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Tierra Grande

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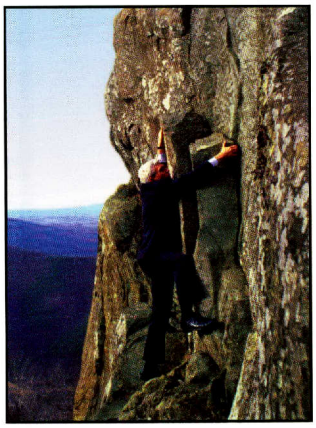
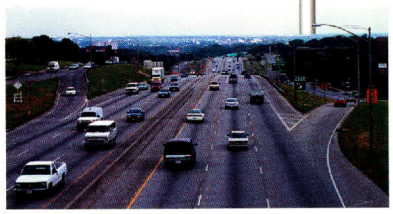
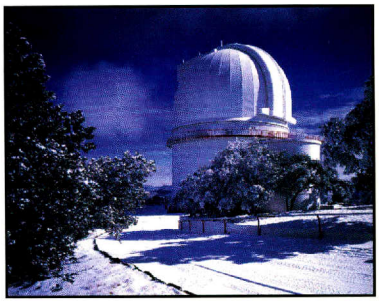




On the Cover

Blue skies are the limit for the W.J. McDonald Observatory standing atop a 6,809-foot peak in the Davis Mountains. A 430-inch telescope, the second largest in the world, is housed among the buildings. **Photographer Laurence Parent.**



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BENCHMARKS

Where in Texas?

Looking for a territory with little or no professional competition? According to the Texas Real Estate Commission, five Texas counties have no licensees at all—not even an inactive one.

The zero-real-estate-agent counties are Borden, Hartley, Kenedy, King and Roberts. Each county offers lots of ground to cover, and horned toads are more common than traffic jams.

Borden County at the foot of the Caprock Escarpment in West Texas, is the smallest of the five—906 square miles. The county population of about 830, however, is high compared to the 367 Texans that call the 913 square miles of King County home. With 1,945 square miles, Kenedy is the largest county in Texas without a real estate licensee.

While these five have no licensees, several others are close. Glasscock and Sterling Counties have only one licensee each—and they are inactive salespersons. Loving County has two licensees—both inactive salespersons. Motley County has four salespersons on record—all inactive. Kent County has only one active broker, while Hudspeth County has one inactive salesperson and one active broker. Ditto for Oldham, Terrell and Upton Counties. Irion County officially has two licensees—one inactive salesperson and one inactive broker.

In July 1997, 22 Texas counties had no active real estate salespersons. Another 68 had less than ten active sales licensees.

To say Texas licensees are geographically dispersed is something of an understatement. Harris County is at the opposite end of the distribution spectrum. Houston's home county has nearly 9,700 active salespersons and more than 7,700 active brokers. In addition, the state's most populous county has nearly 5,000 inactive salespersons and more than 500 inactive brokers.

Dallas County has the second highest number of licensees in every category—7,592 active and 3,448 inactive salespersons; 5,886 active and 380 inactive brokers.

Bexar County (San Antonio) lists 3,425 active and 1,611 inactive salespersons while 2,158 active and 103 inactive brokers have a license. Austin's home county, Travis, has 3,131 active and 1,341 inactive salespersons in addition to 2,896 active and 161 inactive brokers.

Tarrant County has 2,548 active and 1,895 inactive sales licensees, plus 2,007 active and 135 inactive brokers. El Paso County has 1,133 active and 517 inactive salespersons and 719 active and 24 inactive brokers.

All other licensees are between the two extremes. Nearly 70 counties can claim more inactive salespersons than active ones.

(Benchmarks continued on page 23)

Oil and Gas Leasing

Check your fossil fuel IQ

By Judon Fambrough

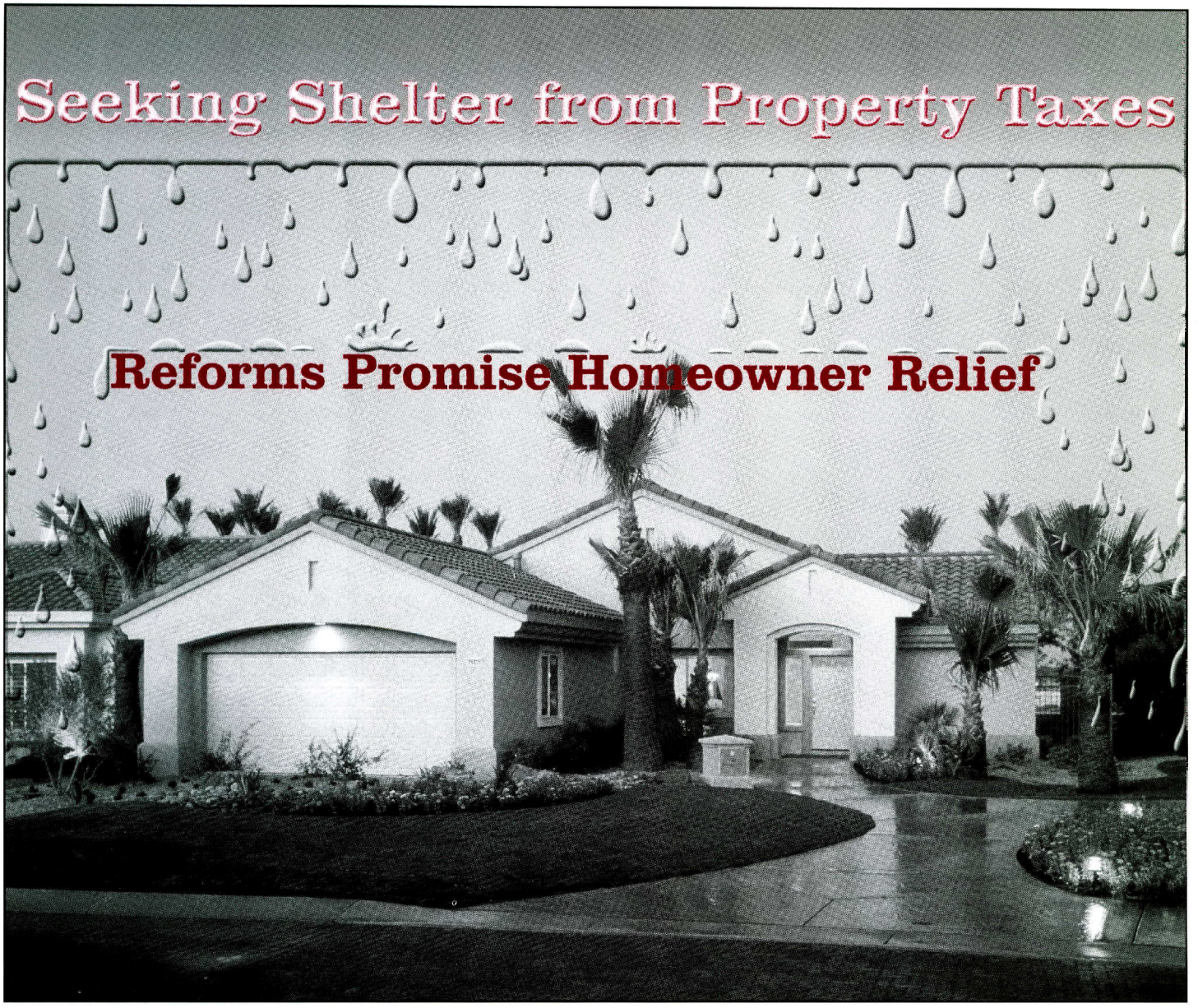
Oil and gas leasing is on the rise in Texas. The price of oil has not increased, but oil companies can find and produce oil and gas more efficiently using new technology. When approached by an oil company for a lease, mineral owners may have questions. The Real Estate Center reports *Hints on Negotiating An Oil and Gas Lease, Rights* and *Responsibilities of Mineral Cotenants* and *Minerals, Surface Rights and Royalty Payments* answer many of them. The answers are on page 24.

	True	False	
1.	❑	❑	The leasing mineral owner has a legal duty to protect the surface whenever the ownership of the mineral and surface estates have been divided.
2.	❑	❑	If the mineral interests are owned by more than one person in a cotenacy, the law requires that all the cotenants lease to the same oil company.
3.	❑	❑	In Texas, an oil and gas lease is actually a deed, not a rental agreement, as implied by the title.
4.	❑	❑	When a lease is silent, an oil company is liable to the surface owner if the acquifer, serving as the sole source of freshwater for the surface owner's household and agricultural purpose, is depleted by the oil company's operations.
5.	❑	❑	In Texas, an oil and gas lease allows an oil company to explore for and produce oil, gas and uranium.
6.	❑	❑	When the lease is silent, an oil company is liable to the surface owner for the loss of livestock when the drill site is not fenced.
7.	❑	❑	If the minerals are owned by more than one person in a cotenacy, the law requires that **all** the contenants sign the lease before the lease is valid to any of them.
8.	❑	❑	When the lease is silent, an oil company is liable to the surface owner for failing to pursue the production method that serves the public policy of mineral development while, at the same time, permits the use of the surface for productive agriculture.
9.	❑	❑	In Texas, a lease terminates if the oil company goes six consecutive months without paying royalties from the time production began.
10.	❑	❑	According to the oil and gas lease, if one acre is placed in a pooled unit, then **all** the leased acres are held as long as production continues from the pool.

Fambrough is an attorney, member of the State Bar of Texas, senior lecturer with the Real Estate Center at Texas A&M University and author of Hints on Negotiating an Oil and Gas Lease.

Seeking Shelter from Property Taxes

Reforms Promise Homeowner Relief



By Charles E. Gilliland

Between 1982 and 1992 Texas' property taxes as a percentage of property value (a relative measure of tax burdens) more than doubled. That increase in the cost of local government and schools fueled taxpayer discontent. The result was an ambitious, comprehensive property tax relief plan from the 1997 legislature. However, replacing the potential revenue lost through these envisioned reforms proved insurmountable; a compromise set of reforms replaced the original legislation.

The compromise made extensive changes to the *Property Tax Code*. Changes addressed homestead exemptions, appraisal and equalization practices, and "truth-in-taxation" provisions. This article explores some of the most important changes and identifies some implications that Texans can anticipate as reforms take effect.

Homestead Exemptions for School Taxes

The *Property Tax Code* has traditionally offered homeowners some shelter from their property taxes through homestead exemptions on their primary residence. Although a number of exemptions are offered (Table 1), the new legislation only addresses the homestead exemptions for school taxes. The new legislation increases the minimum exemption for school property taxes from $5,000 to $15,000 of market value. This increase would boost tax savings on a typical Texas residence from $75 to $225 per residence (based on an assumed school tax rate of $1.50 per $100 of assessed value). In addition to increasing the minimum exemption, the new legislation also makes several more specific changes to the over-age-65 homestead exemption.

Over-age-65 homestead exemptions. The increased homestead exemption represents the only tax relief for any taxpayers provided by the 1997 legislature. However, the legislation extended further protections to elderly who qualify (generally age 65 and older or their surviving spouse age 55 or older).

Property owners who receive the over-65 exemption also receive a school tax ceiling equal to the amount of school tax they pay when they qualify for the exemption. This measure places an upper limit, or cap, on the amount of school tax qualifying homeowners pay each year. Generally, school taxes cannot be increased more than the amount the person paid in the first year the person qualified the home for the exemption. In the past, however, if a recipient of this exemption changed homesteads, the school tax freeze was recalculated based on the taxes imposed on the value of the new homestead in the first year after the change of homesteads.

The new provision allows a qualifying homeowner to move the freeze from the old homestead to the new homestead.

However, the transported freeze does not mean that school taxes on the new homestead will equal the dollar amount of school tax at the previous homestead. Instead, the new provision maintains the same **percentage** of school tax in the original freeze.

For example, suppose that the original homestead school tax was fixed at $500 for a home with a non-frozen school tax liability of $2,500. This homeowner pays 20 percent of the potential school tax liability. Now, suppose that the new homestead would incur a school tax liability of $8,000 after exemptions. The new maximum school tax would be fixed at 20 percent of $8,000 or $1,600, saving the elderly homeowner $6,400 in potential taxes.

The freeze can be moved across school district and county lines, meaning that a freeze originally obtained in Marfa could apply equally in Dallas, Decatur or Dumas. The legislation requires the chief appraiser in the district where the freeze originated to provide the information needed to calculate the new tax freeze. The act also obligates chief appraisers to honor the information received from other appraisal districts. In cases of fraud, (such as owner's of insufficient age or simultaneous receipt of exemptions) the new legislation imposes a 50 percent penalty on delinquent taxes.

