THE Neal Spelce AUSTIN LETTER

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Dear Client:

If you are planning to make a little money by investing in Austin area residential real estate, there are some dates and changes that could affect your decisions.

Fannie Mae and Freddie Mac are still players on the residential real estate scene and you may be aware of rules they have already implemented, but there are some new wrinkles to consider. First of all, Fannie Mae is **limiting investor applicants to no more than four rental properties**. And there are restrictions on investing in condos, including *bans on mortgages* in projects where more than 49% of the units are owned by investors.

But there are new, higher fees about to be levied. Fannie Mae traditionally has been a key source of funding for homes. Now it has announced plans to load **extra fees across the board for investor loans it purchases after 12/1/08**. Fannie says this is due to "market conditions." To calculate a Return On Investment, you need to factor the fees along with the purchase price and carrying cost. What are they?

As of December first, investor applications where the down payment is between 10% and 15%, the **adverse market fee will be 3.75 points – up from 2.5 points currently**. When the investor puts down 20%-25%, there will be a 3-point add-on. Even when an investor makes a hefty down payment of 40% or more, there will be a 1.75 point add-on.

So, if you are planning to finance an investment property through a lender that plans to sell the mortgage to Fannie Mae, you may want to **nail down your mortgage commitment quickly** – prior to December first. Not much time is left.

This focus on fees may become even more important because we are hearing that some large private mortgage insurers plan to stop underwriting investor loans altogether. Couple this with the moves by Fannie Mae and it would appear that **the days of a low down payment**, **highly-leveraged rental deal are quickly disappearing**.

These rules and regs are being promulgated because of the problems with **investor properties in distressed parts of the US where home/condo values fell and investors just walked away**. But with Austin area residential investors saddled with these same restrictions, this is another move that could curtail buying/selling activity in our relatively-stable local economy.

Rural Texas land (particularly plots of around 100 acres) is still an attractive investment – especially for baby boomers and those nearing retirement.

Economists with the TexasA&M Real Estate Center say they are noticing a large interest in rural Texas land from baby boomers, the generation now driving the demand in the state's land market. **Dr. Charles Gilliland**, a research economist with the Center, said **both the boomers and big money investors have driven prices higher**. **People nearing retirement are prowling for 100-acre properties or smaller**, he added.

While both groups of potential buyers are, to a large degree, on the sidelines watching the stock market and the presidential election, **Dr. Mark Dotzour**, chief economist at the Center, said **many buyers continue to look to land as a tangible asset to turn to when things look uncertain elsewhere**.

What are they buying? And what are they paying? **Statewide per-acre prices for Texas land rose to $2,190 in 2007**, **topping the $2,000 mark for the first time**. Prices for small-to-medium-sized properties climbed the most. Large acreage prices rose, but at a much slower rate than in previous years – reflecting reduced interest in development properties. The size of tract per transaction dropped from 98 acres in 2006 to 80 acres in 2007.

The average cost per acre in 2007 was up 20% from the year before, according to the Center. **Land prices of late are experiencing double-digit increases on a yearly basis**. **The past five years have seen conditions that produced an almost frenzied appetite for land**. Rising incomes, inflationary fears, relatively low land prices and a host of other factors combined to boost prices to unprecedented levels.

With investment markets still in turmoil and uncertainty about future economic events, **rural land prices will likely continue to climb**, the Center suggests. However, Gilliland says this pattern cannot continue forever. When the investing environment settles into a more predictable pattern, the rate of increase seen in recent years will slow.

He went on to say that "as Texas land prices, which are low compared with those in many states, begin to rise, **the lure of Texas markets will wane**. **But do not look for this to happen in the near term**."

The Center admits that "Texas land markets are increasingly difficult to predict" pointing out that "**many conventional assumptions about price behavior no longer seem to apply**."

Given that, Gilliland did venture an opinion that "**based on early 2008 data**, **continued growth at a lower level seems the most likely short-term prospect**. Over the longer term, prices will probably moderate to growth rates more typically seen over the past 40 years."

Because Texas has worked to diversify its economy, the Lone Star State's economy remains among the strongest in the country, and one national survey places Austin as the best city in the nation for value.

