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Special Report

Real Estate Review and Outlook 1990

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SOLUTIONS
THROUGH RESEARCH

January 1990

Real Estate Center

Director

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The Real Estate Center was created in 1971 by the Texas Legislature and placed at Texas A&M University.

The Center conducts a comprehensive program of research and education to meet the needs of many audiences, including the real estate industry, instructors and the general public.

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Summary

- Continued modest growth is projected for Texas in 1990. The state's economy has become more reflective of the nation's as it reduces its dependence on oil and real estate and diversifies into other areas. Growth will concentrate in urban and suburban areas.
- Two factors appear responsible for the current level of economic recovery: a downward adjustment in the state's business cost structure and improved conditions for existing industries.
- Real estate markets may improve little, even if the economic recovery remains on track. Downsizing will be a key strategy for many real estate firms. Fewer firms will be in business, and they will be smaller.
- The tentative improvement in housing sales in 1988 appears to have stalled in 1989. Higher prices meant increased dollar volume, indicating a trend toward more expensive move-up homes. Despite favorable affordability, fewer renters are willing or able to enter the housing market.
- Mortgage loans will be restricted in the near term because of the savings and loan (S&L) crisis, more defunct institutions and increased emphasis on quality loans.
- Nonresidential construction activity was relatively unchanged from 1988. Multifamily housing construction continues to decline, although tightening rental markets might lead to increases in coming years.
- The construction lull has allowed real estate markets to assimilate some of the excess inventory produced during boom years. Several more years are needed before an equilibrium is established.
- The new Resolution Trust Corporation (RTC), in charge of a vast inventory of assets, brings the potential for significant market disruption. Its activities and the effect of its resolution process on the market bear watching.
- The recent Financial Institutions Reform, Regulation and Enforcement Act (FIRREA) continues the forced consolidation begun under the Southwest Plan and is expected to be the death knell for the state's insolvent and barely solvent S&Ls.
- Rural land prices continue to decline. A wide range of regional prices makes the state-wide median somewhat misleading. Higher prices were reported for the Panhandle and High Plains. Prices declined most for nonagricultural land.
- Slow, steady growth provides the most favorable outlook for Texas. Long-term recovery will depend on how well the state makes the transition to the new economic context.

The research staff at the Real Estate Center prepares a comprehensive review and outlook report each year. The purpose is to reflect upon the most recent trends in the industry and speculate on near-term future directions. The research staff hopes the report will aid readers as they plan for the year ahead.

Many in the real estate community are eager to put the past several years behind them as they await market improvements resulting from increased economic activity. However, the current situation leads Center researchers to believe that any expectations of a return to the "good old days" will be disappointed. The recent past and near future represent a transition for the Texas economy. The challenge ahead will be in adapting to the fundamental changes taking place.

Trends in 1989

The Economy

The State Comptroller's office projects a continuation of modest growth for 1990 (see Table 1). Oil prices are expected to remain flat, so the recovery will depend on improvements throughout a more diversified economy. Geographically, the most dramatic job increases are occurring along the Mexican border—credited to the performance of *maquiladora* plants—and the Gulf coast, where expansion of petrochemicals, plastics and electronics is replacing the reliance on oil production. Among economic sectors, services and government are the growth leaders, while construction employment has declined.

Two factors appear responsible for the recovery: a painful adjustment in the cost structure for doing business in the state and improved conditions affecting existing industries. The recession has forced a devaluation of real property and softening of wage demands to the point of attracting new firms into the state. Lower costs also have encouraged the expansion of existing businesses and the creation of new businesses by resident entrepreneurs.

Improvements in economic conditions are modest but widespread. A more stable peso has enlivened the border economy. Improved markets for agriculture and forest products have brought extensive relief to rural areas. Several areas have enjoyed job growth as a result of federal spending, including NASA in Houston, the naval home port in Corpus Christi and research at major universities and medical research facilities. While oil prices have not improved, they have stopped declining. Enrollment at major universities has continued to grow, providing stability for several local economies. Finally, the national economy remains a positive influence, as recession fears remain unfulfilled.

While the signs of improvement are extensive, economic recovery still faces potentially severe hazards. In the short term, the massive workout of the savings and loan (S&L) crisis creates great uncertainty, the oversupply of buildings

Table 1. Texas Economic Indicators

Indicator	1987	1988	1989	1990*
Gross state product				
(billions of 1982 dollars)	$ 269.8	$ 274.9	$ 281.0	$ 290.1
Percent change	-3.9	1.9	2.2	3.2
Personal income				
(billions of current dollars)	$ 227.2	$ 237.4	$ 251.7	$ 272.5
Percent change	0.7	4.5	6.0	8.3
Employment (thousands)	6,480	6,561	6,637	6,753
Percent change	-2.0	1.2	1.2	1.7
Population (millions)	16.78	16.93	17.10	17.34
Percent change	0.9	0.9	1.0	1.4
Oil price (dollars per barrel)	$ 15.50	$ 16.61	$ 15.00	$ 16.00

*Projected

Source: Texas Comptroller of Public Accounts, Economic Analysis Center

Table 2. Employment Growth in Major Labor Markets

City	Employment August 1989	Jobs Added Previous Year	Percent Change
Houston	1,477,900	39,400	2.7
Dallas	1,351,300	5,100	0.4
Fort Worth	538,000	12,300	2.3
San Antonio	505,800	6,900	1.4
Austin	354,100	1,800	0.5
El Paso	198,500	6,600	3.4
Beaumont-Port Arthur	135,500	3,200	2.4
Corpus Christi	126,700	2,900	2.3
McAllen-Edinburg	99,100	2,900	3.0
Lubbock	95,900	1,800	1.9
State	6,812,200	134,800	2.0

Source: Texas Comptroller of Public Accounts, Economic Analysis Center

keeps the construction sector out of the recovery picture and the ever-present possibility of a national recession looms ominously over the state economy. The long term, however, depends on how well the state prepares for sustainable growth. Providing an attractive atmosphere for quality industries and expanding the best native firms are the keys to future prosperity.

Construction

Overall construction activity was slightly higher in 1989 after several years of severe contraction. Improvement was primarily in the residential sector, with nonresidential relatively unchanged from 1988. The main reason for the increase appears to be a shift toward more expensive single-family units. The number of dwelling units of all types increased only 2 percent while overall dollar volume was up 7 percent. Multifamily construction continues to dwindle. There may be some upward movement in apartment production in coming years because tightening rental markets are reported in some areas. However, rental housing markets probably will have to endure shortages of income-

Table 3. Authorized Construction in Texas

	1987	Percent Change	1988	Percent Change	1989*	Percent Change
Dollar Volume (millions)						
Total	6,078	-26	4,872	-20	5,100	5
Nonresidential	2,690	-34	1,874	-30	1,880	-
Office	415	-64	254	-39	340	34
Retail	722	-48	536	-26	480	-10
Residential	3,388	-29	2,998	-12	3,200	7
Dwelling Units						
Total	46,920	-46	36,561	-22	37,200	2
Single-family	40,849	-24	32,972	-19	34,300	4
Multifamily	5,012	-83	3,589	-28	2,900	-19

*Totals for 1989 projected from first nine months data.

Source: Real Estate Center at Texas A&M University

producing apartments before investors and lenders become more active in creating new supply.

Rising employment along the Gulf coast is reflected in rejuvenation of several local construction markets. Houston, Galveston and Corpus Christi are reporting strong growth in residential permits. Not reflected in these figures is the rebuilding necessitated by damage from the 1989 hurricane. Therefore, the actual totals may be even higher than projected.

Several communities are experiencing dramatic increases in nonresidential construction. In many cases, the high percentage gains may reflect the relatively low activity levels in previous years rather than a current building boom. However, the improvements are spread among many types of buildings and seem to be a reaction to improved economic prospects in those areas. Among the best performers are Beaumont and Galveston (sites of petrochemical expansion), Corpus Christi (major naval home port development), Fort Worth and Killeen.

The continuing lack of multifamily building is a glaring feature of the current construction situation. Although markets are getting tighter in some areas, some time probably will pass before construction responds. The availability of affordable housing has diminished the demand for the better rental units while tax reform has dried up much of the equity capital for new projects. Speculative investment in underused existing complexes will bring additional supply onto the market without the need for new construction. Unless construction does increase, rents should increase and rental housing should become a better performer during the next few years. This may be a hardship for renters, but it could stimulate entry-level homebuying and improve the homeownership rate.

Although the construction lull has been detrimental to builders, it has allowed real estate markets to assimilate the tremendous inventory of buildings produced during boom years. Several more years might pass before equilibrium develops. Until then, building probably will be confined to areas where expansion or relocation of economic activities requires development of previously underused space. The primary unknown factor is how much inventory lenders and other entities with repossessed property will release from their holdings. Until these properties have been reintroduced, both builders and investors probably will be cautious.

Table 4. Ten Most Active Markets, 1989*
Total Authorized Construction

Rank	Area	Dollars (Millions)	Percent Change	1988 Rank
1	Dallas	$1,400	-5	1
2	Houston	1,200	12	2
3	Fort Worth	750	16	3
4	San Antonio	300	-19	4
5	Austin	290	-15	5
6	El Paso	140	-8	6
7	Galveston	130	59	7
8	Corpus Christi	75	56	11
9	Brazoria	75	15	9
10	McAllen	73	22	10

*Totals for 1989 projected from first nine months data.

Source: Real Estate Center at Texas A&M University

Table 5. Ten Most Active Markets, 1989*
Residential Authorized Construction

Rank	Area	Dollars (Millions)	Percent Change	1988 Rank
1	Dallas	$950	1	1
2	Houston	850	23	2
3	Fort Worth	470	8	3
4	Austin	220	5	4
5	San Antonio	130	3	5
6	Galveston	95	56	7
7	El Paso	93	-4	6
8	Brazoria	55	2	8
9	Corpus Christi	45	32	12
10	McAllen	42	-2	10

*Totals for 1989 projected from first nine months data.

Source: Real Estate Center at Texas A&M University

Housing Markets

The tentative improvement in number of sales posted in 1988 appears to have stalled in 1989. Dollar volume was up because of higher prices. This parallels the trend to construction of more expensive homes, providing further evidence of an emphasis on the trade-up market. Despite continued favorable affordability of Texas housing, fewer renters appear willing or able to enter the housing market. Lingering economic stagnation in several areas may make many young families feel financially unable to buy a home. With prices flat or declining, there is little urgency in homebuying. Finally, high foreclosure rates in recent years have encouraged lenders to seek quality, thereby making it harder for marginally qualified, cash-poor buyers to get mortgage financing.

Market performance among local areas was mixed. Sales were significantly stronger throughout Dallas-Fort Worth (possibly reflecting several notable company

Table 6. Ten Most Active Markets, 1989*
Nonresidential Authorized Construction

Rank	Area	Dollars (Millions)	Percent Change	1988 Rank
1	Dallas	$450	-15	1
2	Houston	350	-8	2
3	Fort Worth	280	32	4
4	San Antonio	170	-30	3
5	Austin	70	-47	5
6	El Paso	47	-10	6
7	Beaumont	38	52	8
8	Galveston	35	59	9
9	Killeen	32	256	12
10	Corpus Christi	30	88	11

*Totals for 1989 projected from first nine months data.
Source: Real Estate Center at Texas A&M University

Table 7. Housing Sales through Texas Multiple Listing Services

	Sales Volume				Mean Price	
	Dollars		Number of Homes			
Year	(Millions)	Percent Change	(Thousands)	Percent Change	(Dollars)	Percent Change
1983	$7,423	33	88.8	19	$83,549	11
1984	7,969	7	89.3	1	89,231	7
1985	8,388	5	90.3	1	92,895	4
1986	7,418	-12	82.5	-9	89,860	-3
1987	7,792	5	88.0	7	88,555	-2
1988	7,568	-3	89.4	2	84,653	-4
1989*	7,900	4	89.1	-	88,250	4

*Totals for 1989 projected from first nine months data.
Source: Real Estate Center at Texas A&M University

relocations to the area) as well as in El Paso, Beaumont and Waco. Sales generally were slower in the Panhandle, reflecting continued economic struggle in the region. Many of the improving markets also reported higher average prices, most notably Northeast Tarrant County (with the highest average in the state) and El Paso. As economic growth becomes more widespread, market improvements should follow. However, without vigorous participation by first-time buyers, market growth should remain modest.

The market for income-producing properties has benefited from extensive interest from contrarian-minded investors. However, most of the interest appears preliminary, resulting in more inquiries and investigation than actual transactions. The uncertainty surrounding disposition of foreclosed properties has intensified the caution of investors. With a new agency, the Resolution Trust Corporation (RTC), in charge of a vast inventory of assets (many of dubious value), the potential for market disruption is substantial. However, until the RTC becomes organized, the problem of getting the better properties back onto the market may be bigger than the threat of dumping.

Table 8. Most Active Local Multiple Listing Service Areas Dollar Volume of Sales 1989*

Rank	Area	Dollars (Millions)	Percent Change	1988 Rank
1	Houston	$2,600	-2	1
2	Dallas	1,920	5	2
3	Austin	550	6	3
4	San Antonio	450	-3	4
5	N.E. Tarrant Co.	345	13	5
6	El Paso	310	31	6
7	Fort Worth	230	2	7
8	Arlington	225	18	8
9	Corpus Christi	120	6	10
10	Midland	100	-7	11

*Totals for 1989 projected from first nine months data.

Source: Real Estate Center at Texas A&M University

Table 9. Highest Average Prices, 1989* Local Multiple Listing Service Areas

Rank	Area	Dollars	Percent Change	1988 Rank
1	N.E. Tarrant Co.	$121,700	16	2
2	Dallas	115,900	3	1
3	Irving	104,500	5	3
4	Arlington	96,100	-3	4
5	Austin	88,400	-5	5
6	Houston	85,000	6	6
7	Fort Worth	81,500	3	7
8	San Antonio	75,600	-5	8
9	El Paso	74,300	10	13
10	Tyler	74,000	7	12

*Totals for 1989 projected from first nine months data.

Source: Real Estate Center at Texas A&M University

Finance and Investment

Nineteen eighty-nine was crucial for the state's S&Ls. The passage of the Financial Institutions Reform, Regulation and Enforcement Act (FIRREA) set the stage for a massive shakeout in the industry, continuing the forced consolidation under the Southwest Plan. The act established a critical date late in 1989 when new standards for capital holdings were imposed. This is expected to be the death knell for many of the state's insolvent and barely solvent associations.

In conjunction, a new federal apparatus was established to increase the pace of resolving failed thrifts. For some time, it has been agreed that failed institutions should be shut down as soon as possible, but the problem overwhelmed the resources available to honor the federal government's obligation to insured depositors. The act provides new sources of funding for resolving failed associations.

Therefore, the number of associations has been pared and those surviving have

Table 10. Texas Savings and Loan Association Performance

Item	1987* Dollars (Billions)	1988* Dollars (Billions)	1989* Dollars (Billions)
Mortgage loans closed	$ 6.47	$ 4.98	$ 2.70
Percent of all loans	77	66	51
Net new deposits	$ 1.59	$ 3.38	$ -5.28
Mortgages held	$ 55.4	$ 41.7	$ 35.4
Percent of total assets	56	42	35
Deposits	$ 81.5	$ 88.7	$ 77.9
Percent of liabilities	80	79	71
Regulatory net worth	$ -3.0	$-11.7	$ -8.0
Number of associations	277	271	204

*First six months

Source: Federal Home Loan Bank of Dallas

been shedding assets in an attempt to meet the capital requirement rules. Depositors have been withdrawing funds on a large scale to supplement these activities. These trends probably will continue through 1990. Questions about the sufficiency of funding for the resolution process still linger. The plan anticipates a large role for the sale of assets seized from failed thrifts. Many of these assets may be overvalued and quick liquidation appears unlikely, which adds more pressure to the federal budget at a time when public sentiment is running against thrift bailouts (especially as cases of fraudulent activity are prosecuted and publicized). If the funding problem is not solved, the resolution process will be delayed, leading to higher eventual costs. The lingering S&L problem causes continued uncertainty about the state's recovery.

The approach taken by FIRREA rejects the notion that market-based decision making is best for economic efficiency. Much of the legislation is an attempt to retract the freedom provided by deregulation. However, a return to the protected status enjoyed by the S&L industry for so many years is unrealistic. Deregulation became inevitable when depositors gained important alternatives to low-yielding thrift deposit accounts. Without the ability to compete for funds, thrifts would have been dissolved or converted into mortgage banking operations. The "fly in the ointment" of deregulation was the continuing support provided by federal deposit insurance, which allowed institutions to seek high-risk investments with funds obtained at risk-free rates. High flyers in the industry found the situation irresistible while desperate managements were allowed to buy time.

The deposit insurance program was not addressed directly by FIRREA. Instead, the U.S. Treasury was instructed to develop a plan for its possible reform. There should be some movement toward addressing the problem in 1990.

With S&Ls retreating, insolvent institutions closing down and increased emphasis on quality loans, the availability of mortgage loans in the near future will be restricted. First-time buyers will find it more difficult to obtain financing. There should be a renewed effort to legalize home equity loans to provide a new source of secure, high-yielding investments that will be desired by remaining mortgage lenders.

Interest rates rose through mid-1989, easing off somewhat in the fall. The rise

Table 11. Percentage of Mortgage Loans Foreclosed to Number of Loans Held

Area	1986	1987	1988 Quarter 1	1988 Quarter 2	1988 Quarter 3	1988 Quarter 4	1989 Quarter 1
Austin	10	21	26	27	na	13	15
Dallas	7	16	19	24		11	12
Fort Worth	20	25	13	21		12	
Houston	8	11	11	14		15	19
San Antonio	7	9	10	11		12	
Texas	8	14	17	19		13	14
United States		3	2	3		2	2

Source: Real Estate Center at Texas A&M University

may have blunted what was a modest comeback in home sales. The flat yield curve (meaning that long-term and short-term interest rates are relatively close) erased much of the margin between fixed rate and adjustable mortgage loan rates. Therefore, the availability of a low-interest alternative for strapped homebuyers was closed.

Investors continued to show significant interest in Texas real estate. However, these forays have been largely among contrarian-minded investors and primarily limited to Houston and Dallas. If one believes that real estate is cyclical and will eventually recover, the opportunities appear promising. The tentative nature of the state's recovery and threats of large property dispositions by holders of repossessed assets are making all but the boldest investors cautious. As in any turning market, investors are seeking quality at bargain prices. A long-term outlook still is warranted.

