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Dear Client:

**On the same day this week the *Austin American-Statesman* carried a banner headline across the top of the page about spending \$300 million on a coal-fired electric generating plant for the Austin area, *The New York Times* (that bastion of environmental concern) carried a lengthy piece touting the value of what once was an anathema to them — nuclear power.**

You'll recall four weeks ago (6/23/06) we went into great detail about the efficiency of nuclear power, the first source of electricity for Austin Energy customers. We even carried a quote that said "**there is no such thing as clean coal.**" Coal provided 35% of Austin's electricity last year, nuclear 28%, natural gas 26%, renewables 6% and purchased power 5%. **Nuclear power was, by far, the cheapest source of your electricity.** With your monthly electric bill bumping up to record highs this summer, this should be of no small concern to you.

Now the influential *New York Times*, in its Sunday magazine this week, went on and on about how "nuclear power could help combat global warming" and could **lessen our dependence on air-polluting fossil fuels**, if we could get past the "scary" factor. Citing price considerations, the article said "the prospect of starting a new nuclear reactor in this country for the first time in 30 years has become increasingly likely."

Remember, we also mentioned 6/23/06 the South Texas Project, that provides Austin with nuclear power generated electricity, has just announced it will spend billions to **add two more nuclear reactors** to its Bay City plant. The City of Austin, however, has *not yet committed* to taking a portion of this new nuke capacity when/if it comes on line. But it *will* participate in the investment of \$300 million to put up a fourth 525-foot scrubber tower at the coal-fired Fayette Power Plant near La Grange to reduce some of the pollution spewing from the plant.

The Austin area is in a major growth mode now and population projections indicate the demand for electricity should greatly increase. Austin Energy is using its maximum allotment of nuclear-generated electricity. And it is bumping up against peak demand for its *entire* capacity, especially during these extremely hot days when air conditioning systems go full tilt. **An increase in nuke electricity should move to the top of Austin's agenda.** We won't be alone. New Jersey gets 52% of its electricity from nuclear power and France gets 78%. There are 337 working reactors in 30 countries outside the US and there will soon be more in India and China.

**The shifting US population continues, giving Texas and its major cities (with Austin at/near the top) more power and influence – to go along with the crowds.**

Gone are the days when the big states in the northeast and Midwest were dominant. In fact, New York should drop out of the Big Three in just five years, when Florida's population growth is expected to push it past New York and into third place behind **#1 California** and **#2 Texas**. Looking out a bit further, Texas economist **Ray Perryman** predicts the current growth trends will mean 65% of the total US population will live in the South and West by 2030.

This is significant because California, Texas and Florida will contribute about half of this increase. **In fact, Texas, by itself, should add nearly 12 million more residents by 2030.** All this is taking place as we speak. Austin is one of four Texas cities of 25 in the US that showed the largest numerical population increase from July 2004 to July 2005. The others: San Antonio, Fort Worth and El Paso.

Other fast-growing cities include Denton, Killeen and Grand Prairie. And this is occurring while the current rankings show Houston as the fourth largest city in the nation and Dallas ninth. By the way, **San Antonio has now moved past San Diego to claim the title of the nation's seventh largest city.**

Inside Texas, **the six largest metro areas will be where 70% of the state's population expansion will take place over the next 25 years**, according to Perryman's newly-released Long-Term Forecast. The small metros will be where 20% of the expansion will take place, with the rural areas and small towns absorbing the rest of the growth.

**This means the heaviest concentrations of population will be in the major metros where they are located today.** Percentages of Texas's population predicted for 2030: Houston-Baytown-Sugar Land, 23.47% ... Dallas-Plano-Irving, 17.48% ... Fort Worth-Arlington, 8.48% ... San Antonio, 8.34%, Austin-Round Rock, 6.42% and El Paso, 3.07%.

When you look at percentage increases, Perryman notes the **Austin-Round Rock metro will lead the state in three key categories** for the next quarter-century: 1) employment and job growth, 2) retail sales and 3) real personal income. In most cases, the larger Texas metros will lead in the *numerical* categories, but the Austin-Round Rock metro area is the *percentage* leader in his projections.

As far as ethnicity is concerned, it's been known for years that the Hispanic population is expanding at a tremendous rate. Perryman points out that across the entire US, about one of nearly seven persons is ethnically Hispanic. **In Texas, the Hispanic ratio is approximately one out of every three people.** And nearly two-thirds of Hispanic-origin people in the US are of Mexican descent. Perryman notes: "it is evident that the projected expansion of the Hispanic population will have significant economic, political and cultural impacts."

**Austin has been lumped into the affordable category in recent nationwide surveys. But with the hot, and getting hotter, housing market the trend is toward pricier housing in Austin, and this could impact our affordability reputation.**

For instance, in just-released figures from the Austin Board of Realtors (ABoR), the **median price of single family homes sold in June 2006 jumped 8% from last year, to \$182,000.** What's pushing this increase in value? Supply and demand, with an emphasis on the "demand" portion of this economic equation. The number of homes on the market is dwindling and buyers are snapping them up quickly. It's a sellers market and buyers are well-advised to make a quick decision or their dream home will be scooped up by another eager buyer.

In fact, **more homes were sold in the Austin area during the first six months of 2006 than ever before** in Austin during the first six months of a year, according to ABoR. And ABoR reported June 2006 was a scorcher for home sales, increasing 21% from June 2005, to set the monthly record for sales so far this year.

**Many homesellers are getting very close to their asking price** and, in some cases, the sellers are picking and choosing from among multiple offers. This situation is ripe for values to increase and this is what is happening. No immediate let-up is in sight, as the summer season is always a major turnover time in home sales.

But the value is still there when compared to other markets. And this is largely due to what we've been reporting for months: other markets went crazy during a recent residential real estate boom. And while those markets are cooling considerably, **the Austin area's rise-in-value has yet to intersect with the other areas' drop-in-value.**

For the time being, *apartment* rental values are helping to keep Austin's affordability reputation intact. A new study from the Joint Center for Housing Studies at Harvard looked at, among other things, what **a renter could get for about \$800 a month.** Austin fared quite well against other markets in the study.

In Austin, the study found a renter could rent a **1,588 sq.ft., 3 bedroom, 3 bath unit** in a northwest Austin complex that allowed pets and sported a fitness center, two pools and a basketball and tennis court. The monthly rent: \$809.

In Portland, OR, a **2 BR, 1Ba with less than 900 sq.ft.** goes for \$801. In San Jose, \$825 would be the monthly tab for **1 BR, 1Ba 577 sq.ft. unit** with a courtyard-style pool. You can rent a **2 BR, 2 Ba 875 sq.ft. unit** in Tucson for \$805. And in college town Ann Arbor, Mich, an **800 sq.ft. 1 BR, 1 Ba unit** rents for \$809.

There were other cities cited in the study, and you can find a wide variety of offerings in each of them. But Austin offered the **most value for the \$800 rent benchmark** set by the researchers as they strived for apples/apples comparisons. This should help our affordability rankings a bit.

**Hot enough for ya? This cliché of a greeting was being bandied around a bunch this past week. Frankly, though, the more apt question for us in Central Texas is not so much the *heat*, because it generally is stifling during July and August, but just how *dry* is it?**

With just about everything air conditioned these days, most residents have ways to escape triple-digit temps – even as they complain about the heat. However, the **dry conditions pose difficult and serious problems**. When, oh when, will we get some substantial rainfall?

You see, the state of Texas is in the midst of a drought. **In fact, drought-like conditions have existed for 14 months now** – officially, from April 2005 through May 2006, and counting. Have you looked at Lake Travis lately? The source of the Austin area’s water supply is dropping a half-inch a day, docks are sitting on dry land and islands are appearing up-and-down the 65-mile long waterway. Creek beds continue dry. Water tables in aquifers are dropping daily. Etc.

So, just how dry is it? It’s not the worst we’ve ever experienced. In fact, you weren’t living here when it was worse. We’re in the midst of the **2<sup>nd</sup> driest period on record for this part of Texas**, according to State Climatologist **John Nielsen-Gammon**. (The worst drought on record for Central Texas was back in 1918.)

Because Texas climate and geology is so diverse, this is the **driest period on record for the Lower Rio Grande Valley**, along the border with Mexico. At the same time, it is the 4<sup>th</sup> driest period on record for East Texas and for the state as a whole. So, while it differs around the state, it is still very serious.

Also, not only do you need to worry about plants, shrubs, and the grass drying out, a ranch manager told us **deer are starting to graze on plants that are normally low on their preference list**. Keep an eye on the sky for rain — or better yet, start your rain dance.

**Dr. Louis Overholster** says he wishes they wouldn’t refer to death as our final destination: “It’s as if we had to go through the Dallas-Fort Worth airport to get there!”

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