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Dear Client:

One of Austin's more unusual plans to seek cleaner energy garnered major national attention and legitimacy this week, even though one of the descriptions called the effort "quixotic."

What gave it legitimacy? It was page one stuff 3/26/07 in *The Wall Street Journal*, a business pub not noted for espousing environmental causes. The lead sentence in the lengthy piece: "Of all the plans cooked up by cities to combat pollution and global warming, **the one hatched here is among the most ambitious** – and, some say, one of the more quixotic."

The article by **John J. Fialka** examined the City of Austin's move toward massive utilization of the Plug-In Car. The Plug-In is a car that runs almost entirely on electricity and has a big rechargeable battery. **The humongous batteries would be used as a big storage system that, when plugged-in while parked, would generate electricity back to Austin Energy**, the city-owned electric utility.

Say what? **Roger Duncan**, deputy manager of Austin Energy, says that if there were enough plug-ins around Austin, Austin Energy could buy more wind-generated electricity that peaks at night when demand is low. It could then sell electricity to plug-in owners at night, then turn around and buy some of it back during the day (when demand is high) from car batteries sitting in parking lots equipped with special sockets. **So you have renewable energy from a clean source (wind)** and you remove many gasoline-powered cars from the roadways.

The Journal reported, "**These days, seemingly far-fetched plans like Austin's are drawing a level of support that would have been unlikely just a few years ago.**" Austin Energy is lining up people to buy the cars when they reach the market, though it is at least three to five years off. Mayor **Will Wynn** has been touting the Plug-In Cars on the national stage and, of course, the biggest backers are the electric utilities, who not only would sell/buy more electricity with this plan, but they could convert all their own vehicles to Plug-Ins.

Implementation of this plan is extremely complicated. First of all, the cars could cost as much as \$50,000, and the city would need to install a computer-monitoring system for recapture of electricity so Austin Energy wouldn't over drain car batteries during the day. Financial incentives would have to be worked out for the Plug-In Car owners. Installation of the system could be quite costly in and of itself. Will it work? Stay tuned for 3-5 years.

Delta Air Lines appears to be reversing a downward trend in the Austin market, but United Airlines continues to lose market share at Austin-Bergstrom International Airport (ABIA).

Throughout much of last year, troubled Delta Air Lines kept losing passengers. Austin air travelers were avoiding the airline and **the airline apparently pulled back — no aggressive marketing was visible**. Now, if a few months can be judged as a trend, Delta may be on its way back to being a strong competitor, fighting for the Austin air traveler's business.

In numbers released this week by ABIA for January and February, Delta appears to have reversed a downward slide. **Its passenger totals in February were up 59%**. And when you lump January numbers with the February passenger totals, Delta is up 39% for the year, carrying 120,481 passengers.

On the other hand, **United is still losing market share at ABIA** – down 19% in February and off by 22% for the first two months of 2007, carrying only 56,709 passengers so far this year.

The Big Three airlines serving Austin are all quite healthy. Market leader Southwest Airlines with 613,502 enplanements in January-February, is up 2%. American Airlines, totaling 330,308 enplanements, was up 3% and Continental, with a 2007 two-month total of 146,396 enplanements, was up 2%.

Remember the flap in February when JetBlue cancelled all its Austin flights for days due to a meltdown as the Northeast was battered by severe winter weather? No other airline suffered such weather problems in February. **JetBlue paid a passenger price (along with a major PR disaster). Only 12,271 Austin travelers flew on board a JetBlue craft in February.** Before JetBlue's acknowledged failure to handle the weather problems, its January Austin totals were 15,893. So the NYC-based airline's Austin tally dropped by 3,622 passengers during the February debacle.

A new airline begins competing for Austin travelers next week. ExpressJet Airlines starts phasing-in the cities it will serve nonstop from Austin 4/2/07.

The first flights by Austin's newest carrier will be to Ontario, CA – near Los Angeles. Later in April, ExpressJet plans to add nonstops to Corpus Christi, Kansas City, Mo., Oklahoma City and Tucson.

In June, additional ExpressJet nonstops are scheduled to Tulsa and Albuquerque. And, somewhere in the future – no date yet announced – ExpressJet says it will inaugurate nonstops from Austin to New Orleans and Jacksonville, FL. The airline will fly smaller, commuter jet aircraft, with leather seats, on all the Austin routes.

