

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**An interesting phenomenon is taking place in the youth-oriented Austin area. The *older* population is growing at one of the fastest rates in the nation.**

A new Brookings Institution report called *The State of Metropolitan America* examines demographic and social trends that shape the nation's largest metro areas. The Austin Chamber's VP/Research, **Beverly Kerr**, calls the report a "rich guide."

Let's examine just one aspect of the study – population diversification. Much has been written over recent years about the increasing population percentage of various ethnic minorities. But what about **age differences in the fast-growing Austin metro?**

Austin is seeing a mushrooming senior population. In the 2000s, **Austin's senior growth rate was more than three times the national rate.** Hold on. You're not going to have the Austin area turn into a Bermuda-short-wearing, shuffle-board-playing retirement haven such as witnessed in Florida during recent decades. But the increase in the number of seniors is a factor to take into consideration.

**And it is a trend that will likely continue.** Why? Austin and Raleigh, NC **lead the nation in growth among "pre-seniors" – the 55-64 year olds.** "Rather than senior migration," notes Kerr, "Austin's phenomena is said to have a lot to do with 'aging in place' – due to the large numbers of working age immigrants we've accumulated remaining in Austin as they got older."

This doesn't mean the area's "young" population is being crowded out. To the contrary, Austin continues to be one of the leaders in child population growth. **Younger families are still being attracted to the Austin metro,** especially due to employment growth and affordable housing. This continued increase in the young population means that, even though seniors are increasing at a nation-leading rate, the senior population remains a smaller "share" of the total.

**What we have here is both an "aging" and a "young-ing" of the Austin area population.** And this is a trend that will add complexity to the future. It's not good; it's not bad. It's just complex. And as the trend continues, it will add another unique aspect for future planning for your business and your lifestyle. It could make for some intriguing dynamics down the line.

**Austin is a “Next Frontier” metro, a category with less than ten US cities holding that designation, according to the thinkers and researchers at the Brookings Institution.**

The same 170-page report (*The State of Metropolitan America*) we cited in the previous story about the “aging” and “young-ing” of the Austin area praises Austin as **one of the few “Next Frontier” US cities**. How did the Austin metro achieve this designation?

Cities are placed in the “Next Frontier” category by **exceeding national averages on population growth, diversity and educational attainment**. The nine metros in this category **attracted immigrants, families and educated workers** in the 2000s due to diversified economies and relatively mild climates.

The “Next Frontier” areas are also said to be **generally younger, growing more densely, and more transit-oriented** than other metro areas, but also show higher levels of both educational and wage inequality, according to **Beverly Kerr**, VP/Research for the Austin Chamber.

**The report is quite extensive**. In fact, Kerr said “it’s not possible, in this space, to create a complete portrayal of the state of Austin across the range of indicators dealt with in the report.” However, she did **summarize the strengths** that the authors of the report gave to those nine “Next Frontier” metros:

“Built-in stocks of **human capital, innovative firms and research institutions**, along with **denser urban cores** that attract and retain **highly-educated workers**. This will help us retain our economic advantage in the next decade,” she summarized.

“While increasing diversity confers strengths, it also raises **challenges in high and rising educational and income inequality**,” she observed. And remember the key element in the previous story: The “aging” and “young-ing” of the Austin area’s population heightens the **uniqueness of the growth** in the Austin metro. Or, as Kerr put it, “the diversification seen in Austin’s younger population, alongside the less diverse older population, adds complexity.”

**Even before the Continental Airlines and United Airlines merger was announced, we warned that if Continental accepted millions of dollars in incentives to move its HQ to Chicago, it would be a big blow to Houston. It happened. Here’s a case story of another HQ move.**

Dallas spent \$5 million in 2008 to attract AT&T’s corporate HQ from San Antonio. **Aside from tax revenue and jobs**, AT&T has, in less than two years, contributed **millions of dollars to North Texas charities**, \$1 million to the University of North Texas at Dallas, and \$500,000 each to United Way and the Public Library. See what San Antonio lost. Take note, Houston.

**On 4/23/10, we reported the Austin metro was “moving oh-so-close to a positive year-over-year job comparison,” and that no other US Top 50 metro had yet shown positive numbers. Guess what? Austin has now shown a net positive job gain compared to last year.**

Oh sure, the number is small. But it marks what could be a **very important trend**. Our report to you six weeks ago pointed out no Top 50 metros in the US could point to job gains over the previous year. None.

