

THE

*Real Estate*

# AUSTIN LETTER

[www.AustinLetter.com](http://www.AustinLetter.com)

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail [News@AustinLetter.com](mailto:News@AustinLetter.com)

Volume 31, Number 35

November 27, 2009

Dear Client:

**Texas has long been an energy leader, with oil and gas the underpinning of a largely impressive economic growth. Now, with fossil fuels losing some luster in favor of “renewable” energy, how will this impact the future economy of Austin and the Lone Star State?**

Highly renowned for its vast energy resources in oil, natural gas, coal and uranium, Texas has produced enormous amounts of energy over the past several decades. You and other residents of the Austin area and Texas have benefited tremendously from this. For instance, **the state has collected \$35 billion in taxes on oil and gas since the 1930s, contributing to Texas schools, roads and overall infrastructure**, according to longtime Texas economist **Ray Perryman**. There is no doubt Texas has benefited greatly from a strong energy economy.

**Yet fossil fuels are finite and Texas’ fields are aging, with production trending downward from its peak in 1972.** Although production volume is not as high as it once was, Texas continues to be the leading crude oil producer in the nation, with more than 1/4<sup>th</sup> of the total US refining capacity, Perryman noted.

**However, overall energy consumption has outpaced overall energy production in the state.** In fact, Texas consumes more electricity than any other state – accounting for nearly 12% of energy consumption even though Texas is home to only 8% of the national population.

From 1995 to 2008, **the Texas population grew 28%, but electricity demand grew even faster, some 33%.** And the population growth trend will continue. The population of Texas (with Austin leading the way) is projected to continue to expand at a rate outpacing the nation as a whole.

A large amount of *new* electricity generation capacity will be needed throughout the state over the next two decades **just to meet the demand of a growing population**, including replacements for currently aging generation facilities.

Economist Perryman suggests that two areas of energy emphasis are vital to realizing Texas’ true energy potential for the future - **investment in renewable energy and energy efficiency.** We’ll examine “renewables” and “efficiency,” with Austin’s role as a part of the examination, in the next item.

**As energy demand continues to expand, energy efficiency and renewable energy are likely to play an increasingly important role. Austin and the State of Texas are leading the way, even though traditional energy sources will remain the mainstay for decades to come.**

**“The Lone Star State already leads the nation in wind power generation and has large solar and biomass resources yet untapped,”** reports Texas economist **Ray Perryman**. “In addition, the promotion of **energy efficiency** can help to reduce the consumption of electricity, acting as an energy source in and of itself.”

Perryman notes that there are more than 2,000 wind turbines in West Texas alone and substantial new wind generation capacity is under construction in other parts of the state. In addition, Texas is home to the **largest wind power facility in the world**, the recently-opened Roscoe Wind Complex. The state is also home to the **2<sup>nd</sup> largest wind power facility in the world**, Horse Hollow.

The goal for Texas, Perryman reports, is to eventually reach **enough wind power capacity to generate electricity for nearly four million Texas residents**, many in rapidly-growing metropolitan areas.

“Furthermore,” he adds, “Texas is **one of the top states in the nation for solar potential** with high levels of direct solar radiation in parts of West Texas.” Additionally, he adds that “Texas’ large agricultural and forestry sectors have the potential for an **abundance of biomass energy resources**. Unused oil and gas wells provide **geothermal sources** as well.”

Education, he says, will spur growth in these fields. And Perryman points out that Austin Community College (ACC), for example, offers the North American Board of Certified Energy Practitioners Entry Level Certificate Program (1-year to complete) that produces **trained solar energy installers**. ACC also provides a **renewable energy associates degree**. Also, UT Austin houses the Solar Energy Laboratory for **solar energy-related projects and research**.

**And then there’s this matter of federal money.** Recent allocations to the state through the American Recovery and Reinvestment Act of 2009 are aimed at improving energy efficiency and reducing consumption throughout Texas. **“Investments in all levels of government, as well as in educational programs, creating not only an informed public but a skilled workforce,** have started Texas on a road to realizing its full potential in renewable energy and energy efficiency,” Perryman points out.

Summarizing, Perryman says “renewable energy, coupled with already existing technology, can help Texas meet the energy needs of a growing population and economy while creating a **skilled labor force, attracting new venture capital, and spurring economic growth through an expanded clean energy sector.**”

**Last month, more than 100 Central Texas business and civic leaders went to Phoenix to hear from its leaders on issues that are comparable to those facing metro Austin. Why Phoenix?**

The state of Arizona is running \$2 billion in the red, nearly 19% short of its recently-adopted budget. So why go to Phoenix to get pointers on issues important to Austin? The rationale is that **Phoenix is home to the nation's newest light rail system and the newest medical school.** Also, the Phoenix area has a history of **cooperation among municipalities** that make up its metro area, such as Scottsdale, Tempe, etc.

While it is always good to study what others are doing – to learn from what was done correctly and what mistakes were made – it is interesting that one of the mayor's with whom the metro Austin delegation met, asked **"Why are you here? We model what we do after you,"** according to one of the participants, **John Garrett.**

**The manufactured housing industry is one sector of the residential housing market that is thriving during these down times. Why is that?**

First of all, you need to know that about **30% of the households in Texas cannot afford a home that costs more than \$70,000,** according to **Jim Gaines,** research economist at the Real Estate Center at TexasA&M. And homes that inexpensive are very difficult to find in the Austin area. As an example, the median price of homes sold in the Austin metro from January through October 2009 was \$189,000, reported the Austin Board of Realtors.

So, families with lower incomes are turning to manufactured homes – especially during these tough economic times. According to the Manufactured Housing Institute, **the average price for a manufactured home is \$46,000.** As a result, the manufactured home industry is doing quite well. And many of these homes are congregated in small "communities" made up of manufactured homes.

**Construction of new homes is still constricted, though the sale of existing homes in the Austin area was brisk in October.**

The uptick in Austin area home sales in October was credited to **buyers rushing to beat the deadline for qualifying for federal tax credits** (more about that in the next item). But builders of new homes are still struggling, even though the outlook for 2010 is a bit brighter for them.

Part of the problem says economist **Brad Hunter:** **"Some builders' banks are cutting off their credit, even if they are current on their loans ... (and) some builders are finding prices too low to be able to sell homes profitably."** It's still a buyer's market out there.

**With Austin area home sales already showing a nice uptick, it will be intriguing to see what happens during the next 6 months, now that tax incentives have been increased and expanded.**

Many in the residential real estate community have credited the first-time homebuyers' incentive with giving a boost to home sales in the Austin area. This initial program has ended, but it has been supplanted by **expanding those who can qualify for the incentives and increasing the price of homes that are qualified for the incentives.**

First of all to earn the tax credits, **sales contracts must be signed by 4/30/10 and closed by 6/30/10.** Previously, the only buyers who could qualify were those who were buying a first home. First time homebuyers still will get a full tax credit of \$8,000 toward the purchase of a home. But longtime homeowners will now be eligible for up to \$6,500. **And – this is important for the Austin market – the tax credit is available on homes with sales prices of up to \$800,000.**

There is an income cap for the home buyer. Singles with adjusted gross incomes (AGIs) of up to \$125,000 and couples with AGIs up to \$225,000 qualify for the *full* credit. **A *partial* tax credit is available for singles with AGIs up to \$145,000 and for couples up to \$245,000.**

While the focus is on the home *buyer*, it also helps the home *seller*. If it works as the previous tax incentives worked, **the home seller should have more buyers checking out homes that are on the market.** This could work to the sellers' advantage, especially with homes whose asking prices fall under \$800,000.

It will be interesting to monitor the activity to see how this plays out – now that **more homes and more buyers are subject to the expanded tax incentives.** Especially during this time of low interest mortgages.

**Dr. Louis Overholster** counsels his depressed patients that, if they think nobody cares if they are alive, they should try falling behind on their credit card payments.

Sincerely



Editor/Publisher