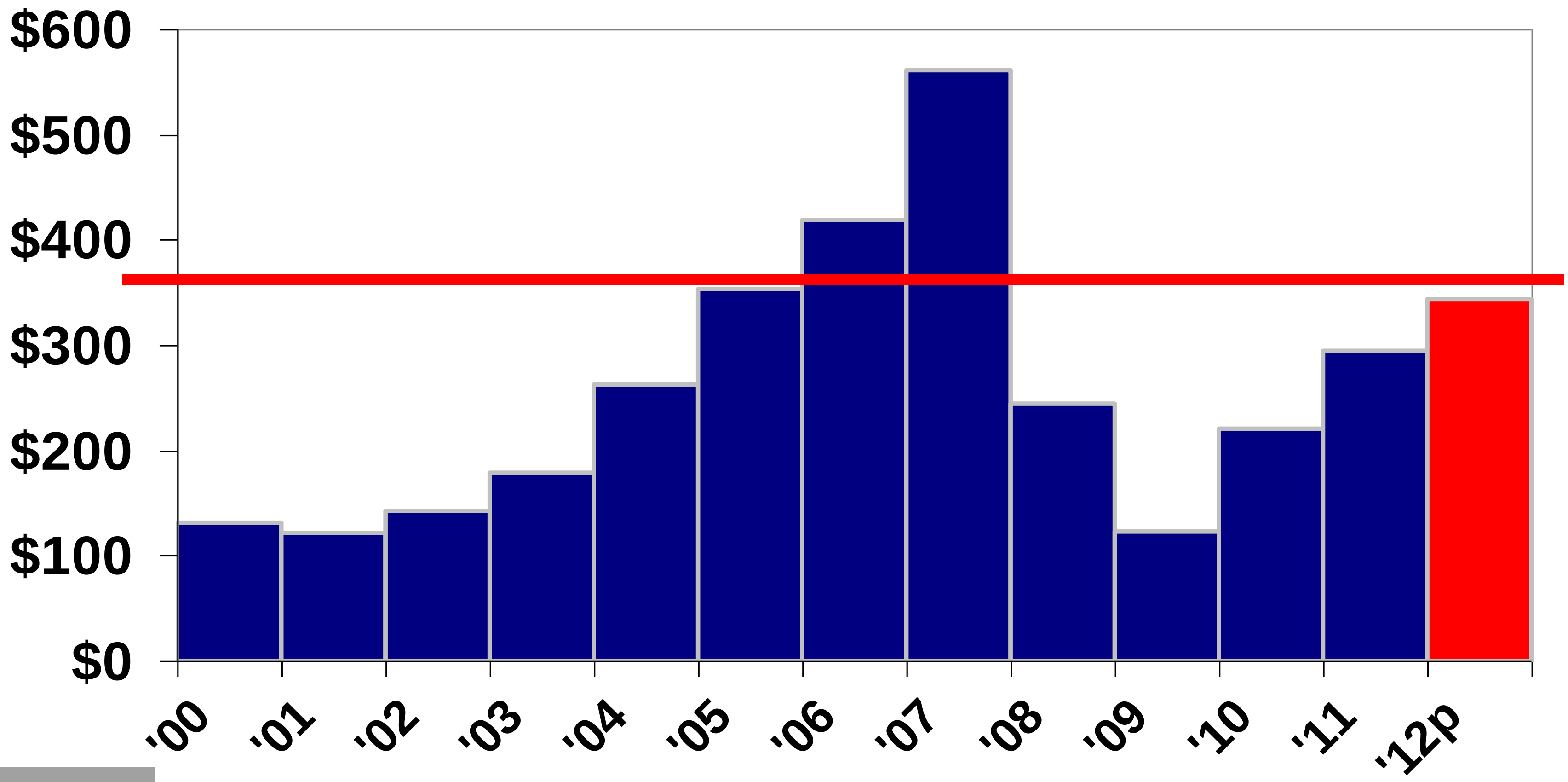
Commercial Real Estate Sales Volume

$ Billions




got land ?
www.yougotland.com

2011 Commercial Real Estate Sales

Percent Change 2010 to 2011

	$ Billions	Percent Change
All Types	**$ 291.6**	**32%**
Office	**$ 74.0**	**39%**
Multifamily	**$ 62.1**	**46%**
Retail	**$ 58.7**	**43%**
Industrial	**$ 35.9**	**8%**
Hospitality	**$ 20.9**	**32%**
Land Sales	**$ 19.6**	**-14%**
Other	**$ 20.5**	**76%**

Source: CoStar

Functionally Obsolete Properties

Barcenas
Jungle Jim's
VF Outlet
Gulfway Plaza
Fitness Evolution
Gulf Fwy
Gulf Fwy
Gulf Fwy
45
45
4710
9400
312


Orange Maple Ct
Field Green Dr
Cypresswood Dr
Pine Valley
Cumberland Oak Way
Pebble Pine Trail
Fairfield Pl
Cypresswood Dr
Fairfield Falls Way
6
Northwest Fwy
290
Hempstead Rd
290
6


