THE Neal Spelce AUSTIN LETTER

www.AustinLetter.com

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Volume 29, Number 45

February 22, 2008

Dear Client:

An argument can be made that the national subprime mortgage mess may have been the best thing to happen to Austin area residential real estate.

If the national bubble hadn't burst when it did, Austin could easily have been caught up in the frenzy. In fact, **speculators from California and other high-rolling real estate markets had already descended on Austin**, scooping up properties, hoping to replicate the increased valuations that made investors in those markets giddy as all get-out. If you click the Archives button at the top of this page and go to our 6/17/05 edition, here's some of what you'll find.

> Speaking of Austin area house prices, we wrote: "They've ooched up only slightly over the past few years and some real estate 'day traders' feel Austin is next. As we've told you in past letters, they come to Austin, look at houses, call back home and say '**Dude**, **this place is a total steal**. **It's like a penny stock**!' (actual quote from a California speculator).
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> "They snap up houses, put out a 'For Rent' sign and wait for the price increases." We also told you a week earlier, 6/10/05, that "we heard of **three different California investors each buying 3 or 4 Austin homes during a weekend**."
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> We sounded the alarm in 2005 when we wrote "Whoop! Whoop! Whoop! Warning! Warning! Warning! **This new residential real estate frenzy could be the new 'day trading'** (where many people got caught up in the instant riches game and were burned big time)." It was crazy. And if this frenzied, irrational buying had continued, Austin would not be in the enviable position it is in today.
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> **Luckily**, **soon thereafter**, **the financial roof caved-in on these out-of-state speculators and they pulled back from the Austin area**. If the housing bubble had not burst in other states when it did, these "east/west coasters" could have driven Austin residential real estate prices sky-high. Instead, the Austin market continued its slow, reasonable, steady increase in home values.

Of course there were other factors at play (such as tightening credit requirements) that shut down the speculation. **But it all stemmed from the national obsession with real estate as a get-rich-quick investment**. While others now lick their wounds, the Austin area is healthy.

One of the most important aspects of the Austin area's healthy economy is that business and opinion leaders nationwide are well aware of this.

On the front page of the business section (2/15/08) of one of the world's most influential newspapers, *The New York Times*, the following words kicked off the story headlined "**Some Cities Are Spared the Slide in Housing**:"

> "The real estate market these days is a tale of two Americas, and **one of them is not doing too badly**. In the America of big-city housing markets, especially on the coasts and in the struggling industrial Midwest, the huge run-up in values in recent years has given way to big drops in prices and sales volume. **Millions of people owe more than their houses are worth**.
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> "**But in the other America**, **specifically in cities like Austin**; Grand Forks, N.D.; Yakima, Wash.; and Salem, Ore., the available evidence suggests **the real estate market is holding up**. Prices there never boomed as crazily as they did in the big cities, and now, even though volume is down almost everywhere, prices in many of these towns are firm or rising."

The Times analyzed three distinct data sets – mortgage data from the government, sales figures from the National Association of Realtors and courthouse records from a company called DataQuick. This analysis produced a list of 17 metropolitan areas in the US where **all three sources of information agree that prices were still rising as of late last year**.

> "**Austin is a good example of a real estate market that was slow and steady for years and now appears to be taking off**," reported *The Times*. "Austin's high-tech industries are attracting well-heeled buyers from cities where real estate is far more expensive. Sales prices for existing homes barely moved from 2001 to 2005, when the markets in a handful of superstar cities were on fire. But last year, the median price for a single family home rose 6.4%, to $185,000. **It was the second consecutive strong year**."
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> The national newspaper cited this example: "Consider the experience of one Austin resident, **Dan Clark**. Forced by a job change to put his house here on the market, he wondered whether he would get anything like the $**385,000 he paid for it a year ago**. He was floored when the second potential buyer to look at the place **snapped it up for** $**429,000**. 'Manna from heaven,' he said."

The article went on to lump other cities with Austin to point out these strong markets generally do not have "bulging housing inventories," have only "modest exposure to the subprime loan crisis" and that "**falling mortgage rates are buoying these markets**." It also cited "**new jobs**" and "**healthy income growth**." But, as we said at the top, it is the **national recognition** that could ultimately pay the greatest dividends in Austin's long-term economic vitality.

It's probably a good thing that certain Austin squabbles are not played out on the national scene. One such dilemma: millions of private sector dollars have been invested based upon a contract with the City of Austin and now residents have taken steps to void that agreement.

You thought the presidential election will garner all the attention in November when the Democratic and Republican nominees seek your vote. But think again. An **agreement negotiated by the Austin City Council incensed some citizens** so much that they gathered more than 20,000 signatures of registered city voters to put the question on the presidential ballot. It's sure to generate its share of attention.

At the core of the controversy is a long-standing debate faced by most cities – **whether to offer incentives to business enterprises**, **in return for creation of jobs for its residents**. The lightning rod for this disagreement is the high-end, high-dollar retail/office/residential development in North Austin, **The Domain**, **that boasts such tony stores as Tiffany's**, **Gucci and Neiman-Marcus**. The developer received tax incentives from the city.

While incentives have been a part of the Austin area's economic development efforts for many years, some Austin residents felt this was the last straw. They complained that these **fancy retailers shouldn't get tax breaks to come here from out of town and compete against locally-owned retail operations**. (The tax breaks, though, go to the developer – not the retailers).

So 27,391 lines of names were presented to the Austin City Clerk, calling for an amendment to the City Charter to **void The Domain agreement and stop further incentives**. The required minimum number of signatures of valid registered voters is 18,433. The City Clerk this week certified the petitioners had enough signatures to place an amendment on the ballot.

Simon Property Group, the operator/owner of The Domain, this week pointed out its project is a "destination center that **draws sales tax into the City from all over the region**, well outside the city's current tax base." It further noted that The Domain will "only receive the investment dollars if the project meets objective performance standards such as **increased tax value to the city**, **job creation and creation of affordable housing**."

Then Simon threw down the gauntlet, in a statement that said, "The project was developed on the basis of the community investment, **and we feel confident that the city will uphold its side of the development agreement**."

If the voters pass the charter amendment, what will the city do? Will it contradict the changed charter and **keep the agreement**? Or will it **void the agreement** it signed in a publicly vetted process? If so, what signal does that send to any entity that enters into an agreement with the city? Or will this end up in a **costly legal battle** that will be closely watched by those who deal with the city? Finally, will this wrangle end up on the national stage? Stay tuned.

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Could the enrollment at Austin Community College (ACC) outstrip that of UTAustin, one of the largest single campus institutions in the nation?

There is still a big gap between the number of students at each institution. But the trend lines indicate **ACC**'s **student population could at some point in the future be larger than that at UTAustin**. The total enrollment at UTAustin this spring is 47,602. ACC's comparable tally at all its campuses is 32,369. Still quite a gap. But, let's look at the trends and the plans.

First of all, **ACC's spring semester broke a new enrollment record**. ACC has been named one of the 200 fastest-growing community colleges in the nation. ACC ranked 40th in the nation among public two year colleges with 10,000 or more students. **It is already the eighth largest community college in the nation**.

Importantly, for the future, ACC president **Stephen B. Kinslow** said "we will keep growing to meet the needs of the community." But, where will it grow? Round Rock. If Round Rock voters approve annexation into ACC's taxing district in May, **ACC is planning to build its largest campus to date there**.

"Round Rock is clearly the fastest-growing community in the ACC service area without a comprehensive community college presence," said Kinslow. "Our mission is to close the education gaps in Central Texas and **build a strong workforce for the future by getting more students into higher education and career training after high school**."

UTAustin, for years, has had a policy of limited enrollment. Several years ago, UTAustin peaked at a student population of 50,000 and since that time UTAustin has successfully, slowly but surely, reduced the number of students. **So, the trend for ACC is grow, grow, grow and UTAustin is holding steady**. It could be ACC will soon have the largest enrollment.

Dr. Louis Overholster says he knows there's a housing slump nationwide because prices in California and Florida look like they may drop way, way down – all the way to reasonable!

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

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