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AUSTIN LETTER

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Dear Client:

Is the Austin area in the midst of an economic development transition? Instead of new jobs coming from big companies creating several thousand jobs at a pop, is the Austin metro going to be getting the bulk of its new jobs from small entrepreneurial start-up companies?

The Austin area economic development efforts since the 1980s have been highlighted by recognized **national and international companies investing in Austin and creating mostly well-paying jobs**. The latest example is widely-respected Apple. It was reported this week that Apple has purchased land in North Austin where it plans to invest more than \$300 million and create 3,600 new jobs – in effect doubling its current presence as the first Apple company location outside of California. Don't quarrel with this history. It has been impressive in its success. But the question now arises, **is the economic development landscape expanding?**

A noted national thought-leader this week observed that **“the majority of new jobs every year are created by start-ups**. The days when Ford or G.E. came to town with 10,000 jobs are over. Their factories are much more automated today, and their products are made in global supply chains.”

Writing in the Sunday *New York Times*, **Thomas Friedman**, was making a presidential contest political point. But let's chop out all his political rhetoric and focus on his economic thrust. Friedman argues that **“we can't stimulate or tax-cut our way to growth**. Instead,” he says, “we need 2,000 people in every town each starting something that employs five people.”

He didn't acknowledge Austin as the city most uniquely positioned to take advantage of this approach. He didn't need to. **Austin added 918 small businesses in two years**. Just this year, *Forbes* ranked Austin #1 as the best big city for jobs and the 9th best city for business and careers. And, according to Payscale.com, **the #2 hotspot in the US for technology startups is Austin**.

Claims Friedman: **“if we can make America the best place to dream something, design something, start something, collaborate with others on something and manufacture something – in an age in which every link in that chain can now be done in so many more places – our workers and innovators will do just fine.”** While he didn't mention Austin, can you think of a metro area more poised to lead the nation in this effort? I didn't think so.

The Austin area is home to thousands of small businesses and more are being created almost daily. But how “small” is “small?” And where does Austin stand, compared to other states, in the creation of the smallest of the small businesses?

There are various definitions of what it takes to be classified as a small business. Generally, **most businesses with less than 100 employees are defined as small.** But that definition encompasses a wide variety of companies. What about the **mom-and-pop shops**, those with just a handful of employees? Their problems and opportunities can’t really be lumped in with a **mega law firm that has up to 100 employees** on several floors in a downtown high rise.

Another category has been created for the smaller shops. **Those private sector establishments with fewer than ten employees are classified as microbusinesses.** This obviously includes the mom-pop shops, the corner garage, the private daycare center, etc.

But, obviously, it also includes **start-ups, many with huge potential.** And as you noted in the previous story, small entrepreneurial start-up companies could be the **wave of the economic development future for the nation.**

Now, step back and take a look at how the Austin metro fits into this futuristic picture. BizJournals’ *On Numbers* division examined the **number of microbusinesses in this nation’s 100 largest metropolitan areas.** And it tracked the *growth* in numbers of those ten-person-or-less shops from 2009 to 2010.

The Austin metro enjoyed the strongest growth rate in microbusinesses in the nation between 2009 and 2010 – a rate of 2.6%. This is doubly impressive when you consider that, in 2010, only 39 of the 100 biggest metros actually *added* microbusinesses. The other metros saw the number reduced.

How large is the microbusiness category in the Austin area? *On Numbers* said it was nearing the 30,000 mark. So this is a substantial part of the Austin business community.

Another emerging business category that is in Austin’s sweet spot is the young and potentially lucrative business of Casual Gaming.

Casual Gaming players do not need to buy a certain console as it is cloud-based. As a result a casual game is never downloaded so a hacker is not able to copy it and undercut a company’s price. **Casual Gaming has attracted a demographic not traditionally associated with video-game consoles – women.** So, what is the future? **Will O’Brien**, a marketing VP in the industry, says many games are being played on a three-inch mobile screen and Facebook. He predicts your living room TV set will be a major player for the easy-to-learn Casual Games.

One residential real estate segment that continues to be on fire, as rental properties command high rates and near-full occupancies, is the duplex and fourplex market.

The difference between apartments and the duplex/fourplex market is that the latter is open to smaller investors. With the current hot rental market, **it can be an opportune time to invest in these types of income-producing properties — if you can find the right deal.** Jeff Lowther heads up buyer services for Castle Hill Investments. As a result, he is not an unbiased observer, but he is in the middle of what is happening. Here's some of how he assesses the marketplace.

“Rents have increased 10%-15% in the last 12 months and show no signs of slowing down. Interest rates are at all-time lows, so cash flows are at unprecedented high levels,” he noted. “For these reasons, it is a perfect storm for purchasing investment properties and there has been a huge uptick in investment property transactions.”

He continued by pointing out that **“there are a lot of investors buying here not only for the strong cash flow, but also for the very high appreciation potential.** Therefore the best deals don't last on the market very long.”

The other side of the coin is available properties. The broker/owner of Castle Hill Investments **Robert Grunnah** is issuing a plea for owners who want to sell. **“We are selling buildings almost as quickly as we're listing them, and we need more.”** Grunnah points out he is Austin's top producing duplex and fourplex sales broker for eight years in a row.

Part of the reason for the high demand for rental properties is the high number of people coming to the Austin area. You've probably noticed daily what that has done to traffic.

You probably didn't know this number, but after you read it you'll probably say **“I knew it was high, but maybe not that high.”** Or if you drive the major roadways regularly you may go the other direction and say **“Is that all? It seems like a lot more to me.”** But no matter your reaction, this is a significant traffic development.

The number of vehicles registered annually in Travis County jumped by almost 50% between fiscal 2002 and fiscal 2012. About 644,000 vehicles were registered in fiscal 2002 when the county had about 830,000 residents. **In fiscal 2012, about 945,000 vehicles were registered in the county when Travis County had 1.06 million residents.**

The rapid growth in both people and vehicles is causing mobility issues (you think?). This suggests that even when road capacity is added, new vehicles will fill the additional space and **mobility issues will remain.** Keep this in mind as officials plan a bond election for November.

One of the Austin area's economic competitors in California is considering a first-in-the-nation tax on top of one of the most heavily-taxed populations in the nation.

It's generally accepted that Californians love their cars. And they seem to drive everywhere. One wag suggests Californians could be blamed for "inventing" spaghetti bowl freeway intersections. Now, **governmental officials in the entire Bay Area are considering a tax on the miles residents drive.** This would not replace any other form of taxation. It would be in *addition to all the taxes already paid* by those who live in California's Bay Area.

Here's what they are considering. Each vehicle owner would likely be required to **install a GPS-like tracking device on each vehicle. This device would measure how far they drive. They could be charged up to 10-cents per mile.** It would be the nation's first VMT (Vehicle Miles Traveled) tax.

That 10-cents/mile charge could vary. **The exact charge could go up and down depending upon how clogged the roads are at the time.** They are considering an exemption for low-income people.

The officials who kicked off the study of the VMT **say this new tax is a way to reduce traffic and vehicle emissions**, while providing funds for transportation improvements – such as extra bus service and freeway repairs. Those who criticize the new tax started screaming about the costs to each driver and raised privacy concerns last week when the *San Jose Mercury-News* revealed the plan.

To be sure, the VMT has a long way to go *if* it is finally approved, maybe more than a year. Such a tax would need approval by the Legislature and the voters, after the local governmental agencies adopt it. **But the fact it is under consideration gives Austin area economic development leaders another arrow in their quiver as they compete against California.**

Dr. Louis Overholster reminded us this week that he calls California "The Granola State" – after you get past the fruits and nuts, there is nothing left but the flakes!

Sincerely



Editor/Publisher