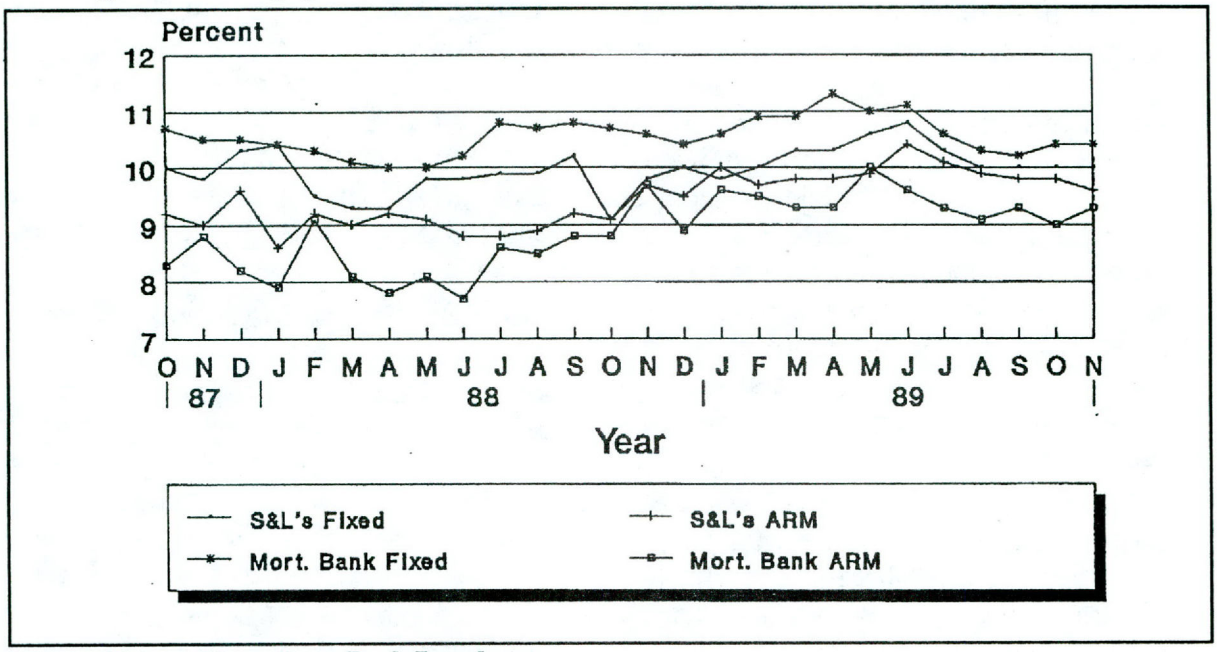
Land Markets

In 1988 (the latest year of complete data), rural land prices fell in both absolute and real terms, continuing the pattern of the last several years. The downturn in prices can be attributed to several negative influences on land values: farmers' credit problems, low inflation rate, unfavorable tax laws and the economic recession (although farms have shown profits for the past two years). However, the state median price may be slightly misleading. Low sales activity reduces the importance of reported prices as indicators of land values. A wide range of regional prices makes the state-wide median somewhat unreliable as a portrayal of the situation in any one area. Higher prices were reported for the Panhandle and High Plains, reflecting a more favorable outlook for agriculture. The biggest declines occurred on land used for nonagricultural activities such as recreation and development. In the past, the value of these lands has been inflated in speculative markets fed by urban growth and inflation-hedge investment. While the effects of speculation have yet to be purged from land markets, declining sales of high-priced land add downward pressure to median prices.

Outlook

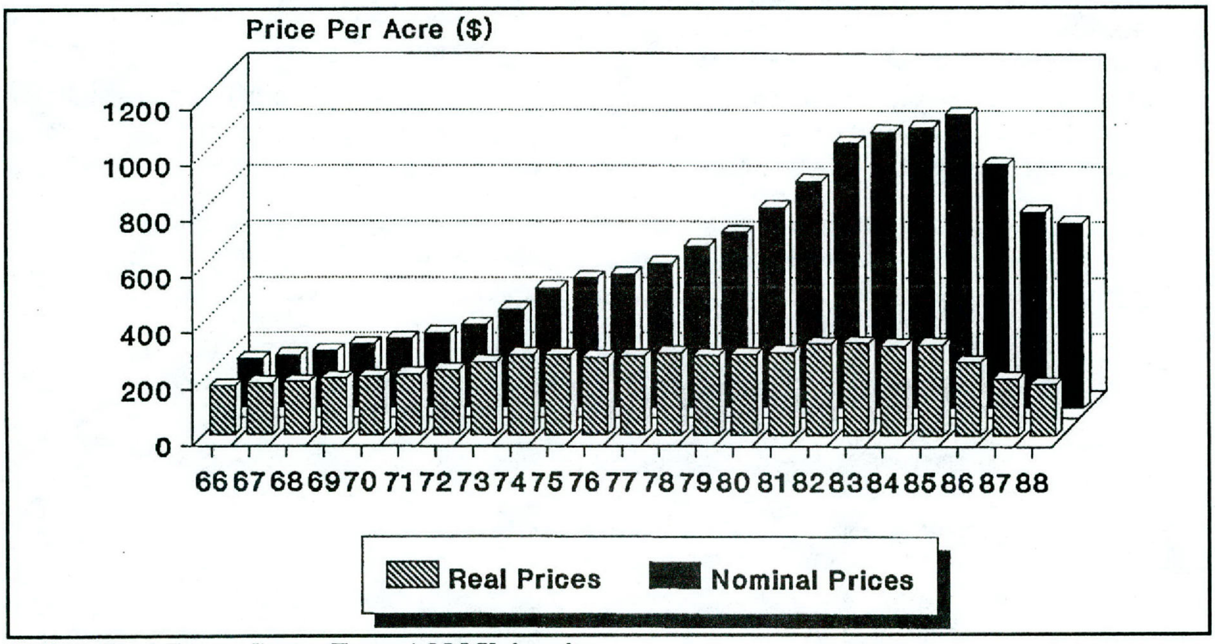
The signs of a Texas recovery have been well publicized. Key relocations of major corporate headquarters and the upbeat performance of the Houston economy have provided welcome headlines. However, it is easy to oversell the somewhat modest growth that appears to be in store. Certainly, real estate professionals in most parts of the state are wondering when recovery will begin.

Figure 1. Mortgage Interest Rates (Effective Rate/Purchase of Existing Home)



Source: Federal Home Loan Bank Board

Figure 2. Nominal and Real Median Price per Acre for Texas Land, 1966-88



Source: Real Estate Center Texas A&M University

The old standbys of oil and real estate are noticeably absent from the economic comeback. In the past, both of these sectors have performed well under high rates of inflation. Today, inflation is more a potential threat than a major concern as the national economy continues to expand. Both industries are suffering through painful adjustments necessitated by overcapacity. Furthermore, both thrive on borrowed capital, and the state's lending institutions are not in a position to fund much expansion.

The situation deprives the Texas economy of its traditional star performers. This is a period of diversification. As Table 12 illustrates, the economy has been transformed more in the image of the national average. That means fewer competitive advantages but possibly a more stable base for growth.

The prospect of slow, steady growth should not be disparaged. It can be argued that such growth is exactly what the state needs now. Gradually expanding demand for space eventually will absorb excess capacity without providing premature impetus to another building boom. Slow growth will force firms to critically assess their position in the market and allow better planning for the future. Competition will lead to increased efficiency, whereas rapid growth often breeds haphazard expansion and heedless ventures into new areas.

Nor should a period of steady growth be taken for granted. Several very real threats to a full recovery still remain, and failing to learn the lessons of the recent past could be counterproductive. A misreading of signs of improvement as the onset of a new boom era could encourage a wave of expansion that clearly is unwarranted. On the other hand, too much complacency—merely waiting for the next boom—could discourage appropriate preparation for new growth. The recent recession was not a period to be merely survived. It was a transition to a new type of Texas economy that will require new approaches.

Although Texas has been considered a pro-growth state, its overall business environment may not be attractive to the type

Table 12. Distribution of Employment among Nonagricultural Industrial Sectors (in Percent of Total Employment)

	1980		1988	
Sector	**Texas**	**United States**	**Texas**	**United States**
Mining	3.9	1.1	2.9	0.7
Construction	7.4	4.9	5.0	5.0
Manufacturing				
Durable goods	11.0	13.5	8.5	10.9
Nondurable goods	7.3	8.9	6.3	7.5
Transportation, communications	5.8	5.7	5.2	5.3
Trade	26.8	22.7	25.3	23.9
Financial	5.5	5.7	6.5	6.3
Services	15.7	19.2	20.6	23.4
Government	17.1	17.8	18.1	16.4

Source: U.S. Bureau of Labor Statistics

of firms needed for future prosperity. The struggle to find adequate financing for state government in the face of a declining tax base has created a tax structure that is not highly competitive for industrial recruitment. A relatively uneducated, unskilled labor force may work for low wages but will not be qualified for jobs in high tech, growth-oriented firms. Resolving these issues is a major challenge for Texans. If Texas is serious about improving its economic base, these issues must be resolved.

Along with diversification comes greater sensitivity to national trends. If the long-awaited recession in the national economy halts this extended period of expansion, Texas' recovery will be cut short.

The RTC's activities will merit observation: Will the agency be able to close insolvent thrifts fast enough to get the state's financial industry back to normal? How will it dispose of so much repossessed property? Will brokers be able to participate in the process or will it be conducted in-house? What will result when institutions cannot meet the new capital requirements?

The effect of the RTC resolution process on businesses has not been examined. When the federal government assumes control of a failed institution, it can cancel prior agreements entered into by the lending institution, which causes severe problems for firms who depend on those agreements. Also affected are companies whose loans were called because of devalued collateral although the loan was current. These policies threaten to needlessly spread business failures.

The enormity of the problem and the significant amount of money involved in the RTC affair leaves open the possibility of an entirely new scandal. Congressional overseers may believe that the ouster of a few scapegoats from the past regime will protect the program. However, allocation of such large sums of money will attract special interest groups who want to commandeer a piece of the action. The stakes in this game extend beyond Texas. Nineteen-ninety will merely be a precursor of more extensive crises in other parts of the country. New England already is experiencing housing markets remarkably similar to those in Texas several years ago.

Real estate markets may improve little, even if the economic recovery remains on track. Home sales will benefit from lower mortgage interest rates while being hurt by adverse demographic trends providing fewer first-time buyers. Construction will be confined to specific areas influenced by employment relocations and expansion. The likelihood of higher rents and lower vacancy rates may lead to increased multifamily construction, but the pace will remain far below levels of a few years ago. Prices for all types of property should rise or remain constant as demand increases.

Downsizing will be a key strategy for many real estate firms—there will be fewer firms and they will be smaller. The drastic consolidation now taking place among the state's S&Ls represents what is occurring within the real estate community. Cutbacks among builders, mortgage bankers and brokerage firms probably will continue. Opportunities will remain but will be more difficult to exploit. The successful survivor will not be merely trying to persevere until conditions improve.

The shift to an increasingly service-based economy will concentrate more growth in urban areas. This long-term trend was interrupted in the 1970s by the emphasis on oil production. With oil activity now in decline, there is less economic rationale for growth in rural areas and small towns. The bulk of growth will occur in the suburbs of major cities as happened in the 1960s.

Intense regional and international competition will occur in the 1990s. The state's past advantages will have limited value in the fight for business. Improved conditions in Europe will make those countries better producers of goods, along with the Far East. Providing those countries with the expertise they need to develop will be a key to future prosperity.

The state faces many new challenges. To build the type of economy best suited to the 1990s, Texas requires political leadership—both from elected officials and business leaders—with vision and determination to strive for excellence. Short-sighted policies intended to merely endure a current crisis are a luxury the state cannot afford. This does not imply that a more activist government is needed. Rather, the government needs to perform its duties in a way that allows private enterprise to reach its full potential.

Specifically, state government needs to upgrade public services and find better ways to set the stage for solid growth. This includes finding a fair and reasonable workmans compensation system and resisting increased tax burdens on business operations. It means finding ways to assimilate ethnic minorities into the mainstream, helping to ensure that they have the basic education and training needed to become productive citizens and assets in the state's industrial recruitment efforts. It means taking a long-term perspective on the natural environment to ensure the state will have resources to support quality growth.

Texas has considerable potential. Its citizens are resourceful and production oriented. The infrastructure and building stock are relatively new and serviceable. There is still room for growth. However, significant preparation is needed for the transition in economic base that must occur. This is a critical time for Texans.

190-450-753

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This publication was funded by appropriations to the Real Estate Center by the Texas Legislature.

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