



Austin Chapter

2016 ECONOMIC FORECAST

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# 2016 Economic Forecast

2016 – better or more of the same?

Mark Sprague  
State Director of Information Capital  
Independence Title

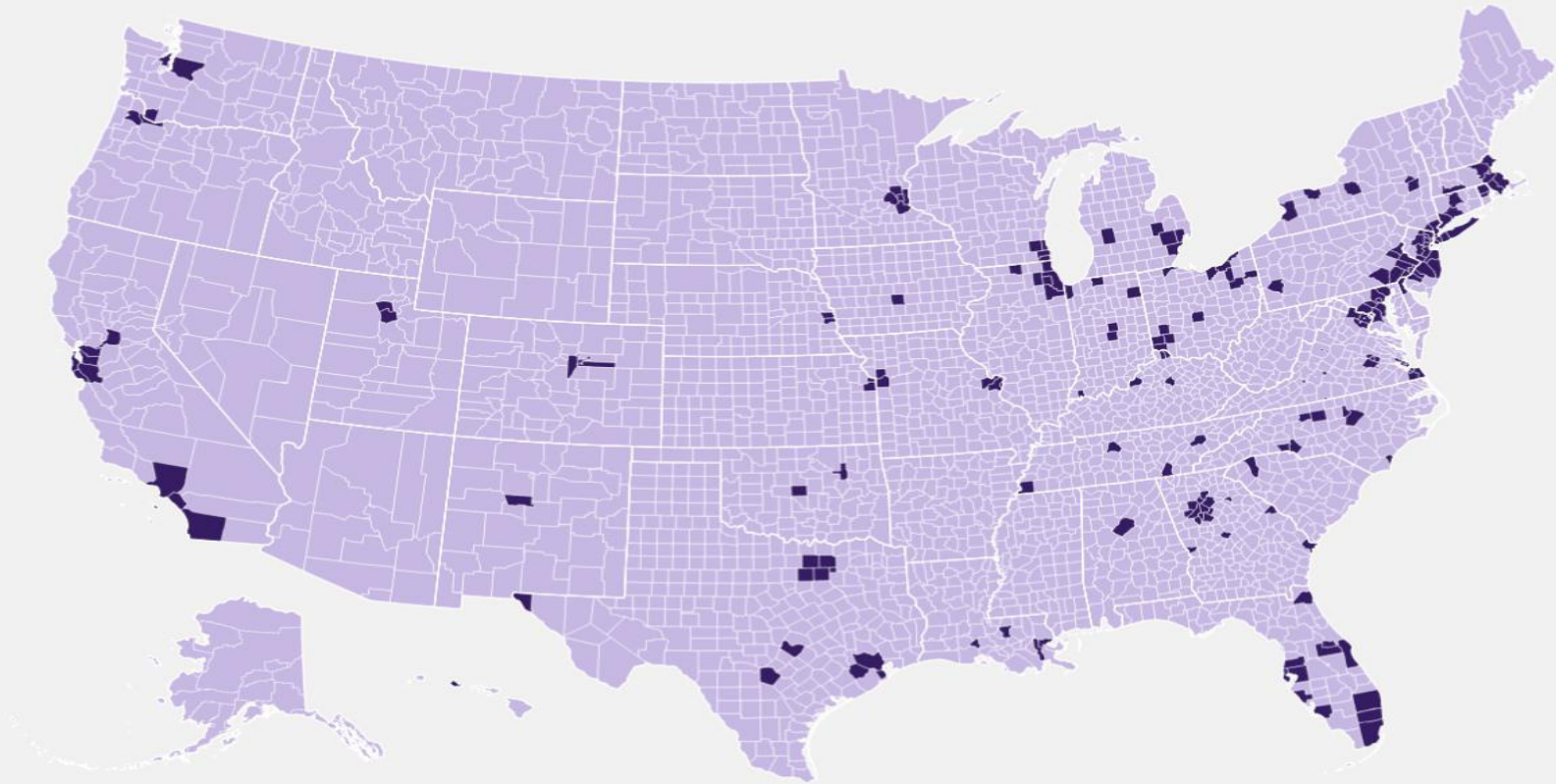


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# Where Does America Live?

**HALF OF THE US POPULATION LIVES  
IN THE SHADED COUNTIES**



SOURCE: US Census Bureau

BUSINESS INSIDER



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# Where The Money Is

Take a look at America's Economic Output

**1. New York  
-Newark  
-Jersey City**  
\$1.56 Trillion

New York-Newark-Jersey City represents almost 10% of the total GDP by metro area in USA.

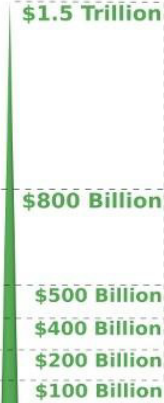
**3. Chicago-Naperville-Elgin**  
\$611 Billion

**5. Dallas-Fort Worth  
-Arlington**  
\$504 Billion

**2. Los Angeles-Long  
Beach-Anaheim**  
\$867 Billion

**4. Houston-The Woodlands  
-Sugar Land**  
\$525 Billion

Midland, TX had the largest GDP percentage growth in the country with 24%.



The real GDP grew in 282 of the 381 metropolitan areas across the U.S. in 2014.

Source: <http://www.bea.gov>

Gross Domestic Product (GDP)  
by Metropolitan Areas

howmuch.net



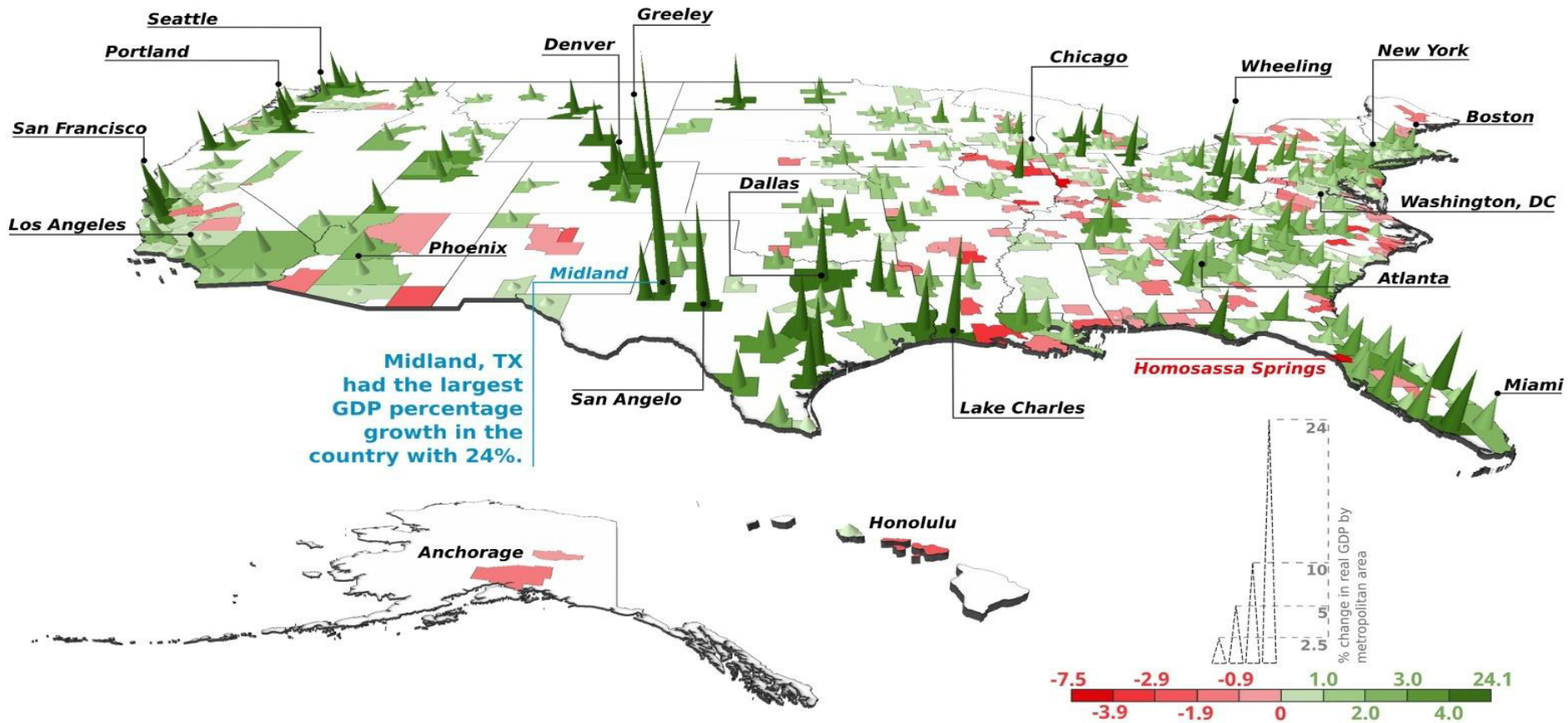
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# Visualizing Growth in U.S.

