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Dear Client:

**Are Austin area homes over-priced or under-priced – too high, too low, or just about right? And how do they compare with other markets around the nation? This is important if you're buying or selling — or just interested in the value of your own home.**

The chief economist for National City Corp., **Richard DeKaser**, ranked 99 US major real estate markets based on how much they are under, or over, priced relative to what he deems “normal housing values.” To come up with each market's fair value DeKaser studied data going back 25 years. Among other things, he looked at **how much buyers are paying today relative to their incomes versus how much they paid in the past**. This helps take into account the premium buyers are willing to pay.

According to DeKaser, in 2004, houses in Chico, CA sold for *43% more* than their fair value while, at the other end of the spectrum, houses in Salt Lake City sold for *23% less* than their fair value. **In Austin, he reported houses sold for 5% less than their fair value.** He lumps Austin in the *fairly* valued category.

He concluded 27 of the markets in his study are *overvalued* (no surprise – the top 7 are in California), 29 are *undervalued* and 43 are *fairly* valued. His definition of “**fairly valued**” is a market where home prices are no higher or lower than **10% of their value**. Houston and Dallas, for instance, would fall in the undervalued category where homes are selling for 11% less than their fair value. San Antonio homes sold for 3% more than their fair value in 2004.

Speaking of housing, do you have a second home yet? If not, what you waiting for? **A second home is becoming almost mainstream.** The National Association of Realtors (NAR) reports **second homes accounted for more than a third of real estate transactions in 2004.** Of those, 13% were vacation homes (up 20%) and 23% fell into the investment category (up 14%).

In the NAR survey of those buying second homes, “diversifying their investments” was the reason most often cited, with “earning rental income” a close second. **Most respondents said they consider the second home a good investment, so much so that 38% said it was very likely they'd buy yet another home within two years.** Harking back to what we told you 2/18/05, “easy money” is helping fuel this trend. Investment and vacation property is relatively easy to finance, assuming your credit is good and your debt load is within reason.

**Seems like every time you turn around Austin is ranked near the top of somebody's "Best Of..." lists. But what about the smaller cities in our area? Which area scored near the top in the "Best Places to Live in Rural America?"**

*Progressive Farmer* magazine is not a publication we normally cite. But since, more than ever, people are choosing the country lifestyle to the bustle of the city, we thought we'd try to find the rural Central Texas area deemed best by a disinterested third party — in this case, the long-time, nationally-respected magazine that is read throughout rural America.

You've probably noticed a trend where folks are choosing a **better quality of life, a great place to raise a family, a return to the simple things**. *Progressive Farmer* understands this trend and, this year for the first time, compiled a list of what it felt were the best rural counties in America.

Near the very top of the list, in fact at **#6 in the nation, is Gillespie County, nestled in the Hill Country to the west of Austin**. No more than an hour's drive from the Silicon Hills of Austin, Gillespie County (Fredericksburg is the county seat) is still so dominated by its Germanic heritage that tourists flock to the area on weekends to absorb the atmosphere. And if the weather cooperates this spring, even more visitors will take a trip for the freshly-picked, succulent peach crop.

What criteria did the magazine use for its rankings? **"We looked at the many things we all desire,"** it observed. "Quality schools. Low crime. Good health care. Clean air and water. We also looked for counties that have access to large cities for culture and shopping, but are still **rural with plenty of elbow room**." Incidentally, Texas, even with many of its 254 counties classified as rural, did not place any other county in *Progressive Farmer's* Top 100.

**Yes, you're paying more at the pump than ever before when you pull in to fill 'er up. But have you thought what it costs to top off the tank with jet fuel on a 747.**

As the price of a barrel of oil dances around \$55, jet fuel prices per gallon are nearing all time highs. And if the price pops up to \$60, as many are predicting, **your favorite airlines are going to be even more strapped for cash**. Can you say "cut more money-losing flights" and "even dicier confrontations with labor groups" to lower costs. Southwest Airlines, the airline that carries more Austin passengers than any other, is in the best position with more cash on hand, and it had the foresight to pre-purchase jet fuel at lower contract prices.

But it's a different story for the other airlines – especially those struggling in bankruptcy or teetering on the brink. And it all trickles down to you. **Air fares are going up**. Northwest, the airline that has kept prices down by refusing to go along with price hikes, is now changing its position. So as you pay more at the pump, you will also pay more at the airline ticket counter.

**The Texas telephone company (just down the road on IH35) that bagged AT&T is gunning for even bigger game. It wants to revolutionize the TV business and this revolution should be a battle that will create shock waves.**

We try to keep you ahead of the major business trends, so you need to know that, in a few short months, San Antonio's SBC will unveil what it hopes will be the ultimate weapon in the war between cable TV and the telephone companies. **SBC will unveil a high-tech TV service that will offer viewers as many channels as they currently receive from cable — and then some.**

Talk about ambitious. Remember this was, once upon time, a little ole telephone company called Southwestern Bell that was a spin-off from the breakup of AT&T. In the ensuing years it acquired other regional phone companies until just a few weeks ago, **it announced it was buying its parent, the venerable AT&T.**

And SBC is putting its money where its mouth is. According to *FORTUNE* magazine, SBC has anted up **\$4 billion just to get its network ready** to offer the new TV service known as Internet Protocol TV, or IPTV. This isn't just a tech move. SBC will also spend hundreds of millions more to acquire TV *content*.

How bold is this move? How's this for a bit of perspective: If this grand plan is realized, SBC will be the first American company to offer Net TV on a mass scale and usher in a long-awaited convergence of the technologies. **This could be as big an improvement as color was over black and white or cable was over broadcast. It will transform the TV set into a full-fledged computer.**

The system will be a smart device linked to all the other gadgets on a home network that **viewers can use to grab the kinds of rich and interactive content** they normally get on PCs, according to *FORTUNE*.

This is exciting – and scary – new territory. And the challenges are daunting, to say the least. First of all, **there will be fierce competition.** Time Warner Cable, for instance, is testing whether to add cell-phones to its bundle of TV, telephone and high-speed Internet. Comcast, the nation's largest and most powerful cable operator, says it will deliver phone service to its entire customer base – it reaches 40 million homes – by the middle of next year.

Then there is what you offer the consumer. SBC must assemble a full suite of entertainment content – **all the usual cable channels, plus a whole lot of stuff the viewer can't get anywhere else.** And it must decide how to persuade customers to buy TV shows from their phone company, *all in time for a year-end launch.*

**Cable guys and phone geeks have been butting heads for 15 years.** But it is now, literally, coming to a head. And SBC is betting the ranch it will not only succeed, but possibly dominate. If it does, it'll have major implications for you – and the Austin area — in more ways than one.

**As you prepare your taxes with the mid-April deadline looming, an interesting theory is being posited about the new scourge of the middle class, the Alternative Minimum Tax (AMT). And the theory has everything to do with politics. Presidential politics.**

Each year, more and more members of the middle class are being hit with the AMT that was designed to make sure the wealthy don't avoid taxes with excessive deductions, exemptions, etc. Since the AMT is *not* adjusted for inflation, **more than a million of the middle class have now been hit by the tax** and it will go higher with each passing year.

So, are the politicians responding? Not really. One theory is that those in the middle class hit most heavily by the AMT are in blue states (those that went for **John Kerry**) than those in the red states (carried by **George W. Bush**).

You, of course, are in the middle of a red state, Texas. **The Top Ten states with the greatest number of AMT filers are all colored blue** – because they went for Kerry. It gets even juicier. The top state is New York, followed in order by the District of Columbia, New Jersey, California and Kerry's home state of Massachusetts. These were the states with the biggest margins for Kerry.

Is the Bush administration proposing a modification of the AMT? The White House says a comprehensive overhaul of the AMT is on its' "to do" list, but no major push appears to be getting public attention. As one Bush backer was quoted as saying, "**Look who's affected by the AMT. It's all those people in the blue states.** Have (California Senator) **Barbara Boxer** and (New York Senator) **Hillary Clinton** deal with this situation."

Of course, over time, the red states will start to be more affected by the AMT. But, for now, don't hold your breath until major changes are instituted.

**Dr. Louis Overholster** says he knows how airlines will deal with the public when travelers start complaining about rising air fares (see the third item this week). When a customer complains, the good doctor says the airline will threaten to bring back food service!

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