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Dear Client:

The national housing slump has now expanded beyond the hottest speculative markets and is expected to impact the national economy. When will it rebound and where does the Austin area fit into this scenario?

The national slump in housing is not expected to cause a recession, but it is predicted to slow the growth of the US economy. (Energy prices are also playing a role in the projected slowdown.) **Areas such as Indiana, Michigan, Ohio and parts of Pennsylvania are now feeling the effects.** As a result, they have been added to declining hot spots such as California, Florida, Las Vegas and other markets where housing speculation has rapidly cooled. So what does this mean for the nation and for the Austin area economy?

First of all, **Austin's housing market is showing no signs of cooling.** What we've been telling you for months is still true. The Austin economy, fueled by strong demand for housing, is still humming along despite what is happening elsewhere. Even though you see national stories about the housing slowdown, don't make the mistake of assuming this applies to Austin – yet. So far, so good.

Secondly, the prediction for the slowdown markets is not for a disaster, by any means. **If anything, the economists feel average home prices will simply stay flat. For how long? Less than a year, maybe.** The scary statistics will continue to be tossed out through the spring 2007 selling season, then the current overhang in these other markets should be absorbed.

“By late 2007, homeownership will resume its historical role as a relatively secure store of value that also provides shelter,” predicts *Kiplinger Forecasts*. In the meantime, the housing slow down will contribute to a slowing of job growth in those geographical areas mentioned above and this will, along with energy prices, temper the nation's economic vitality.

The **speculators/investors** that triggered the housing boom, primarily on the two US coasts, have **largely moved to the sidelines**, according to *Kiplinger*. Some, of course, are coming to areas such as Austin where values are still rising, and demand is strong. But, if the rising values remain on a steady (not skyrocketing) upswing, the investor/speculator impact should be absorbed into our economy without pushing Austin housing into the stratosphere.

Speaking of what is happening elsewhere, the effects of the tech wreck are still being felt in the Silicon Valley – and we’re not just talking about declining residential real estate values.

It’s been five years since the downturn in the high-tech industry inundated Silicon Valley and the Silicon Hills of Austin. **Austin is rebounding quite well**, thank you, as we have reported almost weekly for some time now. But what about the global capital of the high-tech world, Silicon Valley, that largely suburban region south of San Francisco down to San Jose? Well, if you look at commercial real estate, their embattled economy *may* be about to turn around.

Before we get into a comparison between our neck of the woods and theirs, it’s important to set the stage. The recovery in the Silicon Valley is not complete, by any means. For instance, in **July, employment was still about 184,000 jobs below the peak level in 2000**. (One of the factors that may be slowing their job growth is the unbelievably high cost of housing, in spite of the housing bubble burst in the Silicon Valley. The median price home is \$748,200.) The Austin area job picture is one of the most dynamic aspects of our economy. They still have a way to go to catch up to us.

Another example. **San Jose’s Central Business District is looking at a Central Business District (CBD) vacancy rate approaching 29%**, and one 17-story office building has never been occupied. Contrast this with Austin’s CBD vacancy rate that is 23.6% and the downtown market is so hot two high-rises have recently sold at a per square foot price that set Texas records.

The Wall Street Journal this week took a look at Silicon Valley’s commercial real estate, and while noting it was starting to turn around, **“the recovery also faces some challenges.”** The report went on to say “a drop in office and warehouse vacancies has been aided by conversions to condominiums, but that could slow as the housing market cools.”

It further noted that one Internet giant, **Yahoo**, paid more than \$100 million for more than 40 acres containing older office buildings in Santa Clara and **Apple** has assembled similar buildings on a 50-acre tract in Cupertino. **Google** has paid about \$319 million for nearly one million square feet of office space in Mountain View, including its existing headquarters.

But the *Journal* added that “new space built by the expanding tech giants could potentially **leave other leased buildings empty**.” It further reported “the return of large corporate players is without a doubt good for the economy, good for jobs and good for the region, but it doesn’t necessarily help the oversupply.”

Interestingly, the new growth that is starting in the Silicon Valley is, according to the *Journal*, fueled by Internet and media-related tech companies that are **offsetting the loss of computer manufacturing jobs**. But this moderate growth is still occurring at a slower rate than here.