Take a look at America's Economic Growth



Article & Sources: <http://howmuch.net/articles/growth-americas-biggest-metro-in-a-3d-map>

howmuch.net



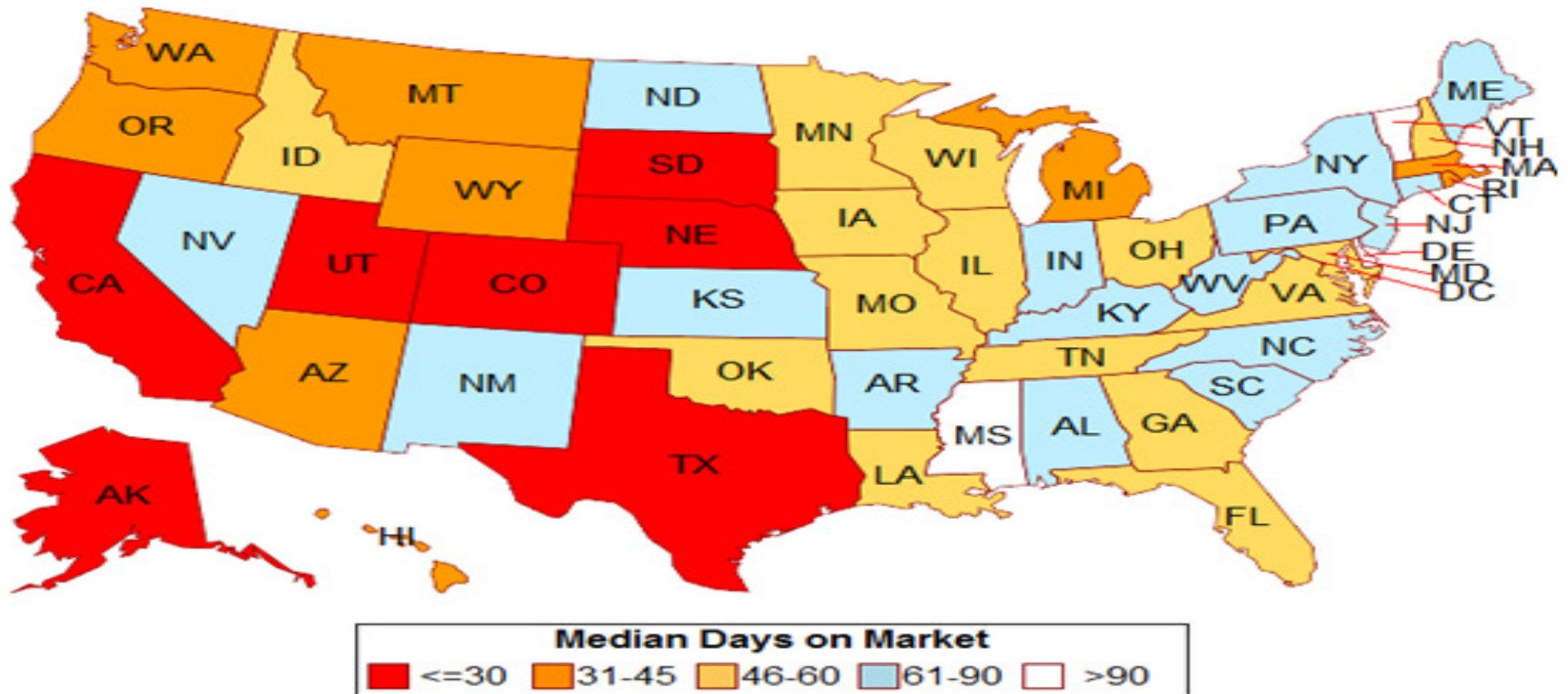
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# What Are The Strongest Markets?

## (Residential)

Median Days on Market for Sales Reported by REALTORS®, By State  
July–Sept 2015

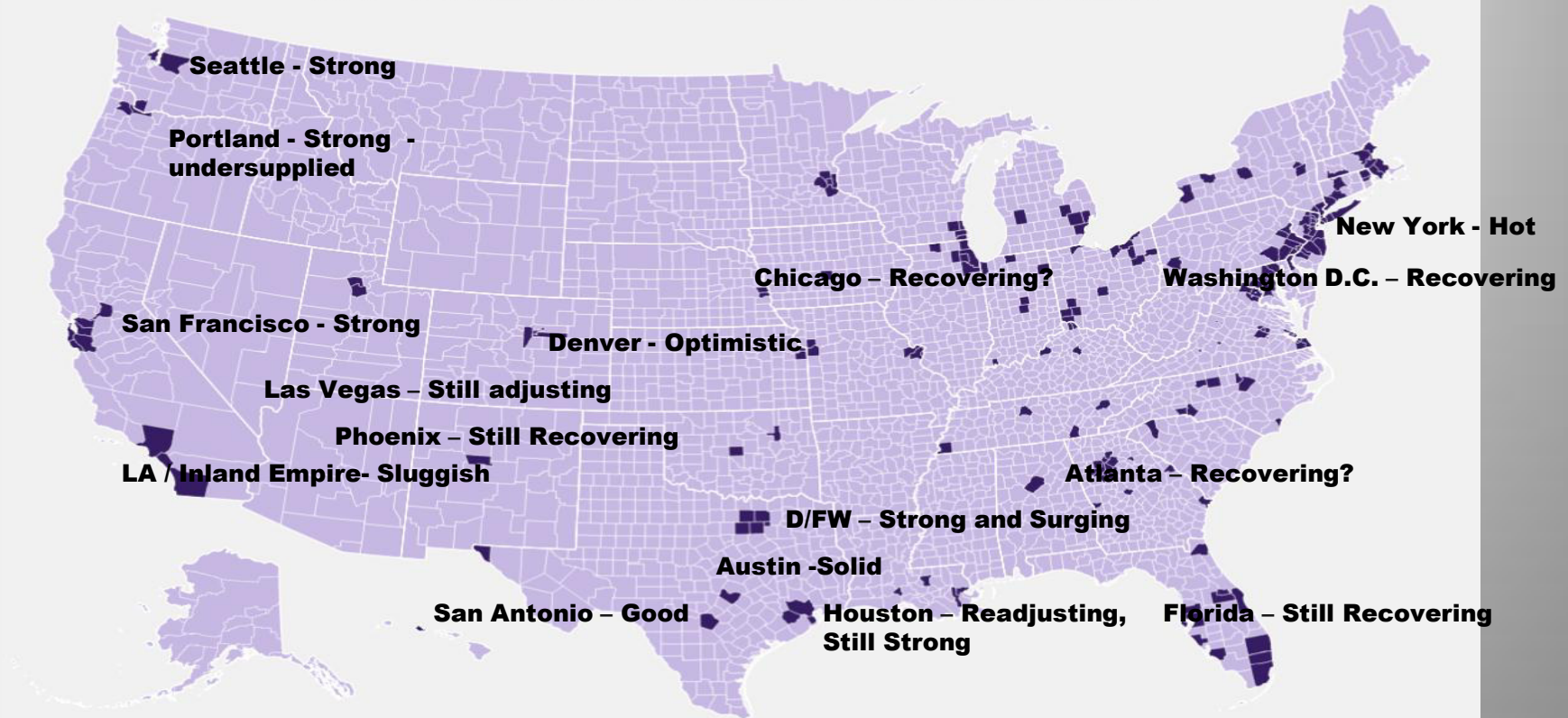


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# How Is the Economy?

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SOURCE: US Census Bureau

BUSINESS INSIDER



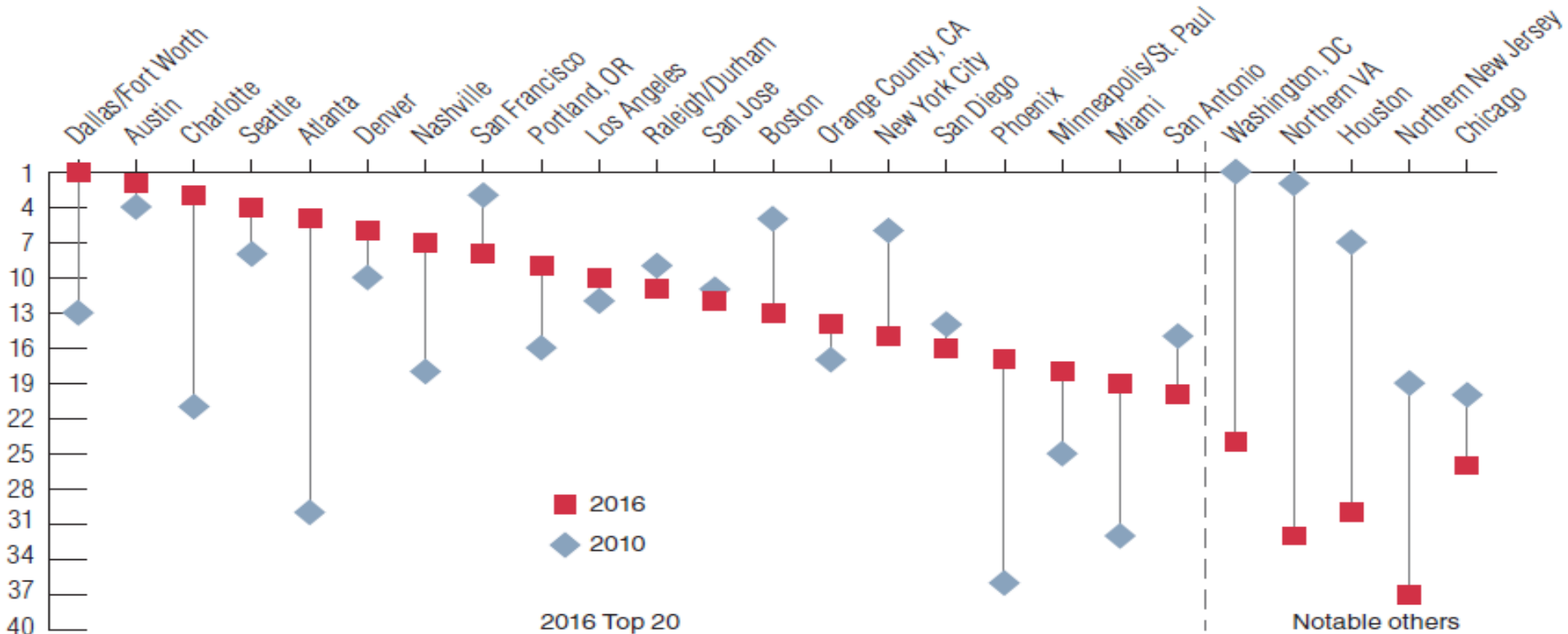
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# What Are The Strongest Markets?

