

Volume 31, Number 21

August 21, 2009

Dear Client:

What do foreign investors think of the City of Austin as a place for their money? A thorough analysis by a highly reputable group places Austin in the Top Five in North America, regardless of size.

This ranking is no beauty contest. It is the result of a **meticulous six months' study by Foreign Direct Investment (fDi) of nearly 400 cities in North America**. The data included economic potential, human resources, cost effectiveness, quality of life, infrastructure and business friendliness.

Only city data, not metro area, were used. The city categories were as follows: **major** (more than 1 million), **large** (500,000 to 1 million, Austin's category), **small** (between 100,000 and 500,000) and **micro** (less than 100,000). In addition to the US, cities in Mexico and Canada were also analyzed and ranked.

Without regard to size here is fDi's ranking of the **North American Cities of the Future 2009/10**: #1 New York ... #2 Chicago ... #3 Houston ... #4 San Francisco ... **#5 Austin** ... #6 Tampa ... #7 Los Angeles ... #8 Miami ... #9 Charlotte and #10 San Jose.

Austin jumps to #2 in the nation in the large city category, very close to #1 San Francisco. The Top Ten large cities of the future, as ranked in relation to foreign investment in the cities: #1 San Francisco ... **#2 Austin** ... #3 Charlotte ... #4 San Jose ... #5 Jacksonville ... #6 Seattle ... #7 Orlando ... #8 Denver ... #9 Pittsburgh and #10 Detroit.

During this worldwide recession, a lot of **foreign money is parked on the sidelines**, waiting to be dumped into investments of all kinds when the investor senses a turnaround. Years ago, during different times and different circumstances, **foreign money – especially from Europe and Asia — was poured into Austin** – primarily into real estate. So, it's not far-fetched to think that this could occur once again even though all the global stars have to align just so.

As mentioned above, a number of factors were considered in ranking the nearly 400 North American cities. **Austin did well enough to rank quite high, but there were categories where Austin fell short.** We'll dig deeper into the rankings by categories in the next item.

Among the nation's large cities (500,000 to 1 million population), Austin scores high marks by many measures. However, some categories fall a bit short. Let's look at the good and not-so-good, comparing *cities*, not the expanded metro areas.

The six-month study of nearly 400 cities in Canada, the US and Mexico was very in-depth, examining more than a dozen criteria. And for Austin to rank #2 in the North American Cities of the Future 2009/10 in the large city category, and #5 regardless of size, is a true **testament to the soundness of our city from a foreign investment standpoint**. The study was conducted by Foreign Direct Investment (fDi). But let's drill a little deeper.

Remember, this study projected what will likely happen this year and next. In the list of major North American cities, **Austin ranked #2** in the following categories: **Lowest unemployment rate** (Seattle was #1) ... **Best Business Friendliness** (Las Vegas was #1) and **"Best Strategy"** (Charlotte was #1).

The City of Austin was ranked #3 for Best Economic Potential (San Francisco was #1 and Charlotte #2) ... **Best Human Resources** (San Jose ranked #1 with Pittsburgh #2) and the city with the **Largest Number of Post Secondary Students** (Denver was listed at #1 and Pittsburgh #2).

Austin fell out of the Top Five in the following categories: **Best Cost Effectiveness** (no surprise, four cities in Mexico dominated this list) ... **Labor Costs for Low-wage Jobs** (the entire Top Five were all in Mexico) ... **Best Quality of Life** (two cities in Canada made this list) ... **Best Infrastructure** ... **Cheapest Town Centre Rental Costs** and **Highest Growth of Companies Within the Knowledge-based Sector** (El Paso was surprising, to us, #1).

One of the interesting aspects of this North American study is that, in addition to mining data and statistics, **it included a somewhat subjective category – strategy**. The *independent database* benchmarked these cities on their appeal to foreign investors. But, "promotion" is a new category and it requires judgment to determine the "best strategy."

Austin ranked #2 in the large city "promotion strategy" category, helping it to reach an enviably high overall ranking. **One-hundred-twenty-eight North American cities submitted details about their promotion strategy** and this was judged and scored by an independent judging panel, as well as fDi's researchers. The Top Five *large* cities with the Best Strategy, in order: Charlotte, Austin, Jacksonville, Pittsburgh and Mississauga, Ontario.

FYI, the **top major cities** (more than 1 million population) of the future, in order: New York, Chicago, Houston, Los Angeles, Miami, San Diego, Toronto, Atlanta, Dallas and Phoenix. **Top small cities** (100,000-500,000 population) of the future, in order: Tampa, Minneapolis, Raleigh, St. Louis, Irvine, Sacramento, Louisville, Tulsa, Richmond and Salt Lake City.

A Texas-based economist says he expects interest rates to stay near zero easily through the end of this year. What does his forecast mean for banks and those who borrow money?

When the Fed said it will keep its benchmark short-term interest rate at virtually zero for some time, it signaled a plan for the banking industry. **Mark Dotzour**, chief economist for the Real Estate Center at TexasA&M, said the **Fed's move to keep rates unchanged was no surprise**. Here's his take on what this means for banks:

"The federal government appears to have decided to postpone the recognition of the losses that banks have incurred," Dotzour said. "It appears that we are now going to **amortize those losses over a period of years, and keep interest rates low to allow banks to earn their way out of the losses they have incurred**. I would expect rates to stay near zero easily through the end of this year."

Dotzour also has some observations on the *state of the housing market in Texas*. But first, a bit of perspective. **Two years ago, Dotzour said new home construction needed to fall dramatically to avoid the level of overbuilding that could damage Texas housing markets. He even picked summer 2009 as the bottom of the housing cycle**. His reasoning was that banks would constrain credit to homebuilders and developers.

Looks like he hit the nail on the head. The Texas inventory of new and existing homes is in good shape. **"It appears we are at the bottom of the housing market** in most Texas cities," he said. And this prompted him to say further:

"I feel now is the time to buy a house in most Texas cities. Housing affordability has never been higher and I never thought I would see 5% mortgages in my lifetime. If you plan to live in a house for at least two or three years, now is the time to buy."

"If you are planning to build a home to retire to in the near future, now is a great time to do it. **Contractors are plentiful, construction costs are lower and mortgage money is cheap**," he continued.

What will be the warning signs if this situation is poised to change? He said mortgage rates should remain low **as long as the federal government continues to purchase almost all residential mortgages**. **"When they stop, rates will move up,"** he predicted. And, he said all this hinges on one crucial assumption: **"that the federal government doesn't cause further damage to the US economy** with higher levels of intervention in healthcare, taxation, cap and trade and rewriting accounting and legal standards."

Another interesting tidbit. A Florida-based online real estate research firm declared **Amarillo the most promising housing market in the country. #8 Austin was the only other Texas city in the Top Ten** on Housing Predictor's Top 25 Housing Markets.

New technology is on its way to help speed you through airport security lines. But you are still going to have to shed your shoes.

Even though technological advancements ultimately will make your navigation of airport security systems easier and possibly quicker, you are still going to be asked to take off your shoes. The reasons: **new technology for shoe scans flopped**. But officials have higher hopes for other bits of technology.

A billion dollars has been set aside to buy and install these new items. **First of all, new explosive detection systems for checked bags** should allow security workers to more easily rule out bombs in checked bags. This will help keep baggage moving and it should cut the odds of evacuations.

What else? What about **advanced screening equipment** at security checkpoints? Well, you know one of the delays that occurs is when airport security personnel **stop the process to hand-examine suspicious items**. New X-Ray machines are planned that will allow **multiple views of carry-on contents**. The hope is that this will make it easier to identify items in your carry-on gear so the need for hand-examinations will diminish.

There is even the possibility the **ban on liquids could be lifted** if improvements in software that will allow detection of liquid and gel explosives are ultimately implemented. All this info comes from our friends at *Kiplinger*.

These should be installed in airports nationwide and **should be in place in many terminals by the end of next year**. One other point. Whole body scanners are still in limited use. The idea of letting screeners see your body outline under your clothes is still controversial. But the technology to produce less-revealing stick figures has not yet been approved.

Always up-to-date with his advice, **Dr. Louis Overholster** advises parents: “Never let your kid leave home until you know how to operate the computer, the cell phone and the iPod!”

Sincerely



Editor/Publisher