THE Neal Spelce AUSTIN LETTER
www.AustinLetter.com
P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail **News@AustinLetter.com**

Volume 33, Number 43

February 3, 2012

Dear Client:

There is a stack of evidence to suggest the Austin area housing market started 2012 as the strongest of the major metros in Texas. And Texas itself was among the best in the nation.

The nation's *housing* concerns are at the top of any debate about the US economy. Another top economic concern is *employment*. The two are interrelated and, again, **the Austin area is among the nation's leaders when you place those two concerns side-by-side**. Let's drill a little deeper, with data current as of January 30th 2012.

In December 2011, sales of single family homes, according to the Austin Multiple Listing Service were up 11% from the previous December. But the key statistic is this: **at the current sales pace, if every home listed for sale was sold, they would all be gone in 4.2 months**. This is the best of all major Texas metros.

In other words there is only 4.2 months of inventory of homes for sale. Six months is considered equilibrium. **Less than six months, the market tilts toward being a seller's market, more than six months of inventory, it moves to a buyer's market**. And, generally, the housing market will be in a worsening situation the higher the inventory number moves above six months.

What about the other major Texas metros? Where does their inventory level stand? **Dallas has 4.7 months of inventory, El Paso 7 months, Fort Worth 5.2 months, Houston 5.9 months, and San Antonio 6.6 months**. The best in Texas: oil boom town of Midland at 3.3 months. The worst: 12.4 months in Brownsville. The Texas average was equilibrium: 6 months.

In every major summary of the nation's economy that we have seen for the past couple of years, **the housing situation was mentioned as a drag on the economy and its improvement is key to an improving US economy**. By this one measure, Austin is in the forefront of the move toward economic improvement.

As mentioned above, the other intertwined aspect of economic dynamism is jobs. **One company that focuses on the housing industry nationwide had a very bullish prediction on what will happen on the job front in the Austin area during 2012**. The company publishes info on apartment housing. And it predicts what will happen to apartment housing as a result of what it feels will occur due to the creation of jobs. Check out the next item.

Will jobs keep increasing in the Austin area during 2012? One national company predicts more jobs will be created in 2012 than in 2011 and, as a result, fewer apartments will be available to rent in the Austin metro than in more than a decade.

Marcus & Millichap (M&M) issued its forecast for the 2012 multifamily market. And, the **number of available apartment housing units to rent this year will continue to diminish** even though a fast construction pace will bring several thousand new units online.

At the heart of M&M's forecast is its jobs prediction. Consider this: **local employment will expand by 3.8%, an increase of 30,000 positions. Last year, job growth reached 3% or 23,000 jobs**. This is quite bullish – 30,000 jobs will be available in the Austin area, jobs that were not there last year.

M&M also analyzed the prospects for construction of new apartment housing units. It found that approximately **21,000 units are in some stage of the planning pipeline and that 3,000 units are scheduled for delivery this year**. So, what does M&M predict will happen as a result of this?

Apartment vacancy will drop in 2012 to 4.3%. This is very low, but the **pace** of the drop should slow down from last year's.

Average *asking* rents should rise 4.1% to $927 per month, while ***effective* rents will gain 6.2% to reach $868 per month**.

And, as the cash continues flowing for owners of apartment project, M&M suggests that **buyers of apartment buildings will start looking for Class "B" assets near UTAustin and major employers in Northwest and Southwest Austin**. Class "B" buildings are a step down from the high-dollar Class "A" units.

Different types of jobs trigger demand for different types of apartments. For instance, M&M points out that the "**professional and business services sector will be the primary generator of top-tier apartment demand**." These are the Class "A" units. Supporting its position, M&M noted that several major tech firms have already announced expansion plans, offsetting losses in the public sector."

But what about the lesser-quality Class "B" and even Class "C" apartment housing units? These units will "**benefit from job growth in the typically lower-paying leisure and hospitality and trade, transportation and utilities sectors, which will add 6,000 jobs**." Nothing was mentioned about students, probably because the student enrollment at UTAustin has been fairly steady in recent years. But "steady" is good, when projecting revenue.

Housing in the Austin area, taken as a whole, is in an enviable position.

Commentators recently have jumped on a bandwagon that is trumpeting the end of the Sun Belt boom. However, raining on that parade is a simple matter of facts.

