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Dear Client:

**Now that the legislating has ended, the politicking is kicking in. The filing deadline is seven months away and time's a-wasting. So let's examine some obvious, and not-so-obvious, scenarios that might soon start playing out for your amazement and amusement.**

Let's start with the "not-so-obvious". Texas senior GOP USSenator **Phil Gramm** has said he's running for re-election to a six-year term next year. But, why isn't he out raising money now? Some Democrats are speculating (hoping?) the economist may be burning out – especially now that the USSenate is under the control of Democrats and Gramm's lost his powerful chairmanship. They speculate he is saying he's running, to keep from being a lame duck.

They further argue that, while he's still young enough, Gramm may move his impressive banking and finance credentials to the private sector to earn buckets of money (not return to head up TexasA&M, where he was a onetime prof). These same Dems are trial-ballooning a fresh, though experienced, name as a potential USSenate candidate: Swedish Ambassador **Lyndon Olson**, a former Texas legislator and former Chair of the Texas Insurance Commission.

In the "obvious" category, Governor **Rick Perry** is running hard to be elected to a full four-year term. Democrats are still rallying around Laredo businessman/banker **Tony Sanchez**, despite a yet-to-catch fire effort by retired attorney **Marty Akin**. Because some of his supporters feel Sanchez has the potential to verbally shoot himself in the foot, they are advising him to lie low for a while – especially if he doesn't face a credible primary challenger.

Back to the "not so obvious." Austin Mayor **Kirk Watson**, long reported to be part of a slate the Dems were putting together for statewide office, may be assessing his options. The Dem powerbrokers were reported to have penciled-in trial attorney Watson for Attorney General. But, it looks as if GOP AG **John Cornyn** may stay put, and polls put him in a strong position for re-election. So, some are suggesting Watson run for what should be an open seat, Land Commissioner, to give Watson statewide campaign experience and allow him to build an organization for a later run for higher statewide office.

Finally, another "obvious": GOP State Comptroller **Carole Keeton Rylander** says she'll seek re-election, leaving it up to Lt. Gov. **Bill Ratliff** and Land Commissioner **David Dewhurst** to battle for the GOP nod against Dem former Comptroller **John Sharp** for Lt. Gov.

**We told you 5/18/01 that former Texas Lt.Gov Ben Barnes’ “enormous influence on the national political scene (was) on the verge of expanding even more.” We just didn’t know it would happen within a week.** But, then again, nobody else knew that Vermont USSenator **Jim Jeffords** was going to shift the control of the USSenate from the Republicans to the Democrats.

This seismic political upheaval which formally takes place the first full week in June vaults Barnes, already the most powerful Texas Democrat when it comes to national politics, to a **level of influence in Washington enjoyed by only a few insider Texas Republicans** who have the ear of the White House.

Barnes has spent a decade building influence with the new Senate Majority Leader **Tom Daschle** and other Democratic members of the USSenate. This week, for instance, he hosted West Virginia USSenator **Jay Rockefeller** in his fashionable West Austin home, and Rockefeller went back to Washington with more campaign cash. (Remember, we told you 5/18/01 that by this fall Barnes will have held individual fund-raisers in Texas for 13 of the 14 Democratic USSenators running for re-election next year, and is hosting a gathering of 21 Democratic members of the USSenate at his Nantucket summer home.)

Now, every single committee in the USSenate will be chaired by a Democrat who is beholden to Barnes. **The chairs of Senate committees wield extraordinary power.** They determine what issues are debated before their panels, and on what schedule. We’ve already told you Barnes can walk into their offices at any time. They usually return his phone calls within an hour. This “access” allows Barnes unmatched influence with some of this nation’s most powerful political leaders.

And, those companies that pay Barnes huge retainers (wonder if they’ll be raised now?) are the beneficiaries. We don’t know all the companies who have Barnes on retainer, but check the registry list in Washington and you find names like **American Airlines, Southwestern Bell, Firestone, Longhorn Pipeline, Freddie Mac, Huntsman Chemical**, etc.

**It’s not exactly the Royal Canadian Mounties riding to the rescue, but one province in Canada may be pivotal in adding to this nation’s energy supply.** A province in Canada that is a lot like Texas (except we don’t have massive amounts of snow or such high mountains!) could emerge as a key player in President **George W. Bush’s** US energy plan, especially now that the newly-empowered Democrats may block US drilling plans in Alaska’s Arctic National Wildlife Refuge.

Alberta is the dominant energy producer in Canada. And, Alberta’s leaders are eager to cut a deal with the US, utilizing the massive potential of oilsands in Northern Alberta. What’s not widely known is that, under the Canadian constitution, **Alberta has sole ownership of its natural resources.** Alberta leaders are planning to pitch VP **Dick Cheney** in a couple of weeks that Alberta could offer a long-term, stable energy supply that’s not in the Middle East.

