

THE

Real Estate

AUSTIN LETTER

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Dear Client:

For 2006, how does Austin's housing market compare with the nations? Has the value of your home peaked? Or is there life left in a rising equity pattern? And because your home is a long-term investment, what about 2007?

Throughout the past year, we have been reporting on **one of the greatest housing equity booms ever**. Not here, but around the nation. The business news has been full of speculation about how long it will last. The Austin economy has not participated in this amazing escalation of home values, though we have seen a steady – not spectacular – climb, and we told you at year end the housing bubble was bursting in certain other markets around the country.

The hot spots are cooling off. And now we have reputable analyses that indicate **the hottest-of-the-speculator-investment hot spots, Las Vegas, will be the worst in the nation in 2006 in home equity valuation**. Other equity-crazed markets are predicted to also be at the bottom of the nation's barrel – San Jose, Los Angeles, San Diego. The same is true in the northeast, like Boston, and the southeast, like Miami. All are expected to nosedive big time this year.

On the other hand, **San Antonio is predicted to be #1 among the Top 100 Metro areas, with Austin not far behind at #21, for increase in home equity valuation** in the nation. The South will lead the nation across the board with 2006's Top Ten all coming from this region. In order they are: San Antonio, Jacksonville, El Paso, Little Rock, Baton Rouge, Richmond, Virginia Beach-Norfolk, Nashville, Houston and Memphis make up the US's Top Ten.

From best to worst, here is how Moody's Economy.com and Fiserv CSW predicted home price changes this year and next: #1 San Antonio +8.3% in 2006 and +7.0% in 2007, with Las Vegas coming in dead last at -7.9% in 2006 and -5.0% in 2007. **Austin was projected to show an increase in home prices in 2006 of +6.1% and +5.0% in 2007 by these two reputable forecasters**. Our population continues to grow, the economy is upbeat and housing is still in demand throughout our metro area.

While December 2005 numbers are not yet available, the Austin Board of Realtors reported **November home sales generated a record-setting 44% increase** over the previous November. Those doom-and-gloom headlines you see refer to other US metros, not Austin.

Court challenges notwithstanding, the City of Austin is enforcing a strict smoking ban after city voters gave their approval late last year. So, what is the effect so far?

To get a reaction, we turned to a group called Keep Austin Free (KAF). This is the organization that fought the ban and lost. It is continuing to fight with legal challenges. It is made up primarily of city bars and live music venues that feel their livelihood is threatened, in addition to those who feel their personal freedoms are trampled by a smoking ban. In other words, **Keep Austin Free is a partisan participant in this conflict.** As a result, some of their observations on the effect of the ban become even more significant.

For instance, Keep Austin Free says **“total food and beverage sales in Austin may not change with a smoking ban.”** However, it goes on to say not all are treated equally: “There is significant redistribution of wealth among food and beverage operations based on whether or not they have patios and whether or not they are enforcing the ban.”

“Some bars with outside patios are reaping a windfall at the expense of competitors not able to have patios,” KAF reports.

“Venues with name entertainment and cover charges seem to be faring well since they are not relying on just alcohol sales,” added KAF.

These are interesting admissions/observations from KAF, considering their **adamant opposition to the smoking ban** in the first place. But the organization also sounds off on topics that seem to echo what they uttered during the ballot initiative. Some samples:

“There does not seem to be any meaningful increase in new non-smoking clientele flowing into formerly smoking venues.”

“Customers are abandoning some venues that were forced to be non-smoking, and driving them out of business.”

“Some small business operators have a choice of enforcing the smoking ban and going out of business, or not enforcing the ban and going out of business slower by risking citations and lost of license. **Death by a thousand cuts.**”

And “some bars may be able to avoid enforcing the ban because **non-smoking zealots are not coming into their venues and filing complaints.**”

KAF says “No one involved in this controversy is a proponent of smoking.” But then, it went on to add: **“Who is to say that relaxing with a cigar and Scotch with friends does not contribute to as happy a life as does jogging and a vegetarian diet?”** KAF hasn’t yet had a victory – either in court or at the polls – that it would need to keep battling the ban.

