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Dear Client:

The Austin area housing market is beginning its spring-time boil. Sellers are putting more houses on the market at, frankly, higher prices than many expected. Does this mean the Austin area may be entering an overpriced market phase? Maybe. A quick look at the situation shows there are signs prices will go even higher over the next two years.

Need we remind you a high-home-price bubble was one of the major contributors to the recession that slammed the national economy just a few years ago? So, even if you are not a buyer or seller, **what happens in the residential real estate market has a tremendous overall economic ripple effect.** Follow this reasoning:

Prior to the recession, easy mortgage money was a reason demand for houses pushed prices ever higher. **Certainly it is much harder to qualify for a mortgage today than just before the dramatic burst of the housing bubble.** But a different dynamic is at work today. And it means more buyers can afford a more expensive home. The driver: low current mortgage interest rates.

Think about this: A family who can afford a **mortgage payment of \$1,000 a month could have gotten a \$165,000 mortgage in November 2008.** This date is significant because mortgage rates were 6.05%, the Fed stimulus known as QE1 began, and interest rates started to fall.

Now, with 30-year, fixed, conforming interest rates hovering around 3.50%, that same family's **\$1,000 per month payment today qualifies them for a \$222,000 mortgage. They can afford a 34% more expensive home!**

West coast-based national housing market consultant, **John Burns**, reports investors of all types are assuming "the Fed's unprecedented intervention in the mortgage market will **keep mortgage rates low for a very long time, resulting in tremendous price appreciation.**"

The Fed is looking at the still-faltering *national* economy as it keeps interest rates low. The Austin economy is by most measures one of the strongest in the nation and better than almost all other major metros. **So, by keeping interest rates low, the Fed sets policy by factoring in a much lower economic denominator than Austin enjoys – to Austin's advantage.** Check out the next item for further evidence of why Austin home prices may continue to rise.

Evidence is mounting the Austin area, already one of the fastest-selling home markets in the nation as asking prices escalate, will see a sustained surge in home prices and activity.

Low mortgage interest rates – an essential in this equation – are accompanied by **other indicators that reinforce this premise**. Some of these indicators are occurring nationally. And the Austin area, with a nation-leading economy, will probably see this effect in spades.

Start with the fact the federal government appears to be doing all it can to raise home prices. In addition to keeping mortgage interest rates low, the **Fed is buying \$45 billion per month in mortgage-backed securities in a clear attempt to raise home prices**. It is trying to force-feed areas all across the nation to help those that are suffering economically. And the Fed is succeeding. But these policies are *universal* and apply to the Austin area as much as to devastated Detroit. Want more evidence?

Home building industry stock prices are rising and **Austin area homebuilders are using this cash infusion to build new homes** as fast as they can secure developable lots and create rooftops. This brings up another bit of evidence that is contributing to rising Austin area prices – **available lots are scarce** and in one of those immutable economic truths, increasing demand pushes prices higher.

The Austin area is still a seller's market. And as reported in the previous item, homeowners are starting to put For Sale signs in their front yards with **asking prices higher than previous comparable sales**. **And yet, many Austin area homes listed for sale are getting multiple-offers**. For instance, just this week it was announced that **home sales in February were up 26%** over the same month last year and the median home **price went up 7%**.

Want more *national*-related evidence that impacts the Austin area? **Bank of America and JPMorgan Chase are on the record as predicting increases in housing prices**. This prediction is spread out over a national scale with weak-sister economies part of the averaging. These are the guys with the money to make loans and they are two of the largest banks serving the hot-housing 5-county Austin area.

Investors are extremely active. Due to the very tight Austin *rental* market, investors are buying homes at a great value and renting them out for the positive cash flow. **Can speculators be far behind** (those who buy homes with the intent of flipping them over the short term at a significant profit)?

A final word on mortgage interest rates. Who knows what the future will be? After all, the old saying is what goes *down*, must go *up* – or something like that twisted logic. Anyway, the national housing consultant, **John Burns**, reports this perspective: the median 30-year fixed-rate conforming mortgage rate over the **last 40 years is 8.15%**, for the **last 30 years is 7.45%**, for the **last 20 years is 6.52%** and for the **last 10 years is 5.72%** -- for what it's worth.

