

THE

Real Estate

AUSTIN LETTER

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Dear Client:

Good news for the Austin area residential real estate market as the year winds down: After 4 successive years of shrinking sales, 2011 will be the first year of positive growth in home sales since 2006.

On a year-to-date basis, sales for 2011 are up 6.0% over last year and the Real Estate Center at TexasA&M is projecting sales for 2011 will be 8.7% ahead of 2010, according to data compiled by the Austin Chamber's VP/Research, **Beverly Kerr.**

Even though sales typically peak in the summer and diminish through January, Austin has seen positive year-over-year growth for 5 months running. **The 2011 dollar volume of sales is expected to be up 11.4% from 2010 for the Austin metro,** compared to +4.3% statewide.

Another sign of a healthy residential real estate market: **the average time a home for sale stays on the market before it is sold decreased from 5.5 months in September to 5.1 in October.** It was 6.5 months one year ago. A balanced supply is considered to be 6 months. (July 2010's 7.4 months represents the Austin peak of the recession/recovery period.)

Current supply in Texas' other major markets has also improved over one year ago. Dallas has 5.7 months supply in October, compared to 7.1 a year ago. Fort Worth has 6.0 now compared to 7.2 a year ago. Houston has 6.7 months compared to 7.9 a year ago and San Antonio is at 7.4 months compared to 8.1 in October 2010, Kerr reported.

What about Austin home sales prices? **Austin's median home price in October was \$188,700,** up from the previous month by 0.9%, but down from one year ago by 2.4%. **The average price at \$249,500** was up 1.6% from September, but down 2.8% from a year ago. For the year, 2011's estimated *median* price was up 1.2% while the *average* price was up 2.5%.

Conclusion as 2011 wraps up: **the Austin residential real estate market showed marked improvement by many measures this year.** And, importantly, it did so without out-of-sight upward price pressures. You'll recall inordinate price increases in other states led to the housing bubble that burst in recent years, contributing to the recession.

A key issue for the Austin area, in fact for Texas and most of the US, is illegal immigration, primarily from Mexico. A check of the latest stats shows a decline in Mexican immigrants.

The US arrested 340,252 migrants along the US-Mexico border in the fiscal year that ended 9/30/11 – **down 24% from the year before and the lowest level in 39 years.** What's behind this decline? **There are a number of reasons,** according to a report in *The Wall Street Journal* this week – some more impactful than others. It's timely to look at them as the US Supreme Court this week agreed to decide whether an Arizona statute targeting illegal immigrants interferes with US law.

Also there is strong local interest in this law. **You may recall the Arizona law was strongly criticized by the Austin City Council and the Council voted to boycott city-paid travel to Arizona when the law passed.** So, let's consider the reasons that fewer are entering the US illegally now, as cited by the *Journal*:

Stronger border controls keep more Mexicans home. A decrease in arrests is a key gauge of the US when considering how many people are entering illegally. It points out that nearly 21,500 agents – twice as many as in 2004 – guard the southwestern US border with Mexico.

Mexican drug cartels are also curtailing the flow of ordinary Mexicans seeking work in the US. The cartels often ply the same routes into the US that undocumented immigrants use, making those paths violent and dangerous. In fact, some crossers have been forced to serve as drug carriers for the cartels.

Family size in Mexico has shrunk, providing less incentive for young people to leave. In 1970, each Mexican woman bore an average of 6.8 children. By 1990, that number was 3.4. Today the birth rate is at replacement level, about 2.1.

Mexico now has a better economic climate. This fact, coupled with the smaller family size, means there is now a somewhat diminished push for young workers to take the risk of crossing the Texas border.

The US economy has been flagging and states are cracking down. The *Journal* quoted a 40-year-old undocumented immigrant as saying he would discourage Mexican friends from attempting to enter the US illegally, even though he has worked in the US for two decades. **“You have to be really desperate to come here now,” he was quoted as saying. “It’s so hard to get across, and then you have all these states passing laws to get rid of you.”**

To be sure, annual immigration to the US from Mexico has climbed and receded before. **And the flow of immigrants – albeit at a slower pace – continues.** So this *Wall Street Journal* report is a snapshot in time. It's intriguing, but it bears watching.

The success and economic growth of Austin and the state of Texas is causing some statistical problems. It's a vicious cycle. Job growth is attracting job seekers, but the number of *seekers* in some cases exceeds the *job growth*. As a result the unemployment numbers do not reflect the dynamism of the Austin and Texas economy.

It's a good problem to have. Jobs are created daily in the Austin area and in other parts of Texas – contrary to most other parts of the US. Residents of those other states look around and say, “**hey, Austin is a pretty fine place to live. Maybe I can get a job there and make a good living.**”

Sure enough. They come to the Austin area, find work and settle down. **But they are moving here at a clip as fast – or faster – than jobs can be created.** As a result, the unemployment figures, while good, are not off-the-charts impressive.

In fact, as we have recently reported, there are so many jobs being created in the oil and gas boom areas of Texas (primarily South Texas), that they can't hire workers fast enough to fill them. ***Forbes* is forecasting Texas will lead the way with the highest percentage of job creation over the next few years.**

Looking in the rear-view mirror, **the Lone Star State has seen positive annual job growth for the last 18 months.**

Even though Texas' private sector continued to grow, adding 13,500 jobs in October, with Austin adding 5,200 net new jobs, **the unemployment percentage dial hasn't moved.** The unemployment rates remained stuck at 7.4% in the Austin area and 8.5% statewide.

See what we mean. **If nobody moved to Austin and Texas and the “locals” absorbed the new jobs that have been created, the unemployment percentages would be most impressive.** So when you read about the relatively high unemployment percentages in Austin and Texas, just remember one of the strongest economies in the nation is its own worst statistical enemy.

As if to prove the Texas point, California – where people and companies are leaving the state daily – the unemployment rate is dropping somewhat.

Take Silicon Valley – San Jose, Sunnyvale, Santa Clara. This metro area's unemployment dropped to 9.6% in September from 10% in August and 11% at the same time last year. Yes, certain companies are hiring in Silicon Valley – Google, Yahoo, etc. – but, overall, **the *exodus* from California to other states (Texas leads the list of destinations) contributes to the drop in unemployment percentages.**

As we look ahead to this next year, what can be expected of American Airlines (the airline that carries more than 20% of all Austin area air travelers) as it works its way through the bankruptcy reorganization process?

Well, first of all, it helps to remember American Airlines is the only US “legacy” air carrier that hasn’t already reorganized under Chapter 11. Some analysts say by the time it comes out of the bankruptcy process American Airlines will be **more competitive with the other legacy airlines, because it will do as the others did: cut built-in costs, particularly for labor.**

Some predictions: 1) **it is not likely to change the benefits offered to its frequent fliers** (their most important customers), 2) **it will keep its major hubs of Dallas, Miami, Los Angeles and Chicago**, though service to smaller airports (*not* Austin-Bergstrom International Airport) may suffer somewhat, and 3) the reorganization could open the way for a long-discussed **merger between American Airlines and US Airways.**

Looking out a bit further, smart phones will continue to change in major ways — all due to technology.

According to our friends at *Kiplinger*, who for 88 years have been successful making forecasts for management decision-making, by 2014, novel wireless technology will let phones send and receive data at least five times as fast as today’s models.

Since we first started publishing this newsletter in 1979, we’ve taken a hiatus the last two weeks of each year. This year is no exception. So the next edition of *The Neal Spelce Austin Letter* will be Volume 33, Number 39 and will be published January 6th 2012. As we have for more than three decades, we will continue to present insights and perspectives on Austin and state economic and public affairs developments. And **Dr. Louis Overholster** promises to ponder the deeper meaning of important issues such as: why is “abbreviated” such a long word? Meantime, we hope your holidays will be all that you wish and that 2012 brings you the prosperity you deserve.

Sincerely



Editor/Publisher