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Upcoming Event

Feb 27

[Residential Real Estate Awards](#)

Time: 11:00 am - 1:00 pm

Place: Hyatt Regency Austin - Zilker Ballroom

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Economist: Buy into Austin retail real estate now, but sell those hotels

Feb 23, 2015, 3:00pm CST

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Looking for the right commercial real estate investment? The word is "retail."

[Ted Jones](#), chief economist for [Stewart Title](#) Guaranty Co., says the coming retail boom will blow the socks off any other real estate sector.

Retail real estate returned investors 12.4 percent in 2014. Yes, that's across the U.S., but Austin stands to match or exceed forecasts in the retail sector.

One of the major reasons for that is a significant increase in the money supply. Households have paid down debt since the recession and there is pent up demand for consumer goods, Jones said in his remarks Monday to CoreNet Global Central Texas at the [Four Seasons Hotel](#).

Ironically, the retail sector is very tight in Austin and little development is taking place. This appears to be a great window of opportunity for commercial developers, he said.

On the other hand, Jones has a word for hotel and apartment owners: "Sell."

Austin clearly is in the hyper-supply market for apartments and hotels, he said. No wonder the [W Hotel Austin is on the market](#) and some brokers say the Fours Seasons Hotel is also on the block.

Jones said at the moment it's much less riskier to be investing in industrial, office and retail.

Jones, who formerly was the top dog at the Real Estate Center at [Texas A&M University](#), said there may be something to reports that Austin has the most overvalued housing market. Some local observers have objected to [surveys by Trulia and FitchRatings](#) showing the rapid appreciation of home values — double digit percentages month-over-month — is unsustainable.

They argue that the run-up in pricing is a simply matter of short supply and rampant demand. Jones, however, said it's a little more complex than that.

"Housing prices are pretty aggressive compared to the median income," he said. "It's definitely being driven by upper middle class jobs and if you have a hiccup happen there, well....."

One thing is for certain, he added. The market for homes priced at \$500,000 and above is "oversaturated." The challenge is building much-needed affordable housing in a market where land prices and construction costs have skyrocketed.

Jones had cautionary words for homeowners: "Increase your insurance coverage." In the case of a catastrophic fire or flood, the cost to rebuild will be nothing short of staggering, he said.

Here's a few other of Jones' tidbits:

- Last year Texas was second best state for adding jobs, but recent layoffs in the oil and gas sector likely will knock us down from that perch this year. Most of the lost oil and gas jobs have been in the field — on oil rigs and in the Texas Panhandle.
- Austin added 25,100 jobs in the past 12 months, which actually is less than other Texas metro areas. In fact, San Antonio has added more jobs than Austin. Historically Austin doesn't boom or bust as much as other areas.
- Jobs in the hospitality sector are increasing dramatically, particularly in Austin. "This is the blood pressure gauge of the U.S. economy," Jones said.
- Canadian owners by far lead foreign investors in U.S. real estate — by a long shot.
- Home loan rates likely will creep up to between 5.6 and 6 percent for 30-year fixed rate mortgages. Keep in mind that interest rates are up 25 percent in the past month, based on the rate of return on U.S. Treasury Notes.
- Gas prices should level out to an average of \$2.35 per gallon in 2015. Crude oil should stabilize at \$60 a barrel.
- Don't invest in rural land. It's not a pretty picture.
- Inflation is a major concern going forward.
- Washington, D.C., will continue to be a stalemate where the prominent personality is politician versus leader.
- A degree in English is not a marketable skill.
- U.S. debt has doubled since President [Barack Obama](#) took office, resulting in a 600 percent increase in interest payments.
- There are more jobs in the U.S. today than ever before.

• Terrorism is here to stay.

Jan Buchholz covers commercial and residential real estate, construction and architecture and retail and restaurants for the Austin Business Journal.

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