

Volume 31, Number 14

July 3, 2009

Dear Client:

**Two questions: 1) are Texas college grads moving to other states, and 2) is Texas attracting college-educated workers from other states? The answers tell us a bit about Texas' future.**

The results of tracking college grads around the nation lag behind by a few years. But in this case, it is somewhat instructive because the **statistics were compiled while the economy all around the US was doing relatively well**. In other words, the numbers aren't skewed by movement from recession-ridden states to states like Texas, that is riding the recession much better than the rest of the nation. So, the timeframe presents a fairly level playing field.

To set the stage, **an educated population is viewed as a strong asset**. "States and regions with large numbers of educated workers enjoy many social and economic benefits, including low crime rates, high-technology-based employment, high per-capita income and high wages," reports **Elsie Echeverri-Carroll**, a research scientist with the UT Austin's Bureau of Business Research. This is why the answers to the two questions posed at the top are important to the quality of life and economic health of the Lone Star State.

Echeverri-Carroll's research shows that "**among graduates in 2000, Texas has the third highest retention rate**" of its college graduates in the nation. In Texas, this means that 86.7% of its college grads took employment within the state. The top two states, Idaho (97.4%) and Maine (91.7%), are not in the same competitive league with Texas.

If almost all of Texas college grads elect to stay in the state, what about Texas as a magnet for grads from institutions in other states? Or, put it this way: is the number of college grads who leave Texas to work elsewhere greater, or less, than the in-migration of grads from other states? The answer, according to Echeverri-Carroll's research, is that Texas is a "**net importer of full-time college educated workers**." Or, **more grads moved to Texas than the total Texas-educated grads who left for employment elsewhere**.

But the situation is not all that rosy. "Texas has been successful in attracting educated workers from other states and in retaining its own college graduates, yet **the state still has a workforce supply with relatively low levels of education**," Echeverri-Carroll concludes. The research solution: "more investment in higher education would yield large dividends for Texas."

**The First of July is a small “celebration” day of sorts for Texas, before the big Fourth of July holiday. The Texas celebration is because of what is happening this week in *other* states.**

July first is when new fiscal years begin in many states, though not in Texas. As a result, **many states this week triggered layoffs, furloughs, cuts in spending, and higher taxes went into effect.** Our friends at *The Kiplinger Letter* provided just a few examples:

**Colorado** will end a capital gains deduction on all in-state business assets, cut payments to retailers for collecting sales taxes and boost hospital provider fees.

**Hawaii** will add three new state income tax brackets and raise the motel room tax.

**Iowa** is adding a fee for divorce filings and real estate transfers. **Maine** will expand its sales tax to cover amusement parks, sporting events and some services, including auto repairs, car washes, dry cleaning and plumbing.

**New York** couples who make more than half a million dollars a year will pay higher state income taxes, as will singles who earn more than \$200,000 annually. Million dollar filers will also face limits on itemized deductions on state returns. **Nevada** will raise its sales tax from 6.5% to 6.85% and hike business taxes.

There’s more – including **California, that raised sales and state income taxes earlier this year** and whose state leaders are still fighting over a massive remaining revenue shortfall. Meanwhile, Texas can celebrate that it has a two year balanced budget with money in the bank.

**You have to go back to 2005 to count fewer passengers flying through the Austin airport for the year-to-date through May 2009 – even though travel costs (except for rent cars) are lower.**

Many travelers through Austin-Bergstrom International Airport (ABIA) have commented on shorter security lines and less crowded terminals. Year-to-date through May 2009, **total passenger traffic at ABIA was down 12.5% compared to the first five months of last year.** Of the major carriers serving Austin, American (down 23.5%), Continental (down 11%), and Delta (off 9%) have been the hardest hit. Southwest (down 0.1%) was roughly flat. The numbers for June, normally a peak travel month, won’t be available for several weeks.

If air travel doesn’t increase during the summer travel months, higher air fares in the fall may have a further impact. It is generally anticipated that the airlines – **many are cutting the number of flights in order to carry more passengers on each flight** – will start inching fares upward this fall. And it is not just the fares. Carriers are also expected to increase add-on fees.

By the way, a \$5 million federal grant was announced this week to go toward mitigating noise impacts on residents living near ABIA.

**The first five months of 2009 have seen about half as many housing units permitted in the Austin metro area compared to 2008's first five months. But using those same numbers, Austin is leading the nation by another measure.**

The average number of permits issued per month in 2009 in the 5-county Austin metro area is 734, compared to 1,416 last year, according to **Beverly Kerr**, the VP/Research at the Austin Chamber of Commerce. This is a downward trend that has been tracked since 2007.

**This is not all bad.** The metros where the housing bubble burst the worst were where homebuilding was running amuck. So when the bubble burst *there*, home values declined precipitously. In Austin, there was no overbuilt situation and the pace of homebuilding slackened as market forces slowed. As a result, **homes values in the Austin metro have held strong.** But there is another interesting aspect to these numbers.

Start with the fact that **Austin-Round Rock is the 36<sup>th</sup> largest metro** based on 2008 population. And year-to-date, the 2008-2009 **change in permits puts Austin at 25<sup>th</sup> among the 50 largest US metros.**

Now, let's take it another step. Kerr decided to take a look at a "per capita view" of permitting activity across major US metros. She broke down the numbers on number of permits issued per 100,000 population. This comparison levels the playing field a bit. **On a per capita basis, more housing permits were issued in the Austin metro area than any other large metro in the nation.**

The other top markets with the greatest per capita housing activity were #2 Salt Lake City, #3 Houston, #4 Jacksonville, #5 Raleigh, #6 Charlotte, #7 Dallas-Fort Worth, #7 Virginia Beach, #9 Nashville and #10 New Orleans. Interestingly, **in 2008, Austin was 4<sup>th</sup> behind Raleigh, Houston and Charlotte on a per capita basis among the 50 largest metros.**

**Speaking of construction, Austin has become an "overbuilt" market as far as industrial space is concerned. And for the first time in 15 reporting periods, warehouse space has a higher percentage vacancy than flex space.**

**Warehouse construction (large bays, dock-level loading, clear heights of 20 feet or more) accounted for 90% of all new industrial construction in the last 18 months.** The other type of industrial space is called "flex," and it is generally smaller than warehouse, with lower clear heights and is 80%-100% air-conditioned.

As a result, according to NAI Austin Commercial Real Estate Services, "rates have dropped 30% for warehouse and 10%-15% for flex, but incentives now range from **substantial free rent** to increased tenant finish allowance and bonuses for brokers." It's, obviously, a tenant's market.

**Will he or won't he? And if he will, or won't, when will it be that he will, or won't? Got that? We're talking about Austin State Senator Kirk Watson's flirtation with running for governor.**

Watson is a man whose credentials as a Democrat have never been questioned. The major Democratic candidate for Texas governor in the 2010 primary so far is Fort Worth's **Tom Schieffer**, who was appointed by Republican president **George W. Bush** to two important ambassadorships – Australia and Japan. (Schieffer, coincidentally, told reporters when he announced his candidacy that Watson assured him Watson would *not* run for governor.)

That was *then*, this is *now*. First of all, Democrat Senator **Leticia Van de Putte**, in withdrawing her name for consideration as a candidate for governor, touted Watson as someone who should toss his hat into the governor's race. Watson responded, saying 6/23/09 he was "flattered" and that his future plans "**may include running for and serving in another office or running for re-election.**"

This week, **Watson again talked about the governor's race on his own — without any prompting from the media.** Referencing the governor's job, he said "the state has endured a **crisis of – and, frequently, vacuum in – leadership** for far, far too long." He repeated that he was "very flattered by the significant encouragement I've received" and added "**It's an honor to be considered as one such potential candidate.**"

Looks like Watson is aggressively fanning the flames on the possibility he may run for governor in the Democratic primary. When will a "final" decision be made? On 6/23/09, Watson said "I do not anticipate making any decisions in this regard until at least **sometime after the end of the special session of the legislature and probably not until the end of the summer.**" Meantime, Republicans Governor **Rick Perry** and USSenator **Kay Bailey Hutchison** are dashing headlong into a battle for governor in the Republican primary.

**Dr. Louis Overholster** has come up with a brand-new patch that's guaranteed to stop anyone from smoking. It measures 1 inch by 5 inches and fits right over the mouth!

Sincerely



Editor/Publisher