This provision extends an added benefit for elderly citizens who acquire a new home. However, it creates some intriguing possibilities. For example, for a home to qualify as a residence homestead, it must be the primary residence of the owner. A home can qualify even if the owner lives elsewhere so long as he or she **intends to return there**. Thus, an owner could purchase a inexpensive second home and declare it to be a primary residence. If the home value were sufficiently low, a $15,000 exemption would create a relatively large percentage factor to be applied to a transported freeze.

If, for example, an elderly homeowner purchased a $20,000 home and established a percentage factor of 25 percent in the first year he or she qualified the home, the home could then be sold and a much more expensive home purchased. The owner would enjoy a school tax freeze of 25 percent of the normal school tax on the property.

The lower the home values the greater the percentage applied in the tax freeze calculation. Presumably, these circumstances could create a demand for low-priced homes among the elderly as they seek to minimize their school property tax liability. Furthermore, establishing the legitimacy of the homestead **depends on the intentions of the owner** to continue to occupy the home as their homestead. Presumably, there is no time requirement to achieve the desired result.

Overlapping appraisal districts have contributed to taxpayer dissatisfaction. In cases where taxing units, most frequently school districts, lie in more than one county, taxpayers may face different interpretations of the *Property Tax Code* and divergent judgments on eligibility for homestead exemptions. For example, a property owner could find one appraisal district extending the homestead exemption while the other denies it. A provision enacted by the 75th Legislature requires chief appraisers in overlapping areas to recognize the exemptions granted by other chief appraisers to those qualifying for the general, disabled or 65-years-of-age exemption. Thus, a property owner obtaining a general disabled or over-65 homestead exemption in one district would not need to gain approval from other chief appraisers.

Proration of over-age-65 homestead exemptions. Under previous *Property Tax Code* provisions, homeowners were required to qualify on January 1 of the tax year or wait until the following January 1 to receive the exemption. For example,

Table 1. Exemptions Authorized by the Texas Constitution

Title of Exemption	Code Section	Amount Exempted	Type	Application Required
Public Property	11.11	total	mandatory	none
Public property used to provide transitional housing for indigent persons	11.111	total	optional	yearly
Federal exemptions	11.12	total	mandatory	none
Residential homesteads	11.13	partial	both[c]	once[d]
Tangible personal property not producing income	11.14	total	optional	none
Income-producing, tangible personal property less than $500	11.145	total	mandatory	none
Mineral interest having value of less than $500	11.146	total	mandatory	none
Family supplies	11.15	total	mandatory	none
Farm products	11.16	total	mandatory	none
Implements of farming or ranching	11.161	total	mandatory	none
Commercial fishing equipment	11.162	boats & equipment[e]	optional	once[d]
Cemeteries	11.17	total	mandatory	once[d]
Charitable organizations	11.18	buildings & personalty[a]	mandatory	once[d]
Charitable organizations improving property for low-income housing	11.181	buildings & personalty[a]	mandatory	yearly
Youth spiritual, mental and physical development association	11.19	total	mandatory	once[d]
Religious organizations	11.20	total	mandatory	once[d]
Schools	11.21	buildings & personalty[a]	mandatory	once[d]
Disabled veterans	11.22	$1,500-$3,000	mandatory	once[d]
Historic sites	11.24	variable	optional	yearly
Tangible personal property transported outside the state [freeport]	11.251	total	both[b]	yearly
Limitations of school tax on homesteads of the elderly	11.26	limits tax increases	mandatory	once[d]
Solar- and wind-powered energy devices	11.27	total	mandatory	yearly
Offshore drilling equipment not in use	11.271	total	mandatory	yearly
Property exempted from city taxation by agreement	11.28	variable	optional	yearly
Intracoastal waterway dredge disposal site	11.29	total	mandatory	once[d]
Nonprofit water supply or wastewater service corporation	11.30	total	mandatory	once[d]
Pollution control property	11.31	total or partial real & personal property	mandatory	once[d]

[a] These statutes define "building" to include a "reasonable" amount of land.
[b] Mandatory in some units, taxable in others.
[c] Includes both mandatory and optional.
[d] Chief appraiser may require property owner to reapply for this exemption by delivering a written notice and application form to the owner.
[e] "Boat" is defined as a vessel that does not exceed 100 feet in length.
Source: Texas *Property Tax Code*

an over-65 owner purchased a new home on January 3. Under previous law, the owner could not qualify that home for a homestead exemption until the following year. Similarly, if an owner of an existing home had a sixty-fifth birthday on January 3, he or she could not qualify for the exemption for the elderly and accompanying tax freeze until the following January 1.

The new legislation requires proration of homestead exemptions for the elderly based on the time when owners qualify for the exemption. For example, suppose that a homeowner qualified for the residence homestead exemption on September 16 of a tax year. That homeowner would pay taxes based on the full market value of the property from January 1 through September 16. Taxes for the remainder of the year would be based on the market value less the amount of the homestead exemption. Furthermore, if a property should cease to qualify for the exemption, the tax liability also would be prorated.

Amount of freeze. Currently, the *Property Tax Code* specifies that those qualifying for the over-65 homestead exemption will have their school taxes frozen at the amount paid in the first year that the owner qualifies. The freeze also persists when the qualifying owner dies and leaves a surviving spouse who is more than 55 and can qualify for continuation of the exemption. The new legislation ties the freeze to the lower of taxes in the first or second year of qualification. Because the new legislation provides for proration of the exemption for those qualifying after January 1, taxes in the first year of qualification could approach the tax liability based on full market value. For example, suppose an individual qualifies on December 12 of a given year. Taxes for that year would reflect taxes based on full market value from January through December 12, plus taxes based on the exemption value for the remaining 19 days of December. In this case, taxes for the following year, when the owner enjoys the full effect of the exemption, would likely be less than taxes in the qualifying year.

If a property should cease to qualify for the exemption, the tax liability would be prorated.

Limitations on value increases. In the past, homeowners frequently voiced frustration concerning large increases in taxable value resulting from revaluations. The reforms include a provision to limit growth in taxable property values only for residence homeowners. Specifically, homestead value increases will be confined to a cumulative 10 percent per year for each year since the last revaluation. For example, suppose an appraisal district undertook a reappraisal of residences after three years of no changes. The maximum increase for residence homesteads in that reappraisal would total 30 percent, 10 percent for each year since the last value change.

In no year since 1983 was this limit applicable in Texas (Table 2). However, all home prices do not follow averages, and selected local areas may vary greatly from those norms.

In areas where values have begun to increase rapidly, assessed values could lag behind market values as years pass. Previously, urban enclaves where buyers have begun to renovate old homes have seen values range sharply higher. In those instances, assessed values on homes owned by nonresidents will shoot up with the market while the limit ensures lower values for owner-occupied homes. Furthermore, when a qualifying homestead transfers to a new owner, it no longer qualifies as a residence homestead. The value automatically rises to the market value before the new owner applies for a new homestead exemption. Thus, new homebuyers could face much higher tax bills than long-term homeowners.

Mass Appraisal Methods Mandated

Faced with rapidly rising tax liabilities, property owners frequently focus on appraisal district operations as the source of their frustration. They often view appraisal districts as nonresponsive and arbitrary. To address these perceptions, the legislature instructed chief appraisers to employ methods of mass appraisal that comply with the *Uniform Standards of Professional Appraisal Practice,* popularly know as USPAP. These standards have been established by the Appraisal Foundation and specify requirements for acceptable procedures.

In addition to USPAP, the legislature also instructed appraisal districts to consider "alternate appraisal methods," specifically, "the cost, income and market data comparison methods of appraisal." Presumably these specified methods correspond to appraisal practice norms of cost, income capitalization and sales comparison approaches to value. Current appraisal applications do not mention a "market data comparison" approach. The chief appraiser should choose the method considered most appropriate for the appraisal at hand. Well-run appraisal districts already routinely apply these techniques as a check on the mass appraisal techniques necessitated by property taxation.

When appraisal districts currently have access to the kinds of information required for the cost, income and sales comparison applications, they most likely make use of them in their appraisals. However, districts often do not have the data required, nor do they have the resources to perform individual appraisals on each piece of property. Budget constraints for appraisal districts will likely continue that situation with the majority of tax appraisals relying primarily on mass appraisal techniques.

For taxing units that lie in more than one county, the units may opt to have one appraisal district appraise all property in both counties while the other units must use values from the appraisal district in their county. In these cases, an owner could face widely divergent values because of administrative and judgmental differences between the two appraisal offices. Newly passed legislation addresses the differences between appraisals for the same property by requiring the chief appraisers to reach a mutually acceptable value. If the chief appraisers cannot agree on a single value, the legislation specifies a simple average of the appraisals.

Equalization Unfairness Addressed

The equalization phase is the point of greatest general public participation in the property tax process. Owners have an opportunity to examine appraisals of their properties and others' properties included on the tax roll. They can negotiate with the appraisal staff when they dispute appraised tax values, protest values to the appraisal review board (ARB) and file appeals with the state district courts.

The equalization phase repeatedly came under fire from the public during the state's study of tax reform in 1996. In response to perceived unfairness, the 75th Legislature added provisions designed to reduce taxpayer dissatisfaction. The provisions require board members to participate in training. Furthermore, any "former member of the governing body or

officer or employee of a taxing unit, or a former director, officer, or employee of the appraisal district," is barred from serving on the ARB.

To make the protest procedure more accessible, the legislation added several measures designed to ease citizens' participation. First, chief appraisers must enclose a description of the protest procedures and a property owner's protest form with notice of appraisal increases. ARBs must conduct evening and weekend hearings. Finally, ARBs must postpone a hearing for a taxpayer if another appraisal district has scheduled a hearing for them at a conflicting time when the other ARB notice was mailed first.

New provisions also significantly alter some features of the protest process. First, the act places the burden of proof concerning appraised values on the appraisal district. If the appraisal district fails to prove their value with a preponderance of the evidence, the board must decide in favor of the taxpayer. Furthermore, when the taxpayer challenges the equality of his or her valuation, the appraisal district must prove that the "appraisal ratio" of the property does not exceed the median appraisal level of a "reasonable number of comparable properties appropriately adjusted or of a reasonable number of similarly situated properties, or of properties in the appraisal district as a whole."

At the appeal phase (district court), a taxpayer can obtain relief for an unequal appraisal if the valuation of his or her property exceeds the "median appraised value" (not the median ratio) of a sample of comparable properties. Presumably, the courts should set the value at that median.

For properties located in taxing units crossing appraisal district lines, taxpayer protests settled in one appraisal district apply equally to all others. Thus, a property owner may seek out the most sympathetic review board to protest valuations. After obtaining a favorable result in that review board, all others must accept the result. The same provision also applies to appeals of valuations with the court-determined value overriding competing appraised amounts.

Table 2. Texas Residential MLS Prices 1979-96

Year	State-wide Average Price ($)	Annual Change (%)	Dallas Average Price ($)	Annual Change (%)
1979	52,900		65,400	
1980	61,300	16	75,200	15
1981	69,200	13	82,900	10
1982	76,100	10	94,600	14
1983	84,500	11	110,400	17
1984	90,000	7	116,300	5
1985	93,000	3	127,200	9
1986	89,700	-4	121,700	-4
1987	88,700	-1	129,900	7
1988	83,800	-6	113,300	-13
1989	88,300	5	117,100	3
1990	87,300	-1	111,400	-5
1991	89,300	2	115,000	3
1992	93,400	5	116,300	1
1993	99,300	6	120,800	4
1994	102,400	3	121,000	0
1995	104,400	2	124,200	3
1996	110,900	6	131,300	6

Source: Real Estate Center at Texas A&M University

'Truth in Taxation' protects buyers, particularly in neighborhoods experiencing rapid renovation, by limiting tax base increases.

The *Property Tax Code* provides corrections to the current and four previous years' appraisal rolls to rectify clerical errors, multiple appraisals and the inclusion of nonexistent property (Sec. 25.25[c]). It also permits corrections of errors resulting in at least a one-third over-appraisal if the motion for the correction is filed prior to the delinquency date (Sec. 25.25[d]). The legislature gave expanded correction authority to the chief appraiser, allowing corrections to any prior years' roll to rectify a clerical error or other types of inaccuracy as prescribed by the board, so long as the correction does not increase the property owner's tax liability. In some appraisal districts, ARB's concluded that Sec. 25.25 barred property owners from receiving corrections if the owners had protested the value during the normal protest period.

New legislation expressly provides for property owners to seek a correction under Sec. 25.25(c) even when they have already taken advantage of the regular protest process. It also provides that taxpayers may approach the ARB after the close of hearings—even when they have already protested their property value. This opens the door to Sec. 25.25 petitions throughout the year on virtually all properties that can qualify.

