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Dear Client:

**Austin Energy is ballyhooing signing three big contracts to provide its customers with electricity generated by *wind*. So, what's the big deal? Why all the fuss? Especially at a time when Texas is a leader in providing *natural gas* as an inexpensive source of energy.**

Well, you may be surprised to learn that Texas is also the **leading wind energy state in the nation**. In fact, it now has **more installed wind capacity than all but four countries in the world**. And more is on the way. As an example, Austin Energy's three new wind contracts are with wind farms that are not yet online to provide electricity to their customers.

All three of these farms are located in South Texas, not in West Texas or the Panhandle where you may have seen the huge propeller-driven wind rigs alongside major roadways. **Why South Texas? It has to do with wind patterns.** Coastal wind patterns tend to produce energy more closely aligned with peak customer demand. The wind projects in West Texas and the Panhandle produce more energy overnight.

**These wind contracts have terms up to 25 years and fixed pricing between \$23 and \$33 per megawatt hour.** Is this pricey? Not according to Austin Energy that claims the rates "are comparable to wind pricing 10+ years ago" and that they are also "**competitive with natural gas generation.**"

As you know, Texas is in the midst of another oil and gas boom. But wind power is also booming. Wind advocates (who are not necessarily lovers of fossil fuels) say Texas got more than 9% of its power from wind in 2012 and "**the state's installed wind energy is expected to double in 2013 and supply 16% of the state's power generation this year.**" Texas wind industry value: \$20 billion.

**This trend to wind is a recent phenomenon.** Few would have predicted just ten short years ago that the state known for decades for its oil and gas economy would be getting this "green makeover." And, of course, Austin Energy has been in the forefront of this "green makeover," pointing out it is among the **greenest utilities in the country and that it is now four years ahead of schedule for meeting its 35% renewable energy resources goal by 2020.** It will be interesting to watch how this fossil fuel/green energy mix plays out – in Austin and in the state. Right now, fossil fuels have a huge edge. But wind power is increasing in velocity.

**Mortgage interest rates are now at their highest level in almost two years. No question, the rates are still low, but any increase makes a home purchase more costly. How much more expensive? Take a look.**

Let's do some simple math, using national figures, as reported by **Brett Arends**, in *The Wall Street Journal*. Interest rates are standard nationwide. Let's also use the nationwide median home price. This will differ somewhat in the Austin area as the median price rises each month locally. But the ratios remain the same.

In January, the median price for a home was \$170,600. Let's say a family borrows 80% of the price at the prevailing mortgage rates at that time (which according to the Fed were 3.4%), they would face an **annual interest cost of about \$4,600**.

Today, a family hoping to buy a median-priced home will pay \$208,000. Remember home prices are steadily rising. The mortgage interest rate today – as we reported to you last week – is 4.6%. So this will make the **annual interest tab on an 80% mortgage zoom up to \$7,600**. Quite a jump from \$4,600.

In other words, the **effective cost of buying a median-priced home has risen by more than 50% in just a few months**. The residential real estate folks who have been saying for the past year that the time to buy is *now* were right. It was not just a sales pitch to get homebuyers off the dime.

Arends reminded us of an old **Casey Stengel** quote who famously advised to **avoid forecasting anything, especially the future**. But let's step into that quagmire to mangle another saying: **what goes down, must go up**.

*The Journal* writer went through some financial maneuvers that will cause your eyes to glaze over. But skipping over his process, he made a solid case that indicated **30-year mortgages could soon cost well over 5%, possibly approaching 6%**. This would mean the family buying a median-priced home would pay **annual interest of nearly \$10,000**. Still another argument that supports a “now is the time to buy” pitch – even though the better time was a year ago.

**Interest rates are not all that will push the “cost” higher to buy a home in the Austin area. Other factors, such as availability, are probably more important. And they are real world.**

Face it. **Demand is outpacing supply** in the residential real estate market. Homebuilders are hard-pressed to build houses fast enough. This is compounded by the double-whammy of **low inventory of affordable lots** on which to build and the **rising cost of construction**. Austin's **population is increasing daily** at the fastest rate in the nation and these new residents need a place to live. The supply-demand economic dynamic is holding true. Prices will keep climbing.

