

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**Austin's residential housing rebound is just short of amazing. Remember, the housing crisis was one of the biggest triggers for the national recession and the nation is still feeling the effects. But not in the Austin area, where the economy is sizzling and the residential housing vitality is jaw-dropping.**

Summertime is traditionally a hot time for residential real estate. Boy, is this true! We alluded to this last week when we reported that the residential *rental* market was hotter than a firecracker. **Now, numbers released this week by the Austin Board of Realtors show how home sales are reflecting this dynamism in spades.** And the ripple effect throughout the Austin area economy is significant. Consider what the July figures tell you:

**Home sales rose 20% over July 2011** – the 14<sup>th</sup> straight month of increases over the previous year.

**The median sales price has increased 9% from a year ago.**

**All homes listed for sale now will be depleted, at the current sales pace, within 4.3 months** – two months less than last year. This makes it a seller's market. Six months of inventory is considered a balance between buying and selling.

**It now takes two weeks less for a home to sell that it did a year ago.**

**There are now 18% fewer homes with a "For Sale" sign in the front yard than a year ago and pending sales are up 16%.**

No matter how you slice it and dice it, this is an impressive economic performance. What does it tell you about the overall Austin area economy? Well, first of **all it is a reflection of the relative wealth of area residents, new and old.** The restrictions on lending are still tighter than a tick. Frankly, **it is difficult to get a mortgage on a home** – even though interest rates are very low. So a buyer has to pass a demanding credit check and have enough cash for a sizable down payment. But just as importantly, it indicates that **jobs are being created to provide family income, and residents are confident in the area's future economic growth** – unlike what is happening in much of the rest of the USA. It is keeping Austin's economy in the forefront of the nation's progress.

**On June 4, 2012 the new CEO of Apple was quoted as saying “the engine for the iPhone and iPad is built in Austin.” But where? As part of its recently-announced \$300 million Austin expansion? Nope. Another announcement was made this week and it became crystal clear.**

Steve Jobs replacement as Apple CEO, **Tim Cook**, answered a question from *The Wall Street Journal*’s **Walt Mossberg** who was pestering Cook about Apple’s propensity to have products built outside the US. In fact, Mossberg’s exact question was “will there be an Apple product ever made again in the United States?”

Cook’s response: “I want there to be. **Already the engine for the iPhone and iPad is built in the U.S., in Austin.**” **Period. Paragraph. That’s all Cook said.** Those who read that response in the June 4th *Journal* could logically assume Apple was manufacturing the “engine” in Austin. If so, they would be wrong.

It became clear Monday when the South Korea-based company **Samsung made a blockbuster announcement that it is investing \$4 billion** (that’s billion, with a “b”) in its Austin factory. The money will be spent to convert the production of memory chips to much more lucrative *logic* products, including processors that power mobile devices.

There you have it. Samsung is shifting away from chips used to hold memory in personal computers and digital gadgets to **more complicated, yet lucrative processors acting as the brains of the devices**, according to a report from *Bloomberg News*.

So, while Cook didn’t mention Samsung back on June 4<sup>th</sup>, **the “engine” for Apple’s iPhone and iPad will be built in the Samsung Austin plant.** And to further cement the deal, Samsung is the exclusive manufacturer of these Apple-designed chips for the iPhone and iPad.

Obviously this is a big deal from an investment standpoint. **Samsung’s new investment in Austin is the largest in size to be made by a foreign company in Texas** and it brings Samsung’s total investment in Austin since 1999 to \$13 billion-plus. But there’s more to it.

Also announced this week, **Apple Inc. is now the most valuable company in US history**, with a current valuation of \$632.5 billion. Apple is Samsung’s largest customer, accounting for 8.9% of Samsung’s revenue or, in terms of dollars, the contract should be worth as much as \$7.5 billion to Samsung this year, a 60% jump from 2011, reports *Bloomberg*.

