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Dear Client:

**The 2<sup>nd</sup> highest number of home sales ever in the Austin area was recorded in the year just concluded. But a key warning sign also showed up, leading one Austin economist to suggest a residential real estate slowdown will continue this year.**

The record year for home sales in the Austin area was 2006, and 2007 failed to reach that high-water mark. But 2007 was still solid, besting every other year in history. However the big hickey that **contributed strongly to the pullback was a significant drop in new home construction.** And this is predicted to continue throughout 2008.

Austin economist **Angelos Angelou** will elaborate on what is going on in his 13<sup>th</sup> Annual Economic and Technology Forecast Event 1/24/08. In brief, here is how he sees it. His concern: **“housing permits have dropped precipitously.”** He points out that 17,531 permits for new homes were issued in 2006, but this number dropped 38.1% to an estimated 10,846 in 2007.

The culprit is **“fewer people have been able to afford houses due to increased lending restrictions”** that have been implemented as a result of the *national* subprime mortgage problems. He notes that “continued population and job growth will cushion Austin’s housing market from the worst effects of the subprime mortgage crisis.” But it is still being felt.

**Austin area housing prices have been steadily rising – at the rate of 7% annually from 2004-2007**, according to Angelou. So what will happen to prices now? First of all, remember one of the saving graces for the Central Texas economy was home price increases did *not* reach double digits as they did in boom-now-bust states, such as Florida and California.

So, steady — not spectacular — increases are a good thing. With that in mind, Angelou will predict 1/24/08 that the **value growth in Austin homes may slow “to the average growth of 4%-5% historically seen from 1988-2004.”**

Another facet: apartment vacancy rates, typically seen as a leading indicator for decreased home sales, are down to a five-year low. Angelou says this indicates “lower-end and first-time homebuyers have been **priced out of the market or do not have sufficient credit** to qualify for new, stricter requirements.”

**The mortgage lending crunch is a perfect example of how certain national economic problems have an impact on the Austin area. So what can you expect now that Goldman Sachs this week predicted the US economy will drop into a recession this year?**

It's just a forecast, but it comes from the biggest investment firm in the world. **Goldman Sachs sent a note to its clients Wednesday saying the US is entering a recession**, and Monday, Merrill Lynch economist **David Rosenberg** said the jump in US unemployment in December confirmed that the economy was entering a recession.

Goldman detailed what it felt would happen in a recession this year. It said a recession will prompt the Federal Reserve to **slash benchmark lending rates to 2.5% by the 3<sup>rd</sup> quarter**. It also predicted the **US unemployment rate will rise to 6.5%** in 2009 from the current 5%. It said some of the hardest hit sectors will be financial and information technology; some of the categories that Goldman was bullish on included health care, energy and utilities.

Well then, what about Austin and Texas? First of all, we refer you back to what we reported last week (1/4/08) when Economist **Gary Preuss** in the State Comptroller's office ticked off more than a half-dozen reasons he felt the **Texas economy would outperform the US economy during 2008-2009**. They were compelling comparisons.

Additionally, TexasA&M economists, writing in UT Austin's *Texas Business Review* (how's that for setting aside college rivalries!), elaborated on a few more areas. For one, **Ali Anari, James Gaines and Charles Gilliland** pointed out Texas remains the largest exporting state in the nation. And, even though the devalued dollar makes it tough on US tourists traveling in other countries, it is a **boon for US manufacturers that are selling products at bargain prices (because of the weak dollar) in foreign markets**.

These same Aggie economists also weighed-in on how the Texas residential real estate sector will fare compared to the nation. "Because Texas home prices have continued to increase, **refinancing or selling a property is still a viable option for homeowners in financial distress**. Texas should come through the foreclosure crisis, which may not abate until 2009, in stronger position than most other high-growth states," they observed.

The "foreclosure crisis" to which they referred does *not* include Texas. In fact, they note that **55% of foreclosures nationwide, at present, are concentrated in seven states** (California, Florida, Nevada, Arizona, Ohio, Michigan and Indiana).

So, when will the national real estate crisis ease? Our friends at the *Kiplinger Washington Editors* are forecasting that housing prices will drop 5% nationwide in 2008 and **"the market should bottom out by mid-year."** But *Kiplinger* says to be prepared because "the improvement in sales and prices will be very slight."

