

**You're Nobody and Unless You're  
somebody@somewhere.com**

**The Internet, Real Estate, Interest  
Rates, Bubbles and the Economy**

**Ted C. Jones, PhD  
Senior Vice President-Chief Economist  
Stewart Title**

**stewart**

**Dr. Ivan Schmedemann**  
**Professor Emeritus**

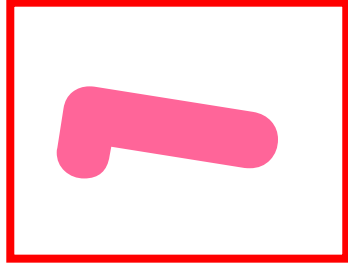
**Texas A&M University**

## **Axiom # 1**

**“When you make  
more money, you  
are simply broke at  
a higher level.”**

# Real Estate: 3 Simple Steps

- **Jobs—Net Number New (Loss)**
- **Interest Rates—Cost of Capital**
- **Supply and Demand**



# Get Rich Quick Schemes

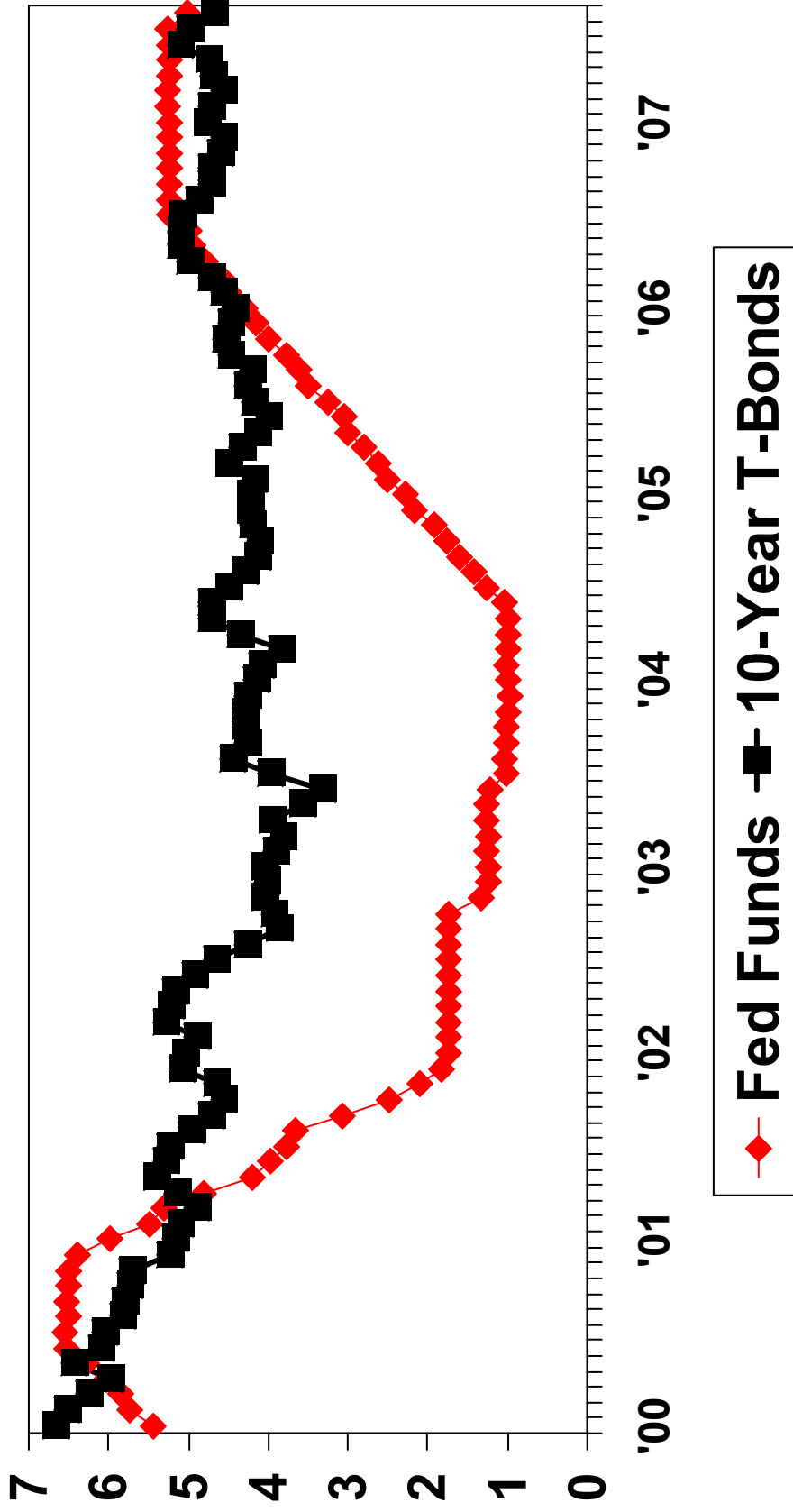
\$

minks, farming chinchillas,  
uranium mines, oil drilling, gold,  
exotic cattle, stock markets,  
raising emus, ostriches, llamas,  
alpacas, tech stocks, Dot Coms,  
flipping real estate, mergers and  
acquisitions, private equity.....

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# Fed Funds & 10-Year T-Bond Rates

Percent  
Correlation Since 1960 0.862



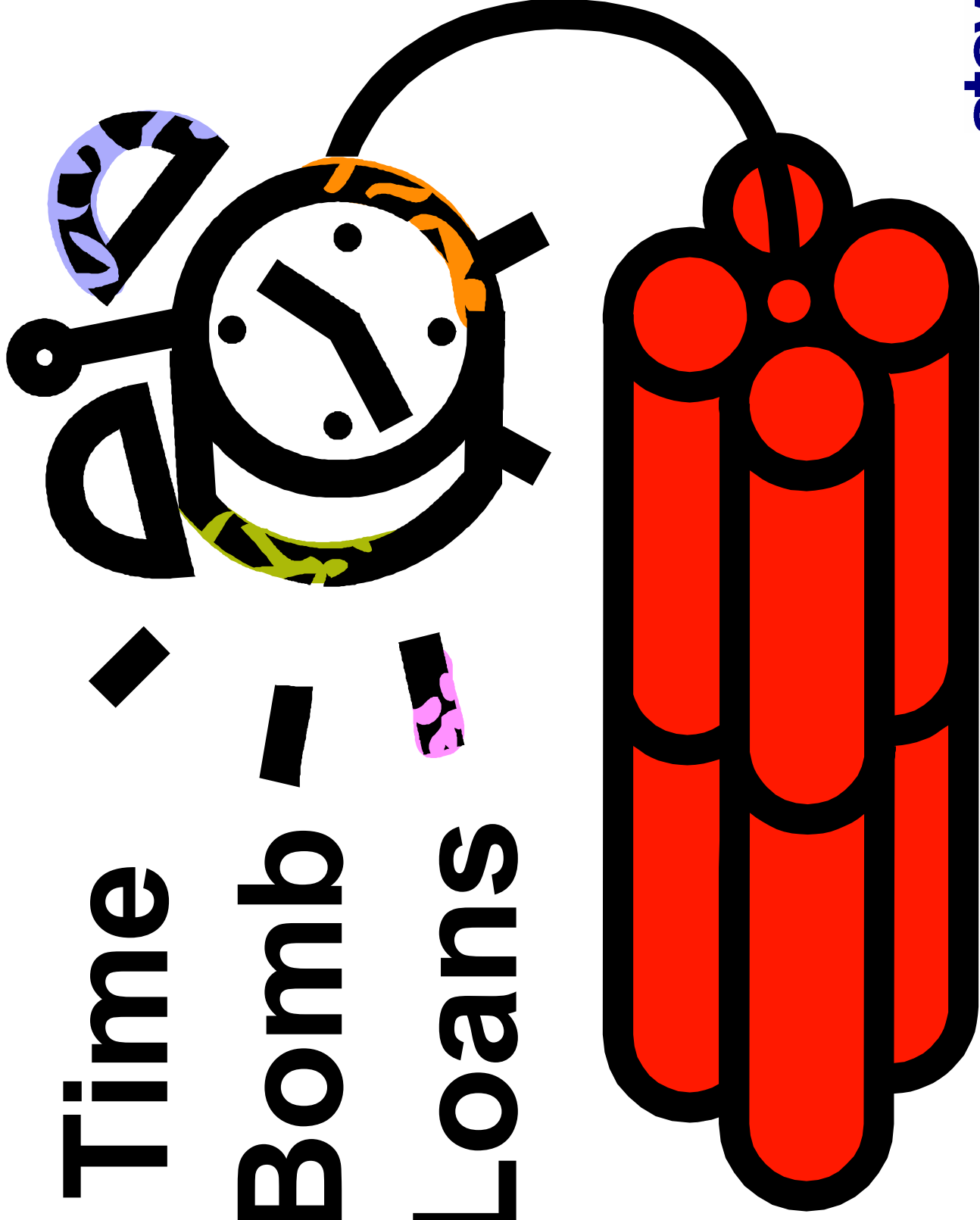
**Time**



**Bomb**



**Loans**



# **2005 First-Time Homebuyers**

**43 Percent Put Zero Down  
Median Down Payment Was  
2 Percent  
1/3 Interest Only or Minimum  
Payment Loans**



**January 18 2006**

# http://ml-implode.com/

ml-implode.com - tracking the housing finance breakdown, related to Alt-A - Windows Internet Explorer

Tools Help

der Implode-O-Meter - tracking the ...

Live Search

**Short Sale Secrets**  
Step-by-Step Guide To Getting Banks To Discount Properties by 40%!  
[www.ShortSaleMagic.com](http://www.ShortSaleMagic.com)

**50 State + DC Net Branch**  
Flat Fee Fund Unlimited Loans Keep 100%, No Per Loan Fee, +Leads  
[www.PacificBancorpBranch.net](http://www.PacificBancorpBranch.net)

**Local Houston Lender**  
100%, FHA, VA, Conv, Cash Out, Refi No Doc, Stated, All Credit Welcome!  
[EasyMortgageTexas.com](http://EasyMortgageTexas.com)

Ads by Google

## THE MORTGAGE LENDER **Implode-Meter**

Tracking the housing finance breakdown: a saga of corruption, stupidity, and government complicity.

[Lists](#) - [News](#) - [Forum](#) - [About](#) - [Tips](#) - [Search](#) - [SUED!](#)

Since late 2006

# 166



major U.S. lending operations have "imploded"

**Latest imploded:**

Last addition: October 12, 2007.  
Summit Mortgage Company  
WMC  
Paragon Home Lending  
First Mariner Wholesale  
The Lending Connection

**Top Non-Imploded:**

Assurity Financial Services (Retail): **A-**  
Assurity Financial Services (Wholesale): **A-**  
Key Financial Corporation: **B+**  
Megastar Financial Corporation: **A+**

**Local Houston Lender**  
100%, FHA, VA, Conv, Cash Out, Refi No Doc, Stated, All Credit Welcome!  
[EasyMortgageTexas.com](http://EasyMortgageTexas.com)

**Express Debt Settlement**  
Amazing Net Branch Opportunity! Debt Specialists are in demand.  
[www.expressdebt.net](http://www.expressdebt.net)

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**“The Mortgage Bankers Association reported recently that the percentage of subprime loans that were 30 or more days past due climbed to 15.75 percent in the first three months of this year, a record high and up from 14.44 percent in the final three months of last years.”**

**Versus 3.25 Percent for All Loans**

# Subprime Spill Over

The credit crunch has raised the cost of mortgages even for borrowers with pristine credit and put further downward pressure on home prices. David Adamo, CEO of Luxury Mortgage, a mortgage banker in Connecticut, says that **three months ago he could sell a high-quality \$3 million mortgage to 20 different banks at an interest rate of 6.75%. Today only two will even consider buying the loans, and they want 10%.**

FORTUNE

August 23 2007: 12:21 PM EDT

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“Phase I inspections provide some representation of previous or current CMBS deals in the pipeline. An EDR survey last Wednesday found **75 percent of 260-300 national environmental consultant clients** had significant or slightly fewer transactions overall in the past few months.”

