

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

Had Austin's most-popular air carrier, Dallas-based Southwest Airlines, not made a bold bet on oil prices several years ago – essentially buying jet fuel in advance at less than half the current price – the US airline industry might be completely different today.

As a result, you are likely paying less for air fares today. This was the conclusion of an analysis reported in *The Wall Street Journal*: “Southwest saved \$11.48 per customer from its fuel hedges last year. Without that windfall, the **carrier likely would have had to jack up fares** well beyond last year's average of \$94 for a one-way ticket. The hedges also mean **lower fares on other airlines** that matched Southwest fares.”

The *Journal* reports Southwest still has hedges this year and beyond — \$1.6 billion worth on its books at December 31, stretching out to 2009. Over the past four years, Chief Executive **Gary Kelly's** decision to lock in the price of much of its jet fuel years in advance has earned \$1.6 billion. That's more than Southwest earned flying passengers.

It's difficult to exaggerate the effect of this hedging. **Jet fuel is now a bigger factor in airline costs than labor** and how airlines adjust to high oil prices will likely determine winners and losers in the industry. As a result, all airlines (including Southwest) are making even minor adjustments to reduce fuel costs.

Airlines have grounded gas-guzzling planes, set limits on how fast a plane flies, started **taxiing with only one engine running** – even tapping out tiny dents that make a plane less aerodynamic, reducing weight by limiting on-board water and magazines, as well as ripping phones out of seat backs, etc.

“While some predicted a few years ago that the industry couldn't function if oil prices hit \$60 a barrel, **the intensive conservation, grounding unprofitable flights and fare increases may help some carriers earn profits this year.** And that's with oil at about \$70. ‘The staying power of airlines has been remarkable,’ says **John Heimlich**, chief economist of the Air Transport Association,” reported the *Journal*.

However, there is a shift occurring in airline dominance at Austin-Bergstrom International Airport. **One airline is slipping decisively in market share.** We have more in the next item.

For decades, four airlines have been the dominant carriers at Austin-Bergstrom International Airport (ABIA). Recent trend lines indicate it is now down to three.

ABIA's Big Four in recent years have always been, in order, Southwest Airlines, American Airlines, Continental Airlines and Delta Airlines. **Delta, however, has been in a share-of-market swan dive of late.** And we're now to the point where we are talking about the Big Three. Delta has moved way down to the second tier of Austin carriers in terms of the number of passengers carried to and from ABIA.

Southwest, American and Continental in April carried 74% of all ABIA air travelers. This is dominance in anyone's book. Southwest continued as the share-of-market leader in April by carrying 35% of the passengers, American was a strong second with a 27% market share, followed by Continental with 12%.

Nit-pickers could also make the case that **Austin is really a Big Two market with Southwest and American holding down a 62% market share.** But, for now, it makes sense to lump Continental with the others because it is gaining more and more passengers – up 6% in April, for instance.

Delta, on the other hand, is losing passengers at a rapid rate – down a whopping 22.5% in April. All these comparisons, by the way, are to the same month a year ago so they account for seasonality of travel. Delta, in April 2006, carried only 4% of the Austin air traveler market – the same as Mesa Airlines.

It wasn't all that long ago Delta and Continental were in a see-saw contest for third place in the Austin market – each racking up double-digit percentages in the all-important total passenger category. Not any more. **The trend is clear – Delta is withering on the Austin vine, while Continental is growing.**

If this downward Delta passenger plummet continues, it may not be too long before the **airline has to look at its hole cards and decide if it can profitably stay in the game to serve Austin.** Fewer passengers mean declining revenues.

It would not be good for Austin air travelers for Delta to bail out of this market as it **provides service to an important hub – Atlanta.** But during this cost-cutting time for the airline industry, steely-eyed Delta execs have to be considering some hard decisions.

The Austin economy is one of the most solid and vibrant in the US and recently (March 2006) ABIA set a record for number of air travelers. If Delta pulls out of Austin (for whatever reason), other airlines are likely to quickly fill the void. On the other hand, **Delta could scale back in Austin and be content with 4%-or-less market share.** After all, United, JetBlue, Northwest, Frontier, etc. all operate here with less share. It bears watching.

A housing trend found in many parts of Austin, especially the more affluent areas, is coming under attack around the nation. Could Austin be next?

For many Austin area families, cul-de-sac living represents an ideal part of homeownership. It provides a relatively traffic-free play zone for the kids, nearby neighbors ready to share gas for the mower or a cup of sugar as dinner is being prepared – even a gathering place for beer and barbecue. **Realtors will tell you a home on a cul-de-sac is a salient selling feature** and, as a result, increases the value of your abode to those who prefer this lifestyle.

But, increasingly around the country, cul-de-sac living is coming under attack. In fact, according to *The Wall Street Journal*, “hundreds of local governments from San Luis Obispo, Calif., to Charlotte, N.C., have **passed zoning ordinances to limit cul-de-sacs or even ban them in the future.**”

How severe is it in some places? **In Oregon, about 90% of the state’s 241 cities have changed their laws to limit cul-de-sacs.** Forty small municipalities outside Philadelphia have adopted restrictions or bans. Nevertheless, homes on cul-de-sacs are still being built elsewhere in large numbers and continue to fetch premiums from buyers who prefer them.

What is the opposition all about? The opposition has arisen in areas facing the same sort of problem facing a growing Austin and its surrounding communities. **What is this problem? In a word, traffic.** One traffic engineer says the biggest traffic problems aren’t in the old central cities these days, but rather in the suburban periphery.

Because most of the roads in a neighborhood of cul-de-sacs are dead ends, some traffic experts say the only way to navigate around the neighborhood is to take peripheral roads – that are **already cluttered with traffic.** And because most cul-de-sacs aren’t connected by sidewalks, the only way for people who live there to run errands is to **get in their cars and join the traffic.**

David Schrank, a transportation researcher with the Texas Transportation Institute at TexasA&M, says the old peak hour of traffic in many suburbs has been replaced by a longer peak period. **As new developments spring up, he says sometimes the transport network isn’t in place to support them.** The argument by those who oppose cul-de-sacs boils down to one phrase: cul-de-sacs restrict the ability to get around town easily. And they limit speedy emergency vehicle access.

Is opposition to cul-de-sac development a trend-in-the-making that will sweep through the Austin area and across the nation? Or will it fade? Or, will compromises be worked out? No one knows, but for your planning purposes, it is a **movement to monitor.** It has reached enough critical mass at this stage, in widely divergent areas, to indicate it may be more than a single blip on a radar screen. It warrants raising your awareness level.

Austin's national reputation is built on many foundations (UTAustin, State Capitol, high-tech, etc.), but some of the national media seem enamored of our "live music" scene of late.

Oh, and don't forget the bumper sticker "Keep Austin Weird." The "weird" and "music" focus is the reputation that is being fostered out there in many publications. Some examples:

The Globe and Mail (Toronto): "With a true Texas disdain for false modesty, Austin has registered a trademark on the phrase, 'Live Music Capital of the World.' This is the spiritual home of the outlaw tendency in American roots music, characterized by **Willie Nelson** and **Townes van Zandt**."

Southwest Airlines Spirit: "The State Capitol, The University of Texas, The Live Music Capital of the World. However you know Austin, you know you love it. Full of energy and buzz, the city is growing fast. Yet it still has that laid-back feeling like **nothing is so urgent you can't sit down under the trees with a cold beverage and just work it all out**."

Houston Chronicle: "Look left and there's **a woman strapping a stuffed bunny to the back of her exasperated mutt** as her friend snaps a picture. Look right and there's a group of **local musicians donning marching-band hats with giant yellow plumes**. A clerk from a nearby store walks out, takes in both scenes, shrugs and goes back inside. **It's just another Saturday morning on South Congress in Austin**, where shopping is not just an outing, but an experience."

And, finally, *Elle Décor*: "As the site of the State Capitol and The University of Texas, Austin draws an educated, active and creative yet laid-back populace. **The locals support progressive politics, bohemian stores, a wealth of restaurants and, most of all, live music**. It's also acquired a sharper edge of sophistication." Just a sampling of how others see us.

Researching medical history, **Dr. Louis Overholster** noted that when Adam and Eve ate the apple, suddenly they realized they were naked: "the world's first case of attention deficit disorder."

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