

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

Here we grow again! Anyone looking around Austin knows the area is in the midst of a growth boom. But it is bigger than just Austin. Texas has had a larger *numerical* increase than any other state – at a growth rate (12.7%) twice that of the nation.

No matter where you go in urban and suburban Texas, it's hard to get away from this growth (though we'll mention some pockets of slow-and-no-growth in just a minute). If this trend from 2000 to 2006 continues, **Texas is likely to add another 3.6 to 4.0 million people by 2010 – boosting its total population to more than 25 million**, according to highly regarded **Steve Murdoch**, who has made a career out of studying Texas population trends.

Austin's population growth this century has been truly phenomenal. As an example, Dallas is the nation's ninth largest city. **Yet Austin added 18,600 people from 2005 to 2006 while Dallas added fewer – nearly 17,000.** And Dallas was the eighth fastest-growing city in the nation.

Austin was the 6th fastest-growing city in the nation from 2005 to 2006 – by actual count, not by percentage (that favors smaller cities). This population explosion is happening all around us – in contrast to the rest of the nation. **Texas had five of the ten cities with the largest numerical increases from 2005-2006.** No other state had more than one.

In percentage terms, the nation's fastest-growing place from 2000-2006 was in the Austin metro area – **Hutto, in Williamson County, which grew by 666%!** Also in the Austin metro, **Kyle, in Hays County, was in 5th place, growing 289%.**

The largest declines were in Beaumont and Port Arthur, near the Louisiana border, and Copperas Cove and its neighbor Killeen in Central Texas (probably due to military personnel being transferred away from the world's largest military base, Fort Hood). Wichita Falls, near the Oklahoma border, also showed population declines.

But to keep this in perspective, Murdoch points out that from 2000 to 2006, **more than 200 Texas towns and cities increased by at least 1,000 persons**, while only ten lost 1,000 people or more. There is no doubt Austin and Texas are increasingly dominating national patterns of population growth.

While not without its challenges, the Austin housing market is “probably the brightest spot in the national housing market,” according to a new-home market research and consulting firm.

When Residential Strategies, Inc. (RSI) reviewed the numbers for Austin going into the fourth quarter, the one statistic that stood out was the **2-month supply of finished vacant housing on the market** at the current slowing sales pace. “This is terrific news,” said RSI, whose Austin partner is **Mark Sprague**.

“Understand that a 2-month supply is considered a very healthy inventory of houses in the market,” RSI pointed out. It could get even better as the year winds down because the **number of home sales that are closing is outpacing the number of new homes that are starting**. RSI reported that “in all likelihood, Austin will see the finished inventory level get even tighter.”

“As a result, with the generally tight supply of finished units available in the market, Austin is not nearly as susceptible to the discounting and incentives that are pervasive in so many other markets. Likewise, too, with the tight inventory, RSI would expect to see a **greater number of starts in the coming quarters**.”

“The other good news concerns lots,” reported RSI. Even though the number of vacant available lots is creeping up, the lot supply in Austin is at 22.4 months, still under a 24-month supply, which RSI considers equilibrium. Elsewhere in the country it is considerably higher.

What about the challenges, including the national gloom-and-doom news that dominates the reports on the national housing market? “Without question, the negative national housing story has adversely affected the Austin consumer sentiment, and **changes in the mortgage qualification process will limit the number of entry level buyers that can qualify for a house**,” RSI points out.

What else? “Certainly the **sales pace of homes in the area has moderated** over the past year,” RSI noted. “Traffic is down and there is not much buyer urgency.”

“In discussions with builders, it is clear that the **negative national news regarding the housing and mortgage markets** has crept into the psyche of the buyer, and that the buyer is generally more cautious today than he was a year ago,” RSI said. “This likely is the biggest reason that Austin buyer traffic has been off recently.”

As with just about all sectors of Austin’s economy that relate to real estate, the job picture is a major driving force. As RSI put it: “**The key to Austin’s success continues to be that of job generation**, with almost 30,000 net new jobs still being created in the market. **The ratio of jobs to housing starts remains a healthy 2:1 ratio**. As long as job growth continues at its current pace, the Austin market should hold up.”

Austin metro area home values continue climbing steadily – in direct contrast to many other US cities, where home values are nose-diving and predicted to continue that freefall.

