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Dear Client:

Mortgage interest rates during much of 2009 were lower than they have been in 40 years. What goes down, must go up – right? To give you a heads up, an expert will tell you what is likely to happen just prior to the inevitable rise in rates.

Economic trends and Federal Reserve actions have combined to allow homebuyers to purchase homes with a **30-year mortgage below 5%**. **It's been four decades since you have seen such low rates.** Conventional wisdom says the rates will rise again. For instance, in the 1980s, the average mortgage rate was a whopping 12.70% and in the 1990s the average rate was almost twice as high as it is now.

So, how can you tell when the rates will start to rise again? Watch the inflation rate. **Mark Dotzour**, Chief Economist with the Real Estate Center at TexasA&M, points out that the **expectation inflation will remain low in the US for an extended period of time caused the US Treasury rate to fall** between 3.2% and 3.5% for much of the second half of 2009.

With extraordinary levels of federal deficit spending, Dotzour feels it is unlikely that the low-inflation scenario will be popular when the economy starts to rebound. As a result: *expect mortgage rates to rise when signs of improvement appear.*

Dotzour says there is a second factor contributing to the low mortgage rates. It is the Federal Reserve Bank's **unprecedented purchase of nearly all the mortgage-backed securities issued by Fannie Mae and Freddie Mac in 2009.** This amount is huge – totaling more than \$1 trillion for the year. And this program has been extended through the end of March 2010.

“The Fed has never done this before in its history,” said Dotzour. “They are doing this to stimulate the economy by keeping mortgage rates as low as possible.” Dotzour says *when the Fed stops buying these securities from Fannie and Freddie, mortgage rates are likely to increase, possibly quite abruptly.*

So, Mark, how far will rates go up when the Fed terminates its buying program? “That question is difficult to answer precisely, because this action is unprecedented,” he says. **“But many experts think that rates could move up one-half to one percent.”** Bottom line: When the economy recovers and the Fed stops purchasing mortgages, rates will rise.

The home supply-and-demand balance in the Austin area is right where it should be – where neither buyer nor seller has a distinct advantage.

It's basic Econ 101. Too many homes for sale means the buyer has a big advantage and vice versa. But what is "too many?" **The standard formula considers the number of months it would take to sell all the homes currently available, at the recent pace of sales.**

Real estate economists generally agree that a 6-months supply, using this formula, represents a balanced situation. If you have, say, 10-months of inventory, it is a buyer's market. Or 3-months' inventory, you have a seller's market. **The Austin area was almost perfectly balanced at year's end, with a 5.4 month's supply.**

Of course, averages can be deceiving. This 5.4 months' number takes Austin's housing market as a whole into account. But, in actuality, **the market differs by price point and by location.** For instance, homes priced under \$400,000 are moving at a good pace, while the McMansions priced above a million bucks have "for sale" signs sitting in the front yard a lot longer. **But the market as a whole is in a balanced state right now.**

Austin apartment occupancy is in a pretty good place now – even though occupancy rates fell about a half-percent at year-end and rents took a big hit, falling 1.6% during 4th quarter 2009. How's that?

Well, first of all, more than 1,200 new units became available for rent, during a typically slow quarter, according to **Robin Davis**, whose firm, Austin Investor Interests, tracks apartments. "Now that construction has come to a screeching halt, the city will be poised to further stabilize these new units, **putting occupancy back on the rise by the end of 2010,**" she says.

The other aspect of apartments that impact the economy is the sale of apartment complexes. The picture there is not rosy. **Financing constraints hamper potential sales.** "Expect to see more properties fall victim to this financial gridlock, pushing an increasing number of projects into foreclosures and/or receivership," predicts Davis.

Pflugerville, once-tiny Pflugerville, officially now has a population of more than 50,000 – moving to a "small urban city" from "rural community." This has enormous significance.

By law, Pflugerville can now *expand its influence as it moves its extra territorial jurisdiction (ETJ) from 2 miles to 3.5 miles outside its city limits.* **This means Pflugerville now has a larger area it can annex and it gives the city limited authority over planning in its ETJ.** Another thing: it can now name a representative to serve on various regional planning bodies.

