

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](mailto:News@AustinLetter.com)

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Dear Client:

**As the calendar flips over to the final quarter of 2011, it's appropriate to analyze the status of the residential real estate market. Overall outlook: better than almost anywhere in the US.**

The Austin area's real estate market is not only important to those who buy and sell homes, but also to homeowners and soon-to-be homeowners, homebuilders and Realtors®, retailers that sell home furnishings, etc. — and even to city and county governments who assess taxes based upon the value of residential real estate. **So, what does it look like as the end of the year looms less than 3 months from now?**

**One key measure of the vibrancy of the residential real estate market is the time it would take to sell all the homes listed for sale, at the current sales pace.** It's called months of inventory. A rule of thumb is that more than six months of inventory, is a buyer's market and below six months is a seller's market. So, six months is considered "equilibrium."

Given that, the Real Estate Center at TexasA&M calculated that, **as of 9/29/11, the Austin area had 5.8 months of inventory** – very close to a healthy equilibrium. Mission Mortgage's **Mark Sprague** said "Austin has been blessed in that the last 6+ years, we have remained close or under that number. Other national, as well as regional metros, cannot say that."

As of the same date, **Dallas had 6.4 months of inventory, Fort Worth, 6.6, Houston 7.2, and San Antonio, 7.9 months.** Odessa, where the Texas oil boom is going full force, had 4.3 months of inventory. The border cities hammered by the problems in Mexico are at the other end of the spectrum with Brownsville at 13.5 months of inventory and McAllen with 15.1 months.

**Another marker that bears mentioning is that Austin home sales are up 31% from last year** (Dallas, up 31%, Houston, up 29%, San Antonio, up 9% and statewide, up 24%). At the same time, homebuilders started construction of new homes at a pace that was a bit ahead of the number of closings.

**All this indicates a level of optimism that the Austin area may continue its steady pace** — much of it based upon a vibrant employment picture and actual real estate results.

**The vibrancy of Austin’s economic future resulted in another #1 ranking – this one, the Top Ten US Cities with Potential Growth. The ten, as ranked by a publication whose roots go back 88 years, are spread all over the country with Austin at the top.**

Our friends at *Kiplinger’s* Personal Finance in Washington worked with Martin Prosperity Institute, a think tank that studies economic prosperity. *Kiplinger* then visited the cities to interview business and community leaders and residents. Their Top Ten: **#1 Austin, followed by Seattle, Washington DC, Boulder, Salt Lake City, Rochester, Minn., Des Moines, Burlington, West Hartford, Conn. and Topeka.** *Kiplinger*, as you may recall, is nearing nine decades of providing insight and analysis to the US business community.

*Kiplinger’s* senior editor **Robert Frick** said of the Top Ten: **“It’s no coincidence that economic vitality and livability go hand in hand.** Creativity in music, arts and culture, plus neighborhoods and recreational facilities that rank high for ‘coolness,’ attract like-minded professionals who go on to cultivate a region’s business scene. **All these factors make our Best Cities more than just great places to live. They’re also great places to start a business or find a job.”**

“Cities with potential growth have a few things in common. **They have smart people and great ideas. However, a third key element is vital, and it’s one we find that is becoming increasingly more popular. They collaborate,**” noted *Kiplinger*. “Business communities to governments to universities to residents – when they’re in collaboration, the economic vitality is impressive. **As these cities soar in vitality they become more livable. The arts, culture and music come alive, making the cities with potential growth more desirable.”**

What about Austin, specifically? **“Austin, Texas has outstanding programs to help build a network for business brainpower and encourage entrepreneurship.** Plus there are available venture-capital funds and about 20 business associations. Mix all these elements in what many call a classless society, where hippie communalism coexists with no-nonsense capitalism, and **you’ve got a breeding ground for start-ups.”**

*Kiplinger* didn’t just throw a dart at a US wall map to come up with the ten cities and the **ultimate top ranking of Austin as the best of the best.** As we mentioned, the research was supplemented by a visit to Austin and interviews. Here’s what else went into the study:

A formula and a methodology that included several economic indicators were used to select the top ten cities that have **current and likely future growth in high-quality jobs and income.** The number of **“creative class” workers** (those who are educators, writers, scientists) in the area was considered, as well as things like **public transportation systems and overall affordability.**

Noteworthy: *Kiplinger’s* information is circulated widely to US business and thought leaders.

