

# Austin housing market heats

## Real estate expert predicts local market will remain strong.

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Central Texas has all the right stuff to maintain a robust housing market, even as many parts of the country experience a slowdown in sales, a Texas real estate expert says.

Thanks to a shrinking supply of homes, rising home prices and the region's job growth, a key driver of housing demand, the Central Texas housing market is on track for a record year, said Mark Dotzour, chief economist and director of research at the Texas A&M Real Estate Center.

Dotzour predicts that job growth in Central Texas will be about double that of the national average in 2007.

The Austin area will add 20,800 jobs in the next 12 months, a 2.9 percent growth rate, compared with a 1.5 percent rate nationally. "The state of Texas will outperform the nation, and Austin will outperform the state of Texas" on the job front, he said.

"I think we're looking good," said Dotzour, who addressed more than 500 real estate professionals Tuesday at the Real Estate Council of Austin's annual forecast event. "Price appreciation in Austin is accelerating at an increasing pace as the East and West coasts let air out."

After several years of flat home values during the tech bust in the early part of the decade, Central Texas' median home sale price rose to \$172,480 during the first half of this year — up 8 percent compared with the same period last year, according to the Austin Board of Realtors.

Prices are rising as the supply of homes continues to dwindle.

The number of listings was down 7 percent for the first six months of the year compared with the first half of 2005. With the market tightening, Central Texas had about a four-month supply of homes on the market, Dotzour said.

A 6.5-month supply is "the magic number," signaling a market where supply and demand are in balance. When the inventory of homes for sale dips below that, prices typically appreciate, Dotzour said.

Though mortgage rates generally are rising, Dotzour said he doesn't expect them to have an appreciable effect on the local housing market.

"I'd be surprised if they go up more than half a percent in the next 12 months," he said.

Austin also is benefiting from cooling housing markets elsewhere.

As Dotzour predicted last year, investor activity has picked up in the housing market in Austin, as well as in other Texas cities, as many East and West coast markets falter.

"Homes in Austin still look relatively cheap compared to houses in California in particular," Dotzour said. Because they ranked near the bottom in price appreciation in recent years, many Texas cities saw little investor speculation before now. "It's hard to get investors salivating on (Texas') 3 to 5 percent appreciation when prices in Phoenix were increasing 35 percent in the last 18 months," he said.

But as investors and buyers looking to relocate from California and other states enter this market, prices will probably continue to increase, Dotzour said. Because of "an endless supply" of new homes, however, prices shouldn't rise to an alarming degree, he added.

But an oversupply of new homes in the region could dampen the local housing market, he cautioned. And Central Texas is susceptible as national home builders saturate the market in other cities and seek new building grounds in markets with relatively low inventory and healthy job growth and home-price appreciation, he noted.

"And Austin is one of the few markets in the country that meet those criteria," he said.

Central Texas predictions

During the Real Estate Council of Austin's luncheon Tuesday, Mark Dotzour, chief economist and director of research at the Texas A&M Real Estate Center, predicted the following for Central Texas in 2007.

## **RETAIL MARKET**

**New space:** 5.2 million square feet

**Occupancy rate:** 85.6 percent, down 7.2%

**Avg. rent:** \$19.18 per square foot, up 50¢

## **APARTMENT MARKET**

**New space added:** 5,100 units

**Occupancy rate:** 94 percent, down 1%

**Avg. rent:** 92 cents per square foot, up 5 cents

## **OFFICE MARKET**

**New space:** 400,000 square feet

**Occupancy rate:** 86.4 percent, up 1.5%

**Avg. rent:** \$22.89 per square foot, up \$2

**Source:** Texas A&M Real Estate Center