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Dear Client:

The rental of Austin-area apartments is softening at the same time more new apartment units are coming on-line and rental rates are continuing to rise. This could indicate problems for the remainder of this year and next.

It's been a great ride for Austin apartment building owners and developers. Austin apartments have enjoyed phenomenal occupancy and rental rates have risen at record rates. But, **we've now peaked**. The pendulum is swinging back the other direction – in favor of the renter.

This could turn into a **serious situation** because of all the apartment buildings planned and under construction. Let's break it down for you.

According to Austin Investor Interests (AII), the **4th quarter 2000 occupancy rate decreased** – falling 1.1% to a rate of 96.46%. While it's still high, this rate is down .5% from the same time period last year. During the 4th quarter, there were 1,989 units added to the inventory and absorption fell 72% over the last quarter. Only 889 of the new 1,989 units were rented.

But, rental rates and the pace of construction haven't recognized these first signs of a slowdown. AII reports **apartment rents in 2000 saw an "unprecedented" annual increase of \$.09/sq.ft., with rates now reaching \$1.00/sq.ft.** AII further reports "4,400 more units should be ready for occupancy during the first half of 2001, with an additional 6,500 units by year-end 2001."

These first signs of an apartment market slowdown are not isolated to one sector of the apartment market. "**All classes of property reflected a quarterly decrease** in occupancy, although each reported an increase in the average rental rate," AII noted.

When you couple this information with several reports of a **slowdown in the increase in the number of new jobs** created and the subsequent **slowdown in the increase in the population growth**, you can see we're heading for a major impact in the apartment sector of the residential real estate market.

A word to the wise and forward-looking: "The local apartment market's vitality is likely to be challenged toward year-end 2001 and most definitely in 2002," warns AII.

The last statewide election cycle was ho-hum because there were no hot statewide races and some key positions were not up for election. But, hang on, the 2002 cycle should be a barnburner and it starts – right now! The Republicans are likely to have some intra-party primary squabbles and the Democrats are likely to field a strong slate of statewide candidates (unlike last time) with no primary skirmishing. Let's look at the R's first.

Governor **Rick Perry** will seek election to a full term. He could be challenged in the GOP primary by USSenator **Kay Bailey Hutchison**. Hutchison can seek the gubernatorial nomination without giving up her Senate seat and she can raise a ton of money. Remember, she ran a slew of TV ads this last Fall when her Democrat opponent didn't spend a dime on TV and didn't even campaign. So her name ID and favorable ratings are high.

At this point in time, the Lieutenant Governor's race should provide the most jockeying of big GOP names. Lt. Gov. **Bill Ratliff** might seek election to the Lite Guv's job, if he does well during this legislative session. State Comptroller **Carole Keeton Rylander** and Land Commissioner **David Dewhurst** also covet the post. Rylander has the highest profile state post right now, Dewhurst can put enough of his personal money into a campaign to be a factor.

Without going into all the "what ifs", you can see the snowball effect as other state posts could open up in this scenario. **All statewide offices are held by Republicans** and many, if not all, probably have their eyes on other jobs some day.

It's a totally different picture for the D's. They've had a long time to lick their wounds after being shut out of statewide posts and they've put some of that time into planning how to get back in office. The current plan is to **field a strong, diverse slate of candidates**, without the division of primary battles.

The names most often bandied about include Laredo businessman **Tony Sanchez** for governor, former State Comptroller **John Sharp** for Lt. Gov – again, Austin mayor **Kirk Watson** for Attorney General. Dallas mayor **Ron Kirk** and former Comptroller candidate **Paul Hobby** are also on the D's wish list for some job.

Of course, a lot can happen between now and then – especially with a Legislative session in the mix. Names not listed here could surface and some listed here could make other plans. Suffice it to say, the **political elbowing for position** has already started and will rev up as time passes.

If Austin Mayor Kirk Watson listens to the entreaties to seek statewide office, it'll have a ripple effect in Austin politics. He would more than likely resign as mayor in the midst of his term. Look for several City Council members to consider running for Mayor in a special election, **probably in November**. Others not on the Council may also seek the job. This could be quite a campaign – unlike Watson's re-election bid, which he won without breaking a sweat.

