

THE

Real Estate

AUSTIN LETTER

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Dear Client:

The headline in this week's *Wall Street Journal* fairly screamed: "Investors Retreat From Housing Market. Inventories Rise as Speculative Buying Slows In Once-Hot Markets Like Phoenix and San Diego." If this is true, what about us?

The news article reported "individuals are pulling back from buying homes and condos as an investment, in a move that could accelerate the cooling of the housing market. With the pace of price appreciation slowing, **some investors who were betting on quick profits are instead being squeezed.** In the latest sign that the housing market is cooling, the National Association of Realtors said yesterday (12/6/05) that its index of pending home sales dropped 3.2% in October. The reading is the lowest since March."

"Some brokers are advising investors looking to buy and flip properties to put away their checkbooks. More purchase deals on condos are falling through as investors get cold feet," the article continued. "The apparent **pullback by investors is recent** and is just beginning to show up in national data. Evidence of the development can also be seen in a number of markets that had until recently been a hotbed of investor activity."

"In markets such as Las Vegas, Miami, Phoenix, San Diego and Washington, DC where investor activity had been heated, fewer people are competing to buy property as an investment, real estate brokers and analysts say," reports the *WSJ*. "As speculators withdraw from the market in San Diego, for instance, **the number of investors buying property has fallen by nearly half,**" the *WSJ* notes. "In the Phoenix area, **as many as 30% of properties for sale are currently owned by investors.**" And six months ago, most investors were buying rather than selling.

Austin and other markets in Texas have also seen a lot of investor activity in the residential real estate market. We've told you about this for months now, noting **investors from out-of-state have zeroed in on this area.** The investors are anticipating this area will soon experience price appreciation comparable to what they seen in the nation's hotspots. This hasn't happened.

So what does this mean for us? "Unlike some areas of the country where home values have skyrocketed in recent years, Texas housing has been appreciating at a moderate rate, and **there are no indications that Texas is in a price bubble,**" said **Dr. James Gaines**, research economist with the Real Estate Center at TexasA&M. More on this in the next item.

Home prices in Austin and Texas are increasing faster than inflation, but at a rate substantially slower than the national rate. This is why analysts believe we will not be caught in a bursting housing bubble.

According to the Real Estate Center at TexasA&M, **Austin area home prices increased 5.4%** from 3rd quarter 2004 through 3rd quarter 2005. This is approximately one percentage point greater than the state's long-term annual rate of increase. Appreciation rates varied considerably by metro area throughout the state. The Consumer Price Index, which measures the increase in the cost of other goods and services, increased 4.5% during the same period.

Texas home prices increased even more — by 6.3%. “The current appreciation rate is indicative of a continuing strong housing market,” says **Dr. James P. Gaines**, research economist with the Center. “Texas home prices are increasing at a greater rate than the general rate of inflation but **not so much greater as to be of concern.**”

This is simply further evidence that **Austin, in fact the entire state of Texas, is not experiencing a housing price bubble.** However, there is a downside to this: Austin and Texas homeowners have not gained as much wealth in terms of equity as homeowners in other states.

Despite this slower appreciation that limits the buildup of the equity in your home, Gaines points out the positive: “**The upside is that Texans are unlikely to see their property values decline.**” This is significant, especially for those who remember the real estate recession in Austin and Texas during the late 1980s.

How did the Austin area compare to the other major metros in how much homes appreciated in value from 3rd quarter 2004 to 3rd quarter 2005? **San Antonio** led the big metros with 8.8% appreciation in home value, followed by **Houston-Baytown-Sugar Land** at 5.5%. The **Austin-Round Rock** metro was next with the above-mentioned 5.4%, while the **Dallas-Fort Worth-Arlington** metro tallied 4.9%. All, of course, are above the rate of inflation.

The *Wall Street Journal* article referenced in the previous story notes what we've been telling you for several months – **investors/speculators in the housing market are heading our way.** “To be sure investor demand remains strong in some parts of the country as investors take their profits in markets that have seen double-digit gains and move into areas such as Dallas, where price gains haven't been so steep,” reported the *WSJ*. (Austin is only one-half percentage point greater than Dallas in home value gain, so we fit into this reference).

The trick is for Austin housing values to maintain significant gains over the long haul, without turning into the red hot category. As the *WSJ* put it: “... while it's getting tougher for speculators to make a quick buck, brokers say that **opportunities remain for investors who plan to hold their properties for several years.**” We'll watch this for you.

Keep your eye on what is happening in San Antonio. It is emerging as a major economic player for the state and the nation.

After relying on tourism and the military as its economic base for so many years – and watching Austin gain the economic edge while the Silicon Hills took a national high-tech leadership role – San Antonio is coming on strong. **And the high profile leader of this momentum is the new Toyota manufacturing plant the Alamo City scored after a major competitive battle.**

To give you an idea of why Toyota's plant is more than just a facility that will start rolling off high-powered Tundra pickups next year, consider this one important fact: just this week, **18 of the 21 on-site suppliers of the truck manufacturing plant started screening contenders for about 2,100 new jobs.** These are different companies, not Toyota. About 2,000 truck assembly jobs were filled early this year for the \$850 million Toyota plant.

These additional companies provide services and products ranging from industrial waste disposal, to seats and interior parts, to wheels and tires, to protective coatings, to exhaust systems to blow-molded plastics – you name it. They moved to San Antonio to better (and more economically) serve a major client, Toyota. And the Alamo City benefits.

For decades, Ford and GM have had plants in Texas. Are you old enough to remember Fords rolling down Texas roadways with a big rear-window sticker that read: **Built In Texas By Texans?** Vehicle manufacturing plants have long been a cornerstone of the economy in the North Texas area. But Ford and GM are losing their dominance.

Ford has announced plans to **cut about 10% of its North American white collar workforce** – about 4,000 salaried jobs – in the 1st quarter, 2006. The struggling automaker says it will soon announce larger restructuring plans. Ford is hurting.

Ford's new North American president was quoted as saying "The reality is that the best of the competition is **more competitive than we are on quality and costs, more efficient than us in their operations and they're achieving market-share growth and sizable profitability all at the same time.**" What an admission.

San Antonio appears to be riding the automotive wave of the future. There is widespread industry speculation that **Toyota Motor Corp will next year surpass GM to become the world's biggest maker of cars** – maybe even producing as much as 11% more vehicles next year than this year. GM is in denial. Earlier this year, GM's Chair/CEO was quoted as saying "We've been ahead 73 years in a row, and I think the betting odds are we'll be ahead for the next 73 years." Not if Toyota follows through with its plans for opening the Alamo City plant and unveiling a host of new models including a redesigned Camry, a new mid-size SUV and a small car aimed at energy-conscious drivers. San Antonio is in the economic driver's seat.

Worried about losing your frequent flyer miles if a troubled airline ends its program? Well, you can now buy insurance to protect your hard-earned miles.

Always looking for ways to make a buck, American Express is now offering exclusively “Air Miles Protection” on seven different airlines. As AmEx put it: “**Air Miles Protection will protect the Frequent Flyer Miles you’ve earned** with each of these 7 covered airlines: American Airlines, America West Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines and US Airways.”

This means “you’ll have up to 700,000 miles of protection, for only \$9.00 per month,” according to AmEx. “You can also enroll your spouse or domestic partner in the same coverage for an additional \$8.10 per month.” And after you redeem those miles with AmEx, **you can purchase any airline ticket on any scheduled airline to any destination.**

There are three catches to this offer: 1) the limit on each airline is 100,000 miles; 2) the offer is good only if no other airline accepts those miles after they have been discontinued by the original carrier; and 3) you must use an AmEx card to purchase your redeemed miles (your AmEx account is credited \$50 for every 3,500 miles you redeem under this program). By the way, if two airlines merge, the surviving airline in the past has accepted the other’s frequent flyer miles to garner customer loyalty for the surviving entity.

Speaking of air travel, our regular watch on activity at Austin-Bergstrom International Airport shows a **continued uptick in travel over the previous year through October**, the latest figures available. Up 6% compared to October of the previous year, the totals are inching ever-so-close to the record setting year of 2000. This is a good economic barometer for the area. Another good indicator: a new airline, JetBlue, starting non-stop service between Austin and New York/JFK in January, has started advertising \$99 rates one-way.

Dr. Louis Overholster continues to practice a longtime medical tradition — the colder the examining table, the more of your body he requires be on it!

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