

THE

Real Estate

AUSTIN LETTER

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Volume 31, Number 18

July 31, 2009

Dear Client:

Evidence is mounting that faulty appraisals are a drag on the housing market, locally and nationally, even as some positive signs are appearing.

The National Association of Home Builders (NAHB) is reporting that 26% of home builders have seen lost sales as appraisals come in significantly below the contract sales price. Of the builders surveyed by NAHB, 60% claim that inadequate appraisals are creating major problems in the market. Even more importantly, **54% of those reporting appraisal problems saw appraisal amounts less than the cost to build.**

And, of course, lenders are so goosey these days (with the regulators looking over their shoulders) that they are **demanding an appraisal that gives them plenty of running room in relation to the loan amount.** (Click on the Archives button at the top of this page and go to Volume 31, Number 12, June 19, 2009 to review the appraisal problems that are popping up around the Austin area – on re-sale homes, as well as on builder homes.)

“Home builders are increasingly concerned that **inappropriate appraisal practices are needlessly driving down home values,**” said NAHB Chairman **Joe Robson.** “This, in turn, is slowing new home sales, causing more workers to lose their jobs and putting a drag on the economic recovery.”

To support the claim that the appraisal situation is having an impact on the economy, NAHB estimates that the construction of 100 single-family homes generates **324 local jobs, \$21.1 million in local income and \$2.2 million in taxes and other revenue** for local governments in the first year.

The pace of sales is such that it would take 7.1 months to sell all the homes listed in the Austin area. **This is not bad, even though it is the highest it has been since 2003,** according to **Beverly Kerr,** the Austin Chamber’s VP/Research. Nationally, the “months of inventory” stands at 9.4 months. A year ago, the inventory in the Austin area was 6.0 months.

The good news for Austin homeowners is that **home values remain not very far off values one year ago,** according to Kerr. On an annual average basis, 2007 was Austin’s peak year for the average price and 2008 was the peak for median price. **Current prices in Austin have not deteriorated off these historic values.** This is much better than the rest of the country.

The sale of existing homes in June hit the highest level in a year – reinforcing the fact that the Austin area residential real estate market is better than most.

This doesn't signal major movement. **In fact, it is a lessening of a decline, rather than a surge into positive territory. But it is quite a turnaround.** According to the Austin Board of Realtors, June sales of single family homes were down 4% from last year. But this is the smallest decline since a 2% drop in July 2007. Compare this to May and April sales that were down 19% and 18%. Stay tuned to see if this is the beginning of a trend.

Sales of commercial office buildings in the Austin area have hit a brick wall.

For the first time in the last ten-plus years, **there were no multi-tenant building sales reported in the first half of 2009, according to Charles Heimsath**, president of Capital Market Research. Heimsath says "the national recession, local market uncertainty and the lack of financing have combined to shut down the market for office acquisitions." The former Chase Bank Tower at 700 Lavaca downtown was recently put on the market, but Heimsath says that it is *not* currently under contract.

The month of August will determine whether City of Austin property taxes and fees for services will be increased by the Austin City Council.

The City's Fiscal 2010 budget will be debated during the month of August with a vote scheduled for mid-September. While there has been a lot of talk so far about which services and programs will be cut in the face of a \$31.7 million revenue shortfall, **the City Council will also be considering increases in taxes and fees.**

On the table for consideration is a recommendation by City Manager **Marc Ott** to **increase the property tax rate from 40.12 cents per \$100 property evaluation to 43.28 cents.**

Additionally, the **Austin Water Utility would have a 4.5% system-wide increase** that will add \$3.78 to the average monthly residential bill. **Solid Waste Services' Pay-As-You-Throw customers would pay 35-cents more per month** on their base charge and an **additional 20-cents on their anti-litter fee.**

This isn't all. Other fee increases include **\$1.66 per month to the Transportation User Fee** and **60-cents per month to the drainage fee.** Oh yeah, 90-gallon garbage containers will pay an **additional \$1.70 per month.** After City Council deliberations and a couple of public hearings, the Council is scheduled to approve a budget September 14-16.

Even though Austin airport passenger traffic was down in June and for the year-to-date, the number of June travelers jumped higher than in 2006 for the first time this year.

At first glance, the number of passengers at Austin-Bergstrom International Airport (ABIA) in **June is nothing to write home about – down 10% compared to June 2008**. And for the year-to-date 2009, the drop in travelers was 12%. But a little-known fact popped-up to place these tallies in perspective.

For *all* of 2009, the number of air travelers at ABIA has tracked below the numbers registered in 2006, 2007 and 2008. Until June. **The June 2009 traveler total took a sharper uptick than registered in the preceding three years and surpassed the June 2006 numbers**. This could indicate a bit of a turnaround, so it bears watching as an economic indicator of the Austin area.

Another interesting tidbit: did you know that the **average airfares at ABIA have dropped in price by 13.5% since 2001** (the year the 9/11 tragedy almost broke the back of the US airline industry). **And through the first quarter of 2009, average airfares at ABIA are running about 11% below the comparable period in 2008**. This is according to a new report from the US Department of Transportation's Bureau of Transportation Statistics.

Two national reports released in the past week-or-so are touting Austin as a bellwether during these tough economic times. And both reports are on the reading lists of business leaders nationwide.

Forbes.com says Austin is poised for the **quickest economic rebound in the nation** and *Entrepreneur* magazine ranks Austin as the **10th best start-up city in America**.

The Forbes analysis highlighted the diverse base of business in Austin and projected that the **Austin economy will grow by \$5 billion by the end of 2010**, to rank tops in the nation for economic recovery. Following Austin, in order, on the Forbes list: Fayetteville, Ark; Boulder, Colo; Huntsville, Ala and San Antonio.

Entrepreneur examined population growth, openness to new ideas, government incentives and affordability of commercial rents. It called **Austin the cross-pollinator among the Top Ten cities**, singling out the range of businesses that feed off one another.

By the way, the National Conference of State Legislatures pointed out that 11 states raised taxes this year, eight tapped into "Rainy Day" funds and two states relied solely on spending cuts to balance their budgets. Texas was *not* included in any of these categories. **Texas was one of the few states that avoided a budget shortfall this year.**

Within the next few days, the water level of drought-distressed Lake Travis will set a mark as the 3rd lowest level in the history of the lake.

The 65-mile-long lake will drop so low within the week that it will displace a low mark of 636.58 feet above mean sea level set way back in October, 1984. **Only twice before has Lake Travis dropped below the level it will reach within the next few days.**

In fact, in **November 1963** (when President John F. Kennedy was assassinated in Dallas) the lake dried up to the point it was only **615.02 feet above mean sea level**. And the all-time low level (less than a foot lower) was marked during the drought of the 1950s when on **August 14, 1951, Lake Travis' all-time low elevation of 614.18 was reached.**

Dare we say it? **Is it possible to break the all-time level?** Let's see. First of all, the average elevation for Lake Travis in July is 669.28. As this is written, the elevation is hovering around the 636 mark – or **33 feet below the average.**

To break the all-time low set a half-century ago, Lake Travis has only to drop another 22-feet. Lake Travis is dropping about 1.5 feet per week. **At the current pace it will take only 15 more weeks to set a new all-time record low elevation.**

Finally, check the calendar. **Fifteen weeks from now is the middle of November.** In the middle of November, 1963, Lake Travis came within one-foot of its all-time low elevation. **So, is it possible? Yeah, it's possible.**

Hopefully, this exceptional drought – specifically the **triple-digit temps and no major rainfall** – will *not* continue unabated for 15 more weeks. But if the drought continues, combined with **water released downstream for power generation, agricultural irrigation, municipal, industrial, and environmental needs**, yeah, Lake Travis could set a record low elevation.

Dr. Louis Overholster, treating a recently divorced woman, was told by her that “My husband and I divorced over religious differences. He thought he was God, and I didn't!”

Sincerely



Editor/Publisher