When the final 2005 figures are released in about three weeks, Austin-Bergstrom International Airport should be at – or near – the passenger record it set in 2000.

Obviously, it's been a long time coming. Austin area passenger-travel for the year 2001 was starting to tail off from the 2000 record as the effects of the high-tech bust were being felt when, wham!, the airline-involved terrorist attacks severely damaged the travel industry almost beyond repair. **Austin area business and leisure air travelers have taken four long years now to build back to the go-go days of the high-tech frenzy.** But we appear to be there.

Measuring air travel is one good indicator of the economic health of an area. If *businesses* are runnin' and gunnin', they tend to increase air travel. And if *individuals* are doing more than making ends meet, many tend to hop on a plane for vacation/getaway travel, rather than pile into the ole jalopy for a road trip. This is why we track these numbers for you. This, and the fact **air travel is important to most of our readers for a whole range of reasons.**

What does equaling the best year in Austin air travel history mean in terms of numbers? If the November 2005 trend continued through December, **the airport will be at or near its record of 7.6 million passengers set in 2000.**

Think about this. While no one would label 2005 as a skyrocketing economic year, we still – at least by this measure – **should come close to matching the high-flying, an IPO-a-day, new-millionaires-and-million-dollar-homes-out-the-wazoo year of 2000.** And, because we have arrived at this point through solid, slow, steady growth, it is much more substantial and secure than the artificial go-go growth of 4-5 years ago (witness the high-tech bust).

As you plan for the upcoming year, get ready to pay even more for the money you borrow.

One of the important factors aiding the Austin area's growth and economic expansion for the last couple of years has been **inexpensive and easy money.** Interest rates wallowed at all-time lows for the longest time, before starting a steady climb upward. And, especially for homebuyers, it was almost as if lenders were throwing money at those wanting to get into new digs. Well, the best information we've gleaned says this is **about to taper off.**

Our friends at *Kiplinger Forecasts* put it simply: "It will be harder and more costly to get a loan." This goes for mortgages, business and personal loans. *Kiplinger* is reporting lenders are worrying that higher interest rates will make it much tougher for borrowers to stay on schedule. But they point out it's far from a nationwide crunch on credit. **Lenders, they say, will be much choosier about who gets cash and why.** Inflation? Excluding food and energy prices, **inflation is expected to climb about 2.5% in 2006,** compared to 2.2% this year. It won't begin to cool until late this year when the Fed's series of interest rate hikes take a firmer hold.

Sadly, e-mail scams will continue to be with us during 2006. Two current ones we know about are especially vicious and seemingly innocuous.

You may get an e-mail addressed to “Dear eBay member.” It appears official, even down to the copyright mark at the bottom. And it is trying to scare you into opening the link it provides by saying “**We regret to inform you that your eBay email was changed by a third party and you could be suspended.** To avoid this suspension, please sign in.” Yeah, sure! Don’t do it.

When you sign in, the e-mail says it must confirm you are the “real owner of the eBay account.” And, when you do, **there goes your personal information, to be ripped off and used to your detriment.** After you provide the vital info, the e-mail says you will receive an “ID Verify” that is a knockoff of the respected VeriSign. This is simply a ruse to steal your identity and bank account info.

Other e-mails making the Austin rounds are even scarier, but they are not as cleverly executed as the one above. **These get your attention because they appear to be from the FBI or the CIA.** The e-mail address on the “FBI” mailing is for the Federal Bureau of Investigation in Washington, DC, complete with phone number and signed “Yours faithfully, Steven Allison.”

The subject line on the “FBI” e-mail is “Norton AntiVirus Deleted.” Of course, it is not true. Your anti virus protection has not been deleted. And the message says “we have logged your IP-address on more than 10 illegal Websites.” **Omigosh, you are on more than 10 illegal Websites, according to the FBI!** Wrong! This e-mail has an attachment – don’t open it – that contains a list of questions for you to answer. Obviously, it’s another scam. Just as is the “CIA” e-mail

These e-mails also carry viruses. Be alert, be aware. New Web scams pop up almost daily.

A study reported this week that motorists on cell phones are more stressed than motorists not on cell phones. **Dr. Louis Overholster** said “this raises an important sociological question. There are motorists *not* on cell phones?”

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