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Dear Client:

With the flurry of current activity and interest in the high tech/Internet business sector in the Austin area, is there a danger of a tech bubble or a dot-com bust similar to a decade ago?

Take a step back and look at what's happened in recent months. Governor **Rick Perry** is out front leading a charge to **make Austin the next Silicon Valley**. **Facebook began operations downtown** as part of its first US expansion of its online sales and operations teams outside of its Palo Alto headquarters. **eBay/PayPal committed to create at least 1,000 jobs** in Austin over the next ten years. **Samsung is concluding a \$3.6 billion expansion** (the most expensive in Austin's history). And there's more.

This is amazing economic news, especially when you consider the jobs that are created (eBay/PayPal's average salary for new hires is \$107,000). But if you weathered the frenzy of the dot-com era in Austin as the 1990s ended, as well as its ultimate bust, you may be thinking, as **Yogi Berra** put it: "It's déjà vu all over again." Well, is it? Are we building up for a bust?

Not likely, because **this is a vastly different surge**. The dot-com frenzy was fueled by investors, IPOs and the market **dumping huge sums of money in companies that had never shown a profit**.

Do you have any idea how much profit Facebook is expected to book in 2011? A billion dollars! Profit! This is hardly the bottom line of a company that may go bust anytime soon. eBay was one of those dot-com companies that survived and in February reported that eBay/PayPal revenue could double in as little as two years, thanks primarily to PayPal.

Besides, these are different times than just a dozen years ago. **There are many more users online now and the number is growing**. It's roughly 2 billion today, compared to 55 million (and many of those were on dial-up modems!) in the late 1990s.

So, not only is there a much **stronger financial underpinning to many of these companies, but the marketplace has expanded exponentially to enhance future success**. Nothing is totally failure-proof, but this is a much better economic place than it was just a few short years ago.

“The housing market just ain’t what it used to be.” This is straight talk, though a somewhat inelegant quote, from a Texas real estate research economist. And he backs up his statement.

A major difference in today’s housing market, according to **James P. Gaines**, a research economist with the Real Estate Center at TexasA&M University, is that **more households, either by choice or by circumstance, will rent rather than own their housing.** This is true nationally as well as in Texas.

One factor contributing to this change is the high number of foreclosures. **Those who lived in a household that was foreclosed upon entered the rental housing market** and will not be eligible to purchase a home again for several years.

Another part of the new housing market, according to Gaines, is **tighter credit underwriting requirements that force potential homebuyers to take on less debt** so that total housing costs are more affordable.

He further noted that this **reduces effective homebuyer demand** as fewer households can qualify to purchase a home or must buy a less expensive home.

And speaking of foreclosed houses, many of them have become rental properties. Investors pick them up at dramatically-lower prices, fix them up, and make them available for rent while waiting for the market to turn upward in order to sell and recoup their investment, along with a hoped-for nice profit. As a result, **single-family units for rent are growing and, increasingly, they are a significant segment of the housing market.**

In other housing developments, Gaines points out that **“Texas home prices have held up well** while those in the rest of the country generally declined.” And he noted that “most of the metropolitan areas in the state **experienced price increases during the past five years,** although increases were lower in 2010.”

And that brings up another point about 2011. Gaines said sales volume statistics for the first half of the year will inevitably look depressing as data are compared with the government-stimulated sales of the year before. **“The second half of the year will begin to tell the story of recovery** that will probably not pick up steam until 2012 and 2013.”

Additionally, Gaines says that Texas has been and will continue to be one of the most housing-affordable states in the country. He reports that, according to American Community Survey data, Texas ranks as the 6th most affordable state in the union. **“Housing affordability and new job formation are key to the state’s future growth,”** he declared.

Gaines’ main point: the number of households choosing to rent will continue to go up.

Just as recent rains have covered only 20% to 40% of the Austin area (at best), the impact of the current drought also differs markedly, even within county boundaries.

The US Drought Monitor each week classifies the intensity of dry conditions throughout the nation. It uses five categories of drought. From least to worst, here are the categories: **D0, abnormally dry ... D1, moderate drought ... D2, severe drought ... D3, extreme drought ...** and the worst category of all, **D4, exceptional drought.**

This week, portions of Central Texas counties range from D2 through D4. For instance, **most of Travis County west of IH35 is in the D2 severe drought category, while all of Travis County east of IH35 is classified as D3, extreme drought.**

Just a little further to the east in Fayette County (La Grange) and Lee County (Giddings), **the worst drought category of all – D4, exceptional drought – covers the entirety of both counties.** And it even spills over to the eastern portion of Bastrop County.

What about the rest of Central Texas? Well, **north of Austin and west to Marble Falls and Kingsland,** the category is D2. Then, **west of Kingsland all the way to San Angelo,** the severity of the drought moves up to D3.

South from Travis County, through Hays and Comal Counties to San Antonio and west from the Alamo City is also categorized as D3. Relief comes from San Antonio to Corpus Christi and Victoria where some portions dip all the way to D0.

You no doubt recall the drought of 2008-2009, when D4 was the norm for practically all of the Central Texas area. The levels of lakes Travis and Buchanan dipped dangerously low. Water rationing was prevalent. Trees, bushes and lawns were severely damaged. In fact, in some ways, **that drought was even more intense than the drought of the 1950s,** which lasted ten years and is considered the worst on record.

Welcome rains in the fall of 2009 brought an end to the 2008-2009 drought. But, for now, the **Central Texas region appears heading into another period of drought** because of a La Nina weather pattern that typically keeps the rain away.

The good news, for now, is that while lakes Travis and Buchanan are below their average level for this time of year, **the lakes are still holding plenty of water that was stored from the rainy times during late 2009 and 2010.**

The current drought began many months ago. You may recall Central Texas suffered through a very dry autumn. In fact, **October through December 2010 was one of the driest periods on record for those months.** Let's hope the trend abates sooner, rather than later.

Thursday, Texans celebrated San Jacinto Day, commemorating the final battle fought during the 1836 Revolution. If you have a speck of respect for early Texas history, we have an inspiring suggestion for your bucket list.

The Battle of San Jacinto April 21st 1836 was memorable because that was the date General **Sam Houston** led an army of Texans to victory over Mexican General **Santa Anna**'s forces and sealed Texas' independence as a Republic. But it was the **Fall of the Alamo** March 6th 1836 that inspired generations and created Texas folklore that continues to endure today, 175 years later. And you have one week to gaze upon one of the most famous relics of that defeat.

William B. Travis, who commanded the Texian forces, sent a letter by courier seeking reinforcements as the 6,000-man Mexican force laid siege to the Alamo. The words still ring today: "I have sustained a continued bombardment and cannonade for 24 hours and have not lost a man ... **Our flag still proudly waves from the wall. I shall never surrender or retreat ... VICTORY OR DEATH!**"

At 4 am on the morning of March 6th 1836, Santa Anna's forces stormed the Alamo. By 8 am, all 187 of the Texas troops were dead – including Travis, **James Bowie**, **James Bonham** and **Davy Crockett**. Six weeks later, with Texas forces shouting "Remember the Alamo," Texas won its independence with a victory at the Battle of San Jacinto.

You can gaze upon the original letter from Travis, on display in Austin along with the **original Texas Declaration of Independence** and other artifacts. The exhibit's original closing date of April 21st has been extended to April 29th.

Admission is free, from 8 am to 5 pm, in the **Lorenzo de Zavala State Archives and Library Building at 1201 Brazos St.** To preserve and protect these irreplaceable artifacts, they are rarely placed on display. You owe it to yourself to stand and reflect in front of these documents.

Dr. Louis Overholster is famous for saying "I intend to live forever – so far, so good!"

Sincerely



Editor/Publisher