(Based on relative expectations for investment, development, and home building. ULI 2015)



Source: *Emerging Trends in Real Estate* surveys.

Emerging Trends in Real Estate 2016, the annual report published by the [Urban Land Institute](http://www.uli.com) and [PwC LLP](http://www.pwc.com). Released during ULI's national fall meetings, the report is considered a credible barometer for real estate development and investment across all product types.



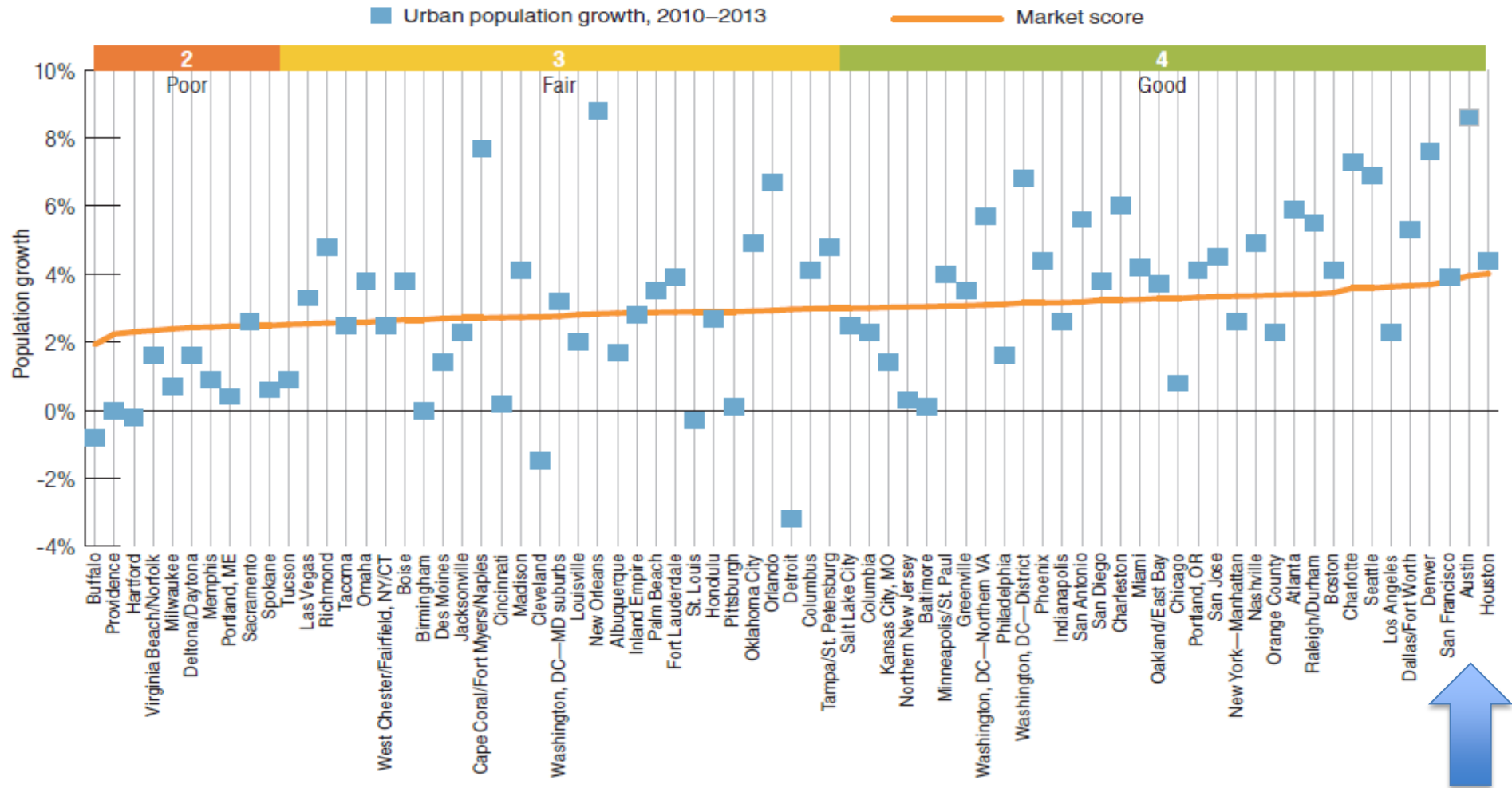
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# Three Year Population Growth

(By Overall Real Estate Prospects ULI 2015)



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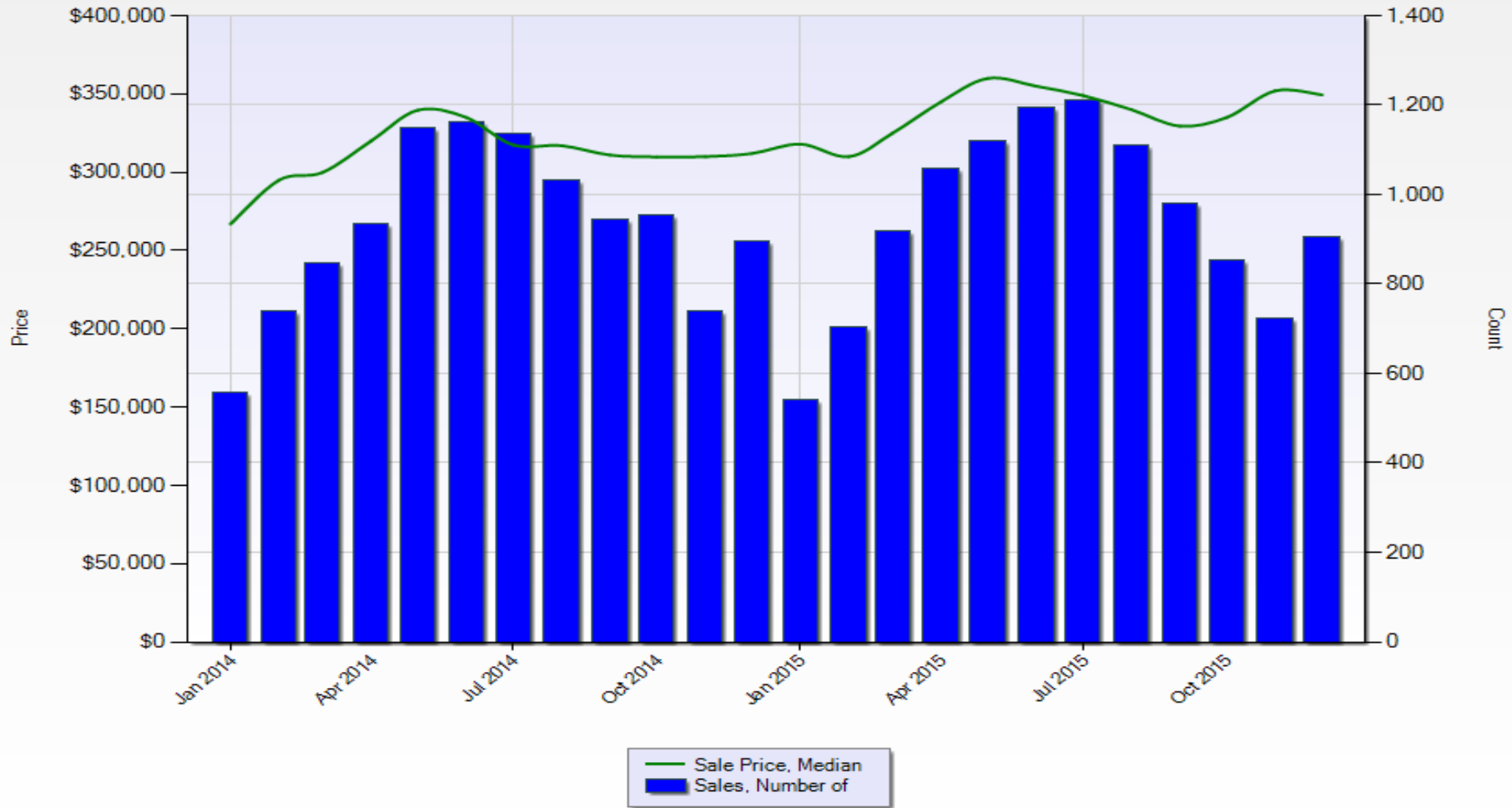
# National and regional economic strengths

