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Dear Client:

Certain distressed national markets, **that were at the heart of the housing crisis in the recent recession**, **are experiencing rapidly-rising home prices**. **Could this be part of a recovery**? **Or could it be more ominous -- that another bubble/bust may be on the horizon**?

Home prices have been rising at a fast rate in markets that were formerly devastated by the housing crisis. But isn't that a good thing? Not necessarily. The *Washington Post* reported this is "**raising the prospect of another Wall Street-fueled bubble that won't be sustainable**." Now wait a minute. How can the *Post* reach such a judgment? Well, when the *Post* dug a little deeper, they found some interesting facts.

> "If the chain of easy credit and dangerous leverage that started on Wall Street fanned the housing bubble and eventual crash, **some analysts find it disturbing that major investors are the ones snapping up the bargains** – and eventual big profits – left in its wake," the *Post* reported.
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> "Real estate executives say **institutional investors** – **who in some cases are bidding on hundreds of homes a day** – **account for as much as 70% of sales in some Florida markets**. Over the past two years, analysts say, they also have accounted for a majority of purchases in other parts of the country where housing prices are rebounding sharply," continued the *Post*.

The big players are dumping big bucks into housing in distressed markets. How big? A private equity group has a portfolio of 20,000 rental homes. Another company has about 10,000 properties. **Warren Buffett** told CNBC "**if I had a way of buying a couple-hundred-thousand single-family homes**, **I would load up on them**. It's a very attractive asset class."

Investors are betting billions on single-family homes in distressed markets. Even if they are able to qualify for financing in a still-tight mortgage market, **traditional buyers are finding it difficult to compete with the cash and market savvy of major investors**.

Clearly investors are moving certain markets. The co-director of the Center for Economic and Policy Research, **Dean Baker**, told the *Post*: "**This is frightening to me**. **At some point the music stops**. **The investors**, **if they get hurt**, **that is their problem**. **But invariably a lot of other people will get caught up in that**." What about Austin? More -- in the next item.

Home prices continue to rise in the Austin area. Could Austin be part of a national concern that a housing bubble, such as contributed to the most recent recession, may be beginning?

As noted in the previous item, home prices have been rising in parts of the country most affected by the housing crash, despite high jobless rates and relatively few new mortgages being issued by lenders. *The Washington Post* reported that in the past year, **prices have risen 23% in the Phoenix area, 15% in Las Vegas, by 9% in Tampa and 11% in Miami**.

If those numbers are causing concern as mentioned previously, what about the Austin area? This may not be a true apples-to-apples comparison, but the numbers are in the ballpark: **the median price of a home in the Austin area increased in March by 10%**, compared to the same month a year ago.

In other words, as far as percentages go, **the increase in prices of Austin homes is comparable to distressed cities in Florida. So, should you be concerned? Yes and no**. Yes – because any time signs of a national housing bubble/bust show up, the national economy could be seriously impacted. And that could affect you. No – because what is driving Austin price increases is vastly different from the cities hit hard by the recession's housing crash.

As reported by the *Post*, **institutional investors account for as much as 70% of sales in some Florida markets**. For example, Delavaco is a Residential Property Trust that was formed in Fort Lauderdale and is backed by Canadian investors.

It started out with 14 homes two years ago and now has 700. And -- get this – Delavaco is preparing for a public offering on the Toronto Stock Exchange that the Trust hopes will raise as much as $40 million.

The housing situation is vastly different in Austin. No question that Austin area homes are selling at a fast pace, at prices substantially higher than a year ago. **But the vast majority of sales are not being driven by institutional investors** (many of them bottom-fishers, who could cut and run if the situation goes south). **They are driven by homebuyers who plan to occupy the home** – not rent it out in hopes of making a big return.

Importantly, **the fundamentals of the Austin economy are on much more sound footing** than in the other markets that are still suffering from the housing-induced recession that hammered them several years ago.

This is demonstrated by the number of **new jobs generated** daily in the Austin area and by the fact that **homebuyers are qualifying for mortgages (or paying cash), with the result that new homes are on the Austin market only a little more than two months** before being sold. Strong demand in a good economy.

Keep your eye on the national picture and your fingers crossed for the Austin economy.

