



2009-2010
Economic Forecast
GLOBAL TRENDS, LOCAL IMPACTS

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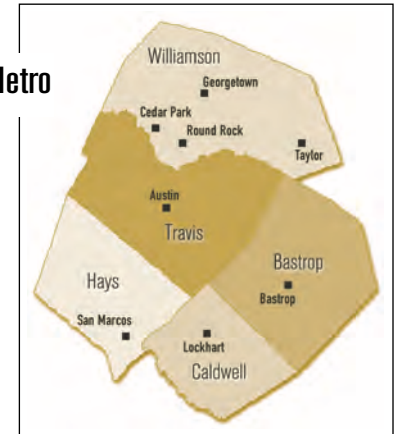


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2009-2010
Economic Forecast
GLOBAL TRENDS, LOCAL IMPACTS

Austin Metro



2009-2010 Economic Forecast Summary Austin Metro

	Employment			New Jobs			Annual Growth		
	2008	2009	2010	2008	2009	2010	'07-'08	'08-'09	'09-'10
Total Employment	777,800	779,900	790,900	19,000	2,100	11,000	2.5%	0.3%	1.4%
Professional Services	110,500	113,100	116,200	4,000	2,600	3,100	3.8%	2.4%	2.7%
Leisure & Hospitality	81,500	81,200	82,100	2,900	-300	900	3.7%	-0.4%	1.1%
Government	161,500	164,500	167,500	4,600	3,000	3,000	2.9%	1.9%	1.8%
Retail Trade	83,200	82,100	83,100	1,800	-1,100	1,000	2.2%	-1.3%	1.2%
Wholesale Trade	41,700	41,500	41,700	400	-200	200	1.0%	-0.5%	0.5%
Educational & Health Services	79,800	81,700	83,600	2,900	1,900	1,900	3.8%	2.4%	2.3%
Construction	51,000	49,800	50,100	2,400	-1,200	300	4.9%	-2.4%	0.6%
Manufacturing	57,700	55,400	55,200	-2,300	-2,300	-200	-3.8%	-4.0%	-0.4%
Information	21,600	21,400	21,600	-300	-200	200	-1.4%	-0.9%	0.9%
Other Services	29,100	29,000	29,100	900	-100	100	3.2%	-0.3%	0.3%
Financial Activities	46,300	46,200	46,500	1,200	-100	300	2.7%	-0.2%	0.6%
Transportation, Warehousing, & Utilities	13,900	14,000	14,200	500	100	200	3.7%	0.7%	1.4%
Unemployment Rate	5.0%	6.0%	5.6%						
Retail Sales (Billions)	\$24.0	\$23.8	\$24.6	0.6	-0.2	0.8	2.6%	-0.8%	3.4%
Population (Year-end)	1,640,000	1,678,000	1,722,000	42,000	38,000	44,000	2.6%	2.3%	2.6%

Source: AngelouEconomics; employment projections based on data from the Texas Workforce Commission

Austin MSA Employment (IN THOUSANDS)

	TOT	MFG	CON	TWU	TRA	FIRE	PROF	OTH	EDC	LHO	INFO	GOV
1997	566.3	73.2	31.5	9.9	81.9	31.6	69.9	20.3	53.0	51.8	16.9	126.4
1998	600.7	78.2	34.9	10.5	87.7	32.9	76.3	20.9	56.5	54.4	18.5	129.9
1999	635.4	77.8	38.2	10.8	97.1	34.6	83.5	21.5	59.8	57.9	20.5	133.8
2000	672.7	82.8	41.3	10.7	104.3	35.3	91.9	22.3	62.3	60.6	24.3	136.8
2001	674.1	76.3	41.5	11.3	105.3	36.4	91.3	23.2	63.3	61.8	23.3	140.4
2002	658.4	63.5	38.2	11.1	102.2	38.0	87.2	23.9	64.7	62.3	22.6	144.8
2003	653.0	57.7	37.4	10.6	101.5	39.5	85.6	24.5	66.0	63.8	20.8	145.6
2004	667.4	57.4	37.7	11.0	104.5	40.0	89.1	26.0	68.4	67.1	20.5	145.8
2005	692.2	57.3	40.2	11.7	110.1	41.2	94.1	26.5	71.1	69.7	21.5	148.9
2006	723.2	58.9	44.6	12.6	114.8	43.3	99.6	27.7	73.8	74.3	21.8	152.0
2007	758.8	60.0	48.6	13.4	122.7	45.1	106.5	28.2	76.9	78.6	21.9	156.9
2008	777.8	57.7	51.0	13.9	124.9	46.3	110.5	29.1	79.8	81.5	21.6	161.5

TOT Total Non-Agricultural Employment

MFG Manufacturing

CON Construction

TWU Transportation, Warehousing, & Utilities

TRA Wholesale & Retail Trade

LHO Leisure & Hospitality

FIRE Finance, Insurance, & Real Estate

PROF Professional Services

OTH Other Services

EDC Education & Health Services

INFO Information

GOV Government

Note: Due to rounding, industry estimates may not equal total employment.

Source: AngelouEconomics, Texas Workforce Commission

National Economy

2008 YEAR IN REVIEW

2008 has been a remarkably dismal year for the U.S. economy. Fallout from the subprime mortgage market has rippled throughout the broader economy and now affects nearly all employment sectors and geographic regions. Financial institutions, crippled by massive losses on mortgages, have proven reluctant to extend loans to businesses and consumers alike. Tight credit markets have limited corporate investment and personal expenditures. Witnessing both their homes and stock portfolios plummet in value, Americans have severely curtailed their spending, threatening industries such as manufacturing and retail. As unemployment has risen, consumer confidence has plunged, dropping to the lowest recorded level since tracking began in 1967.

Troubling news for the U.S. economy

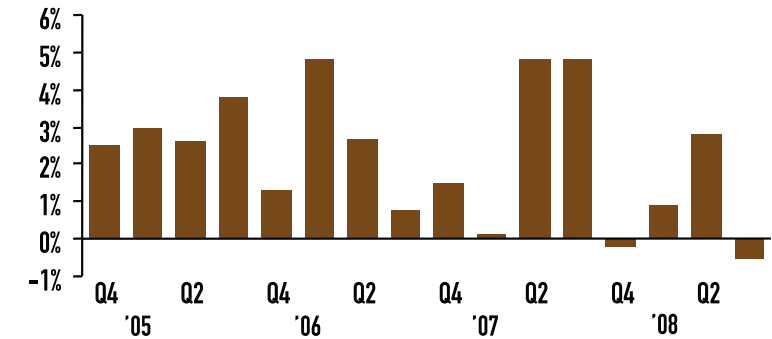
The U.S. economy contracted in 2008: U.S. GDP declined by 0.5% in the third quarter, although GDP has risen 0.8% year over year from 2007 to 2008. The contraction of U.S. GDP reflects a broad slowdown affecting nearly every sector of the economy. The current economic crisis in the U.S. has also severely curtailed global economic growth, which slowed to 2.5% in 2008, barely half of last year's rate. With the World Bank projecting that world GDP will increase less than 1% in 2009, the global economic outlook appears even more challenging.

The U.S. economy lost jobs in 2008: Over the past year, U.S. employment has fallen significantly; since January the country has lost 2.6 million jobs. Although employment in the U.S. has declined every month in 2008, recent figures have been particularly alarming. The U.S. economy shed more than 500,000 jobs in both November and December; total employment loss in 2008 was the largest since 1945. Job losses have occurred in virtually every sector and extend to nearly every part of the country; only education & health services and government employment experienced growth in 2008.

Unemployment in the U.S. rose rapidly in 2008: Due to the broad declines in employment, unemployment during this period jumped dramatically during the past year. Since January, the unemployment rate has risen from 4.9% to 7.2%, a 16-year high.

U.S. Real Gross Domestic Product

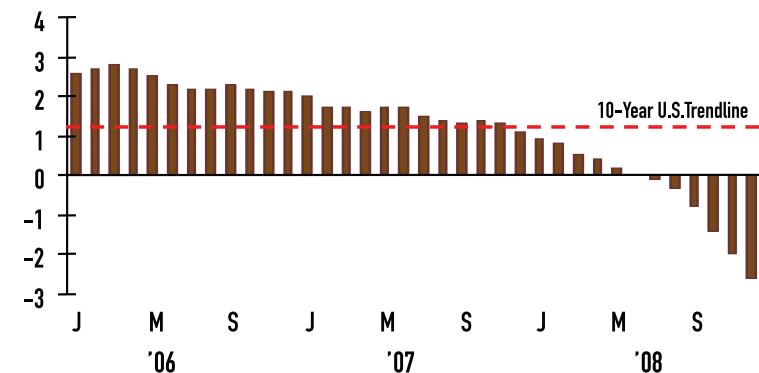
Annualized Growth Rate



Source: AngelouEconomics, Bureau of Economic Analysis

U.S. Year Over Year Employment Total

Millions of jobs vs. same month last year



Source: AngelouEconomics, Bureau of Labor Statistics

National Economy

2008 YEAR IN REVIEW

CONTINUED

U.S. household net worth is declining: During the first three quarters of 2008, total household net worth dropped to \$57.9 trillion, a loss of more than \$5 trillion in the past year. Led by large declines in the value of real estate and securities holdings, household assets have lost nearly \$1.4 trillion in value during the past four quarters.

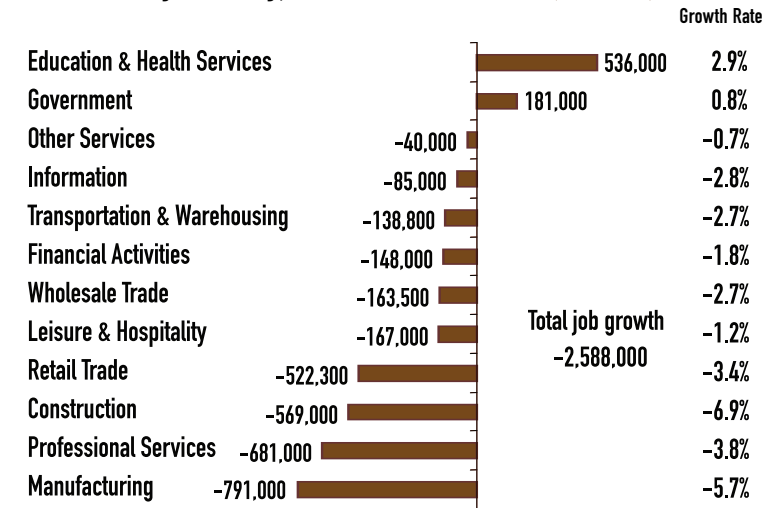
U.S. housing sales continue to plummet: New housing sales in 2008 fell 35% compared with 2007 figures. With only 492,000 new houses sold this year, 2008 marked the first time in 25 years that fewer than 500,000 new houses were sold in the U.S. Additionally, permits for new houses are down by 34% from 2007. Finally, the U.S. housing market has seen price declines of 9% in 2008, with the median existing-home price falling to \$191,600. Rising unemployment, compounded by historically tight credit markets, suggests that the U.S. housing market will remain weak throughout much of 2009 despite record low mortgage rates.

Fallout from subprime mortgages and liquidity crisis continues: In 2007, the subprime mortgage market imploded as widely-held mortgage backed securities proved to be much riskier than expected. Having suffered massive declines in their assets, financial institutions reduced lending in 2008. In an attempt to reinvigorate paralyzed credit markets, central banks throughout the world injected unprecedented liquidity into financial markets. Thus far, these efforts have effectively stabilized the global financial markets but have failed to produce greater levels of lending. Additional policy actions will be required to immediately stimulate employment through infrastructure investment or programs to alleviate distressed homeowners. Still, the current recessionary period will almost certainly continue throughout the better part of 2009.

Positive developments for the U.S. economy

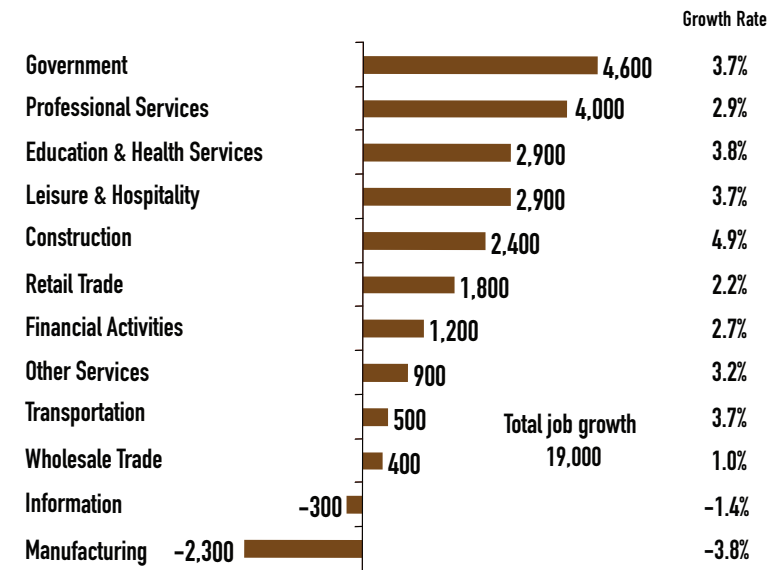
As the U.S. economy resets to a more sustainable level of consumption, a few positive developments may bolster the eventual recovery. The dramatic decline of energy prices over the past several months, for example, has provided some relief to cash-strapped Americans. Additionally, average household debt decreased in late 2008. Although a decline in short-term household spending may prolong the current recession, Americans are once again beginning to live within their means.

New Jobs by Industry, 2008 United States (YEAR-OVER-YEAR)



Source: AngelouEconomics, Bureau of Labor Statistics

New Jobs by Industry, 2008 Austin Metro (ANNUAL AVERAGE)



Source: AngelouEconomics, Bureau of Labor Statistics

Austin Economy

2009-2010 FORECAST

The Texas economy, supported by broad-based growth, has outpaced the U.S. economy for nearly five years. Expansions in Austin's professional services and education clusters, Dallas-Ft. Worth's telecommunications and logistics clusters, Houston's energy cluster, and San Antonio's broad service clusters have helped drive the remarkably resilient economy of Texas. While the nation has suffered 12 months of consecutive job losses, employment in Texas increased 2.2% in 2008. Although the sharp decline in the price of oil over the past six months will certainly impact employment in Texas, thus far the energy sector continues to maintain strong levels of employment. Nationally, construction and professional services enjoyed strong employment gains during 2008, though growth in both sectors slowed during the second half of the year.

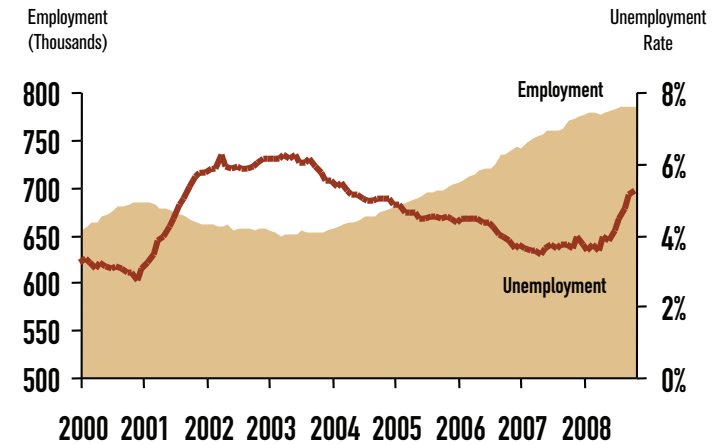
Austin's economic expansion outpaced national and state growth for the fourth straight year. Austin employment surpassed 777,000 in 2008, the highest level in the city's history, with 19,000 jobs added during the year. Although this figure remains well below the 35,000 jobs created in Austin during 2007, such positive employment growth demonstrates Austin's resilience in a dismal macroeconomic environment.

Importantly, Austin's employment gains reflect growth in nearly every segment of the economy. Government and professional services enjoyed the largest employment gains, with sector employment growing by 3.7% and 2.9% respectively. Education & healthcare and leisure & hospitality also experienced strong growth, with each sector posting gains of 3.8% and 3.7% respectively. Only two sectors in Austin suffered employment losses in 2008 – manufacturing and information. Local manufacturing firms shed over 2,300 jobs, a decline of 3.8%, while the information sector lost 300 jobs, a decline of 1.4%.

Despite overall employment gains, there are troubling signs for Austin's economy in the immediate years ahead. As evidenced by recent layoff announcements, the local technology sector is faltering. Additionally, Austin's once thriving real estate market slowed considerably in 2008, with the residential, commercial, industrial, and retail sectors all experiencing declines in occupancy and prices. Depressed property values, compounded by lower than expected retail sales, may soon threaten the City of Austin's revenue projections, forcing difficult budgetary decisions. Despite these challenges, sectors such as government and education will provide needed stability to Austin's economy.

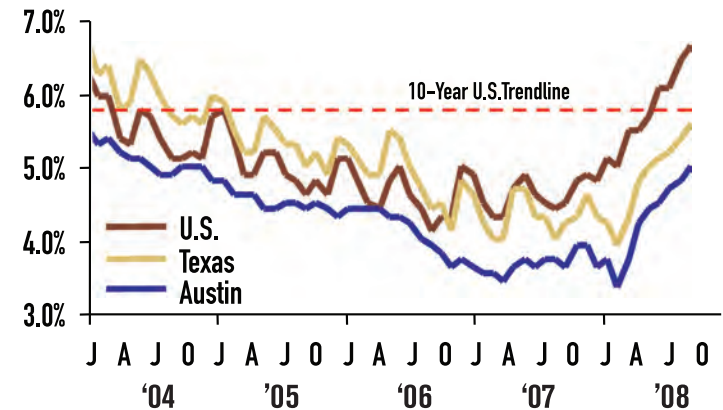
Employment & Unemployment Rate Austin Metro

(SEASONALLY ADJUSTED)



Source: AngelouEconomics, Federal Reserve Bank of Dallas

Unemployment Rate



Source: AngelouEconomics, Bureau of Labor Statistics



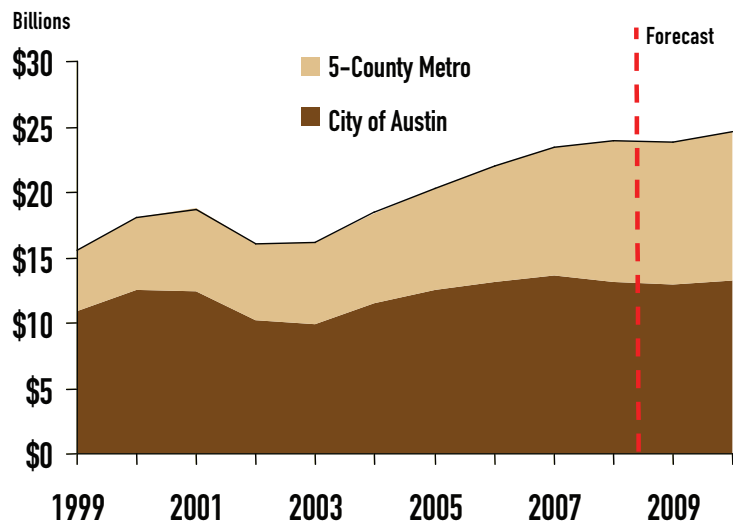
Austin Economy

2009-2010 FORECAST

Austin continues to enjoy positive job growth and the area's strong wages underscore the dynamism of the local economy. Local wage growth, however, has slowed significantly over the past few years. Between 2005 and 2006, for example, wages in Austin jumped 5.3%. According to the most recent data available, however, the average private sector wage in Austin grew just 1.7% in 2007 and 2.2% in 2008. Still, Austin's average wage of \$47,750 remains approximately 7% higher than the U.S. average. Wages increased across all industries, from traditionally low-wage sectors such as the arts to high-wage industries such as professional services and information.

Despite slow wage increases, consumer spending remains relatively healthy in the Austin region. AngelouEconomics estimates that retail sales grew by 2.6% to \$23.9 billion from 2007 to 2008, adding \$500 million in retail sales to Austin's economy. Ongoing expansions to recent retail developments such as the Hill Country Galleria and the Domain continue to provide Austin consumers with a growing variety of retail choices. Retail sales will decrease slightly through 2009, falling 0.8% as the effects of the weaker housing market and slower national economy dampen consumer spending.

Retail Sales Austin Metro



Source: AngelouEconomics, Texas Comptroller

2008 at a Glance

U.S.		TEXAS
135,489,000	Employment	10,234,000
-2,588,000	New Jobs	222,400
-1.9%	Annual Growth	2.2%
7.2%	Unemployment*	5.7%
304,500,000	Population	24,400,000
2,882,000	New Population	455,000
\$4.03 tril	Retail Sales	\$413 bil
\$22.6 bil	Venture Capital	\$961 mil

Source: AngelouEconomics

*December 2008

2008 at a Glance AUSTIN METRO

777,800	Employment
19,000	New Jobs
2.5%	Annual Growth
5.0%	Unemployment*
1,652,000	Population
54,000	New Population
\$23.9 bil	Retail Sales
\$293.9 mil	Venture Capital Funding

Source: AngelouEconomics

*December 2008

Changing Demographics

2009-2010 FORECAST



Strong population growth is a clear indicator that Austin continues to be one of America's most desirable communities. The metro area population is currently estimated at 1.65 million, an increase of nearly 95% since 1990. Austin's population expansion has come primarily from migration to the region, with 62% of population increases coming from domestic migration and 12% coming from international migration. The remaining 26% of Austin's increased population came from natural increase. Metro demographics have also changed with overall population growth.

Austin is rapidly becoming a diverse area as the minority population continues to grow faster than the non-Hispanic white population. People of Asian and Hispanic ethnicity are the fastest growing segments of Austin's population, with the Asian population growing by more than 50% and the Hispanic population growing by 38% since 2000. As these two ethnic groups have the highest entrepreneurial rates in the nation, their presence in the metropolitan area will undoubtedly enhance Austin's innovative culture in the future. The area's population is younger and better educated than U.S. and state averages, factors that will also enhance future economic growth.

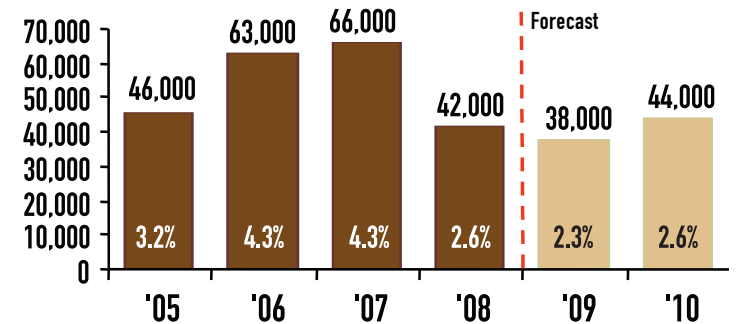
Austin Employment

Austin's economy will experience sluggish job growth in 2009 before returning to form in 2010, with employment increasing by 2,100 and 11,000, respectively in 2009 and 2010. New jobs will be created across the Austin economy, though the manufacturing and retail sectors will see small job

losses in 2009 as a result of a downturn in exports and reduced consumer spending. Job growth will remain strong in the core sectors of professional services, government, and education & health care, with slower growth in other sectors of the economy. Economic growth in transportation, warehousing, & utilities and manufacturing will remain slow. Professional services will add the most private-sector jobs in 2009 and 2010, continuing the growth in high-wage industries.

Austin Metro Population Growth Forecast 2005-2010

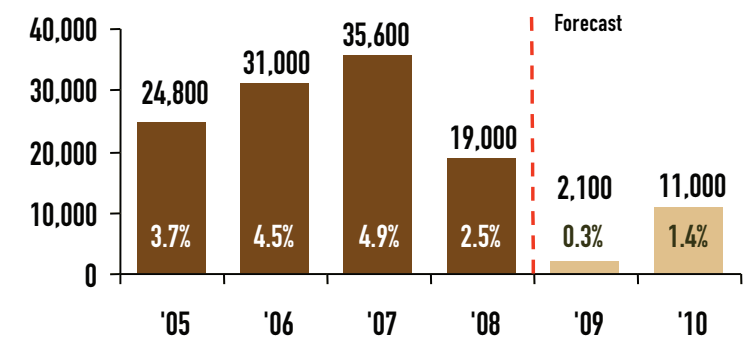
Net New Persons



Source: AngelouEconomics, Census

Austin Metro Job Creation Forecast 2005-2010

Net New Jobs



Source: AngelouEconomics, Texas Workforce Commission



Top 25 Public Companies

Headquartered in Austin

Company	Description	Symbol	Revenue	2007-2008 Revenue Change	Local Employment
Dell	Diversified Technology Manufacturing / Services	DELL	\$61.13 Bil.	\$4.13 Bil.	17,000
Whole Foods Market	Natural Foods Markets	WFMI	\$6.59 Bil.	\$1 Mil.	1,687
Temple-Inland	Manufacturing / Financial Services	TIN	\$3.92 Bil.	-\$260 Mil.	517
National Instruments	Instrument Design / Manufacturing	NATI	\$740 Mil.	\$80 Mil.	2,200
National Western Life Insurance Co.	Insurance	NWLIA	\$475 Mil.	-\$47 Mil.	209
Golfsmith International	Golf Equipment Retailer	GOLF	\$388 Mil.	\$30 Mil.	351
EZCorp	Pawnshop Developer / Operator	EZPW	\$372 Mil.	\$56 Mil.	239
Silicon Laboratories	Mixed-signal Integrated Circuits	SLAB	\$337 Mil.	\$49 Mil.	500
ArthroCare	Medical Devices / Equipment	ARTC	\$319 Mil.	\$56 Mil.	80
Perficient Inc.	Software	PRFT	\$218 Mil.	\$57 Mil.	NA
Vignette Corporation	Software	VIGN	\$192 Mil.	-\$5.8 Mil.	213
Cirrus Logic	Semiconductor Design	CRUS	\$182 Mil.	\$0.4 Mil.	299
Citizens	Insurance	CIA	\$174 Mil.	\$16 Mil.	90
American Campus Communities	Real Estate Investment Trust	ACC	\$147 Mil.	\$28 Mil.	94
HealthTronics	Medical Devices / Equipment	HTRN	\$140 Mil.	-\$2 Mil.	60
Multimedia Games	Games	MGAM	\$122 Mil.	-\$23 Mil.	250
Brigham Exploration Company	Oil / Gas Exploration	BEXP	\$119 Mil.	\$13 Mil.	70
Amer Physicians Service Group, Inc.	Financial Services / Insurance	AMPH	\$84 Mil.	\$52 Mil.	97
Luminex	Medical Devices / Equipment	LMNX	\$75 Mil.	\$22 Mil.	NA
Pervasive Software Inc.	Software	PVSW	\$41 Mil.	-\$4.8 Mil.	202
Asure Software	Software	ASUR	\$40 Mil.	\$26 Mil.	38
Entorian	Computer Memory Manufacturer	ENTN	\$34 Mil.	-\$9 Mil.	60
Active Power, Inc.	Uninterrupted Power Supply Providers	ACPW	\$34 Mil.	\$9 Mil.	108
Stratus Properties	Real Estate	STRS	\$27 Mil.	-\$35 Mil.	32
Valence Technology	Energy Storage Solutions	VLNC	\$21 Mil.	\$4 Mil.	NA

Source: Austin Business Journal

The Entrepreneurial Economy

2008 AUSTIN ECONOMY

While the broader credit markets remain paralyzed by the widespread reluctance of financial institutions to lend money, the venture capital market, merger and acquisition (M&A) activity, and the IPO market have each been affected in different ways. During the first three quarters of 2008, national venture capital funding totaled \$22.6 billion, nearly even with the same period in 2007. In contrast, the liquidity problems presently plaguing the financial markets have produced dramatic declines in M&A activity. Year to date, the number of M&A deals has fallen by 25% compared to 2007 and dollar volume has declined by nearly 35% to the lowest level in 6 years. Despite the severity of these problems, the U.S. IPO market has plunged even more precipitously. In the first nine months of 2008, just 54 deals were completed – a significant drop from the 195 offerings during the same period in 2007. This year, the domestic IPO market has raised just \$31 billion, less than half the 2007 total. Perhaps even more alarming, a single IPO accounted for more than 55% of this total; excluding VISA's \$17.8 billion IPO earlier in the year, the total value of IPOs issued during the first nine months was \$13.3 billion. No Austin companies completed IPOs in 2008, with several local companies suspending planned IPOs due to unfavorable market conditions.

Despite the recent turmoil of the stock market and the ongoing credit crisis, venture capital firms continue to raise significant sums from investors. Perhaps surprisingly, the amount of available venture capital in 2008 was the second largest since 2001. Although 2008 witnessed continued growth of traditional venture capital stalwarts such as software and biotechnology, the industrial/energy sector posted the most impressive gains. Fueled by growing investment in traditional and alternative energy sources, the industrial/energy sector received more than \$3.6 billion in 2008 – a 64% jump over 2007.

Unfortunately, the local venture capital market has not fared as well as the national venture capital market. In 2008, Austin's year to date venture capital funding levels were nearly 30% below 2007 figures; area firms received approximately \$294 million through the first three quarters of 2008, compared with \$418 million through the first three quarters of 2007. As in previous years, two of the largest recipients of venture funding in Austin were semiconductor and software firms. Notable transactions from 2008 include a \$14.6 million investment in Challenge Online Games, a \$14 million investment in cooling technology company Nuventix, and a \$12.9 million investment in Molecular Imprints Inc, a semiconductor technology firm. Additionally, over the past few years, the energy sector has emerged as a major player in Austin's local venture capital market, with investments in local battery company ActaCell and in HelioVolt.