**Meanwhile, Moody's Investors Service, New York, forecasts higher bond spreads and lower issuance from fewer and smaller deals when the CMBS market stabilizes because cheap and abundant liquidity appears unlikely to return from the first half of the year.**

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National News

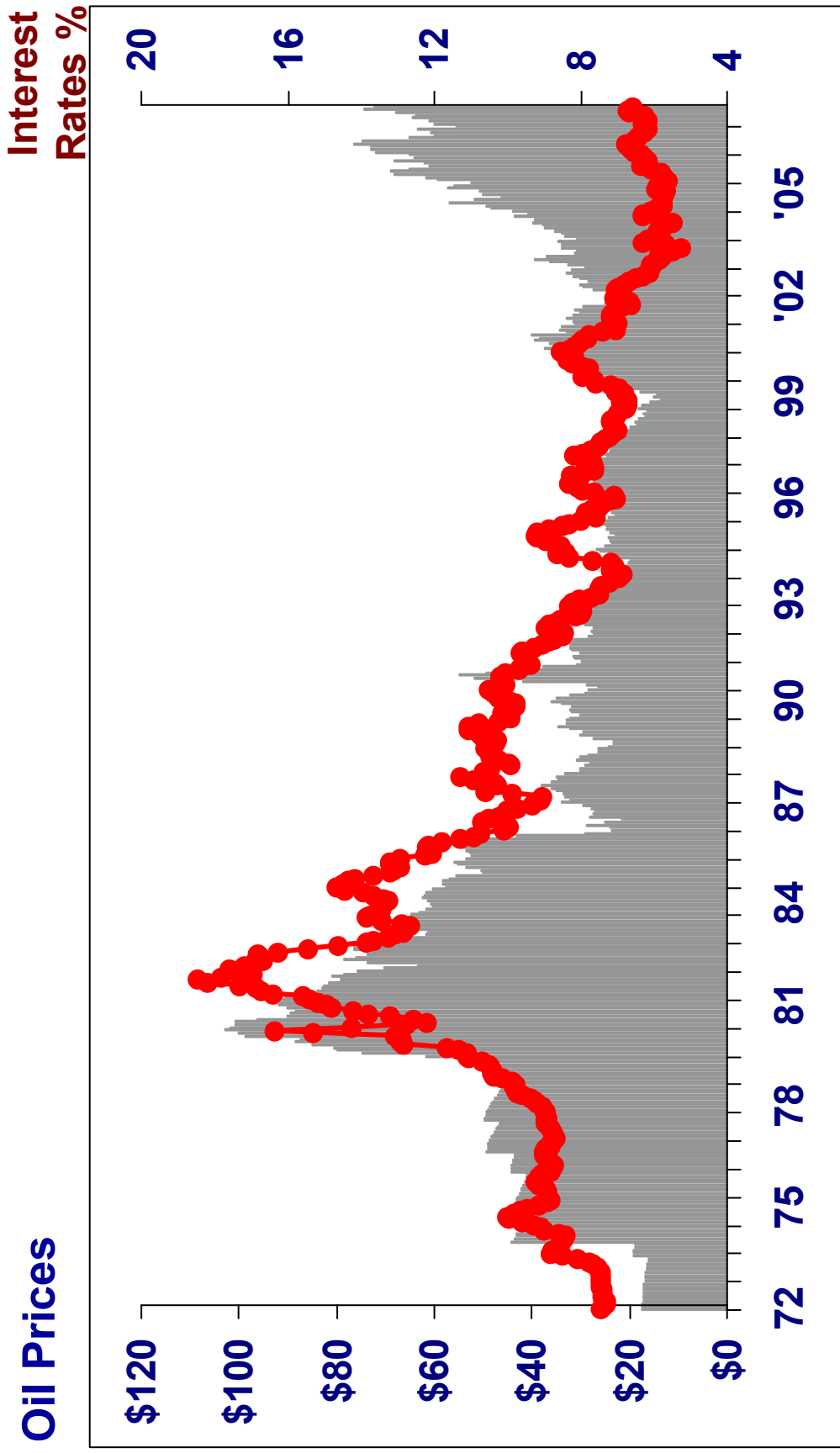
## Slower Leasing Activity a Cause for Concern

By Mark Heschmeyer

The latest commercial real estate index released by the Society of Industrial and Office Realtors (SIOR) of The National Association of Realtors is showing a steep decline from the previous quarter, no doubt reflecting the economy uncertainty generated by the recent credit crunch. The Summer 2007 Commercial Real Estate Index, which measures 10 variables pertinent to the performance of U.S. industrial and office markets, dropped 4.49 points to a summer reading of just 113.7...



# Oil Prices & 30-Year Residential Mortgage Interest Rates August 2007 Dollars



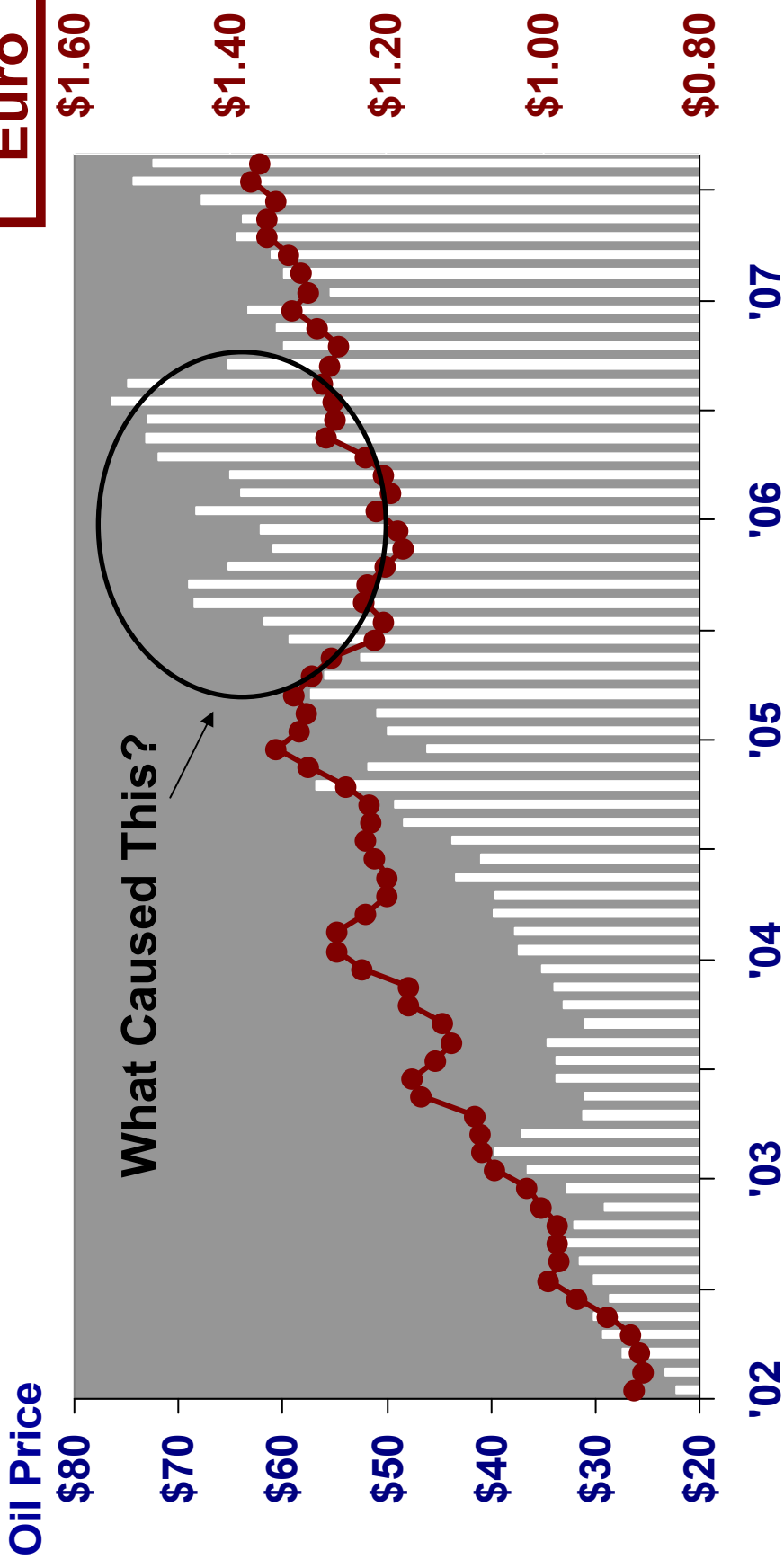
Source: Stewart Title Guaranty Company

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# Oil Prices & Exchange Rates \$US Per Euro