Gulf Fwy
45
17
Gulf Fwy
Tanger
Outlets

NCREIF

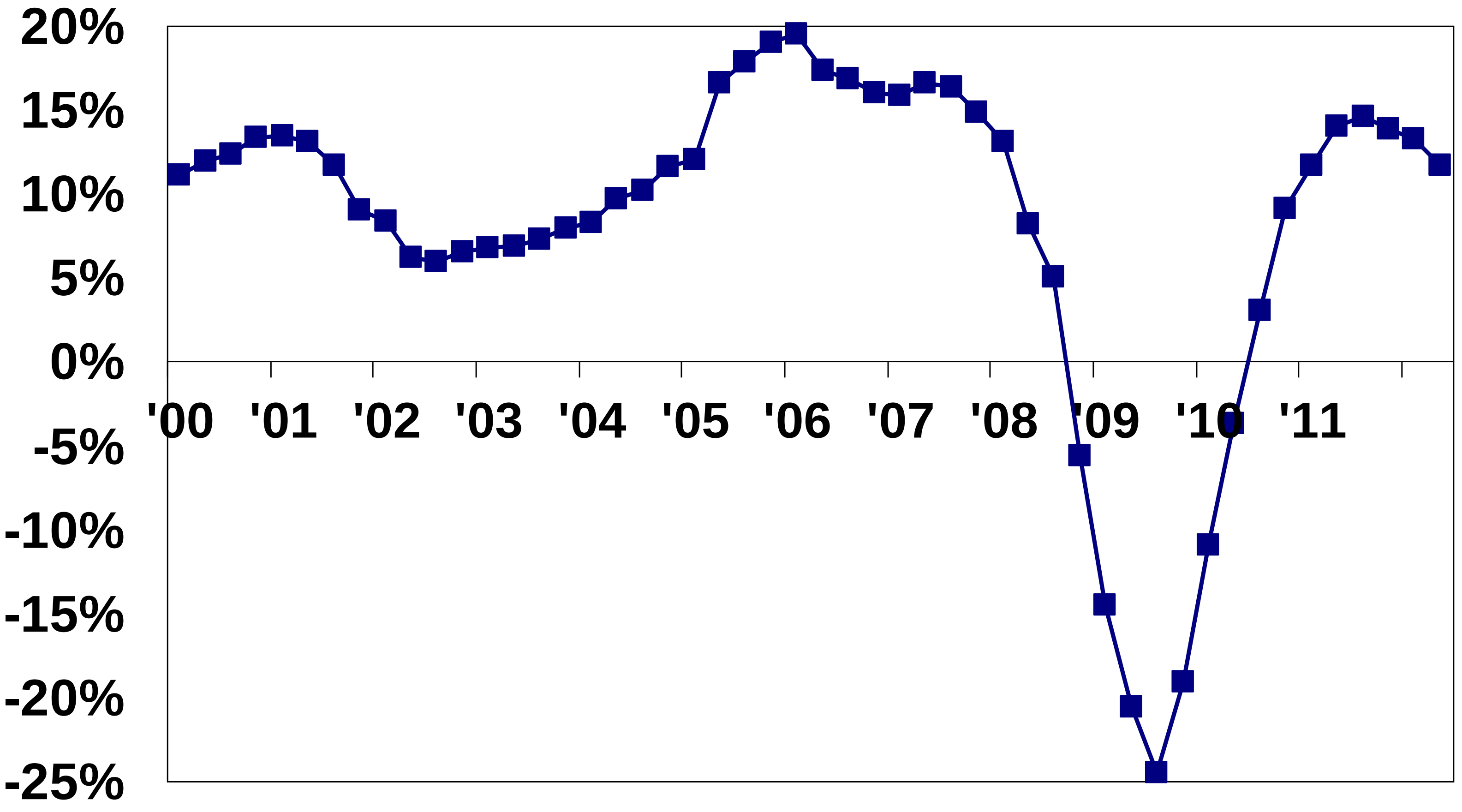
http://www.ncreif.org/

U.S. Industrial Property Returns

Price and Performance Returns

Percent TTM

8.81 Percent Average Annual Return

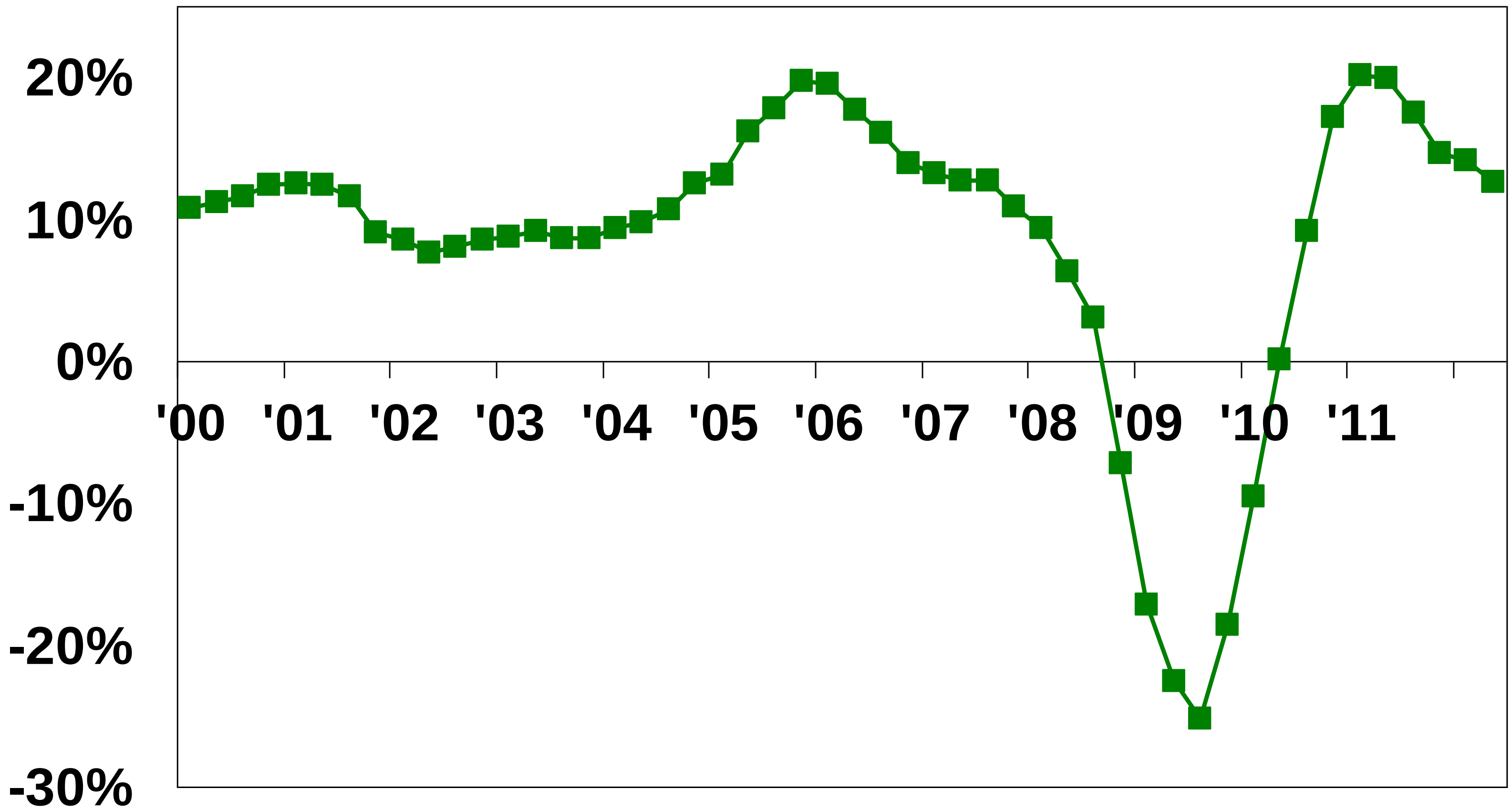


U.S. Apartment Property Returns

Price and Performance Returns

Percent TTM

8.56 Percent Average Annual Return

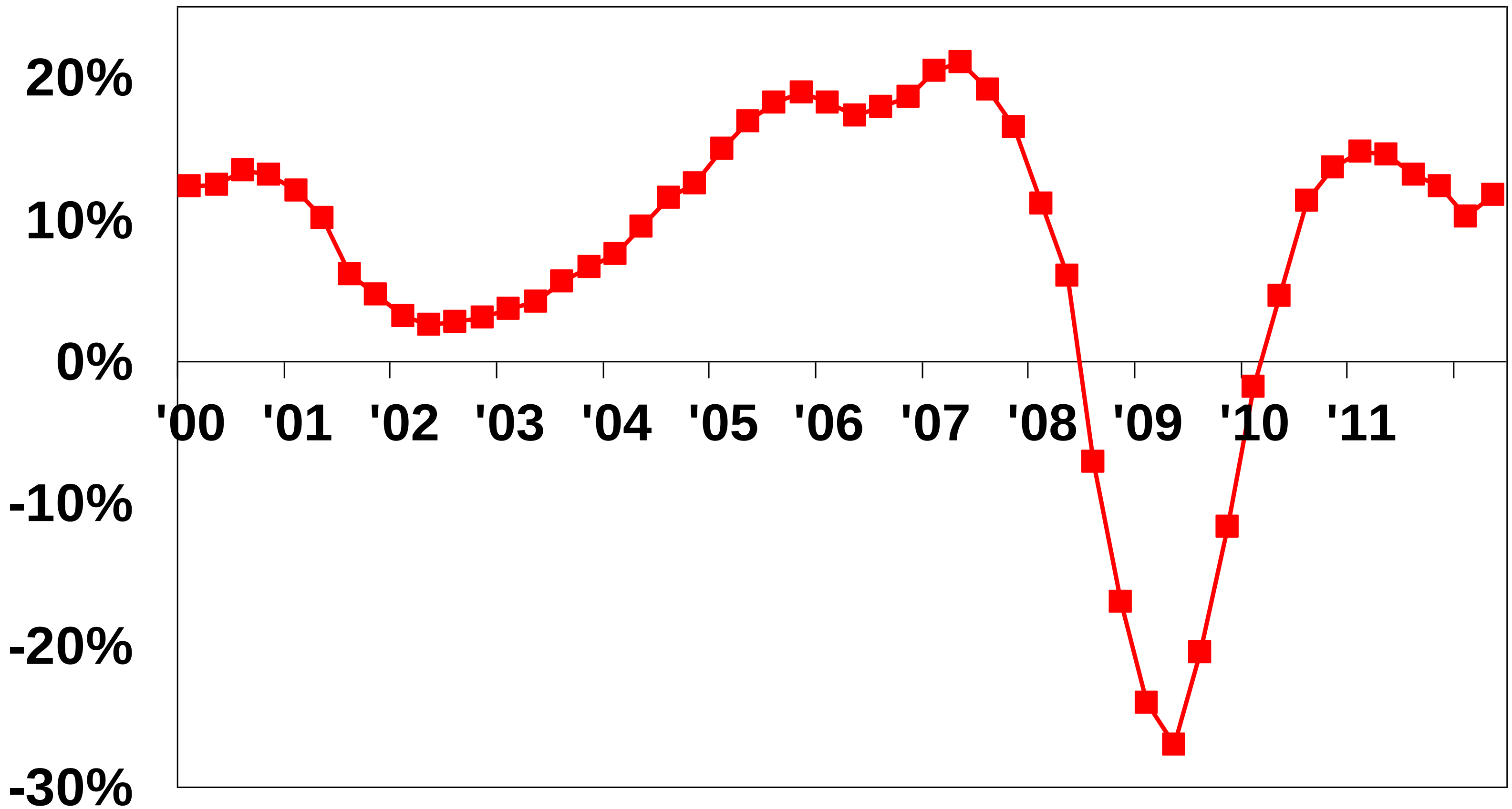


U.S. Office Property Returns

Price and Performance Returns

Percent TTM

7.68 Percent Average Annual Return



NCREIF

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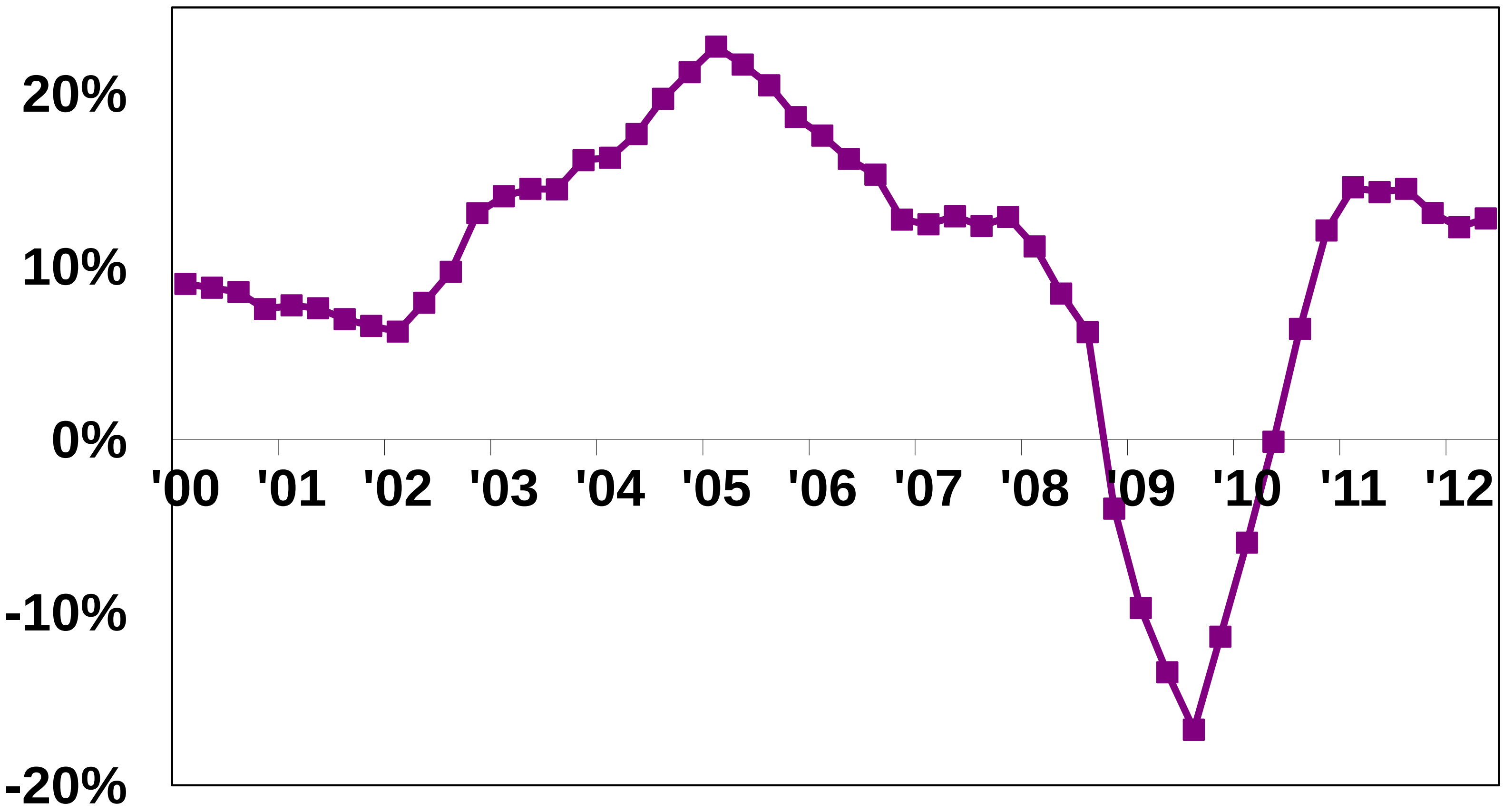
U.S. Retail Property Returns

Price and Performance Returns

Percent TTM

9.89 Percent Average Annual Return

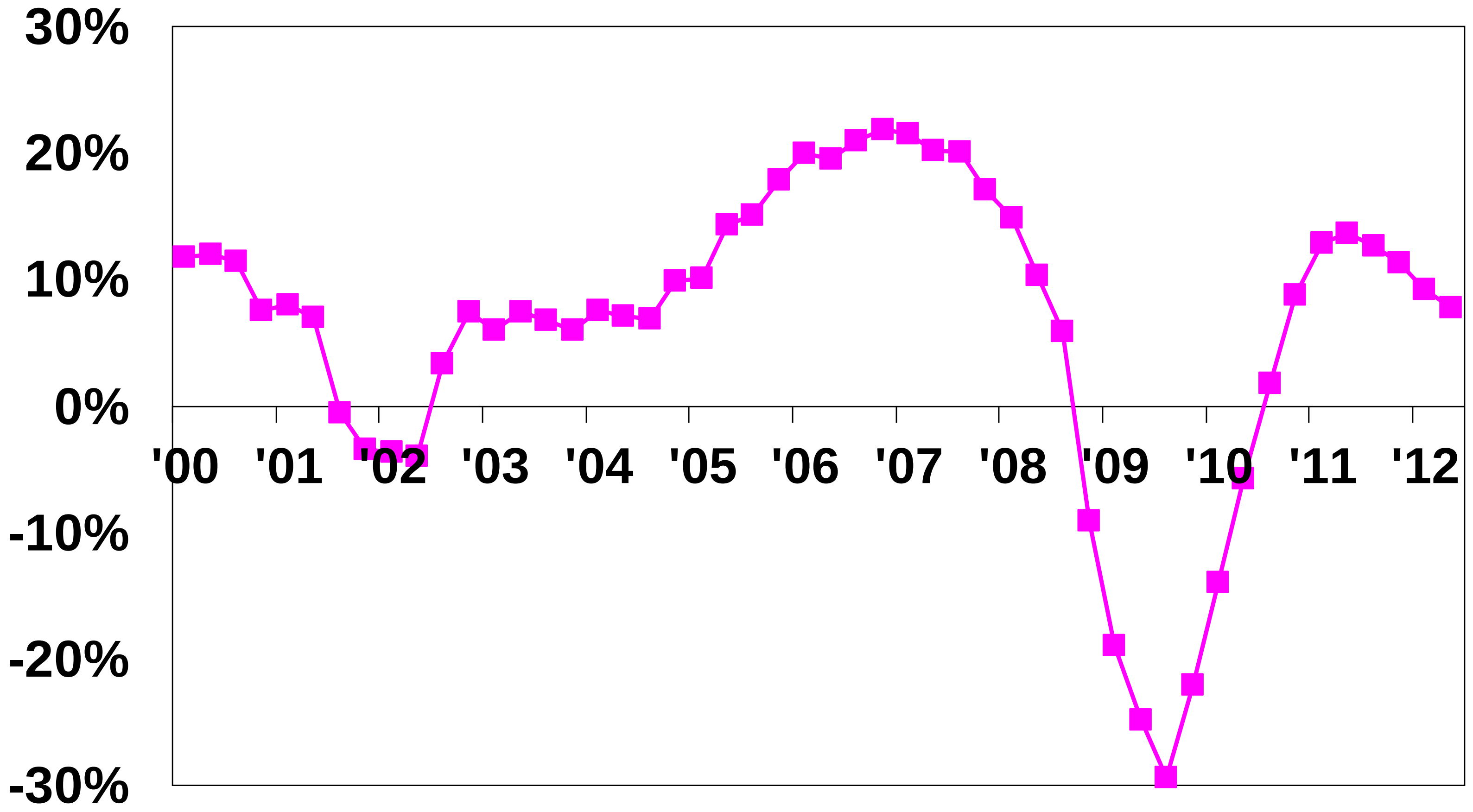


U.S. Hotel Property Returns

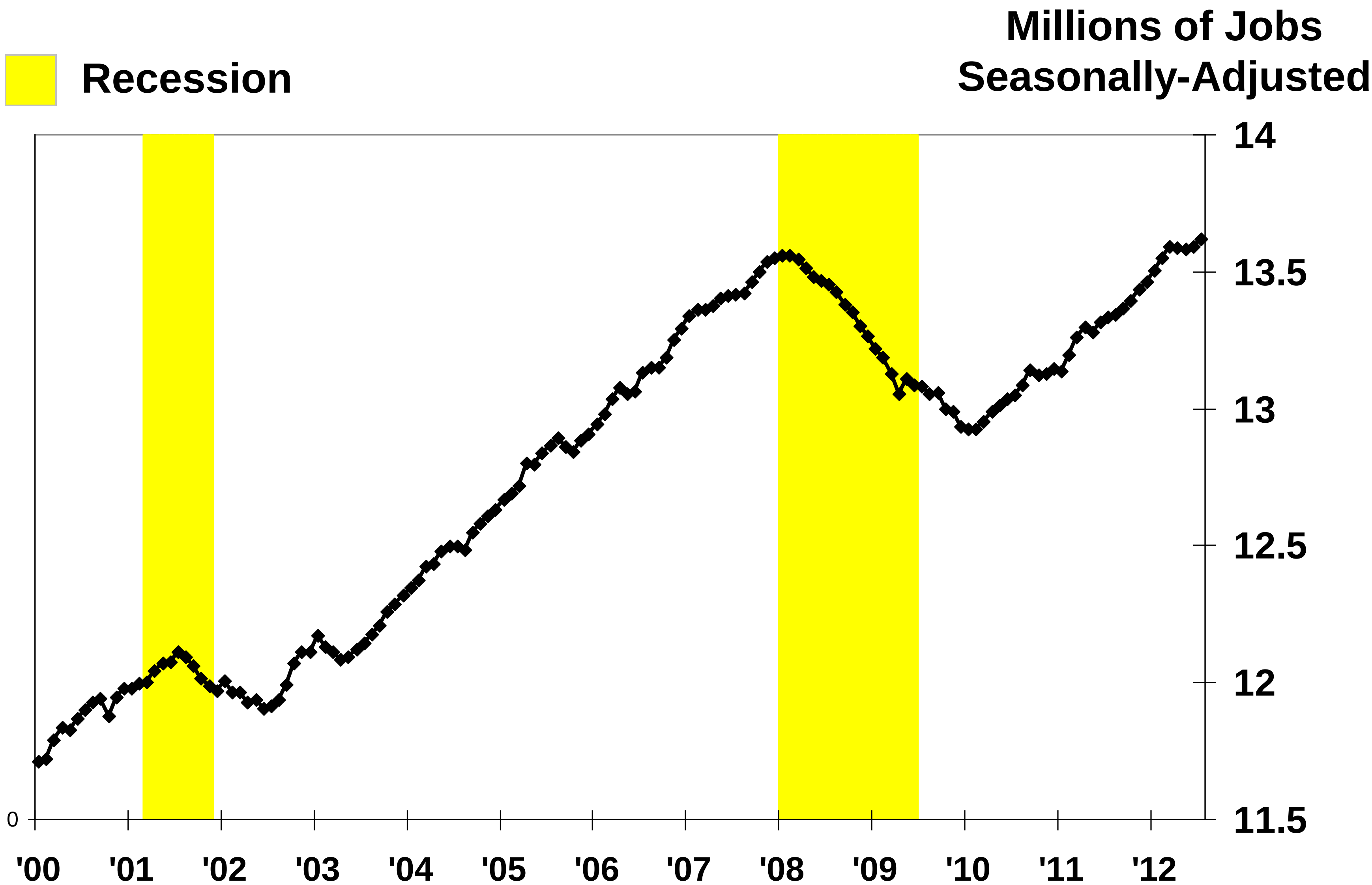
Price and Performance Returns

Percent TTM

6.3 Percent Average Annual Return



U.S. Leisure & Hospitality Jobs



Average Annual Returns Since 2000

Property	Return
Retail	9.89%
Hotels	6.30%
Apartments	8.56%
Industrial	8.81%
Offices	7.68%