'Truth in Taxation' Limits Increases

The *Property Tax Code* contains a provision known as "Truth in Taxation" designed to limit tax increases when reappraisals increase the tax base. Truth in taxation focuses on tax rates and requires a taxing unit to calculate an effective tax rate designed to produce the same tax levy as the previous year with the tax base for the current year. If the unit proposes to adopt a higher rate, it must conduct a public hearing on the proposed tax rate.

Previously, taxing units could authorize a rate that exceeded the effective rate by 3 percent without conducting a public hearing. The new legislation eliminates that 3 percent increase allowance by requiring public hearings whenever a proposed levy exceeds the previous tax levy.

As this article demonstrates, the new legislation extensively reshaped the face of property tax practice. Many other less far-reaching adjustments to the process were also enacted to phase in this year. On balance, Texans will see many changes in dealing with their property taxes as these measures take effect.

Dr. Gilliland is a research economist with the Real Estate Center at Texas A&M University.

RAMS

Attract Older Homeowners

By Jack C. Harris and Judon Fambrough

When Texas voters approved the constitutional amendment on November 4, 1997, permitting home equity lending, they also approved another type of loan known as a Reverse Annuity Mortgage or RAM. Essentially, RAMs provide older homeowners a way to convert all or a portion of their equity to cash without leaving the residence and without repaying the loan during their lifetime.

RAMs acquire their name from their unique structure. The term *reverse* refers to the unusual way loan payments are received, then repaid. With an ordinary mortgage, the borrower receives an initial lump sum from the lender to purchase the house. The loan is then repaid in monthly installments over time. With a reverse mortgage, the borrower receives the loan in monthly incremental payments, and repays in a lump sum from the sale of the house when the loan terminates.

The term *annuity* refers to the periodic cash (or loan) payments, similar to an annuity, received by the borrower for a given time or for the duration of the borrower's life, depending on the terms of the agreement.

Because of their structure, RAMs do not appeal to all older homeowners. Others may be ineligible. In all probability, RAMs are attractive when:

- leaving the home to the offspring or devisees is not an overriding concern,
- remaining in the home for as long as possible (hopefully until death) is a primary objective and
- supplementing the income is desired or needed.

If these objectives are met, then eligibility becomes crucial. Two factors play an important role. First is age. Under the Texas Constitution, the homeowner or spouse must be 55 years or older. For the Federal National Mortgage Association (Fannie Mae) to purchase the loan or for Federal Housing Association (FHA) to insure it, the borrower must be at least 62. Additionally, for most RAM programs, the older the borrower at loan origination, the higher the income that will be paid each month.

Second, homeowners must have substantial equity in their homes. Most RAM programs require any existing mortgages to be retired or greatly reduced. The equity must be sufficient to repay the loan and accrued interest.

Prospective borrowers must be aware of the costs of getting a RAM, including an origination fee, appraisal, title insurance and other expenses. These expenses can be financed as part of the loan or taken out of the monthly advances. The interest rate on a RAM typically is variable, commonly adjusted each month. If interest rates rise for a long time, the probability increases that loan repayment will exhaust the entire equity in the home.

Historically, RAMs have not been embraced by the mortgage industry. They are difficult to underwrite, offer an uncertain payoff and have little acceptance in the secondary market. Therefore, beneficial terms are required to lure lenders into the market.

Because of lender reluctance, FHA became involved by introducing the Home Equity Conversion Mortgage (HECM) insurance program in 1989. The HECM program protects both the borrower and the lender. The program insures continued payments to the borrower (homeowner) should the lender

become unable to pay. At the same time, it covers any deficiencies if the value of the home is inadequate to pay off the loan when the home is finally sold.

To qualify for a HECM, the borrower must:

- be at least age 62,
- own a single-family detached home, manufactured home, condominium or duplex that is free of mortgage or with a low balance and
- attend specialized counseling sessions.

In 1995, Fannie Mae began purchasing FHA-insured RAMs in the secondary market. This provides the liquidity needed to encourage lenders to make them more widely available.

Fannie Mae also introduced a conventional RAM program called the Home Keeper, similar to the HECM. In this program, the borrower can increase the income received each month by agreeing to pay an "equity share" equal to 10 percent of the value of the home. This is paid at the termination of the loan in addition to the accrued balance. However, in no event will the total repayment be greater than the value of the home.

Fannie Mae also has a reverse mortgage home purchase program called Home Keeper for Home Purchase. This loan assists seniors who want to sell their current home and buy another. It also is useful to those who have cash but limited income.

The program allows borrowers to live in the home for the remainder of their life without monthly loan payments. The program is useful for seniors who want to downsize their home, move to a more comfortable climate or retirement community or who do not currently own a home (but have a lot of cash) and want to buy. The loan-to-value ratio is typically low and depends upon the age of the borrower. For example, a 73-year-old buying a $150,000 home would need a cash down payment of $82,300.

Home Keeper requires payment of an origination fee, discount points, closing costs and a monthly service fee. The interest rate is adjusted monthly according to variation in the one-month CD index reported weekly by the federal reserve. For those interested in the program, call Fannie Mae (1-800-7FANNIE) to get a list of participating lenders or talk to a loan specialist.

Even when participating in these programs, borrowers are advised to shop around. Federal law requires lenders who offer RAMs to provide forms that disclose the annual cost as a percentage of the loan amount. Lenders are also required to disclose the effective interest rate based on various lengths of the loan and for different appreciation rates on the house. The American Association of Retired Persons offers a free booklet on reverse mortgage(s) that can be ordered by calling 202-434-3525.

The Texas constitutional amendment permitting RAMs is an enigma. The legislative package introducing the amendment focused primarily on home equity lending. Implementing RAMs appeared to be an afterthought drafted only in the last version of the proposal.

For this reason, no legislative history exists explaining the reasoning behind the language. Obviously no case law has arisen for interpretation. Some of the provisions contradict the federal programs just discussed. The following outlines the provisions without explanation because none exist.

As mentioned earlier, to be eligible for a reverse mortgage in Texas, one of the spouses must be 55 years or older. Both spouses must consent in writing to the loan.

The loans are without personal recourse, which means that if the home sells for less than the loan balance, the lender cannot hold the borrowers, their heirs or devisees personally liable. Likewise, in case of default, the foreclosure must be conducted judicially. This entails a longer, more expensive process than occurs under nonjudicial foreclosure using a deed of trust. Because judicial foreclosure is so new, the Texas Supreme Court must promulgate rules for the procedure.

Unlike the FHA program mentioned earlier, the borrower cannot take loan proceeds as a line-of-credit. The payments must be at regular intervals. Similar to the HECMs, however, the borrowers must receive prior counseling regarding the advisability and availability of RAMs and other financial alternatives.

The RAMs require no payment of principal or interest until the:

- home is sold or otherwise transferred or
- borrowers cease to occupy the residence for 180 consecutive days and their whereabouts are unknown to the lender.

A lender who fails to make required loan advances faces harsh consequences. If the lender fails to cure the default as required by the loan documents, the lender forfeits all principal and interest.

RAMs may have fixed or adjustable interest rates which may be contingent on the appreciation in the value of the home. Even though the principal and interest are not due until the loan terminates, the interest may be compounded during the loan term.

The statute addresses extensively how the advances must be handled and classified. For example, if more than one advancement is required, they must be made in regular intervals established in the loan agreement. Advances take priority over subsequient liens filed of record on the property. And to keep RAMs from disqualifying the elderly from state-assisted programs, advances are considered proceeds from a loan, not income, for purposes of borrowers' qualifications for supplemental security income, low-income assistance, property tax relief, medical assistance and general assistance.

To help the elderly qualify for state programs, advances are considered loan proceeds, not income.

Finally, RAMs are free of most regulatory restraints. A reverse mortgage secured by a valid lien on homestead property may be made or acquired without regards to any other law of the state concerning a limitation on:

- the purpose and use of future advances or other mortgage proceeds,
- future advances to a term of years or a limitation on the term of open-end account advances,
- a limitation on the term during which future advances take priority over intervening advances,
- a requirement that a maximum loan amount be stated in the reverse mortgage loan documents,
- a prohibition on balloon payments,
- a prohibition on compound interest and interest on interest,
- a prohibition on contracting for, charging, or receiving any rate of interest authorized by any law of this state authorizing a lender to contract for a rate of interest and
- a requirement that a percentage of the reverse mortgage proceeds be advanced before the assignment of the reverse mortgage.

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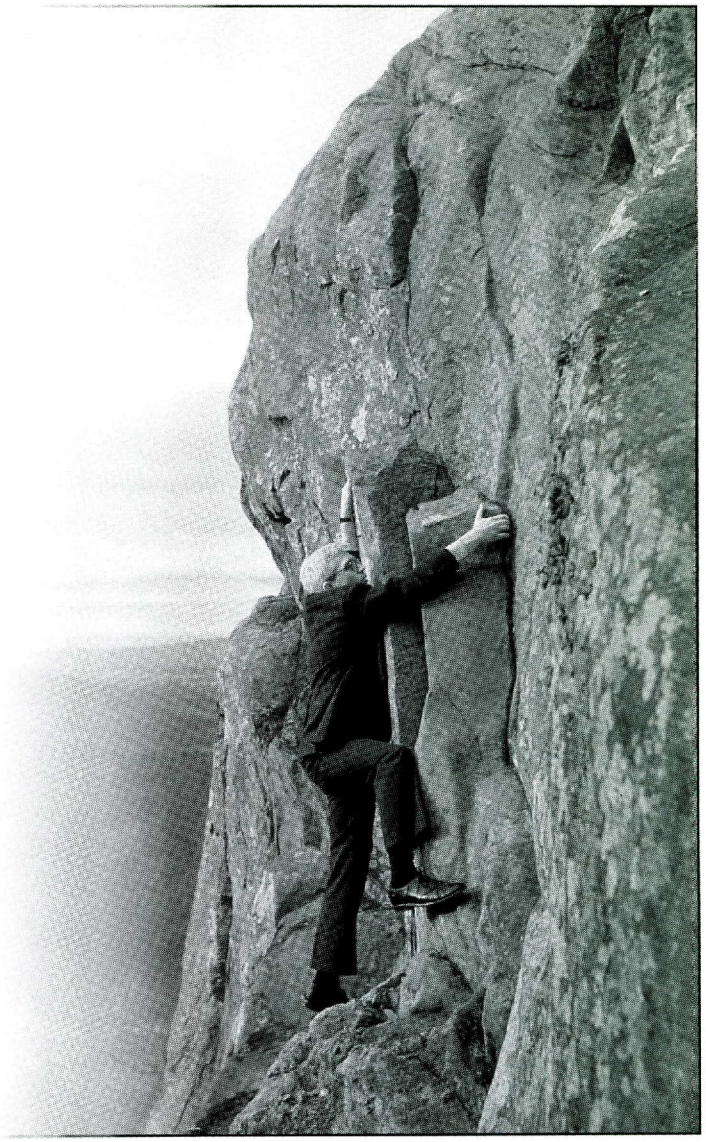

Who's Earning Big Bucks?

Survey Says: Longer Hours Equal Higher Income

By G. Stacy Sirmans and Philip G. Swicegood

What determines how much income Texas real estate licensees earn? Is it simply working more hours? Do experience and education count? What about gender, types of properties they sell, where they work, computer knowledge, access to personal assistants, and other factors?

A 1997 survey of 2,500 Texas licensees provides some answers. Brokers and salespersons—both active and inactive—were surveyed, and results from the 374 responses were analyzed.

The real estate sales industry has been characterized as having high turnover, low per capita income and increasing competition. Customer satisfaction and service quality are factors critical to successfully competing in this industry. Because the principal asset of the brokerage firm is its workforce, understanding this resource is vital to the firm's success.

Prior research sought to explain differences in earnings between industries based on characteristics of the occupation workforce. These studies used models similar to the one employed here to explain Texas real estate licensee income. This study, however, expands previous work by measuring several additional characteristics of the people themselves.

Important Factors

Several factors measured in the survey have a positive effect on licensee income. These include the number of hours worked, work experience, gender, computer technology, total annual transactions, professional designations, association with a larger firm and access to personal assistants.

Variables that have a negative impact on income include age, selling primarily residential property and affiliation with numerous firms.

Personal characteristics that do not significantly affect income are: type of license (broker versus salesperson), education level,

race and source of prelicensing education. Other factors which do not have a significant effect on income are: using correspondence courses for continuing education, reading industry-related literature, length of time with current firm, being an owner-manager, association with a national or local franchise versus an independent firm and location in a metropolitan area.

More Work—More Income

The Texas licensee survey had two goals—develop a profile of the average real estate professional and identify factors that determine licensee income.

Annual income for active licensees. The average 1996 income for survey respondents was $60,100. Fourteen percent earned less than $10,000, 22 percent earned less than $20,000 and about 30 percent earned between $20,000 and $50,000. Forty-six percent earned $50,000 or more for the year.

