

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**One of the national economic factors controlling much of what happens here in Austin – over which we have no control – is interest rates. So, what's going to happen to interest rates for the remainder of this year? Here's some of the best information we could find for you.**

First of all, that old bugaboo – inflation – continues in check. The prospect of rising inflation is one of the biggest triggers for rising interest rates. Even a slight surge in gasoline prices is not enough to fan inflation fears. As a result, according to our friends, The Kiplinger Washington Editors, **the Federal Reserve will not raise its borrowing rate until at least August.**

Then, between August and December, look for no more than a three-fourths of a percentage point increase. **The 30-year fixed mortgage rate, according to the Kiplinger folks, will inch up to 7.5% from under 7% now.** And, the 10-year Treasury note yield will move to 5.75% from about 5.25% today.

If you borrow (or lend) money, **the prime rate should be at 5.5% with one year CDs at 3% -3.5%**, according to Kiplinger's editors. Inflation may peg out at about 2% this year. It was 1.6% in 2001. All in all, a stable year for interest rates.

If real estate is important to you, this is great news. It says simply that when buying a home, or any commercial property, **your mortgage payments can be locked in at a low, low rate** – meaning lower payments for the life of the loan. As Realtors are fond of saying almost anytime, “now's the time to buy a home.” This should hold true in spades for a bit longer.

Qualified borrowers also have a window of opportunity. The money is out there in financial institutions for commercial loans – even personal loans. Yes, you still have to be financially solid and prove you can repay the loan. But, after passing those hurdles, **the cost of money is low** and will probably remain so for the remainder of the year.

There's always a flip side to this equation. Just check the CD rate. **You're not going to make much money on your traditional savings accounts**, and financial institutions are still going to rely quite heavily on fees to compensate for the low interest rates they charge their best customers.

Good news for some, not so good news for others. Hopefully the info will help your planning.

**Who can afford a home? With interest rates below 7%, the answer is lots of Texans. Homeownership remains a realistic goal for many Texans, in spite of the downturn.**

In fact, according to the Real Estate Center at TexasA&M, **64% of Texas households can afford a median-priced home** — compared to 55% of US households. Affordability is an interesting thing. **It not only takes into account the price of a home, but also how much money you make as well as mortgage interest rates.** The real estate experts at TexasA&M each quarter put those three factors into an Index to determine how many people can afford to buy a home at the prevailing wages, interest rates and current home prices. And, they break it down by metro areas.

What about the Austin metro area? You know the median home prices here are higher than in other metro areas of Texas (see the next story). Without going into the eye-glazing numbers, Austin homes are generally affordable to the median income population of our area. Precisely put, **the median Austin area income is 20% higher than the minimum income needed to buy a median-priced home.** While this is good news, remember the Austin area is way below the 64% statewide tally.

The Index is calculated using prices based on sales during the 1<sup>st</sup> quarter this year that were reported through the Multiple Listing Service. Financing is assumed at the currently available interest rate on 30-year mortgage loans covering 80% of the home's value. You can go to <http://recenter.tamu.edu/Data/misc/afford1.html> for more details and a breakdown of each metro area in the state.

**Speaking of high home prices in the Austin area, they went up again in the 1<sup>st</sup> quarter compared to the previous year – as did home prices in other major Texas metro areas.**

The National Association of Realtors reported the **median priced home in the Austin metro area in the 1<sup>st</sup> quarter was \$157,300.** This price is 6% higher than the median price in the 1<sup>st</sup> quarter of 2001. Austin's hike was less than the 8% increase recorded nationally.

Here's how the median price of Austin area homes, along with the increase over the previous year, stacked up with other Texas metros in 2002's 1<sup>st</sup> quarter: **Austin, \$157,300 (+6%) ... San Antonio, \$104,000 (+6.1%) ... Houston, \$126,500 (+6.5%) and Dallas, \$138,800 (+6.6%).**

Through the 1<sup>st</sup> quarter, the Austin Board of Realtors reports the **number of homes sold were greater than the year before** – 3,673 in 2002, compared to 3,561 in 2001. And, there are **more active listings** – 6,874, compared to 5,422. But, homes in March 2002 stayed on the market an average of 60 days before they were sold, compared to 37 days in March 2001.