Source: NCREIF

Housing Has Finally Reached the Bottom Nationwide
With Some Markets Rebounding

(Some Markets Never Declined)

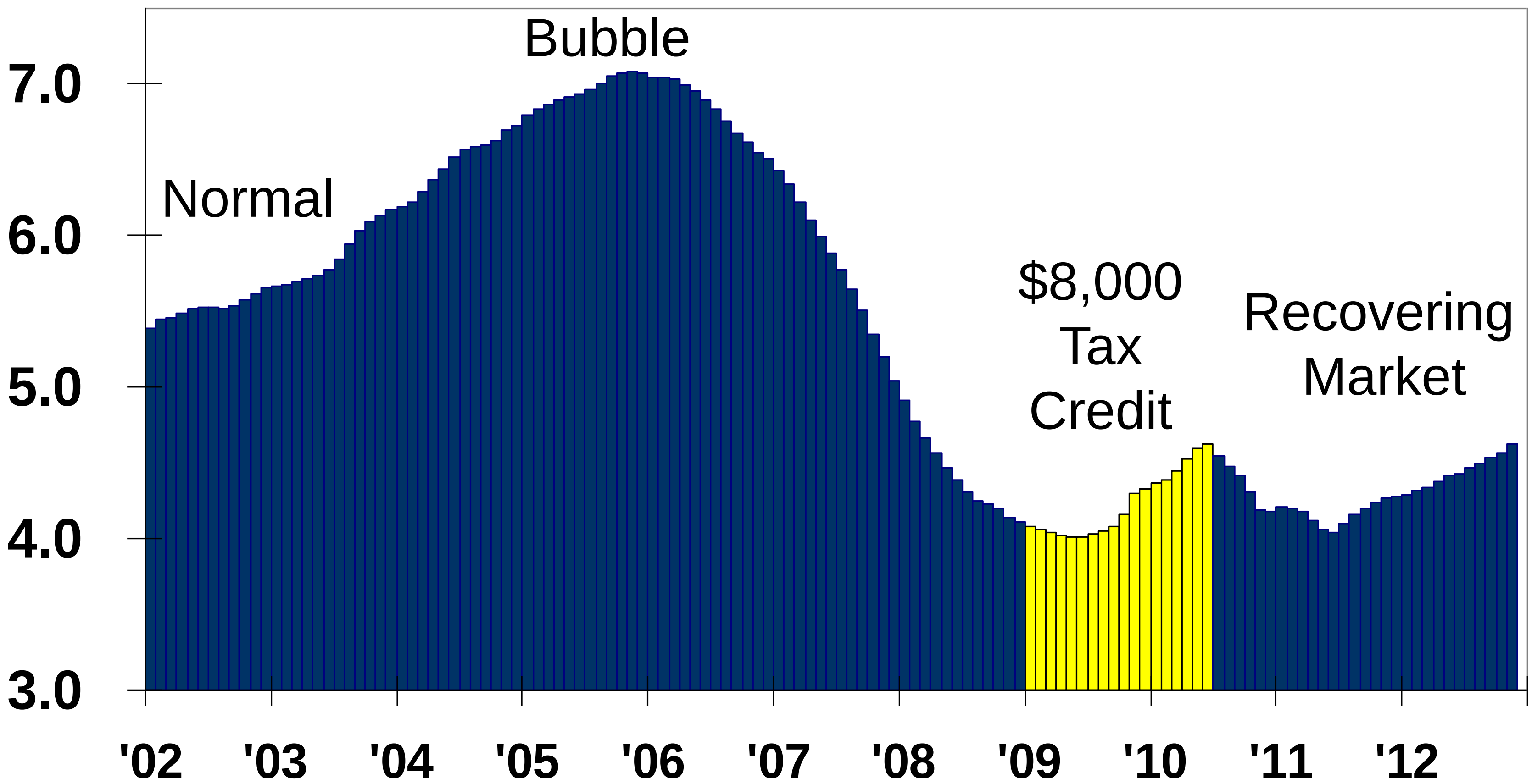
U.S. Months Inventory of Existing Homes

Austin

2.7 Months Inventory

US Existing Home Sales

Millions – SAAR *Average Per Month For Prior 12 Months*



National Association of REALTORS®

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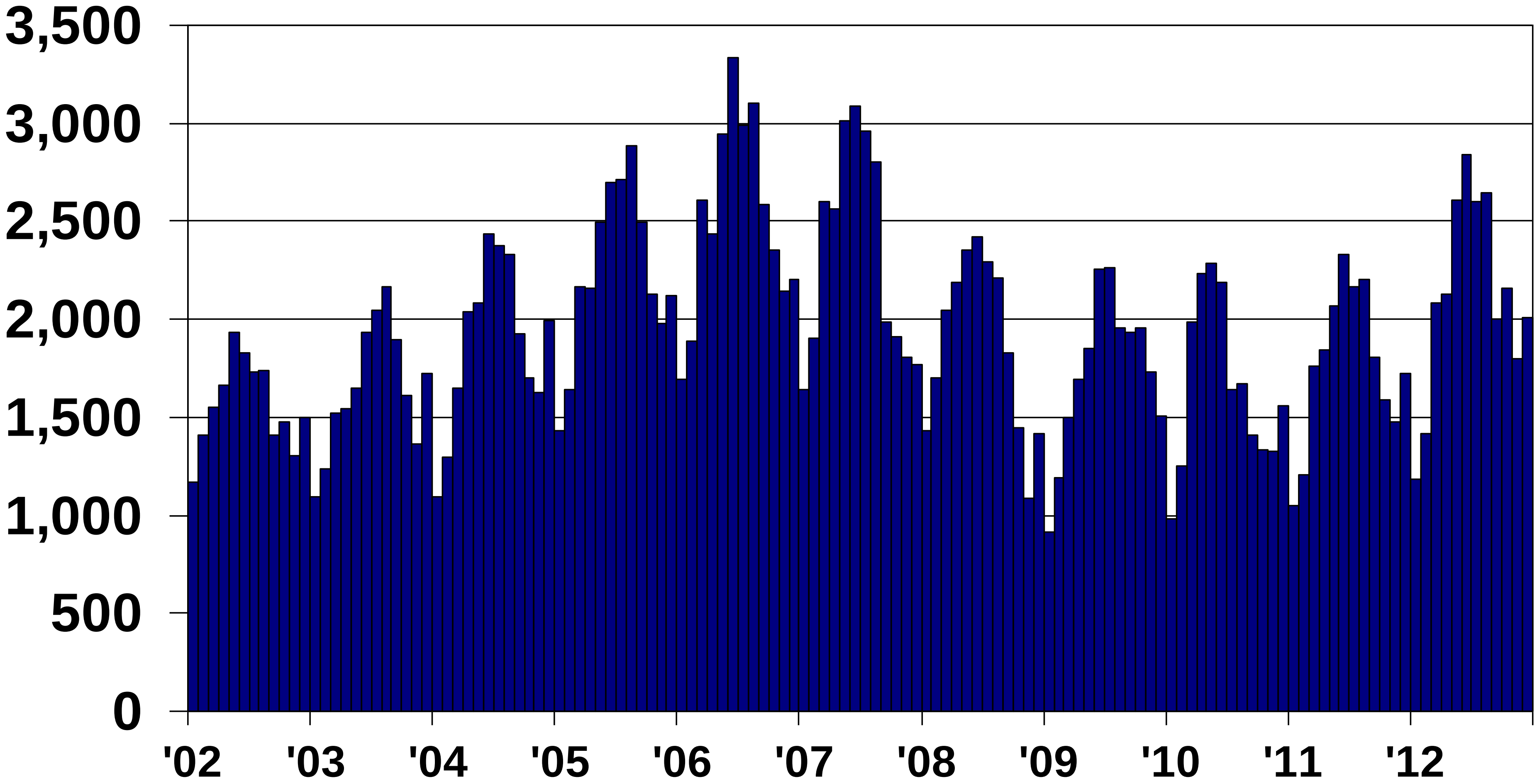
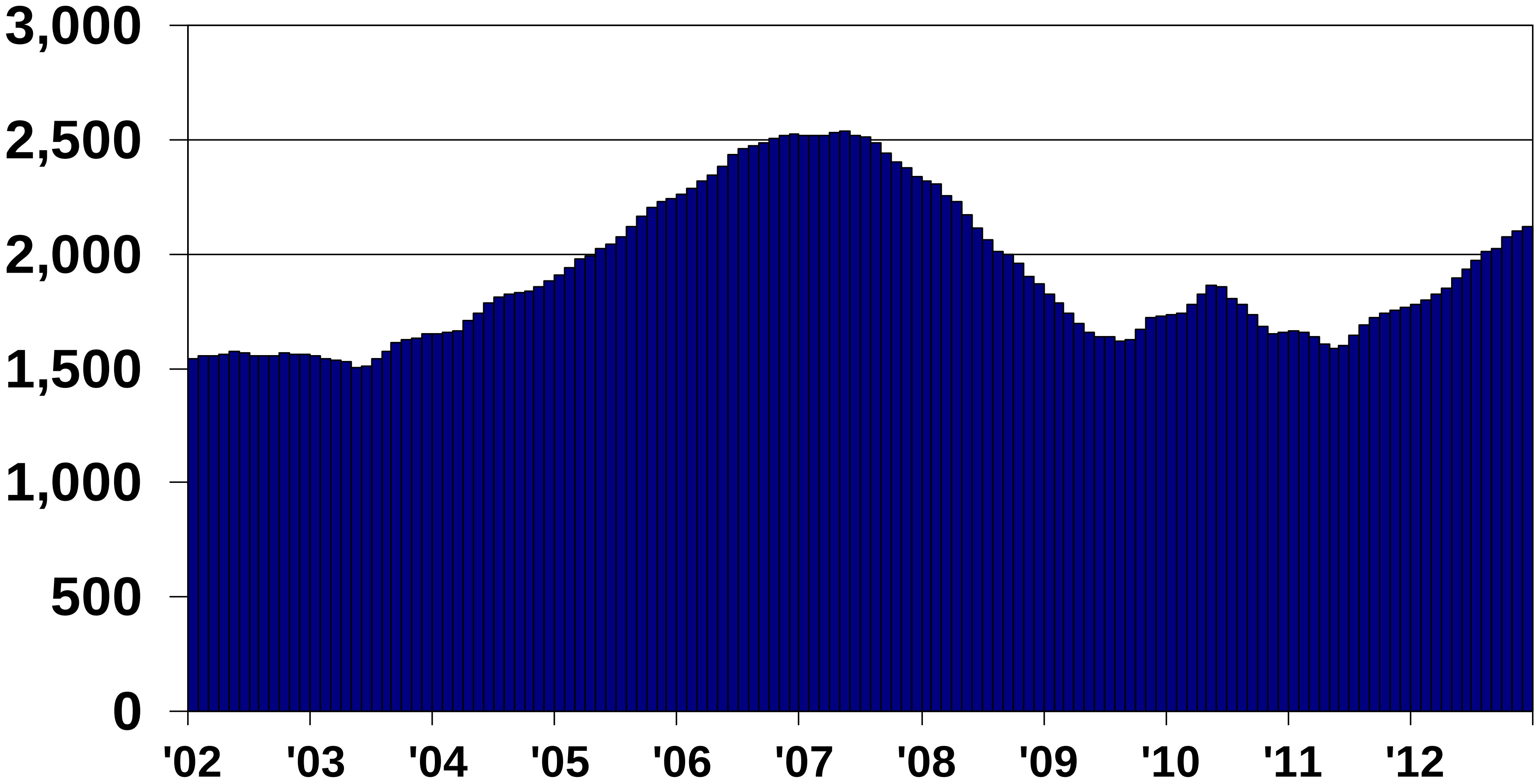
Austin Existing Home Sales

