THE Neal Spelce AUSTIN LETTER

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Dear Client:

President George W. Bush may not look like former heavyweight boxing champion Muhammad Ali, but in one, very important, way he may be acting like Ali.

Muhammad Ali defended his title in some very big fights by adopting a strategy he called "rope-a-dope" (hold on; this is not meant to disparage the Democrats, it is the name Ali gave to what he did during the early rounds of a 15-round championship contest). Ali would lean back against the ropes and put up his arms to protect his head against a devastating blow, only occasionally striking back. In the main, he would **let his opponent pound away at his arms and body until his foe ran out of steam**. Then Ali, with plenty of strength remaining, would **unleash a relentless barrage against his exhausted opponent** — who didn't have the physical resources to fight back. Ali won – with what he called his "rope-a-dope" strategy.

Look at what is happening during the presidential primary so far. The former Texas governor is being bashed daily from all sides by each and every (though diminishing in number) Democrat who is seeking the presidency. By some estimates, the Democrats have together spent as much as $**150 million hammering hard with as many anti-Bush messages as they can muster**. Bush, leaning back against the ropes, only rarely (such as his Sunday appearance on *Meet The Press*) struck back.

By the time, the Democratic Party settles on its standard bearer, many observers estimate the nominee will have spent almost every dime he could beg and borrow. What little he does have must be spent by the party's national convention 7/25/04. **As soon as the nominee is known Bush will probably come off the ropes to begin his relentless counter-attack**. The president will have as much as $200 million in his campaign kitty to pound away with pile driver force. It may not deliver a knockout punch, but it will certainly weaken his opponent.

But shouldn't the president hold back and spend the money during the fall, closer to the 11/2/04 Election Day? He can't. By law, *he must spend all $200 million he's raised so far, before the GOP nominating convention 8/29/04*. **This massive expenditure will be highly targeted in about a dozen swing states**.

Think of the impact this will have. **If the Ali "rope-a-dope" strategy works, Bush will be in a much better position than he is now**. Both candidates will have another round of financing for the intense Sept-Oct final rounds of toe-to-toe battling to see who scores a final knockout.

Rental rates are not all that have dropped in Austin's soft office market the past few years. The *value* of office buildings has plummeted, if you consider the price of the few office buildings that sold during 2003.

When you analyze the buying-and-selling of office buildings, one of the peak value periods was in 2000. Ah, those were heady times. **Helen Jobes**, through her company (Gold Eagle Investments), is active in selling Austin office buildings and keeps track of all the sales in the Austin office building market. She reports there were **24 transactions in 2000 and the average price per square foot was $145**.

In 1998, there were more transactions (34) and the total consideration was greater than in 2000 — $499,110,845, compared to $412,519,646 in 2000. But the **average price per square foot in the go-go year of 1998 was only $116, compared to 2000's $145**. The sales dropped off in 1999 (to only 19 transactions), but the average price per square foot kept going up – to $136.

The bottom really dropped out in 2001 — from 24 sales in 2000 at $145 per sq.ft. to only 7 transactions at $115 per sq.ft. in 2001. Obviously, **the market went south in a hurry**. We were teased in 2002 thinking maybe the market had turned (even though the vacancy rate was still very unhealthy) when the sales increased to 11 and the average price per square foot inched up to $119.

However, the small upturn was short-lived. Last year, 2003, marked a low ebb when you look at what was being paid to buy office buildings. The number of transactions compared to the year before was the same – 11.

But, my-oh-my, the average price per square foot plummeted to $100, quite a drop from $145 only 3 years ago. And even more disturbing, "the total consideration of $100,368,670 was about 50% less than 2002," reports Jobes.

So, where are we now and what can we expect this year? Jobes points out "**there are an abundance of buyers in the market**, but very few real opportunities." She also noted that "while several properties are under contract and scheduled to close in 2004, a number of properties have been on the market for most of the year."

Is there a positive spin to put on the situation? "In the financing world, 2003 ended on a good note in terms of interest rates based on US Treasuries, and **there are more sources of financing with terms and flexible options than ever before**," Jobes observed.

She believes the "key to recovery is job growth as **job growth drives absorption**." Citing several sources, Jobes points out "the economy will begin to recover as the year progresses, but the pace will be slow and tentative."

For years and years now, the hand-wringing has continued about how to increase a major retail presence in downtown Austin. This fall, a step-by-step plan will be unveiled to, hopefully, accomplish this objective.

Years ago, downtown Austin suffered the same fate as other downtowns all around the nation, when shopping malls were built in the suburbs closer to where expanding populations lived. **Major retail operations moved out of downtown to the malls**, leaving vacant storefronts all along Texas's Main Street, Congress Avenue.

Austin's downtown fared better than many other cities, primarily due to the state office buildings located around the State Capitol complex, with a fairly large population of workers who patronize the downtown area from time to time. But, no doubt about it, retail shops – for the most part – were next-to-impossible to find downtown.

The Downtown Austin Alliance, in conjunction with the City of Austin, has selected Economic Research Associates of Washington, DC to initiate a study to provide a framework for **defining a realistic retail development strategy**. The goal is to gather the facts, test them, and from these findings develop a plan that will create rich retail opportunities for downtown Austin. This retail development strategy has five objectives.

The first is to conduct an infrastructure inventory that examines geography and capacity. This is the analysis of underground utilities, parking, transportation, etc.

Secondly, the strategy will inventory all existing retail in downtown. This portion will examine leaseable square footage and tenant improvement allowances.

Then a retail analysis will be performed. This will result in clear definitions of trade areas and **determine current and expected near-term retail** demand from the target markets – including hotel and tourism, entertainment, civic, cultural and recreation. This analysis will also look at the daytime employment market and sub-markets, as well as the residential population in and near downtown.

The fourth objective is to develop a market strategy. This strategy will compare Austin with three other US downtowns and provide a retail development and implementation strategy that identifies viable markets, segments and niches for retail recruitment. It will also suggest a merchandising mix analysis strategy, including the types of national versus local and regional tenants.

Finally, barriers will be defined. Once the preliminary plan is in place its findings will be tested, and market and regulatory barriers will be identified.

The last item will lead to the creation of whatever incentives may be necessary to successfully develop retail downtown. When the entire plan is laid out this fall, the debate will begin.

Is Austin's own Matthew McConaughey the next Harrison Ford or Sean Connery? **Could be**, **if ambitious plans surrounding his next movies pan out**.

What made Ford and Connery superstars in Hollywood were two key roles – **Indiana Jones** and **James Bond**. The two fictional characters packed theaters, and more than any other roles, defined Ford and Connery and set them up for other roles that resulted in long and successful movie careers. McConaughey could be on the verge of this same sort of breakout status.

McConaughey has been hired to play the part of **Dirk Pitt**, a rough and tumble secret agent, who is also a treasure hunter. The movie, scheduled for release late this year, is *Sahara*. The role of Pitt has the **potential to be the next Indiana Jones or James Bond – or a combination of the two**. Why? The character has already been immortalized in a rash of best-selling novels by **Clive Cussler**.

Yeah, yeah, you say – but it would take a lot to reach the lofty Indiana Jones or "Bond, James Bond" status. Well some big bucks are being put on the line to **help ensure that success**. First of all, *Sahara* is planned as the first of three movies, featuring McConaughey as the hero, Pitt – just like the Jones/Bond flicks.

But more than that, the big-name brand marketers are already lining up to pay top dollar to tie-in their products because **they think the movies have a chance to be big blockbusters.** For instance, instead of sipping a "shaken, not stirred" martini a la "Bond, James Bond", Pitt will be a beer drinker – and breweries are scrambling to get their brand in Pitt's hands in key scenes.

It's not just beer. Big movies may have as many as **10-12 marketing partners**, vying for product placement or tie-ins. And that means **major cross promotion**, helping to put butts in movie seats. Of course, when all is said and done, the movie has to be great and McConaughey has to be impressive. But a lot of money is lining up already, betting this will be the case.

Speaking of movie stars, **Dr**. **Louis Overholster** is convinced Governor **Arnold Schwarzenegger** will get an Academy Award for Best Inauguration Speech With Every Word Mispronounced!

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