

THE

Neal Spelce

AUSTIN LETTER

www.AustinLetter.com

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

Volume 29, Number 29

October 19, 2007

Dear Client:

The number of new homes starting construction in the Austin area is down from a year ago. Hey, this can be a good thing.

New home starts are down about 18% from a year ago. At first glance, you might think this lumps the Austin area with the other sections of the country that are in the midst of a serious housing crisis. But, look again. **It is a reflection of what is happening in the other parts of the country**, but is not indicative of a dire local economy.

Over the years, many local homebuilders were gobbled up by big national firms. As Austin thrived, other national homebuilders came to town, bought home sites and subdivisions and started slamming hammers to put up homes. Now, many **national homebuilders are in trouble**.

For instance, DR Horton, the largest US homebuilder by sales, said this week that **almost half of its orders for new homes were cancelled in the last few months**, particularly in California and the West. The average price of a home sold by DR Horton is about \$230,000 and many of their buyers are reporting **problems qualifying for loans under new, much-tighter, credit standards**. This is in spite of price cuts being put in place by the builder.

Another big builder operating in the Austin area, Pulte Homes, this week is offering up to **\$20,000 in incentives for buyers and using the promise of a \$10,000 bonus to Realtors** to find buyers for their homes in Austin area subdivisions such as Summerlyn, Hometown Kyle, HighPointe and Sonoma. Pulte and other big builders are reducing inventory, while cutting new construction to generate cash and cut debt.

So, how is this good for the Austin area? The number of new homes on the market, at the current sales pace, only represents about a two months supply of inventory. "This is considered very healthy," said **Mark Sprague** with Residential Strategies, Inc. Nationally, the number is closer to eight months. So, **Austin is not overbuilt by any means**. In fact, Sprague said "compared to the devastating reports we are hearing from other parts of the country, **Austin currently is one of the top performers**." And, we're also seeing a shift from what was once a *seller's* market toward a *buyer's* market – especially for a cash buyer.

Austin area home values, as reflected by sale prices, continue to rise. This is in sharp contrast to the housing downturn in the former go-go states along the east and west coasts.

For years we've been telling you of the insane skyrocketing of home prices on the two coasts. Others likened it to an ever-increasing bubble that was sure to burst when it was stretched beyond reality. In some cases, **home prices soared 20%-30% per year in the first part of this decade.** Well, no surprise, the bubble did burst and this was a trigger to the current housing crisis in those cities and states.

The Austin metro was different. New home prices have *steadily* increased over the past three years, *not skyrocketed*. **Mark Sprague**, the Austin area partner for Residential Strategies Inc. (RSI), points out the median home price in the 3rd Qtr 2005 was \$181,108, in the 3rd Qtr 2006 was \$197,103 and in the 3rd Qtr 2007, it was \$208,583. **"The area median new home price is up 5.8% for the past 12 months,"** he noted. Bottom line: there is no bubble to burst in the Austin area.

Another factor to consider is the number of vacant, developable, lots. Currently, Sprague estimates there are 26,058 lots and at the current absorption rate, this represents a 22.3 month supply. RSI, a market research and consulting firm, considers a 24-month supply to represent equilibrium. As Sprague put it: "The fact of the matter is that, although the housing market has slowed over the past year, **Austin doesn't have the problematic excesses of lot and housing inventories that are prevalent in most other major markets of the United States.**"

More travelers who go through Austin-Bergstrom International Airport (ABIA) fly on Southwest Airlines than any other. They will soon see some major changes.

Those who travel through Dallas Love Field on Southwest will be given a **boarding pass that assigns them a place in line.** Previously, passengers arrived, stood in line and were boarded on a first-come, first-served basis. San Antonio International was the first airport to adopt this procedure and Dallas Love Field followed this week.

This will soon be the standard boarding practice for Southwest passengers at ABIA and its 61 other airports in early November. Over the years, Southwest has considered changes in its boarding procedures, but always stopped short of implementation. One of the key advantages for Southwest is its fast turnaround time at its gates. It'll be interesting to see if this impacts that turnaround time.