**For several years now, Austin businesses looking for office space have been whipsawed by one of the tightest office markets in the nation. But, now that the economy is slowing from its breakneck speed, tenants may get a little rate relief as additional space comes on-line later this year.** Much of the new space will be sublease space – the result of the technology slowdown.

“This year we will see sublease space return to the market from companies like **Janus Funds, GlobeSet, Vignette, Netpliance, BMC Software, Question Technologies, Trilogy, Sun Microsystems, Sapient, Concerto, Lucent and Harcourt** which may bring the total to 2.0 million sq.ft. by year-end 2001,” reports Colliers Oxford Commercial real estate company. Most of that space (about 1.2 million sq.ft.) is already available.

“With CarrAmerica’s 445,000 sq.ft. building located at 300 West 6<sup>th</sup> St and Computer Science Corporation’s 110,000 sq.ft. sublease both set to deliver by year-end, **office rental rates are expected to become more competitive,**” notes Colliers Oxford. There you have it. The rapidly rising rates are softening along with portions of the tech business.

So, what can we expect now? What effect will this deluge of sublease space have on the market? Those who are offering sublease space may not be looking for profit; they don’t want any more cheese, they just want out of the trap. “We may see **landlords offering concessions to tenants** to make buildings more competitive with the sublease inventory,” predicts Colliers Oxford.

What’s the situation for tenants? “Now that a promise of a supply of space is available, **users will be able to compare and consider where they wish to locate** their business,” notes Colliers Oxford. And, for landlords, the company also thinks the slowdown will once again prompt building owners and their representatives to focus on the quality and amenities that their buildings can provide.

It’ll be sometime before we see first half numbers, but the first quarter figs show some dramatic changes. For instance, **the average downtown vacancy rate in Class A space in 2000 was only 2.5% and then it bumped up enormously in 1<sup>st</sup> quarter 2001 to 7.2%.** That’s significant. And, **rental rates** that went up about ten bucks a foot from 1999 to 2000 downtown, rose just a few cents from 2000 to the 1<sup>st</sup> quarter 2001.

It’s the same story overall. The 2000 average vacancy rate of 4.2% rose to 8.9% in 1<sup>st</sup> quarter 2001. Rental rates performed about the same, increasing more than four bucks from 1999 to 2000 and then rising only a few cents in the 1<sup>st</sup> quarter 2001.

Don’t get us wrong. **The Austin office market remains healthy.** But we’re seeing a major change here. We’re in the midst of a shift from a market where landlords have been quite aggressive in the past few years, to a situation where tenants can now begin to negotiate from a more favorable position. And, it should last for at least the remainder of this year.

**Starting today, you can fly non-stop from Salt Lake City to Austin via SkyWest Airlines, operating from the Delta Airlines gates as a Delta Connection flight.**

Previously nonstop service from Austin to Salt Lake City was already available via Delta, yet the return from Salt Lake City included a stop in San Antonio. This new Delta code share flight, via SkyWest Airlines, closes the round trip nonstop service loop between the two cities.

SkyWest's daily flights begin departing today from Austin at 8:30 a.m., arriving in Salt Lake City at 10:19 a.m., local time. The Salt Lake City-Austin service will depart Salt Lake at 4:40 p.m. and arrive in Austin at 8:16 p.m. By the way, **SkyWest is the nation's largest independently operated regional jet carrier.** It is based in St. George, Utah.

Also, summer charter service from Austin-Bergstrom International Airport (ABIA) to the Mexico resort destinations of Cancun and Cozumel are back – for the third consecutive year. Two different companies are competing for the business. **Funjet Vacations and Adventure Tours both offer three, four and seven-night air/hotel and full packages.** To get details and book the trips, you need to go through area travel agents.

Later this fall, you'll have another choice for food at ABIA. Located next to Gate 18, **Lefty's 6<sup>th</sup> Street Grille will offer freshly grilled food, a bar and live music.** Breakfast at Lefty's ranges from omelet sandwiches to bagel and muffins. Also a new shop called **Barton Spring's Dry Goods** will sell western apparel and accessories in addition to the usual items such as books, magazines and newspapers, along with local-oriented gifts such as salsa and barbecue sauce. Each of these businesses will operate out of 1,300 sq.ft. retail spaces.

**Dr. Louis Overholster** is convinced economists contradict themselves. In fact, he thinks the First Law of Economists is that for every economist, there exists an equal and opposite economist. And the Second law of Economists is "They're both wrong!"

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