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Dear Client:

There's been an interesting turn of events in Austin's office leasing market. The sublease space is becoming less attractive by the day – even though it is less expensive, rates are continuing to fall, and there is a lot of sublease space available (more than 3 million sq.ft.). This is because those who are seeking office space are now questioning the creditworthiness of the companies that are offering space for sublease.

It makes sense. Some companies are trying to lease out their excess office because they are not doing very well and they are scaling back. Well, what if the company can't turn it around? What if it ultimately defaults on its original lease? Where does that leave the sub-lessee? **“On long subleases, if the sub-lessors default, then this leaves the sub-lessee in a precarious position,”** observes **Mike Buls**, who tracks the sublease market in Austin through his company, Buls/Hodge Consulting.

“Some clients will not look at sublease space,” Buls says. This is in spite of the fact “rates are continuing to fall – especially on the big spaces.” Buls points out **questions about the stability of some companies offering space for sublease** have resulted in a “reverse position”, where sub-lessees need to look at the creditworthiness of the sub-lessor.

The basic conclusion Buls draws: “problems with subleases may make the market for direct space stronger.”

Austin's high June unemployment was still better than the state and national rates. But, how do we compare with other high-tech centers around the nation? It's a mixed comparison. We're better than some, not as good as others.

Remember, in our 8/10/01 edition, we told you Austin tallied a 4.2% unemployment rate. This was much higher than in the past few years, but still better than the state/national averages. It was also **better than Portland and Dallas** (both topped out at 5% unemployment) **and Seattle** (4.7%). Austin was **on a par with San Jose and Salt Lake City** (4.2%). But there are several high-tech centers where the unemployment picture was better than Austin's: Phoenix (3.7%), Denver (3.2%) and Raleigh-Durham-Chapel Hill (3.0%).

The US Bureau of Economic Analysis' recently released personal income data for 1999 shows Austin ranked second to San Jose, CA in the nation's ten fastest growing metro areas — with a total personal income growth of 11.8%. But, these numbers also clearly show how fortunes can, and do, flip flop.

Obviously, these numbers reflected a particularly strong high technology industry in 1999 and we all know what's happened since then. But, it's interesting to look at *another* section of Texas for a perspective. There was a time, **back in the hey-day of the Texas oil bidness, that Midland-Odessa always led the state in personal income.** How times have changed!

Taking these same 1999 figs, Midland-Odessa was **one of only four metro areas in the nation to experience a net loss in total personal income.** Of course, this was largely because 1999's bottom-scraping oil prices made for a very bad year in the energy industry.

Keep in mind how the economy always flip-flops. Since 1999, **high tech has cycled downward and energy has cycled upward.** So, more recent data will likely reveal a very different pattern when the data is compiled and released.

The most current economic information has led the economists working for State Comptroller Carole Keeton Rylander to predict that Texas' economy will remain moderately vigorous, but after years of better-than-average growth, it will seem a bit anemic.

Texas has mostly avoided being infected by the national economic malaise. But still, the state's resistance is down, they noted. **The impact of a slower national economy on Texas, although not taking Texas underwater, is real.** Now, more than ever, the diversified Texas economy is inextricably linked to national economic health.

The largest sector of our state's economic base, high technology, is enduring **slower-than-expected sales, as well as mounting over-capacity and inventories.** At least 20,000 workers in computers, electronics, communications and other high tech industries have been laid off statewide since January.

By the way, **high tech now comprises a larger part of the Texas economy than oil and gas,** which as little as twenty years ago was five times larger than high technology.

A Texas recession is not forecast, but the Comptroller's economists predict **growth rates will drop back about two percentage points** from the 6.1% increase in real gross state product in calendar year 2000. And, looking out a tad further, they predict somewhat slower growth in the Texas economy over the next two years. That's what will make it seem "a bit anemic."

The Democrats appear to be so eager to take-back key statewide offices now held by Republicans, they are stumbling all over themselves for the right to square off against the GOP officeholders in November, 2002. This could cause the Dems some big problems.

Take the governor's race, for example. Wealthy trial lawyer (and former UT Austin football star) **Marty Akins** has cleared his decks, hired staff, and is trying to stir up as much interest as possible on behalf of his candidacy for the Democratic nomination for governor. He's serious about running, but the Democratic Party leadership views him as a maverick.

Those who consider themselves the leaders of the D's didn't recruit the Marble Falls rancher. In fact, they've gone on bended knee to Laredo over the past year to woo wealthy banker **Tony Sanchez, Jr.** to run for governor. They like the idea of a Hispanic at the top of the ticket – thinking that would ensure a huge turnout of Hispanic voters and sweep other statewide Democratic candidates into office.

Now, they could be faced with a **knock-down, drag-out, expensive dogfight** leading up to the 3/12/02 primary election. Publicly they'll tell you this is a healthy situation —to debate ideas among Dems, to generate interest, etc. Don't believe them. The winner will be bloodied by the battle and will have spent millions of dollars just for the right to face GOP Governor **Rick Perry**.

Meanwhile Governor Perry, with no significant primary opponent, will be taking notes about the bad things the D's say about each other, **raise millions and millions of dollars (maybe as much as \$30 million) without spending heavily**, and will be organizing Texas's 254 counties for the 11/5/02 General Election – all without so much as getting his hair messed up.

So, while the D leadership is publicly welcoming a spirited primary, you can look for them to privately twist arms to get one of them, probably Akins, to drop out. "Marty," they'll say, "You're a good man with a bright future. We like you. But now's not the time. Tell you what we'll do. If you don't run against Sanchez, **we'll all fall in lockstep behind you for whatever you want to do in the future**. We can raise millions to help you then. Whaddaya say?"

The Dems could be facing the same situation in the race for the USSenate, where Republican **Phil Gramm** is saying he's going to seek re-election – even though there are those who still feel Gramm may step aside at the last minute. **A number of Democrats are running up trial balloons or even going so far as to announce their intentions to seek the Dem nomination.** Gramm, whose powerful Senate position allows him to raise as much money as he wants, is licking his chops at the prospect of facing a battered, weakened foe in the fall.

With D's former Comptroller **John Sharp** (Lieutenant Governor) and Austin Mayor **Kirk Watson** (Attorney General) already running, and the trial lawyers salivating over prospects of placing a number of Dems on the Texas Supreme Court, there may not be enough Dem dollars to go around for the D's to realize their dream of winning back a number of statewide offices.

Okay, so your company has laid off some high-tech folks. It's good for the company because it trims overhead. But you better watch out. Computer experts are warning you to prepare for sabotage by dismissed workers. There are reports the FBI is concerned hack attacks from disgruntled ex-employees are likely to soar as the slowing economy forces more firms to lay off staff. Just how serious can this be?

What's already happening around the US is that fired workers are hacking into corporate computer networks to delete critical files, plant viruses and cause as much damage as possible. **In some cases, the attacks have brought companies to a standstill.** In fact, one systems administrator fired from a \$186,000 job at a New Jersey chemical firm admitted causing \$20 million of damage.

The man confessed he had used another exec's password to tap into the company's computer system through an Internet connection in his home, and had deleted critical inventory and personnel files.

Here's how an employment lawyer describes it: "In the old days, you punched the foreman in the mouth or took a fire axe to an expensive machine. Now, you leave peacefully, go home, have dinner and half a bottle of wine and **plug into the Net, and from the comfort of your recliner, destroy hundreds of thousands of dollars of your former employer's property.**"

If this doesn't get your attention, consider that a sample survey of 186 corporate computer networks by the Computer Security Institute and the FBI found **disgruntled workers wreaked an estimated \$378 million of damage last year.** You are now forewarned.

Dr. Louis Overholster grabbed a cup of coffee in a truckstop while on vacation. Three Hell's Angels bikers were harassing a truck driver, who just sat quietly – never responding. When the trucker left, the bikers said to Dr. Overholster "not much of a man, was he?" Overholster agreed, saying "not much of a driver, either. He just backed his semi over three motorcycles!"

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