

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

It's easy to overlook a major contributor to our economy as the booming high tech sector gets most of the ink when writing about the Silicon Hills of Austin. But one of the cleanest industries of all – tourism – is flourishing here and around the state as well. It's not generally known, but tourism is the #1 industry in the world and Number Three in Texas and the US.

Texas tourism ranks behind only California and Florida, long ago eclipsing New York. The #3 ranking underscores the fact that one out of every nine Texans work in hospitality or tourism-related businesses. **Tourism is big and relevant.**

In fact, **destination spending has nearly doubled in the Austin area** over the past decade. According to the most recent figures available, spending in the Austin-San Marcos metro area zoomed from \$1.1 billion in 1990 to \$1.9 billion in 1998. And, if anything, it accelerated in the last two years of the 1990s.

As the numbers indicate, tourists are not just sightseers even though the top two tourist attractions in Texas (San Antonio's Alamo and Riverwalk) are free. When travelers to Texas were asked to rank their favorite attractions, the 4th most frequently mentioned attraction in the state (right behind Six Flags Over Texas) was the **San Marcos Outlet Malls**. That's right. Shops and shopping are significant tourist activities.

When you add the #5 tourist attraction, the State Capitol Complex in Austin, you can readily see the **Austin-San Antonio corridor is the most popular part of this vast state** as far as visitors are concerned. In fact, seven of Texas's top ten attractions are located in this corridor.

Who benefits? Obviously hotels do well as tourism thrives. Austin's hotel rooms were 79.9% occupied during June. But the Texas Department of Economic Development points out other businesses benefit, such as eating and drinking, general merchandise, amusement and recreation, food stores, apparel and accessories, miscellaneous retail and all modes of transportation. The tourism wealth is spread widely.

Finally, remember, **the tourist comes to town, drops a lot of money** that is then circulated throughout the community (because all those who work in tourism-related jobs spend money everywhere else in our area), **and leaves**. We don't have to pay to educate their children or provide them with fire and police protection. Tourism is good business for the Austin area.

The Austin retail market is almost at a full occupancy rate and a noticeable stress is being placed on smaller businesses such as start-ups and mom-and-pop retailers. This stress extends from a lack of available space and the higher rates that follow a tight market, reports NAI/Commercial Industrial Properties. At a 95% occupancy level, landlords can be more particular about who they lease to and **experienced retailers with strong credit tend to win out.** This is a challenging time to be in the retail real estate business in Austin.

The good news is that retailers are benefiting from the city's dynamic economy, which is fueling growing retail sales. And landlords are enjoying high occupancy and rental rates. The bad news is the tight market is causing retailers to struggle to find an appropriate space and they often must pay a premium once they do, according to NAI/CIP.

Retailers are also seeing rents and property taxes increase dramatically in their existing locations. At the same time, developers are facing higher costs, both hard and soft, and tougher development restrictions. That makes it very difficult to develop new product at market rates.

So, where are we headed? **Is Austin riding a market peak or simply entering the next development wave?** NAI/CIP believes there is enough momentum in this market to safely say we will **continue to experience high occupancy rates** and more development during the near term. As a result, rental rates will continue to increase – but, maybe, at a slower rate.

Currently, NAI/CIP reports the retail market absorbed 701,255 sq.ft. during the first six months of 2000. The bulk of this absorption is attributable to the first phase opening of **La Frontera** at IH35 and FM1325 in Round Rock. The opening of **Stassney Heights Shopping Center** on IH35 and Stassney Lane also played a big part in the absorption rate.

Smaller neighborhood centers (50,000 sq.ft. to 100,000 sq.ft.) saw average rental rates rise 8.26% during the past year. The bigger centers, more than 100,000 sq.ft., reported average rental rates were **up a significant 15.55%** over last year. Sectors such as the Arboretum and West Austin reported the highest increase in rental rates as retailers compete for a limited number of spaces in these affluent areas. Retail sales in Austin, as measured by sales tax revenues, are up this year by 12.5%.

It'll cost you anywhere from \$2,500 to \$25,000 to attend a cocktail buffet if you want to pony up to support the light rail and road construction bond propositions on the November ballot. That's the tab for a 9/19/00 event co-hosted by **Lowell Lebermann** (at his home) and Mayor **Kirk Watson**. Other co-hosts are Capital Metro Chair **Lee Walker**, **Dick Anderson** and **Ross Garber**. While this is a rare big bucks event for a local issue, the significant part of this move by a group called "Get Austin Moving" is the combination of two separate ballot items – light rail and roads – in what appears to be an attempt to help the controversial and costly light rail proposition.

