THE Neal Spelce AUSTIN LETTER

www.AustinLetter.com

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

Volume 24, Number 15

July 12, 2002

Dear Client:

When will the Austin office market recover to healthy levels? **How about a year from now – the middle of 2003**? **This is the best estimate from an Austin expert who has been tracking real estate trends here for decades**.

Charles Heimsath, the president of Capitol Market Research, has analyzed Austin commercial real estate numbers, upside down and every which way, through all of the market's ups and downs during the dynamic decades of the latter part of the previous century – and he is continuing to do today what he does best. He's not a developer or lender. He's an analyst.

And, his latest analysis shows the Austin office market recovery will be delayed to the middle of 2003. **His forecast for the next six months** "**is not encouraging for the market as a whole**." He forecasts "areas with very little sublease space will perform better than the rest of the market."

He also points out that **4.0 million sq.ft**. **of office space planned for a construction start in 2002 has been put on hold**, and only 449,000 sq.ft. will be completed this fall. "Unfortunately, the inventory of *sublease* space (which now totals 3.1 million sq.ft.) is rising, which diminishes the prospect for the market to recover later this year (2002)," Heimsath noted.

"**There are two positive aspects to the current market situation**," says Heimsath. He points out that absorption of "direct" (*non* sublease space) has picked up and there are only four new buildings under construction.

Heimsath says "the first six months of 2002 were not very encouraging for those in the office leasing and management business." He reports that **rental rates declined** by an average of 11.6%, **occupancy** (including sublease space) **has dropped** to 77% and **absorption** (also including sublease space) **was a negative** – 291,976 sq.ft.

What's happening now? "The collapse of the pre-profit dot-com industry last year (2001) continues to have a significant impact on the Austin office market," he says. "**New pre-leasing in buildings under construction has virtually stopped and occupancy in existing buildings decreased** from 88.2% in December 2001 to 86.6% in June." For your planning: you've got at least a year of "soft" office market conditions in the Austin area.

THE Neal Spelce AUSTIN LETTER www.AustinLetter.com THE Neal Spelce AUSTIN LETTER www.AustinLetter.com

Texans have been migrating from farms and ranches to city life for more than a century. But, there is a newer phenomenon at work now – a *very rapid* transfer of people and jobs to just a handful of cities, including Austin.

Almost all of the new jobs added in Texas since 1990 were created in just five major metro regions. Or, put it another way: about **eight of every ten new jobs were found in just a handful of cities – Austin, Dallas, Fort Worth, Houston and San Antonio**. The remaining new workers were scattered between the state's other 22 metro areas, and the pastures and piney woods of rural Texas. This handful of magnet cities is the newer phenomenon.

You can narrow it down even further to see how Austin is a key part of this new population wave. **During the past 11 years, six out of every ten new Texas jobs were found in just three cities – Austin, Dallas and Houston**. If you've been around these parts for more than a decade, you know how rare it is to hear Austin mentioned in the same breath with longtime Texas giants Dallas and Houston when it comes to a population discussion.

Statistical consultant **Robert Cushing**, supported by the UTAustin Public Policy Clinic, is the guy who has run the numbers, as reported by the Texas Workforce Commission. Cushing points out that, **while 61% of the state's workers lived in these five metro areas in 1990, by the end of 2001 they created 77% of all jobs**. This is a very statistically significant increase. And, it has major implications as you live and work (and vote) in The Lone Star State.

Not only did the big five metro areas capture most of Texas' new jobs, **the average wages paid for all jobs in those cities climbed above those paid in the remainder of the state**. (Chicken and egg?) Between 1996 and 2000, Cushing found the average wage in the five magnet cities increased by 12% (with Austin leading the pack). On the other hand, the 22 remaining metro areas saw weekly wages rise by just 3%.

This is not a one-time-only phenomenon of the nineties. **This is a trend**. The future ability of these five magnet cities to attract jobs, workers and income is not expected to decrease.

Speaking of workers, another interesting phenomenon occurred in the Austin metro area that ran contrary to what was happening in other Texas metros – the civilian labor force in Austin in May 2002 was *less* than it was in April 2002.

Our labor force dropped from 764,300 to 763,000, while the state as a whole and the other magnet metro areas – Dallas, Fort Worth, Houston and San Antonio – all continued to increase. A Texas Workforce Commission analyst speculated to us that the high tech-ers who've been looking for work in Austin for some time now, but **haven't found jobs, may have moved from the area**. The labor force, year over year, is still up significantly – from 747,700 to 763,000.

When President Bush challenged American business this week to tighten up on corporate governance, he had suggestions for those who sit on corporate boards. But, his recommendations paled to the shakeup proposed by one retired Texas CEO.

Bush suggested board members check the quality of their company's financial statements, ask tough questions about accounting methods, demand that audit firms are not beholden to the CEO and to make sure the compensation for senior execs square with reality and common sense. But that's nothing compared to what **Bob Crandall**, the CEO of American Airlines' parent AMR Corp. for 13 years, would do.

Crandall told **Cheryl Hall** at the *Dallas Morning News* that boards are too large, meet too infrequently and divvy up duties to the point where directors can't grasp the overall health of the company they're supposed to oversee. As a result, he says **boards are largely ceremonial** and in the vast majority of cases, don't intercede until action is way overdue.

So what would he do about that? Long before Enron/WorldCom/etc., Crandall was speaking out. **He would get rid of all board committees**, slash the number of directors, contractually require them to spend much more time poring over the company's activities and pay them handsomely for their undivided attention.

Crandall, who now serves on five boards since retiring from his AMR CEO duties, believes **the board needs to operate as a committee of the whole on all matters** – audit, compensation, etc. As a result, he would limit boards to only **six or eight directors** and require them to **meet at least once a month**, spending an entire day reviewing financial and business activities.

He suggests directors be elected to **five-year terms with contracts** spelling out duties that are similar to employment contracts covering senior execs – including being kicked off the board if a director misses two meetings in a 12-month period. Instead of CEO's picking brethren CEOs who are too busy with their own companies to devote a lot of energy to the board, Crandall recommends retired CEOs or senior execs as ideal board members.

He would pay the board members handsomely for this increased time and responsibility. Crandall says directors need to be paid the same daily rate as the CEO. **If the chief exec earns $24 million a year in total compensation, the director would get $96,000 for each day served**. That's a heckuva per diem, but as Crandall puts it: "If we want *real* governance, the directors are 'the boss.' Since when did the boss earn a fraction of what his or her subordinates earn?"

Other than the CEO, Crandall says there **should never be anyone from within the company on the board**. "He or she ain't gonna vote against the chief executive. It's absurd," he notes. So does Crandall think his radical revision of board responsibilities will ever become the norm? He is realistic when he answers: "No. If you are king, do you want supervision?"

THE AUSTIN LETTER
www.AustinLetter.com
THE AUSTIN LETTER
www.AustinLetter.com

Austin has the most parkland per person, **but spends the least per person**, **for parks maintenance and programs**, **according to a study of 25 large cities by the Trust For Public Land and the Urban Land Institute**. **So what does the Austin Parks Foundation plan to do**?

This summer and fall, the Austin Parks Foundation will be organizing a **Partners Council** and a **Community Leaders Council** to increase the general public awareness of park programs and their operations and their value to our community. The APF's Executive Director **Ted Siff** says that by spending more in parks programs and operations, the City can save in other areas including public safety and provide a better quality of life for all of us now.

Siff said the Partners Council will be made up of representatives of **existing park users and their organizations** like runners, cyclists, hikers, garden clubs, sports leagues, recreation center boards, environmental and neighborhood groups.

The Community Leaders Council will be made up of **community**, **political and cultural leaders**. Siff said each group will help speak, endorse, enlist help, educate and/or advocate for excellence in our park programs and operations.

The APF's plan to try to improve parks maintenance and programs is coming at a difficult time. It is being kicked off at a point of serious budget squeezes at City Hall. And, if history of past tight budgets is an indicator, the **budget for the city's parks department could be hit hard** when it is finally adopted.

Siff says "We believe our treasured Austin parks, and particularly their programs and operations, need community leadership now – to help **achieve and maintain the standard of excellence all Austinites expect**." His task would have been much easier during the boom times of the past. Now, the Foundation is facing an uphill challenge.

Dr. **Louis Overholster** said one of his patients recently gave up drinking, sex, smoking and rich food. And the good doctor pointed out he was healthy right up to the day he killed himself!

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. Periodical 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