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AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

Almost a year and a half ago, we told you a nationwide study concluded “there is no major area in the nation more at risk of a significant decline in home prices over the next two years than the Austin area.” So what’s the status now since that shocker of a statement?

It was in our 4/26/02 edition (Web subscribers can re-read the details in our “Archives” section) we reported the results of the study by PMI Group, a NYSE company that specializes in mortgage risk management technology as a supplier to the mortgage finance industry. In other words, a “reliable source.”

In PMI’s Risk Index of April 2002, **Austin led the nation in “home price decline risk,”** followed by San Jose, Portland, San Francisco, Dallas, Phoenix and Denver. While scary at first glance, PMI reported at the time “the relative chances of a significant decline, even in Austin, Texas, are still only moderate.”

Well, PMI has just published another Risk Index, ranking cities with the greatest risk for a home price decline. **Austin’s no longer #1 on the list.** San Jose claims that honor, followed by Portland, Dallas, Denver, Detroit, Greensboro, Seattle, Charlotte, Austin and Raleigh.

You’ll notice a lot of high-tech cities in the Top Ten. According to PMI analysts, “high-tech centers such as the San Francisco Bay Area, parts of the northwest as well as parts of Texas and Colorado are high on the list of the 50 MSAs (Metropolitan Statistical Areas) rank-ordered by PMI and remain **vulnerable to home price declines** as a result of high unemployment rates and shrinking employment bases.” You can get further details at <http://www.pmigroup.com>.

All this needs to be kept in perspective, however. Even PMI qualifies its rankings with this comment: “Despite a sluggish economy and continued geopolitical uncertainty, **the likelihood of a decline in home prices over the next two years remains relatively low.**” San Jose’s current Risk Index is 395, Dallas’s is 313 and Austin’s is 242. Translated, PMI says this implies Austin has a 24.2% probability of experiencing a home price decline within the next two years. San Jose’s is 39.5% and Dallas’s is 31.3%. You get the picture.

So how have Austin home prices fared since the first “doomsday” forecast in April 2002? Check out the next story, where we bring you up-to-date.

The most recent home sales figures, compared to the previous year, don't show much of a decline in values in the Austin area. In fact, they show the opposite.

Remember the PMI Group Risk Index we told you about 4/26/02 projected what would happen over the next two years. Well, it hasn't been quite two years since they released their forecast, and as we just told you, the newer two-year projection shows Austin in a much more favorable light. Maybe they looked at what's happened in the 17 months (almost 2 years) since they released their Risk Index and **didn't see their forecast holding up.**

The most recent Multiple Listing Service numbers – July, 2003 – compiled by the Austin Board of Realtors doesn't show a decline in the value of home prices. No, these numbers show an **increase over the previous year.** Let's look at it both ways – from the *median* price and *average* price perspective, compared to July 2002, soon after PMI posted that Risk Index.

The median price of homes sold in July this year was \$167,000. For July 2002, the median price was much lower — \$155,000. Okay, they missed on that one. How about the average price of homes? Were *they* lower, year-over-year? Nope. The average selling price of all MLS homes sold in July 2003 was \$212,549, compared to last July's \$198,206. Another missed prediction.

Obviously, when PMI Group said in April 2002 that Austin leads the nation in home price decline risk for the subsequent two-year period, **it has not come true just 7 months short of their forecast horizon.**

The intriguing thing about the price/value increase in homes in Austin is that this increase is coming about while **other home sales indicators are also increasing** in the same year-to-year comparison. For instance, there were **more homes sold** in July 2003 (1,828) compared to the previous year (1,571) and there were **more homes listed for sale** (9,996 in July 2003, compared to 9,010 in July 2002). It did take a little longer to find a buyer for a home in July 2003 than in July 2002 (63 days, compared to 51 days), but when the homes sold, the prices were better.

Speaking of being able to buy things, FORTUNE magazine appears to be growing weary of putting Austin's Michael Dell at the top of its list of 40 wealthiest people under 40. Now, it's come up with 4 different ways to list the "under 40" group. But Dell still messes up that system.

In its 9/15/03 issue, *FORTUNE* concedes that Dell is by far (\$17.12 billion, compared to #2's \$7.06 billion) the wealthiest under 40. So it decided to break out the list three other ways – those with the most influence, the most entrepreneurial and most beautiful minds. Their ground rules: "no one could appear on more than one list (otherwise Michael Dell would pop up atop each)." Wonder what new rules *FORTUNE* will come up with next year.

Even if you don't go to Longhorn football games, or the big music events held regularly in Austin, your life – and your ability to get around the city – is impacted by them.

The next two weekends are good examples. Darrell K. Royal-Texas Memorial Stadium will be sold out again this Saturday (9/13/03), just as it is for all six of the home games. The following weekend, when the Texas Longhorns hit the road for a game in Houston with Rice University, the Second Annual *Austin City Limits* Music Festival will pack the downtown area for three days. These events mean a lot of fun, and big bucks, for some. For others, it could be a headache if you're not aware of what will be going on – and where.

Any UTAustin football weekend is a big deal in many ways. This Saturday's game begins at 11 a.m., but the traffic and tailgating congestion around the campus and the state capitol complex will be major from at least 9 am to 5pm. However, **as more than 41% of all season ticket sales are from fans outside Austin**, the impact starts Friday night and runs through Sunday.

The Austin Convention and Visitor Bureau estimates there is an \$84 million economic impact each football weekend. This is a lot more than hot dogs and beer. The flood of visitors creates a demand for 11,000 motel/hotel rooms in the city. And throughout the course of the season, **162,000 fans will visit Austin** contributing to local retail sales, gasoline purchases, packed restaurants, etc.

The *Austin City Limits* Music Festival, 9/19-21/03, is a monster event of a different stripe. **More than 15 acres of Zilker Park will be filled with more than 100,000 music fans.** You can look for about 130 artists – playing music ranging from roots to rock, and blues to bluegrass – performing on eight different stages.

Artists include **REM, Jack Johnson, W. C. Clark, Dwight Yoakum, Pat Green, Bob Schneider, Patty Griffin, Ben Harper, String Cheese Incident, Lucinda Williams** and more. In addition to the music, the event also features arts and crafts exhibits, area restaurant booths and a children's area.

The impact on the Austin area is not limited to Zilker Park. For instance, since there is no parking available on-site, shuttle buses will run from 10:30 am until 10:30 pm from Waterloo Park at Trinity and 12th Streets. But Austin music fans, being who they are, will park wherever they can – anywhere in surrounding areas – and hoof it throughout the day to and from their vehicles. So, **look for huge traffic and neighborhood impact during those three days.** And the usual eateries, shops, retail outlets, hotels and motels, etc. will also feel the effects.

But look past the inconvenience. Austin area residents, and those who come to our city for these events, will have a **good time and celebrate a break from lives that are sometimes stressful.** After this anniversary week where 9/11 reminders were everywhere, it is somewhat **refreshing to have a little escapism.** Enjoy!

The 9/12/03 issue of *FORTUNE* magazine also spotlighted another Austinite – this one, “a Teva-wearing ex-hippie Texas libertarian” – hardly a description of another Michael Dell.

Yet, like Michael Dell, **John Mackey** started a unique-concept business in Austin from scratch. And he confounded the big boy competitors, expanded very fast and became the darling of Wall Street – leading *FORTUNE* to gush that his company, Whole Foods, “that disdains hormones has financials that look as if they’re on steroids.”

The laudatory article, titled “No Preservatives, No Unions, Lots of Dough,” says Mackey “has a recipe that’s making organic food the hottest thing in the grocery biz.” It points out, from a single shop in Austin in 1980, “Whole Foods has expanded to 143 stores with 23,000 employees, making it the **nation’s largest natural-food chain** and the fastest-growing company in the fiercely competitive grocery business.” The article cites other impressive numbers, including the goal of 260 stores and revenue growth from \$2.8 billion in 2002 to \$10 billion by 2010.

But it really focuses on Mackey personally, saying his CEO uniform is a short-sleeved shirt, shorts, Teva sandals and “a ruddy tan acquired while roaming the 720-acre ranch outside Austin he shares with his wife, Deborah, a yoga teacher.” “Mackey, you see,” notes the article, “has no business training. He’s a **former student of philosophy and religion** who spent six years in the 1970s dropping in and out of two Texas colleges” **without earning a degree.**

“He’s a wacky combination of Texas don’t-tread-on-me libertarianism and hippie social consciousness.” The article quotes him: “**unions are highly unethical and self-interested,**” and asks Mackey “Who has done more good for the planet: Mother Teresa or Bill Gates?” “No contest”, Mackey answers, “Bill Gates has helped far more people.” He’s a vegetarian, but his stores sell meat, and he says “McDonald’s pioneered fast food and gave people what they wanted. **Every company meeting customer desires is doing something good.**”

Dr. Louis Overholster says he’s convinced meetings are where brains go to rest!

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