

THE

*Real Estate*

# AUSTIN LETTER

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Volume 31, Number 10

June 5, 2009

Dear Client:

**With all the focus the last couple of years on housing's involvement in the current economic crisis, it begs the question of just what is a "normal" housing market? And where does the Austin area fall along a normalcy scale?**

The Austin housing market, like all markets, regularly switches from a "buyers" market to a "sellers" market. It's the old Econ 101 theory about the balance between supply and demand. **And there are a number of factors that affect a prospective buyer's willingness and ability to buy a home.** Changes in demand may occur as a result of population and/or economic growth. Government policies such as easily-obtained mortgages, switching to tighter lending policies also have had dramatic impacts.

There is one benchmark that, while not perfect, is widely used to determine a "normal" housing market. It's called "**inventory**" – or a measure of how many homes listed for sale, divided by the number of sales over the past 12 months.

Stated another way: **at the most recent pace of sales, how long would it take to sell all the homes currently on the market?** Using that measure, you come up with a yardstick that yields a supply of available homes measured in months. A high months inventory represents an oversupply; a low months number an undersupply of properties relative to demand.

Housing researchers consider a **six to a 6.5 months supply of homes for sale to represent a balanced housing market**, according to real estate economist **James P. Gaines**, with the Real Estate Center at Texas A&M.

So where does the Austin market rank by this measure? Almost at "normal." As of May 29, 2009, the Real Estate Center calculates that there is a **6.8 months inventory of homes for sale in the Austin metro**. So the Austin market is tilting slightly toward a *buyers* market right now. Not too far out of balance, but if the months inventory dropped down a couple of months, it would be a *sellers* market.

It's a good time to *sell* a home in **College Station-Bryan where there is a very low 1.9 months** of inventory. On the flip side, a *buyer* has the upper hand in Tyler where there is an 11.7 months supply of homes. Or, if you really want to drive a hard deal to buy a house, Galveston (still rebuilding from a hurricane) has a 16.1 months inventory of homes for sale.

**According to economists, Texas has officially been in a recession since February 2009, lagging the nation's economy by eight months. Looking at this lag, will Texas continue to avoid a serious real estate market decline?**

That question was addressed by noted Texas economist **Ray Perryman**. Hedging his bet a bit, he said "there are many factors involved," but then went on to say "**the strength of the state economy will play an important role in fending off the difficulties so many other states have undergone.**" And he referenced what we have already reported about Austin topping lists such as "hot job markets" and "best places to do business."

Speaking specifically about real estate, Perryman noted that "while prices for existing homes on the market have dropped drastically in many areas of the country, across much of **Texas home values have remained fairly constant.**" And this, he says "**has been critical in helping mitigate the impact of loan defaults and resultant foreclosures.**

He went on to point out that "because **Texas did not have the big boom and high price bubble** like many other locales which experienced rapid growth rates, the **supply and demand for housing remained fairly balanced** (see the previous item). Therefore, there is not a huge oversupply of depressing home prices."

So what the future of the Lone Star State's economy? The Perryman Group's forecasts call for the state's economy to see declines in 2009 in most areas over the coming year, with the **next few months bringing the most lackluster performance.**"

Of course the national economy will play a role in what happens in Texas. You may have missed the assessment last week by the **chief investment strategist** for Wells Fargo Capital Management since his remarks were delivered in Denver.

**Jim Paulsen said the worst of the economic downturn likely is over.** The Denver media quoted him as saying further "I'm also optimistic that the economy, at least for a period, will recover sooner and stronger than most have anticipated. **I think we're going to be growing in the second half of this year.**"

Despite the overhang of a recession, Perryman went on to say "Texas real estate markets are comparatively healthy. Real estate cycles are inevitable, but the **current slowing is largely a normal response to weakened demand as Texans deal with the fallout from the national financial crisis and economic downturn rather than the collapse of a bubble.**"

In other words, the soft real estate market here is vastly different from the declines in other parts of the country. Taking that into account, he said "with the state continuing to gain population and credit markets beginning to thaw, **the overhang cannot endure for an extended period.**"

**While on the topic of Texas real estate, here is an interesting little trivia question: where was America's original shopping center located and is it still in business?**

First hint: it was built in 1931. Second hint: it was *not* in Austin, but in Dallas. Third hint: **it has just been sold – but only for the third time in three-quarters of a century.** And that answers the second part of the trivia question – yes, it *is* still in operation.

