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Dear Client:

**The up-tick tempo is quickening in the Austin area housing market, especially where new homes are concerned.**

If you've driven around the Austin area in the past year, you may have noticed a lot of new homes being built. Your eyes haven't deceived you. A check back over 12 months, through the just closed third quarter 2005, reveals homes are going up at a fast clip. In fact, according to Residential Strategies, Inc. (RSI), **housing starts (14,130) have increased by 21% over the same period a year ago.** This is fast-track growth any way you track it.

The growth in housing starts is especially strong in the higher price points (contrary to the past few years when lower priced homes around \$150,000 were selling at the fastest clip). RSI points out starts for **homes priced above a quarter-million dollars** have increased from 2,626 to 3,513 over the past year, an **impressive jump of 34%**.

Don't worry about a housing glut developing as a result of this frenzied building activity. RSI notes that **home closings set a record at 12,967 units for the past four quarters.** So what goes up – sells. This is a testimony to builders and lenders keeping track of shifting demand.

What else is happening here? "Austin is benefiting from the combination of continued low mortgage rates, good job growth and the in-migration of home buyers from outside of the Austin area," states **Mark Sprague**, RSI's area partner. **"We expect this trend to continue for the foreseeable near term."**

Why the higher price points? **"Many of the relocation buyers showing up in Austin are coming with large equities from home sales** in the East and West Coast markets, areas that have experienced significant house price appreciation," Sprague observed. "These buyers are attracted to Austin's high quality of life and relatively more affordable housing."

**Is the Austin new home market overheating? No, but the sellers have the edge.** The current supply of finished vacant units is a 1.9 month supply at the current sales rate and RSI considers a 2.5 month supply equilibrium. Vacant lots are the same. RSI says 24 months is equilibrium and reports that the current supply, at the existing sales rate, is 21.8 months.

## Now that fall is in the air, can the end-of-year holidays be far behind? And what about those end-of-year bonuses, anyway?

Employees look forward to bonuses, employers struggle with what to do about them. We checked with our friends at *Kiplinger Forecasts* in Washington to see what they found in their nationwide survey and this is what they are reporting.

“Most employers will hand out bigger merit-based bonuses this year than last. **Bonuses will average 3.4% compared with 3% in 2004**, nudged up by a tightening labor market and strong 2005 corporate profits,” according to *Kiplinger*.

But what about small businesses? “About a third of companies still give **one-size-fits-all cash gifts of \$200 to \$500**, a practice confined to small, family-owned firms,” reports *Kiplinger*.

While we’re on the subject of holidays, we checked with them about office parties? What’s happening with those shindigs that many companies cut during tough times? *Kiplinger* says **holiday parties are regaining popularity**. Here’s how they put it: “More employers are deciding that hosting a fete is a fairly cheap way to improve morale.”

## One other job item from *Kiplinger* – salaries for college grads.

It looks as if the 2006 college grads will get **better pay** and have **more choices** for jobs. Without running down all the job categories, here is a short list of the “standard” jobs and the anticipated average starting salaries, nationwide: accounting and business majors, \$43,000, and those fresh from engineering schools will get \$45,000 to \$55,000 a year.

What’s happening in the marketplace is a **diminishing number of skilled workers**. They are hard to find now and they will be even harder to find in the years ahead. But aren’t our colleges and universities cranking out well-educated and skilled grads? Yes, but this is not the problem.

The problem is the **changing job picture**. It is predicted businesses will need 2 million more scientists and engineers and 2.4 million workers with key manufacturing and production skills by 2012 – just seven years from now.

Add to this, by one estimate, some college or advanced training will be needed for about 85% of new jobs and only about 60% of American students get that far. You look at this and you see, with the current trends, the demand will not be met. A check of your Economics 101 textbook indicates this will **ratchet up the salaries for those with skill sets that are in high demand**, as businesses fight over the diminishing number of qualified applicants for the new jobs.

