

Volume 23, Number 18

August 3, 2001

Dear Client:

**All the fireworks bursting around various issues in Washington are overshadowing some very important moves by the White House and Congress that, if successful, could mean big bucks barreling into the bank accounts of many Austin area businesses.** The topic doesn't have the salaciousness of a missing intern or the philosophical divisiveness of stem cell research. But, it's hard to overstate its long-term economic importance. It's *trade*.

Two key measures go by two interchangeable names – **Fast-Track Trade Authority** or **Trade Promotion Authority**. But no matter what you call it, fast-track trade or TPA will greatly **enhance Austin and Texas's role in global trade markets**, as well as benefit the nation as a whole. There are also other companion trade bills as part of the package.

In fact, there are some who feel that, over time, these trade bills could **pack a bigger economic punch than the Bush tax cut**. So, it's important to understand what these trade bills will do, when they will likely be enacted, and the political maneuvering that's underway for **bipartisan enactment of these measures** that will lead to more jobs, cheaper consumer goods and increased exports.

President **George W. Bush** favors fast-track trade because it will give him the authority to complete negotiations on a planned Western Hemisphere trade pact and to pursue negotiations with the World Trade Organization during a new round of scheduled talks. The president sees these initiatives as the key to putting US businesses on firmer footing with global competitors that are far more protected by their governments.

Odds are Congress will **okay TPA by this fall**. When approved, fast-track trade authority will mean Congress can only approve or reject trade pacts negotiated by the President – but cannot amend them. That's the key. Remember, Congressional republicans joined with President **Bill Clinton** to overcome Democratic resistance and give Clinton fast-track authority (now expired) to enact NAFTA. Now the **Dems are backing off some of the objections** they had in the past, because new labor and environmental standards are being negotiated as part of the package.

Looser export control rules could also be adopted by summer's end. This will be especially **helpful for exporters of high tech, which is so important to the Austin area**, and already accounts for more than 25% of all US exports. Other trade bills are in the works and most will be a big boon for our high tech industry. All this could really be huge for our economy.

**With the amount of construction underway at IH35, the obvious question is “What’s next?”** There are two targets. The “Y” intersection in Oak Hill is one. The second is to relieve congestion along East Ben White Boulevard in order to ease Austin-Bergstrom International Airport (ABIA) access issues.

**The airport relief effort could begin in about one year**, according to the Texas Department of Transportation (TxDOT), when a \$37 million contract will go out for a 2.65 mile stretch of East Ben White Boulevard which will feature six main lanes and six frontage road lanes.

The project will pick up from where **the IH35 interchange project ends west of Burleson Road and carry to just west of Riverside Drive**. It’s not a done deal yet. Some stumbling blocks remain, including acquiring the final parcels of right of way and moving utilities out of the way. TxDOT engineers will be going over the plans and drawings during the next 12 months.

The future of the “Y” **project in Oak Hill is more tentative**. The Capital Area Metropolitan Planning Organization (CAMPO) joined with local leaders asking the Texas Transportation Commission for help. Last year, even though state funding was tight, the Commission allocated **\$9.4 million for frontage road construction** between Williamson Creek and the SH71 turn.

The Commission is considering a request this year for money to not only construct the main lanes, but to extend the frontage roads up SH71 and out US290 to near FM1826. **The decision could come anytime between now and November**. But, construction may not start on *any* of the Oak Hill projects until 2004.

A bit of background about access to the new airport is in order here. Austin city leaders argued over a new or expanded airport for decades. Most of the solutions focused on the northeast quadrant of the area. In fact, voters actually approved building a new airport in the area near Manor, where there was no road infrastructure in place for access to that facility. Major road construction would have been needed if the Manor site had come to fruition.

While the airport debate was raging, the city and TxDOT were **planning and starting construction on the US183 freeway system** that runs across the northern portion of Austin and the **Ben White Blvd freeway project** across the southern part of the city. These roadways were needed no matter where a new airport might be located.

Then, the federal government announced plans to close Bergstrom Air Force Base — an economic engine for Austin since World War II. First, there was opposition to the shutdown. But Austin, unlike other cities where military bases were built during WWII, retained rights to the property on which the AF base was located. Voila! A new city airport made sense on land already owned and used for 50 years as an airfield. But, best of all, **US183 and Ben White roadway expansions were well underway**. And, they fed directly to ABIA. So precious road construction time was saved. Sometimes it’s better to be lucky than smart.

**It looks as if industrial space will be the last real estate sector in the Austin area to feel the effects of the slowdown. But it will feel it. And as early as this quarter. It will manifest itself in the same way as the downturn in demand for office space — through the availability of sub-lease space.**

NAI/Commercial Industrial Properties (a company that tracks and leases commercial real estate) found there was *not* a significant amount of sublease industrial space available at the end of the second quarter. But, that's not the full picture.

**“Based on current market data, during the third quarter of 2001, more than 850,000 sq.ft. of sublease space will be available,”** reports NAI/CIP. “Furthermore, approximately 90% will be warehouse space and it appears that more than 75% will be concentrated in the North and Round Rock sectors.”

As in other real estate markets, **the cycle is now swinging back in favor of tenants who may be seeking industrial space.** And when you look out beyond this third quarter, you can see it becoming even more favorable for tenants. Approximately 1,425,108 sq.ft. of warehouse space is under construction or scheduled to begin by 1/1/02, of which only 13% is pre-leased.

Warehouse space isn't the only industrial category with more construction planned during this slowdown. The amount of **Flex/R&D space under construction** – or scheduled to begin by 1/1/02 — is 869,188 sq.ft., of which **only 4% is pre-leased.** By the way, NAI/CIP reports this is a 44% reduction from the amount recorded year-end 2000, which is partially due to several projects being put on hold.

About **42.3% of all warehouse and Flex/R&D under construction, or scheduled to begin by year-end, is in the southeast.** By the way, the heaviest concentration (45%) of existing industrial space is in the north. The southeast is second with a 20% concentration.

NAI/CIP's study includes industrial buildings in all major industrial parks and developments, as well as other Austin area industrial buildings 20,000 sq.ft. or larger. The study did not include owner-occupied buildings. So, the report and projections are fairly comprehensive as far as leasable industrial space is concerned.

**One of the reasons so much sub-lease office space is available is not necessarily due to space being *vacated* by companies that are downsizing. Much of it is due to exuberance two years ago when most companies leased more space than needed, planning for future expansion.**

It wasn't that long ago when space was tight in Austin and the economy was booming beyond all predictions. This led companies to lease much more space than current needs dictated. This “warehoused” space ultimately was not needed and it is now available for sub-leasing.

**A shot has been fired across the bow of public agencies that are involved in elections. The warning: Texas Election Law prevents public tax dollars from being used to try to win elections.** Some agencies have skated past that Election Law, claiming “all we were doing was simply informing voters.”

The Texas Ethics Commission has ruled San Antonio’s public transit agency, VIA, did more than just inform voters during last year’s election where **San Antonio voters defeated light rail.** The complaints filed with the Ethics Commission:

VIA Metropolitan Transit commissioned a public opinion poll of registered voters to determine not only voter attitudes in favor of or against light rail, but also to **test key messages to determine their persuasive effect** on voters.

Selecting the most persuasive messages, VIA then used these messages in their taxpayer funded information materials to **manipulate public opinion** in favor of the light rail ballot measure.

In a PowerPoint presentation shown to community groups, **VIA also listed endorsements of the light rail ballot proposition** by other groups. According to the Ethics Commission, this presentation “advocated passage of the light rail measure and thus constituted political advertising.”

Not only did VIA violate Texas Election Law, but the Ethics Commission also assessed VIA’s general manager a civil penalty of \$300. Texas Public Policy Foundation president **Jeff Judson**, who filed the complaint, said “This ruling is a victory for all taxpayers and sends an important message to other public agencies in Texas that they **must not use public tax dollars to try to win elections.**”

**Dr. Louis Overholster** says it’s always touching when a couple with three kids, two dogs and a cat tell them about their prayers each day. “They are always so thankful for anything that didn’t break!”

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodicals Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher