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Dear Client:

One of the Austin area's major assets is its workforce. An impressively large number of adults over the age of 25 are well educated. In fact, 36.7% hold bachelor's degrees or higher.

To understand the significance of this percentage all you have to do is take a look at the major US high tech benchmark regions with whom Austin competes. **The Austin area ranks higher than the Seattle, Denver, Atlanta, Portland, Dallas, Salt Lake City and Phoenix areas.** Only the San Jose and Raleigh areas have a better-educated workforce.

The numbers: San Jose, 40.5% with bachelor's degree or higher ... Raleigh, 38.9% ... Austin, 36.7% ... Seattle, 35.9% ... Denver, 34.2% ... Atlanta, 32% ... Portland, 30.3% ... Dallas, 30% ... Salt Lake City, 26.5% and Phoenix, 25.1%. The rankings are also the **same for the percentage with graduate or professional degrees** though, of course, the percentage is a smaller.

Within the Greater Austin Region, Travis is the county with the largest number of bachelor's degrees or higher – 40.6% of its population ages 25 and over (which is higher than the San Jose region's 40.5%). By the way, when you **expand the definition** of “educated” to include those 25 or older with a **high school diploma or higher**, you find the Austin metro area has an impressive **84.8% in that category**. And, when you add the high school diploma, Williamson County, at 88.8%, moves ahead of Travis, at 84.7%. These Census 2000 figures come to us through the Greater Austin Chamber of Commerce.

While we're on the subject of our workforce, it's interesting to note that **while the actual number of employed persons in our metro area dropped** from June 2001 to June 2002 (from 676,800 to 672,700), **our labor force grew**. In other words, more people either moved to the Austin area looking for work, or graduated and started looking for work, or decided to go back to work after being out of the workforce for a while – or any combination thereof.

Finally, here's one other tidbit to help you understand what's going on in our business community. **The only sector of our economy that actually added jobs in that June-to-June one-year timeframe was the government sector.** All others stayed about even or dropped. This underscores what we have been pointing out for years (but has become somewhat obscured by the impact of high tech) – those who feed their families with a government paycheck are the strong economic backbone that has kept Austin's economy from nose-diving as much as others.

At the risk of overloading you with too many numbers and having your eyes glaze over, you really need to be kept abreast of how well/bad economically we're doing in Austin compared to our business competitor regions.

It's not that misery loves company (though that may be a tiny part of it). It's that we never live in a perfect world. We're either down or up, or moving one direction or the other between the two. **And we're making decisions – based on the best options available to us during those decision-making times.** Seldom do we have the luxury of picking a perfect option. We either pick the best option or the one with the least problems.

That's the way it is (didn't **Walter Cronkite** say that every night?) when business decisions are made during tough times. "It's pretty tough here in Austin right now, so maybe we oughta look around." **Right now, Austin is wallowing in one of the worst unemployment pictures in our recent history.** In June 2002, our metro area unemployment rate was 6.0%. Not long ago, we were below 2.0% and the envy of the nation. Not any more.

So what about our competitor regions? If we "oughta look around," then is the grass greener on the other side? Not necessarily. **The Austin area's June unemployment percentage was healthier than the San Jose (7.6%), Portland (7.5%), Dallas (7.5%) and Seattle (6.5%) areas.** A whole point-and-a-half separates the Silicon Hills of Austin, favorably, from the Silicon Valley, Portland and Dallas regions. This is a substantial difference.

And our other competitor cities, what's their unemployment like? **Better than Austin's – but not much.** Remember, we were at 6.0%. **Phoenix (5.6%), Denver (5.5%), Salt Lake City (also 5.5%) and Raleigh (5.4%)** have almost the same unemployment situation we're experiencing.

But, rather than be too smug about this comparison, let's analyze the regions that are a tad bit better than Austin as far as unemployment. **Phoenix is helped by being a retirement destination, where retirees are not looking for work.** As a result, they don't count against the numbers. By the way, the over-65 population in Phoenix grew by more than 50% in the last ten years, almost triple the national average – according to the Greater Austin Chamber of Commerce. This aging population helped create a burgeoning health care industry there.

Denver is slightly more industrially diverse than Austin, focusing less on manufacturing and government and more on transportation and utilities and finance, insurance and real estate. **Salt Lake City is benefiting from the afterglow of the 2002 Winter Olympic Games.** Also, it has a larger number of families with children that are helping the single-family home business. Raleigh and Austin are really quite similar. But, when you look a little closer, you see that **Raleigh has a more diversified overall economy that benefits from high tech growth, without as much impact from slowdowns in the high tech field,** according to **Elliott Weir,** who conducted a high tech benchmark analysis for the Austin Chamber.

Can you say free fall! Austin office rental rates are diving faster than ever and it doesn't look like the parachute will open to slow the descent for – hang on! – maybe, two to three years.

The reason rental rates are falling is because there is so much space available and **competition among landlords for the few tenants out there is fierce**. How fierce? **Bill Wendlandt's** Office Leasing Advisors (OLA) reports that attracting and retaining tenants is requiring a minimum of four months free rent and sometimes as much as 12 months. But, that's the tip of the iceberg. Let's recap this amazing scenario that's unfolding as we speak.

First of all, according to OLA, as of 8/1/02, there was more than **three million square feet of sublease space** available for tenants. To give you an idea of the significance of that number, all you need to know is that it is 10% of the entire city's 30 million square feet of office space. But, it doesn't stop there. There is an **additional three million square feet of direct lease space** available. Then you add in **another 500,000 square feet of space under construction**, and the overall citywide occupancy rate is an unbelievable 77%.

Let's keep going. OLA reports Austin's highest rental rates for office space back in the boom days of 2000 were in the \$40 per square foot range downtown and \$36 in the suburbs. "Today, **top downtown rates are in the \$27-\$29 range** and the **highest suburban rates are \$25-\$26**," notes OLA.

And that's not all. The lower priced sublease space has damaged the direct lease market badly. How badly? Master tenants began having "fire sales" on their space, just to get *something* for it. "**One downtown building saw such Class A sublease space going for \$13-\$15 per square foot**," OLA reported.

Some landlords experienced the unpleasant effects of losing deals to competing buildings that **reduced rates at the last minute by \$5-\$8 per square foot** in an attempt to retain existing tenants, OLA said. This phenomenon of last-minute rate reductions hasn't been seen since the early 1990s.

If these trends continue, **by the end of 2002, the Class A market is projected to be priced at \$20-\$24** per square foot, with the exception of the buildings at 300 West 6th (completed in January) and 401 Congress (under construction), which are still above \$30, according to OLA. As little as 18 months ago, companies might have 2-3 options for space. Today that number could easily be 20-30, depending upon the size and area.

Whoa, Nellie – slow down! **How long can this go on?** Office Leasing Advisors represents tenants in finding office space. **It projects the office market will continue like this for the next 24-36 months**. OLA points out real estate cycles typically trail the stock market by 18-24 months. So keep your eye on when the Dow is on a steady upturn to get an idea of when the office space parachute completely opens and settles back to solid footing on earth.

Before the Austin City Council approved the Stratus development plans for 1,273 acres, the crowded, shrill debates may have reminded you of the days of yore, when loud and raucous demonstrations were de riguer. None were more colorful than those surrounding Austin's participation in a nuclear power project. So, what happened to "the nuke," as it was called?

To get to the bottom line, let's refresh your memory a tad. Decades ago, Austin had an opportunity to help build and pay for a nuclear power plant near Bay City in return for the ability to buy some of electricity produced by The South Texas Nuclear Project (STP). The election and the **debate about the STP probably generated more heat and more passion** (complete with colorfully-garbed characters representing mutations of every life form imaginable) **than any issue since**, including Barton Springs.

How dramatic was it? Well, just days before the election, the **Three Mile Island** nuclear plant radiation leak broke on the national news scene. That really ratcheted up the election debate here. **Austin's pro-and-con reaction was great spectator sport** — if you didn't have a dog in the fight. Then, after the electorate *approved* Austin's participation (to this day, it is regarded as one of Austin's biggest upset elections) there were so many **cost overruns and delays** that many of the nuke's supporters started believing the anti-nuke arguments.

Fast forward to the present. STP has been operating for years. Every day **nuclear power is quietly pumping electricity into your home and workplace**. Yeah, but at what cost? For the second year in a row, the STP nuclear power plant has the **lowest average fuel cost of all power plants in the US**.

There have been no leaks, no radiation problems. **No babies are glowing in the dark, no animals or plants have mutated into unrecognizable forms**. And, nearly one-third of Texas — stretching from Houston to Austin, San Antonio, Corpus Christi, Laredo and Harlingen — is getting electricity cheaper than if it were generated by coal, oil or gas.

Speaking of energy, **Dr. Louis Overholster** said his summer vacation was a lot like Enron: "I had a wonderful time. Then I ran out of money and ran out of energy!"

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