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Dear Client:

The downtown Austin office market is tight. Really tight. And real estate professionals predict it will stay that way indefinitely, even if high tech tenants begin to abandon trendy downtown offices for lower-cost space farther from the city. That's the view of **Harold D. Hunt** and **Judon Fambrough** with the Real Estate Center at TexasA&M.

“Rising property taxes, record occupancy rates and lack of new office space are fueling rising office rents that **may eventually become unacceptable financial burdens for downtown tenants**,” Hunt and Fambrough note. “Furthermore, some downtown office properties may **lose preferred tenants** over the next several years because of insufficient space to accommodate growth.”

Commercial property owners aren't worried though. “Even if technology-related tenants stop shopping for space downtown, **other businesses will queue up to sign leases**,” they predict. Why? They believe strong demand for space will continue for the next few years. And they know firms can justify lofty rents if the positive aspects of being located downtown outweigh the costs.

Importantly, almost 97% of the office space downtown is leased and while there is a lot of construction downtown, **not much uncommitted office space is included in the construction**. So the market will remain tight.

What happened to the law of supply and demand? Why isn't there a lot of office space construction in downtown Austin to meet the demand? First and foremost, “**finding financing for new construction is not easy**,” according to Hunt and Fambrough. Generally, lenders require a minimum of 40% of building space to be pre-leased and a contribution of at least 30% of the project costs from the developer.

“The large capital outlay needed for downtown projects precludes local banks, while larger banks remain skeptical about investing in downtown Austin,” they note. Permanent lenders, such as pension funds, remain disciplined in their lending practices, with many choosing not to invest in real estate. Real Estate Investment Trusts (REITs) are averse to risk and have been building fewer new office properties since the credit pullback of 1998.” “So, tougher lending guidelines for developers and a lack of new office space should keep the commercial market hot, giving **landlords the upper hand in lease negotiations** for years to come,” they conclude.

The City of Austin is promoting downtown development stronger than at any time in recent memory. And that may be one of the reasons downtown is so vital — in spite of tougher lending guidelines. Downtown lies within the Desired Development Zone where permit acquisitions and environmental restrictions are less onerous. And there is a strong private sector organization – the Downtown Austin Alliance – pressing and pushing for downtown issues.

Still, downtown development is not a slam dunk by any means. TexasA&M's **Harold Hunt** and **Judon Fambrough**, statewide real estate specialists, point out "it may take 18 months or more for developers to obtain the necessary construction permits" even with the City's downtown pro-development stance. Hunt and Fambrough surmise some developers "may not be willing to gamble that new buildings with higher rents will remain profitable indefinitely."

It'll be interesting to watch CarrAmerica's huge downtown office project on West Sixth Street. This is the private sector's **first new downtown multi-tenant office building in 15 years.** It's a 418,000 sq.ft. tower with two large law firms – Clark, Thomas and Akin, Gump – and Austin Ventures, the venture capital firm, as anchor tenants.

In fact, Hunt and Fambrough note that "some analysts report that capital markets may **limit further multi-tenant construction** until the CarrAmerica building proves to be profitable." We'll see how funding sources react to the lease-up rate when this high-profile, high-dollar building opens by year-end.

Need we remind you how far we've come to where there are only 2% to 3% office vacancy rates in our downtown. We should never forget Austin's real estate recession of the late 1980s. During that span Austin recorded the **nation's highest office vacancy rate for more than 21 consecutive months** in 1987 and 1988. Believe me, the lenders remember those times.

Last year when dot-coms and the NASDAQ were soaring out of sight, Michael Dell complained many were "day trading with their future." His view now, while dot-coms are failing or struggling as the NASDAQ is diving, is some are "suffering margin calls." He feels there "is still more washing-out to go." Michael Dell obviously has a way with words (in addition to his ability to change the way computers are made and marketed.) So what are some of his other current views?

As far as Austin is concerned, he is concerned. **He wonders aloud whether the area's infrastructure is keeping pace with growth.** He says "people are going to come here whether you want them to or not. We better learn how to deal with them – in education, in transportation, in culture, etc." He feels "infrastructure and transportation issues are high priority." And he worries. **"I feel like early 'San Jose-ism' is setting in and that's a very scary thought,"** he observed. Alarm bells should be going off, Dell added.

Thoughts while flying back to Austin after covering the Inauguration of your neighbor as the 43rd president of the USA. First of all, it should become clear, quickly, President **George W. Bush** will waste no time moving his agenda forward. And, just like during his 1½ terms as Governor of Texas, he will keep a laser-like focus on a half dozen key issues.

Oh sure, other volatile issues will surface to occupy the national debate and generate media coverage. That's to be expected. But, it will not deter Bush or his staff and cabinet from **plowing ahead, relentlessly**, on education, a tax cut, Social Security and Medicare reform, and a buildup of our nation's defense capabilities.

The Washington pundits are singing the same tune – Bush is inexperienced, it's going to be tougher dealing with an evenly-split Congress than with the Texas Legislature, he doesn't have a mandate because he lost the popular vote, it'll take him awhile to learn the ways of Washington, etc. **But, that tune is off-key.**

Two things will combine that may surprise the pundits. First, Bush may be inexperienced, but he's surrounded himself with successful, respected, Washington veterans who know how to get things done in a quick, businesslike manner.

Secondly, **Bush's MO is that of a CEO** – set goals (his key issues), press for quick results with targeted deadlines and hold his cabinet/staff accountable all along the way.

The pundits also are *misreading* another significant development of our times when they claim this **nation is deeply divided**. They cite the close Bush/Gore election and the split right down the middle between Republicans and Democrats in the USHouse and the USSenate. However, this is not an indication of division, it is an indication of a closeness of thought unseen in recent politics. (Now, you're saying we've gone off the deep end with this logic! Hear us out.)

Both parties and both presidential candidates were **not divided on the issues**, nor is the country divided on the issues. Everyone is *united* on doing something about Bush's issues mentioned above. In it's simplest form, the various factions are only quibbling about *how* to go about it.

So, here's the key: look for President Bush to press very hard for these programs but at the end of the day, **Bush will accept a compromise** to ensure passage.

That's the way Bush operated in Texas. Rarely did his proposals end up looking the same as when they were presented. But, his limited agenda was adopted. He was credited with success because the programs he espoused ended up as law. You can see the same thing happening in Washington. There won't be gridlock and all sides will be able to claim success. **Bush's issues are universal issues and the money is available to enact the programs.** Bush's agenda is limited, making it easier to marshal the forces, keep them focused – and then, compromise.

Here's what to do with those extra cell phones and computers you have lying around now that you've upgraded. Don't put them aside or in the trash. Put them to good use. Plenty of non-profit organizations can use them and you could get a tax deduction on their value.

We won't play favorites, but single out your favorite local non-profit or school and call them up to see if they can use them. **Chances are you'll do some good for the community.** Or there are some websites that can steer you in a certain direction.

The Computers for Schools Association (www.pcsforschools.org) and the National Cristina Foundation (www.cristina.org) match donated PCs to requests from **organizations that need computers.** You can also go to the PEP National Director of Computer Recycling Programs (www.microweb.com/pepsite) for a list of computer recycling and re-use programs in Texas.

That old cell phone can also be put to good use. As an example, Donate A Phone (www.donateaphone.com) collects phones and **programs them to call 911** and the number of a local shelter. The shelter distributes them to victims of domestic violence.

Texas Independence Day has been largely overlooked but an Austin organization moves into its second year of trying to change that. Celebrate Texas is a non-profit created "to encourage and promote the education of the general public regarding Texas Independence Day and the history of Texas and its people." The date each year is March 2nd.

The group sponsored and organized a number of events its first year. If you or your organization would like to add to the celebration, go to www.celebr8@Texas.net for info or call 512-383-0505. It's the brainchild of former Austin City Councilmember **Jay Johnson.**

Dr. Louis Overholster says if you polled national advertising execs they would tell you the most critical problems are the economy, crime, health care and arm pits – not necessarily in that order!

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