

THE

Real Estate

AUSTIN LETTER

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Volume 31, Number 34

November 20, 2009

Dear Client:

What is it about the Austin area that has the nation's numbers-crunchers so enthralled with the economy of metro Austin?

You'll recall a month ago, we devoted an entire issue of this newsletter to listing some of the impressive national recognitions the Austin area received in the first eight months of 2009 (click on the "Archives" button, above on the upper right, to go to Volume 31, Number 30, October 23, 2009 edition). **What are the various elements that push Metro Austin to high national rankings on so many diverse comparisons?**

Let's analyze a very recent (last week), very comprehensive report that ranks the **Austin-Round Rock 5-county metro area as #1 on the 2009 Milken Institute list of the nation's "Best Performing Cities."** This is an annual examination, since 1999, of the largest 200 US metros in the US. And Metro Austin was #1 by a wide margin over the rest of the field.

So, what factors were taken into consideration during this time of a serious national recession? Overall, the report notes that the best performers were those **cities that avoided the worst of the economic declines driven by falling housing markets and job losses in manufacturing and global trade.**

Specifically, what precise factors in the Index contribute to the Austin metro's stellar performance? **"The unique combination of stability afforded by being the state capital and home to a major research university, plus the dynamism of a thriving technology cluster and professional services sector"** are the factors, according to the Austin Chamber's VP/Research **Beverly Kerr.**

"Austin's experience of wage and salary growth commensurate with its consistent pattern of job growth also elevated Austin in the ranking," Kerr noted. Austin's foray into clean energy technology is treated in the report as likely to pay off in strong future performance as the recovery proceeds.

There's more, as you'll see in the next item. But at this point we should point out the Index's goal is to **understand consumer markets and business expansion opportunities** as well as, importantly, to **determine the regions that present the lowest economic risk.**

One of the not-widely-discussed economic attractions about the Austin-Round Rock area is its status as an incubator for entrepreneurial activities.

The Milken Institute intends for the Best Performing Cities Index to be a benchmarking tool that **business, economic developers, academics, investors, public policy groups, etc. can use to assess, monitor and gain insight into each metro's relative performance.**

Think about this. This is especially significant, as this report will stand as a resource for the next twelve months. This is not a chamber of commerce tout sheet. **This Index is an analysis by an independent, well-regarded Institute that has thoroughly examined every large metro in the US.** And Metro Austin stands head-and-shoulders above all of the nation's 200 largest metros.

This isn't a one-time shot. **Austin was first in 2000 (the only metro to earn this distinction twice)** and second in 1999 and 2001. And Austin ranked 4th last year. It hasn't been all rosy as Austin sank in the rankings during the dot-com bust years.

But consider the vast gap that separates Austin this year from the rest of the field. *The Index ascribes a ranking of 100 to its #1 choice.* When Austin was #4 in 2008, it had an Index value of 125 – pretty close to #1. **This year, the 2nd place metro has an Index value of 232.98 behind Austin's 100 – and the #3 metro's Index is 337.32.** Quite a gap and the rest tail off from there. In fact, only 75 of the 200 metros have an Index of 850 or better in 2009. Not only is Austin #1, it absolutely dominates this Index.

Back to our original point – a review of the factors that push Austin to the top. Interestingly, the Austin metro was also singled out for its **entrepreneurial vitality**. The report highlighted an **extraordinary rate of self-employment** in the five-county Central Texas metro. Austin's record of wage and salary growth, closely tied to a consistent pattern of job growth, also elevated Austin in the ranking. And, even though reports show the Austin metro has lost some jobs during the first part of this year, the report suggests **Austin may experience a net job growth when the final tally is in for 2009.**

Because Austin's economy is intertwined with other metros in Texas, it is important to note that **Texas metros claimed four of the top five spots and nine of the top 16 in this Index.** Very powerful. But it doesn't stop there. Nine other Texas metros made the top 25 out of the 125 *smallest* metros that were studied.

