

THE

*Real Spelce*

# AUSTIN LETTER

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Dear Client:

**What started in Austin in the 1980s became the building block for quantum leaps in the worldwide development of amazing products in consumer electronics, medical, telecommunications, defense and industrial applications. Semiconductors are everywhere today and SEMATECH is still pushing the envelope.**

SEMATECH was incorporated in Austin, with 13 charter member companies, as a brash, bold and risky experiment to restore US dominance in the development of semiconductors. Now after 20 years, **SEMATECH is the world's catalyst for accelerating the commercialization of technology innovations into manufacturing solutions.** SEMATECH works to reduce the time from innovation to manufacturing. It takes the critical challenges in advanced technology and manufacturing effectiveness and finds ways to speed development, reduce costs, share risks and increase productivity.

**This is a high stakes game. Semiconductor and emerging technology research is both high cost and high risk.** And its costs keep climbing. Each generation of technology increases the stakes to build, configure and upgrade a state-of-the-art manufacturing facility (called a "fab"). A typical investment in a single fab is – get this — \$5 billion. It takes more than \$3 million a day to amortize that cost.

How does SEMATECH work? **Its membership represents about half of the world's semiconductor production.** They pay big bucks to join SEMATECH and provide key personnel to aid in the research. And, so far, many have earned a great Return On Investment. Last year, a major multinational company realized a return of approximately \$37 million over its initial membership investment.

But SEMATECH is more than that. **It has built a global network of alliances with equipment and material suppliers, universities (including UT Austin), research institutes, consortia, start-up companies and government partners.** Because all these entities face many of the same constraints and long-term concerns, they work together to leverage resources to keep the semiconductor industry vital and growing.

Even though some parts of SEMATECH's operations have moved to New York, **its still-solid local presence is being felt in even wider ways in the Austin area.** See the next item.

**It is very difficult to overestimate the impact Austin-based SEMATECH has had on individuals and businesses worldwide. And Austin is still heavily involved – and benefiting.**

The semiconductor industry is the foundation for many other technology-based industries. It drives a value chain of some **\$1.2 trillion in electronic systems business and \$5 trillion in services annually. And this represents more than 10% of the world's gross domestic product.** SEMATECH has been a bellwether in this development.

Research and development is a cost-intensive process in any industry, but in semiconductor chip-making the cost is underscored by **12-to-15-year research pipelines and extreme market cycles.** And to make this business more difficult, chip-making is a highly competitive industry.

It is driven by two-year product development cycles in which companies refresh the high end of their product lines every 18-24 months. **A wrong bet can easily cost billions of dollars in time, resources, and a company's market valuation.** You can see why SEMATECH's work is extremely valuable.

SEMATECH's two-decades of success in Austin has generated a number of benefits for the area. The first benefit was to **reinforce Austin as a high tech focal point for world-leading companies** such as Hewlett-Packard, Intel, AMD, Panasonic, Samsung, etc. and those that had been in the area for many years such as IBM and Texas Instruments – all current SEMATECH members. Add to this, the high-powered techies attracted to Austin by **high-paying, cutting-edge jobs at SEMATECH.** A couple of other examples:

**The Advanced Materials Research Center was formed in Austin as a cooperative research effort** involving the State of Texas, SEMATECH, the UTSystem institutions as well as other universities. Its purpose is to accelerate the commercialization of advanced research into semiconductor and emerging technologies such as nanotech, biotech and advanced energy applications.

Speaking of nanotech, a Nanoelectronic Workforce Development Initiative is a community program launched in 2006 to provide training in nanotech R&D. **The program, funded with a state grant and jointly administered by Austin Community College and SEMATECH, has placed 142 students – or NanoScholars – many of whom have found jobs in the oil, semiconductor and biotechnology industries.**

While pointing out SEMATECH's impact, we need to acknowledge that **25 years ago this month, before SEMATECH was founded, Austin's destiny was set as a technology center when Microelectronics and Computer Technology Corporation (MCC) selected Austin as the site for the nation's first consortium to produce breakthrough technologies.** MCC is now gone, but if not for MCC, Austin would be a much different place today.

