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AUSTIN LETTER

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Dear Client:

If you are concerned about the housing situation, keep your eye on mortgage rates. Something is happening here that bears watching.

While the Austin area housing market is holding up better than most cities around the nation, mortgage interest rates are generally the same nationwide. **This is important for Austin homebuyers and home sellers alike** and it impacts those who are living in a home financed with an Adjustable Rate Mortgage (ARM) where rates fluctuate.

The rate on a 30-year mortgage is almost exactly the same as a year ago – bouncing around 6.5%. However, there have been ups and downs this past year, and the rate has *risen sharply* since the end of March. This is despite all that has been done during this period to shore up the housing market.

Remember, you have seen massive mortgage purchases by the embattled Fannie Mae and Freddie Mac and you have seen expressions of government support for both of these companies. **All of this is designed to ease the national housing indigestion.** Plus, there has been new housing legislation passed by the Congress and signed by the president.

Many feel that cheaper borrowing rates are vital to a housing recovery. Yet, the mortgage rate has stayed stubbornly high even as other key interest rates – such as the yields on Treasury bonds that usually drive mortgage rates – have fallen.

That famous “philosopher” baseball player/manager **Yogi Berra**, observed that it was tough to make predictions — especially about the future. So, we’re not about to go there, especially with the uneasy national economic picture playing a key role in mortgage rates.

Some economists feel that **when mortgage rates start rising, people start buying houses** because they want to lock-in a rate before it gets out of hand. **But this didn’t happen when rates started rising at the end of March.** The most help we can give you now is to point out we’re in the midst of an uncertain interest rate situation and it bears watching. Even if you are not impacted personally, it still influences Austin’s economy.

With a national debate underway about drilling *offshore* to address the energy crisis, what about drilling *inside city limits*? Central Texas has a case study that is interesting.

No matter where you drill, there is an important economic underpinning. It wasn't too long ago that, around Texas, you would hear the comment that it was just **too expensive to drill here, or to go after that oil or natural gas there**. But now, with oil and natural gas bringing high prices, it becomes economical to pursue what was once too costly to do.

This is where the Texas case study comes in. **One of the largest onshore natural gas reserves in the US runs through north and central Texas**. It's called the Barnett Shale formation, and it was discovered by Houston wildcatter **George Mitchell** back in the 1980s.

But with the technology available back then, he couldn't bring the natural gas to the surface economically. A peculiarity of the rock formation made traditional drilling techniques useless. Rather than wait for prices to rise, **millions of dollars were spent to develop hydraulic technology** to tap into this huge source. Now, with about 7,500 gas wells in the Barnett Shale, the high prices have made it a good long-term investment.

In 2000, there were only 273 permits issued to drill in the Barnett Shale. This past year, 3,140 permits were issued. **This field is sometimes referred to as a "17-year, overnight success."**

Railroad Commissioner **Elizabeth Ames Jones** says that **"for nearly a century, Texas's regulatory and tax structure has worked the way it is supposed to. It didn't lock up oil and gas fields that seemed to be unprofitable**. Instead, because of state policies that have allowed local governments, schools and property owners to benefit through property taxes and royalties, energy companies have been able to lease mineral rights and prepare to tap into the fields once they become profitable."

And that's exactly what happened, says Jones. She points out the price of natural gas is now triple what it was in 2000. How big is this? The Railroad Commission oversees the oil and gas industry in Texas and it reports **30% of all the natural gas produced onshore in the US – and 18% of all the oil – is produced in the Lone Star State**. This makes Texas the Numero Uno energy-producing state in the nation.

And this drilling is not taking place way out in the vastness of West Texas. Jones says many of these wells are **located in the city limits** of Fort Worth, and some a **stone's throw from suburban homes and schools**. And, as she mentioned, cities, the DFW airport, schools, etc. in North and Central Texas will be receiving hundreds of millions of dollars in lease bonuses and royalties over the next 25 years.

If you want to see a modern version of a civil war in Texas, you may want to tune in to the next legislative session that starts in Austin in January.

Well, maybe that's a bit of exaggeration. But not much energizes a legislator more than competition that involves the legislator's district – the home folks, the constituents, those voters who decide whether the legislator returns to the Texas House or Senate. And we could see **lawmakers from the Dallas area, San Antonio, Houston – even El Paso and Lubbock – elbowing each other out of the way for a big plum.**

The plum: the big bucks, the prestige, all the long-term benefits that come from having **another UT Austin in their midst.** We've often pointed out that UT Austin is the single most important economic engine in the Austin area. The Austin area would be a shell of itself if there were no UT Austin.

What this is all about is the **elevation of existing higher educational institutions to what is called "top-tier status."** Currently, the only public institutions in Texas to enjoy such a prestigious designation are UT Austin and Texas A&M, along with the private university, Rice. California has nine top-tier universities, New York has seven.

There is much more than prestige involved in being labeled a flagship university. **Massive research dollars from outside sources, major donations and increased legislative support are all needed to elevate a university to this status.** And it takes years to reach this level, once the effort is underway to achieve top-tier status. How you know when you arrive is election to membership of the Association of American Universities – an exclusive organization that only includes 60 member schools. Texas A&M has only been a member since 2001 and it took four votes, over a ten year period, to be invited to membership.

So, which seven public universities are angling for this ambitious designation? In the Dallas area, you have **UT Dallas, UT Arlington and the University of North Texas.** **The others: UT San Antonio, UT El Paso, Texas Tech University in Lubbock and the University of Houston.**

The push is on for the Texas Legislature to **confer "most favored nation" status on one or more of these institutions** to kick-start the process and to hopefully provide initial funding for the process. Now you can see how this will pit delegation against delegation.

This process creates the **possibility of peril for UT Austin,** even though the institution is squarely behind pushing one or two more universities along the path to top-tier status. The problem: increased funding could come at the expense of UT Austin. And if the Legislature fails to make the hard choice of picking only one or two and, instead, caves-in and names more – then this possibility becomes even more exacerbated.

This week and next at the national conventions of the Democrats and Republicans, you are being inundated with facts and figures about the differences between the two parties. But have you heard what bartenders say about their drinking preferences?

A research firm recently surveyed 100 bartenders in the Washington, DC area. The objective was to find the drinking preferences of the competing political parties. Obviously it is **somewhat tongue in cheek**, but amidst all the seriousness of these conventions, it doesn't hurt to insert a little lighter touch.

So, let's look at some of the results.

The survey found that 60% of DC bartenders regard Democrats as better tippers. But Republicans were seen by the bartenders as serious drinkers. For instance, **82% of the bartenders said Republicans are more likely to order a drink straight up, while 58% said the Democrats were likely to order a fruity, pink drink.**

Okay what about bar scene action? **The bartenders, by 74%, said Democrats had better pickup lines**, and 63% said the Democrats were better at delivering toasts than the Republicans.

Finally, who spends more time at bars in Washington, DC, Democrats or Republicans? Well, the answer to this one was somewhat mixed. **It seems 53% of the bartenders thought Democrats were the last to leave. But, 50% said the Republicans were the first to arrive at Happy Hour.** We didn't see any results that spoke to *who* was buying the drinks, as this was not a serious survey with political undercurrents. It's just a bit of fluff that provides a little break in the serious contact sport of politics.

Dr. Louis Overholster noted that college football begins this weekend, with the Texas Longhorns shooting for a high ranking. He commented: "Another top-rated team, the Ohio State Buckeyes don't pass as much as Texas. But enough about the classroom!"

Sincerely



Editor/Publisher