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Dear Client:

It received a lot of attention at the time. But the impact of the largest single financial commitment in the UTSysystem's nearly 125-year history still has not sunk in for some.

It is not about just spending \$1.56 billion on higher education, spread among all 15 institutions in the UTSysystem. "The UTSysystem is helping insure that the state of Texas will become the **location of choice for the nation's – and the world's – leading scientists, doctors, mathematicians and technologists,**" said Chancellor **Mark Yudof.**

The bottom line – is the bottom line. **This commitment will boost – enormously – the economy of this state,** and expand beyond our borders to include the nation. This unprecedented investment in science, technology, math and health education will insure the competitive future of Austin, the state and the nation.

Listen to Chancellor Yudof: "This is an unprecedented plan to substantially increase the UT System's commitment to build the **most competitive science and engineering, medicine and mathematics infrastructure – both human and capital – in the country.**"

He continued: "It is critically important to Texas and to the nation to turn out more engineers, more nurses, to do the cutting-edge research, to develop new products and medical treatments, to **establish new businesses and new industries in our state.**" Whoa! Did he say establish new businesses and new industries in our state? Yes. And, frankly this continues a long-standing commitment by UTAustin and the System to enhance the economy of our area.

Okay, where's the money coming from to do all this? State and federal appropriations, tuition revenue bonds (TRBs), institution funds, Permanent University Fund allocations and private funds or gifts from business, industry, foundations and individuals.

By the way, debt service for the TRBs is *not* paid from tuition and fees. It is reimbursed by the state and does not impact the cost of attending colleges and universities in Texas. The Texas Legislature has already earmarked \$1.8 billion for TRBs, but must still appropriate these funds early in 2007. **This is not a pie-in-the-sky, ivory tower plan.** It's happening now. The money will be spent in the current and next fiscal years.

Uh, oh! Austin has received national mention as a housing “hot spot.” Does this mean even more out-of-area investors are heading our way? And, if so, what will that do to home prices?

Let’s keep this in perspective. The mention wasn’t a “splash across the front page” story in a widely-circulated popular national publication. It was a small item, albeit contained in a highly-influential private publication widely read by business people and investors. And, frankly, it could be a **harbinger of things to come – a trend in the making.**

The story was in *The Kiplinger Letter*, a national newsletter that has been providing forecasts for management decision-making for more than 80 years. It started out innocuous enough for Austin, because it pointed out nationally **“single family housing starts are heading for a 10% decline.”** Then it got even gloomier, suggesting Miami, Washington, DC, Detroit, Omaha, Phoenix, San Diego and Sacramento may suffer as much as a **20% decline.**

It further pointed out this **sharp slide in new home starts will impact luxury building the most**, causing the greatest pain for suppliers of granite and marble countertops, high-end appliances, hot tubs, outdoor furniture, plasma TVs and other media room staples. This, of course, could **bode well for Austin homebuilders** as it means less national demand for items they are installing in homes and, in the best of all worlds, it could mean lower prices, as well as better availability, for these products.

Here’s the kicker. While *Kiplinger* was noting all these problems around the nation (in its 8/18/06 edition), the story shifted gears to point out the markets it referred to as **“likely standout gainers.” You got it. Austin was on the list of only six places**, with San Antonio as the only other Texas city on the short list. The others, all in southern states: Charlotte, Baton Rouge, Mobile and Biloxi.

This news item doesn’t mean the floodgates have been opened wide for out-of-area investors to rush in here and drive up prices. We already have some investor activity in this arena. But it does probably foretell a **gradual uptick in investor activity, as more and more real estate speculators get the word** about our healthy market that is such a contrast to the drop-off markets elsewhere.

And, of course, as we have told you in recent months, this scenario is occurring at a time when a low inventory of homes for sale is creating a **seller’s market** in the Austin area.

So, what does all this mean for you? If you’re a home *owner*, the value of your homestead should steadily increase (as will your appraised value for tax purposes). If you’re a home *buyer*, you should move quickly once you find the home that works for you. If you’re a home *seller*, you could be in the enviable position of sorting through multiple offers. If you’re a home *builder*, your product, in the right price category, should sell quickly – reducing your financing costs. And, if you’re a home *lender*, you should see plenty of activity.

