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Dear Client:

**“If you are a real estate professional in Texas, I would suggest that you not take a vacation at all in 2014. Things are shaping up to be a good year.” This is the assessment of a top Texas real estate economist.**

TexasA&M Real Estate Center economist **Dr. Mark Dotzour** says “When I was in graduate school in Austin, we had a saying: **‘if you torture data long enough, it will confess to anything.’** Well, the Center’s research economists have tortured Texas home sales data for decades, and we have found that **three things help predict future home sales volume.**”

Dotzour boils down the three things and they are prevalent in Austin – **job growth ... cheap mortgage money ... home price appreciation.** Two of those, jobs and price appreciation, are more controllable locally. The other, mortgage interest rates (while low now), are controlled elsewhere. Here’s a breakdown of where these three things stand now:

- 1.) **“Texas continues to create jobs at an impressive rate. Often Texas is double the national average,”** observed Dotzour. For instance, Texas racked up an impressive 2.4% employment growth rate from August 2012 to August 2013. Austin bested that percentage by scoring a 2.9% growth rate.
- 2.) **“Mortgage rates are increasing, but they are still ridiculously cheap,”** Dotzour pointed out. “When I was selling houses in the late 1970s, we thought 8% was cheap. Five percent was unheard of. Now the media is gnashing its teeth that higher mortgage rates will derail the housing recovery.”
- 3.) **“Home price appreciation is caused when you have too many buyers and not enough sellers,”** he noted. Dotzour’s years-long research shows that **6.5 months of inventory could be viewed as a balanced market** with modestly increasing prices. “The entire state of Texas has just four months of inventory. **Austin has less than three months.**”

And right now, **“houses have never been more affordable if you have a job,”** he says. Check out the next item for more reasons why Dotzour suggests vacation time should be limited in 2014 for those involved in real estate.

**Mortgage interest rates are low, but most certainly will go up – at some point in time. Will an increase in rates cause Austin area homes to be unaffordable? Ummmm ... that remains to be seen, according to a respected Texas real estate economist.**

Obviously any increase in what it costs to buy a house in the Austin area may price some buyers out of the market. But, it's all relative. And economist **Mark Dotzour**, with the TexasA&M Real Estate Center, this week spoke to that relativity. As economists do, Dotzour suggests **checking the numbers for housing affordability indices** in Texas and the nation. Rather than have you try to Google the info, he took his own advice. Here's what he found:

“A recent Real Estate Center calculation indicated that **even if mortgage rates were to rise to 7%, houses would be just as affordable as they were in 2007**,” he said. “**If your memory is short, 2007 was a good year for selling homes in Texas.**” Thirty-year mortgage rates right now are hovering around 4.25% - 4.50%. So, rates are still a bit below his example.

A counterweight to Dotzour's scenario came this past week from the housing research firm, Metrostudy. It reported the rising **median price of a home in Austin exceeds the size of a loan for which a median income can qualify**. In fact, the median price in the Austin area in August 2013 was \$224,000 -- 6% more than a year ago.

But, as the summer selling season wound down, **the sales of existing single-family homes in the Austin area were up a whopping 30% in August 2013**, compared to the same month last year, according to the Austin Board of Realtors. And the sales volume was double that of August 2010.

Given the fact that, as we mentioned above, some potential buyers are going to be priced out of the market as prices rise, how about the immediate future? “**Looking forward to 2014, the housing market in Texas most likely will be hot**,” Dotzour predicts. “Home builders will not be able to build homes fast enough to meet demand. Hence, **prices are likely to continue to move up**. Higher prices spur more demand. Transaction volume will most likely increase as well.” He sees an active year, in Austin and in the state's other metro areas.

**Speaking of rising prices, the US Postal Service is proposing a 3-cent increase in the cost of mailing a letter, making the cost of a first-class stamp 49-cents.**

The Postal Service is also proposing increases for **letters that weigh more than one ounce, postcards** and letters to **international** destinations. All this has major implications for companies and individuals that market through the mail. **If adopted, the hikes will occur in January**. The Postal Service lost \$15.9 billion last year and expects to lose \$6 billion this year.

