

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

When we told you last week “don’t be surprised if light rail is defeated Tuesday,” it wasn’t because we were looking into an exceedingly clear crystal ball. The reasons that led us to that conclusion are the same reasons it would be unwise to try to keep fighting the light rail battle.

Remember, the conventional wisdom was light rail would pass -- if for no other reason than more money was spent trying to pass it than was ever spent in a referendum in Austin’s history. **But light rail did fail.** And now, supporters are not going quietly into the night. In fact, in the days immediately following the election there are some light rail backers who are expressing hope that, since the measure was defeated by only 2,004 votes, the issue should be kept alive, maybe even resurrected within a year.

That would be a mistake. The vote against light rail, narrow though the margin may be, was a huge victory for the anti light rail forces. They overcame overwhelming odds and a mountain of money. **To focus on the margin of defeat is to misjudge the results.**

Look at some of what light rail proponents had going for them: Austin’s hometown hero, **Lance Armstrong**, was all over TV touting light rail. The big major business organizations joined with environmental leaders to work for passage. High tech leaders, for the first time, came to the table, big time, with money and effort on behalf of light rail. More money was spent to try to pass the measure than has ever been spent in Austin on a ballot initiative.

And yet, the measure failed. Why? First of all, the voters bought the argument light rail **wouldn’t ease congestion** and its construction would, in fact, impede traffic. The **high price tag** scared a lot of voters. Capitol Metro is still reeling from sins and excesses of its past and some voters think **CapMetro would not be a good steward of a multi-billion dollar enterprise.** Light rail was not viewed as a necessity; it was called “**urban jewelry.**” And on and on.

The voters with those concerns overcame a massive campaign aimed at them and voted “no.” Yes, the voters *are* concerned with traffic congestion. They overwhelmingly passed the items on the ballot that would have spent money on roadways. But it would be a mistake to try again to, as one of them put it, try to “shove light rail down our throats again.”

While the nation waits for the overseas absentee votes to trickle into Florida and the re-count of the Election Day totals to be officially certified, let's reflect for a moment on what this presidential campaign has meant for Austin and Texas. For Austin, it's been mostly good, but the State as a whole hasn't fared so well -- especially the Houston area.

From the very beginning, when Governor **George W. Bush** was welcoming GOP political leaders from all over the nation to his home in downtown Austin, to Election Night with the rain-drenched crowd waiting for the governor to join them at 11th and Congress Avenue, the word "Austin" became a household word. No longer did "Austin" need to have "Texas" added to it for identification.

Oh sure, Austin had already achieved a very high level of awareness -- especially with the business community during the high tech driven economic expansion of the last decade. But, this presidential campaign national spotlight reached way beyond the business community. And, by and large, much of the attention was favorable or, at the worst, neutral. **By and large, it was a plus for Austin.**

Not so for Texas. Texas took a big hit when the Democrats attacked Bush and his record in Texas. They searched for **everything bad about the state** and, in some cases, exaggerated that in very negative ads and comments. But before we feel too sorry for ourselves, we need only look back just eight years when Republicans did the same thing to Arkansas as its young governor, **Bill Clinton**, ran for president. While state-bashing goes with the territory, it nevertheless **harmed Texas's reputation** and injured our deeply-felt state pride.

But poor **Houston became the poster city for pollution.** The fact that Houston has see-sawed with Los Angeles for the dubious distinction as the most polluted city in America went largely unnoticed outside Texas and California -- until the Democrats used Houston as an example of what they felt was a bad Bush environmental record. The Dems spent a lot of dollars spreading the word about Houston around the country. It'll take a **strong effort and a lot of time** for Houston to overcome the damage.

What about the future for Austin? Well, if Bush assumes the presidency, Austin should continue to get generally **favorable attention.** Bush will obviously use his Central Texas ranch near Crawford as the Texas White House. But, believe me, the media will set up shop in Austin, not nearer Waco, for its headquarters. **Most members of the media love Austin,** its watering holes and political atmosphere.

It'll be a much different scenario if Gore is inaugurated president. Austin will quietly go back to **enjoying its current reputation** -- and that's still a very good position for Silicon Hills. It's somewhat the opposite for Houston and Texas. With the media spending a lot of time here in a Bush presidency, those **negative stories may be resurrected** from time to time. If Gore is president, then Houston and Texas may **get a breather from the national spotlight** to begin some much-needed image repair work.