Number Per Month



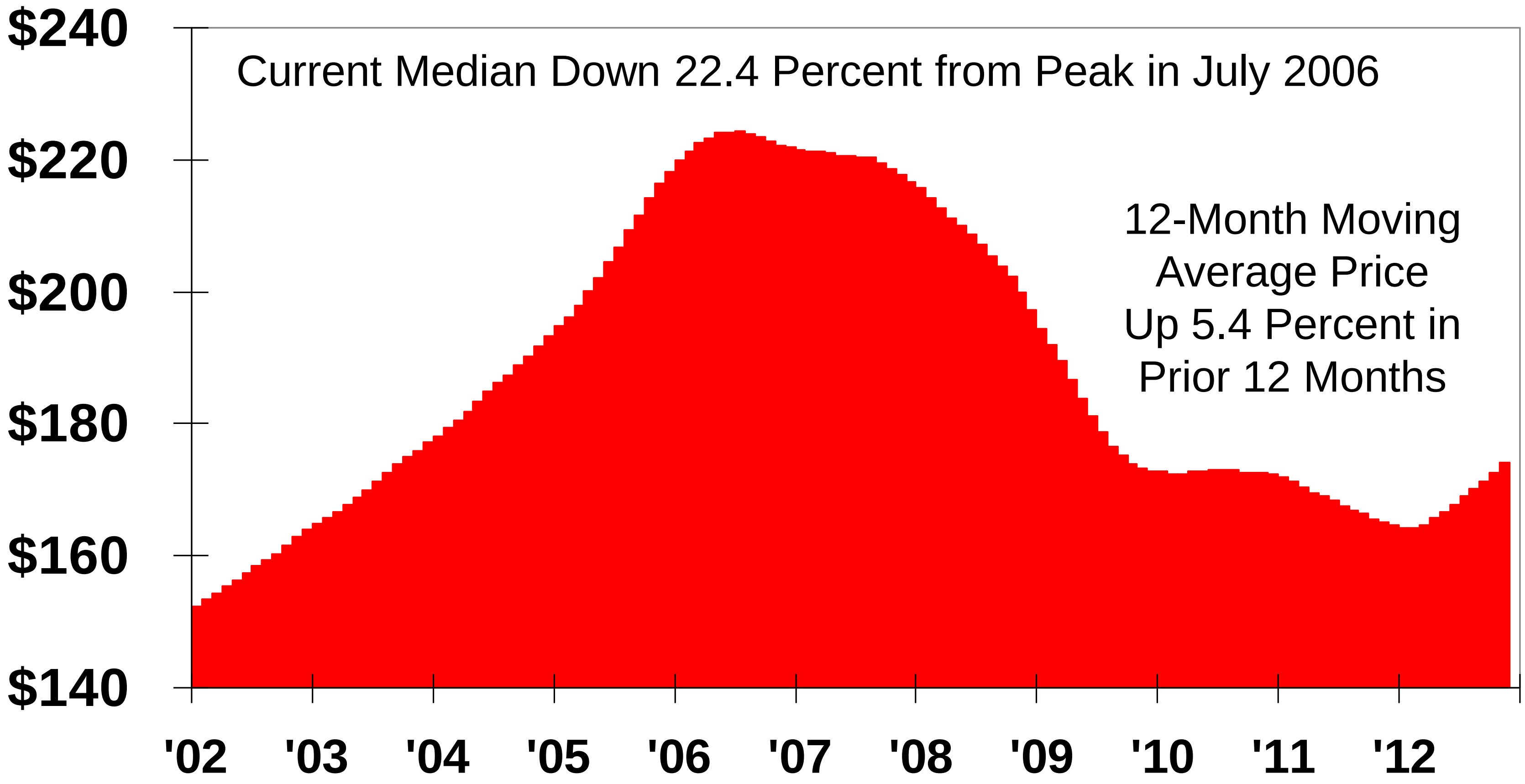
Austin Existing Home Sales

Average Number Per Month For Prior 12 Months



U.S. Existing Home Sales

Median Price -- *$ Thousands -- Average for Prior 12 Months*



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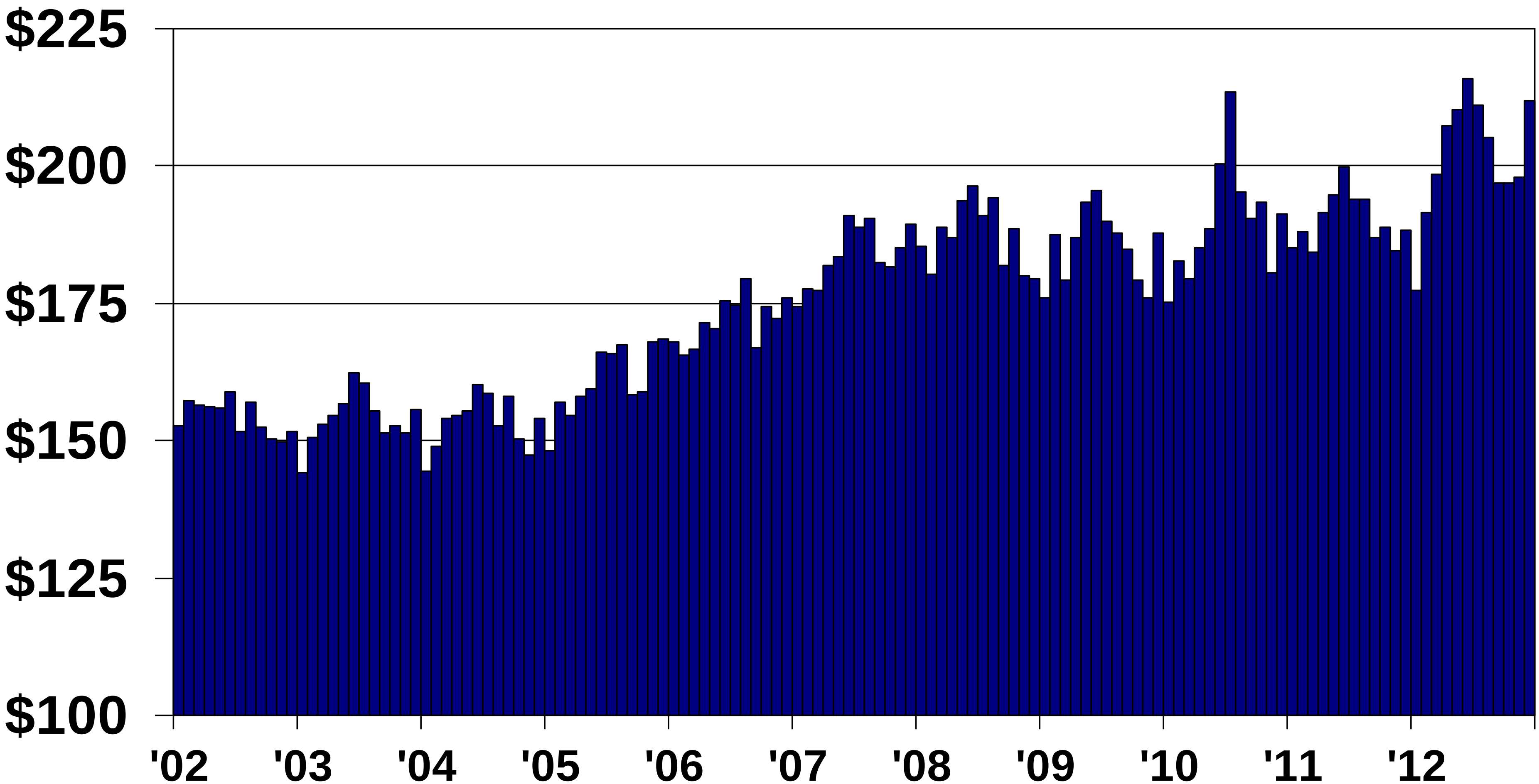
Austin Existing Home Prices

Median Price *$ Thousands*



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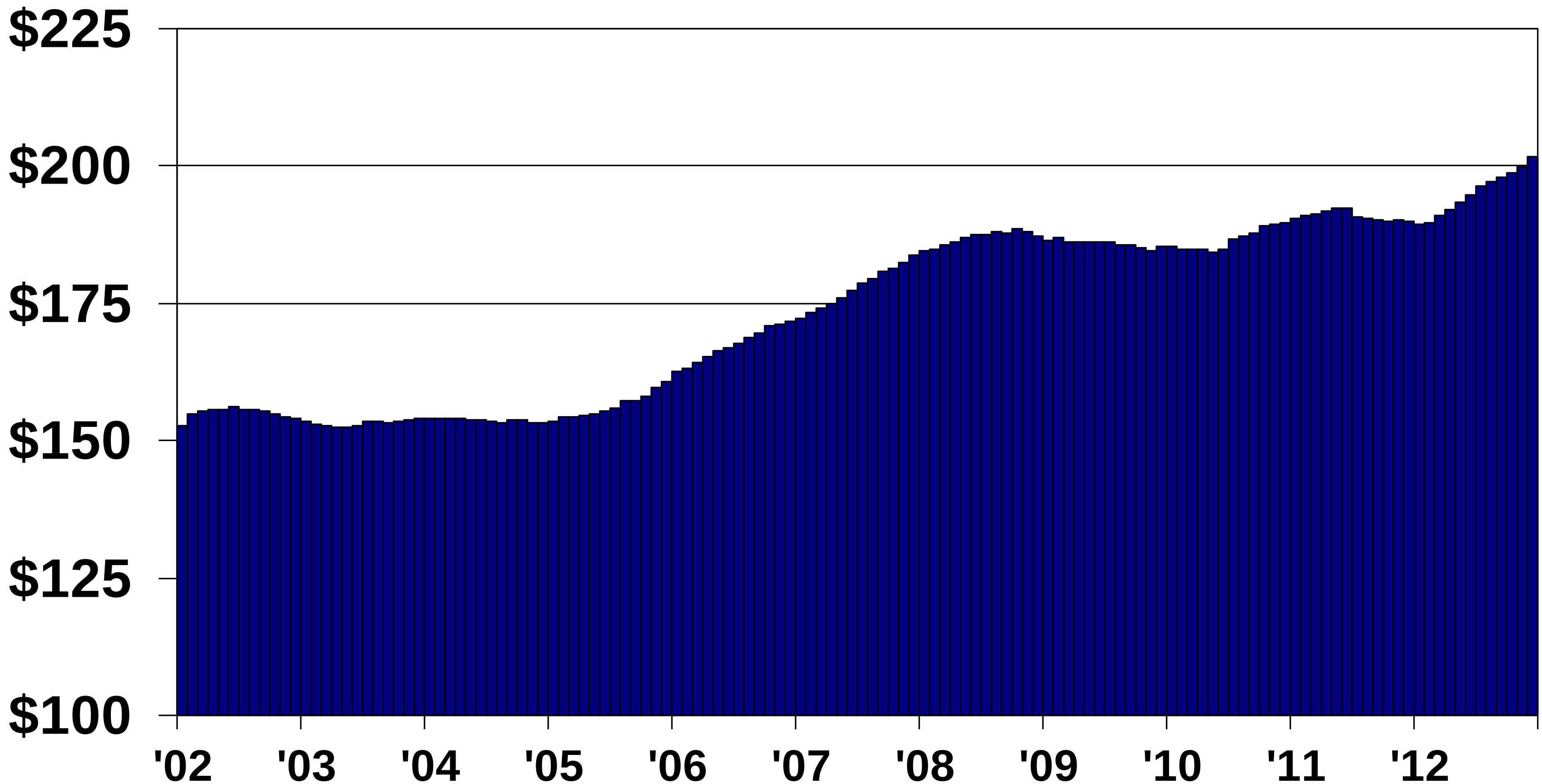
Austin Existing Home Prices

Median Price *Prior 12 Month Moving Average $ Thousands*



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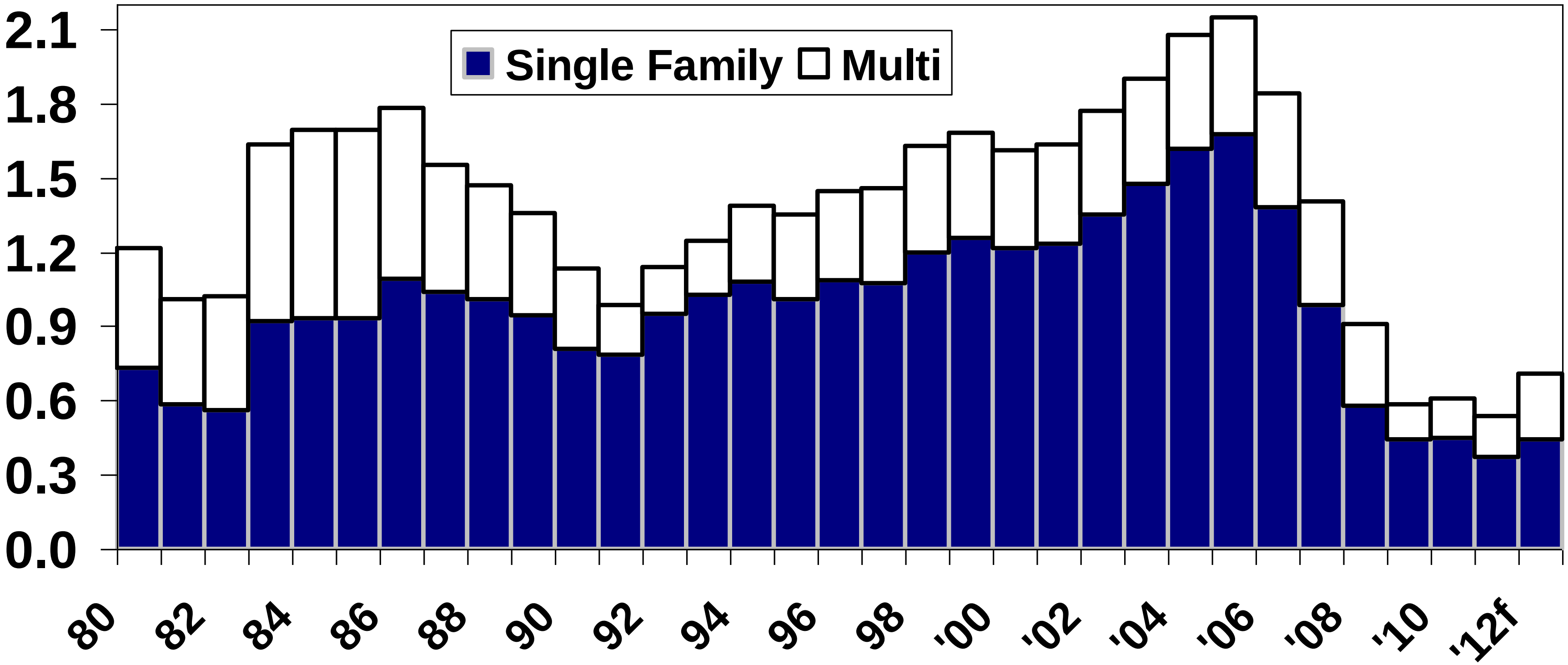
U.S. Residential Building Permits