The average amount of income used to pay business expenses was 27 percent. For about 60 percent of licensees, business expenses comprised less than 30 percent of their 1996 gross income.

Hours at work. Not surprisingly, the researchers found that those who work more earn more. The number of hours worked has the strongest effect on income.

Almost 60 percent of respondents work 40 hours or more per week. Fifteen percent work more than 56 hours. The average number of hours worked per week is 36.5.

Although men, on average, had higher income than women, the research shows that women work more hours per week (38 versus 35.8).

What About Education and Experience?

Education. Education is generally assumed to have a positive effect on earnings. As far back as 1974, the standard earnings model expressed income as a function of education and experience. This latest study, however, does not confirm this for education.

The education level of survey respondents does not significantly affect their income. This could be an indication that education across licensees, the education quality of sources or both have become more uniform. The source of prelicensing education—private real estate school, college or university—has no significant impact on income. Apparently, the type of college degree has no effect on earnings either. And, the source of continuing education has no earnings impact.

One-third of respondents indicated that they have some college; 43 percent have a bachelor's degree. Overall, 92 percent of the sample have at least some college education. The dominant college degrees are business and economics—51 percent.

While most licensees (58 percent) in the survey acquired some of their original prelicensing hours from private real estate schools, a significant proportion (42 percent) also attended colleges or universities. Some 22 percent had attended community college.

Private real estate schools provide continuing education for most responding licensees (42 percent). About one-fourth obtain continuing education from the local board of Realtors, and 9 percent each use community colleges or universities.

Experience. This area does have a significant impact on income—to a point. Income increases with experience; however, there are decreasing marginal returns to experience which means that, beyond some point, additional experience is of lesser value.

The average Texas licensee has almost 15 years of experience. About 40 percent have been in real estate less than 12 years. Twenty-seven percent of respondents have more than 20 years experience.

About one-fourth have been affiliated with only one firm while 29 percent report two affiliations. Almost half (44 percent) said they have been with at least three firms. The average number of firms with which Texas licensees have been affiliated is 2.5.

One-third of licensees have worked with their current firm three years or less. Only 13 percent have been with their current firm 20 years or longer. About half have been there five years or less. The average is 8.6 years.

Job activities. Licensees (46 percent) devote their time primarily to selling existing single-family homes. Six percent each direct the majority of their attention to selling new single-family residences, farms and ranches, and other activities such as apartment brokerage. Eight percent concentrate on commercial sales and leasing. About the same percentage spend time appraising. Ten percent spend the majority of their time in property management.

Men Dominate Higher Incomes

Age, gender and race. Several personal characteristics affect income. Older licensees have less real estate income. Men earn significantly more than women. Race is not a factor.

The average age for active licensees is nearly 50.3 years. Licensees are somewhat uniformly distributed in age groups after age 35. Only 3 percent are less than 30 years old. The age group with the highest percentage of income earners is age 50-54 with 17 percent of respondents.

Women outnumber men in the lowest income categories, while men dominate the middle-income groups. The numbers move closer in the upper-income ranges. Men, however, dominate about three-to-one in the highest-income category.

Among the survey respondents, 57 percent were men, and 91 percent were Caucasian.

Politics and periodicals. Neither participation in political activity nor time spent reading industry-related literature are significant factors in a licensee's earnings.

About one-third of licensees say they spend two hours or less per week reading real estate literature. Three percent do not read any. Most respondents indicated that they mostly read trade publications and newspapers.

Voting is the most often-cited political activity. Eighty-nine percent say they vote. Thirty six percent sign petitions. Four percent have held, or been a candidate for, a public office.

Computer Literacy Pays

Computer use. The only technological variables indicating significance to licensee income are related to the use of computers and related services, such as the Internet and e-mail. This survey shows that licensees in general take advantage of technologies. Eighty-seven percent of respondents use a personal computer, and 76 percent use a cellular telephone.

About 40 percent use Internet web sites and have e-mail addresses. Other technologies used by licensees include color printers, scanners, video cameras, laptop computers and digital cameras. By far, the most popular computer operating system

Men, on average, work fewer hours than women but earn more annually.

is Windows 95™; 51 percent of survey respondents use it. About one-fourth use Windows 3.1™, and 3 percent use a Macintosh™ system

With respect to software applications, word processing is the most extensively used—by 76 percent of respondents. Other software programs—spreadsheets, databases, graphics, financial management, Internet, and Multiple Listing Service (MLS)—are used by about half of licensees.

The three most popular software packages are MLS, Top Producer and Auto Realty.

Type of license. Survey results show no earnings difference between brokers and salespersons. Also, the length of time licensees spend with one firm does not significantly affect income.

Licensees selling primarily residential property earn less than others. Those selling commercial or industrial properties earn no more than those in property management, appraisal and related fields. Being a firm owner or manager apparently does not help licensees earn more.

Transactions and Money

Total transactions. Not surprisingly, being involved in more transactions does result in higher income. The average number of transactions in 1996 was 15.

The greatest proportion of licensees (21 percent) report one-to-four transactions in 1996; another third were involved in less than ten. Some 25 percent said they participated in 20 or more transactions; 7 percent did 50 or more.

Commissions. Thirty-nine percent report receiving a commission as a listing agent in 20 to 40 percent of their transactions. Eight percent said that all of their commissions came from being a listing agent only. About half earned 40 to 80 percent of commissions as selling agent only.

Twenty-nine percent received all commissions from being a selling agent. Another 43 percent report 10 to 30 percent of their commissions from being both listing and selling agent.

Representation. More than half (55 percent) of respondents represent the seller in 100 percent of transactions. Forty-seven percent indicate representing the seller in 20 to 40 percent of 1996 transactions. Thirty-two percent say they represent the buyer in 50 to 60 percent of transactions.

Thirteen percent represent the buyer in 100 percent of transactions. Sixty-three percent represent both buyer and seller in 30 percent of transactions.

Commission split. About 20 percent of survey respondents receive 100 percent of commissions from their broker. Eleven percent receive 70 to 74 percent of commissions, and 58 percent report a commission split of less than 70 percent.

Professionalism and Firm Characteristics

Designations. By far, the most common professional designation held by licensees is GRI (Graduate Realtor Institute). Fifty-three percent of survey respondents have a designation of GRI. Only 24 percent of respondents hold any designation, however.

Thirty-two percent of those holding or working toward a designation say it affords them increased professional prestige. Only 11 percent believe designations generate higher income.

Realtor membership. Survey results show that, in general, licensees support membership in professional organizations. Seventy-one percent of respondents are Realtors.

A negative relationship is found between income and length of time a licensee has been a member of the local board or association of Realtors. This could be because the longer a licensee has been a member of the board, the greater the likelihood the licensee is older. And, age has a negative relationship to income.

The real estate firm. This latest research reveals that licensees affiliated with national or local franchises do not earn higher incomes than those who work for independent firms.

Twenty-seven percent of respondents report an affiliation with a national franchise. Some firms (17 percent) operate within referral networks and act as a relocation or management company (12 percent). Almost two-thirds of survey respondents work for independent companies with no affiliation.

In describing their functions within the firm, 44 percent report being salespersons. Eleven percent work at management and selling, and 18 percent are major owners-sellers.

The average number of licensees in a Texas firm is 27.3. Most (47 percent) respondents work in an office with one to four licensees. Eighty-seven percent are affiliated with firms of less than 50. Only a small percentage (13 percent) are affiliated with firms having 50 or more licensees.

Personal assistants. Having access to the use of personal assistants has a positive effect on income. However, most (72 percent) of respondents say they do not use personal assistants. Those who do, generally use only one. Just 3 percent say they use three or more assistants.

Location. Apparently, licensee income is not affected by location. Average income for licensees in larger metropolitan areas is not significantly greater than that generated by their counterparts in less populated areas. ⊞

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New Subdivisions Pay Their Way

By Mark G. Dotzour

Residential development is an integral part of a growing, dynamic community. New growth creates additional revenue for the local city government from taxes and fees paid by the original land developer, homebuilders and homeowners in the new subdivisions. This new revenue, however, does not come without cost to the city because it is obligated to provide municipal services to the new areas. More costs are incurred when the city must make capital improvements to the urban infrastructure to connect the new subdivisions to existing facilities or create suburban branch facilities.

A fundamental question has been asked for the past three decades. Does residential development "pay its own way?" There are two issues here. First, does a typical house in a new residential subdivision generate sufficient revenue to the city to pay for the annual cost of municipal services? This includes police and fire protection, parks and recreation, libraries and municipal courts. The second issue is whether new homes generate enough revenue to pay for the city-financed capital improvements that serve the new subdivision. These improvements include new parks, police and fire substations, and some street and drainage improvements.

This question is important, not only to Texas cities, but all American cities. If new subdivisions do not pay their own way, then the costs of providing services and capital improvements to them is borne by existing community residents through higher taxes. Conventional wisdom among urban planners has long speculated that new subdivisions do not pay their own way and that a method must be devised to recover the city's "costs" in providing services and capital improvements to new subdivisions.

A different view, however, is held by some in the development and homebuilding community. They are acutely aware of taxes and fees levied by municipalities on new homes. They realize that a large portion of the capital improvements needed to support new subdivisions are paid for by the developers and not the city. This view holds that developers and homebuilders pay for most of the costs of installing streets, sewer, water and drainage improvements, and that new homeowners pay substantial tax revenues each year for the services they demand.

Despite the public debate, few studies provide empirical proof to support either position. Real Estate Center research was undertaken to provide some new facts into the public arena so that debate on this issue can be on a more informed basis. Five recently-completed San Antonio and five new Tyler

subdivisions were studied. Revenues from typical homes in these new subdivisions were compared with the costs incurred by the municipality to provide needed services.

Typical Subdivisions Studied

In San Antonio, an attempt was made to identify and quantify all revenues paid into the city in the form of taxes, fees and permits by the developer, homebuilders and homeowners in each subdivision. Similarly, an attempt was made to identify and quantify all costs incurred by the city to provide the necessary infrastructure and public services to the subdivisions. The fiscal impact of the subdivisions was measured by comparing the revenue produced by an average household in each new subdivision to the amount paid by the average household in the entire city.

These subdivisions represent "typical" subdivision developments in a wide price range across San Antonio in recent years. Care was taken to select from a diverse group of new subdivisions so that conclusions derived from the case study analysis of each area could reliably be generalized and applied to all new subdivisions in the community.

Capital Improvements: Who Pays?

One-time capital improvements provide public utilities and infrastructure to each new subdivision. These costs are incurred to connect the new subdivision to the existing municipal facilities, including the sewer and water system, storm water drainage system and the arterial road network. Many of these capital improvements are paid for by the developer during the subdivision process or the homebuilder during home construction.

Some people are surprised to find that most of these capital expenses are paid for **entirely** by the developer. Other capital projects may be funded with state or federal funding. The city government pays for the remaining capital costs.

These city-funded capital improvements include police substations, fire stations, branch libraries, neighborhood parks, arterial street improvements and storm water drainage projects. Such improvements, which are not paid for with federal funds or state grants, represent costs to existing taxpayers when a new subdivision is created. Table 1 includes the major capital expenditures required to support

new residential development and who typically pays them in San Antonio.

New Subdivision Revenue

New residential subdivisions create two categories of significant city revenue to pay for on-going municipal services and infrastructure capital improvements. These include annual tax revenues from the new subdivision households and one-time revenues collected during the development process.

Annual tax revenues are applied to municipal services. These city services are provided to new subdivisions and to all community households and are known as general fund expenditures. These include salaries and operating expenses for administration, municipal court, city hall, police, fire, inspections, roadways and streets, health services, parks and libraries, welfare and other services. Each household provides the city general fund with revenue from local sales tax, franchise fees and general property taxes.

Annual tax revenues. Collected from each household, these annual revenues flow into two city accounts that are significant to fiscal impact analysis, the general fund and the debt service fund.

The debt service fund accounts for the payment of principal and interest on a city's bonded indebtedness. When households in a new subdivision begin to pay property taxes, new income is created for the debt service fund. This income can be used to pay the principal and interest on additional bonds. New bonds are used to finance capital improvements needed to connect the new area to existing public infrastructure and to pay for other capital improvements, including police and fire substations, parks and libraries, drainage projects and street improvements.

Local sales tax. For example, in fiscal year 1994-95, the San Antonio sales tax rate was 7.75 percent. One percent of the local sales tax revenue went to the city general fund. The remainder went to the state and to the local transit authority.

Franchise tax. Franchise taxes are like a sales tax on utility bills. Although the franchise fee revenue is collected directly from utility companies, each customer pays it.

General property taxes. San Antonio collects a substantial portion of its annual revenues from general property taxes. Part

Table 1. San Antonio Subdivision Capital Improvements Who Typically Pays for What?