*Oil in August 2007 Dollars*

**Dollars  
Per  
Euro**



**Weakened Dollar Causes**

**Killer D's**

**Double D's**

**d2**

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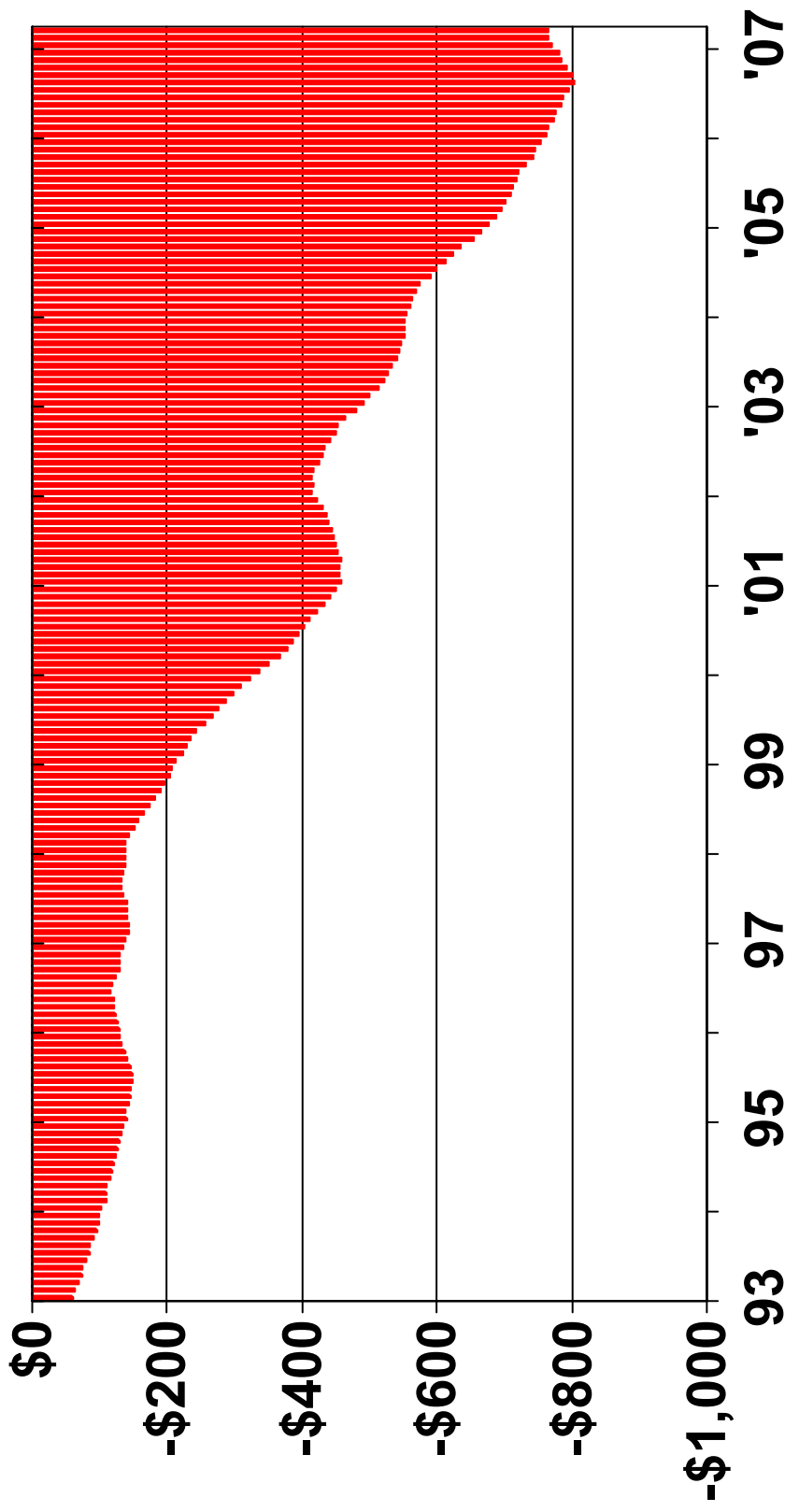
# Which is greater— the trade deficit or the Federal deficit?



# US Balance of Trade

*Inflation Adjusted April 2007 \$ Dollars*

**\$ Billions, Prior 12 Months**

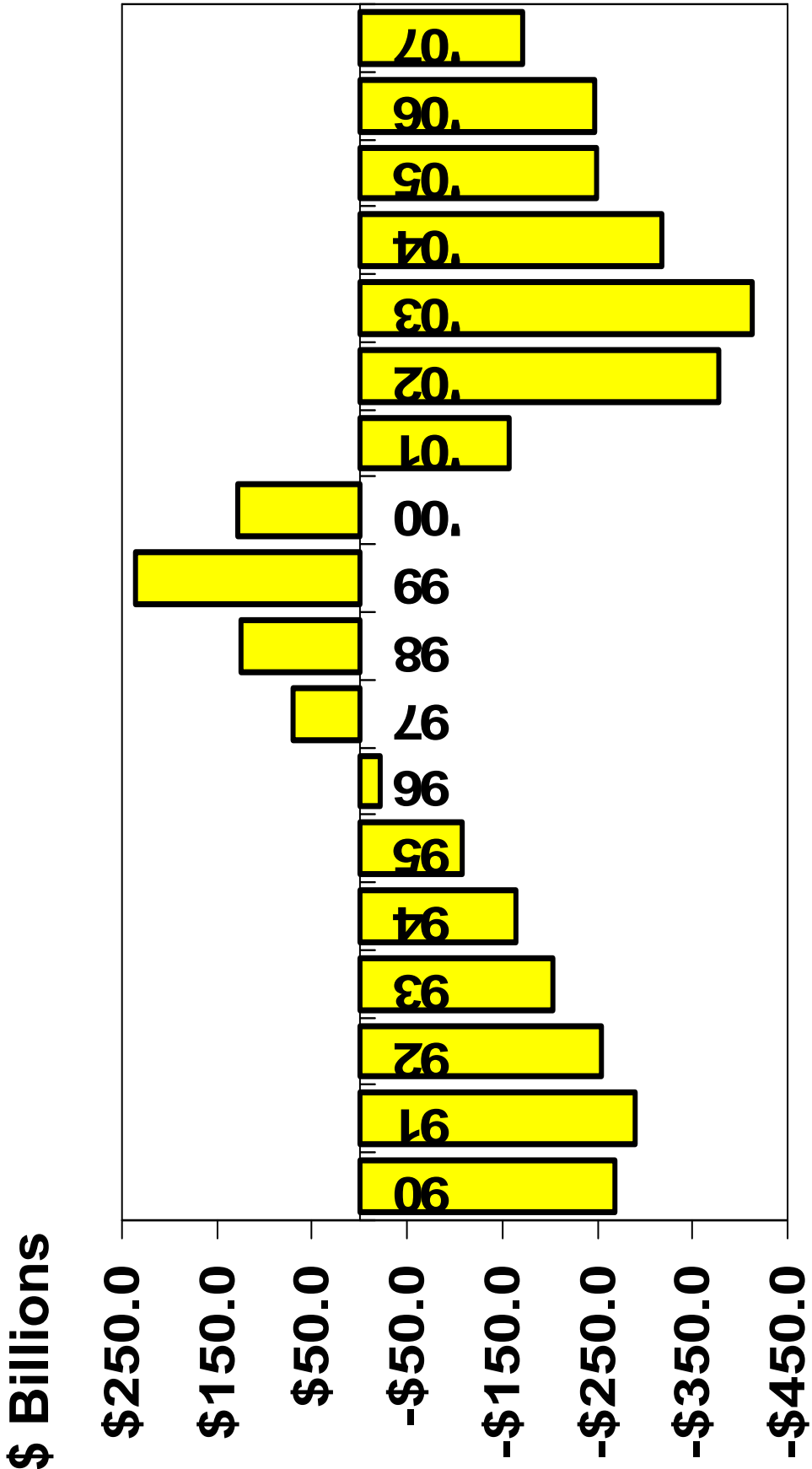


**What was the last year  
that there was at least  
one month that the US  
Gov't ran a surplus?**

**Jan  
2007**



# Federal Budget Surplus (Deficit)



2007 Forecast Based on Current Trend

# Ted's 2008 Forecast



**Up 25 to  
30 Basis  
Points  
By Jan  
'08**

**Up 30-40  
Basis Points**

**Jan 1 to**

**Dec 31**

**2008**

**Travis Jones**  
**Texas Sheep Company**

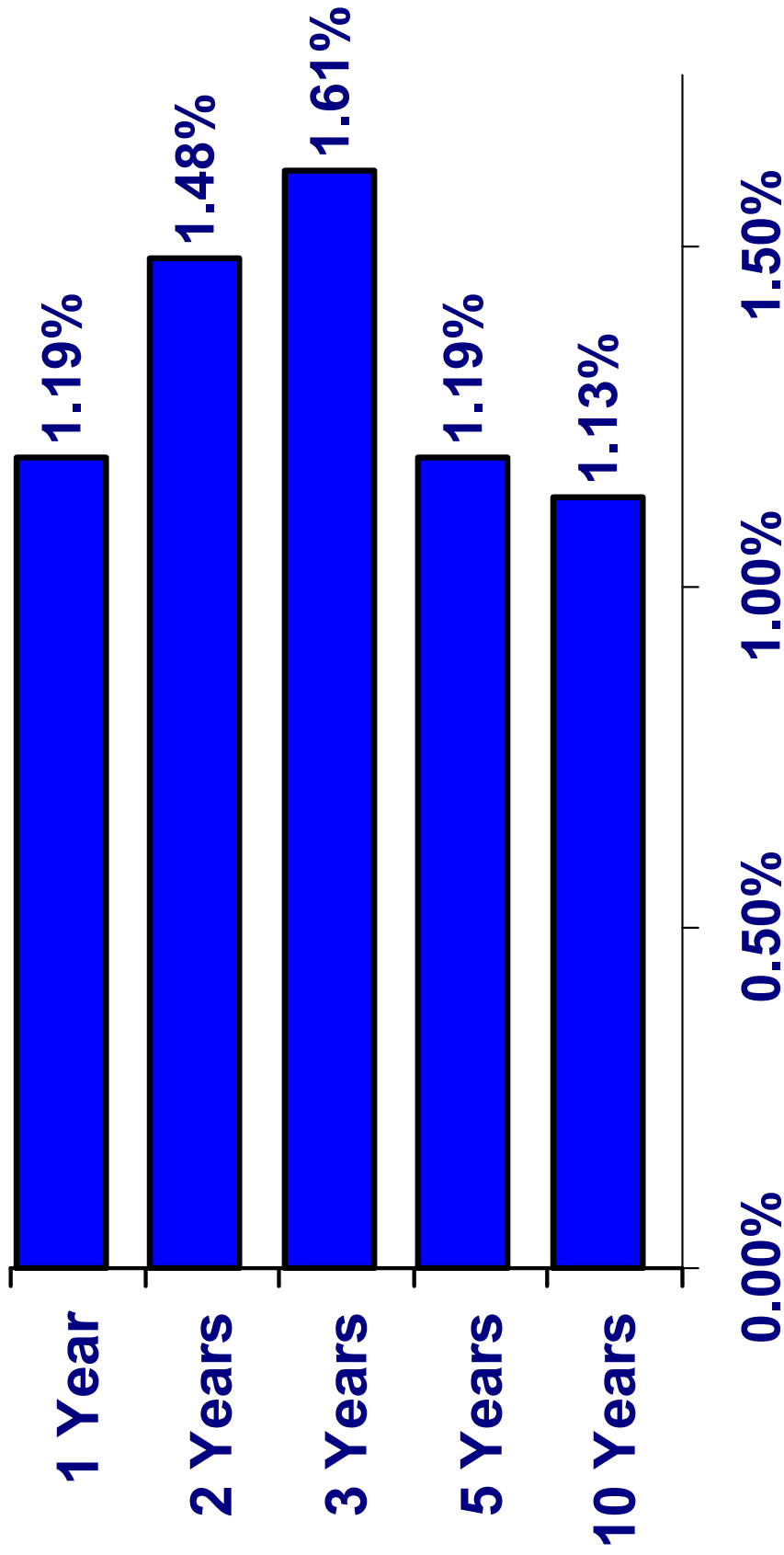
**Axiom # 1**

**“If you own a four-  
wheel drive pickup  
you will be stuck  
200 yards further  
from the Road.”**

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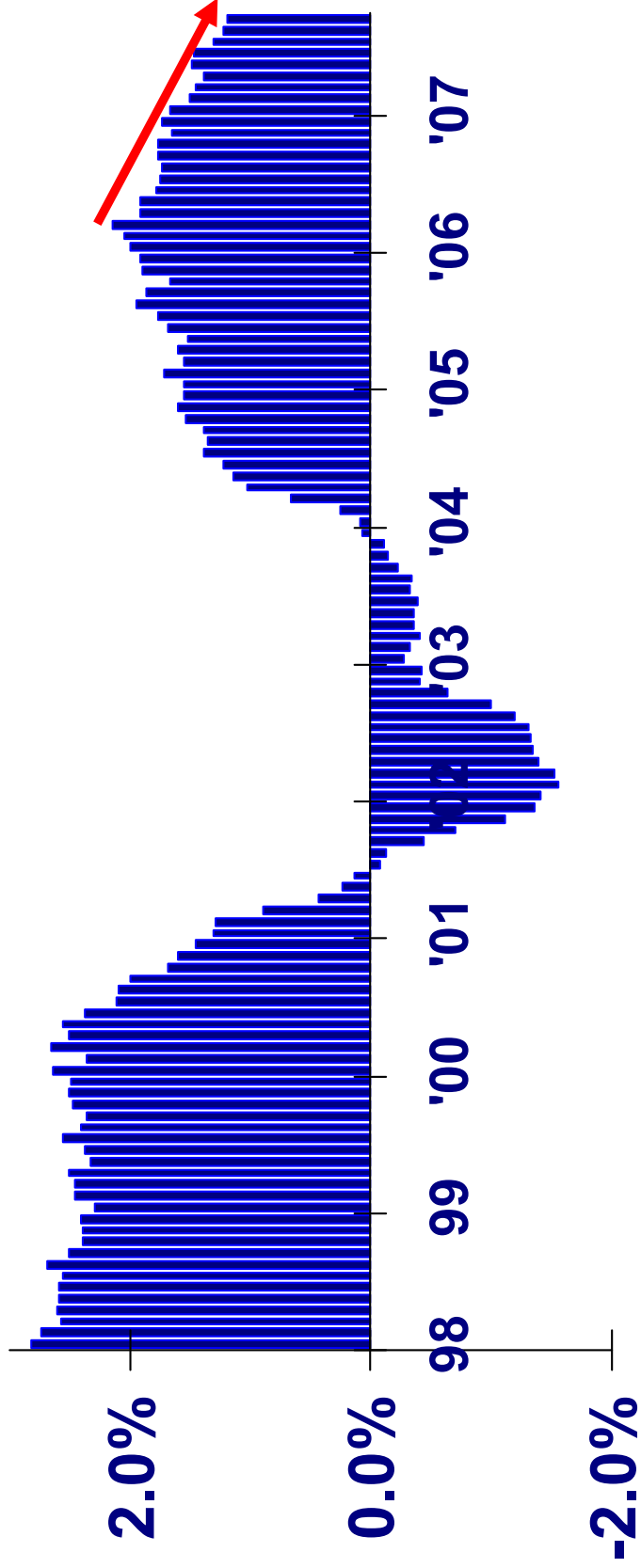
# US Job Growth Rates

September Comparison CAGR



# US Job Growth

Percent Change from Same Month Prior Year



1.629 Million Net New Jobs in Past 12 Months

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**Austin-Round Rock, Texas  
Metropolitan Statistical Area (MSA)**

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**Bastrop County**

**Caldwell County**

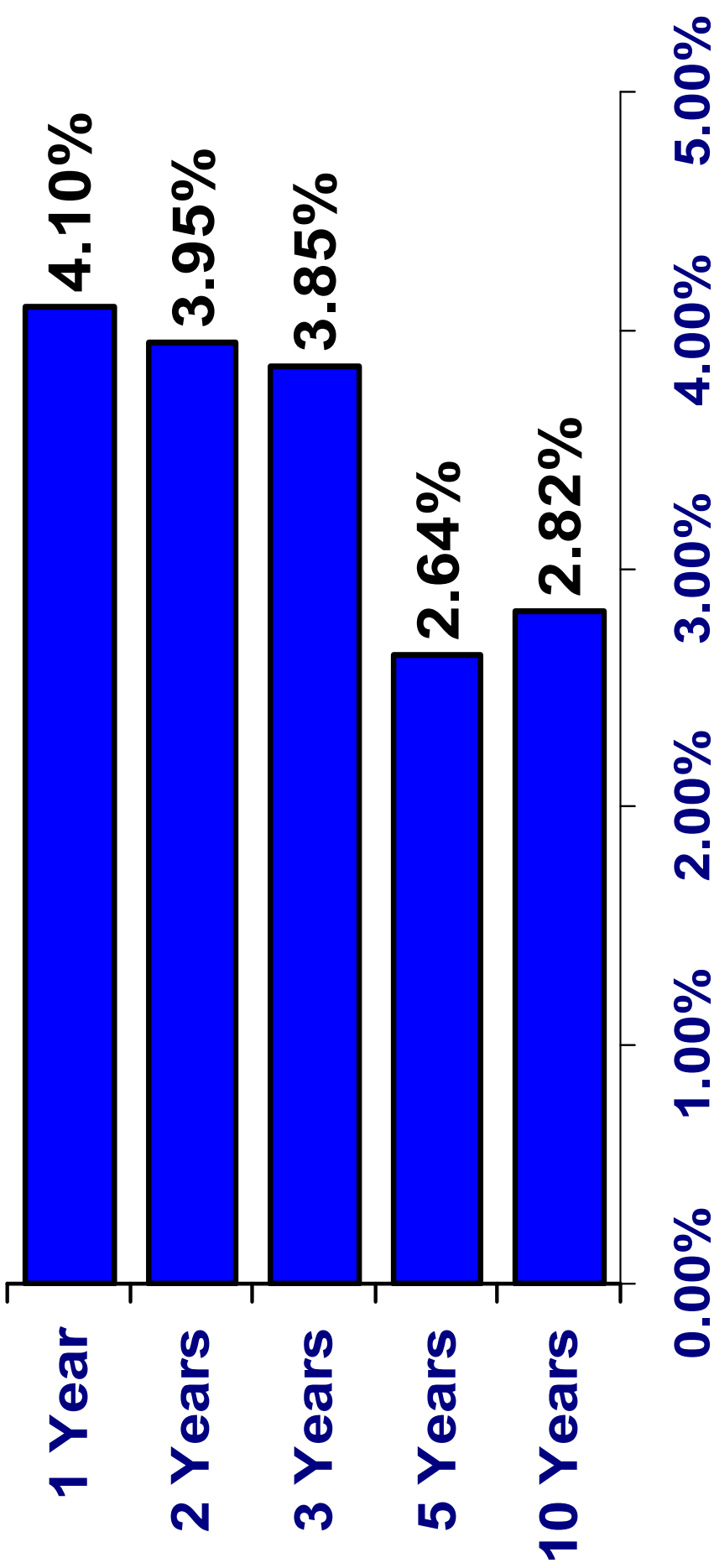
**Hays County**

**Travis County**

**Williamson County**

# Austin MSA Job Growth Rates

August Comparison CAGR

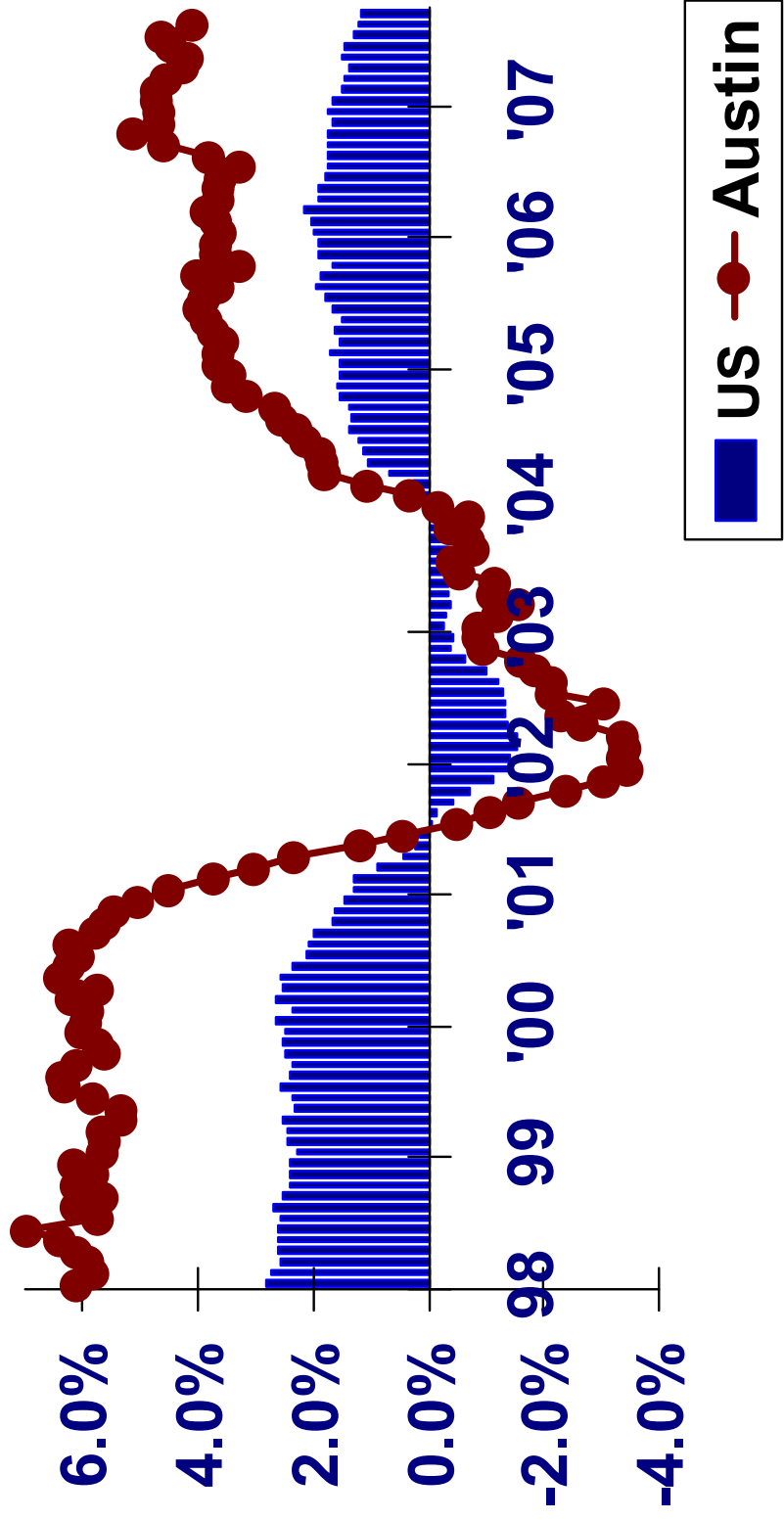


245 Percent Greater Than US Job Growth Rate

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# Austin MSA Job Growth Rates

