THE Neal Spelce AUSTIN LETTER

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Dear Client:

With the announcement mid-week the Fed will hold down interest rates until the national jobless rate dips below 6.5%, and that it intends to continue buying Treasury bonds and mortgage-backed securities, a window on the 2013 economy has narrowly opened. How will this impact Austin area real estate?

The Fed said it expected to maintain short-term interest rates near zero for as long as the unemployment rate remains above 6.5%, provided that **medium-term inflation does not exceed 2.5%**. The national jobless rate in November 2012 was 7.7%. Okay, enough of economic numbers. What does this mean for the Austin area real estate market?

As far as residential real estate, **this action should enhance the Austin area's enviable momentum**. Austin plays by the same monetary rules as the rest of the nation. So, relatively speaking and considering job growth prospects, the health of Austin homes and apartments should remain among the best in the nation.

According to the just-released annual report from the Urban Land Institute, the **Austin market ranks #4 as the top real estate market in the nation for investment, development and homebuilding in 2013** (behind #1 San Francisco, #2 New York City and #3 San Jose).

Look at what the metro area is building upon. Even though apartment occupancy and rising rents have made the **Austin apartment market red hot, 2013 is likely to be an even bigger year for both occupancy and higher rental rates**. Developers are scrambling to bring more apartments on line to meet the demand.

As for new and re-sale homes, the supply is shrinking as demand is increasing. And a steady money market as the Fed announced this week – although admittedly it is still tough to get a loan – will continue to help. And this means home prices likely will keep escalating as the current seller's market moves into 2013.

What's good for *residential* real estate can also be good for the *commercial* real estate investment market, especially as residential real estate stays hot. Check out what one of the state's leading real estate economists has to say about how this will play out in the immediate future – in the next item.

The Austin area residential real estate economy harbors good news for commercial real estate investors. A Texas real estate economist sees signs that suppliers of real estate goods and services are poised to take advantage.

The chief economist at the TexasA&M Real Estate Center, **Mark Dotzour**, looked back this week to look forward and reinforce his view about what is happening now and in the near future. The implications for a **vibrant housing market for commercial real estate investors** are based in recent history.

He pointed out that the last housing "bust" was not only **gruesome for homeowners, but also for lenders, the mortgage and title insurance businesses, real estate brokers, home builders and skilled construction workers**. "As sales of new and existing homes declined (especially in the suburban perimeter where new neighborhoods were being created), all the **suppliers of real estate goods and services were forced to either retrench or go out of business**," noted Dotzour.

"The title company may have closed the branch near the new subdivision and retreated to the main office downtown. So did most of their competitors. The mortgage broker did the same thing. **The tile company, the lighting company and the carpet company also scaled back on their space demands**," observed Dotzour. "Consequently, vacancy in suburban office and flex industrial space increased substantially."

Now, he says, as more homebuilders re-enter the market, they will need industrial space, their suppliers will expand with them, creating more demand for industrial space near the action. **Title companies** will reopen branch offices near the hottest areas of development, **mortgage companies and banks** will do the same. So will the **real estate brokerage industry**.

His conclusion: a long-term rebound in housing could make **suburban office or flex industrial space much more valuable**.

One example of homebuilders anticipating a bullish housing market can be found in the quantity of buildable vacant lots that are being gobbled up in the Austin area.

Independence Title's State Director of Information Capital **Mark Sprague** likes to point out that in January 2010, there were approximately 24,300 developed lots not under contract. Of those, he said about 12,000 were desirable lots for production builders. And by March 2010, about 11,000 lots had been scarfed up. Currently, **he reports more than 6,000 lots in the Austin area have been tied up in the last 12 months**. He predicts: "**builders and developers will point back to 2012 as the year they really saw the market take a strong turn positive**."

Want to know what kind of year it has been for Austin that "today leads the charts on every measure of economic growth one can think of?" And what the next couple of years hold? Here's a sampling.

