



Volume 36, Number 19

August 1, 2014

Dear Client:

If you think that, with all the high-rise office buildings and major construction underway in downtown Austin, the Central Business District contains more office space than any other sector in the city – you would be wrong.

No question downtown is awash in office space and it is in such great demand that **less than 10% of the available space is vacant**. And there is no question **downtown's office space commands the highest rental rate – by far – of any of the other Austin sectors**. But two other city sectors have more office inventory than downtown, and one of them contains almost half of all the office space construction underway throughout the city.

The northwest sector contains much more office space than downtown – almost 13 million sq.ft. compared to downtown's 8.3 million sq.ft. -- and more of it is occupied. The Northwest section has a low vacancy rate of about 8%, compared to downtown's 10%.

But the most dramatic story is what is happening in the Southwest, with 8.4 million sq.ft. of current office space. Its vacancy rate is also lower than downtown's at 9.2%. **"We are tracking nearly 2.3 million sq.ft. of office space under construction and nearly half of it is situated in the scenic Southwest sector,"** says REOC Austin's SrVP/Director of Research **Kim Gatley**.

Even as office building construction increases, low vacancy rates push rental rates higher. REOC Austin reports office space *citywide* tightened to a 9.7% vacancy. "Office properties in the Central Business District (CBD) maintained the highest rental rates in the city. At the close of the second quarter, **the cost to rent office space downtown increased to an average \$36.15 – up more than \$4.00 compared to the previous year,**" reported REOC Austin.

How much higher are CBD lease rates? **"Rents in the CBD are nearly \$8.00 higher than the next highest sector** which is the Southwest sector where the average rental rate stands at \$28.63," noted REOC Austin.

Another important item to note: investors continue to pursue Austin office assets and **"sales prices are reaching beyond normal levels,"** according to REOC Austin. This activity is the result of Austin's strong economy and investor's confidence in the market's long-term strength.

A high-profile Austin “gadfly” is sounding the alarm on a city plan for high-rise condo towers that, if approved, would run contrary to international fire safety building codes developed in the aftermath of the World Trade Center (WTC) towers destruction.

While he’s pulled no punches – to put it mildly – on a wide variety of Austin issues for decades, **Mike Levy is not your ordinary gadfly.** As a newly-minted attorney, he sidestepped the practice of law to found the highly-successful *Texas Monthly* magazine almost four decades ago in Austin.

During his time as publisher of the magazine and subsequent to selling the journalistic enterprise, **he has passionately devoted his personal attention to a variety of issues, primarily involving public safety.** He has rankled the high and the mighty on many occasions, using such words as “silly” and “just plain stupid.” He has been cussed by the best of them. But he perseveres.

A partial recitation of his involvement: he was the driving force behind the establishment of **high standards for Austin’s EMS** ... he has loudly pressed for **more cops on the street** to combat crime and traffic accidents ... he serves on the **Austin Public Safety Commission** and he has been involved in a **variety of fire safety issues.** The latter is just one of the issues occupying his attention this week.

When a front-page story appeared this week that the City of Austin staff indicated it would probably **approve the building of “point” towers in downtown Austin to house more condos,** Levy’s hackles were raised once again. **Point towers are high-rises built on very small lots** and have proliferated in cities such as Vancouver. **Because they are so skinny, they cannot comply with fire safety separation standards for fire stairwells.**

Levy jumped into action by contacting former Austin Fire Chief **Bill Roberts,** whom Levy says is now “**nationally recognized in the areas of fire suppression and prevention.**” Roberts’ quick response: “**I wouldn’t compromise the International Building Code.**”

Roberts later elaborated on his comment this way: “It is believed that **hundreds of victims in the WTC disaster could have survived if the stairways weren’t so close to each other.** I am not a fan of sandwiching two stairwells together. **If a developer can’t omit a single unit per floor in order to properly provide another escape route I’d question the wisdom of the project.**”

Levy also passed along this comment he received from the Texas State Fire Marshal **Paul Maldonado** who pointed out the IBC features are “minimum” safety standards: “**I have a hard time understanding how you can achieve the minimum safety requirement when you eliminate the separate by distance exit passageways/stairways.**” Based on past history, you can look for Levy to keep up his drumbeat of opposition.

