

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

The Austin hotel industry bottomed out in 2001... 2002... and 2003. And it started 2004 slowly. Are there better days ahead?

How can you “bottom out” year after year? If after “bottoming out,” you thought it couldn’t get worse, and it did – you “bottomed out,” again. Austin hoteliers suffered the same fate as others around the US in 2001. You’ll recall the travel business went into a tailspin due to the double whammy of a declining economy and the terrorist’s **attacks of 9/11/01 when airliners carrying US travelers were used as deadly bombs. The travel business still hasn’t recovered completely, but Austin seems to be trailing the pack.**

The most common measure of a hotel’s success is the percentage of its rooms that are occupied. **“The Austin lodging market reached an apex in the year 2000,”** reports one of the nation’s leading hotel consultants, **John Keeling**, SrVP of PKF Consulting in Houston. “Despite the addition of more than 2,000 hotel rooms, the citywide market occupancy remained over 73%.”

Those were the good ole days, as the song goes. **The drop was dramatic: down to 63% occupancy in 2001, 58% in 2002 and 2003.** “In every major market, except Austin, the recovery of the Texas hotel market began in late 2003 and continued in 2004,” Keeling’s research shows. **But so far this year, it hasn’t gotten any better for Austin.** “Through the first half of 2004 only Austin continued to wallow at the nadir of their performance curve,” Keeling reported.

But hang on. The good times are just around the corner. In fact, Keeling predicts **the Austin lodging industry, over the next four-to-five years, will outperform every other market in Texas.** It will be a slow climb – not dramatic. He is estimating there will be a **slight, very slight, uptick in 2004’s occupancy to 59%.** “The outlook for 2005 should be slightly better than 2004,” he predicts. Then, after 2005, he says it will accelerate.

Remember, these percentages cited by Keeling are *citywide averages*. Some areas of town are doing worse, some better. For instance, hotels in Austin’s Central Business District notched these totals: 2000, 77% ... 2001, 65% ... 2002, 65% ... 2003, 67% and 2004, 64% (after the new Hilton Convention Hotel added 800 more guest rooms to the downtown mix).

Austin's lodging woes can be resolved more quickly than predicted. All it takes is money. But this is compounded somewhat by a Catch-22 situation.

First of all, you have to understand the hospitality industry is one of the most desirable economic engines in the nation. **Communities compete aggressively to be a top-of-mind tourism and convention destination.** The dollars generated by travelers are the best possible. They come from outside the area and are circulated throughout the community. Then those who bring the dollars leave without needing to educate their children or provide other costly city services to them. It's a clean, coveted industry.

Yet, Austin has historically not kept pace with its competitors vying for this business – even though the area boasts some of the most enviable tourism and meeting attractions of any city. **Bob Lander**, who is the President/CEO of the Austin Convention & Visitors Bureau, has been **shackled by a marketing budget that is small, and not growing** – compared to competitor destinations.

The city is just now coming out of a period of tight budgets. But, even in the go-go days when city revenues were bulging, **the city failed to match the dollars committed by other cities** (such as San Antonio) that were aggressively marketing themselves as travel and meeting destinations.

There's also a Catch-22 situation at play here. The AC&VB budget comes from revenue generated by the bed tax – a tax paid by out-of-towners staying in our hotels. **When hotel occupancy drops, as it has for the past four years, bed tax revenue dips as well.** It's even worse for the AC&VB because many other organizations have successfully raided this fund for dollars over the years, siphoning off dollars that could be used to lure travelers to Austin.

Interestingly, we're now moving into a period that, if the City of Austin cranked up the marketing dollars, it could pay extra dividends. **John Keeling**, SrVP of the nationally respected travel research/consulting firm, PKF Consulting, points out the convention market has changed significantly just in the past three years. No longer are the bustling, business-oriented metros the most desirable locations.

“If you're a good tourist destination, you will be a good convention destination,” Keeling says. This fits Austin to a tee – when you think about the attractiveness of our area with a plethora of fun, interesting things to do. And this has now been enhanced by our new expanded convention center and the new hotel rooms that have sprung up around downtown.

How much money will it take to move Austin into a more competitive marketing picture? The current annual budget is not quite \$5 million. Lander would be grateful for *any* increase. But if city leaders decide to step up to the plate big time, they should add about \$3 million to that total.