	Developer Pays	City Pays	Both Pay
Water			
Design and engineering	X		
Service connection to lots	X		
Main supply lines within subdivision	X		
Oversized supply lines			X
Extension of water lines	X		
Pumping stations	Impact fee		
Water storage facilities	Impact fee		
Treatment facilities	Impact fee		
Supply wells	Impact fee		
Supply source	Impact fee		
Sewer			
Design and engineering	X		
Distribution pipes within subdivision	X		
Lift stations	X		
Extension lines to existing network	X		
Oversized lines and lift stations		X	
Interceptor lines	Impact fee		
Treatment facilities	Impact fee		
Storm Water Drainage			
Design and engineering	X		
Improvements within subdivision	X		
Connections to existing channels	X		
Improvements under major streets and highways		X	
Streets			
Design and engineering	X		
Subdivision access streets	X		
Larger collector streets in subdivision	X		
Widening arterial perimeter streets	X		

of the property tax goes to the city general fund and part goes into the debt service fund.

One-time revenues are collected from the developer and the subdivision homebuilders. These revenues include:

Paid by the developer

- Zoning application fees
- Fees for platting the subdivision

Paid by the homebuilder

- Sales tax on building materials
- Building permit
- Plumbing permit and inspection fee
- Electrical permit and inspection fee

Platting and zoning application fees. New subdivisions often incur two application fees: first to get the land properly zoned and, second, to plat the land for residential development. Revenues from these application fees accrue to the city's general fund.

Sales tax on building materials. The sales tax a builder pays for the materials on an individual home is proprietary information. However, the 1 percent portion of the sales tax collected by the city general fund is estimated to be .22 percent of the sales price of a new home.

Building permit and inspection fees. Funds generated from building, plumbing and electrical permits, as well as inspection fees, go into the general fund. These revenues are designed to match the costs the city incurs to provide inspection services.

Fiscal Impact of Five New Subdivisions

The fiscal impact of each new subdivision was measured by comparing the revenues generated by an average household in each subdivision with the city's actual cost to provide capital improvements and regular government services.

To examine the fiscal impact of new development on San Antonio, three separate city funds must be analyzed. New subdivision development has a fiscal impact on each one. These funds are the general fund, debt service fund and San Antonio water system budget. Three separate impact studies are required because these funds are autonomous, and revenues received in one account cannot be transferred to pay for activities funded in another.

Fiscal Impact on General Fund

To determine the net fiscal impact of a new subdivision on the general fund, the following premises were developed.

Premise one. The average existing San Antonio household pays about $487 annually into the general fund, which purchases an average level of governmental services from the city.

Premise two. Each household created in a new subdivision within the city limits requires the same level of city services.

Premise three. Each new household also creates a stream of revenue for the general fund, including revenues from property taxes, sales tax, franchise fees, user fees, fines, penalties and permits. Any additional revenue a household generates in excess of the city-wide average of $487 is available to provide enhanced services and improvements that benefit the rest of the community.

Table 2 illustrates the comparison of general fund revenue paid by an average new household versus the revenue paid by the average existing San Antonio household.

The conclusion supported by this data is that households in all five of the new subdivisions considered in this study pay considerably more into the general fund than the average San Antonio household. For a comparison of revenues generated by new subdivisions in Tyler, Texas, see Table 3.

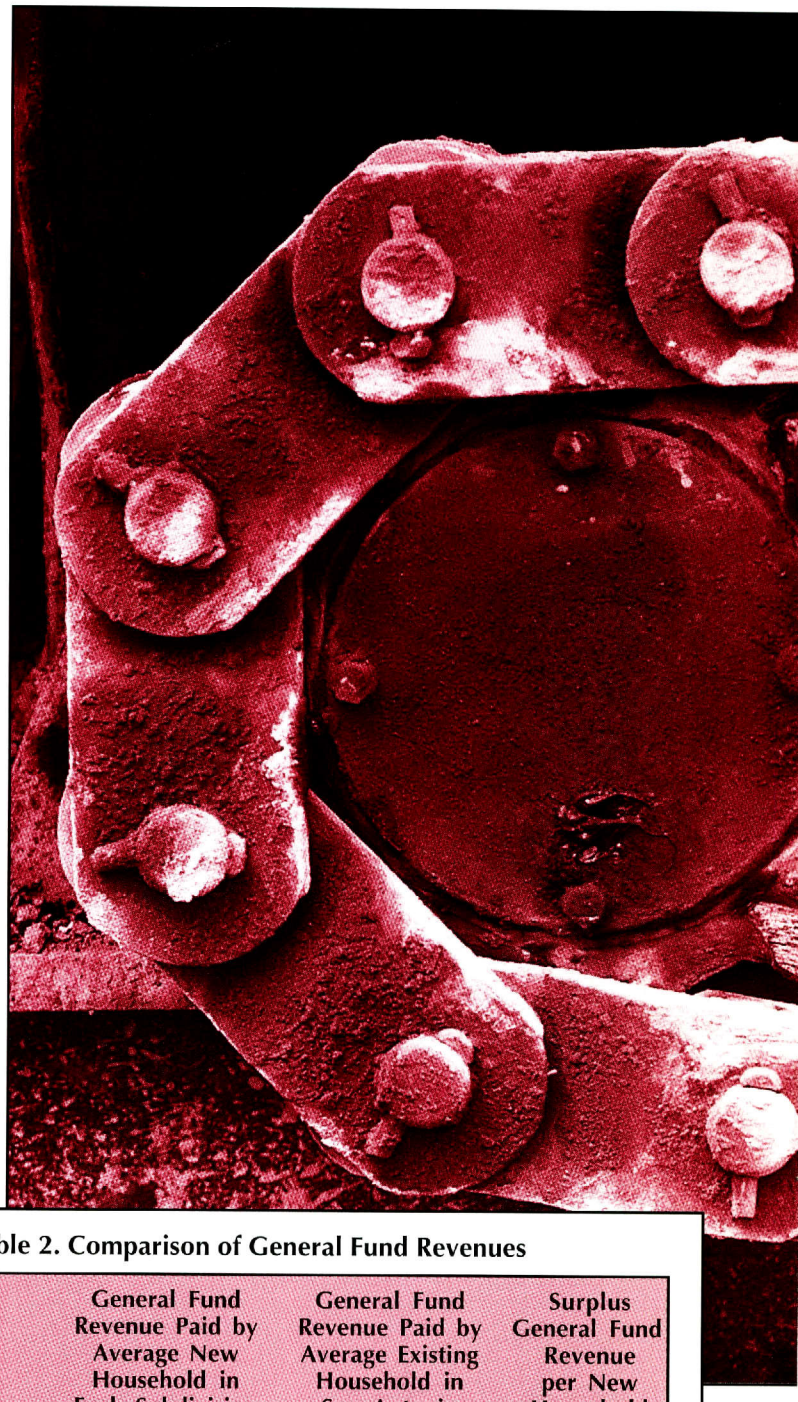


Table 2. Comparison of General Fund Revenues

Subdivision	General Fund Revenue Paid by Average New Household in Each Subdivision	General Fund Revenue Paid by Average Existing Household in San Antonio	Surplus General Fund Revenue per New Household
Guilbeau Park	$589	$487	$102
Northwest Crossing	993	487	506
Hollow at Inwood	1,538	487	1,051
Bluff Creek	1,017	487	530
Brookside	664	487	177

Table 4. Debt Service Fund Revenue Contribution Per Household (From General Property Taxes 20-Year Term at 6 Percent Interest)

Subdivision	Revenue Per Household	Debt Service Supported
Guilbeau Park	$170	$1,974
Northwest Crossing	311	3,611
Hollow at Inwood	511	5,933
Bluff Creek	296	3,437
Brookside	$170	$1,974

Fiscal Impact on Debt Service Fund

Analysis of the fiscal impact of new subdivisions on the debt service fund was based on four premises (Table 4).

Premise one. Each new household must pay for its pro-rata portion of the infrastructure required to create the new subdivision and connect it to the existing infrastructure of the community.

Premise two. Many of these capital improvements are paid for directly by the developer, the homebuilder or the new homeowner.

Premise three. Some of these necessary capital improvements are paid for by bonded indebtedness of the city (or agencies owned or controlled by the city) in the form of general obligation bonds or revenue bonds. These bonds are often amortized over a term of ten-to-20 years. Such capital improvements include new police substations, fire stations, parks, branch libraries, additions to sewer treatment facilities, water supply, storage and transmission.

Premise four. Approximately 38 percent of general property tax revenue goes into the debt service fund, and the remaining 62 percent goes into the general fund. If the revenues from new households are sufficient to amortize a level of debt that exceeds the capital improvement costs, then the subdivision is "paying its way" and is not a taxpayer burden. If not, then debt service funding supported by existing households that could be used for improvements citywide must be diverted to provide the improvements needed to support the new subdivision.

Capital Improvements from Debt Service Fund

Analyzing the debt service fund requires the cost of capital improvements that benefit the subdivisions studied be compared with the revenues produced by them. San Antonio city officials were asked to identify any capital improvements made (or planned in the near future) to support the five subdivisions.

The results show clearly that, as of the date of this study, the lots in four of five subdivisions have not been a net "cost" to the city. Annual revenues contributed to the debt service fund support a bonded indebtedness far in excess of the capital improvements made so far to benefit these areas.

The Brookside subdivision, adjacent to an air force base, is the one exception because the developer was not required to pay the cost of widening the arterial street that supports the subdivision nor to pay for the sewer and water improvements that were a part of that capital improvement project. For a more detailed analysis, see *The Fiscal Impact of New Residential Subdivisions on the City of San Antonio, Texas,* technical report 1209. A similar report for Tyler, Texas, is number 1204.

This study indicates that the amount of new borrowing capability created by the revenue from four of the five subdivisions exceeds the actual amount spent for capital improvements to support them. However, the fifth subdivision required capital costs slightly in excess of its ability to pay because the city paid for major arterial improvements.

Assuming new subdivisions consume the same level of municipal services as the rest of the households in the community, then each of the five subdivisions has a positive fiscal impact on the city's general fund account.

Table 3. Comparison of General Fund Revenues Derived From Households in Five Subdivisions With Average Tyler Household

Subdivision	General Fund Revenue Paid by Average New Household	General Fund Revenue Paid by Average Existing Household	Surplus General Fund Revenue per Household
Hollytree	$1,637	$496	$1,141
Ashmore	1,001	496	505
The Woods	997	496	501
Baker Heights	1,194	496	698
Shiloh West	865	496	369

Note: *Based on 1994-95 general fund tax rate*

Dr. Dotzour is chief economist with the Real Estate Center at Texas A&M University.

Information Explosion a

By Wayne E. Etter

Technology makes information about the commercial real estate market increasingly available. Because information is fundamental to this market, what will be the impact of the information explosion? Consider information's role in the economic concept of efficient markets.

In an efficient market, all relevant information is known and understood by market participants. Accordingly, in such a market it is impossible to earn an abnormally large profit or experience an unusually large loss because assets' market prices incorporate completely all relevant public information.

The opposite condition characterizes an inefficient market, however. Market participants are not equally well informed and, therefore, some market participants make decisions with incomplete information. As a result, exceptionally large profits and losses may result.

Why would all relevant information be known by the participants in some markets and not in others? The answer is that participants can obtain information easily and at low or no cost in some markets while information in other markets is difficult and expensive to acquire. These differences are illustrated by comparing the U.S. Treasury securities market with the commercial real estate market.

U.S. Treasury Securities Market

All U.S. Treasury bonds of a particular issue have the same interest rate and date of maturity. Furthermore, except for the interest rate and the maturity, all U.S. Treasury bonds issues are similar in their terms, conditions and credit risk. Although Treasury bills differ from bonds, all Treasury bills are homogenous except for the maturity date. While buyers may prefer a certain issue of Treasury bonds or bills for portfolio reasons, they do not need to consider each issue's credit quality or otherwise analyze terms and conditions.

The U.S. Treasury securities market responds principally to broad economic forces that affect the United States and global economies. The market is dominated by large securities firms that maintain research staffs to analyze the market. They regularly announce prices and yields at which they are willing to buy and sell securities. To compete for the business of institutional and individual investors, many firms publish market analyses. In addition, many investment advisory services sell their analyses to libraries, institutional investors and individuals.

Because the necessary economic data are readily available and numerous investors own U.S. Treasury securities, the total cost of collecting and analyzing information about this market, even though it is a large amount, is spread over many investors. Thus, this information is generally available at little or no cost. Market participants can obtain a great deal of information with a small out-of-pocket cost.