- **American, Regional and local economy has continued slow improvement through 2015 and into 2016.**
  - The national economy slowed after good growth in 2014. The expected GDP this year will be around 2.8%. A healthy GDP would be 3.5+%. 2% rate we have had the last 6+ years. Last 3 quarters have been disappointing.
  - Employment is finally starting to pick up pace, although too slowly to get those people who have dropped out of the labor force back into jobs.
  - The Dow has flirted with a high of 18,000+/-.
  - All this is good news. The big challenge for 2016 is raising productivity to improve wages.
- **The growth is propelled by the big rise in business investment, up nearly 9%, personal consumption up 3.2%, and exports up 4.5%.**
- **Texas economy started slower with the uncertainty of oil values at the start of 2015. Texas economy still strong. Texas metros recovery remain strong.**
  - Austin growth faster than country and most metros.
  - Tight inventories in all Texas metros and cities.
- **Energy and new technology have made the US the world's largest energy producer.**
  - 2015 oil price decline caused doubt. Energy innovation changing supply demand dynamic. Low oil prices to remain through 2016.
- **Texas energy, health, and education businesses lead nation.**
- **Federal Reserve raised rates. How many times and when will rates rise?**
- **Mortgage and interest rates historically low. 3<sup>rd</sup> lowest ever.**
- **Consumers and businesses spending more.**
- **Low real estate inventory – better than the alternative.**
- **Home sales continue positive appreciation / sales.**
- **Other real estate channels strong through 2016.**



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# Austin Home Sales

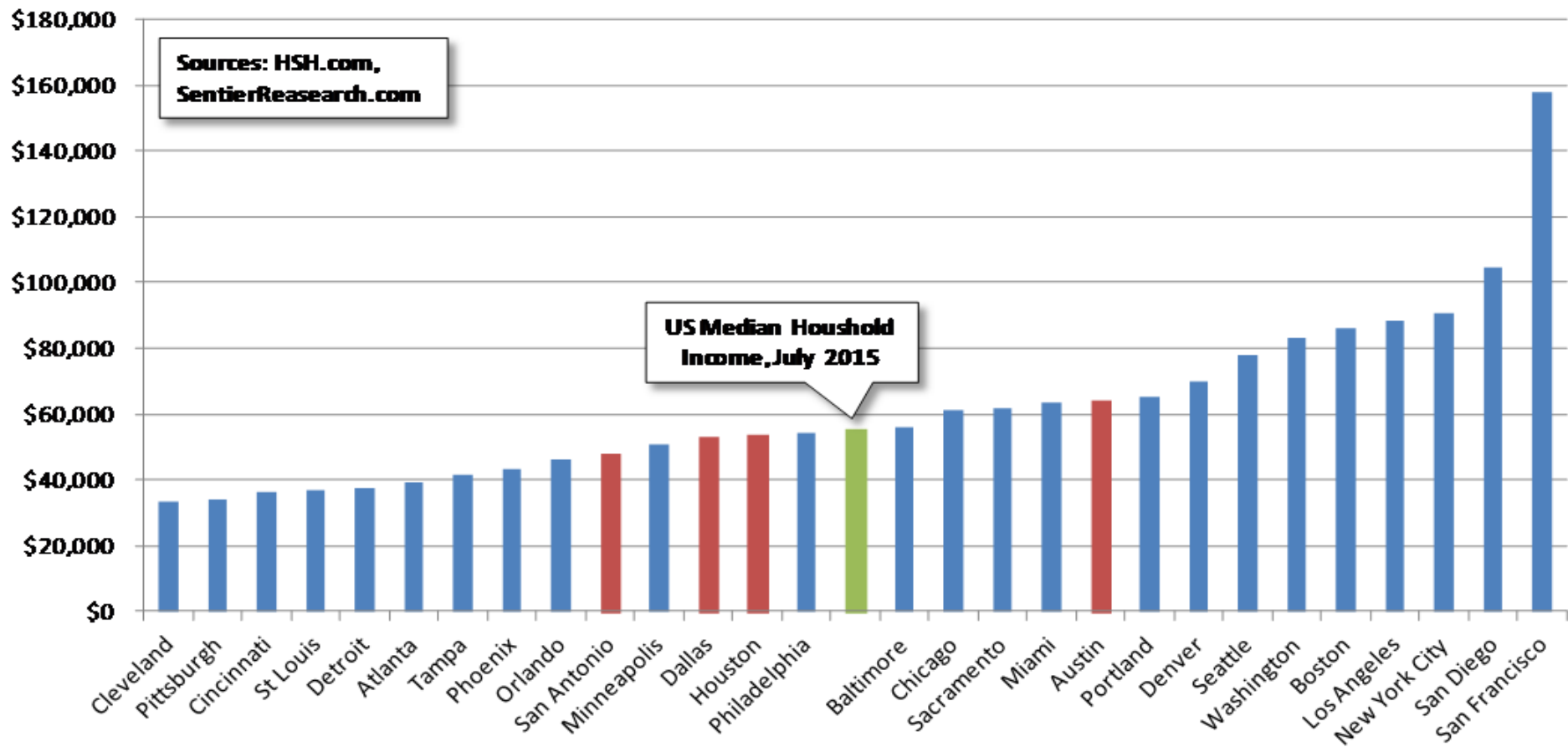


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# Is Austin An Overvalued Market?

## Salary Needed to Buy the Median Priced Home



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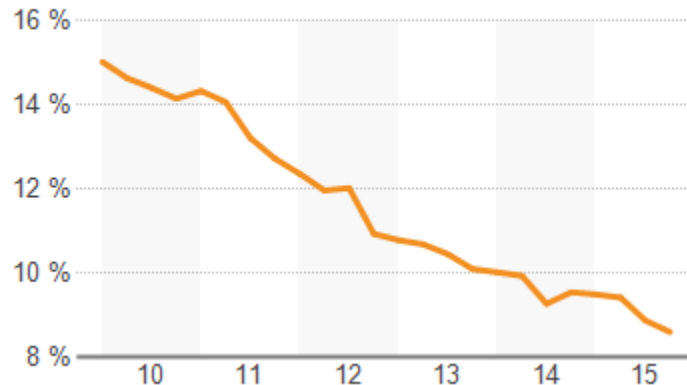


# Austin Office

Availability	Survey	5-Year Avg
Gross Rent Per SF	\$30.78	\$26.69
Vacancy Rate	8.6%	11.2%
Vacant SF	7,146,528	8,813,499
Availability Rate	13.0%	14.2%
Available SF	11,079,416	11,388,566
Sublet SF	1,061,567	794,653
Months on Market	9.5	11.5

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	4,283,597	1,642,154
12 Mo. Leasing SF	8,675,916	8,461,924

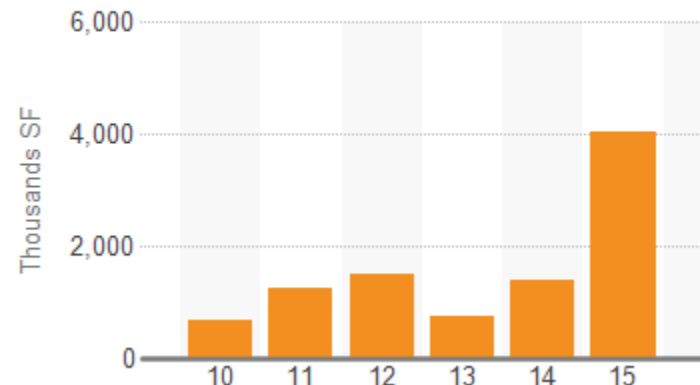
## Vacancy Rate



Inventory	Survey	5-Year Avg
Existing Buildings	3,121	3,082
Existing SF	83,043,612	78,757,886
12 Mo. Const. Starts	2,479,710	1,332,892
Under Construction	1,881,303	1,699,707
12 Mo. Deliveries	4,219,220	969,619

Sales	Past Year	5-Year Avg
Sale Price Per SF	\$233	\$214
Asking Price Per SF	\$176	\$156
Sales Volume (Mil.)	\$1,451	\$1,097
Cap Rate	5.9%	6.6%

## Net Absorption



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# Austin Retail

Availability	Survey	5-Year Avg
NNN Rent Per SF	\$20.78	\$18.90
Vacancy Rate	3.4%	5.2%
Vacant SF	2,162,937	3,214,606
Availability Rate	4.9%	6.7%
Available SF	3,104,493	4,178,640
Sublet SF	113,725	195,771
Months on Market	14.8	13.6

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	1,294,878	496,606
12 Mo. Leasing SF	1,613,735	2,268,309

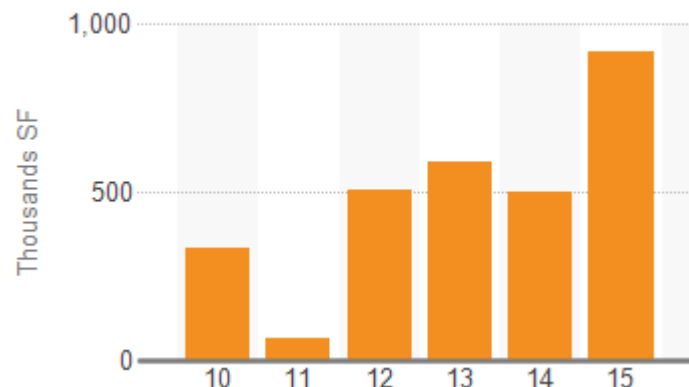
## Vacancy Rate



Inventory	Survey	5-Year Avg
Existing Buildings	5,411	5,388
Existing SF	63,210,805	62,485,711
12 Mo. Const. Starts	58,875	360,675
Under Construction	3,500	379,186
12 Mo. Deliveries	574,348	363,627

