THE Neal Spelce AUSTIN LETTER
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Volume 26, Number 17

July 23, 2004

Dear Client:

Apartment occupancy in the Austin area – a key economic indicator – is moving in the right direction. As a result, concessions for new tenants are getting harder to find.

Much of the apartment occupancy upswing is found in the better properties, the class A units. "Not only did occupancy in this class increase 1.37% during the second quarter, but **rental rates also increased for the first time in four years**," reports **Robin Davis**, who publishes *The Austin Multi-Family Trend Report.*

"Effective rental rates remained stable, however the monthly rate was on the rise, up $4 to reach an average of $662 a month," said Davis. "**Sounds minimal until one considers the *declines* that were posted for 12 consecutive quarters**."

This increase was recorded during a quarter when **occupancy typically falls 1-2% due to movement among students**. This makes the numbers all the more impressive. The flip side to this positive economic move is apartment dwellers are finding it harder to get a good deal in the nicest units.

"Although the decline in concessions appears to be miraculous, falling from 91% to 63%, most properties have just **forgone actual move-in incentives** and just lowered overall rents," Davis noted.

The less pricy units – Class B and Class C – are lagging behind the nicer apartments. Davis says "the Class B units still experienced a slight fall in occupancy and Class C units fell in both occupancy and rental rates – a continued sign that the cycle has not turned completely."

What about apartment investment prospects? "For those wanting to invest before a rebound is pronounced, there are 73 properties reported for sale and eight had contracts pending at quarter's end," Davis said. In the number of actual sales, "the first *half* of 2004 almost equals the 2003 *annua*l total."

The overall outlook: "All in all, the Austin MSA's apartment market has certainly shown stability with steady, but small improvements over the last few quarters," Davis observed. "If things remain on track, **it looks promising that the upcoming third quarter will break the 90% occupancy point** and absorption will shine with over 2,300 new occupied units."

It's almost old hat – there are fewer people out of work in the Austin area, more people are working and the numbers just keep getting better.

If you look back just one year ago, to **June 2003, you would find Austin's unemployment up around 6.5%**. This is a relatively high number, though Dallas complained of 8.1% unemployment, while Houston was close behind at 7.9% and Fort Worth-Arlington came in a 7.4%. San Antonio, however, bested Austin with a 6.4% unemployment percentage last June.

My, how times have changed. **The Austin metro area's June 2004 unemployment rate was an impressive 4.9%**, moving past San Antonio that recorded 5.6%. Dallas logged 6.6%, Houston, 7.0% and Fort Worth-Arlington, 6.1%. The statewide unemployment rate was 5.7%; Texas employers added jobs for the ninth consecutive month.

Speaking of fluctuating numbers, what is the best estimate on future interest rates?

Folks we trust are anticipating the Federal Reserve will make another quarter-point hike 8/10/04, pushing the **Fed Funds rate to 1.5% and the prime rate to 4.5%**. But in spite of the Fed's words this week that it is prepared to raise interest rates more quickly if inflation suddenly worsens, these same folks think it will plateau at the 8/10/04 level – until after the presidential election in November. By year end, they predict the fed funds rate will reach 2% and the prime rate will be at 5%. Hope this helps, even though it is a "best guess."

While we're on the subject of numbers, we ran across some interesting polling figures.

Talk about inconclusive, if you're trying to see which way the economic winds are blowing (especially if your name is **George W. Bush** or **John Kerry**). An American Research Group poll 7/6/04 found 39% of the adults polled think the economy is getting worse, 39% said they thought the economy was improving and 22% said it was staying the same.

> The *Washington* Post found a **shift in public attitude and trends** this month. Bush and Kerry were statistically equal when respondents were asked in June "who do you trust to do a better job handling the US campaign against terrorism?" And the polling trend lines favored Kerry to move ahead of Bush on this topic. But in a *Post* poll 7/12/04, there was an abrupt reversal, with **51% trusting Bush to do the better job against terrorism, compared to 42% for Kerry**.