There are two very important contests underway involving the Texas State Senate – both having long-range political power implications – but you won’t see any political ads or get a chance to cast your vote on them. One is for a State Senate seat over in Deep East Texas and the other could put someone into what many political observers call the most powerful political position in Texas.

Why is a State Senate race that can only be voted upon by East Texans so important? Because it could **shift the Senate majority from Republican to Democrat.** Right now, Republicans hold a narrow one-vote margin in the Senate. Since State Senators serve four-year terms, only one-half of the Senate stands for election every two years. And, because most of the Senators running for re-election hold what are generally believed to be “safe seats,” the focus is on an East Texas seat that will be vacated by a Republican.

You may remember the Republican – **Drew Nixon.** The Senator was arrested in a prostitution sting on South Congress Avenue and decided maybe he didn’t want to run for re-election after all. Two very strong candidates are squaring off in a generally conservative district (SD3) to replace Nixon. State Representative **Todd Staples** is the Republican. Attorney **David Fisher** is the Democrat. It’s a very tight race and the lobby is dumping a lot of dollars into the one contest that could dictate the control of the Senate – for obvious reasons.

The possible contest for the most powerful political position in Texas is even more removed from the public radar screen. That’s because Governor **George W. Bush** must first be elected President and Lt. Gov. **Rick Perry** give up the Lite Gov’s slot to become Governor. Since that possibility is just a few months away, you can imagine the behind-the-scenes jockeying going on right now should that eventuality become reality and the Lt. Gov’s post opens up.

If Bush is elected president, the Senators will choose the next Lieutenant Governor from their own ranks. Thirty people will pick the person for the most powerful political post in Texas. There are four Senators who are jockeying for the job: **David Sibley** (R-Waco), **Bill Ratliff** (R-Mount Pleasant), **Teel Bivins** (R-Amarillo) and **Jeff Wentworth** (R-San Antonio and part of Central Texas).

All four are jawboning their fellow Senators for support. But you can bet **no one has a lock on it yet** – or he would have called a news conference to announce that fact. Sibley and Wentworth are the most open about their desires. The scrambling will become much more obvious after the presidential votes are tallied 11/7/00, unless one candidate makes a breakthrough before that time.

Because the Texas Governor’s job is generally considered weak, compared to other states, the Lieutenant Governor’s position has wielded significant power in the past -- especially since the Lt. Gov presides over the Senate (and makes all committee appointments). And, the control of the Senate is even more important next year because all **Senate, House and Congressional districts will be re-drawn** – a situation that only occurs every ten years. Stay tuned.

Another sign of Austin's strong economy: air cargo operations at Austin-Bergstrom International Airport are up an amazing 21.89% for the year, through July. Fueled by Austin's strong high tech industry, air cargo has steadily increased and set numerous records since operations began in June 1997, before the new airport opened for passenger traffic.

Federal Express carried 62 million pounds of cargo, up 38%. **Airborne Express**, with 24 million pounds, was up 14%. **Emery Worldwide** carried 11 million pounds and was up 5%, but **United Parcel Services**, also carrying 11 million pounds, was down 2%. **Burlington** carried 9 million pounds and was down 26%.

And now air cargo service has expanded. A new 24,000 sq.ft. cargo warehouse, which officially opened last month, is home to **Kittyhawk Airlines, Express One, Integrated Services** and **Austin Express**. The facility belongs to Austin CargoPort Development, a private developer.

In other airport news, it's interesting how ABIA is **solving different problems with one solution**. First of all, the cabs needed a shaded area to cover the vehicles while waiting to be moved from a staging area to curbside to pick up passengers. Secondly, solar energy panels had to be removed from the park-and-ride area at Palmer Auditorium to make room for the new Arts Center's construction.

So, the panels are being moved to the airport and are being installed at a place to provide some shade for the taxis in the cab's staging area. Construction should be complete in October. In addition, the **solar shade project should produce electric power** during sunny conditions at the airport. Annually, the panels could generate 42,000 kW of electricity that will feed into the City's electrical grid and help power the airport.

Wisdom from **Dr. Louis Overholster**: "People today fall into three categories – pessimists, optimists and pragmatists. The pessimists say the glass is half-empty. The optimists say the glass is half-full. The pragmatists just look for a better bartender!"

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Sincerely



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