Lake Travis is rising as we speak. And while it has not been officially declared, the hydrologic drought appears to be ending with this week's rains.

As of this newsletter date (2/5/10), the level of Lake Travis is moving higher than 667' above mean sea level. **Next week, it should rise above 668'. Its historic February average level is 670.67'.** High water on the Llano River and Sandy Creek, above Lake LBJ, forced flood gates to be partially opened at three dams Thursday, pushing water into Lake Travis. Other streams, such as Travis County's Pedernales River and Bee Creek, are dumping water directly into Lake Travis. Watch the forecast. The ground is completely saturated and more rain in the right watershed could cause more rises on Lake Travis – **quickly returning the lake to normal.**

If you've been a frequent flyer through Austin-Bergstrom International Airport (ABIA), you may have noticed the terminal has not been as crowded as in previous years.

The number of passengers at ABIA in 2009 was 7% below those counted in 2008. In fact, the 2009 totals were also below those recorded in 2007, and barely above the count in 2006. It is **obvious 2009 hasn't been a banner year for Austin air travel**, so which airlines are the winners and losers during difficult times?

Southwest Airlines is one of the winners. It maintained its hold as the #1 choice of Austin air travelers and it did so by **increasing the number of passengers in 2009 over 2008 by 2.5%** when the overall tally was down 7%. For December, it carried 37.7% of all travelers who flew in and out of ABIA.

The #2 airline by number of passengers, American Airlines (AA), lost ground. It carried 17% less passengers during 2009, compared to 2008, dropping much more than the market itself. In December, it carried 21.5% of Austin air travelers.

While AA *lost* passengers to the tune of 17%, **Delta Air Lines increased its passenger total by 17%.** Delta solidified its hold as ABIA's 4th busiest carrier, with a 9.4% December market share. Delta gained ground on **#3 Continental that had a 5% drop in passengers.** Continental's December market share was 11.3%.

Wait a minute. What about JetBlue? You'll recall our reports last fall that **JetBlue has tied its local marketing efforts to UTAustin athletics**, such as giving away free trips in promotions with the football, basketball, etc. teams. Is this paying off in increased traffic at ABIA? Percentage-wise, yes. **JetBlue increased the number of passengers it flew in 2009 by 18% over 2008 – greater than any other airline at ABIA, quite impressive.** Of course, JetBlue was starting with a lower base of travelers. In December, it had only a 5.5% market share at ABIA. But, when the number of air travelers was down 7% overall, JetBlue's 18% increase in that environment is an accomplishment that gets your attention.

You lucked out last year when it was a very quiet hurricane season. Is it then logical that the 2010 season will come roaring back? Two hurricane forecasters have weighed in.

These two forecasters are predicting more storms than last year. Well, so what? It was a slow year. **Yeah, but they both are suggesting there will be more storms than an average season.** So, maybe it is worth a closer look at what their computer models show. The two are WSI, a private forecasting company, and Colorado State University (CSU) that specializes in the analysis of hurricanes.

WSI is forecasting 13 named storms. For a storm to be named, it must have reached the level of a tropical storm or a hurricane. Out of those 13 storms, WSI predicts there will be **seven hurricanes and three major hurricanes.** What does it take to be labeled “major?” It must be a Category 3 or higher and a Category 3 is characterized as a storm with sustained winds of at least 131 mph.

CSU thinks the 2010 season will be a little more active than WSI’s prediction. CSU is forecasting 11 to 16 named storms, including **six to eight hurricanes and three to five major hurricanes.** FYI: the 50-year average is 9.6 named storms, 5.9 hurricanes and 2.3 major hurricanes per year.

These two outfits don’t just “stick a wet finger in the air” to make predictions. They are well respected, even though they recognize their forecasts are just that – predictions, not fact. These current **forecasts are based in no small part on the anticipated lack of the weather phenomenon known as El Nino.** El Nino was present last year. Hence, they believe this resulted in fewer hurricanes. So, no El Nino this year could have an impact.

In fact, the season following an El Nino typically has an average or above average number of storms. **Hurricane season begins June 1st, 2010 and ends November 30th, 2010.**

Dr. Louis Overholster believes that freedom of speech is wonderful – right up there with the freedom not to listen!

Sincerely



Editor/Publisher