

Volume 26, Number 44

February 11, 2005

Dear Client:

**Over the next five years, the 5-county Austin-San Marcos metropolitan area is expected to regain its position as the fastest-growing metro area in Texas.**

We're not just talking population here. Longtime Texas economist **Ray Perryman** is making this forecast using a number of economic indicators. "Recovery in technology industries and various efforts to cement its position as a **center for emerging technologies** are expected to contribute to the growth prospects" for the Austin area, Perryman states.

Specifically, Perryman is projecting **our metro area will grow by 175,100** people – reaching 1,589,200 by 2009. (If this projection holds up, the Austin MSA will contain 6.45% of the state's population.) The economist also predicts our metro area will **add 80,000 jobs** in the same time frame. Interestingly, with only 6.45% of the state's population, we will be providing 7.07% of the state's jobs – indicating a very healthy Central Texas economy.

Another esoteric economic tool is called Real Gross Product (RGP). Without re-hashing Economics 101, suffice it to say this is a device that measures economic vitality. Perryman suggests the **Austin metro will lead the state** with a projected compound annual growth rate of RGP of 4.48% from 2004-2009. Dallas will be second at 4.41%, followed by Fort Worth-Arlington (4.37%), San Antonio (4.13%), Houston (4.05%) and El Paso (3.98%). And, again Austin with only 6.45% of the state's population, will have 7.50% of RGP growth – very dynamic.

Another method of comparison for the Austin economic area is to examine what will happen by *region*, not simply comparing the big metropolitan areas. In 2002, the State Comptroller realigned *all 254 counties* into 13 economic regions (expanded from 11). Our area is called, naturally, the Capital Region. **The Capital Region has the smallest land area, but ranks 3<sup>rd</sup> among the regions in terms of people per square mile.**

For comparison, encompassing every county in the state from 1999 to 2004, the Capital Region had the fastest population growth, with a 3.16% per year climb. The yearly expansion rates for the other 12 regions varied from 0.11% (West Texas) to 2.42% (South Texas). Perryman projects, over the **next five years**, the Capital Region will achieve the highest *population* compound annual growth rate – and the highest *employment* compound annual growth rate.

**With a report this week (as a backdrop) that “a dramatic shakeout is getting started” in national retail, we have another analysis that says “the local retail market has staying power even during trying times.”**

In a forecast for management decision-making, our friends at *The Kiplinger Editors* in Washington DC predicted “Change will rumble through the economy, forcing thousands of retail suppliers to adapt and pushing consumer products makers to merge. **Landowners will redevelop malls for new uses, and good space for small merchants will vanish.**”

What about the Central Texas retail scene? “The local retail market has experienced **steady growth in occupancy and rental rates** over the past ten years,” reports NAI Commercial Industrial Properties (NAI CIP), a company that’s been tracking the commercial real estate market in the Austin area for decades. But it also reports multi-tenant retail centers of more than 50,000 sq.ft. have stayed steady at the same occupancy rate for the past three years.

“What is not reflected in the stability of this rate is the struggle that many retailers experienced after the tech boom went bust and the shock that September 11, 2001 had on the consumer sector,” NAI CIP noted. “**Many small shop retailers were forced to make difficult decisions** ranging from closing shop to dipping into personal savings to re-merchandising to attract a more cost-conscious buyer.”

“Retailers that were able to weather the storm are now enjoying a **strengthening in sales supported by a stronger local economy**,” NAI CIP continued. “Those that did not make it, created availability for new retailers to enter a very tight market.”

One of the trends in retail not accurately captured by the normal data gathering process is what is called “**small niche retail centers.**” These are smaller centers, often anchored by a Starbucks or fast casual restaurant, and located at a good intersection. “**If well located, these centers can enjoy very strong rents and high-occupancy levels,**” reports NAI CIP. “The popularity of these niche developments is watering down the pool of prospective small-shop tenants and may be the reason rental rates in the 50,000-100,000 sq.ft. range are relatively flat.”

But there may be an even bigger impact on the vitality of the Austin area retail market on the horizon. Major projects are underway in Georgetown, Bee Cave, Buda, Kyle, along south IH35 and in the Arboretum area. **Millions of square feet are under construction or are in the final stages of permitting.** Almost every sector of the market has a project underway or announced, according to NAI CIP.

