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AUSTIN LETTER

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Dear Client:

Not too long ago, Texas had 27 metro areas, encompassing 58 counties. These areas have been redefined and reclassified to where there are now only 25 metro areas, but they include 77 of the state's 354 counties. The changes are important if you do business around the state.

Because of the relative growth rates, several metros (Metropolitan Statistical Areas or MSAs) were re-named. In fact, two were created out of one in West Texas: Odessa-Midland became Odessa MSA and Midland MSA. **Four counties were added to the San Antonio metro.** In another big change, Brazoria and Galveston-Texas City metros are now lumped into the Houston-Baytown-Sugar Land MSA.

The Dallas area is another story. The current **Dallas-Fort Worth-Arlington metro area** is a combination of the former Dallas MSA and the Fort Worth-Arlington MSA. But. The USCensus Bureau then subdivided the combined metro area into two metro *divisions* (called MDs) – Dallas-Plano-Irving and Fort Worth-Arlington. This is an important distinction when you begin trying to compare apples-and-apples growth trends, for instance. It'll be easy to make a mistake.

All Texas metros follow county lines and are named for the largest city in the area. When two or more counties form a certain MSA, they have a substantial degree of **economic homogeneity and are economically integrated through commuting patterns**, according to Texas economist **Ray Perryman**.

The Austin-Round Rock MSA (it used to be Austin-San Marcos MSA) still retains the homogenous and economically integrated counties of Bastrop, Caldwell, Hays, Travis and Williamson. **Nearly two-thirds of all Texans reside in the six largest metro areas.** In addition to Austin, they are the two Dallas area MDs, El Paso MSA, the Houston-Baytown-Sugar Land MSA and the San Antonio MSA. Importantly, over the next five years, Perryman projects Austin will lead the Big Six metros in percentage of population growth, wage and salary employment and the percentage increase in real personal income.

These designation changes have been in place for more than a year now. But as they have caused a certain amount of confusion, we thought it wise to re-visit them. The best rule is to **carefully examine metro area stats** so you are sure they are appropriate for your needs.

High tech or low tech, “jobs is jobs” one wag suggests. While you would like every new job to be high paying, there are less-demanding jobs that provide paychecks for the under-educated and under-skilled worker. A stable economy needs a wide variety of jobs.

You can't get more low tech than making toilet paper, now can you? Such jobs are often overlooked. But they give the area a solid job base. We've learned that Copasba, a Mexico-based manufacturer, is planning to build a **\$42 million recycled paper plant** between Austin and San Antonio, or possibly, in the Alamo City. The location would **initially create at least 150 jobs** and supply raw material to a sister operation in Mexico to complete finished products such as toilet paper, napkins and paper towels.

Speaking of jobs, last week (check out our 1/20/06 edition) we gave you a *forward*-looking report detailing plans for opening four new hotels in Austin. Obviously when they open their doors, **the new hotels will be hiring hundreds of employees to staff the 24/7 hotel operations.** These new jobs will be filled this year.

These jobs are being created in an already-hot job sector. For instance, looking *backward* for a moment, we found the **hotel and restaurant segment of our 5-county economy added 3,300 jobs in December.** It was the hottest economic sector in a region dominated by government, high tech and service jobs.

This trend will obviously continue through 2006 and 2007 as the new hotels come on-line and properties undergoing extensive renovations get back up to full operating speed as their remodeling projects are concluded.

By the way, when we told you last week of the hotel renovation projects that were underway, we should have added – for perspective – that a couple of major lodging remodeling projects have just been completed.

The Radisson Hotel & Suites on Town Lake at the corner of Congress Ave and Cesar Chavez (old-timers will recall it was named **Wilbur Clark's** Crest Inn when it first opened) recently completed a multi-million dollar makeover. This included new room renovations, adding “sleep number” beds in the guest rooms and a complete lobby redesign that includes an in-lobby Starbucks coffee bar.

Also, the **Barton Creek Resort & Spa** on the western edge of Austin expanded its **Darrell Royal Ballroom** by 1,000 feet giving it a total of 8,240 sq.ft. of space.

This is not a report to simply let you know how well the lodging industry is doing, compared to recent tough years. **The lodging industry is in many ways a reflection of the overall economy,** as it is a sector that brings in dollars from outside Austin and re-circulates those monies throughout Austin. Hotel guests spend additional dollars and provide jobs for workers who in turn pay rent, buy homes, groceries and other essentials to keep our economy humming.

After five years of recovery from the downturn, it finally happened. A record set at the tail-end of the go-go high tech years in Austin was broken in 2005.

Figures just released yesterday (1/26/06) show the total number of passengers traveling through Austin-Bergstrom International Airport (ABIA) in 2005, **exceeded by 22,568 the ABIA air travelers during 2000**. If you are stat happy, the exact numbers are: 7,658,671 in 2000... 7,681,239 in 2005. The 2005 total was up 6% over the previous year.

The airlines contributing to the 2005 surge (**listed in order of their ABIA passenger dominance**): Southwest Airlines, up 4% ... American Airlines, up 12% ... Continental, up 7.5% ... Delta (includes SkyWest, Shuttle America and Mesa), *down* 1% ... United Airlines (includes SkyWest, Mesa and Air Wisconsin), up 5% ... Northwest Airlines (includes Pinnacle Airlines), up 11% ... USAirways / AmericaWest Airlines (including Mesa), up 4% and Frontier Airlines, *down* 0.1%.

Speaking of turnarounds at year-end, we just witnessed a “final quarter that was surprisingly defiant of historical trends.”

This is the view of **Robin Davis**, who tracks apartment trends in the Austin and San Antonio areas through her firm, Austin Investor Interests. “Plagued by unrelenting declines from 2001-2003, Austin reached a plateau in 2004 that yielded little movement,” she pointed out.

“And then came 2005. The year started slowly, inching upward in the first two quarters and then, as is typical, the third quarter came in with a much needed boost, followed by a final quarter that was surprisingly defiant of historical trends,” noted Davis. Apartment occupancy in the 4th quarter fell only .06%, which is the smallest 4th quarter decline seen since 1998. **“Even more impressive,” she says, “the overall average increase in annual occupancy was 2.78%.”**

“With the market gaining some footing, concessions were reduced, ending the year with less than 52% of the market offering move-in incentives,” she reported. At the same time, she said **every quarter in 2005 felt an increase in rental rates**, even the seasonally slow 4th quarter which rose \$.01. Also the number of apartment sales increased 21% over 2004.

What’s ahead? Coming off 2005’s average occupancy of 93.40%, Davis says **“occupancies are expected to continue on the rise and will likely exceed 94.5% within the year**. Rents are expected to follow suit and increase an additional \$.04 over the next 12 months.” Apartments are an important cog in our economy (especially with the large student population in the area). Look for new apartment units to be built, but not at a rapid rate. As Davis put it: “the number of new units expected to enter the market over the next 12 months will remain quite amenable.”

For years if you were concerned about your yard, all you had to worry about were armadillos rooting up your manicured lawn and/or deer chomping down on your plants. You can add another destructive critter to your list – hogs, feral hogs.

Oh sure, you may have had other worries – such as the neighbors dogs using your yard as their potty. Or maybe a stray raccoon or possum rooting around in the outside dog food or the garbage bin. Or you might have tried to keep squirrels from eating the bird food you set out. But these critters fell more into the “annoying” category. Armadillos and deer are more on the destructive side. **Now you can add nocturnal-feeding feral hogs to the destructive list and you don’t have to live in the boonies to be concerned** – because they are multiplying as fast as rabbits and the hogs are expanding their range into the Austin area.

For the longest time, these wild hogs have been a rural problem, destroying pastures and spreading disease to livestock. But, because they have **no natural predators and their litters are large**, feral hogs have rapidly increased over the last 25 years. “Texas has the dubious distinction of being the feral hog capital of the United States,” says Texas Agriculture Commissioner **Susan Combs**.

How many hogs are wreaking havoc by rooting up pastures, grasslands and yards – foraging for food every night of the year, eating like, well, hogs? The best estimate is **1.5 million to 2 million**. This is a lot of pork. You may not see many feral hogs, but you can see the damage if they come onto your property.

So what is being done about this? TexasA&M and TexasTech have been awarded grants by the state Ag department to do **research here in Central Texas**, East Texas and the Coastal Bend to formulate solutions. The legislature appropriated the funds for this pilot program.

Dr. Louis Overholster tells us of an elderly patient who told him “I’ve had two bypass surgeries, a hip replacement, new knees. Fought prostate cancer and diabetes. I’m half blind, can’t hear anything quieter than a jet engine, take 40 different medications that make me dizzy, winded and subject to blackouts. Have bouts with dementia. Have poor circulation, hardly feel my feet and hands anymore. But thank the Lord, I still have my driver license!”

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