Meantime the Austin area is growing so relentlessly it currently ranks as the nation's fastest-growing (percentage-wise) of all the major metro areas in the nation. Whewwww.

An outstanding **quality of life** and the **growth in jobs** are the two essential elements for the population increases in the 5-county Austin area. Both of those overriding assets have sub-sets that could have positive or negative influence. But, for the time being, it appears the **vitality of the Austin metro should continue on the same upward path.**

However, it would be naïve to think this upward spiral will continue unabated. If you have a little grey in your hair, you have seen ups-and-downs. And no doubt there will be an economic “cooling down” in the future, if not a complete leveling-off. It will be interesting to **contemplate a future economic slowdown because history also shows Austin's population doubles every couple of decades, no matter the economy.** We'll keep an eye on it for you.

Now that the annual SXSW/Spring Break mobility crises are visible from your rear-view mirror, is there any hope to change the way a fast-growing Austin hosts popular events that already involve more than 1.6 million active participants? Ummmm, possibly.

At the rate Austin is growing -- as well as many of the expanding events that are staged primarily in the downtown area – **traffic gridlock could be looming in the very near future.** We first raised the issue September 14th 2012 (click on the “Archives” button at the top of the page to go to Volume 34, Number 25 for the details). At that time we posed the question “**should Austin be nicknamed Event City**” because of the rising number of special events.

Events that impact traffic need City of Austin approval before they can be staged. In 2012, there were 136 *street* event applications; 20 new or one-time street events covering **227 event days**. If you just take every 3-day weekend (3 times 52), you get 156 days. Of course many events cover multiple days, but you get the picture.

Approximately 1.6 million participants were involved in these “Special events.” (Austin's police department has a division dedicated full-time to handling events.) To top it all off, these **numbers do not include venue-oriented events**, such as concerts or sporting events that generate their own brand of traffic problems, as well as impact airport traffic.

So what is being done about this mushrooming mobility crisis? The Austin City Council passed a resolution last year to begin to **revamp the special events ordinance.** “The current one-size-fits-all system requires the same permitting process for neighborhood block parties as large-scale events,” notes the City of Austin Transportation Department. So the Department is in the process of seeking feedback to produce a new ordinance. Briefings and public input meetings have not yet been set and/or announced. Stay tuned.

This week, a passenger pre-screening initiative was inaugurated at Austin-Bergstrom International Airport (ABIA). Qualified passengers can go through an expedited security process. What benefits will an ABIA “qualified passenger” enjoy?

The expedited security area was set up this week at ABIA’s **Checkpoint 2, near American Airlines ticketing** -- too late for the Spring Break/SXSW crowds that jammed the airport during one of the busiest Austin air travel weeks of the year.

However, starting *this* week, especially during high-traffic times, a “qualified passenger” can go around the standard security area that usually has long lines and head to Checkpoint 2 where, in theory, you can zip through the process.

What sort of perks will these privileged travelers enjoy? Well for one, these travelers can keep their shoes and light outerwear on. These simple acts will move the security line much quicker.

Especially for a frequent traveler, this can relieve a lot of the airport hassle. And by the end of March, this pre-screening program will be available in 40 airports across the country for **United Airlines, American Airlines, Delta Air Lines, US Airways and Alaska Airlines.** To determine what it takes to become a “qualified passenger,” check with one of these airlines.

This issue of the newsletter marks the end of our 34th year of publication. When we started this effort in 1979, we knew we were in it for the long haul. But, 34 years? And next week we’re starting our 35th year of sharing insights and perspectives about the area economy and public affairs. Frankly, the longevity helps us. As the fella says: “We’ve seen it all.” And we enjoy sharing our observations with you each week – in spite of those relentless weekly deadlines.

Noting the “hard work” involved over the last 34 years producing this newsletter week-after-week-after-week, **Dr. Louis Overholster** said we should have followed the long-ago comment by Edger Bergen: “Hard work never killed anyone. But why take the risk!”

Sincerely,



Editor/Publisher