It's awfully hard to keep your perspective these days because of the negative economic news blanketing everything. And, make no mistake, these are difficult times – here and elsewhere. But it is informative – *especially for future planning* – to remember that while some light economic showers are falling on the Austin area, there are veritable hurricane-force economic storms hammering other parts of the nation. **And when the skies clear, the Austin area is poised for a faster rebound than most anywhere else in the country.**

This was proven this week when a well-respected business publication examined the 40 largest metro areas in the nation and came to the conclusion that **Austin is the top city in the nation where one's money goes the farthest**. How did *Forbes* magazine come to this conclusion?

To rank the list, *Forbes* looked at **projected job growth through 2012**. It then calculated the ratios between **each city's median home price and median income** and compared that to Moody's **Cost Of Living** Index. It considered other factors as well, such as **year-over-year inflation** growth and **gasoline prices**. When all was said and done, Austin bubbled up as the top city in the nation.

One side effect is this also reinforces the strength of Texas as a whole. San Antonio was ranked #2 on the list, Houston #4 and Dallas #7. Moody's Economy.com's **Andrew Gledhill**, told *Forbes* that "**Texas, as a whole, is one of the few economies that's performing extremely well** because of the energy and technology sectors." As *Forbes* put it: "The economic storm sweeping the country has left Americans with few places to hide. But those looking to hunker down might want to **head to Texas, where they can get the best value for their dollar**."

There's more. **More than half of the states across the nation are facing budget shortfalls**, according to **Mary Scott Nabers**, president/CEO of Strategic Partnerships, an Austin-based government relations procurement consulting firm. Budget deficits in states like California, New York and Florida are widening and revenues are deteriorating, she notes.

But not in Texas, where Nabers says the budget *surplus* is being estimated at up to $10.2 billion and there is nearly $7 billion in its Rainy Day Fund. How has Texas managed to weather these national financial storms? **The state has low taxes, no income tax, and reasonable regulations, which makes it an attractive place to do business**, Nabers noted.

A final note on the *Forbes* study: **Economists predicted job growth of at least 2% by 2012 in Austin, San Antonio, Dallas and Houston**. Job growth in cities at the bottom of Forbes' list, including Los Angeles, Philadelphia and Cleveland, is expected to be about 0.2%.

Some of the finest bourbon in the world is being produced right here in Central Texas. At least that is the brash claim coming out of a new bourbon distillery in the tiny Hill Country community of Hye, near Johnson City.

It's a fun story still in its early stages. **Dan Garrison**, Proprietor and Distiller of Garrison Brothers Distillery, started out under the name of Lone Star Distillery. Seems the Lone Star Beer folks thought that was an infringement. Garrison said the beer folks thought his name "might inadvertently cause loyal Texas beer drinkers to switch to bourbon (not exactly what they said, I'm paraphrasing). **They kindly asked us to abandon the name (I think they actually used the words 'cease and desist').**" Hence the new name. And a new enthusiasm.

> "After five months of testing various cook procedures, cook times and temperatures, and comparing and contrasting recipes, formulas and yeast strains, I knew we were finally there. **We had made an excellent bourbon whiskey; one that could stand up to the best in the world.**"
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> "I borrowed money from friends and family, **applied for a lunchbox full of credit cards**, and cashed in my retirement savings. Do or die, it was Hye time to start making some serious bourbon," Garrison says. Working day and night, Garrison said they "began pumping out this delightful bourbon recipe at the rate of one barrel a day. Ever so slowly, our barrel barn began to fill. **In the next few weeks, we will fill our 100th barrel – a significant milestone for our little business.**"

Garrison uses food-grade #1 organic corn, premium organic soft red winter wheat and organic 2-row malted barley, not feed-grade (livestock) grains. When can we get a bottle, Dan? "The bourbon that is aging in our barn is getting better every day it remains there. I'm not convinced we're there yet. **We may go broke waiting, but we're going to give our bourbon all the time it needs or wants to become truly spectacular. We're hopeful the first bottles will be shipped in 2011.** The whiskey will be worth the wait," he assures us.

Dr. Louis Overholster wonders why "abbreviation" is such a long word.

Sincerely

Neal Spelce

Editor/Publisher