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Dear Client:

**A minor sea change is occurring within the Austin area housing market. The low-priced homes are no longer selling faster than those with a higher price tag.**

Since 2001, homes priced under \$150,000 saw accelerated growth and sustained the homebuilders during the lean years of the economic downturn. This has now shifted. While the overall Austin market has grown about 28% over the past 12 months, **the under \$150,000 market has seen only nominal growth**, according to the new home marketing and consulting firm, Residential Strategies, Inc. (RSI).

What are the reasons for this plateau? Well, RSI maintains that “with the **conversion of renters to homeowners now pretty well concluded**, growth in this segment is negligible. Moreover, this is the portion of the market that has some of the fiercest competition and also where builders have experienced some difficulty in qualifying buyers.”

Second, with renewed growth in the job market, “increases in lot and material prices and builders intent on becoming more profitable, it should not come as a surprise that much of the builder focus over the past year has been on the next price point up, the \$150,000-\$200,000 niche,” RSI continued. **“Indeed, this price point has grown by 56% over the past year – an increase of more than 1,500 units in absolute numbers.”**

This sign of a strong local economy is not limited to the lower-priced homes. RSI notes the **\$200,000 - \$500,000 price point has grown by about 23%** over the past year “and there has been **extremely strong expansion in the over \$500,000 market**. “Understand that the 142% growth in suburban starts in this highest category does not include the tear-down activity,” RSI pointed out. “Tear-down activity has about doubled over the past year from 100 to 200 units.”

Another factor pushing up home prices is there has been a **decline in the supply of finished new homes** in the price categories above \$150,000.

While everyone who owns a home has an interest in the health of residential real estate, this market change has special implications for lenders, builders, Realtors and developers. It's a trend that is gaining momentum.

**It finally happened. After five long years, an important economic indicator for the Austin area climbed past the record-setting high tech go-go days.**

It was in 2000, as the high tech boom was leveling off (though no one was raising warning flags at the time) that business and leisure passenger travel was setting records each month at Austin-Bergstrom International Airport (ABIA). Then, in 2001, it became obvious there was **high tech trouble in the Silicon Hills of Austin and air travel started sputtering** – rising above 2000 levels at times, dropping below at other times. But instead of tailing off slowly, the bottom dropped out at ABIA, just as it did nationwide, when US airliners were used as highly-explosive terrorist devices on 9/11/01.

It's been a long economic climb back out of the downturn abyss. Other economic indicators are strong (check out the first item this week or check back on our reports over the past year about the healthy unemployment picture, etc.), but air travel has been slow to increase. No more. **In July 2005, the highest number of passengers traveling through ABIA was recorded.**

This was a welcome record. **Air travel is a good indicator of an area's health.** When business travel picks up, it's a good sign that jobs are being created and layoffs may be a thing of the past. Leisure travel is also important because when families hop on a plane for fun – rather than pile the kids in the car – you know they are reflecting a comfortable financial situation.

Because of this record-setting travel, new air service is being offered to Austin travelers. Delta Airlines announced this week on **10/15/06 it will begin non-stop service from Austin to New York's John F. Kennedy International Airport.** The twice-daily flight makes it possible to leave Austin, arrive in New York, and return home the same day. Flights will depart Austin at 7 am and 4:20 pm and arrive at JFK at 11:50 am and 9:10 pm. Return service from JFK departs at 12:30 pm and 6:40 pm, arriving in Austin at 3:50 pm and 9:59 pm.

Airlines like to offer deals for new flights to introduce them to the traveling public and AUS/JFK is no exception. **Delta is offering \$99 fares each way for AUS/JFK travel between 10/15/05 and 12/20/05.** Taxes and fees will be extra and you must book your flights by 9/15/05 on Delta.com or from a travel agent.

Actually, this service will not be on Delta proper. You will be flying the Delta Connection carrier Shuttle America, and as the name implies, the equipment is smaller than regular Delta aircraft. **The aircraft will be the next-generation 70-seat Embraer 170, with first class and economy seating.** "Next-generation" means a wider aisle, larger seats, bigger baggage capacity and increased leg room.

Earlier Delta Connections announced a Freedom Airlines **non-stop service to Orlando starting in October**, with special introductory fares that must be booked by 9/16/05.

**We didn't just dodge a bullet, we dodged a hydrogen bomb. One of the worst natural disasters in US history has devastated our neighbors to the east. But Hurricane Katrina was alarmingly close to the Texas coast.**

Just two weeks ago, in our 8/19/05 edition, we warned you that “**we’re now moving into the months of the most intense hurricane activity.**” We were almost apologetic when we said “this is not to run a story into the ground, but it is important enough to bring you an update.” We, of course, were talking about the possibility of a “Big One.”

Just days after we posted this warning, Katrina started forming – harmless at first. Then, this week you saw this relatively mild hurricane move into the Gulf of Mexico and **turn into a monster**. Katrina will be the new benchmark by which future disastrous hurricanes will be measured.

**The circumstances that led Katrina to build into a terror are still present.**

We’re talking about the warm waters of the Gulf of Mexico that fueled Katrina. Need we remind you Texas has the longest coastline of any state along the Gulf? It’s a big target for a hurricane.

As we said two weeks ago, “the odds are closing in that we could be in the crosshairs of the next Big One.” This week it was Louisiana, Mississippi and Alabama. But **Texas is long overdue** and the hurricane season runs through November. (It’s also difficult to forget how Florida was bombarded with one hurricane after another last year. Let’s hope Katrina’s path is not followed by other hurricanes this summer.)

So, while you commiserate with our neighbors who have been hit with such massive misfortune, be aware there is still the potential for another Big One to form off the Texas coast.

**While we’re raising concerns — you need to know identity thieves, regularly striking Austin computers, are getting bolder and much more sophisticated.**

It’s not just your identity they’re after – they want to scoop all the cash out of your bank accounts as well. For instance, using the PayPal logo and convincing language, e-mails are flooding Austin computers telling you that your current information needs to be verified. Give them your info and your identity and money disappear. How do you keep from being duped? **Do not – repeat, not – click on the link they offer.** If you feel the need to check with PayPal, go to PayPal’s Web site. Another much more obvious scam hitting Austin computers this week asks you to break the law. The sender asks for your bank account info so he can transfer millions of dollars from a dead man’s account into yours and share the money with you. Give them your bank account info and they, not you, will get richer. Beware!

**Austin's population is swelling, as about 60,000 students begin classes at UT Austin, St. Edward's, Huston Tillotson and Concordia. So, how do you cope with this influx?**

The freshmen are the challenge. Hey, remember when you were at that age? Of course you were the exception, but for a while this year's freshmen are going to wander around the various campuses and Austin with a **glazed look in their eyes**. As a public service (certainly not to make you feel any older!), here's some info to help you understand today's college freshmen.

For the freshmen you bump into around Austin in the coming weeks, you need to realize that "America's Funniest Home Videos" has always been on the air, **Starbucks has always been around the corner** and men named George Bush have been president for about half their lives.

Most freshmen were born in 1987. This means **they grew up with pay-per-view on TV, voice mail on their phones, dirty dancing at their proms** and the US was the only superpower they've ever known. They grew up with home computers, digital cameras and souped-up car stereos. Cable TV has always been powerful and has blurred the lines between news and entertainment for them.

They've never known **Andy Warhol**, seen **Jimmy Swaggert** preach on TV or watched **Arsenio Hall**. **Jimmy Carter**? That's just a name people throw around.

This cultural snapshot is an annual study conducted by Beloit College in Wisconsin. The college uses the results to educate its faculty about the lives of their young students. But it has now expanded to where it is **used by the Armed Forces, and some churches use the study findings to train their ministers**. So it does have practical application — other than to make you feel a little bit older.

The jaded **Dr. Louis Overholster** reviewed this story and said we left out one important finding about this new crop of college freshmen. He says the freshmen of today believe that money talks – and their parents are ventriloquists.

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