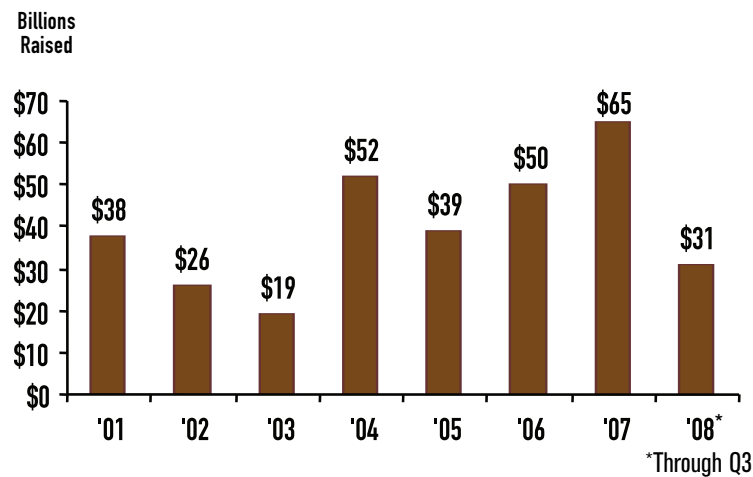
U.S. Venture Capital by Industry

Industry	Deals	Investment (\$M)
Software	685	\$3,994
Industrial/Energy	259	\$3,636
Biotechnology	364	\$3,561
Medical Devices and Equipment	298	\$2,850
IT Services	204	\$1,535
Media and Entertainment	317	\$1,533
Semiconductors	143	\$1,397
Telecommunications	172	\$1,283
Networking and Equipment	70	\$519
Financial Services	60	\$449
Business Products and Services	94	\$436
Consumer Products and Services	73	\$358
Computers and Peripherals	51	\$347
Electronics/Instrumentation	60	\$316
Retailing/Distribution	36	\$234
Healthcare Services	36	\$161
Other	8	\$20
Total*	2,930	\$22,628

*Through Q3 '08

Source: AngelouEconomics, VentureEconomics

U.S. IPO Market



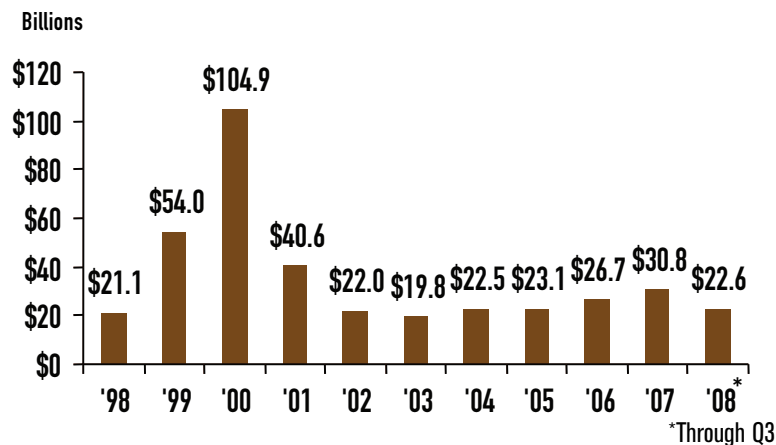
Source: AngelouEconomics, PricewaterhouseCoopers

Austin Venture Capital by Industry

Industry	Deals	Investment (\$M)	Share of U.S.
Semiconductors	9	81.7	5.8%
Software	13	81.2	2.0%
Media and Entertainment	8	26.4	1.7%
IT Services	4	24.3	1.6%
Financial Services	2	13.8	3.1%
Computers and Peripherals	3	12.8	3.7%
Medical Devices and Equipment	1	12.7	0.4%
Industrial/Energy	1	12.5	0.3%
Other	1	10.6	53.0%
Consumer Products and Services	3	8.3	2.3%
Telecommunications	1	4	0.3%
Electronics/Instrumentation	2	2.5	0.8%
Healthcare Services	1	2.3	0.1%
Networking and Equipment	1	0.8	0.2%
Total*	50	293.9	1.3%

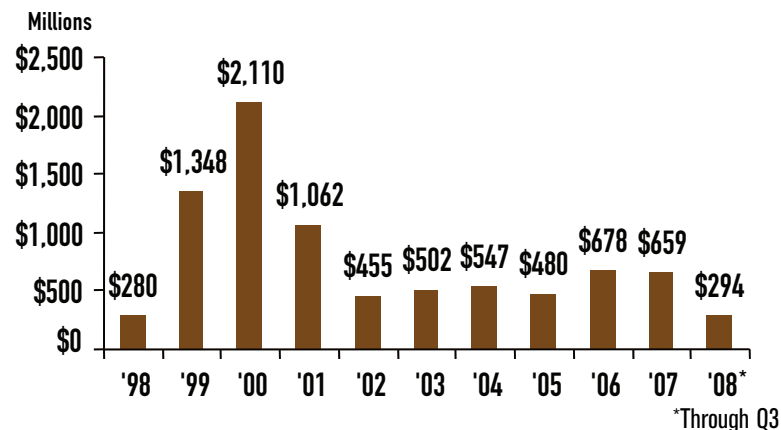
Source: AngelouEconomics, VentureEconomics *Through Q3 '08

U.S. Venture Capital Funding



Source: AngelouEconomics, VentureEconomics

Austin Venture Capital Funding



Source: AngelouEconomics, VentureEconomics



The Tech Sector

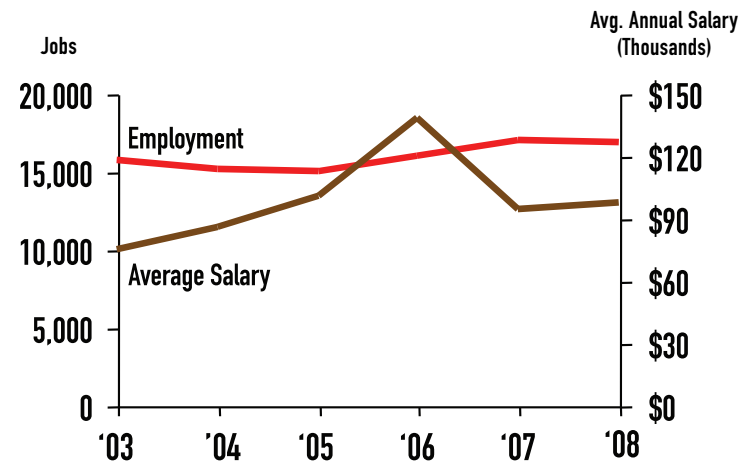
2008 AUSTIN ECONOMY

Over the past two decades, Austin's technology sector has expanded from its traditional base in computer hardware and software to include gaming, niche consumer products, and clean energy technologies. Despite Austin's past success in supporting the technology sector, increased global competition continues to threaten existing local operations. Ultimately, the region must continue to aggressively support technology companies to remain a global leader in this rapidly changing industry.

Austin's technology-based economy, while stronger than the U.S. economy overall, is not immune from the current difficulties facing the broader economy. As both corporate clients and consumers have become more hesitant to make significant purchases over the past year, local technology companies have suffered from slumping sales and increased pressures to become more efficient. In 2008, Advanced Micro Devices, Applied Material, Dell, and Freescale all announced layoffs affecting their Austin operations, leading to a decline in local employment in the semiconductor and computer manufacturing sectors. While local employment in the software industry continues to enjoy modest growth, a prolonged recessionary period will almost certainly threaten these gains.

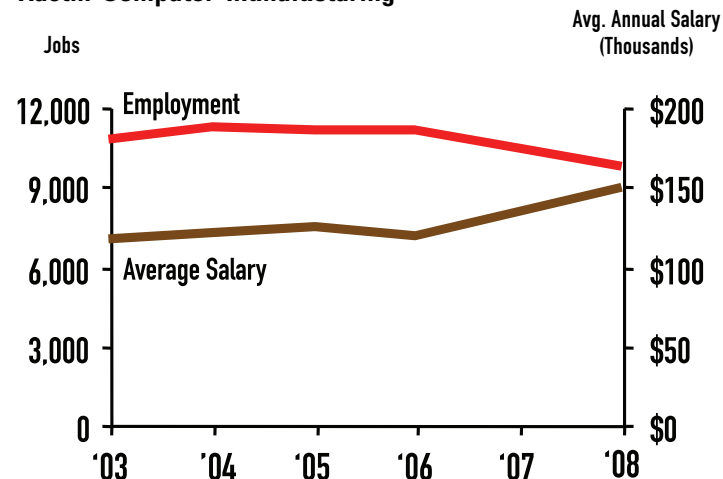
Ultimately, no community can perform well when its major employers are in trouble. While locally strong employment sectors such as government and education help buttress the Austin regional economy during downturns, a continued erosion of Austin's high-tech employment base will have severe long-term economic consequences.

Austin Semiconductor Manufacturing



Source: AngelouEconomics, Texas Workforce Commission

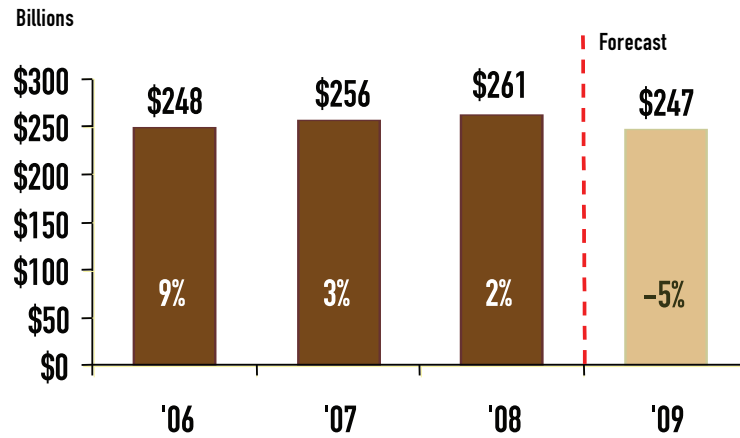
Austin Computer Manufacturing



Source: AngelouEconomics, Texas Workforce Commission

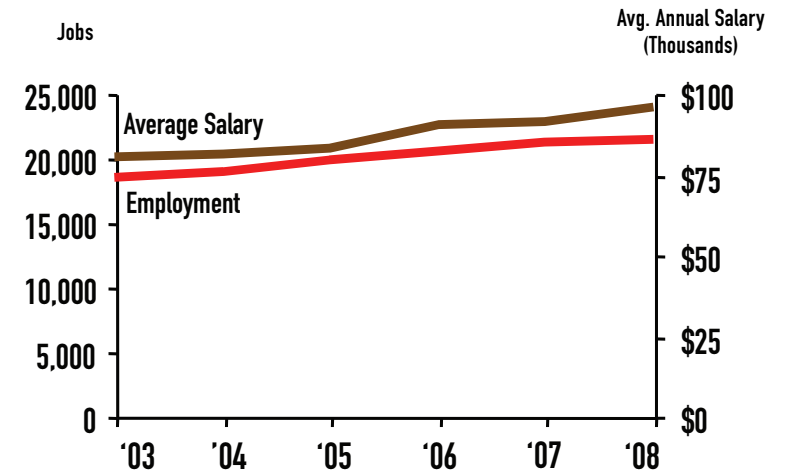
The Tech Sector

Global Semiconductor Chip Sales



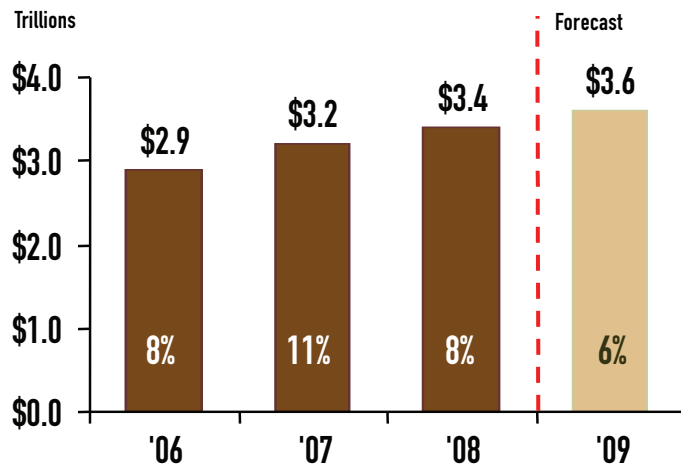
Source: AngelouEconomics, Semiconductor Industry Association, Gartner

Austin Computer & Software Design



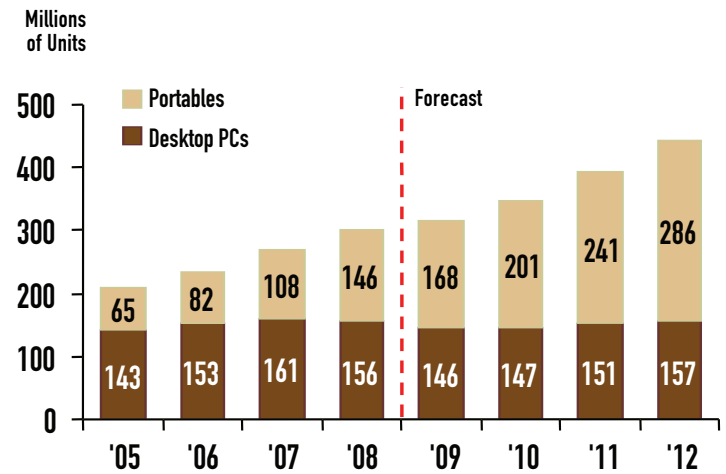
Source: AngelouEconomics, Texas Workforce Commission

Worldwide IT Spending



Source: AngelouEconomics, Gartner

Worldwide PC Shipments



Source: AngelouEconomics, IDC

Commercial Real Estate

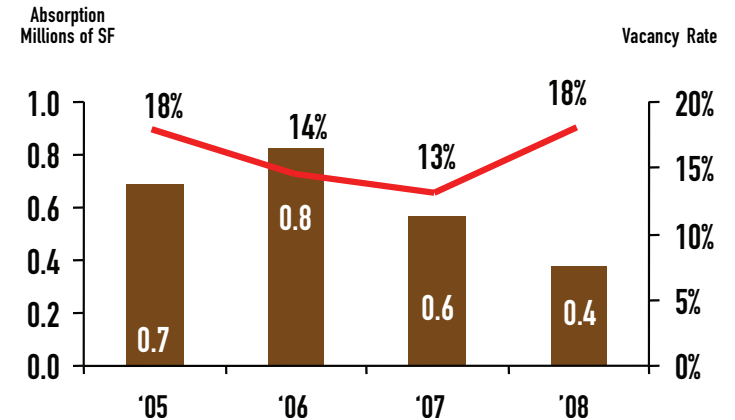
2008 AUSTIN ECONOMY

Austin's office market, which emerged in 2007 as one of the top 10 U.S. markets for office investment, slowed significantly in 2008. After falling below 13% in 2007, the overall vacancy rate jumped to 18% in 2008. Additionally, Class A lease rates declined slightly, dropping from \$31.85 per square foot to \$31.27, still higher than comparable space in Houston or Dallas. Absorption of space has also been weak, with consensus estimates converging around 340,000 square feet absorbed through the third quarter; this figure represents a decline of nearly 40% over the same period last year. The Central Business District has improved its position within the office market, with vacancies nearing 13% and Class A leases averaging nearly \$36 per square foot. At approximately 12%, only the North Suburban market enjoys a lower vacancy rate. Other office markets, including Northwest, South, and Southwest, all currently feature vacancy rates of approximately 16%. With nearly all new construction in the region occurring in these submarkets, vacancy rates outside of the CBD will likely rise in 2009.

Unfortunately, 2008 has been an even more challenging year for Austin's industrial market. After posting solid gains in recent years, the industrial market collapsed in 2008. Slowing manufacturing growth from companies such as Dell, AMD, and Freescale helped contribute to the contraction of the industrial market. Overall vacancy rose to 18% in 2008, nearly double last year's rate of 9.1%. Alarmingly, total absorption for the year has been less than 10,000 square feet, a decline of nearly 95% over the same period last year. Lease rates also declined, falling from \$7.99 per square foot in 2007 to \$7.21 in 2008. With more than 1.2 million square feet of industrial space currently under construction, the industrial market may face an even more difficult year in 2009.

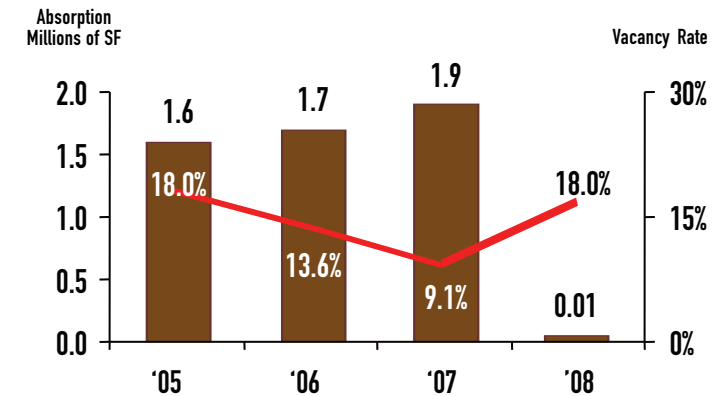
In spite of volatility in the national retail sector, continued population growth and increased retail spending buoyed Austin's local retail market in 2008. The retail market posted positive absorption figures for the eighth straight year, with 91.5% of available commercial retail space occupied. Expansions of large retail centers such as the Hill Country Galleria drove an increase in retail space in 2008. Approximately 370,000 square feet of space was absorbed in 2008. Although this figure is nearly 75% below last year's absorption totals, Austin's retail market remains far healthier than the national retail market. Currently, more than a million square feet of retail space is under construction in Austin. With absorption levels likely to suffer from the continued economic slowdown, vacancy rates in Austin's retail market will likely increase in 2009. Additionally, planned store openings may be delayed until the economy recovers. Already, Nordstrom, Saks Fifth Avenue, and Whole Foods have pushed back planned openings at the Domain. Still, the local retail sector will likely outperform the office and industrial markets.

Austin Office Market



Source: AngelouEconomics, Colliers Oxford, NAI/CIP

Austin Industrial Market



Source: AngelouEconomics, Oxford Commercial, NAI/CIP

Austin Commercial Market

	Office	Industrial	Retail
Inventory	39,025,000	52,044,000	37,272,000
Occupancy	82.2%	82.0%	91.5%
Rental Rate	\$29.91	\$7.21	\$20.43
Absorption YTD	376,000	50,000	370,000

Source: AngelouEconomics, Colliers Oxford, NAI/CIP, CB Richard Ellis



Residential Real Estate

2008 AUSTIN ECONOMY

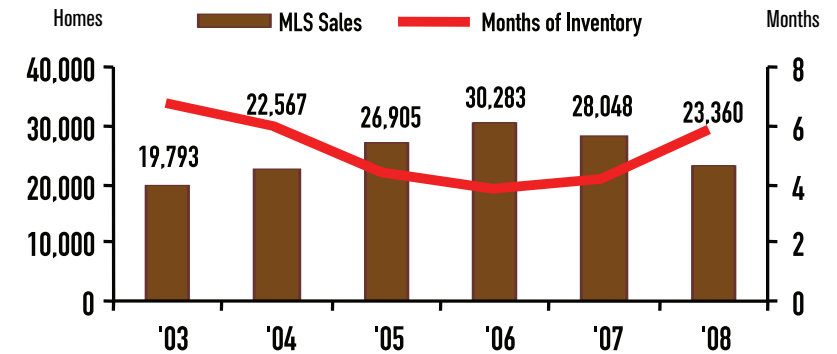
Austin's residential housing market is finally feeling the negative effects of the national housing slump as sales decreased dramatically and average housing prices dropped more than at any time since at least 1990.

With fewer than 1,100 houses sold in Austin in November, housing sales suffered their single weakest month since 2000. Housing sales in the month of November dropped by 50% compared with peak sales in November 2006 when 2,141 houses were sold.

Housing prices are also beginning to drop, with a 1.1% fall in the average housing price from 2007 to 2008. Median housing prices increased at the slowest rate since 1990 excluding the 2002-2004 slump in the tech economy, as both the high end and entry-level markets were hit by increased mortgage standards and the lack of credit availability. Median prices year to date in 2008 are at \$188,000.

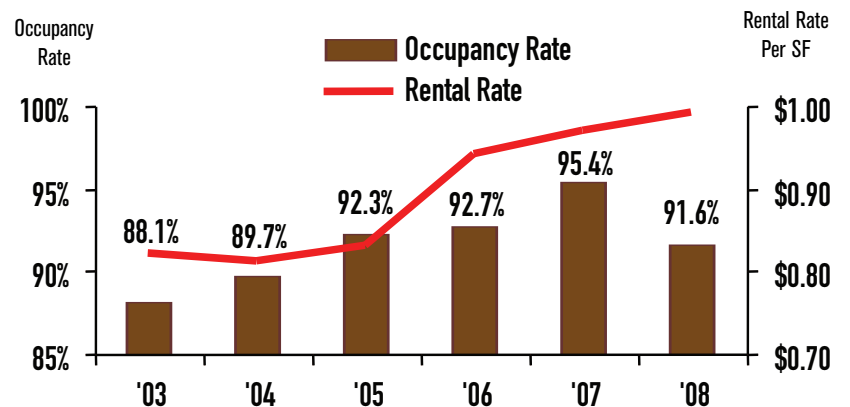
Austin's multi-family market fared reasonably well in an otherwise uninspiring real estate environment. In 2007, average rents rose to nearly \$.99 per square foot, a remarkably strong performance given the broader real estate environment. Unfortunately, the local Austin market has not been able to fully absorb excess inventory, forcing a sharp decline in occupancy rates. After climbing to 95.4% in 2007, Austin's multi-family occupancy rate dropped to 91.6% in 2008. Although the current occupancy rate remains high by historical standards, continued apartment construction will likely push vacancy rates higher in 2009.

Austin Single Family Market



Source: AngelouEconomics, Texas A&M Real Estate Center

Austin Multi-Family Market



Source: Austin Investors Interests, ALN Apartment Data

Emerging Growth Sectors

2008 AUSTIN ECONOMY



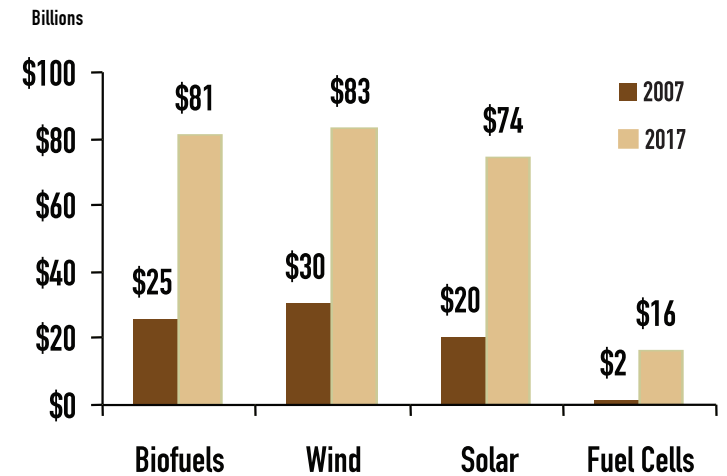
While Austin has traditionally been known for its computers, semiconductors, and software, growth in these sectors has slowed significantly in recent years. Clean energy and data centers represent two expanding sectors that Austin should aggressively pursue to fuel continued economic growth. Given Austin's population size, high quality of life, and reasonable business costs, the region will also prove increasingly competitive in attracting regional headquarters.

Clean energy is a long-term growth industry. In 2009, clean energy industries will expand across the nation in response to government mandates, volatile energy prices, and job creation programs. Austin has emerged as a center for clean energy technologies, with a supportive local utility and forward-thinking public policy focused on building Austin as a sustainable city. Solar installation and manufacturing, energy services companies, and green building in particular are industry strengths for Austin. As Austin's economy begins to adapt to new local and national incentives for energy efficiency and renewable energy consumption, Austin has the potential to create significant numbers of highly-paid jobs in the clean energy industry.

Despite the economic slowdown, the market for data centers also continues to grow. In September, for example, the world's largest owner of data center properties reported the best leasing quarter in the company's history. Although there are an estimated 7,000 data centers in America alone, a quarter of corporate data centers in America lack the space to add additional servers. The adoption of new technologies such as cloud computing, as well as wider application of existing technologies in healthcare and security, will only further increase the demand for new data centers.

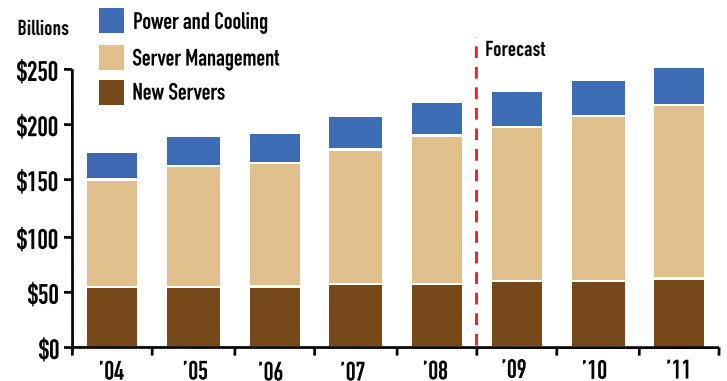
Continued growth in the data center market will ultimately create opportunities for communities throughout the country. Austin, for example, has benefited enormously from strong growth in data centers from Fortune 500 companies. Microsoft, Citi, HP, and others have built consolidated data centers in Austin, San Antonio, and Houston, while other companies continue to devote resources to developing more environmentally friendly data centers.

Global Clean Energy Growth



Source: AngelouEconomics, Clean Edge

Global Data Center Spending



Source: AngelouEconomics, IDC

Conclusion

2009-2010 FORECAST

On December 1, 2008 the National Bureau of Economic Research, which serves as the official designee of economic downturns, confirmed the economic view of many observers by announcing the country was in a recession. According to the organization, America has been in a recession since December 2007. During this period, employment has declined by 2.6 million jobs, the Dow Jones Industrial Average has dropped by approximately 35%, and over \$5 trillion in household net worth has evaporated.

As America's recession enters its 14th month, there are few signs of an immediate turnaround. If the economic downturn continues through April—which is very likely—the current economic crisis will ultimately prove to be the longest recessionary period in American history since the Great Depression. Despite the dismal performance of the national economy over the past year, Austin remains in an enviable position. While the region will not escape the bruising dynamics of the national economy, few metropolitan areas are more competitively placed to succeed in the years ahead.

From a regional perspective, Austin will continue to benefit from its location in Texas. Over the past decade, Texas has outperformed every other state in the country in economic dynamism. Simply put, Texas provides a deeply attractive environment for individuals and businesses alike. Additionally, Austin enjoys a favored place within Texas; in recent years, few regions of the state have proven more successful in pursuing a path of economic prosperity. Thanks to high quality of life, plentiful employment opportunities, and a thriving entrepreneurial culture, Austin has continued to draw young, well-educated professionals to the area. This potent combination of a talented workforce, welcoming business climate, and cherished quality of life remains the lifeblood of Austin's economic vitality.

To ensure a thriving economy over the long term, Austin must continue to attract and retain the best talent, improve wage growth, and maintain its high quality of life. Additionally, Austin must continue to follow the long-term path to growth by focusing economic development efforts on supporting the economy of tomorrow. Much like the region's past aggressive pursuit of the technology sector sustained economic success during the emergence of a digital economy, so too must today's leaders pursue new opportunities in sectors such as alternative energy and data centers that will fuel future economic revolutions.



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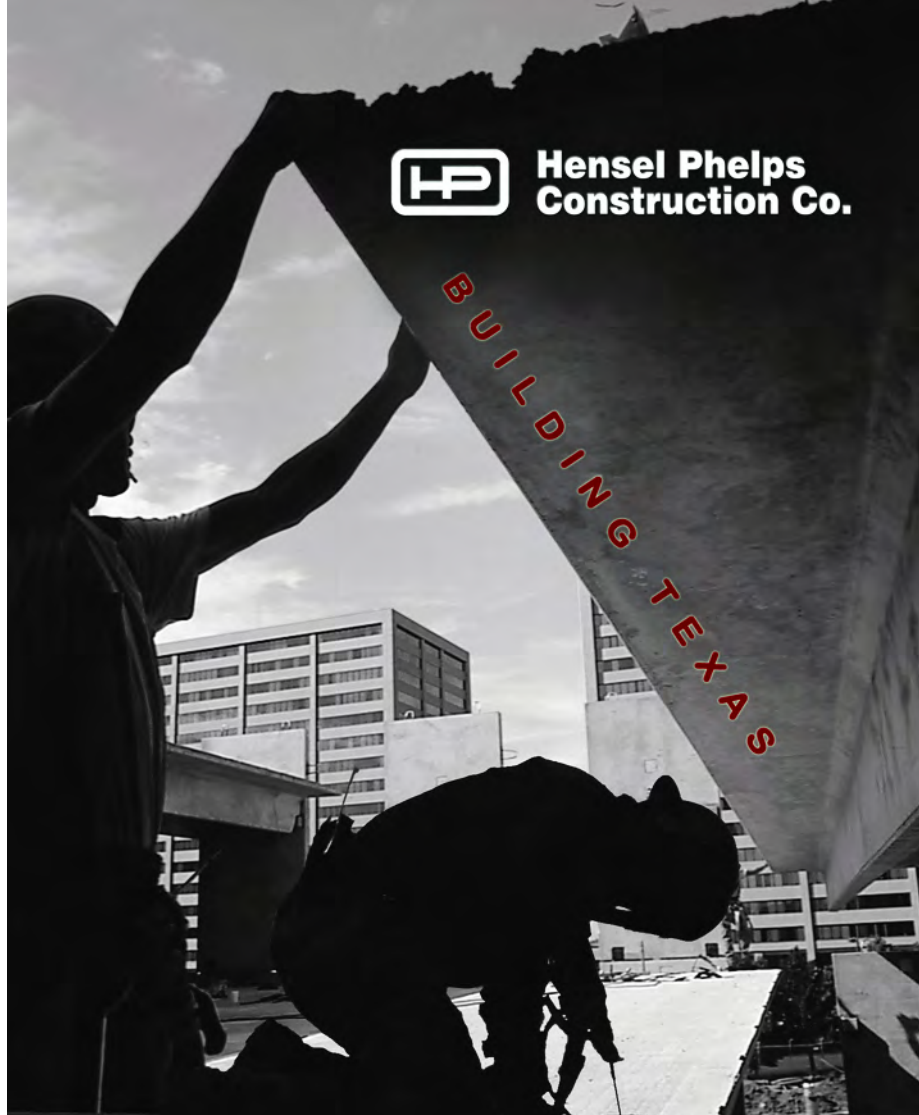


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8121 Bee Cave Road, Suite 200 • Austin, TX 78746-4939

PH: 512.225.9322 • FAX: 512.225.9283

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