Percent Change from Same Month Prior Year



29,500 Net New Additional Jobs in the Past 12 Months

# Austin MSA Unemployment Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	3.4	3.3	3.3	2.8	2.9	3.3	3.2	3.2	3.1	2.8	2.7	2.6
1998	3.0	2.7	2.7	2.4	2.6	3.1	2.9	2.9	2.9	2.6	2.4	2.3
1999	2.6	2.4	2.2	2.1	2.2	2.5	2.4	2.3	2.3	2.2	2.1	2.1
2000	3.4	3.3	3.2	2.8	3.1	3.4	3.2	3.2	3.0	2.8	2.7	2.5
2001	3.2	3.2	3.5	3.5	3.8	4.6	4.6	5.0	4.9	5.1	5.3	5.3
2002	5.9	5.9	5.9	5.8	5.7	6.3	6.2	6.0	5.8	5.6	5.8	5.6
2003	6.3	6.2	6.2	5.9	6.0	6.7	6.3	6.2	6.0	5.6	5.5	5.1
2004	5.8	5.4	5.4	4.9	5.0	5.5	5.3	5.1	4.8	4.8	4.8	4.6
2005	5.0	5.0	4.6	4.4	4.4	4.8	4.6	4.6	4.4	4.1	4.3	4.2
2006	4.5	4.5	4.3	4.2	4.2	4.6	4.6	4.3	3.9	3.6	3.6	3.3
2007	3.8	3.8	3.5	3.2	3.2	3.8	4.0	3.5				

# Austin MSA Population Outlook

## Forecast

<u>Year</u>	<u>Population</u>
2000	1,249,763
2005	1,497,504
2010	1,782,589
2015	2,112,520
2020	2,492,624
2025	2,934,196
2030	3,447,414
2035	4,038,005
2040	4,710,900

**Scenario 1.0**

**Assumes**

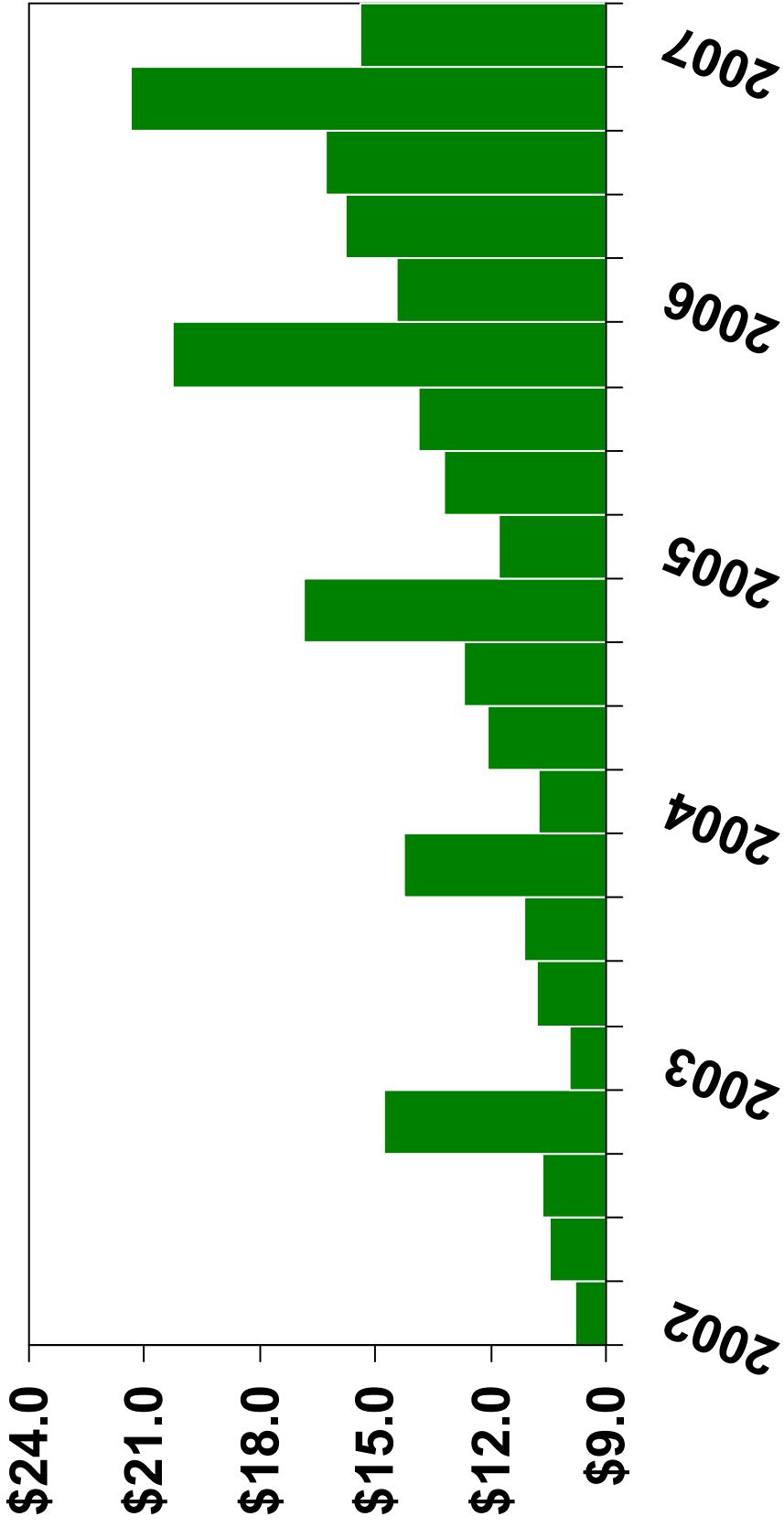
**Similar Trends  
In Migration and  
Births Observed  
1990 to 2000**



Texas State Data Center

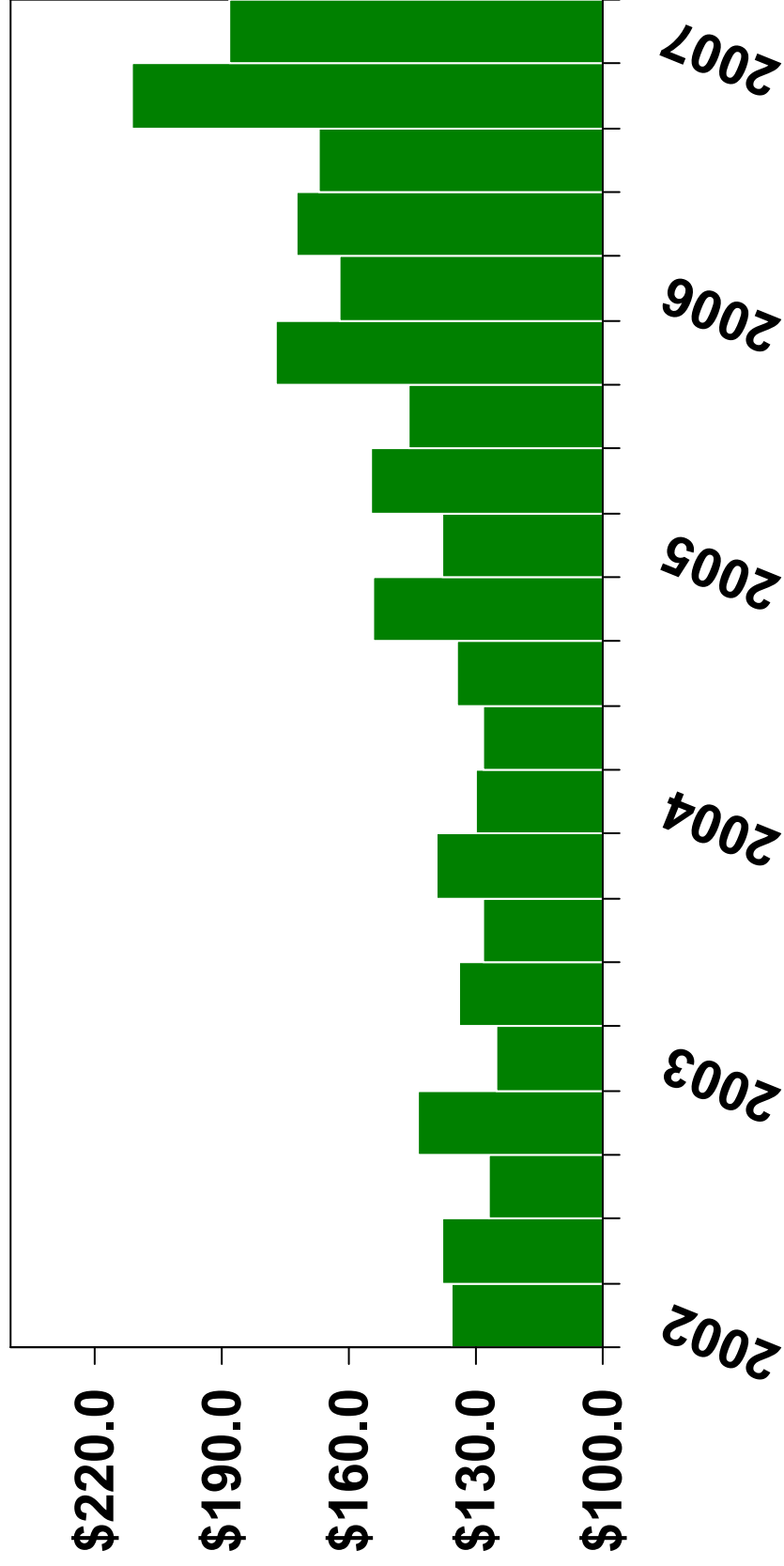
# Austin MSA Gross Sales

\$ Billions



# Austin MSA Real Estate-Rental- Leasing Gross Sales

\$ Millions



## Austin Office Space

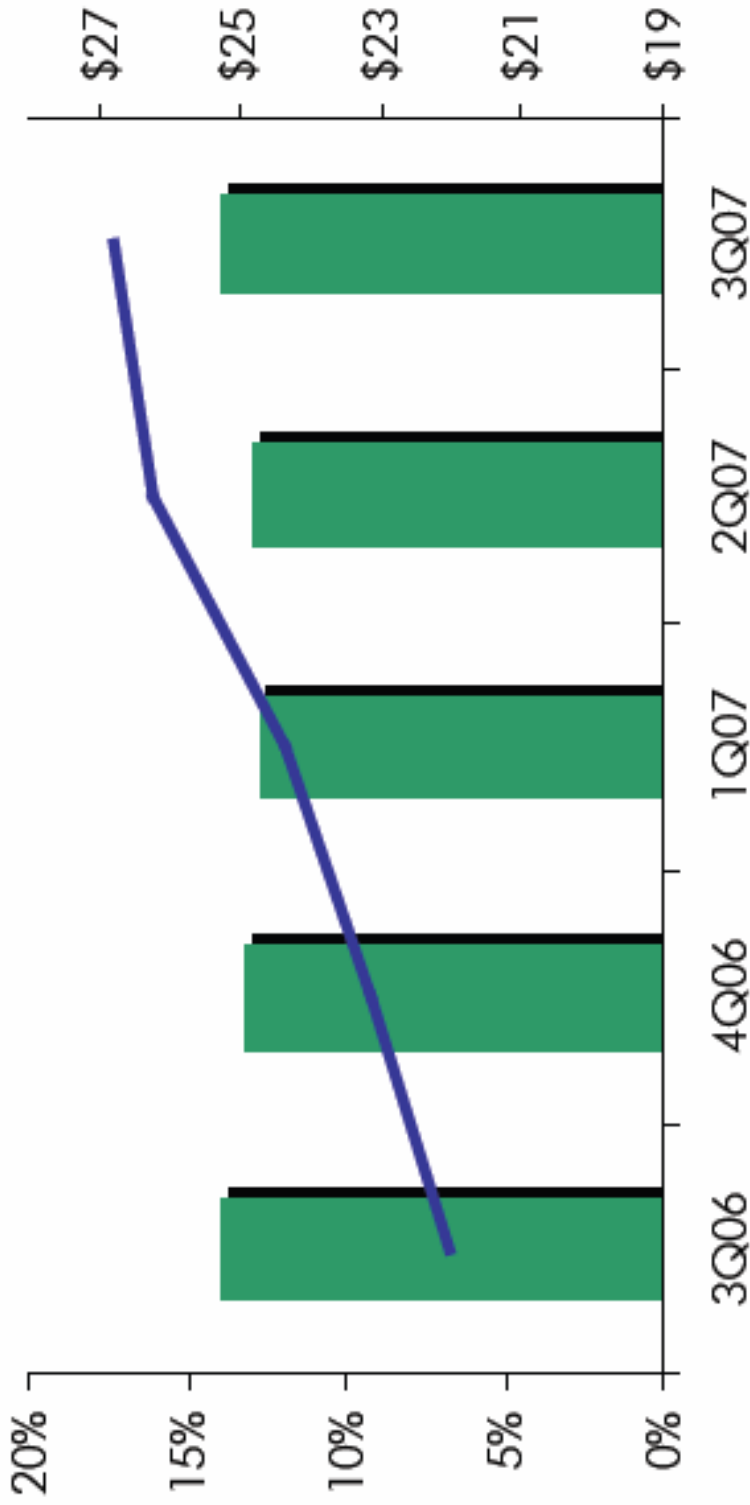
*In the first half of 2007, real estate companies spent \$1.44 billion on Austin office buildings, up 434 percent from the first half of 2006, according to Real Estate Alert.*

