

THE

Real Estate

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Dear Client:

You know that Austin office rental rates have declined during the past year (we've been keeping you ahead of the curve on that info), but you may not know the specific pockets of town where rates have dropped the most dramatically. Or, put it another way, you may not know where to get the "deepest discounts" on great office space.

At the end of 2001, **office rental rates had dropped 7.7% over the previous 12-month period throughout the entire Austin area**, according to Colliers Oxford Commercial Office Market Report. That's a significant drop in rates. But the most dramatic drop was recorded in the two areas where most of the higher-priced space is available – downtown and northwest. That's where you can find "deeply discounted" rates, compared to a year ago.

Take downtown for example. Colliers Oxford reports that since year-end 2000, **average office rental rates – for prime Class A space – dropped more than 20%**. That's a big dip. A year ago, the average rental rate was about \$38.10/sq.ft. Now, the going price is \$30.43 per rentable square foot – a drop of \$7.67/sq.ft.

The same is true in the area where high tech operations are concentrated – northwest. Space prices dropped steeply there – also more than 20%. **Overall office rental rates for the good stuff in the northwest have dropped from \$28.02/sq.ft. to \$22.31/sq.ft.** "This steep drop was driven by a preponderance of aggressively priced sublease space," notes Colliers Oxford.

Of course, when you have dropping prices, you also have greater availability. In fact, the increase in the amount of leasable space in the far northwest has been greater than the decrease in prices, **indicating prices may drop even more during 2002**. The vacancy rate in the far northwest is now more than 33% — and that represents a 26 percentage point increase.

Even with these trend lines going in the "wrong direction" for a healthy office market, Colliers Oxford reports that "office projects currently under construction and scheduled for completion in 2002 total almost 2 million sq.ft., with just under 30% reportedly pre-leased. "With this scheduled influx of space, tenants will continue to have a variety of location options." Or, to put it in plain language: **if you're looking for classy office space in the downtown or northwest area, 2002 will offer you more options at much lower prices than you've seen in several years**. This is the year to lock in your office space needs.

Let's talk politics. It's getting pretty interesting – on a number of fronts. Former Attorney General Dan Morales' eleventh-hour decision to switch from a widely-discussed race for the USSenate to run for Governor got the most attention, but there are other elements at play about which you need to know.

The “other elements” include a quiet Republican political strategy. Texas GOP leaders are convinced their successful **re-drawing of the districts for state House and Senate members will give them a voting majority for the first time in both chambers**, when the next session of the Legislature re-convenes in Austin a year from now. Much of the rhetoric so far has revolved around electing a Republican speaker of the house to replace Speaker **Pete Laney**.

But there's an even bigger, below-the-radar, move by the Republicans that could have national implications. Republicans are not happy the Congressional delegation from Texas will still have a wide Democratic majority after this year's elections. So, look for the GOP to use its newly-found majority in the legislature to **reconsider the Congressional district boundaries in 2003**.

In other words, there could be **another redistricting fight** in the 2003 legislative session with a Republican objective to **elect more Republicans than Democrats to Congress from Texas**. And that would help with a national GOP majority in a closely-divided US House of Reps.

Back to Morales. When his minions filed his papers to run for Governor just minutes before the filing deadline, it might have been surprising to most. **But it was not a last-minute decision**. You'll get a kick out of this little anecdote. While we were pumping gas at a 7-Eleven Self Service station over the holidays, this large, luxury SUV pulled up at the next pump and out jumped Morales. “Hi, Neal, happy holidays.” “Same to you, Dan. Are you still running?”

Obviously we were referencing the race for the democratic nomination for USSenate, which he had been discussing for some time, though we didn't say it by name. “Oh, yeah. But I'm not going to do anything official during this holiday period.” “Yeah,” we said, “nobody's paying attention to politics at this time of year.” “I'll make an official announcement after the first of the year,” he added.

So far, just routine, idle political chit chat at the gas pump. Then, as we were leaving, with an obvious twinkle in his eye, he said grinning, “Neal, I've got a prediction for you. **There's going to be a big surprise filing**. Can't tell you what it is, but it'll probably shock some folks.” Bingo! Morales knew then and had probably been planning for some time his switch to run for governor.