By the way, it appears if interest in the presidential election is really picking up. Seventy-nine percent of those surveyed by the *Post* nationwide say they are "**closely**" **following the campaign**, compared to 50% who said the same thing in July 2000.

Scams using e-mail to get your personal and financial information grew 178% from March to April of this year.

The e-mail scam is called "phishing." Fraudsters attempt to get you to reveal personal account information, such as your credit or debit card numbers, checking account information, Social Security numbers and banking account passwords. Yeah, you say, you should never give out such info. **But what if the scammer has set it up so it looks like it is your financial institution seeking the info**? How do you handle that?

It's easy to be duped because many financial institutions and credit card companies use e-mail to communicate with customers and *direct them to their Web sites*, where the customers may be asked to enter personal information as part of registering for a service. The key phrase here is "**direct them to their Web sites**."

Scammers usually operate from official looking Web sites and use e-mail to **provide a link for you to click or ask you to respond in a reply e-mail**. **Don't do that**. Phishers don't send you to a legitimate Web site. Even if you think this could possibly be a communication from your financial institution, don't respond to the e-mail, warns the **Better Business Bureau serving Central Texas**.

Instead go to the financial institution's Web site by entering the Web site's address (URL) rather than linking to it from an e-mail. Or call a phone number you know to be legitimate to **verify the e-mail**. This holds true for any business solicitation (which you did not originate), not just financial institution or credit card e-mails.

Need more info about this scam. Go to any of these sites: www.bbb.org/phishing, www.consumer.gov/idtheft, www.callforaction.org or www.visa.com/phishing.

One of the problems of the smaller, regional jets being added to airline schedules (besides the obvious) is the impact on delivery of letters and packages.

This is a bit of a heads-up if you rely heavily on shipments and mailings. As major airlines follow the discounters and add small regional jets to their fleet, the result is diminished cargo space. **It simply means there will be less and less space for packages and letters to be shipped by air – leading to possible delays**. Ground shipment, via trucks, will probably pick up the slack, but we have yet to see a truck win a race against a plane.

On top of this, as you continue to look down the road, the savvy insiders in Washington DC are predicting the **US Postal Service will announce rate hikes before long**. You've got some time. Don't look for the hikes to go into effect until 2006. First class stamps will probably jump from 37-cents to 40-cents and business mailing costs could rise about 15%.

The average passenger spends about $5.26 while in Austin-Bergstrom International Airport. As ABIA is a municipal facility that relies on revenue (not city tax dollars), how does this compare to other major North American airports?

Not very well, according to *Airport Revenue News*. **ABIA ranks #48 out of the 50 best performing airports in terms of concession sales per passenger boarded**. Pittsburgh almost doubles the Austin total, at $10.08 per passenger, to take the #1 slot. The top 30 airports bring in $6 or above for each passenger that climbs on an airplane.

This represents an **opportunity for Austin**, as more and more airports are searching for non-aviation revenue during these tough times. The opportunity is enhanced because, as you well know by your own airport travel, **travelers are spending more times in terminals before boarding flights**. In these days of heightened security and advice to "arrive early," time spent waiting in airports has grown from about 45 minutes before the 2001 terrorist attacks to 70 minutes. In some places, they have gone as high as 90 minutes.

The airport where many Austin travelers spend a lot of time, **D/FW**, **is getting ready to increase your tab-while-waiting** by promoting new "opportunities" to take some bucks out of your jeans. Check out what is planned for the new Terminal D that is nearing completion at D/FW. According to *The Dallas Morning News*, the new terminal will house 58 shops and restaurants clustered in two main "villages". A few restaurants and shops will be on the public side of the airport, where family and friends gather to greet travelers.

How did Pittsburgh dramatically increase its revenues? **Pittsburgh attracted stores and restaurants typically found in malls and instituted "street pricing**." Their philosophy: give the travelers what they want and save them a trip to the mall. It worked.

When Enron's Ken Lay was recently indicted, **Dr. Louis Overholster** observed that "things started to go wrong at Enron the day they ran 'Mutiny On The Bounty' as a training film!"

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

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