Because most of the information sources generally agree with the other sources, an investor need consult only a reasonable sample of the available information. If there should be a difference among these views, say, in the expected direction of U.S. Treasury security prices, those investors who believe that prices are going to decline will sell securities while those who believe that prices are going to rise will buy. The actions of the buyers and the sellers will eventually cause the difference between the two views to disappear as either sellers will have nothing left to sell or buyers will run out of funds.

Commercial Real Estate Market

In contrast, each parcel of commercial real estate is unique. Even two identical commercial buildings are of necessity on different sites and, therefore, not the same. An owner of one of the two identical buildings should carefully investigate and evaluate the second building before buying it.

nd Commercial Markets

The two buildings could be in the same state but still be subject to different governmental regulations and taxing jurisdictions because they are located in different cities. These two buildings could be in the same city but be in different market areas, so the supply and demand for space would not be the same for each building. And, even if they are within the same market area, factors such as the differences in each property's ingress and egress or in the surrounding traffic pattern could make a difference.

The list of possible differences between the two properties could include items such as the existence of easements on one of the properties and the differences in surrounding land uses. For a potential investor to evaluate all these points means that substantial, costly information about each particular property must be collected.

Furthermore, the local market's basic supply and demand conditions must be analyzed for each property. As a result, supply and demand information has to be collected and analyzed separately.

The cost of data collection for a specific property is high, and much of the collected data cannot be used to analyze other properties in the market area because of property characteristic differences such as being another type of land, too distant to be comparable or some other peculiarity that distinguishes the subject property from others. Therefore, much of the data collection cost cannot be spread over other properties to reduce the per-property cost.

Often, a specific commercial property in the market has a limited number of interested buyers. In the commercial property market, data collection and analysis cost is paid by those investors with an interest in purchasing the property. This information is not shared with other investors.

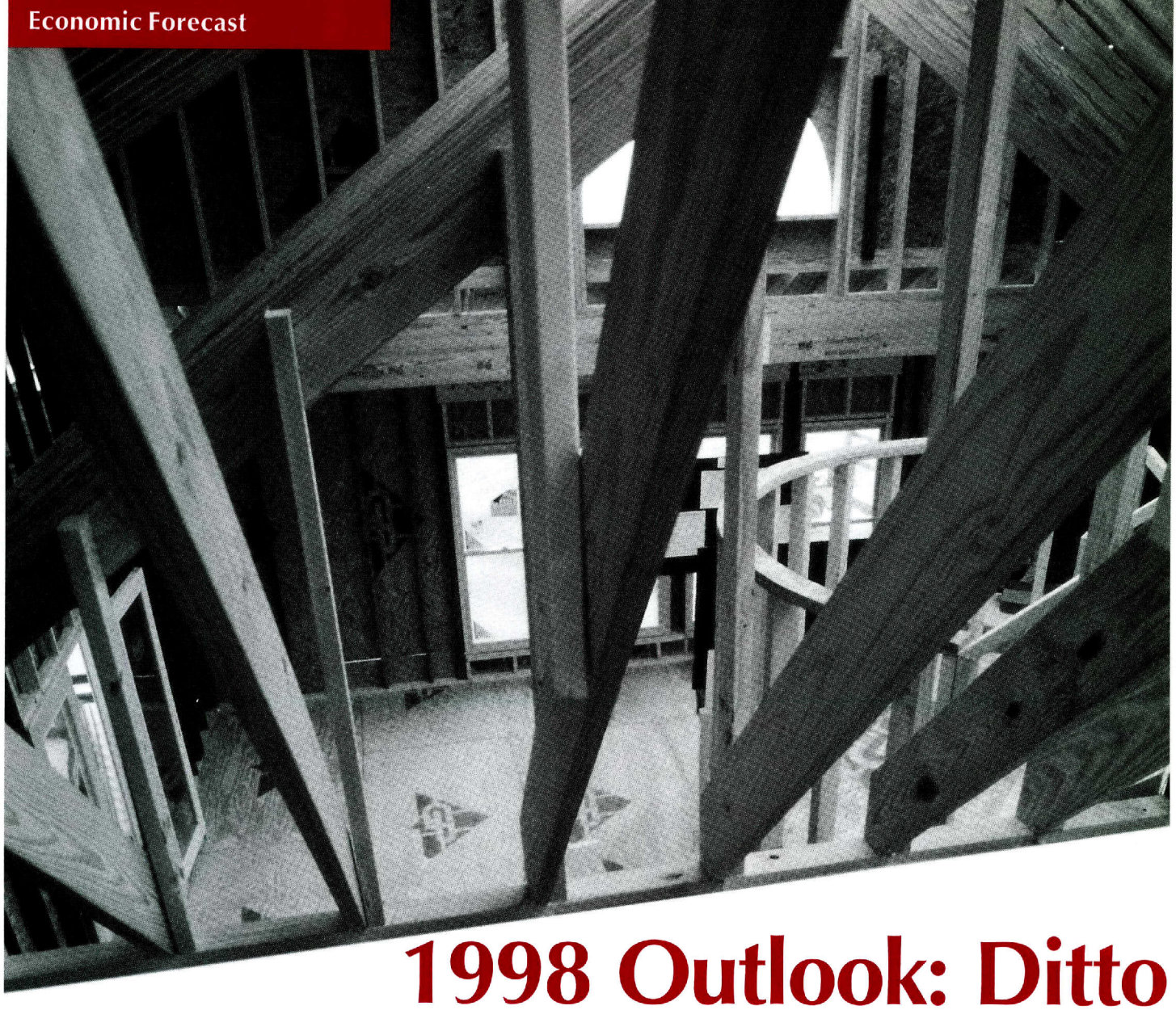
A Role for Market Research

With the growing supply of publicly available commercial real estate information, will this market come to resemble the U.S. Treasury securities market? This seems unlikely because the cost of collecting the necessary data to make a commercial property investment decision is high, and no benefit accrues to the collector if the data are given to the public. Because so few investors are interested in a specific property, investors-at-large without an interest in that property would not pay for the data. Thus, the only reason for collecting the necessary data is to support a specific transaction. A firm might possess the information and use it to an advantage, but the information's cost will be borne by the specific parties to the transaction.

Certainly, basic information about rental rates, occupancy and the supply of unleased space for a particular type of property obtained from a public source could contribute to any investor's knowledge about a local property market, but the uniqueness of each property should limit the role of these data in the investor's decision. The free data are useful and interesting for some purposes, but they cannot be the basis for a thorough investment analysis because all commercial properties are not alike; they require individual analysis.

This suggests a continuing role for the real estate market research firms, real estate consultants, real estate appraisers and commercial real estate brokers in the commercial real estate transaction. Investors considering the purchase of a commercial property will continue to need estimates of the supply and demand for particular types of properties within particular market areas, property-specific financial feasibility studies, property value estimates and the expertise of knowledgeable real estate brokers to carry out the transaction.

Dr. Etter is a professor with the Real Estate Center and of finance at Texas A&M University.



1998 Outlook: Ditto

Good News for Texas Economy

By Jared E. Hazleton

In 1997, the U.S. economy continued its surprising ways. Just as most analysts had decided it was time for growth to slow and for inflation to rise modestly, economic growth accelerated, and inflation fell to its lowest level in recent memory.

The economy sped out of the gate, as real output of goods and services surged 4.9 percent in the first quarter. This far surpassed the Fed's hypothetical speed limit required for noninflationary growth of 2.3 percent (derived by adding projected growth in the labor force of 1.2 percent to expected growth in productivity of 1.1 percent). The nation's central bank quickly responded by hiking the Fed funds rate a quarter of a percentage point.

In the second quarter, economic growth slowed to 3.3 percent, still more than the rate desired by the Fed. However, much second quarter growth was the result of inventory buildup. The Fed deferred action, expecting a significant slowdown in growth in the third quarter as manufacturers slashed production to bring inventories into line. In addition, higher prices abroad for American goods and services, resulting from a strengthening dollar were expected to reduce exports, further dampening third quarter growth.

In late summer and early fall, however, economic growth surged once more, buoyed by rebounding consumer demand. With consumer confidence high and incomes rising, Americans returned to the nation's shopping malls and auto showrooms, helping rid stores of unwanted inventory. Meanwhile, manufacturers continued to invest in expanding capacity, and increased productivity helped U.S. exporters offset the higher-valued dollar. As a result, economic growth again exceeded the Fed's desired rate.

Reminiscent of the old Mae West line, "Too much of a good thing can be wonderful," the stock market blithely ignored Fed Chairman Alan Greenspan's warning of "irrational exuberance" by maintaining its upward march through the first nine months of the year.

Wall Street Gyrations

In October, however, a currency crisis in Southeast Asia spread to Hong Kong, then to Europe and the United States, causing stock prices to gyrate wildly. Average investors took the long-term view, however, and refused to be stampeded into a panic.

As 1997 drew to a close, the Fed continued to be concerned that strong growth in output would eventually deplete labor markets, causing wages to rise faster than productivity. The Fed appeared willing to defer action until it

saw some indication of rising unit labor costs.

Moderate Inflation Rise

The consensus forecast for 1998 calls for the pace of economic growth to slow and for the rate of inflation to rise moderately. Astute readers will recall that this has been the consensus forecast for the past two years, and the economy has persisted in defying the experts with stronger growth and lower inflation.

The Center for Business and Economic Analysis (CBEA) at Texas A&M University projects inflation-adjusted gross domestic product will rise 2.8 percent in 1998, down from about 3.6 percent in 1997. The consumer price index is forecast to increase by an average of 2.6 percent, up moderately from 2.2 percent in 1997.

Look for the Fed to enact at least one hike in the Fed funds rate, causing short-term rates to average about 5.4 percent. A slowing economy and a vigilant Fed should help keep long-term rates low in 1998, with the long-term treasury bond averaging about 6.6 percent.

The Texas economy has consistently outpaced the nation in employment growth since 1989, and 1997 was no exception. Faster job growth has been accompanied by a changing industrial structure, which resulted in the state's economy looking more and more like the national economy. As a consequence of this convergence, employment growth and unemployment rates in Texas and the United States have drawn closer and increasingly move in tandem.

Mexican Rebound

The strong growth of the national economy, coupled with a dramatic economic rebound in Mexico, helped spur growth in the Lone Star State in 1997. The rate of nonfarm employment growth appears to have slowed to about 2.6 percent last year, but the state's unemployment rate continued to fall, matching its lowest level since 1981.

Despite lower oil prices, the state's energy industry experienced some employment growth in 1997, as drilling responded to rising world demand. The oil and gas industry should see some additional job growth in 1998, even though energy prices are expected to remain relatively stable. The key to this growth is improvement in exploration and drilling technology which lowers finding and production costs.

Construction is now the state's fastest-growing major industry.

The state comptroller's office reports that over the past five years, Texas manufacturing employment has grown by 10 percent, compared to a relatively anemic 2 percent increase nationwide. Much of this job growth has come in the state's high-technology sector, where employment is rapidly approaching that of the oil and gas industry. Even more remarkable, the value of output in the state's manufacturing industry has risen 25 percent over these years, reflecting rising productivity.

Home Building Spurred

As nation-wide, growing consumer confidence and lower mortgage interest rates, coupled with rising employment and income have spurred home building in Texas, helping construction to become the state's fastest-growing major industry. Last spring, construction employment finally surpassed the previous high reached in 1985 of 450,000 jobs.

In the nonresidential sector, increased international trade is spurring the need for new warehouse and corporate manufacturing facilities, while rising population is leading to increases in commercial construction. Growth in construction employment is expected to slow in 1998, partly in response to a slowing national economy and partly the result of a reduced rate of inmigration. However, annual housing starts should remain relatively stable at about 125,000.

Employment in wholesale and retail trade likely will match the economy's overall growth rate of about 3.2 percent, while services employment will rise more than 5 percent. Business services continues to be the fastest-growing segment of the services industry, led by the expansion of temporary help services resulting from outsourcing of activities previously done in-house by manufacturers and other large firms. On the other hand, public employment continues to lag, with most of

Texas Employment

MSA	1996-97 % Change	1997-98 % Change	1998 Forecast (000 jobs)
Abilene	1.60	1.50	55.4
Amarillo	2.60	2.50	97
Austin	1.40	1.50	554
Beaumont-Port Arthur	1.20	1.00	154.4
Brazoria	1.50	1.20	74.3
Brownsville-Harlingen	2.80	2.80	98.9
Bryan-College Station	2.60	2.40	68.1
Corpus Christi	3.40	3.20	160.5
Dallas	4.00	3.70	1,790
El Paso	1.60	1.50	243
Fort Worth-Arlington	3.00	2.80	719.1
Galveston-Texas City	1.20	1.00	89.1
Houston	2.30	2.00	1,885
Killeen-Temple	1.80	1.60	97.5
Laredo	4.90	4.50	61.8
Longview-Marshall	1.30	1.20	87
Lubbock	2.20	2.00	114.2
McAllen-Edinburg-Mission	4.30	4.00	137.3
Odessa-Midland	1.00	0.80	99
San Angelo	1.10	1.00	42.8
San Antonio	2.50	2.30	664.4
Sherman-Denison	1.50	1.40	42.9
Texarkana	0.40	0.50	50.6
Tyler	3.00	2.60	77.5
Victoria	1.80	1.80	34.7
Waco	2.20	2.00	96.7
Wichita Falls	0.80	0.60	59.1
Texas	**2.60**	**2.40**	**8,850.5**

the job growth coming at the local level in response to population growth.

Laredo: Strongest Job Market

In 1997, all of the state's 27 metropolitan areas likely recorded gains in average nonfarm employment compared to 1996. For the most part, regional patterns of growth mirrored those of recent years, although there were some exceptions.

- Laredo displaced Austin as the strongest job market in the state, the result of the rapid recovery of the Mexican economy. The other cities of the Lower Rio Grande Valley, Brownsville-Harlingen and McAllen-Edinburg-Mission also posted much stronger job growth in 1997. El Paso, on the other hand, lagged because it is less well integrated with the Mexican economy.
- Cities along the central I-35 corridor continue to record strong job growth with Dallas and Fort Worth-Arlington leading the way. However, Austin's hyper-economy slowed noticeably in 1997, partly because of a slowdown in the high-tech sector. While the closing of Kelly Air Force Base cost San Antonio some high-wage jobs, they were offset by growth in other sectors.
- Military redeployments and base closings have reduced job growth in Killeen-Temple, Wichita Falls and Texarkana. New jobs at the navy facility in Ingleside is one factor responsible for the strong job growth in Corpus Christi.
- Cities which are dependent on oil and gas production continue to report slow growth. The good news is that employment growth rose in Brazoria, Galveston-Texas City, Longview-Marshall and Victoria in 1997. The Houston economy also rebounded in 1997, reflecting strong U.S. growth, healthy growth in the oil services and oil machinery sectors and a stronger petrochemical sector.

When the final numbers are in, they likely will show that the state's economy grew about 3.1 percent in 1997, after adjusting for inflation. CBEA projects a similar increase for 1998. Personal income growth, however, is expected to slow from 5.9 percent in 1997 to around 5.5 percent. Employment projections for individual cities reflect a general slowing in job growth in the nation and in Texas, with a continuation of the general pattern of growth experienced in recent years.

Dr. Hazleton is a research fellow with the Real Estate Center and director of the Center for Business and Economic Analysis at Texas A&M University.

New Rules for Principal Residences

By Jerrold J. Stern

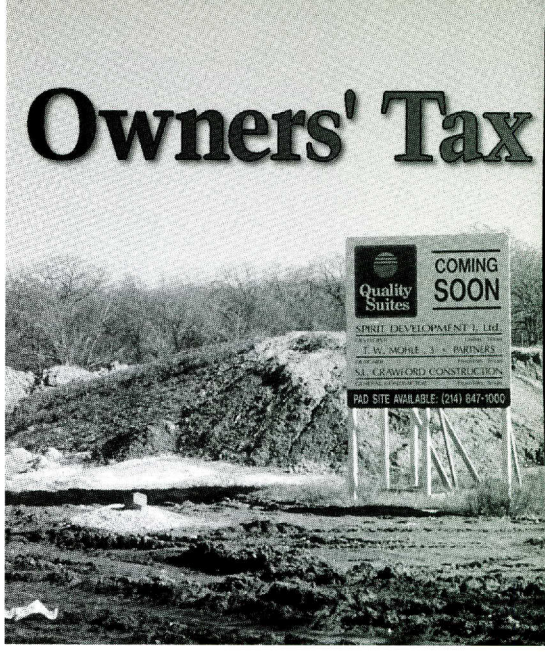
The 1997 Tax Act simplifies and enhances tax consequences from selling principal residences. Effective for sales closing after May 6, 1997, married taxpayers filing joint tax returns can exclude as much as $500,000 of gain. All other taxpayers (singles and married filing separately) can exclude gains as much as $250,000.

The new rules eliminate a number of prior law complexities. There are no age restrictions for sellers and no requirement for purchasing or owning a second residence. In addition, the new exclusion can be elected each time a taxpayer sells a principal residence as long as at least two years have passed since the taxpayer sold their last home. If another home is purchased, its "cost" for tax purposes is simply equal to the purchase price. There is no longer a downward adjustment to reflect the untaxed gain from the previous sale.

For example, assume Lauren purchased a home 12 years ago for $125,000. If she sells the home today for $300,000, her $175,000 gain ($300,000 less $125,000) is not taxed. If she buys another home for $250,000 and sells it three years later for $290,000, her $40,000 gain ($290,000 less $250,000) also is not taxed. Moreover, her $175,000 gain from the first home is not taxable regardless of whether she buys another. Renting instead of owning has no effect on gain exclusion.

The new law is "tax-neutral" from the perspective of home purchase prices. Under old law, some taxpayers felt compelled to spend as much on a new house as the sales price of their previous house to avoid paying tax on the gain. This fueled noneconomical transactions when taxpayers moved from high-cost housing areas to lower-cost areas. Prices in some lower-cost areas were bid up when new residents came to town. Such market distortions are no longer motivated by the new law.

Capital gains tax applies to excess gains. Gains larger than the exclusion amount ($500,000 or $250,000) are subject to tax at the new capital gains tax rates regardless of whether another residence is purchased. Thus, if Lauren sold her first home for $400,000 and generated a $275,000 gain ($400,000 less $125,000), $25,000 ($275,000 gain less $250,000 limit for singles) would be

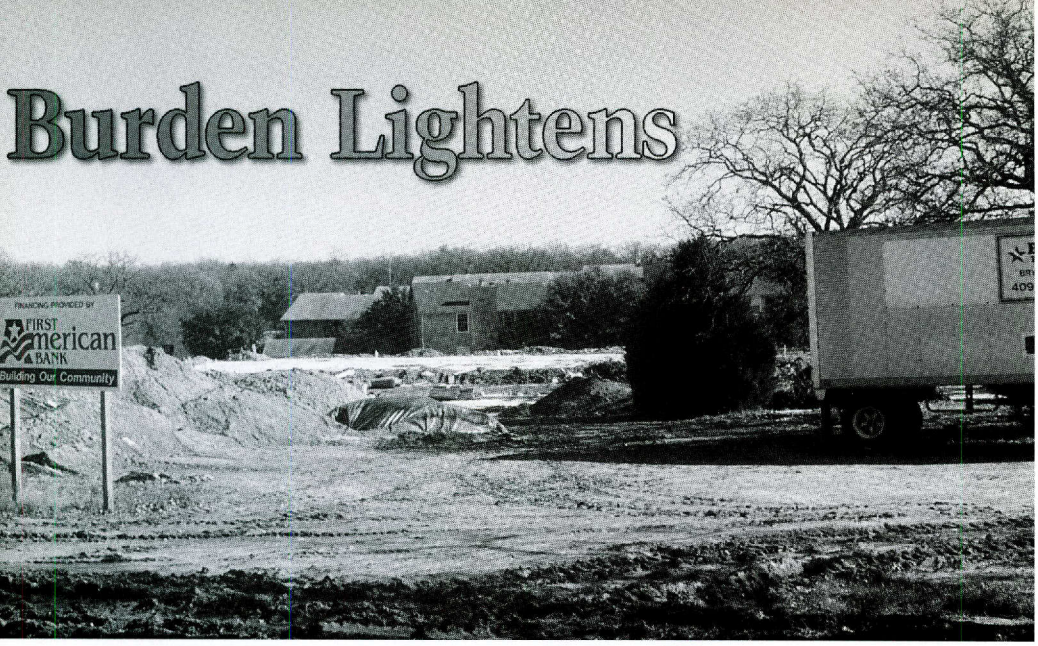


subject to capital gains tax regardless of whether she purchased another home and regardless of its price. Under the new law, most taxpayers pay tax at 20 percent on taxable capital gains from home sales. The tax for Lauren would be $5,000 (20 percent of $25,000).

Two-out-of-five-year residency requirement. To benefit from gain exclusion, taxpayers must own and occupy their homes for at least two of the previous five years. If this test is not met as a result of a change of employment, health or other unforeseen circumstances, then a portion of the gain exclusion still is available based on the percentage of the two years the home is used as a principal residence. Thus, if Lauren only occupied the first home for 18 months (75 percent of two years) prior to selling, she would only be able to exclude $187,500 (75 percent of $250,000) of gain.

What if gain exclusion precedes marriage? Assume Lauren sells the first home and, shortly thereafter, marries Robert (who has never excluded gain on a home). If the couple sells their second home within two years of the sale of the first, only $250,000 gain can be excluded because only Robert is eligible (regardless of whether the couple files a joint tax return). Once two years pass after the sale of the first home, the $500,000 gain exclusion becomes available to the couple.

It still pays to maintain good records. Proper record-keeping still is necessary to keep track of a home's cost at the time of purchase, as well as throughout the residence period, because gain from a future sale is computed by subtracting total cost from sales price. Another reason for good record-keeping is to maximize tax savings if there is a casualty event such as a fire, flood or earthquake. Uninsured casualty losses are deductible to the extent they exceed 10 percent of income (technically, adjusted gross income). Proving the amount of loss requires proper records.



remain unchanged at levels as high as 39.6 percent. The new lower rates will only directly affect investors trading in taxable accounts. People investing through tax-deferred retirement-savings accounts will see no immediate impact from the new legislation. Ordinary income-tax rates still apply to wages, stock dividends, bond interest and profits on the sale of investments, including real estate held for less than the minimum holding period.

For assets sold or exchanged after December 31, 2000, and held at least five years, the legislation provides for a further capital gains rate reduction. The top capital gains rate is reduced from 20 to 18 percent while the bottom rate is reduced from 10 to 8 percent. Sellers who have deferred taxes

As discussed previously, the new law provides large benefits for home sales. Even though the rules have been simplified, consultation with an accountant or attorney regarding specific issues is recommended.

Dr. Stern is a research fellow with the Real Estate Center at Texas A&M University and a professor of accounting in the Kelley School of Business at Indiana University.

Commercial Capital Gains Break

By Harold D. Hunt

Thanks to the 1997 Taxpayer Relief Act, many owners of commercial real property will now be able to take advantage of major changes in capital gains tax legislation.

The overall effect of the new tax legislation on commercial real estate is positive. Investors in the 15 percent tax bracket (singles with a taxable income of $24,650 or less, and couples with $41,200 or less) will only pay a 10 percent capital gains tax compared to 15 percent under the old law. All others will pay a 20 percent rate on capital gains, down from a 28 percent rate. These new rates apply to investments held for more than 12 months and sold after May 6, 1997, but before July 29, 1997. For assets sold on or after July 29, 1997, the minimum holding period is 18 months to qualify for the new rates.

Benefits from the new capital gains rates are significant when compared to rates on ordinary income, which

Commercial Property Capital Gains Examples

Example 1: No Property Appreciation

Under old tax legislation

Purchase price	$1,000,000	Net sales price	$1,000,000
Accumulated depreciation	(300,000)	Less: adjusted basis	($700,000)
Adjusted basis	$700,000	Capital gain	$300,000
		Capital gains rate	28%
		Capital gains tax from sale	$84,000

Under new tax legislation

Purchase price	$1,000,000	Net sales price	$1,000,000
Accumulated depreciation	(300,000)	Less: adjusted basis	($700,000)
Adjusted basis	$700,000	Capital gain	$300,000
		Capital gains rate	25%
		Capital gains tax from sale	$75,000

Capital gains tax benefit under the new tax law is $9,000.

Example 2: Assuming Property Appreciation

Under old tax legislation

Purchase price	$1,000,000	Net sales price	$1,200,000
Accumulated depreciation	(300,000)	Less: adjusted basis	($700,000)
Adjusted basis	$700,000	Capital gain	$500,000
		Capital gains rate	28%
		Capital gains tax from sale	$140,000

Under new tax legislation

Purchase price	$1,000,000	Net sales price	$1,200,000
Accumulated depreciation	(300,000)	Less: adjusted basis	($700,000)
Adjusted basis	$700,000	Total capital gain	$500,000
		Gain from depreciation	$300,000
		Gain from appreciation	$200,000
		Capital gains rates	
		(1) On depreciated portion	25%
		capital gains tax	$75,000
		(2) On appreciated portion	20%
		capital gains tax	$40,000
		Total capital gains tax	$115,000

Capital gains tax benefit under the new tax law is $25,000.

on real property by using an installment sale where the buyer pays over a period of years benefit under the new law as well. All future installment payments are subject to the new lower capital gains rates, regardless of when the original sale occurred.

