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Dear Client:

As 2010 winds down, let's look ahead to 2011 and try to anticipate what may happen to costs for construction – one of Austin's hardest-hit economic sectors.

If, as some predict, the Austin area will be one of the nation's leaders in the economic rebound, **does this mean an uptick in construction and jobs related to such work?** Hard to say, but if it does mean an increase, it could mean construction costs are likely to increase.

For the past two years, **those paying for construction projects have generally been pleased because actual costs of materials have been down.** Bids on jobs, where *labor costs* are also a factor, have also been somewhat lower because **contractors have been slicing costs where possible – just to get the job and to keep their employees busy.**

In fact, we've seen one estimate that **construction costs have been down by 25%**, more or less, for two years now. All this may be about to change in 2011.

"In the building industry, the lows are always followed by highs," says **Mark Sprague**, who has been tracking residential real estate construction in Austin for the past several years. **"In 2011, the cost of a new home may rise by more than 20% and the builders will have no choice but to pass this on."**

Historically, manufacturers shut down their mills for repairs at Christmas. **"This creates a shortage in the first quarter of the year,"** noted Sprague. "This has been happening for years. Other material manufacturers like drywall and windows tend to do the same."

"Builders are waiting up to six weeks now for interior doors that the lumberyards **normally have in stock.** Even Formica has a lead time now," said Sprague.

The upshot: **"when the market turns, prices will go through the roof"** predicts Sprague, "and then it won't be just land that drives prices up in Austin. The manufacturers have been losing money now for some time and will jump to raise prices and try to show some profits to Wall Street again." The increase in construction costs applies to *all* construction – not just homebuilding. So, **those with construction plans next year would be wise to take higher costs into account when budgeting for any construction during 2011.**

Austin is among the tops in the nation in many categories. One *dubious* distinction however is the traffic situation. It's not as good as it could be. But this may have given rise to a new *positive* #1 designation – best city in the US for telecommuting.

Thanks to high-speed Internet and virtual conferencing, more Americans are choosing to work from home than ever before. So *Daily Finance* and *Buyers' Market* teamed to put together a list of the **top 11 cities for homeowners who telecommute to work – that is, work from home or another remote location.**

Austin bubbled to the top as the best city in the nation for telecommuting.

The next ten: **#2 Cincinnati ... #3 Atlanta ... #4 St. Louis ... #5 Raleigh ... #6 Cleveland ... #7 Pittsburgh ... #8 Charlotte ... #9 Kansas City, Missouri ... #10 Nashville and #11 Milwaukee.**

Traffic problems were not mentioned. But *Daily Finance* said it examined cities with “the **highest intelligence, the healthiest residents, and those intangible ‘it’ factors** that make a city shine.” And Austin shined brighter than all the others for telecommuters.

Speaking of new rankings, Austin was just ranked in the Top Ten Best Places for Military Retirement.

This was a first-of-its-kind ranking by USAA (a leading financial services provider focused on serving the military) and Military.com, the largest military and veteran membership organization. They commissioned a study to create a **Top Ten list of cities that offer a high quality of life as well as job opportunities to start a career in the private sector.**

Other reasons for this high ranking is that **Texas does not levy a personal income tax**, the state has a number of **military installations that offer advantages to retirees** and a large veterans hospital is located centrally in Temple.

Texas also fares well in a new professional employment report that assesses hiring that is likely to occur in the 1st quarter 2011.

Seventeen percent of executives in Texas, Oklahoma, Louisiana, and Arkansas told Robert Half International, a California-based staffing firm, that they will **add professional-level staff at the beginning of the year.**

Hiring activity will be the highest in the legal field with 31% of respondents in that sector saying they plan to increase their work force.

You want more Austin economic rankings? Okay, how about “one of the best in the world?” That’s right. A *global* ranking that puts the Austin metro among the elite.

The report from the Brookings Institution Metropolitan Policy Program ranks 150 cities worldwide – 50 in the US, 50 in Europe and 50 in the rest of the world.

In this global study to determine the level of recovery from the recession, Austin was the highest ranked US city and #26 in the entire world! How about them apples!

And to indicate further strength surrounding Central Texas, the three other major Texas metros also were globally ranked. ***Dallas* ranked 4th in the US and 39th globally. *San Antonio* ranked 11th in the US and 51st in the world. *Houston* landed at 15th in the US and 61st in the world.**

A word about rankings. These are not beauty contests. While cynics may dismiss them as just “opinion,” their impact should not be easily discarded.

There are several things to remember. First of all, there is a *cumulative effect* to all these lists. Look at what you’ve just read. These are rankings that have been released just in the past few weeks. Think how many you may have seen throughout 2010 in our previous newsletters. Then think about the wide distribution they received because they are, for the most part, **released nationally and internationally throughout this past year.**

Like a dripping faucet, the word that Austin has been at the top, or near the top, of all these economic rankings – week after week, month after month — has an impact on movers and shakers, on decision-makers that could impact the Austin area’s economic future.

The 2nd aspect to all this is one of *perception*. The old exaggeration that perception is more important than the truth may apply here. **If enough leaders perceive that the Austin area is on the cutting edge of economic recovery, then they may act accordingly** when it comes to making decisions about the best place to do business and create jobs.

Also, these rankings reflect conclusions and projections after researching hard data. Yes, it is an inexact science, but taken in the aggregate all these ratings in their own way arrive at the same basic conclusion – **Austin is the place to be if you want to ride the leading wave of economic recovery next year. This is a powerful, compelling message.** And the message has been repeated over and over during these tough times when most are searching for good news. Can you say self-fulfilling prophecy? It’ll be interesting to track.

When the next session of the US Congress convenes in Washington in January, some Austin area members of Congress, as well as other Texans, may vault into very powerful posts.

Unlike the Texas Legislature, the majority political party picks their own members as chairs of committees and sub-committees. **So there will be a wholesale shift from Democratic control to GOP control.** And many Texas GOP members of Congress are in line to become chairs.

When the Democrats had control, only one Texan had a committee chairmanship – **Silvestre Reyes**, who headed the House Intelligence Committee. Six other Dems chaired subcommittees. When the reorganization shakes out, **as many as five Texans could become chairs of committees and maybe as many as 12 more could head subcommittees.** Talk about clout!

Central Texas could be well represented. As we reported previously, **Lamar Smith**, who represents the western edge of Travis and other area counties, could chair the very powerful House Judiciary Committee. Austin's **Michael McCaul** is in line to lead the Subcommittee on Homeland Security. Round Rock's **John Carter** could become Secretary of the House Republican Conference.

Other possible Texas committee or subcommittee chairs include **Ralph Hall, Kevin Brady, Joe Barton, Mac Thornberry** and **Pete Olson**. Other names being bandied about include **Pete Sessions**, who was chair of the very successful GOP group charged with electing new Republican House members, and **Jeb Hensarling**, who is being mentioned for another GOP party committee chairman.

Many of these decisions have already been made. Some are still questionable. But the bottom line is that **in January, Austin and Texas will have much more Congressional clout.** In addition, after Congressional redistricting takes place in 2011, Texas will gain four new seats in the following session of Congress – more, by far, than any other state.

Dr. Louis Overholster says just because you don't take an interest in politics doesn't mean politics won't take an interest in you!

Sincerely



Editor/Publisher