

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

If you're interested in who will be the next Mayor of Austin, it could be much later than you think. In fact, if you're interested in influencing the decision, you better start moving now. It's not too late. But there's not much time, because it's entirely likely the next Mayor will be elected in just nine months.

Mayor Kirk Watson is non-committal. However, it's probable he'll announce, as early as June, he is resigning in the midst of his term to seek statewide office in 2002, requiring a **special election in November** to fill out the remainder of his term. That doesn't leave much time to build a campaign organization, raise money, work on name ID, line up support, etc. in order to be a viable candidate by election day.

The shortened timetable works to the **advantage of incumbent council members** if any (or all of them!) decide to run for Mayor. Council members, in varying degrees, have a campaign organization already in place. They have a "bully pulpit" from which to generate publicity, thereby enhancing name ID. And it's easier to raise money when you're in office, after running a successful campaign.

But, if a non-officeholder is thinking about the Mayor's position – or needs to be convinced to run for Mayor – **time's a-wasting**. Especially if that person is going to be running against incumbent councilmembers.

By the way, current councilmembers will have a big advantage if Watson steps down after 6/15/01. As of that date, several of them will have less than one year left on their term, and as a result, would **not be forced to resign their council position** to run for Mayor. It's a good bet-hedger. Even if they lost the contest for Mayor, they would still be serving on the City Council.

Now, about Watson's future. As we told you in the past, Texas Democrats – stunned by massive defeats in the last two elections when **George W. Bush** was elected governor with very long coattails – are mounting a massive effort for 2002. Their plan is to bring together a slate of candidates from every major sector of the state and run them in their primary with little or no opposition – to **stave off scars and save campaign funds to face Republicans** in the General Election. Watson is prominently mentioned as **their choice for Attorney General**. The D's are enthusiastic about their chances because they feel the Republicans will get cut up in a bitter primary battle. We'll have more on the R's possible primary problems — next.

In about four months, Texas Republicans could be locked in a yearlong, expensive, fierce intraparty battle for the state's two top posts – much to the delight of Democrats. Two of the state's top elected GOP leaders want to be governor and at least three top GOP officeholders want to be Lieutenant Governor. We asked Governor **Rick Perry** and USSenator **Kay Bailey Hutchison**, each one-on-one, about a run for governor in 2002. Here's the verbatim Q&A:

“Governor, is there any question you will seek election to a full-term?” “None, in my mind. **We fully expect to run for the full term in 2002** and feel very comfortable about not only the job we did as Lieutenant Governor, but the job we're doing as governor now.”

“Senator, the rumors running around Austin are that you may have your eye on the governor's mansion?” “Well, I am just not thinking about it right now. There's no question that, at some point in my life, **I would love to be Governor of Texas.** I love Texas. I'd love to be home. But I don't know if this is the right time and I'm just going to have to make that decision **down the road.**”

“Governor, if she decided to run, would you still seek election?” “Well, that's a long way **down the road** and there's a lot of water under the bridge between now and the filing deadline. I do full well intend to run for Governor of the State of Texas.”

Translation: **“down the road” means this summer**, after the end of the Legislative session 5/28/01. Perry is adamant about running and Hutchison has been doing everything she needs to do to position herself for that possibility. Also, she can run for Governor without resigning her USSenate seat.

As far as the #2 post is concerned, State Comptroller **Carole Keeton Rylander** and Land Commissioner **David Dewhurst** both covet the job of Lieutenant Governor and you can't rule out **Bill Ratliff**, who is getting statewide notice right now while he is acting as Lieutenant Governor. You could get a down-ballot domino effect if either, or both, Rylander and Dewhurst give up their jobs to run for Lieutenant Governor.

Speaking of political people, can you name the Austinite who has two sons who will be playing key roles in the George W. Bush presidential administration? It's **Carole Keeton Rylander**. One of the State Comptroller's sons is already very visible in a high level White House position and the other is slated for a possible key job.

Scott McClellan, who had a high-level media relations role during the Bush campaign, has smoothly transitioned into the job as Assistant White House Press Secretary. **Mark McClellan**, an economist, is likely to get a “top health policy job,” according to *The Wall Street Journal*.

If you think there are a large number of huge homes being built in the Austin area, you're right. In fact, we may be heading toward a glut of \$1,000,000+ homes that are sitting on the market, waiting for buyers. The oversupply of high-dollar houses is joining what will soon be an excess of apartment units, as noted in our 2/2/01 issue.

During last year, one of the best residential real estate years in our history, **125 homes priced at \$1,000,000 or more were sold** in the Austin area. The strong demand led builders to move aggressively to keep up with the desires of well-to-do Central Texans.

That's created a problem. Right now, according to **Tex Steeg**, a Realtor with Avenue One Properties, there are **210 homes on the market in the Austin area priced at more than \$1,000,000**. Do the math. It will take two years to sell all those homes in a market many are claiming is softer now than it was a year ago.

Remember, economists will tell you a six-month supply of available homes creates a "healthy" real estate market – one that doesn't tilt too heavily in favor of either the buyer or the seller. So, it looks like **those who are seeking high-dollar homes may soon have some leverage** when it comes to negotiating a final price.

At the other end of the real estate spectrum, there could be as many as 11,000 new apartment units ready for occupancy during 2001. These units are already in the construction pipeline and they're coming online after 4th quarter 2000 numbers showed a decline in apartment occupancy. Even though apartment rental rates have ratcheted up to an all-time high, **you can look for a softening to occur this year** as supply could soon outstrip demand.

If apartment owners start hanging banners on the sides of apartment buildings offering "Free First Month's Rent", you can anticipate a **slight ripple effect to occur in the "starter home" market** – those priced in the \$100,000 range or lower. Apartment dwellers are the major source for buyers of first homes. If apartments become more available and affordable, it lessens the pressure to move out and buy an affordable home.

However, this should not be a big immediate problem for two reasons: 1) there is still a **shortage of affordable homes and they're selling at a fast pace**, and 2) the **big reduction in interest rates** will keep those monthly mortgage payments more competitive with apartment rents. So, the impact should not be felt right away, but it's something for you to watch.

The Austin area's unemployment percentage at the end of last year was among the nation's best – an amazing 1.6%. To give you an idea of just how impressive that is, consider the State of Texas is bragging that the state's unemployment is at a historically low level – 3.4%. Eight years ago, in August 1992, Texas' unemployment was 8.6%. The nation, as a whole, also enjoyed low unemployment at year-end, 3.7%, but nothing like Austin's mind-boggling 1.6%.

Fort Worth is aggressively courting Dell Computer Corp, trying to entice the Austin area company to locate facilities in Cowtown similar to those found at Dell's large Round Rock and Nashville campuses. Dell is already planning to lease a sales and support center near Alliance Airport in April, initially employing about 500 workers. But, Fort Worth wants to up the ante.

Fort Worth has approved a **pecially created taxing district** for Dell if the company will commit to a permanent campus on a 2,500-acre tract. Under the arrangement, Dell would be able to **get back all its property taxes and more than half the sales tax** it pays to the city. City officials estimate Fort Worth would get almost \$200 million in public improvements and cash from Dell over a 20-year period. Dell would sign a 60-year deal with Fort Worth and agree to invest \$40 million and hire at least 1,000 workers.

Dell has **indicated interest in the proposal**, though no decision has been announced. Dell's director of real estate and construction, Charlie Ball, was quoted in the *Dallas Morning News* as saying "We would not have invested the last four months if we'd not wanted to come to Fort Worth."

Dell Computer, by the way, has been the subject of much speculation in recent weeks about its' long-term prospects if the personal computer industry goes through an anticipated shakeout. Many analysts are suggesting the **industry will see some major consolidations**. And, while Dell is not the subject of much speculation at this stage of being an acquiror or an acquiree, most observers feel the Central Texas computer giant is positioned to remain a strong survivor.

In fact, within the past month, **Wall Street analysts have raised their ratings on Dell**. Also, you may recall that Dell has long had a goal of zipping past Houston-based Compaq for the worldwide lead in personal computer sales. Dell already leads Compaq in US sales and is closing the gap to become #1 in the world.

Dr. Louis Overholster likes what an elementary school student wrote he learned about the recent presidential campaign: "It is possible to get the majority of electoral votes without getting the majority of popular votes. Anyone who can ever understand how this works gets to be president!"

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