

THE

Real Estate

AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

Austin may be enjoying the best all-around economy of any metro area in the US. And at the same time we're hitting on all economic cylinders, we are being regularly cited as one of the best places to live in the nation. Is this a great place to be or what!

Think about it. Every sector and pocket of Austin's economy is humming like a well-tuned engine and some are so revved-up they are burning rubber, especially when compared to other areas. The best overall indicator is the job picture. **Jobs are being filled faster than jobseekers can move to Austin to apply for them.**

This is simply amazing. Unemployment is the lowest it has been in years – 3.7% in October. **What's even more startling is that more than 18,000 jobs have been created in the past year and, in effect, all of those jobs have been filled – and then some,** because our unemployment is lower than it was a year ago when there were fewer workers in our five-county area.

Call the roll. **Real estate**, that is suffering big-time in many major cities in the US, is continuing to defy national trends and moving upward. **Construction** is booming, period. **Manufacturing** is hiring (Dell Inc. is hiring 500 highly-paid engineers within the next few months; Samsung is coming on line next year with the most expensive semiconductor fabrication facility anywhere). **Business and professional services** are adding jobs. So is the **leisure and hospitality** sector.

State employment? Solid as a rock. And there is job shifting going on as the beginning of new terms for elected officials is just around the corner. This also means the **Texas Legislature is coming to town in January.** I know, I know, you can hear the groans from those who believe “if they ain't meetin', they ain't hurtin' ya,” but these biannual 150-day sessions always create a spike in our economy.

Retail? This is the busiest time of year for retailers. Starting the day after Thanksgiving and running through the first of the year, this is the make-or-break time for the fiscal year. And, with so many Austin area residents holding down jobs and running around with bucks in their jeans, it should bode well for those retailers who always sweat out the holiday season.

All in all, where would you rather work and live other than in the Austin area? Case closed.

You can't build a figurative crocodile-infested moat around Austin to keep out negative economic influences, so it helps to stay aware of what is happening elsewhere. So, do recent gains in new home sales *nationally* signal a market turnaround in other US cities?

Not necessarily. Home builders are simply becoming more aggressive sellers, according to our friends at *KiplingerForecasts.com*. In fact, we've seen some of those signs locally from the national builders who are doing business here. You can reference our 10/20/06 edition, where we told you how Lennar Homes (operating here under the names of Lennar, Village Builders and NuHome Designs) at one point was offering very high 8%-10% Realtor commissions, even though the Austin area home market is sailing right along.

Kiplinger indicates **homebuilders nationally are willing to take huge profit hits to unload mounting inventories**. In fact, Kiplinger reports the average incentive package nationally is now about 5% of the purchase price, similar to what builders offered during the downturn of the early 1990s.

One builder even offered a prospective buyer a new car to close the deal. More common are flat-screen TVs, granite countertops and custom showers. Obviously it is a buyer's market where the housing bubble burst — as opposed to here where it is generally a seller's market, with most homes not lingering very long with a "for sale" sign stuck in the front yard.

So what does Kiplinger forecast nationally? In a nutshell, several more months of pain ahead before excess inventory is mopped up to balance supply and demand. **Kiplinger predicts total home sales nationally will drop off about 9% this year** (even with Austin's record-setting pace factored into the national figs). Next year, it is predicting a slight easing, with a drop off of about 7% and median sales prices off about 3% in 2007.

While we're focusing on national issues for a minute, what effect will the divided governmental control in Washington have on the business climate?

Before the election, we predicted 9/29/06 that "the margin of control will be so razor-thin that, for the next two years, **gridlock will be even worse than now.**" So, is this a good thing or a bad thing as far as the business climate is concerned (we'll save a discussion on the *political* aspects for a later date!)?

Generally, it can be argued **gridlock is good in the short-term for the business climate**. Many investors perceive — rightly or wrongly — that a divided government preserves the status quo on tax and other policies. In other words, no surprises. In fact, since 1955, the S&P has gained an average annual 4.9% in periods of one-party rule and about 10% when Democrats and Republicans shared power in Washington. It'll be interesting to watch.

When the Texas Legislature begins meeting in Austin in January, you can bet one of the topics to be debated will be university tuition – even though the Lege recently ceded the right to set tuition rates to the universities themselves.

The cost of a college education is just that – what it takes to earn a degree. Heretofore, many students – in fact, a majority at major institutions such as UTAustin – have routinely taken **five or six years to earn a diploma, instead of four years that was normal** back in the “good ole days.” So, while some complain the *annual* cost of tuition is rising (and it is), the cost of a college education could actually be lowered for many, if they just sucked it up and graduated in four — even five – years, instead of six.

This concept is not lost on UTSystem officials. Now that Texas higher education institutions can set their own tuition, they have come up with **incentives for students to graduate in a timely fashion.**

“Our campuses are using innovative approaches such as flat rate tuition, tuition rebates, discounted tuition for courses offered at off-peak hours and guaranteed tuition rates for a set period of time to **encourage students to graduate within four years,**” says **Mark Yudof**, UTSystem Chancellor.

“These innovations allow students to **save money by graduating sooner – savings that more than compensate for any tuition increases,**” he says. “The cost of an additional year of college swamps the total of all tuition increases for four years.” Hear that, parents.

And this is not the only benefit. “Savings are made even greater because the **most significant cost of extra years to get a degree is the opportunity costs of a better paying job not yet taken,**” Yudof argues. Hear that, parents.

There’s another little-known effort underway that has the effect of lowering the costs of a college education: encouraging students to attend community colleges and then transfer to a four-year institution. This cuts overall tuition costs because community colleges have lower tuition. An additional payoff: on most campuses, **transfer students from community colleges have higher graduation rates than first-time freshmen.**

These four-year graduation rate tuition initiatives will help UTAustin lower its number of students. One of the biggest complaints about UTAustin (and one that keeps UTAustin from scoring higher on national academic rankings) is the high student-faculty ratio. Plus there is the added stress on facilities with hordes of students. UTAustin has one of the highest student populations in the nation.

The Legislature will no doubt look at tuition rates. But if the four-year graduation rate becomes the norm once again, it will help ease complaints and raise UTAustin’s academic standing.

You have less than two months to experience a monographic exhibition of art in Austin that has never been shown in the US, ever, and it's been a half-century since it has been shown anywhere in the world. It's a treasure that should not be overlooked.

In fact, after it leaves Austin, it will be shown in only one other place in the world – at the Palazzo Ducale in Genoa, Italy. This is the groundbreaking event for the impressive Blanton Museum of Art on the UT Austin campus. The exhibition is built around the works of **Luca Cambiaso**, who lived in Italy from 1527-1585.

Seven paintings by Cambiaso are in The Blanton's permanent collection.

This represents half of the paintings by the artist in the US. Museums and churches in Genoa, where Cambiaso lived and worked exclusively until his last four years, are lending most of the paintings in the exhibition.

The range of works featured spans Cambiaso's entire development, showing the influence of **Raphael** and **Michelangelo** in his early years, and his highly sophisticated later works that exhibit hints of early Baroque style, according to experts at The Blanton.

With rare exceptions, the works have never before been displayed in the US and few have been displayed outside of Italy. Additional paintings and drawings have come to Austin from an international roster of distinguished institutions, including the Art Institute of Chicago, the British Museum, the Louvre Museum, the Metropolitan Museum of Art, the Morgan Library, the National Gallery of Art and the Uffizi Gallery, among others.

The exhibition is curated by **Jonathan Bober**, The Blanton's curator of prints, drawings and European paintings. Bober is the sole American member of the scholarly committee for the exhibition. The exhibit has been open for some time now, so the crowds have thinned.

Dr. Louis Overholster believes that he who laughs last, thinks slowest!

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