The need for health care workers in the Austin area has outstripped the supply in virtually every medical arena with the need for more nurses clearly the most acute.

Austin Community College quotes **Joyce Batcheller**, SrVP and chief nursing exec for the Seton Healthcar Network. “There are **several hundred vacant positions** in the Austin area depending upon the time of the year,” she says. “And with so many new health care facilities opening up, it’s hard to keep up with the growing demands. If we were to include the needs of nursing homes and other clinical facilities, I am sure the number of nurses doubles.”

Other acute needs include general radiographers, radiographers with advanced skills and surgical technologists, according to **Cecile Sanders**, Dean of Health Sciences at Austin Community College (ACC).

Paramedics are also in high demand, as well as medical laboratory technicians and pharmacy technicians. The Capital Area **growth rate for paramedics is alarming**, with a projected growth rate of 89%, or 45 positions annually, through 2006, said Sanders.

There is also a huge need for **dental hygienists** and assistants. Finally, **Medicare, Medicaid and third party reimbursement has created an urgent need for medical coders and billers**, said Sanders.

Of course, with Austin’s very low unemployment rate, most Austin economic sectors face needs for qualified workers. But, when the **health and safety of a community** is impacted, the need becomes more urgent.

Since its beginning, ACC has been a major supplier of health care workers for the Austin area. However, the needs referenced here – along with the rapid population growth – have put **considerable pressure on the College’s ability to enroll and graduate more students**. One limiting factor is instructional space.

“Our health science programs, with the exception of Pharmacy Technician, are located at the Riverside campus in very cramped quarters, **inadequate for the number of students we currently have enrolled**,” said Sanders. “Clearly there is no space to enroll additional students.”

A new Health Sciences Building is in the planning stages for ACC and within the past year ACC opened its Health Professions Institute to expand its class offerings. Meanwhile, ACC is anticipating receipt of \$84,000 for its Nursing Program Collaborative. Funds for the partnership with **St. David’s Health Care System** and **Seton Healthcare Network** will be used for expansion of both the **associate degree in nursing and vocational nursing programs**. The industry support will provide for tutoring and support of “at risk” nursing students, purchase of equipment, and computer hardware and software for teaching.

Two large, new downtown residential high-rises are moving along with a year-end occupancy target date. When completed, they should add about 150 more living spaces to the downtown area, although one is a bit more “downtown” (defined as near Congress Avenue) than the other.

The **Plaza Lofts** is a “from-the-ground-up” new construction project, though the term “loft” is most often used to describe converted older, high-ceiling buildings. Located at West Fifth and Guadalupe, overlooking Republic Park, the project will house **55 condominium units** in about 150,000 sq.ft. of space. Another **4,600 sq.ft. is set aside for retail**. The developer is The Sutton Company. Morris Architects designed the building that primarily faces north and west.

More removed from the Congress Avenue portion of downtown is **The Nokonah**. Located at Ninth and Lamar, it will contain **95 high-end residential units and four retail spaces**. While the address is on busy Lamar Blvd., the building rises away from Lamar and reaches its full height a block away with views of a nearby park and the State Capitol. The developer is New Urban Partner LTD. Lake/Flato came up with conceptual design; primary architects are Graeber, Simmons and Cowan.

About 20% of Austin area adults took at least one business trip by air. That’s comparable to Houston and San Jose, and higher than Los Angeles, Seattle and Boston. Those numbers come from a Gallup Poll.

According to Scarborough Research, Austin ranks among the **Top Ten in frequent-flier memberships**. And not too long ago, an **American Airlines official told us Austin had more Platinum Card fliers**, percentage-wise, than any other American Airlines city. With the increased passenger loads, bigger AA planes serving Austin and the market’s record-setting growth, it’s likely those numbers have only increased.

Dr. Louis Overholster loves the rental car convenience at Austin’s airport. “In other cities, they have shuttle *flights* from the airport to where they keep the rental cars!”

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