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Dear Client:

If money to build spec homes is so tight, why are some builders putting up homes in the Austin area as fast as they can? Do they get a special deal from lending institutions? Not necessarily. But you have to be a *big* builder. The *smaller* Austin builders are at a disadvantage.

Austin area small and medium-sized home builders generally rely on banks to get construction loans to build homes. “When the housing market blew up (nationally) in 2008, **banks took heavy losses on construction loans and regulators frowned upon making new ones,**” said **Mark Dotzour**, Chief Economist/Director of Research at the TexasA&M Real Estate Center.

“As a consequence,” Dotzour continued, “from 2008 to 2011 it was almost impossible to get a loan to build a ‘spec home’ to put up for sale. **While bank appetite for real estate loans is increasing, in 2013 it’s still hard to get loans to build a new house.**”

Regular readers know Austin homes are selling at a fast pace. **It has been a seller’s market for months now. Inventory of available homes is low.** Both resale and new construction. With the increase in Austin area jobs and the growth in population, the demand for homes continues as strong as anywhere in the nation. As a result, big companies that are building in the Austin area are taking advantage of this. How are they doing it in a tight money market?

“You have a dichotomous market in home building today,” notes Dotzour. “There are a small handful of home building companies that are publicly traded on the stock exchanges. **Names like DR Horton, Pulte and Lennar. These firms can raise funds to build homes by selling stock.** Conversely, the overwhelmingly majority of homebuilders is not publicly traded and relies on banks for financing, which is so hard to get.”

So, what does the future hold? Just this week, L.A.-based KB Home Inc. announced a 105-home subdivision in Hutto, northeast of Austin. Dotzour says “you might deduce from the above facts that it would **make sense for home builders to ‘go public,’ sell stock and build more homes.** If you made such a deduction, you would be right. It’s starting to happen.” And he cited Tri Pointe Homes 1.31.13 Initial Public Offering (IPO) as an example. His forecast: “**look for more home builders to launch IPOs in the coming months.** As they do, capital will begin to flow more freely into construction of new homes.”

Now that Michael Dell this week pulled the trigger to start the process for a \$24.4 billion buyback of Dell Inc, reaction is rolling in. It's both positive and not-so-positive.

Michael Dell is ponying up his stock in the company and additional capital -- in effect making a \$4 billion personal vote of confidence in the move. Microsoft loaned \$1 billion and technology investment company **Silver Lake Partners invested \$1.4 billion into the deal to become a partner with Michael.** Silver Lake has also lined up banks for lending up to \$15 billion to finance the buyback. The deal should take months before it is finalized, but reaction was swift, interesting and focused heavily on the Microsoft involvement. Here is some of that:

Bloomberg news story: "Dell, 47, gains greater freedom to cut jobs and embark on strategy shifts at Dell Inc. without answering to public shareholders. Still, **the buyout imposes constraints, including saddling the company with \$17 billion in debt.** Interest payments will eat up cash that could be spent on acquisitions and research and development."

The Wall Street Journal: Microsoft's "passive" investment is so "Dell will remain a loyal Microsoft shop. Despite its participation, Microsoft isn't getting board seats or operational control. What it is getting, apparently, is **a wink and a nod that Dell won't start shipping equipment running Android.**"

Fortune magazine thinks the **Microsoft loan was made because "Microsoft may be more flexible than a bank if Dell can't repay on schedule."**

Reuters reports "some analysts suggest Microsoft got involved in the deal to **learn more from Dell about selling to businesses and individuals.**"

Competitor Hewlett Packard: "Dell has a very tough road ahead. The company faces an **extended period of uncertainty and transition that will not be good for its customers.** HP plans to take full advantage of that opportunity."

Business news columnist in Washington state suggests **Dell may be a pawn in the Google, Microsoft, Apple tablet wars:** "Microsoft's role in taking Dell from a publicly traded company to a private one likely **has as much to do with Google as it does with Dell** (because it) could help guarantee Dell's partnership with Microsoft for the long term."

IT Services Provider: "**Dell will have more creativity as a private company.**"

Meantime, here is some of what Michael Dell told his 100,000+ worldwide employees after saying he didn't anticipate job eliminations: "Dell's transformation is well underway, but **we recognize it will still take more time, investment and patience. We'll have the flexibility to continue organic and inorganic investment,** and grow our business for the long term."