Sales	Past Year	5-Year Avg
Sale Price Per SF	\$348	\$224
Asking Price Per SF	\$422	\$298
Sales Volume (Mil.)	\$267	\$227
Cap Rate	6.4%	6.9%

## Net Absorption



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# Austin Multifamily

Leasing Units	Survey	5-Year Avg
Vacant Units	8,510	6,973
Vacancy Rate	5.1%	4.5%
12 Mo. Absorption Units	6,990	4,553

Rents	Survey	5-Year Avg
Studio Asking Rent	\$926	\$765
1 Bed Asking Rent	\$1,053	\$889
2 Bed Asking Rent	\$1,300	\$1,116
3+ Bed Asking Rent	\$1,317	\$1,164
Concessions	0.7%	1.2%

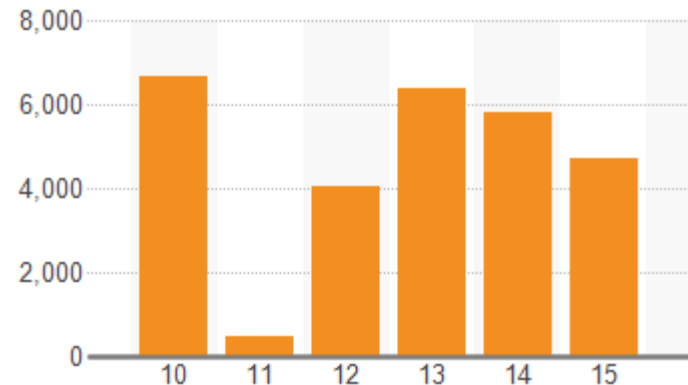
Vacancy Rate



Inventory in Units	Survey	5-Year Avg
Existing Units	186,179	170,127
12 Mo. Const. Starts	6,640	5,997
Under Construction	8,951	8,300
12 Mo. Deliveries	9,430	4,475

Sales	Past Year	5-Year Avg
Sale Price Per Unit	\$126,051	\$103,603
Asking Price Per Unit	\$113,285	\$167,417
Sales Volume (Mil.)	\$1,619	\$5,086
Cap Rate	6.0%	6.2%

Absorption Units



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# CBD annual appreciation and Median Values

Primary Year	Median Sale Price	Appreciation	Sales
2006	\$285,000		165
2007	\$328,700	15.3%	154
2008	\$309,050	-6.0%	130
2009	\$275,000	-11.0%	131
2010	\$282,250	2.6%	174
2011	\$319,000	13.0%	218
2012	\$341,900	7.2%	249
2013	\$386,000	12.9%	338
2014	\$422,000	9.3%	280
2015	\$438,000	3.8%	173

What does this show?

- The strength of the market downturn.
- The numbers show that MLS does not capture a true picture of the market due to the amount of sales or closings in comparison to title closings.
- Median values were less than expected. Are the more expensive units not hitting MLS? If they are, values are not as high as everyone thinks.
- Appreciation has been good historically.
- For one geographical destination, a great number of sales, even in the recession.

Austin CBD values for the last 10 years appreciation and number of sales recorded through MLS. (78701 sold residential properties\* from 1/1/2006-8/25/2015)



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Zip Code	Active	New	Sold	Median Price	Median DOM
76574	73	22	21	\$145,900	24
78602	131	29	17	\$194,000	31
78610	259	56	34	\$217,000	22
78612	36	5	3	\$140,000	4
78613	351	98	78	\$235,950	17
78617	46	7	9	\$161,500	3
78619	67	14	4	\$433,500	80
78620	124	22	19	\$356,500	41
78621	98	22	16	\$145,475	14
78626	198	38	22	\$209,019	20
78628	287	34	38	\$344,573	41
78633	278	52	31	\$322,015	45
78634	198	58	33	\$175,000	19
78639	34	9	3	\$309,000	42
78640	208	58	44	\$190,000	26
78641	544	99	78	\$260,555	34
78642	139	10	16	\$336,250	49
78644	47	5	9	\$155,000	44
78645	199	24	23	\$149,000	27
78652	20	7	4	\$207,500	21
78653	133	29	17	\$184,000	27
78660	467	136	70	\$215,000	13
78664	194	61	51	\$197,000	12
78665	340	80	60	\$239,400	19
78666	153	26	14	\$239,950	45
78669	231	29	18	\$348,000	79
78676	99	26	12	\$245,000	17
78681	185	53	44	\$259,875	18
78701	105	21	13	\$568,500	13
78702	165	32	19	\$400,000	32
78703	148	30	18	\$982,500	37
78704	299	64	53	\$525,000	31
78705	38	10	7	\$240,000	28
78717	117	27	25	\$319,500	30
78719	3	0	0	-	-
78721	63	19	12	\$256,950	33

Zip Code	Active	New	Sold	Median Price	Median DOM
78722	23	5	2	\$505,000	2
78723	134	37	25	\$285,000	10
78724	37	11	8	\$136,000	8
78725	37	12	2	\$149,250	65
78726	58	9	10	\$399,000	50
78727	77	26	24	\$271,125	15
78728	30	7	11	\$243,800	6
78729	61	27	19	\$243,000	7
78730	67	11	17	\$514,500	58
78731	107	30	21	\$676,000	5
78732	147	26	25	\$475,000	44
78733	44	6	10	\$714,250	63
78734	297	38	31	\$350,000	55
78735	98	16	14	\$466,250	26
78736	49	8	9	\$274,000	13
78737	134	26	25	\$450,000	30
78738	359	66	41	\$450,000	62
78739	122	34	26	\$442,500	31
78741	67	20	14	\$181,950	19
78742	1	0	0	-	-
78744	153	30	12	\$210,473	35
78745	213	47	37	\$268,000	17
78746	196	35	15	\$949,000	58
78747	85	27	14	\$198,000	15
78748	211	53	45	\$245,000	12
78749	81	27	28	\$319,750	10
78750	76	24	25	\$335,000	13
78751	69	17	12	\$375,500	21
78752	26	7	10	\$241,500	20
78753	68	25	17	\$224,000	20
78754	68	26	16	\$205,500	6
78756	42	23	4	\$475,000	23
78757	103	28	18	\$378,000	15
78758	80	27	18	\$210,500	6
78759	117	29	29	\$447,500	22
<b>Overall</b>	<b>9,613</b>	<b>2,152</b>	<b>1,573</b>	<b>\$269,000</b>	<b>22</b>



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# 2015 was a good year!

- **226 more sales in Austin area in 2015 over 2014. (8+% increase)**
  - Median value up 8% to \$265,000. (5 county MLS coverage area)
  - Volume as well as values continue to improve.
  - 2015 will likely be the same sales volume increase.
- **New home sales will continue to improve in volume. Construction costs increasing with lack of qualified labor.**
- **2016 will be about the same as 2015 with real estate values maintaining or improving in most Texas metros.**
- **2013 was the year Austin felt and saw the recovery. It continued through 2015. Regional psychology changed for the positive.**
- **The Austin economy continues to be in an expansion mode.**
- **Multi-family is near a 'Tipping point'.**
  - 20,000+ units delivered last two years, yet occupancy at historical high, 94+%.
  - Demand should slow regionally as equity gauges the effect of declining energy values.
- **Office and retail the same. Start the year slow 2016)(and gauge demand.**
- **More demand than inventory in most channels.**
- **Austin residential investment properties as well commercial, retail, industrial at 94+% occupancy.**



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# 2015 was a good year for Austin!

## 2016 should be more of the same.

- Austin / Round Rock area added 32,500 net new jobs, or 3.6%, in the 12 months ending in November.
- Austin's 3.6% growth makes it the 12th best performing among the 50 largest metro areas. Dallas grew by 4.%, ranking 5th. The other major Texas metros missed the top 10. Fort Worth grew by 2.7% (26th), San Antonio grew by 2.8% (21th), and Houston grew by 1.9% (38th) between June 2014 and June 2015.
- Job growth continues to be stable and impressive at 3.3%.
- Unemployment fell to 3.3%, a rate not seen in Austin since before the early 2000s "dot-com" recession.
- The drop in oil values have had little effect on Austin employment presently. However Houston has not been as lucky with less job creation this year than Austin.
- Austin's quick recovery from the recession and continued job creation continues to help values.



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# Thoughts about the market.

- **Continued strong real estate appreciation in all channels.**
  - Luxury above \$2 million sales have slowed since 2013 in Austin and other Texas Metros.
- **Significant change in consumers psychology;**
  - Fear of losing job decreased dramatically, particularly in Texas. Labor shortage is the bigger issue..
  - 7+ years of pent up demand for a different home, office expansion. 3 to 5+ years of strong employment growth in Austin improving and other Texas metros. Move up, move out, or move down.
  - Nationally the fear of declining home prices is not present. Texas received very little of this, and values have improved dramatically the last 72+/- months.
    - Foreclosures may pick up in Texas with 125,000+ jobs lost in 2015 /16.
  - Unbelievable low mortgage / bank rates create 'positive leverage'. Return of positive leverage brings back speculators as well as the consumer.
  - Texas real estate is still one of the most 'undervalued hard assets' in the world.
  - Most levels of real estate are moving forward this year.
  - Texas real estate investment heavily desired.
- **Significant low levels of inventory**
  - Low inventory levels across all channels with increased demand = higher prices.
  - Increased demand + low inventory + constrained supply = higher prices.
  - Homebuilders / developers constrained to respond.
    - 14,785+/- , but 7500+/- quality developed lots at end of 2015, With 11,500+/- starts this year. Higher land, lot and labor prices have pushed the ability to build a \$150K new home to \$200K to \$250K.
    - Office, industrial, retail development picked up 2013 - 15. Should slow 2016.
  - Commercial inventory catching up to needs.



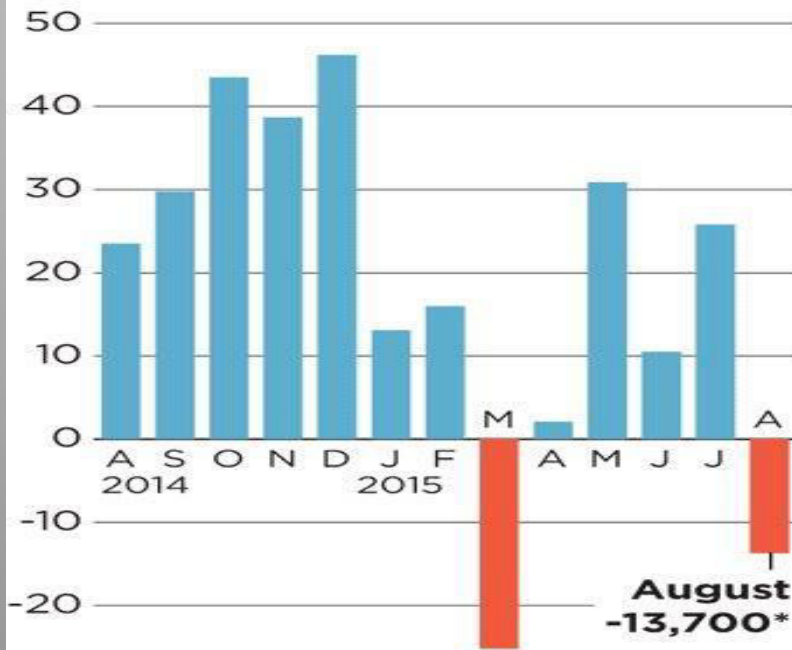
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# Texas employment slowed 2015, Texas metros comparison

## Sudden slide

Texas lost jobs in August for the second month so far this year. (Monthly job change, in thousands)



\* Preliminary  
SOURCE: U.S. Bureau of Labor Statistics

Michael Hogue/DMN

## Rates by metropolitan areas

(Not seasonally adjusted)	Aug. 2014	Aug. 2015*
Amarillo	3.8%	3.1%
Austin	4.4%	3.2%
College Station	4.4%	3.6%
Corpus Christi	5.4%	5.0%
Dallas-Plano-Irving	5.2%	3.8%
El Paso	6.8%	5.2%
Fort Worth-Arlington	5.2%	4.1%
Houston	5.1%	4.6%
Longview	5.0%	4.9%
Lubbock	4.2%	3.4%
McAllen	9.1%	7.9%
Midland	2.9%	3.2%
Odessa	3.5%	4.3%
San Antonio	4.8%	3.7%
Sherman-Denison	5.0%	4.1%
Tyler	5.2%	4.5%
Waco	5.5%	4.1%
Wichita Falls	5.2%	4.2%

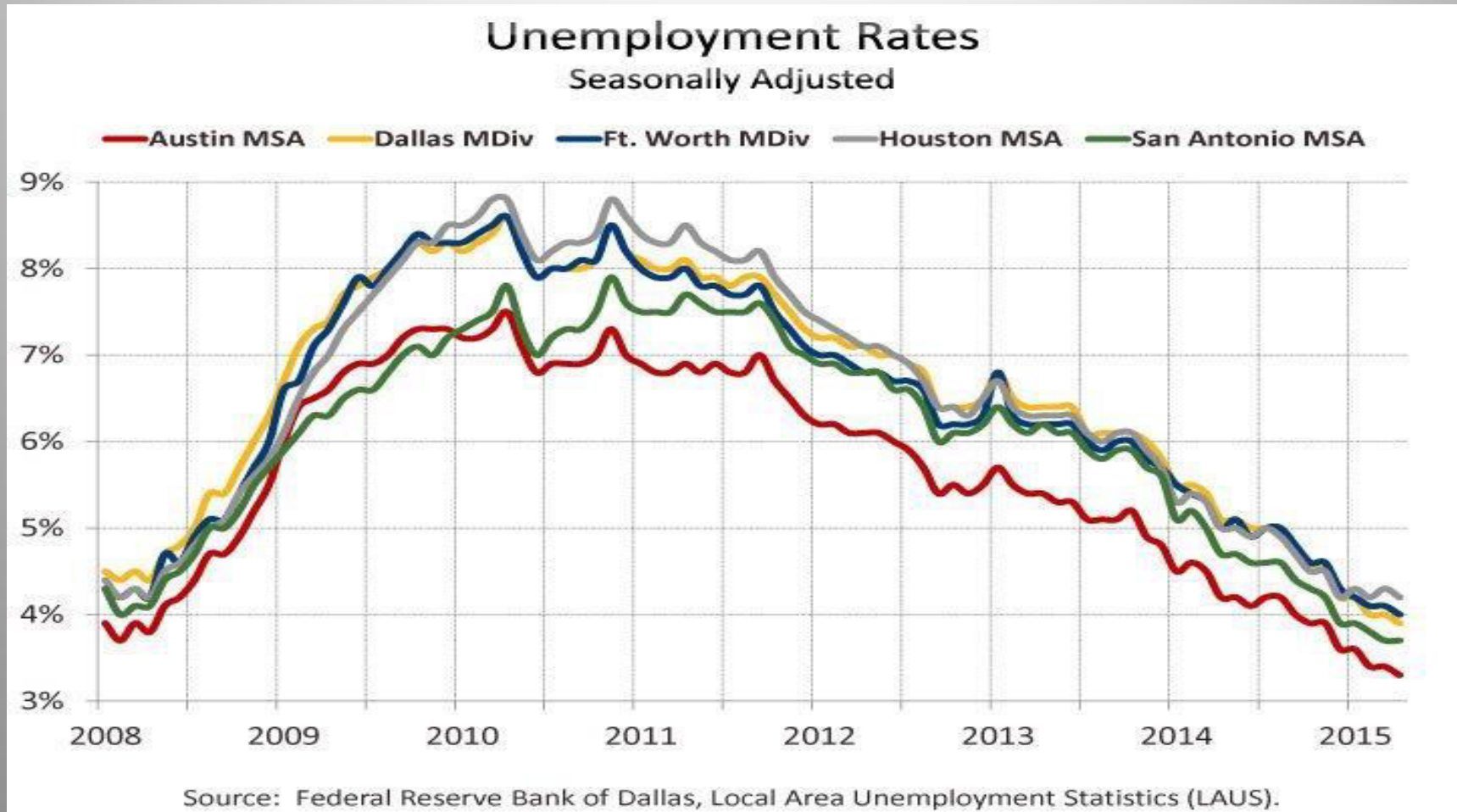
U.S. Bureau of Labor Statistics  
Michael Hogue/DMN



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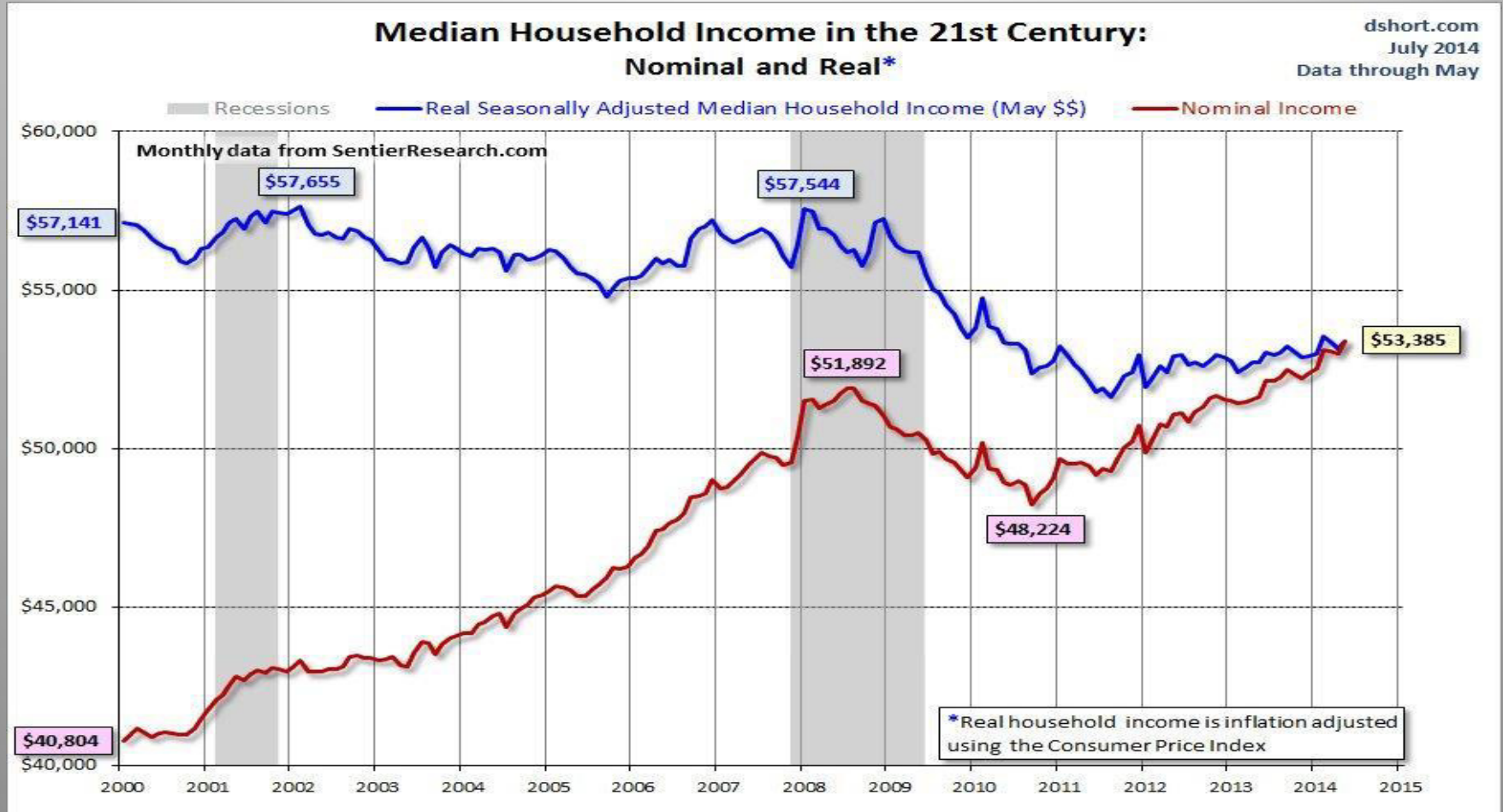
# Austin employment growth compared to Texas metros



