



DIVERSITY OF THE *Texas Economy*

FACTORS DRIVING GROWTH IN THE LONE STAR STATE



—HARTMAN—

In the financial world, the term “diversity” is used as a safe word.

When an economy is more diverse, it is less vulnerable to industry-specific struggles and volatility during economic or cyclical shifts. For decades, Texas has held an unrivaled position in oil and natural gas, but that is far from a complete picture of growth drivers in the state.

There are a myriad of factors behind the diversity of Texas, and how that diversity is stimulating economic growth. This paper will provide an in-depth look at the Texas economy, and how Texas diversity is shaping the state's GDP and even the culture itself.

TEXAS, THE LAND OF OPPORTUNITY

The American dream is alive and well in Texas. In the early days of North American settlement, colonists dreamt of the wild west. From dreams of gold to wide open spaces, many followed fresh trails to the western part of the continent, and settled there. Texas continues to represent something of an American ideal, and the recent trend of **moving to Texas** exemplifies that.

- Since 2010, 4.2 million people have moved to Texas, which represents a **growth rate of 16.4%**.
- According to the 2021 edition of the Texas Relocation Report, Texas welcomed as many as **582,000 new residents to the state**, which represented the seventh consecutive year in which Texas had over half a million new residents from out of state.
- Texas was ranked as **U-Haul's No. 1 "growth state,"** based on its migration trends measurement.
- From 2015-2021, Texas saw a **net migration total of 1,375,776**. The majority of new Texans relocated from California and Florida.



TEXAS WAS RANKED AS U-HAUL'S NO. 1 "GROWTH STATE," BASED ON ITS MIGRATION TRENDS MEASUREMENT.

Population growth follows business development and innovation, and Texas cities are not short on either. According to the Texas Governor's Office of **Texas Economic Development**, here are the signs of economic growth in the state:

- In 2020, Texas exported goods valued at \$276.3 billion, making it the top exporting state in the U.S. for 19 straight years.
- Also in 2020, Texas logged its eighth consecutive year as the state with the highest number of tech exports, totaling \$44.8 billion.
- Texas is the number one state in the nation for Foreign Direct Investments (FDI) capital expenditure, and has been the recipient of \$66 billion in FDI investments for over 930 new projects.
- Texas is home to numerous Fortune 500 companies, including AT&T, ExxonMobil, Dell Technologies, American Airlines, Phillips 66, Tesla, Hewlett Packard, Oracle, and McKesson.

The state of Texas represents opportunity due to its solid infrastructure. For example, Texas has the most state highways, freight railways, and miles of public roadways than any other state.

The state of Texas is well-known for being a business-friendly place to set up shop. In fact, businesses in Texas consistently led the **return to the office** after the COVID-19 pandemic.

People are pouring into the state, making it a melting pot for growth and economic diversity.

THE STATE OF TEXAS: GROWTH AND ECONOMIC DIVERSITY

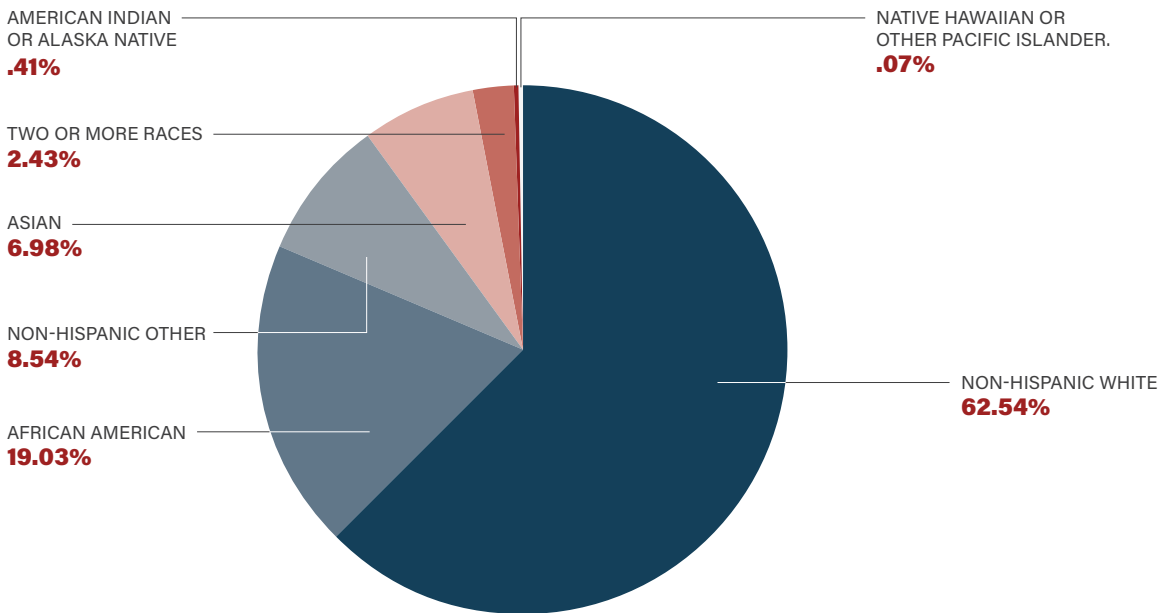
Houston, Texas is considered to be the **most socioeconomically diverse city** in the United States, and it also scores high for cultural, economic, household, and religious diversity. Dallas, Texas is not far behind, scoring as the fourth most socioeconomically diverse city in the United States, and ranking similarly high in other metrics. Arlington, Texas and Fort Worth, Texas also rank in the top 25 most diverse cities in the nation.

The face of Texas itself is changing. Population projections for the state show its wide-scale implications and impact on the economy. Here are some key points:

- In the Dallas-Fort Worth Metropolitan area, the **ethnic diversity** is 28.3% non-hispanic white, 22.7% non-hispanic black, 6.5% non-hispanic Asian, 40.8% hispanic, and 1.7% non-hispanic other.
- As of 2019, Tarrant County had grown by 13,781 among non-hispanic whites, 94,029 among non-hispanic blacks, 34,131 among non-hispanic Asians, and 136,733 among hispanics.
- As of 2019, Dallas County's population had decreased by 41,646 among non-hispanic whites and grown by 76,935 among non-hispanic blacks, 53,005 among non-hispanic Asians, and 168,255 among hispanics.

2021 HARRIS COUNTY, TEXAS—RACIAL-ETHNIC DEMOGRAPHICS

Recorded Population: 4,779,880



The two major ways that the Texas population is predicted to change over the next several decades is in terms of diversity and age. Hispanics now make up **39.7% of the Texas population**; it is likely that businesses of all kinds will benefit from these inevitable shifts.

TEXAS ECONOMY BY THE NUMBERS

The saying that everything is bigger in Texas has its proof in the size of Texas, and those numbers are only growing. In 2021, Texas became the world's **9th largest economy by gross domestic product (GDP)**.

Here are some statistics on the Texas GDP:

- The Texas GDP represents 8.6% of the United States GDP, making it the second largest state economy in the country.
- As of October 1, 2021, the percent change at the annual rate for **Texas real GDP was 6.4%**.



IN 2021, TEXAS BECAME THE WORLD'S 9TH LARGEST ECONOMY BY GROSS DOMESTIC PRODUCT (GDP).



THE TEXAS GDP REPRESENTS 8.6% OF THE UNITED STATES GDP, MAKING IT THE SECOND LARGEST STATE ECONOMY IN THE COUNTRY.

Texas counties are also **measured according to GDP**:

- Among all the large counties in the United States, Williamson County, TX was the fastest growing large county, with a growth rate of 6%. This growth was supported by the durable goods manufacturing industry.
- Midland County, Texas was the fastest growing medium county in the entire United States, with a growth rate of 13.9%. This growth was supported by the mining, quarrying, oil, and gas extraction industries.

In addition to its natural resources, businesses do well in Texas due to the state's business friendly tax climate. Texas businesses don't have corporate income tax, and individuals don't have to pay income tax. The cost of doing business in Texas is **10% below the national average**.



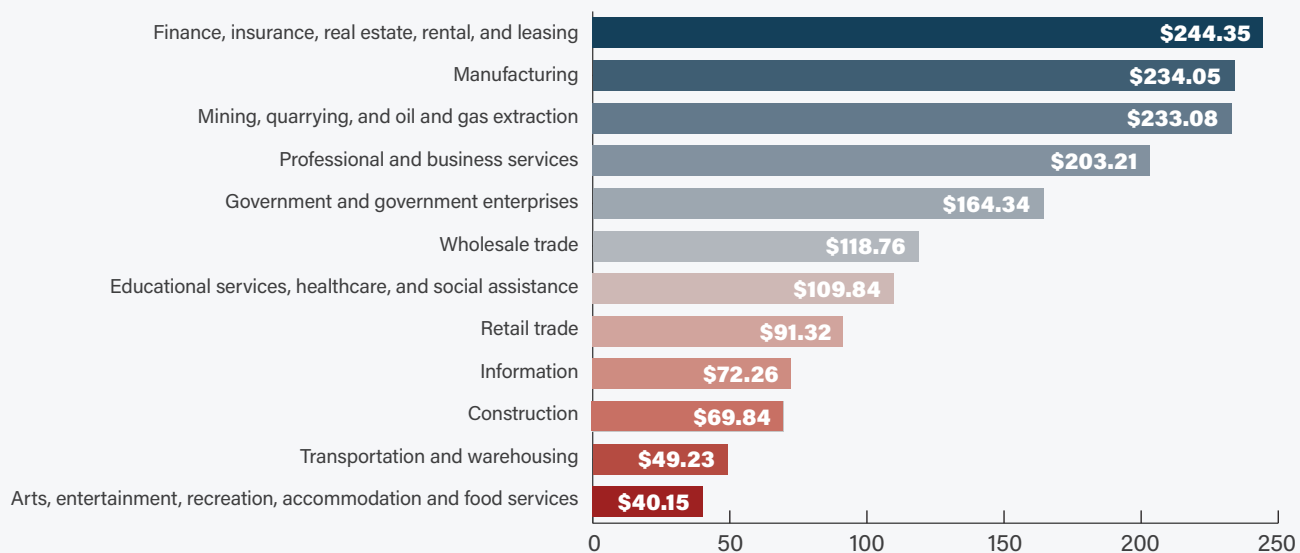
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DIVERSITY OF THE INDUSTRIES

Early success in Texas may have been in specific industries, but oil and gas only account for about **9.45% of the state's GDP** today. Texas has quickly proven itself as a competitor in many fields. There are diverse industries thriving in Texas, both inside and outside of metropolitan areas.

Here is a breakdown of the **real value added to the GDP of Texas** by industry:

REAL VALUE ADDED TO THE GDP OF TEXAS BY INDUSTRY (IN BILLIONS)



Experts have identified eight **areas that are primarily driving GDP growth** in the Texas economy, which are:

- 1. Information technology**, which broadly includes everything from IT and telecommunication to computer systems and more. Even in the middle of high nationwide unemployment rates between 2020 and 2021, **Texas ranked number two for IT job openings**.
- 2. The supersector** — or consistency of transportation, utility, and trade — which has an above average presence in Texas and represents 20% of total nonfarm employment.
- 3. Business services**, which include education and health services. Eight of the largest employers in the state are research facilities or hospitals.
- 4. Manufacturing**, which employs nearly 900,000 Texans and accounts for more than 7% of all nonfarm workers in the United States. Areas of strength include durable goods and machine manufacturing.

- 5. Leisure and hospitality**, which employs close to 9% of the nonfarm labor force, a number that is higher than the country as a whole.
- 6. Construction**, driven by growth both in the **Texas commercial real estate** and residential real estate sectors, fueled by population growth and a strong business environment.
- 7. Financial services**, which employs about 6% of the state's nonfarm workers, are growing in line with the rest of the state's large sectors.
- 8. Energy**, an area in which Texas continues to be one of the highest-ranking states both in terms of energy production and employment.

Texas is known to be resilient, but it is also adaptable. Emerging technology is right at home in Texas, and the **tax structure** has made it a welcoming place for start-ups and innovative companies.

Texas is a state **leading technology innovation**:

- As of May 2021, there are more than 17,600 technology firms in Texas which employ 370,000 workers.
- Texas is a fast-growing state for data centers, and Dallas-Fort Worth has been ranked as the sixth greatest data center market in the world.
- For the past 14 years, Texas has ranked as a top two state for the number of tech-related patents assigned.
- In Texas, venture capital investment in electronics has amounted to \$680 million in the last ten years.
- The National Science Foundation ranked Texas at the top tier of states in the United States for the number of doctoral degrees awarded in tech fields, including electrical engineering and engineering.

Texas leads the way in communications and communication equipment manufacturing, computing equipment, software and design, data analytics and cybersecurity. Companies such as Verizon, T-Mobile, Samsung, Sprint, and AT&T have rolled out 5G infrastructure in all major Texas metropolitan areas.

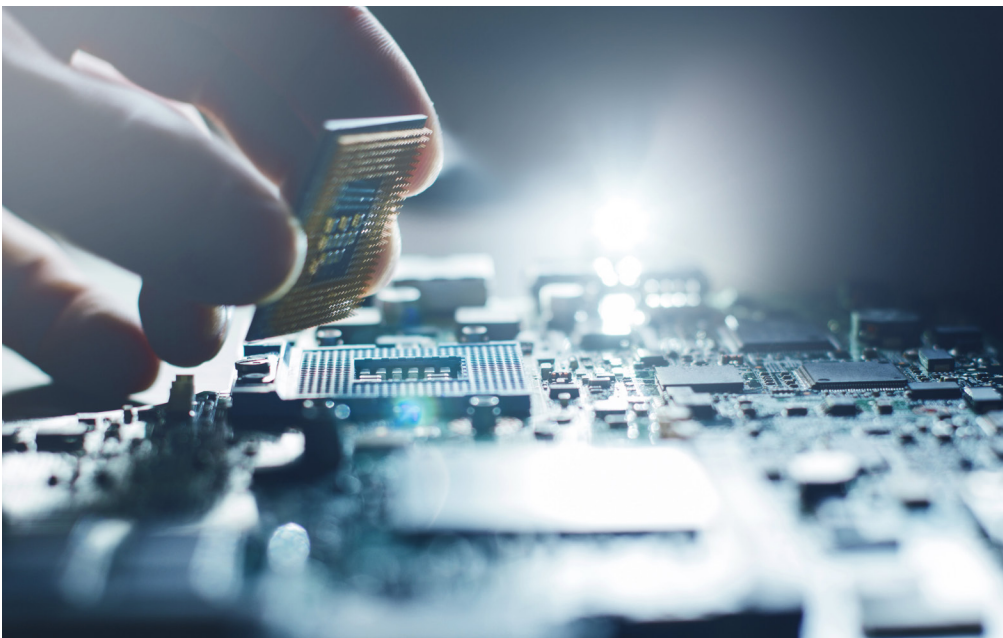


Emerging Industries of Texas

Texas has certain concentrations of emerging industries, which are each located in specific metropolitan areas. The following **areas of industry growth** are present:

- Biotech and life sciences are growing in San Antonio, Dallas, and Austin with specialties focusing on medical equipment supplies and manufacturing, pharmaceutical and medicine manufacturing, specialized hospitals, and scientific research and development services.
- Information and electronics are growing in Austin, Dallas, Plano, Sherman, El Paso, and other areas of North Texas, focusing on computers and peripherals manufacturing, semiconductors and electrical components, data management, communications equipment management, computer systems design, and more.
- Financial services are growing throughout Texas, concentrated in areas like Amarillo, Dallas, Houston, Austin, Abilene, Waco, and more, with a focus on financial investment services, insurance carriers, and accounting services.
- Aerospace and aviation are growing in Dallas, Austin, Amarillo, Fort Worth, Wichita Falls, and San Antonio, including manufacturing aerospace products and parts and support activities for air transportation.
- Logistics and transportation management are growing throughout Texas, including in freight transportation and management, water transportation, rail transportation, distribution, and more.

These are some of the industries in a growth state in Texas, and they are driven by a diverse workforce.



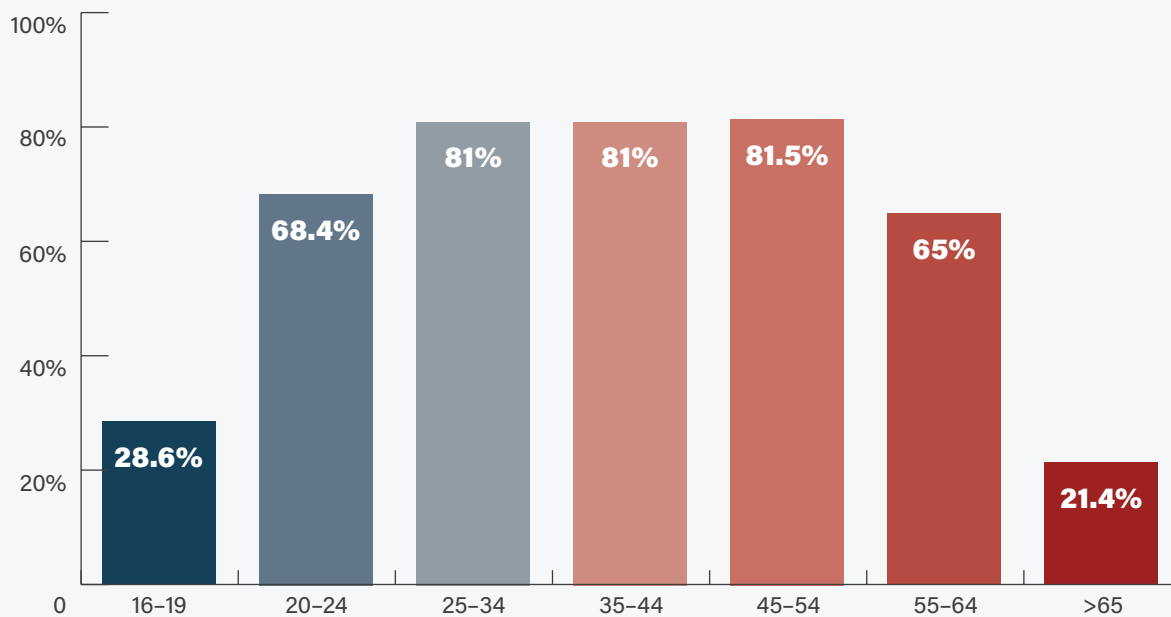
DIVERSITY OF THE TEXAS WORKFORCE

The workforce in Texas is diverse. In most measurable components, the diversity of the workforce in Texas exceeds national averages. Here are the numbers, according to the [Texas Workforce Report](#) from 2020-2021:

- Texas's population grew faster than the national average by 160%, with a growth rate of 1.3% compared to the national number of 0.5%.

LABOR FORCE PARTICIPATION BY AGE RATE (IN PERCENTAGE)

There is an equal distribution of employment opportunities across many age groups.



According to the [U.S. Bureau of Labor Statistics](#) (in thousands), 46,800 of the 147,795 employed individuals are female, 78,000 are White, 12,100 are Black or African American, 6,400 are Asian, and 17,600 are Hispanic or Latino.

Diversity is a powerful way to create healthy collaboration. Texas is a hub of rising talent, with a high rate of under-18 population growth. In fact, according to the latest U.S. Census Bureau data, **one out of every 10 people under the age of 18** in the United States lives in Texas. This cohort of young people means that there is a rising pool of new talent for many industries.

As the workforce becomes more diverse, Texas businesses, and companies are benefiting greatly.