**The Austin area has been *importing* people and companies at one of the fastest paces in the nation and now merchandise *exporting* has reached a record level.**

It wasn't all that long ago Austin businesses had to ship and/or receive products from other countries by going through airports in Houston, Dallas or San Antonio. In 1980, a concerted effort by the Austin Chamber of Commerce culminated with the **Austin airport receiving an International Port of Entry designation**. And look what has happened since then.

New export data shows **merchandise exports from the Austin metro totaled a record \$9 billion in 2012**. This was an increase of 4%, or \$350 million, from 2011 to 2012. What was shipped to foreign countries? **Computer and electronic products, electrical equipment, machinery and chemicals led the list**. And what were the destinations that received most of these products? **South Korea, Taiwan, Mexico, Malaysia and China were the leading destinations**.

“The past couple of years have seen **venture capitalists investing over \$1.2 billion in Austin-area companies, most of them technology companies**, so it's no surprise to me that the metro area is exporting at a record pace,” said Austin Mayor **Lee Leffingwell**. The export data was released by the US Department of Commerce's International Trade Administration.

**Texas-based retailers made a strong showing on the Top 100 Retailers of 2013, and Austin area consumers are contributing to that showing by dumping dollars for their products.**

According to the National Retail Federation, **H-E-B topped the Texas company list**. The grocery giant has a huge presence in the Austin metro. Headquartered in San Antonio, **H-E-B has more than 350 stores in Texas and Mexico and meets a payroll of 80,000 employees**. It reported \$18.2 billion in sales last year. It ranked #23 nationally.

Two retailers with headquarters in the Austin area were also singled out – **Whole Foods (#35) and Dell Inc (#83)**. Incidentally, **Dell was one of only two online-only companies to make the list**. The other is Amazon at #11.

Other Texas retailers in the Top 100: **J.C. Penney (#29), 7-Eleven (#37), Army Air Force Exchange (#43), AT&T Wireless (#54), GameStop (#68), Neiman Marcus (#84), Michaels Stores (#88) and RadioShack (#98)**.

This ranking was determined by 2012 sales. How about the Top Five overall? In order: **Walmart, Kroger, Target, Costco and Home Depot**. No surprises there. But there was one surprising tidbit that came out of this compilation: In this digital age, brick-and-mortar retailers have displayed amazing staying power. **More than 15 years into the dot-com revolution, online transactions account for less than 15% of total retail sales**.

**An international publication and a well-known national magazine have been added to the lengthy list of pubs writing about the Austin area. What these two articles have in common is each was written by free-lancers -- living in Austin.**

The two articles come from a different direction. The British publication, *The Guardian*, is a standard travel piece. Written by Austin resident **Suzy Spencer**, it talks about **places to go, sights to see, things to do. It is glowing in its descriptions of various attractions** and suggests it will take a week, rather than a day or two, to accomplish the full Austin experience.

The *TIME* magazine piece takes a different tack altogether. In fact, under the major headline (“**The Fight Over Keeping Austin Weird**”), the sub-head asks “**Is the hippest city in Texas selling out its oddball charm?**” Written by longtime Austinite **Hilary Hylton**, it reviews what Austin was like back-in-the-day and wonders about the impact of the growth boom and the commercialization that is a part of the growth. It only goes as far back as the beginning of the Cosmic Cowboy music scene, apparently assuming this was when Austin started being hip.

A key quote in the *TIME* piece from architect **Sinclair Black**: “**‘Austin is full of old, overly educated, pseudosophisticated people who have been here too long’**. He has dubbed them CAVEs – Citizens Against Virtually Everything.” Black adds: “If you’re interested in Austin being really cool, stick around.”

**Okay, these listings of “the best this/the best that” are getting out of hand. Austin has been on practically all of these lists, and usually at the top. Now the list-makers are really struggling for new topics. One is comparing cities’ hipster amenities.** In the battle for hipster supremacy, Austin lost out to Portland. Does anybody care?

One of **Dr. Louis Overholster** patients who recently moved here from California came in complaining about Texas’s four seasons: tolerant... hot... really hot... and are you kidding me!

Sincerely,



Editor/Publisher