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Dear Client:

**Texas USSenator Kay Bailey Hutchison will have a lot to say 6/27/05 when she announces she will seek re-election. But here are some points she will probably *not* make that kept her from challenging Gov. Rick Perry in the Republican primary.**

Polls for years have shown Hutchison is one of the most popular statewide elected officials – **if not *the* most popular**. This has led many pundits to say she could be elected to any office she wanted. And she has long made it known she would someday like to leave Washington, come back to her home state, and serve as governor. (She and husband, Ray, adopted two small children while she was serving as a USSenator.) But Monday she *will* officially say she wants to stay in Washington six more years. There are some things, however, she might not say.

**She probably will not talk about the extreme pressure placed upon her *not* to run for governor.** The way she'll phrase it is that she received a lot of encouragement to seek reelection. Same difference. Many of her strong backers and influential Texas Republicans wanted to avoid a divisive Hutchison/Perry campaign. To them, the best of all worlds was to keep the two of them in their current position.

**Texas Republicans have long vowed not to get into major intra-party squabbles**, such as those that divided Democrats when the Dems held all the statewide offices in Texas. Now that the GOP-ers hold every single statewide elected office in the state, the behind-the-scenes power brokers don't want to see an erosion of this strong hold on Texas.

**The heat on Hutchison to stay in the Senate ratcheted up considerably in recent months** as her public comments indicated more and more she was going to pursue her dream of returning to Texas to run for governor. Many of her strong backers were counseling her not to give up the power and influence she has developed in Washington to engage in a bitter battle with Perry. Yes, there is strong support for her to stay in the Senate, but it is counter-balanced by fear of what it would do to the Texas GOP if she tackled Perry.

**Hutchison will have a cakewalk for re-election.** And her position on the national scene will only continue to grow. In fact, now that the governorship is no longer on her radar, look for her name to surface regularly as a possible GOP candidate for Vice President.

**It's no longer good enough to simply say "Downtown Austin." As the heart of the city changes character, names of the different parts of downtown become more important.**

All the talk of more people living in the downtown area is an important tip of the iceberg. But the transformation encompasses more than new apartments, condos or lofts. It's as if **downtown – defined as 15<sup>th</sup> street on the north, IH35 to the east, Cesar Chavez on the south and Lamar Blvd to the west – is now being defined by neighborhoods within those boundaries.** So, here's a program, with names and numbers, to help you identify the players.

**Congress Avenue District.** This is the traditional district that runs eleven blocks from Cesar Chavez on Town Lake north to the State Capitol. It has been called the **Main Street of Texas** and has gone through many transformations – from trolley cars and carriages, to vacant store fronts to a tree-lined gateway to the 2<sup>nd</sup> most visited tourist attraction in the state (behind The Alamo). This district includes food and beverage establishments, theaters, galleries and retail.

**East 6<sup>th</sup> Street Entertainment District.** This district has also been around for some time now and runs between 5<sup>th</sup> and 7<sup>th</sup> Streets from Congress Avenue to IH35. **Historic buildings from the 1800s abound in this area,** many of them converted to an eclectic mix of entertainment businesses. This District is anchored by the venerable and upscale Driskill Hotel and is the site of festivals, rallies and celebrations throughout the year.

**Warehouse Entertainment District.** Transformed from an industrial railroad service area, this relatively new district is bounded by 3<sup>rd</sup> and 6<sup>th</sup> streets on the south and north, Guadalupe St. on the west, and Colorado St. on the east. **Its night clubs, food and beverage establishments seem to attract an older crowd** than those frequenting the East 6<sup>th</sup> Street venues.

**2<sup>nd</sup> Street Retail District.** Just now emerging, this is the only downtown neighborhood district that crosses Congress Avenue, running between San Antonio St on the west, Trinity St. (at the Convention Center) on the east and Cesar Chavez north to 3<sup>rd</sup> St. This new, mixed use neighborhood includes apartments, hotel rooms, the **new Austin City Hall with new retail operations popping up, especially along the new 32-ft wide sidewalks along 2<sup>nd</sup> St.**

**Market District.** Serving as the western gateway to downtown, running haphazardly east from Lamar Blvd to San Antonio and from 3<sup>rd</sup> St. north beyond 6<sup>th</sup> St., this newly-developing area is anchored by the **Whole Foods flagship store/world headquarters (itself an emerging tourist attraction),** high rise living units, and various food, beverage and retail establishments.

Commit these neighborhoods to memory. They are becoming a part of the downtown lexicon.

**Texas employers have added jobs in 20 of the last 22 months and the Austin metro area added jobs last month at the highest rate in May since the high tech boom five years ago.**

While this is great, we're not in the midst of a go-go economy like the one that swept the Silicon Hills of Austin during the heady high tech days. But, as just indicated, it's certainly not a slow-slow economy either. And, in many ways, **this could be a better situation** – even though not as much quick wealth is being created.

What *is* being created is a solid economic base that should continue its vitality for the foreseeable future. Back in the good ole boom days, jobs were being added as fast as 6,000 per month. **In May 2005 the increase was 1,900** – nothing to sneeze at, but it didn't match the hiring frenzy when stock options were given to employees like Halloween candy.

And this is the key. Five years ago, the jobs skyrocket fizzled as fast as it shot upward and techies were soon on the street as lay-offs became the headline of the day – along with the demise of can't-miss tech companies. Now, the jobs are moving upward at a steady pace because demand for employers' services and products are increasing. **The growth in jobs now is built on a solid economic foundation, less subject to huge highs and deep lows.**

The five-county Austin-Round Rock metro area has been leading the state's major metros for some time now, posting the lowest unemployment percentages. **So, what were the local unemployment numbers in May? Don't know. Nobody knows.** It seems the USBureau of Labor Statistics that compiles the unemployment data found "small errors" in what it has been reporting for metro areas all over the nation recently. So, the Bureau is working on the problem and will not release any local figures until July or August. We'll have to wait and see.

**A company that has operated in Austin for almost a half-century under the same ownership has been looking for a new home for six months. It has found a new home, but not in Austin.**

**Milton Smith** is 93 years old. He and his family have been operating Serta Mattress in Austin for 45 years. The company currently has about **140 employees**. Its site at 9313 McNeil Drive was sold to Capital Metro. For six months, Serta has been searching for a new home and has settled on a 148,700 sq.ft. facility – **in nearby Lockhart.**

"The City of Lockhart was very welcoming and helpful throughout the entire process," says Smith's grandson, **Michael Karotkin**, Principal and VP of Serta. His brother, **Brian Karotkin**, is also a Principal and VP. The company plans to be operating in its new Lockhart facility within the next 18 months. This well-established and longtime Austin employer is moving out of Austin, but at least it is still staying in the Central Texas metro area.

**The conversion of Bergstrom Air Force Base to a new Austin airport is becoming more and more a model for those 33 cities the Pentagon has targeted for base closings this year.**

As we mentioned 5/20/05, Austin's new airport is an example of how a city made lemonade out of lemons when it was faced with the closing of an important part of its economy, a military base. But there are other examples. Our friends at *Kiplinger Forecasts* point out that "**communities losing bases often end up stronger** by making them into office parks, housing, hospitals or even nature preserves."

In earlier rounds of base closings, *Kiplinger* reports **85% of the civilian jobs lost were eventually replaced by new employment in the private sector**. Their examples: "Bergstrom Air Force Base near Austin, Texas, is a flourishing airport, Calif.'s Long Beach Naval Complex is home to a technology office park and a cargo terminal. And Grissom Air Force Base in Indiana now boasts 40 tenants, including a state prison and a golf course."

So what about some of this year's closure targets? *Kiplinger Forecasts* predicts **where real estate markets are hot and economies diverse and thriving, base closings will be a boon, opening prime space for growth**. "The New London Conn., submarine base and N.J.'s Fort Monmouth Army base, for example, will be snapped up for housing and commerce. Ditto a naval facility in Corona, Calif., and the General Mitchell Air Reserve Station new Milwaukee," reports *Kiplinger*.

Yes, some smaller communities in Texas will have a tougher time. But as we suggested last month, they should "**get over it – then get after it**." Local and state officials are still running around, wringing their hands, saying they are going to take it to the top in Washington to "save this base." Good Luck. Not gonna happen. **Very few, if any, changes will be made** in the Defense Department's hit list before the bi-partisan panel gives its final approval in September.

**Dr. Louis Overholster** says he knew he needed new glasses when he complimented his elderly patient's alligator shoes – and the patient was barefooted!

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