

THE

Real Estate

AUSTIN LETTER

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Dear Client:

Here in the Austin area, you can ignore all the national hand-wringing about the bursting of a housing price bubble.

It's difficult to pick up a national publication without seeing scare headlines screaming that the dramatic appreciation in home values is about to cause a crash in the housing market. Rest easy. **There is no housing price bubble in Austin or even in Texas for that matter.** So what if California, Florida and other selected hot markets nationally suffer from the bursting of this housing bubble? It can't happen here because there is no bubble here.

Not to worry. This is a tune we've been singing for you for some time now. And the real estate research center that has been tracking Texas real estate for 35 years is part of this chorus. Even more importantly, the center's position is backed up by statistical studies.

Dr. M.A. Anari, a research economist with the Real Estate Center at TexasA&M University, devised two measures to help **determine if Texas home prices were dangerously high.** These ratios are similar to price-to-earnings ratios of stocks used by investors as one way to determine if a stock is overpriced. Anari studied **price-to-rent ratios** in Austin, the state and around the nation. These were compared to the growth rate of home prices.

Anari found there is a maximum price-to-rent ratio that depends on the local economy. When this number is exceeded, home prices generally fall. His analysis shows **current price-to-rent ratios for all Texas metro areas are below the maximum ratios.** So, according to Anari, the risk of a price bubble in the residential market is very low.

But what about the Austin area specifically? Good question. If the price-to-rent ratio in Austin exceeded 24, it would be a signal of future price declines. But Austin's price-to-rent ratio was 20 in 2003 and **fell to 18.1 in 2004** and, as a result, Anari says a **steep decline in Austin home prices is not likely.**

Austin homeowners have seen their property grow in value, but not to the extreme. So there is no need for you to worry about the bottom falling out. Okay then, what is the worst case scenario? **The researchers said the worst case would be a flattening out of home prices.**

Austin area homebuyers are paying less for their homes than the majority of US residents, when compared on the basis of their incomes.

As the previous item indicated, Austin homeowners are in no danger of the bottom falling out of the housing market, as is the case in other sections of the nation where “overheated” is a word that is overused in relation to home prices. There is even more statistical evidence than price-to-rent ratios to support the assertion that the **Central Texas housing market is quite stable.**

The researchers at the Real Estate Center at TexasA&M have been examining what Austinites, and Texans as a whole, have been **paying for their homes – in relation to the homebuyer’s income.** Again, they used a statistical model that would bore you silly if we went into the detail of how the model works. Let’s look instead at the conclusions.

The ratio of home prices to family income in the US averaged 3.59 in 2003. **Dr. M.A. Anari**, the research economist, said this average can be considered “normal.” All Texas cities, he pointed out, posted a ratio lower than 3.59. This means that **Texans paid less on average for their homes than the majority of US residents,** when compared on the basis of their incomes.

Among major Texas cities, Austin – still way below the norm – had the highest ratio, 3.16, while Corpus Christi was lowest with 1.58. Okay, translate this. Again, without going through the formulas to show you how the researchers reached their conclusion, Anari determined **the median home price in Austin is about 12% less than the national average** from an income standpoint.

To further reinforce your comfort level with these price-to-rent and price-to-income calculations, all you have to do is look back to when the real estate recession clobbered Austin home values. After the Austin area experienced negative growth rate in the late 1980s, the city recorded home price appreciation of 43% percent from 1996 to 2000. During that period the home price-to-rent ratio *rose* from 17.2 to 22.8. At that point the ratio of home price-to-rent *fell* to 18.1 and, voila!, the city recorded a decline in home prices in 2003. So the formulas work.

Even though the Austin area is not part of an overheated pricing market, homebuying activity continues at a fast pace. In fact, we’re moving ever closer to the point where a longtime *buyer’s* market is trending toward a *seller’s* market.

Year to date through July 2005, single family homes sold are up 17% according to the Austin Board of Realtors Multiple Listing Service. At this pace, it will be a record year for home sales. This also means there are **fewer homes on the market for the buyer.** As it gets tighter, home prices will creep upward. We’re not a seller’s market yet, but we’re heading in that direction.

This is not to try to run a story into the ground, but it is important enough to bring you an update. We're now moving into the months of the most intense hurricane activity and Texas is long overdue for a Big One.

No one knows for certain if and when a major hurricane will rip across the Texas coastline and barrel inland, spawning tornadoes, floods, massive destruction and death. **It's for certain it will happen someday, just as it has in the past. The only question is when and where,** and the National Oceanic and Atmospheric Administration (NOAA) says it is almost 100% certain the remaining months from now through November will be one of the most active hurricane seasons ever. The odds are closing in that we could be in the crosshairs.

This prediction of an above-normal hurricane season doesn't just come from NOAA. It is a consensus of scientists at the Climate Prediction Center Hurricane Research Division and the National Hurricane Center as well as NOAA. You can look for **three-to-five major hurricanes** over the next few months, according to these scientists. This is in addition to seven-to-nine run-of-the-mill hurricanes with winds that exceed 75 miles an hour.

Already, we have seen more activity in the Gulf of Mexico than in recent years when Florida bore the brunt of the major hurricanes. If a Big One bears down on the Texas coast, it will be felt far inland – including Austin if it veers our way. **For us, it would probably be a major rain or flood event, possible tornadoes and high winds.** Between here and the Gulf, it would be worse the closer you get to the coast. We don't mean to be Chicken Little. The sky is not falling, but it could bring some serious weather events our way before Thanksgiving.

Our story last week about the fall in accountability rankings of schools in the Austin Independent School District (AISD) triggered a spirited defense from one parent.

The parent was concerned we singled out Anderson High School that was rated “academically unacceptable” by the Texas Education Agency. **Harvey Graeber** said it was unfair for Anderson to get this ranking because **Anderson accepts “challenged students from the other Austin high schools”** who do not offer regular classroom environments for them.

Thus, he says, the testing of this special population with their special curriculum requirements is not a part of the other non-participating high schools evaluations. As he put it: “The administration, teachers and students of Anderson who work daily to **provide this environment for those students who are most challenged should be receiving kudos** instead of the blanket ‘academically unacceptable’.”

Graeber also points out Anderson has been listed among the top 1,000 high schools in the US.

Home-grown Dell Inc.'s stock took a beating recently when its impressive numbers failed to meet high expectations. Dell is on the move, but for you to see it, you may need to travel around Asia.

We're not necessarily talking about employees; we're talking about sales, about revenue, for Austin's largest private employer. Dell's CEO **Kevin Rollins** was quoted as telling reporters in Malaysia that "**expansion for Dell is predominately in the Asia-Pacific region** and parts of South America and Europe." He added "that's where the growth is focused, and that's where our investment is focused."

Dell has set ambitious goals for itself. The world's largest maker of personal computers aims to **almost double Asia-Pacific sales from 11% to 20%**. And Dell plans to remain a force in that part of the world. Rollins said "Asia Pacific will continue to be a vehicle of growth for Dell for a long time."

What is Dell peddling in that corner of the globe? "**Servers, storage, services, printers and television,**" said Rollins. "Those are the categories that will drive most of the growth."

The plan is part of Dell's 3-to-4 year aim of **growing global sales by 60%** from around \$50 billion to \$80 billion as early as 2008, by focusing on new product lines as its traditional market in desktop computers matures. More than half this growth will come from outside the US, according to Rollins. **Dell has a 20% market share globally and "would love" to see its Asia-Pacific operations command a similar percentage.** But Rollins declined to give a timeframe for this target.

With President **George W. Bush** spending August at his Central Texas ranch near Crawford, **Dr. Louis Overholster** was reminded what First Lady **Laura Bush** said about her husband at the annual White House Correspondents' Association Dinner in Washington, DC: "George's answer to any problem at the ranch is to cut it down with a chain saw – which I think is why he and **Cheney** and **Rumsfeld** get along so well!"

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