The proposal to start the Texas school year after Labor Day was touted as a way to *save* Texans \$790 million annually in the operation of our public schools. Economically, the State Comptroller's plan also *generates* dollars.

Another benefit was not even discussed when the mixed reaction came rolling in. What's missing so far in the debate to, once again, start the school year after Labor Day is the **extra money that will be pumped into the state's economy by lengthening the summer family vacation travel season**. The travel and tourism industry screamed loudly years ago when the Texas Legislature allowed public schools to start in August – cutting short their busiest season. If State Comptroller **Carole Keeton Strayhorn** is looking for more support for her proposal, she should enlist the help of the state's travel interests. It may help offset the complaints of parents who are eager each year to get the kids from under foot and back in school.

Let's narrow the presidential race down to just three states. The president is leading in nationwide polls, but three states will be the final determinant.

The candidates are scurrying around the 15-20 states that have been identified for a long time now as battleground, or swing, states. The other states are so strongly in one column or the other, their electoral votes can be safely counted for either President **George W. Bush** or Senator **John Kerry**. But, when you come right down to it, there are three states where the race will be won or lost. Keep your eye on **Florida, Ohio and Pennsylvania**.

The three states have huge electoral votes. If Bush can't get Florida's 27 votes, he will need to carry nearly two-thirds of the remaining swing states. Pennsylvania's 21 votes are just as crucial for Kerry's chances; he'd have to carry Florida and many other swing states if he lost Pennsylvania. Say Bush wins Florida and Kerry takes Pennsylvania, then **as Ohio's 20 votes go – so goes the election**. (FYI, the Republicans have never won the presidency without carrying Ohio.)

So where do these three states stand as of the latest state-specific polls?

Florida is in Bush's column, but not strongly. According to SurveyUSA, Bush leads 51% to Kerry's 45%. Bush's lead is even tighter in Pennsylvania, where the latest ABCNews poll shows it nip-and-tuck at 49% to 48%. But Bush has a solid lead in Ohio, according to the StrategicVision polling company, 52% to 40%.

One subscriber recently asked for a recommendation on a good Web site to track polling information. Our suggestion is <http://www.electoral-vote.com>, where we got the info for this story. **The Web site is an electoral vote predictor and is updated regularly as the polls swing back and forth**. It has a wealth of data in an easy-to-follow format. Incidentally, based on the most recent polling data from a raft of pollsters, the Web site projects Bush to win handily, with 311 electoral votes to Kerry's 223. It takes 270 electoral votes to win.

It won't be long now before construction begins on the Long Center for the Performing Arts. Dollars are churning and that will lead to ground turning – within weeks.

Nearly 2,300 donors have contributed more than 70% of the total funds needed to build the Joe R. and Teresa Long Center for the Performing Arts along the shores of Town Lake in the heart of Austin, at the site of the former Palmer Auditorium. The fund-raising has been given a big boost in recent weeks by two Austin couples who have substantially increased prior pledges.

Sarah Butler and **Dr. Ernest Butler** doubled their support to a total of \$1 million. And a second gift involved a 10-fold increase of a prior contribution by **Nancy Inman**, a member of the organization's board of trustees, and her husband, **Bob Inman**. The Inmans boosted an earlier \$25,000 gift into a \$250,000 contribution. This wasn't all that flowed in during August and through mid-September. **Dr. Nona Niland**, through her foundation, contributed \$100,000.

There was a trigger for these current donations. Together with other recent pledges, the Butler, Inman and Niland contributions are being matched one-for-one from the challenge fund created by a group of Long Center donors earlier this year, among them **Gail** and **Jeff Kodosky**, who themselves matched their own earlier gift with a second \$2 million pledge that will be paid as others in the community contribute gifts to apply against the Community Challenge Fund.

Other participants in establishing the fund included **Claudette** and **David Hartman**, who pledged \$1 million to match contributions from other donors.

Construction is set to begin in the fall of this year. This will put the project on target for a grand opening scheduled for fall of 2007. Meanwhile the fund-raising continues.

Dr. Louis Overholster was so incensed when he saw a worker smoking in his office he asked how much he made. When told \$500 a week, Overholster wrote him a check for \$1,000 and said he was fired. The man left immediately without explaining he was a deliveryman waiting for a receipt!

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Sincerely



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