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Dear Client:

Why is Austin's housing market performing at a solid pace? According to one local expert, "Austin is blessed in its job growth, home appreciation and limited supply."

The only thing slowing things down seems to be consumer confidence, says Mark Sprague, Director of Business Development for Mission Mortgage, who previously ran an Austin operation that tracked the area housing market. Using June 2010 figures, Sprague draws these comparisons:

The number of homes for sale, calculated at the current pace of sales, shows there is a 7.4 month supply of available homes. Six months is equilibrium. **"So, even though we have a record number of listings, we are absorbing them,"** Sprague said. And he points out resale homes make up the majority of homes for sale.

He noted that sales were a little slower but median prices crept up. The volume of sales was down 4% from the same month in 2009, but the median price increased 4%. In June, he reported that homes remained on the market an average of 70 days, a 14% decrease from the same month in 2009.

"Austin is in a good place, if not one of the best compared to the nation," he noted. **So, is now the time to buy real estate investments?** Some national pundits say these are the glory days for the residential real estate investor with low prices, rock-bottom interest rates and stable rental markets. This may be true nationally, but not necessarily in the Austin area.

Why is that, Mark? Well, in markets like Las Vegas, Phoenix, Atlanta and Miami, home prices there dropped as much as 70%. "We never saw the run-up of values (appreciation) as other markets did," said Sprague. **"Therefore it makes it hard to profit on 'flipping' or speculating on the housing market in Austin."**

What you are seeing in Austin, he points out, are true real estate investors who are looking long term. Not bottom-fishing vultures. His guidance to them: "Do not even factor in home price appreciation for at least a year. After that, calculate only a 3% annual increase or less – a return that won't turn the heads of investors who only want to buy low and sell high." But he does point out that the savvy investors in the Austin market are **"holding and renting for hefty, steady incomes."** See the next item for below-the-radar factors at play in the Austin area.

For the Austin area homebuyer or the residential real estate investor, *affordability* is a key decision-making component. And interest rates dramatically impact affordability.

In fact, one percentage point in interest rates costs about 12% in buying power. Think about this. This is an important ingredient if you are buying a home as an investor or purchasing one for your homestead. **Right now, mortgage interest rates are very low – historically low. If rates were to move up, such as one percentage point higher, your buying power is diminished considerably.** (Unless, of course, you are a cash buyer. Cash is king. And can usually be leveraged to get an even lower purchase price.)

For example, take a \$250,000 loan amount at 4.25%. This has a monthly payment of \$1,229. **At 5.25%, just one percentage point higher, the monthly payment rises to \$1,380, or an increase of \$151/month.**

Stay with me now. **At the lower rate of 4.25%, you can borrow \$280,000 and have the same payment as \$250,000 at the higher rate.** And, with 20% down, this translates to a purchase price of an Austin home of \$350,000 versus \$312,500, or an increase of more than \$37,000 in buying power. It gets even more dramatic as you factor for higher priced homes.

You don't know when mortgage interest rates will go up, but **you do know with certainty they will rise.** And you don't know how high they will go. But, right now, they are really low.

Another below-the-radar financial factor is often times overlooked when calculating the cost of a home purchase as a homestead or an investment play. Closing costs in Texas are among the highest in the nation.

In fact, **closing costs on the purchase of a home in Texas are the 2nd highest in the nation.** According to Bankrate.com's 2010 Closing Costs survey, the Lone Star State's average closing cost of \$4,708 is **second only to New York's** \$5,623. The US average closing costs are \$3,741. Closing costs include such items as origination fees, appraisals and title insurance. The most affordable state: Arkansas, at \$3,007. By the way, Bankrate.com calculated these numbers for a 30-year, \$200,000 home loan with a 20% down payment.

Texas stands out nationally any way, because the state's **property taxes and home insurance rates are among the nation's highest.** And now the new 2010 federal regulations are impacting its closing costs.

When providing a potential borrower a Good Faith Estimate of costs, lenders must now provide a title fee and closing estimate within 10% of what the final cost will be. **So new underwriting requirements necessitate additional due diligence and loads more paperwork.**

One of the more intriguing battles in the November control-of-Congress election is taking place just up IH35, in the Waco area.

