

TEXAS ASSOCIATION of APPRAISAL DISTRICTS(TAAD)

LIVE KEYNOTE PRESENTATION

Evolution of Texas Economy

“The Big Bang from Dinosaurs to Outer Space”

Real Estate Investments/Economic Forecasts

Baen’s 5-year Sign Posts to the Future 2022 – 2027

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**Perspectives and Trying to Connect the Dots: Science, Art or
Hopeless Opinion?**

In honor of CCIM, UNT Alumni and Real Estate Education

“No Man Knows the Future”

“Good things take a long time!”

“Bad things happen in a hurry!”

“Everything in life and business is a cycle!”

“Even the ants plan”

Tuesday February 8,2022

GAYLORD TEXAN RESORT

AND CONVENTION CENTER

1501 Gaylord Trail

Grapevine,76051.

**I. INTRODUCTION TO THE GREATEST
REAL ESTATE BOOM TEXAS HAS EVER
SEEN WHY?**

By John S. Baen, Ph.D. (Baen@unt.edu)

1. U.S. Populations – big cities growing others are fleeing!
 - a. Density of people
 - b. Defunding of police
 - c. COVID-More space/Time at home

2. Gang and gun violence are up!
 - a. Murders up
 - b. Arrests are down
 - c. Riots in US...Portland, Baltimore
 - d. Dallas ISD is failing
 - e. Rents are climbing

3. New IRS taxes are pending to fund the “FREE” \$4.5 trillion Union Labor only stimulus package (Now 2 Trillion Proposed $\$2,000,000,000,000/300,000,000 = \$6,660/\text{person!}$)
 - a. 26.5% corporate tax?
 - b. New CAP gain taxes
 - c. Tax “Free” deductible Biz lunches (2021-2022)
 - d. Social Security is broke
 - e. Inflation is here(5.4%)

4. More inflation on the way!

5. Rents are jumping

6. Adult kids stay home! Again! Still!

7. Evictions, 100,000 expected in Dallas – renters and borrowers – nation trouble – mostly inner city (national trouble).

8. Flood insurance costs exploding 200% - 700%

9. Home equities and food stamps are jumping

10. Loans are being forgiven
 - a. Student loans
 - b. Back rent

Refresher – Texas Is the Only Place to Be!

US, Texas, and North Texas Real Estate and Corporate Moves – 2025

By John S. Baen Ph.D. (Baen@unt.edu)

NOW/ North Texas Overview

What is positive about Texas? – 2025 – The Beat Goes on!

TEXAS IS CALIFORNIA – 1955!

- Texas is a great place to spend a US recession!
 - The job growth predicted is extremely understated
 - More Corporations will come! (Frisco Boom - Toyota, FedEx, Liberty Mutual, Fidelity, TDAmeritrade, etc.) (Southlake/Westlake Boom!) – Multiplier effects 1 = %
 - Texas Minimum Wage works! \$8.50 vs \$17/hour
 - 48,500 new North Texas jobs are real, many more to come! (Multiplier effect)
 - Airlines will require federal bailouts
1. You/We are Ambassadors of Texas, sell others to come to Texas!
- Cost less to go broke in Texas – U.S Corps. struggling (Many U.S companies not doing well)
 - No state income tax (yet) – State sales tax, oil and gas severance Taxes and Royalties make our state rich (oil and gas/sales taxes under threat due to low prices and e-commerce)
 - Shipping coastal and rail (Liquefied natural gas complexes)
 - International boundary (+/-)
 - Cheap labor (Migration and non-union state)
 - Time zone extra 2 hours' work day (East – West coast)
 - Center of US – travel time costs (50% less)
 - Cheap buildings and land (No snow designs)
 - Cheap houses (Preowned \$130/sq. ft. – New \$174/sq. ft.)
 - Pro-business attitude/ easy zoning (Local and state incentives – Tax waivers)
 - Self – reliant oil and gas production (oil curse of boom/ bust)
 - Texas electric power grid vs East/ West power grid (Selling excess off Texas grid)
 - Texas CAN DO attitude and personalities/ positive!
 - EZ zoning (vs 5 + years in California) – (Except Flower Mound!!) (Denton doing much better than 2013/2014)
 - Friendly corporate legal environment – the courts and Laws
 - Privately funded foreign support to Mexico (US\$ -> Mex)
 - New California, New York and new foreign immigrants' \$ to buy houses and other investments:

- Land
 - Warehouse
 - Farms/Ranches
 - Etc.
- Corporate campus tracts available for next 10 – 20 years
 - Road projects will end..... someday!
 - Politically powerful state in US and population/congressional seats growing
 - Friendly gun laws and we like law and order!
 - High vacancies in state and private prisons for law violators;
2. All the Texas growth will be at the expense, cost, and operating cost of the rest of the US!
- Resentment?
 - Antitrust?
 - Political backlash
 - Motivation on Texas? (Travel ban – Californians);
3. Threat to Texas culture ???
- Educate new residents!
 - Take time to explain good manners
 - Texas culture!
 - Texas attitude!
 - Texas friendly!
 - Texas anti liberal!
 - Texas self-sufficiency!
 - Less government more freedom!
 - Get rid of/ Be on watch for:
 - Communist tree ordinances
 - City of Denton set back requirements from oil and gas wells = 233 acres as proposed from any existing gas well
 - No growth policies (Boulder, Colorado)
 - Illegal plastic straws.

II. TEXAS RURAL LAND MARKET IS ON FIRE, THE WHY AND WHERE THE GROWTH WILL BE

By John S. Baen, Ph.D.(Baen@unt.edu)

1. The leapfrog game and people moving out!
2. Perceptions of safe investment
3. Cheap land
4. Cheap tiny houses and “no” regulations – “Barndomeniums” and 10 Acres = \$129,000 and up
5. Change in work habits, locations and cyberwork, telecommuting.

6. \$185/foot for new houses!
7. Migration from cities and newcomers to Texas buying land
8. 1031 Trades
9. Average land is \$4500 ± in Texas (Texas A&M)

III. Specific Mobile Home Trends

- a. Increased number of Interstate Highway Modular Home Retail locations
- b. Decreased inventory of Modular Homes (Lots seem bare – for 6-8 months waiting lists for New Houses)
- c. Huge back log of sales....rumors of 7000 units and six months on waitlist
- d. Shortage of building materials, building components and labor
- e. Rural lots are selling units faster than at anytime in history(escape to the country?)

- f. Prices of New Manufactured Homes(\$60./sq.ft) are fluid and should be raised. Stick built homes are \$180/sq. ft. (At double the price \$60 - \$120 / sq. ft. mobile homes will sell!)
- g. Opportunities are in the satellite areas and regions and ETJs and all parts of ALL unincorporated Texas counties.
- h. New Texas Laws on less Annexation by cities allows adjoining "ETJ" and Rural Land to be more valuable while the Cities are requiring MORE restrictions and Never Land Zoning. (Except Septic and fire rules/codes.)

**IV. THE HOUSING MARKET: WHY HOUSES
WILL CONTINUE TO INCREASE 2022-
2027 IN VALUE AND “COST” MORE**
By John S. Baen, Ph.D.
(Baen@unt.edu)

Cost and shortages of all components of the single-family home and supply constraints: office, retail will follow new home communities way out: Baen’s “L” Factors:

1. Lumber – was \$267/1000 bd feet
→ \$1220 → now \$1050

2. Lots – the costs to develop and create new home lots has increased from \$800/curb front foot to \$950 to \$1500/curb front foot

35' lots = \$55,000/lot

40' lots = \$60,000/lot

60' lots = \$85,000/lot

And lots have continued to get smaller and 2 story homes increasing!(Lots can no longer be the 20% of affordable home price)

3. Low Lending standards – historically low and overly friendly and Low-Down payments! FHA not up to \$1,000,000? (proposed)

4. Loan interest rates are historic lows and even if they double to six percent (6%) contemporary home appreciation rates compound make ownership positive leverage a solid investment. (i.e. a 100 % loan on vet finance on \$300000 loan @ 6% = 18,000 while appreciation/inflation @ 10% = 30,000 for a \$12,000/year appreciation!

5. Lively Migration of corporations and people to TEXAS.

Affordability of homes are a driving force and low taxes in Texas.

