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Dear Client:

With the report over the weekend that Austin home sales appeared to be cooling, should you be worried – especially in light of the national housing downturn?

While forecasting the future is fraught with fear, the fearless among us say **you should not be that concerned**. Is this a Pollyanna approach? Head in the sand? After all, major markets all around the US are suffering from a bursting housing bubble. Couldn't the Austin area now be hit by the same problems facing others? Well, yes – but not likely. And here's why.

There are a number of factors that impact housing. **Interest rates**, for one. **Demand**, for another. **Availability**, still another. And, of course, **price**. Interest rates, while not at historic lows, are still affordable. There are plenty of homes available at most price points. Price is a bit of a problem, as sellers are still ratcheting up the price of homes in the Austin area. But it's not out of control.

However, what may be, arguably, the most important element is demand. To get an idea of demand, all you have to do is examine the job picture. As the Austin area creates more jobs, and more people move to Austin to fill those jobs, **the demand will stay steady, maybe even move to impressive heights**.

In fact, on the same weekend of the story about "housing sales cooling," the report was released that jobs continued to be created at a solid pace. **The number of jobs increased by 3.7% in a year's time – through March 2007**. And the percentage of those *unemployed* declined. In other words, jobs are still being created and they are being filled. This creates a perfect storm for home-buying.

Credit standards are being tightened by lenders – especially for those borrowers whose credit may be marginal. This will reduce the number of home loans, and as a result, slow the sales pace. **But, frankly, this is a good thing**. Because, on the back end, marginal loans increase the number of foreclosures and that increases inventory.

So, while sales may be slowing somewhat (especially due to tighter credit for the riskier homebuyers and prices moving up at a fast pace), all the factors that provide the **underpinnings of a healthy residential real estate market are still present**, more-so here than elsewhere. For these reasons, there is no need to start worrying yet that the real estate market will go south.

Speaking of jobs, how does the job situation in the Silicon Hills of Austin compare to that in the Silicon Valley?

From time to time, we like to check in with what is going on in California's Silicon Valley – the place where the high tech revolution was born and the **area from which a lot of Austinites have recently departed.**

You know about their housing situation – one of the priciest in the nation – where former Californians sell their modest home (for an immodest price), move to Austin, and use that money to buy million dollar manses. But what about their job situation?

The Silicon Valley unemployment situation is getting better, but it is still not as healthy as the Austin area. In March, the unemployment rate in the San Jose-Sunnyvale-Santa Clara metro was **4.4%, down from 4.8% a year ago.**

The 5-county Austin-Round Rock metro area recorded an impressive **3.5% unemployment rate in March, down from 4.3% in March 2006.**

By the way, the entire state of **California's unemployment rate in March 2007 clocked-in at 5.1%, compared to the state of Texas's tally of 4.3%.** So the Lone Star State's job market was more vibrant than that of the Golden State.

Using job growth as a key metric, Austin has once again been highly-ranked on a list of US "Business Boomtowns" – moving up the ladder from last year's #26 position to #16 this year.

Inc. Magazine annually ranks cities under the heading of "Hottest Places to do Business." This year's list is revealed in the magazine's May issue. **It examines 393 US metro areas, focusing on job growth.** As we have regularly done in singling out job growth as one of the key indicators of economic vitality, the magazine also notes that healthy job increases are an indicator of an expanding economy.

In the magazine's list of big cities, **Austin's #16 US ranking** is well ahead of the Silicon Valley and another high-tech hot bed, Boston. **Houston came in at #17** (moving up 14 spots from last year) while **Dallas was ranked at #25**, after leaping 18 spots over last year.

One of the job growth sectors helping Texas cities move up the list is the **energy sector that is experiencing almost unbridled growth.** As far as Austin is concerned, the high-tech rebound is contributing to job growth, in addition to an aggressive, **well-funded recruiting effort** by the Greater Austin Chamber of Commerce aimed at attracting new companies to the metro area.