Low-density, car-dominated, heavily suburbanized areas with small central cores will likely represent the next wave of great American cities, according to an urban futures expert. What does this theory say about Austin?

This theory runs counter to a whole industry, led by the likes of **Richard Florida**, **Ed Glaeser** and CEOs for Cities organization, who "advocate for old-style, high-density cities and insist they represent the inevitable future," claims urban futurist **Joel Kotkin**, a Californian. He says "**the real trend-setters of the future** – **judged by both population and job growth** – are not in the oft-praised great 'legacy' cities like New York, Chicago or San Francisco, **but a crop of newer**, **more sprawling urban regions**."

Kotkin points out those "legacy" cities have something in common with the next generation of American cities -- **criticism from those who came from older places**. During their growth booms, he said **Chicago** was described as "miserable" and "ugly," **New York** was, in the words of a French consul, a place where residents had "no mind for anything but business," and **Los Angeles** was described by Mississippian author **William Faulkner** as "the plastic asshole of the world."

Now, he says, criticism from urbanists, planners and journalists has switched to the 25 fastest-growing cities over the past decade – **Raleigh**, **Austin**, **Houston**, **San Antonio**, **Las Vegas**, **Orlando**, **Dallas-Fort Worth**, **Charlotte** and **Phoenix**. These are what he calls the new *aspirational* cities, much as the current legacy cities were generations ago. An aspirational city, by definition, "is one that **people and industries migrate to improve their economic prospects and achieve a better relative quality of life**."

Once considered urban backwaters, these cities are quietly achieving a critical mass of educated residents. The attraction they all have in common, in contrast to the older cities: "**affordable enough to offer opportunity**, **and space**."

"Over the decade, for example, **Austin's job base grew 28**%, **Raleigh**'s by 21%, **Houston** by 20%, while **Nashville**, **Atlanta**, **San Antonio**, and **Dallas-Fort Worth** saw job growth in the 14% range or better," Kotkin said. By contrast "**New York** and **Boston** were 20% below the norm; big urban regions including **Philadelphia**, **Los Angeles**, and, despite the current tech bubble, **San Francisco** have created essentially *zero* new jobs over the decade."

"The reality is that most urban growth in our most dynamic, fastest-growing regions has included **strong expansion of the suburban and even exurban fringe**, along with a limited resurgence in their historically small inner cores. In most aspirational cities, **close-in neighborhoods often are dominated by single-family houses**; it's a mere 10 or 15 minute drive from nice, leafy streets in Fort Worth, Charlotte, or Austin to the urban core. In these cities, **families or individuals who want to live near the center can do so without being forced to live in a tiny apartment**," Kotkin observed.

Austin's economic momentum is mounting – measured by metrics that matter. And it is being recognized time and time again for various successes.

During the 1st quarter of this year, **4,600 new jobs were announced**. This came about as **32 companies indicated they would re-locate or expand in the Austin area**, according to the Austin Chamber of Commerce. All this occurred just during the 1st quarter 2013. Here is some of the recognition that is tracking Austin's momentum.

According to *USAToday*, Austin is among ten places in the nation where visitors can be **inspired by innovation**.

Bloomberg Rankings named **Austin #1 in its list of the Top 12 American boomtowns**. #4 San Antonio, #5 Houston and #11 Dallas-Fort Worth also made the dynamic dozen.

Austin was ranked #3 among the best US cities to start a business by a San Francisco-based outfit called NerdWallet. (Atlanta and Raleigh were #1 and #2).

Austin-Bergstrom International Airport was ranked #7 on a national list of "time-saving airports," with an 84.66% percentage of on-time departures. (By the way, **Southwest Airlines**, **Virgin America** and **AirTran** added new domestic and international flights.)

No question Austin is helped by being the Capital of Texas. *Site Selection* magazine tapped Texas as **#1 on its list of Top Ten Competitive States**. *Chief Executive* magazine surveyed more than 700 US CEOs and, for the 9th year in a row, named **Texas the best state for business**. And according to an analysis by *Bankrate*, Texas was ranked as the **12th best state for retirement**.

Dr. Louis Overholster asked his minister if he prayed for the Texas Legislature while it is in session in Austin. The minister's response: "No, Doc, I pray for Texas!"

Sincerely,

Neal Spelce

Editor/Publisher