

Volume 24, Number 34

November 22, 2002

Dear Client:

**The current economic slowdown is being complicated, lengthened and intensified by a silly little bug that nobody even thinks about anymore. Y2K may be forgotten, but it is definitely not gone.**

Remember Y2K? Three years ago at this time, there was a virtual frenzy in businesses and the halls of government all over this land. There was this fear that a “millennium bug” in our computers would wreak all sorts of havoc on civilization as we knew it when the calendar rolled over from “99” to “00” at year-end.

“Literally trillions of dollars were spent around the world,” said Texas economist **Ray Perryman**. “Major industries and agencies were required to certify that they had fixed any potential problems. It appears to me that Y2K is playing a not inconsequential role in the sluggishness of our national economic recovery.”

“My logic is quite simple,” says Perryman. “One of the impacts that Y2K had was to markedly accelerate capital expenditures in 1999. We knew at the time that in many instances **this spurt in investment was going to be at the expense of future years.**” Perryman believes there are at least three phenomena from the Y2K hysteria that still linger over the economy.

“First, the investment served to convince the Federal Reserve (and almost no one else) that the economy was overheating. **The response was aggressive increases in interest rates far beyond what was necessary to keep inflation in check.** We won’t mention the fact there hadn’t been any significant inflation in the economy for years before that,” noted Perryman. “That policy stance backfired as business activity slowed a year or so later, and not even eleven straight rate cuts, all the King’s horses and all the King’s men could get things moving.”

“Second, the huge amount of 1999 investment (**buying everything now instead of later**, just in case Y2K craters your old stuff) left the corporate sector with limited flexibility. Capital budgets were cut for 2000 and 2001,” said Perryman. “Third, many of the purchases associated with Y2K were **computers, telecommunications equipment and other microchip-laden products.** Capacity was expanded with the expectation that exploding global demand would keep orders flowing.” Obviously, that didn’t happen. “Weakness around the world has delayed this digital deluge and manufacturers are dealing with too much plant and debt.” Blame Y2K!

**For the first time since 1994, the Austin commercial real estate market has seen a negative absorption rate, rental rates have done a freefall and interest rates have found a historic low. That's great for tenants, as we've told you for a year now. But the situation is also a significant opportunity for investors.**

How's that, you say? Investors are finding opportunities in this unique market situation that were unavailable three years ago, according to **Jeff Coddington**, a sales and investments specialist with Colliers International, a commercial real estate firm in Austin. He believes these changes, that are benefiting tenants, are a positive step for the economy and investors as well.

“There's finally some vacancy in the market,” Coddington says. “Rental rates over the last five years went up 65% and **I don't think that's a healthy long-term situation for tenants or the economy.**”

Yeah, but how about the investors – those guys who foot the bill for these office buildings? Well, Coddington has compiled **lease versus buy analyses** for investors or companies looking to relocate, and with interest rates where they are today, has found it actually can be **cheaper for them to buy**. “**This is even before you consider the federal income tax benefits,**” he says. “Right now it's cheaper simply from a month-to-month basis.”

According to Coddington, investors shouldn't wait to make a move. With interest rates so low, most experts agree they can't go much lower. “As the economy recovers, I think you'll see less flexibility on the Federal Reserve's behalf to subsidize an economic recovery by lowering interest rates. Based on these low rates, **clearly there has never been a better time to act,**” says Coddington.

The folks at Colliers also say the indicators for Austin's future are encouraging. **Austin now has some significant benefits that it didn't have a few years ago, including an available labor pool, vacancy and affordable housing.** In comparison, other competitor markets such as California and Boston still struggle with the cost-of-living questions.

“Everyone is bullish on Austin's future,” says **John Childers**, a Colliers office market specialist. “I think we're going to see a **net in-migration of labor**. Ultimately, the capital markets are going to free up and we're going to see **investments in tech companies** and it's going to drive our economy to recovery.”

**There's even better news about your postal costs than we told you 10/11/02.** It now appears the next postal rate increase will not happen until 2006 – two years later than planned. A little more than a month ago, the Postmaster General was saying 2004. What happened? A financial review uncovered that Post Office funding for a retirement plan is in better shape than previously thought.

**More than two-thirds of Texas real estate agents say they've had trouble closing a home sale, because of the homeowner's insurance crisis in the state.**

This was the result of a survey conducted by the Texas Association of Realtors (TAR), as reported in *The Dallas Morning News*. "About 68% of our members in a survey say they have had problems in a transaction because of unavailability of homeowners insurance, delays in getting insurance or cancellation," said the TAR's **Tom Morgan**.

What kind of problems? "You get a home purchase contract signed, the home buyer applies for insurance and either **they can't find insurance** or they have to get a binder (for temporary coverage)," Morgan explained. These hang-ups cause problems for Realtors because they don't get paid until a sale is closed. And, of course, it's a problem for both the buyer and the seller.

Morgan points out **Texans pay the highest homeowner insurance rates in the nation**, averaging \$879 per year on a \$100,000 home. "That means the average homeowner is paying almost 1% of the value of their home in insurance every year – if we can find it," he added.

This simply underscores what we've been telling you for some time now: **the homeowners insurance problem is going to rank right up there with budget problems when the Texas Legislature convenes in Austin in January**. In fact, a stack of bills addressing the insurance concerns has already been introduced during the early bill-filing period that just got underway. Count on the Realtors to join the battle. The TAR is going to push a series of reforms during the 150-day, every-two-year, legislative session.

**There's an e-mail going around that promises the Texas Department of Public Safety will provide a free service for you. It's not true.**

The e-mail is labeled "ROADSIDE ASSIST PERK." It claims to be a "Public Service Announcement" – and it says the sender has sent it to you and 20 others and asks that you do the same. That adds up quickly, if the chain is not broken.

The message suggests that if you break down along the road, all you have to do is call the Texas Department of Public Safety Roadside Assistance Hotline and **a service truck will be dispatched to your location and, here's the catch, it will not cost you a dime**. The DPS, it claims, will pick up the cost of assisting you.

But, Austin's Better Business Bureau says **if a tow truck is dispatched, you will be responsible for the costs incurred – not the DPS**. By the way, there is a Texas Roadside Assistance toll-free hotline listed on the back of your driver license. But, the DPS says it's for you to use to report non-life-threatening situations on Texas roads and highways.

**Austin has once again made a “Top Ten Places To Live” list, but depending upon what you look for in a hometown, you may not want to live in some of the other cities on the list.**

In fact, *Money* magazine may have subtly recognized that when it praised Austin for its’ “city life without all the headaches, on the edge of the Texas Hill Country.” The magazine’s rankings are based on cities with population above 300,000. *Money*’s Top Ten:

Los Angeles/Orange County, CA ... Seattle, WA ... San Francisco, CA ... Las Vegas, NV ... Phoenix, AZ ... Denver, CO ... Austin, TX ... Chicago, IL ... Charlotte, NC and New York, NY.

Check ‘em out. How many of the Other Nine would you pick over Austin as a “Place To Live?” *Money*, in its December 2002 issue, said it analyzed the cities’ population growth rate since 1990 and the “housing premium ration” – or the **cost of residential real estate relative to local incomes**. By the way, *Money* has been ranking livable cities for 16 years now and this is the fifth time Austin has cracked the Top Ten.

**Speaking of rankings, next time you’re rushing through Austin-Bergstrom International Airport, take a minute to look around and see why ABIA won a top national ranking.**

The company that assesses consumer opinion, J. D. Power and Associates, recently released its 2002 Global Airport *Satisfaction* Study. **The Austin airport scored higher than every other airport in the US and ranked second highest in the world.** Air travelers told J. D. Power they really liked the design, services and unique touches, such as live music and locally themed shops and restaurants. Now, you have a new attraction in the baggage claim area — a heroic statue of the person for whom the terminal is named — former Congresswoman Barbara Jordan.

With retirement getting nearer every day, **Dr. Louis Overholster** is pondering this question: “How did I get over the hill – without getting to the top?”

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