

How COVID-19 Could Impact Texas' Economy and Real Estate Markets

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COVID-19 (coronavirus) has significantly shocked the economy and financial markets, lowering growth expectations and increasing uncertainty that could derail Texas' continued economic expansion. This exogenous and transitory effect has caused the Real Estate Center to adjust its economic outlook for 2020.

Oil

Oil prices were one of the first casualties of the outbreak. This was because of falling global oil demand, especially demand from China. West Texas Intermediate (WTI) prices fell below \$40 per barrel, challenging the profitability of U.S. shale producers. Further significant oil price declines continue from the oil price "war" between Russia and Saudi Arabia. The hit on the global energy market weakens the 2020 outlook for the Texas economy and the state's oil-dependent regions like Houston, Midland, and Odessa. Employment growth in industries

other than energy also may be disrupted the remainder of the year.

Housing

This untimely disruption to overall economic activity will likely affect Texas' housing markets, even in an environment of historically low mortgage rates. Buyers and sellers may be reluctant to view/show existing homes, and a few homebuilders have already experienced some constraints on materials, especially those imported from China. The fear of contamination and spread of the virus may keep both buyers and sellers on the sidelines for some time.

The year started out looking bright for housing nationally and in Texas. The state's new-home construction appeared headed for around an 11 percent increase and for total home sales to expand by more than 6 percent. Indeed,

January's and February's housing statistics supported those projections, and the March data will probably indicate positive growth over March of last year. April and succeeding months, however, are problematic at this point and will provide insight into how severe the virus' impact will be to the housing sector.

Commercial

Commercial real estate could also be negatively impacted by weaker demand and the postponement of new construction projects due to lack of financing and increased uncertainty. Hotel and motel occupancy rates will fall as fewer people travel for pleasure or business, and major events get cancelled. Retail space demand may be affected by consumers relying more on e-commerce and home-delivery services. A falloff in manufacturing and trade could affect the demand for warehouse and logistical space. Commercial space

influences will be most prevalent if the virus effects are longer-lasting.

REC Continuing to Monitor Events

Psychological as well as physical health impacts of the coronavirus outbreak eventually will determine the true economic consequences. Those consequences will depend on the virus' rate of propagation into new regions and whether the economic and financial disruptions expand in coming months. Monetary policy responses by the Fed and potential fiscal responses will play an important role.

The Real Estate Center will continue monitoring developments and look for indicators on how the Texas economy and real estate markets are weathering the coronavirus shock. ♣

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