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Dear Client:

**Texas is not economically insulated from most of the world's woes, even though an independent streak runs very deep in Texas. So, you need to keep your eye on at least three factors that could adversely affect Texas's economic future – one national, two worldwide.**

Texas is in a fortunate position because of the state's diverse economy, high tech growth, relatively low business costs, and proximity to our major trading partner, Mexico. But, **Robert Jones**, economist with the State Comptroller's office cites three factors beyond our borders to watch for signs of impact on the Lone Star State.

"The first factor is **high worldwide oil prices**," Jones warns. He points out high oil prices are a mixed bag, "which could help the state on one hand while biting the other hand." "Higher prices obviously benefit in-state oil exploration, but they **hurt energy-intensive industries and the driving public**," he notes.

"The second is the **weakness of the European Community's euro**," he adds. The weakness of the European currency "causes the relative price of US and Texas products to rise in that market – making them more difficult to sell." He points out, while not as important as Mexico, Western Europe accounts for almost 25% of the nation's and **10% of Texas' exports**.

"Finally, consumer confidence could suffer in the unlikely event the Federal Reserve Board **miscalculates the threat of inflation**," said Jones. "Rising interest rates combined with a protracted stock market downturn could dampen automobile sales, housing sales and other big ticket buying." **But, he thinks this risk is minimal.** "The Federal Reserve Bank has already lowered some rates, so this threat is somewhat reduced."

In fact, Jones thinks none of these three scenarios is high on the probability list. "The **probability of any one of them seriously impairing state economic growth** over the next three fiscal years **remains low**," he admits. But they obviously bear watching.

**The state's economy has outpaced national economic growth** for some time now. And, **Austin has led the state**. But, Jones cautions that "while still generally healthy, Texas' economic growth has slowed along with the rest of the nation."

**So why has Austin experienced low voter turnout in recent years? One of our most astute political observers has weighed in with some thoughtful personal observations. And, no, he doesn't think the media is at fault.** "It has to do with the political nature of Austin, the population mix, and the electoral structure," believes *Texas Monthly's* Executive Editor **Paul Burka**.

One-issue politics takes part of the blame. "**Only one thing matters here and that is the environment**, or to put it another way, quality of life," says Burka. "Nobody cares about taxation, about electric rates, about neighborhoods dictating transportation policy (speed bumps ahead of traffic flow), about public safety. The environment is like abortion. You can't debate it intelligently; it's a matter of theology."

Burka also says our "weird electoral structure" contributes to low voter turnout. "We go on a three-year cycle – **four members stand for election one year, three the next, none the next**," he points out. "I have the intuitive feeling this depresses turnout. You never know when you're going to get a chance to vote against an incumbent, and you can never have citywide momentum for change."

"Mayoral elections in particular bring voters out, but half the council isn't running when a mayor's race is occurring. Politicians are insulated," claims Burka. "This was a consultant-driven change back in the eighties. **Let's just go back to elections every two years** with every council member standing for election."

Also, Burka says there is a "**dearth of good candidates**. I suppose Americans have been lamenting this since the founding fathers died out, but Austin is really the pits. I am a civic-duty voter – I vote in every national and state election and in a party primary every time – but, **I skip lots of local elections, simply because there is no one I want to vote for.**"

Another reason: "Two irreconcilable sides, and a pox on both their houses," states Burka. "**The left is a bunch of head-in-the-clouds environmentalists** who would like to go back to the days of trolley cars, no air conditioning and everybody living south of 45<sup>th</sup> Street. **The right is a bunch of head-in-the-sand types**, who don't care about anybody's problems but their own, and they are stupid besides. When they had a chance to win an election, they were so dumb they called themselves Take Back Austin and sent candidates out to attack their opponents for using marijuana in the sixties. **There is no middle in Austin politics.**"

Burka acknowledges that Austin does have "**an electorate made up of a lot of people who fit the profile of low-turnout voters**. Minorities. Students. Apartment dwellers. Techies. Some of them feel that Austin city government has never cared about them. Some of them don't care about Austin city government."

He has high praise for Mayor **Kirk Watson** ("he's smart, he's incredibly well informed, he knows the city backwards and forwards, he tries to solve problems in a non-ideological way") and says "We're lucky we have a decent mayor. Don't expect another one for awhile."