The author of the quote above is economic consultant **Angelos Angelou**, who this week issued his 27th annual economic forecast for the Austin area. A year ago, Angelou predicted the Austin area would add an impressive 19,500 new jobs in 2012. Well, he fell short. He says the area is on pace to **create about 25,000 positions this year**. Saying his 2013 and 2014 forecast may be conservative, **he predicts the Austin area will add 29,000 jobs in 2013 and 30,000 in 2014**. In no particular order, here are some other recent factoids about the Austin area that we *have not previously reported.*

There are **only five metropolitan areas in North America** than rank in the top 70 of the 300 fastest-growing economies worldwide. **Worldwide**! **Austin checks in at #61**. The other US metros: Houston, tops in the US, at #40 … #46 San Jose, California … #56 Salt Lake City and #57 Louisville, Kentucky.

A study by *Forbes*, using data from PayScale.com, **ranked Austin #28 out of the 100 top US metropolitan areas for the highest paychecks**. The overall median pay is $59,200 … starting median pay is $45,800 … and a mid-career median annual salary of $86,400.

The Austin area contributed significantly to the totals when it was announced this week that **Texas ranks 2nd in the nation for semiconductor jobs**, behind California and ahead of Oregon, Arizona and Massachusetts in that order. Locally **Freescale Semiconductor Holdings** counts almost 5,000 employees, **Advanced Micro Devices** adds almost 1,850 jobs and **Intel** has about 1,000 workers.

The nation's largest railroad operator, Union Pacific, announced this week that it has opened a software development center in Northwest Austin. This follows General Motors and Visa who also are planning to operate software development centers in the area.

Oh, almost forgot. Angelou said at his annual meeting this week that, if the current trend continues, **Apple could soon employ more workers that home-grown Dell, Inc**. His logic: Apple already employs about 4,000 local workers and plans to hire 3,600 after it completes a $300 million expansion of its North Austin campus. So, Angelou thinks that because Apple's Austin operation is the only one Apple *owns*, rather than *leases* outside of California, **Apple is likely to continue hiring workers in Austin**.

As we said at the top, this is just a *sampling* of what may go down as **one of the defining years in Austin's economic history**.

In a "kind of bizarre economic suicide pact," the parts of America that voted most heavily for President Barack Obama and Congressional democrats "may have embraced a program utterly at odds with their economic self-interest," claims a noted international demographer.

The president's signature campaign issue – to **raise taxes on the rich**, **defined as households making over $250,000 annually** – "**strikes directly at the economies of the states** that gave the president and his cohorts in Congress the biggest margins, according to **Joel Kotkin**, who covers demographic, social and economic trends around the world.

Kotkin's analysis of the data led him to conclude that the "**raise taxes on the rich**" **program depends heavily on the earnings of high-income professionals** such as engineers, doctors, lawyers, small business owners and the like. In fact, Kotkin says the top ten states with the largest percentage of "rich" households under the Obama formula include "true blue bastions **Washington**, **DC**, which has the highest concentration of big earners, **Connecticut**, **New Jersey**, **Maryland**, **Massachusetts**, **New York**, **California and Hawaii**.

And Kotkin reports "**these same states**, **according to the Tax Foundation**, **would benefit the most from an extension of the much-lambasted Bush tax cuts**." He further notes the policy will have "relatively little effect" on the super rich, "who derive most of their income from capital gains, taxed at a much lower rate. They also have access to all manner of offshore tax dodges."

Kotkin says being "rich" means different things in different places: "**A couple with two children with a $150,000 income in Austin may be**, **in terms of housing and personal consumption**, **far 'richer' than one making twice that in New York or Los Angeles**."

A reminder: due to our traditional two-week hiatus at year end, your next edition of this newsletter will carry a January 4th 2013 date. Enjoy the holidays. And don't forget what **Dr**. **Louis Overholster** says: "Christmas is a time when kids tell Santa what they want and adults pay for it. Deficits are when adults tell the government what they want and their kids pay for it!"

Sincerely

Neal Spelce

Editor/Publisher