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Dear Client:

Recognizing the Austin residential real estate market is on fire and it is a key component of the Austin area economy, where will mortgage rates be a year from now? Higher, yes. But how much higher?

The Federal Reserve has been manipulating long-and-short-term interest rates for years now. **The Fed has driven mortgage rates very low. Heck, at one point last year, the 30-year fixed-rate mortgage fell to 3.5%!** Now, the Fed has begun the process of ending its direct intervention in a move called “tapering.” It is gradually reducing the amount of bonds and mortgages it purchases, until ultimately it will no longer be buying them at all.

“The conventional wisdom is that **mortgage rates will increase when the tapering process ends,**” says the Chief Economist and Director of Research at the TexasA&M Real Estate Center, **Mark Dotzour.** If that occurs, **what will 30-year mortgage rates be** after the Fed exits the bond market at the end of this year?

We won’t go into the process that Dotzour uses to analyze what will happen. **Unless you are a numbers geek, your eyes will glaze over.** Suffice it to say, he has carefully analyzed the interest rate driver -- the ten-year Treasury bond rate -- and come up with a forecast. So, let’s cut to the chase with his conclusion.

“In the four years before the financial crisis, from 2004 to 2008, **the ten-year Treasury rate ranged from 4% to 5%,**” he noted. “So it’s reasonable to expect that the interest rate on the ten-year Treasury will increase from its current level of 2.7% to a more ‘normal’ level of 4.5% by the first of next year.”

“**If this turns out to be true, the 30-year mortgage rate should be about 6.25% by 2015,**” he predicts. “Of course, if the economy turns soft again, Treasury rates and mortgage rates will not likely rise to these levels. We will have to wait and see. **But clearly, now is a great time to buy a house while rates are this low.** If our economy has any strength at all, we are unlikely to see 4.5% mortgages for a long time.”

Dotzour is a serious real estate economist, with a sense of humor. As he likes to say about the social science of economic predictions: “**everyone knows that economists were put on earth just to make the weatherman look good!**”

As we have reported over and over again, demand for apartments in the Austin area is almost overwhelming the supply. But how does this situation compare with other US cities? By one measure, Austin is the #2 tightest apartment market in the nation.

The Silicon Valley's **San Jose is #1**. In some ways this is a tech phenomenon. With San Jose and Austin ranking one and two, **Portland is #7, San Francisco #8 and Seattle #11**.

Austin tech startup SpareFoot Inc., an outfit that links consumers to available self-storage units, came up with the numbers. It crunched federal data including employment growth, income growth, existing apartment supply and new construction permits to determine the **top 15 apartment markets in terms of apartment demand.**

January continued to be a good month for Austin area retailers, as measured by sales tax figures released this week. Increases were measured compared to the same month a year ago.

Some city numbers were eye-popping, others were simply solid. Some examples: **Austin was up 3.4% ... Cedar Park, 17% ... Georgetown, 7.5% ... Lockhart, 21.4% ... Buda, 5.2 and Pflugerville, 7.4%.** A few others were up, but barely: **Round Rock, up .5% ... Bee Cave, .30% and Bastrop, 1.3%.** Statewide the totals were up 5.8%. These sales were made in January, reported to the State Comptroller in February and released by the Comptroller's office this week.

Graduate school programs at UT Austin are everywhere you look when you examine the USNews&WorldReports list of the Top 15 best grad schools in the US. And one program is at the top – again.

The McCombs School of Business accounting program was once again named the best accounting graduate program in the US. The McCombs School also saw its Information Systems program placing third in its category.

And the McCombs School of business *overall* was ranked 15th best in the US. Other national rankings for the schools overall: **School of Law, 15th ... Cockrell School of Engineering, 10th ... College of Education, 10th and Jackson School of Geosciences tied for 8th best** with its Earth Studies program singled out.

The **College of Natural Sciences'** plasma physics program was ranked 3rd and its analytical chemistry program ranked 4th. The Engineering School saw its civil engineering program rank 3rd and its environmental and environmental health program ranked 4th. *USNews* does not rank each category every year. Other UT Austin programs rank in the top 15 from previous analyses.

A quick-turnaround survey went out this week to Longhorn Football Foundation donors and season-ticket holders to gauge their support for a possible expansion of Darrell K Royal-Texas Memorial Stadium in the south end zone. It's not just an "opinion" survey. It is the start of a process to identify prospects for high-dollar suites, loge boxes and club seats.

In the world of professional fund-raising, you always begin with a survey. While it is important to get reaction to the project, the survey always tries to **identify those who will come up with the big bucks**. And this survey, due to PricewaterhouseCoopers by March 25th, indicates the possible **pricing for premium seating**. As you can expect, the prices are up there.

Private suite seating. The "living room-type" suite, with TV monitors, accommodates an average of **16 people in a private, climate-controlled section** of the south end. Besides **beverage and food catering**, the private suite holder also gets **preferred parking, a private stadium entrance, semi-private restrooms and enhanced seat comfort**. Leases are usually available on 5, 7, or 10 year terms. Typical *annual* cost is from **\$40,000 to \$100,000**. This does *not* include the cost of season tickets.

Loge box seating. Loges accommodate **4 to 8 people at a private table** which offers a view of the field, TV monitors and space for **in-seat food and beverage catering**. These seat holders also have **access to an exclusive climate-controlled lounge**, typically located behind the loge boxes, which offers other food and beverage options, TV, restrooms, etc. **Preferred parking, a private stadium entrance and upgraded seat comfort** are also offered loge patrons. Typical *annual* cost is from **\$10,000 to \$20,000**. As with the private suites, this does *not* include the cost of season tickets.

Club seating. Club seats are **cushioned, wider and offer more leg room** than general stadium seats. Club seat holders also have access to an **exclusive climate-controlled lounge** that offers semi-private restrooms, TV monitors and upscale food and beverage options, preferred parking, and a private stadium entrance. The typical *annual* payment, per seat, ranges from **\$1,000 to \$5,000**, excluding the cost of the season ticket.

Donor seating. These seats are available only to those who make an annual contribution to the Longhorn Foundation. The holders of these seats have no access to any of the perks listed above. The typical *annual* cost is \$1,000 per seat. The season ticket still must be purchased separately.

Prices have not yet been set. A portion of these contributions may often be considered tax-deductible because they go to a Foundation. And for each option, the survey asks if the person taking the survey would "definitely/probably/maybe/etc" be interested in the various options. **Bingo!** Prospects have been identified and project financial feasibility is underway.

Thursday's auto-pedestrian tragedy that killed two and injured 23 others is likely to be the major headline for this year's SXSW event. But the *business* impact on Austin will be record-breaking when it is finally totaled.

Wall Street's *The Street* took note of the business aspect of the ten-day event that attracted international attention, saying **"for Austin, the festival means business, literally."** Some examples, as highlighted by *The Street*:

"Hotel bookings skyrocket over the festival period and prices rise accordingly. Last year SXSW booked 13,000 individual hotel rooms for a total of 56,735 room nights. On top of those numbers, SXSW reported 12,926 hotel bookings independent of the festival's pre-registered rooms." And the attendance this year far surpassed last year.

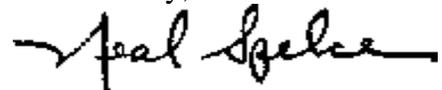
Hotel prices are approaching Formula One's madness. "Hotels near the Austin Convention Center, the heart of SXSW, are **pricing upwards of \$800 a night,**" noted *The Street*. **"Even budget options are charging high fees** – a La Quinta motel nearly five miles from downtown Austin is charging \$359 a night."

Another part of the report focused on the Interactive portion of SXSW. Citing the oft-reported skyrocketing of Twitter and Foursquare following SXSW, *The Street* observed **"these successes leave each new tech start-up wondering whether it will be the next big item."**

Speaking of the "next big item," Austin's most famous tech entrepreneur Michael Dell wowed an audience prior to the opening of SXSW with a recounting of Dell's history – warts and all.

He pointed out how the company's proximity to UT Austin played a major role in Dell's success. And he had high praise for Austin's business environment. Michael Dell then uttered this quote that **Dr. Louis Overholster** clipped and put on his wall: **"There really hasn't been a better time to be alive and this is a fantastic place to be alive. There are always whiners and complainers. But hey, screw them!"**

Sincerely,



Editor/Publisher