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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:

If you want to know where the future is headed, look where the people are going. And if you want to know where the people are going, check with U-Haul. Some Austin U-Haul numbers are quite revealing.

A report by **Kevin D. Williamson**, writing in the *National Review*, pointed out that **renting a 26-foot U-Haul truck to go from Austin to San Francisco this month costs about \$900. But renting the same truck from San Francisco to Austin this month costs about \$3,000!** The age-old economic rule of supply and demand has kicked-in big time and Williamson reports that California has a large supply of people who are demanding to move to Austin. Here is how he explains it:

“Texas was among the last states to enter the recession. California is expected to be the last state to leave it. Texas has lots of jobs and not much in the way of taxes. California, the other way around,” he wrote.

“California has **Arnold Schwarzenegger**, a Hollywood Republican who presided over enormous expansions of spending and debt. Texas has **Rick Perry**, a classic conservative hard case who just vetoed a pre-kindergarten spending bill, adding to the record number of vetoes he’s handed down as governor.”

“And it’s not just Perry,” he continued. **“The story of Texas politics is full of Democrats who would have been too right-wing to be elected as Republicans in Connecticut or Pennsylvania.** Things are a little different down south of the Red River.”

The story, in a conservative publication, espouses conservative political approaches. But it also contains *non-political facts* that are not lost on its national readership. For instance, it points out that “by one estimate, 70% of the new jobs that were created in the United States in 2008 were created in Texas. **Texas is home to America’s highest-volume port, the largest medical center in the world and the headquarters of more Fortune 500 companies than any other state, having surpassed New York in 2008.**” It also emphasizes that Texas is home to 6 of the 25 largest cities in the country, more than any other state, and that the Lone Star State has a trillion-dollar economy that would make it the 15th largest national economy in the world if it were an independent country.

One aspect of Texas' economic edge that is not discussed very much is the advantage that is accruing to Austin's significant economic engine, UTAustin.

Many may not view institutions of higher education as involved in "competition." But, especially in the world of major research institutions, it is highly competitive. **The best institutions in the nation go toe-to-toe almost daily as they compete for the best faculty, the best students, the best research grants, etc.** UTAustin is in that arena. And its many colleges and schools aggressively compete for an edge that will move them to the head of the pack of the best public education institutions in the United States.

Right now, the burdened national economy is combining with UTAustin's already-impressive resources to **provide an opportunity for UTAustin to make a major leap up the scale of excellence.** For decades, the California public higher education system has been at the forefront of educational excellence. Some have even called it the "preeminent public university system in the world."

But this designation is in jeopardy. Right now California's "state universities are **furloughing professors, cutting class offerings** and seriously reassessing, in the case of the University of California, **whether the system can remain one of excellence,**" according to the 7/22/09 edition of *The New York Times*.

In fact, UC's Board of Regents voted 7/16/09 to **force more than 100,000 employees to take up to 26 unpaid days in the next year** with higher-paid employees taking more furlough days than lower-paid workers. They also voted to take some campus-specific measures such as **cutting library hours and faculty hiring,** reported the *Silicon Valley Business News*, 7/22/09.

Talk about California losing a competitive edge! And this is where UTAustin can jump into the mix with both feet. UC's top faculty members could be wide open to leaving such a mess. **The bright young professors around the nation, who are the faculty superstars of the future, must be re-considering whether UC is an option to further their careers.** And on and on. (Another great public education system is in Michigan, a state that may be economically damaged more than California.) Meanwhile, what about the economic status of UTAustin?

The Texas Legislature has just locked-in UTAustin's appropriations for the next two years. "The net effect of UTAustin's appropriations is that we will receive \$22 million in additional recurring funds and \$21 million in additional one-time funds," said President **Bill Powers**. "That translates into an **annual increase of 4.2% above the previous fiscal year.**" And that's not all (to quote blaring TV infomercials!): **Another revenue kick will come from a 4.95% tuition increase.**

In a classic understatement, Powers says "as we watch universities across the country grapple with budget cuts, we appreciate any increase in funding." Watch out, UTAustin competitors.