Number of Dwelling Units -- *Millions*



2012 is based on the latest 12 months of permits issued

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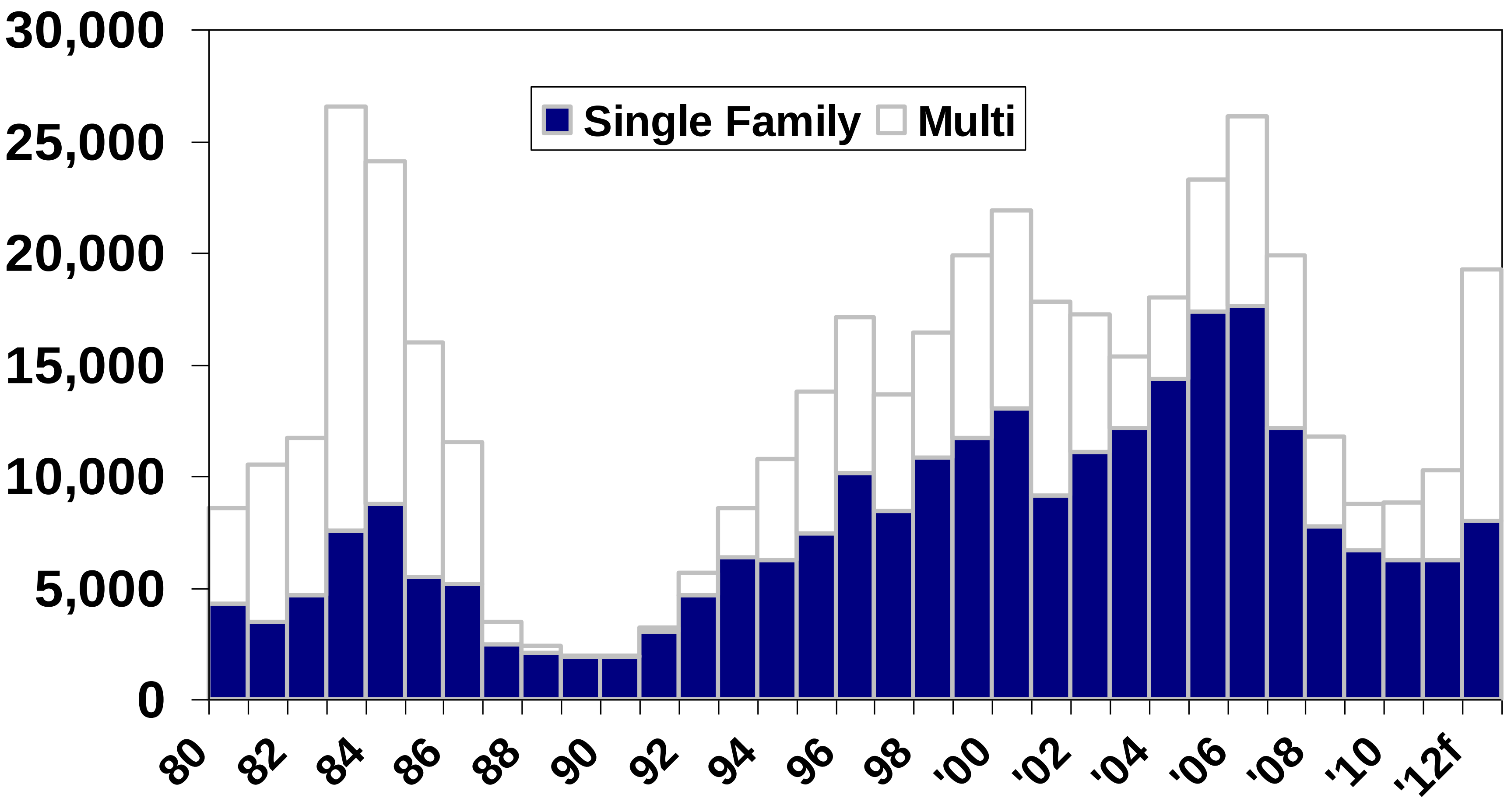
Austin MSA Building Permits

Number of Dwelling Units



19,219 Dwelling Units – 32,800 New Jobs = 1.7 New Jobs Per New Dwelling Unit

US 2013 Forecast

Existing Home Sales Up 8 Percent

Median Home Prices Up 5 Percent

New Home Sales Up 20 Percent

New Home Prices Up 8 Percent

QE3 - Quantitative Easing 3

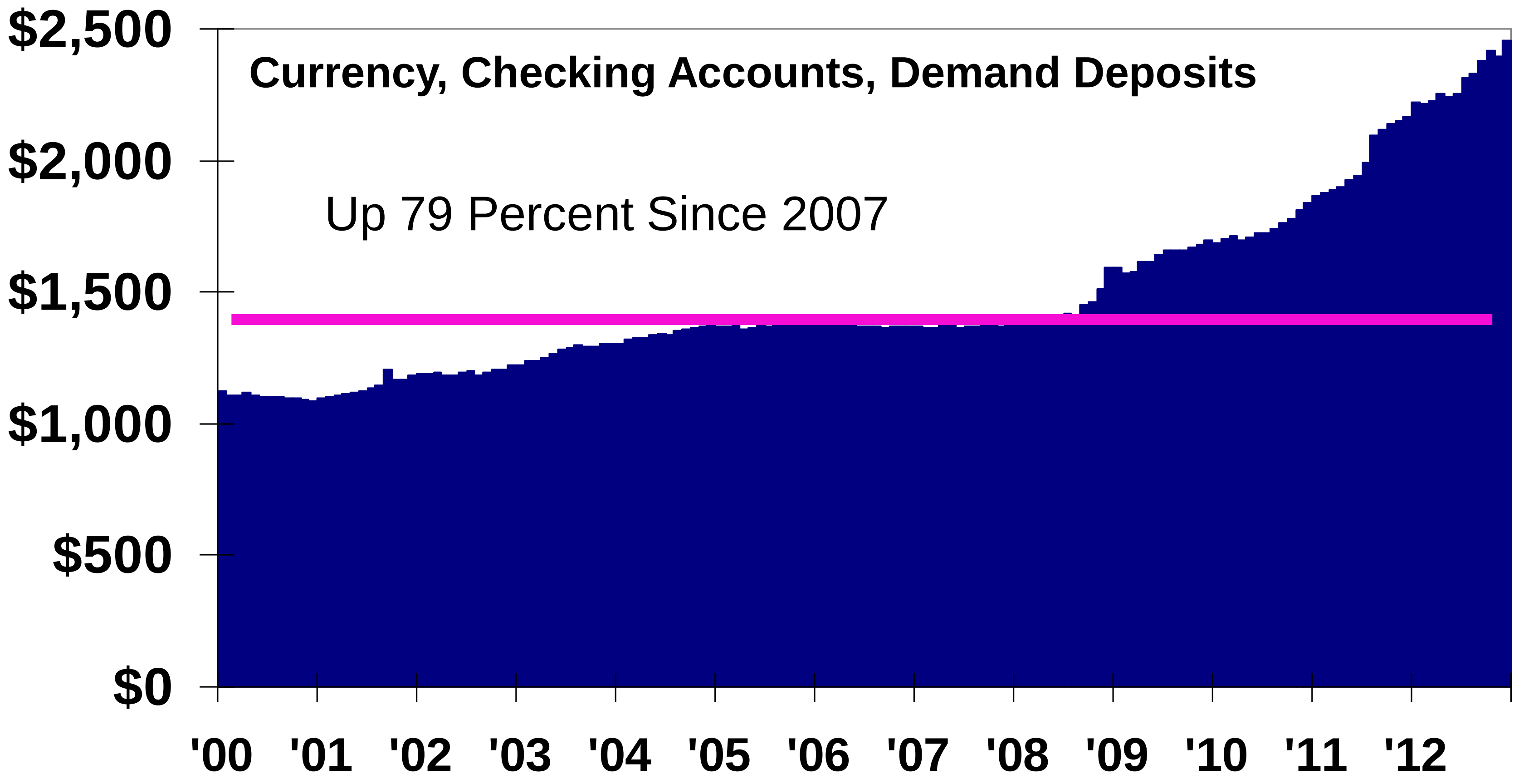
$$\sum_{i=1}^{\infty} 40$$

$40 Billion Per Month

Until the Economy Improves

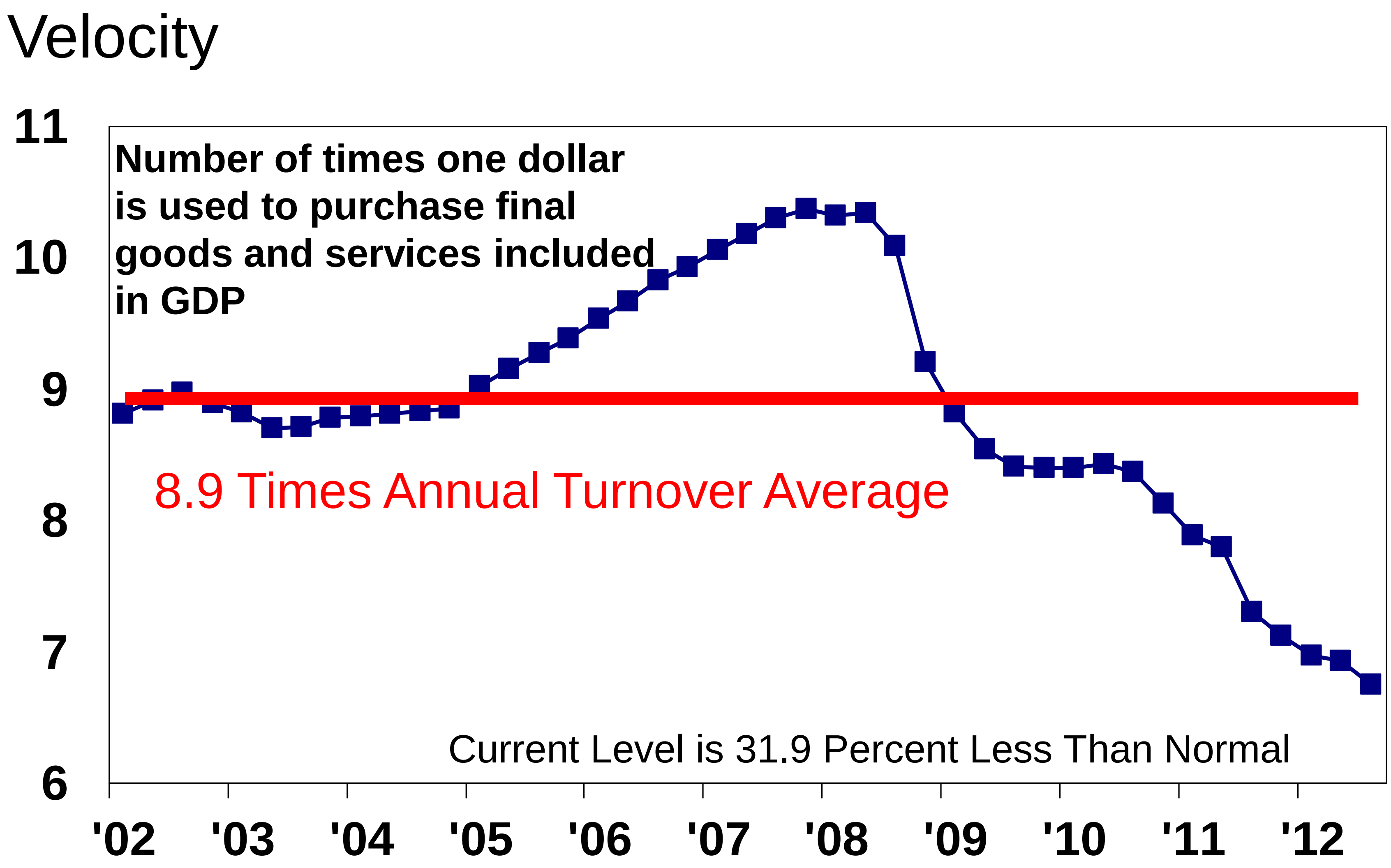
Money Supply – M1

$ Billions – *Seasonally Adjusted*



Federal Reserve Board of Governors

Velocity of Money Supply M1



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Household Income
Less: Expenses

Net

Income > Expenses	Income = Expenses	Income < Expenses
Savings	Break Even	New Borrowing

2012 Federal Budget

$ Trillions

Revenues	**$**	**2.468**
Expenditures	**$**	**3.796**
Deficit	**$**	**(1.328)**

9.1 Cents of Every Tax Dollar
Went to Paying Interest on the Debt

As If The Household Budget….

Household Income & Expenses

Income	**$**	**49,360**
Expenses	**$**	**75,920**
Deficit	**$**	**(26,560)**

Credits Cards and
Loans Payable Increase

Congress' Joint Select Committee on Deficit Reduction

Committee of 6 Republicans and 6 Democrats Agreed that if by January 1 2013 Congress Failed to Cut Spending by $1.5 Trillion, Then Automatic Tax Hikes and $1.2 Trillion in Spending Cuts Spread Across Nine Years Equally Divided Between Domestic and Defense Spending

All Entitlement Programs Were Shielded From Cuts

Tax Policy Center Estimates Had Tax Cuts All Been Repealed, Average Per Household Taxes in 2013 Would Have Risen $3,446

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Red States vs. Blue States

Cut Taxes

Cut Spending

Have Some of the 47 Percent Not Paying Taxes Pay Some

Maintain or Expand Spending

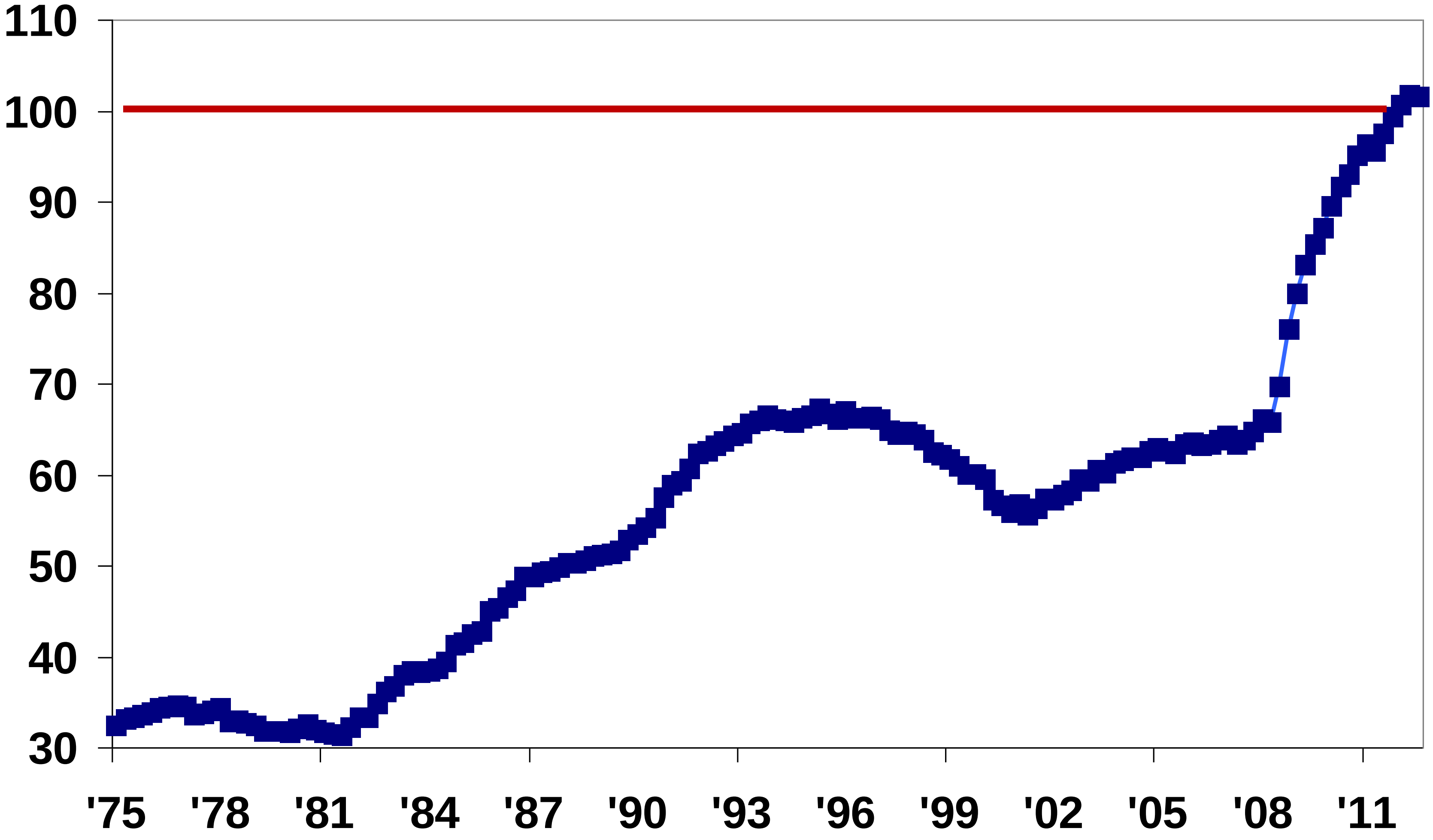
Increase Taxes Only on Those That Pay Taxes

Cradle to Grave

It’s Bush’s Fault

Federal Debt as a Percent of GDP

Percentage



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Next Up

- Debt Ceiling
- Budget
- Funding

U.S. Public Debt

Debt held by Public

Marketable Treasuries

Debt held by Government

Non-Marketable Treasuries

Social Security

2013 Taxable Income $113,700

Funded by Payroll Taxes

-- 6.2 percent employer tax

-- 6.2 percent employee tax

Self Employed 12.4 percent tax

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Social Security

Taxes collected in the current year are used to pay current year benefits.