Those who work in commercial and residential real estate in the Austin area are expressing caution about the outlook for the fourth quarter. The Real Estate Center at TexasA&M surveys commercial and residential Realtors, mortgage bankers and builders statewide each quarter. The Center publishes an index based on the results. It is called the Texas Real Estate Confidence Index.

“All four real estate groups surveyed by the Center feel positive about the fourth quarter. Some are just more optimistic than others,” reports the Center. “Commercial Realtors, mortgage bankers and builders are all more confident that the final three months of the year will be stronger than the previous quarter. Residential Realtors agree, but they are less enthusiastic about this quarter compared to the last one.”

You can get the precise numbers at <http://recenter.tamu.edu>, but it’s interesting the real estate practitioners in Austin were a bit more on the cautious side, compared to their counterparts in the other Texas metro areas. **“All four Austin panels are less confident about the fourth quarter,”** reports TREC.

“With the possible exception of mortgage banking, Austin has been a very hot real estate market for as long as we’ve been conducting the Index,” notes project director James Leigh. **“Personally, I’m glad to see a healthy bit of caution among players in that market.”**

Frankly, Leigh expected more pessimism statewide, citing continued weakness in the financial markets, political instability internationally and uncertainty surrounding the presidential election. **“The improving confidence, particularly among home builders and mortgage lenders, is a welcome sign,”** he observed.

The Austin area’s cost of living is higher than the national average and the highest in Texas. But it is lower than “competitive” cities such as Boston, Denver, Raleigh and Portland. The ranking comes from the ACCRA Cost of Living Index which analyzes surveys from local business organizations in 315 US urban areas of all sizes. Not all US cities participated in the study.

While Austin’s overall cost of living is 5.7% above the national average, the Index indicates **Austin’s housing prices are 17% higher than the national average.** Obviously, the rising cost of housing here is driving the higher-than-average Austin ranking. In fact, according to the Texas A&M Real Estate Center, **Austin’s current median home price of \$147,800** increased 18% from the same time last year and is now the second highest in Texas, next to the Dallas suburb of Collin County.

As long as people have jobs -- especially higher-paying positions in the high tech sector -- the rising cost of living is more manageable. Right now **our metro area unemployment is a very good 2.1%**, among the lowest in the nation for areas our size and larger.

If Austin hadn't opened a new airport last year, we would've been near a crisis point at the old facility. The dynamic economy has pushed activity at Austin-Bergstrom International Airport (ABIA) way beyond all heightened expectations. At the current rate, ABIA will pass the 7 million annual passenger mark as we enter the busiest travel period of the year, the Thanksgiving holidays.

If you remember, during ABIA's construction, the plans had to be expanded because, even then, projections were being exceeded. (It was not a case of "if you build it, they will come." It was a case of "we better put the pedal to the metal, because here they come!") And none too soon. After the first three quarters of 2000, **passenger activity is up a whopping 17.48%** over the previous record-setting year.

Also, if you remember, construction work was hurried along to open the air cargo operations at the airport long before the first passenger aircraft took off. The demand was very heavy then. But it was only a harbinger of things to come. For instance, in September, **air cargo increased an enormous 49.36%** over September, 1999 and was 1.53% over the previous record month of August, 2000. More than anything, this is a **very real indicator of how well Austin area businesses and manufacturers are doing.** FedEx, Airborne, UPS, Emery and Air Transport International (formerly Burlington Global), in that order, are the big cargo carriers at ABIA.

On the passenger side, **Southwest Airlines is the only major carrier growing faster than the market.** That, too, is amazing because Southwest already carries more passengers, by far, than the others. For Southwest to notch a 30% increase for the year, while the market itself grew at 17.48% shows you what a monster stranglehold Southwest has on this passenger market.

Don't get me wrong. The other airlines aren't hurting. But they're being dominated. Compared to Southwest's 30% increase, **American** is up 5%, **Delta** up 7%, **Continental** up 16%, **United** up 10%, **America West** up 22%, **Northwest** up 14% and **TWA** up 25%. TWA's 2nd place finish came on a 177,228 passenger base, compared to Southwest's 2,102,226.

Dr. Louis Overholster's reply to a tough question: "I can answer in two words – next question!"

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