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Dear Client:

The old saying “it takes money to make money” could be changing in Texas to “it takes money to make jobs.” And, so far, the results seem to be proving the new saying, especially in the Austin area.

It's been a year now since the Texas Enterprise Fund became operational. The Legislature set aside \$295 million (during a tight budget session last year) for the state's top three elected officials to use to attract jobs to Texas. About \$182 million has already been committed, with \$113 million still sitting in the kitty. Governor **Rick Perry**, Lt. Gov. **David Dewhurst** and House Speaker **Tom Craddick** are calling the TEF tool “an unparalleled success.”

How successful? The funds to date have been used to attract the relocation or expansion of 13 companies or institutions of higher education, which have committed to creating more than **14,000 new jobs and nearly \$6 billion in direct economic investment** for Texas. Other job creation prospects are under review. The officials say for every TEF dollar already invested, the Texas economy will reap \$3.35 in tax revenue over the next 20 years.

All three state officials must agree before any money is committed. Perry says “We are the **talk of the nation** with the largest deal-closing fund.” Dewhurst says the TEF enables “Texas to continue to **attract the good, high-paying jobs** and maintain the pace of economic growth we're seeing in Texas lately.” Craddick put it more colorfully: “**Our governor used to court new businesses with a paper bag. Now he can do it with a briefcase.**”

The leaders said the success of the TEF has given **Texas a significant advantage in competition with other states for jobs** and has allowed Texas to be a leader in the national economic recovery. Texas has the largest fund of this kind in the nation. Though Florida and Louisiana have similar funds, the TEF is the most responsive and flexible fund for economic development in the US.

The types of projects under contract, or pending and announced, include such diverse industry segments as aviation, agriculture, high tech, biomedical, tourism and data processing. While the TEF funds have been allocated to projects around the state, **the Austin area has benefited with three projects receiving more than \$49 million from the Texas Enterprise Fund.** We'll analyze these very different Austin area projects for you in the next item.

High tech, data processing/distribution, and tourism/retail are the Austin area industry segments receiving \$49 million state dollars to create jobs – 5,443, to be exact.

The projects – International SEMATECH, a Home Depot national data processing center and Cabela’s – have been publicly announced. But the **diversity illustrated by these Central Texas projects** indicates how the Texas Enterprise Fund is being spread around to boost the state’s economic performance. Two of the businesses are new to the area, the other is a consortium that New York was trying to steal from Austin to kick-start its high tech effort.

New York, with a pot full of state money, tried mightily to snatch **International SEMATECH from Austin, where the highly-successful, world-leading consortium was founded**. SEMATECH was one of two (MCC being the other) to begin the high tech revolution in Austin. Austin leaders (led by attorney **Pike Powers**), UTAustin, and others worked aggressively to keep SEMATECH. But it was the Texas Enterprise Fund that sealed the deal, with a grant of \$40 million.

Powers and others argued persuasively for the TEF to pony up the final dollars needed to **create an Advanced Materials Research Center**, in conjunction with International SEMATECH, to move **advanced semiconductor technology, nanoscience and biotechnology** to the next level – with research collaboration with UTAustin. This was extremely important for Austin’s high tech future, in addition to creating as many as 4,000 jobs after a total capital investment of \$190 million in the Austin area.

Still in the high tech arena (though folks will argue Home Depot is the furthest thing from high tech), Home Depot decided on Austin for its data processing operations center and New Braunfels for its customer support center. **The two operations will create 843 jobs. To close the deal for Texas, Home Depot received a TEF grant of \$8.5 million.** Another TEF grant that raised a few eyebrows was \$600,000, also to a giant retailer.

But Cabela’s is not your ordinary retailer, as we first told you way back on 4/9/04. The hunting, fishing and outdoor gear operation, based on the experience in Michigan and Kansas, draws 6 million and 4.5 million tourists each year. The stores are the largest tourist attractions in each of those states. So, the TEF classified its grant to Cabela’s as tourism, not retail. And the grant was for two Texas locations (Buda and Fort Worth), costing an estimated \$70 million that would create 600 new jobs. The expectation is **Cabela’s will attract more than 10 million visitors in the first year, half from outside Texas** and those visitors are expected to spend more than \$1 billion on goods and services the first year.