Apartment life in Austin is changing. Hot tubs, sport courts, fireplaces, etc. are “out.” Business centers, media rooms, coffee bars, etc. are “in.” And rents are rising.

More than 10,000 apartment units are under construction in the Austin area, according to **Robin Davis** of the apartment market research group, Austin Investor Interests. “To date the new units have trickled in, but that is expected to change, as **the next 12 months anticipate the addition of almost double the number from last year, and triple the year before that,**” Davis reports.

“Even submarkets that have been quietly sitting back from the construction arena are now throwing their hats back in,” Davis observed. “Williamson County, Round Rock and the South are starting to see a new crop of properties begin development.”

And these new properties are going to be different from your standard apartment fare. “Amenities once considered standard are being passed over for ones deemed most desirable,” said Davis. “**The market is changing and developers are trying to change with it.**”

Such as? “Gone are the standard hot tub, sport court, fireplaces and even laundry rooms,” Davis noted. “In are business centers, media rooms, coffee bars, **wireless Internet access and even some eccentricities like resident herb gardens and live music venues.**”

What is driving this, other than the desire to stay ahead of the marketing curve? Davis says that “in an economy where land prices are at a premium and density of units becomes a necessity, catering to the residents is **key to achieving the desired rental rates and the tenant retention,** especially in a market facing competition from single family home and condominium rentals.”

Speaking of rental rates: it may be an anomaly, but **the past seven quarters have continued to see apartment rental rates increase (albeit modestly)**, while occupancy continues to slide – falling backward in five of those seven quarters. Occupancy stands at 93.5% at the end of the 1st quarter 2007.

And, while all this is occurring, **developers are moving full speed ahead at a pace and level unseen in many years.** There are now 41 projects, with a total of 10,446 units, under construction. “This large amount of development is **not expected to slow** in the near term as another 2,000+ units were submitted into the permitting process during the first quarter as well,” Davis reports.

Okay, with rental rates rising and new amenities being offered — all the while the occupancy rates are, at best, flat, and facing competition in the form of single family homes and condo rentals — do you really think developers will go ahead with the ambitious apartment construction plans? “With the level of optimism in the market elevated, **it is likely that many of these projects will actually break ground as planned,**” predicted Davis.

City of Austin planners are deciding now how to expand Austin-Bergstrom International Airport (ABIA). There are some industry concerns that need to be taken into account.

It's not enough to consider new gates and additional parking for a growing air travel market at Austin's almost-new airport. **What is happening in the airline industry now, and in the future, needs to be factored into the planning.** There is still turbulence in the airline industry and, of course, the airlines will pay for a large portion of the airport expansion through user fees – so they have a very large seat at Austin's planning table.

Even though most airlines are now operating profitably, they are **carrying massive debt and will face more demands for their money in the future.** For instance, unions will want to regain what they lost when airlines pleaded with them following 9/11. And their fleet is aging, requiring replacement or repairs.

But the big factor for Austin to consider is how air travel *itself* will be changing. According to our friends at *Kiplinger Forecasts* in Washington, DC, **air traffic congestion will worsen – up 25% by 2015 from today's traffic.** A new satellite-based air traffic control system needs to be anticipated.

The Barbara Jordan Terminal will need careful examination if *Kiplinger* is accurate in its forecast that **by 2015, 36% of all flights will run late, compared to about 25% now.** Also longer waits to both board and disembark will impact passenger flow. There will be less room for carry-on bags due to more crowded flights, thereby impacting baggage handling. You get the picture.

Business and leisure air travel is of critical importance to a growing and dynamic region. *Region* is a key word here as **ABIA is the airport of choice for residents of at least a dozen Central Texas counties.** The City must plan for this larger, growing, regional marketplace.

Dr. Louis Overholster likes to tell his patients that “life begins at 40, but so do arthritis and the habit of telling the same story three times to the same person!”

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