Regional economic factors – **oil and gas, technology and alternative energy** —helped all Texas cities. The report also credited the state's favorable business climate, pointing out Texas's ability to attract jobs and corporations from higher-cost states, such as California. In summary, the **Austin metro solidified its hold on #1 due to job creation and retention, the quality of jobs being produced and overall economic performance.** Impressive.

Could Austin soon face a housing shortage? Certain factors are at play that raise this as a possibility, even though it may go against current conventional wisdom.

It's been a buyer's market in Austin for a while now. And this is continuing, indicating there are **plenty of homes for sale** so the buyer can press for a good deal. So, what do you mean, a housing *shortage*? **There's no shortage now. But will this situation continue?** Already there are signs in other markets that this situation could flip in the future.

Take Dallas. The Dallas homebuilders association reports the **inventory of new homes is declining**. Also, it notes that many custom and small homebuilders have gone away or cut way back because there is little or no money for them.

It's the same in the Austin area. **The money stream for Austin homebuilders has slowed to a trickle**. We've reported for some time now that construction of new homes has been curtailed rather dramatically. Many homebuilders have lost spec homes to foreclosure or are "short-selling" them for less than it cost to build them. **And financial institutions have little appetite to turn loose additional funds to build more homes in metro Austin.**

Meantime, there has been an uptick in the sales of *existing* homes. The Austin Board of Realtors reported mid-week that **existing home sales increased dramatically in October – up 38% over October 2008**. This translates into 500 more existing homes sold this year, compared to last year in October.

So, from a buyer's standpoint, the number of front-yard "for sale" signs is diminishing. In fact, **the total number of existing homes that are for sale is down 10% from last year**. And, importantly, the number of *pending* sales is up 47%, just waiting to sign the final docs at the closing table.

Sure, some of this surge is due to **buyers rushing to take advantage of the first-time homebuyer tax credit before** it expired at the end of November. **Now that tax credit has been extended until April and it has been expanded** from first-time buyers to include more current and prospective homeowners. So, there is a broader incentive for more buyers to make a move within the next few months.

Add to this the natural growth of the Austin area. **More people are moving to metro Austin every day and they need a place to live**. The possibility that this could turn from a buyer's market into a seller's market is looming.

The last few months of the year and the first couple of months in the next year are normally slow months for home sales. It will be interesting to track what is happening. If increased sales continue during a normally slow time, and bank credit is still tight for builders, the local real estate market conversation could turn to talk of a housing shortage. Stay tuned.

UTAustin is moving to douse the firestorm that erupted when it recently said it was changing the way it handled National Merit Scholarships.

“The media have reported we’re taking merit-based money and putting it into need-based scholarships. That isn’t true,” said UTAustin President Bill Powers. **“We have not moved any merit-based money into need-based money, and we’re not abandoning scholarships based on merit.** We give almost \$53 million of merit-based scholarship support every year, which is critical to recruiting exceptional students.”

Well then, what *are* you doing with National Merit Scholars? “We’re simply doing what our peers have done – UCLA, Berkeley, Michigan, Virginia,” he said. **“We’re changing criteria for some of our merit-based scholarships.”**

What’s wrong with granting specifically-designated scholarships to those high-achieving high schoolers who qualify as National Merit Scholars? **“Basing it solely on a multiple choice test taken in the 10th grade,** which is how the National Merit program is administered, isn’t the best way,” said Powers.

Why? “Our view is that we ought to give merit-based scholarships to **people who are most meritorious, using the highest academic and leadership standards** (italics mine),” he added.

A somewhat similar situation is occurring for other incoming freshmen. You’ll recall the Texas Legislature changed its “automatic admission” policy to UTAustin for Texas high school grads from those in the Top 10% to the Top 8%. Powers points out that this **“will enable us to consider factors other than class rank – including ethnicity – for a larger number of applicants”** for admission to UTAustin. This will also allow UTAustin to control the size of the freshman class, thereby “averting what would have been a crisis in capacity,” he said.

Dr. Louis Overholster observes that if you lend someone \$20 and never see that person again, it was probably a wise investment!

Sincerely



Editor/Publisher