

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

The reasons given for Capital Metro's decision this week not to put light rail on the fall ballot were all solid. But, what *wasn't* said was probably just as important.

Capital Metro's board rightly pointed out its staff **hadn't completed the updated plans for proposed new routes** (neighborhood, environmental and roadway impact, as well as cost, timetable, etc.) so voters would know precise details. And, with only five months until the 11/5/02 Election Day, there was **not enough time to mount a public education campaign anyway**. What wasn't discussed publicly was the political reality.

Those who are *for* light rail repeat that the proposition was "**narrowly defeated**" in November 2000. Those who are *against* light rail point out their side **prevailed in spite of being vastly outspent by a wide range of supporting groups**. Both have valid arguments.

If light rail makes it to the ballot again in November 2004, it will not be the same old plan that went down to defeat. However, those who are against the plan know the **light rail folks are not going to have the same massive war chest**, fueled by flush dot-comers flinging money into the campaign as easily as they bought those Porsche Boxsters. In fact, the 2000 campaign had so much money, it did the unheard-of and put up signs seeking campaign workers at \$9-\$12 per hour. That money is just not there anymore.

Last time, **local hero Lance Armstrong cut TV spots for light rail**. The Greater Austin Chamber of Commerce, the Downtown Austin Alliance and the Real Estate Council of Austin were arm-in-arm with environmentalists supporting light rail. Those who were against light rail argued CapMetro would not be a good steward of the budget, it would **cost too much**, wouldn't ease road congestion, and in effect, was **simply urban jewelry**. As a result, light rail lost by 2,004 votes while *road* bond expenditures passed overwhelmingly.

If light rail is to pass, **backers must overcome the simplistic, but effective, bumper sticker arguments against it** ("costs too much, does too little"). And, it won't have the dot-com dollars of two years ago to persuade voters. **Those against light rail can almost sing the same tune**, and because of their past success against overwhelming odds, may have more campaign money two years from now to pay the musicians. The political groundwork between now and 2004 will be as important, for both sides, as the new, updated light rail plan.

For almost 20 years now, we've tracked trends in the Silicon Valley and noticed how many of those trends eventually end up here in the Silicon Hills of Austin. However, a *new* Silicon Valley trend, if "exported," could pose some serious problems here.

Just two weeks ago, we alerted you to the fact that the residential real estate market in the hub of Silicon Valley, Santa Clara County, was going bonkers – that March home sales were up 59% and the median home price was out of sight at \$535,000. We opined that this must mean the economy was rebounding there. Not so. **Home prices are rising while the economy is stagnant.** And that could be a really serious problem.

Since home prices are rising a lot faster than the stock market (see our 4/12/02, 4/19/02 and 4/26/02 editions), many **Californians are looking at homes as investments.** This is creating a problem. *The New York Times* quotes a real estate professor at UCalBerkeley who studies real estate trends.

Ken Rosen says people, anxious to buy homes on the theory that prices continue to rise, are **borrowing as never before.** But, he points out that "prices are far out of line with incomes" in the stagnant economy. He says borrowers are sometimes putting themselves in precarious positions of **spending 40% to 50% of their monthly income on mortgages.**

Therein lies the problem. If the economy does not turn around, and if unemployment continues high in the Silicon Valley (there are 100,000 to 150,000 fewer jobs now in the Silicon Valley than a year ago), homeowners will be forced to give up their homes. They are in over their heads. We're not talking mansions here. **They are buying modest homes at unbelievably high prices.** Remember, we told you 5/17/02 about the 2-BR fixer-upper built in 1948 with no a/c that sold for more than the \$995,000 asking price!

If this is going on during a recession in California, imagine what's going to happen when the economy heats up. The problem is obviously affecting more than just those who have the ability to borrow money. What about the nurses, teachers and firefighters who serve communities where they can no longer afford to live? **Stephen Levy**, the director of the Center for the Continuing Study of the California Economy, said somberly "This is threatening the fabric of the state's ability to compete."

Short-term this is good for the competitors of the Silicon Valley. Count the Austin area in that category. **This is a good time to be recruiting top talent and company operations from the high-tax and expensive cost-of-living Silicon Valley.** California employees moving to Austin for the same wage, or less, can live a better life here. Employers can make more money with the tax savings.

