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Dear Client:

Despite 1st quarter numbers that show apartment occupancies and rental rates continuing to decline, there is positive movement when you go beyond those numbers.

You need to look at the trend lines. “For the second consecutive quarter, the *annual* occupancy reflected a positive change,” observed **Robin Davis**, of Austin Investor Interests. The increases are minimal to be sure. **“But the change is welcome after a cycle of 12 quarters in which ten posted annual declines,”** she added.

“Furthermore, despite (a small) annual rental rate decline, this is **half the decline seen last year** and less than a quarter of the average annual declines of the prior year,” Davis said. And it is the newer/upscale apartments that are directly contributing to the latest annual increases. “So, we continue with the new lingo – **‘Rockin’ at the Bottom’** – and look toward a brighter future that is in process.”

Apartments are an important segment of our local economy. For instance, when occupancies are high, owners and developers turn loose their money (or the bank’s money) to build new apartments – fueling **job creation**. This also generates **more tax revenue** for the city. However, right now, Davis says new development remains quite minimal. “Little by little, new projects have started construction and this quarter remained on par with the last few with only three properties breaking ground,” she added.

It’s interesting to note when you look at new, continuing or recently completed construction of apartment units, seventeen of the 27 projects fall into the **“affordable” or “student housing”** category.

When you examine apartments as an integral part of the economy, you find apartments run counter-cyclical to the residential real estate market – even as they work hand-in-glove. On the one hand, apartment dwellers provide a great source of first-time homeowners. When interest rates went down, a “home of my own” became as affordable as many apartments – in terms of the monthly payment. Now, with home mortgage rates inching upwards, you can look for the trend to start turning the other way. In other words, the **loss of tenants to home ownership may start to slow**.

Summary numbers for the first quarter: average occupancy, 88.72%; average rent, \$658.

One of our most important economic engines, UTAustin, set out seven years ago to raise \$1 billion in private donations. So, with August looming as the official end of the capital campaign, how did it weather the economic downturn in its quest for big bucks?

Amazingly well, as a matter of fact. “I am pleased to report that we have raised \$1.5 billion, greatly **exceeding the \$1 billion goal** and all expectations,” UTAustin President **Larry Faulkner** is telling contributors in advance of the formal conclusion of the campaign. It not only is significant for UTAustin, but it places the institution among the tops in the nation.

“We join very distinguished company,” Faulkner continued. “Only eight major public universities have completed billion dollar campaigns. **UTAustin’s \$1.5 billion leads the nation in university campaigns without medical schools.**”

“We received contributions from more than 130,000 individuals who wanted to show their personal appreciation for what UT has meant to them,” he noted. But this is not all. “We were also supported by 7,331 corporations, nearly 600 foundations and more than 100 bequests.”

Faulkner pointed out he stressed throughout the campaign it was about more than money – that the focus should be on purpose, quality and achievement. “Many donors responded by helping us to **acquire remarkable collections that support research and the public’s quest for information.** The Suida Manning Collection of Renaissance and Baroque Art, the Watergate papers, the *Newsweek* archive and the photographic archive of **David Douglas Duncan** are excellent examples of the treasures we now offer to scholars and the public,” he added.

Notice his emphasis on *the public*. That’s you. In addition to the research (much involving local companies and resulting spin-off enterprises) that contributes mightily to the economy, there are many enterprises funded by this philanthropy that those who have no association with the university can enjoy.

For instance, the Harry Ransom Humanities Research Center’s magnificent renovation is giving **greater public access to its world-renowned collections** and Faulkner said, when completed, the Jack S. Blanton Museum of Art will be **one of the premier university art museums in the nation.** These two great repositories are available to you – and you didn’t have to pay for them.

The “We’re Texas” capital campaign has had other benefits as well. As an example, the **campus expansion in bricks and mortar is quite impressive.** In addition to the art museum, a computational science and engineering building, a building to house the study of human behavior and family relationships, and a new complex expanding the home for geosciences have been built or are under construction. These are big budget projects that pour dollars throughout the community and create jobs. You’ll hear more about UTAustin’s capital campaign success in August when Faulkner said it will “conclude with an appropriate Texas flourish.”

Speaking of money-raising, how's the Greater Austin Chamber of Commerce doing in its effort to raise \$11 million to help Austin's economy?

The Chamber calls its five-year, five-county economic development initiative "Opportunity Austin." If the GACofC is successful in raising the money, the goal is to spend it creating **72,000 new jobs, with a regional impact of \$14 billion.**

As of 4/23/04, Opportunity Austin had **98 commitments** of support. The amount of money this represents: **\$7 million** – in other words, good progress toward reaching the \$11 million goal to be spent over five years.

There are other goals to be accomplished with the money raised. The Chamber is shooting for the creation of **1,409 new businesses**, adding **\$1.2 billion in new bank deposits**, construction of **18,459 new housing units** and \$1.4 billion in commercial and industrial facilities. This is not all. If the \$11 million is spent properly, the GACofC is estimating annual payrolls will expand by \$2.9 billion and bring an additional \$6.3 billion in total new consumer spending. These are precise goals against which the Chamber can be measured in five years.

The Chamber will have a little help in reaching its goals because, as we've been telling you for months now, the Austin area economy has made a significant turnaround.

One economic indicator, not normally a headline grabber, indicates this year started on a positive trend. **Because the Silicon Hills of Austin is a high tech center, it's helpful to keep an eye on patents that have been issued.** This number could be a harbinger of future high tech business expansions and even startups. Last year, in March, 154 patents had been issued in the Austin metro area. **This year, in March, the number is 202 – an impressive 31.17% increase.** Year-to-date, the increase in patent activity is 9.33%.

A more normal indicator is the number of homes sold. **Residential closings are up 9.39%** from February 2003 (1,236) to February 2004 (1,352). For the year-to-date, the closings are up 4.76%. It will be interesting to watch this number for the rest of the year to see if an anticipated slow up-tick in mortgage rates has an impact on the number of homes sold. If the interest rates – still very low by recent historic standards – slowly ratchet up, it's possible the negative impact will be offset somewhat by the increasing number of those with jobs in the metro area, who may buy a home.

Don't forget more people are employed in the metro area than a year ago – 719,500 in March 2003 to 730,100 in March 2004. Our unemployment has been trending in a positive direction for months now, leading the major metros in Texas with a 4.7% unemployment rate in March 2004, compared to 6.0% a year ago.

Trees in Austin are good; power outages are bad. Trees growing too close to power lines cause power outages. What's happening to Austin's tree-trimming program?

The City of Austin's electric utility, Austin Energy, reports a US-Canada task force reported inadequate tree-trimming triggered the massive blackout throughout the Northeast last August. You may recall that **outage left 50 million people in six US states and portions of Canada without power.** The report further noted that tree trimming work near one line implicated in the blackout was halted by a landowner before it was completed.

Long before the Northeast blackout, Austin Energy **implemented a tree-trimming program** and has since significantly increased it. For instance, in 1998, tree-trimming was completed along 98 miles of power lines. This was a record at the time. Then, in 2003, tree-trimming was completed along 422 miles of lines. Okay. But what about power outages in Austin? Has the tree-trimming had an impact? **Over the 12 months ending this past February, the number and length of outages in Austin were the lowest in 10 years.** There appears to be a cause and effect relationship at work here.

This cause/effect relationship in heavily-treed areas did not escape the attention of the Task Force. It has recommended mandatory – and enforceable – tree-trimming standards nationwide with penalties for utilities that fail to comply. Austin Energy appears to be ahead of the curve.

As if there were not enough cable TV channels available today, another is getting ready to launch nationally – with an Austin celebrity heavily involved. It will be called the Gospel Music Channel. The lead of the former Gatlin Brothers group, Austinite **Larry Gatlin**, will be the artistic director of the new entertainment net, “a 24-hour gospel network with no religious doctrine.”

Concerned about the service he *wasn't* getting in a retail establishment, **Dr. Louis Overholster** sagely observed: “We're living in a time when most people who ask ‘Can I help you?’ – don't.”

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