For 20 years, **Chet Edwards** has been the Congressman for the Waco area. Not only is he a Democrat in what may be the most conservative of the 257 seats held by Democrats, but he was on **Barack Obama's** short list as his Vice Presidential running mate in 2008.

Republican presidential candidate **John McCain** carried Edwards' district with 67% of the vote in 2008. This was the biggest margin for McCain in any national Congressional district. Former President **George W. Bush's** ranch in Crawford is in Edward's district. Yet Edwards was re-elected in 2008, just as he has been every two years for two decades.

How has Edwards voted? He broke ranks with his fellow Democrats to vote *against the President Obama's healthcare bill*. He voted *against the Democrat's cap-and-trade measure* that has so far died in the USSenate. Edwards also voted *against the financial regulatory reform bill* that Democrats pressed hard to pass. Yet, he voted *for the financial bailout and the stimulus package*.

Edwards is obviously popular in his very conservative home district. In fact, Edwards snubbed President Obama on his recent visit to Texas, and while the president was in Texas, the Waco Congressman announced **endorsements from two conservative groups – the Texas Farm Bureau and the National Rifle Association**. Edwards is the only Texan on the Appropriations Subcommittee on Agriculture and rural development.

Edwards faces a political unknown in November – Republican **Bill Flores** from Bryan. Flores points out he has been a Farm Bureau member for more than three decades, grew up on a farm and became an oil and gas company executive. As a campaign staffer put it: **"Bill Flores understands agricultural issues in the way that only comes from getting dirt under your fingernails."**

Flores' campaign points out that **Flores got a perfect score on the NRA questionnaire** and secured the **endorsement of the Gun Owners of America**, a gun rights group to the right of the NRA. They also mention the retired businessman has a **concealed handgun license**.

So you can see how this race is shaping up. **The Democrat is touting his conservative credentials** in a very conservative district. **The Republican is hammering on Edwards' vote with Obama** on the bailout and the stimulus.

Money from all over is pouring into this contest. Republican Flores will undoubtedly say that a **vote for Democrat Edwards is a vote for Nancy Pelosi** as Speaker, and Edwards will tout his experience and **work on behalf of his conservative constituents**. Keep an eye on this one.

The former “tech rock star,” Michael Dell, is taking some hits these days, but don’t count out the Austinite who made millions of dollars for hundreds of early believers.

A widely-read business writer in Houston, **Loren Steffy**, probably typifies some of Dell’s critics. Writing in his *Houston Chronicle* blog this week, here is some of what he said:

“Covering Dell shareholder meetings in the late 1990s was a surreal experience. People brought their children in hopes of seeing ‘Michael.’ The company’s founder and namesake was mobbed by autograph-seeking investors. **That was the decade when Dell was the best-performing stock on the Nasdaq and Michael Dell could do no wrong. How things have changed,**” Steffy wrote.

“At its most recent annual meeting, Michael Dell failed to win the support of more than a quarter of the company’s shareholders. About 1.5 billion shares were withheld, **the closest thing in corporate democracy to a ‘no confidence’ vote.** Dell’s sales and earnings have been on a slide for the past two years. As one analyst told Bloomberg News, **investors are clamoring for a change.** They need a CEO who can really come in and bring some big changes,” he continued.

“So far,” wrote Steffy, “the board is still backing Michael Dell. His name, after all, is on the building. He once redefined the computing industry with his ideas. But that, like his rock star status, was a long time ago. **Michael Dell’s days of living off his reputation may be coming to an end.**”

Strong words. But they are by no means reflective of widespread opinion. And, we reprint them here simply to let you know some of what is being said “out there.” There are others who strongly defend Michael Dell and who believe his commitment is solid to turning around Dell Inc. And he has made some bold moves in that direction. Don’t bet against Michael Dell.

Dr. Louis Overholster placed this sign on the fence of his Hill Country ranch: “Owner allows you to walk across this ranch *free* – but the bulls *charge!*”

Sincerely



Editor/Publisher