

Volume 27, Number 22

August 26, 2005

Dear Client:

By most accounts the North American Free Trade Agreement (NAFTA) has been a boon to the Austin and Texas economies. But what about the new Central American Free Trade Agreement (CAFTA)?

The loudest complaint about NAFTA heard in these parts is the impact on IH35 traffic that runs from Canada to Mexico, slicing through the Austin area. But when it comes to our economy, there are kudos spread all around. Remember when NAFTA was being debated and presidential candidate **Ross Perot** said “that giant sucking sound you will hear will be jobs leaving the US?” Well, the opposite has occurred. **Trade between Texas companies and Mexico and Canada has created jobs** as companies have hired to meet NAFTA demand.

Now comes CAFTA. **What can we expect with this new and controversial trade agreement? The same – except on a lesser scale.** CAFTA involves Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. As with NAFTA, tariffs will be eliminated and the areas are open to Texas and US goods and services. This creates opportunities for Texas exporters.

Don't let the distance between Texas and the CAFTA countries fool you. These six nations imported \$1.76 billion of Texas goods and services last year, according to longtime Texas economist **Ray Perryman**. Clothing and textiles, machinery, autos, wheat and other grains were the top trade items.

In fact, **Texas is among the leading states in value of exports to the CAFTA countries.** The Lone Star State ranks 2nd in the total amount of exports to Guatemala and Honduras, 3rd in percentage of US exports to the Dominican Republic and Nicaragua. You get the picture. The base is there and now CAFTA opens more opportunities to expand this base of business.

To keep it in perspective, this is not as huge for Austin and Texas as NAFTA is with major trading partners Mexico and Canada. But it is **another positive development that will bode well for our long-term economic future.** The Austin area is now irrevocably tied to the international economy and CAFTA is just one more tool aiding our future economy. And, as an added benefit, there should be no massive impact on IH35 traffic, as was triggered by NAFTA. But the international port of entry at Austin's airport should see an uptick in activity.

Another sign of a growing Austin economy: the pace of development of new apartment buildings is already double the amount seen in the prior year.

Not only is the development pace for new apartments double the *prior* year, but **Robin Davis**, who heads up Austin Investor Interests, is projecting the **number of new starts and completions will double during the next 12 months.**

What is driving all this activity is **overall apartment occupancy rates rose for the third consecutive quarter** to reach 91.13% in the 2nd quarter 2005. Annually, the increase was 2.3%. “Oddly, most areas of high student concentration, which usually experience a dip in occupancy (during the 2nd quarter) posted steady and/or increased occupancy rates this quarter,” Davis said.

Of course, **when occupancy goes up, landlords start raising rental rates.**

Though the rise in rates was minimal in the 2nd quarter (just about a penny a square foot), it followed a period of nine months with no raise in rates overall.

Obviously, this means **the “deals” for apartment dwellers are dwindling.** In fact, Davis reports concessions dropped 8% during the 2nd quarter. This means, she said, only 58% of the market is offering specials right now – and the specials are not the big “two months free” we’ve seen in the recent past.

“Instead, 25% of the properties offering concessions are promoting look-and-lease incentives or **reduced deposits and/or application fees,**” she noted. “Many of the remainder are touting move-in specials of \$0-\$299 for the first month. Class A units still lead the market in concessions, with more than 84% offering specials.”

All this added together – new apartment construction kicking into a faster gear, “deals” dwindling, occupancy rates rising, along with rental rates – is prompting Davis, who looks out after apartment owners’ interests, to proclaim **“things are finally looking up throughout the Austin area, even in areas where it is least expected.”** This is just another signal of a strengthening of the Austin economy.

Have you heard of a privately-held Austin company called Newgistics? It’s at the forefront of a growing field called reverse logistics. Reverse logistics?

Reverse logistics is the business name given to what you do when you return a gift or item you have bought. Newgistics has come up with a preaddressed SmartLabel to attach to the outgoing product. **Shoppers slap the label on the item and mail it to one of five Newgistics return facilities.** A bar code containing the customer’s data allows Newgistics to **electronically notify the retailers in advance,** starting the exchange process. Newgistics charges the retailer for each package and is anticipating it will double 2004s SmartLabel totals this year.

After two special legislative sessions and one regular session that failed to produce a promised reduction in property taxes and school finance reform, will your legislators and state officials be swept out of office?

Not likely. Oh, there may be a legislator here and there who will suffer from voter anger (aided by a hard-punching opponent). A state official or two may be roughed up a bit. **But it's not like the old days when voter discontent was actually translated into an uprising at the polls.** The reason isn't so much voter apathy, it is voter choice. And you can thank (blame) redistricting for today's status.

After years of beating their chests and trumpeting they were **going to do something about property taxes and school reform if only you elected them**, they did nothing. Zero, zip, nada.

You may have noticed some brash comments uttered by the politicians during the session – almost as if **they really didn't care what their constituents thought.** You may have also noticed a lack of political will to make the tough decisions (lower some taxes, raise others).

To exaggerate to make a point, it was as if they were uttering as one voice, "What, me worry?" **Frankly, they don't have a lot to worry about on the re-election front.** You see, most legislators have been redistricted into "safe districts." Most districts are either heavily republican or heavily democratic. Once elected, they have a secure seat.

The incumbents have very little fear of someone from the other party hammering them over the head with these legislative failures, because the other party is in the minority in their district. And, in most cases, it's not likely someone from their own party will challenge them either. **They're home free**, no matter their record.

If all your legislator cares about is getting re-elected, then what's to worry about? This is a sign of the times – **a new political paradigm**, if you will. Oh sure, districts with like-minded voters tend to ensure all factions are represented. But those districts also have very little internal debate, conflict and differences of opinion. Hence, there is **no real political competition.**

On a much larger scale, the same is true for statewide officials – only it is not the result of redistricting. **It's the result of the political pendulum swinging from left to right.** With no democrat in statewide office, and the last democrat who ran for governor spending tens of millions of dollars of his own money only to lose by a big margin to the sitting GOP governor, the prospects of Democrats upsetting the balance the next time around are pretty slim.

So the statewide elected officials who deal with the legislature are heavily favored to be re-elected. As we said, we are in the midst of a new political paradigm.

With national and international media giving almost non-stop coverage of the anti-war protests near the Central Texas ranch of President George W. Bush, speculation is heating up about which Democrat might run for president in 2008.

Of course Bush will not be on the ballot as he is limited by the US Constitution to two four-year terms. But with all the negative anti-war publicity aimed at Bush, Democrats are salivating about their chances when there is no incumbent Republican on the ballot. Harking back to the old saying that every US Senator thinks he/she can do a better job in the White House than the current occupant, there are any number of **Democratic office holders who are casting covetous glances at the presidency**. And since modern-day political maneuvering means a party nominee is selected earlier and earlier, a lot of Democratic toes are testing the water.

The person most potential candidates and observers believe is the one to beat is US Senator **Hillary Clinton**. And she is certainly doing nothing to discourage such speculation. But there is a long list of wannabees who are trying to head her off at the pass. Senator **John Kerry** thinks he should get another shot at the presidency.

His running mate, Senator **John Edwards**, feels he is ready for primetime – even though he is out of office and, as a result, out of the limelight. Other Dem US Senators such as **Joseph Biden**, **Evan Bayh** and **Russ Feingold** are scurrying around lining up support. And don't forget governors. **Mark Warner**, who will soon step down as Virginia's governor, is making presidential noises as is Tennessee Governor **Phil Bredeson**. General **Wesley Clark** is also mentioned.

The list could be expanded, but if one of the candidates not named Hillary doesn't gain traction early, she may have the nomination wrapped up before they know it.

Speaking of political egos, **Dr. Louis Overholster** remembers when West German Chancellor Ludwig Erhard, visiting President Lyndon Johnson at the LBJ Ranch, said "I understand Mr. President you were born in a log cabin." "No," LBJ responded, "you have me confused with Lincoln. I was born in a manger!"

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., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher