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Real Estate Economic Indicators:

- 1. Job Growth**
- 2. Interest Rates**
- 3. Appreciation**

JOB GROWTH

Predictions for USA are about 1% in 2007

Central Texas Austin area about 2% in 2007

Whatever the USA number is ---- Central Texas could be twice that amount.

We are not going to be slowed down or affected by the auto industry. In the USA in 2007 we could see a big adjustment in the auto industry. Business profit has been up but is leveling. Leveling profit will mean less hiring. Central Texas has been through the dot com bust and now the computer industry is on the profit upswing. We should still have good job growth.

INTEREST RATES

Should remain level in 2007

Oil prices / stocks / bonds / terrorism / weather disasters can all affect the interest rates
Without a disaster in any of these areas the interest rates should remain fairly level in 2007.

The USA economy is good --- but not robust. Fed will most likely not be raising the rates.

APPRECIATION

USA has gone from +18% appreciation to about +6% appreciation. +6% is about normal.

But certain areas will still see more declines in pricing. CA / NV / AZ

Right now in those areas investors have quit buying and some are selling. Investors are about 10% of the Central Texas market. In CA / NV / AZ they represent MORE than 10%. Those areas will see increased inventory and decreased sales. The investors are done and trying to get out. The next bad wave to hit these areas is when home owners have to sell --- and can't because prices are down and inventory is up ---- and when the adjustable rate mortgages adjust and they can no longer afford their homes. MORE adjustments are on the horizon for CA / NV / AZ.

The affect on us is less money will leave these areas for Central Texas.

Inventory in the USA is about 6 ½ months right now ---- which is about normal.
Central Texas area is about 4 months ---- which is low.

Builders would like to come to Austin and flood the market. But there is a shortage of build able lots. For the last four years our sales were level and there was little appreciation. Developers were not rushing to develop land and lots. Now there is opportunity. But it takes a long time especially in Austin to get developments approved and done. So inventory can not be flooded by builders right now and should remain low.

Apartment occupancy in Austin is about 94%. This is very high.
Rents should then remain high too.

With rents high and interest rates low --- first time buyers will be motivated to buy.

CONCLUSIONS AND PREDICTIONS

1. Job growth

Austin will out pace the USA by as much as twice the national average.

2. Interest rates

Level in 2007

3. Home sales & Appreciation

USA will see a decline in sales and appreciation.

The USA will be pulled down by investors pulling out of formerly hot areas like CA / NV / AZ.

But it will also suffer from adjustable rate mortgages changing and forcing some home owners to sell or even walk away. Foreclosure will most likely go up in the USA.

In Central Texas our unit sales should level or decline slightly. There will not be as much out of town investor money buying property.

Appreciation should continue at a modest rate of 6 to 7 %.

Don't count on all the condo projects announced for the downtown area being built. This market is fairly saturated. If they do not get enough pre-sales many condo projects will be shelved.

If you see a stock market rally that will keep real estate prices down because investors will move money from real estate to stocks.

Dr. Dotzour says your best investment is your homestead. This by the way is in contrast to most financial advisors. The reason is that where you live my have the best tax advantages but that investment is only worth something IF you sell it. And then of course you have to live somewhere else. It also may be expensive month to month to live in an expensive homestead.

However I do agree with his other conclusions and would add this bit of advice.

THE THREE BEST PLACES TO INVEST RIGHT NOW

1. Buy a home in Central Texas
2. Buy another home in Central Texas --- the closer you get to downtown Austin the better
3. Buy another home in Central Texas --- the closer you get to downtown Austin the better