Those hoping for favorable treatment of gains resulting from depreciation may be disappointed. Under the new law, investment real estate is treated differently from residential real estate with the implementation of a 25 percent rate for gains resulting from depreciation. Although this will primarily affect investors, it could also affect those who rent out part of their homes or claim deductions for the expenses of a home office. Many people in those situations will find that they are paying a higher rate on their gains than others who invested in stocks and bonds and pay capital gains tax at the lower 10 or 20 percent rates.

The following example from Ernst & Young published recently in the *Wall Street Journal* provides some insight. An apartment building was bought several years ago for $100,000. The entire building had been rented until it was sold this year for $1 million. The seller is in an ordinary income-tax bracket of more than 15 percent.

Accumulated depreciation is $30,000. The cost, or "tax basis," is $100,000 minus depreciation or a total of $70,000. The gain is the selling price ($1 million) minus the cost ($70,000), which equals $930,000. What is the amount of the federal tax? It is logical to assume the federal tax under the tax agreement is 20 percent of $930,000 or $186,000. However, this is incorrect.

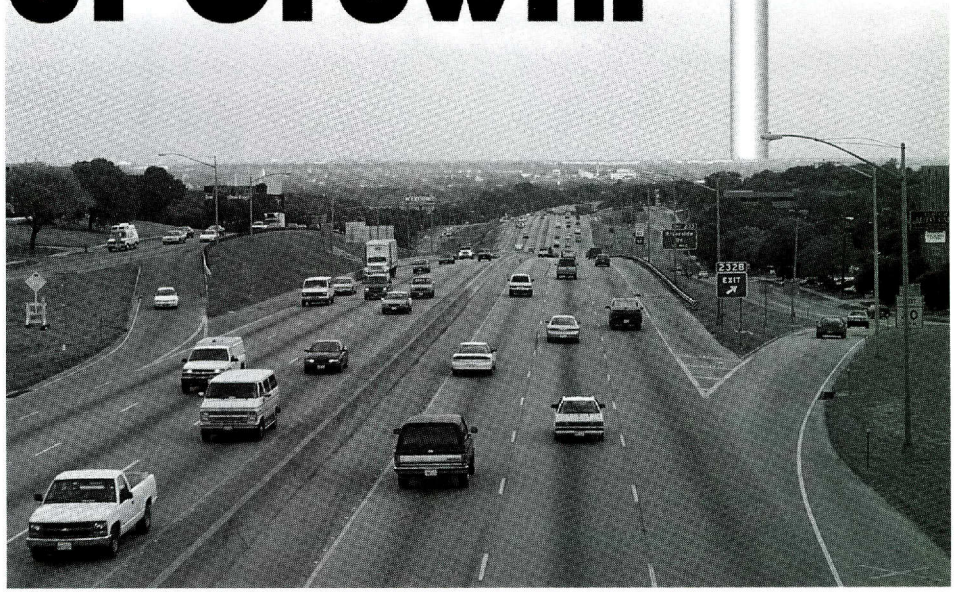
Instead, $30,000 of the gain (attributable to the depreciation taken over the years) is subject to a special new maximum rate of 25 percent. That works out to $7,500 in taxes. The rest of the gain, totaling $900,000, is taxed at a maximum rate of 20 percent or $180,000. Thus, total federal taxes are $180,000 plus $7,500 or $187,500. Further examples are provided in the table.

The 1997 Taxpayer Relief Act represents the first federal tax cut package in 16 years, creating some interesting new opportunities for those owning real property. Although the legislation does not benefit everyone, it has dramatically widened ownership as a viable investment alternative.

The following summary provides general information regarding changes and should not be relied upon for tax planning purposes. For specific advice, see a tax accountant or attorney.

Hunt is a graduate research assistant with the Real Estate Center and a doctoral candidate in urban and regional science at Texas A&M University.

Corridor of Growth



By Steve H. Murdock

The corridor between Austin and San Antonio has become one contiguous metropolitan area and is now the third fastest growing area in Texas. No group knows better than real estate agents about the area's population growth during the 1990s. Buying power of the new residents was substantial, and home sales reflected it.

In 1990-96, the five counties in the Austin-San Marcos MSA added more than 195,100 persons—bringing the area's total population to more than 1.04 million. Only Houston and Dallas added more during those six years.

Texas now has five metropolitan areas with more than a million people: Houston, Dallas, Fort Worth-Arlington, San Antonio and Austin-San Marcos. The Central Texas corridor also had the third largest percentage increase—23.1 percent—behind Laredo's 32.7 percent and McAllen-Edinburg-Mission's 29.2 percent.

The San Antonio Metropolitan Area was the fifth fastest growing metropolitan area in Texas in total numbers with an increase of almost 165,400. By 1996, total population in the four-county area was 1.49 million. The 12.5 percent growth rate was the state's tenth fastest.

Together the Austin-San Marcos and San Antonio Metropolitan Areas added roughly the same number of people—371,700—as the Dallas Metropolitan Area (360,500). In fact, the area's total population increase was greater than the 1980 population of Austin (345,500).

The San Antonio and Austin-San Marcos metropolitan areas had a combined 1996 population of 2.5 million—13.2 percent of all Texans. As in other large Texas metropolitan areas, however, growth has been most rapid in the suburban counties.

Travis County, home to Austin, increased its population by 18.7 percent and accounted for 55.1 percent of the metropolitan area's 1990-96 growth. However, neighboring suburban counties increased by 32.4 percent and accounted for 44.9 percent of the area's growth. Similarly, Bexar County where San Antonio is located, added 11.2 percent while surrounding suburban counties increased by 23.3 percent. Suburban counties in the Austin-San Antonio

corridor were among the state's fastest growing.

Near Austin, Williamson County had the region's biggest increase, adding 42.1 percent—fourth fastest growing county in Texas between 1990 and 1996. It was the fastest growing county among those with populations of 100,000 or more. Hays County increased 24.6 percent while Bastrop County added 22.4 percent—the 24th and 25th fastest growing Texas counties.

In the San Antonio area, Burnet County increased by 31.2 percent and Comal County added 30.6 percent—14th and 15th overall.

Compared to Texas' other large metropolitan areas, the two that comprise the Austin-San Marcos-San Antonio corridor have attracted considerable domestic inmigration. In other words, many people from other states now call the area home.

Houston's growth included 8.1 percent domestic inmigration; Dallas counted 21.2 percent. Twenty-seven percent of Fort Worth-Arlington's growth was attributed to inmigration from other states. In contrast, however, 59.3 percent of Austin-San Marcos' growth and 30.3 percent of San Antonio's resulted from other state residents moving there.

Only 8.5 percent of Austin-San Marcos' growth and 14.6 percent of San Antonio's was from immigration, relocation from another nation. By comparison, 31.3 percent of Houston's and 23 percent and 17.1 percent of Dallas' and Fort Worth-Arlington's growth was international in origin.

Even the central city counties in the corridor showed relatively small proportions of immigration growth. Immigrants accounted for only 13.2 percent of Travis County's and 17.3 percent of Bexar County's six-year growth. Meanwhile, 43.7 percent of Harris County's and 49.8 percent of Dallas County's population growth was from immigration. Tarrant County counted 20 percent.

Newcomers from other states usually have higher incomes than the local population. Therefore, the Austin-San Marcos and San Antonio areas benefited from an influx of purchasing power, much of which was reflected in the real estate market.

A seamless web of growth now crosses the center of Texas. If State Data Center projections are correct, the two metropolitan areas in this corridor will have a combined population of more than 2.7 million by the year 2000 and nearly 3.4 million by 2010.

Dr. Murdock is a research fellow with the Real Estate Center at Texas A&M University and chief demographer of the Texas State Data Center, Department of Rural Sociology, at Texas A&M University.

BENCHMARKS *(continued from p. 1)*

As of July 20, 1997, the Real Estate Commission reported 44,045 Texans held active sales licenses. Another 25,036 were inactive. More than 36,000 active and 1,900 inactive brokers were licensed in Texas.

Out of Texas' 254 counties, 144 have more brokers than salespersons. Sixteen counties have more than 300 active real estate brokers. Eighteen counties can claim more than 300 real estate salespersons.

Murdock Honored

Steve Murdock is one of nine Texas A&M University System faculty members to receive the first-ever meritorious Regents Professor Service Award. The awards were created to honor individuals at the rank of professor or equivalent who have provided exemplary service as faculty members not only to their university or agency, but also to the community, state, national and international arenas.

Murdock has been the Real Estate Center's source for demographic data and information for years. In addition to writing for *Tierra Grande* magazine, the Center research fellow also is chief demographer for the Texas State Data Center in the Department of Rural Sociology.

Texas Business magazine recently named Murdock one of the top 50 most powerful Texans.

New IRA Helps First-Time Homebuyers

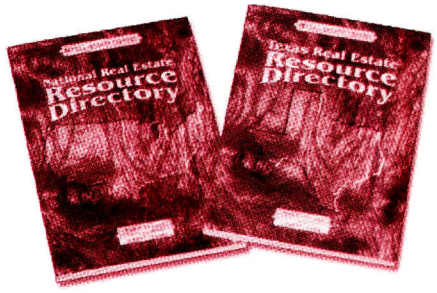
In "Opening the Door to Homeownership" *(Tierra Grande,* summer 1997), Jack Harris describes congressional efforts to allow holders of Individual Retirement Accounts (IRAs) to withdraw funds for a first home purchase. Those efforts have now been rewarded.

The federal budget bill passed during the summer of 1997 allows beneficiaries of IRAs to withdraw, penalty-free, as much as $10,000 for the purchase of a first home. This portion of the law went into effect on the first day of 1998.

To qualify as a first home, the purchaser must not have owned a home in the past two years (this rule also applies to the purchaser's spouse). The purchaser may be a child, grandchild or parent of the beneficiary.

The $10,000 is a life-time amount. Although the normal 10 percent penalty is waived, the beneficiary will have to pay taxes on the money withdrawn. In addition, a new type of IRA (Roth IRA) was created that allows home purchase withdrawals but only after the money has been in the fund for five years.

Center Unveils All-in-One Directories



The *Texas Real Estate Resource Directory* is the latest publication from the Real Estate Center at Texas A&M University. More than 2,000 important real estate contacts—people, mailing addresses, telephone numbers, e-mail and internet addresses and more can be found in the new report that sells for only $10.

Associate Research Social Scientist Mark Baumann led the team that made more than 3,000 telephone calls in gathering information for the latest must-have real estate reference work.

"We tried to think of everyone a real estate agent might need to contact during a business day and included them in the new directory," says Baumann.

The 2,094 entries include chambers of commerce, convention and visitors bureaus, boards of Realtors, building inspection and permit departments, appraisal districts, county clerks, councils of government, government agencies and organizations, data resources and real estate commissions.

While most listings are Texas entries, there are a number of national ones, too. There is even a federal government section covering the executive branch, executive and legislative agencies, boards, commissions, committees and international sources.

Other sections list periodicals, directories, trade associations, professional designations and education providers.

A national directory with fewer Texas-specific, but more U.S. contacts, also is available. To order a copy of the Texas or National Real Estate Resource Directory, see the order form on page 24.

Publications Order Form

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Answers to Oil and Gas Leasing Quiz

1. False 2. False 3. True 4. False 5. True 6. False 7. False 8. True 9. False 10. True

For a detailed discussion of the answers, call the Center's Fax-on-Demand system at 409-862-7461 or 409-862-7460 and request number 1206. The information is free. Telephone charges, if any, apply.

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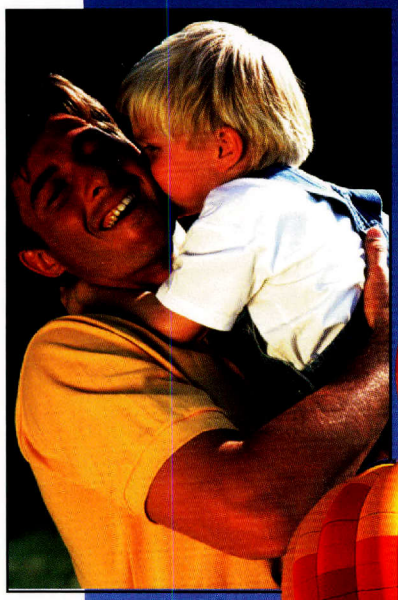

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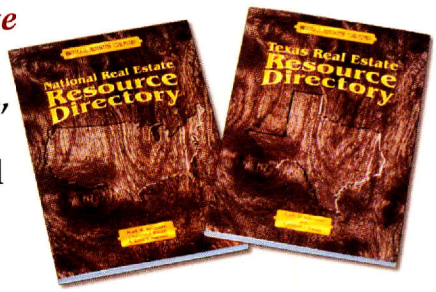

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