

THE

Real Estate

AUSTIN LETTER

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Dear Client:

Let's look ahead for a moment. Between now and 2030, more than 64% of the nation's population gain will be concentrated in only ten states. The Big Three – California, Texas and Florida – will each add more than 10 million people in that time span. What does this mean for you?

Not only will Texas gain more people than practically every other state in the nation, but the **Austin area will grow at the fastest rate of all Texas metros**. Let that sink in for a minute. You saw how explosive growth impacted us during the boom of the nineties. We're in a bit of a lull now but consistent population growth will be with us for a long, long time.

That growth will change the way we look. **We'll be older** (girls born today will live 80 years on average, boys just more than 74). Medical advances will keep us alive, **and more active**, longer. For now (partly because of devalued 401ks) and in the future, many older workers will likely remain in the workforce long past the age of 65 (especially since the Social Security full retirement age moves to 67).

Because it's hard to plan 25-30 years in advance, let's narrow the horizon down to the next five years to grasp what's about to happen here. **The Austin metro is expected to gain population at the rate of about 2.5% per year between 2001 and 2006**. That is significantly ahead of the other metros in the state. Dallas and the Fort Worth-Arlington areas are next in line – at around 2% per year, followed – in descending order – by the Houston, San Antonio and El Paso metros. El Paso comes in at less than 1.5% population growth per year.

Population figures are easy to grasp without going into arcane economic mumbo jumbo phrases. Suffice it to say that the *other* economic indicators forecast for Austin and other Texas metro areas – such as **wage and salary employment growth and productivity** – generally follow the population trends. Again, with the Austin area leading the way.

For you, this means more opportunity – and more competition. Of course you realize the economy never moves at a steady pace in a straight line. There will be fits and starts and ups and downs. But, when you draw a straight line from where we are now and where we will end up in five years, that straight line will be decidedly **greater in almost all economic measures in five years**. This is still one of the best places in the nation for relative future prosperity.

If you have an interest in Austin residential real estate, you should have cheered the New Year. Low mortgage rates, after hitting a 30-year low in 2002, bumped even lower to start 2003 – and that’s good news for homebuyers, home sellers and home re-financers.

The dip was miniscule. Rates on 30-year mortgages dropped at year-end to the new low of 5.93%. Then, right after the start of the New Year, the same rate fell to 5.85%. The significance was not in the *size* of the drop, but the fact the **downward slide in already-low mortgage rates continued**. In a downturn economy, residential real estate has fared quite well due almost totally to the cheap cost of money.

It’s not just the world of residential real estate that has benefited from low mortgage rates. Some economists say the economy has done much better than it was expected to do in the past year because Americans have more bucks in their jeans to spend. Where did they get the money? By refinancing their homes.

Economist **Mark Zandi** says “since the refinancing boom began more than two years ago, **close to \$2.5 trillion in mortgage debt has been refinanced**”. As a result, he predicted that 2001’s “recession would have been substantially more severe” and the 2002 recovery stalled if not for the refinancing bonanza. Another report estimates 20% of home loans were refinanced in 2002.

No less an authority than Federal Reserve Chair **Alan Greenspan** says processing of the backlog of refinancing loans in the pipeline at year-end “will take some time” and the “**cash-outs**” **will continue through the early months of 2003**. Add this to the **lower monthly mortgage payments** most homeowners ended up with as a result of the refinancing, and you can see how this pumps bucks into an overall sluggish economy.

One of the popular options for refinancing is the *15-year* fixed-rate mortgage. **That record low mortgage rate dropped to an impressive 5.24%** — compared to 5.32% at year-end 2002. FYI, the average one-year adjustable rate mortgage (ARM) edged up slightly to 4.06%, compared to 4.01% at year-end.

Even though this new low in long-term mortgage rates was recently set, not many experts are predicting the rates will nosedive much more. In fact, most predictions call for them **to inch higher this year**. This may occur, but those same forecasters also feel the economic benefits of the refinancing activity will continue for some time to come.

As far as sales of Austin area homes are concerned, it’s interesting to note that the **average sale price continues to rise** — \$189,490 in November 2002, compared to \$188,335 in November 2001. This is occurring at the same time the number of homes sold in 2002 is slightly less than in 2001 and houses are staying on the market about 64 days before selling, compared to 57 the previous year. Again, **low interest rates are keeping the market stable**. Prices may be rising, but the buyer’s monthly payments are not – due to the low mortgage rates.

We told you last October (10/18/02) that a buck-a-pack hike in cigarette taxes might be coming up. Well, it'll be on the table when the 78th session of the Texas Legislature begins 1/14/03. So what happened in NYC when cigarette taxes were raised?

New York smokers were hit with a double-whammy last year. The state raised cigarette taxes from \$1.11 to \$1.50 per pack and New York City hiked the city tax from eight-cents a pack to \$1.50. The total tax bite in New York City is the highest in the nation. This means **a pack of smokes in NYC will set you back about \$7.50 a pack.**

How are New York smokers reacting? They're rebelling. Legitimate retail sales of cigs are waaaaayyy down – by one measure almost 50% from a year ago. But, and this is important, **tax revenue is still up sharply – even though sales were cut in half.** Another effect: those street guys in NYC have a new business. They drive to nearby states, buy cartons of cigarettes, then return to NYC street corners and sell the illicit goods to passersby for about \$5 a pack. And, the market in contraband nicotine is expanding as these smugglers make a killing.

In a couple of months, you can get up in the morning and fly *non-stop* jet service from Austin to Colorado Springs or Albuquerque munching on a Krispy Kreme donut. And the airline will pick up your skis, mountain bike or golf clubs *at home* and have them waiting for you.

This is part of a new commuter airline starting service in Austin. Great Plains Airlines will also fly 32-seat Fairchild Dornier 328 Regional Jets from Austin to its HQ in Tulsa and to Oklahoma City starting in March. **Jack Knight**, Great Plains CEO, says “our strategy is to **bypass the hubs and offer nonstop direct service to under-served markets.** That’s the model we’ve been using in other markets and thus far it has been met with great enthusiasm from travelers.”

Great Plains is jumping into the Austin air travel market when the market is at a low ebb. In fact, the latest figures for **passenger air travel showed more slippage locally.** The number of passengers flying in and out of Austin-Bergstrom International Airport was on a pace each month to move above the post-9/11/01 terrorist attack impact – until November 2002, when the totals dropped eerily similar to the low numbers in 2001.

The problem is even more pronounced than that. Again in November 2002, **the number of air travelers was also way below the totals in 2000 and even below the tally racked up in 1999.** This is a reflection on the economy as well as fears about flying post 9/11. You can bet if business were booming, business travelers would be hopping on and off airplanes as they’ve always done during the good times. And leisure travelers also increase during an economic uptick. Great Plains is beginning its Austin service not in the best of times. It is obviously hoping a different approach to serving the traveling community, **with smaller planes**, will help make a go of it until flying in general starts rebounding.

The just-completed all-important holiday selling season was a mixed bag for many retailers in Austin and around the nation. But a million-dollar success story played out here in Austin.

A last minute buying binge helped retailers this past holiday season. For some, like Sharper Image and Brookstone, it meant strong gains compared to last year. Those operations that did well reported, in many cases, **single-digit percentage increases over the previous season.** Others, however, such as Circuit City and Radio Shack, reported weaker than expected numbers. And sales fell off in some clothing chains near the end, instead of rising.

In this environment, a 20% increase over the previous record — and 30% over the previous year — would qualify as amazing. Well, that's what happened to one operation here in Austin. The Junior League of Austin's "**A Christmas Affair,**" **where 209 small merchants gathered under one festive roof to hawk their wares, turned in a stellar performance.**

JLA's profit, yes profit, was \$1,244,827 – all of which will be distributed to the Austin community at large to more than 30 projects and programs the League supports. The previous record: \$1,104,000 in 2000.

How did the Junior League go against the economic tide? "Our membership of 917 active volunteers are required to work 6 hours each during planning and/or execution of 'A Christmas Affair' in addition to the 64 committee members who devote half of their year (life!) to the event," said **Mary Anne Potter**, JLA's PR chair. This year's chair, **Laura Mauro**, was honored by the governor for her work in managing the event.

Austinites went to the new Palmer Events Center in droves, obviously lured in part by the publicity that their **Christmas purchases were also benefiting Austin.** And the merchants were obviously happy because they sold a lot of product. Can you spell w-i-n—w-i-n—w-i-n?

Speaking of spending, **Dr. Louis Overholster** says you are nearing retirement if you can remember that what you spend for a latte is what you used to spend for lunch!

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