**Can the market absorb this much space?** Are the analysts correct in projecting that the area is under-served in retail? Good questions. Time will tell.

Concludes NAI CIP: “One thing is for sure. Recent history indicates that the local retail market has staying power even during trying times.”

**What do these Austin companies – Molecular Imprints, LabNow, Entercel and Proactive Technologies – have in common? They owe their very existence to an entity not normally thought of in this context.**

No, it's not one venture capital company that is common to all four. No, it's not that they were all created by one person. No, it's not that they are all using the same technology. Or even that they were recruited to Austin. **They were all created as a result of discoveries at UTAustin.**

Discoveries made at UTAustin help stimulate our economy. Companies, such as the four listed here, **commercialize the discoveries** made on campus or when they are licensed to companies. Most of these discoveries come about as a result of the massive amount of research grants to UTAustin. The large research enterprise on The Forty Acres has pulled in nearly \$400 million in research grants.

This strong research base also attracts investment from major corporations, with companies such as Samsung announcing last year it was **spending a half billion dollars in an Austin semiconductor plant expansion** that would ultimately mean \$48 million to the Austin region.

These recently formed Austin companies are bringing big bucks into the Austin area. For instance, Molecular Imprints has more than 60 employees and sells its lithography machines to semiconductor companies around the world. **It recently received \$36 million from a joint venture that included \$18 million of federal funding.** This is outside money circulating into the Austin economy.

Another example: **LabNow recently received \$14 million in investment capital** – again, this is outside money, not re-circulated local dollars. LabNow is commercializing a device that will make it easier and cheaper to monitor AIDS in patients in developing countries. It has 15 employees.

“We’re strengthening the Texas economy with discoveries made in our labs,” said **Neil Iscoe**, director of the university’s Office of Technology. **“We’re bringing investment into Texas and creating jobs by promoting our faculty’s research.”** By the way, Iscoe’s office connects university researchers and commercialization partners, ensuring smooth and fast transfer of intellectual property created at the university.

It gets even better. It's not just the Austin economy that benefits. **UTAustin also gains revenue.** The university’s licensing deals generate more than \$5 million in annual licensing income. These dollars are used to further research in areas such as nanotechnology, enzyme technology to benefit the agricultural industry and the drug discovery process to treat illness and diseases. And, of course, this should stimulate even more commercialization – creating an unbroken cycle.

This is just one of the *lesser-known* ways UTAustin contributes to the Austin economy.

**If you got tired of what seemed like an interminably long 2004 presidential campaign, get ready for more – a lot more – of the same in the 2008 run for the presidency. It starts now.**

Two factors are coming together to create a “perfect storm of politickin’.” Number One: for the first time in a half-century, there will be **no incumbent president or vice president on the ballot** – so presidential hopefuls in *both* parties view the race as wide open and the jockeying for position has already started. Secondly, with no Texan likely to be nominated for president or vice president, the large number of electoral votes here should make **Texas a battleground state** where candidates, candidate ads and dollars will be pouring into Texas.

In recent history, the incumbent VP usually runs for president (think: **Al Gore**, **George H. W. Bush**, etc). But **Dick Cheney** this week said “Not only no, but hell no!” when asked if he wanted the top job. This was expected, so the list of potential GOP candidates is almost as long as the Dem hopeful rundown.

The early, and undoubtedly incomplete, GOP list includes: Former House Speaker **Newt Gingrich**, Former NYC Mayor **Rudy Giuliani**, Senators **John McCain**, **Chuck Hagel** and Majority Leader **Bill Frist**, and Governors **Mitt Romney** of Michigan and **Jeb Bush** of Florida.

Any incomplete list of Democrats starts with Senator **Hillary Clinton** and includes former Dem VP nominee **John Edwards**. Former Dem Pres nominee **John Kerry** is making noises as is Senator **Evan Bayh**, and Governors **Bill Richardson** of New Mexico and **Mark Warner** of Virginia. Even former Vermont Governor **Howard Dean** is expected to use his new post as Chair of the Democratic National Committee as a stepping stone to climb into the presidential race again.

Okay, you’re forewarned. With Texas as a potential **battleground state in a wide open race**, you will receive the brunt of the appeals that you missed in 2004. Good luck!

**Dr. Louis Overholster** remembers one president saying to the news media: “I’m not going to say anything terribly important tonight, so you can all put away your crayons!”

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher