

THE

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AUSTIN LETTER

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Dear Client:

If rain falls in sufficient quantities next week throughout Central Texas, we should be okay. If enough rain doesn't cover the area, then the risk of wildfires will likely jump from "high" to "very high" – one category below the most dangerous situation.

Currently, from IH35 westward, the state's fire risk assessment indicates a high risk of wildfires. The further west you travel from Central Texas, especially to the northwest, the risk is now "very high" to "extreme." **The conditions may worsen and widen within days.**

Absent significant rainfall, the State Operations Center (which tracks these and other potential natural disasters), is predicting the western parts of Travis, Williamson and Hays counties – as well as all of the Hill Country – **will move into the "very high" risk category.** Burn bans are already in effect for this entire area.

The "very high" risk category will cover a huge swath of Texas, from San Antonio, northward up IH35 (including Waco and Dallas) to the Oklahoma border and westward past Midland and Odessa. Inside this area, it gets worse from San Angelo to Abilene, where the risk is "extreme," the most dangerous category of all.

As we've reported to you previously, the dry conditions are posing much more of a problem for us than the heat. Summertime temps are high, but not extraordinarily so. Of course, the heat aids the dryness and the dryness is further exacerbated by the steady 15-20 mph breezes we've been experiencing recently and the low humidity. **So, this combination of little-or-no rain, drying breezes, low humidity and warm temps have put us into this situation.**

As a result, **the state is readying its resources and personnel for fighting wildfires** wherever they may erupt in this escalating situation. The governor has approved the activation of helicopters, dozers, fire engines, wreckers, etc., as well as personnel from Texas military forces to be deployed when/if needed.

Already, the Texas Forest Service is receiving an increasing number of requests for assistance from local responders on fires that are beyond their ability to suppress. For instance, a fire in nearby San Saba County northwest of Travis County, on 1,935 acres, threatened 15 homes within the past week. **But, so far, wildfires have not reached the level to tax the state's ability to handle them.** Keep your eye on the skies. All this could change within days.

This hot, dry weather is also causing you to spend more money (on your electric bills, for air conditioning) and could set a record for consecutive months of peak energy demand in Austin.

In 2005, Austin Energy customers set new all-time individual monthly peak demand records in every month from June through December. This year, the demand for electricity started setting **records in the spring**. In April, May and June 2006 new peak demand records were set.

We don't have July numbers yet and August is traditionally Austin's hottest month. So, if the trend continues, the June-December consecutive month record of 2005 could fall to April-December 2006. **The question is whether high energy usage these next few months may trigger blackouts**, as occurred in the Austin area a few months ago when temps shot to 100-degrees for the first time ever in April.

When we told you 7/28/06 conditions had combined to create "a perfect storm" for office building sales in Austin, little did we realize that within a week the city's tallest office tower would sell – and at a price that set a per-square-foot Texas record.

It would have been nice if we had some inside info on the upcoming sale of the Frost Bank Tower last week when we told you about this "perfect storm." But we didn't. We were doing some **hindsight analysis – and projecting what it would mean** — rather than working off inside knowledge.

Therefore, the sale of the Tower did not come as a surprise – but the price tag sure did. **Talk about sticker shock**. The price paid by Equity Office Properties Trust not only set a record, it smashed the old record into smithereens.

And, it wasn't as if Chicago-based Equity didn't know the price it was paying — **\$354 a square foot – was top-dollar**. Equity had also set the previous record of \$295 a square foot when, in October, it bought the office building at Sixth and Lavaca. These are not just *local* records. Both these prices are *Texas* records.

Remember the clucking that went on in 2001 when Atlanta-based Cousins Properties decided to build Austin's tallest building (Frost Bank Tower) while the Austin office market was in the dumper? **It was a big gamble, going against conventional wisdom**. Office buildings all over town were scrambling for tenants, sub-leases (with "make an offer" pitches) were rampant. Tenants were cutting good deals right and left. Owners and landlords were moaning.

But Austin is economically hot now. Jobs are being created. Office buildings are filling up (Frost Bank Tower is 87% leased). **Cousins saw something in Austin five years ago and put its money down when no one else was willing to do so**. Now Cousins is cashing in – to the tune of \$188 million. What's the old saying? Big risk, big reward.

How safe is Austin from a natural disaster – compared to the fifty largest cities in the US? It's important for you and your businesses, and it's important for those considering Austin versus other locations.

To determine the risk of a natural disaster, a number of factors must be considered. You need to consider **hurricanes, major flooding, catastrophic hail, tornado super-outbreaks and earthquakes**. And you need to look at potential *frequency* of disasters as well as the extent of damage. Factoring in these criteria, SustainLane.com and Risk Management Solutions ranked big cities from coast to coast.

No, New Orleans is *not* the city with the greatest natural disaster risk, despite recent catastrophic events. It *is* #2 however. With the highest number ranking indicating the cities with the greatest natural disaster risk, **the Top Two are Miami (#50), which is sited on a peninsula between two prolific hurricane zones, followed by New Orleans (#49).**

California and points west also are at the top of the list. **Oakland (#48)** that straddles the Hayward Earthquake Fault ... **San Francisco (#47)**, on the San Andreas Fault and at risk for tsunamis ... **Honolulu (#46)**, subject to hurricanes, storm surge flooding and tsunamis ... and **San Jose (#45)**, also near the San Andreas Fault round out the Top Six.

Considering the same scenarios, the cities in the Top 50 that lead the pack as “safest” – much **less likely to be impacted by such natural disasters – are Mesa, AZ (#1) and Milwaukee, WI (#2)**, both of which are least likely to face hurricanes, earthquakes, catastrophic and tornado super-outbreaks, as they lack conditions needed to create these disasters. Catastrophic flooding is also not as likely. Other major US cities ranking high for safety from natural disaster risk include Cleveland, OH, El Paso, TX, Phoenix and Tucson, AZ (all ranked #3).

So, where does Austin fit in this mix? We rank as the 20th “safest” city. San Antonio is #16, Arlington, Dallas and Fort Worth, tied at #22, with Houston as the most “at risk” major Texas city at #43, tied with Los Angeles for that dubious distinction.

Why is Austin not as safe as many? Well, this area is one of the **most flood prone** due to the limestone soil that generates heavy water runoff in downpours. Also, don't forget the **devastating tornadoes** that tear through the area periodically (remember how the town of Jarrell was wiped out). **Hailstorms?** Oh yeah, though they are usually limited in area. Yes, we have our share of natural disasters.

But consider the others. As an example, some Californians **cross two earthquake faults, twice, during their daily commute**. Tract homes and roadways around Miami are quite vulnerable to hurricanes. It's all relative. But you need to be aware of the possibilities.

The frenzy that is known as college football is now being re-kindled with word of “play for pay” scandals at Oklahoma University and the return next week of the National Champion Texas Longhorns to the practice field. What does this mean for Austin?

It was six months ago this area went ga-ga over the Rose Bowl National Championship victory notched by the Texas Longhorns. It tapered off somewhat, though it was punctuated by elevated sales of anything burnt orange or any item with a little Longhorn logo on it. **Within days, season tickets to seven home football games will be mailed to the faithful.**

The first home football game is a month away – **Labor Day weekend, Saturday, September 2nd. Darrell K Royal-Texas Memorial Stadium will be packed**, even though the kickoff, dictated by TV, will be at 11 a.m. Yes, it is a holiday weekend, but the Austin area will be caught up in the football fever. However, if you really want to see what excitement is all about, wait until the following week.

Ohio State, a team with its own national championship ambitions, tees it up with the Texas Longhorns, in a highly-anticipated showdown of a nationally-televised contest during prime time – 7 pm, Saturday, September 9th. If you don't have tickets yet, get ready to shell out the big bucks. Check eBay. **End zone tix were offered at \$795 each, last time we checked.** You could pay \$1,000 each for a 30-yard line seat. And the prices could rise proportionately as the hype increases.

Oh, in case anyone asks, **all the hotel rooms in the area are already booked** for the Ohio State weekend and they have been for some time. The stores, shops, restaurants, bars, etc. will also be overrun by burnt orange clad fans. You may see some crimson/silver Ohio State diehards around, but only 4,000-5,000 tix have been set aside for the Buckeyes (the same number they made available to UT fans for last year's game in their stadium). After this, five more football weekends will generate excitement – and dollars for the local economy.

When he heard the Rolling Stones will play here 10/22/06, **Dr. Louis Overholster** cited a recent study that shows poor people age faster than rich people – except in the case of Keith Richards!

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Sincerely



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