This isn't the only change Southwest passengers will notice. New gate architecture is being introduced at all its airports as well. This will mean you'll see **flat-screen TVs, new seats, tables with power outlets and power stations with stools for laptop users.** This full gate makeover is scheduled to be completed system-wide in the first half of next year.

When you think of employment in Austin, you normally list sectors such as high-tech, state government workers, school payrolls, etc. But did you know the healthcare industry is one of the largest and fastest-growing employment centers in the Austin area.

The healthcare industry in the Austin metro has been growing by leaps and bounds recently and it looks as if the end is nowhere in sight. With all the growth to this point, the industry leaders are **focusing on future expansion throughout the area**. What is going on in this sector is an economic phenomenon all its own. Let's look at some examples.

St. David's Hospitals have been expanding on multiple fronts. Right now, St. David's has currently established **healthcare centers at 22 sites and have five acute care centers**. In the last two to three years, they have also expanded technologically by adopting new, more sophisticated capabilities, such as a database of patient information that can be accessed by multiple healthcare centers.

(Why is this database important? A hospital with access to this information might prevent it from having to run tests on a patient who has already been treated at another hospital.)

Another major healthcare player in Central Texas is moving past Dell Inc. in the total number of employees in the Austin area. The Seton Family of Hospitals is **expanding at a rapid rate, and Seton's CEO Charles Barnett says "We are going to need more capacity."** A recent expansion: Seton Medical Center Williamson.

Also in burgeoning Williamson County, the **Cedar Park Regional Medical Center plans to create 300 new jobs in its first year of operation** and within its first ten years, it is anticipating providing 1,100 jobs.

Other examples abound, such as the newly-opened Dell Children's Hospital facility. But the key here is that the **Austin metro area itself is growing at such a rapid rate, the demand for nearby health facilities is growing**. Look for this to be one of the major employment areas for years to come.

Quick, what is the single most valuable sports franchise on the planet? It's the Dallas Cowboys, worth an estimated \$1.5 billion according to *Forbes* magazine.

And you can bet it will get even more valuable when the pro football team moves into its brand-new stadium in the Dallas area, selling all those skyboxes and making money on every aspect of its operations. **The Houston Texans? It is worth about \$1.1 billion**. While not at Dallas' level, owner Robert McNair has seen its value rise from the \$700 million he paid for it in 1999.

The Texas political picture gets more interesting by the day. But because of the calendar, it could span several months – even years — before it finally shakes out.

It all revolves around the governor and Texas' senior USSenator. When Gov. **Rick Perry** this week endorsed and started campaigning for former NYC mayor **Rudy Giuliani** for the GOP nomination for president, Giuliani upped the ante by saying **Perry would be at the top of any GOP presidential wannabe's list of VP candidates**. Makes sense. We speculated about such a scenario long ago. Texas has a big hunk of electoral votes that has candidates salivating.

Here's where the calendar comes in. **Perry can be on the ballot for US VP and still keep his seat as governor**, as he will have two years remaining on his gubernatorial term when the votes for president are cast next November. If he wins the VP slot, he resigns as governor. **If he loses, he is still governor**.

This probably played a part when USSenator **Kay Bailey Hutchison** said this week **she would like to run for governor and tossed out the option she might not serve until her term ends in 2010**. If Perry is elected VP, Hutchison would be well positioned to run for governor. If Perry is not elected VP, he might opt not to seek re-election, opening the door for Hutchison in that event.

The other aspect of all this that makes it even more interesting is that, even though many consider Texas to be a GOP state, **Texas Democrats are more energized** than they have been in years and could conceivably mount serious challenges in statewide races. Look for Houston mayor and former State Demo Chair **Bill White** to make a serious run for governor, whenever the election is held (there's that calendar thing again). And already, wealthy trial lawyer **Mikal Watts** and soldier/legislator **Rick Noriega** are sparring for the Democratic nomination to challenge Texas GOP junior USSenator **John Cornyn** next year. And if the governor's race opens up, down-the-ballot dominos will start to tumble as others see an opportunity to move up the political ladder. Yessir, it'll be interesting.

Dr. Louis Overholster is addicted to travel – even if airlines are trying to break him of the habit.

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-327-2172. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher