

SAPPHIRE

GROUP

QUARTERLY REPORT



SAPPHIRE

GROUP

December 31st, 2022

Quarterly Report:

Sapphire Group, LLC

Hello Sapphire Members, I hope you had a great holiday season and are ready for an exciting 2023. I am looking forward to seeing everyone who will be able to attend the Annual Meeting/Dinner on January 19th in Frisco, Tx. For those of you who are not able to attend, we will have a new Sapphire Information Packet for 2023 available soon that highlights the details of Sapphire in a fresh new way. We believe the strategies in this packet are what sets Sapphire apart and will help us pursue our goal of becoming the best real estate investment option in Texas.

As we have reported for most of the year, 2022 was very productive for Sapphire. We finished the year with a 7.58% unleveraged return and a 20.21% fully leveraged return. There was some disappointment that two properties scheduled to sell in 2022 ended up not closing, but we anticipate those properties selling in the coming months which would help the overall return for 2023.

We are keeping a close eye on the overall economy, interest rates, and different local market dynamics. Although there are challenges popping up in the US economy, we are seeing some great opportunities ahead for Sapphire. The strength of our overall portfolio and pipeline should help us thrive in the coming years.

The Sapphire Board is planning for continued growth and additional investors which will help put Sapphire in a great position to purchase distressed assets in the case of a more severe recession. The Board also plans to study the value of our portfolio and underlying holdings later in 2023. As our development projects are completed and rental income increases, we see a strong possibility that the unit value will need to be increased to reflect the value of our underlying holdings accurately.

We continue to keep an eye out for the "one-off" opportunities to score a quick profit, but the Board has been shifting Sapphire's focus to "repeatable" projects. We are making great progress with a few concepts that we can rapidly scale once the concepts prove themselves. Scalability will increase the power of each dollar the fund controls by increasing the velocity with which it turns.

Sapphire continues to look for additional investors to enhance our ability to take advantage of opportunities and to increase diversification. We strongly believe new investors will have a positive impact on the fund's performance. We would welcome any potential investors you invite to connect with us. We would be happy to meet with you and/or them to make a no-pressure presentation.

Document Summary

The following pages will provide additional information for your review. Please note a small change to this report format: project specific highlights have now been combined with the project photo gallery.

1. Current holdings list
2. Historical return summary
3. Specific project photos and details
4. Current Balance Sheet
5. Current P&L
6. Relevant market news

Note: Financial Statements are for general reference only. All items are presented pending the Sapphire accountant's year-end adjustments.

Feel free to contact us anytime with questions.
Thank you!

Kyle Boothe

President, Principal

Bluestone Partners, LLC

Operating Manager for Sapphire Group, LLC

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Holdings - 12/31/22	Sapphire %	Market Value	Loan Balance	Purchased	Notes
Cash (All entities)	100.00%	\$1,874,300	\$0	-	Available Cash (all entities)
Guarantees committed to ongoing projects	100.00%	\$10,781,200	\$10,781,200	-	Investor guarantee balance committed to ongoing projects
Guarantees available to invest	100.00%	\$5,015,500	\$5,015,500	-	Additional Investor guarantee balance to be invested
Progress St. Light Industrial Building - Sherman, TX	30.00%	\$668,400	\$0	2022, 4th Q	9+/- Acres, light industrial property next to new TI plant in Sherman, Tx
Mixed-use land - Ennis, TX	100.00%	\$2,580,900	\$1,179,500	2022, 3rd Q	15+/- Acres of Retail and storage/industrial land on I45 in Ennis, Tx
Storage/Industrial land - Weatherford, TX	100.00%	\$1,067,200	\$372,700	2022, 3rd Q	7+/- Acres of storage/industrial land for new development in Weatherford, Tx
Multi-family land - Longview, TX	100.00%	\$1,219,200	\$347,400	2022, 3rd Q	8+/- Acres of multifamily zoned land for new development in Longview, Tx
Anna TX Retail Center (Walgreens and Red River Title)	75.00%	\$4,525,600	\$2,364,200	2022, 2nd Q	20,000 sq. ft. retail center, development started end of 2022
Westwood Village - Sherman, TX	100.00%	\$3,041,800	\$1,615,000	2022, 1st Q	100,000 sq. ft. retail center, renovations started end of 2022
Bennett Road Land - Howe, TX	100.00%	\$643,300	\$255,000	2022, 1st Q	26 acres currently under contract to sell to another developer
Hagerman Acres - Sadler, TX	100.00%	\$378,200	\$0	2021, 4th Q	15 acre rural lot development fronting a county road (5 out of 10 lots sold)
Corporate Central - McKinney, TX	38.42%	\$3,605,400	\$1,581,500	2021, 3rd Q	53,000 sq. ft. Flex/Light Industrial Development nearing completion
Heritage Court - Sherman, TX	27.92%	\$2,130,000	\$0	2021, 2nd Q	100 unit rental community on Hwy. 1417 in Sherman starting construction
Chisholm Multiuse Development - Wichita Falls, TX	100.00%	\$1,215,000	\$453,600	2020, 2nd Q	105 acres, master planned development, under contract to sell to developer
Shadow Pines - Denison, TX	100.00%	\$964,000	\$416,100	2019, 3rd Q	24 renovated townhome units, for sale (17 sold, 7 remaining)
SRS Distribution (Southern Shingles) - Lawton, OK	100.00%	\$1,078,600	\$569,100	2018, 4th Q	18,300 sq. ft. light industrial building, 100% Occupied
Heritage Crossing Development - Sherman, TX	75.00%	\$2,774,200	\$1,479,200	2018, 1st Q	80 lot residential development in Sherman Tx (15 sold, 57 under contract)
Bear Creek Leftover Land - Cedar Hill, TX	100.00%	\$40,000	\$0	2017, 1st Q	Under 1 Acre of leftover land after TXDOT purchase (possible commercial use)
U of G/Edward Jones Building - Sherman, TX	30.00%	\$684,200	\$198,400	2013, 1st Q	12,000 sq. ft. commercial building, completed August 2013, 100% Occupied
Crescent Oaks - Sherman, TX	50.00%	\$68,500	\$0	2010, 3rd Q	1 Commercial lot remaining on Hwy 75 in Sherman, Tx
Portfolio Loans (1 loan remaining)	100.00%	\$17,800	\$0	2010, 3rd Q	Current
Villa Green Student Townhomes - Bryan, TX	100.00%	\$0	\$0	Sold, 2022 Q3	Sold
Brown Commercial Properties - Sherman, TX	100.00%	\$0	\$0	Sold, 2022 Q2	Sold
Bray Central - McKinney, TX	100.00%	\$0	\$0	Sold, 2022 Q2	Sold
Crown Homes (2 Spec Homes) - Sherman, TX	50.00%	\$0	\$0	Sold, 2022 Q1	Sold
Little Ridge RV - Copeville, TX	100.00%	\$0	\$0	Sold, 2021 Q4	Sold
Desert Creek RV - Desert, TX	100.00%	\$0	\$0	Sold, 2021 Q4	Sold
Sandy Springs Development - Whitesboro, TX	100.00%	\$0	\$0	Sold, 2021 Q4	Sold
Totals		\$44,373,300	\$26,628,400		

Current Loan-to-Value = 37.90%

Maximum Loan-to-Value = 60.01%

SAPPHIRE GROUP

General Investment Information

The purchase of one cash unit of Sapphire Group LLC will require \$375

The purchase of one guarantee unit of Sapphire Group LLC will require a \$1,125 personal guarantee

Minimum initial purchase of \$15,000 required

Maximum ratio of cash to guarantee is 1:5 (dollar value of cash amount to guarantee amount)

Personal financial statement and board approval will be required to acquire guarantee units

Investment Examples and Returns

Example:	Cash Only	Guarantee 1:1.5	Guarantee 1:2	Guarantee 1:3	Guarantee 1:4	Guarantee 1:5
Cash Invested	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Guarantee Amount	\$0	\$22,500	\$30,000	\$45,000	\$60,000	\$75,000
Cash Units	40	40	40	40	40	40
Guarantee Units	0	20	27	40	53	67
Total Units	40	60	67	80	93	107
Target Return	10.00%	15.00%	16.67%	20.00%	23.33%	26.67%
2010 Return	4.10%	6.15%	6.83%	8.20%	9.57%	10.93%
2011 Return	7.20%	10.80%	12.00%	14.40%	16.80%	19.20%
2012 Return	7.60%	11.40%	12.67%	15.20%	17.73%	20.27%
2013 Return	8.50%	12.75%	14.17%	17.00%	19.83%	22.67%
2014 Return	8.90%	13.35%	14.83%	17.80%	20.77%	23.73%
2015 Return	12.43%	18.65%	20.71%	24.86%	29.00%	33.14%
2016 Return	3.22%	4.83%	5.37%	6.44%	7.51%	8.59%
2017 Return	5.12%	7.68%	8.53%	10.24%	11.95%	13.65%
2018 Return	18.00%	22.85%	1.34%	27.70%	30.93%	34.17%
2019 Return	5.32%	7.98%	8.87%	10.64%	12.41%	14.19%
2020 Return	4.56%	6.84%	7.60%	9.12%	10.64%	12.16%
2021 Return	23.72%	28.08%	29.53%	32.44%	35.35%	38.25%
2022 Return	7.58%	11.37%	12.63%	15.16%	17.69%	20.21%
2022 Cash Return	\$1,137	\$1,706	\$1,895	\$2,274	\$2,653	\$3,032

Cash-only units, compounded total return with reinvested earnings: **198.53%**

Cash-only units, annualized total return (13 years): **8.77%**

Fully leveraged, compounded total return with reinvested earnings: **1032.43%**

Fully leveraged, annualized total return (13 years): **20.53%**

Investment returns are not guaranteed. As with any investment, Sapphire Group, LLC carries the risk of nonperformance and/or loss of principal.

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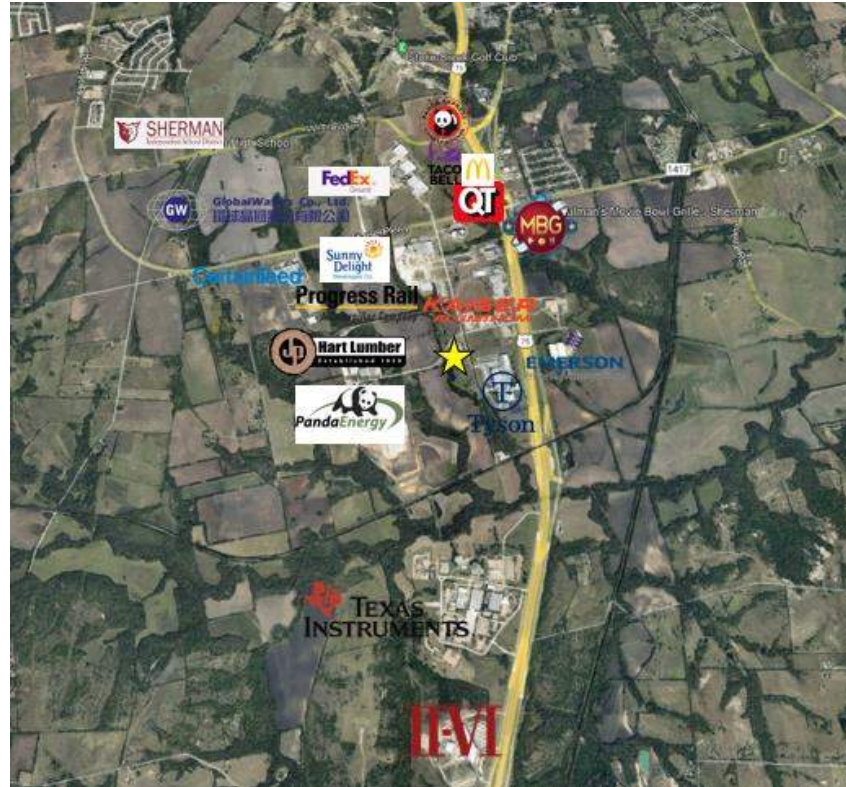
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PROJECT INFORMATION



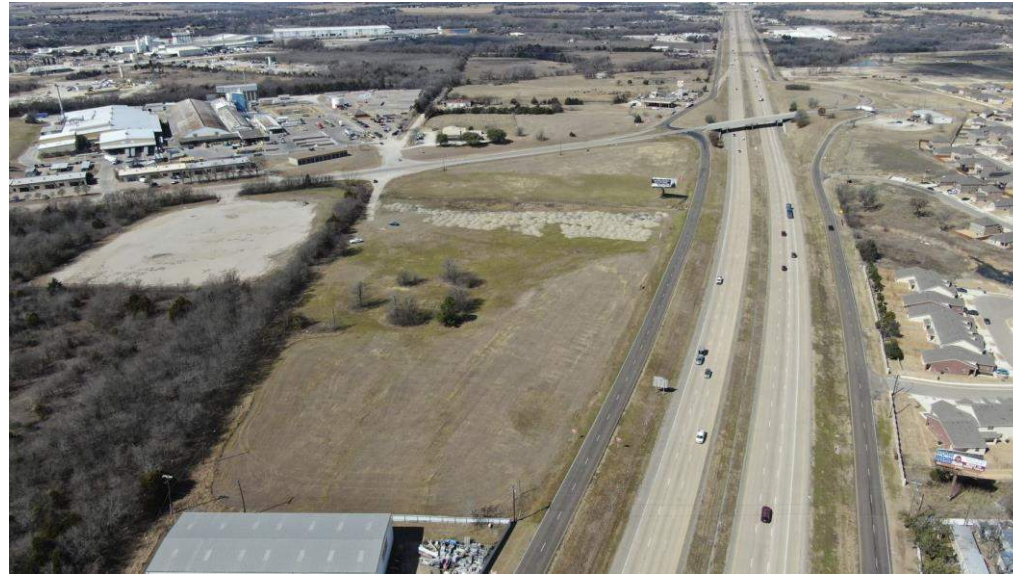
Progress St. Light Industrial Building and Additional Land Sherman, Texas

This 9-acre property on Progress Street in Sherman Texas is situated between Texas Instruments' \$30 billion chip plant to the south and Globotech's \$5 billion chip plant to the north. The property contains an existing 13,000 sq. ft. building with excess land to develop additional buildings. The surrounding properties consist of other major employers and the remaining Sherman Economic Development (SEDCO) land. The plan for this property includes a refresh of the existing building in order to attract a tenant or buyer. Additionally, we will be designing a new site plan and working with the city of Sherman to subdivide into several smaller sites. During this process, we will market the sites to build-to-suit users and other potential tenants.



Ennis Texas Mixed-Use Land for Development Self storage, Flex Space and Retail Ennis, Texas

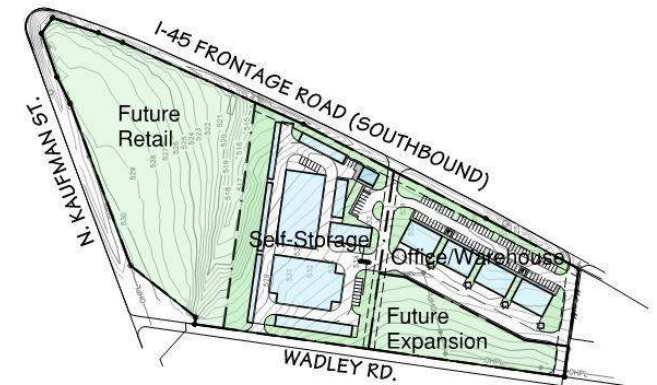
This 15+/- acres of land is located in an opportunity zone on I-45 in Ennis Texas. Being located close to new single family and multifamily developments, easily accessible, and great visibility makes this property prime for multiple uses. Our initial site plan leaves approximately 6 acres for a gas station, travel station or retail center on the hard corner with 9 acres remaining for self-storage and flex office/warehouses. Our third-party market study shows a huge need for both storage and office/warehouse space in this area.



Aerial View



Self-Storage Concept



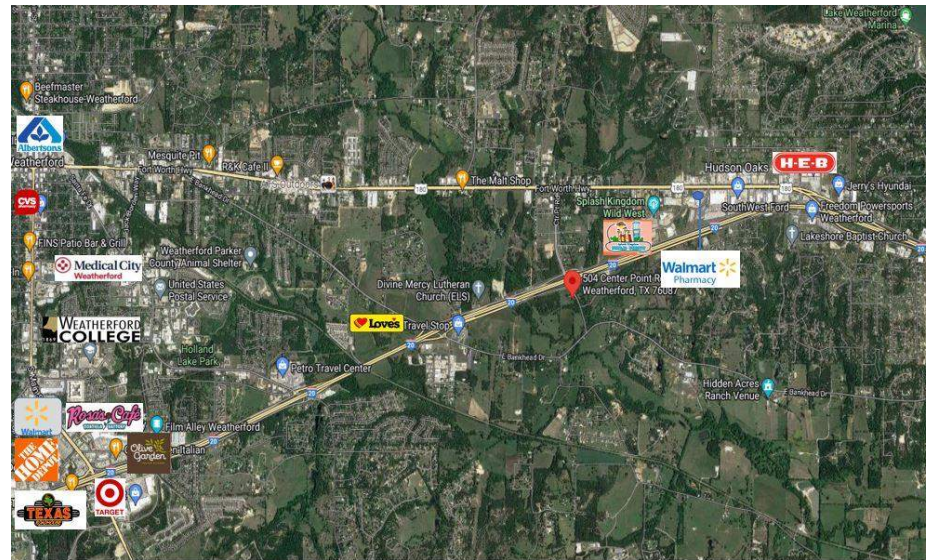
Site Plan

Weatherford Texas Industrial Land for Development Self Storage and Flex Space Weatherford, Texas

This property consists of approximately 7 acres between the rapidly growing towns of Weatherford and Hudson Oaks just west of Fort Worth. This property was a great find for another flex office/warehouse development but could also support self-storage. A third-party market study and the first draft of the site plan are currently in progress.



Aerial View



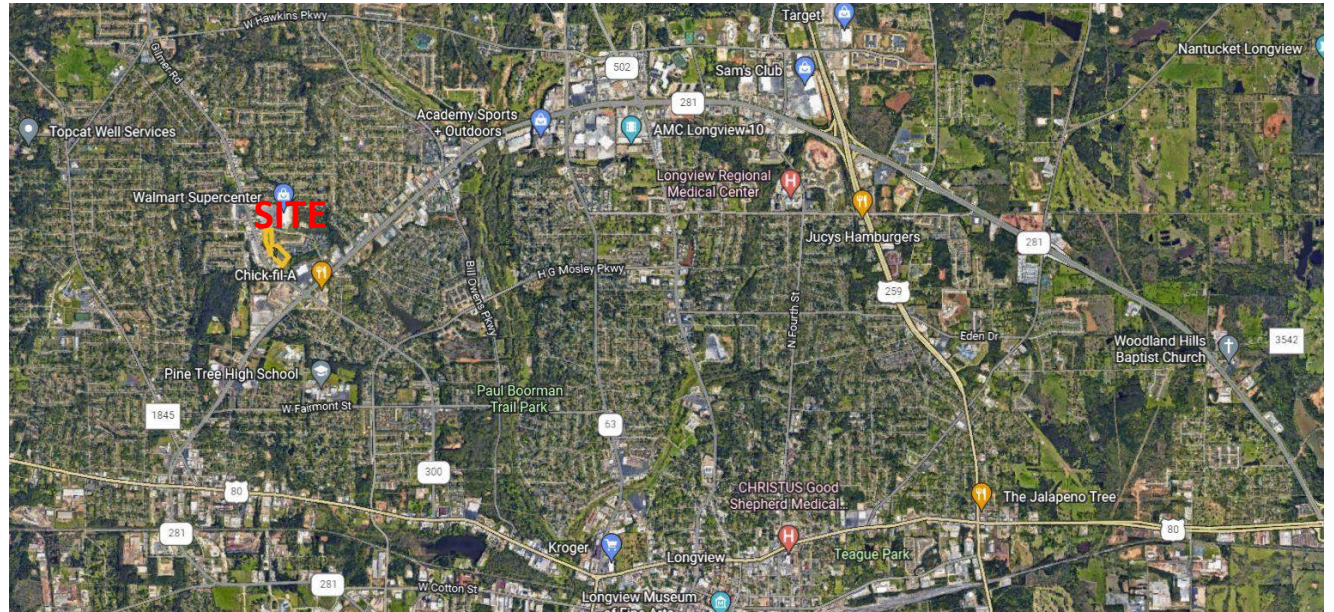
Location

Longview Texas Multifamily Land for Development

Multifamily

Longview, Texas

This property consists of approximately 8 acres zoned for a multifamily development in Longview Texas. Located close to Walmart, Chic-fil-a and other key retail services this will be a great property for a higher density/moderate income rental community. The property is also well suited for completing the development in multiple phases.



Location



Concept





Anna Texas Retail Center Walgreens and Red River Title Anna, Texas

We have signed leases with Walgreens and Red River Title for a new prime retail development in Anna Texas. The overall development will be just under 20,000 square feet and we will have approximately 6,000 square feet available for other future tenants. Construction should be complete later in 2023. We were excited to lock in a very low interest rate on this development loan prior to recent rate increases.



3D Rendering: Walgreens



3D Rendering: Red River Title



Location



Site Plan

Westwood Village Shopping Center Sherman, Texas

This property consists of 100,000 square feet of older retail space. The property location and the “bones” of the buildings are great. There are very few properties available like this in Sherman Texas, especially at this price point. With the proper improvements and management, we believe a ton of value will be created from this project. Construction has officially started and excitement is building within the city and neighbors.



Existing Site



3D Rendering

Current Leasing Plan
(Green=Vacant)



Howe Texas Land for Development Acre Lots or RV Park Howe, Texas

Sapphire purchased 26 acres in Howe, TX. This property will be great for an acre lot development or can be used to develop another RV park. A third-party developer is currently under contract to purchase this property and we hope the transaction will close before year end.



Aerial View

Sadler Texas Acre Lot Development Platted Lots for Sale Sadler, Texas

Sapphire purchased 15 acres north of Sadler Texas to divide into 10 lots for single family houses. The road frontage on this property is a valuable amenity as it will dramatically decrease the cost of development. We have sold five lots so far and have strong interest from other buyers on the remaining lots. This was a great find and has already turned into a solid investment.



Aerial View



Plat

Corporate Central Flex Space/Light Industrial Property McKinney, Texas

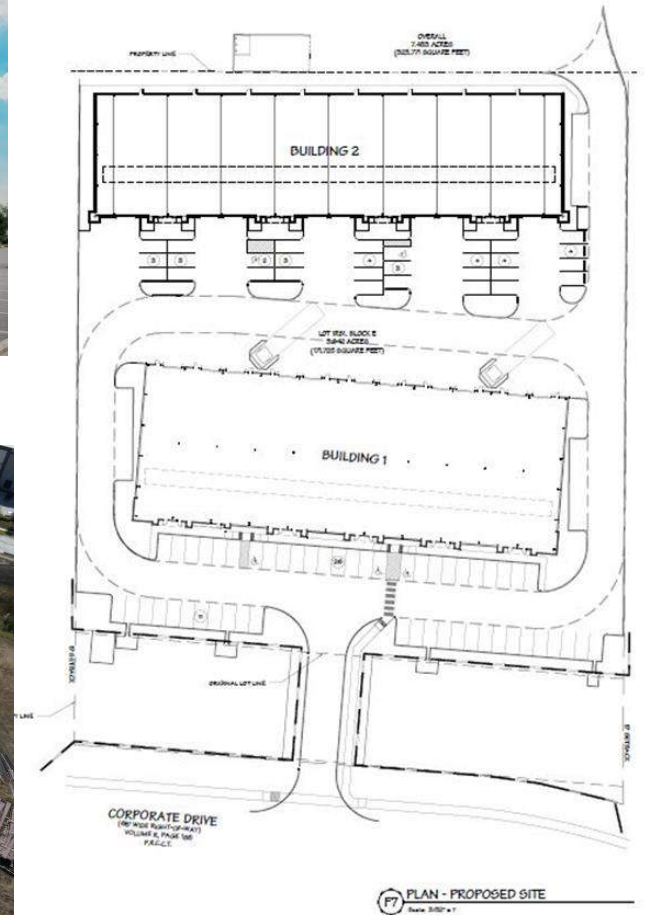
This property is in a Class A location near Highway 75 and 380 in McKinney Tx. Walmart and Sam's are located around the corner and the EDC of McKinney has land to the east where they have a development in progress. This property has been on our radar since purchasing the building at 1627 Bray Central, as it is located directly south (behind) this facility. The site plan is apportioned for 53,000 SF in two buildings and will target office/warehouse space for the service industry in this high demand area. Construction is underway and we plan to be complete in the coming months. We have also received multiple offers to purchase this property that are being considered.



Rendering



Current Aerial View



Site Plan

Heritage Court Development Hwy 1417 Sherman, Texas



Sapphire purchased land in the smoking hot 1417 corridor in Sherman Texas for a 100-unit townhome/multifamily project. We are excited about the design and believe this product could be repeated in other locations in the coming years. This property will have a signalized intersection at the entrance and a future city hike/bike trail that will connect to the nearby Baker Park. We have officially broken ground and moving forward quickly with construction. We were excited to lock in a very low interest rate on this development loan prior to recent rate increases.



Site Plan



Concept



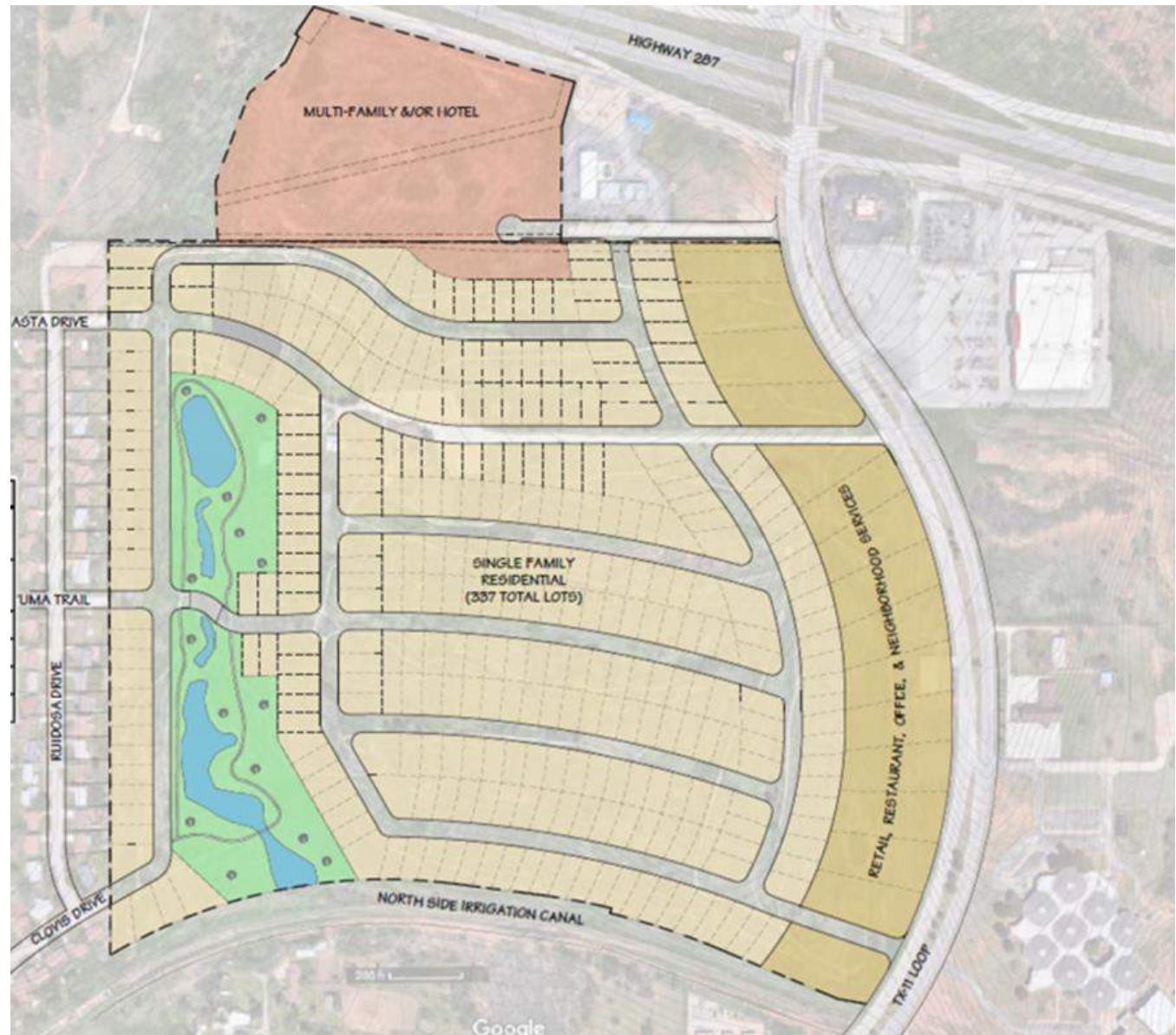
Exterior Materials & Finishes



Interior Materials & Finishes

Chisholm Estates Multi-Use Development Wichita Falls, Texas

We acquired this 105-acre property, previously a golf course, from a bank in Wichita Falls Texas at an attractive price. We started the master planning process but then went under contract to sell the property to a developer out of Dallas. That developer completed a significant amount of planning, engineering and city approvals and was required to close on the property in September. They have failed to close at this point and we are pursuing all options to protect Sapphire in this situation. That said, we have entered into another contract with a different buyer from Dallas and their feasibility period will end in February.



Site Plan

Shadow Pines Townhome Property Denison, Texas

Purchased 3rd Quarter 2019. This property consists of 29 individually platted townhome units. Sapphire was able to purchase 24 of the 29 units. After some time of leasing the units it was decided to renovate and sell the units individually. The units were renovated this year and we have sold 17 of the 24 units with one additional unit under contract.



Project Photos

**SRS Distribution (Southern Shingles)
Retail/Light Industrial Property
Lawton, Oklahoma**



This property was purchased in the 4th quarter of 2018. It contains 18,300 sq. ft. of renovated warehouse and office. This property branches just outside of Texas, in Lawton, Ok, but was a great find with a strong long-term tenant and consistent cash flow. We are in the final stages of negotiating a lease extension and are looking at potentially selling this property soon.



Project Photos

Heritage Crossing Development Sherman, Texas



This is a 45-acre tract of prime residential development land in West Sherman that is platted into 80 lots and development is progressing. We ran into a few delays that set us back on the schedule, but those items have been resolved and streets for Phase I have been completed. Phase II construction will also move forward in September. Currently we have all but 6 lots under contract, with 15 lots already closed.



Aerial Photo



Lot Availability

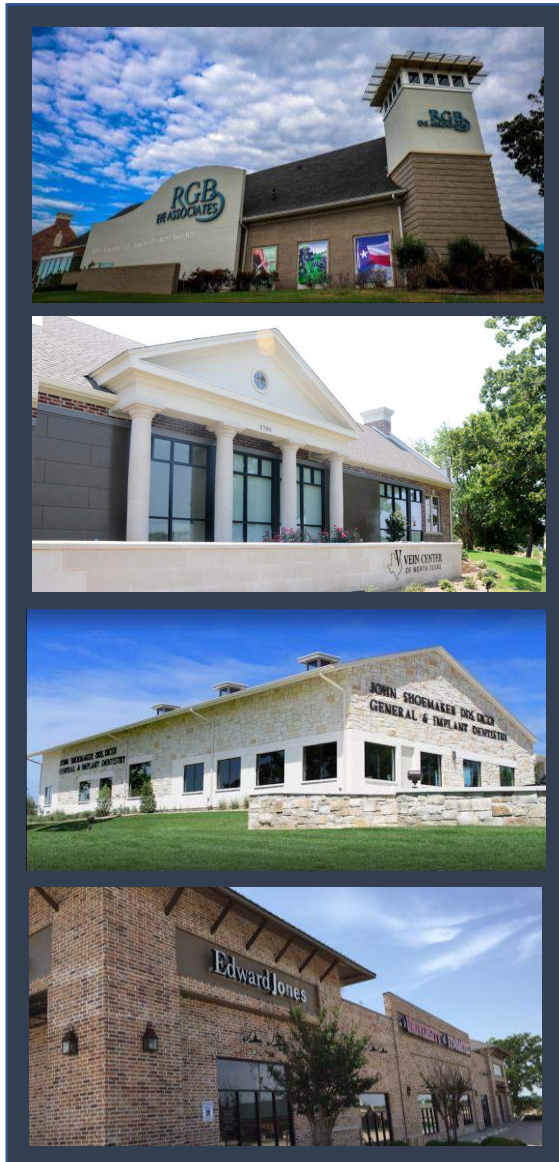
University of Gymnastics & Edward Jones Building Office/Retails Building Sherman, Texas

The project/building at 400 E. Taylor is a partnership with the main tenant (University of Gymnastics) of which Sapphire owns 30% and receives monthly equity payments. The second tenant is an Edward Jones office, with a ten-year lease guaranteed by Edward Jones, Inc. This project is structured with multiple guarantors ahead of Sapphire providing extra protection while still maintaining a solid return.



Crescent Oaks Commercial Land Development Southeast Corner of Hwy 75 and Taylor Street Sherman, Texas

One lot remaining of prime commercial land on Hwy 75 in Sherman, Texas close to the intersection of Taylor Street.



Completed Buildings on Sold Lots



Past Overhead View

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SOLD PROPERTIES



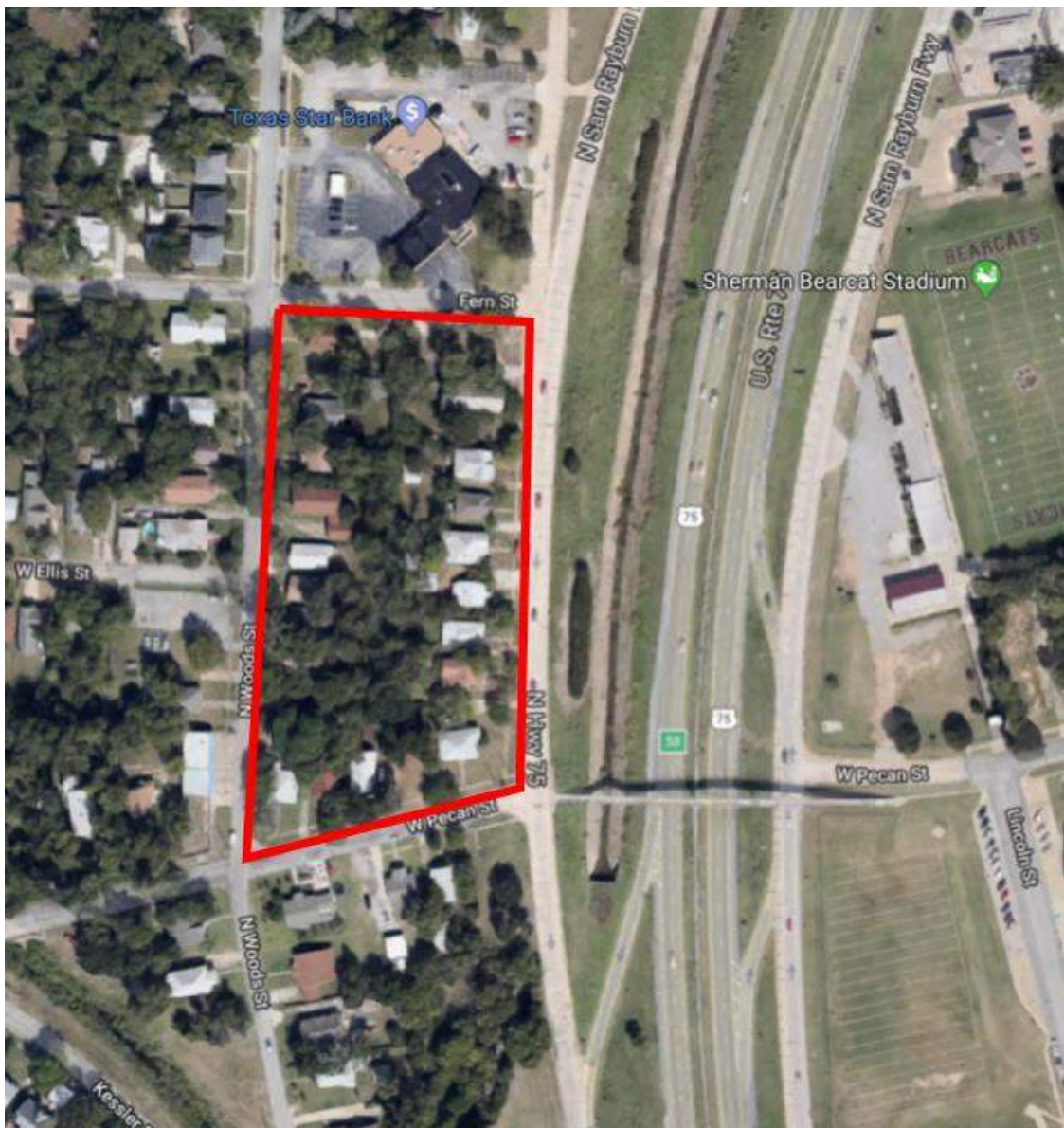
Magnetic Technology, Inc.
1627 Bray Central Drive
McKinney, Texas

SOLD



Brown Commercial Property
Hwy. 75 Frontage at Pecan Street
Sherman, Texas

SOLD



Desert Creek RV Estates
Desert, Texas
www.desertcreekrv.com

SOLD



Little Ridge RV Estates
Copeville, Texas
www.littleridgerv.com

SOLD



Speculative Homes
Baker Park Addition
Sherman, Texas

SOLD



3 FRONT ELEVATION
Scale: 1/4" = 1'-0"



F7 ELEVATION - FRONT
Scale: 1/4" = 1'-0"

NOTABLE PAST
SOLD PROPERTIES

SOLD: Villagio - College Station, Texas



SOLD: Bear Creek - Cedar Hill, Texas



SOLD: Heritage Row - Sherman, Texas



SOLD: Restaurant at HWY 75 & 82 - Sherman, Texas



NOTABLE PAST SOLD PROPERTIES

SOLD: 30 Acres on HWY 82 - Bells, Texas



SOLD: 4613 N FM 1417 - Sherman, Texas



SOLD: Hillcrest Square- Sulphur Springs, Texas



SOLD: Villa Green Townhomes- Bryan, Texas



NOTABLE PAST
SOLD PROPERTIES

SOLD: O'Hanlon Ranch - Sherman, Texas



SOLD: Overland Offices - Sherman, Texas



SOLD: Vein Center of North Texas - Sherman, Texas



SOLD: Overland Crossing - Anna, Texas



NOTABLE PAST
SOLD PROPERTIES

SOLD: Traditions Senior Living - Sherman, Texas



SOLD: Terrace Oaks - Sherman, Texas



Sapphire Group LLC
Balance Sheet
As of December 31, 2022
Dec 31, 22

ASSETS

Current Assets

Checking/Savings

11000 · Independent Bank Checking	-330,058.39
11100 · AmeriState Bank	1,176,072.94
11110 · Guaranty Bank	274,664.98
11115 · Texas Republic Bank	44,088.29
11250 · TD Ameritrade	1,385.72

Total Checking/Savings 1,166,153.54

Other Current Assets

26740 · Earnest Money	17,750.00
26745 · Prepaid Legal	110.00
27003 · Due from Heritage Ventures LLC	2,100.00
27016 · Due from Crest Ventures	453,253.00
27043 · Due from HABP	30,000.00
27045 · Due from McKay Communities	10,000.00
27046 · Due from Freedom Flex	775.00

Total Other Current Assets 513,988.00

Total Current Assets 1,680,141.54

Fixed Assets

24308 · Bear Creek Development	25,000.00
24340 · Building - Lawton, OK	820,376.45
24343 · Shadow Pines - Land	24,791.66
24344 · Shadow Pines Townhomes	779,573.57
24524 · Land - Hagerman Acres - Sadler	186,177.62
24525 · Land - Bennett Road - Howe	379,775.33
24526 · Westwood Village	2,674,804.53
24527 · Land - Ennis	1,709,656.47
24528 · Land - Weatherford	995,804.23
24529 · Land - Longview	855,964.26
29000 · Accumulated Depreciation	-1,339,361.00

Total Fixed Assets 7,112,563.12

Other Assets

27010 · BL Loan	17,804.12
26760 · Due from Univ of Gymnastics	202,962.46
26500 · Investment - Eminent Holdings	90,941.94
26761 · Investment - HABP, LLC	270,303.66
26763 · Investment - Heritage Ventures	981,978.00
26764 · Investment - Freedom Flex LLC	567,672.99
26765 · Investment -Sapphire Retail One	1,125,000.00
26766 · Investment - Crest Ventures	1,600,000.00
26767 · Investment - Blue River Texas	28,500.00
27768 · Investment - Sapp Stockhome	601,028.57

Total Other Assets 5,486,191.74

TOTAL ASSETS 14,278,896.40

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Sapphire Group LLC
Balance Sheet
As of December 31, 2022
Dec 31, 22

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Other Current Liabilities

40318 · Due to Sapphire Retail One	473.49
40325 · Dues held for Hillcrest POA	1,237.23
40300 · Deposits from Tenants	16,755.00
40302 · Deferred Gain - Bray Central	1,026,090.99
40312 · Due to Bluestone Prop Mgmt	14,867.95

Total Other Current Liabilities 1,059,424.66

Total Current Liabilities 1,059,424.66

Long Term Liabilities

49332 · Ameristate - WWV Development	1,615,048.73
49310 · Arvest Bank - Bldg - Lawton OK	569,092.34
49318 · Independent Bank - SP #16	31,012.27
49322 · Spades 49 - Lot 3 & Shadow Pine	385,000.00
49327 · First State Bank - Bennett Rd	255,025.74
49329 · City Bank - Ennis	1,179,500.00
49330 · Independent Bank - Weatherford	372,662.85
49331 · Independent Bank - Longview	347,413.77

Total Long Term Liabilities 4,754,755.70

Total Liabilities 5,814,180.36

Equity

34031 · Members Equity 8,009,941.31

Net Income 454,774.73

Total Equity 8,464,716.04

TOTAL LIABILITIES & EQUITY 14,278,896.40

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Sapphire Group LLC
Profit & Loss
January through December 2022

