

THE

Real Estate

AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

Despite the fact the Austin area is enjoying one of its healthiest economic periods, we are still buffeted by national economic factors. Let's examine what the very near future may hold.

For more than 80 years, three generations of one family have operated a successful enterprise built around forecasts for management decision-making. As we move into the 4th quarter, our friends at *Kiplinger Forecasts* have looked into the **2007 crystal ball** to help you plan ahead. Here is some of what they are predicting.

Following a 3.4% inflation rate this year, *Kiplinger* expects the **Consumer Price Index will drop to about 3% in 2007**. As a result, interest rates are predicted to hold fairly steady with the prime lending rate hovering around 8% by year end.

Energy? It should ease up a bit, with *Kiplinger* foreseeing \$67 a barrel average for crude oil, nearly 3% below this year. **Gasoline pump prices will decline 2.5%** on average. But natural gas (+5%) and electricity (+3%) should rise in 2007.

The IRS will raise the standard mileage allowance by 4-cents or more over this year's 44.5-cent rate. **Across-the-board postage rate hikes will kick in by midyear** as the US Postal Service seeks to offset rising employee-related costs. First-class stamps will go up 8%, to 42-cents. Rates for business class mail will rise even more – up 9% to 13% for various classes and services.

Business travel will cost more. But **airfares will rise only 3%** after double-digit hikes in 2006. Hotels will average a 7% increase and car rentals about 2%. Health care costs will go up about 8%, instead of the 9% hike this year.

You'll get some relief on tech and telecom gadgets. **Computers should drop 10%, especially on laptops**. Copiers, faxes and printers should drop 5%. Even **cell phone rates are predicted to go down about 10%** — because of the fierce competition (keep contracts as short as possible because in coming years you should be able to get more minutes for less cost).

Finally, *Kiplinger* has spotted a growing trend: **employers are offering spot bonuses and other surprises to top workers**, to try to keep a lid on base salaries.

It continues to be a job seekers market in Austin, putting pressure on employers for salaries to be competitive. Dell Inc.'s announcement this week that it will begin hiring 500 more engineers for its Austin operations underscores this strong underpinning in our economy.

Dell will reveal details later, but it is obvious the 500 positions will be high-paying and may lure engineers from other Austin area companies, possibly **raising the salary bar even higher**. If this were a new company, announcing plans to open a new 500-employee operation in Austin, the impact would be different because a new company's workers would be all across the payroll spectrum. Dell is not talking clerical workers here. They are talking high-salaried pros.

Dell's plans are somewhat like a super-rich icing on top of an already-too-sweet cake because the Austin area has been adding all kinds of new jobs at a fast clip for a while now. In fact, in August, the number of new jobs in the Austin-Round Rock metro area rose by 19,400 – up almost 3% over the pace a year ago.

And as you know, **the ripple effect of more jobs is felt throughout the entire economic community**. The addition of jobs to the marketplace is one of the bellwethers of a solid economic growth. The jobs that are being added are, for the most part, in construction, government, hotels and restaurants, legal and engineering firms.

Another effect of all this job growth is that fewer people are looking for work, reinforcing the point about this being a job seekers market. The August unemployment in Austin was 4.2% — better than the 4.3% a year ago, even though the year-ago numbers were solid as a rock. The state's jobless rate was 5.1% in August.

It's tougher in a lot of other places around the country. **Take Michigan, where the battering of the US auto industry is really being felt**. Flint's unemployment is 10%, Saginaw is at 8.7%, Monroe is at 8.5%, Detroit has 8.1% of its workforce looking for jobs, Jackson, 8%, Niles-Benton Harbor and Battle Creek both at 7.9%, while Muskegon is 7.8%. Michigan's unemployment is staggering.

Flip it over. As you look around the country, you find **Texas neighbor Louisiana doing surprisingly well in the job market**. Houma (2.5%), Lafayette (2.5%) and Lake Charles (3%) are among the Top 20 best US cities for unemployment. Could it be a number of Hurricane Katrina-displaced workers from the New Orleans area have found jobs just "up the road?"

There are two significant aspects to the rapid rate of job creation in the Austin area: 1) **more people are moving here** for those new jobs, keeping our housing market and related businesses robust, and 2) employers are **scrambling to hire new workers** and finding they must pay more because workers, in some cases, have a choice of jobs. While these two factors must be dealt with, they are part-and-parcel of a dynamic economic climate.

“The mantra is now indisputable: the eccentric, laid-back college town of Austin, Tex., has flourished into a Hollywood darling and a byword for cool,” reported *The New York Times* this week in its Sunday editions.

If you’ve been living in your own little Austinworld for the past few years, you may not recognize what’s happened elsewhere in your city, especially the downtown — as seen through the eyes, of **Seth Sherwood**, a travel writer for the *Times*. Here’s some of what Sherwood wrote for the *Times*’ vast audience:

“With its **anything-goes vibe**, myriad bars and honky-tonks, excellent barbecue joints and top-notch homegrown music scene – which nurtured everyone from Willie Nelson to the indie-rock darlings Spoon – the city has been the bohemian heart of Texas for decades.

“But Austin is now also one of America’s fastest-growing cities, both in population and possibilities. Avant-garde architectural specimens are sprouting amid the modest downtown grid, where a chic new shopping district is emerging.

“New clubs and upstart bars of all stripes – tapas, wine, sushi, cocktail – are **solidifying Austin as the best little party town in Texas.** And with the opening last April of the Blanton Museum of Art, the Texas capital may emerge as a **cultural capital as well.**”

How did Austin get to this point, in the view of the *NYTimes* writer? “Maybe it was when **Quentin Tarantino** started his annual film series at the Alamo Drafthouse movie theater. Or when **Sandra Bullock** purchased her 10,000-square-foot lakefront home. Or perhaps when a local boy, **Lance Armstrong**, began bringing home Tour de France trophies,” surmised Sherwood (leaving out movie star **Matthew McConaughey** in the article).

Before you start thinking this publication is focusing on a very narrow segment of Austin, you need to be aware this article ran in the paper’s **Travel Section**. **It is aimed at luring visitors to Austin from New York City for a long weekend.** Therefore it necessarily is aimed at the big city dweller and painting a picture of Austin Sherwood feels will appeal to residents of The Big Apple. Hence, the nightlife-party emphasis. He even refers to Austin as a “hip metropolis.”

As a result, he highlights the funky San Jose Motel as a place to stay, and for eating places he refers his readers to “the most **exotic newcomer**,” Uchi and “the **cult favorite** restaurant, Starlite.” For shopping he refers to Second Street as “Austin’s **hottest new** shopping district” and the unusual shops on South Congress Avenue.

You can see the thrust of the article – **what’s new, chic, hip, cool, funky, etc. about Austin, “the Southwest’s hippest metropolis.”** No mention of old-time tourist attractions (the lakes, LBJ Library, the Oasis, etc.), but it made Austin sound appealing to the hip metro reader.

If a hard-fought, sometimes bitter, election held 125 years ago in Texas had gone the other way, Tyler in East Texas would have been home to The University of Texas. You'll be interested in what competing cities had to say about Austin in 1881.

It was a complicated election that also resulted in Galveston being selected as the site for a medical school (it was the largest city in Texas at the time). A number of Texas cities were vying for one or the other facility. Austin had earlier been in a tussle among cities to be the site of the State Capitol, defeating Houston and Waco in 1872 to formally become host to the Texas Legislature. **You think elections are rough these days?** Here are some of the comments made about Austin's bid for the state university.

Waco slammed Austin with this quote: "While exempt from the noise, bustle and confusion of a commercial metropolis, Waco is free from the distracting scenes, corrupting influences and fevered excitements of a **political capital with its multitudinous temptations to allure the young into paths of vice.**"

The *Tyler Courier* warned of the "**din of drunken legislators**" in Austin, while Cleburne advocated a rural site for the university because it was "a moral place" and far away from the "**busy haunts of man – and woman!**" Another rural location south of Fort Worth promised if it was selected "**no intoxicating liquor will be allowed within four miles of the university.**"

Austin's successful pitch to Texas voters pointed out its **central location**, there were granite and limestone quarries nearby for college buildings and the youth of Texas could observe the state's government while acquiring their own education. Even the "healthfulness" of Austin was touted as "its mortuary report showing the **smallest death rate** of any city in the South or Southwest." Thanks to **Jim Nicar**, the unofficial historian of the Texas Exes, for this info.

Speaking of elections, **Dr. Louis Overholster** recalled that when the Berlin Wall fell in 1989, one wag commented: "Now that democracy is replacing communism in Eastern Europe, it means the end of elections that are *rigged* – and the beginning of elections that are *bought*!"

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