

THE

Real Estate

AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

Austin's existing home sales market has been seeing positive year-over-year change steadily since September. In February, sales were 7.0% above the number of homes the year before.

Another key measure of the health of the real estate market is the **amount of time it takes for a house to sell once the "For Sale" sign is put in the home's front yard.** You factor the pace of sales to come up with an "inventory" that is calculated in months. **A "balanced" market is generally considered to be 6 months.**

Last summer, the months of inventory was at 7.0 and 7.1 levels. This January and February, **there is a 6.2 months inventory on the market in the Austin metro.** Statewide, it is in the 7 months range and nationally it is about 8.6 months, having hit 9.7 one year ago.

Several elements are at play that will impact the rest of the year. Mortgage interest rates are inching higher. The average rate on a 30-year loan jumped from about 5% to more than 5.3% in just one week this month. In fact, **rates are now at their highest level in eight months.** This prices hundreds of buyers in the Austin metro out of the market. For instance, some estimates say that every half-percentage point increase in mortgage interest equates to a loss of buying power of \$25,000.

Add to this the fact that **government incentives for home buyers are nearing the end of their shelf life.** The announced end-date to have a signed contract on a home is April 30th, 2010. The Feds have extended the program once and may not extend it again. Experts generally agree that these **government incentives have had a significant impact** to get first-time homebuyers into a home.

Another problem is that **average and median home prices in the Austin metro have been slowly going south.** But as has been true since the economic downturn started, **the price dip here has been barely noticeable.** The reason: Austin area homes did not skyrocket in appreciation when the irrational national housing boom was inflating home prices. When that national boom went bust, others suffered precipitous declines in home values. Not so here.

One forecast, from Fiserv Inc. suggests **residential price tags in the Austin metro will begin to inch upward in the final quarter this year.** But, spring and summer are busy times for home sales. We'll keep an eye on what is happening and alert you to market shifts, if any.

While passenger traffic was up at Austin's airport in February, it was not a typical month for some major airlines.

When you take a quick look at how many travelers used Austin-Bergstrom International Airport (ABIA) in February, the impression is that this was a normal month – showing progress with 1.5% more passengers using ABIA than during the same month a year ago. So far, so good. **But when you check the individual airlines, you notice it was atypical for some of the biggies – and not necessarily in a good way.**

Southwest Airlines, the carrier that dominates the passenger totals at ABIA and carried more passengers nationally than any other US airline during 2009, actually took a step backward. Its **passenger totals dropped 0.3%** compared to last year. This is quite an anomaly. Normally, Southwest's passenger total increase is greater than the overall totals. So, not only was this month's tally below ABIA's overall increase, Southwest carried fewer passengers than it did the year before.

It was not alone. The #2 carrier at ABIA in number of passengers, **American Airlines**, also recorded fewer passengers than February a year ago – **down 6.5%**. And the #3 carrier, **Continental Airlines**, **also was down 6%**. Southwest's market share at ABIA in February was 38%, American tallied 21.4% market share and Continental totaled 10.4% — to rank 1, 2, 3.

So, if the three biggies suffered from fewer passengers and yet the overall total was up 1.5%, which airlines made up the difference? Look no further than Delta Air Lines. **Delta's February passenger totals were up a whopping 93% more than a year ago.** Those numbers were buoyed by Delta's merger with Northwest Airlines. **JetBlue Airways** (with its marketing effort tied to Texas Longhorns athletics) was up an impressive 13.5%. And United Airlines was up 7%.

The number of passengers using ABIA is still way below three previous years – 2006, 2007 and 2008. So any records are a long way from being set. By the way, even though many airlines are running fewer flights these days, more non-stop destination options are being announced. For instance, **American is adding nonstop service between Austin and New York's JFK, starting July 2, 2010** – using 140-seat MD80 aircraft with 16 seats in First Class.

Even though American has a number of long-distance nonstops out of Austin, many of their flights that depart from Austin go through D-FW International Airport. If you're on any of those flights, **you may soon be faced with construction at DFW.** New construction is slated to start at terminals A, B, C and E, and terminals A and C will also undergo some renovation.

Comparison note: **Passenger traffic was down 6% in February in California's Silicon Valley airport in San Jose.** (Remember, ABIA's passenger traffic was up 1.5% in February.) San Jose's new Terminal B concourse should be complete in June, making travel a bit easier.