**These two giants are placing a large part of their future in their Austin operations.** It speaks volumes about the work environment in Austin and the state of Texas, but maybe more importantly, it is a very **strong endorsement of the area’s workforce.**

**Samsung's announcement this week that it will invest \$4 billion to expand and convert its already-sizable operations in Austin appears to be on a fast track for completion.**

One thing we forgot to mention in the previous item is the timetable for Samsung's investment and what the expansion itself will mean to the Austin area economy. The South Korean company said it plans to **complete the conversion and start mass production in the second half of 2013 – roughly a year from now.** In the meantime, about 2,500 construction workers and equipment vendors will be hired for the project.

Incidentally, Samsung had already added another production line dedicated to the logic chips at its existing Austin manufacturing plant. **But the reason for the speed of the new construction is to match what it anticipates will be the high demand as Apple rolls out its new iPhone 5.**

**Apple is also planning to ramp up its marketing of the iPad Mini, which is due to be launched in October.** Apple is currently producing just a few hundred thousand iPad Minis monthly. But it is expected to increase its production to 4 million iPad minis a month. The Mini is a 7.85-inch product.

With all this close cooperation and reliance on each other, on another level **Samsung and Apple are locked in patent disputes on four continents.** In fact high-powered (make that high-priced) lawyers made closing arguments on one case in a California courtroom this week. Big bucks are involved, so it will be interesting to see how these patent disputes affect each of them. Guess you can go to war on one front, yet cooperate on another.

**Five Texas counties rank among the tops in the nation for job opportunities. And one of those five counties is Williamson County, ranked #3 in the nation, according to CNNMoney.**

CNNMoney's survey tracks a decade of growth in 2000-2011. It ranks a total of 25 US counties based on **job opportunities and quality of life.**

“With anchor cities of Round Rock, Cedar Park and Georgetown, **Williamson County ranks third in the CNN list at 73.8% growth,**” reported CNN. “Central Texas' Williamson County hits the bull's eye when it comes of offering incentives for big business. **Corporate tax breaks and low property taxes** have attracted the likes of top-flight companies such as Dell, which employs 13,000 at its headquarters in Round Rock.”

“In a tough economy, the county's incentives are looking particularly enticing to companies,” the report continued. It also said **“affordable housing, cultural offerings and numerous parks and trails win points with young families.”**

**Quick Quiz: what decidedly-non-high-tech company started in Williamson County in 1993 and now spans 41 states with its HQ still located in Georgetown? Give up? It's Sports Clips, a hair-cutting franchise company.**

The company's tag line: "It's good to be a guy." **Each salon is designed with elements normally found in a sports bar or locker room**, with flat-screen TVs tuned to sports programming and lockers and sports memorabilia around the shop.

Sports Clips started franchising in 1995 and has since grown to 930 locations. According to *The Wall Street Journal*, last year was Sport Clips best – not one store closed and retail sales at the stores hit \$250 million. **The parent company is expected to hit \$33 million in revenue this year and is poised to open its 1,000<sup>th</sup> store before year's end.**

Before making the big leap, founder **Gordon Logan** and his wife noted the traditional barber shop was fading away in the early 1990s. As a result "**men had to go to unisex salons, beauty salons or one of the chain salons that were positioned as family haircutters.** We felt that if we developed a concept where a man or boy would look around when they walked in the front door and said to themselves 'this is my kind of place, I feel comfortable here,' there was a huge niche market waiting to be explored," he explained.

**"We realized that men and boys don't typically look forward to getting a haircut,"** Logan said, "so we place a great deal of emphasis on the overall experience, including the ambience and stylists who are trained in techniques on how to deal with male haircuts." He's 65. Does he have an exit plan? "My 26-year-old son is actively involved in the business and he's helping run the company stores in Austin and Las Vegas. **We are grooming him to take over when I step aside. It won't be this year or next year. I'm having too much fun.**"

**Dr. Louis Overholster** has this advice for August joggers: "If you insist on running during the hottest time of the day, your body will need plenty of fluid – embalming fluid!"

Sincerely



Editor/Publisher