

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

To paraphrase a Texas oilman of years ago, “if you only own one home, you better go get you some more.” Many investors are buying multiple houses here, viewing Austin as “the next big residential real estate play.” But, as with all “sure things,” there are caveats.

Ordinary investors, not the big time players, are making big bucks in key markets around the country where residential real estate has appreciated dramatically. “Since 2000 the median sales price of a single family home has jumped 77% in New York City, 92% in Miami and 105% in San Diego,” reports the 5/30/05 edition of *FORTUNE* magazine.

“This country is obsessed with real estate,” reports the respected mag. “The number of chapters of the National Real Estate Investors Association has jumped 44 in 2002 to 170 today. Eighty-six books on real estate investing were published last year, nearly three times as many as in 1998.” **Mark Zandi**, economist at Economy.com was quoted as saying **“Nationally, all levels of real estate activity are at all-time highs.”**

Whoop! Whoop! Whoop! Warning! Warning! Warning! **This new residential real estate frenzy could be the new “day-trading”** (where many people got caught up in the instant riches game and were burned big time). Speculators (they prefer to be called investors) are hopping from market to market to stay ahead of what some see as the inevitable bursting of bubble.

This is nationally. What about Austin? Now it starts to get interesting. The housing prices in Austin and for that matter, Texas, have not ridden the roller coaster up yet. They’ve ooched up only slightly over the past few years and some real estate “day traders” feel Austin is next. As we’ve told you in past letters, they come to Austin, look at houses, call back home, and say **“Dude, this place is a total steal. It’s like a penny stock!”** (actual quote from a California speculator). They snap up houses, put out a “For Rent” sign and wait for the price increases.

And there’s the rub. What if Austin area housing prices stay stable? Well, the speculators will dump the properties and put *downward* pressure on prices. But, if enough “day traders” seek out Austin, it will put *upward* pressure on home prices and their actions become self-fulfilling – increasing home values overall in Austin. Which will it be? Only time will tell. But no matter which way it goes, it is an **artificial impact on our market** and needs to be considered as such.

Where are most of the new rooftops going up in the Austin area? In sheer numbers, what developments and neighborhoods have hammers slamming at the fastest rate?

Where are the areas where builders and buyers are in sync? Look north for the two main areas, but then move quickly west and south. According to Residential Strategies, Inc. (RSI), **Sun City in the Georgetown area** tallied 499 starts and 452 closings annually. Close behind is the newer northern development, **Avery Ranch**, where the total annual starts were 424 and closings moved ahead of Sun City, at 482.

Sun City and Avery Ranch are the clear leaders in numbers. But at the top of the 2nd tier, you find **Circle C to the south**, with 305 annual starts and 336 annual closings and **Steiner Ranch to the northwest**, with 269 starts and 226 closings.

Next, in starts and closings, are Twin Creeks Country Club, Blackhawk, Belterra, Plum Creek, Behrens Ranch, Mayfield Ranch, Shadow Glen and Lakeline Ranch with numbers in the triple digits. Following in double digits are Teravista, Falcon Pointe, Buttercup Creek, Spanish Oaks, Heritage Oaks and Cimarron Hills.

RPI also reports the total volume of new starts from the 2nd quarter 2004 to the 1st quarter 2005 to be \$2.6 billion, with a median new home price of \$174,625. Remember, these are *new* homes – not re-sales. They represent new homes added to the property tax rolls of their appropriate jurisdictions. Interestingly for new homes, there is a 2.3 months supply on the market. This means that, at the current rate of sales, all the available new homes would be sold out in 2.4 months. Translation: not overbuilt, not underbuilt.

More rooftops add up to more cars on the roads in those areas. It didn't get much attention when it happened, but about a billion bucks is now "in the bank" for road-building in our area and in key sections of the state.

It wasn't an earth-shaking event, but it was real as well as symbolic. **About \$1 billion in bond proceeds has been transferred into the Texas Mobility Fund.** In other words, the money is "in the bank" to begin engineering, right-of-way acquisition, etc. to expand the state's roadways – many in our Central Texas area.

This means these roadway projects will be built in about half the time it would have previously taken. Instead of waiting for governmental money to be parceled out to start or continue roadway projects, this money – which will increase at the rate of a \$1 billion a year for the next three years, to total \$4 billion – will be used to pay-as-you-go on these projects. **And which roads get priority for these big bucks? Why toll roads, of course.** The state wants local areas to leverage these Mobility Fund dollars to the max. Roadway projects using tolls, user fees, private funds, etc. will be given high priority to stretch these transportation dollars.

Yes, there were some nasty things said in the Austin City Council runoff (we'll share some of them with you), but Jennifer Kim handily defeated the front-runner for other reasons as well.

Hard work, the ability to raise a lot of money quickly and a winning personality combined to play a huge part in Kim's decisive victory over **Margot Clarke**. But some other factors also were the reason Kim will raise her right hand at 6pm, 6/20/05, to take the oath of office to begin a three-year term on the Austin City Council — along with newcomer **Lee Leffingwell** and incumbent **Betty Dunkerley** (who were elected without a runoff),

As we posed in our 5/27/05 analysis of the runoff: "Even with more than 7,000 votes separating Clarke and Kim, Kim could upset Clarke by doing the best job of turning out her votes." How did that shake out? Clarke polled 23,922 votes to lead going into the runoff, but received only 16,956 votes in the runoff. **She was almost 7,000 votes short of her original tally.**

Kim, on the other hand, gained more than 3,000 votes by getting 19,527 votes, compared to 16,151 in the first balloting. Obviously, Kim not only turned out her supporters, but siphoned votes away from Clarke and picked up additional votes. This is impressive by any measure.

Clarke complained election night she was the target of negative campaigning. Though you may not have seen it, she was right. She especially singled out surrogates, instead of her campaign opponent, who spread the negative messages about her. What was said? Her harshest critic may have been *Texas Monthly* founder and publisher **Mike Levy**, who didn't mince words when he widely distributed a communication on his personal letterhead that recited a long list of city problems he has complained about for years. Then he wrote:

"I strongly believe that electing Margot Clarke will essentially be putting on the Council **one of the very worst public officials Austin has suffered** since I first became active in civic endeavors in 1976," Levy claimed. If that were not enough, he went on to say "Ms Clarke will serve as a **behind-the-scenes obstructionist** who will be the sand in the gears of local government with a Pavlovian propensity to support even the most absurd requests from noisy fringe groups whom she would see as her political allies."

The lengthy letter also contained this quote: "Ms Clarke will try to raise the level of sheer goofiness in Austin city government to even higher levels. Ms Clarke will pose a **significant threat to any hope of bringing sanity to Austin government.**" C'mon, Mike, tell us how you really feel!

The kicker in all this: he never referenced Clarke's opponent in any way. His exhortation was to simply vote against Margot Clarke. No matter how voters complain about negative campaigning, results show negativity *does* impact results. The Levy letter is Exhibit A.

Of the top 100 metro areas in the US, Austin ranks #3 – not in percentages, but in actual numbers – in the most places to connect to the Internet via wireless.

Intel Corp's survey of 2005's "Most Unwired Cities" in the US found the Austin area **ranked #3 in the nation on the number of access points at commercial, public, airport and other locations where you have wireless access to the Internet.** Seattle was #1, with the combined San Francisco-San Jose-Oakland area as #2. In total numbers, Austin has more Wi-Fi access hot spots than every other big metro area in the nation, save the top two. Impressive.

Speaking of where Austin stands in comparison with other cities, we like to tell you from time-to-time what others are saying about us. For instance, the *London Financial Times*, 4/30/05, quotes a small business owner as saying "**Austin almost feels like an oasis in a desert, and people like to head to the water.**" A sampling of others:

Women's Wear Daily, 4/7/05: "Deep in the heart of Texas, Austin thrives on fashion. Thanks to local retail, music and college scenes, **the capital lives off a seemingly endless supply of style and energy.**"

Golf Digest, May 2005: "As a visitor, you can approach golf in Austin a couple of ways. You can stay in **one of the excellent resorts** and immerse yourself in golf on-site – available only to members or resort guests – or you can choose from the **city's high-quality daily-fee courses.**"

New York Post, **Liz Smith**, 4/22/05: "In Austin, I also saw **one of the great wonders of the modern world.** It's the big new Whole Foods emporium that lies near the Colorado River."

It wasn't all that long ago – just a couple of decades – that it was rare to read about Austin in a national publication. Not any more; it's just the opposite.

Dr. Louis Overholster says don't think of it as gaining weight – just another form of bodybuilding!

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Sincerely



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