TIERRA GRANDE

JOURNAL OF THE REAL ESTATE CENTER AT TEXAS A&M UNIVERSITY

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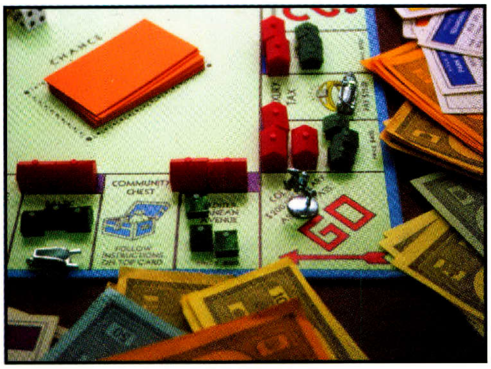

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On the Cover

Mission Espada, originally known as San Francisco de los Tejas, was relocated to San Antonio in 1731. Constructed of stone, the mission fell to ruin in the early Nineteenth Century but underwent a 40-year restoration project in 1858. **Photographer Laurence Parent**

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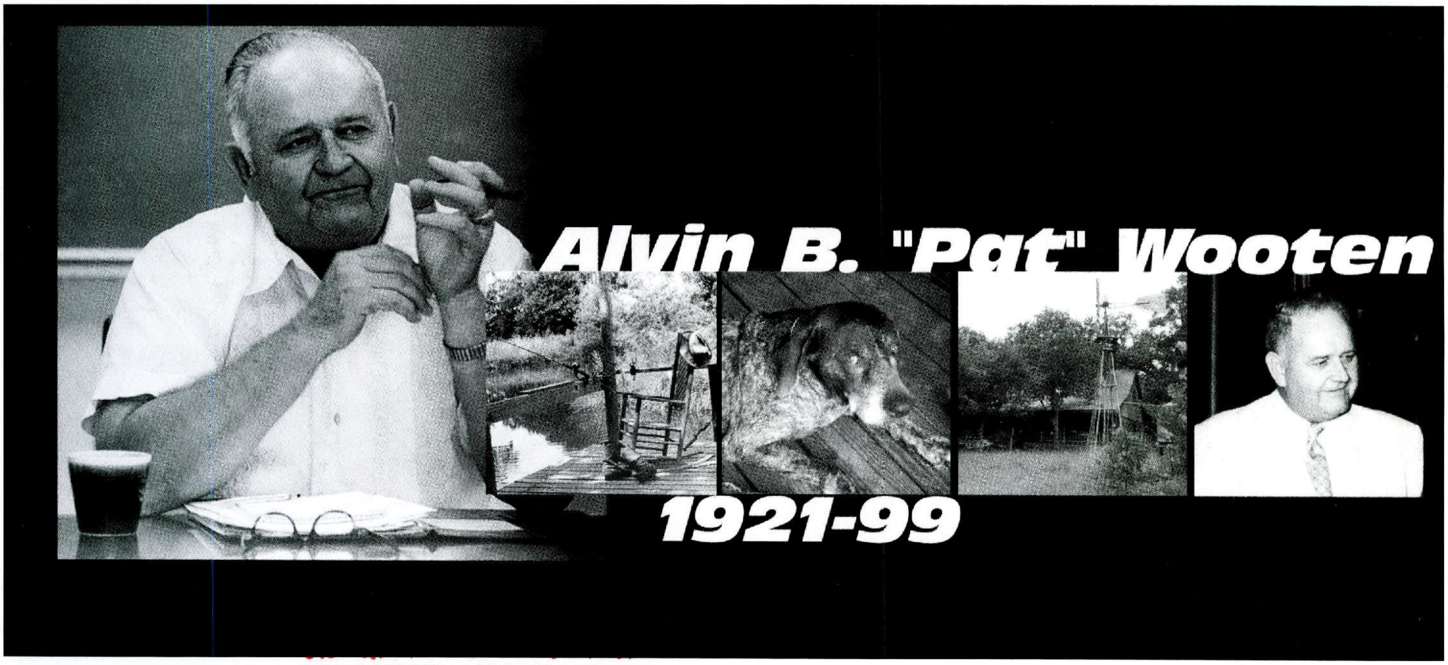


Alvin B. "Pat" Wooten, First Director, Dies

In March, the Center paid its last respects to an old friend and mentor, Alvin B. Wooten. He was the Center's first director, guiding the organization from its founding in 1972 until his retirement in 1981. The directorship was the last of a long list of distinguished posts that Wooten held during a 32-year career at Texas A&M University.

"Pat" Wooten grew up on a hardscrabble Hill Country farm in Kimble County. The family raised sheep, goats, cattle, hay, corn and – for cash – a little cotton. His parents were not rich, but they knew the value of education. Of their nine children, all finished high school and five graduated from college. As a boy, Wooten attended a two-room school in Teacup, Texas, near Junction. He rode to school in a horse-drawn wagon. Later, to attend high school, he moved into Junction and lived with friends.

Wooten interrupted his education to serve in the Army during WWII, but by 1948, he had earned a B.A. in economics and started his academic career at Texas A&M University. A master's degree and a doctorate followed, along with positions as a professor and as an administrator within the Texas Agricultural Extension Service.

Friends and colleagues remember Pat Wooten for his integrity, warmth, humor and grace under pressure. According to his brother, Charlie, he was always "pretty unshakeable, pretty stable." As an administrator, Wooten preferred to assign broad goals and give

(continued on p. 22)

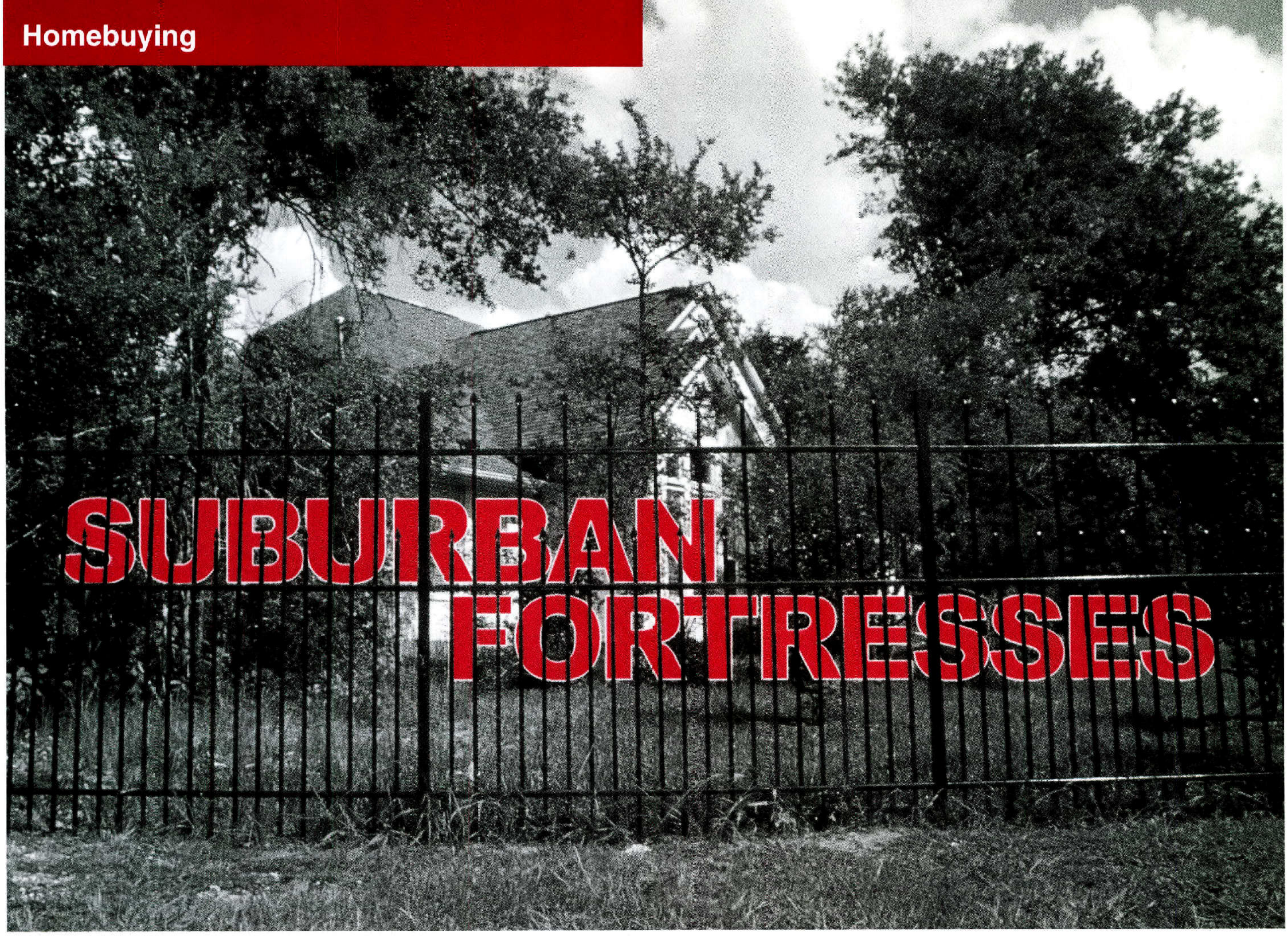
What's Your Remodeling IQ?

By David S. Jones

1. Americans spend approximately how much annually on home remodeling?
   A. $119 million **B.** $119 billion **C.** $1.2 billion
2. The number one reason given for remodeling rather than buying is:
   A. To add more amenities. **B.** It's fun. **C.** To increase the value of the home.
3. The most popular remodeling project is:
   A. Master bath **B.** Family room **C.** Kitchen
4. After purchasing, do most homeowners remodel within:
   A. 18 months **B.** 24 months **C.** 36 months
5. What percentage of American homeowners say they plan to make major home improvements within the next year?
   A. 79.4 percent **B.** 53.6 percent **C.** 89.9 percent
6. What is the most profitable improvement that can be made to a home prior to selling?
   A. New light fixtures **B.** Paint inside and out **C.** New carpets and flooring
7. What percentage of remodeling projects are done by do-it-yourselfers?
   A. 18 percent **B.** 4 percent **C.** 78 percent
8. What is the most popular do-it-yourself remodeling project?
   A. Kitchen **B.** Bath **C.** Insulation
9. Where is the best place to find a remodeling contractor?
   A. The Yellow Pages **B.** The Internet **C.** Your neighbor's recommendation
10. How much of a minor kitchen remodeling cost can a homeowner expect to recoup at resale?
    A. 92 percent **B.** 86 percent **C.** 102 percent

The answers to these question are found on page 24.

Jones is senior editor with the Real Estate Center at Texas A&M University.



SUBURBAN FORTRESSES

By Jack C. Harris and Jennifer S. Evans

Some 20,000 gated communities exist across the country, housing more than eight million people, according to Mary Gail Snyder's and Edward Blakely's recent book, *Fortress America: Gated Communities in the United States.* But why are these communities becoming so common? The answer is because homebuyers like them. In fact, 47 percent found gated entrances desirable, based on responses to a 1996 survey conducted by the National Association of Home Builders.

Gates and exterior walls do not add much to development costs. Consequently, while gates may be thought of as a prestigious feature, they are showing up on a wide range of subdivisions. An innovative affordable housing project (homes start at $75,000) west of Houston incorporates a gated entry along with a fenced border. A recent development of high-end ($100,000) factory-built homes in Elkridge, Maryland, is a gated community. One of the few security-gated communities in Bryan, Texas, is a garden apartment project.

What is a Gated Community?

Brokers and salespersons increasingly face the challenge of marketing homes in gated communities. The term "gated" is not applied to subdivisions that merely have some type of identifying entranceway, no matter how elaborately decorated. Actually, the gate does not necessarily have to be a physical one on all sides of the development. It seems to be essential that the subdivision be placed out of the way of through traffic, either by natural or man-made barriers, and that some system be in place to discourage entry by those who do not have a legitimate reason to visit.

The main entrance to the community may have a guard who operates a gate or merely checks cars before they are allowed to enter. The gate may be automated and operated by way of magnetic cards, remotes (similar to a garage door opener) or a keypad-entered code. The system may be passive, in that anyone is allowed to enter but has warning signs that only residents and guests are allowed.

The San Antonio survey found that 97 percent of the gated communities use keypad entry systems. The Houston survey found 33 percent of the communities use a keypad or card-operated entry system. Guards are much less common: 14 percent in San Antonio and 5 percent in Houston.

All such communities are governed by homeowners' associations. Indeed, these associations take on many of the duties of local government by maintaining community streets and common property, providing security and enforcing neighborhood bylaws and deed covenants. Most associations have the ability to collect periodic dues and special assessments from residents and can place a lien on the homes of delinquent payers. If the developer chooses a "gated community," then the homeowners are responsible for street maintenance that normally is paid for by the city.

There are some instances around the country in which communities have incorporated themselves into small municipalities. In the recent survey by the San Antonio Planning Department, the average homeowner association fee was $608 per year but varied from $180 to $2,100. A study conducted by the Real Estate Center and the Houston Community Association Institute indicated local fees ranged from $45 to $900.

Gated Community Appeal

Gated communities often are associated with prestigious, high-cost housing, although they are not limited to upscale developments. For any community, the addition of a gated entrance, combined with some barrier to set off its boundaries, adds a touch of distinction. Developers believe that gates are a worthwhile feature for marketing affordable projects, as well as homes at the upper end of the range.

The primary appeal of gated communities is their promise of improved security. The barriers and gates are intended to keep out those who would steal or destroy residents' property or threaten their safety.

The first gated communities were retirement settlements, where those over a specified age could take refuge from increasingly violent urban areas, in southern Florida and California. Some find it ironic that so many residents feel threatened while crime statistics are trending downward. Others point out that there is no evidence that gated communities are any more crime-free than surrounding areas. However, perception is what counts, and residents of gated communities feel safer.

A poll conducted by the Community Associations Institute reported that 70 percent of gated community residents believed their community was safer than surrounding areas. With many homeowners installing home security and most new cars carrying anti-theft devices, living in a more secure community is consistent with these trends.

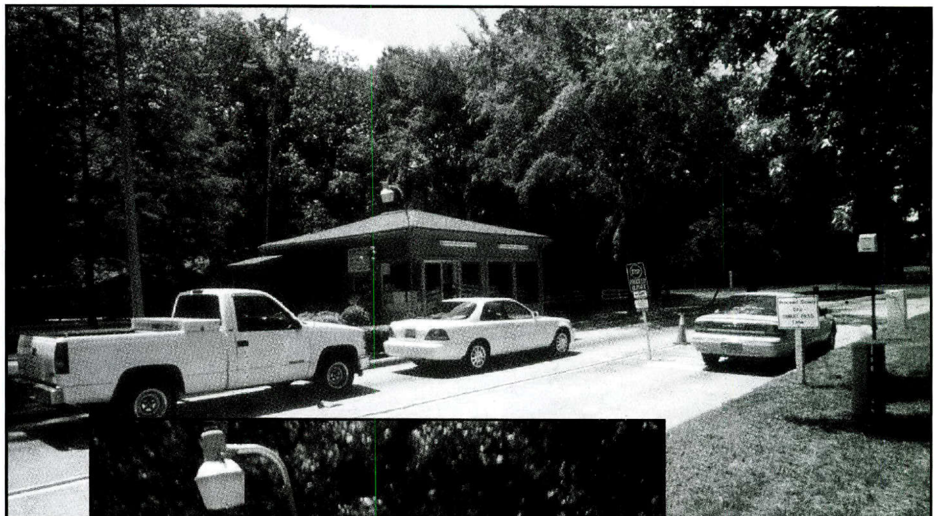
It is important too, that if a crime does occur, it may take police and emergency services longer to get to the residence because of the gates. In Arlington and Irving, "knocks locks" are required, which allow the emergency service vehicles to open the gates by hitting them. In San Antonio, emergency services have access to the gate codes, and in gated communities with guards, access can be granted by the gate attendant.

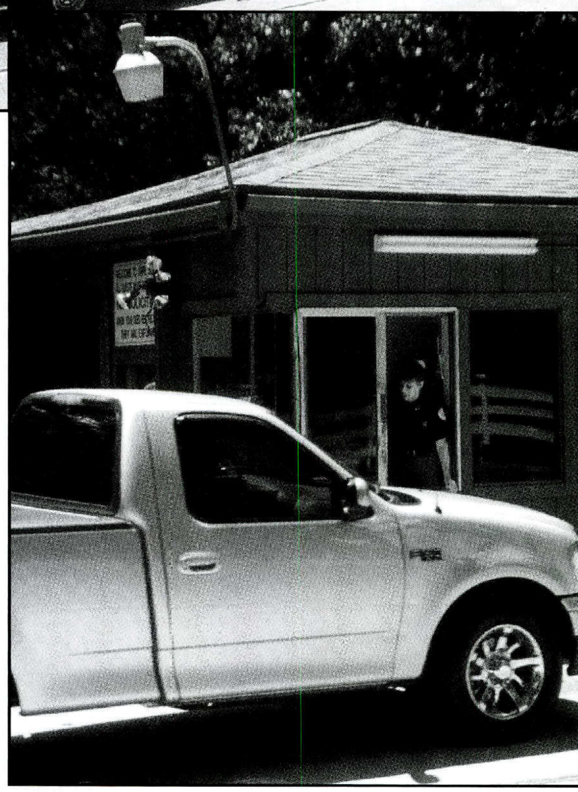
Another thing that may make residents feel safer is the reduced automobile traffic that gates and walls provide. Gate security may not be able to stop a determined and knowledgeable thief, but it does cut down on casual pass-through traffic as well as any trouble visitors may cause. There is the added benefit of making the neighborhood safer for children at play and those who stroll the streets.

The gated community can provide its own services under the homeowners' association. Because associations can enforce deed restrictions, controls on what homeowners are allowed to do with their homes can be much more strict than government land-use regulations. Many people like the clean, quality appearance that strict controls create, but others may chafe at the restrictions on what they can do with their property.

Municipalities, in many cases, provide fewer services to gated communities. In San Antonio, homeowners' associations are responsible for the maintenance of parks, streets and sidewalks. Most cities require that the streets be private and maintained by the homeowners' association. Arlington does not require that the streets be private, but the developer has that option.

Homebuyers may like the safe feel of a gated community. Amenities vary, and some provide parks, pools and other facilities. Potential homebuyers should be aware that the homeowners' association in many cases is responsible for services that the city would normally provide, such as streets, sidewalks and park maintenance.





***APRIL SOUND, A GATED COMMUNITY** on Lake Conroe, protects residents with gates, a guarded entrance and security patrols.*

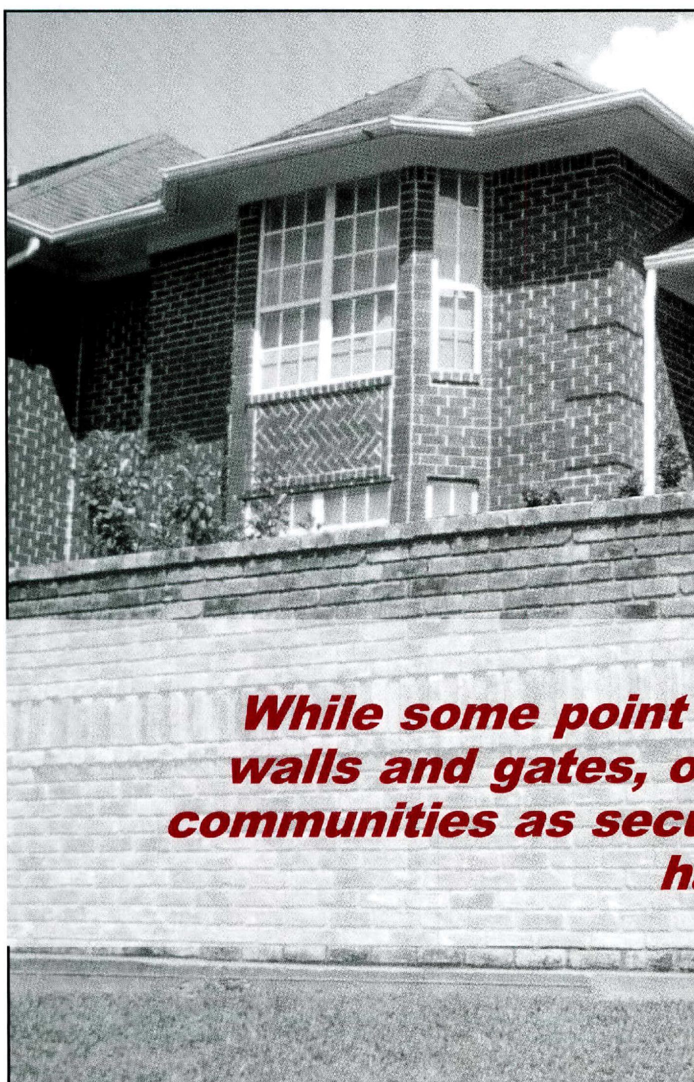
Converting an Existing Subdivision

Gated community popularity is not restricted to new subdivisions. Some established neighborhoods have taken steps to limit access. Generally, for gating to be successful, several items must be in place:

- A homeowners' association. Existing associations require compliance with covenants and deed restrictions before homeowners finalize their paperwork. If the covenants are not already established, unanimous agreement is required.
- A near consensus among the residents that gating is desirable. Even though the homeowners' association can act on a majority vote, any sizable dissension could compromise the success of the plan.
- The neighborhood should be surrounded by a natural or man-made boundary so that gating a few key access points will provide adequate security.

In most cases, gating a public road is not permitted. Therefore, the association must gain possession of the streets within the community. This requires cooperation from the city or county if those streets were constructed by or dedicated to the local government.

There may be other requirements as well, such as plans and policies for public and emergency access. If any of the streets to be gated provide access to adjacent communities or commercial areas, the city or county probably will not approve the action. After permission is obtained, the association should adopt a set of policies and by-laws to cover operation of the gates and other issues concerning access. Finally, there would be the costs associated with designing the gate system.



While some point to the futility of walls and gates, others see gated communities as secure refuges in a hazardous world.

Hints on Selling Homes in Gated Communities

Agents should be aware that some associations limit how a home may be marketed. For example, in some neighborhoods, yard signs are not permitted. Also, the logistics of an open house might be difficult in a community that restricts visitors.

Agents should inform the potential buyer of those services provided by the homeowner's association and any fees involved. Here are some questions that someone buying into a gated community may ask.

- Does the inconvenience caused by the security system outweigh the benefits? Getting in and out should not be an onerous task. Likewise, the system should not discourage guests or inhibit emergency vehicles. Mechanical breakdowns can trap residents in, often at inopportune times. There should be methods for defeating the system on such occasions.
- How onerous are the homeowners' association's controls? Some might find them too restrictive while others highly value continuity. At the least, any prospective buyer should become familiar with the bylaws and deed restrictions. Beyond that, it would be beneficial to get specific examples of prohibitions. In most cases, however, a buyer should expect to conform to current neighborhood appearance because that is probably what the developer intended and the association wants to maintain.
- What are the costs? For any effective security system, there will be periodic costs: salaries for guards, maintenance of equipment and so forth. There may be costs involved with any common facilities provided in the community. Often, the streets in the community are privately owned, and, therefore, must be privately maintained. All these expenses are factored into the monthly homeowners' association dues which must be paid, in addition to local taxes providing similar services for other subdivisions. Prospective buyers must evaluate how affordable and worthwhile this extra expense is.

Gate Ways

Gated communities appear to be winning the endorsement of a significant number of homebuyers. Much can be, and has been, made of homeowners' desire to wall themselves off from neighboring residents. Some point to the futility of walls and gates as a crime preventative. There are probably some homebuyers who view a gated community as a secure refuge from an increasingly hazardous world. Most know that no system is perfect but value that extra layer of security that limited access provides.

Gated communities do not appeal to everyone. To many homeowners, the restrictions that often accompany such communities will seem bothersome. Others prefer to move into open spaces on the urban fringe or expose themselves to the rich architectural and cultural diversity of the city.

Most homeowners like to feel a part of a community. They expend some effort to create or seek out enclaves of compatible neighbors and amenable surroundings. Viewed as part of this effort, gated communities can be seen as attempts to recreate the idealized small American town where everyone knows and cares about each other. ⊞

Dr. Harris is a research economist and Evans a research associate with the Real Estate Center at Texas A&M University.

LOSING GROUND

Texas Cities' Homeownership Ranks Low

By Jack C. Harris

Although Texas has relatively low housing prices, it has never been a national leader in homeownership. In 1998, Fort Worth ranked 36th in homeownership among the nation's 42 largest metropolitan areas, according to the U.S. Census Bureau. Other Texas cities were not much higher: Dallas–33rd, Houston–31st and San Antonio–28th. However, as recently as 1980, Fort Worth ranked 11th, and San Antonio was 15th.

Thanks to sustained prosperity, low interest rates and a concerted effort within the mortgage industry to make purchasing easier for first-time homebuyers, the national homeownership rate is rising again after slumping in the 1980s. In 1998, 66.3 percent of the nation's households owned their homes, compared to 65.6 percent in 1980 (with a low point of 63.8 percent in 1986). For large Texas cities, however, only Houston has improved on its 1980 rate.

While Texas home sales have been reaching record levels, the buoyant market is not pushing up homeownership rates as much as in most other cities nationwide. Analysis suggests that Texas cities were badly disadvantaged by the market disruptions in the 1980s and have not recovered lost ground.

National Homeownership Rank

MSA	1980 Rate	1980 Rank	1998 Rate	1998 Rank
Dallas	59.3	28	58.9	33
Fort Worth	65.9	11	58.3	36
Houston	58.8	29	59.6	31
San Antonio	64.0	15	62.2	28

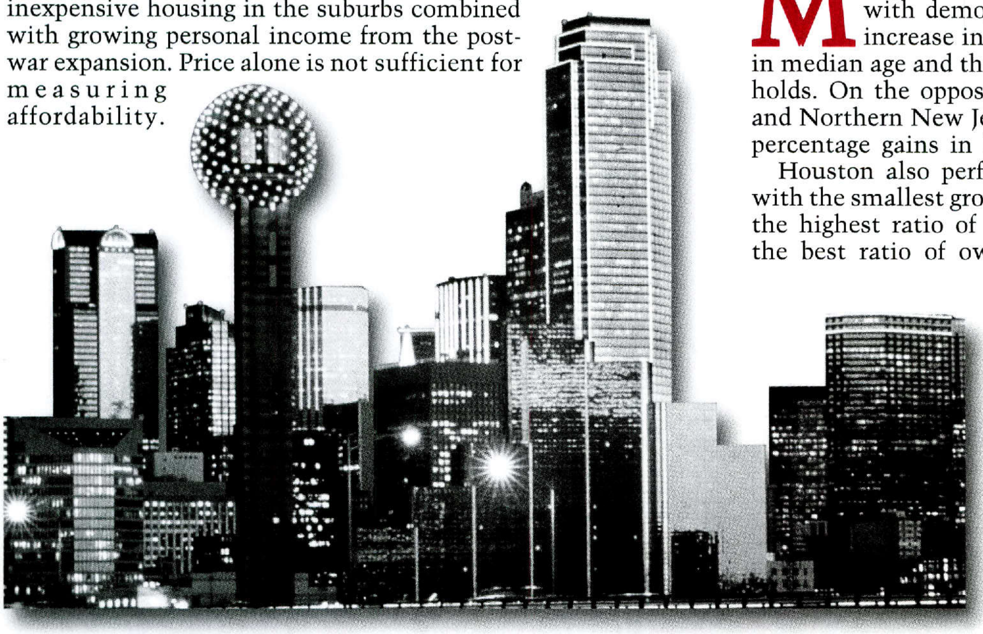
Source: U.S. Census Bureau

Why Homeownership Rates Change

Several factors can affect the percentage of households that own their home. A shift in the homeownership rate may merely be a sign that the population composition is changing.

The reason such change affects homeownership is that **demographic characteristics influence the probability that a household will own a home.** For example, younger households are less likely to own a home than are older households for a variety of reasons, including lower levels of income and a higher tendency to move. Married couple households tend to own homes at higher rates than single people or single-parent households. In addition, ethnic minorities have ownership rates lower than the broad population, for a number of reasons, including lower incomes. If the make-up of the area changes, the overall homeownership rate could change accordingly.

Homeownership change also could be affected by **housing affordability.** One of the reasons that homeownership grew so rapidly in the 1950s was the development of inexpensive housing in the suburbs combined with growing personal income from the post-war expansion. Price alone is not sufficient for measuring affordability.



Trends suggest that the primary reason for Dallas' and Fort Worth's homeownership decline is an increasingly diverse and young population.

For example, homeowner costs (including maintenance and acquisition costs) can be compared to comparable costs for renting a home or costs related to household income.

Another aspect of local economies that could influence residents' decisions to become homeowners is **economic stability, or even prosperity, that may be required** to persuade people to invest in the community by buying a home. If the local job market is volatile, residents may be reluctant to make a large financial commitment if they feel they face uncertain employment prospects.

Rapid positive growth could depress the homeownership rate to some extent because of the large number of incoming, mobile households attracted to the area. A period of falling property values could be unsettling to homebuyers, even though affordability is improved. Most homebuyers like to think of their purchase as a sound investment.

To get an idea of what may have contributed to Texas' laggard homeownership performance, data were gathered on these underlying factors. The most recent data are from the American Housing Survey (AHS) which covers selected cities approximately every five years. For this analysis, each Texas city was compared to other cities covered by the AHS for the same year.

Houston's Turbulent Decade

Detailed analysis of Houston is handicapped by the lack of Census Bureau data beyond 1991 when AHS last reported on the area. Nevertheless, the 1980-91 period was characterized by falling national homeownership rates and the restructuring of Houston's economy. The homeownership rate in Houston's metropolitan area fell from 58.8 percent in 1980 to 53.6 in 1991. This was, by far, the worst performance among all metro areas covered by the AHS in 1991.

Much of the ownership decline could be associated with demographic change. Houston had the largest increase in minority population, the lowest increase in median age and the largest decline in married-couple households. On the opposite end of the scale were the New York and Northern New Jersey areas, which also posted the highest percentage gains in homeownership.

Houston also performed poorly on affordability measures, with the smallest growth rate in median household income and the highest ratio of homeowner-to-renter cost. While it had the best ratio of ownership costs to income, that measure appears to run completely counter to homeownership change.

Houston also had the most volatile economy (measured by the standard deviation of annual employment growth rate), the slowest growth in median home prices (based on the National Association of Realtors' data) and the fastest growing employment base. In short, Houston's homeownership rate suffered in the 1980s for demographic and economic reasons.

Houston's homeownership rate has risen significantly since 1991. It is unknown whether the indicators mentioned above improved, although it is clear that the economy stabilized greatly and home prices have risen in the 1990s.

DFW's Growing Diversity

Dallas and Fort Worth, in separate reports, were last updated by the AHS in 1994. Four other cities also were covered that year. The two Texas cities and Phoenix had a lower homeownership rate in 1994 than in 1980.

Those three metros also had the highest increase in minority population and the lowest increase in median age, while Fort Worth and Phoenix had the largest decline in married-couple households. These trends suggest that the primary reason for Dallas' and Fort Worth's homeownership decline was an increasingly diverse and young population.

There is little indication of affordability as a factor. Dallas and Fort Worth, with relatively high growth in median income had the lowest ratios of ownership to rental costs and ownership cost to income. While price appreciation was slower in these cities, their economies were not particularly volatile.

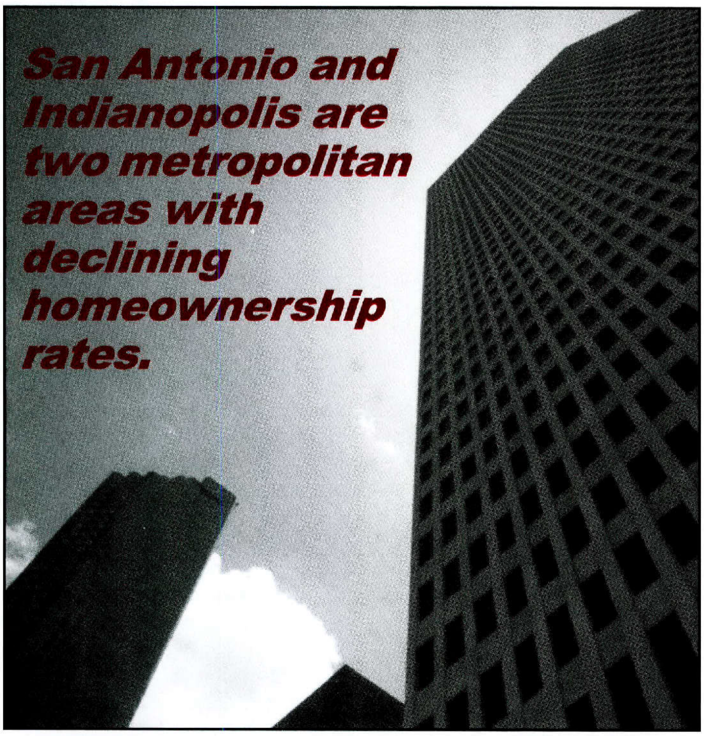
Legacy of the 1980s

San Antonio is the most recent Texas city to be updated by the AHS. This allows the longest period of analysis (1980-95) and the largest group of comparable metropolitan areas. Within the group of cities updated in the 1995 AHS, San Antonio is the laggard in homeownership, with Indianapolis the only other metro with a declining homeownership rate.

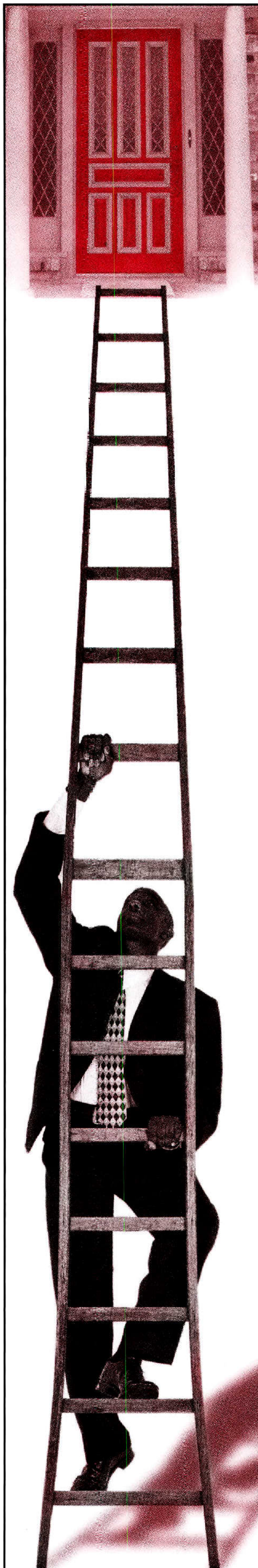
Change in Selected Demographic Indicators, 1980-95

MSA	Home-ownership (percent)	Black or Hispanic (percent)	Married Couples (percent)	Median Age (percent)
San Antonio	-2.5	+3.2	-9.1	+17.6
Columbus, Ohio	+2.8	-0.5	-3.8	+15.4
Denver	+2.3	+2.4	-4.9	+14.3
Indianapolis	-1.5	-1.0	-9.7	+14.7
Kansas City	+0.8	-0.4	-4.9	+14.8
Miami	+7.6	+20.2	-6.5	+12.0
New Orleans	+7.9	+3.7	-8.1	+17.8
Pittsburgh	+3.1	-1.0	-7.9	+16.5
Portland, Oregon	+1.9	+1.2	-3.1	+13.8

Source: 1980 Census of Population and Housing; 1995 American Housing Survey



Unlike the cases of Houston, Dallas and Fort Worth, there are no apparent patterns in this group of cities data. San Antonio had a relatively high growth rate in minority population and a decline in married couple households but dramatically increased in median age. The income growth was not particularly low, and San Antonio had one of the better ratios for ownership costs to income and ownership to rental costs. While growing home prices were relatively slow and employment was fast growing, the employment base was the most stable of the lot. *(Continued on p. 8)*



National Ownership Rate Rising

By Jennifer S. Evans

Where will homeownership rates head in the future? It is reasonable that homeownership could reach an all-time high at 70 percent by 2005 and 67.5 percent by 2000, according to a 1997 *Business Economics* paper by David Berson, chief economist and Eileen Neely, manager of economic forecasting for Fannie Mae.

Reasons for the increase in homeownership rates are numerous. Berson and Neely believe that the combination of an aging population and an increase in programs allowing elderly homeowners to tap their equity assist in increasing homeownership rates. Improved financial conditions that lower mortgage rates and rising real income affect this rate as well. Technologies that reduce the cost of mortgage originations and home-purchase process reduce the cost of purchasing a home.

There also are a number of factors helping to make homes more affordable. Programs with low and no down payment aid in owning a home. New building techniques and improvement in modular and manufactured housing are improving the market for affordable housing. Minority outreach programs and enforcement of fair housing programs are reducing the racial and ethnic differences in homeownership rates.

In 1998, 66.3 percent of households owned their own home, according to the U.S. Census Bureau. In Texas, the 1998 homeownership rate was 62.5 percent. The state homeownership rate has continued to rise since 1994 and is expected to follow the growing national homeownership trend. ⊞

Evans is a research associate with the Real Estate Center at Texas A&M University.

After sliding in the 1980s, Dallas, Houston and San Antonio improved their homeownership ranking from 1990. Fort Worth is the exception to this pattern. Fort Worth began the period with the highest ownership rate (65.9 percent) among the Texas cities and the mildest slide in the 1980s (61.4 percent in 1990) but has continued to slip in the 1990s (58.3 percent in 1998). A possible explanation for this persistent decline is relatively slower economic growth in Fort Worth during the decade.

Average Annual Growth in Employment (percent)

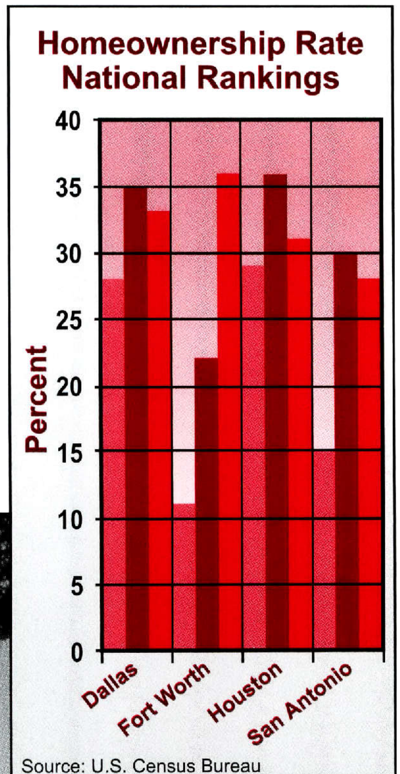
Metro Area	1980-89	1990-98
Dallas	3.3	2.9
Fort Worth	3.6	2.3
Houston	1.5	2.4
San Antonio	3.0	3.1

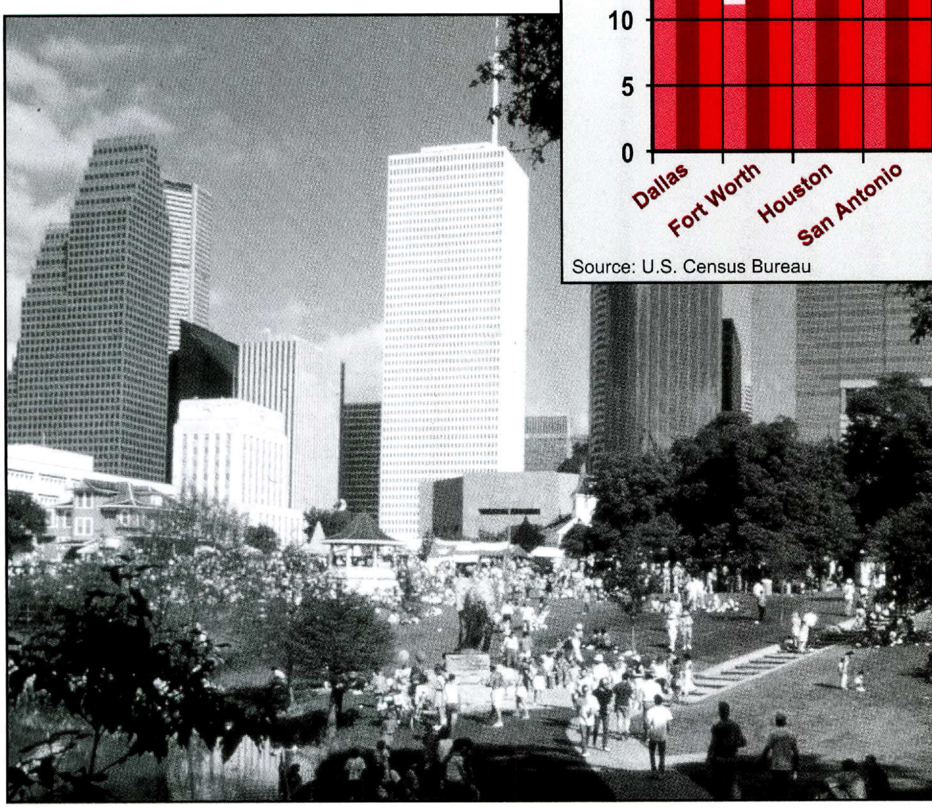
Source: Bureau of Labor Statistics

In conclusion, Texas' largest cities have recorded a decline in homeownership rates largely because of changing demographics. The number of minorities living in these cities increased between 1980 and 1998. These cities also have a lower median age and fewer married couples. Demographic changes undoubtedly have inhibited the cities' ability to recover from the economic troubles of the 1980s.

The good news is that low interest rates, a robust economy and a more competitive mortgage market, increase homeownership rates among younger families and Hispanic households. Nationwide, households with heads less than age 35 increased in homeownership by 2 percentage points from 1994 to 1998 while Hispanic and black households improved by 3.5 and 3.3 percentage points, respectively, over the same period. The large pool of nonowners presents potential to keep housing markets in Texas' cities busy for years to come.

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





CHANGING DEMOGRAPHICS *in Texas' larger cities has caused a decline in homeownership.*

Lack of Down Payment Stymies Young Buyers

By Mark G. Dotzour

National homeownership rates are on the rise. For the first half of this decade, however, the homeownership rate was stuck at 64 percent. Beginning with the first quarter of 1995, the rate increased steadily to record high levels at the end of 1998 (Graph 1).

There are several reasons why the rate is increasing nationwide. First, the older Americans get, the more likely they are to own a home. For example, of families age 25-29, only 36.2 percent own their home (Graph 2). The rate of ownership

Problems Facing First-Time Homebuyers

Barriers to Ownership	Percent
• No down payment	75
• High prices	71
• Qualifying income	45
• High closing costs	35
• Interest rates	15

Source: NAHB January, 1999 Survey

steadily increases as families get older, exceeding 80 percent for families more than 55 years old. Furthermore, the rate of ownership by older families has increased in the past 25 years (Graph 3). The most marked change is in families age 60-64, which increased from 75.2 percent in 1974 to 82.1 percent in 1998, according to the U.S. Census Bureau.

This homeownership trend is reversed in younger households. The ownership rate for this segment of the population declined substantially from 1979 to 1993. In 1974, approximately 43 percent of families age 25-29 owned their own home. By 1992, the number had dropped to 33.6 percent. Similar trends are shown for households aged 30-34 and 35-39.

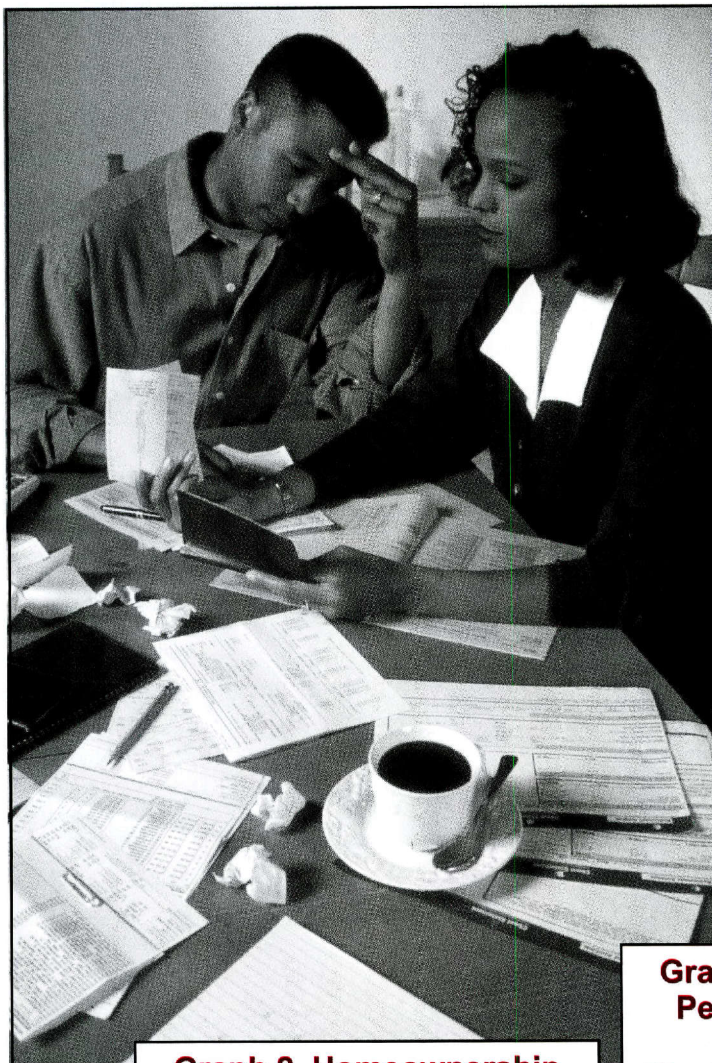
Ownership rates have increased in the past five years for all three of the young family age groups. However, the 1998 rate remains substantially lower than 1974 for all three age categories.

A recent survey by the National Association of Home Builders (NAHB) may reveal why the homeownership rate has declined. The survey identifies the top problems facing first-time homebuyers. The major barrier to entry for first-timers is the lack of down payment funds. Discussions with homebuilders in the entry-level price ranges also indicate that, in some markets, nearly half of all potential first-time buyers have a bad credit history.

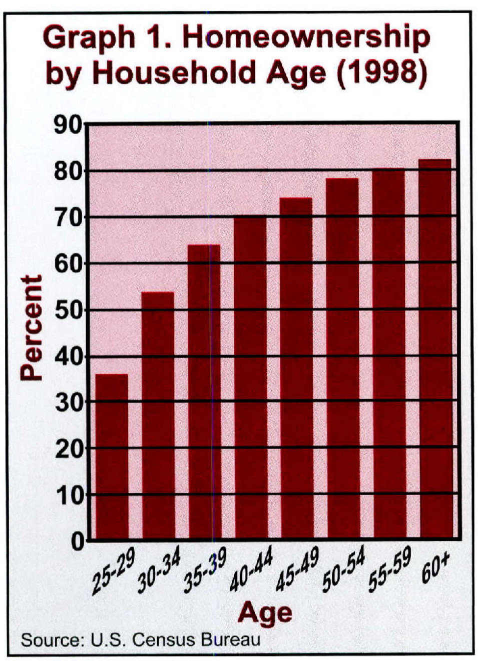
Fannie Mae is addressing the issue of down payment for homebuyers with programs such as the Flex97 program that allows new buyers to purchase a home with a 97 percent loan and a 3 percent down payment. Contrary to previous requirements, the down payment may be gifted from family members or others or may come from a collateral loan against tangible borrower assets.

Whatever the difficulties affecting younger households, the fact is that fewer young families own a home than they did 25 years ago. This creates a significant marketing opportunity for the real estate industry. Marketing, promotion and education about home costs, benefits and financing for young families should become a priority for real estate professionals who want to capture this segment of the market.

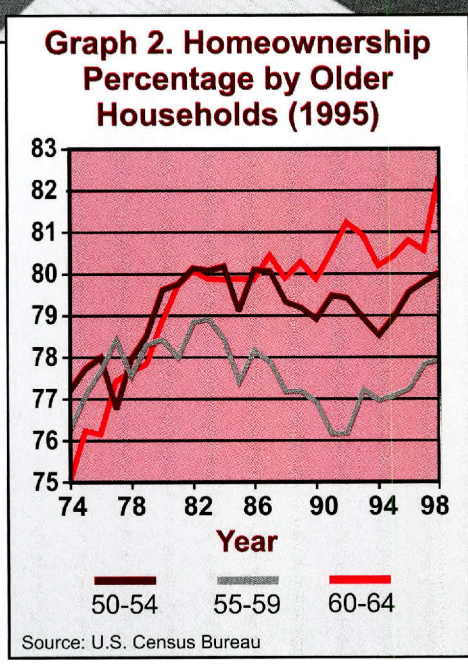
Dr. Dotzour is chief economist with the Real Estate Center at Texas A&M University.



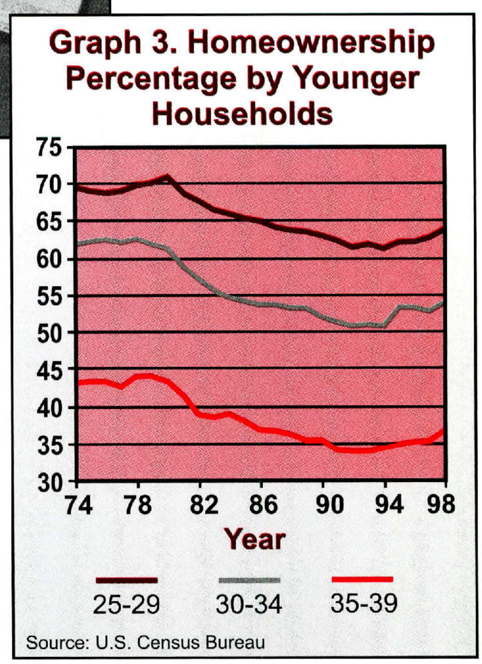
***DOWN PAYMENT FUNDS** are the biggest problem for first-time buyers.*



Graph 1. Homeownership by Household Age (1998)

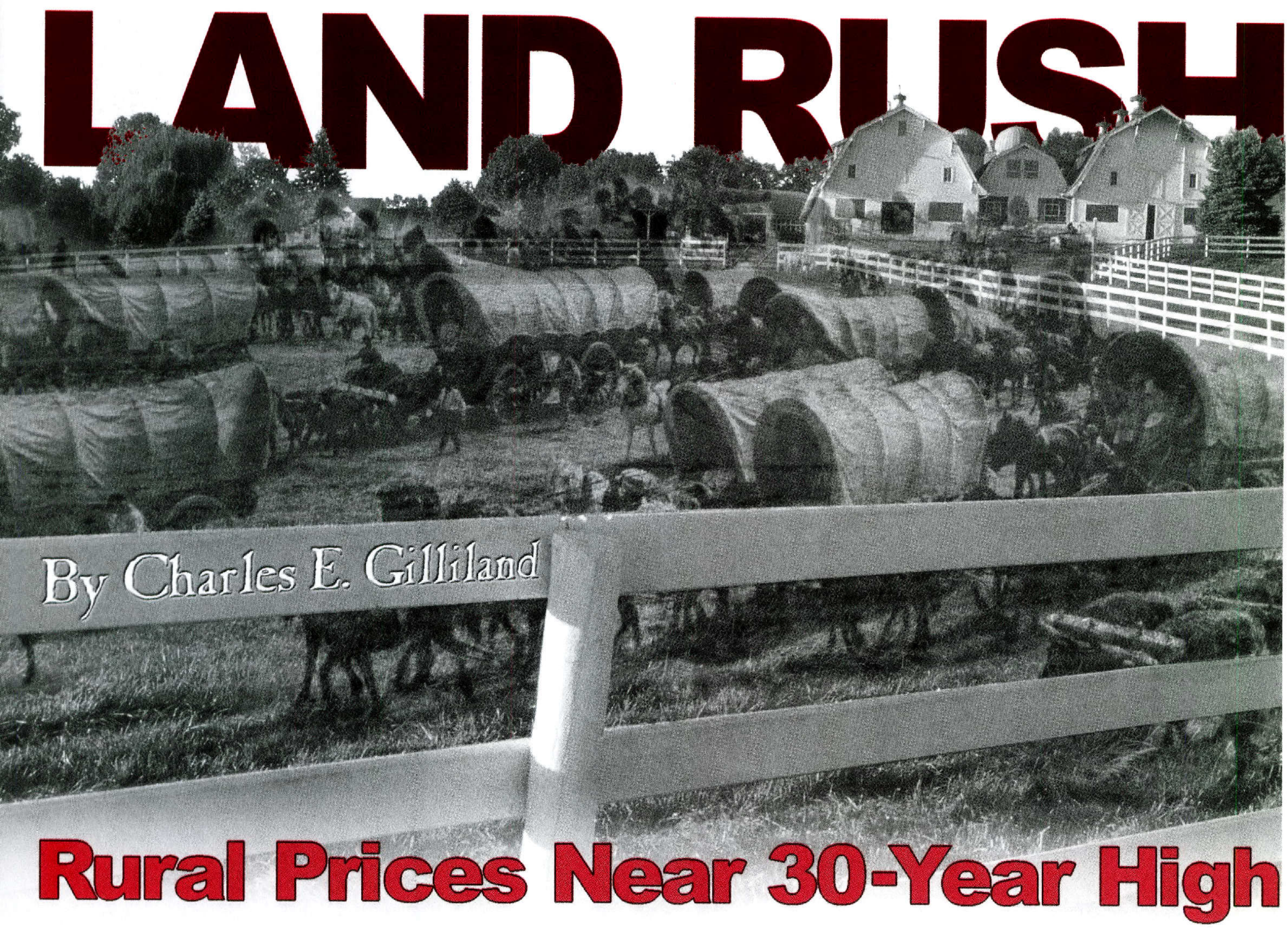


Graph 2. Homeownership Percentage by Older Households (1995)



Graph 3. Homeownership Percentage by Younger Households

LAND RUSH



By Charles E. Gilliland

Rural Prices Near 30-Year High

Despite two major droughts in three years and historically low prices for farm and ranch products, Texas rural land markets finished 1998 with a strong upward trend. A healthy economy and expanding incomes combined to support a 10 percent land price hike as the weighted average price per acre went from $657 per acre in 1997 to $700 per acre in 1998.

Fueled by strong demand from non-agricultural buyers, this remarkable price gain marked the fifth year of recovering land prices. The percentage increase matched performance and prices last posted in the 1978-82 era (Table 1). The current state-wide weighted average price indicates that markets have risen to 83 percent of the 1985 high of $865 per acre.

Not withstanding the sustained recovery, after adjusting for changes in the consumer price index, deflated Texas rural land prices lagged behind prices in the 1966 market. The real (deflated) price of $144 per acre rose a substantial 8 percent but still fell short of the 1966 price of $157 per acre. That drop from the 1966 price represented a compound loss of 0.26 percent spanning the 33-year period. However, this apparent negative for landowners and buyers may disguise a potentially lucrative investment opportunity.

Higher Prices Possible

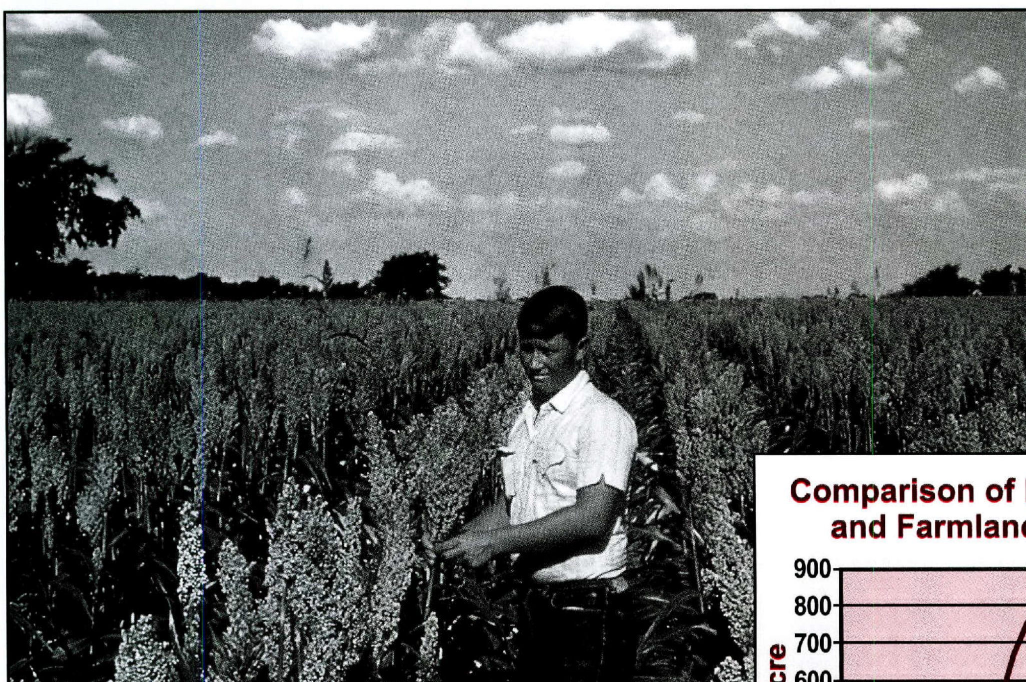
Because current prices appear to be lagging behind historical prices in real terms, the market may still have room for price improvement. Specifically, population growth in major urban areas feed the demand for land. Growing metropolitan populations begin to expand into rural settings as non-agricultural land buyers search for recreational properties. Further, individuals seek alternatives to the hectic pace and associated problems of urban living. These forces work their way into the land market, as non-agricultural buyers purchase rural land and, consequently, farmers and ranchers must compete with these buyers for land.

The graph illustrates the influence of non-agricultural land buyers in Texas' rural land markets. This graph charts the relative level of Texas' rural land price, tracked in the Center's land price series, with the USDA average value of Texas farmland. During the mid-years of the last decade, Texas suffered a debilitating recession and non-agricultural buyers abandoned land markets. The down market lasted from 1986 through 1993, coinciding with a period where the Center's weighted average price of **rural** land and the USDA value for **farm**land converged.

After 1993, non-agricultural buyers, supported with a sustained recovery in the general economy, reentered the rural land market. With increasing frequency, these buyers sought investment bargains, rural homesites and hunting properties. The Center's rural land price series, indicative of all rural land sales, began to rise more quickly than the purely agricultural value tracked by USDA after 1993. Clearly, the non-farm buyer's influence had returned to help set price trends in Texas rural land markets.

Continued Recovery Likely

Potential investment opportunity arises from the relative positions of the land market in the early and later years of this Center land price series (Table 1). The recession of the 1980s reduced land prices more than the drop in incomes would seem to warrant. While Texas' population has expanded from approximately ten million in the mid-1960s to nearly 20 million in 1998, the inflation adjusted price-per-acre fell below the price at the beginning of the study period.



***GOOD CROPS BUT LOW PRICES** mean little profit for farmers this year. Consequently, prices for farm and ranch land lag other rural properties, especially those with recreational potential.*

More people with higher incomes should create demand that boosts prices beyond 1966 levels. By simple comparison with historical price levels, current prices appear to under-value land when non-agricultural demand is considered. Therefore, despite the woes of agricultural producers, Texas rural land prices may be poised for continued recovery as long as the general economy expands.

Local land market trends often vary from state-wide patterns as buyers and sellers approach the market differently. Examining the land price trends provides useful insights into market conditions. Regional 1998 rural land market performance varied across the state with some agriculturally dominated areas exhibiting land prices weakness. However, all of the regions that registered statistically verifiable trends posted price increases (Table 2). The gains ranged from 10 percent in the brush country of the Rio Grande Plains (LMA 11) to 46 percent in the Lower Rio Grande Valley (LMA 32). The strength in these regional markets reflects a vigorous economy, that sustained and improved land prices, with expanding incomes—despite the punishing drought of 1998.

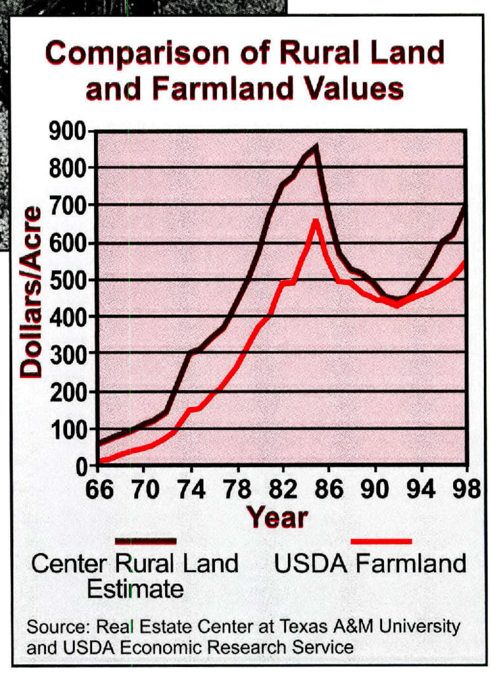
Rio Grande Plains

The brush country of the Rio Grande Plains (LMA 11) increased by 10 percent from $492 per acre to $540 per acre. Strong demand for hunting properties contributed to this sizable price increase. With buyers seeking developed hunting properties, game-proof fences have proliferated in this region. Developed hunting properties typically have an existing game management plan, some lodging facilities and high fences. Similar ranches in this region frequently command a premium price ranging from $100 to $200 per acre more than comparable properties without the same amenities. This strong demand has contributed to subdividing of larger properties into smaller units designed to appeal to owners who cannot afford to invest in larger acreage.

These non-agricultural buyers frequently curtail or eliminate livestock production on the properties. Current Texas property tax laws preserve the open-space taxation based on agricultural productivity values for lands with a valid wildlife management plan. Although some cattle grazing can contribute to the viability of deer populations, sheep and goats directly compete with deer for food. Therefore, this region will probably see continued upward pressure on prices with reduced importance on some kinds of livestock grazing.

Highland Lakes

Feverish land-buying activity in the Highland Lakes (LMA 16) region has propelled the median price past that of the Kerrville area for the first time. The regional median price rose 26 percent, from $1,340 per acre to $1,695 per acre, in 1998. This increase aided Fredericksburg's emergence as a popular tourist and recreational location. Although hunting plays a role in demand for land in this area, other attractions have drawn a large following. Tempering the bullish picture was the decline in the number of reported sales. This drop in



volume reflects the region's shortage of quality properties for sale.

Coastal Prairie

The Coastal Prairie – North (LMA 19) and Coastal Prairie – South (LMA 20) posted price increases of 36 percent and 4 percent, respectively. The Coastal Prairie – North median price rose from $1,159 per acre in 1997 to $1,581 per acre in 1998 in an increasingly active market. Although the Coastal Prairie – South median price only increased from $800 to $828 per acre, the trend was consistent and pervasive throughout the region. Observers report an increase in demand for rural homesites from Houston city dwellers seeking the stability and slower-paced life of a rural area. The influx includes families, retirees and persons with careers built around a virtual office. Spreading urban-based demand has counter balanced poor agricultural market conditions to support higher land prices.

Texoma

The Texoma (LMA 22) region posted a 13 percent price increase from $957 per acre in 1997 to $1,082 per acre in 1998. This growth reflected spreading demand from the Dallas-Fort Worth metroplex. Formerly confined to regions closer to the cities, these buyers are moving to establish homes in the country. The burgeoning economic activity in the Metroplex has fueled the area's general rise in land prices.

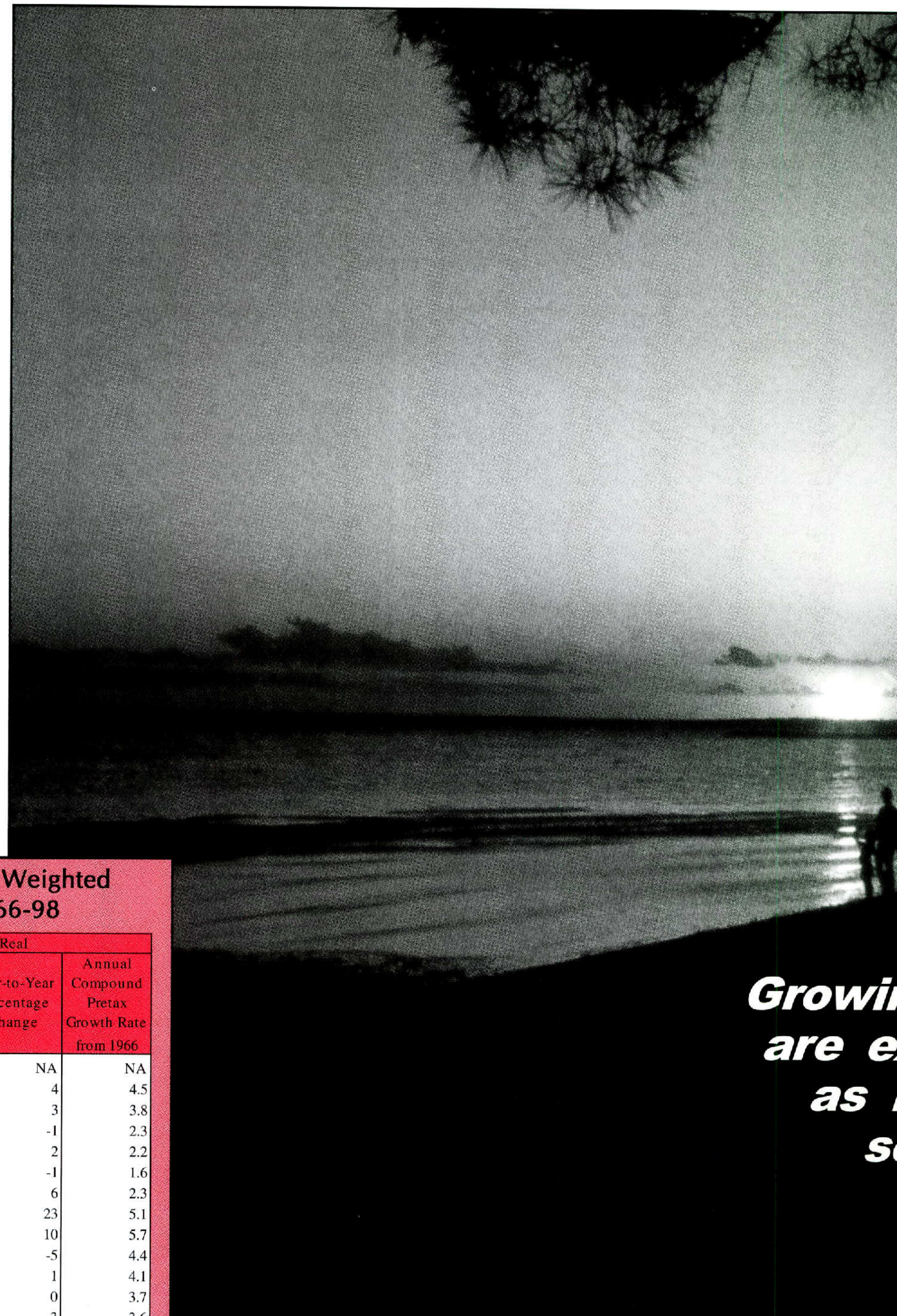


Table 1. Nominal and Real Changes in the Weighted Average Price of Texas Rural Land, 1966-98

Year	Median Tract Size (acres)	Nominal			Real		
		Weighted Average Price per Acre	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966	Deflated Weighted Average Price per Acre*	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966
1966	120	157	NA	NA	157	NA	NA
1967	110	169	8	8	164	4	4.5
1968	101	181	7	7	169	3	3.8
1969	100	190	5	7	168	-1	2.3
1970	107	204	7	7	171	2	2.2
1971	110	213	4	6	170	-1	1.6
1972	120	233	9	7	180	6	2.3
1973	153	304	30	10	222	23	5.1
1974	150	372	22	11	245	10	5.7
1975	126	384	3	10	232	-5	4.4
1976	128	412	7	10	235	1	4.1
1977	121	436	6	10	234	0	3.7
1978	126	485	11	10	241	3	3.6
1979	132	544	12	10	243	1	3.4
1980	138	613	13	10	242	0	3.1
1981	124	708	15	11	253	5	3.2
1982	105	773	9	10	260	3	3.2
1983	113	796	3	10	259	0	3.0
1984	125	842	6	10	264	2	2.9
1985	118	865	3	9	261	-1	2.7
1986	113	714	-17	8	211	-19	1.5
1987	130	611	-14	7	175	-17	0.5
1988	139	574	-6	6	157	-10	0.0
1989	141	562	-2	6	148	-6	-0.3
1990	135	539	-4	5	134	-9	-0.7
1991	138	508	-6	5	121	-10	-1.0
1992	145	499	-2	5	116	-4	-1.2
1993	140	503	1	4	113	-3	-1.2
1994	136	544	8	5	119	5	-1.0
1995	122	586	8	5	125	5	-0.8
1996	111	638	9	5	132	6	-0.6
1997	139	657	3	5	133	1	-0.5
1998	139	720	10	5	144	8	-0.3

*In 1966 dollars
Source: Real Estate Center at Texas A&M University

Blacklands-North

After lagging behind the price level of the surrounding region, the Blacklands- North (LMA 25) played catch-up in 1998. The regional median rose 22 percent from $830 to $1,016 per acre. Non-agricultural demand drove prices upward as development and rural home building influenced the market.

Brazos

The urban growth and bustling economy of the Brazos (LMA 27) area has sparked a 21 percent increase in median prices. The 1997 price of $1,200 per acre expanded to $1,451 in 1998, reflecting growing demand pressures.

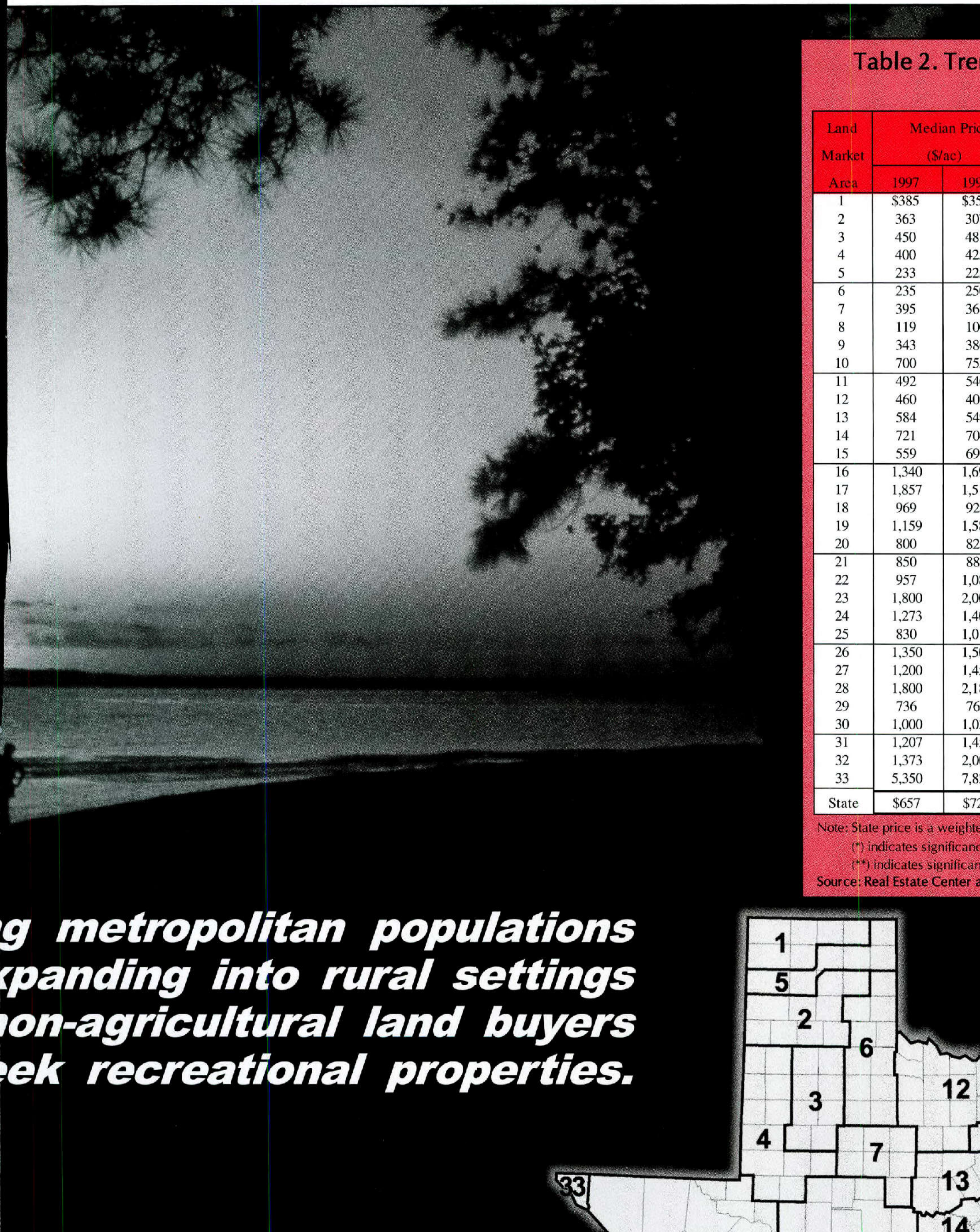
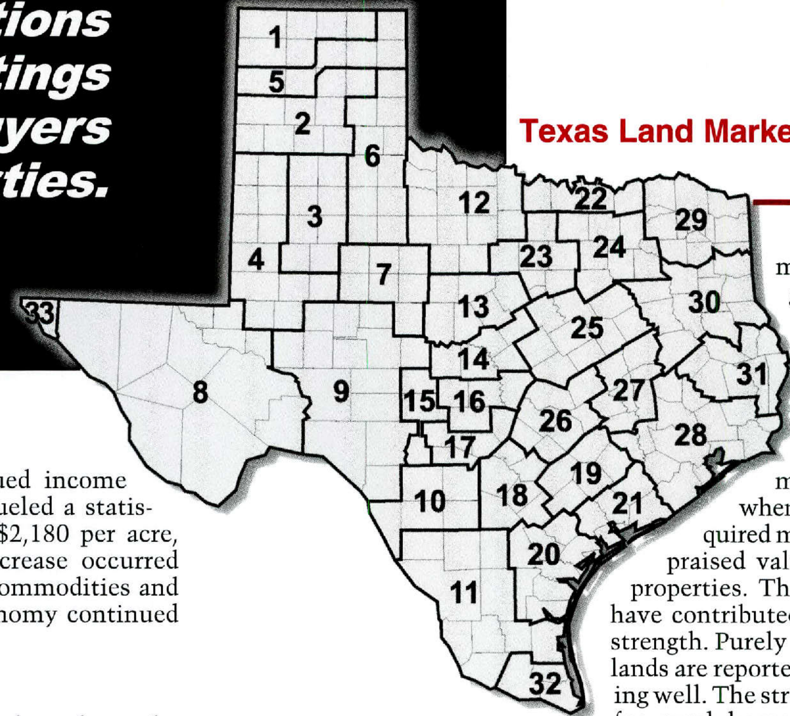


Table 2. Trends in Texas Rural Land Prices, 1996-98

Land Market Area	Median Price ($/ac)		Trend Analysis Change 1997-98		Volume of Sales Analysis Number of Sales		(%) Change
	1997	1998	(%)	Test	1997	1998	1997-98
1	$385	$357	(7)		99	78	(21)
2	363	307	(15)		189	200	6
3	450	481	7		170	166	(2)
4	400	425	6		110	129	17
5	233	225	(3)		38	45	18
6	235	250	6		112	170	52
7	395	368	(7)		133	140	5
8	119	100	(16)		52	39	(25)
9	343	386	13		95	174	83
10	700	755	8		177	183	3
11	492	540	10	**	81	77	(5)
12	460	403	(12)		186	189	2
13	584	549	(6)		197	146	(26)
14	721	704	(2)		185	131	29
15	559	696	25		50	90	80
16	1,340	1,695	26	*	108	63	(42)
17	1,857	1,511	(19)		20	25	25
18	969	929	(4)		123	123	0
19	1,159	1,581	36	**	133	195	47
20	800	828	4	*	132	166	26
21	850	882	4		109	110	1
22	957	1,082	13	*	196	109	(44)
23	1,800	2,000	11		141	107	(24)
24	1,273	1,400	10		184	177	(4)
25	830	1,016	22	**	313	382	22
26	1,350	1,501	11		91	96	(5)
27	1,200	1,451	21	**	260	212	(18)
28	1,800	2,180	21	**	259	224	(14)
29	736	760	3		213	221	4
30	1,000	1,033	3		151	112	(26)
31	1,207	1,459	21		28	32	14
32	1,373	2,000	46	*	110	113	3
33	5,350	7,822	46		2	2	0
State	$657	$720	10		4,447	4,426	0

Note: State price is a weighted average of regional median prices
(*) indicates significance at the 95 percent level
(**) indicates significance at the 99 percent level
Source: Real Estate Center at Texas A&M University



Texas Land Market Areas

Houston

In the Houston (LMA 28) region, continued income growth and an expanding urban population fueled a statistically significant price rise from $1,800 to $2,180 per acre, 21 percent more than 1997 levels. This increase occurred despite the decline in prices for agricultural commodities and oil. The increasingly diversified Houston economy continued to support a vigorous land market.

Lower Rio Grande Valley

Development, both around the cities and throughout the countryside, propelled the median price of rural land upward in the Lower Rio Grande Valley (LMA 32), despite its agricultural woes. Adding to the residential land demand, the Interior Department has scheduled further additions to its Rio Grande Valley wildlife preserves.

Environmental groups have cooperated with this project by contributing the excess over market value when owners required more than appraised value for their properties. The purchases have contributed to market strength. Purely agricultural lands are reportedly not selling well. The strong demand for rural homesites, however, continues to strengthen rural prices throughout the Valley.

Some agriculturally dominated regions registered declines in median price per acre. Statistical testing indicates, however, that none of these apparent market declines prevailed throughout the areas for all types of rural land. This lack of uniformity in land price trends reflects a divergence between markets for ranch land and farm land. Observers contend that farm land, in general, remained steady to slightly down, while demand for ranches remained robust. Thus, ample income growth and funds from non-agricultural forces ensured that even the poor-performing land markets registered surprising strength in the face of daunting crop and price conditions.

Examining historical price trends places the 1998 market in context that may indicate future trends. Land price increases similar to those observed in the 1997-98 markets occurred in 1973-74 and 1978-81 (Table 1). These previous eras accompanied economies beset with inflation and unsettled economic times and probably reflected unprecedented increases in demand for agricultural products and severe restrictions in oil supplies. In both cases, the economy failed to sustain the conditions creating the demand for land. Taking those factors into account prompts some observers to question the current economy's ability to sustain growing demand for land.

Bleak Farm Land Prospects

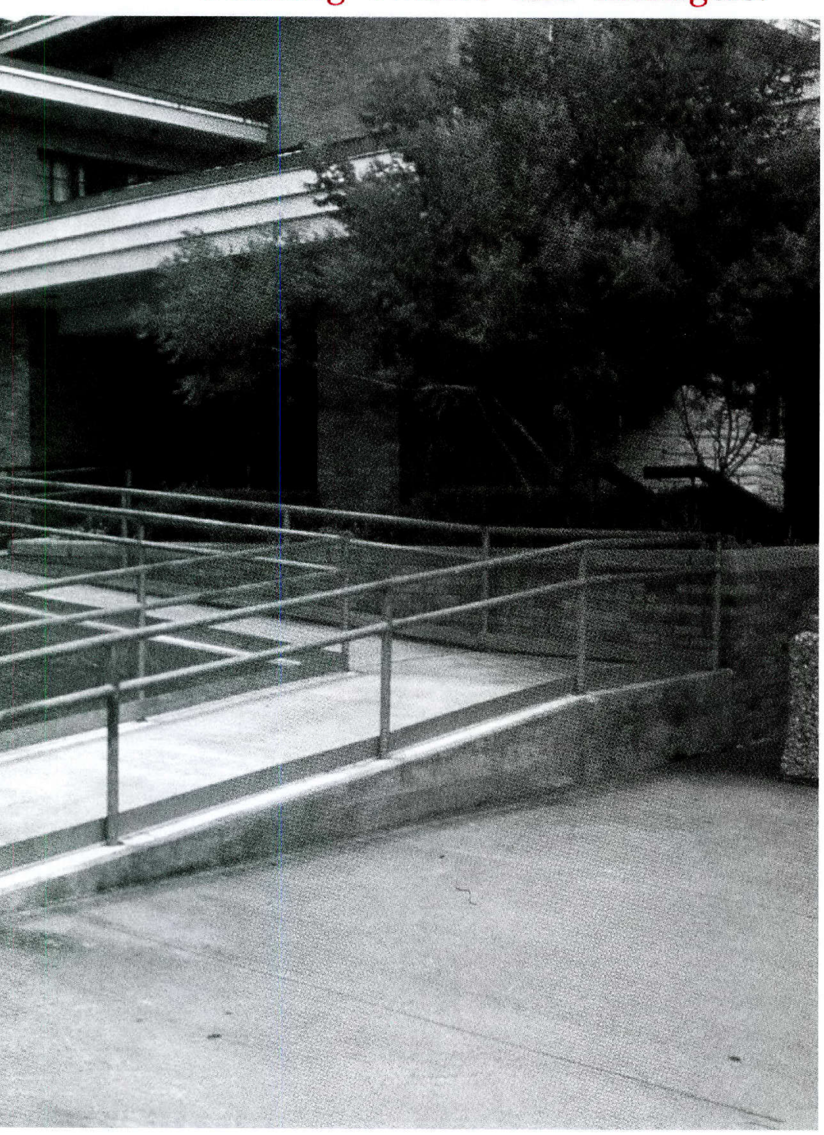
Several differences between those times and the current situation point to reasons to believe that the recovery in land prices may continue. First, as previously noted, deflated current prices are low compared to historical levels. Second, the anticipated transfer of wealth from the World War II generation to their heirs may be underway, and this sudden acquisition of wealth will likely fuel purchases of homes and real estate. Finally, inflation now remains in check while the economy continues to expand. All of these issues point to forces that may favor continuation of the strong non-agricultural demand for rural land. Prices should continue to rise for attractive land in good locations.

Farm land (land not likely to be purchased for recreational purposes), however, may face decidedly different prospects. The threat of continuing drought, combined with low prices for agricultural commodities, creates a bleak portrait of future land price trends. The agricultural component of rural land demand will likely remain weak until these conditions improve. Land markets in primarily agricultural areas may fare less well in the coming year than land near growing communities or with desirable recreational features. Further increase in land prices are expected statewide with some areas having weakening prices. The prosperity, however, rests on non-agricultural demand for continued improvement.

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

Contemplating purchasing or renting an income investment property? Will it be a small office complex, a retail shopping center or possibly a multifamily apartment building? Before making that final decision, experts urge a review of the potential implications associated with the Americans with Disabilities Act (ADA) for buildings open to the public.

Signed into law on July 26, 1990, the ADA is wide-ranging legislation intended to prohibit discrimination by making society more accessible to people with disabilities. And better access means better marketability for building owners and managers.



More than four million Texans have disabilities, according to the Texas Governor's Committee on People with Disabilities (TGCPD). Looking beyond state boundaries at the entire nation, that number jumps to 54 million, or approximately one out of every five people.

Public Accommodations

Nearly all office complexes, retail centers and apartment buildings are considered open to the public; therefore, prospective commercial and multifamily property owners and renters should familiarize themselves with the law. Title III of the ADA, Public Accommodations, states that people with disabilities "shall have full and equal enjoyment of goods, services and facilities provided by public accommodations." This applies to buildings such as office complexes, retail centers and to public or common areas where operations affect commerce (such as rental offices for multifamily apartment buildings, lobbies, sidewalks and parking lots). The ADA does not, however, apply to single-family residences or rental properties that are not open to the public. Categories of public accommodation include places of:

- lodging,
- establishments serving food or drink,
- exhibition or entertainment,
- public gatherings,
- rental establishments,
- service establishments,
- stations used for public transportation,
- public display or collection,
- recreation,
- education,
- social service centers and
- exercise.

While the law helps people with disabilities to get to a facility, enter it and use it, this does not mean that every area of the building must be fully accessible, according to the Institute of Real Estate Management (IREM). To meet compliance standards, effective for all new construction and modifications completed after January 26, 1993, owners or managers must perform three duties: 1) modify discriminatory practices, policies and procedures; 2) provide auxiliary aids and services to facilitate communication with disabled people; and 3) remove structural and communications barriers to the disabled where removal is "readily achievable."

Necessary auxiliary aids for the visually and hearing impaired include telephone handset amplifiers, taped texts for leases or legal agreements, materials in braille or large type and flashing lights on alarm systems. Barriers for commercial property owners with public facilities include such things as steps leading into an apartment rental office, doorways too narrow for a wheelchair, a lack of raised-letter markings on elevator control panels or restrooms without grab bars.

This does not mean the new owner of an old building must send in the wrecking ball within days of closing. Further defined, *readily achievable* means alterations that are "easily accomplishable and able to be carried out without much difficulty or expense," according to the ADA.

"What a mom-and-pop store will find readily achievable is certainly not going to be the same as an IBM or Xerox or a General Motors," says William Wilkoff of District Design in Washington, D.C. "If IBM says it doesn't have the money, the government is going to frown on that. It depends on the resources of the parent entity."

In fact, for existing buildings, pathways from renovated entrances, restrooms and elevator lobbies to other areas of the facility do not have to be brought into compliance if the cost of renovating the pathway exceeds 20 percent of the overall renovation cost. This 20 percent guideline, however, is based on costs stretched over a three-year period to prevent owners from attempting to circumvent the requirements by scheduling low-cost renovations rather than the more expensive improvements, according to IREM.

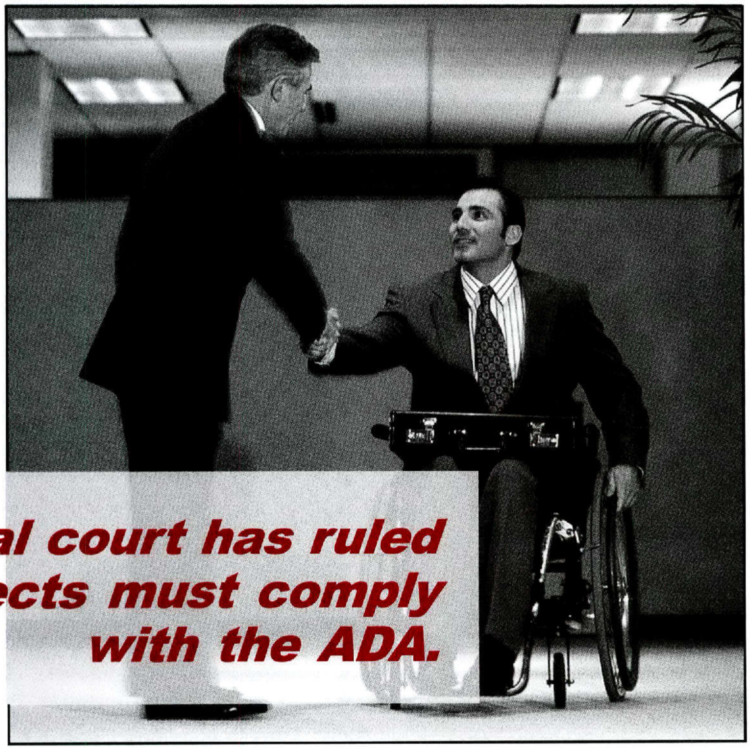
It should be noted the ADA does not require that **single-family rental homes** meet their standards because they are neither open to the public, nor do they have areas of public accommodation.

Tenant Improvements

ADA compliance does apply to leases and subleases, management companies and any other entity that leases or operates facilities with public accommodations. The financial obligation of **tenant improvements**, however, depends on who conducts the build-out.

It is a matter of private contract who ultimately absorbs the cost of compliance, according to National Association of Home Builders Senior Counsel Rhonda Daniels. There is no obligation on the part of the owner to pay for such improvements, and the owner should remember that ADA compliance costs could be applied to the tenant improvement allowance or passed through to the tenant, based on the useful life of the improvements.

A federal court has ruled architects must comply with the ADA.



***NEW TEXAS LAWS** increase accessibility to state-leased facilities by requiring inspections prior to move in.*

Responsibility Now Shared

No longer must commercial and multifamily property owners carry the sole brunt of the compliance burden and then hope for the best. In October of 1997, the Federal District Court in Minneapolis, Minnesota, declared that architects, not just building owners and managers, are subject to liability under Title III of the ADA. The Building Owners and Managers Association (BOMA) helps explain why these groups must share the responsibility.

"Architects should not be insulated from the ADA—they are often in the best position to prevent discrimination against the disabled due to architectural barriers, as technical requirements are often complex and require technical expertise and judgment—which architects can uniquely supply," says Bill Garland, president of BOMA International. "Because architects are intimately involved in the design and construction phases of a facility, it is an architectural firm's duty to uphold and comply with the laws laid out in the ADA."

Texas-Size Assistance

With increased awareness and sensitivity, much is being done, not only on the national level but also at the state level to assist Texans with disabilities. These improvements provide valuable benefits for property owners, managers and the disabled.

Working in tandem with the ADA, the Texas Accessibility Standards (TAS) became effective April 1, 1994. New construction and modifications must comply with these standards which were developed by the Texas Department of Licensing and Regulation (TDLR) and approved by the Department of Justice as equivalent to the ADA. Therefore, buildings in compliance with the TAS are assured of meeting both state and federal guidelines. Property owners and businesses may contact TDLR and schedule an inspection to determine that their building is in compliance. All new construction or modifications with estimated construction costs exceeding $50,000 must have blueprints approved by TDLR before construction begins.

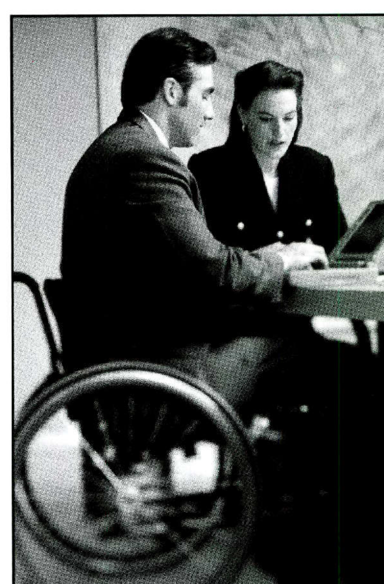
In addition, the TGCPD rallies local committees across the state to make decisions and shape policies for citizens with disabilities. These groups address relevant issues such as housing, access, the ADA, parking, employment, transportation, education and health care.

Through the work of the TGCPD, new Texas laws have been shaped to increase accessibility of **state-leased** facilities by requiring inspections for compliance prior to occupancy. House Bill 2493 requires cancellation of the lease if the property is not brought into compliance with accessibility standards within 60 days of the inspection.

This actually proves a win-win situation for people with disabilities and building owners. By requiring accessibility, property owners must thoroughly plan building designs, build-outs or renovations. In the long-run, such provisions are far less costly than tearing out non-compliant carpets, walls, toilets or doorways after completion.

Tax Deductions, Credits Ease Expense

To help cover the costs of compliance, some expenses, applying primarily to older facilities, may be recovered through tax deductions and credits. According to Internal Revenue Service Code Section 44, a firm may deduct as much as $15,000 of the annual expense for removing architectural barriers. In addition, higher amounts may be deducted based on depreciation.



***INVESTORS WHO KNOW** what to look for before buying or renting may save time, money and anguish.*

FIRMS MAY DEDUCT *as much as $15,000 annually for removing architectural barriers.*

For small businesses, some tax credits also are available. According to the ADA, a small business is one that has gross annual tax year receipts of $1 million or less or employs no more than 30 full-time workers. (For a complete outline of eligibility standards, see IRS Publication 907.)

Credits, however, are not available for new construction, completely renovated spaces or for expenses involving any facility first placed in service after the tax law was enacted on October 27, 1990.

Compliance Does Not Have to Break Budget

Bringing commercial and investment properties into compliance does not have to be a budget-breaking task. After all, bankruptcy is not the objective of the ADA; rather accessibility for everyone is the goal.

"The first step in making a good faith effort is to develop a plan for compliance to show that you're aware of the law, you're sensitive to it and you're going to do the best you can in light of your resources," advises Robert Aalberts, ADA expert and professor of business law at the University of Nevada.

To develop the ADA-compliance plan, according to IREM guidelines, it is important for property owners to:

- perform walk-throughs of their facilities with a qualified architect or someone knowledgeable of required technical details;
- make a checklist of necessary changes for compliance;
- prioritize these items based on budget, impact on the site, nature of renovation; and
- carefully document the plan to ensure compliance.

ADA compliance does not have to be arduous. By having a clear understanding of the ADA requirements and knowing what to look for in properties before finalizing the purchase or rental agreement, much time, effort, money and anguish can be saved.

After all, "for disabled people the ADA is about freedom, not regulations and lawsuits," according to parapalegic news correspondent John Hockenberry. "Disabled people are looking for what makes everybody's life great, the ability to think up adventures big and small, and just go for it."

This article is not intended to substitute for legal counsel. It does not include exemptions to the act, rental lessee's liability, penalties for violations, detailed definitions of public accommodations and other related information. For specific advice, see an attorney.

For a copy of the ADA considerations for commercial leases, use the order form on page 24.

Hofmann is a former assistant editor with the Real Estate Center at Texas A&M University.

Quick Reference Guide

For more information, contact:

ADA Information Line
Phone: 800-514-0301
Web site: www.usdoj.gov/crt/ada/adahom1.htm

Building Owners and Managers Association (BOMA)
Phone: 202-408-2662
Web site: www.boma.org

Internal Revenue Service
Phone: 800-829-1040
Web site: www.irs.ustreas.gov/

Texas Department of Licensing and Regulation (TDLR)
Phone: 800-803-9202
Web site: www.license.state.tx.us

Texas Governor's Committee on People with Disabilities (TGCPD)
Phone: 512-463-5739
Web site: www.governor.state.tx.us/Disabilities/disabilities_GCPD_General.html

Texas Real Estate Commission
(ADA coordinator, Nancy Guevremont)
Phone: 512-459-6544
Web site: www.trec.state.tx.us

Texas Society of Architects
(for copies of Texas Accessibility Standards)
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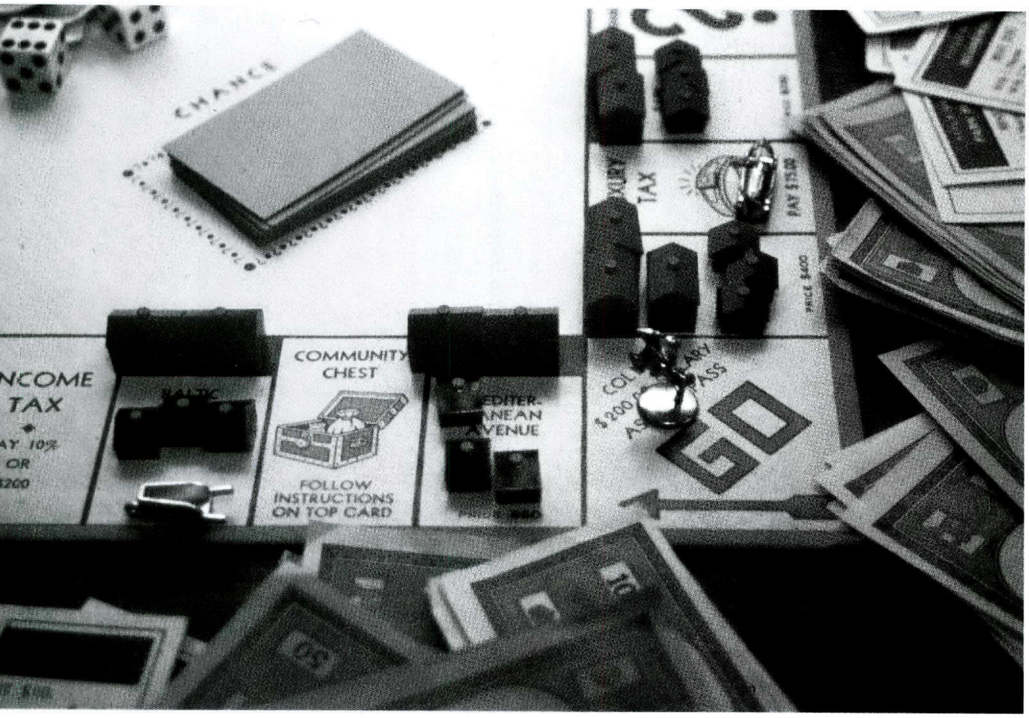
More Households More Houses



By Steve H. Murdock and Nazrul Hoque

The latest numbers from the Texas Data Center suggest a Texas population of 20.3 million by 2000 and nearly 34 million by 2030; a median age of 38 in 2030; and a projected population of 36 percent Anglo, 10 percent African American, 46 percent Hispanic and 8 percent from other race-ethnicity groups in 2030. Although these estimates are not intended for detailed planning, they predict directions of change that merit attention because of what they suggest about future housing markets in the state as a whole and for specific areas within Texas.

Projected State-wide Patterns

Although several alternative projection series are available through the state data center, the projections suggests that the number of households will increase from the estimated 7.3 million in 1999 to 13.4 million in 2030, a numerical increase of nearly 6.1 million or 83 percent. This means that household growth would continue to exceed population growth, a projected increase of 69.6 percent during the same period. With swift growth in population and even more so in household formation, such data suggest a relatively rapid expansion in future housing markets.

These data also suggest that the number of owner households will grow more quickly than renter households. From 1999 to 2030, the number of owner households would increase from about 4.5 million to nearly 8.5 million (87.5 percent), while the number of renter households increases from nearly 2.8 million to 4.9 million (75.8 percent). As a result, the total percentage of owner households would rise from 61.9 percent to 63.4 percent during the same time.

The age of individuals heading households also would change. In 1999, 29.8 percent of total households, (38.4 percent of owner households and 15.9 percent of renter households) had a householder (head) 55 years old or older. By 2030, that number would swell to 42.5 percent of all households (including 51.6 percent of owner and 26.7 percent of renter households). Clearly, houses appealing to older households should show rapid market growth.

Dramatic changes also are expected in race-ethnicity characteristics. The proportion of all households occupied by Anglos is projected to decrease from 62.4 percent in 1999, to 42.1 percent in 2030. For owner households, this percentage would decline from 68.2 percent to 47.2 percent. For renter households, the proportion would drop from 52.8 percent to 33.1 percent.

Conversely, by 2030, 9.7 percent of all householders would have an African-American household head, 39.9 percent a head of Hispanic origin and 8.3 percent a head from some other racial-ethnic group. These percentages would be 7.9, 37.1 and 7.8 percent, respectively, for owner households and 12.7, 44.9 and 9.3 percent for renter households. Clearly, a need exists for products that appeal to diverse clientele.

Texas Metropolitan Area

These data also provide patterns of interest for Texas' different metropolitan regions. The largest increase in the number of households from 1999 to 2030, is projected for Dallas at nearly 1.7 million, followed by Houston at 1.3 million, Fort Worth-Arlington at more than 826,000, Austin-San Marcos at nearly 444,000 and San Antonio at nearly 348,000.

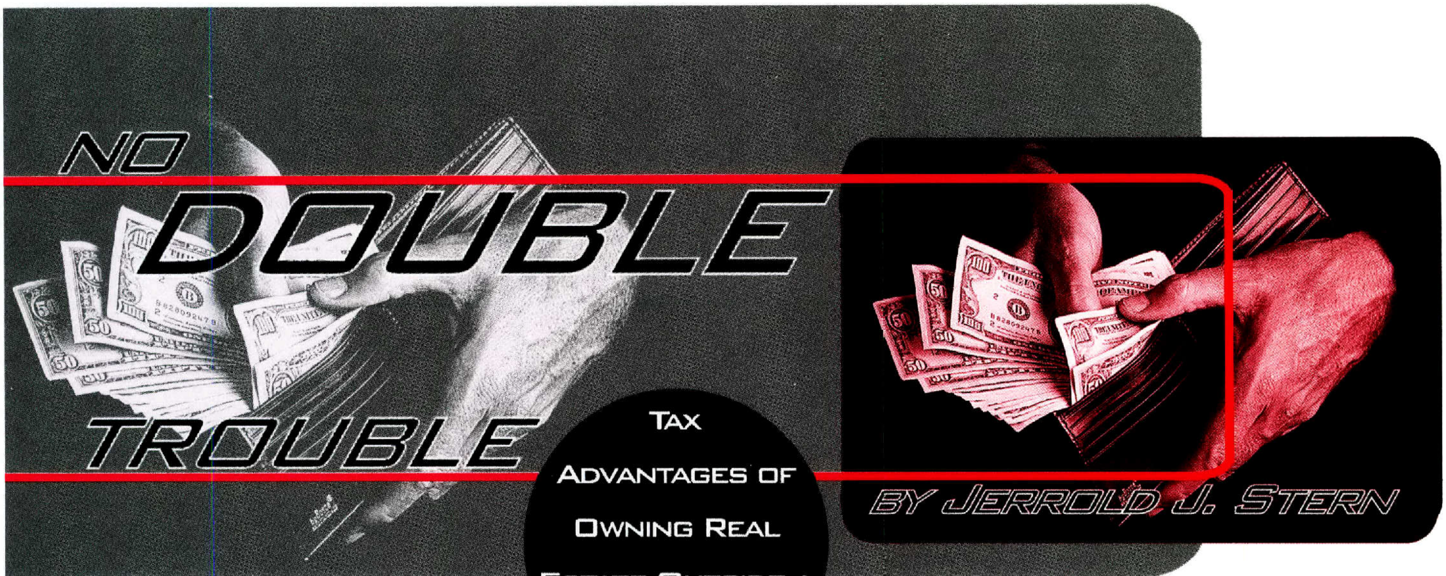
In percentage terms, the most extensive growth is expected in McAllen-Edinburg-Mission where the number of housing units should increase by as much as 189 percent during the next 30 years. Laredo should experience a household increase of 169 percent; Dallas, more than 131 percent; El Paso, 127 percent; Fort Worth-Arlington, more than 119 percent; Austin-San Marcos, nearly 111 percent; and Brownsville-Harlingen-San Benito is anticipated to have an increase of nearly 110 percent.

These projections suggest a continuation of the rapid growth patterns along the Texas-Mexico border, in the state's largest metropolitan areas and through the central corridor of Texas from Dallas-Fort Worth, south through Austin-San Marcos to San Antonio.

The data also indicate that the statewide aging and ethnic diversification patterns of households will be pervasive across the metropolitan regions of Texas. Thus, by 2030, 16 of the state's 27 metropolitan regions would have as few as 50 percent of their households headed by an Anglo. This would be true for 11 of the 27 areas relative to owner households and for 24 of 27 metropolitan areas relative to renter households. The data further indicate 18 of the 27 metropolitan areas would have 25 percent or more of their households with a head who was at least 65 years old by 2030.

Overall, these projections suggest that Texas' population growth will bring with it a rapid increase in the number of households and associated housing demand. This growth also will bring increased demand for housing for a more diverse population and for households with an increasing proportion of older household members. Although projections must be viewed cautiously, these data suggest a future of continued expansion in the demand for housing in Texas.

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



No Double Trouble

Tax Advantages of Owning Real Estate Outside a Corporation

By Jerrold J. Stern

For a variety of reasons, many small businesses are structured as regular corporations rather than S corporations, partnerships or limited liability companies (LLCs). A key feature distinguishing the regular corporation from other entities is that the corporation and its shareholders are subject to double taxation. One advantage of owning real estate outside a corporation is to partially avoid double taxation. Other advantages include reducing payroll taxes, shifting income to low-tax-rate family members and protecting assets from corporate creditors.

Partially avoid double taxation, reduce payroll taxes, shift income to low-tax-rate family members, protect assets from corporate creditors.

Double taxation. Corporate profits are taxable at rates ranging from 15 to 39 percent. When profits are distributed to shareholders as dividends, they are taxed a second time at rates as high as 39.6 percent.

This double taxation occurs because dividends are not deductible by the corporation, and paying dividends does not reduce corporate taxable income. However, rents paid to use real estate are ordinary deductible expenses just like advertising or utilities expenses. Thus, shareholder-owned real estate leased by the corporation provides the opportunity for the corporation to pay deductible rents to the shareholder rather than nondeductible dividends, thereby avoiding double-taxation. If the property is later sold at a gain, the gain also avoids tax at the corporate level.

Payroll taxes. In addition to avoiding double taxation, there are no payroll tax consequences from paying rents. This is a relative advantage of paying rents to shareholder-employees rather than higher salaries. While both salaries and rents are deductible, salaries also are subject to payroll taxes at rates of as much as 15.3 percent (7.65 percent paid by both the employer and the employee). Moreover, salaries considered "unreasonably high" by the Internal Revenue Service can be recharacterized as dividends resulting in back taxes, interest and possible penalties.

Reasonable rents. Like salaries, rents paid to shareholder-employees also must meet a reasonableness standard. The absolute size of the rental payment is not relevant. A "reasonable rent" is defined as one that a willing lessee would pay to a willing lessor, neither being under any compulsion to enter into the transaction and both having knowledge of the relevant facts.

As a practical matter, as long as the rent can be substantiated by comparable rents charged under comparable circumstances, it will meet the reasonableness standard. If comparables are not available, the rent can be based on a percentage of property value. But, here too, industry norms need to be documented and followed.

Income shifting. Owning real estate outside the corporation also facilitates shifting income from high-tax-rate family members to those subject to low tax rates. This is particularly attractive for families with children age 14 or older who have lower tax rates than their parents.

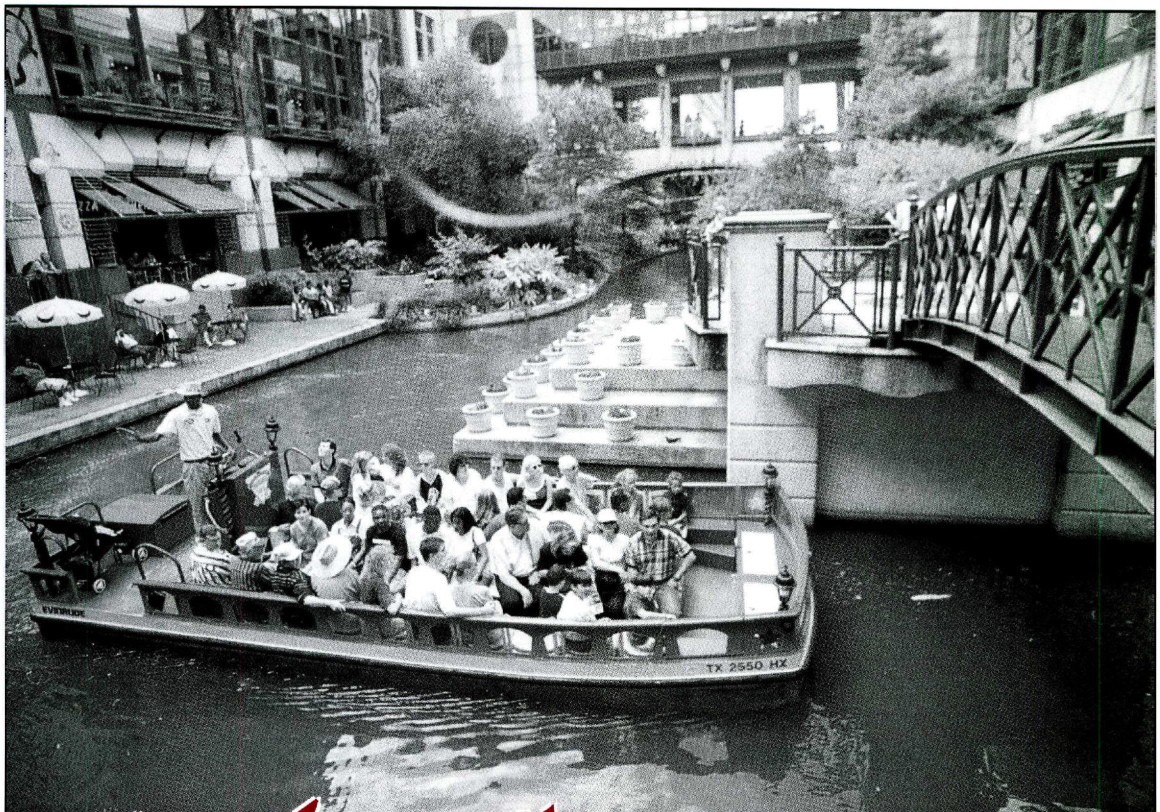
For example, assume the property generates $100,000 of rental income per year. If 50 percent is owned by a child, $50,000 is taxed at the child's tax rate (an average tax rate perhaps as low as 20 percent) rather than the parents' tax rate (possibly as high as 40 percent)—potentially saving as much as $10,000 per year.

A non-tax advantage of real estate co-ownership with children is to bring them into the family business. (For more information on family ownership of real estate, see the tax column in the spring 1999 issue of *Tierra Grande*, "Tax Planning with Family Limited Partnerships.")

Asset protection. Another advantage for non-corporate real estate ownership is to protect real estate from general creditors of the corporation. If the corporation is involved in legal action, creditors are precluded from attaching assets not owned by the corporation. This result is achieved regardless of whether the real estate is owned by an individual or another business entity, such as a partnership, LLC or S corporation. In addition to real estate, other assets may be owned outside the corporation and provide similar benefits. Examples include vehicles, computers, office equipment and machinery.

Tax planning for the optimal method of real estate ownership can be complex. 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.

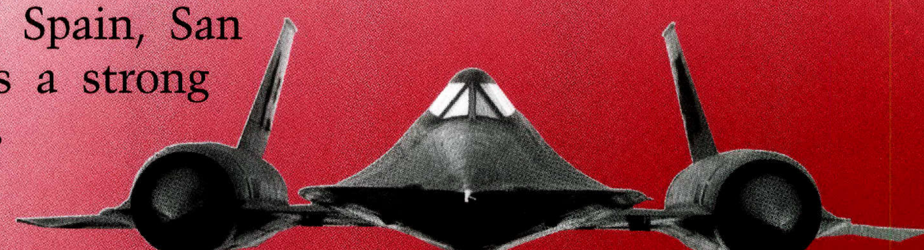


San Antonio

By Mark G. Dotzour and Andrew Hendricks

San Antonio is one of Texas' premier tourist destinations. A non-stop celebration of cultural diversity, the historical Alamo and the famed "River Walk" make this city a magnet for tourists and convention business.

Founded as a military garrison in 1718 by the viceroy of Spain, San Antonio still maintains a strong military presence. It is home to no less than four Air Force bases and one Army base.



Reduced military spending and military base closures, however, are significant challenges to the city. The Air Force is charged with implementing a $95 million cut at Brooks AFB that could trigger the loss of as many as 300 base jobs. The base has been in jeopardy since the 1995 Defense Base Closure and Realignment Commission initially marked it for shutdown. In addition, a cost-cutting study could trim as many as 400 military and civilian jobs at Lackland AFB.

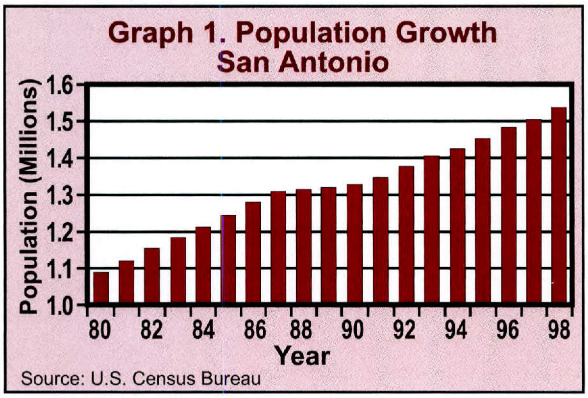
City officials understand that innovation and entrepreneurship will be needed to successfully make the transition from military to civilian employment. Evidence of recent success includes a Boeing decision to locate at the former Kelly AFB site. A warehouse there is now a shipping point operated by Ryder Integrated Logistics.

A $10.1 billion Air Force contract was awarded to Lockheed Martin which will ship half of its jet engine repair work to Kelly. Lockheed will retain as many as 1,400 workers at Kelly, which the city will redevelop into a private industrial park after it closes as a military base in 2001. This will complement the jobs added after Boeing moved into Kelly in 1998.

When the 1995 decision was made to close Kelly AFB's Air Logistics Center, the Air Force almost immediately signaled its willingness to allow the runways to be used for commercial cargo purposes. Nearly four years later, the air cargo initiative remains in a holding pattern, largely because time-consuming Air Force procedures. The Air Force is in the process of completing a sensitivity analysis concerning noise pollution and flight patterns. Once completed, Kelly will be even more attractive for warehouse and goods distribution business.

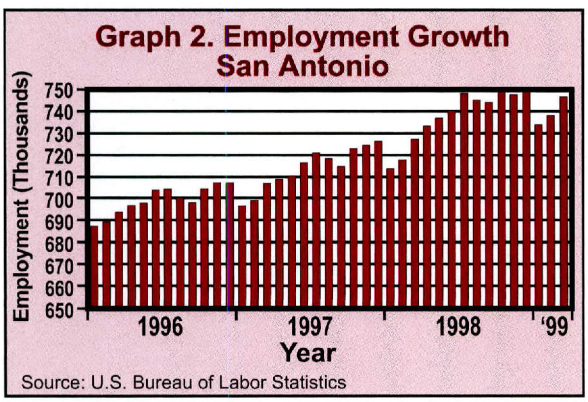
Housing Demand Increasing

The U.S. Census Bureau reports that the population for the entire metropolitan area (Bexar, Comal and Guadalupe counties) reached more than 1.5 million in 1998, up 2.1 percent from the previous year (Graph 1). In the 1990s, the population has grown by an average of more than 26,000 per year. This level of population growth creates demand for approximately 10,000 new housing units each year.



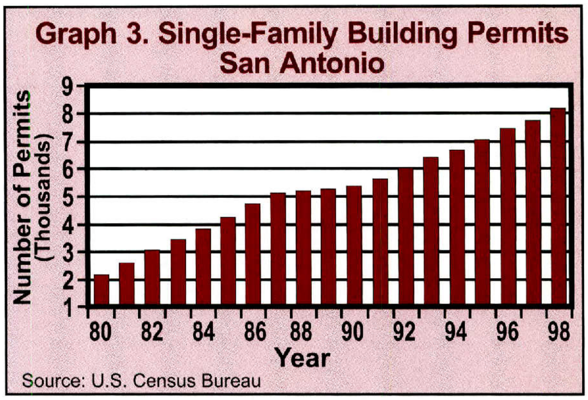
Graph 1. Population Growth San Antonio

Job growth continues in the area. Total employment reached 734,839 in January (Graph 2), 3 percent more than the same period in 1998. San Antonio's unemployment rate reached an all-time low of 2.9 percent in December. Job growth nation-wide is expected to slow in 1999 as demand from Asia continues at low levels and European economies have slower growth. A recent 1999 job growth projection issued by the San Antonio branch office of the Dallas Federal Reserve shows an expected 1.5 percent increase, a net gain of 10,400 jobs.



Graph 2. Employment Growth San Antonio

Single-family home sales were unusually robust in 1998 (Graph 3). Last year a record 13,000 homes were sold. This is a significant increase from the 11,300 units in 1997 and 10,800 in 1996. This year started off strong, with first-quarter sales exceeding the levels incurred in the white-hot market of 1998.



Graph 3. Single-Family Building Permits San Antonio

The median price of existing homes sold in the San Antonio area was $87,300, up from $86,000 in 1997. Because of the strong sales volume, the Real Estate Center estimates the inventory of homes on the market in March was 5.8 months. The supply has been less than six months since November 1998. In February 1996, the supply was equivalent to 11.3 months of sales.

New housing construction has been strong in the area for the past five years with more than 6,000 new houses constructed in the metropolitan area each year since 1994. In 1998, a record was set for new construction starts with more than 8,000 new homes built.

Much new construction is in the city's northwest and north-central regions. Significant growth is occurring in the Boerne area. The median price of new homes built in February was $87,100, up 7 percent from the previous year. Local residential experts predict that new housing starts will not match the 1998 record and may slip slightly in 1999 as job growth is expected to slow.

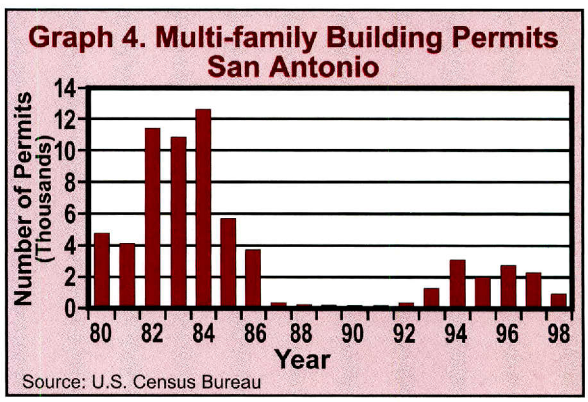
New apartment construction slowed in 1998, from higher levels in the previous four years (Graph 4), peaking in 1994 at more than 3,000 units. Fewer than 1,000 new apartments were added in 1998, down from the 2,260 units built in 1997.

According to Apartment MarketData Research, the area's overall apartment occupancy rate in March 1999 was 94 percent. The lower construction level keeps community occupancy rates high. Recently, plans for a $6.7 million, 92-unit apartment complex were announced. This will be the first new multi-family development near Our Lady of The Lake University in 25 years and will provide much-needed housing in one of San Antonio's poorest areas.

Commercial Growth Linked to Mexico

More than $180 million in office space was built in 1998, according to San Antonio's Building Inspections Department. Most of the growth is occurring around downtown and in the city's north and northeast sections.

According to Baxter Southwest Corporate Realty Services, net absorption was 259,000 square feet, down from 407,400 in 1997. Recent reports indicate that the office space vacancy rate remains at less than 11 percent, near the lowest levels in the 1990s.



Graph 4. Multi-family Building Permits San Antonio

Vacancy rates have steadily declined each year this decade. However, the 1999 vacancy rate is 10.7 percent, up slightly from 10.6 percent a year ago. A six-story office building and a 400-car parking garage are planned on two acres of land near downtown.

Construction on the 105,000-square-foot building will begin when the space is pre-leased. A new trade center opened in September 1998, which will provide prime office space for the North American Development Bank, the city's showcase for trade and international relations.

In 1998, San Antonio officials issued 30 warehouse and industrial permits valued at more than $47 million. The majority of these projects were for warehouse space. Growth is occurring mostly in the city's north and east areas. The conversion of Kelly AFB to the private sector will greatly impact the industrial market. The key to future growth in this market hinges on providing warehouse and distribution facilities for increasing trade with Mexico.

New trucking rules were to allow tractor-trailers from both the United States and Mexico to travel within the boundaries of all of the 11 states on both sides of the border Scheduled to go into effect December 15, 1995, these rules have been delayed in Washington by lobbyists for political opponents in the U.S. trucking industry. The vision was for San Antonio to take advantage of its location to create a "product pipeline" with manufacturers in Monterrey, Mexico's industrial powerhouse—less than a six-hour drive south. Without those trucking regulations in place, however, the fruits of NAFTA have yet to ripen here.

Water Ways

The city is making vigorous efforts to secure adequate future water supplies. The San Antonio Water System board is considering proposals to get water rights from the Simsboro Aquifer, northeast of Bastrop in Central Texas, as a possible turning point in the city's efforts to cut its dependency on the Edwards Aquifer, San Antonio's sole source of water.

A 21-county regional water planning group is evaluating many options as part of a strategy to meet the region's long-term water needs. A sand aquifer in southern Bexar County moved closer to becoming a source of drinking water for San Antonio when water system trustees approved a contract recently. The utility's board authorized an option-to-buy contract for 1,650 acres straddling the Bexar-Wilson county line and overlying the Carrizo-Wilcox Aquifer. Recent agreements with ALCOA will bring additional water resources to the community. These efforts will ensure that sufficient water is available to support future growth.

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

(Benchmarks *continued from p. 1*)

employees flexibility in achieving those goals. "Don't bring me the labor pains," he was fond of saying, "bring me the baby."

For relaxation, Wooten loved to hunt. As a young man, he went after game with the help of a hunting dog named King Tut. "He wasn't afraid to throw lead at the birds," said a friend. "He figured you couldn't kill them if you didn't shoot at them." And, as a professional economist, Wooten's economic analysis could be pungent. He liked to tell students he was a hog farmer, a notoriously smelly line of work. Students would ask him about the business, and he would respond, "When prices are up, you don't notice any smell, but when prices are down, those hogs begin to stink a little."

In 1963 and 1964, students voted Wooten back-to-back awards as outstanding professor in agricultural economics. "He was the type of guy who all the students liked," remembers a former pupil. "He knew the problems. You'd go in there and sit down and talk to the guy, and it'd be just like talking to your folks."

Wooten's last official position was as director of the Real Estate Center, a post he held for a decade. He guided the Center through its early years, and stayed to insure that it survived its first Sunset review by the Texas Legislature. In recognition of his service, The Board of Regents granted him the title "director emeritus." Today, the Center continues and thrives — a testament to Wooten's nurturing hand.

Pat Wooten died March 15. He was 78 years old. He is survived by his wife, Barbara, four sons, three sisters, two brothers, five grandchildren, one great-grandchild – and many friends. He will be missed.

—by Wendell Fuqua, associate editor

Effective June 1, 1999, renovators of dwellings built before 1978 (better known as "target houses") must give the occupants a copy of an EPA document whenever more than two square feet of paint will be disturbed. This disclosure follows two other 1996 disclosures required by the EPA when target houses are sold or rented.

The disclosure requirements for the **sale** of target homes involves the use of two separate and distinct forms. Practitioners generally use the first but sometimes overlook the second.

The first step requires the owner or agent (broker) to attach a prescribed lead-paint warning disclosure form to the sales contract. Mandatory wording and provisions must be included. These requirements may be accomplished by completing and attaching the "Lead-Based Paint Addendum," Form OP-L from the Texas Real Estate Commission (commission).

The second step requires the owner or agent to give the buyer a copy of the 16-page publication entitled "Protecting Your Family From Lead in Your Home." It can be ordered by fax-on-demand or sent by mail from the National Lead Information Center (NLIC) at 1-800-424-5323.

The disclosure requirements for **leasing** a target home is another two-part process similar to a sale. Again, a prescribed lead-paint warning disclosure form must be completed and attached to the lease contract by the owner, lessor, property manager or agent. The form differs from that of a sale. A sample form (No. 1133) is available from the Real Estate Center.

The second step, as before, requires that the pamphlet "Protecting Your Family. . ." be presented to the tenant (lessee) with the lease agreement.

Copies of the completed addendums attached to the sales and lease agreements must be kept for three years. Violators face civil and criminal sanctions for each violation not to exceed $10,000.

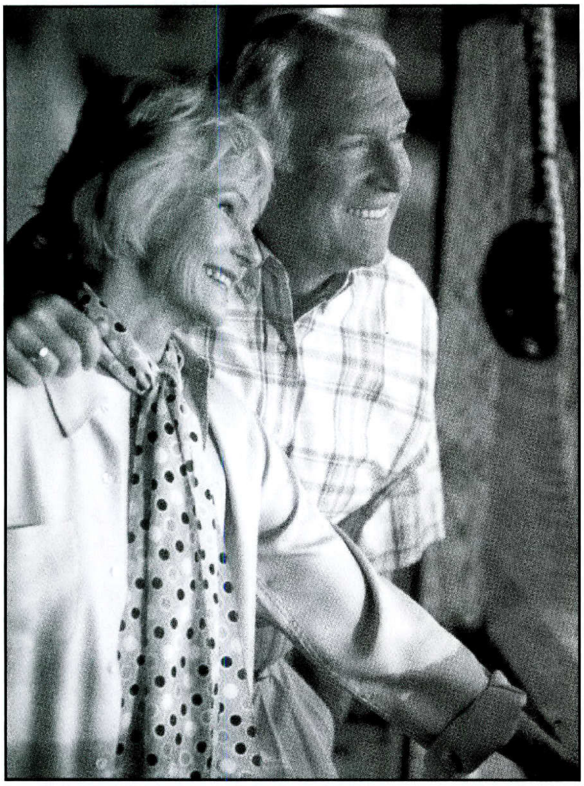
Those planning to renovate or remodel an occupied target house must comply with new federal rules effective June 1, 1999. Renovators must perform two key tasks at least 60 days prior to any paint-disturbing activities.

First, the owner(s) or occupant(s) must be provided a copy of the pamphlet "Protecting Your Family. . . ." Second, the renovators must obtain proof that the owner(s) or occupant(s) received the pamphlet by securing their signatures. Alternative means of proof may be used when signatures cannot be obtained.

Proof of the delivery of the pamphlet must be kept for three years. Violators face civil and criminal sanctions for each violation up to $25,000 day and one year in jail.

For additional information, see Center publication number 1124 entitled "Lead-Based Paint Hazards: New Disclosure Hits Home." Also, additional information is available from the NLIC at their toll-free number.

—by Judon Fambrough, attorney



Selling to Seniors

At the recent National Manufactured Housing Congress, selling homes to seniors was a topic. David Wolff of Real Estate Diagnostics spoke about how to capture the aging market. The ideas can be used by anyone selling a home.

For seniors, the decision to move into a new home is an emotional one. Seniors may be confused because they have not dealt with selling or buying real estate in many years. Real estate agents should be prepared to answer their questions.

Senior buyers want to be viewed as active adults, not as grandparents. They are looking for a quality home that will fit their changing lifestyle.

Many seniors view the move into a different home as postponable. Many will say they are not ready to buy and that they just want to look. Seniors do not want to be sold to; they want reasons to buy. They are looking for smaller homes with lower taxes. Low maintenance is important, and energy efficiency is a big plus. A home with stairs or one that may need repairs is not typically of interest to these buyers.

Seniors look for high quality and are willing to pay more to get it. In addition, many do not want to move out of the area they are in. Looking at smaller homes in the general area helps keep them shopping at the same stores and visiting friends. This may make the move more comfortable.

Be prepared to wait as many as three years for a final decision. These buyers will not be pushed into buying early. In that time, it is helpful to keep in contact every few months to find out how everything is going. Many times clients are forced to buy because of an emotional event, an injury or decline in income. By keeping in contact, the agent will be the first person the buyers think of when it is time to move.

—by Jennifer S. Evans, research associate

REIT Ownership in Texas Smaller Cities Expands

Real estate investment trusts have made substantial investments in commercial real estate in some of Texas' smaller metropolitan areas, according to a December 1998 review of the *SNL REIT Quarterly*. Rapid REIT ownership growth in the Metroplex, Houston, Austin, San Antonio and El Paso has been well documented in the past; however, little if any data has been reported about REIT activity outside these major cities.

A study of 26 smaller Texas MSAs found that REITs own more than 219 properties. The largest investment concentration is in apartments, with 59 properties. The second largest concentration is in shopping centers and malls, with 39 properties. Eleven are enclosed malls, and the remainder are other types of shopping centers.

Significant investment has occurred in health care and assisted-living facilities. Thirty-one of the 37 properties are assisted-living facilities, and the other properties include rehabilitation, inpatient and psychiatric facilities. REITs also have made significant investments in hotels and motels (35 properties). Of these properties, only three are full-service hotels, such as Embassy Suites in Corpus Christi. The remaining investments are in limited service hotels-motels, such as LaQuinta, Hampton Inn and Holiday Inn.

Little investment in office and industrial properties has occurred in the smaller metropolitan areas. REIT investment in these property types is limited mostly to the largest Texas cities.

Another property type that has attracted substantial investment is single tenant retail buildings and restaurants, with 28 properties. This category is listed as "Other Retail" on the graph.

Finally, REITs have made limited investments in other land uses, including office, industrial, manufactured housing, prisons and self-storage.

REIT investment in Texas smaller metropolitan areas indicates a level of Wall Street confidence about the stability and investment potential for these communities.

—by Mark G. Dotzour, chief economist

REIT Ownership Outside Largest Texas Cities

	Shopping Centers & Malls	Single Tenant & Restaurants	Apartments	Office	Health Care Assistant Living	Hotel Motel	Total
Abilene	1	0	0	0	2	1	5
Amarillo	5	7	5	2	2	3	24
Bryan	2	0	1	0	0	0	3
Brownsville	1	1	0	0	0	0	5
Beaumont	5	2	4	0	3	2	18
College Station	3	0	1	0	3	2	10
Corpus Christi	2	3	11	1	3	3	23
Galveston	3	0	2	0	0	1	6
Harlingen	1	1	1	0	1	1	5
Lake Jackson	1	2	1	0	0	0	4
Laredo	0	1	0	0	0	1	3
Longview	1	0	2	0	1	1	5
Lubbock	5	3	3	1	1	2	15
Marshall	0	0	1	1	2	0	4
McAllen	1	1	1	0	1	1	7
Midland	1	1	8	0	2	3	16
Odessa	0	1	6	1	1	3	12
Port Arthur	2	0	0	0	0	0	3
San Angelo	0	0	1	0	3	2	7
Sherman	0	0	1	0	1	1	3
Temple	1	3	0	1	2	1	8
Texarkana	1	0	0	0	2	1	4
Tyler	2	0	4	0	2	2	11
Victoria	0	1	0	0	0	1	2
Waco	1	1	2	0	1	2	7
Wichita Falls	0	0	4	0	4	1	9
Total	**39**	**28**	**59**	**7**	**37**	**35**	**219**

Source: The SNL REIT Quarterly, December 1998

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I give this issue a grade of (circle one): A (outstanding) B (excellent) C (average) D (below average) F (failing)

Other comments: ______________________

☐ Check here if we may publish your comments.

ANSWERS TO "WHAT'S YOUR REMODELING IQ?" on page 1.

1. B 2. A 3. C 4. A 5. A
6. B 7. A 8. B 9. C 10. C

As the century...

As the century comes to a close, print and broadcast media extol the virtues of the best of almost every imaginable category. Until now, however, Texas real estate has not been among the arenas from which the century's best have been selected. That is about to change.

change

ANNOUNCING THE

TEXAS REAL ESTATE LIFETIME ACHIEVEMENT AWARD

Nominees may be in any field. It is the impact they have had on Texas real estate that will determine whether they receive a Texas Real Estate Lifetime Achievement Award. Nominees may or may not be Texas real estate licensees. They may have worked in residential, commercial, industrial or rural real estate brokerage. They may be someone among the public who has made outstanding contributions to the industry. They could be a developer, architect or banker. Nominees may come from real estate finance, education, research, construction, improvements, marketing, advertising or journalism.

The year 2000

heralds a new beginning. It marks the first year for the Texas Real Estate Lifetime Achievement Awards for service to Texas real estate. Ten winners will be selected by a blue-ribbon panel representing the diverse Texas citizenry.

Eligibility
Anyone who has devoted at least 20 years of his or her life to the Texas real estate industry since 1900 may be nominated for this award. Nominees may be living or dead.

Nomination Deadline
Nominations are now being accepted. To nominate someone for this prestigious honor, call the number that follows and request the official nomination form.

Nominations must be received by 5 p.m., Friday, Sept. 3, 1999. Nominations postmarked before, but not received by, the deadline will be disqualified.

Winners Announced
Winners will be announced in the January 15, 2000, issue of *Tierra Grande* magazine. This will be a special issue devoted to the recipients in the award's inaugural year.

Where to Obtain Nomination Forms
Call the Real Estate Center at Texas A&M University: 1-800-244-2144 or 409-845-2031.

Questions?
Contact Senior Editor David S. Jones 409-845-2039 or djones@recenter.tamu.edu (e-mail).

THE TEXAS A&M UNIVERSITY SYSTEM

REAL ESTATE CENTER

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