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Dear Client:

Any furniture with that? **That's a typical question asked these days as the bottom-fishers shop for sublease office space**. **And**, **according to one man who keeps tabs on the price of office space in the Austin area "we haven't seen the bottom on rates**."

As the furniture question implies, not only have we not seen the bottom on rates, **the incentives are growing – for prospective tenants and also for brokers** who simply show the available space, according to **Michael Buls**, of Buls Hodge Consulting. And there's plenty of sublease space still to show. Buls counted 3.754 million sq.ft. on the sublease market (after no sublease space was rented the first two weeks of April).

"Based on conversations with other brokers and my own personal experience, subleases in pocket areas are experiencing a **meltdown in rates**," said Buls. "The most intense competition is where large amounts of direct space and sublease space are side-by-side. The pressure of sitting on large blocks of empty space, while paying expenses and rent, is starting to take its toll on sublessors, and **decisions are being made to cut their losses**."

What are average sublease rates? "**I would tell a client $20 to $22 gross** (per square foot) on a Class A sublease with 3-to-4 years of term," says Buls. "This is a **far cry from the average advertised rates from the sublease report of $30.48 for Class A**. Rates are even lower in the areas where competition is fierce."

Now, about those incentives. On top of locking-in a low square foot cost for office space for 3-to-4 years, what else can you get? "**Finish-out and subdividing** of space is becoming more common, **furniture** is being included and **infrastructure is being left in place** to facilitate leasing," observes Buls. And, since space is not being gobbled up with these low rates and incentives to *prospects*, sublessors are offering incentives to *brokers*.

Brokers are being offered **ski trips**, **commissions as high as 7%**, **bonuses** based on dollars per square foot – even **drawings for cash**, just for *showing* the space.

This might sound familiar to you if you were here in the real estate recession of the 1980s. For now, there's a two-year supply of space and the vacancy is not being reduced. **So**, **we still haven't seen the bottom**. As Buls puts it: "The next couple of months will be telling."

When Intel announced this week it wants to sell the shell building it abandoned in downtown Austin, it narrowed the questions about what will ultimately happen to the skeleton structure. But, it raised a very big question of why the city of Austin didn't have a signed agreement with Intel, after almost "giving away the store" to lure the high tech company downtown.

That question should be posed frequently during the City Council campaign that is being waged between now and election day, 5/4/02. It's difficult to determine **if any major harm was done** because there was no signed agreement. And the two key City figures in the Intel negotiation are moving on (Mayor **Kirk Watson** resigned to run for Attorney General and City Manager **Jesus Garza** is leaving for an exec's slot at the Lower Colorado River Authority 5/1/02).

But there is no question that a major policy decision and new direction for the City was sloppily handled. **Not to have a definitive agreement in this instance, in writing, cannot be simply dismissed as something that "fell through the cracks."** At the very least, an internal review of city practices should be conducted. And those who seek to serve on the City Council should be held accountable for the oversight.

We've been pointing out for a year that Dell's aggressive marketing during the downturn has helped it increase market share in the highly competitive PC world. Now we have the numbers to show Dell put a massive amount of money into its take-no-prisoners ploy.

It takes a lot of guts to be counter-cyclical. When the economy is in a downturn, most businesses hunker down and wait it out. And the first place many cut dollars is in the ad spending category. But, **Dell *increased* advertising spending**, while its competitors cut back.

> The company with the biggest PC ad budget in 2000 was Gateway, spending $297 million. Dell was second with a $195 million budget. Hewlett-Packard spent $161 million, Apple $154 million and Compaq $149 million. During the 2001 downturn, **Dell *increased* its budget a whopping 16% to an industry-leading $227 million**. During the same period Gateway sliced ad spending by a massive 37% to $187 million. Apple cut by 21%, Hewlett-Packard trimmed by 14% and Compaq cut its ad budget 8%. These figures were compiled by *Advertising Age*.

Not only did it increase its ad budget, **Dell began a price war in January 2001 –** dealing a double-whammy to its reeling competitors. As a result, before year end, Dell grabbed the Number 1 PC market share position. **By the way, the national advertising community is comparing the "Dude, You're Getting' a Dell" ad campaign to the ground-breaking Apple Computer ad in 1984 for the Macintosh.** Ad experts point out, that until Dell introduced the Steven ad character, PC ads had been tech and product oriented. Now, the Dell ads are more benefits oriented and appeal to consumer's hopes and feelings. As one put it: if an ad campaign just "touts the technical aspects of a car, you'd have the Edsel."

Financial advisor Scott Burns' claim that home ownership had trounced the stock market over the last 3, 5 and 10 years generated a lot of response — claiming he was all wrong.

As we told you 4/12/02, Burns ran the numbers and said you beat the market cold if you bought a home. Critics quickly claimed he was wrong because 1) home ownership is a **lifestyle decision**, **not an investment**, 2) some areas, such as Waco, **hadn't appreciated very much** and some people have lost money in the last year or two, and 3) you can't ignore the **cost of supporting your house** when you calculate your investment return.

How does Burns respond? On the first point: Because only about 10% of the population has more at stake in the stock market than in the housing market, like it or not **owning a home is a major investment**, as well as a lifestyle decision. Decisions affect the investment. "***Where* we buy** will determine whether we buy a house that appreciates or depreciates. ***When* we buy** may be just as important. Some people have made small fortunes with well-timed purchases in good places. Others may declare bankruptcy due to ill-timed purchases," Burns points out.

As far as appreciation, the number 2 point, Burns acknowledges residential real estate in some areas hasn't appreciated much. He admits the value of homes has even gone down in many major cities. "But more areas went up than went down. **The median US price rose 6.2% last year**. Not too shabby. The worst performing home price in the US lost 3.7%. **The S&P500**, **meanwhile**, **lost 11.88%**," he noted as he made his point.

The third criticism about home maintenance is a bit more complicated (and may take an economist to understand!), but Burns is sticking to his guns. The complaint was he **ignored the monthly cost of the mortgage**, **taxes**, **insurance**, **improvements**, **etc**. But, the financial advisor says "when we buy a home, we get returns in two forms, services and appreciation."

"First, we get a return in **shelter services**. If we bought the house for cash, we would have no mortgage payment and would receive **non-cash income** (imputed income) **in shelter benefits**. When we finance a house, we pay 'rent' for the money borrowed. That reduces our imputed income, but **increases the leverage of our return from appreciation**," he explains.

The second return is **price appreciation**. "From 1970 to 2001, the median existing home resale value rose by 6.18% a year, compounded. That's about half the pre-tax 12% return of common stocks over the same period," he noted. "If the imputed rental income was only 6% of the initial value of the house, homes did as well as common stocks. In fact, a case can be made that the **imputed income would be about 8% of the market value of the house**, **making long-term home ownership a superior investment**," he concluded.

For more on what he had to say, go to http://ScottBurns.com.

If you live and work in Dripping Springs, you may wonder about the fuss over the high number of unemployed in the Austin metro area. After all, in your little corner of the suburban Austin area, the percentage of the workforce unemployed in February was only 2.3%.

But, if you lived and worked in Taylor, Bastrop or Elgin, you may see more signs of economic distress because Taylor's unemployment is very high at 8.2%, Bastrop's unemployment is 7.8% and Elgin's is 7.2%. This simply points up the **economic diversity of our five-county metro area where the overall unemployment is 5.3%**. And it underscores that, more often than not, we relate to our immediate surroundings – where we live and work – than to the overall picture.

As you would expect, the bigger population center is closer to the metro average. **The City of Austin has a 5.9% unemployment** (Travis County is 5.8%). But, the more mid-sized cities range across the spectrum. Round Rock's unemployment is 4.5% while San Marcos's is 6.1%, Georgetown's is 5.9%, Cedar Park's is 6.7% and Leander (3.1%) and Lakeway (3.0%) are both doing quite well.

By breaking down the metro area stats this way, you can get a better idea of the how individual municipalities are weathering the downturn. You can also extend these figures to determine how a city's income is impacted. As a general rule, **the lower the unemployment, the more dollars are being spent in that municipality**. And the converse is generally true as well.

If you're traveling to Europe and interested in where you can change your dollars into euros before departing, check out the Austin-Bergstrom International Airport, though it may be hard to find. The airport exchange service is *not* near the airlines with the most international service. It is located on the concourse level across from the Southwest Airlines ticket counter.

Now that the income tax payment deadline passed this week, **Dr. Louis Overholster** noted that one difference between death and taxes, is death doesn't get worse every time Congress meets! He also is curious why a "slight" tax *increase* costs you $200 and a "substantial" tax *cut* saves you 30 cents!

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