6. Lack of Listings because of the following reasons:

a. Texans are satisfied with their current home vs. moving every “7 years”. We are staying put!

b. Increased cost of new and upgrade homes are out of reach as incomes not increasing at same rate as home prices

c. Investors buying up inventory due to increasing rents in apartments. There is a rent house boom due to high yields, appreciation and anticipated IRS rules

7. Lack of IRS Tax write offs for property taxes (city, county, school, etc.) over \$350,000 +/- x 3% taxes = \$10,500/year. Anything over 10,000 is not deductible and therefore the \$500 require pre tax income to pay

8. Leap Frog Developments and Home building.

Adding to "Urban sprawl" have become apparent. The contemporary urban expansion of the metro-areas is very obvious and is occurring for many many reasons that are not so obvious!!!!

- i. Cheaper lots
- ii. Cheap gas (relatively) allows buyers to drive til they qualify
COVID has contributed to major population shifts in their housing options and decisions. Why?

- Spending more time at home
- Want more space
- Want larger lot
- Suddenly time to enjoy backyard
- Changing work environment
– go to office only 2-3 days/week

9. Less secure (perception) in the Inner city or suburbs?

People are also moving and seeking what they perceive to be safer neighborhoods or rural areas.

Moving:

- Inner city > near suburbs
- near suburbs > far suburbs
- far suburbs > semi rural 1 - 2 ac lots
- semi rural > to rural and ranchettes

--rural and ranchettes > to ranches

--ranches or tracts of land being subdivided and ranchers moving way out

10. Liquidity – decide to sell, cash out – SOLD before they change their minds
11. Living in the COUNTY and ETJ areas will be where the action is!
 - i. Cities loss of power, taxes, land grabs and loss of future tax base.
Example:
More development “like” Lantana and Harvest.(Denton County and Houston Areas)
More innovative housing options and less restrictive standards
12. Large developments of 2 – 10 acre rural tracts with barndominium shells

(extremely successful @\$129,000-\$159,000)

There will be negative impacts in the rural countryside

1 – 2 acre lots will flourish

MUD districts have exploded in rural land developments and future financing of “new towns”

13. Low gas prices (drive until you qualify! State Wide and especially Kaufman, Anna, Decatur in North Texas.

14. Law and New ETJ Regulations

15. Loose immigrations policies, more new Americans = higher demand functions! And higher prices top to bottom of market. In 2021 over 1,200,000 people crossed into TEXAS

from the Rio Grande River! Plus Haitian,
plus Afghans, etc.

They all choose TEXAS over California,
Arizona, New Mexico due to affordable
rental rates, jobs and culture.

**V. THE OFFICE MARKET 2022 – 2027:
while area specific, there are obvious
trends and changes that could be
permanent**

By John S. Baen, Ph.D. (Baen@unt.edu)

1. The COVID Pandemic has accelerated the new “work environment” and office options
 - a. Hybrid offices/stay at home options
 - b. More Zoom and less real relationships
 - c. Easier to hire and FIRE employees as business climate changes
 - d. There is an office building boom in downtown Dallas
 - e. The supply demand and feasibility studies of new offices is extremely interesting
 - f. 71% of all CEOs want return to normal office hours
 - g. 47% of all other workers want to return

- h. Nation-wide office meltdown
- i. Estimated 20% vacancies in several North Texas and New York markets

2. The historic IBM standard “work space”, office and cubical may again be popular to reduce the demand and lease rates over time. (Falling rental rates?)

- a. No windows
- b. Standard desk, nails, chairs and workspace

3. Corporate campus offices are accelerating with relocation to TEXAS – in the fringe areas.

-Schwab

-Ameritrade

-Toyota

-Bank Of America?

@Alliance?

@Denton?

4. The large number of closed suburban bank branches is very interesting and concerning:
 - a. Online banking continues to grow
 - b. COVID accelerated online finance and banking (banks are full of cash!)
 - c. Alternative uses and leases for closed branch banks and their drive through lanes are not apparent
 - d. Asking prices to sell or lease specialized buildings are still very high (asking)

5. Suburban office projects and leasing is slow except supreme corporate locations (Frisco – Alliance.)

6. The conversion of “Empty of Low Occupancy Office Building,(Huge Office Buildings) in the inner-cities of Dallas and

Houston Apartments is occurring are record pace!