*With 15 office buildings changing ownership from January through June, Austin ranked 13th among major U.S. office markets in terms of transaction values.*

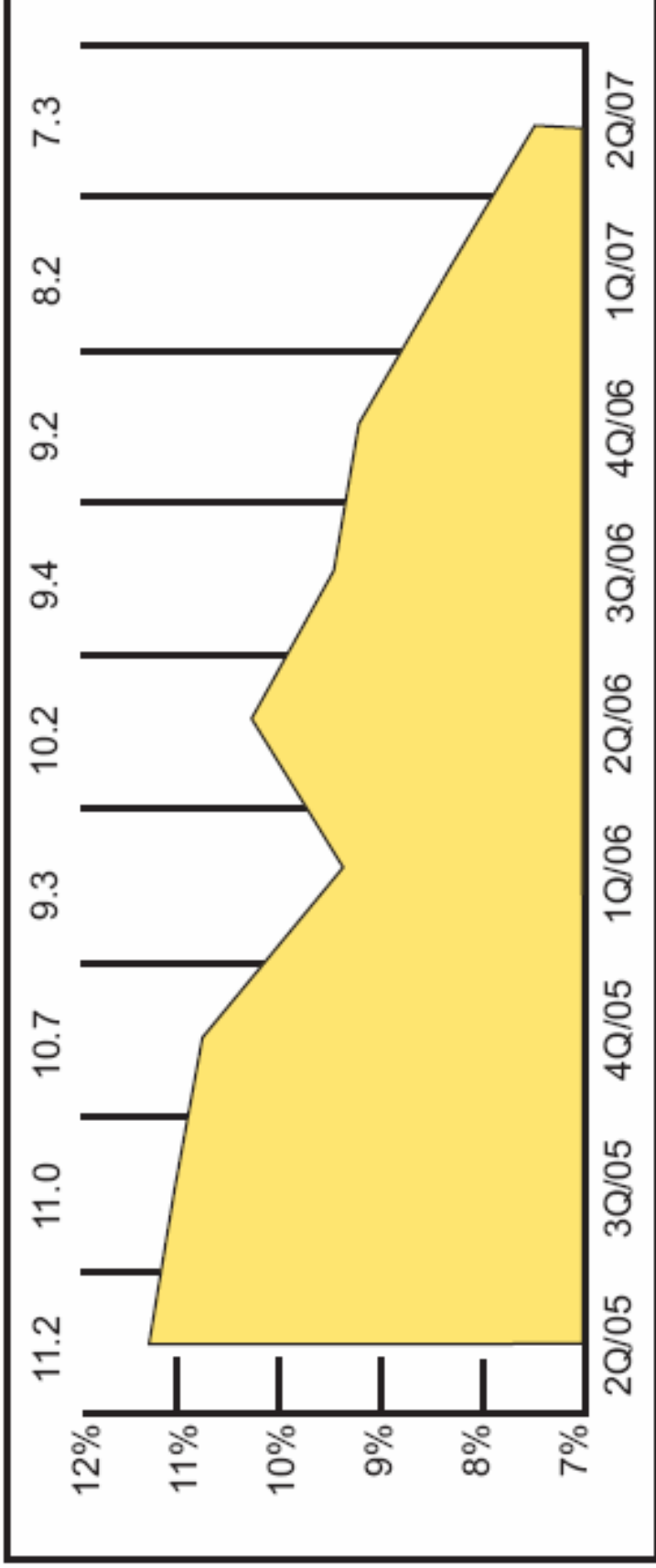
# Austin Office Space

## DIRECT VACANCY RATE VS. LEASE RATE

Vacancy Rate 13.91%  
Lease Rate \$26.77



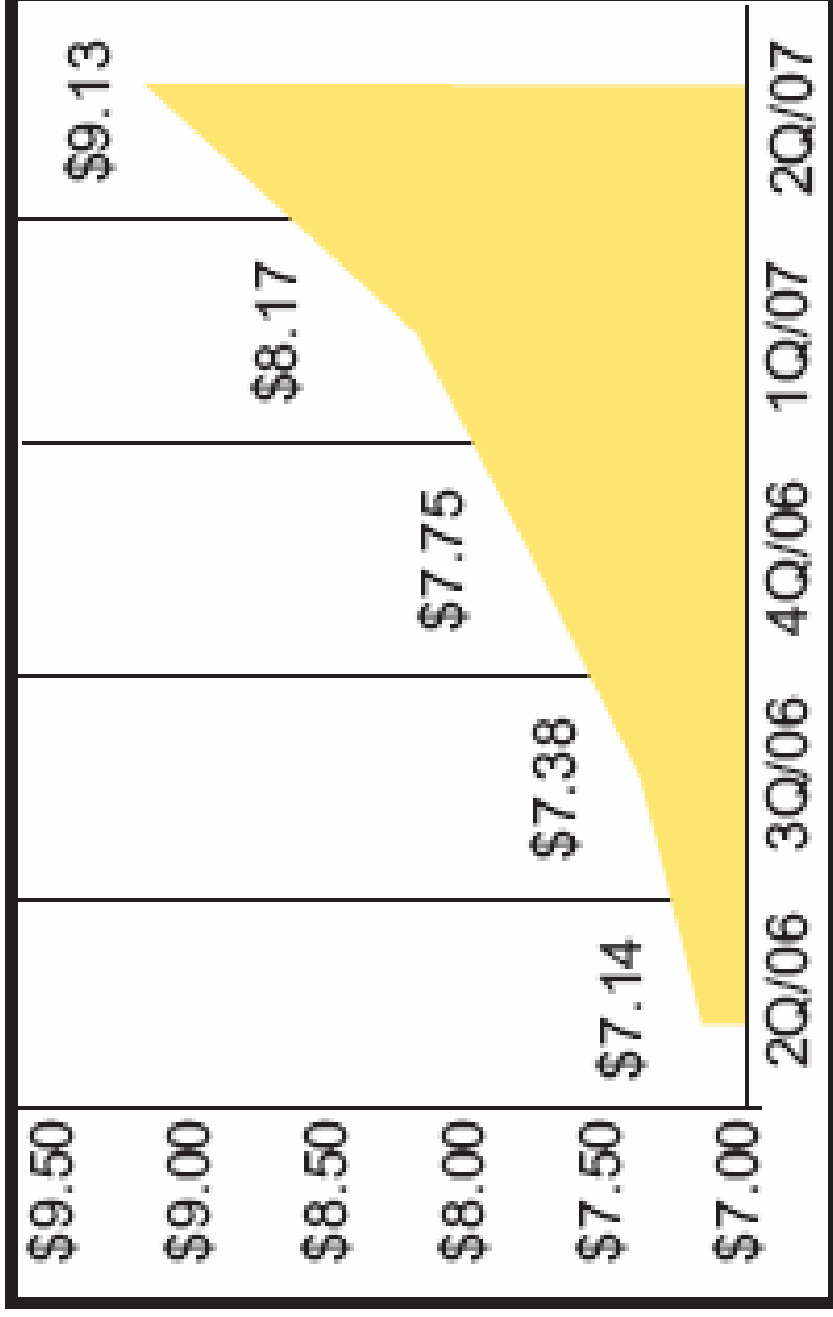
# Austin Industrial Space



**Industrial Vacancy Rate\***

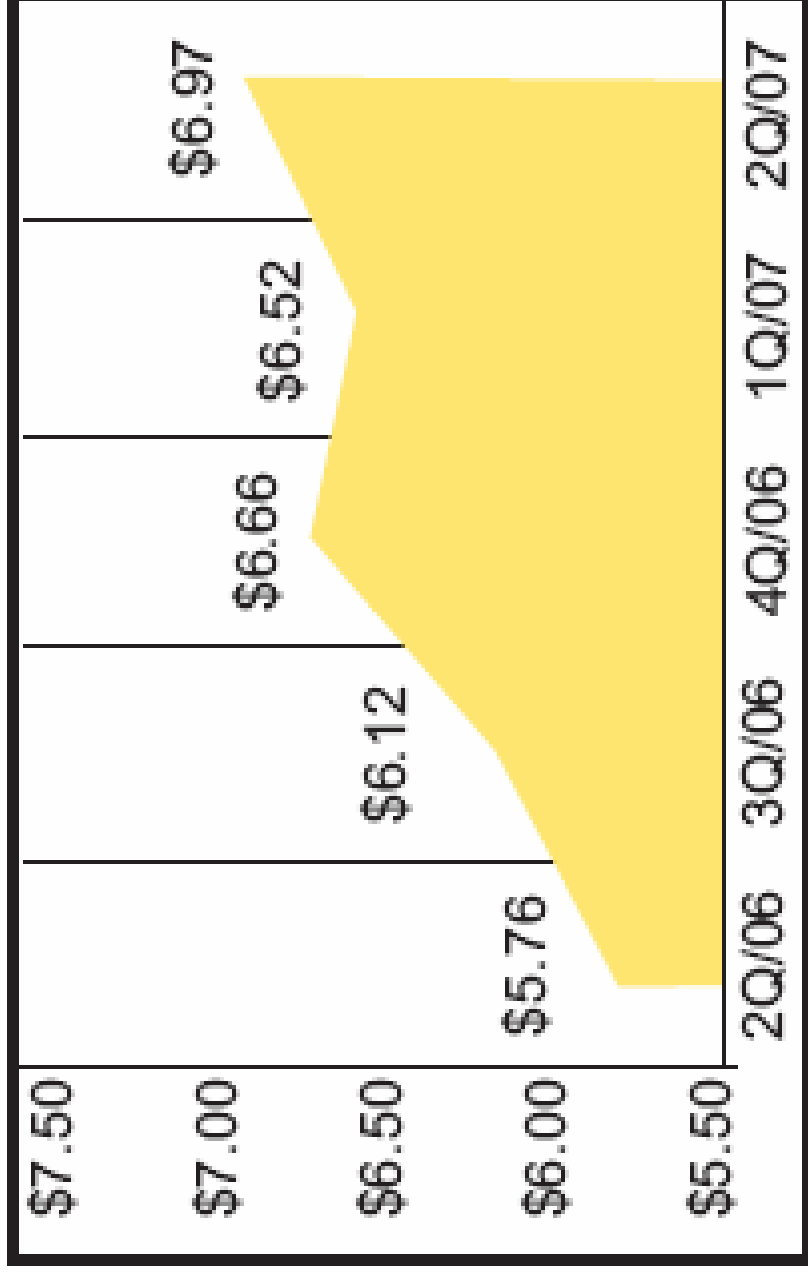
*\* All Product Types*

# Austin Industrial Space



Industrial Rents  
R&D/Flex

# Austin Industrial Space



Industrial Rents  
Warehouse/Distribution

## Residential Building Permits

### Austin-Round Rock

Year	Single		Multi	Total
	Family	Family	Family	
97	8,456	5,161		13,617
98	10,805	5,618		16,423
99	11,704	8,193		19,897
00	13,045	8,844		21,889
01	9,115	8,699		17,814
02	11,072	6,160		17,232
03	12,116	3,214		15,330
