

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**Look for mortgage interest rates to take an upward turn in 2009 and this could stimulate housing demand. What's this? Rising interest rates will trigger home sales? How's that?**

This conclusion has at its basis a little history and a little economic theory. According to the Chief Economist with the Real Estate Center at TexasA&M, **Mark Dotzour**, “typically, when mortgage rates are falling, homebuyers postpone buying.” In other words, they are waiting for the bottom. **“But when they see that mortgage rates have stopped declining and may rise, they hop off the fence and buy.”**

Dotzour is suggesting the national economy will begin rebounding in 2009 and the mortgage rates will start climbing. **“As long as rates do not increase dramatically enough to impact affordability, this should stimulate housing demand.** The long-term outlook for the Texas market is clearly strong.”

But what about right now? **“The state’s metropolitan areas have strengths and weaknesses in their local markets.** Attractive properties located in older neighborhoods close to downtown are still performing well and will continue to do so,” he says. The challenges in big city housing markets will be in select sections of the suburban perimeter.”

“In the short term, these **markets will struggle because too many new homes have been built,**” Dotzour noted. “But even in these areas, supply is being quickly withdrawn as new home starts plummet. For now, builders are accepting substantial concessions to make a sale.”

His conclusion: **“If you plan to buy a house to live in for a number of years, this would be a great time to buy.** If you think may not live in a house for two years before you move again, you might be better off to rent.”

These comments are petty broad – covering Texas, with references to the US. What about the Austin housing market? Well Austin, as we have been pointing out for some time now, is different. **While Austin has seen a major slowdown in new home construction, home prices are not falling as they are elsewhere around the country.** But interest rates are the same everywhere. So, while interest rates are down, the Austin market looks even better.

**You'll recall a couple of years ago New York piled a stack of money and incentives on the table to lure an important part of SEMATECH away from Austin. So, what is the governor of New York saying about his state these days?**

It is the exact opposite of what Texas Gov **Rick Perry** said about the Lone Star State, as we told you last week. Night and day, you might say. *The New York Times* reported that NY Gov **David Paterson** “described New York this week as facing the worst economic downturn in decades. He called for immediate action, from freezing state hiring to cutting prized programs, possibly including education and health care.” This is serious for NY.

The report went on to say **Paterson** “warned that the situation could become as bad as in the Great Depression and invoked the name **Herbert Hoover** in telling the state legislature and Washington that inaction could lead to disaster.” Strong words about his very own state.

To be fair, there are many NY legislators and some economists who do not agree with Paterson's dire assessment. But Paterson responded to the *NYTimes*: “I'm already hearing that people are saying I'm overestimating the problem. And I understand that's because it's very difficult to cut spending. It's very difficult to take the responsibility of reducing the work force, or cutting health care or cutting education if necessary.”

**Paterson said the state of New York is facing a budget deficit of \$6.4 billion.** As he put it: “Suppose I'm totally wrong. The budget deficit is \$5 billion. It's not \$6.4 billion. So what are we doing about the \$5 billion? Why aren't we opening up the budget and cutting.”

Why this brief focus on New York's financial troubles? Two reasons. As we mentioned above, **New York brazenly lured some key elements of SEMATECH's research operations away from Austin with lavish promises and a pitch about the advantages of a New York location.** While we have no information that NY is reneging on any of its promises to SEMATECH, it goes without saying that all is not rosy in New York land. Secondly, the **economic contrast with the fiscal soundness of Texas is stunning.**

Check our newsletter last week where we went into detail about Texas's economic stability – both in its state government (which is so important to Austin's local economy) and its private sector component. The numbers could change of course, but **high-tax-state-New York is facing a \$6.4 billion state government deficit and no-personal-income-tax-Texas is facing a \$10.7 billion fund balance.** Come on. Get real. Most major CEOs and economists nationwide are taking note.

And don't **forget part of the quote** from Gov Perry last week: “We have the best business climate in the country and remain globally competitive thanks to our reasonable regulations, low taxes, fair legal environment, educated work force and an unparalleled quality of life.”

**Speaking of SEMATECH, the semiconductor industry is moving into solar energy production and the shift is seismic. This could have enormous implications for the Austin area.**

The annual gathering of the major players in the semiconductor industry is called SEMICON. This year, it was held on the West Coast. A delegation of Austin business, civic and political leaders used the occasion to call on the key players at this gathering – to schmooze them about Austin and to **gather intelligence about one of the most important high-tech segments of the economy of the Austin area.**

One of the participants in that trip was Austin Mayor Pro Tem **Brewster McCracken**. McCracken says: “One semiconductor executive told me that **while the semiconductor industry has become interested in solar in the last four years, the dam burst some time in the last year.**” As a result, Brewster quotes industry sources as saying that “investment in solar production will equal that of semiconductor manufacturing in 2010.”

This is a strong statement. What’s behind such a prediction? McCracken said the semiconductor industry’s rate of growth in its core business lines is flattening. He said the industry needs a new growth area. He said “**The industry’s collective assessment is this: solar industry is poised for massive expansion globally.**”

“Applied Materials is already seeing this,” McCracken pointed out. “When it **entered into the solar market in 2004, it set a goal of \$1 billion in sales by 2010. Its sales will top \$3 billion in 2008.**”

Does this mean a total makeover of the semiconductor industry? No, not at all. **The processes to make silicon wafers, computer chips and solar cells are similar.**

“Several people in the industry told us that the **manufacturing processes used by the solar industry are rudimentary** compared to the sophistication of creating ultra-pure 300 mm silicon wafers in enormous clean rooms,” said McCracken. “People at the conference believe the semiconductor industry’s entry means the energy yield of solar panels is poised for major improvements.”

This has major ramifications for Austin’s economic future, he maintains. “**Some region will emerge as the leader in this new direction. It should be Austin.** In fact, I believe our economic strengths and community values make us the best region in the nation – by far – to lead this new direction,” McCracken says.

But McCracken says “**success is far from a foregone conclusion.** In fact, we will need to significantly intensify our commitment – or face the real risk of becoming an also-ran.” Austin has already lost a piece of the semiconductor-related business when an important part of SEMATECH moved to New York. It’ll be interesting to see how Austin steps up now.

**Have you taken a look at your electric bill from Austin Energy lately? If you are like many users, your electric bill may be the highest you've ever received.**

Very few in the Austin area got any rain or temperature relief from Tropical Storm Edouard this week. So, the fact remains you are still in the **midst of what could prove to be one of the hottest and driest summers on record in the Austin area.** This means just about everyone's air-conditioning units are shooting out cool air for longer and longer periods.

Here's an interesting tidbit from Austin Energy: **air conditioning equipment is rated to handle outside temperatures up to 98 degrees. Above that, your air conditioning will run almost non-stop, even if you set it at 80 degrees or higher.** And when you run the a/c during triple-digit temp times, your electric usage meter outside your house is spinning longer and faster, sending your electricity bill higher and higher.

Also, what is not talked about very much is that long ago, the Austin City Council approved a summertime "conservation rate" for electricity. In other words, **your electric rate in the summertime is higher than in the wintertime. You pay more per kilowatt hour in the summer than you do in the winter.**

The logic: **if your summer rate is higher, you'll cut back on your a/c usage.** This doesn't appear to be happening. Peak electricity usage is setting records. Well, duh! When it's just "a few degrees hotter 'n Hell outside," as one wag phrased it, the average user is not going to reduce dependence upon a/c.

The net effect is that **you are paying a higher rate for electricity during the time when you rely the most heavily upon air conditioning.** Your electric bills this summer are likely to be higher than ever. You pay more. And the city-owned Austin Energy generates more revenue. (Some even refer to the Austin Energy profit as a "hidden tax.")

After forgetting a name, **Dr. Louis Overholster** opined that a mind is a terrible thing to erase!

Sincerely



Editor/Publisher