

THE

Real Estate

AUSTIN LETTER

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Dear Client:

It's not quite the frenetic pace of the dot-com boom (thankfully, since the boom was followed by a bust), but the Austin metro area job market is sizzling. It leads other major Texas metros and is among the best in the nation.

There were 19,000 more people employed in the Austin-Round Rock metro area in August 2007 than in the same month the year before. "Now Hiring" signs are plentiful, indicating more hires are being made daily. **The number of unemployed has dwindled from 35,700 a year ago to 29,500 in August 2007**, while the metro area's population has grown significantly

The unemployment percentage in the 5-county metro is an amazing 3.5% (it was 4.3% a year ago). This leads Dallas-Fort Worth-Arlington and San Antonio (both a healthy 4.0%), as well as Houston-Sugar Land-Baytown (4.1%). **The Austin area's 3.5% unemployment rate is the envy of most cities nationwide.** Most economists will tell you this is equivalent to "full" employment.

Economists will also tell you **low unemployment is critical for retailers and others** who depend upon customers walking through their front doors with money in their jeans. The manifestation of this can be seen in the **opening of new and more retail outlets** as the unemployment in the region goes down.

To give you an idea of how this **helps the Austin area to stand out as a shining example** of a dynamic economy, all you need to do is check out the national news this week. Big retailers such as **Target** have lowered their estimates for national sales. **Costco** year-over-year sales are up only 1% nationally. **Lowe's**, which has been affected by the national housing slump, reduced its earning outlook for both this year and next year.

While the Austin area leads the state in this measure, Texas itself is doing quite well. **In fact, all 25 Texas metro areas – large and small – recorded a decrease in their unemployment rate from August 2006 to August 2007.** Even though they are the "worst" in the state, the border metros of El Paso (5.5%), Brownsville-Harlingen (5.6%) and McAllen-Edinburg-Mission (6.1%) reported respectable percentages. It has not been unusual for them to tally double-digit rates in the recent past. To keep your perspective, the Austin area's great unemployment rate is not a record. It was in the 2%-range during the dot-com boom.

Even though a front-page headline blared this week “Austin Home Market Lags in August” and national sales of previously-owned homes this week hit the lowest level in five years, Austin is still a seller’s market. This reinforces the uniqueness of the local real estate market.

The national housing picture is Lousy, spelled with a Capital L. Nationally, homes with a “For Sale” sign in the front yard reached an 18-year high this week. One huge national homebuilder, D.R. Horton, is **auctioning homes this week in San Diego with starting prices for some homes at 50% lower than an earlier price.**

There’s more. Lennar, the nation’s #2 homebuilder that has already cut its workforce by 35%, reported a net *loss* of \$514 million for the quarter ending 8/31/07. **This was nearly six times the loss Wall Street analysts expected.** (We’re reminded of a great quote: “The only thing that is consistent is the inaccuracies of the economic forecasts.”) A year ago, Lennar reported a \$207 million net income.

At the current sales pace, the number of homes for sale nationally is enough to satisfy 10 months of demand. This is a key number. In the real estate business, it is commonly referred to as 10 months of inventory. So, with Austin home sales slowing slightly in August, what is the months-of-inventory number in the Central Texas metro area? **Would you believe, at the current local sales pace, it is only 58 days** — a number that is dropping. This is what we mean by a “seller’s market.”

Another indication the Austin area is not feeling the housing heat as they are in 20 other major metros: home prices fell 3.9% in July in those metros. This represents the biggest decline since just after the 1990-1991 recession. **But in Austin, the median price for single-family homes rose 6% year-over-year to \$192,000.**

Adding to the housing woes – and this is having an impact in the Austin area as well – are the tighter and tougher lending practices of those who make home loans. **Gone are the days of “easy money” for folks who are marginal when it comes to qualifying for a loan.** This undoubtedly is causing a reduction in the sale of homes, both nationally and in the Austin area.

But to slightly change an old bromide, “the higher they are, the further they fall.” The Austin area never was lumped into the housing hype that skyrocketed home prices into the stratosphere. **Home values have consistently risen in the Austin area during recent years. But it has been a slow, steady climb.**

Where some may have complained a year or so ago that Austin home values were not rising rapidly enough compared to other (some, less-desirable) areas of the country, **they are now seeing the results of such measured increases as the Austin metro is enjoying a very solid economy.** Compare this with the high-flying areas that are still sliding down an economic slope with the end not yet quite in sight. It’s not to say the 5-county Central Texas metro area is immune from a big downturn, but for now, it’s looking pretty good.

