

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

Austin, already a tourism and convention economic success story, is on the verge of surging to greater success in the very near term. And, the under-funded Austin Convention & Visitors Bureau (ACVB) feels it needs more money to maximize the return on investment for the city's economy. The ACVB does more with fewer dollars than its competitor cities.

Currently Austin hosts 16 million visitors a year (65% leisure, 35% business/convention travelers) who contribute **\$1.8 billion to the local economy**. The local tourism industry employs more than 27,000 people with a \$447 million payroll. Local tax receipts: \$40 million plus. This is a clean industry. **Visitors come here, spend big bucks, then leave.** We don't have to educate their kids or provide fire and police protection for their homes.

The numbers are about to increase. **The doubling of the size of the convention center** should be complete next year. The Bob Bullock State History Museum, opening in a few days, should draw more than **2 million visitors in its first year** (the top two most visited sites in Austin are also historical in nature – the State Capitol building and the LBJ Library & Museum). Then, within a few years, the new Austin Museum of Art should open, along with the Long Center for the Performing Arts and the Blanton Museum of Art, making us even more attractive.

But, our attractiveness is offset by the competition for the visitor dollar. **Our competitive Texas cities aggressively go after the tourism dollar** and if the ACVB is not successful in getting the word out, our existing and new facilities could struggle. The ACVB is an independent, non-profit entity that promotes Austin as a meeting and visitor destination. In the past, it has been a city department and a part of the Austin Chamber of Commerce.

No tax money from local residents goes to the ACVB. It is funded by a 1.45 cents of each 15 cents collected by the city from the taxes levied on hotel rooms. That 1.45 compares to 2.33 set aside for the Dallas CVB, 3.85 for Fort Worth, 3.99 for Irving, etc. The annual budget for Austin's 40-person operation is \$5.6 million. For Dallas, it is \$16 million, San Antonio \$14.1 million, Houston \$14 million, and Little Rock \$10.5 million with a 120-person staff.

Additionally, the **allocation for ACVB was cut in the 2000 city budget** and then \$167,389 was shaved from its 2001 funding to repair the Austin Steam Train, based in Cedar Park. The ACVB message is simple: "Increased funding is needed to attract overnight visitors."

It's not certain what will ultimately happen to Texas's very liberal homestead exemption should the US Congress finally approve the Bankruptcy Reform Act of 2001, but there are some guidelines that could give you a clue. The guidelines can be found when you compare the separate House and Senate versions of the proposed Act.

First, you need to understand Texas is one of only five states (along with Florida, Iowa, Kansas and South Dakota) that **prevents creditors from seizing homes in bankruptcy court — no matter the value of the home.** It has been criticized for years as a place where wealthy individuals could shield value from creditors by investing in high-dollar homes.

USSenators, by an overwhelming margin of 83 to 15, capped at \$125,000 the amount of home equity that could be shielded from creditors in a bankruptcy. The House version would limit the homestead exemption cap to \$100,000 – if the home was purchased **within two years of filing.** In the House version, there would be no limit on the amount of the homestead exemption if the house was bought **two years before filing** for bankruptcy.

The guideline that could give you a clue: seldom do the conferees step outside the parameters of the differing versions when they hammer out a compromise. So, the draft closest to current Texas law, that might emerge as a final version, is the **“no limit, if the home was purchased two years prior to bankruptcy”.** Further consideration of the bill is expected after 4/23/01.

Postscript: our warning in our 3/2/01 issue still stands. **“The hills are dotted with multi-million dollar homes built in the past two years.** Folks whose stock portfolios have nose-dived in recent months occupy many of those homes. Remember, we told you in our 2/9/01 letter there were 210 homes currently on the market with a \$1,000,000+ price tag. Yeah, this bill is relevant for some.”

The February unemployment numbers for the Austin metro area showed an ever-so-slight shift – in the wrong direction. Even though the unemployment percentage was so low any city in the nation would gladly take it, more people were out of work in the Austin area than in the same month the year before.

By any measure, **Austin's 2.2% unemployment is great – even phenomenal.** No other metro area in the state had better numbers, except for small Bryan-College Station (at 1.4%). And, the state's rate was 3.8% in February. But, the Austin area notched a 2.1% total in February a year ago and, while there are 34,000 more people working in 2001 than in 2000, there are also more unemployed (1,300).

Not a big problem. But it is one of the **warning signs you keep an eye on** – to see if this is just a little blip, or the beginning of a trend. We'll watch it closely for you.

It's really been tough to find warehouse or flex/R&D industrial space in the Austin area during the past two years of record space usage, but all that's about to change this year. Because, new space is being added to the market at the same time demand is slowing slightly.

That's good news for those who've been searching for industrial space. It has really been tight up to now. Just how tight? Well, NAI/Commercial Industrial Properties' Industrial Group reports **the annual absorption of industrial space in 2000 was the largest in history.** A total of 2,486,932 sq.ft. was absorbed.

To put it into perspective for you, this was a **17% increase over 1999**, a record-breaking year until 2000 rolled around. Obviously, 2000 was as strong as horseradish right up until year-end when the final annual tally showed the second half 2000 absorption was 50% more than the first half. That trend is now reversing.

While warehouse space vacancy remains at 4%, the Flex/R&D space vacancy has increased by one percentage point to 8%. That was enough to kick up the **overall industrial space vacancy rate to 6%**, one percentage point over the 6/30/00 rate.

"It's reasonable to expect the vacancy in this market segment will continue to increase," reports NAI/CIP. The forecast is supported by the fact that the amount of Flex/R&D space under construction or scheduled to start by June 2001 is projected to be 1,545,230 sq.ft., a **12% increase** from 6/30/00. This new square footage will be more than was absorbed last year, further supporting the forecast of an increase in vacancy rates in the industrial category.

La Frontera, the 328-acre master-planned commerce center in Round Rock, will offer its building owners, businesses, residents and tenants a chance to shop for the best utility rates and competitive services 1/1/02.

La Frontera is not served by the City of Austin electric utility. **It is located in the current TXU Electric service area.** Electric utility rates will not be deregulated in the City of Austin utility service area in the near future. But, **deregulation will start for the privately owned companies next year** and La Frontera is in TXU's service area.

By the way, **get ready for a street name change this fall** around La Frontera. As frontage road construction on SH45 progresses toward a 10/01 opening date, one of the little-known design elements of the roadway network is that the existing FM1325 north will actually merge with, and become, La Frontera Blvd.

When completed, travelers wishing to go to IH35 can take the new SH45 frontage road east, or continue up La Frontera Blvd to Hester's Crossing and east to its intersection with IH35. If you haven't driven that area recently, it's worth a trip to check out the changes.

This Easter weekend is a critical turning point for this session of the Legislature. When lawmakers return to Austin, look out! The flashpoint issue of redistricting that has been bubbling beneath the surface since the session began in early January, is now ready to boil over into every other piece of remaining legislation.

And, when you talk about what's remaining, you're talking about every single piece of major legislation that has been introduced. That's because only one semi-key item (DNA legislation) has been signed into law. Everything from appropriations to run the state for the next two years, to hot issues such as teacher health insurance, still await debate, amendment and pass-or-fail votes. **There's not much time remaining.** The session is scheduled to end in six weeks.

What can you expect? The appropriations bill will be re-worked in conference committee until the middle of May. Between now and then, redistricting and everything else will **start popping out of committee for floor debate.** House and Senate members will start meeting on Fridays instead of going back to their home districts Thursdays. A lot of legislation will be passed.

But, as you watch sausage being made under the pink dome, keep in mind we may end up with something we've not seen in a number of years – **a special session of the legislature,** called after 77th Regular Session runs out of time at midnight, Memorial Day, 5/28/01.

By the way, this down-to-the-wire frenzy after Easter is not all that unusual. It's just **complicated mightily by the every-ten-year issue of drawing new district lines** for members of the USCongress, the State Senate, the State House of Reps and the State Bd. of Education. With each member of the Legislature trying to end up with district boundaries favorable for the member's re-election or, heaven forbid!, not paired to run against another member, well, let's just say it will be very unusual if very strange things don't happen.

Dr. Louis Overholster says life in Austin is so complicated these days you can't even have a leisurely chat on the phone while sipping coffee and eating a donut, without some jerk behind you honking his horn!

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Sincerely



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