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# Wage growth not keeping up with cost of living



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# Drop in energy prices is a double edged sword

- **Oil values have dropped 70% since June 2014.**
- **Texas economy will not be as robust as last 3+ years;**
  - Texas oil production has doubled in last 3 years, drive much of state economic growth – about 12%.
  - Energy accounts for less than 3% of Texas unemployment, yet energy employment jumped 11% through October 2014, more than any other industry.
  - In 2014, Texas outpaced US economic growth. Set a state record with 421,000 jobs created last 12 months. 2015 job creation slowed in energy, picked up in construction and professional.
  - Texas produces 36% of the crude oil in the US.
  - Sweet spot for regional economy is between \$55-\$90/barrel.
- **\$1.91 to \$2.09 a gallon gas in great for consumers, but capital investments suffer, causing a trickle down effect**
- **Dallas Federal Reserve is forecasting 125+ to 150K nationally oil related job losses in 2015 presently.**
- **In Texas, its unlikely that low oil prices will cause a crisis like they did in the late 1980's, because the state has diversified so much since then. As well as speculative building not as great.**
- **Economists expect the Texas economy to grow 3.5% in 2015, down from 4.5% in 2014. Texas employment growth to be 2.5% rather than 3.5% in 2016.**



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# Economic forecast

- Employment – Nationally, very slow recovering.
  - Unemployment – US 5.0% (U6 9.6%) / Texas 4.6% (9.9%) / Austin 3.0%.
  - Austin and Texas have been lower than the national avg. the last 108 months (9+ years).
  - Presently, with oil prices falling, Dallas Federal Reserve estimates 50+/-K jobs were lost regionally in 2015.
- Home, car and retail sales improved dramatically in 2014 /15.
  - Highest oil consumption in 10+ years.
- Consumers are spending, lenders lending in Texas region.
- Real estate construction stronger across all channels nationally, Texas leading nation. Construction costs may slow slightly due to oil values.
- Interest rates stayed low through all of 2014, all of 2015 till December. Oil value ripple effect may keep them low.
- 6+ years of household formation pent up demand.
- Corporate earnings continue to improve. When do wages follow?
- Housing and real estate slowly stabilizing, putting more people to work.

**Projections for the next couple of years indicate substantive national growth still challenged. Texas growth strong in 2014/15, continuing through 2016.**



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# Traditional economic indicators in Texas remain strong

- Texas economic indicators continue to show strength:
  - Total debt balance per capita 2<sup>nd</sup> lowest in US.
  - Debt balance 90+days late, 2<sup>nd</sup> lowest in US.
  - Percent of new bankruptcies lowest in US.
  - Job creation still strong, 35+% of jobs in US created in Texas.
  - In, Texas metros economic rankings near top.
- Demand greater than supply.
- Real estate and land values continue to improve
  - Central and South Texas area rural values are leading the state with a 9+% increase in 2014, sold over the previous year, 2013. Texas leads the nation in number of farms and ranches, with 247,500 farms and ranches covering 130.4 million acres as well as the highest average value of farm and ranch real estate in any state.



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# Now is the time to buy!

- Austin area resale home inventory is at 2.8 months. (seller's market....)
- New and resale home inventory levels tight.
  - Values appreciating in all Austin sub market.
- Austin home values remained positive during recession and continue to gain value.
- Record affordability, 2<sup>nd</sup> lowest mortgage rates in 60+ years.
- 1 out of 6005 properties in the Travis county area.
- Residential, rental and office entitlements improving from lowest levels in 6+ years.
- Lending requirements still tight, causing fewer opportunities.
- Rentals 95+/-% occupancy / **less than 7,821 units left in 5 county area.**
- 60,000+/- people annually moving to Austin annually
- Lower Supply + Higher Demand = Continued value improvement



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# Austin Numbers Show Strength

- **1,814** – Single-family homes sold, four percent less than November 2014.
- **\$270,000** – Median price for single-family homes, 10 percent more than November 2014.
- **\$347,292** – Average price for single-family homes, 12 percent more than November 2014.
- **54** – Average number of days single-family homes spent on the market, one day less than November 2014.
- **2,095** – New single-family home listings on the market, one percent more than November 2014.
- **5,703** – Active single-family home listings on the market, three percent more than November 2014.
- **1,965** – Pending sales for single-family homes, four percent more than November 2014.
- **2.4** – Months of inventory\* of single-family homes, unchanged compared to November 2014.
- **\$629,987,688** – Total dollar volume of single-family properties sold, eight percent more than November 2014.

**There is not enough product for demand!**



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# The numbers...

- **156,558 total rental units in Austin**
  - 95+/-% occupancy = 7,821 units available + 9,539 units under construction to be completed 2015.

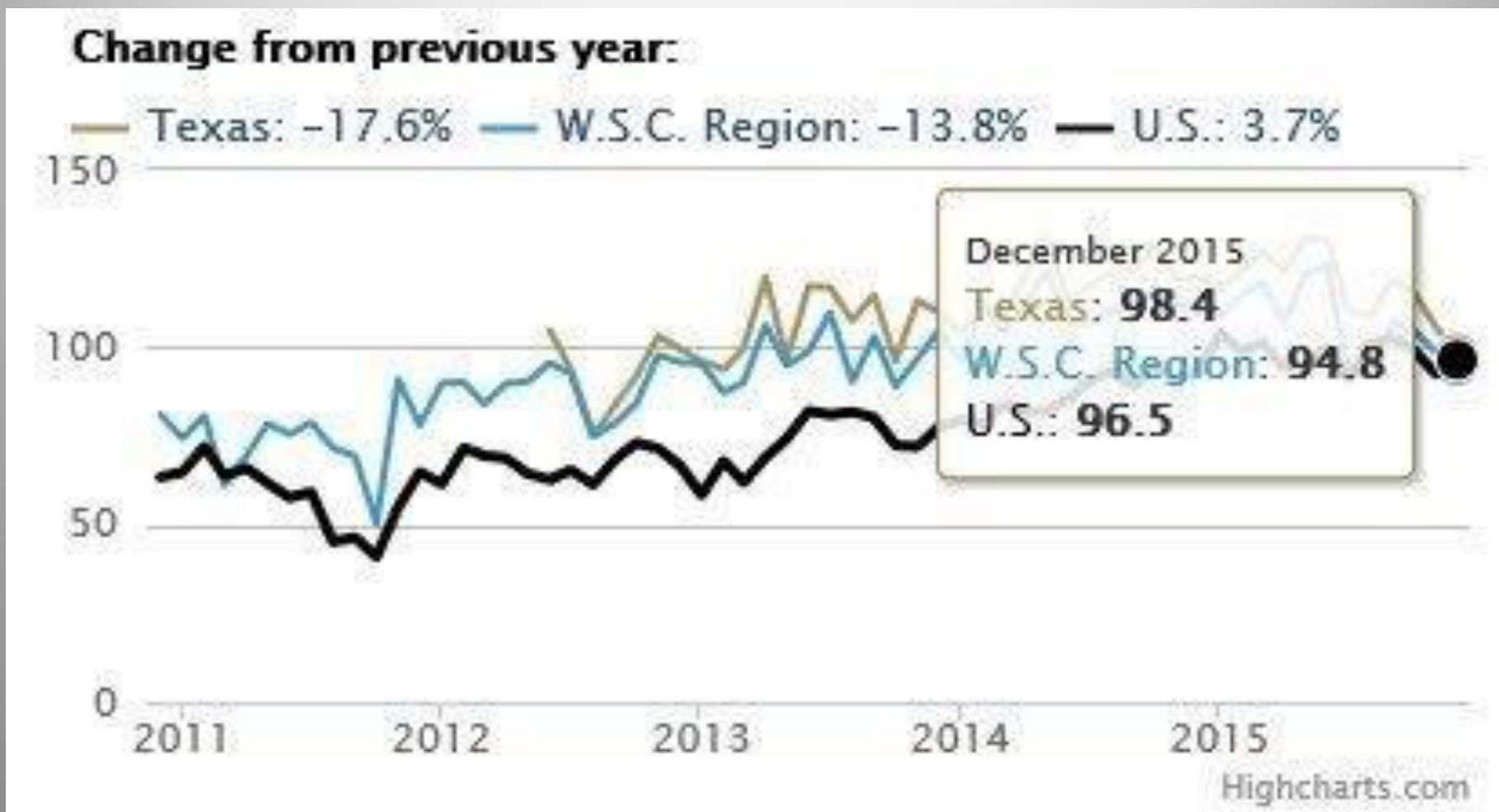
Total of 17,360 rental units available in the next 12 months.
- **11,500+/- home starts this year.**
  - For every 3 jobs / one home start.
- **6,701 listings presently / 2.4 months.**
- **Total shelter 35,561 units available.**
- **Total annual new job creation 30,600.**
- **Total annual immigration 60,000+/-.**