**Retail operations in the Austin metro are expanding and, at the same time, the occupancy of retail space is higher than in any other major Texas metro. But the spending pace is slowing.**

Actually, the pace is slowing on two levels: 1) sales tax collections, while a tad positive, reflect that **Central Texans may be spending a little less individually** – especially when you consider the growing population, and 2) the amount of new **retail space that will become available this year, while considerable, is less than what was added to the market in 2007.**

**About 2.5 million sq.ft. of new retail space will be added in the Austin metro area during 2008**, according to The Weitzman Group. This is less than last year's record, set when two humongous projects – **The Hill Country Galleria and The Domain** – helped swell the total of new space in 2007 to more than 4 million sq.ft.

But the amount of new space is significant, especially when you consider the current health of the retail sector. Weitzman reports the Austin area measured **92.5% occupancy of retail space during the first half of 2008**. To give you a perspective: the dynamic, money-rich Houston only boasted an 88% occupancy, Dallas-Fort Worth counted 89.3% retail occupancy, while San Antonio came closest to #1 Austin with a 91% occupancy of retail space.

The construction – and occupancy – of retail space in Austin reflects fast population growth *and* job growth in the last couple of years and nation-leading projections for this to continue. **But there are signs of a slowdown in retail spending in the Austin metro.**

**Sales tax collections are generally regarded as a barometer of consumer spending**, even though not all items (such as food, medicine and some services) are taxed under the current sales tax law. And, using this measurement, Austin area residents seem to have taken their foot off the spending accelerator.

The State Comptroller's Office recently released its sales tax figures for July. (This is a lagging measurement because the numbers *reported* in July were *collected* in June based on *spending* in May.) **Austin's sales tax revenue in July was the slowest of all Texas major metros – a 0.7% increase** over the same period a year ago. Houston, reflecting its cash-rich, energy-inflated economy, tallied a 7.3% increase, San Antonio was up 4.7% and Dallas up 2.9%.

Developers, of course, must plan years in advance – so the building of new retail space continues. Some sample projects: **Gateway, in Leander**, with Lowe's and Kohl's as anchors ... **Stone Hill Town Center, in Pflugerville**, anchored by JCPenney, Best Buy and Home Depot ... and **StoneCreek Crossing, in San Marcos**, with JCPenney and Target as anchors.

These construction projects may indicate a pedal-to-the-metal approach to retail, but **if the sales slowdown continues, it could extend the timeframe for success for some of them.**

**Do these triple-digit days remind you of the time when kids went skinny-dippin' to cool off? Well, you can legally go skinny-dippin' in Austin – but your kids can't. Times have changed.**

There is only one major public site in Texas where nude swimming is legal and it's Hippie Hollow, located on Lake Travis in northwest Travis County. Lest you think this is an un-crowded secluded little cove, think again. **The Lower Colorado River Authority (LCRA) says Hippie Hollow attracts about 153,000 visitors a year – and this doesn't count the gawkers driving by slowly in their boats, checking out the “scenery.”**

After the site gained notoriety in the 1970s and early '80s (**along with complaints about “uncontrolled behavior” and a lawsuit filed by neighbors in 1977**), the LCRA and Travis County joined to make it a county park that opened in 1985. The park facility has restrooms, water fountains, hiking trails, etc. No one under 18 is allowed. Rangers patrol the area. No hanky-panky. No fires, no pets.

Okay, who uses Hippie Hollow? According to the LCRA, **about 75% are ages 30-to-60**, 20% in their 20s and 10% or less are older than 60. **About 75% are Anglo**, about 20%-25% are Hispanic, less than 4% are African American. It is **predominately male on weekdays and about 55% to 60% male on weekends** as more male/female couples visit the site. About 90%-95% of the visitors go nude.

The LCRA says the park continues a longtime **tradition of unofficial “straight” and “gay” areas**, although a lot of visitors intermingle between the areas. “Splash Days,” sponsored by the local gay and lesbian community, occur twice a year.

Hippie Hollow made international news in May 2004, according to LCRA unofficial historian **John Williams**, when a party barge overturned flipping 60 passengers into the water. The news accounts (apparently incorrect) said **the boat flipped when all the passengers went to one side to gawk at the naked people**. Now you have the “skinny” on Hippie Hollow.

**Dr. Louis Overholster:** “Sarchasm” is the gulf between sarcastic wit and one who doesn't get it.

Sincerely



Editor/Publisher