

A Reprint from *Tierra Grande*

Nine Reasons to Invest in Texas

By Ali Anari and Mark G. Dotzour

While making presentations across Texas, Real Estate Center researchers frequently are aware of high-net-worth investors in the audience. These people may live in New York City, Miami or San Diego, but they invest in Texas real estate.

Why do investors find Texas so attractive?

Let us count the reasons: (1) Texas is leading the United States in the current economic recovery, (2) Texas' economy is big and growing, (3) Texas' economy is profitable, (4) Texas has a growing population, (5) Texas' economy is an international economy, (6) the tax burden is less in Texas, (7) Texas has an affordable housing sector, (8) Texans have entrepreneurial spirit, and (9) Texans are mobile.

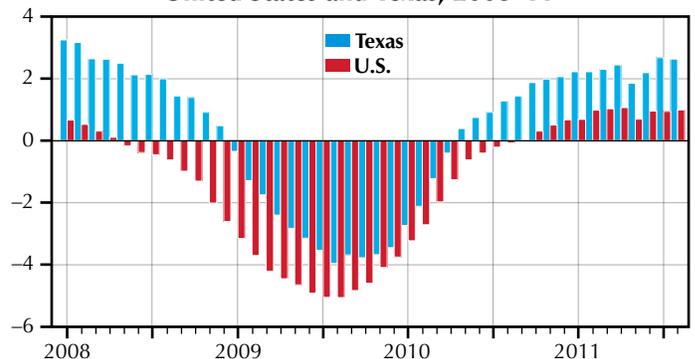
1 Texas Leading Nation in Economic Recovery

The Great Recession ended in June 2009, according to the Business Cycle Dating Committee of the National Bureau of Economic Research. The committee noted that "a trough in business activity occurred in the U.S. economy in June 2009. The trough marks the end of the recession that began in December 2007 and the beginning of an expansion."

The Texas economy suffered less in terms of lost jobs and outputs in the Great Recession than the nation as a whole (Figure 1). The duration of the recession, measured by the number of months of job losses, was shorter for Texas while the intensity, measured by the highest job loss rate in the trough month, was smaller for Texas than for the nation.

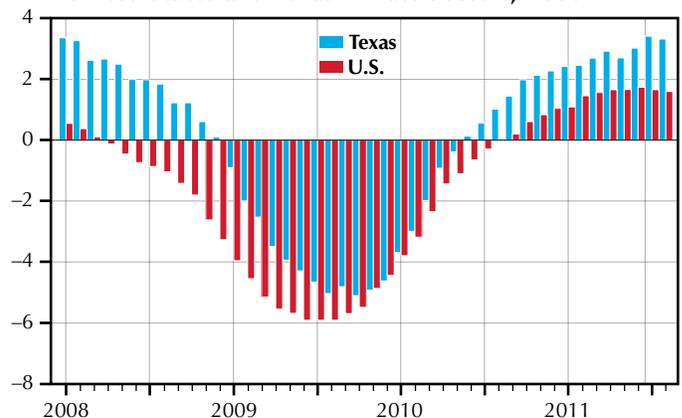
While the U.S. economy experienced its first month of job losses in May 2008, Texas continued to create jobs for eight more months, until January 2009 (Figure 1). The state's economy posted job losses for 16 months, from January 2009 to April 2010, compared with 28 months for the nation, from May 2008 to August 2010. The largest year-on-year annual job

Figure 1. Nonfarm Employment Growth Rates United States and Texas, 2008–11



Sources: Texas Workforce Commission and Real Estate Center at Texas A&M University

Figure 2. Nonfarm Employment Growth Rates United States and Texas Private Sectors, 2008–11



Sources: Texas Workforce Commission and Real Estate Center at Texas A&M University

loss rate for the United States was 5.1 percent in August 2009; it was 4 percent for Texas that month.

The state's private sector suffered 17 months of job losses with a trough of 5 percent job loss in August 2009 compared with 28 months of job losses and a trough of 5.9 percent in June 2009 for the nation (Figure 2).

Academics and policy makers will be debating the causes of the Great Recession for many years. Increases in the Federal funds rate from 1 percent in 2003 to 5.2 percent in 2007, the increase in international crude oil prices from \$20 per barrel in 2001 to more than \$130 per barrel in 2008, the housing price bubble, misguided macroeconomic policies, and the collapse of the U.S. financial system have all been suggested.

Whatever the causes, consumers and producers responded to the recession by postponing their investment and consumption plans and waiting for signs of economic improvements. After all, past economic recessions and depressions have ended in periods of economic recovery, and the recent recession, no matter how deep, is not an exception.

The postponement of investment and consumption has created pent-up demand for goods, services and quality investments, not just for distressed properties. In the short run, meeting this demand for goods and services can lead to a consumption boom, resulting in more investments in various parts of the U.S. economy. If this leads to more employment, that is, if employers increase output by employing more people, then the short-run gains in the economy can lead to economic growth in the long term.

Several indicators suggest that Texas is a promising region for more investment, economic growth, and higher profitability thanks to a combination of favorable human resources, natural resources and its legal and policy environment. The state's economy proved resilient in the Great Recession, and now is leading the U.S. economic recovery. From August 2010 to August 2011, the U.S. economy added 1,282,000 jobs,

271,400 of which, or 21.1 percent, were generated in Texas (Table 1).

2 Texas' Economy is Big and Getting Bigger

With a gross domestic product (GDP) of more than \$1.2 trillion, Texas' economy was the 14th largest in the world in 2010 (Table 2). It was the second largest economy in the nation in 2010, larger than New York's (Table 3). The state's GDP accounted for 8.3 percent of U.S. GDP compared with 13.1 percent for California and 8 percent for New York.

A growing economy offers more job opportunities and attracts more population, leading to further growth in the regional economy. By offering more investment opportunities, a growing economy can further promote growth and development. Revenues generated by a growing economy enable local and state government to impose lower taxes.

Texas' share of U.S. GDP increased from 7.3 percent in 1997 to 8.3 percent in 2010 (Table 4). The state's share of total personal income (wages, salaries, interest and dividend incomes) generated in the U.S. increased from 6.7 percent to 7.9 percent during that period (Table 5).

Higher output growth rates mean more jobs. Texas' share of the nation's nonfarm employment increased from 7 percent in August 1997 to 8.1 percent in August 2009 (Table 6).

3 Texas' Economy is Profitable

An economy's profitability on a macro level can be measured in terms of a macro profit margin. Private sector GDP consists of compensation of employees, taxes and subsidies, and gross operating surplus (profits). The percentage of private

Table 1. Texas and U.S. Labor Markets

Nonfarm Employment	August 2011	August 2010	Change	
			Absolute	Percent
Texas	10,593,200	10,321,800	271,400	2.6
United States	130,906,000	129,624,000	1,282,000	1.0
Private Employment	August 2011	August 2010	Absolute	Percent
Texas	8,831,000	8,546,800	284,200	3.3
United States	110,140,000	108,396,000	1,744,000	1.6
Unemployment Rate	Actual		Seasonally Adjusted	
	August 2011	August 2010	July 2011	July 2010
Texas	8.5	8.3	8.5	8.2
United States	9.1	9.5	9.1	9.6

Sources: Texas Workforce Commission and Bureau of Labor Statistics

Table 2. World's Largest Economies 2010

Rank	Country	GDP, \$Billion
1	United States	14,552
2	China	5,878
3	Japan	5,458
4	Germany	3,315
5	France	2,582
6	United Kingdom	2,247
7	Brazil	2,090
8	Italy	2,055
9	Canada	1,574
10	India	1,537
11	Russia	1,465
12	Spain	1,409
13	Australia	1,235
14	Texas	1,207
15	Mexico	1,039
16	South Korea	1,007

Sources: International Monetary Fund and U.S. Bureau of Economic Analysis

Table 3. Gross Domestic Product by State, 2010

Rank	State	\$Million GDP	Percent of U.S. GDP
1	California	1,901,088	13.1
2	Texas	1,207,494	8.3
3	New York	1,159,540	8.0
4	Florida	747,735	5.1
5	Illinois	651,518	4.5
6	Pennsylvania	569,679	3.9
7	New Jersey	487,335	3.3
8	Ohio	477,699	3.3
9	North Carolina	424,935	2.9
10	Virginia	423,860	2.9

Source: U.S. Bureau of Economic Analysis

Table 4. Texas and U.S. Gross Domestic Products, \$Million

Year	\$Million		Texas' Share (percent)
	Texas	United States	
1997	602,477	8,270,462	7.3
1998	634,812	8,727,023	7.3
1999	671,632	9,286,858	7.2
2000	732,987	9,884,171	7.4
2001	765,740	10,218,019	7.5
2002	785,434	10,572,388	7.4
2003	827,139	11,067,759	7.5
2004	906,893	11,788,909	7.7
2005	970,997	12,554,538	7.7
2006	1,055,959	13,310,937	7.9
2007	1,147,970	13,969,323	8.2
2008	1,202,104	14,270,462	8.4
2009	1,146,647	14,014,849	8.2
2010	1,207,494	14,551,782	8.3

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University

On the supply side, population is the source of labor inputs for an economy. A growing population means the availability of more labor inputs and fewer constraints on economic activities.

Table 5. Texas and U.S. Total Personal Income

Year	\$Million		Texas' Share (percent)
	Texas	United States	
1997	470,064.6	6,994,388	6.7
1998	511,508.7	7,519,327	6.8
1999	542,719.6	7,906,131	6.9
2000	597,041.4	8,554,866	7.0
2001	622,217.0	8,878,830	7.0
2002	628,274.4	9,054,702	6.9
2003	652,609.9	9,369,072	7.0
2004	696,795.5	9,928,790	7.0
2005	756,683.1	10,476,669	7.2
2006	824,280.7	11,256,516	7.3
2007	884,118.6	11,900,526	7.4
2008	968,231.0	12,380,225	7.8
2009	956,807.5	12,168,161	7.9
2010	993,062.6	12,530,101	7.9

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University

Table 6. Texas and U.S. Nonfarm Employment

Year	Texas	United States	Texas' Share (percent)
August 1997	8,652,500	122,772,000	7.0
August 2011	10,342,200	130,906,000	8.1

Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

sector GDP accounted for by gross operating surplus is an important indicator of profitability of an economy.

In 2009, gross operating surplus in Texas accounted for 40 percent of the state's private sector GDP compared with a national average of 37.5 percent (Table 7). This means Texas businesses are more profitable.

4 Texas' Population is Growing

A growing population, particularly if well educated and sporting an entrepreneurial spirit, is an important part of the economic infrastructure. On the demand side, a growing population boosts the need for goods and services, especially housing units, which in turn leads to more economic growth and higher profitability.

Table 7. Components of Private Sector Gross Domestic Product, 2009

Rank	Region	\$Billion GDP	Percent of Total		
			Employee Compensation	Taxes	Operating Surplus
10	North Carolina	407,032	52.6	7.0	40.4
13	Texas	1,146,647	52.4	7.7	40.0
14	California	1,847,048	53.8	6.4	39.8
	United States	14,014,849	55.6	6.9	37.5
24	Tennessee	243,849	55.3	7.4	37.3
29	New York	1,094,104	56.2	7.2	36.5
31	Florida	732,782	54.3	9.6	36.2
34	Minnesota	258,499	58.0	6.0	36.0
41	Wisconsin	239,613	57.9	6.9	35.2
42	Ohio	462,015	58.0	7.0	34.9
43	Michigan	369,671	57.6	7.7	34.7
49	Massachusetts	360,538	61.7	5.1	33.2

Sources: Bureau of Economic Analysis and Real Estate Center at Texas A&M University



Table 8. Texas and U.S. Populations

Year	Texas Population	Growth Rate Percent	U.S. Population	Growth Rate Percent	Texas Population as Percent of U.S. Population
2000	20,851,820	1.4	281,421,906	0.9	7.4
2001	21,332,847	2.3	285,081,556	1.3	7.5
2002	21,710,788	1.8	287,803,914	1.0	7.5
2003	22,057,801	1.6	290,326,418	0.9	7.6
2004	22,418,319	1.6	293,045,739	0.9	7.7
2005	22,801,920	1.7	295,753,151	0.9	7.7
2006	23,369,024	2.5	298,593,212	1.0	7.8
2007	23,837,701	2.0	301,579,895	1.0	7.9
2008	24,304,290	2.0	304,374,846	0.9	8.0
2009	24,782,302	2.0	307,006,550	0.9	8.1
2010	25,145,561	1.5	308,745,538	0.6	8.1

Source: U.S. Census Bureau

The share of U.S. population living in Texas has increased from 7.4 percent in 2000 to 8.1 percent in 2009 (Table 8). Population studies at the Real Estate Center have shown that the annual growth rate of the state's population is expected to exceed the national average in the foreseeable future. State demographers have estimated that the Texas population could grow by 12 million from 2010 to 2030.

Table 9. Total U.S. Exports Via Texas

	\$Million			
	2006	2007	2008	2009
Total Texas Exports	150,890	168,229	192,222	162,995
Percent of U.S.	14.7	14.7	14.9	15.4

Source: U.S. Census Bureau

5

Texas' Economy is International

Texas is an important player in the nation's international trade. Total exports via Texas in 2009 were nearly \$163 billion, accounting for 15.4 percent of U.S. exports (Table 9).

The state alone exported more than \$1 billion to 25 countries in 2009. Mexico received 34.4 percent of Texas exports in 2009 followed by Canada (8.5 percent) and China (5.5 percent).

Table 10. Texas and U.S. Tax Rates

Year	Tax Rate	
	Texas	United States
1980	7.0	9.4
1985	7.4	9.7
1990	8.0	9.8
1995	8.2	10.1
2000	7.1	9.4
2005	7.5	9.6
2009	7.9	9.8

Source: Tax Foundation

6

Tax Burden is Less in Texas

In 2009, state and local taxes paid by Texans accounted for 7.9 percent of the state's per capita income, compared with 9.8 percent for the nation (Table 10).

7 Texas Has Affordable Housing

The average price of an owner-occupied housing unit in Texas in 2009 was \$125,800, about 68 percent of the national average (Table 11). Affordable housing is an important factor in attracting population to the state and expanding the state's economy. The lower cost of living allows wages to be lower, which helps Texas businesses remain globally competitive.

Table 11. Median Value of Owner-Occupied Housing Units, 2009

Rank	State	\$Value	Ratio to Average U.S.
1	Hawaii	517,600	2.79
2	District of Columbia	443,700	2.40
3	California	384,200	2.07
4	New Jersey	348,300	1.88
5	Massachusetts	338,500	1.83
6	Maryland	318,600	1.72
7	New York	306,000	1.65
8	Connecticut	291,200	1.57
9	Washington	287,200	1.55
10	Rhode Island	267,100	1.44
	U.S.	185,200	1.00
40	Texas	125,800	0.68

Source: U.S. Census Bureau

8 Texans Have Entrepreneurial Spirit

New business creation and expansion of existing businesses through innovation and creativity drive economic growth. The percentage of adult, nonbusiness owners who start a business each month is a significant measure of entrepreneurial activity. Another key measure is the number of entrepreneurs per 1,000 adults (Table 12).

According to the Kauffman Index of Entrepreneurial Activity, Texas ranked tenth in entrepreneurial activity (400 per 100,000 adults) in 2010 compared with 340 for the nation.

Table 12. Entrepreneurs per 1,000 Adults, 2010

Rank	Region	Index
1	Georgia	510
1	Nevada	510
3	California	470
4	Louisiana	460
5	Colorado	450
5	Vermont	450
7	Mississippi	440
8	Alaska	430
9	Tennessee	410
10	Florida	400
10	Texas	400
	U.S. Total	340

Source: Kauffman Index of Entrepreneurial Activity, 2010



9

Texans are Mobile

Free movement of labor and capital not constrained by language and cultural barriers in various regions of the U.S. economy promotes balanced economic growth and development. One measure of labor mobility is the percentage of people one year or older who lived in a different house in the United States one year ago.

Table 13. Percent of People One Year and Over Who Lived in a Different House in the U.S. One Year Ago, 2009

Rank	State	Percent
1	Alaska	21.5
2	Nevada	20.6
3	Arizona	19.7
4	Colorado	18.2
4	Oklahoma	18.2
6	Arkansas	17.6
6	Kansas	17.6
8	Nebraska	17.4
8	Texas	17.4
10	Oregon	17.3
	United States	14.9

Source: U.S. Census Bureau

In 2009, about 17.4 percent of Texans one year and older lived in a different house one year ago compared with 14.9 percent for the nation (Table 13).

High mobility makes it easier for people to move away from places with fewer economic opportunities to places where opportunities are greater.

Texas is Built for Business

Texas is an attractive place for real estate investors. It works hard to stay "business friendly," and the state's economic environment supports businesses as they compete in the global economy. ➔

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THE TAKEAWAY

Texas' stars shine bright for business, attracting big investors from across the nation. Why? Because of its big (and growing) economy, profitability, burgeoning population, affordable housing, and entrepreneurial spirit, just to name a few reasons.



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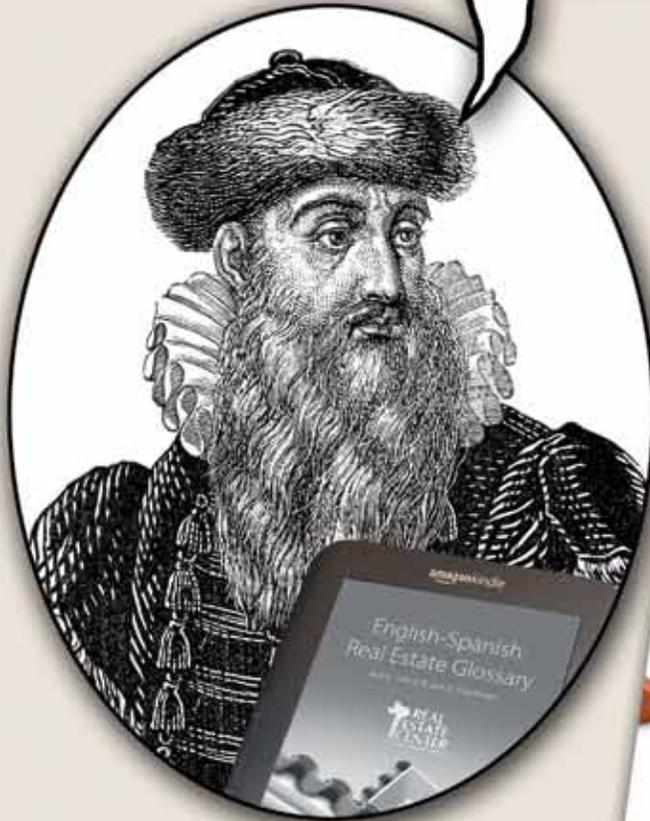
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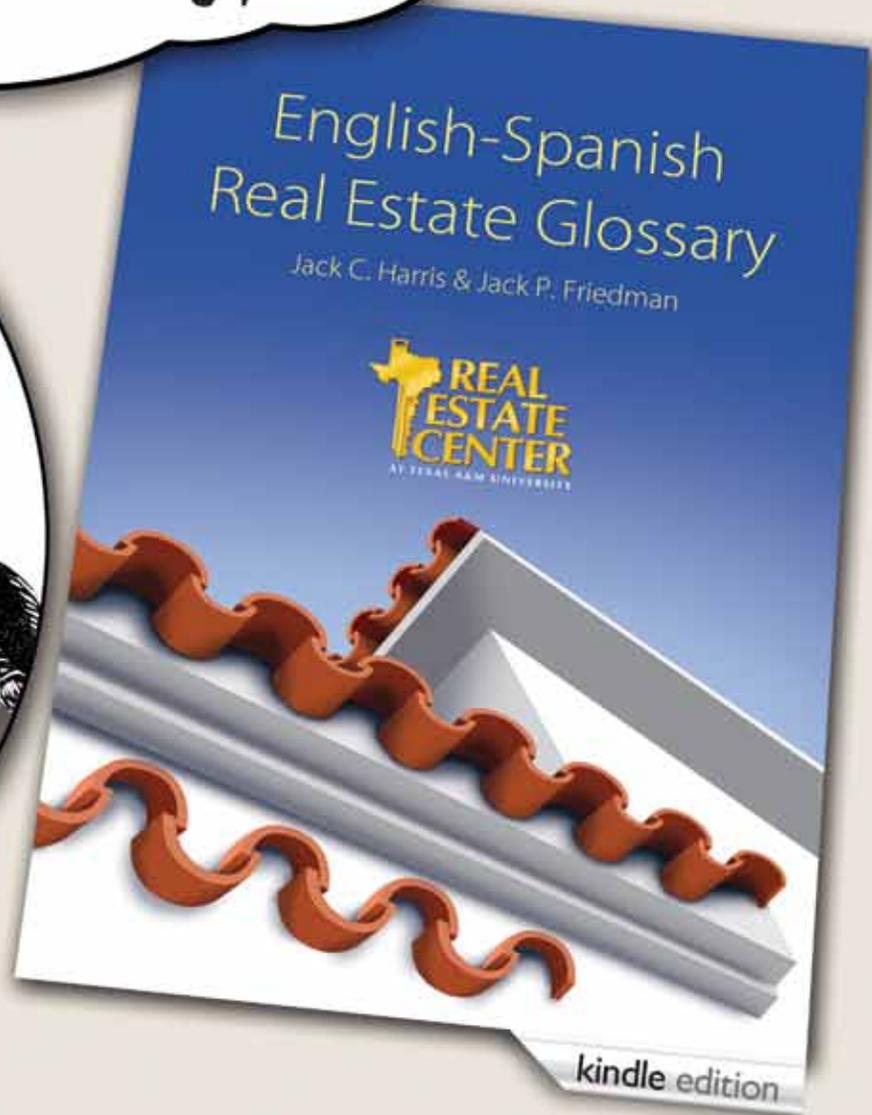
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