But Austin was at the top of the nation’s list with a **very small negative -0.1% job change count in March 2010**, compared to March 2009. Austin had only 500 fewer jobs than a year ago and the metro in 2<sup>nd</sup> place had 6,700 fewer jobs. The Austin area, at that time, had the nation’s best performing job market among the 50 biggest metro areas in the nation.

Now, comparing April 2009 to April 2010 numbers, Austin has converted its year-over-year jobs deficit once again into job *growth*. **The Austin metro showed a 0.1% increase with a positive difference of 800 jobs**. With two exceptions, all of the other Top 50 metros are still in negative territory, reporting fewer jobs in April 2010 compared to the same timeframe the year before.

For instance, **Dallas ranked right behind Austin with a negative -0.4% change**, followed by Pittsburgh (-0.5%), Baltimore (-0.8%), Fort Worth (-0.8%), Charlotte (-0.9%), St. Louis (-0.9%) and Louisville (-0.9%).

Houston tallied a negative 1.6% while San Antonio was -1.2%. Texas has -0.3% fewer jobs than a year ago. The state, like Austin, began showing a negative year-over-year change in January 2009. **But now, Austin is among the nation’s leaders in job growth**, ranked #3 on the national list following #1 Nassau (+0.7%) and #2 Washington DC (0.2%).

The Austin Chamber’s VP/Research, **Beverly Kerr**, said that 10,700 jobs were added in the Austin area in four *positive* growth industries: **education and health services, leisure and hospitality, other services and government**. Those gains were offset somewhat by 9,900 jobs lost in *negative* growth Austin industries, including: **construction and natural resources** (2,300 jobs lost) and **manufacturing** (3,100). By the way, Austin’s *construction* losses are **less severe** than those seen statewide and nationally, but **manufacturing losses are above** the state and national 12-month losses, according to Kerr.

Speaking of new jobs, **HostGator**, headquartered in Houston, will soon add to the Austin job totals when its expansion opens for business in northeast Austin next month. It will take space at 8100 Cameron Road, serving as the anchor tenant in a 100,000 sq.ft. building. HostGator hosts more than three million domains worldwide. **Two hundred local workers will be hired initially**, ramping up to more than 300 over the next 36 months.

**Now that the homebuyer tax credit has expired, what incentives are available to encourage Austin homebuyers? How about very low mortgage interest rates?**

If you haven't checked lately, mortgage interest rates may surprise you. **This week, a 30-year fixed-rate mortgage averaged below 5% — 4.79%, to be precise**, according to Freddie Mac. Is that the lowest rate out there? Nope. For instance, a **15-year fixed-rate mortgage averaged 4.2%**. This is the lowest 15-year rate since Freddie Mac began tracking mortgages in 1991.

These are standard mortgages – no fancy (read “risky”) adjustable rates, no special hidden charges or bells and whistles. Just straight, **old-fashioned 30-year and 15-year fixed mortgages**. Oh sure, if you want a riskier Adjustable Rate Mortgage (ARM), you can find one. In fact, a one-year ARM averaged 3.95% this week.

**While these rates are slap-your-forehead low, they don't mean anything if a homebuyer can't get a loan.** And qualifying for a loan has been very difficult since the nationwide housing crisis. So, has that lending situation changed?

To a certain extent, yes. Freddie Mac's chief economist **Frank Nothaft** was quoted in the media as saying “**there are also signs that credit conditions may be improving.**”

Obviously, the financial floodgates are not opening wide. So don't expect a big rush of qualified buyers. But, for those who are financially-qualified, not only can buyers **lock-in one of the lowest mortgage interest rates** in a long, long time, they will be able to **take advantage of a buyer's market** in the Austin area. Those are pretty good incentives.

**Dr. Louis Overholster** had to medicate his CEO patient after the CEO told him he saw a young man at his loading dock, leaning against the wall, doing nothing. The CEO said he barked at the man asking how much he made a day. The man said \$200 so the CEO pulled \$200 cash out of his wallet and told him to leave and not come back. A short time later, the shipping clerk asks the CEO “Have you seen the UPS driver? I asked him to wait here for me!”

Sincerely



Editor/Publisher