Governor Rick Perry's advertising appeal this week to move California businesses to Texas elicited a snarky retort from California's governor. We'll share Jerry Brown's potty-mouth remark with you and tell you further that California *could* emulate Texas' financial success.

Governor Perry's voice is being heard this week on the radio in the San Francisco, Sacramento, Los Angeles, Inland Empire and San Diego media markets. The 30-second spots urge California businesses to **“come check out Texas ... and see why our low taxes, sensible regulations and fair legal system are just the thing to get your business moving to Texas.”**

As media buys go it is miniscule, at about \$24,000. **But the size of the buy isn't meant to be as important as the *news media coverage* of the effort.** Millions of dollars in free publicity is being generated. And Gov Brown fell into that trap. He said Texas should spend \$25 million on radio and TV. In fact, this is how he characterized the Texas effort: **“It's not a burp. It's barely a fart.”**

Of course that generated even more headlines and news coverage, calling attention to the fact that Gov Perry said “building a business is tough, but I hear **building a business in California is next to impossible.** There are plenty of reasons Texas has been named the best state for doing business for eight years running.” Gov Brown made a further mistake by not rebutting, or even referencing, Gov Perry's claims.

This little dust-up is interesting and it further underscores the differences between the two states. But those differences could be minimized – in California's favor – if California takes action that could help **solve the state's financial woes and possibly lessen the tax burden on its businesses and individuals.** We're talking fracking.

Stretching from Los Angeles to San Francisco, **the Monterey Shale formation is estimated to hold 15.5 billion barrels of recoverable oil, which accounts for two-thirds of the recoverable shale oil in the United States.** Californians could be bidding their budgetary woes goodbye, but instead many are steeling themselves for what could be the mother of all environmental debates (this is California, after all).

In a recent press release, environmental groups cited possible connections between fracking and **“poisoned drinking water, polluted air, mysterious animal deaths, industrial disasters, earthquakes and explosions.”** The battle lines are being drawn. It is possible the state could place a moratorium on fracking for oil and gas. A ban would eliminate the perceived environmental hazards, but it also eliminates the economic upside. Stay tuned.

Meantime, Texas continues on its merry way as **fracking creates jobs, pumps millions into tax coffers** of governmental entities, and **makes hardscrabble landowners wealthy.**

Exactly 17,805 “Keep Austin Weird” t-shirts were purchased during 2012 at Austin Bergstrom International Airport (ABIA) when a record was set for annual passengers. (Just think of all those t-shirts floating around, probably in cities other than Austin!) That’s not all that happened during the past year at ABIA.

Many of ABIA’s 9,430,314 passengers in 2012 witnessed **805 free live music performances**. And they enjoyed some local food favorites, if the **54.5 tons of brisket** and **498,141 breakfast tacos** that were consumed last year are any indication.

The airport’s annual passenger total increased by 4%, or 349,439 passengers, from the previous record year of 2011. Adding to 2012’s total was the first Formula One race held on US soil in five years. ABIA said a **new record was set for outbound passengers November 19th 2012 with 21,823 passengers departing.**

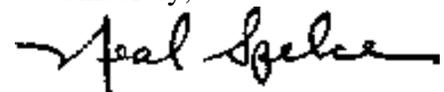
(Hope you were not one of those caught in the crowd trying to go through security and board an airplane on Monday November 19th. It was crowded for pilots as well, because on race weekend, **more than 470 aircraft filled the airfield.**)

Other factors contributing to the record-setting year: **non-stop service was added from Austin to Washington DC’s Reagan Airport, Atlanta, Portland and Newark** – all via Southwest Airlines. Also US Airways added service to **Philadelphia**, and **Cancun** service was added by both AirTran Airways (ABIA’s newest air carrier) and United Airlines.

Oh yeah, the airlines. How did they do? **Longtime market leader Southwest Airlines maintained its dominance as the preferred carrier at ABIA during 2012.** It increased passenger totals by 8% over 2012, grabbing 38.8% of ABIA’s passengers. It doubled the 2nd place carrier American Airlines, struggling through bankruptcy proceedings, that tallied 19.8%.

Speaking of visitors, **Dr. Louis Overholster** is convinced that some cause happiness *wherever* they go and others *whenever* they go!

Sincerely,



Editor/Publisher