The Sun Belt is defined as the southern portion of the US, running coast to coast from the Carolinas to California. **The doomsayers point to the housing bubble collapse that seriously damaged the economies of Sun Belt states like California, Nevada, Arizona, and Florida.** No question those economies have been hit hard. But the reports of the demise of the Sun Belt are decidedly premature.

In fact, the opposite is true. There is a resurgence, among the hard-hit states if you remove California from the equation. And there are valid reasons to take California out of the conversation. **Joel Kotkin**, a demographer we frequently cite, suggests that **California's "slow population growth and harsh regulatory environment align it more with the Northeast than with its sunny neighbors**."

> As if to reinforce Kotkin's hypothesis, California's State Comptroller notified state legislators that **California will run out of cash on March 1st**. He reports that as of 12.31.11, California's *receipts* have been \$2.6 billion *below* the guesses made last year when the budget was put together. Also *expenditures* are \$2.6 billion *higher*, so the total reduction in cash resources is \$5.2 billion. Well, duh. Income is down, expenses are higher. What do you expect!

Look at the other Sun Belt states. Kotkin points out that "**the big brass buckle in the middle of the Sun Belt, Texas, has thrived throughout the recession**." He reports Florida has shown a "remarkable turnaround" with the state adding 119,000 domestic in-migrants last year, and that Arizona, another state widely written off, had a net gain of 13,000.

> "The big winners in terms of growth were in the South, with Texas, Florida and North Carolina as the leading in-migration states. Virginia, South Carolina, Georgia, Tennessee and Virginia also ranked in the top ten. **Overall, the Southern states reaped 95% of the inter-regional net domestic migration (people moving from one state to another)**," reported Kotkin. Nevada is lagging, largely because its economy is a one-trick pony, tied to gambling.

Housing prices are a critical factor. Many retirees and down-shifting boomers – people still working but able to relocate their jobs – may find cashing out of their more expensive homes in the Northeast, Chicago or California an effective way of supplementing often-depleted IRAs.

Kotkin says that "more important still is the movement of younger people from the large millennial generation. Despite the assumption that this group inevitably prefers dense, expensive cities, **the 2010 Census showed people 25 to 34 moving primarily to Sun Belt cities such as Orlando, Tampa, Houston and *Austin*, as well as Raleigh, North Carolina**." Kotkin suggests the Sun Belt is on the verge of more steady, and sustainable, growth.

Quick. If you want to run a :30-second TV spot in Sunday's Super Bowl, how much will it cost you? A million bucks? A couple million? Nope. Try about $3.5 million for 30-seconds.

That times out to about $117,000 a second. The advertisers sure hope you will pay attention. Don't grab another beer. Don't go to the restroom. Don't get more snacks. Pay attention. **As always, the ads are some of the more creative and clever bits of video you will see all year.** And what will be different about the ads this year?

Some of the ads will leap from your TV to your mobile device. **If you point your smart phone, tablet, etc. at about a third of the ads run during the game, you'll be taken directly to coordinated content.** This way, the advertiser gets a little more bang for the big bucks they are spending to run the ad in the first place.

Speaking of using the Internet, 2012 will mark a first for online advertising. Spending on Internet ads will surpass print. This is a sea change. After climbing 23% in 2011, total online ad spending hit $40 billion in 2012. Print outlays slumped to $34 billion after hitting $36 billion the year before.

What about spending on TV ads? Look for an increase of about 7% this year, primarily due to political advertising in this presidential campaign year. So, you think you're seeing more ads this year? Think again. It's expected advertising expenditures will be 13% short of the peak advertising year of 2007.

It will be interesting to determine if Austin and the state of Texas will see a barrage of TV political ads. **Right now, the Texas primary is scheduled for April 3rd.** But that date could be delayed due to court challenges of redistricting boundaries as passed by the last legislative session. **The longer the delay, the likelihood the GOP primary may be decided by that delayed date, and no big bucks will be spent seeking Texas Republican votes for president.**

Dr. Louis Overholster remembers why his team lost a Super Bowl: "We were tipping off our plays. When we broke from the huddle, three backs were laughing and one was pale as a ghost!"

Sincerely

Neal Spelce

Editor/Publisher