THE Neal Spelce AUSTIN LETTER

www.AustinLetter.com

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Dear Client:

Everywhere you look, you see forecasts calling for a national housing market decline this year. Well, we found a credible source that ranks the "Healthiest Housing Markets for 2009," and the Austin area is right at the top.

Builder Magazine, in conjunction with Hanley Wood Market Intelligence, debuted a metric that determines **markets with the best and least potential**. The top 75 housing markets in the country were analyzed. They were ranked based on **population trends and job growth**, perennial drivers of housing demand. **Home prices** were also examined. Finally, the rate of **building permits** (probably the single best ongoing indicator of builder confidence in a market) was factored into the equation. And the #**2** "**healthiest housing market**" **in 2009**: **Austin**.

> "Nine years ago, during the tech bust, some builders felt that Austin was too crowded and left," reported *Builder Magazine*. "The bloom is back on Austin's yellow rose now; it moved up the leader board to become the **sixth largest home building market last year**. Job creation explains the move. While other markets lost employment, Austin added 17,400 jobs last year, a 2.31% growth rate. It helps that Austin is home to both a major university, The University of Texas, and the state capital."
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> "Existing homes cost a little bit more in Austin than other Texas markets, roughly $190,900, but that's still below the national average," reported the mag. "Also, Austin is **one of the few metro areas in the country where median prices actually rose in 2008** – 1.4% through the first three quarters of the year."
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> Then the report's clincher: "**Amazingly**, **Austin now generates more home building activity than Chicago**, **which has six times more people**."

There were 14,250 building permits issued in 2008 and Hanley Wood Market Intelligence reports that the busiest builders were D.R. Horton, Lennar, KB Home, Centex Homes and Meritage Homes. By the way, **Texas dominated the US list of** "**Healthiest Housing Markets**." The Top Five: #1 Houston, #2 Austin, #3 Fort Worth, #4 San Antonio, and #5 Dallas. The next five: #6 Raleigh, #7 Seattle, #8 Indianapolis, #9 Fayetteville, Ark. and #10 Washington, DC. These cities **didn't have a huge run-up in prices** during the boom and **aren't experiencing rampant deflation** during the bust, according to *Builder Magazine*.

One factor that can impact new home sales is the number of foreclosed homes that are on the market. And that number is rising in the Austin area.

In many cases, a foreclosed home can be bought at a bargain price. So, **burgeoning foreclosure sales can pound new home values**, making it very difficult to build and sell new homes. As a result, builders (and certainly, lenders) need to keep a close eye on the foreclosure count. This count – especially with the more expensive homes – is moving up.

To be sure, the **greatest number of foreclosed homes** in the Austin area – 71%, as a matter of fact – involves homes **valued at under $200,000**. This has been the situation for some time now.

But while the actual numbers of higher-end foreclosed homes are relatively small, they are increasing at a fast pace. **During the first quarter last year, there were foreclosure notices posted on about 26 homes valued between a half-million to a million dollars. The year before, the number was 21. *This* year, the notices have jumped to 83**, according to Foreclosure Listing Service, Inc. This is a 219% surge from 2008 to 2009, and a 295% increase over a two-year span.

A research economist with the TexasA&M Real Estate Center, **Jim Gaines**, said previously **easy access to mortgages and the widespread availability of 100% financing have caught up with owners of high-priced homes**. Additionally, homes listed for sale in that price range generally stay on the market for many months, squeezing some owners to the point that they let their homes go back to the bank.

Another effect of the economic downturn is that building costs are going down, especially in the commercial sector. But even though costs are down, it is hard – did someone say "almost impossible?" – to get a loan for new commercial construction.

A New York construction outfit tracks building costs (material prices, labor rates, productivity, etc.) and publishes a Building Cost Index. Its first quarter 2009 Index shows a **5.8% decline from the previous quarter**. Production cutbacks and reductions are having an impact.

Incidentally, commercial construction is still underway throughout the Austin area, but mostly they are projects that got underway before the current economic crisis. For instance, the **Stone Hill Town Center, a one million square foot shopping center is opening this spring in Pflugerville**. Prime tenants include a SuperTarget, Home Depot, Best Buy, Office Depot and Dick's Sporting Goods.

Credit is still a problem as lenders are supremely cautious about funding projects during this shaky economic environment. But a large amount of construction is underway as we speak.