With increased activity at Austin's airport and passenger totals setting records, it's time to start considering expansion possibilities at the relatively-new facility.

The trigger point for planning expansion at Austin-Bergstrom International Airport (ABIA) was 8 million passengers in one year. The passenger total for 2006 was 8.2 million. **This will not be a start-from-scratch project.** Back when ABIA was first designed, additional gates and parking were factored-in. But, obviously, that was before airlines and airport officials had the experience of actual operations under their belts as they do now.

So, the planning process will start with the original expansion plans and planners will overlay the experience of the past few years of operations. **Airlines will be consulted** not just because they are major users, but because they also provide the bulk of the bucks for expansion and operations, through various fees and charges.

The original Master Plan expansion possibilities included adding new gates to the *eastern* wing of the terminal and the close-in parking garage was designed to be increased in height. If those plans are followed, **it's possible there will be minimal disruption and inconvenience for travelers.**

But, as with all governmental projects, it's best to take a wait-and-see attitude before drawing any conclusions. **Much to the surprise of many critics, the original airport construction project proved to be noteworthy** – especially at a time other airports, such as what we called the Denver Debacle, ran into huge problems, delays and cost overruns. Not so in Austin.

When a California group closes the biggest commercial real estate deal ever in Texas by forking over \$1.15 billion for ten office buildings in Austin, it will be banking on the continued growth of the Central Texas area. What statistics have they seen to justify these big bucks?

Obviously, Thomas Properties Group Inc. will not reveal its *proprietary* data. But *public* data is readily available and this info was surely factored into its investment decision. The Thomas Group probably looked at historic numbers and saw **the Austin metro added 403,536 people during the 1990s – a near-50% growth.** This is hard, confirmable USCensus data. The softer numbers are the projections of future growth.

While Thomas Properties says it will be here for the long haul, “long” was not defined. So, let's look at relatively short-term projections. After all, most shareholders are not going to close their eyes for 20 or 30 years. They will be tracking performance frequently. The State Demographic Center reports the Austin-Round Rock metro had a population of 1,330,647 in 2005. **In just a couple of years, 2010, it projects a metro area population of 1,375,364 and forecasts a total of 1,421,418 in less than ten years, by 2015.** These are impressive growth estimates and, if they hold true, Thomas Properties should be pleased with its investment.

The urban areas of Texas are the source and site of most of the population and economic growth projected for the next five years. And the Austin-Round Rock metro is anticipated to be the fastest-growing among Texas major metros.

Over the next five years, metro counties will account for more than 89% of the 2.16 million increase projected for the state's population, according to longtime Texas economist **Ray Perryman**. "The six largest metro areas (Austin-Round Rock, Dallas-Plano-Irving, Fort Worth-Arlington, El Paso, Houston-Baytown-Sugar Land and San Antonio) will likely gain about 1.5 million residents," Perryman pointed out. **And, the "fastest-growing" will be the five-county Austin-Round Rock metro.**

For your perspective, Perryman predicts the **Austin metro will have a Compound Annual Growth Rate (CAGR) of 1.90% from 2006-2011**. The growth rate for the other large metro areas will likely vary from 1.36% to 1.86%. Of course, in actual numbers (not percentages), the larger metros will add more people. The Houston area will add the largest number of new residents.

Understandably, we regularly focus on Austin and the other major metro areas in our various analyses. But, it's interesting to note the growth in the Lower Rio Grande Valley, along the southern border with Mexico. **The McAllen-Edinburg-Pharr metro is predicted by Perryman to achieve the fastest population growth in the state**, with a 2.33% CAGR. Texarkana is projected to have the slowest growth rate in the smaller metros.

Housekeeping note: This edition of The Neal Spelce Austin Letter is the final weekly issue in our 28th year of operation. We'll begin our 29th year next week by marking another milestone: from this point forward, the newsletter will only be available on the Internet. We began offering an Internet version in January 2000 and, steadily, all subscribers have converted from receiving a snail mail version to the much more timely delivery of the Internet. Time marches on. Speaking of how the world is changing around us, and some of us seem to have trouble coping, **Dr. Louis Overholster** says he was sitting in church this past week and overhead the person behind him mumble, "Lord, give me patience – and make it snappy!"

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Sincerely



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