With energy use peaking during these triple-digit-temperature days, it's timely to note that Texas now tops all states in wind-powered energy capacity.

And it's not because Texans are a bunch of blowhards, as one wag suggested. No, the stats come from the American Wind Energy Association and the 2nd quarter nationwide numbers indicate the **Lone Star State barely edged out perennial leader California**, reports **Ray Perryman**, longtime Texas economist.

The Texas lead over California is marginal, but the significance is that **California has led the nation in wind energy capacity for nearly 25 consecutive years**. No more. Texas has not only caught up, but surpassed the Golden State, even though California first built wind farms ten years before Texas – back in 1981. At one time, California generated about 80% of the *world's* wind capacity.

Texas is coming on strong. Perryman reports that US developers upped wind energy capacity by 822 megawatts (MW) in 2006. Of this amount, about 375 megawatts — 45.62% of the entire US gain – was generated by Texas.

Texas and California now produce almost half of all the wind energy output in the US. Texas's capacity: 2,370 MW. California's capacity: 2,323 MW. The US capacity: 9,971. How much electricity is this? Well, the amount produced by Texas is **sufficient to power more than 600,000 average houses** – a long way from being a significant portion of power usage in the state. But it's a start.

And the Lone Star State is **expanding its wind energy capacity at a brisk clip**. New facilities to provide an additional 565 MW are now under construction. This compares to wind energy construction projects in 10 other states totaling 643 MW.

Even though sometimes it seems like the wind blows all the time in Texas, there really are only about **three regions in Texas that have significant wind power possibilities**. If you've driven through West Texas lately, on the road to the Big Bend, you can see miles and miles of huge propellers scraping the sky and cranking out wind energy. You don't see anything like this around here. The three areas: the Great Plains, various ridge tops across the Trans-Pecos and the Gulf Coast.

The Gulf Coast may be the most intriguing. **Turbines being built off the coast near Galveston are the largest of their kind in the US**. These turbines are expected to start producing electricity in 2009. Another project off the coast of Padre Island is anticipated to be operating in five years.

Frankly, the Gulf Coast location perfectly complements the West Texas sites. **This reduces the length of transmission lines** needed to cover major population centers and could result in lower energy costs. Wind energy is in its infancy, but it's growing and Texas is now leading.

Austin is the 3rd “most inventive” place in America in a list of cities and towns with the most patents overall, according to a recent survey of 12,000 American cities.

The top two are San Jose and Sunnyvale California and numbers four, five, six, seven, nine and ten are also California cities – Palo Alto, Fremont, San Diego, Cupertino, Mountain View and Santa Clara, respectively. **Only Austin, at #3, and Boise, Idaho, at #8, broke California’s stranglehold on the nation’s Top Ten inventive cities.** California accounts for about 15% of the patents issued in the US. Texas and New York together make up about 8%, reports *The Wall Street Journal* that conducted this survey.

The *Journal* looked at the number of **utility patents granted to inventors in the past four years in about 12,000 cities**, using data compiled by research firm iPiQ, a consulting firm that analyzes intellectual property for companies. iPiQ excluded data from huge company “patent factories” such as Intel or many similar operations in Boston – focusing instead on individuals or smaller companies to come up with its list of places that were hubs of innovation.

While ranking at the top of most lists is nice, there is another practical economic side to Austin’s distinction as an “inventive” place. As the *Journal* so aptly points out: “one upside of these innovations is that **new patents often lead to the creation of new companies, which in turn mean more jobs**”

And, as inventors in the Austin area network among each other, this feeds still more innovation. Even in these days of the Internet and all manner of rapid communication, the **concentration of individuals** who come up with “eureka! moments” is vitally important to this concept. One patent expert estimates up to 25% of inventions in a concentrated area cite one another.

A look at the Top Ten list implies a heavy **concentration of high-tech** – and this is true. But many non-tech patents gain traction, such as a Florida boater’s invention that uses vibrations (made from his kid’s Halloween toy) to keep birds from pooping on his boat deck.

Dr. Louis Overholster: The problem with some graduates is their DNA – Don’t Know Anything!

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