**Odds are the presidential nominees will be determined before Texans go to the polls 3/4/08, even though the two states that have voted so far produced different GOP and Dem winners. But Texans may also participate in a different part of the process the next day.**

By the time Texans troop to the ballot box for the Lone Star State's presidential primaries in March, **voters in more than two dozen other states will have already picked their choices** to carry the Democrats' or Republicans' presidential banner.

The two states that have voted so far have stated preferences for different nominees (**Mike Huckabee** and **Barack Obama** in Iowa, and **Hillary Clinton** and **John McCain** in New Hampshire). But hang on. February 5<sup>th</sup>, 2008 has been dubbed "Super Duper Tuesday," because about 20 states — including biggies like California and New York — vote on that day. Florida will have voted earlier, in January.

With the disparate results in Iowa and New Hampshire, some are suggesting the race will continue to be jumbled through spring. But this is still a long shot because of the large number of highly-populated states that will have already spoken. **So, the odds are that each party should have selected its nominee long before Texas votes in March.**

But the *day after* Texans vote, another political phenomenon could kick off in earnest in the Lone Star State and it will have national ramifications. **Texas could be the starting point for the Michael Bloomberg for President campaign** — as an Independent. The New York City mayor must mount a massive effort to get on the ballot in all 50 states and Texas is where it could begin.

Under Texas law, to get on the November ballot, a candidate must secure signatures of 74,000 registered Texas voters, *who did not vote in either the Democratic or Republican primary March 4<sup>th</sup>*. So, you can't start gathering signatures until March 5<sup>th</sup>. And the candidate has a deadline of May 12<sup>th</sup> 2008 to secure those signatures — 75 days. The requirements are different in each state, but **the Texas timetable is what will trigger Bloomberg's effort.**

Is getting on the ballot in all the states doable? For a billionaire like Bloomberg, it should be a snap in all 50 states. All he has to do is hire it done. Companies who do this sort of thing charge \$2, more-or-less, per signature. Those close to Bloomberg have been quoted as saying this would cost a minimum of \$1.3 million, just a drop in the bucket for a man who said he could **personally fund his own presidential campaign to the tune of \$150 million.**

Bloomberg, who is **officially an Independent** (after switching from the Democratic Party to running for NYC Mayor as a Republican), could enter the race without getting bloodied in primary elections and, importantly, after seeing who the two parties nominate. He has been coy about whether he will run. But he has minions doing a lot of preparatory work. And Senator **Chuck Hagel** has even said he would consider running as Bloomberg's VP. Stay tuned.

**One of the reasons Texas is doing better economically than its counterparts is because of its aggressive stance in creating new jobs.**

After examining state-by-state economic development results this past year, *Business Facilities* magazine determined Texas was its State of the Year for 2007. The tally for Texas: **\$15.4 billion in investment and 9,335 jobs that will be created as a result of 2007's activity.**

Interestingly, when surveyed by the magazine, only 26 states submitted information on their **five largest economic development projects by both job creation and total investment.** Apparently the non-respondents were not proud of their efforts.

Of those 26 states, the Lone Star State was a runaway leader. The Austin-based company that was included in the state's top listings was **Dimensional Fund Advisors that will bring about 800 jobs to the Austin area.** *Business Facilities* is a publication that tracks corporate relocations.

On another economic development note, the **Texas Panhandle is apparently enjoying a "white gold" economic boomlet.** The "*black gold*" days of the oil boom are giving way to a quickly-expanding milk and cheese industry (move over, Wisconsin!). We told you 11/16/07 about Dalhart's success in attracting major dairy and cheese operations.

**Now Amarillo is announcing that plans for a 40,000 sq.ft. cheese processing plant have expanded to 90,000 sq.ft.** – all the while that cheese processing plants elsewhere are closing. The Amarillo plant will process cheese from the Hilmar Cheese Plant in Dalhart. A \$15.3 million construction incentive package from Amarillo requires most of that cost to be repaid through a 20-year, no interest lease.

**Dr. Louis Overholster** is working hard to learn the language of the 2008 business world. For instance, he now knows that an "oh-no-second" is shorter than a "nano-second" and is the amount of time in which you realize you just made a BIG mistake by hitting "send" on an email by mistake!

Sincerely



Editor/Publisher