Give up? It is the Mediterranean-style, 250,000 sq.ft. **Highland Park Village, located at Preston Road and Mockingbird Lane in Dallas.** It is considered by the Urban Land Institute to be the first development built on a single lot surrounded by parking areas, with stores facing away from streets.

**The shopping center was recently purchased for \$170 million.** The center consists of a Tom Thumb grocery, a 4-screen movie theater and a Starbucks, making it a daily destination for the neighborhood. It also contains luxury shops such as Hermes and Harry Winston, as well as 50 other shops and restaurants. The new owners say they will redevelop the theater, incorporate a sushi restaurant and bring more luxury retailers into the center.

**Hurricane season officially started this week. The forecast for nine-to-14 named storms may be updated in early August, normally the start of the busiest part of the hurricane season.**

This year's forecast comes from the National Oceanic and Atmospheric Administration. **Last year, there were 16 named storms, of which 8 grew into hurricanes and 5 were major.** And, of course, Galveston is rebuilding as we speak from the devastation that occurred when Hurricane Ike slammed the Texas island city last year.

A quick primer: a tropical storm gets a name when wind speeds reach 39 mph and it is upgraded to a hurricane when sustained winds reach 74 mph. **Major hurricanes have winds of more than 111 mph.** Of course, as you know from our previous reports, the winds sometimes are not nearly as dangerous as the storm surge that accompany these massive storm systems (just ask Galveston).

**Names rotate each year and they are placed upon the storms in alphabetical order.** So the first storm of this season in the Atlantic, Caribbean or the Gulf of Mexico will be Ana. The next few storms will be named Bill, Claudette and Danny.

**Also for your calendar, the digital TV conversion day is next week – June 12<sup>th</sup>.** This is when TV stations power down analog transmitters and switch to digital signals. For those without HDTV sets or cable, there will probably be a rush for conversion boxes to receive broadcast TV.

**Heads Up! The “longest parade of motorcycles on the planet” will flood the streets of downtown Austin Friday night, 6/12/09. And that’s not all. The “world’s greatest daredevil” will jump over a bunch of beer trucks in front of the State Capitol.**

It’s all part of the 15<sup>th</sup> Annual Republic of Texas Biker Rally (commonly referred to by bikers as The ROT Rally) taking place June 11<sup>th</sup>-14<sup>th</sup>. **And downtown Austin is not the only place that will be impacted by the sometimes deafening, rumbling roar of the bikers.** The “colorful” riders, who are especially fond of riding in the rolling Hill Country, fan out all over Central Texas throughout the weekend.

**The Travis County Expo Center and grounds in eastern Travis County** will be the “headquarters” where all manner of sights and events will take place. To give you an idea of the nature of the events, a “**must be 18 years of age**” label has been plastered on the ROT Rally.

The “attractions” listed include “Xtreme Fight Championship,” “Midget Wrestling” and a comedian by the name of “**Bag Lady Sue.**” They are also touting a “Big Texas Chop-Off of Champions,” “ROT bars,” and “ROT vendors.”

Headline entertainers include **Hank Williams Jr.** and **Robert Earl Keen.** Also “**Kaptain Robbie Knievel’s Farewell Tour presents the ‘Jump at the Capitol’**” over a line of Budweiser beer trucks.

Organizers claim that **200,000 bike enthusiasts will cram downtown Austin** the night of the 12<sup>th</sup> for the bike parade and Knievel’s bike jump. He is the son of famed daredevil **Evil Knievel** and plans to give away a signed Knievel bike. There is much more *scheduled* for the ROT Rally, and in years past, there have been some questionable *unscheduled* activities that have occurred at the Travis County Expo Center. Should be an interesting weekend.

**Dr. Louis Overholster** said he believes the reason politicians try so hard to get re-elected is that they would hate to have to make a living under the laws they’ve passed!

Sincerely



Editor/Publisher