

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

If you ever doubted your economic future is linked to business conditions around the world, consider this fact: Texas continues to lead all states in exports through the first half of 2005.

Oh sure, your business may just deal with local customers or you may not have a product you're shipping outside the country. But **Texas has long had a foundation in exporting.** There was a time, before oil and gas drove the state economy, that cotton and cattle were the main products in the Lone Star State. Cotton, cattle, oil and gas – all have been sold on the world market.

Now, the state's economy has expanded to the point that **we lead all 50 US states in the amount of goods exported to other parts of the world – and the margin is growing.** This phenomenon is providing jobs to local workers who spend money and pay taxes in Texas.

Texas economist **Ray Perryman** has been tracking this activity for years. His latest numbers show that, from January through June 2005, Texas exports amounted to \$63.22 billion – a significant 14.22% of all US goods exported.

And the **Texas margin is increasing.** The total is **\$6.08 billion more** than for the same period in 2004. Compare this to the #2 exporting state, **California, whose increase was \$2.90 billion.** And #3 **New York's increase** for 2005's 6-month period compared to the same time frame in 2004 was **\$4.6 billion.** New York is moving up on California, but not on Texas.

Of course, Austin is a big part of this mix with our high tech base – Dell Inc., being the biggest employer involved in exports. But with this season's hurricane devastation still fresh on our minds, it should be pointed out the **Port of Houston is the trade leader among all Gulf Coast ports.** More than 50 locations in seven states are classified as Gulf Coast trade centers, and Houston tops them all.

So it is no wonder any hurricane disruption in this area not only pushes up the price you pay for gasoline, but it affects many facets of the state's economy. Sure, chemicals were the top exports from Houston in July, but other principal exports included non-electrical machinery, petroleum and coal products, **computer and electronic products** and, yes, agriculture products. The Texas economy is so multi-faceted now – especially where the global economy is concerned – that you need to **factor in exports as you forecast the future.** Even locally.

Keep your eyes open. The number of new apartments under construction in the Austin area is expected to double over the next 12 months.

This is the forecast from **Robin Davis**, who tracks apartment activity in Austin and San Antonio through Austin Investor Interests. After a brief look at 3rd quarter activity, Davis pointed out there are close to 13,000 units either under construction or in the construction process – and **3,600 of these are expected to complete during the next year.**

Given this information, wouldn't it be logical for you to assume rental rates and occupancy levels are both going up? Well, you would be right. During the just-completed 3rd quarter, **occupancy rates went up 2.3% and rental rates jumped about two cents per square foot.**

“While the 3rd quarter is typically a strong one, this is **the first time that occupancy levels have reached the levels experienced prior to the market's decline that began back in 2001,**” Davis observed. “Rental rates, although no where near the levels seen during Austin's hey day, finally broke free of the stagnation that has dominated for the past two years.”

In case you are interested, the San Antonio area also experienced strong apartment occupancy gains in the 3rd quarter, but the effective rental rates dropped a tad.

While on the topic of commercial real estate, we can officially declare as dead an office rental factor that dominated the local scene for about three years.

Starting at the end of 2001, as the dot-coms and other companies downsized, closed up shop, moved-on or went bankrupt, the office market in the **Austin area was flooded with sub-lease space that was offered at much lower than market rate** – anything to cut the losses and obligations of struggling or dying companies.

This was great for those seeking office space on very attractive terms. It was tough on landlords and building owners. Back then, we wrote over and over again that, **if you needed office space that was “priced right,” it was time to act.**

The times, they have changed. According to NAI Commercial Industrial Properties (NAI CIP), **the sublease market now encompasses only 1% of the overall Austin area office market.** It no longer plays an influential factor.

So where do we stand at the end of the 3rd quarter? “Although vacancy rates have been stable throughout 2005, **rental rates continued to disproportionately rise,**” said **Renee Hicks** NAI CIP office specialist. And, now, she says talk is swirling through the market of new office construction about to break ground. Everything goes in cycles.

Now is the best time to plant shade trees in Austin. They not only look great, but they add value to your property and, frankly, they save you money in the long run.

The cooler weather of fall and winter allows root systems to establish, resulting in greater growth during the spring growing season and better tolerance of the hot Austin summer temperatures. So, take a moment to weigh what can also be considered a **good economic decision**, especially if you live and work in the city. There's a name for it: **urban forestry**. In fact, the Texas Forest Service has a full-time urban forester working in Austin.

Why have urban foresters? Why worry about trees in the city at all? **John Giedraitis**, an Austin tree expert and urban forester, cites a number of compelling reasons:

Trees properly used in a landscape can **increase property values by as much as 20%** and provide food and shelter for bird and urban wildlife.

Planted strategically, the right shade trees can **reduce building cooling costs** by as much as 50%.

Trees reduce the temperature of streets and parking lots by eight to ten degrees in the summer, making paved surfaces last longer without repairs.

Trees improve air quality by trapping dust, absorbing air pollutants such as nitrogen dioxide, sulfur dioxide and ozone, and by converting carbon monoxide to oxygen.

Trees slow the rate that storm water runs off, reducing the size and number of concrete drains and other structures needed.

When you plant, it's important to plant the right tree in the right place. **The best trees for height and shade in the Austin area, according to Austin Energy, include pecans, elms and oaks.** They will block out sunlight during summer months, but lose their leaves in the winter, allowing sunlight through to help keep your home warm. Of course, Austin Energy cautions you to avoid planting tall growing trees near power lines. Trees are the number one cause of power outages during storms and windy weather.

Houston conducted a study that shows savings for cities themselves can be quite dramatic. (A similar study has not been conducted in Austin.) The study found that increasing the average tree cover in Houston by 30 to 40 percent, it could provide \$3.5 billion savings on storm-water infrastructure and \$297 million worth of **pollutant removal benefits**.

A Houston-based urban forester is refining those savings estimates, hoping to show that increasing Houston's tree cover will help **improve Houston's air quality problem**.

So you want to go skiing in Aspen this winter, but dread the difficult airplane connections from Austin, the time consumed by security requirements and the general all-around hassle when all you want is to have a good time. Have we got a deal for you.

Well, it's a deal – if you can afford it. It's called a "revolution in business jet travel."
Or as the promotional material states: "You don't have to own or rent the entire jet any more ... just the seat you sit in."

Austin is one of nine cities set up for this service to Aspen by Perfect Jet Travel (flights are operated by the direct air carrier Jet Solutions LLC or one of its preferred substitute direct air carriers). Perfect Jet Travel is booking service to Aspen on a business jet from Austin, Burbank, Dallas, Chicago, Houston, Las Vegas, New York, Palm Beach and San Jose.

The Richardson, Texas company says its service eliminates "long airport lines and a full day of travel." "**Just arrive 15 minutes before takeoff and take your seat,**" is the promotional pitch to Austinites. The luxury business jet flights start 11/19/05 and depart Austin every Saturday.

Okay, so you don't have to own or lease the entire jet to get this kind of service. But what does this private jet *seat* service cost? **Prices range from \$1,750 to \$3,950 per seat each way.** And, the promotion says: "Seats are limited, so book yours early."

Don't know if this pricey package aimed at Austinites (as well as high-rollers in the affluent cities above) is a **sign of a return to the go-go days when IPOs made 20-somethings instant millionaires.** Guess we'll have to wait to see the success – or failure – of this venture.

Speaking of money, **Dr. Louis Overholster** remembered why former President Ronald Reagan said it was appropriate he was speaking to a farmer's organization that was meeting in Las Vegas: "They're in a business that makes a crap table look like a guaranteed annual income!"

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