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Dear Client:

The signs are there, both quantitative and anecdotal: the value of homes in Austin is going up while in other parts of the nation, the opposite is true.

It's what you learned in Economics 101 – supply and demand. As jobs are being created here at a fast clip, **more and more people are looking for housing in Austin (demand) and the number of homes available for sale is dwindling (supply)**. Of course, the Austin area real estate “environment” is healthy, with reasonable interest rates, available mortgages, and low unemployment. But one of the keys driving values upward is the supply of homes.

Even though home builders are slamming hammers all over the area and rooftops are visible where once there were none, the **number of homes for sale – relative to the demand – is dropping daily**. The Real Estate Center at TexasA&M says “most experts agree that a balanced housing market typically maintains a six-month inventory of homes for sale.”

You look at the number of homes for sale and re-sale and analyze the pace of sales to determine months of inventory. **In 2004, the Austin metro area had 5.9 months of housing inventory on the market**. Not bad. About normal. In times like 2004 when everything was in equilibrium, home values didn't move much.

But look at where we are now. **The amount of housing for sale, at the current pace of sales activity, is now less than 4 months**. Quite a drop. And the prices of homes (meaning the value of your home, as well) are moving up accordingly.

And we are moving into the “hottest selling season” of the year. Anecdotally, Realtors will tell you they are advising buyers to **make an offer quickly or the home of their choice will be gone**. Even then, multiple offers are being made on homes that are priced right, and in many cases sellers are getting their asking price.

All this is driving up home values/prices. For instance, the average price of a home sold in the Austin metro area in 2004 was \$198,900 and 2006 began with the average selling price pegged at more than \$220,000. It's still not the insane price appreciation witnessed in other parts of the nation (before their housing bubble burst). But what all this says is the immediate end, for the Austin area, is not yet in sight. We'll keep a close eye on this for you.

While on the subject of real estate, the Austin area office market rental rates and occupancy levels are both at five year highs and continue to rise.

Additionally, developers are beginning construction on projects based on speculation that the **Austin job market will continue to grow with the thriving economy**, reports Colliers Oxford, a commercial real estate firm.

Citywide, rental rates for the most desirable office properties are **up nearly \$3 per square foot higher** (\$23.46) **than a year ago**, according to Colliers Oxford. "These increases cannot all be attributed to simply base rent, as energy prices, insurance costs and property taxes have all risen in 2006," the firm reported.

There's another factor at work driving up the cost of office space. "The **frenzy of acquisitions** that occurred in the investment market last summer has been a major factor in the **increased rental rates**," notes Colliers Oxford.

You can count on prices for top quality office space in Austin to continue to rise. "**New construction will also boost rental rates**," predicted the commercial real estate firm.

Are we seeing a repeat of 2001 when office rates spiked, then the bottom fell out? Colliers Oxford reports those in the commercial real estate trenches don't think so: "Despite the boom that Austin saw in 2001, many office brokers feel that this wave of high occupancy, rising rental rates and new construction will be **sustained by a more resilient economy**."

With the beginning of hurricane season this week, the memory lingers of long lines of fuel-empty cars stranded while heading to Austin and other inland cities to get out of Hurricane Rita's way. Now there's a new Texas Gulf Coast evacuation plan.

Individual responsibility is a major part of this new plan. Gulf Coast residents will be urged to **never let their vehicle tanks dip below half-full** between now and November 30th (the end of hurricane season) and they will be encouraged to **top-off their tanks** when a storm enters the Gulf of Mexico.

Fuel supplies will be re-routed to the **convenience stores and gasoline stations in coastal cities and also along evacuation routes** inland to ensure there will be no shortage of gasoline and diesel fuel where it is most needed.

The Texas Department of Transportation will provide **courtesy patrols** along major evacuation routes to **assist stranded motorists**. While there were other issues during the evacuation last year, this fuel plan should keep the traffic flowing away from the endangered area.

It looks like it's time to accept it – or get out of the way. Look around you as you drive the Austin area. It's the "Starbuckization" of society and it will become not only more pervasive (if that's possible) but more influential.