66 COMPANIES IN THE TOP QUARTILE FOR RACIAL AND ETHNIC DIVERSITY ARE 35 PERCENT MORE LIKELY TO HAVE FINANCIAL RETURNS ABOVE THEIR RESPECTIVE NATIONAL INDUSTRY MEDIANS. COMPANIES IN THE TOP QUARTILE FOR GENDER DIVERSITY ARE 15 PERCENT MORE LIKELY TO HAVE FINANCIAL RETURNS ABOVE THEIR RESPECTIVE NATIONAL INDUSTRY MEDIANS. 99

Source: *Why Diversity Matters*, an article by analysts at McKinsey & Company

DIVERSITY OF TEXAS'S 4 MAJOR MARKETS

Each of Texas's major cities is unique and diverse in its own way. The four major markets in Texas represent diversity well.

Dallas Fort Worth

Dallas Fort Worth has been named **sixth in a list of the top 10 most innovative cities** in the world. The area's industrial market is booming, especially with e-commerce growing in popularity. More companies than ever are focused on same and next-day delivery, as well as last-mile distribution. **Dallas** is the furthest north major city in Texas, so for companies shipping all over the country, it doesn't get more central than Dallas.

Houston

Houston has been named "the Silicon Bayou," and represents an influx of green tech and information technology. Houston has always been an energy leader, so it is not a wonder that green tech wants to be where energy companies thrive. The port of Houston is a top exporter for technology in the U.S. **Project 11**, also known as the Houston Ship Channel expansion, will widen the channel from 530 feet to 700 feet, making it a safe and increasingly efficient way to transport goods.

According to porthouston.com, "The Houston Ship Channel is experiencing tremendous growth. The Houston region, the country's No. 1 region for exports, is home to the largest petrochemical manufacturing complex in the Americas. Energy production and the export of crude oil, along with the increasing global demand for chemicals produced in the region, are major drivers of this success."



San Antonio

San Antonio is known for its strong military presence and hosts the U.S Air Force security service operations. San Antonio is also the location of NSA Texas, as well as having a large private sector presence of cybersecurity and intelligence businesses. The city is nicknamed "**Cyber City, USA,**" due to the fact that it has one of the highest concentrations of cyber security professionals and businesses in the country.

Austin

Austin is a **hub for the California relocation**, a trend that has persisted for some years and continues to grow, prompting the popular delineation as "Silicon Valley 2.0." Tech companies from California have overwhelmingly picked Austin of all Texas cities for new corporate facilities. During the pandemic, **Austin welcomed more new residents** from the Bay Area than from any other region outside Texas.



FUTURE ECONOMIC PROJECTIONS OF TEXAS, 5–10 YEARS OUT

Corporate growth in the state of Texas has brought significant industry growth.

SUMMER 2021 PUBLISHED ECONOMIC FORECAST NUMBERS FOR THE STATE OF TEXAS

	Annual % Change	Personal Income	Annual % Change	Nonfarm Employment	Annual % Change	Residential Population	Annual % Change
2021	11.1	\$1,708.7 B	6.1	12,632.3	3.0	29,677.6	1.0
2022	5.7	\$1,738.1 B	1.7	13,070.7	3.5	30,005.4	1.1
2023	4.7	\$1,826.8 B	5.1	13,327.1	2.0	30,361.1	1.2
2024	5.1	\$1,930.9 B	5.7	13,538.5	1.6	30,729.6	1.2
2025	5.1	\$2,042.4 B	5.8	13,721.4	1.4	31,104.9	1.2
2026	5.2	\$2,159.2 B	5.7	13,878.9	1.1	31,480.1	1.2
2027	5.2	\$2,280.6 B	5.6	14,146.2	1.0	32,599.0	1.2
2028	5.3	\$2,409.4 B	5.6	14,146.2	0.9	32,227.7	1.2
2029	5.2	\$2,543.0 B	5.5	14,282.4	1.0	32,599.0	1.2
2030	5.1	\$2,861.5 B	5.4	14,423.5	1.0	32,986.1	1.1

The **Texas Consumer Confidence Index** has risen, as the Texas government has inspired confidence after the COVID-19 pandemic through higher return to work rates and support of local businesses.

Factors driving growth throughout the state that will directly impact the economy over the next decade, include the following:

Houston Port expansion — The port and its public and private terminals moved nearly 285 million tons of cargo in 2019. That was almost 47 million tons more than any other U.S. port and a 6% increase compared to the previous year. The Port of Houston is responsible for nearly 1.35 million jobs in Texas and 3.2 million jobs nationwide. The port's economic activity totals \$339 billion in Texas, which is 20.6% of Texas' total gross domestic product (GDP) – and has an impact of \$801.9 billion nationwide. The expansion will bring additional increases in this sector.

Innovation and emerging technology — Several leading tech companies are moving their headquarters to Texas. These companies include Dell, NTT Data, Tesla, SolarWinds and a host of start-ups and scaling companies. Texas is also a leader in clean energy solutions, with innovative technologies for wind power and solar power. In addition to job creation, this will continue to affirm Texas's role as a leading provider of emerging technology.

Support for small businesses — As of 2020, there were **31.7 million small businesses** in the United States, some of which are microbusinesses. **804,398 new businesses** (less than a year old) started in 2020. Texas is home to **4.7 million** of these small businesses. Texas's pro-business tax structure and environment is primed to facilitate small business and start-ups.

Natural resources and exports — While it is nothing new, Texas continues to be a leader of natural resource exports, including crude oils. Coal, natural gas, and other natural resources will continue to support the economy.

FUTURE WORKFORCE PROJECTIONS OF TEXAS, 5–10 YEARS OUT

Corporate relocations are a main driver for workforce relocations. In terms of talent, education, and diversity, the future workforce projections in Texas are bright.

Some of the **highest demand occupations in Texas**, which are projected to increase the most between 2018-2028, are:

- Construction
- Manufacturing
- Agriculture
- Healthcare
- Education
- Transportation and warehousing
- Mining, quarrying, and oil and gas extraction
- Utilities
- Wholesale trade
- Retail trade
- Finance and insurance
- Professional, scientific, and technical services
- Accommodation and food services

Technical services and IT are areas in high demand and in high growth, with projections for IT jobs in the following categories **set to grow anywhere from 13% to more than 35%** by the year 2028:

- Computer and information systems managers
- Training and development specialists
- Computer systems analysts
- Information security analysts
- Computer network architects
- Computer networks support specialists
- Computer user support specialists
- Network and computer systems administrators
- Web developers



A demographic shift is likely to increase demand for as many as 800 different occupations in Texas over the coming years. The two kinds of workers with high-wage potential that are expected to drive growth in employment are:

- Workers that hold a bachelor's degree or have specific technical training
- Workers that have a post-secondary education, specific technical skills, or additional training

According to the 2020 census, people of color make up as much as 95% of the population growth in Texas. This supports the continuously increasing diversity among workers in Texas. Other projections can be based on existing trends:

- Texas nonfarm employment rose 4.4% percent Seasonally Adjusted Annual Rate (SAAR) in 2021 and is projected to continue to increase by as much as 5.6% by the end of the year. Labor force participation rate remains at 62.2%, but major metropolitan areas report lower unemployment rates than national averages.
- The average wage in north Texas is higher than the U.S. rate, and most real wages have either declined minimally or are roughly unchanged.
- The job growth rate in Texas is above the national average, and with numerous new corporate entities establishing in Texas's metropolitan markets, the job outlook is positive.
- In 2019, 187,000 people ages 25-39 relocated to Texas, and Texas continues to lead the way for millennial migration.

People of all ages move to Texas because it provides versatile lifestyle opportunities, with everything from rural and suburban to urban housing options at below-average prices.

Texas Diversity = Strong Texas Economy

There is strength and stability in diversity, which is why so many people, businesses, and investors are moving, relocating, and investing in the Lone Star state.

To learn more about Hartman Income REIT Management, Inc., and our team of [Commercial Real Estate experts](#) leading the way in Texas, **visit our website** www.hi-reit.com.



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