- a. Higher CBD Densities?
- b. Will people vent them?
- c. Will they be converted to Condos Later?
- d. The values will be less than office buildings

VI. Immigration, Migration and More
People increases demand, prices, rents
and wealth.

By John S. Baen, Ph.D.

(Baen@unt.edu)

1. 2020-2021 There have been 1,200,000 “new” Americans cross the Texas border. Over 1.6 million new Americans along border reported. January – October! 10 months
2. Afghanistan has added 120,000 “new” Americans
3. Haiti has provided 20,000 “new” Texans in the last 60 days

4. California is on FIRE, out of water, and out of electricity , the state is broke and the Brains and the Money (\$) are leaving and moving to TEXAS.

5. Current Presidential Policies are encouraging more "NEW" Americans, nearly all of them choose TEXAS over the other border states.

6. The U.S Birth/Death Rate has slowed to zero, frozen, so immigration is all we have to grow!

7. Migration (within the U.S.) helps TEXAS (more people) but hurts or drains the state of origin (few people)
fewer

8. TEXAS is California 1955! 45 years of growth ahead!
9. Chaos in South Texas and border area is hurting local real estate prices and sales.
10. Many migrating to Texas and Oklahoma to simply buy a house.
11. Homeless people are migrating here from the cold North – Northeast and “Vacationing” at warmer Texas Beaches and Inner Cities.
12. Thousands of Foreign University Students are attending Texas Colleges! Many seek permanent Residency and jobs after Graduation.

VII. RETAIL and INDUSTRIAL By John S. Baen, Ph.D. (Baen@unt.edu)

Changes in urban form and uses.

1. Changing work space – home, office
2. More time at home
3. Major value and occupancy problems in major cities outside Texas.
4. California and New York to go broke
5. Automation and self-checkout and Starbucks coffee machines
6. People spend more at Amazon than Walmart during 2021

7. Industrial building boom?
8. Restaurant with Drive Through
9. windows win the prize.
10. More and more Home Delivery companies, Grocery stores, Liquor Sales/Delivery etc.
11. Food Factories with multiple Fast-Food Business in remote locations are soon the be reality KFC, Pizza. Etc.
12. Thrift Stores are Booming online

VIII. What could shut down our GREAT/BOOMING Real Estate Market?

However, things are looking positive for 3 – 5 years. **By John S. Baen, Ph.D.(Baen@unt.edu)**

1. Serious increase in interest rates.
 - a. September 25 -27, 2021, the 10year Treasury increased 20% in 4 days from 1.24 to 1.49
 - b. 10 year “T” @ 1.90 + “2” = 3.9% for a 30-year residential. At that rate many “would be” buyers would vaporize except New Texas from California!.

2. Residential loans are never made without being presold in the secondary market. If the FEDS stop buying FNMA Bonds and mortgage backed securities: (Tapering!)

- a. GAME OVER – interest rates will rise
 - b. CAP Rates will rise – values down on income investment real estate
 - c. Inflation and shortage of capital is why we have inflation
 - d. Loan standards will skyrocket
 - e. Supply-Line disruptions are serious! Electrical, plumblines Fixtures from CHINA.
3. Serious increase in oil and gas prices
- a. Good for Texas, bad for drive till you qualify for homeowners far from work!
 - b. Bad for air travel, airlines, and 80,000 airline employees in DFW.
 - c. Good for Houston, Midland, West and South Texas office and labor markets. Budgets are already tight!!
 - d. Reduces Texas families discretionary retail spending

- e. Increases cost of all distribution, delivery and travel resulting in high prices for all goods and services
 - f. Logistics, shipping, trains and freight industry will be stunned
4. Return or reboot of Corona Virus and shutdown of economy could occur.
 5. Increase of Federal Tax Rates announcement could trigger a rush of selling spoil the markets
 6. Elimination of tax code 1031(proposed) deferred exchange could serious slowdown in market.
 7. Cyber Threats are real and internet could shut down

8. War – China? Africa? Inner City Riots
9. Black Swans Flying in?
10. Melt Down of Wall Street, if no growth,
Dividends @ 1.9 % vs T-Bills.
11. The TEXAS MORTGAGE is a serious
threat to Home Ownership in the Sky
Rocket Home Market.
 - a. Any Texan who is satisfied with their
home has an ever increasing tax burden
on FIXED INCOME.
 - b. Tas (2.5%) and Home insurance 1%
is the Texas Mortgage.
 - c. California FROZE taxes and Started
State Income Taxes – top rate = 12.5%
+ Top IRS Tax 42% = 54.5%

**IX. Conclusions: You are in the
RIGHT BUSINESS at the
RIGHT TIME and in the
RIGHT PLACE ... TEXAS**

1. Optimism is Real, Momentum is Real and Financial Markets are Jumpy
2. More headquarters are on the way!
3. Texas is not California. Texas is better!
The last name of California is HISTORY.
4. Inflation is on the way!
5. The debt ceiling and \$3.5 Trillion proposed "stimulus" is real for real estate.

6. TEXAS Real Estate Investments lead nation in commercial
7. Collin and Denton Counties are #1 and #2 growth locations in the U.S, Wise County will follow....quickly! Houston and San Antonio Booming
8. Retirement? Social Security or Insecurity...Cost less to go broke in TEXAS – Retirees will flock to Texas
9. UNT means REAL ESTATE
We are collecting all Alumni in the Real Estate Business
10. Real Estate is the true basis of wealth

GET SOME!

Baen's Tax Assessors/Valuation Question 2022

1. A single-family home in a subdivision has a Travel Trailer in the backyard is rented for \$500/month includes:
 - a. Water
 - b. Sewer
 - c. Electric
 - d. It's illegal/HOA/Zoning

Do we value and add to Home Value?(The Travel Trailer is there illegally)

2. Homestead 72 years old lives in 5-bedroom home with many exemptions, rent out 4 rooms to his for \$750 /month each
 - a. Do exemptions still apply?
 - b. If we know detail, does it change the value?
 - c. What if it violates HOA or Zoning?
3. There is a 200-acre Solar Farm.
 - a. How do we value? Cost? Income? Royalty?
 - b. Loss of AG?(Even if grassed under panels)
 - c. Solar Company goes broke after Hailstorm. What Now?
4. A town of satisfied 10,000 homeowners has only two(2) sales all year! Lack of Sales!
 - a. What do we do?
 - b. Replacement costs are up 50 %
5. When is a BARN a BARN and not a Barn dominium ? and when does it become a change of use if the place is AG but unfinished??
6. Renters are paying rent in CRYPTO. CRYPTO crashes to 1/3rd it's value. Adjust the value? Or use market rent in \$\$?

7. A family approached by Church, has requested a homeless camp on their land for free. Do they lose AG?
8. How do you value TINY houses that are Homemade and do not meet state building standards? Shipping containers, Plywood temples – Not attached to land
9. A well-known Ranch is engulfed in huge fire that burns 5,000 acres of grass, fences and all the trees.
 - a. Do the owner get temporary break?
 - b. Or are the damages permanent?(Loss of Trees)
10. Due to building material supply line issues a home is not finished for two(2) years... What do we do?
11. On December 27th, the Rural Property Owner and Tax Assessors have a squabble about the value of the historic buildings value.
 - a. He threatens to BURN the place down(legally) unless value is reduced.
 - b. Next day he torches the place
12. Interest Rates triple and we have a National Depression in Houses. Foreclosures become 90% of the market and market sales values drop by 80%.(1929 actually happened).
 - a. How fast should we adjust all House down 80%?
 - b. Public Schools would close, and Home Schools would be required

13. Are Shipping Container Taxable as Real Estate?(Depends)
 - a. Vacant Lots
 - b. Self-Storage \$100/month
 - c. 2-year payout
 - d. Not Attached
 - e. Multiple Storage Projects
 - f. Electricity Storage batteries

14. How do you Tax a Large Master Leased AG community with a Barn dominium every 5-10 acres?
 - a. Rollback on 1-2 acres?
 - b. When is it not a BARN?
 - c. Some are 30% Finished out and 70% Barn
 - d. Should we Tax Water Wells?(What's their value?)

The END

Thanks to THE TAAD Board and Doris Koch, all the members and administrators that organize!

Important! Our houses are CHEAP at Twice the Price!

THE END?

No

Thank You
All John BAER PhD

Just the Beginning!!!