The excess funds have been spent on non-Social Security spending with the U.S. Gov't issuing IOUS.

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Social Security

1983 Act set up trust fund to assure that boomers would have adequate funds at retirement accumulated by Social Security.

All of the money has already been spent by the U.S. Government….

January 1 2013 – Congress Legislation

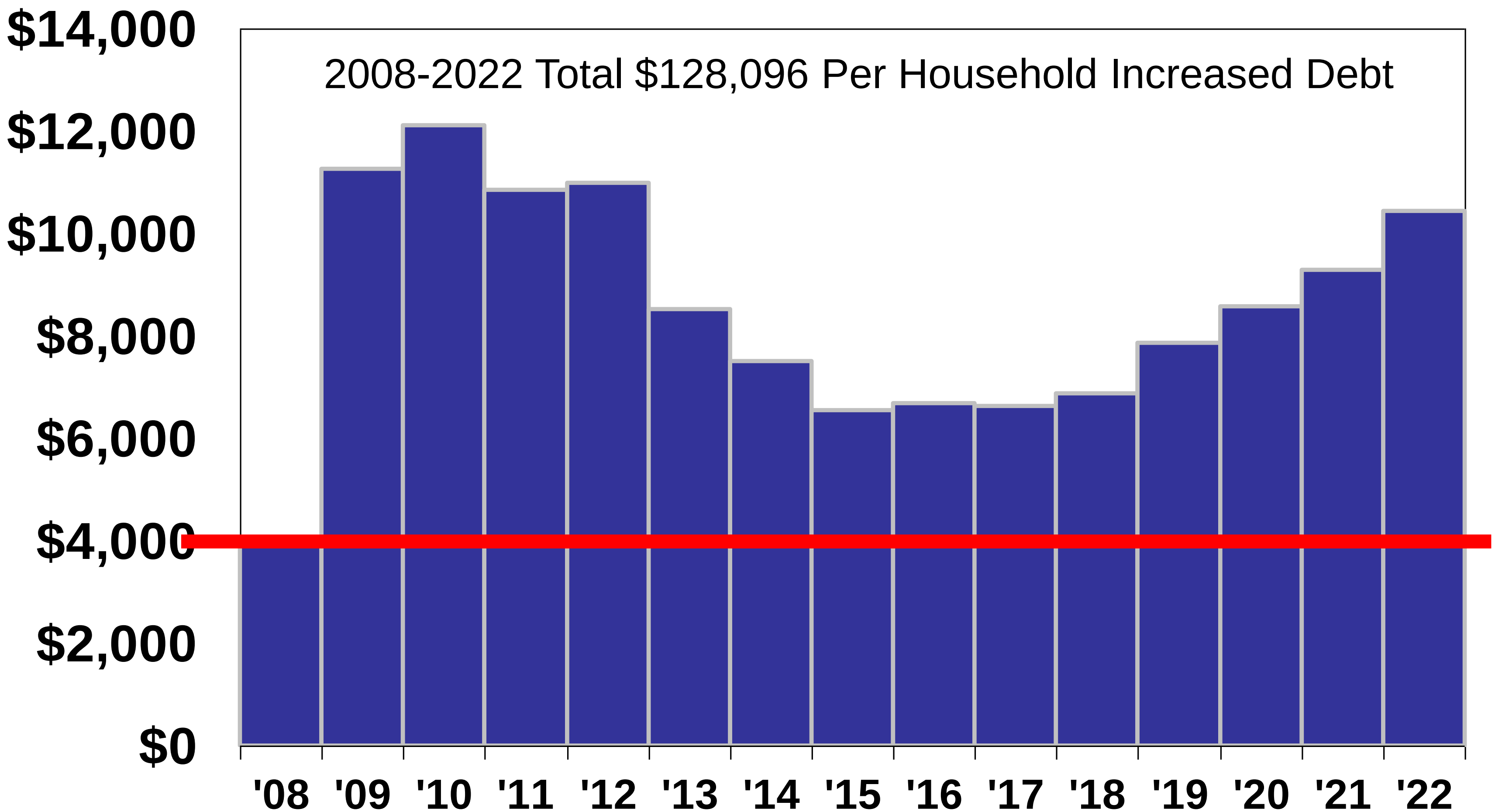
Relative to what would have occurred under the laws previously in effect, this legislation will <u>increase</u> budget deficits in coming years.

Like all of CBO's cost estimates, <u>our estimate for this legislation</u> ……. **we estimate that this legislation will <u>reduce revenues and increase spending by a total of nearly $4.0 trillion over the 2013-2022 period.</u>**

Congressional Budget Office
nonpartisan analysis for the U.S. Congress

Annual Increased Public Debt Per Household

Increased Debt Per Year



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Interest Expense on Federal Debt

2012	2022
$452 Billion	$1.3 Trillion

Forecast Assumes

- **No Added Federal Spending Programs Not Already in Budget Unless New Taxes or Cut Existing Programs**
- **Healthcare Funding is Adequate (taxes) and Will Never Run a Deficit**
- **10-Year Treasury Does Not Exceed 5 Percent**

CONGRESSIONAL BUDGET OFFICE

CBO Forecast

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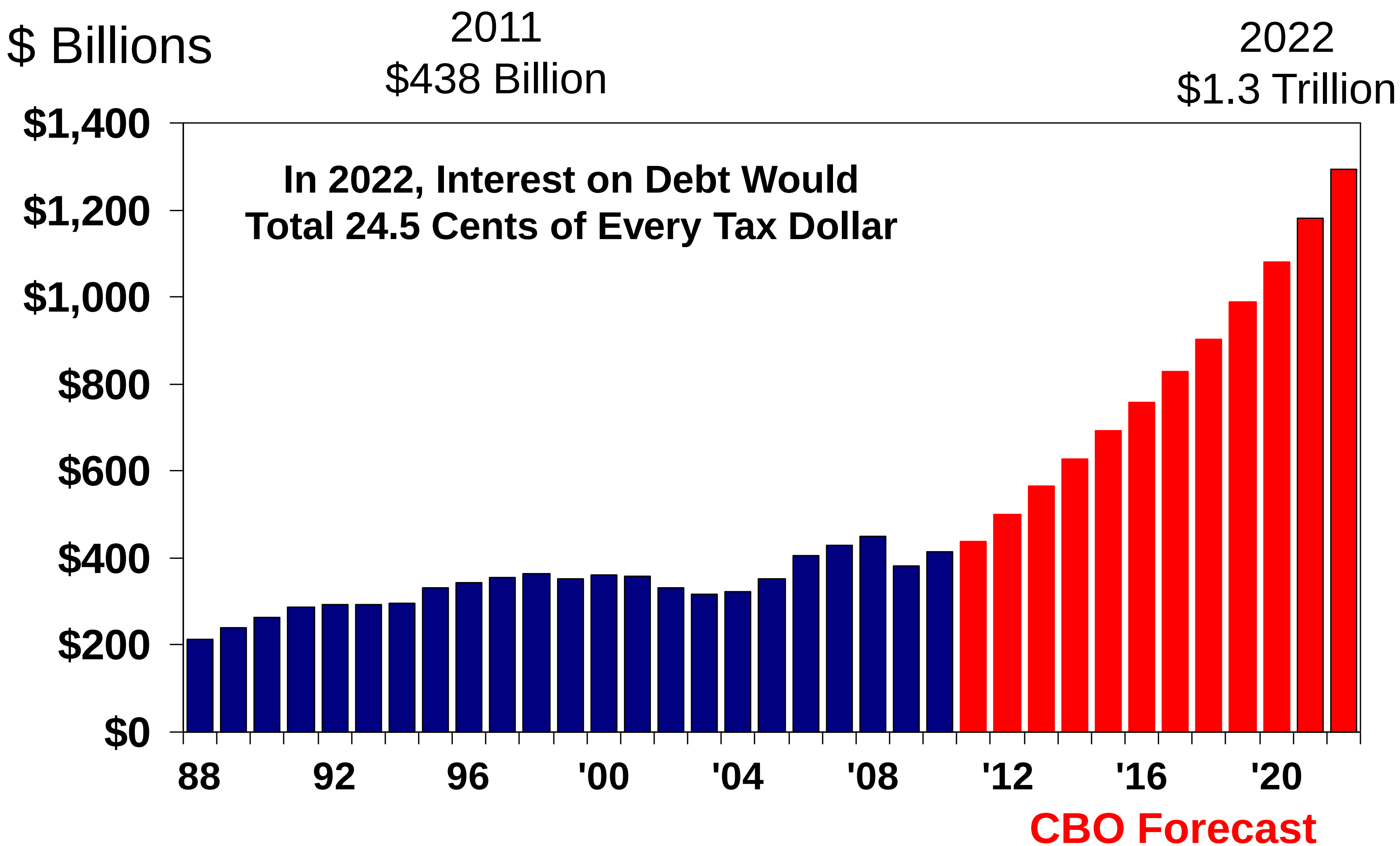
Interest Expense on Federal Debt



CONGRESSIONAL BUDGET OFFICE

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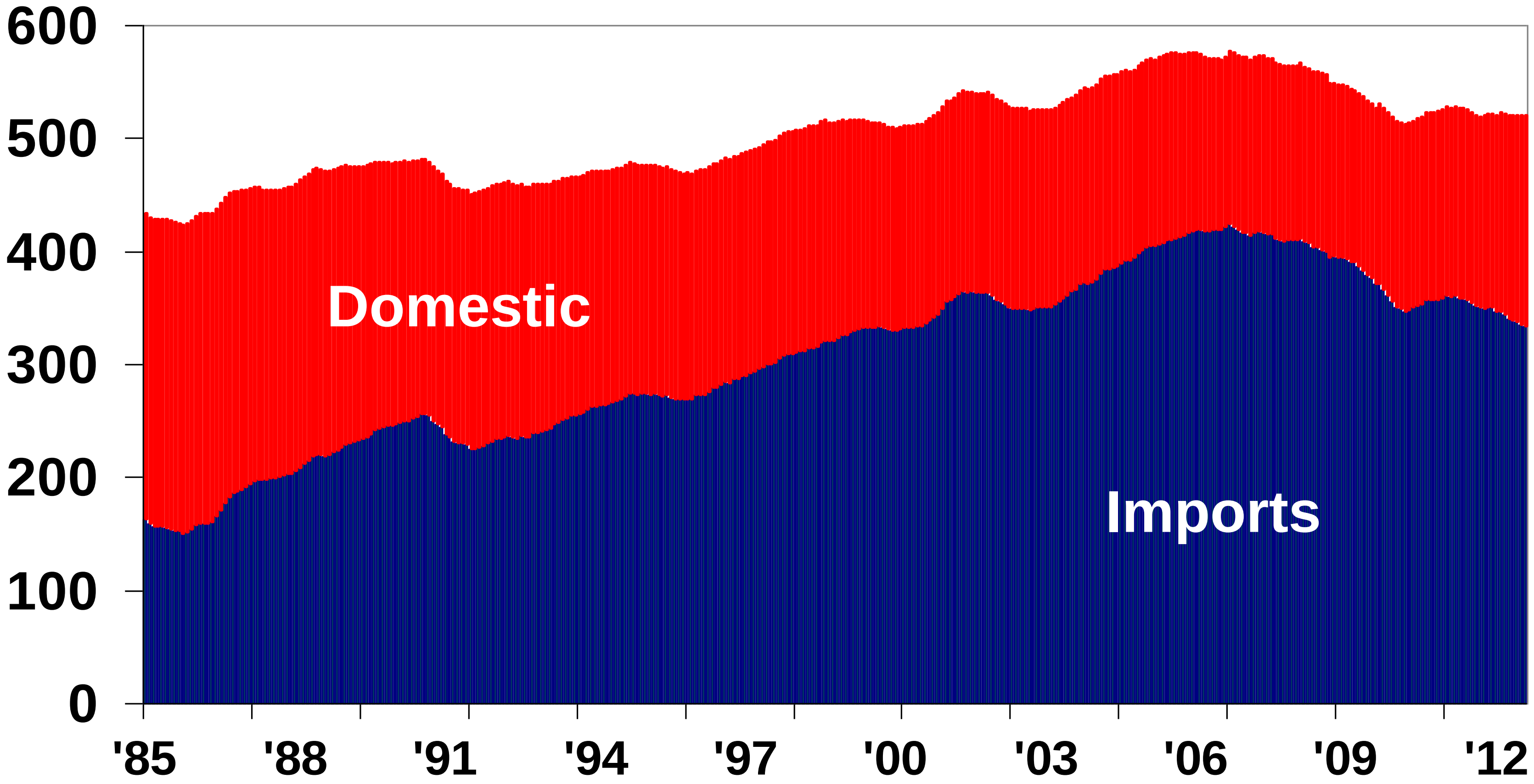
Oil Production – Imports vs. Domestic

