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Dear Client:

Those high-rise condos in downtown Austin? Overbuilt? Are they selling? What are the prospects? In a time of terribly tight credit? During a downturn? Hmmm. Good questions.

And you'll find answers to those questions come down on opposite sides, depending upon who is doing the opining. **So let's check out the answers from those who have skin in the game – the developers and those trying to peddle the product.** They may have the best handle on what is going on – or they may be whistling past the graveyard. They opened up to **Katherine Gregor**, who recorded what they said in a recent issue of *The Austin Chronicle*.

The players: **Taylor Andrews**, the 360 Condominiums ... **Larry Warshaw** and **Perry Lorenz**, Spring ... **Terry Mitchell**, The Austonian ... **Beau Armstrong** and **Laurie Swan**, W Austin Hotel & Residences ... and **Brett Denton** and **Art Carpenter**, Four Seasons Residences. She also got the view of **Kevin Burns**, a broker who sells downtown properties. So, is downtown Austin overbuilt with condos? All told her “no.” Their reasoning:

“After the four high-rise condo projects now under construction sell out, **no other projects are in the pipeline,**” she reported. “Due to the meltdown of the economy, which has frozen the capital markets and project financing, developers believe we’re **unlikely to see any new projects get financed for one to two years.**” (One exception: a possible sister project by the developer of the 360).

Okay, how does the math work out? Gregor said Burns’ statistics “show that 776 new condominiums were completed and available in 2008. Of those, 670 have sold, with a ‘net absorption’ of more than 600 units in one year. **Now about 790 condominiums are under construction; about 350 of those under contract.**”

“**That leaves just 546 units to sell – over three to four years, as little or no new product is coming on the market through 2012 or 2013.** Once developers get financing, likely to take at least a year in this economy, it takes another two to three years to build a project,” Gregor reported.

Her conclusion: “Austin’s ‘big four’ condo towers rising are expected to sell out – albeit more slowly than if the economy had not tanked. **Shoppers are cautious, but deals are closing.**” Importantly, the numbers in this item, and the next, were not independently verified.

Who is buying condos in the downtown high-rises? Out-of-towners? Locals? Investors? Owner-occupants? The rich? Empty nesters? Families?

If, within the next few years, the downtown condos fill up, it will represent an almost paradigm shift in the living, buying and commuting habits of many Austinites. **It will be Austin's first major residential movement since the expansion of the Capitol City to the suburbs and nearby towns.** There is no doubt this residential phenomenon, if successful, will become a factor in Austin's future. So, let's dig deeper into **Katherine Gregor's** condo study as reported in *The Austin Chronicle*.

Are Austinites buying these condos or mostly investors or out-of-towners?

Gregor reports that "today, **most buyers are Austinites, and nearly all plan to live in their units.** That's a change from the market through 2007 and early 2008. Pre-sales to investors and speculative flippers tended to be the ones that fell out; the replacement buyers intend to be real residents (some part-time)." She further reported downtown condo broker **Kevin Burns** said "about half of the deals that we have done have sold to locals, the other half to people moving into Austin."

Are there really enough rich people who want to ride an elevator to live in tight quarters downtown to fill a luxury tower like the Austonian? Among ordinary Austinites, this is a huge source of skepticism. But the developers say it's no problem. The Austonian's **Terry Mitchell** told Gregor that million-dollar residences sell all the time in Austin and that a mid-range condo sells for about the same as a median price home in Travis Heights – which has been around \$475,000. He pointed to projections that, **over the next four years, at least 100,000 residences will be sold in the Austin metro area: "If just 3% of the units sold are a downtown condo, all of the units will be gone. That is going to happen."**

Now that it's tougher to get mortgages, will that affect the condo market?

This has been an issue but primarily on lower-end units, whose buyers typically are the least credit-worthy. Gregor reports she found **many pre-sold units failed to close.** Many were re-sold, but one condo project has about 50 units that remain under contract, but are not occupied. The project is **giving the buyers more time to qualify for a loan saying "if they still want to live here, we don't want to just cancel their contract."** The pricey projects – the Four Seasons, the Austonian, the W Residences – say their well-to-do buyers are not worried about qualifying.