For the past seven years, Standard & Poor's S&P/Case-Shiller Home Price Indices have tracked home prices in 20 US cities. Austin is not included in the Index, but it is informative to see what is happening elsewhere. Prices were down 4.4% in the past year in those 20 cities – **the steepest decline since the Index began**. Check out these year-over-year declines:

Tampa, down 10.1% ... **Detroit**, down 9.3% ... **San Diego**, down 8.3% ... **Phoenix**, down 8% ... **Miami**, down 7.8% ... **Las Vegas**, down 7.6% ... **Washington, DC**, down 7.2% ... **Los Angeles**, down 5.7% ... **San Francisco**, down 4.2% ... **Cleveland**, down 4.1% ... **Minneapolis**, down 4%..., **New York City**, down 3.8% ... **Boston**, down 3.6% ... **Chicago**, down 1.3% and **Denver**, down 0.4%. The home prices in the remaining 20 city list – Dallas, Atlanta, Portland, Charlotte and Seattle – were all up.

A separate report indicates this freefall will continue in California. Goldman Sachs, using a formula that involves historical home prices and income growth, figures **homes are overvalued statewide in California by between 35% and 40%**. This is astounding. What does this amount to in dollars? Goldman pointed out the median sales price of a California home in August was \$589,000 – but that it should be around \$375,000.

This California collapse has at least two effects in the Austin area: 1) Californians, taking money from the sale of their homes, will **not have as much moolah as they have had in the past to buy homes in Central Texas**, and 2) when Thanksgiving rolls around in three weeks, you can add to your “thankful” list that you live/work/play/invest in Austin.

Two airlines are making waves at Austin-Bergstrom International Airport (ABIA). One is making a comeback and the other is a new airline that has passed a number of older carriers.

The comeback is being registered by Delta Air Lines, the Atlanta-based carrier that has struggled mightily throughout its system as it has overcome serious financial difficulties. For the year through September, **Delta has flown 31% more passengers than it did last year**. This compares to the overall increase at ABIA of 7.5%. It is making a strong sprint to year-end with an increase of 15.5% in Austin passengers in September.

The new kid on the block is the low-cost carrier, **ExpressJet, whose Austin September passenger total exceeded that of Northwest Airlines, US Airways, JetBlue Airways, Frontier and Aeromexico**. ExpressJet wasn't even operating in Austin a year ago. The leading carriers remained atop the market share list though, surprisingly, #1 Southwest was effectively flat while #2 American was up 3% in September.

For years, a big Austin attraction was boot-scooting to live country music at the Broken Spoke. Now, it's dancing to loud recorded music on top of a huge see-through aquarium-floor with live sharks and sting rays swimming around. What is the Austin club scene coming to? Are we witnessing a weakening of Austin's live music scene?

Venerable venues such as The Spoke seem to always be around and, for a while there, we had a lot of clubs popping up to give local musicians – no matter the type of music – plenty of places to perform. **They were fairly standard booze-and-music joints.** When one went out of business, as fickle customers moved to another “hot spot,” another club would pop up and start booking musicians to attract customers. Now, look at what's happening.

Several new multi-million dollar clubs are opening in Austin with chi-chi names like Qua and Pure and if you didn't know better, you would swear you were in NYC or LA. You know — **the type of places where Brittany Spears, Paris Hilton and Lindsay Lohan partied almost clothed, almost nightly.**

These new high-dollar venues do *not* feature live music, but some offer unique-to-Austin touches such as whiskey by the bottle and tables carved out of ice. They hope to have **people lined up outside in a roped area**, watching the beautiful people enter without waiting while they await their turn to be admitted.

Are these new clubs the wave of the future, a trend, or are they a fad that will quickly disappear in laid-back, casual Austin? If these clubs catch on, what does it mean for the claim that Austin is “the live music capital of the world?”

There are those who point to struggling musicians who have left Austin due to the rising cost of living and they wonder that, if there are fewer venues for the musicians to make a buck, then these new types of clubs **could signal a weakening of the live music scene.** Stay tuned.

Dr. Louis Overholster says he's finally lived long enough to realize that maybe his father was right all along, but now he has a son who thinks *he's* wrong!

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