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Dear Client:

Texas economist Ray Perryman, after completing his short-term outlook for the US, Texas and the state's metro areas, reports: "while I don't expect things to smooth out entirely quite yet, on balance I think our big cities will see notable growth over the next five years."

"The Austin-Round Rock-San Marcos Metropolitan Statistical Area (MSA) has recently **experienced employment growth, though it has been uneven and notably slower than in the mid-2000s.**" He goes on to predict that the Austin area's "highly-educated workforce and base of growth industries will continue to give the region a **competitive advantage in attracting desirable corporate locations.**"

Perryman's short-term forecast horizon encompasses 2011-2016. And his forecast indicates that the **economy of the Austin MSA will continue to strengthen.**

In fact, Perryman's most recent analysis forecasts that all of the state's largest metropolitan areas are expected to see expansion in output over the next five years. As he put it: "**job growth is projected for Texas' largest MSAs, with the Houston and Dallas areas likely to see the largest gains.**"

Stepping back to examine the overall US economy, **Perryman sounds a cautious note:** "business cycles are inevitable and the economy's performance is likely to remain uneven for some period of time. **While there is growth, it is modest and spotty.** Some geographic areas and selected industries are expanding while others shed jobs or just maintain the status quo."

"Although conditions are much better than they were just a few years ago," Perryman continued, "**the pace of the recovery has leveled off and shows little signs of ramping up.** There are notable reasons for this sluggishness including uncertainty related to debt (both domestic and international), health care costs, and other regulatory and policy changes."

But then he added: "**even so, Texas' largest metropolitan areas are expected to see significant growth over the next five years at rates outpacing most of the rest of the nation.** Texas is outperforming the United States despite several challenges, extending a longstanding pattern. The Lone Star State is projected to expand in the coming years, adding jobs across a spectrum of industries."

Another Texas economist, Mark Dotzour, offers a second -- confirming -- opinion amid a host of other developments reinforcing the positive economic outlook for Austin and the state.

In an article titled “**Texas Sails On; Nation Battles Headwinds,**” Dotzour, the chief economist for the Real Estate Center at TexasA&M, echoes much of Ray Perryman’s forecast with specific focus on real estate.

Dotzour’s overall assessment: **Texas economic outlook for 2012 is positive.** Job growth is occurring in several sectors, and a low cost of living is enticing businesses to move to the Lone Star State.

However, **it will be tougher going for the nation** due to several factors. The housing market needs to clear a high number of foreclosures. Consumers need to pay off their debt. The banking system needs to write off bad debt. Small businesses need to start hiring again.

“Fortunately, Texas is poised to outperform the U.S. averages,” Dotzour reports. **“Home sales volume in Texas should show modest improvement over 2011, and prices should be stable throughout 2012.”**

In other developments, MainStreet.com (a financial news website) named **Austin one of “Ten Cities poised for Greatness in 2012.”** Other cities on the list included Houston, Indianapolis, New Orleans, Chicago, Tampa, Charlotte, London England, San Jose and Rochester NY. Most of those cities have major events occurring in 2012, such as the Super Bowl, national political conventions, the Olympics, etc.

But Austin just continues to plod along year after year. “Austin continues to ride a pure blend of state jobs, University of Texas help and private-sector employment out of the recession and into some mighty comfortable economic recovery. **If good times are weird, Austin’s only getting weirder in 2012,**” noted the report.

Elsewhere, the US Chamber of Commerce has released its “Enterprising States 2011” report. Texas ranked sixth on the list of top ten cities for low business taxes and regulations. The report said **“the Lone Star State is a low-tax state that offers a low cost of living and has an enterprise-friendly climate that’s paying off with high job growth rates.”**

Also, **Jerry Heare, SrVP Industrial Specialist with NAI REOC Austin,** points out that **Business Development Teams from Kansas and Kentucky are coming to Austin to determine what Austin is doing to gain these lofty national rankings.**

By the way, the Austin industrial market ended the year on a positive note. NAI REOC Austin reports demand has pushed the occupied space to a level not seen since 2007. **In fact, 2011’s year-end vacancy rate was 17.8%, compared to 20.3% a year ago.**

Is Houston showing a bit of Austin-envy? Houston is a much bigger city, with one of the largest convention centers in the nation. Yet, it falls short in hotel rooms for convention goers.

This question was posed in the *Houston Business Journal (HBJ)*: “**if Austin can build a new 1,000-plus hotel room near its convention center, why can’t Houston, which is bigger than Austin, and has some other things going for it, such as being the energy capital of the world? Austin envy?** (Oh by the way, *HBJ*, Austin has **two 1,000-plus room convention hotels** planning to break ground downtown this year. But then, who’s counting?)

Randy McCaslin of the respected hotel consulting firm, PKF Consulting, was quoted in the *HBJ* as saying “**my numbers show that the Houston market could support two hotels of that size.** The George R. Brown Convention Center is among the 10 largest convention centers in the country.” **But the funding has not materialized to finance just one of the huge hotel facilities near the Houston convention center.**

The *HBJ* referenced the “rumor mill” reporting that “there may be funds coming this way from Asia to help build such a property near the George R. Brown Convention Center downtown.” Really? **How long has that rumor been floating around the Bayou City? “That deal has been in the works for a few years,”** noted the *HBJ*. “It hasn’t been signed though, so nobody’s talking. On the record, anyway.” Don’t hold your breath, Houston.

The reason some in Houston appear fixated on Austin’s success while Houston is coming up short is that **convention-goers are a prime source of economic activity – with minimal impact.** Visitors who attend conventions come to town, spend a lot of money while in the area, then they go away. Cities don’t have to spend tax money to educate their kids, etc.

On the contrary, **each hotel-dwelling convention-goer pays taxes that go directly to the cities.** Cities use that tax revenue to pay off bonds that were used to build their convention centers (taxpaying residents are spared the cost to build a convention center), to fund arts and other cultural activities and to market the city as a convention destination to other organizations.

Additionally, especially in Austin’s case, conventioners (many on expense accounts) patronize local restaurants, visit attractions and entertainment venues – **keeping those facilities in business so local residents can enjoy them year-round.** Convention business: such a deal! No wonder Houston appears envious.

Speaking of another economic marker, Austin’s air travel continues a bit above the previous high set in 2007 – but only by a narrow margin. Passenger travel at Austin’s airport in November 2011 was up 2%, and is up 5.5% for the year, compared to 2010. We’ll keep you posted.

Now that college football mania has let up a bit (until next month when new recruits sign with their favorite teams and the Texas Longhorns start spring practice), *The Wall Street Journal* has declared the Texas Longhorns football program the most valuable in the nation.

Not only did the *Journal* put the highest price tag on the UT Austin football program, the value the newspaper ascribed to the Longhorns was far-and-away ahead of #2. Here's what the *Journal* had to say: **"the Texas Longhorns football program -- just football; not basketball, baseball or anything else -- is worth \$805 million.** To put this into perspective, the NFL's Jacksonville Jaguars recently sold for about \$45 million less."

In its analysis of the values of nearly every major college football game, the *Journal* relied on **Ryan Brewer**, an assistant professor of finance at Indiana University-Purdue University Columbus. Among other factors, Brewer's study examined each program's **revenues and expenses and made cash-flow adjustments and risk assessments and growth projections for every school.**

Florida University, with a value of \$630.2 million came in 2nd to UT Austin's \$805 million. In addition there are six other college football teams worth at least \$500 million – **Michigan** (\$618.6 million), **Notre Dame** (\$581.2 million), **Georgia** (\$564.6 million), **Alabama** (\$522.0 million), **Ohio State** (\$520.9 million) and **LSU** (\$504.2 million).

Other football teams that competed this year with the Texas Longhorns: **#10 Oklahoma** (\$470.2 million), **#18 Texas A&M** (\$287.3 million), **#25 Oklahoma State** (\$206.9 million), **#28 Texas Tech** (\$160.9 million), **#31 Kansas State** (\$153.4 million), **#45 Missouri** (\$115.7 million), **#47 Iowa State** (\$112.8 million), **#63 Baylor** (\$51.7 million) and **#66 Kansas** (\$40.0 million).

The numbers illustrate the massive gap between the rich and the rest in college football.

Dr. Louis Overholster notes: "One nice thing about egotists is they don't talk about other people."

Sincerely



Editor/Publisher