As for *empty nesters*, Gregor says they "are willing to reduce the size of their homes – sometimes radically – if it means they can also **reduce the hours drained by home and yard chores and commuting.**" *Families?* Right now, **not many are choosing the downtown lifestyle.** In fact, only "about 5% of condos under construction are likely to house families with children," Gregor reported. One big factor remains: **many prospects are not readily writing checks now due to the uncertain economy.** It may take a few years for all this to shake out.

While construction continues on the downtown condos, contracts for *future* commercial construction in the Austin area dropped 49% in February.

Year-to-date, commercial construction projects are down about 61% according to a firm that tracks construction contracts nationwide. This compares to a similar drop statewide – a drop of 40% for February and 78% for the year to date.

A drop in construction is one of the reasons Austin's unemployment percentage is increasing.

A fast-growth market, such as the Austin area, will always have a high percentage of its workers in the construction industry – simply to support the growth. Commercial construction mentioned in the previous item is a prime example. But *residential* construction is also factored into the totals. And, for all the reasons we've been citing for months now, **residential real estate construction is also slowing** – to the tune of a drop of about 61% year-to-date through February. Also contracts for *future* residential construction have dropped about 56%.

This has contributed significantly to Austin's rise in unemployment – from 4.0% back in January 2008, to 5.2% in December 2008, to 6.4% in January 2009 and 6.3% in February 2009 (just released Thursday).

The drop-off in future commercial and residential construction contracts will add to these totals.

Everything is relative – even unpleasantness. While Austin's February jobless rate is 6.3% and Texas is at 6.5%, other areas with double-digit unemployment numbers are growing.

You may recall that on March 13th 2009, we told you seven *states* had posted an unemployment percentage above 10%. Well let's look at other *metro areas* – compared to the 5-county Austin metro area with a January 6.4% rate. (We are using January 2009 numbers, as February totals are not available for all cities.) The US Bureau of Labor Statistics reports that **18 of the nation's 100 largest labor markets have double-digit unemployment rates.**

The worst of the worst are all in California: Fresno, 15.7%, Stockton, 15.1% and Bakersfield, 13.8%. Toledo, at 13.3%, has the highest rate outside of California. **The biggest city on the double-digit list is Los Angeles, at 10%.** Some other "big" metros: Detroit, 13%, Sacramento, 10.4% and Las Vegas, 10%. The only Texas metro above 10%: McAllen-Edinburg, 10.1%

The five best in January: Salt Lake City, 4.6% ... Honolulu, 5.2% ... Ogden, UT, 5.2% ... Oklahoma City, 5.2% and Omaha, 5.2%. As we said, everything is relative.

B-I-N-G-O, bingo! Do you have any idea how much money changes hands in legalized bingo in Texas? Well, it set a record in 2008.

Most folks think bingo is gambling, just like the lottery. Though the word “gamble” is never used by anyone officially associated with the Texas Lottery. They call it “gaming.” They also have jargon associated with bingo. They call it “charitable bingo.” **Charitable bingo was legalized in Texas in 1981.** And, to be legal, bingo games must be conducted by charities.

So, how is charitable bingo doing in Texas? **Total 2008 receipts surpassed \$684 million, a record.** And “players” won more than \$512 million in prizes.

It also appears that players spent more individually in 2008. **Attendance in the bingo parlors around the state declined by more than 225,000** from the previous year. Yet, the total amount gambl... uh ... “played” set an all-time high.

Did that mean that those who played the various bingo games won more prize money?
Yep, they spent more and they won more.

As for the charities, how did they do? **The 1,146 non-profit charities that conduct the games increased their take for the fifth year in a row, receiving a total of \$32.7 million.** So the charities got money, but the bulk went to the bingo winners and to running the games.

With this edition, The Neal Spelce Austin Letter completes 30 years of publication. We started writing and editing this newsletter the first week in April, 1979. The Austin area has changed tremendously over the years we have been chronicling the trends, offering perspectives and insights.

There have been economic ups and downs and, through it all, the area has emerged as one of the most dynamic regions in the nation. Obviously we’re now in the midst of one of the slowdown periods. (In fact, **Dr. Louis Overholster** said he doesn’t know where people are putting their money these days – but he did notice that mattresses are coming with padlocks!) We hope we may have helped you navigate the economic waters and we pledge to continue to try.

Sincerely



Editor/Publisher