The president of the Greater Austin Chamber of Commerce, **Michael Rollins**, says that “another benefit of TEF is that Austin and Central Texas are now on more companies’ short list for potential locations.”

As Austin pops up on more and more company location short lists, the problems of the past can turn into the opportunities of the near future. Consider office space.

The bleeding has stopped as far as rising vacancy rates in Austin area office space, but the healing has yet to begin. This could be good news for our economic resurgence. **About 23%, a high number, of our citywide office space is vacant and ready for occupancy**, according to NAI Commercial Industrial Properties. This is space vacant and available either directly or through sublease. Proof that the bleeding has stopped, but the healing hasn't quite started, is this number has remained unchanged for three consecutive quarters.

Additional good news for those seeking to create jobs by setting up shop here is the **rental rates have also remained stable since the beginning of 2004**. NAICIP points to these factors as indicating "a possible stabilization of overall Austin market conditions."

By the way, the sublease market continues to decline, with just under a million square feet, or 3%, available on the market. **Leasing activity has increased, but it is more the result of tenants moving to better quality buildings**, such as the new Frost Bank Tower downtown and the Charles Schwab sublease space at Research Park Plaza. As a result, this represents minimal net absorption – still leaving a lot of space all around the area for newcomers to occupy.

If you think Southwest Airlines will have it easy should it start service at D/FW, think again. As one airline analyst put it, "The empire will be striking back."

As our 10/8/04 story indicated, Southwest Airlines is licking its chops at the possibility of adding D/FW to its Love Field presence in the Dallas area, now that Delta Airlines is giving up its Dallas hub operation. If it happens, it would open new options for Austin air travelers, as Southwest carries more Austin passengers – by far – than any other carrier. But, airline analyst **Mike Boyd**, quoted in *The Dallas Morning News*, said it could be difficult. Assuming oil prices settle down from their current record levels, he predicts big players such as Fort Worth-based **American Airlines will use lowered costs and fortress hubs to play hard-ball with low-cost foes**.

"I think that American Airlines would kill Southwest at D/FW," said Boyd. "I think Southwest is very likely looking at it, but **I think they'd get wiped out if they did.**" Boyd also predicted D/FW would be among the fastest-growing hub airports in the nation in coming years – a reason many airlines covet the facility.

There could be some truth to Boyd's observations. Because of the anticipated formidable competition, another discounter, Air Trans, is already "looking elsewhere for growth because it's concerned about American's possible response to an expansion" at D/FW. AirTrans president is quoted as saying "There may be better opportunities for us than Dallas."

Polls have become the focal point in this presidential election. The candidates and the media are slaves to the latest and greatest polls. But there could be a big “gotcha” looming.

There is no question polls are an important tool (some will say, a “crutch”) in presidential politics. Polls provide the data to show there is no need for President **George W. Bush** and Senator **John Kerry** to campaign in many states because their leads are so formidable, no amount of campaigning will affect the ultimate outcome. Hence the concentration on the handful of battleground states where the polls say the lead is up for grabs.

But longtime political strategist **Jack Martin**, founder of the Austin-based Public Strategies, says polling in this campaign may be affected by what he calls the “Big Unknown” – **a record surge in potential new voters**. “Aggressive registration drives from both campaigns have helped the number of potential first-time voters to reach unprecedented levels,” he notes.

“Neither campaign knows for sure how many of these potential new voters will amount to votes, and for whom,” he adds. **“This new dynamic brings into question the reliability of established polls to predict the outcome of this election.”**

In the past, the most reliable polls have been those that quizzed “likely” voters – voters who have a history of actually going to vote – not just “registered” voters who may or may not vote, even though registered. **A newly-registered voter obviously doesn’t have a history of voting, so is very difficult to predict.** Who knows? They may sign up to register (after all, it’s free) just to get the person pushing them to register off their back. Or they could be highly motivated and can’t wait for the polls to open to vote *for* their candidate or *against* that SOB. This is a new element that could skew an election, especially in a state that is neck-and-neck, where a handful of votes could swing the entire state into one column or the other.

Dr. Louis Overholster, when asked if the nation’s biggest problem was ignorance or apathy, replied “I don’t know and I don’t care!”

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