It's up to you to decide if this is good or bad. But, believe me, it's happening – big time! And it's all around you (**Texas is 2nd only to California in the number of Starbucks locations**). The most recent numbers we've seen (*USAToday*, this week) reported Starbucks has 7,950 stores in the US plus 3,275 elsewhere – and an average of five stores are opening every day worldwide. Starbucks' goal is 15,000 US stores and 30,000 globally. To give you a comparison, McDonald's has 13,700 US stores with 31,000 globally.

The numbers are impressive. But what's even more impressive is how Starbucks has **ingrained itself into the daily lives of millions**, and it has plans to expand this impact. "The company that sells 4 million coffee drinks daily in the USA is hot to extend its brand beyond the espresso machine to influence the films we see, CDs we hear and books we read," reported *USAToday*.

Many Austin Starbucks locations already do a brisk business **selling CDs** and have just started **promoting films** (*Akeelah and the Bee*). In 2005, Starbucks sold 3.5 million CDs of all kinds. It is looking at **book publishing** next. And, of course, **wireless Internet access** is an accepted fact in most locations.

Significantly, people's habits and social lives are changing due to Starbucks. Admittedly, some of this is anecdotal evidence, but many sociologists believe it is a trend in the making and Starbucks is fostering this concept. Some examples:

Sun Cunningham says "I guess it's a little crazy, but whenever I run errands, I map it out so I can stop at a Starbucks in between." **Eve Epstein** takes her 2-year-old to meet her best friend with her toddler 3 mornings a week at Starbucks. She says "Starbucks is the new McDonald's." **Lisa Terry** goes to Starbucks four times a week, pays \$4 for coffee each time and now refers to Starbucks as FourBucks.

This isn't all. Psychologist **Joyce Brothers** says there's a sense of security when you go there. It has given people a safe place to socialize. Terry says Starbucks is the only place she feels comfortable meeting guys on first dates. You get the drift.

Some claim Starbucks has changed expectations of how coffee should taste, forcing McDonald's and Burger King to upgrade their brews. Now Starbucks is experimenting with healthy *food* offerings. Fruit and yogurt parfaits and warm breakfast sandwiches are being test marketed. New salads are under review. Finally, **Starbucks' bottom line is benefiting dramatically, allowing it to keep pushing the societal change envelope**. Since its stock went public in 1992, it is up about 5,775%. And even more telling, Starbucks has had 172 straight months of same-store sales growth.

While promoting his big movie, *The DaVinci Code*, Tom Hanks is in pre-production on a film about a colorful and controversial former Texas Congressman who is well-known in Austin.

Hanks, of course, is one of the world's top movie stars and while all of his movies haven't won raves, when he takes on a film-making task, the world takes notice. And it looks as if he's going first-class on his next big project. Working through Universal Studios, the report is superstar **Julia Roberts** will be Hanks' co-star and the acclaimed **Mike Nichols** will direct.

The movie: *Charlie Wilson's War*. Hanks will play former East Texas Congressman **Charlie Wilson**, who gained a bit of notoriety while serving in the Texas Legislature before moving on to Washington, DC. Hanks purchased the film rights to the best selling book of the same name, written by CBS journalist **George Crile** (who died last month). The book and movie focus on the flamboyant Congressman Wilson's secret efforts to manipulate Congress and the CIA into arming tribes in Afghanistan to aid their rebellion against the Soviet Union. This set the stage for **Osama bin Laden**. It's quite a yarn. And has the added attraction of being true.

Some time back we told you of the untapped resources on Central Texas military bases. Now one Austin employer is taking advantage of this job pool.

It's a small step, but it is a significant one. Dell Inc is planning to **employ about 50 military spouses at the giant Fort Hood army base** northwest of Round Rock in Killeen.

Dell hopes to have them on board by August. They won't have to commute. Dell's virtual call center will let these family members **work from home on computers**. If this effort goes along as planned, Dell said it could hire up to 200 workers at the sprawling military base.

As we transition from Memorial Day to Father's Day, **Dr. Louis Overholster** reminds us that men who have fought in the world's bloodiest wars – are apt to faint at the sight of a dirty diaper!

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