But, long-term, what's happening in the Silicon Valley should be a **wake-up call for us in the Silicon Hills.** Already, housing in the Austin area is costlier than any other Texas metro area.

Now that we're moving into the sixth month of 2002, it's time for a quick update on the very soft Austin office leasing market. Especially the sublease office market that is pushing rental rates down and forcing landlords to offer incentives.

In spite of drastic rate cutting, only 292,000 sq.ft. of sublease space was rented from January through May, according to **Mike Buls**, who tracks sublease space through his company, Buls Hodge Consulting. To give you a perspective, there is a total of 3,669,000 sq.ft. of sublease space available. So you can see **only a small portion of the available sublease space has been put under contract**. Obviously, with the cutthroat competition we've been telling you about throughout this year, this means there is just not heavy demand for office space.

As a result of this lack of activity, Buls tells us advertised rates for sublease space continue to decline. **It continues to be a good time for those seeking office space**. But, it's tough on landlords and those with too much space on their hands who are looking for some kind of financial relief from their burden.

Speaking of updates, what about another economic barometer – air travel? It, too, in the latest figures for Austin-Bergstrom International Airport (ABIA) does not show any signs of a quick recovery.

May numbers won't be available for at least three more weeks, but the April totals continue to show a double-digit decline from the same period the year before. **Passenger traffic in April 2002 was down 13% compared to April 2001**. And, the year-to-date passenger totals are down 15% from 2001. Air cargo traffic, which is a direct reflection of business shipments to and from Austin area companies, is down even more – 19%, compared to April 2001. For the year, cargo shipments through ABIA are down 25% from last year.

May and June are traditionally the stormiest months of our year. But so far, the storms have failed to materialize except for infrequent spot activity. This is bad news, because we are more than half-a-foot behind in our average rainfall. But, it's good news for the City of Austin energy workers who keep our power lines working.

Power outages as a result of storm activity have been kept to a minimum so far. But, the City is taking more outage prevention measures now than during any period of time in recent history. For instance, more equipment has been added to trim trees away from power lines, to help isolate and limit the extent of an outage, and to automatically switch outage customers to active circuits. By the way, **if you suffer a power outage, always report it** – even if you know the power is out nearby and may have already been reported. Call 322-9100 so they can precisely pinpoint your location and possibly restore your power more quickly.

One of the most appealing aspects of the Austin area for employers is the educated workforce. Long before the words “high” and “tech” were used in juxtaposition in Austin, city leaders touted the educated workforce when trying to entice non-polluting industry to Austin.

In fact, it’s long been a standard joke that, because Austin is such a great place to live – UT Austin graduates just don’t want to leave – **you have more bartenders with PhD’s in Austin than any place on earth.** While that’s an obvious exaggeration, it’s not far from the truth according to recently released figures from the USCensus Bureau.

Here’s a quiz for you? When you consider all the people in Travis County **over the age of 25** – *all* of them, from manual laborers, fast-food workers and dishwashers to college profs – what percentage have at least a **bachelor’s degree**? Here’s a hint: **statewide, the average is 23.2%** and the average in sophisticated **Dallas County is 27.0%**.

So, what’s your answer? **The USCensus for 2000 found that 40.6% of residents 25-and-older in Travis County have at least a bachelor’s degree.** That’s amazing – especially for a county with a population as large as Travis. The only other large metro counties above the statewide average are Tarrant (Fort Worth) where the average is 26.6% and Harris (Houston) with 26.9%.

The only county in Texas, regardless of size, that outranks Travis is Collin County (McKinney) with 47.3%. In third place, behind Travis, is Brazos County (Bryan), home of the Fighting Texas Aggies – where the percentage is 37%

By the way, the USCensus demographic breakout figs are being parceled out slowly. For instance, it’ll probably be the **end of the summer before demographic information about 18-to-25 year olds is released.** But, these 25-and-older numbers are quite revealing – especially when you talk about workers/employees.

Dr. Louis Overholster says the man who fell into an upholstery machine is fully recovered (groan)!

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Sincerely



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