Imports of Crude Oil and Petroleum Products vs. Domestic Crude Oil Production

Barrels Per Month (Millions) *Average for Prior 12 Months*



U.S. Energy Information Administration

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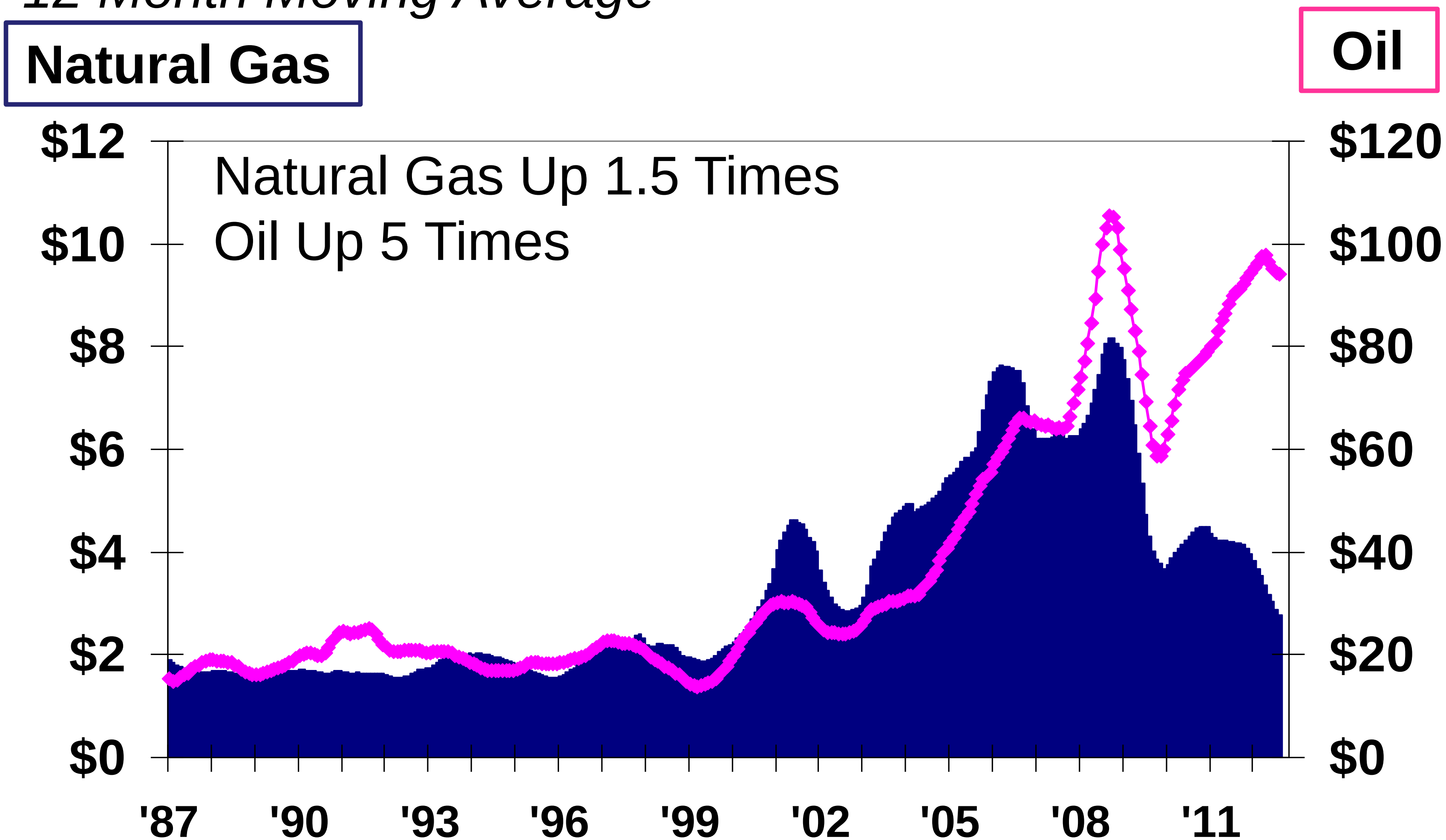
Well Head Natural Gas Price vs. WTI Crude Oil Gas Per 1,000 Cubic Feet, Oil Per Barrel

12 Month Moving Average



U.S. Energy Information Administration

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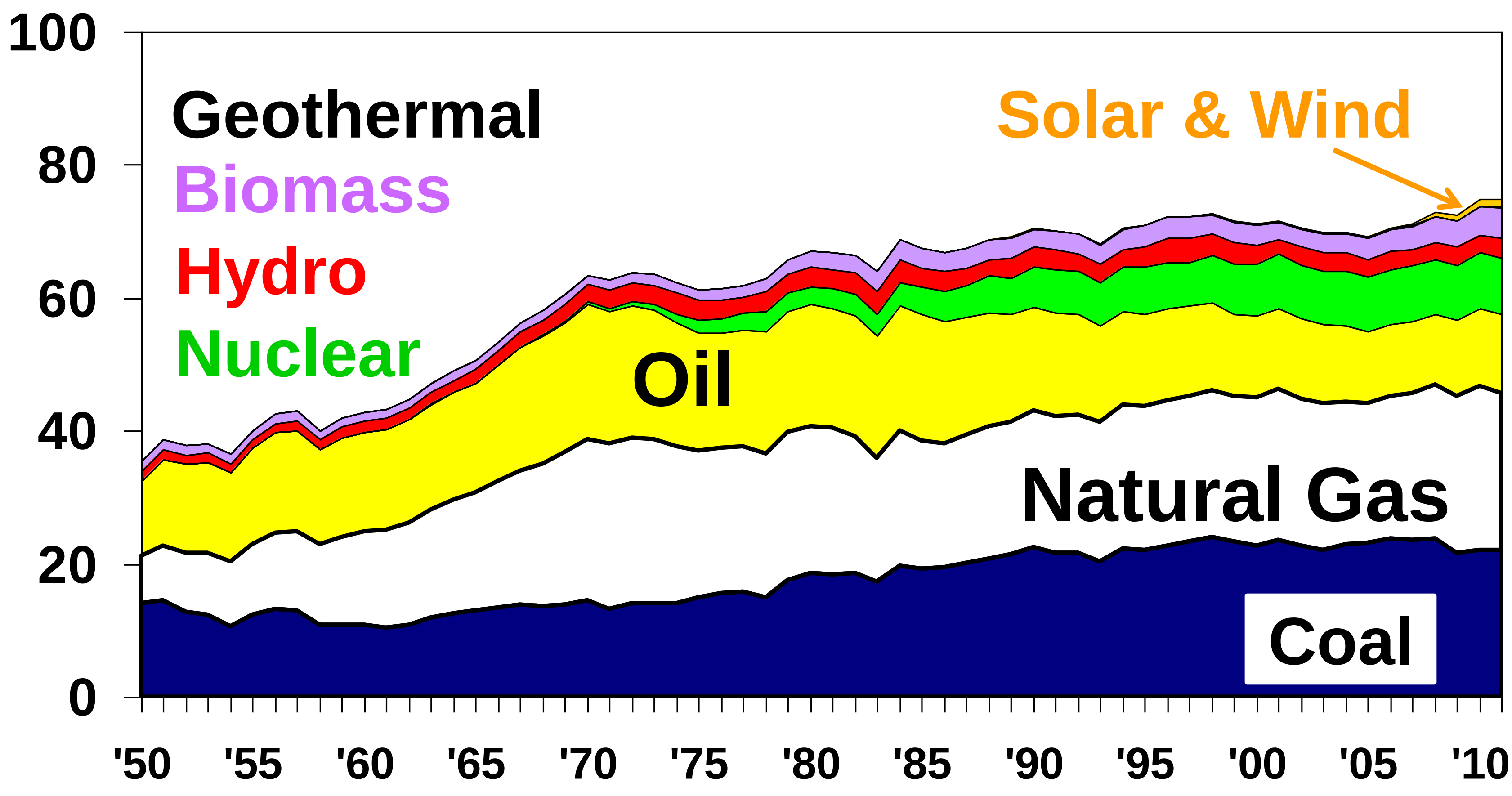
US Energy

Quadrillion BTUs Restated by USEI



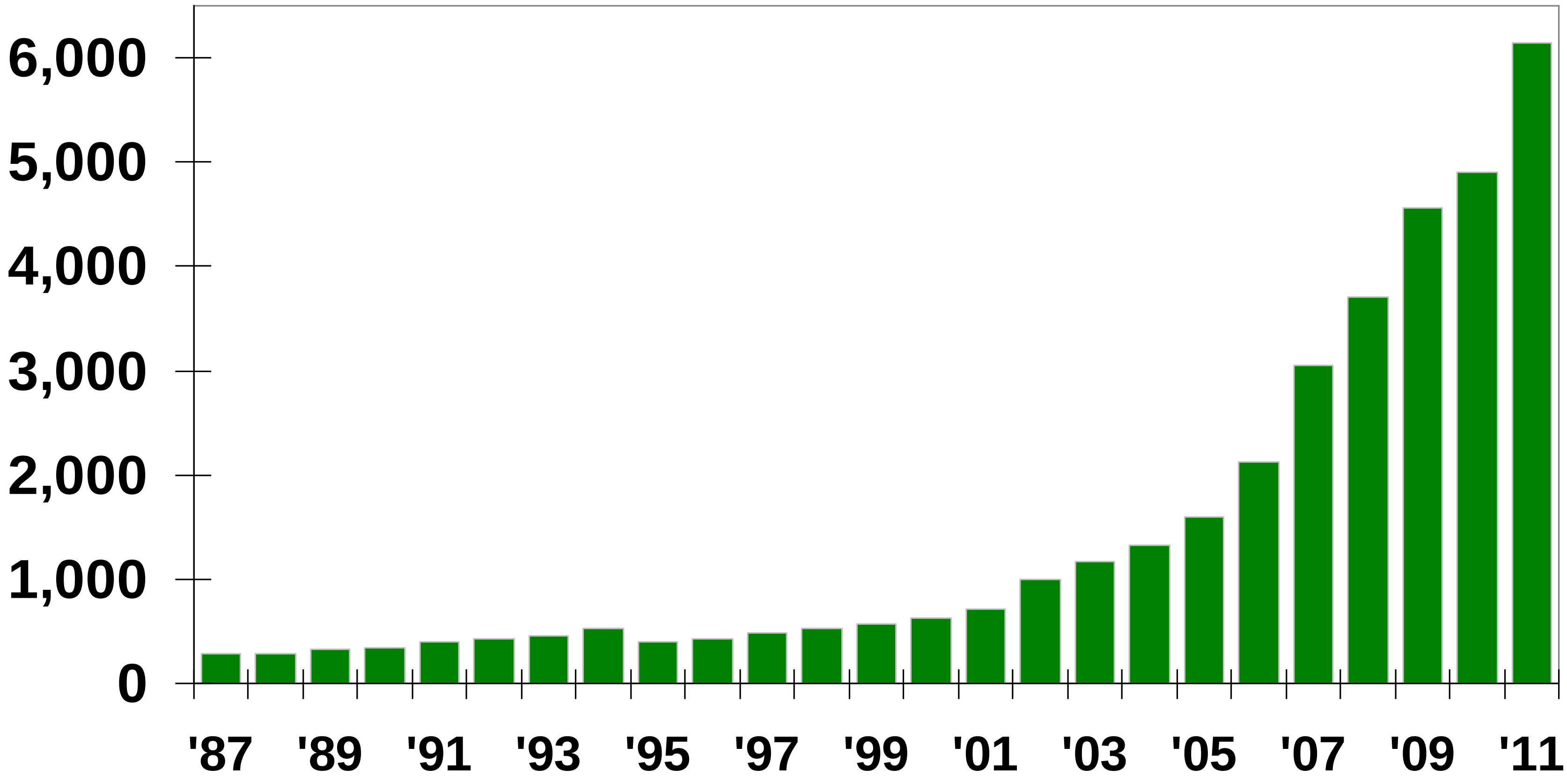
Percent of U.S. Energy 2011

Solar	0.16%
Wind	1.50%
Geothermal	0.29%

eia
Independent Statistics & Analysis
U.S. Energy Information Administration

Corn Used for Ethanol Production

Bushels -- *Millions*



Source: National Corn Growers Association, The World of Corn, 2011 and previous annual editions, http://www.ncga.com

Note: Based on Marketing Year September - August (i.e., 1985 data are from September 1985-August 1986)