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# National Consumer Confidence Improving

Texas Consumer Confidence off 15% off



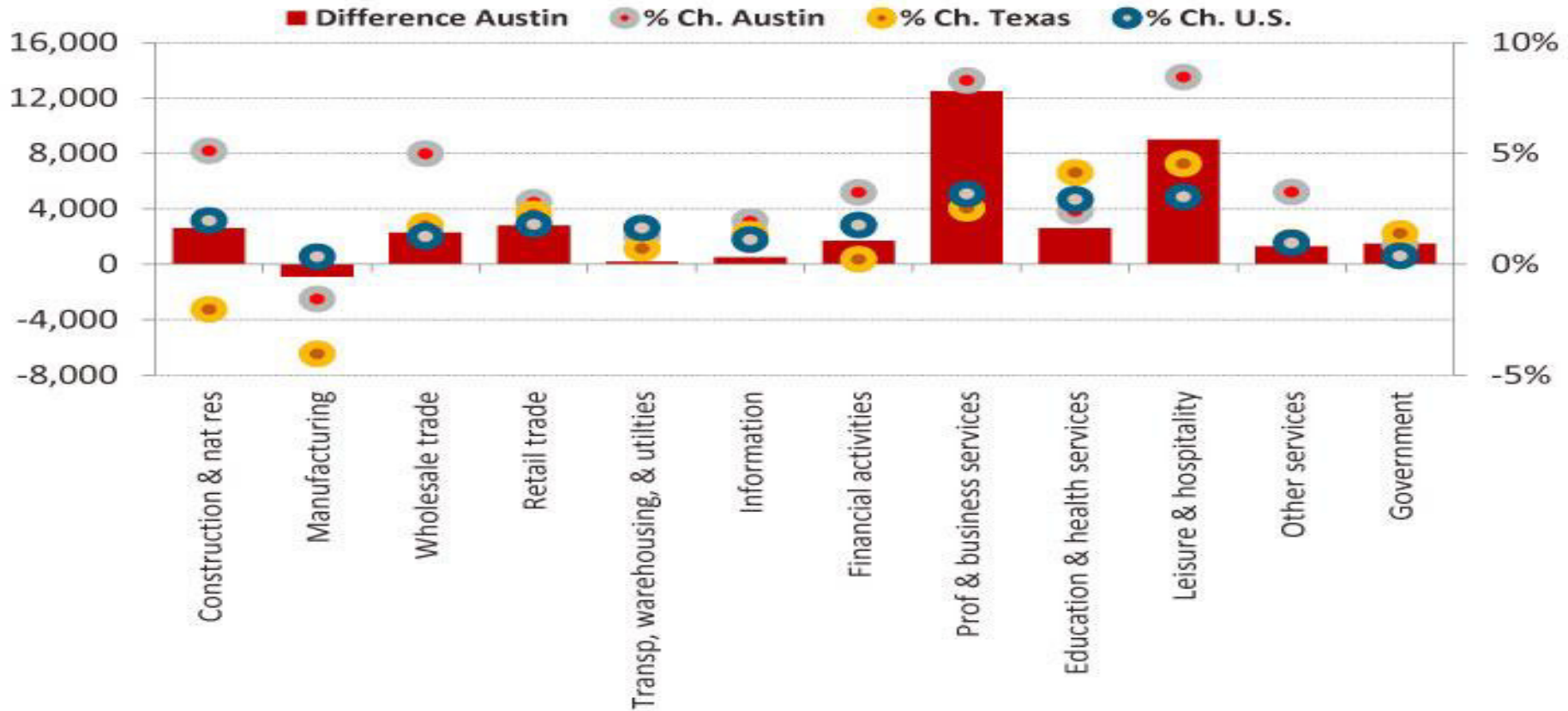
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# Austin Job Growth

New/Lost Jobs by Industry: Nov. 2014-Nov. 2015



Source: Texas Workforce Commission & U.S. Bureau of Labor Statistics, CES.

Source: Dallas Fed. Reserve 11/15

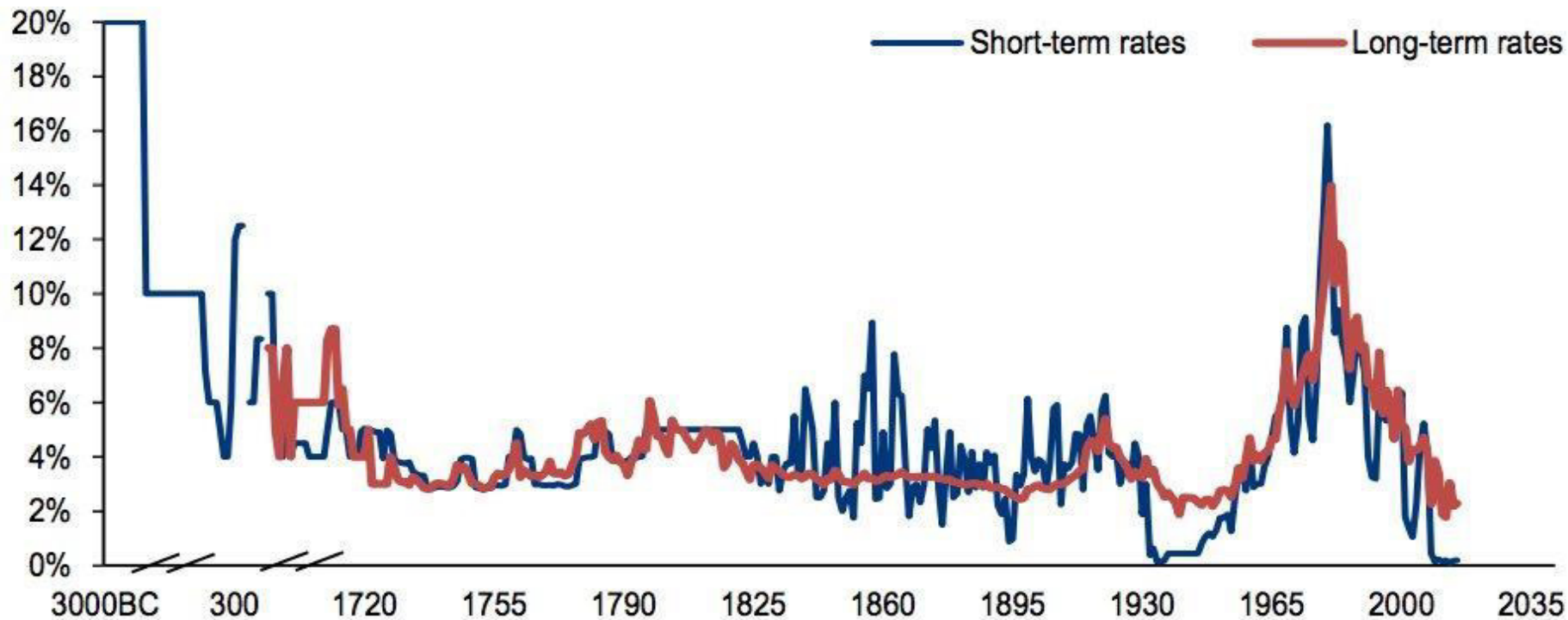


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# Where do Rates Compare Historically?

**Chart 1: Still the lowest interest rates in 5000 years!**



Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"

Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request

Source: Dallas Federal Reserve 9/22/15



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# Texas and Austin are Different than the Rest of the Country!

- Home and real estate prices continue to appreciate in Austin and Texas
- The wide value swings of the rest of the country were never present here.
- Austin is still an affordable metro market in comparison to the nation.
  - Foreclosures were a non factor in most of Austin.
- Texas has one of the lowest tax burdens in the country (46<sup>th</sup>)
- Continued positive job growth
- The majority of jobs created the last 5+ years have been in Texas
- Continued limited supply of Inventory / Rental Homes / Apartments
  - Rent values increasing
  - Rental occupancy has been steady at 93%
  - Not enough developed land and lots
- More Fortune 500 corporate headquarters are located in Texas than any other state.



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**There is not a better time to  
buy a home or real estate in  
Austin or Texas!**

**If not now, when?**



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# Thank you



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