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Dear Client:

Anyone who has driven the Austin area recently with eyes wide open knows this is a period of amazing change. Almost every sector is feeling the impact. So, where are we headed?

While the changes are dynamic, you need to keep a perspective on what is happening. Consider this: **over the past 100 years, the Austin population has doubled every 20 years.** Think about this significant statistic. What you are witnessing now is not a *recent* phenomenon by any means. But it becomes more impressive with each passing 20 years, because **the doubling is occurring on an ever-increasing base.**

How do you get to these numbers? Well, it only takes a 3.5% average annual population growth rate. Sure one year may be more, another less, but **the 3.5% average population growth rate has been as consistent as the sun rising in the east.** All projections we have seen, from a variety of sources, point to this rate continuing – even as the base grows exponentially larger.

This means our population will double in the next 20 years. In terms of actual numbers, **there will be approximately 1.6 million new people here by 2035.** Right now, there are about 925,000 people within Austin's city limits and its Extra Territorial Jurisdiction (ETJ). The ETJ does *not* encompass incorporated cities such as West Lake Hills, Rollingwood, Round Rock, etc., even though they are in our 5-county metro area – making these projections all the more impressive.

Where will all these people be placed? This is a very serious question. Right now, there are 401,992 acres in Austin and its ETJ. The average number of people within this area is 2.3 persons per gross acre. (Don't let your eyes glaze over while reading these numbers; this is really important). If you assume 3.7 people per acre, then **there will need to be 451,351 new developed acres by 2035.** Let this soak in. We're talking about **more new acres than currently exist within the city limits of Austin and its ETJ.**

What's the answer? There are a number of answers that will probably be utilized. For instance, there are **areas where more density can not only be accommodated, but are already being planned.** As an example, there are now 8.4 persons per acre in the urban core. With the new high rise condo developments announced, this density will be greatly increased. And, while it's not talked about yet, the city may have to pursue an aggressive annexation policy. Stay tuned.

The economic surge occurring locally and, for the most part, nationwide is one of the reasons the Austin area is in the midst of major changes. When you look at the rest of the year, this shows no signs of immediate abatement.

Remember the doomsayers wringing their hands recently, moaning about rising interest rates, the very public run-up of gasoline prices and the national housing slump. While these are three very negative factors – and in some years **any one of them could have brought the economy to its knees** — the current local and national economy has continued to expand.

So, is there anything out there that could slam on the brakes? **“This year, no obvious Achilles’ heel is emerging**, aside from ongoing risks posed by terrorism and Middle East politics,” reports our friends at *Kiplinger Forecasts*. **“In fact, growth may get pretty steamy by the second half**, as the drag from housing tails off and US businesses ramp up spending.”

This is, of course, a *national* forecast. But the **Austin area is doing better than the national economy** (for instance, the Central Texas housing market is booming) even as it is impacted more and more each year by what goes on outside the state’s borders.

What other factors are out there? Well, to keep inflation under control, **“an interest rate hike is possible later this year but is by no means certain,”** according to *Kiplinger Forecasts*. **“The Federal Reserve certainly won’t CUT rates.”** What’s driving this surge? **“Consumers are giving the economy legs.** Folks don’t seem ready to slow their shopping, despite dismal savings rates and rising debt.”

As if to underscore the theory that consumers are giving the economy legs, Central Texas residents are spending – and then spending some more.

One of the best measures of consumer spending is to track the sales taxes paid on purchases. The state collects the tax, then rebates a portion of the collections back to the cities. **The City of Austin received \$119 million in sales tax allocations in 2005 and the amount leaped to \$134 million in 2006.** This is a solid indicator of a strong consumer-driven economy.

It isn’t just Austinites spending money here. Because the city is a retail hub of the metro area, **residents from outside the city troop here to shop.** Other sectors of the metro are becoming retail hubs – especially in Williamson and Hays counties, such as the La Frontera area of Round Rock and the San Marcos Outlet Malls.

You may recall that, back during our slowdown a couple of years ago, sales tax collections were declining over previous periods. So this uptick is a good barometer.