What about residential real estate in the Silicon Valley? You've just been told about the Silicon Hills of Austin. How does the Silicon Valley situation stack up?

New home sales were down more than 36% in July (the latest available figures) compared to a year ago in San Jose, Sunnyvale and Santa Clara California. In Austin, the dip in the sale of *all* homes in August was about 10%. While this is an interesting comparison, the numbers may be **more closely related than you think**.

Part of what is happening between the two high-tech centers is that **residents in California are having difficulty selling their homes and therefore are delaying purchases in Austin** – the destination of choice for many of those leaving California. Of course, the difficulty in obtaining a mortgage overlays all of this.

One other interesting factoid as you compare the Silicon Hills and the Silicon Valley. The median *asking price for a new home in the Valley's metro area* was **\$693,990 in July**. **In the Austin metro, the median sales price** was **\$192,000** in August. Realtors will tell you, there is usually a difference between “the asking” and “the getting,” but a half-million dollar spread gives you an idea of how pricey the housing product in the Silicon Valley remains.

Delta Air Lines is bouncing back big-time in the competition for Austin area air travelers. But United and Northwest airlines continue to falter, in spite of record local passenger traffic.

Delta and Continental airlines battled mightily for years at Austin-Bergstrom International Airport (ABIA), trading #3 and #4 places in market share locally. **Southwest Airlines and American Airlines are the big #1 and #2 gorillas at ABIA** with more flights and more passengers each month – and they are steadily increasing, especially as air travel keeps setting records. Now Delta, after its financial struggles over the past few years, is making a move on Continental and could soon be challenging the Houston-based airline for the third spot.

For instance, **Delta's passenger totals at ABIA are up a whopping 32.5% for the year** and totaled 559,544 through August. Continental is up only 4.5% with an eight-month local passenger total of 690,034. To give you an idea of Delta's aggressiveness, **the Atlanta-based carrier was up an amazing 62.5% in August**, compared to Continental's 7% increase. This competition will be fun to watch.

But, United and Northwest are really slipping at ABIA. United's passenger totals are down 12% through August and Northwest's are down 0.8%. In August, United was down 4% compared to last year and Northwest was off 1.5% from a year ago. Bear in mind, United and Northwest are losing passengers during a time **total ABIA passenger traffic is operating at record highs and trending upward** – up 8% for the year and up 17% in August alone. This does not bode well for United and Northwest. But, Delta? It is on a roll at ABIA.

The next regular session of the Texas Legislature doesn't begin in Austin until January 2009, but already supporters of UTAustin are gearing up to tackle two key (and perennial) issues.

A meeting of the Friends of The University Political Action Committee is slated 10/2/07 to discuss those two issues and to raise funds for the effort. Friends of The University PAC is the only organization specifically designed to **build alliances with statewide leaders and members of the Texas House and Senate** to help UTAustin accomplish its goals.

The issues, as outlined to those invited to the session: “Will the Top 10% rule be changed before disaster strikes and UT is **forced to admit the entire freshman class under the rule** ... (and) ...will UT then be required to grow the freshman class and **admit more students than we can handle?** Is there any way to **stop the serious decline in state funding** as a percentage of UT's overall budget?”

“These are arguably the **most important questions impacting UT's future,**” the organizers continued. “And they will be answered in only one place – The Texas Legislature.” (The Top 10% rule guarantees admission to state higher education institutions for all Texans who graduate in the top 10% of their class.)

Senate Higher Education Committee Chair **Florence Shapiro**, House Education Committee Chair **Geannie Morrison** and UTSytem Board of Regents Chair **James Huffines** will be on hand to recap what happened in previous sessions and to discuss the outlook in the future.

Leaders lending their names to this meeting: **William H. Cunningham, Wales Madden, Jr., B. Rapoport, Roy Butler, Frank Denius, Hector De Leon, John Barnhill and Pat Oles.** The PAC hopes to “play a key role in the current battles to change the Top 10% rule and to stop the downward spiral in the percentage of state funding.”

Dr. Louis Overholster says he is convinced the most ineffective workers are systematically moved to the place where they can do the least damage: management!

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