Texas, already the nation's leader in producing energy from wind, in planning a bold move to make "Texas a worldwide leader in wind power for the next 100 years," said one state official.

As we told you in our 8/25/06 edition, Texas is already building the largest wind turbines of their kind off the coast near Galveston. **And now the state is mounting an effort to land a US Department of Energy large-scale wind turbine research and development facility.** The University of Houston is leading a coalition that includes UTAustin, TexasTech, West TexasA&M, the Houston Advanced Research Center and others to prepare the proposal. Austin-based Good Company Associates is coordinating the coalition's efforts.

According to UofH researchers, the **potential for coastal wind power is greater than the nation's entire capacity to generate electricity.** The proposed blade-testing facility will pick up where the Department of Energy's National Renewable Energy Laboratory in Colorado leaves off. For instance, the Colorado facility is not able to test blades 70 meters long. And the next generation blades are expected to be even larger.

While touting the Texas Gulf coast **deep-water ports and strong Gulf winds,** the coalition has not settled on a proposed site for the facility. But, a competitive site selection process along the Texas coast should result in a recommendation.

Ray Flumerfelt, Dean of UofH's Cullen College of Engineering, says "we believe we will submit a formidable proposal to the Department of Energy that will ultimately result in a world-class facility being **built in Texas as soon as 2008.**" "This test facility will be a magnet for research and manufacturing," said **Jerry Patterson**, Commissioner of the Texas General Land Office. "The race for wind energy is like a modern day space race."

Starting today, if you travel to Houston and run a red light, you could get a ticket in the mail for \$75 because cameras will snap your photo at various intersections there. Get used to it. This could also be the wave of the future in Austin.

Houston starts using cameras at ten intersections today and plans to install them at 40 more of the city's most dangerous intersections. Some opponents in Houston (and in Austin) claim it is just another **ruse to generate revenue** (ignoring the law-breaking aspect of this exercise).

Well, maybe. But in Houston where the cameras are expected to generate more than \$6 million a year once all 50 intersections are monitored, Houston city officials plan to use that revenue to **pay police officers** who work overtime because of the police department's manpower shortage.

Sound familiar. **Austin has long been short on police manpower.** If the City of Austin goes this route, it could offset some criticism a tad by plowing the revenue back into the APD.

One of the biggest football weekends in Austin's history is coming up September 8, 9 & 10 and – hang on – it means residents of two of the top five “America's Drunkest Cities” will be mixing it up, by mixing drinks and who knows what?

And you thought it was bad when drunken sailors descended on a port city? **Columbus, the home of Ohio State University, was named #3 in the nation on *Forbes* magazine's list of “America's Drunkest Cities.”** About 30,000-40,000 of the Ohio State football team's most ardent supporters, fans and students are predicted to descend on Austin for the 7 pm 9/9/06 game at Darrell K Royal – Texas Memorial Stadium. This is the same crowd that made headlines with their **rowdy, abusive, aggressive – and yes, drunken — behavior** last year when the Texas Longhorns played Ohio State in Columbus. Now they're coming to Austin!

But, there's more. Austin is no slouch when it comes to drinking and partying. **Austin was ranked by *Forbes* as #5 in its list of “America's Drunkest Cities,”** just one place removed from Columbus. Talk about the possibility of a potent, maybe even volatile, cocktail mix.

Now add to this the **excitement of the nation's #1 and #2 football teams** filling 80,000+ seats inside the stadium and tens of thousands more frenzied fans partying all around the stadium and wherever they can find or hook up a TV set because they couldn't cough up the scalper's prices of up-to-\$2,000 per ticket and, my oh my, what a scene could ensue.

Who knows what will happen? But the ingredients are there to fill up the local jails, overrun hospital emergency rooms, create massive traffic tie-ups, fist-fights too numerous to mention, cuss-fights, references to opponents' parentage, booze flowing in the streets, etc. **Or, could there be an impressive display of sportsmanship and courtesy?** Stay tuned.

Dr. Louis Overholster took note of a recent survey that showed 74% of Americans can name The Three Stooges, but less than half know the three branches of government, by observing: “There's a difference?”

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