

THE

Real Spelce

AUSTIN LETTER

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

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Dear Client:

Austin restaurants, bars and music venues have been quite vocal in their opposition to the pending strengthening of the non-smoking ordinance. Is their claim the ban will hurt their business valid?

Not according to a recent, random and scientific survey conducted by those pushing for a tighter law. They say the survey proves a large majority of Austinites agree the Austin City Council has a responsibility to protect citizens from the health risks of secondhand smoke, and many would **visit those establishments more frequently** if smoking was banned inside.

The Tobacco-Free Austin Coalition's poll found the **majority (62%) of Austin residents supported eliminating secondhand smoke** in enclosed public spaces and worksites, including restaurants, bars and music venues.

To offset the argument the businesses that now allow smoking would suffer economically if smoking was banned inside, the survey found the vast majority (86%) of Austin residents said they **would go out as much (45%), or more often (41%), if restaurants, bars and live music venues were smoke-free**. Of those polled, only 12% of residents said they would go out less.

"It's time for the Austin City Council to rid workplaces and public places of the over 43 known carcinogens in secondhand smoke," said **James Eskew, MD**, president of the Travis County Medical Society. "**Secondhand smoke kills over 100 Travis County residents every year**. There is a simple solution – take it outside."

The Scripps Howard Texas Poll survey that has a plus-or-minus 4.9% margin of error, also found 67% of Austin residents believe the **rights of customers and employees to breathe clean air** in public places like restaurants, bars and music venues are **more important than the rights of smokers to smoke**.

The survey, which was conducted the week of 4/16-25/03, has the practical effect of giving the City Council "cover" to vote for Mayor **Gus Garcia's** proposed ordinance to make Austin smoke-free — the "will of the people" and all that. The Coalition chair, **Ken Pfluger**, said "the support by Austinites is overwhelming." He also said "there is no financial burden and the health gains are great."

Low mortgage interest rates have been the savior of the residential real estate market during the economic downturn the past few years. But think what might have been if our property taxes and insurance premiums weren't among the highest in the nation.

As we've told you many times during the downturn of the past few years, the lowest mortgage interest rates in 40 years have **propped up the residential real estate market** here in Austin magnificently. Frankly it would have been even better if insurance premiums and property taxes paid by Texans had simply tracked the much-lower national average. Be that as it may, that was then. What about now?

First of all, it looks as if we're on the leading edge of a shifting situation. So what can we expect in the months ahead? Start with the fact most homebuyers look first and foremost at the monthly payment. There are four main influences on what it costs each month – home prices, interest rates, insurance premiums and property taxes.

Home prices have already started leveling out in the Austin area, and there are more homes for sale right now than we've seen in quite some time. **This should push prices lower** as we are now moving into a buyer's, rather than a seller's, market. The first shift, occurring now, is toward lower prices for homes.

Another area likely to provide relief for homebuyers is insurance premiums. "As the mold scare abates and security markets produce more consistent returns (helping the bottom line for insurance companies), there should be less urgency for premium increases," observed **Jack C. Harris**, research economist with TexasA&M's Real Estate Center. "In fact," he adds, insurance **"premiums may decline a bit as consumers do more comparison shopping."**

The potential decline in home prices (at least not rising as fast as inflation) and reduced insurance premiums, will work to lower the monthly payment for homebuyers. But the two other legs of the monthly payment chair are not quite so predictable. Slower price increases could slow property tax increases, but **lower taxes are unlikely this year.** Yes, the Texas Legislature is considering a measure to drastically reduce property taxes. But if it adopts the **David Dewhurst** plan – and it faces a huge uphill battle before being adopted – it would be next year before the effects would be felt.

This leaves mortgage interest rates to consider. Most gurus will tell you they're not going substantially lower, and in fact, will likely soon rise. "The Fed rate and the stock slump have kept **interest rates low for some time, but they may well work in the opposite direction in the future,**" says Harris.

Where does this leave us? As you can see it's a juggling game. As a result, the **monthly mortgage payment guidepost will remain in a state of flux** – probably for the rest of this year. Which means you need to keep an eye on all four aspects to predict the immediate future.

The amount of sublease office space available in the Austin market has been driving lease rates lower, and now the sublease space is starting to diminish.

Sublease space dropped from 2.49 million square feet to 2.3 million square feet as a result of leasing activity in the month of April, according to **Michael Bols** of Bols Hodge Consulting, an Austin firm that tracks subleases in the Austin office building market.

But while sublease space is diminishing, Bols says “direct space continues to grow to more than 5.4 million square feet.” He says “it’s a game of musical chairs with most of the activity and growth coming from tenants already in Austin moving into sublease or other options.”

Thirty-three percent of available sublease space has terms that expire this year, and Bols points out this space (776 thousand square feet) will likely go for low lease rates and expense-only leases.

Even after several years of layoffs and a long economic downturn, there were more people working in the Austin metro area in March 2003 than at anytime in our history – even more than in the go-go year of 2000. This is a major milestone.

It’s been a slow climb back since October 2000 when we peaked with 744,298 people employed in the Austin metro area. But in March 2003 (the most recent figures released by the Texas Workforce Commission), **the total number of persons employed reached an all-time high – 745,195.** But this important benchmark has gone unnoticed.

The odds are the news stories you saw or read on the March unemployment numbers focused on the fact that our unemployment in March continued high, at 5.7%, and that it represented a climb from 5.5% in February. Of course the percentage of those who are out of work is important, but **every single news item missed one of the most significant economic benchmarks in years.**

That we now have **more people gainfully employed than at any point in our history** – despite the downturn, layoffs, slow sales, shrinking 401k’s, etc. — is huge. It is a bugle of hope blaring out at all the nay-sayers and doom-and-gloomers who focus on the half-full economic glass.

Here’s another perspective on the unemployment percentages. As we said, the March 2003 unemployed percentage was 5.7% — exactly the same as in February 2002. **There are 22,762 more people with jobs in March 2003 than in February 2002, and yet the unemployment percentage is the same.** This is why we like to focus on how many people have jobs. A lot of jobs are still being created. We’re simply growing at a little faster pace than the job creation.

Looking for a way to let the City of Austin know how you feel about budget priorities and/or taxes – without having to sit through the circus called a “public hearing?” We have an answer for you.

The City must soon adopt a budget for its next fiscal year that begins 10/1/03. As you well know, two of its main sources of revenue – **city sales tax income and property tax collections** – **are likely to be lower** in the coming fiscal year due to the economic downturn. You see the contortions the Texas Legislature is going through trying to write a budget during a declining revenue period, while trying to serve a state population that is steadily growing. The City of Austin faces the same dilemma – with one big difference.

The difference is the Republican controlled Texas House and Senate have, so far, stuck to their campaign pledges of no new taxes. So the emphasis has been on cutting programs, rather than trying to get new tax revenue. **The Austin City Council members have *not* made a “no new taxes” pledge**, and the liberal-leaning majority is likely to consider raising taxes or fees to balance the budget.

You can use your trusty computer to **tell the Austin City Council where you think the City needs to cut**. A survey has been posted at www.cityofaustin.org. There you will find a list of programs and services that comprise the General Fund, which is funded by sales and property taxes as well as other general revenues.

The survey shows you how the City spends \$100 today. In fiscal 2004, that \$100 will likely be cut to \$85. You have a chance to log on and **tell the City how you would cut \$15 from the listed programs and services. And you can do it anonymously**. There is no commitment by the City to follow the results of this online survey, but at least it gives you and your likeminded associates a chance – that you haven’t had in the past – to stand up and be counted, without sitting through long tirades by Council junkies at City Hall public hearings.

Dr. Louis Overholster likes to say if you’re having trouble sticking to a diet, just remember that a waist is a terrible thing to mind! (groan!)

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Sincerely



Editor/Publisher