So, what's it like to live in an Austin apartment? "We are spending a lot to remind tenants how much they love us," says one manager.

This is a good time to be an apartment tenant in Austin. According to Austin Investor Interests' **Robin Davis**, who tracks apartment data, **"almost 80% of the area apartments are offering some kind of move-in incentive."** She says specials range from \$99 move-ins to several months free rent. A few properties are even spending the equivalent of six months rent – by giving tenants three months free, moving costs, 200% commission to locators, etc. It's costly to be an Austin apartment landlord these days.

On average, Davis reports apartment operators are losing 9% of market rents to concessions. But the specials for tenants don't end there. Once the lease is signed, management begins to **focus on retention**, going as far as offering weekly social events, maid service, carpet cleaning, hardcore maintenance service and **"even having doughnuts and coffee delivered to the access gate exits in the morning to keep their residents happy,"** said Davis. Now you know why that one manager is talking about spending a lot of money to "remind tenants how much they love us."

But the good life as an apartment tenant doesn't end there. Those tenants who have blemished credit histories and bankruptcies are no longer automatically denied the ability to rent an apartment. In fact, **some tenants who find themselves late on rent payments are being offered a deferred payment plan where a missed payment is tacked on to the end of a lease.**

Davis also says that even the **leasing staff at some area properties is being offered incentives to keep tenants motivated.** Short-term leases, once frowned upon, are now readily available – though with a premium price tag.

Is this a "better-grab-the-deal-while-you-can" situation? How long will this tenant utopia last? Davis says **"these trends are not expected to end soon.** With over 5,200 new units already under construction and the global economy not expected to stabilize in the near term, **expect the competition (for tenants) to remain stiff" and the concessions to be abundant.**

What is driving this heated quest for tenants? A number of factors. Would-be residents are doubling up and sharing quarters. Prospects are moving in with family and friends. And some are taking advantage of current conditions to move into homeownership. And there is another factor Davis has noted: **"a new clientele in the form of unemployed Californians are seeking Austin as an affordable haven to stretch their unemployment dollars."**

Davis said the **average apartment occupancy level in the Austin area is 87.3%** and the average rent is \$781 per month. Price per square foot: 92-cents.

One question mark about Austin's future electricity availability and water supply was removed this week. But others remain.

As we told you two weeks ago (Click on the Archives button at the top of this page and go to Volume 31, Number 15, July 10, 2009), a **hostile takeover attempt** of the least expensive source of Austin's electricity was underway. This week, the takeover attempt was terminated.

Nuclear power company, Exelon, had dropped efforts to build a nuclear power plant on the Texas Gulf Coast and moved to take over NRG Energy, the operator of the South Texas Nuclear Project (STP). **Austin owns a 16% interest in STP that provides some of Austin's electricity and it's cheaper than that generated by natural gas, coal, wind, solar, etc.**

STP was a prime target. Not only did STP have contracts with Austin, San Antonio and Houston to provide nuclear power generated electricity, but it has announced plans to **double its capacity by building two more nuclear reactors**. And NRG is one of four recipients of federal financing support for its expansion.

All this is important for two reasons. The Austin City Council recently decided **not to participate in STP's expansion of cheap nuke-powered electricity**, while at the same time **investing hundreds of millions of dollars in higher-priced solar and wind operations**. Secondly, **more water will be needed** to cool the additional nuclear reactors. This is water that flows from Lake Travis, down the Colorado River, to Matagorda County. And, as you know, there is **less water in Lake Travis right now than at any time since 1985**.

In this situation, the source – and price – of your future electricity is intertwined with additional demands on your water supply. **Electrical demands have already set records this year while water availability is seriously compromised by the worst drought in the nation.**

Dr. Louis Overholster likes to point out that he is a nobody. Or as he puts it: "I am a nobody. Nobody is perfect. Therefore I am perfect."

Sincerely



Editor/Publisher