In the near future, the Texas Longhorns will likely figure in a shakeup of major college sports re-alignments due to one really big reason — the bad TV contract now in force in the Big 12.

No one can say for sure how potential re-alignments will shake out, but **football is the 800-pound gorilla when it comes to making final decisions.** It is the cash cow of UTAustin athletics. And what is best for the Longhorn football program will be a key element in what happens as many of the major college conferences jockey for the best solutions.

An example of the money situation: **lowly Vanderbilt in the Southeastern Conference (SEC) receives more money from the SEC's TV football deal than the perennial national title contender Texas Longhorns get from the Big 12.** The SEC has a dynamite, exclusive contract with CBS Sports. (By the way, former Austinite **Verne Lundquist** is the play-by-play announcer on the SEC contests that are broadcast nationwide.)

Many of the major conferences are moving behind the scenes to make something happen. What has generally been written is how one conference, such as the Big 10, might cherry-pick a school away from the Big 12 (Missouri?) and this would cause the Big 12 to re-adjust. But **Jerry Scarbrough**, who publishes a sports newsletter titled *True Orange*, has laid out an intriguing possibility that heretofore hasn't gained much national attention.

His scenario: **“align” two super conferences – the Big 12 and the PAC 10.** Neither conference would lose a school. But the TV bucks would be much greater for both conferences under the scenario he lays out. Stay with me now.

The 6-team Big 12 *South* Division composed of **UTAustin, OU, Okla State, Texas Tech, TexasA&M and Baylor** would align with the 4 California teams in the PAC 10 – **USC, UCLA, Stanford, Cal-Berkeley — and Arizona and Arizona State** to form a 12-team division. Imagine the games from this lineup.

The 6-team Big 12 *North* teams, **Nebraska, Kansas, Kansas State, Missouri, Iowa State and Colorado**, would align with the Pac 10's **Oregon, Oregon State, Washington and Washington State** and add 2 schools, such as **Brigham Young and Boise State** to form another 12-team division.

There you have it. **From a fan standpoint, it would be dynamite. And the championship games? Wow.** But the big gorilla that we mentioned at the outset – TV Revenue — just got bigger with this alignment. If you count eyeballs for TV sets from the various states where these schools are located, it would amount to approximately one-third of the entire nation. Even California and Texas alone would be huge. **The TV dollars this alignment would bring could dwarf existing contracts.** And the contract should guarantee the schools that generate the most TV money would receive a higher share. Will all this happen? Who knows? It's still a bit early. But it is an intriguing scenario that has yet to receive much public notoriety.

Speaking of sports, an Austin-based company piggy-backed the feel-good Masters Golf victory by Phil Mickelson Sunday. It was a million dollar “deal.”

Austin-based Golfsmith International last month announced an estimated Million Dollar promotion: any customer who bought a new Callaway driver between March 12th and April 7th from a selection of several Callaway drivers would receive **a full refund of the price, if – if – Phil Mickelson won the Masters golf tournament.**

Golfsmith had staged similar promotions in the past, using different golfers. Of course, it was a gamble on the company’s part. This Masters tournament was all about Tiger Woods big comeback after his personal debacle that dated back to last year. **Yet Mickelson, whose personal life is in stark contrast to the philandering Wood, had to be considered a major contender.**

So, when family-man Mickelson sank his final putt to seal the victory and walked off the green to hug his cancer-stricken wife, **there were few dry eyes at the Masters and among those that were glued to the TV sets.**

If the Golfsmith execs also shed a few tears, it was because of the *moment* – not because they were going to giving out a bundle of refunds to lucky customers who bought the Callaway drivers.

After all, this was a great promotion for Golfsmith and they probably will continue to play it up for some time to come. **But what about the cost of the refunds? Is the promotional value worth that much? Yep, because Golfsmith bought an insurance policy that is paying off the customers.** So the financial risk for the company was minimal. As the Golfsmith CEO put it after Mickelson’s win: “Phil’s win is great for the game and wonderful for Golfsmith and our valued retail and online customers.”

Dr. Louis Overholster, after seeing the story above on football, recalled that a Notre Dame coach once said: “A school without football is in danger of deteriorating into a medieval study hall.”

Sincerely



Editor/Publisher