THE Neal Spelce AUSTIN LETTER

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Dear Client:

Once again, of the Top 50 metros in the US, the Austin metro is the only one to record growth in the number of jobs in March. This was also true in February. Think about it. This is significant in a nation racked by recession.

Oh sure, the *rate* of job growth was nothing to write home about. But it *was* growth. **Every other major metro in the US would gladly take Austin's numbers.** But the situation is even more impressive than just the increase in the number of jobs.

Not only have several thousand jobs been added in our 5-county metro, but the *un*employment percentage has dropped as well. People are still moving to the Austin area daily and jobs are being created at such a fast pace that the number of unemployed is diminishing. **This is exactly what every major metro in the nation strives for: an *increase* in available jobs and a *decrease* in the ranks of the unemployed.** But no major US metro is doing this – except Austin.

Here's a quick look at the numbers. In March, there were 827,300 people with jobs in the Austin metro and the unemployment percentage was 6.2%. In February, there were 821,900 employed workers in the area and the unemployment percentage was 6.3%. **These short-term trends are the right direction.**

How does this compare? Well, the nation's March unemployment rate was 9.0% (up from 8.9% in February) and the rate in Texas was 6.7% (up from 6.6% in February). **Running even more counter to existing trends, the state of Texas actually *lost* jobs, while Austin *gained* jobs.**

California, by the way, *lost* 62,100 jobs in March and 114,000 in February. The state's unemployment is 11.2%, and the big state metros ranged from 8.5% in the San Francisco area to 17.0% in Fresno. Just in case you were wondering.

Even though the Austin area statistics are amazing in the metro's job and unemployment performance so far, this is not the time for giddiness. The situation could turn on a dime in this volatile national economy. Speaking of California, there are some other interesting job-related developments out there. And it involves high tech workers in the Silicon Valley. We'll examine those, and compare them to the Silicon Hills of Austin, in the next item.

High tech accounted for more than two-thirds of the layoffs in California's Silicon Valley. The *San Jose Mercury News*, on its SiliconValley.com web site, pointed out the Valley's high tech workforce is shrinking at an alarming rate. What about Austin's Silicon Hills?

The reason the newspaper thought the rate was alarming was that two-thirds of the layoffs were not only high tech, but that they **occurred in the 1st quarter of 2009**. The Silicon Valley is being hard hit. But what about the Silicon Hills of Austin?

Remember, the previous recession hit the tech sector and Austin very hard. But, for the Austin area, the **current recession is a result of a burst in a *housing* bubble nationwide, not a bursting *dot-com* bubble**. It's possible the local tech sector can keep from losing ground this time around.

Let's drill a little deeper in the tech component of Austin's economy, courtesy of **Beverly Kerr**, the VP/Research at the Austin Chamber of Commerce. Back before the dot-com debacle, Austin's tech employment totaled more than 120,000 in 2000. **The tech-ers accounted for 18% of all jobs in the Austin metro**.

After the dot-com bust, employment fell to under 93,000 in 2003. It has been climbing slowly since that time to the point that high-tech employment is now estimated to be about 103,200. But the key is this. The Austin area economy is more diversified. **As a percent of total employment, high tech is lower now than at any time since the boom days – 13.5%**. This is a big drop from 18%.

Why is high tech employment so important for the Austin area? Well, there are a number of reasons. But chief among them is the fact that **technology jobs are among the highest paying in the region**. As a result, tech paychecks support jobs in other areas, such as retail, service, etc. Just how much higher paying are the tech jobs?

Kerr says tech wages are 181% of average wages and tech payrolls account for one-quarter of all Central Texas payrolls. Let me tell you, this is significant, especially in the Central Texas economy where the foundation is based upon steady, slow-fluctuating government payrolls, such as is found in the Austin area.

Austin's high tech sector is important for many reasons other than the fat paychecks. **The sector is a perfect companion to UTAustin and its many research components**. In fact, if it were not for UTAustin's willingness to bend over backwards to involve tech companies in its own research and to set up cooperative efforts, it is entirely possible there would be very little tech activity in the Austin metro area.

Of course, the tech sector for the most part is a **highly desirable industry that was envisioned as far back as a half-century** – a relatively "clean, non-polluting" industry, one that would attract the highly-educated. And one that, unlike government operations, paid property taxes.

Job growth in any given region is one of the most important factors for the health of real estate markets. Austin's nation-leading job growth is approaching the "leveling-out" mark, so some interesting emerging details could have an impact.

These "details" are national numbers. But as we have seen so often, **national developments have an impact on the more economically vibrant metros such as Austin** (check out interest rates, credit standards, mortgage requirements, etc.). Let's examine the new national trends.

Divorce and illness used to be the top reasons historically for the foreclosure of homes. Now it is all about job losses and excessive debt. And this goes well beyond the sub-prime-loans-that-never-should-have-been-made stage.

CNBC's **Diana Olick** reports that in March loan delinquencies in the dreaded "non-prime" category increased by 23%. **But delinquencies of prime — basically good loans at the time they were made — increased by 70%.** The conclusion: the prime loan delinquency is driven not by faulty loan products or falling home prices, but by job and/or income losses, plain and simple.

Now the top five reasons for default are: 1) **curtailment of income** (34.1%) … 2) **excessive obligations** (19.8%) … 3) **unemployment** (8.1%) … 4) **illness** (6.5%) and 5) **marital difficulties** (3.5%). The times have changed.

Olick reports that the subprime mortgage crisis is for the most part over. Most of the really bad subprime loans have already been lost. Now, she says, the second housing crisis is upon us. **And this second housing crisis is caused by job losses and excessive debt. Too much debt, too little income.**

So what does this mean for the real estate market in Central Texas? **Job losses are not a factor in the Austin metro.** In fact, as you know, the Austin economy continues to create jobs. Excessive debt? Well, this could be another story. **But we could find no hard numbers to quantify the debt load of the average homeowner.** However, it is a good bet that an outsized debt load may hang over many Austin area households.

Here's what you need to watch for. Washington has shown a propensity to take large steps during this national recession. So, as it becomes apparent that national foreclosures are now being caused not so much by faulty loan products or falling home prices, **it is likely the focus will turn to job losses and outsized consumer debt.** So you need to watch for Washington proposals to address this situation. And because they will be *nationwide* policies, they will also affect Austin.

Recent Washington actions were rationalized as the result of predatory lending and faulty loan products. As Olick said: "It wasn't your fault, so we're going to help you." Now with many foreclosures the result of **excessive personal debt**, it will be interesting to see what is proposed.

Ah, yes – the 1950s. Those were the good ole days. Life was simple and peaceful. Spend an evening at the drive-in movie with your honey? Drive-in movies are gone. Right? Nope.

There are 15 drive-in movies in Texas and soon there will be 16. Not quite a boom. But it's interesting. **The 16th drive-in venture is not just some crazy entrepreneur trying to re-live the past. It's a city economic development project.** The city of San Angelo in Central West Texas is funding the installation of a 3,300-ft sewer line to 40 acres in the city's industrial park, where a three-screen theatre will be built to feature family movies and a family environment.

Years ago, a major drive-in developer in Texas fought desperately to keep the state from participating in the US's Daylight Saving Time (DST). He argued that the **longer summer daylight hours would kill drive-in movies** because they couldn't start showing films on an outdoor screen until it got dark. Turns out he was right.

In 1966, the Uniform Time Act was signed by President Lyndon Johnson (this particular drive-in impresario was an LBJ supporter, by the way). There have been a few modifications of the Act along with way, but from the **2nd Sunday in March until the 1st Sunday of November**, **DST is in effect in almost all of the US**.

Now, an industry that was on life support is beginning to twitch a bit. **Could drive-in movies make a comeback**? Probably not in the same way as previously, but the San Angelo family-oriented drive-in movie enterprise could be something to watch (pardon the pun).

One of the last drive-in movies in the Austin area operated off Montopolis Drive, near Bergstrom Air Force Base. It didn't worry about the late start beause it showed **soft-porn movies on the giant screen**. It was amazing to see how many cars parked along the roads for a little long-distance titillation. But that's another story for another time.

Speaking of the past, **Dr. Louis Overholster** says that "Sixty is the new 50 – mostly because all the money that was saved in the last decade is gone!"

Sincerely

Neal Spelce

Editor/Publisher