

THE

*Real Estate*

# AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail [News@AustinLetter.com](mailto:News@AustinLetter.com)

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Dear Client:

**Are you looking for a million-dollar-plus home in Austin? Have we got a deal – make that, deals! – for you.**

The numbers change a bit, depending upon which day you check. But they don't change a lot due to the slow pace of sales. **In Travis County, there are close to 500 homes, priced more than a million dollars, that are just waiting for a buyer.**

Well, you say, how does that break out by price point? Glad you asked. **From \$1 million to \$1.99 million, there are 336 homes for sale. From \$2 million to \$2.99 million, there are 87 homes you can buy right now. And in the ultra high-end \$3 million+ category, there are 73 homes for sale.**

To drill down even deeper, in the above \$3 million+ category, **there are four homes from which to choose that are priced at more than \$10 million.** Choices, choices. You have a lot of options.

Well then, where are these homes located? After all, location and neighborhood are important to most buyers. **As you might expect, the homes are clustered west of Loop1/MoPac, running westward to the Lake Travis area.** Within this broad swath, there are a couple of neighborhoods where you can drive leisurely down a few streets and go eeny-meeny-miney-mo to pick out a home you like from those listed for sale.

**Most of the million dollar manses are in the Lake Travis area, where you can find well over a hundred homes** in neighborhoods like Lakeway, Flintrock, Costa Bella, Arbolago, Rough Hollow, Spanish Oaks etc. **Then, there are right at 100 homes in the Barton Creek and Seven Oaks areas just west of Loop 360.** And, in the more centrally located areas like **Westlake/Tarrytown/Enfield/Mt.Bonnell, there are a combined total of about 60 homes** priced well over a million.

Realistically, this is a **classic good-news, bad-news scenario.** The *good* news is that a buyer seriously interested in buying one of these homes will not only have a huge selection from which to choose, but **because there are so many homes available, good negotiators can usually strike very favorable deals.** But the *bad* news impacts sellers, homebuilders – even financial institutions – as you will see in the next item

**It's not just families trying to sell their high-end homes that are impacted by the competition of so many million-dollar-plus homes on the market in Austin. The builders of new pricey homes, as well as financial institutions, also have sweaty palms.**

Consider the homebuilder. It's one thing to build a custom home for a qualified buyer who will move in as soon as construction is complete. Not a problem. Build it, close the sale. Then move on. **But the builders who are building – or have built – speculative homes have a different row to hoe when they try to sell those homes.** And the *financial institutions* that have provided the builders with the funds to build those spec homes are also in a bit of a bind.

The scope of the problem can be found in the numbers. **Of the approximate 500 homes offered for sale at \$1 million or more in Travis County, almost 150 of these are spec homes,** meaning a home built without buyer commitment. Builders often put these homes on the market during construction hoping for a contract, but these days, "For Sale" signs are staying in front yards long after completion.

The financial meter is running on these homes. In most cases, **the builder has built these big homes with borrowed money with an eye to making the financial institution whole when the house is sold.** The builder continues to pay interest on the borrowed money, and kah-ching, it keeps mounting until the home is sold.

Unless the builder has really deep pockets, the bank starts pressing as the debt mounts. The price is lowered. Profit margins dip. **And, at some point, a builder may simply decide he doesn't want any more cheese he just wants out of the trap.** This is where the price hits rock bottom and/or the bank steps in. If the bank takes over, the bank's bottom line is impacted and it has to decide what to do.

So how big is this problem? Would you believe that when you **add up the list prices of the spec homes and the resale million-dollar-plus homes on the market in Travis County, it totals – are you sitting down? – almost a billion dollars.** That's billion – with a "b."

**Of this number, the spec homes on the market total more than a quarter-billion dollars, or about \$263 million.** The total number of spec homes is around 148 homes. The spec homes are clustered primarily in two fast-growing areas – around Lake Travis (43 homes) and in the Barton Creek/Seven Oaks area (38). But even the older, established Tarrytown/Enfield/Mt. Bonnell areas have more than 20 spec homes on the market.

**Interestingly, none of these totals include the downtown condo explosion.** Of the hundreds of condos being offered for sale, most are being marketed privately and directly by the condo developer and are not listed on MLS. But 17 condo units are now on MLS with asking prices totaling more than \$30 million. **The big question: how big is the high-net-worth buyer pool that will be needed to absorb all of these pricey residences downtown and all around Austin?** And how long will it take for these units to be sold? This bears watching.