**Your home increased in value by 16% in 2000, compared to what it was worth in 1999, if the median selling price of homes in the Austin area is any yardstick.** According to the Austin-Central Texas Realty Information Services, the *median* selling price of an existing single family home in the Austin area grew to \$149,900 last year – up from \$129,000 the year before.

Additionally, according to the Austin Board of Realtors (ABoR), the National Association of Realtors (NAR) reported fourth-quarter median prices in Austin-San Marcos for existing homes was up 14.6% to \$153,200. And NAR is further reporting that while sales may be slowing, **median existing home prices are expected to continue to rise.**

In fact, ABoR notes the **average price for a single-family home** (no condos or townhomes) in January 2001 was **\$196,147**. And the *average* price for a single family home in January 2000 was \$174,761. These rising prices will continue to keep Austin at the top of the list of Texas cities as far as the cost of housing is concerned. We're still way below many other places, such as California high-tech cities, but we're creeping ever higher, with no sign of leveling off.

The reason for the continuing rise can be found in your Eco101 college textbook – supply and demand. ABoR noted the average number of days a home stayed on the market in 2000 decreased 18%, dropping to 37 days, where the average days on market in 1999 was 46. Add the fact **fewer houses were actually listed for sale in 2000** (3,658 – down 7.3% from 1999) and you've got a strong demand trend with a diminishing supply.

“This year may be slower than last year, but the market will remain reasonably healthy,” **Bill Stanberry** owner of the Stanberry and Associates real estate firm is quoted as saying. Stanberry echoes what we have reported to you in the past, that demand will be greater than supply in homes selling in the \$100,000 to \$150,000 price range. **Emily Moreland**, CEO/broker of Moreland Properties, also points to a strong pent-up demand for properties in Central Austin.

**Realtors** serving the residential market in the Austin area **should continue to do well** in face of a slight slowdown because they are paid a commission on the sale price of the homes and the prices keep ratcheting upwards. **Homeowners** continue to see the **value of their investment increasing** at a much faster rate than inflation. But the **homebuyer is still getting the short end of the stick**, though low interest rates helped somewhat.

Speaking of low interest rates, money is still available at reasonable rates to build and buy homes in the Austin area. So, **financial institutions should plow as much money as possible in homes priced below \$150,000**, because those “starter homes” are selling like popcorn in a movie theater.

But, financial institutions should take a **much closer look at the upper end homes** priced above a million dollars. As we've reported in recent weeks, that's where the softening is most evident.

**Do the planned improvements on SH130, IH35 and other corridors mean that heavily-congested Loop 1/MoPac will get some relief and will ultimately be less congested? Nope. In fact, Loop1/MoPac itself will need modifications at some point due to the heavy traffic.**

The Texas Department of Transportation (TxDOT) points out that all the planned improvements on SH130, IH35, etc. are needed, but these **improvements will not have a substantial effect on Loop1/MoPac**. As TxDOT puts it: "Demand is growing faster than the available and planned roadway network can accommodate. Additional choices will be needed to give drivers options to avoid congestion."

What can you expect might happen to Loop1/MoPac in the future? Well, TxDOT keeps talking about making corridors like Loop1/MoPac operate "in the most efficient manner possible." That could mean **turning one of the lanes on that heavily-traveled roadway into a High Occupancy Vehicle lane (HOV)**. Only vehicles that carry two or more people would be allowed on the HOV lane. Vehicles can frequently travel faster on the HOV lanes.

By the way, TxDOT will present recommended concepts developed from the Loop1/MoPac and US183 improvement study to the Capital Area Metropolitan Planning Organization (CAMPO). **The presentation will begin at 6pm 3/12/01** on the UT Austin campus in the Thompson Conference Center, located at Red River and Dean Keeton (formerly 26<sup>th</sup> St.) Streets.

**Hoping to keep the Silicon Hills from duplicating the problems of Silicon Valley, a public session will be held 3/19/01 to focus on solutions for downtown Austin.** The President/CEO of the Silicon Valley Manufacturing Group (a public policy trade association), **Carl Guardino**, will share the experiences of the San Jose region at a quarterly luncheon hosted by the Downtown Austin Alliance and the Urban Land Institute. For more info, contact DAA at 512-469-1766.

**Dr. Louis Overholster** is convinced the only reason it's called the Information Age is that some of the information we're getting is enough to age you!

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