**The most recent session of the Texas Legislature passed a measure to keep a long stretch of a new Central Texas roadway billboard-free. But the folks who supported the move fell short in their overall efforts.**

A group called Scenic Texas (with local chapters around the state, such as Scenic Austin, and part of a national organization called Scenic America) has made a crusade of **preserving and enhancing the scenic environment of our state's roadways, primarily by opposing outdoor advertising**. It lobbies local and state officials to pass measures prohibiting billboards on roadways it considers scenic, as well as other beautification efforts.

One of its biggest victories in the recent legislative session will impact Central Texas. While it didn't get a lot of public attention, a Republican and a Democrat joined forces to push legislation that will keep the first four segments of the new SH130 billboard-free. The legislative leaders of the effort were the R, State Rep **Mike Krusee** (the powerful chair of the House Transportation Committee) and the D, State Senator **Gonzalo Barrientos** (who is not seeking re-election).

SH130, the interstate bypass that is under construction in Williamson and Travis Counties to the east of IH35 is the longest stretch of protected highway. These **four segments traverse rural land, totaling 49 miles, from Georgetown south to US183 in Travis County**. No action was taken on the remaining portions of SH130 in this past legislative session.

However, other local bills were passed that will keep billboards off the sides of at least **16 other roads around the state**, some in the Central Texas Hill Country counties of Bandera, Blanco and Hays. These roads are in addition to the 13 roads protected by the state legislature four years ago.

However, there is a glitch in Scenic Austin's efforts to keep *all* billboards off SH130. While the legislature was in session, and before the anti-billboard legislation was passed, the **Reagan outdoor billboard company erected overnight four billboards on private land in Williamson County**, adjacent to where SH130 will ultimately wind through the area. Apparently, Reagan wanted to make sure it was "grandfathered" and not covered by any legislation as the signs went up before final passage.

State Rep **Dan Gattis** joined with Krusee to introduce a measure to require a license fee of \$10,000 to be assessed per billboard along that route. It failed to pass. So Scenic Austin, Scenic Texas and the Texas Department of Transportation are **still haggling over the outdoor signs** that sit in open fields where there is currently no road or vehicles traveling by them.

By the way, if you want to see a roadway protected from new billboards, take US Hwy 290 between the western city limits of Austin to the eastern city limits of Fredericksburg.

**With four bankrupt airlines trying to entice you to fly from Austin-Bergstrom International Airport (ABIA) to points beyond, what is the likely outcome of this shaky scenario?**

No one knows for sure, but after checking with industry sources, it's possible to come up with an educated and logical forecast for the future of bankrupt **Delta, Northwest, United** and **USAirways**. When the dust finally settles after the shakeout, it is likely there will be fewer air carriers serving ABIA, but those remaining should be stronger.

First of all, look for a **merger between much stronger Houston-based Continental Airlines and United**. The marriage makes sense. Both airlines have strengths to bring to the table and there is very little overlap in their primary routes. This merger has long been bandied about and with a push from the bankruptcy court on United, it could happen.

Secondly, **another merger, this one between two bankrupt airlines, is also likely. Delta and Northwest** do not have many overlapping primary routes and the courts could expedite such a shotgun marriage.

**What the merged entities will look like is anybody's guess.** But Continental is not in bankruptcy court and holds the upper hand with United. Delta and Northwest are both weak sisters, with Delta being the largest of the two. It'll be interesting to see how these two mergers, if they occur, are finally negotiated.

In all this talk in recent months about the future of the airline industry, one important element has been overlooked. **Three of the strongest survivors** – Dallas-based Southwest, Ft. Worth-based American and Houston-based Continental – **are all Texas companies**. Must be something in the water, or is it the fiercely-independent Texas business spirit at work here?

**Dr. Louis Overholster**, noting Columbus Day is around the corner, observed Columbus crossed the ocean in an incredibly crowded ship, eating scraps of food, drinking cheap wine and breathing foul-smelling polluted air. Today, he says you can do the same thing. Fly coach!

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