Current headlines relating to Mexico these days involve the impact of masses of immigrants along the South Texas border region. *Future* headlines are likely to tout the benefits of new laws in Mexico that open energy development along Mexico's region adjacent to South Texas.

Mexico's landmark constitutional energy reforms approved last December moved another step towards final passage this week. **Mexico's Senate gave final approval to key parts of the secondary legislation necessary to regulate the opening of the country's oil and gas industry to private investment.** This secondary legislation now goes over to the House where it is expected to pass within weeks. This has major implications for Texas.

The transformative effects of Mexico's energy reform will be felt throughout Mexico but they will be most visible in the region that abuts Texas. "In fact, a substantial portion of Mexico's prospective reserves – unconventional and deepwater – are **direct extensions of commercially productive US formations, such as the Eagle Ford in Texas (known as the Burgos Basin in Mexico) and deepwater Gulf of Mexico,**" points out the former Austinite and former US Ambassador to Mexico **Antonio Garza.**

"This shared geology means that **Texas, from Brownsville to El Paso, will be on the frontlines of much of the change that Mexico's energy reform will unleash,**" Garza continued. He likened it to twenty years ago when NAFTA triggered far-reaching economic change throughout the US-Mexico border.

What's the timeline? Well, nothing this big happens speedily, but Garza says officials are optimistically giving a **mid-to-late 2015 date for issuing the first big set of contracts for oil and gas development.** As this occurs, look for Texas-headquartered firms to be in the forefront of these cross-border collaboration transactions. And the economic ripple effect throughout Texas should be huge.

While we are focusing on international developments that should benefit the Texas economy (more so than most other states, by far), let's look ahead to 2016 when the enlarged Panama Canal opens for business.

The new canal is a godsend for US ports – especially Houston and even Corpus Christi. **These Texas ports (by the way, the closest to the US's major oil/gas producing plays) have been racing to ready themselves to handle the much bigger ships** that will soon be able to navigate the Panama Canal.

As a result, our friends at *Kiplinger* suggest that **waterborne cargo passing through these ports will double by 2030.** This heightened energy activity, taking advantage of the frantic fracking oil/gas pace in South and West Texas, should propel the Texas economy for years.

As we were the first to tell you in our “inside skinny” report 7/18/14, Admiral William McRaven was officially designated this week as the next Chancellor of the UTSystem.

The 58-year-old commander of the 66,000 special forces in all branches of the military under the US Special Operations Command **earned a journalism degree from UTAustin**. A Navy SEAL himself, he coordinated the raid in which Osama bin Laden was killed by Navy SEALs.

The UTSystem Board of Regents Tuesday unanimously named him the sole finalist for the position and, as required, must wait at least 21 days before making his appointment official. In January, he'll replace Dr. **Francisco Cigarroa** as CEO of the 15-campus UTSystem. Cigarroa will stay on the job until December.

One of the Chancellor's main tasks, as he faces a mountain of concerns, is to **select a new president for UTAustin (with the concurrence of the UTSystem Regents)**. President **Bill Powers** has already announced his departure for next May.

Speaking of UTAustin, here's a heads up: Austin will be inundated by 50,000+ students on the first day of classes August 27th. Don't forget several thousand of them will be freshmen, most away from mom and dad for the first time, with all that this entails.

While on the subject of school openings, **August 25th** marks the first day for students in the Austin, Eanes, Lake Travis, Del Valle, Leander and Pflugerville school districts. **August 26th** is the first day for Round Rock and Manor school districts. Austin Community College kicks off its fall semester **August 25th**. Even if you don't have kids in school, this obviously means an increase in traffic. **Need we remind you to plan for longer commute times in this already traffic-clogged city.**

About freshmen, **Dr. Louis Overholster** remembered a college freshman prank where his buddy went into a Macy's fitting room, dropped his drawers and yelled “there's no paper in here!”

Sincerely,



Editor/Publisher