

THE

Real Estate

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 30, Number 1

April 4, 2008

Dear Client:

With home prices/values dropping all over the US, the Austin area is bucking that trend. Will the value of your home continue to rise, or fall, in the foreseeable future? Follow this logic.

As we reported 3/14/08, homeowners' share of the **equity in their homes fell nationally to a low not seen since WWII** and of the **Top 20 markets 17 are reporting annual price declines**, with the remaining three reporting flat or moderate growth rates. Even in Dallas, in thriving Texas, home prices declined 2.4%. Is this downward trend marching toward Austin and do those who believe otherwise have their heads in the sand? **What does the immediate future hold for homeowners in the Austin area?** Consider these recent developments.

Start with supply and demand. In California, where double-digit drops are the norm, there are so many homes on the market that, at the present rate of sales, it would take 14.3 months to deplete the inventory – *if* no other homes came on the market for sale. In other words, **there is a glut of homes available and that is driving down the prices and values of homes.** Supply, greater than demand.

In the Austin area, the supply of existing homes, at the present rate of sales, is only 4.7 months. A 6-month supply is considered a balanced inventory. Just as important, new homebuilders are “not replacing sold units with speculative construction,” says **Mark Sprague**, Austin partner for Residential Strategies. “Closings are exceeding starts by about 1,300 units.”

This represents the lowest level of construction activity in the Austin area in more than eight years. What is happening is the national builders operating in Austin are scaling back everywhere, even though Austin is okay. So, there is no build-up of unsold houses in the Austin area as there is in many challenged areas of the nation. **This keeps prices and values in the Austin area on a solid footing.**

If the supply stays steady, what about the demand? Here is where jobs and growth play into the equation. **The more people who have jobs, and the more people who migrate to the Austin area with jobs, the greater the demand.** The Austin area created new jobs at a pace 3.2% ahead of a year earlier. And the USCensus Bureau reported that Austin was in the Top Ten in *actual number* of jobs created between 2006 and 2007. Logical conclusion: your home price/value will continue to rise as long as these local economic conditions continue.

After regularly criticizing the Texas Department of Transportation (TxDOT), Austin's State Senator is also taking aim at the Texas Commission on Environmental Quality (TCEQ).

Senator **Kirk Watson** (noted during his tenure as mayor of Austin as one who tried to bring divergent groups together) is **drawing the line in the sand with two powerful state agencies**. As a rookie senator, he did not get the results he sought in many areas, but when the next session of the Texas Legislature convenes in Austin in January, he will be a bit older and wiser and may be more of a force with which to reckon. If so, TxDOT and TCEQ should be wary.

Let's examine his concerns with the environmental agency by first looking at a bit of background. The Austin area has been struggling for years with its air quality. And, while recognizing many of the quality problems (more cars pumping more impurities in the air, etc.) occur within the metro, **much of the pollutants are coming from elsewhere**.

The prevailing winds over the Central Texas area blow out of the Southeast – from the Gulf of Mexico. **These winds push pollutants from Houston and areas between the coast and Central Texas right over Austin**. Often, when winds hit the Hill Country, they “flip over” causing an inversion (containing the pollutants) that hovers over the area.

So, Watson said it was “extra galling” when TCEQ recently approved permits allowing two coal-fired generators to be built about 100 miles northeast of Austin. Watson said the plant, known as Oak Grove, is likely to **“further damage Central Texas’ already less-than-clean air.”** He said “the commission even overruled its own Public Interest Counsel and state administrative law judges in approving it.”

Watson said “the whole episode of the agency approving Oak Grove raises an important, troubling question: Is the TCEQ complying with the Clean Air Act? Right now, the TCEQ looks only at emissions from a single permit applicant. **The agency ignores the reality that the pollution from that proposed plant will mix with what's out there already, even though the EPA requires review of the cumulative impacts.** It's the combination we'll be breathing and that could be dangerous to our lungs.”

Watson filed a bill in his first Senate term to require the TCEQ to consider cumulative impacts of coal plants and that bill didn't even get a committee hearing. He then added a similar provision to another bill, and it was stripped out. **He struck out twice.**

Watson said he is further concerned because the Environmental Protection Agency has rolled out new clean air standards and he says “failure to meet the federal standards can result in **serious sanctions that will cripple economic development and prevent the spending of federal dollars on needed transportation projects.**” By the way, Watson is somewhat of an expert in this air quality area, having served in the 1990s as chair of the Texas Air Control Board and is a former chair of the Texas Advisory Board for Environmental Defense.

You are going to hear a lot more about Austin area's air quality in the coming months. Ozone-measuring season started this week and runs through October. And there could be more Ozone Action Days this year than last.

As we mentioned in the previous story, the EPA recently issued new ozone standards. Without getting into technical detail, the effect of the standards is that **the bar to exceed the standard has been lowered substantially**. In other words, in years past, the levels of ozone that were viewed as "acceptable" will now get written-up in the federal records as exceeding the standard.

So, what? Well, of course there are the **health problems for folks who have difficulty breathing** (heart patients, asthmatics, the elderly with lung disease or breathing disorders, etc.) as the pollutants rise in the air. This is serious enough.

But the feds have put teeth into the standards by setting penalties for those areas where the standards are exceeded excessively. **Economic development efforts can be stymied and transportation funding can be cut back**. Keeping air pollution as low as possible is more than just a "do-good" "nice-to-have-if-possible" scenario. And the penalties are stiff, if standards are exceeded.

A coalition of Central Texas cities, counties, businesses and environmentalists was formed a few years back to address these problems. It is known as the Clean Air Force of Central Texas. It has had some success. **Even with the rapid population growth in Central Texas, there was not the expected rise in emissions last year**. Texas may challenge the new standards, as other states may also do. If so, implementation of the new regs could be delayed. Stay tuned.

One of the contributors to poor quality air cannot be easily controlled. It is the weather. And the long-range forecast for the spring and summer doesn't look promising in this regard.

Ground-level ozone is a clear, odorless gas. Pollutants start "cooking" on very hot, very still windless days and this raises the ozone level. If it's cool and breezy, not a problem. But when conditions are warm and no wind is present, then the ozone levels rise. This is why an Ozone Action Day can be predicted in advance by looking at the weather forecast.

Central Texas enjoyed a wet and mild spring and summer – for the most part – last year, so what can be expected this year? **Bob Rose**, the meteorologist with the Lower Colorado River Authority says: **"a developing drought looks to be the dominant weather story this spring across Central Texas."**

"The latest forecast data indicates a moderate-to-strong La Nina pattern in the Pacific will likely persist into summer, **causing drier than normal weather conditions across much of Texas**. Many of the cold fronts will come through with little or no rain," he added.

This newsletter edition marks the beginning of our 30th year of chronicling each week what is happening in the Austin area as well as looking ahead for what to expect.

When we wrote the first newsletter April 1st 1979 (It was Volume 1, Number 1), Austin's economy was built around **two major economic engines — state government and state university**. An effort had begun years earlier to try to diversify the economy because, as one observer put it: “those state government and university buildings don't pay property taxes.”

There was a concern that the tax burden on homeowners was way out of proportion to what it should be. So a concerted effort was underway to **attract jobs and payrolls from companies that would also start contributing to the property tax totals**. IBM opened up shop to make Selectric typewriters. It was soon followed by a 3M facility. An economic corner had been turned. But the biggest change of all was on the way.

In 1983, Congress had given the nod to the formation of a consortium composed of this **nation's biggest high tech companies** to sidestep existing anti-trust regs and **pool their research resources** to overcome Japan's widening technological lead. MCC's board, with CEO **Bob Inman** as its sole employee, selected Austin for this ground-breaking effort after a nationwide search.

MCC proved to be so successful, another first-of-its-kind consortium SEMATECH, followed suit soon thereafter. Austin's talent pool, UT Austin's amazing resources, the quality of life in the Hill Country — all contributed to what would put Austin on the map as an economic mecca that continues to this day.

There have been up-and-downs during this timeframe – the 1980s savings and loan stumbles, the real estate recession, the dot-com boom and bust, etc., to the other end of the spectrum where successes resulted in top-of-the-list rankings on a wide variety of lists of the “nation's best ‘this’ or ‘that’.” Not many metro areas, if any, can point to such a history over the past three decades. **Now, as we thank you for being with us as we begin Volume 30, Number 1, it is obvious that even greater change for the Austin area is on the horizon.** Speaking of how things change, when **Dr. Louis Overholster** went home last night, his wife said it had been a hard day and she asked that he take her out to someplace expensive – so he took her to a gas station!

Sincerely



Editor/Publisher