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Dear Client:

Well over half the households in Austin can afford the median-priced home. This is healthy and it is a better situation than you will find in Dallas, Houston or San Antonio.

It's not enough to look at low interest rates and assume homes are affordable. There are actually three elements at play. You must consider **house prices and household income**, along with interest, to determine true affordability. And, of course, home prices and income differ from market-to-market, with interest rates being the only constant.

While Texans in some areas may notice housing is not quite the deal it once was, **the state's major metro areas continue to have relatively high affordability scores**, based on an Index calculated quarterly by the Real Estate Center at TexasA&M. The Austin area outshines the other major Texas metros.

The percentage of Texas households that could afford a median-priced home was 49.8% in the third quarter. **In the Austin metropolitan area, the percentage jumps up to 59.4%**. This compares to 53.4% in the Dallas area, 53% in Houston's metro and 56.1% in the San Antonio metro area.

This is simply confirmation of a reasonably healthy cost of living here in Central Texas.

And the strong housing market reflects this. It's not boom time. In fact, it's relatively steady. "Affordability scores for Austin, Houston, Dallas and San Antonio are slightly lower than they were last year at this time, but **they are still favorable**," says **Jack Harris**, research economist at the Real Estate Center.

Why the emphasis on this narrow segment of our local economy? The Austin housing market is unquestionably a **significant driver of the overall economy**. According to Residential Strategies, Inc. (more about them in the next item), the housing market contributes \$2.47 billion on an annual basis here in Austin.

But, it's more than just the dollars that are churned out by residential real estate. The housing factor is one of the most important ingredients when you consider **quality of life and cost of living**. The American Dream of owning your own home is **also a significant psychological component** for consumers, aiding consumer confidence. Put it all together with an increasing jobs market and you have the basis for a solid strengthening of our Austin area economy.

For insight into the residential real estate trend, you need to know Austin is gradually moving from a housing market sustained by mortgage rates to the more traditional market driver – employment.

The question, according to Residential Strategies, Inc. (RSI), is how long will this transition take? **RSI says this year has already been one of transition and likely 2005 will continue this phase of the economic turnaround.** The hope is that consumer spending will be loosened up, and businesses will make their relocation decisions now that the election has been decided and energy prices seem to be softening. Texas is a destination state for migrating businesses, as it is one of the more affordable (there's that word again) places in the country to operate.

RSI is a new home market research and consulting company that just opened an operation here in the Austin area and cranked out a report using third quarter data. Its two Austin partners are longtime real estate execs, **Mark Sprague** and **Tara Thomason**, with offices at 1250 S. Capital of Texas Highway.

So what does RSI foresee when employment takes over once again as the market driver for real estate? The founding partner of RSI, **Jody Reese**, says he has observed an interesting trend since 1972. He has seen that over a 10-year period, **for every 2 jobs created, one new housing start can be sustained.**

Do the math. Using this rule of thumb, in order to maintain the 12,000 housing starts Austin is experiencing this year, a **job growth rate of 25,000 - 30,000 jobs annually by year-end 2005 will be necessary** to sustain Austin's current start pace. Reese says "this is conceivable as this is the same rate we were seeing back in 2000 and the early parts of 2001."

Austin is fortunate low interest rates took up most of the market slack when our high tech bubble burst in 2001. Remember that was a time when about 25,000 jobs were lost. Austin has now recovered and we're **experiencing positive job growth** and the lowest major metro unemployment in the state. Additionally, personal income is growing statewide.

What are some highlights of where the market stands today? RSI says a healthy standing of 6 months supply of listings is reported for Austin. **This is good news for the new home market.** As resale listings decrease and sales increase there are fewer resales for prospective buyers to shop and therefore, prospective buyers may be more open to looking at new homes.

"Another dynamic playing into the sustainability to the Austin market has been observed with the **higher price point sales taking place in the \$250K+ new home and resale markets,**" RSI reports. "Sales teams are finding buyers with equity coming into their sales offices from the East and West coasts allowing them to purchase high-end product. These early relocations are an indicator that **more will follow as the top-of-the-market sets the stage;** a 'trickle-down effect' if you will." All this, and mortgage rates continue to stay low. So far, so good.

We're not there yet, but we're getting there. An indicator that measures personal as well as business economic activity is still below the record-setting pace of four years ago, but it beats all other years.

When you have a lot of Austinites who hop on a plane for a business or pleasure trip, you have a good economy. Many pleasure trips mean consumers have extra money in their jeans and frequent business trips mean commerce is hopping.

The benchmark year for passenger air travel in Austin was 2000. **By tracking passenger traffic you see the economy started to falter as 2001 began.** After increasing year over year, the 2001 totals started falling behind the previous year. Then, of course, the airline terrorist attacks of 9/11/01 accelerated the high tech bust, and passenger traffic here – and everywhere – dropped out of sight.

The climb back has been slow. But it is occurring. In fact, the latest available data shows passenger traffic for October 2004 was up 8.24% over October 2003 and year-to-date traffic has increased 7.8% over 2003. Not bad. However, we still haven't reached the 2000 record year numbers. **And frankly, if you extend the trend lines out for November and December, it doesn't look as if 2004 will see an intersection of this year's lines with the record line of four years ago.** We'll keep an eye on this indicator for you.

An astronaut, an engineer, a filmmaker and a high profile White House assistant have all been named 2005 Outstanding Young Texas Exes.

In addition to recognizing Distinguished Alums each year, the Ex-Students' Association in recent years started singling out graduates who **have earned distinction long before their hair starts turning grey.** The four current recipients of the award:

Raymond Almgren (BS 1987 Electrical Engineering), VP Product Marketing and Academic Relations at National Instruments, Austin ... **Shola Lynch** (BA 1992 Liberal Arts, Plan II), documentary filmmaker, director/Producer, New York City ... **Scott McClellan** (BA 1991 Liberal Arts, Government), Assistant to the President and Press Secretary of the United States, Washington, DC and **Stephanie Wilson** (MS 1992 Aerospace Engineering), astronaut, Houston.

McClellan is, of course, well-known in his own right. But he comes from a high-profile family. His mama is State Comptroller **Carole Keeton Strayhorn** and his brother, **Mark**, currently heads up the US Medicare program, after serving as the top gun at the Federal Drug Administration. These exemplary alumni will receive their awards at a gathering at the Alumni Center on UTAustin's Spring Commencement Day, 5/21/05. They will also be recognized at the university's commencement ceremony that evening.

After a national focus last week on Texas toll roads, the national media spotlight this week shone on fat kids in Texas. And an Austin resident was the center of this piece.

“Like a growing number of youngsters in the US, kids in Texas have been getting fatter,” reported *TIME* magazine in its current edition. **“Over a third of all school-age children in the state are overweight or obese, far worse than the national rate of 10% to 15%.”** So, as you may know, most junk food was banned in Texas schools this fall. How strict is the ban? “No other state has a food ban as strict as the one in Texas,” reports the national publication.

Agriculture Commissioner **Susan Combs**, christened the “Cafeteria Crusader” by *TIME*, instituted the ban and started catching flak from kids, parents, teachers and principals. One reason for the complaints is “cash-strapped school districts are **reluctant to give up their slice of the \$104 million** that outside food vendors make in the state from the likes of super-size sodas and pizzas each year.”

This doesn’t faze Combs: **“Are we going to sell marijuana to build gyms?”** she says. “Well, the health-care consequences of this food are that bad. The whole culture inside our schools is pervaded – invaded – by this marketing of food to the child. **We put our financial needs ahead of their best interests.** It’s shocking.”

“We have food chaos in our schools, with coaches selling food, moms selling food, PTAs selling, Project Graduation, the Kiwanis, and then there’s the manufacturers trying to get into the schools to build brand loyalty,” Combs says. “The stats are so clear, the problem so dire, the financial problems so enormous, can we not address it?” This lengthy article is important because it exposes our local initiative on the national stage. *TIME* says early skeptics are coming around, but it hasn’t been painless. **Her detractors call her the Food Nazi** behind her back. Her response: **“I prefer czarina, not that they’ll understand the difference.”**

Speaking of health, **Dr. Louis Overholster** noting the Salvation Army kettles had been banned from in front of Target stores, winked and said it’s about fairness. “If you let all the charitable groups stand in front of the stores, there would be no room for their employees to smoke!”

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