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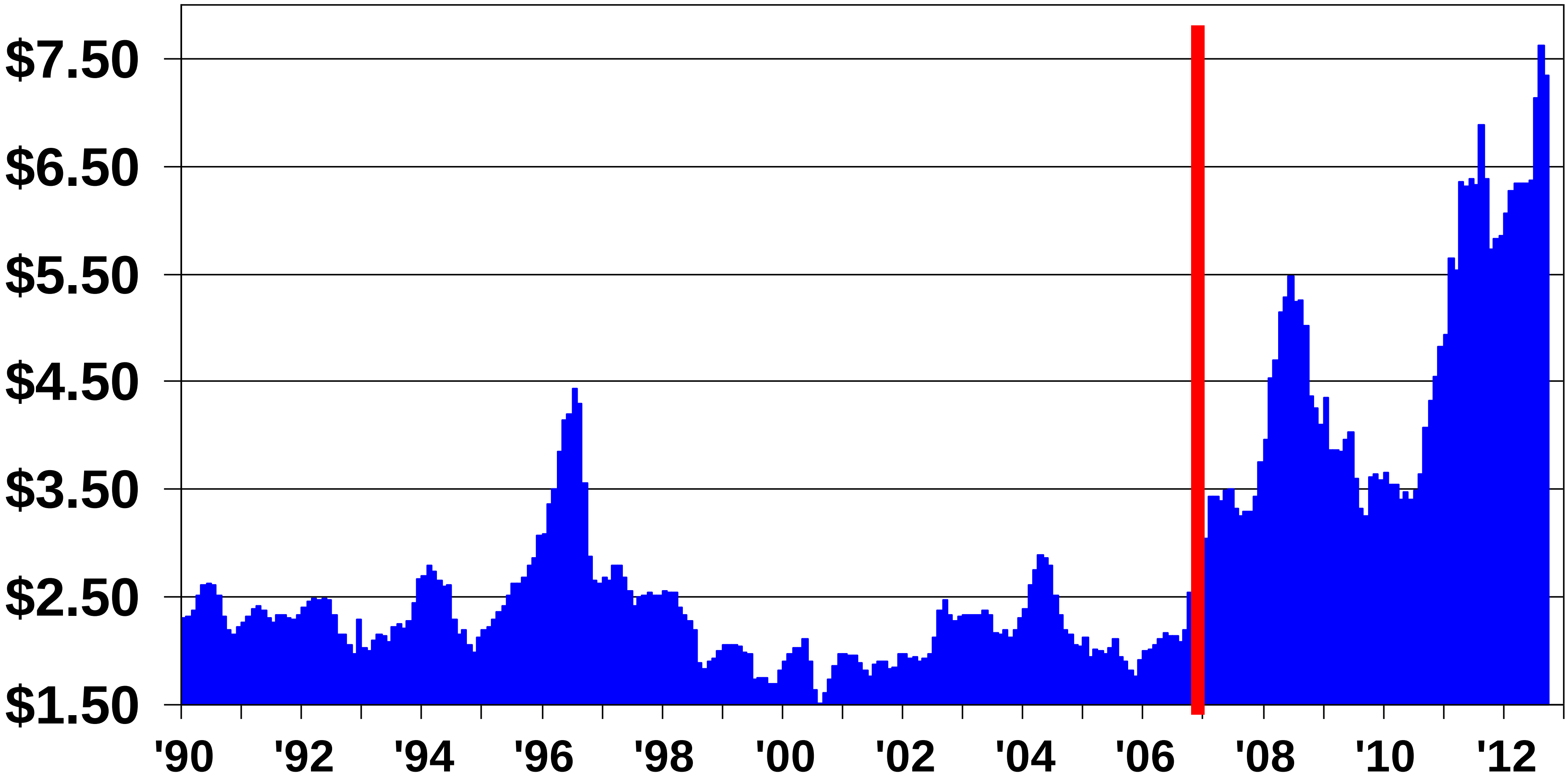
Corn Prices

Price Per Bushel

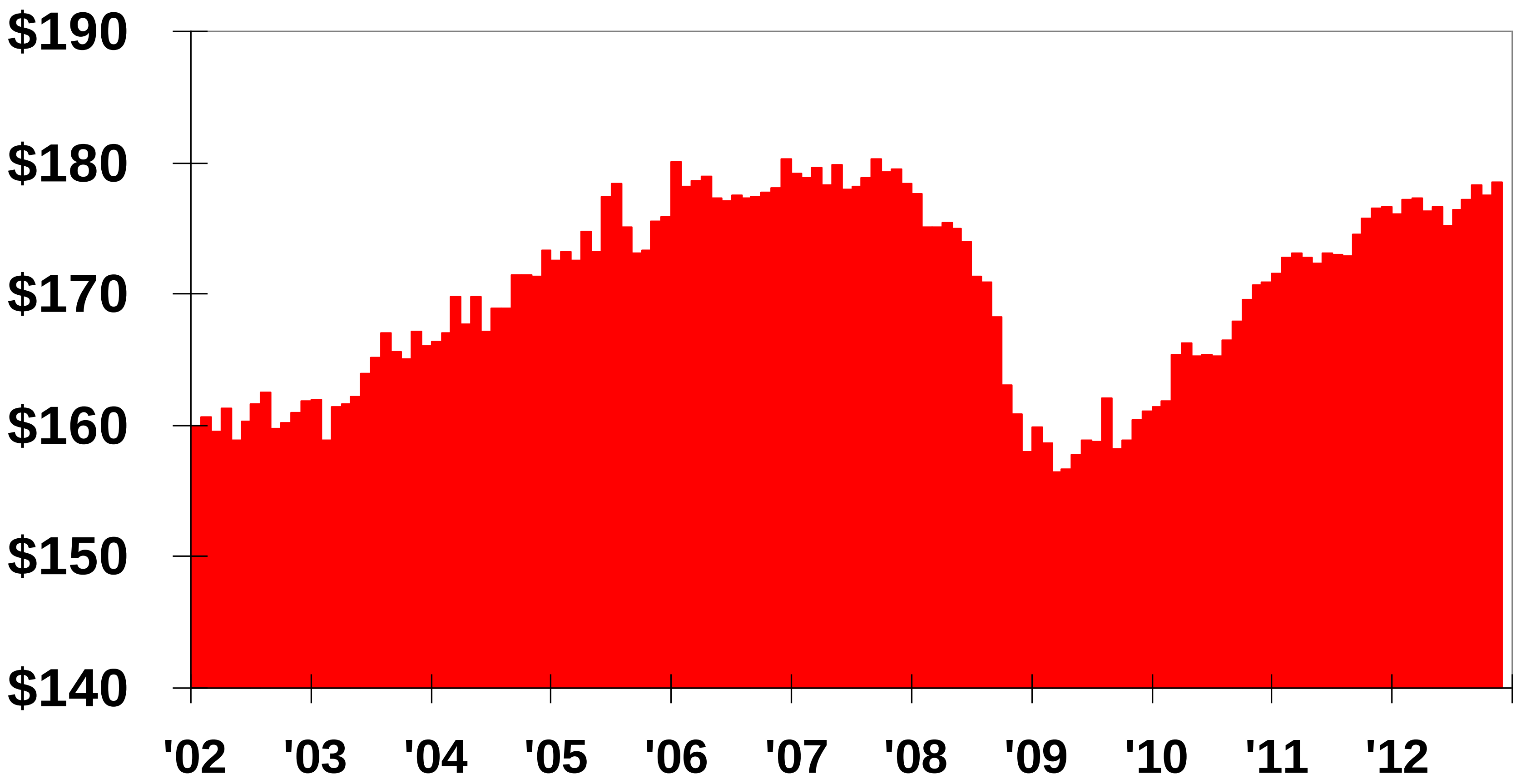


http://www.farmdoc.illinois.edu/manage/uspricehistory/USPrice.asp

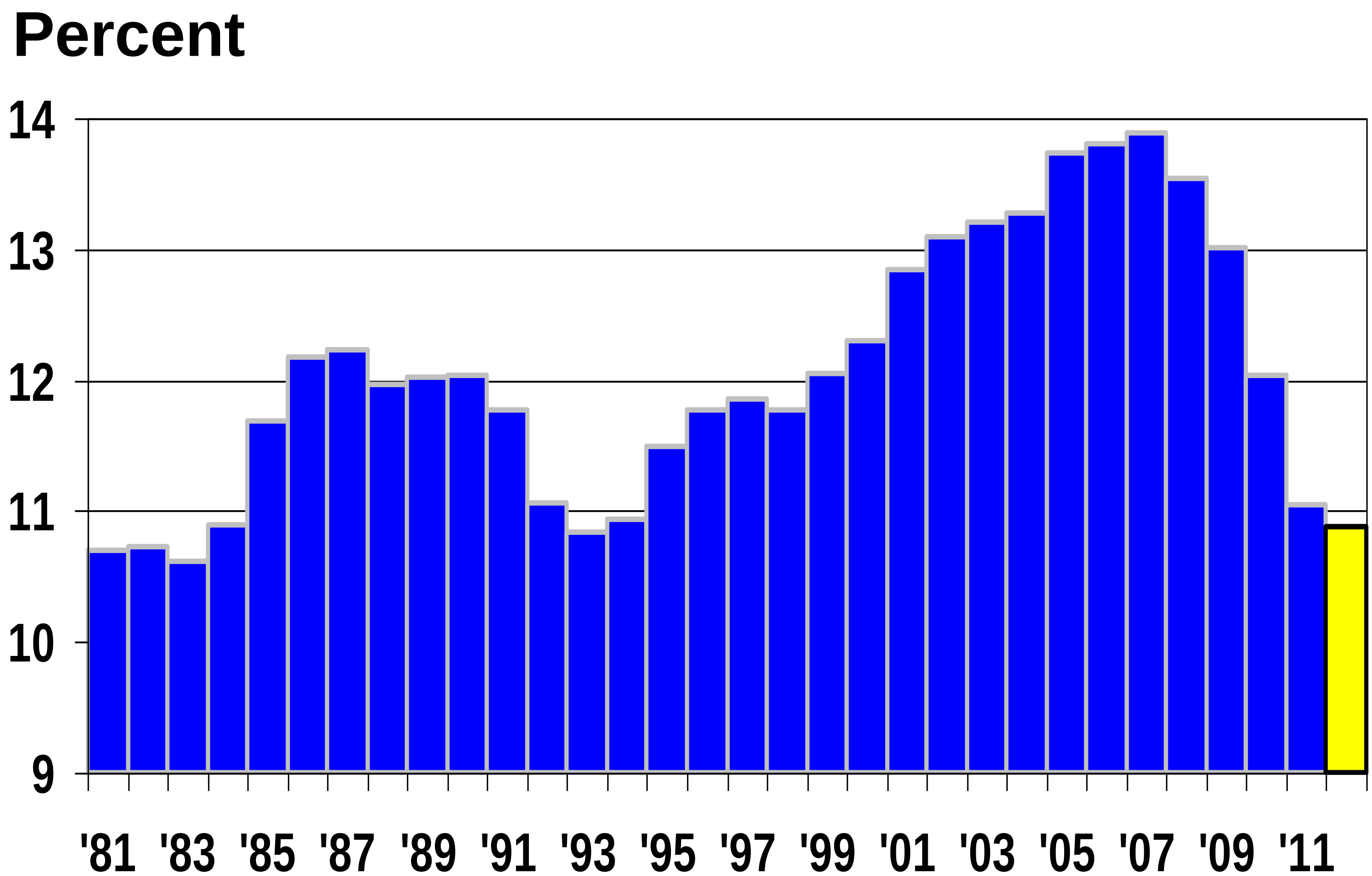
Many Green Shoots in the Economy

U.S. Real Retail & Food Service Sales

$Billions – Seasonally Adjusted



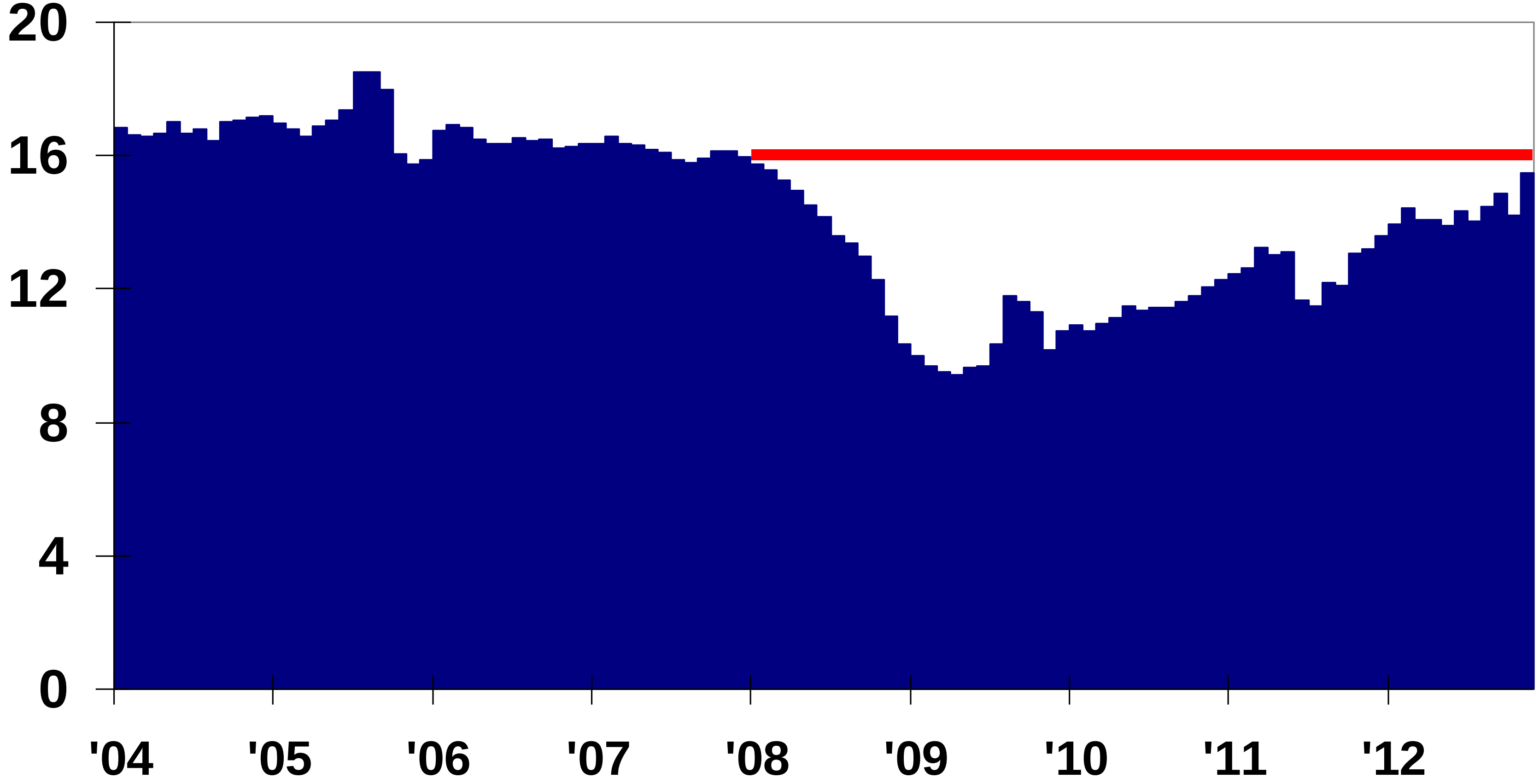
Household Debt Service as a Percent of Household Disposable Income



FED Board of Governors, BEA

Light Weight Vehicle Sales

Millions – *Seasonally Adjusted Annual Rate*



Bureau of Economic Analysis

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2013 Economic Concerns

- **Fiscal Cliff 2.0 – DEBT CEILING**

  Washington DC (Congress & Prez)

- **GDP = Consumption + Investment + <u>Government Spending</u> + Exports – Imports**

- **Energy: US Imports 60+ Percent of Oil**

- **Government Can't Fix Everything**

  Newton's Third Law of Motion

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Ted’s Blog

http://blog.stewart.com/

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"The rich rule over the poor, and the borrower is servant to the lender." **Proverbs 22:7**

Ted C. Jones, PhD, Chief Economist, Stewart Title Guaranty Company