	<u>Jan - Dec 22</u>
Ordinary Income/Expense	
Income	
50000 · General Rental Income	423,660.44
51000 · Interest Income	26,896.45
54001 · Ordinary Income - Partnerships	
54211 · Income from HABP	-47,786.00
54210 · Income from Freedom Flex, LLC	-28,532.00
54555 · Income from Villa Maria	267,699.64
54554 · Income Heritage Ventures	182,852.00
54553 · Income Crown Homes of Texas	60,989.31
54350 · Income from Eminent Holdings	-1,924.95
Total 54001 · Ordinary Income - Partnerships	433,298.00
56000 · Miscellaneous Income	12,894.71
Total Income	896,749.60
Gross Profit	896,749.60
Expense	
60455 · Design Expense	66,430.89
60100 · Marketing/Development Fees	27,690.52
60400 · Bank Service Charges	575.00
61000 · Interest Expense	88,866.36
61250 · Loan guarantee fees	32,834.00
64900 · Office Supplies	267.93
65000 · Franchise Tax	8,933.99
66000 · Professional Fees	16,016.45
66500 · Meeting Expenses	23,250.32
67000 · Property Taxes	46,673.06
67200 · Repairs and Maintenance	94.30
67250 · Management Fees	2,144.92
67500 · Insurance	1,625.00
67600 · General Upkeep	2,743.76
67601 · Miscellaneous	731.19
67602 · Warranty Expense	32,809.39
67579 · Rental HOA dues	9,263.80
68400 · Rental Interest Expense	154,025.52
68450 · Rental Professional Fees	1,513.04
68460 · Rental Property Taxes	110,931.85
68500 · Rental Commission	51,840.00
68570 · Rental Insurance Expense	59,072.86
68575 · Rental Other Expenses	7,643.20
68577 · Rental Repairs	22,912.29
69000 · Rental Utilities Expense	28,092.29
70000 · Rental Management Fees	32,048.85
71000 · Rental General Upkeep	21,503.08
Total Expense	850,533.86
Net Ordinary Income	46,215.74
Other Income/Expense	
Other Income	
74641 · Gain on sale of Shadow Pines	56,793.01
74648 · Gain on sale 3516 Brooks Sadler	22,158.37
74649 · Gain on sale 3596 Brooks Sadler	22,158.37
74650 · Gain on sale Heritage Ct land	64,271.37
74651 · Gain on sale Hagerman lot #1	40,065.00
74652 · Gain on sale Hagerman lot #2	34,697.00
74653 · Gain on sale Hagerman lot #3	42,276.00
74627 · Gain on sale Brown Commercial	126,139.87
Total Other Income	408,558.99
Net Other Income	408,558.99
Net Income	454,774.73

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Note: Net Income does not include deferred gain currently on balance sheet

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Market News

Arts and Entertainment
Dan Solomon

Frisco mayor Jeff Cheney held a press conference to “announce plans for a major economic and tourism development” coming to the city. Frisco’s stature as a tourist destination has been an unlikely—but undeniable—story for the Dallas suburb over recent years, with the Cowboys’ practice facility and headquarters, The Star, the marquee name among the growing constellation of attractions. Cheney’s announcement did nothing to diminish Frisco’s growing prestige: the city would, he revealed, be the home of a new Universal Studios theme park, joining similar attractions in Hollywood and Orlando (as well as Beijing, Osaka, and Singapore).

Universal Studios in Frisco will differ from the other parks in a few regards—both in terms of its size, where it’s expected to cover about a quarter of the area that the Orlando park claims, and its scope, as the focus will be on family-friendly rides and attractions. (It seems everything, except a Universal Studios theme park, is bigger in Texas.) Within that mandate, however, there’s plenty of possibility for Frisco!

Outlook for the Texas Economy
Joshua Roberson, Weiling Yan, and John Shaunfield (Dec 15, 2022)

Summary

Inflation and recession fears remain the paramount concern in the Texas economy. Texas’ labor market has continued to expand, although at a suppressed rate. Initial unemployment claims surged as economic conditions loom and employers attempt to cut costs. Furthermore, nominal wage increases were not near enough to offset inflation, leading to continued wage slides for October.

Economic Overview

The Texas Leading Economic Index (a measure of future directional changes in the business cycle) fell for the fourth consecutive month after peaking in March. The dip in the index is due to recession uncertainties combined with inflation and rising rates. Conversely, according to the Conference Board Consumer Confidence survey, Texas is improving but is still far from recovering since the pandemic.

Persistent inflation and the Fed's tactics to reduce it through rate hikes paint a picture of a slowing economy in the coming months. The Federal Reserve is expected to continue raising rates as inflation persists as one of the nation's biggest economic concerns. The rate hikes have begun to have a positive effect on inflation, although inflation remains elevated since before the pandemic. In October, both the overall Consumer Price Index (CPI) and the core CPI decreased. Overall CPI growth in October was 7.8 percent YOY, down since peaking at almost 9 percent in June. Core inflation, which excludes both food and energy, grew by 6.3 percent YOY, slightly below the 6.7 percent peak reached in September. The Houston CPI stayed slightly lower than core inflation at 7.6 percent YOY, with moderating costs in transportation and other goods and services making up most of the decrease.

As the Federal Reserve imposes forceful monetary policies to curb inflation, the ten-year U.S. Treasury bond yield jumped to 3.98 percent², while the two-year counterpart surged by much the same. The spread between the ten-year and two-year bond yields widened slightly while staying in negative territory, indicating an increase in market uncertainties. The Federal Home Loan Mortgage Corporation's 30-year fixed-rate elevated further to a 20-year high at 6.9 percent. This rate surpassed the historical highs seen during 2007 and 2009.

The increased mortgage rates' most noticeable impact has been on the housing market. In Texas, total home sales diminished 7.4 percent MOM, settling at a seasonally adjusted rate of 27,900 closed listings (Table 1). Texas' four major Metropolitan Statistical Areas (MSAs) all mirrored the statewide trend as sales in each metro shrank by double digits YOY. According to Texas Realtors' Data Relevance Project, October sales were down 21 percent from a year earlier. At the current rate, year-end 2022 sales will likely fall short of both 2020 and 2021. For more information on the current state of the housing market, subscribe to the Texas Housing Insight report.