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Dear Client:

They're dancing in Dallas and sighing in San Antonio. And after the dust settles on AT&T's announcement that it is moving its HQ from the Alamo City to Dallas, Austin may also figure into the move of high level executives.

When AT&T (it was known then as Southwestern Bell, SWB) moved its HQ from St. Louis to San Antonio 16 years ago, then-Mayor **Nelson Wolff hailed it as "the most important economic development event in San Antonio history."** It was *that* big – not so much for the number of jobs created (though substantial) but the move put San Antonio into the corporate HQ big leagues. For somewhat similar reasons, some in the Alamo City are now using words such as **"devastating" when referring to its loss of the AT&T HQ.**

But it's not just the prestige that is lost. **AT&T top execs have pumped millions of dollars into the betterment of San Antonio** through corporate and individual support of local universities, museums, cultural events and United Way campaigns. Also, many San Antonio leaders feel that AT&T's HQ presence helped to attract Toyota, Microsoft and other companies.

When you analyze what happened, it boils down to key executives. To be sure, AT&T will tick off a long list of reasons that Dallas is a much better site for its HQ. And it will point out that even though 700 execs will move to Dallas, about 5,300 jobs will stay in SA to run its Telecom Operations. But don't overlook the role of the top exec.

Ed Whitacre, as the San Antonio CEO of SWB, wanted his hometown to be the HQ, so the decision to leave St. Louis was made. Whitacre recently retired and was replaced as CEO by **Randall Stephenson**. **The word we get is that Stephenson didn't even give San Antonio a chance to plea/bid to keep the HQ.**

How does Austin figure into this equation? AT&T said one of the execs moving to Dallas is **Jim Epperson**, in its External and Legislative Affairs division. But it said former State Senator **John Montford**, also an External and Legislative Affairs exec, would remain in San Antonio. Montford, a former Chancellor of Texas Tech University, probably has the inside track to succeed **Mark Yudof** as Chancellor of The University of Texas System. **Could this non-move to Dallas signal that Montford will indeed move to Austin as the next UTSystem Chancellor?** Stay tuned.

Did you know that powerhouse auto company Toyota also builds homes? And did you know the only Toyota homes built in the US are about an hour-and-a-half south of Austin?

Toyota has been building steel frame homes in Japan since 1975. The idea of the steel frame construction is to have the homes withstand earthquakes and typhoons and to keep out burglars. The effort has been modest so far. **But with advancing technology, Toyota is apparently marrying auto production concepts with construction of homes** and getting ready to expand its home-building ventures, according to *The Wall Street Journal*.

One example: Toyota is planning a 2010 launch of plug-in vehicles – gas-electric hybrid cars with powerful lithium-ion batteries that drivers will need to re-charge at home. Now comes the ah-ha! moment. The car-maker is testing an electricity-monitoring system that would **charge the cars at home** during off-peak hours to keep utility bills low. But, get this, this same system could also serve as **an electrical backup – powering homes during blackouts**.

Toyota engineers are also experimenting with using **solar panels as house siding and powering homes with fuel cells**, which combine hydrogen and air to produce electricity. Toyota is taking the technology it is developing as it builds cars and trucks and applying it to other fields.

So, while all this is several years down the line, how does it impact you here in Central Texas? It is interesting to note that, while Toyota is talking only about its homebuilding enterprise concentrating on Japan, it also **very quietly built about 50 homes in 2006 near its truck plant in San Antonio. These are the only homes it has built in the US and Toyota is calling it an experiment.** And it says it is not thinking about building any more homes outside Japan.

This may be true – for now. Toyota’s Texas manufacturing plant in San Antonio, that builds the Tundra pickups, is in a slowdown period as is the rest of the auto industry in the US. But Toyota has shown it plans years into the future and is usually ahead of the curve when it comes to innovation. You may not see any further on-the-ground Toyota homebuilding in the US in the near future. But keep your eye on Japan. **And as this forward-thinking company develops product there, remember it has a “homebuilding experiment” already in place just a few miles down the road from Austin.** It will be intriguing to watch.

From homes of the future to homes of the past: did you know one Central Texas community has been recognized nationally as a great place to buy a classic home? While many cannot wait to have the very latest in innovation for their lifestyles (witness the iPhone phenomenon), there are others who cling solidly to the classic style. For those, the editors at ThisOldHouse.com have proclaimed **Georgetown as one of the top 12 places in the US to buy a classic home.** Their criteria: architectural diversity, the craftsmanship of homes and preservation momentum.

“The number one issue builders are focused on in Austin today is making sure buyers qualify for new mortgages,” says an Austinite whose business tracks what is going on in the homebuilding market in the area.

Elaborating further, **Mark Sprague**, who heads up the Austin office of the Residential Strategies, Inc. tracking firm, was quoted recently as saying “The meltdown of the mortgage market and ensuing credit crisis has meant that the standards for mortgage qualification are more rigid than before.” **He also pointed out *interest rates remain attractive for those who do qualify for a mortgage.***

So, in this topsy-turvy national economy, **what is likely to happen to interest rates?** To get good thinking on this question, let’s turn to a couple of top Texas economists who specialize in real estate in the state – Dr. **Jim Gaines** and Dr. **Mark Dotzour**, both with the Real Estate Center at TexasA&M University. Their job is to try to stay on top of what is happening in this arena.

When the Federal Reserve decided to keep the federal funds rate at 2%, it “acted the way most people expected it to,” said Gaines. He pointed out **the Fed has been under enormous pressure for the past year or so to keep the financial market and the flow of credit stable** *while controlling rising inflation and declining economic growth.*

His colleague, Dotzour, weighed-in by predicting the Fed would like to begin raising interest rates “**to choke off inflation before the genie gets entirely out of the bottle.**” **However, Dotzour said it looks like that may already have happened.** As an example, he pointed out that “just a few weeks ago, Dow Chemical announced a 20% price increase on many of its products and then (last week) announced another 25% price increase.”

Dotzour said the **Feds are keeping interest rates low to allow the big global banks to generate sufficient profits to stay in business.** He indicated banks reportedly have earned \$95 billion in net interest so far this year because of the Fed’s low rates. What’s behind this?

“Many of the largest banks desperately need the **low rate regimen to continue until they can digest the losses they have accrued from making loans that never should have been made in the first place,**” Dotzour says candidly. “**The unfortunate consequence is that the Fed is likely to be forced to keep interest rates too low for too long.** This will encourage the dollar to go lower and the price of oil and every other commodity to go higher.”

This may help the banking system, but at what cost? Dotzour says “trucking firms, auto dealers, airlines and retailers are all still suffering heavily from the high cost of energy. **At some point, the Fed will have to increase rates and increase them quickly.**”

When Starbucks announced this week it was closing as many as 600 stores in the US, we immediately thought of a former UTAustin student who set out many years ago on a life's goal to drink coffee in every Starbucks store in the world.

There was no immediate indication from Starbucks about how many of its stores in the Austin area might be closed. It only issued a statement saying **the stores are located “across all major US markets, with approximately 70% of them opened since the beginning of fiscal 2006.”** We'll leave it to the MBAs and Wall Street to use hindsight to analyze this corporate approach. We worry about **John Winter Smith.**

You see, Winter (that's now his legal name) took his **double-major at UTAustin in philosophy and computer science** and went out into the world with the avowed goal of drinking coffee in every Starbucks store in the world. Before the cutback, **Starbucks on 4/30/08 said it had more than 16,000 stores in 44 countries.**

Click on the archives button at the top of this page to access Volume 26, Number 16 and Volume 26, Number 31 for the stories we ran about Winter back in 2004. To get an update, we went to Winter's website, www.StarbucksEverywhere.net, to see if he is still on this crazy quest. Yep, he is. He posted *this week* that he has **visited “7,354 + 179 North American stores” and “683 international stores” in 17 countries.** Impressive, but still only about half-way toward his goal.

A newspaper said he is **“a scruffy-looking man with bloodshot eyes and manic, shaky movements.”** What do you expect after all that coffee! But Winter is not single-focused. He says his other goals are “changing the world, avoiding law enforcement, reaching the highest Scrabble ranking I can, reading as much literature as I can and having as much sex as humanly possible.” Winter is now about 36 years old. His dad and mom live in Houston. He says **his dad “thinks it's a waste of time” and his mom is “still worried about my future.”** Really?

Speaking of coffee, **Dr. Louis Overholster** has coined a new word – inoculatte. He says it means “to take coffee intravenously when you are running late!”

Sincerely



Editor/Publisher