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Dear Client:

There have been significant changes in the Texas economic landscape over the past few years. And the state now leads the pace in new corporate locations and expansions.

This is the view of the longtime specialist in the Texas economy, **Ray Perryman**, who said the state was “somewhat slow” to come out of the recent recession, but Texas “**now stands to be a growth leader.**” **And the Austin area is at the top in Texas.** What are the reasons for this optimism about the pace of expansion? Here’s his take.

Proactive economic development efforts such as the Texas Enterprise Fund have contributed to rising interest in the state and created myriad opportunities.

The job market is experiencing widespread gains and the near-term outlook for hiring is good. Higher education is significantly impacting the state’s economy, with increases in the number of skilled and trained workers. The large and growing pool of potential employees will serve as a competitive advantage for the state over the long term.

One source of growth is international trade. Texas is now the leading state in terms of export volumes. And as economies around the world continue to develop, Texas will benefit from enhanced demand for its products.

The housing market is also contributing to prosperity, and is expected to remain robust over the long-term, though real estate cycles are likely.

Technological advances and more efficient uses of resources have effectively increased business operations and overall productivity. High tech activity continues to expand, with research and development in emerging fields escalating.

Rising energy demands and elevated prices of petroleum are proving advantageous for various segments and geographic areas.

Perryman says, looking out to 2030, the right things are happening to help ensure long-term prosperity. Key corporate locations and expansions are helping **solidify Texas’ position at the forefront of the next wave of technology.** Let’s look more closely at Austin in the next item.

The six major metro areas in Texas will (as in the past) be where the bulk of the long-term economic growth occurs. And the Austin metro area is at the top.

Texas economist **Ray Perryman** is convinced the major metropolitan areas of the state are expected to serve as catalysts for expansion in other areas. **He says the Austin and Dallas Metroplex areas are likely to lead the pace.** Some seven out of every ten new jobs added over the long term in Texas are projected to be in the larger metro areas. So what will the Austin metro economy look like in the future?

The Austin area will gain 418,982 workers between 2004 and 2030. These are people holding jobs, making money and pumping those bucks back into our economy. This is not *population* gain. It's *job* gain. Jobs move our economy.

Also, remember, we're talking about the five-county metro area of Travis, Williamson, Hays, Bastrop and Caldwell counties. We'll have, reports Perryman, **1,119,854 folks going to work every day in 2030** in these five counties.

Of course, the projected population is a much higher figure. **Perryman thinks the Austin metro will gain 1.12 million people.** This is huge. In fact, Perryman is predicting the Austin area will **gain more people than the San Antonio metro**, which he pegs at a 0.99 million increase. And Austin's increase is almost as many as the Fort Worth-Arlington area's gain of 1.20 million.

Interestingly, when you look at the six major Texas metros, four of them (Dallas, Fort Worth-Arlington, Austin and San Antonio) are along IH35. Only Houston and El Paso fall outside this transportation conduit. This is an important factor for your future planning. The obvious impact is on transportation.

But it is much, much more than that. It's the **increasing interaction between these metros as their growth extends outward toward each other.** And whether they like it or not, significant cities such as Waco and Temple to our north will be impacted by this IH35 economic growth spurt. Even if Waco and Temple do next-to-nothing, the spillover effect of this dynamism is going to have such an eventual impact, it will force their leaders to react.

Speaking of our immediate neighbors to the north, Perryman lumps them in with the Austin metro area for what he calls the **Capital Region** of Texas. It includes ten counties. Looking at the Capital Region *short-term*, Perryman is predicting the Compound Annual Growth Rate (a standard economic indicator) for the 2004-2009 timeframe will be **significantly greater than the state's CAGR – 2.30% to 1.80%.**

He forecasts all other indicators will also outstrip the state. For instance, he sees the Capital Region's real personal income rising by 3.84%, compared to the state's 3.65% and wage and salary employment rising by 2.16%, compared to the state's 1.96%. Solid *short-term* growth.

One of the best ways to gauge the health of the Austin area office market is to see if anybody out there is stepping up to the plate and buying office buildings.

Short answer: they are. Long answer: the situation is improving and some office buildings are selling more than once. What's this? **Are we in a real estate "flipping" situation?**

Here's how **Helen Jobs**, who heads up Gold Eagle Investments, sizes up the office transaction market at mid-year: "The Austin investment market continues to record a **high number of office building sales** in the over 30,000 square foot multi-tenant market with some buildings changing hands again after selling last year or earlier this year."

Where is this occurring? Jobs says the activity was **predominately in the Northwest and Far Northwest** submarkets with only one sale in the Southwest market. How much money changed hands? **More than \$425 million**, according to Jobs. The mid-year 2005 tally is getting close to 2004's 12-month total of \$533 million. And it has dramatically eclipsed the totals for 2003 (\$100 million), 2002 (\$194 million) and 2001 (\$170 million).

The 2005 six-month sales figure was amassed in **only 12 transactions amounting to approximately 2.5 million square feet of office product** in chunks larger than 30,000 square feet. The average price per square foot was pushed upward by the sales of Research Park Plaza I and II (which sold twice) and Research Park Plaza III & IV, all newer buildings with long term credit tenants.

One of the reasons existing office buildings have been selling at a brisker clip these past few months is there is a **noticeable increase in absorption of space** (as we reported in our 7/22/05 edition) and **no new buildings** are on the market. "There has been no new office construction," Jobs observed, "but two new buildings have been announced for the Southwest submarket."

The president of Capital Market Research, **Charles Heimsath**, said the fact that there are **no new buildings under construction** "will speed the improvement in the office market, as expanding tenants are compelled to take existing space." And then, he predicts "once the remaining large blocks of space have been absorbed, rents should begin to increase and the market will regain its historical strength."

Did you miss out on buying a new car under the GM, Ford and DaimlerChrysler employee discount program? Not to worry.

A local car buying expert, not affiliated with any dealership or factory, says "special deals" are becoming so commonplace the **American manufacturers will continue to offer greatly reduced prices** on their more popular vehicles – and this includes the 2006 models out soon.

You know those “task force studies” that get a lot of attention when they are released, then usually end up sitting on a shelf gathering dust? Well, here’s one that looks like it will have a long life and lasting impact on one of Austin’s major institutions.

We say this because it’s been almost a year since UT Austin’s Commission of 125 issued its long-range recommendations and there is still a lot of activity aimed at implementing many of the group’s recommendations. **The Commission spent two years in thoughtful analysis** of UT Austin and issued some far-reaching recommendations. Very few believe all the suggestions will be implemented, but at least at this stage of the game, many are being seriously considered.

President **Larry Faulkner** and Executive Vice President and Provost **Sheldon Ekland-Olson** are leading a series of working groups to address many issues raised by the report. They have met with deans, chairs, research center directors and other faculty.

As a further example, **William Powers**, dean of the School of Law, is chairing a group of 18 of the university’s most distinguished faculty and two students to **review the undergraduate curriculum – which was last done in 1981**. This group will present a written report to the president by October.

The Commission also recommended **reducing the student-faculty ratio, capping enrollment at 48,000 students** and increasing residence-hall capacity so every freshman who wants to live on campus may do so. Another suggestion was to **drop the words “at Austin” from the University’s official name**. A working group is considering such a name change.

How do you know this will not be a study that goes nowhere? **The Commission itself will reconvene 10/21/05 for the first of five meetings to check on progress** toward implementing its recommendations. We’ll keep you posted.

As summer winds down, **Dr. Louis Overholster** is extolling the medical advantages of the thong bikini. He says it has virtually done away with Attention Deficit Disorder!

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