

Volume 33, Number 15

July 8, 2011

Dear Client:

The headline last week blared “Austin Among 10 Worst Housing Markets Next Five years.” Don’t you believe it. The report drew a wrong conclusion about the most significant factor that kept Austin from experiencing the economically devastating real estate bust of other cities and states.

The headline appeared above an *Austin Business Journal* report Friday, July 1st 2011, and the headline accurately depicted a *Business Insider* forecast. **The problem: the forecast drew the conclusion that slow home price growth in the Austin area placed the Austin market among the “worst” in the US.** No so. The slow increase of home prices “saved” the Austin area.

Let’s explain. The “worst” ranking was based on *cumulative price growth in the last six years*, expected annualized growth in the next five years and expected trough periods. Price growth in the last six years? Well, duh. **No question Austin area home prices moved slowly and steadily upward during the past six years. But this was a good thing.**

Why? **Because, elsewhere, housing prices were soaring unchecked into the stratosphere. Ultimately these sky rocketing prices led to a devastating housing market crash by creating a “housing bubble”** that expanded to the bursting point across the US with an economic fury that is still being felt. But, Austin with its slowly increasing home prices had no bubble to burst.

The report indicated that **Austin housing prices have increased just 2.63% since 2005**, compared with the national average of 3.7%. Austin’s average home sales growth was projected during the next five years at 1.2%. (But just last month, the median home price tracked by the Austin Board of Realtors increased 4% in May.)

Another enviable sign of vibrancy in the Austin residential market: **it’s getting more and more difficult to find an apartment to rent and, as a result, rental rates are going up.** From Austin to May this year, Austin’s effective rental rates rose 8.7%, according to Axiometrics Inc – the 3rd fastest increase in the nation. Last year was very strong in terms of rent growth and, so far this year, rents are rising at an even faster pace. **Apartment occupancy in the Austin area has now passed 95% as people continue to move to Austin.**

How many people are continuing to move to Austin? Thousands. Each month. But because the job growth in the Austin area is so vigorous, these new residents are generally absorbed in the economy.

According to a new US Census Bureau analysis by *Business First*, **Austin is expected to grow by more than 6,000 people between July and August.** No wonder the apartments are running near full occupancy. Most new residents grab an apartment upon arrival, prior to determining if/where they may want to put down deeper roots. And proximity to their workplace plays a large part in that decision.

One of the criticisms leveled at Austin is that the *unemployment* numbers, while impressive, are not much lower. And while unemployment is an important metric in gauging the economic health of an area, **any analysis of those who are out of work has to be balanced with the people who are filling the jobs that are being created.** This is where Austin shines because of its enviable job growth.

Because we have tracked the unemployment and job growth numbers regularly, there is no need to go into deep detail for this purpose. But it goes without saying that if job growth was stagnant (like in Waco, for instance) and these same numbers were moving to Austin, the unemployment numbers would be dismal. **The fact Austin area's unemployment hovers around 6% is indeed amazing – given all the job seekers moving into the area.** And the same can be said about the state of Texas as a whole where 4 out of every 10 new jobs in the US have been created since the recession ended. More about this following the next story.

Austin's newest retail district is adding to the vibrancy of downtown. In fact, it now has a moniker all its own – to distinguish it from the retailers on venerable Congress Avenue.

We're talking about the 2nd Street Retail District. (You know, the area that has been in the news due to glass balconies breaking and cascading down the side of the W hotel.) **It is bounded on the north by 3rd Street and on the south by Cesar Chavez. The western boundary is San Antonio Street and the Eastern edge is Trinity,** stopping short of Congress Avenue.

This is not a large swath of land, but some impressive numbers are being posted in the area. **There is approximately 377,396 square feet of first floor space in and around the 2nd Street Retail District.** Of this space, 196,348 square feet is considered retail – restaurants, retail goods and services, and bars/clubs.

This new retail district has successfully nurtured several new emerging designers, unique local shops and numerous nationally coveted retail clients such as Design Within Reach and Bang and Olufsen. Plus, the famed Austin City Limits Studio serves as a great attraction for the district.

As the spotlight shines brighter on the Lone Star State, its economic record is being hailed by conservatives while liberals dispute its importance. This is due primarily to speculation surrounding the possible presidential candidacy of conservative Republican Gov Rick Perry. But, a liberal voice from California is now making an interesting argument.

Writing this weekend in the *Los Angeles Times*, **Rick Wartzman** noted: “For the last few weeks, I’ve been unable to get a startling statistic out of my head: Since the recession officially ended, **Texas has created more than 4 of every 10 new jobs in America.**” He went on to write: “I am no ideologue. **Still whenever I get political, I tend to tilt reflexively to the left, making the jobs figure a bit disconcerting at first.**”

He observed the obvious. “When the data from Texas emerged – touted first by **Richard Fisher**, president of the Federal Reserve Bank of Dallas – **conservatives were quick to celebrate**, embracing the jobs tally as powerful evidence of the superiority of Republican ideas as well as proof that Texas Gov **Rick Perry** would make a good president. But that’s overly simplistic.”

“**Meanwhile, those on the liberal end of the spectrum immediately set out to shoot the numbers down,**” he wrote. “MSNBC’s **Rachel Maddow**, for instance, held up a giant bologna and mocked the notion of a ‘Texas miracle.’ That view, however, is too cavalier.”

After ticking off the good and bad about the Lone Star State’s economy, Wartzman quoted Fisher who said “**the most important thing I think that’s happened to us is tort reform,**” citing examples of company re-locations to Texas saying “they’ve been largely driven by steps the state has taken to **cap non-economic damages in medical malpractice suits** and to make it **harder to bring product liability and class-action cases.**”

“For those whose knee-jerk instinct is to dump on such logic,” noted Wartzman, “they would do well here to consider the source. Fisher served in President **Carter**’s Treasury Department and as a high-ranking trade official for President **Clinton** and was a two-time Democratic candidate for the US Senate. **Although the former investment banker is certainly not an ardent leftie, he is no right-wing zealot, either.**”

“To be sure,” the executive director of the Drucker Institute at Claremont Graduate University said, “**Texas is not without lots of problems.** And its remarkable employment growth is not without attendant concerns. But for those on the left to dismiss the state’s job story out of hand, just because Republicans have embraced it as a showpiece, is **counterproductive and foolish.**”

He told his California readers: “There’s no escaping it. The number is real. Which means that if you care about putting people back to work at a time when nearly 14 million in this country are unemployed, **maybe Texas has something to teach us.**”

Vice Admiral William McRaven is a 1977 UT Austin journalism grad. He also planned and coordinated the Navy SEAL attack that killed Osama bin Laden. He shared some thoughts in the July/August issue of the alumni magazine, *The Alcalde*.

McRaven will soon assume command of all the US Special Operations. This will place him in charge of the 57,000 US Special Forces worldwide. Since 2008, he has led the Joint Special Operations Command. When asked **why special operations forces are reluctant to come forward and be known for their role in combat**, he told *The Alcalde*:

“It is certainly the special operations way. When you look at any of the special operations units, we like to think of ourselves as quiet professionals. **Guys are doing their missions every night, and the satisfaction they get is from doing a mission well and supporting their comrades in arms.** It is not about the publicity.” Then, he was asked about being nervous.

“Certainly when you are on a mission or preparing for a mission you get nervous. **I am scared a lot when we are conducting missions and when I personally go out on missions, but you have to learn to work through that fear**, and that is what these young soldiers are doing every night in combat in Afghanistan, Iraq, and other places around the world.” And the challenges he faces?

“One challenge I face is how to make sure that my men go on a mission and come back safely. That is the difference between most jobs and the job of being a soldier in combat: **the decisions you make and the mistakes you make cost people their lives.**”

McRaven says he keeps in touch with what is happening at UT Austin through his sister, **Nan McRaven**, who lives in Austin, and through UT Austin’s Naval ROTC alumni group.

Dr. Louis Overholster complains about all the health care paperwork inundating his office.

He’s offering \$1,000 to anyone who can come up with a combination inbox and shredder!

Sincerely



Editor/Publisher