

THE

Real Estate

AUSTIN LETTER

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Dear Client:

The big business news of this week was the pronouncement the US economy started its first recession in a decade back in March. So, when will it end? And how does the Austin area economy figure into the recession?

First of all, it may not have been news to you that you've been operating inside a tightereconomy for the past nine months. **Your gut, if nothing else, told you times were tougher** — even if the National Bureau of Economic Research (NBER) hadn't proclaimed you were in a recession. You've also noted the signs we've been documenting for you about the Austin economy during this period, indicating a weakening local economy.

When will the national recession end? **Well, it's possible it has already ended or, at least, is in the process of ending.** Look at what happened the last time the NBER declared the US was in a recession. In April 1991, it decided a recession began back in July 1990. As it turns out, that pronouncement came one month after the recession ended.

In fact, soon after NBER's Monday declaration, a New York based research organization analyzed NBER's report and argued the **odds are approaching 50% the recession has already ended.** The NBER, by the way, doesn't use the popular "two-or-more quarters" of decline as the yardstick for its recession declaration.

As far as the Austin area economy is concerned, **you can easily argue we are not participating in the national recession.** Sure, we've cooled off considerably, as we've been chronicling for you all this year. But, we were flying so high that as we came down from rarefied economic air, we still have smoother sailing than many other regions.

Don't forget one key barometer of economic vitality: in spite of widely-publicized layoffs, primarily in the high tech sector, **the Austin area still has more than 8,000 employed workers than we did a year ago.** This is hardly the sign of a recession ravaged area.

This means the Austin area is poised to **bounce back faster and higher than the rest of the nation.** Our economic trampoline is on much higher ground than the nation's trampoline and we may have already started our bounce back up. We'll keep watching it for you.

What's this? Office space downtown is going begging as prices keep dropping and yet, the wrecking ball leveled several buildings on Congress Avenue this week to make room for a high-rise office tower. Some think this is a dumb move, but the developer is betting a bunch of bucks it's the smart thing to do.

A traditionally conservative real estate trust, **Cousins Properties in Atlanta, is putting an estimated \$137 million (gulp!) on the line** to fund the construction of a 525,000 sq.ft., 33-story office building at Fourth and Congress Avenues downtown. The dollars are now flowing as the construction kicked off with the demolition of the old Oscar Snowden's appliance store and Ted's Greek Corner restaurant.

When questioned about the project, Cousins' president **Dary Stone** gushed to *The Wall Street Journal*, saying the tower will be "the biggest, the best, the most finest, the coolest ... **the most incredible project the city has seen and probably will ever see.**" Okay. So, it'll be a great building. But what about the economy? How do you intend to get renters for your high-dollar space with times so tough?

It's all about timing. The building will not be **ready for occupancy until 2003**. With about 17% of the office space pre-leased, Stone points out the remainder of the leasing doesn't have to be completed for two or three years – "a time period in which a **large number of lease expirations will occur in other central business district buildings.**" He also said: "We expect an economic recovery to begin in mid-2002."

And he's bullish on the Austin market. "**Austin is and will be a dynamic and vibrant city going forward.** The central business district has a client base that needs or wants to be downtown, including a government-oriented client base that will grow as the state grows."

All that's well and good. But, there are some important observers who don't agree with the Cousins analysis. **They point to the current conditions as reasons why this project should not be getting underway at this time** – the Austin office market in trouble, rents heading south, enough new space available to last maybe two years, the technology downturn, the slowing economy. They also note those with lease expirations coming up are paying much less rent than the Cousins property will likely command in 2003, in order to service its investment.

Cousins is being battered nationally by those who consider this **high-dollar project too risky**, even though this Austin project is a small part of the company's overall portfolio. Cousins could easily have held off construction, like others are doing. But, instead, it's full speed ahead. **Cousins is not known as a risky developer. And it doesn't have an emotional attachment to Austin. So its decision is a cold-hearted business judgment.** It's betting a big stack of chips Austin's economy will be thriving when the office tower opens for business in 2003. As you try to predict our future, this action seems better than an ivory tower economist's forecast.

This week also saw the year's biggest one-week upward spike in mortgage rates (see our discussion 11/9/01 and 11/16/01). **The mortgage company Freddie Mac reported that 30-year fixed rate mortgages jumped about a quarter-point, to an average of 6¾ %.** This is still very low, but it now looks as if the trend has reversed and appears headed back upward.

