THE Neal Spelce AUSTIN LETTER

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Dear Client:

Security alerts were raised dramatically this week in three northeast US locations. **But according to a global intelligence company**, **three cities in Texas – including one you didn't expect**, **Austin – could be on the next tier of targets**.

In fact, in one ranking of seven US areas that would be the most logical for an al Qaeda strike in the US, **Austin ranks #4 –** behind #1 New York City, #2 Washington, DC and #3 Houston. **This is scary news**, and it comes from a reputable source that points out al Qaeda has a history of staging simultaneous attacks.

> "We therefore remain strongly convinced of the **potential for a series of closely staged attacks in multiple cities**, such as Washington, DC, New York, **Houston, Dallas and Austin**, **Texas**, Chicago or Los Angeles," reported **Stratfor**, a global intelligence company that "delivers actionable intelligence on geopolitical, economic and security affairs."
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> Why Houston, Dallas and Austin? Stratfor says **Houston** "**remains high on the list due to oil/gas/port targets**. It is also an area of past logistics support for al Qaeda, dating back to the first World Trade Center bombing in 1993. It also is home to former President **George H. W. Bush**, giving it added political significance to al Qaeda's Muslim audience." Austin is a "**symbolic target that is near Fort Hood and US President George W. Bush's ranch in Crawford, Texas**," and Dallas "cannot be ruled out as a potential target, given the connections between Texas and the White House," analyzed Stratfor.

Stratfor agrees with its government contacts that the **next attack will involve massive casualties** and might be chemical or radiological in design. "We would not be surprised to see a plot involving a large number of conventional improvised devices, such as truck bombs, that could produce more casualties than a chemical attack," Stratfor noted.

However, we need to keep this report in perspective. ***As of 8/3/04, no precise Homeland Security information was reported in the State of Texas***. Stratfor is an intelligence company (located in Austin, by the way) providing in-depth analysis of what is happening in the world today, and it forecasts the results of tomorrow's events. It has a lot more detail on other scenarios. Its Web site is www.Stratfor.com, if you want further information.

Office occupancy, **one of the indicators of a local strong/weak economy has turned the corner**. **So you probably only have a few months remaining to lock in a good deal**.

"Expect to see no significant change in rental rates and vacancy over the remainder of 2004 as the market bounces along the bottom," advises **Alan Lacey**, the Office Market principal with NAI Commercial Industrial Properties in Austin. Or, as **Charles Heimsath**, president of Capital Market Research, puts it: "the slow process of market recovery has begun."

"The remarkable increase in net absorption of 1.1 million sq.ft. of direct and sublease (during the first six months of 2004) space signals the beginning of the office market recovery," Heimsath continued. But, for now, rates have not caught up with the upswing. "**Rental rates are relatively flat** at an average of $18.84 per sq.ft.," he reported. This favorable rate climate should not last because Heimsath is predicting improvement in the office market over the next 12 to 18 months.

We don't look at increased occupancy of office space just because it helps landlords and building owners. **As vacant offices fill up**, **new jobs are created and more payroll money is circulated throughout the community**. Vacant office space signals a slow economy and we've been through a period where this was painfully obvious. This is why this is so important.

Another indicator of the improving market can be found in the sales of office buildings. **Buyers are swooping in**, **picking up properties in anticipation of better times ahead**. Heimsath says "during the first six months of 2004, seven multi-tenant office buildings among the surveyed properties were sold" and all of these buildings will continue to be marketed for multi-tenant occupancy.

Currently there are only two office buildings under construction. Trinity Office Center at 12th and Trinity is **85% pre-leased** and Eleven East on East 11th is approximately **60% pre-leased**. Even the newest downtown office tower is doing well. Heimsath reports the Frost Bank Tower at 4th and Congress "is currently 61.1% occupied and **leasing activity has been very strong**."

This is welcome economic news. Lacey reminds us: "**vacancy rates have fallen by 33% over the last *two* years and rental rates have fallen by over 33% over the last *three* years**." This was a big hit. Rental rates have remained flat over the last six months while absorption is now positive. So, repeating, if you're sitting on the fence about locking in office space at low rates, now is the time to move.

So, where to move to? **The northwest sector of the Austin area has one of the highest effective vacancy rates in the city at 26%** — more choices usually mean better rates, in addition to better options for your needs. But, check around. Just about every area of Austin, depending upon your needs, offers some options for you to consider. It usually takes months to find your ideal space, negotiate a deal, finish out the space and move in. Time's a-wasting.

In just a few weeks – probably 8/30/04 – the Capital Metro board will vote to put a final commuter rail plan for your approval/disapproval on a ballot, **11/2/04**. **Here are some points you need to consider when it's rolled out**.

As we've been reporting, the mass transit plan is going to pop up quickly and you'll only have a couple of months to decide whether to vote it up or down. Besides checking out **where the trains will go and how they will impact various parts of the Austin area**, there are a number of other important aspects to be considered.

For instance, the Greater Austin Chamber of Commerce says "of key importance is the **comparison of ridership levels and costs to comparable systems** to ensure a successful system." The Chamber also says "adequate, appropriate and fiscally responsible transportation infrastructure is integral to the economic vitality and sustainability of Central Texas."

There is much more The Chamber said it will check out for its members such as the policy to **operate one rail vehicle type and model to decrease inventory and maintenance equipment** needs. It also said it will see if there is a sophisticated downtown circulator system proposed to deliver passengers to major destinations. And it wants to know if there will be a plan in place to connect the intracity rail system with the proposed Georgetown to San Antonio Commuter Rail plan. These are items you also need to be concerned about.

The extra time needed for rush-hour traffic has tripled over the past two decades, according to the Texas Transportation Institute. **So what are you willing to do about it**?

Americans are so frustrated by traffic more than half say they would be willing to pay higher taxes if it really would improve things. The Associated Press reported this was one of the results of a poll that also showed, for now, **people are changing routes and schedules**, **but not getting out of their cars**. In fact, only about one in 20 uses mass transit. This, of course, triggers the chicken-egg debate – with no easy answer. But, it is interesting to note that, while one in 20 nationwide uses mass transit, one in eight do in the Northeast where trains and buses are more prevalent.

But in the land of the pickup, SUV and autos galore, almost 90% say they drive themselves to work, and most of them – by far – allow more time for travel because of traffic problems. Smaller majorities said they **avoid certain roadways**, **leave earlier for work and avoid travel during certain parts of the day**.

Of course, when the question was asked about willingness to pay taxes, **one of the taxes was toll roads**, where only those who use the tollway pay for the privilege of driving it. The tolling debate will continue here in Austin for a few more months before it is finally resolved.

If you pulled into a self-serve gasoline station this summer on either US coast, you probably noticed the price at the pump was higher than you pay here in Austin. Even though the price per gallon for crude is the same nationwide, there's a reason for lower prices in Austin.

It has to do with proximity. Approximately 90% of gasoline used in the US is produced by US refineries — and **refineries in Texas and Louisiana are the source for nearly half** of this production. So, areas of the country the farthest from the Gulf Coast tend to have higher prices.

According to Texas economist **Ray Perryman**, people in only nine states paid less for gasoline than Texans this summer. Per-gallon costs in these areas ranged a half-cent to eight-cents under Texas levels. But, **New York drivers pay about 30-cents more per gallon** than Texas consumers. **California's pump prices average about 40-cents per gallon** over the Lone Star State, according to Perryman.

Even within the borders of Texas, there is a price variance. Perryman points out the median price per gallon in the major metro areas of **Austin, San Antonio, El Paso and Houston are less than the state average**.

Then there's the competitive marketplace. Drive around Austin and you see prices per gallon vary widely. Even where service stations tend to clutter at one intersection, you'll see a **variance in price just across the street** – good ole American competition.

And then there are the discounters, like Costco and Sam's Club, whose members generally pay less per gallon in Austin than at most other service stations. So, even though gasoline prices are higher than in many years, you can take a little solace knowing **Austin motorists are getting a bit of a break compared to others**.

Teresa Heinz Kerry told a reporter to "shove it," Jenna Bush stuck her tongue out at cameras and Dick Cheney used the F-word. This prompted **Dr. Louis Overholster** to remark that the presidential race is turning into one big Texas-Oklahoma football game!

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Sincerely

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