What do you make of this? **Monday**, **the Federal Reserve Bank of Dallas predicted the 2009 recession would hit Austin and Dallas the hardest**. **And on the same day**, **it was announced that a new luxury car dealership was opening in Austin – with all its cars priced at six figures**.

The Fed report said that, in 2009, most major metro areas in Texas will experience a recession. It noted that the recession finally hit Texas in the second part of 2008, trailing the official December 2007 start of the US recession by at least six months. It also reported that **long-term growth in Texas has deteriorated due to the decline in energy prices**, **a slowdown in high tech activity and**, **of course**, **the global financial crisis**.

Austin and Dallas were singled out in the Fed Report as likely to feel the effects of the recession more than other major Texas metros. **Austin**, **it said**, **has a number of cyclically-sensitive industries such as construction**, **wholesale trade**, **real estate and information**. But it also noted that Texas' economic losses were moderate compared to other US states.

Then, the same day, along comes the announcement that a 10,000 sq.ft. luxury car dealership will open in April in Northwest Austin. **It will sell handcrafted**, **high performance Aston Martin sports cars**, **with prices starting at $135,000 and going up to just under $450,000**. It will be part of the John Eagle family of dealerships, which owns and operates an Aston Martin dealership in Dallas. Yes, Dallas, the same city lumped in with Austin by the Fed.

Don't these Dallas guys read the headlines? Haven't they heard all the daily doom and gloom reports? What's going on with them? Well, they simply look at their bottom line. Seems that **Aston Martin of Dallas notched its 2nd best sales month in January in more than a decade**. Yeah, but that is Dallas. This is Austin.

Okay. **The Dallas dealership delivered *five Aston Martins to owners in Austin* that month alone**. What's more, the dealership said it had figures showing 200 Aston Martins are registered in the Austin-San Antonio region. And, oh by the way, there are about 180 registered Bentleys in this region as well. So, there.

It seems an Aston Martin dealership for Austin has been in the works since 2005. And they figured there's no reason not to go ahead with the April opening. Recession? What recession?

Back to the Fed report this week. It said Houston is likely to fare the best of the Texas major metros, even though Houston is still not immune from the effects of the recession. **The Federal Reserve Bank also noted that job creation was slowing all over**. It predicted there will be a 2.8% *decline* in Texas jobs this year. This compares to a 0.4% *growth* last year.

But the Fed also pointed out that it expected the **job losses will ease up starting in June** – meaning that this first half of 2009 should see the worst of the loss of jobs in Texas.

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It may come as a surprise to some, but the Better Business Bureau headquartered here in Austin has become one of the largest business organizations in Texas. How did this happen?

The Better Business Bureau was founded decades ago as a way for businesses to police themselves and to **protect consumers from bad business practices – such as frauds, scams, misleading advertising**, etc. – and to try to resolve disputes between customers and businesses. Umpteen years ago, yours truly served as volunteer chair of the local BBB. The relatively-small Bureau that served the Austin metro area back then has changed dramatically.

It has expanded exponentially in the intervening years to the point that its **service area now covers 62 counties**. And instead of being the "Austin BBB," it is known as the Better Business Bureau serving Central, Coastal and Southwest Texas. Just in the past year, the service area expanded from 53 to 62 counties.

After being recognized long ago as an exceptional local BBB under the leadership of the paid executive, **John Etchieson**, the Bureau's reach and influence has expanded dramatically under the current paid exec, President/CEO **Carrie A. Hurt**. It now claims to have more than 9,000 Accredited Business locations throughout Central, Coastal and Southwest Texas.

At its annual meeting last month, new volunteer leadership was installed with **T. Getterman**, CFO of Supercuts, taking over as Chair. Other new officers: Chair-elect **Jeff Evins**, Evins Personnel … Secretary **Laurens Fish III**, Weed-Corley-Fish Funeral Home … and Treasurer, **Nancy Thompson**, Nancy Thompson Commercial Real Estate to serve along with President/CEO Hurt.

This past year, the **BBB won two international awards** for offering an expanded mediation program and revitalizing the BBB Brand. Obviously, the BBB is not standing still.

Speaking of businesses, **Dr. Louis Overholster** has been watching the gyrations on Wall Street and has come up with a new name: The Dow Jones Way Below Average!

Sincerely

Neal Spelce

Editor/Publisher