**There's something about David Dewhurst. It's hard to put your finger on it. But, members of his own Republican Party are talking candidly (though, admittedly, not for attribution) about why they think he may *not* win the race for Lieutenant Governor.**

On the surface, he appears to be a great candidate. He won his most recent statewide race (for Land Commissioner). He's avoided a major scandal while in office. He's wealthy enough to finance his own campaign out of his hip pocket. He's attractive. He's a member of the GOP that holds every single statewide office in Texas. He's tall and vigorous. His positions on issues, while conservative, are not extremist. So what is it about David Dewhurst?

Oh, there have been grumblings about Dewhurst within the Republican Party over the past few years – mainly about **personality and style**. Even some of his fellow **statewide GOP officeholders have complained privately** about how, to them, he's just **not that likable**. But, he's "one of them," so those mutterings have not surfaced publicly.

Even given that, it's not enough to predict defeat – especially from those who would stand to gain if he won. Or is it? One Gov. **George W. Bush** appointee to a prestigious state post, whose GOP credentials are unquestioned, thinks it really is Dewhurst's persona. Especially with women voters. "**Women just don't seem to react well to him,**" he says.

And Dewhurst's massive campaign spending will not be enough to overcome that, he predicts. "**The more money he spends, the worse it will be for him,**" he says. "**The more you see of him, the less you like him.**" (By the way, *Texas Monthly* Exec Editor **S. C. Gwynne** has a different view in *TM's* June issue, saying Dewhurst's tall, good looks help make women a natural political constituency.)

Of course, these shortcomings (and all candidates have shortcomings) would not be enough to lead to his defeat. A more serious problem facing the Dewhurst candidacy is his opponent, former State Comptroller/State Senator **John Sharp**, who came within a hair of winning the LtGov's job against now-Gov. **Rick Perry** during the last election, when a top-of-the-ticket Bush led a Republican sweep of state offices. Democrat Sharp is enough of a moderate/centrist/conservative to siphon off support from some who would normally be aligned with the GOP. And, Sharp has been building support statewide since that narrow defeat four years ago. He's a formidable opponent.

The LtGov's race is very important. When you hark back to your studies about Texas government, you remember **Texas is usually referred to as a "weak governor" state**. The governor has only the bully pulpit and the power of appointments to key state boards and agencies. **But, the LtGov in Texas is very powerful**. The LtGov not only presides over the Senate, but appoints all Senate committees and chairs. Thus, when the position is held by a powerful personality, such as Democrat **Bob Bullock**, the LtGov shapes and yes, controls, which legislation is ultimately passed. Don't let this contest drop off your radar screen.

**“It’s just another of Dell’s high-wire acts.” That’s one analyst’s opinion of Dell Computer’s move into new product lines, including projectors and network switches, as well as a foray into computer services aimed at helping corporate clients run their technology systems.**

However, this analyst, **Joseph Beaulieu** with Morningstar Inc., told the *Dallas Morning News* **“getting the mix and the timing down is going to be tricky.** But, they’ve proven themselves before in other areas, so they could possibly do it.”

Why do analysts think the mix and timing are so important? Dell’s traditional strategy requires the company to stock up or slash inventories at a moment’s notice. But, they contend, **Dell won’t be able to make instantaneous changes in its supply of people with technology expertise,** so it will have to be careful about how it approaches the services market.

Meantime, Dell is resolutely moving ahead with its core business as its competitors struggle to keep up during difficult times. You may have noticed Hewlett-Packard’s merger with Compaq of Houston gave the combined company the title of #1 seller of PC’s. But, as H-P and Compaq devote mammoth resources to structuring the new company, **Dell is continuing its aggressive marketing and cost-cutting strategy that moved it into the #1 slot before the H-P/Compaq merger.** And don’t forget, another major PC player, Gateway, is struggling and losing market share to Dell almost daily. So, it shouldn’t be long before Dell will once again be crowned as the #1 seller of PCs.

Because Dell is the **largest single private employer** in the Austin area – even after laying off more than 5,000 employees last year – and because **Dell’s stock is very widely held here,** everyone who lives and does business in the Austin area has an economic stake in Dell’s success. That’s why we keep a close, sometimes critical, eye on the developments at Dell.

**Dr. Louis Overholster** treats a number of runners for various ailments and even advises them on the proper footwear. As the amateur punster puts it: “Marathon runners with bad footwear suffer the agony of defeat!” (Groan....)

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