

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:

A Texas economist, who has a reputation for telling it like it is, is warning the financial crisis is not over yet, but not to panic “if a major bank or investment firm rolls over.”

Noting that his theme since this time last year has been “**expect the unexpected and expect the unprecedented,**” Dr. **Mark Dotzour**, the Chief Economist with the TexasA&M Real Estate Center, further said this week that “the United States is presently in uncharted waters and **the financial crisis is not over yet.**”

To back up his assertion, he pointed out that four months after agreeing to let squeezed investment banks temporarily turn to the Federal Reserve for emergency loans, Reserve Chair **Ben Bernanke** Tuesday announced plans to extend the length of time Wall Street firms have to draw those loans.

Bernanke said: “The financial turmoil is ongoing and our efforts today are concentrated on **helping the financial system return to more normal functioning.**” The Fed’s *initial* decision to help investment houses came last March after a run on Bear Stearns pushed the investment bank to the brink of bankruptcy.

So translate what Bernanke said, Mark. “Bernanke is telling the global marketplace that the financial markets were in jeopardy last July and that **serious challenges still exist today.**”

Your assessment, Mark? “The government and the press have consistently underestimated the severity of this situation for the past year. **Now our government informs us they are making contingency plans in case a major financial institution fails.** We have been warning our audiences about this since last summer.”

Whoa! This is pretty strong stuff. So what should Austinites do in face of a major failure, especially those who hold financial institution stocks that are hitting or nearing all-time lows? What can be done at this late stage of the game? Dotzour offers these words of comfort: “**Just watch it and don’t panic. The American financial system has weathered financial panics for 200 years; it can weather this one as well.**”

To reinforce the fact that Texas faces a potential national financial crisis from a position of relative strength, TexasA&M's Real Estate Center points out that *all* Texas metros experienced positive employment growth rates from May 2007 to May 2008.

In fact, nonfarm employment **rose in Texas 2.4% from May 2007 to May 2008, compared with 0.1% annual rate of nonfarm employment for the United States** – a huge positive Texas separation from the troubles facing certain other areas of the US.

When the entire state is factored in and ***all* metros report growth in employment**, this is quite an accomplishment. As regular readers know, we have long maintained that the nation's economy is made up of many different regional economies. The same is true for the state. **The economy of the Lower Rio Grande Valley, along the border with Mexico, is vastly different from the economy in the Austin area.** Yet, *all* Texas metros reported job growth.

It should come as no surprise (we have written about it frequently) that the **big increases in job creation are coming in metro areas that are helped by skyrocketing oil prices.** This is why Odessa (at 3.7%) ranks first in job creation, over the past year, and why Midland had the lowest unemployment percentage (at 2.7%) during the same timeframe.

Where does Austin, as well as the major metros, fit into this job growth mix from May 2007 to May 2008? Houston-Sugar Land-Baytown posted an annualized employment growth rate of 2.3% in May 2008 and ranked 7th in employment growth rate. **Austin-Round Rock, Dallas-Plano-Irving and Fort Worth-Arlington metros were 2.2% and the three metro areas ranked 9th in the state's percentage job growth.**

As far as the May 2008 unemployment rate is concerned, **Austin-Round Rock tallied a low 3.7% unemployment percentage**, trailing way behind oil-hyped Midland's #1 tally of 2.7% — the only metro below the 3% mark. The other *major* metros all trailed Austin: San Antonio (4.0%), Houston-Sugar Land-Baytown (4.2%), Fort Worth-Arlington (4.3%) and Dallas-Plano-Irving (4.4%). The state's average: 4.3%. The worst in Texas (still not bad) was McAllen-Edinburg-Mission at 6.1%, an area that not long ago counted unemployment in double digits.

While these numbers are impressive, especially when compared to other metros around the nation, a slowdown is still underway in Texas. **But it is a slowdown from a white-hot economy, not a slowdown from a sluggish situation.** For instance, the Austin metro job growth was a sizzling 5% and above a year or so ago. This off-the-charts job growth could not – and should not – be sustained. The strain on infrastructure would soon reach untenable levels.

The bottom line today is what the bottom line has been for some time: If you must live and work somewhere in the US, Austin and Texas are among the best places to cast your lot.

What we predicted to you more than a month ago appears to be coming true. And it could be positive for Austin air travelers.

You may recall that in our 6/6/08 edition (Volume 30, Number 10, if you hit the Archives button at the top of this page) we reported that “While visiting with a Southwest Airlines pilot recently, we told him what we wrote a few weeks ago – that, based on past history, Southwest was poised to make some dramatic gains in this topsy-turvy airline market. He not only concurred, but suggested the scuttlebutt among the pilots was there would be a major announcement this year – **such as a code-share arrangement for international flights**. He had no specific knowledge – just speculation by some insiders.”

Well, it’s happening – sooner than he thought. Southwest Airlines this week announced what the pilots were anticipating. In what will be a first for the low-fare Dallas-based airline, **Southwest will offer international flights. It will do so through a partnership with WestJet, a Canadian carrier.**

The code share agreement with WestJet will eventually allow the carriers to **check customers and their baggage on each others’ flights, with convenient, viable connecting schedules**. An Austin air traveler could check bags at the Southwest counter at Austin-Bergstrom International Airport (ABIA) for a journey to Calgary, Vancouver, etc.

That’s not all. **WestJet is no small airline, using tiny jets**. It now flies to 49 destinations in Canada, the US, Mexico and the Caribbean – using the same planes as Southwest. It operates a fleet of 75 Boeing 737-series aircraft and plans to add 46 more aircraft to its fleet within five years. Southwest currently serves 64 cities in 32 states. Southwest CEO **Gary Kelly** called the agreement “a perfect fit.”

An aviation consultant in Miami echoed Kelly’s comments saying the **airlines look very similar and they have similar management philosophies**. He was further quoted in the media as saying the deal is an example of how Southwest can enter new markets without actually flying there, and generate new revenue while taking little risk. And this same consultant further predicted that **the WestJet deal could be a warm-up for a similar expansion by Southwest into Mexico and Central America using a Mexican carrier, possibly Avolar, that follows WestJet’s low-fare approach in Canada.**

While these arrangements will take some time to put into place, **Southwest’s aggressive growth is important to the Austin air traveler**. More than a third (34%) of all passengers who go through ABIA fly Southwest. It is, by far, the most-used airline in Austin. Fort worth-based American Airlines is a distant 2nd, carrying about 24% of all Austin air travelers. Houston-based Continental is 3rd, with a 10% share of the Austin market. Therefore, it is big news for Austin air travelers when Southwest makes major moves. Other airlines may be faltering, but Southwest is stepping-up while others are scaling-down.

Is that a mountain lion? Where? There. This spring there have been two reports of mountain lion sightings in Travis County. What's going on here?

According to the Texas Parks and Wildlife Department (TPWD), most reports of mountain lion sightings in Texas are never verified with physical evidence such as tracks, scat, photographs or a mountain lion carcass. But a **report of a mountain lion can arouse fear**. So, what about those two sightings a few months ago in Travis County?

You may recall seeing a grainy mobile phone photo that someone had taken in a neighborhood north of Austin. **It showed an animal's tail barely visible behind a cedar tree**. TPWD's **John Davis**, a former urban wildlife biologist, checked it out and said "That's a feral cat, maybe 18 inches tall. It's not a mountain lion."

Okay, what about the woman who said a **mountain lion chased her as she rode on a bicycle** in a semi-rural area near Austin? An investigation by TPWD Game Warden **Arlen "Turk" Jones** revealed the animal in question was not a lion, but was instead a Great Pyrenees dog that the property owner kept to guard goats.

John Young, a TPWD mammalogist who keeps the state's lion sightings database, receives between 400 and 1,000 reports of mountain lion sightings each year. However, less than 1% are verified. He said even photographs can be deceiving. This lack of conclusive evidence indicates that **true mountain lion sightings in urban areas are rare**, but they are still possible.

So, where would you likely see a mountain lion? Young said mountain lions have occasionally been spotted in areas adjacent to cities where the land is less developed and undisturbed with roads. These can occur along **river or stream corridors or greenbelts or other areas with plentiful white-tailed deer, the preferred prey for mountain lions**. Only three attacks on humans in Texas have been reported since 1980, all in remote areas of West Texas.

Dr. Louis Overholster says the new word "Caterpallor (n)" is the color you turn after finding half a worm in the fruit you're eating!

Sincerely



Editor/Publisher