**The Republican Party of Texas is moving to give Texas a stronger voice in the party's selection of a nominee for president. One ingredient: a presidential straw poll.**

The poll is scheduled to be taken at the 3-day 2014 GOP state convention starting June 5<sup>th</sup> in Fort Worth. Party leaders said it is hoping to make “the Texas GOP straw poll the **largest Presidential Straw Poll next year and possibly the largest for the 2016 election cycle.**”

Texas GOP leaders hope to give all Republican presidential candidates the opportunity to speak to the anticipated 18,000 delegates and alternates. The list of speakers to be *invited, as of this date*, is long: in no particular order, **Ted Cruz, Rick Perry, Rand Paul, Chris Christie, Jeb Bush, Mike Pence, John Kasich, Paul Ryan, Rick Santorum, Steve King, Scott Walker, Marco Rubio and Bobby Jindal.** Names may be added or subtracted in the coming months.

Right now, Texas is scheduled to be the 5<sup>th</sup> state to hold its primary – March 1<sup>st</sup> 2016. “Whoever wins the straw poll and those that do well will certainly **gain precious momentum** here in Texas, which will help them in the **Texas Presidential primary,**” noted the GOP. “And a strong showing in a straw poll of this size will certainly **lend credibility to the campaign of any presidential hopeful.**” GOP Chair **Steve Munisteri** said: “This convention and straw poll is an opportunity for grassroots Republicans to have a **significant impact on selecting the Republican Party's nominee for President in 2016.**”

**The Texas drought is here to stay and could last another 15 years, warned State Climatologist John Nielsen-Gammon this week.**

Even though much-needed rainfall covered most of the state last week and the Austin area is looking at a 50% chance of rain this weekend, **water levels are way below normal in Central Texas and about 93% of the state remains in drought conditions** ranging from dry to exceptionally dry, note Nielsen-Gammon.

**“The worst drought ever – the drought of record – remains the drought of 1950-57.** This drought still has a few years to go to catch up,” he said.

But then he added a sobering outlook. “The long-term Pacific and Atlantic Ocean temperature patterns still **favor drought in Texas, and probably will continue to do so for another 5-15 years.** Whether this drought will last that long or whether Texas will have an occasional wet year within that stretch is impossible to say.”

The forecast of near-normal rainfall this winter is good news for water supplies, but Nielsen-Gammon notes the benefits will be uneven: **“Normal rainfall can fill up East Texas reservoirs, but normal rain in Central and West Texas is too little to make up the gap.”**

**Since you have no Longhorn football game to talk about this weekend, you may want to talk about some comments by UT Austin Athletics Director DeLoss Dodds.**

Dodds shared his views on a number of topics in the September/October issue of *Alcalde*, the magazine published by the Texas Exes, in an article titled “DeLoss Unplugged.” Excerpts:

**Longhorn Network.** “Of all the things I’ve been associated with in 32 years in Texas – starting the Foundation, building facilities, all those things – **the Longhorn Network, 10 years from now will maybe be the biggest thing we did.** It’s just going to separate us from everybody else. It probably will help the institution more than it helps Athletics in the end.”

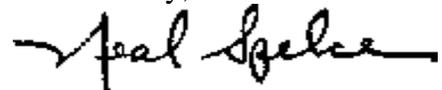
**Graduation rates of athletes.** “**We pay former students’ scholarships so they can get their degrees.** We went through records to find people who were close but didn’t graduate, and we found a person that was nine hours short. He was 50 years old, I believe. **[We] went and got him and said ‘Bud, you’ve got to get a degree.’** Brought him back on campus and put him over in the School of Business said, ‘OK you guys figure it out. You’ve got to have nine hours, let’s get it done.’ And they did – he graduated, they had a big party. **[That was] Tom Kite.**”

**Replacing a football coach.** “The learning curve is huge here. **This job is hard. It’s different.** And it takes time to get into it and learn it. **We could start a revolving door thing ... [but] you’re going to take a chance on whomever you bring in. It’s just not a gamble we need to take.** If I went out looking for somebody, I’d go looking for **Mack Brown.**”

About his own future, Dodds said “**I’m 75. I love what I do.** I could retire today or I could retire next year. **My contract allows me to be part time until 2020.**”

**Dr. Louis Overholster** remembers it was football manager **Bill Shankly** who said “some people think football is a matter of life and death. I can assure them it is more important than that!”

Sincerely,



Editor/Publisher