**The Lower Colorado River Authority (LCRA) has asked the state for permission to significantly cut back or cut off water to farmers next year if drought conditions continue.**

Lakes Travis and Buchanan are “storage” lakes on the Colorado River. The LCRA manages the level of these lakes to “**store**” water for its customers to use during dry times or, at the other end of the spectrum, to “**capture**” water in flooding situations to protect those downstream. As a result **the levels of these two lakes vary widely, depending upon weather conditions.**

Right now, the levels of lakes Travis and Buchanan are very, very low. For instance, Buchanan is declining to an elevation of 987 feet above sea level. **This is more than 23 feet lower than Lake Buchanan’s historic October average.** The same is true for Lake Travis where the lake level is at an elevation about 628 feet above sea level and still dropping. **This is almost 38 feet below Lake Travis’s historic October average.**

Just as important is the amount of water that is being stored. **If both lakes are “full,” the combined volume is 2,011,000 acre-feet of water. Right now, the current combined volume of lakes Travis and Buchanan is 749,000 acre-feet.** In other words, the storage of water is only 37% of what is possible. **This is serious and it is getting worse** as the exceptional-to-extreme drought conditions remain in place.

With the absence of any tropical storm activity in the Gulf of Mexico, and hurricane season nearing its end, **meteorologists are forecasting the drought is likely to continue into next year and maybe even beyond.** Lake water continues to evaporate and streams in the Texas Hill Country are dry. As a result, inflows into the Highland Lakes continue to be well below normal. So what is the LCRA doing as it watches the water levels drop daily?

The LCRA has formally filed applications with the Texas Commission on Environmental Quality (TCEQ) to deviate from its state-approved water management plan. **LCRA is asking TCEQ for approval to cut off Highland Lakes water to farmers in the Gulf Coast area and to other irrigation divisions downstream.**

The trigger LCRA is seeking: **if lakes Travis and Buchanan combined contain less than 850,000 acre-feet of stored water on March 1<sup>st</sup> 2012, water would be cut off to the downstream farmers.** Remember what we told you a minute ago. The current combined water storage in the two water supply reservoirs is 749,000 acre-feet. And with minimal, if any, water going into “storage,” water is still being released to downstream users as per existing water contracts.

**The situation is dire.** If the TCEQ approves the LCRA requests to deviate from the existing state-approved plan, downstream farmers could face severe crop-growing restrictions next year.

**Financially-strapped Illinois imposed a “temporary” increase in its state corporate income tax in January. As a result, Austin is in the running for the re-location of Sears Holdings Corp’s headquarters from suburban Chicago.**

Reports in the *Chicago Tribune* said a **small group of leaders from Sears visited Austin** and Columbus Ohio in recent weeks to check out potential HQ sites. They met with economic development, business and city leaders as well as gubernatorial staffers while in Austin. Illinois is trying to keep Sears from moving, so this could be a move pitting sites against each other. But, stay tuned. **If the move to Austin happens, it could mean thousands of jobs.**

**The State of Texas’s financial picture is looking a bit brighter. In fact, if current trends hold true, the state’s Rainy Day Fund should reach \$7 billion by the time the next session of the Texas Legislature convenes in Austin in January 2013.**

Don’t take this wrong. “Rosy Scenario” is not headlining the financial drama playing out these days. **But there are some signs that indicate the state is moving in the right economic direction.** The growth in the Rainy Day Fund is one of those examples.

But there are other indicators as well. The state’s chief revenue estimator, **John Heleman**, testified before an interim legislative committee this week and he told the lawmakers **much of the revenues pouring into the state’s coffers currently are approaching pre-recession levels.**

He pointed out specifically that **sales tax collections in 2008 hit an all-time high in Texas.** And, right now, he testified **“we’re essentially back to where we were in 2008.”** The same appears to be true in other areas, such as sales of motor vehicles. Outside factors can impact the Texas economy, but key indicators are improving and the trend is in the right direction.

**Dr. Louis Overholster** believes that for every action, there is an over-reaction!

Sincerely



Editor/Publisher