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Dear Client:

The Texas economy is now valued at more than a trillion dollars. Think about this. Only 12 nations have economies greater than \$1 trillion in value. And the Austin metro's growth has been a major factor in the state's economic growth.

Texas is one of three US states whose economies are valued at more than a trillion dollars — **California** (\$1.89 trillion, **8th in the world**), **Texas** (\$1.14 trillion, **14th in the world**) and **New York** (\$1.09 trillion, **15th in the world**). The top six on the list ranked for economic power by the World Bank: **United States** (\$9.99 trillion), **Japan** (\$5.07 trillion), **China** (\$4.99 trillion), **Germany** (\$3.33 trillion), **France** (\$2.65 trillion) and **United Kingdom** (\$2.17 trillion).

These totals were compiled after growth in much of the 100 largest US metro areas slowed during 2000-2010, following a heightened period of growth in Austin and around the nation during the 1990s. For instance, **the Austin metro was the 3rd fastest-growing US metro in the 1990s as it increased by 47.7%. During the decade ending in 2010, the Austin area's growth slowed to 37.3% and still ranked as the 5th fastest-growing metro in the nation.**

This slowdown in the 2000s applies generally across the 100 largest US metros which grew 10.6% the last decade, down from 14.6% in the 1990s and 12.6% in the 1980s, according to the Brookings Institution.

By the way, the **City of Austin had a population of 132,459 in 1950 and ranked as the 58th largest city in the United States. In 2010, the City of Austin had a population of 790,390 and ranked as the 14th largest city in the US.**

Speaking of economic power, Money-Rates.com this month released its Ten Best and Ten Worst states for making a living. No surprise. Texas made the "Ten Best" list that included **#1 Illinois ... #2 Washington ... #3 Texas ... #4 Virginia ... #5 Delaware ... #6 Massachusetts ... #7 Georgia ... #8 Tennessee ... #9 Colorado and #10 Minnesota.**

The Ten Worst: **#1 Hawaii ... #2 Maine ... #3 Montana ... #4 California ... #5 Vermont ... #6 Oregon ... #7 Rhode Island ... #8 Mississippi ... #9 West Virginia and #10 South Carolina.** Money-Rates.com criteria for "Best" and Worst:" average state wages, state unemployment rate, state tax rate and state cost of living.

Southwest, the airline that carries more Austin travelers – by far – than any other earned top honors in *Consumer Reports*' list of airline ratings. And another low-fare airline, JetBlue, ranked second.

According to a new survey by the Consumer Reports National Research Center, and reported in the June 2011 *Consumer Reports Magazine*, **about 15,000 readers related their air travel experiences** on 29,720 domestic round-trip flights in the previous 12 months. You can get more details at www.ConsumerReports.org, but here are a few of the research findings:

“Eight of the 10 airlines they rated (available to subscribers) received low scores for *seating comfort*. **Only JetBlue Airways and Southwest Airlines did better. They also topped our list overall.**”

“Other quality-of-flight measures also got low marks from our readers, including **cabin-crew service, cleanliness, and in-flight entertainment. The proliferation of added fees** further contributes to passengers' low opinion of today's flying experience, and even to their decision of whether to fly at all.”

“But some carriers have done a better job than others, as evidenced by a wide difference in **overall satisfaction scores, from Southwest's lofty 87 to US Airways' lowly 61**. Southwest was the only airline to receive top marks for check-in ease and the service provided by its cabin crews.”

In March 2011, **Southwest Airlines carried 36.7% of all travelers** at Austin-Bergstrom International Airport (ABIA). Second place American Airlines carried 20.2%. March was a good month in terms of air travel at ABIA. Total passenger traffic was up 9% compared to March 2010 (Southwest was up 6% and American was up 4.5%).

A trend may be in the making in terms of Austin area air travel. **For the first time this year, the March 2011 passenger traffic edged past the tally for 2008** – just barely, but it did. The September-December 2010 totals also bested 2008, but there was a drop off in January and February 2011.

March is a busy travel month (Spring Break, South by Southwest) then April drops off. But in May, the crowds in the terminal begin to grow toward the **peak summer travel months of June, July and August**. Then the crowds at ABIA start diminishing from September through year-end.

Incidentally, Austin air travelers pay more than most, as a result of airline fare increases. According to the Bureau of Transportation Statistics, **the average ticket price through Austin increased 9.2% from 2009 to 2010 – rising to an average cost of \$352**. The national average is \$337. As a result, Austin ranked #38 on a list of the 100 largest cities. The most expensive ticket (\$461) was at Newark's airport.

Southwest Airlines may soon take a bigger bite out of the Austin air travel market as it moves to establish a toehold in the world's busiest airport, Atlanta's Hartfield-Jackson.

Atlanta is the only major domestic city where Southwest had no operations. On May 2nd, Southwest closed on a \$3.2 billion acquisition of low-fare airline **AirTran, that has around 200 daily flights in Atlanta and a market share there of about 20%**. AirTran concentrates in the East and Southeast with very little overlap with Southwest.

A Southwest executive was quoted as saying **“Our intent is to grow Atlanta, get more passengers and more dots on the map.”** Southwest will also pick up AirTran gates at **New York's LaGuardia and Ronald Reagan National in Washington DC**. AirTran also has routes into **Mexico and the Caribbean**, giving Southwest its first flights outside the US.

Southwest will convert AirTran's planes into Southwest blue, gold and red colors and **AirTran will “disappear” after the FAA blesses the merger**. Delta, the dominant carrier in Atlanta, has already started major promotional pushes, anticipating the competition from Southwest. Meantime, Austin air travelers will soon have low-fare access to many different markets.

With the robust Austin office space market, concerns are being raised that lease rates will skyrocket before new construction can be completed to meet the demand.

Commercial real estate brokerage firm, Austin Office Space, is reporting that the Austin market has experienced its fourth straight quarter of positive absorption. Want some examples of what Austin Office Space calls “strong signs of recovery?” How about this. **“On the ground we are seeing the lucrative free rent packages starting to dry-up and landlords are demanding higher rates on the most desirable spaces,”** the company reports.

“Our economy certainly has the potential to gobble-up a substantial portion of our 11.2 million square feet of vacant space with no real construction occurring,” Austin Office Space reported. **“By the time the money starts flowing for speculative office projects, our market could have a vacancy rate down in the uncomfortable single digits.”**

“We fear that ... construction will arrive too late to help temper the rise in rates. Our hope is that prices don't skyrocket in the next few years before we start seeing construction cranes in the Austin skyline again.”

And the firm is taking its own advice: **“We signed a long term lease on our own office in quarter-one to lock in the current rates and are advising tenants to do the same.”**

Speaking of rising rates, apartment rental rates in the Austin area are likely to keep zooming upward. And that could have implications for the home-buying market.

New residents continue to pour into the area at a faster pace than last year and many of those newcomers rent apartments as they settle in to the Austin area lifestyle. As we've reported previously, **many apartment buildings are reaching the "full" category, ratcheting current lease rates ever higher.**

Well, what about new apartment buildings under construction? **Only about 1,000 units are expected to come online *this* year.** And Marcus & Millichap, real estate investment analysts, points out that ***last* year 2,900 units became available.**

So, new residents are coming to the Austin area at a *faster* rate than the previous year and *fewer* apartment units are in the construction pipeline for completion this year, compared to last year. **Two plus two equals higher apartment lease rates.**

Marcus & Millichap suggest rental rates are expected to rise to an average \$894/month *asking* and \$816/month *effective* -- a 4.2% and 5% rise respectively. And that increase, tellingly, is up from 1.7% and 2.6% last year. **So the rates are not only rising, they are rising at about double the last increase.**

There should be a "spillover" effect here. As apartment rental rates rise, and with mortgage interest rates very low, **it becomes financially attractive for apartment dwellers to consider moving into a first home.** There are other barriers to home ownership – tight lending standards and credit worthiness among them. But, **even if a major move to homeownership does not occur immediately, it will contribute to a pent-up demand** that should eventually manifest itself into increased home-buying activity in the below \$200,000 market.

Always looking for new words to weave into conversation, **Dr. Louis Overholster** says that "Bozone" is a substance surrounding stupid people that stops bright ideas from penetrating. "Unfortunately," he says, "the bozone layer shows little sign of breaking down in the future!"

Sincerely



Editor/Publisher