In just the past two weeks, the mood is shifting noticeably toward Texas moving its presidential primaries up much earlier in the year. This could have far-reaching implications inside and outside the state.

The Texas Legislature is where the change would take place. As recently as 1/30/07, the Chair of the Texas House of Representatives Committee on Elections, **Leo Berman**, R-Tyler, was quoted as saying he was not sold on moving the 3/11/08 Democratic and Republican primaries earlier in the year. But this week, Berman is now quoted as saying “**I want to do this – absolutely. Texas needs to start playing a role in the presidential primary elections.**”

If the date is moved up to, say, 2/5/08 **the Lone Star State would become much more important in the choice of nominees for both political parties.** And with no Texan currently running for the nomination of the Republican or Democratic Party, this state could be “in play” big-time.

Yeah, you say, but because Texas has voted strongly Republican in the past, doesn't this mean the Democrats would avoid the state? Not at all. Because we're talking about *party primaries*, not the *general election*. Texas, with its huge voter base, would become critical for **candidates in each party** to try to lock-down the nomination and earn the right to be on the ballot in November 2008.

If Texas takes this action, **the top two or three candidates in each party would pour massive campaign funds into Texas**, to garner as many votes as possible to earn their party's nomination. (Yes, it's true. You would be inundated with TV commercials, solicitations for funds, phone calls, mailings – the whole ball of wax – at a volume unseen in recent years, because of so many candidates!).

What's driving this? It is the jockeying in other states – big states — that **are sick and tired of their party's nominees being selected (or at least winnowed out) by voters in smaller states like Iowa and New Hampshire** long before they have a chance to cast their own votes. California, Florida, Illinois and New Jersey, for example, are attempting to move their primaries to early February. Democrats have also pushed early primaries for Nevada and South Carolina.

The intriguing element to watch in this game of musical election chairs is which dates will ultimately be selected by each state. The choice will be made by each individual state looking out for its own selfish interest. There is no consensus. For instance, **Florida is talking about setting its primary just seven days after the New Hampshire vote in January.** When one state moves, watch the others start elbowing for what it feels would be its best position in this national scramble.

Caught in the middle of this maneuvering are the candidates. If the dates become all bunched up, the candidates will not have the luxury of rolling resources from one state to the other and will have to spread funds clear across the nation, almost all at once.

Every day you've been hearing the names of Hillary Clinton, Barack Obama and John McCain. But one Austin political strategist believes none of those three will be left standing when the parties pick their nominees.

Currently, most pundits will tell you Clinton and Obama are the front-running Democrats and McCain is the front-running Republican. But a well-respected and astute Austin strategist – who doesn't have a dog in either party's hunt – is convinced **none of them will be at the top of the ticket next year.** (In a conversation with him this week, we failed to ask him if we could use his name. So, we'll keep him anonymous for this little story.) What's his logic?

First of all, he believes since it is still a year before the political parties select their nominees, there is **plenty of time for a candidate to self-destruct** (remember **Howard Dean?**). He also points out the **front-runners will be bombarded daily by opponents and the media** and this withering barrage will take its toll.

He also feels **voters are looking for something different – not the same old Washington crowd** (Clinton, Obama and McCain are all USSenators) and voters may react much like they did when little-known **Jimmy Carter** emerged out of nowhere to get his party's nomination and was ultimately elected president. Quiz: who was the last sitting USSenator elected president? **John F. Kennedy**, 1960.

Well, then, who does he think may emerge as each party's nominee after the smoke settles? He didn't have a definite prediction but he said he wouldn't be surprised to see former Vice President **Al Gore emerge as a default choice of the Democrats** (is Hollywood going to give Gore an Academy Award for his global warming documentary, *An Inconvenient Truth?*). He didn't think **Rudy Giuliani** would likely be the GOP choice and he had questions about **Mitt Romney**. But he didn't put forth a name on the Republican side. It'll be interesting to watch.

Dr. Louis Overholster says he tries not to make predictions about politics. As he put it: "I subscribe to the age-old adage that it's better to remain silent and be thought a fool – than to speak out and remove all doubt!"

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