Beware! Scam artists are preying on fears about anthrax and other terrorist ploys to market safety-related products. You may be approached about offers for questionable products that will allegedly safeguard your loved ones, and protect your mail, homes or businesses from anthrax or other weapons of terrorists.

A quick survey of Better Business Bureaus in the US and Canada unearthed questionable offers, which are appearing on websites, in unsolicited e-mails and telemarketing sales pitches or in advertisements on cable TV, radio and at the back of magazines or neighborhood newspapers. As a result, the BBB wants you to **“beware of any advertisement for a new or quick cure-all for anthrax or any other biochemical substance.”**

Complaints received allege **exorbitant prices being charged for “survival” kits** (bottled water, candles, canned foods, etc.); bait-and-switch advertising tactics for disaster preparedness products: non-availability of advertised survival gear and allegedly defective bio-hazard suits and gas masks.

Recent *questionable* offers: For just \$99.95, you can get an **anthrax exterminator** that promises to sterilize most surfaces within 8 seconds and for only \$2,799, you can have a **Steam Sterilizer** that sterilizes and dries up to 100 #10 envelopes within 40 minutes. For prices that vary you can get a **home anthrax kit to detect anthrax bacteria in the air, water or on surfaces** and a soap/disinfectant to protect you against virus-based diseases. You get the idea.

Even the sleazy scam artists that perpetrate age-old scams are updating their pitch. One recent version of the so-called Nigerian letter scam is from a woman who claims her **husband was killed in the September 11th attacks, leaving her with millions of dollars that must be deposited in a US bank account.** The scammers want you to give them your bank account number. Then they “sweep” your account of your personal funds. Another version asks you to send a copy of your international passport and, in return, you will receive \$470,000.

If you want some **legitimate** disaster preparedness and mail safety tips, health remedies and other terrorism-related subjects, here are some **excellent websites**: The Office of Homeland Security, www.whitehouse.gov/homeland ... Federal Consumer Information Center, www.pueblo.gsa.gov/crisis/html ... Centers For Disease Control, www.cdc.gov ... US Food & Drug Administration, www.fda.gov ... US Postal Service, www.usps.gov ... and the Federal Trade Commission, www.ftc.gov. Good luck.

The city that most closely mirrors the average of the 2000 USCensus (in other words, “America’s Most Average City”) is in Texas. This means that, for the next ten years, marketers will test all sorts of products and advertising there before rolling out the effort to a nationwide audience.

America’s new Peoria is smack in the middle of the Sun, Bible and tornado belts. It’s – tah-dahhh! – **Wichita Falls**. That’s right. Wichita Falls. For the town, “most average” is a step up. Remember, in 1978 *Texas Monthly* magazine listed as **one of the Worst Jobs in Texas** – “**Full-Time Resident Of Wichita Falls.**”

What makes Wichita Falls average? Well, according to an analysis by *Advertising Age* magazine, the Wichita Falls metro area population of 140,518 hits **nearest the national norm for ethnic balance** (9.6% African American, 11.8% Hispanic and 1.7% Asian), **household size** (2.5) and **median age** (33.6). As *Ad Age* put it: “This is the new epicenter for the mainstream. Pay attention.”

“Wichita Falls is big enough to have an **Air Force base**, a **university** and an **orchestra**. Downtown – faded, low-slung and brick – is so abandoned you half expect to see hot winds chasing tumbleweeds down its high-lonesome streets. There is one gay bar. There’s no Starbucks within 120 miles,” notes *Ad Age*.

Wichita Falls is no longer an oil boomtown (decades ago, the town was said to have more millionaires per capita than anywhere in America). The upside is unemployment for the last few years has hovered below 5%. **The dot-com boom and bust didn’t touch Wichita Falls**. The strip malls could just as easily be in Paramus, NJ, or Orange County, CA, with its bebies of big-box Best Buys and Office Depots. *Ad Age* summarizes in advertising lingo: “The secular religion is still high school football. Wichita Falls is Dr. Pepper, not Coke or Pepsi.”

Dr. Louis Overholster said he didn’t have any problems with his Thanksgiving dinner because he only ate from the Seven Basic Food Groups: Turkey, stuffing, potatoes, gravy, pumpkin pie, ice cream and Tums!

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Sincerely



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