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Dear Client:

One of the “benefits” of the economic slowdown may be to slow down the rush to an overbuilt condominium situation in downtown Austin.

One of the favorite cocktail-party and conversations-over-coffee topics for the past couple of years has been the debate over whether the headlong rush to build skyscraping condos downtown was going to result in a vastly overbuilt market. **Construction was started on so many condos – most with previously-unseen high price tags for this market – that predictions abounded that many were doomed to failure.**

To some extent, those predictions started to show signs of coming true.

Construction lending tightened up. Some condo projects announced they were delaying their start. One high-rise that topped-out early converted to apartment leasing rather than trying to peddle condos. And even though there were public pronouncements by developers that many units were “pre-sold,” there were soon stories that those commitments were rapidly falling off due to tight credit and the worsening economy.

Still, construction cranes continue to swing in the downtown Austin sky as high-rise condos are still under construction. During these uncertain times, will this truly lead to a drastically overbuilt situation?

Could be. But what you might see is what old Texans called slow-walkin’. In other words, even though work is continuing on several condo projects, it is **entirely possible the *pace* of this construction will slow to a leisurely shuffle or maybe even to a crawl.**

In fact, you may not see a single new condo unit ready for occupancy in 2009, and possibly very few in 2010 or 2011. This would allow ample time for those condo units already completed by the end of this year to be gradually absorbed as economic strains on potential customers start to ease.

If this slow-walkin’ scenario develops, **the Austin downtown condo market might come a bit closer to a balance between supply and demand.** It is a high-stakes game, as those in the lending and developing sides of this business would say. But it could be a smart play.

Speaking of slow-walkin', one big Austin manufacturer recently employed this same device in Austin to its benefit, and is now being subjected to a delay – not of its making — on another project in the financially-troubled state of New York.

When Advanced Micro Devices (AMD) was building an expansive campus on Southwest Parkway it ran into a cash-flow problem. So, to husband its cash and spread the expenses out over two reporting years, **it slowed construction enough that the buildings were not ready for occupancy until the year following its planned opening.** It worked well for them.

Since that time, AMD was lured into building a plant in Malta, New York by the promise of a \$1.2 billion package of state incentives. AMD officially committed to the plant early last month. New York offered a combination of tax breaks and *cash* (to be transferred to a newly-created entity called The Foundry Co., an AMD partnership with an Abu Dhabi based entity). The new entity has agreed to build a \$4.6 billion “chip fab” in Malta, about 10 miles SE of Saratoga Springs.

The Empire State Development Corporation met this month in New York but postponed a vote to transfer the state incentives to AMD. The vote is now scheduled for its December meeting. All parties are saying the right things about this delay. But it is interesting to note that this **delay is coming at a time when New York's governor warned just a few weeks ago that New York was facing what he estimated as a \$47 billion dollar state budget deficit** over the next 3½ years (click on the “Archives” button at the top of this edition to go to our 11/14/08 edition where we reported on New York's state budget woes).

While on the subject of state finances, the price you pay at the pump for a gallon of gasoline has an impact on income for the state of Texas – but not in the way you may at first think.

As you drive around Austin, if you check carefully you can find *premium* gasoline heading below \$2/gallon. (Of course, the lower grade has been below \$2/gallon for some time.) Since the price of gasoline has *dropped* to this level, revenue from the gas tax has gone *up*.

The reason for the increase is obvious when you think about it – because **the state tax on a gallon of gasoline doesn't fluctuate.** When gasoline prices hit the \$4 level in July, state revenue was *down* 4.4%, because **Texans curtailed their driving.** In September, gas tax revenue is *up* 1.2%. Now that a gallon of gasoline costs half what it cost a couple of months ago, **Texans are driving more.**

State gasoline tax revenue started dropping in May 2008 and only reversed that trend in September. The higher the price of gas, the lower the state revenue. **Now that gasoline prices are lower, the gas tax revenue to the state of Texas is on the upswing.**

As unemployment figures slowly rise in the Austin area, one huge employer is suddenly looking quite attractive to workers seeking a salary with relative job stability.

A year ago, the 5-county Austin-Round Rock metro area recorded 3.5% unemployment, compared to the recently-released **October 2008 4.7% unemployment**. But, in contrast to the increase in the number of persons seeking work, there has also been a 1.9% increase in the number of jobs. In fact, more than 14,000 jobs have been added in the metro in the past year. Obviously more people are coming into the metro area workforce.

So the fact remains there is an **increasing number of people seeking jobs** in the metro area. Couple this with the dismal national economic news along with the knowledge that certain local sectors are losing jobs and you have a changing dynamic. **This uncertainty is making a job with various governmental entities much more attractive**. And, of course, the State of Texas is the biggest-of-the-big government employers.

While we have no hard numbers to quote, there is some anecdotal evidence to indicate **job applications for state jobs are rising**. By and large, a state job is **one of the more stable jobs** around, and during these times this becomes quite appealing – especially to those who have been laid off, or are witnessing the belt-tightening measures of businesses.

Another factor that makes a government paycheck more attractive these days is the benefits package. **This not only includes health benefits, etc., but the state also has a retirement program that rewards long-term employees handsomely**. This is in stark contrast to a number of private employers who are scaling back benefits and pensions and, in some cases, dropping them altogether. Of course state jobs are not immune to being squeezed, but for now, **state jobs – and jobs with other governmental entities — carry the aura of stability and long-term security that is quite appealing in shaky times**.

Without denigrating the news that the number of home sales is *down* and foreclosures are *up* in the Austin metro area, it helps to keep a perspective on the housing market.

The Austin Chamber of Commerce Vice President of Research, **Beverly Kerr**, points out that when all is said and done, **the year 2008 will rank as the 4th highest over the last 25+ years in the number of homes sold**. Austin's 2008 tally is lower than the last three years, however, home sales *nationally* are at their lowest level since 1999.

And remember **the *value* of your home, as reflected by sales prices, has held steady with the median price showing a 3% increase in 2008**. Nationally, the median has *dropped* 9% and in some areas of the US, home values are down substantially more than that.

How is the national economic decline affecting end-of-year travel? The answer makes it timely to take note of how this affects the Austin air travel picture.

There is widespread concern in the travel industry that the downturn will be very painful indeed. But if you have not booked any travel for the next six weeks, you may be in luck because **airlines, hotels, resorts, etc. are offering discounts galore** to reverse declining reservations for what has traditionally been a busy time of year.

And there could be more options for Austin travelers than in previous years. One reason is that **during 2008, 12 new routes – including nine new nonstop destinations – were started by six airlines at Austin-Bergstrom International Airport (ABIA).**

The grand total as of today: *nonstop service to 41 destinations* in the US, Canada and Mexico from ABIA. **More options; more discount possibilities for the Austin air traveler.** And, in many cases, more “availability” at normally “fully-booked” destinations, such as popular ski resorts. Travel customers now have more options at better price points.

Speaking of customers, the highly-regarded Zagat Survey of airlines reported this week that **Continental was the best in terms of customer satisfaction on premium-class flights**, beating out American, United, USAirways and the newly-merged Delta and Northwest. JetBlue took top honors for customer satisfaction in *economy* class.

Southwest Airlines was honored for offering the best value on domestic flights as well as its frequent-flier program, luggage policy and its on-time performance. Incidentally, bowing to demand, Southwest has *added* a January 17th 2009 nonstop flight from Austin to Baltimore/Washington for those attending the January 20th presidential inauguration.

Surveying all the developments on the national economic scene, **Dr. Louis Overholster** says he cannot imagine how our lives can be more frustrating and complex – but Congress can!

Sincerely



Editor/Publisher