04	14,309	3,706		18,015
05	17,346	5,895		23,241
06	17,615	8,481		26,096
07p	13,660	8,757		22,417

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## **Jobs Per Dwelling**

**Normal markets typically create 1.25 to 1.5 net new jobs per new dwelling unit.**

## **Austin-Round Rock**

**Last 12 Months**

**New Jobs**

**29,500**

**Residential Permits**

**22,417**

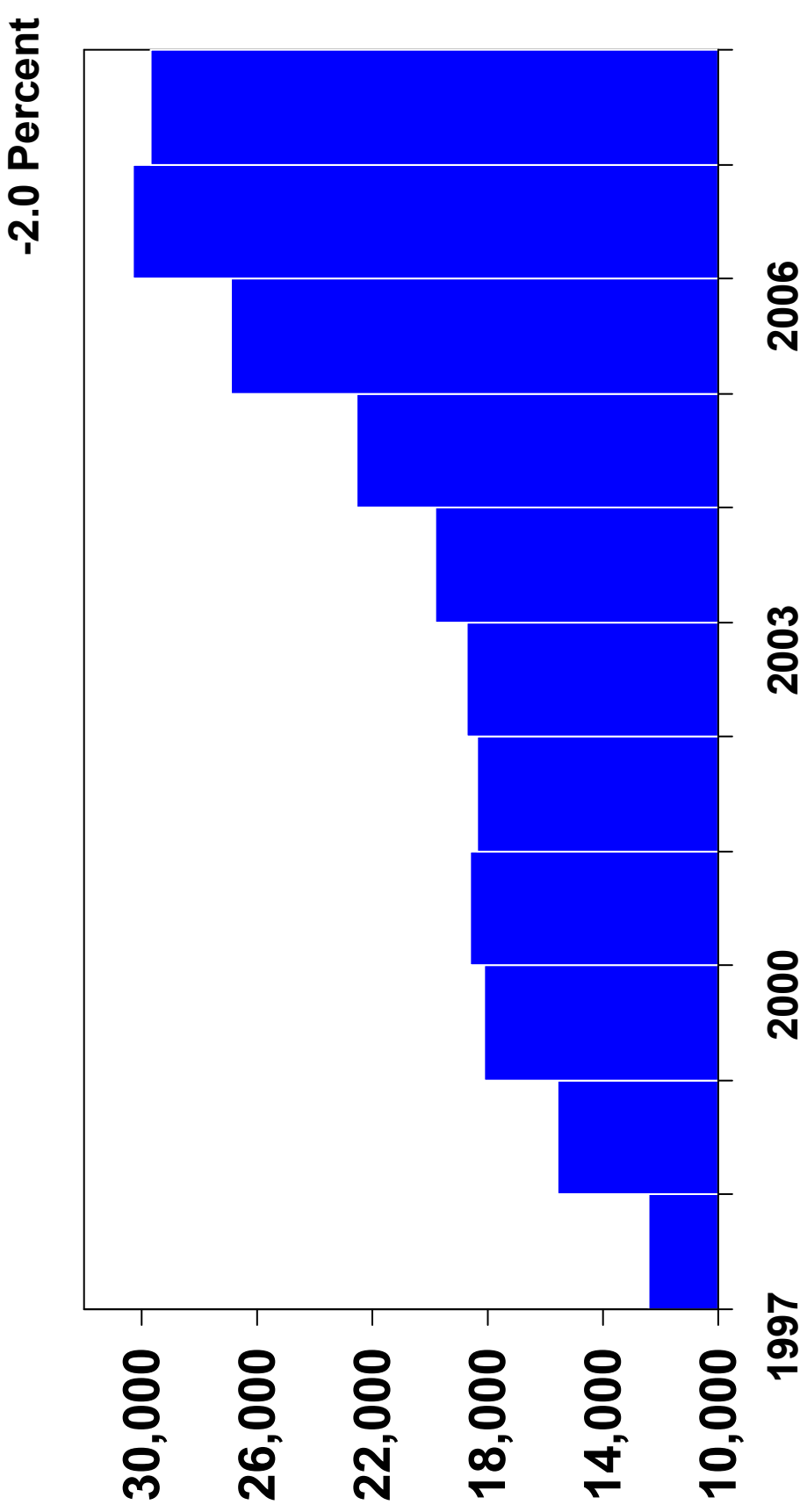
**New Jobs Per Dwelling**

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**1.32**

# Austin Existing Home Sales

## Number of Homes Sold



2007 is the Last 12 Months



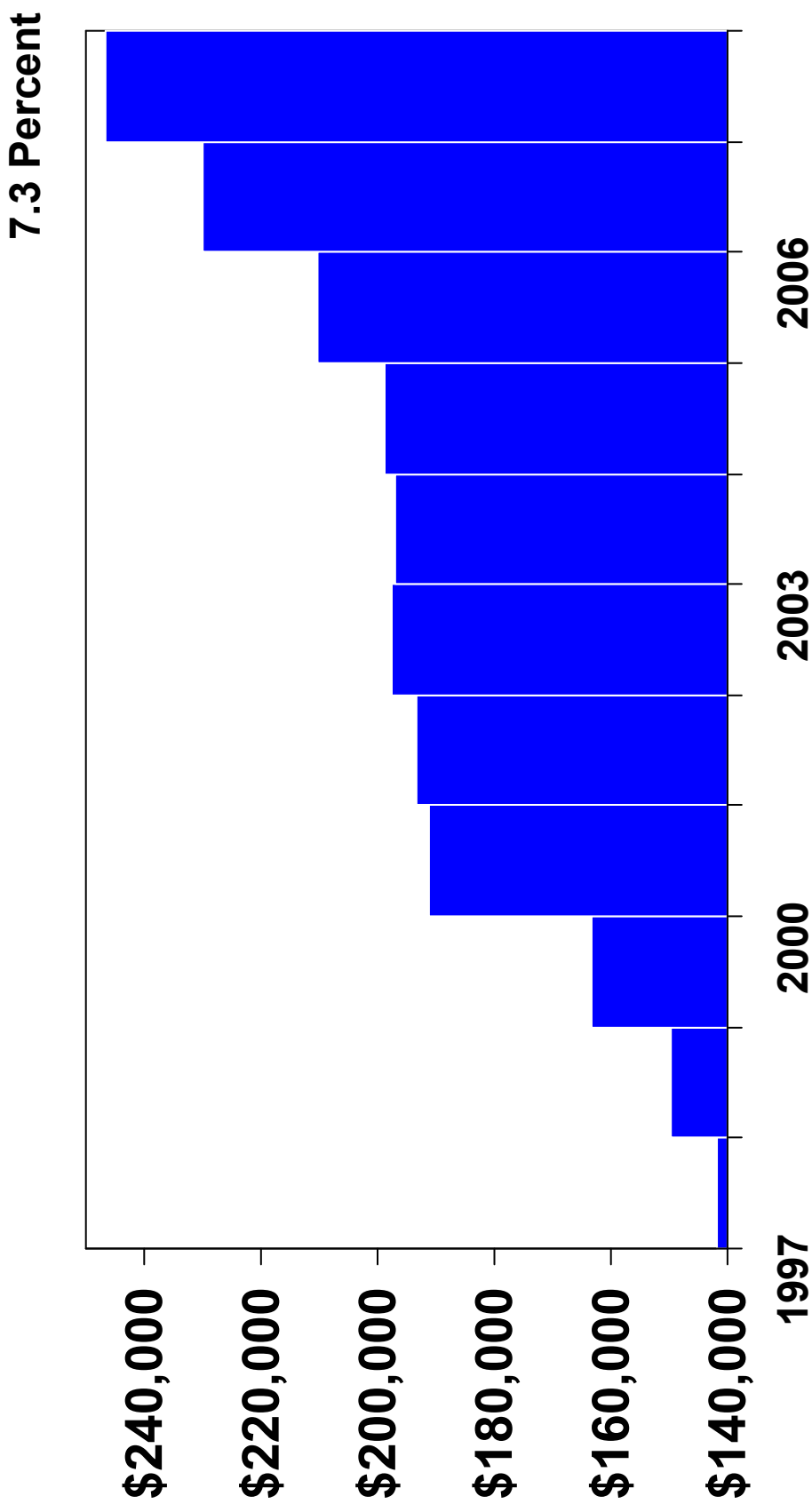
# Percent Change in Number of Sales From Same Months Last Year

<b>Jan</b>	<b>-4.3%</b>
<b>Feb</b>	<b>0.4%</b>
<b>Mar</b>	<b>-0.6%</b>
<b>Apr</b>	<b>5.1%</b>
<b>May</b>	<b>1.6%</b>
<b>Jun</b>	<b>-8.3%</b>
<b>Jul</b>	<b>-3.0%</b>
<b>Aug</b>	<b>-9.5%</b>



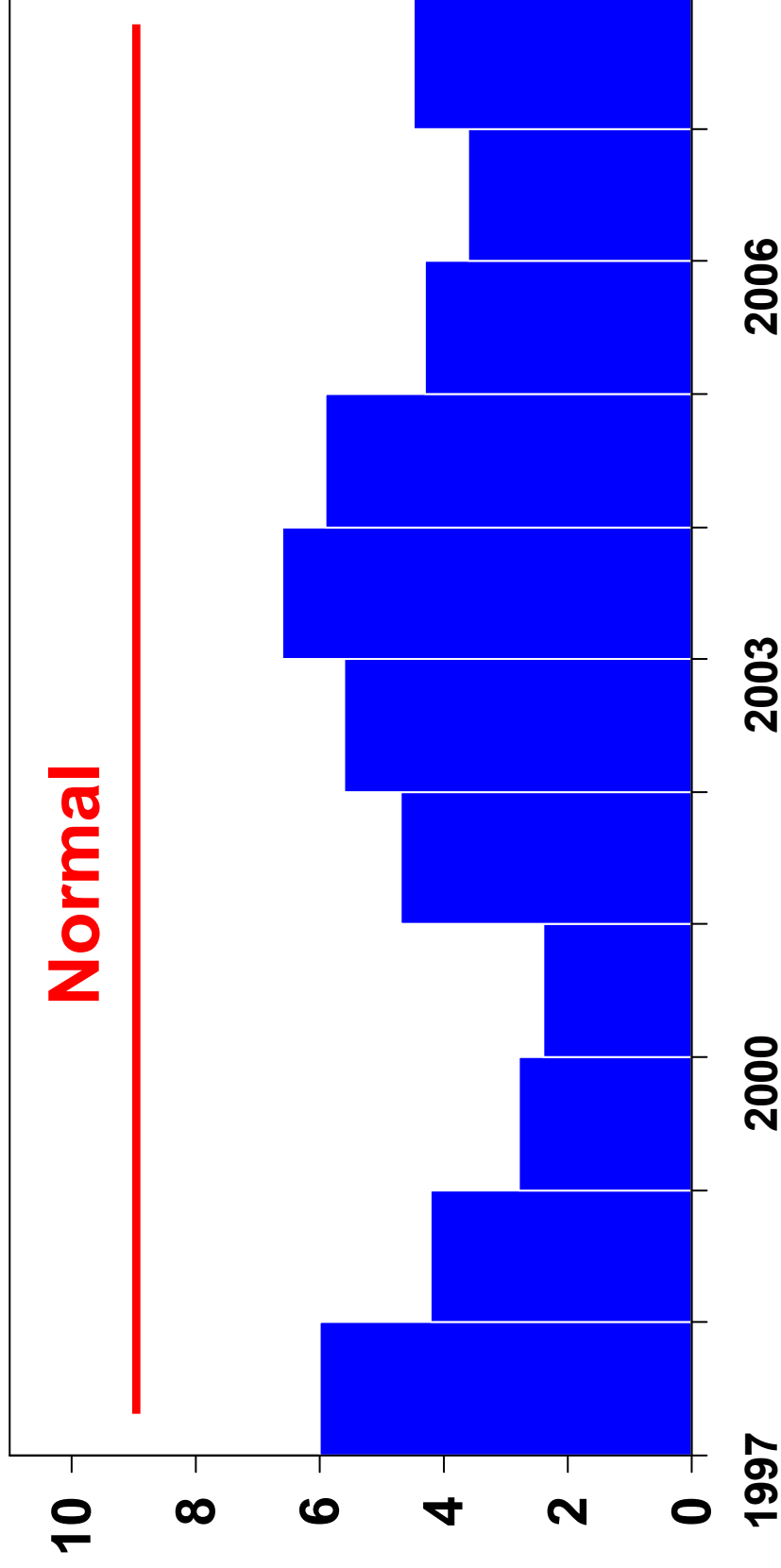
# Austin Existing Home Sales

## Average Price



# Austin Existing Home Sales

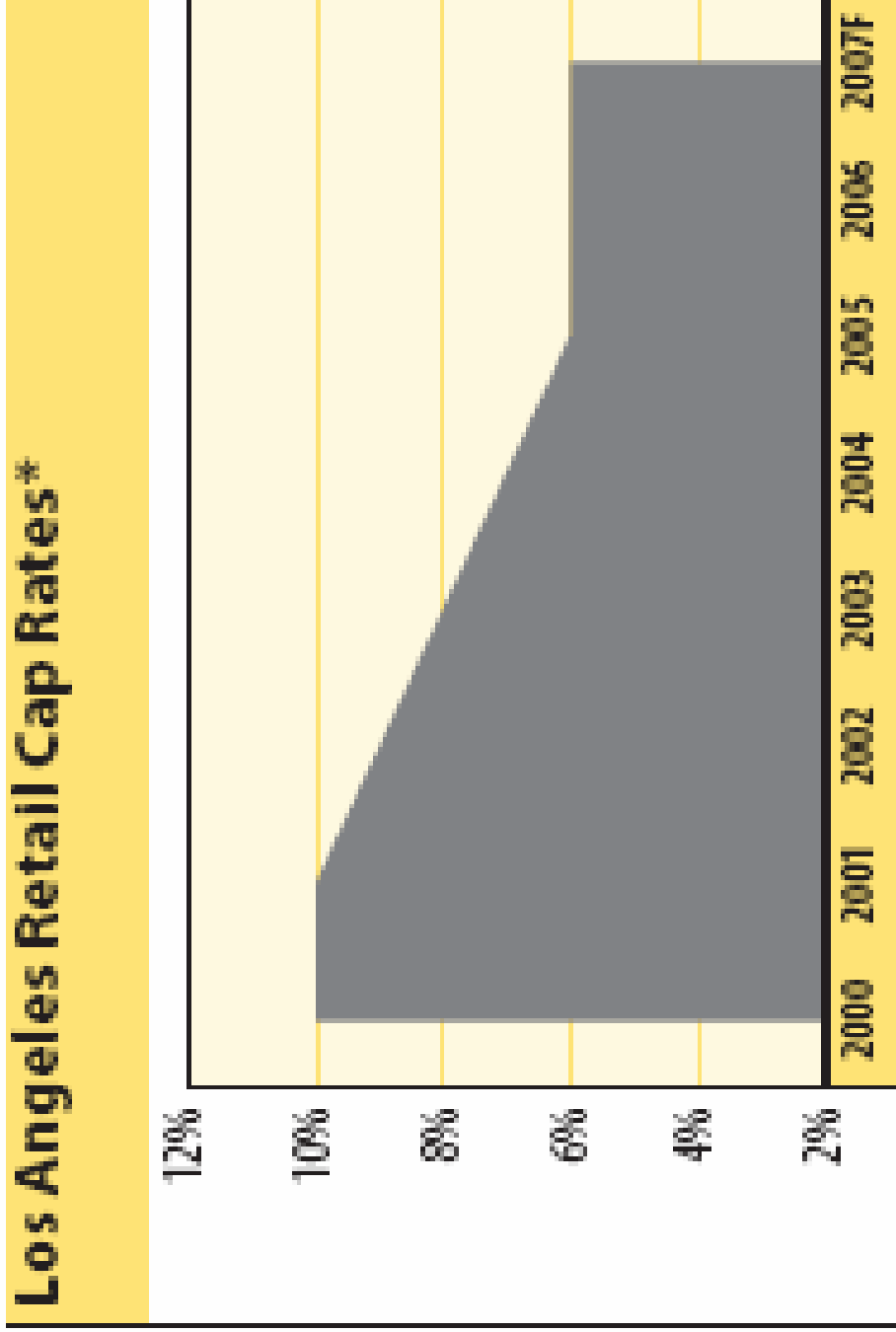
## Number Months Inventory



# Housing Sales First Seven Months of Each Year

	Percent Change 2006 to 2007	Percent Change 2005 to 2007
Texas	-2.88%	6.97%
California	-24.70%	-32.90%
Florida	-28.10%	-44.50%

# Los Angeles Retail Market



\*Retail Buildings Over 30,000 SF

# Capitalization Rates Are Too Low

$$\text{Value} = \frac{\text{Income (NOI)}}{\text{Cap Rate}}$$

**Next Three Years: Rents Up, Vacancies Down, Cap Rates Up**

**THE GALLUP POLL®**

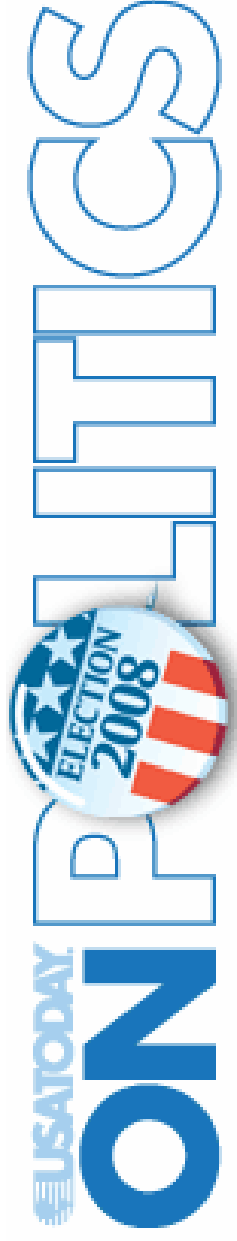
# Approval Ratings

**President: 32 Percent Approval Rating  
August 13 - 16, 2007**

**US House & Senate**

**18 Percent Approval Rating**

**76 Percent Disapproved *all Americans***



# Commercial Market Reports

**CBRE**

<http://www.cbre.com/Global/Research/>

**Colliers International**

<http://www.colliers.com/Corporate/MarketReports/>

**Grubb and Ellis**

[http://www.grubbellis.com/Research/quarter\\_trends\\_reports.aspx](http://www.grubbellis.com/Research/quarter_trends_reports.aspx)  
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# Data Sources

## Employment

<http://data.bls.gov/cgi-bin/dsrv?la>

## Building Permits

<http://recenter.tamu.edu/data/bpm/>

## Interest Rates

<http://www.freddie.mac.com/dlink/html/PMMS/display/PMMSOutputYr.jsp?year=2007>

## Fannie Mae Forecast

<http://www.fanniemae.com/media/berson/monthly/index.jhtml>

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# 2007 Economic Concerns

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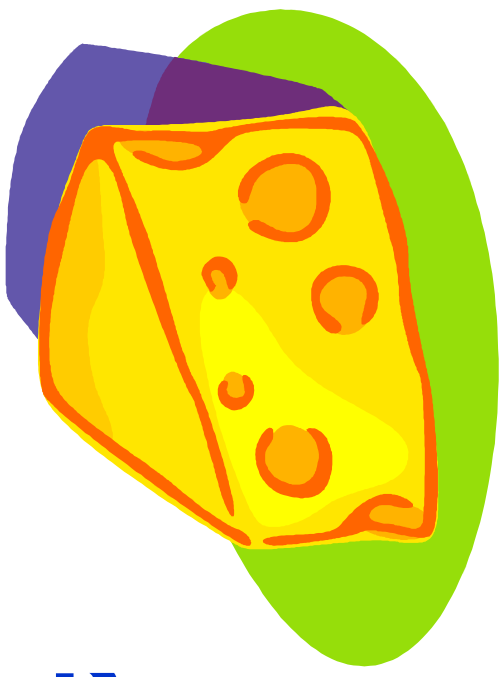
- **Some Bubbles Do Exist**
- **Time Bomb Loans**      **Housing Sales Down  
6 to 11 Percent**
- **Cold War II—Terrorists**
- **Inflation (and Cap Rates)**
- **Pandemic (bird flu.....)**
- **More Hedge Funds Will Fail**
- **Energy: US Imports 64 Percent of Oil**
- **Extreme Partisan Politics**

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**Ted C. Jones**

**Axiom #1**

**“The Early  
Bird May Get  
the Worm,  
But the  
Second Rat  
Gets the  
cheese.”**



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