Even though the party primary election is just around the corner (3/12/02), **Morales could afford to wait because he has the highest name identification of any Democratic candidate and still has a campaign war chest** left over from his two elections as Attorney General to kick-start a quick race for Governor against political novice, Laredo banker **Tony Sanchez**.

Don't let bombastic, high profile political races obscure the fact that the most powerful government position in Austin will need to be filled this spring. The job of Austin City Manager is more, much more, than just another bureaucratic position. It is of enormous importance to this area's future.

You have a lot at stake in who is selected to fill **Jesus Garza's** shoes, now that Garza has announced he's resigning as City Manager in April. The City Manager is selected by the Austin City Council and follows the council's policy direction. **Under our Council-Manager form of government, the Council acts as a Board of Directors and the Manager is the Chief Executive Officer.** Depending upon who fills the council and manager positions, those lines are sometimes blurred. But, the City Charter is clear on the division of responsibility.

Austin is unique in its city government operations. In fact, the size of Austin's budget and government structure is much larger than many cities that have a much greater population base. **There is only one other city in Texas with a bigger city budget than Austin's.** And, it takes more expertise to run Austin's operations than most other cities. Why? Because **there are very few cities in the nation where the city itself owns, operates and manages an airport, a city hospital system and an electric utility.**

Think about it. The D/FW Airport is run by a **separate airport authority.** Most cities have *private* utilities and most of those that *are* public, such as San Antonio's, are run by a **separate public utility board.** The same is true of public hospitals; they are usually run by a **separate hospital district.** But not in Austin. All three huge enterprises are run by the City of Austin and the City Manager is responsible for their operations (with Brackenridge Hospital operating under a management contract with the City).

This is in addition to the "normal" city functions – such as **fire, EMS and police protection, parks and libraries, zoning regulations, garbage collection, water and wastewater facilities, roadway construction and traffic flow.** Most cities consider they have a full plate just keeping up with these standard city services.

In the Council-Manager form of government, **the mayor has only one vote on the Council and none of the executive authority vested in the City Manager.** Again, Austin is different from many cities – such as New York City and Houston – where a fulltime mayor operates under the Strong Mayor form of government, with the duties of a CEO. And to further reinforce the importance of who is selected as Austin's City Manager, just consider this sobering fact: **neither the mayor nor any member of the City Council was elected on a platform that included expertise in airport, hospital or utility operations** – much less experience in the full laundry list of standard city services.

It is imperative those **individuals or organizations with an interest in city operations get heavily involved in the selection process for the City Manager,** and to do so immediately.

The economists say there's a *national* recession. But no one is saying there's a recession in Texas. In fact, the state's chief economic officer, State Comptroller Carole Keeton Rylander, said again this week: "I have said it before and I will say again that it is highly unlikely that we will see a recession in Texas."

Rylander had some good news this week to bolster her contention. **She reported that the consumer confidence index in Texas rose more than ten points in December** – outpacing the national increase by nearly nine points. The same was true for our neighbors. In the four-state region dominated by Texas, the increase in confidence rose by 10.5 percentage points.

"Texans are a defiant bunch," declared Rylander. **"Our confidence never fell off as much as that of the rest of the country, and now it's snapping back faster, too."** The consumer confidence index is somewhat subjective, but it's important. If consumers are confident in the economy and their own financial situation, they'll troop to the stores, take trips and make long-term financial commitments, such as buying big ticket items like furniture, cars and houses.

While this trend is certainly in the right direction, your enthusiasm needs to be tempered. As Rylander put it: "We still have a way to go before we're fully back to previous economic growth rates." But this is a start – and a good one.

Did you know that General Tommy R. Franks, the beret-clad, combat-boot-wearing tall Texan who, as Commander in Chief of the US Central Command, directs the military operations of a 25-nation region including Afghanistan, Pakistan and the Persian Gulf, attended UT Austin during the mid-1960s? What do you want to bet he *didn't* take part in any of the Viet Nam protests that seemed to be a daily occurrence on the campus during that era?

Dr. Louis Overholster has his own view of the economy: "The way I see it, the economy has not slowed down. Let's just say we've finally got prosperity under control."

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