**The news that the US dollar is growing stronger has been hailed generally as good news for the national economy. But the folks in Round Rock, at Dell Inc., are probably viewing this development with mixed feelings.**

Dell is the world's #2 personal computer maker, behind #1 Hewlett-Packard. It is expected to deliver solid numbers in its next quarterly earnings report. Notebook sales are likely to lead this growth at Dell. And the key to this success is Dell's performance *outside* the United States. Therein lies the rub. **A weak dollar means Dell is a bargain outside the US and the converse is also true: as the dollar strengthens the price advantage for Dell slips away.**

H-P, in its quarterly report filed Tuesday, credited strong demand for laptop computers and **robust sales overseas** for its double-digit profit and sales increases. It would be a surprise if the same set of circumstances did not prevail at Dell when it reports earnings 8/28/08. In fact, Dell is expected to meet Wall Street expectations. Good news.

But the question mark is the future, as it relates to the strength of the dollar. So far, countries like **Brazil, Russia, India and China** – the insider analysts like to refer to them as the BRIC nations – **have kept global sales strong for Dell**, and H-P, as well as many other big technology companies. But any slowdown in the BRIC nations – coupled with a stronger dollar – with no sign of a larger economic recovery in the US, could put a bit of a damper on the next few quarters at Dell.

Of course, the US market is still very important to Dell. One analyst, **Shaw Wu** with American Technology Research, said this week of the US market: “People know it's weak, but does it get worse? **I would argue even the US business has not been as bad as people have said.**” As you get reports on the strength or weakness of the dollar, keep Dell – and other Austin area *exporters* – in mind. But for now, Dell is moving right along. And that's good news for Austin.

**Speaking of looking ahead, the pollster John Zogby has a book entitled *The Way We'll Be*, in which he discusses current popular trends and what may happen in the future.**

A lot of what he writes about has a political bent to it, as would be expected since much of his polling work is in the political arena. But he hits other points worth noting. He says **among people living below the poverty line in 2002, 93% had microwave ovens, 88% had VCRs, 59% had computers and 58% had dishwashers.** Not like the poverty of yesteryear.

Currently, he says **young Americans**, those born since the early 1980s, have views diverging from previous generations in important ways. He calls them First Globals, because they have been exposed to clothing, games, and other products made all over the world. He says they are **broadly approving of same-sex marriage**, somewhat **less supportive of abortion than Gloria Steinem-generation feminists**; and **well disposed toward free trade**, including the North American Free Trade Agreement (NAFTA).

**Pop quiz: what single area of the City of Austin's daily operations uses more than half of the City of Austin's electricity usage? The answer may surprise you. It's water.**

Water uses more than half of the City of Austin's electricity output? How can that be? First of all, here's a bit of perspective. The average US household consumes about 30 kWh of electricity per day. **Austin's Water Utility (AWU) consumes about 550,000 kWh hours of electricity each day.** Do the math. The AWU daily demand is enough to power a single house for 50 years. Put it another way, the daily AWU usage would power 18,000 houses per day.

How does all this electricity usage break out? First of all, **52% of the electricity was for pumping raw water from the lakes and pushing the treated water through the distribution system.** This is about 100,000,000 kWh per year or enough to power 9,000 homes.

The other big AWU electricity users include **16% for the blowers at wastewater treatment plants and about 12% for buildings, heating, AC, lighting and equipment.** Only about 7% went for lift station electric power. So, about 87% of AWU's electric demand is for pumps, blowers, offices and lift stations.

Here's another comparison that will reinforce the scope of this major demand for electric power from Austin Energy. You know that Austin Energy draws from a number of sources to generate its electric power – natural gas, coal-fired plants, nuclear energy plants, wind power, etc. Well, **one railroad coal car carries about 100 tons of coal to the Fayette Power Plant, near La Grange. It takes 100 tons to produce about 300,000 kWh. So, AWU uses the equivalent of almost two railroad coal cars' worth of energy each day.**

Water and electricity are vitally integrated. **Austin is one of the few US cities that operate both water and electric utilities.** The control of this is in the hands of the Austin City Council.

**Dr. Louis Overholster** says one of benefits of growing older is that people no longer view you as a hypochondriac.

Sincerely



Editor/Publisher