

THE

*Real Speake*

# AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail [News@AustinLetter.com](mailto:News@AustinLetter.com)

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Dear Client:

**Now that the Austin Energy Green Choice® program this week was named – for the 5<sup>th</sup> year in a row — the #1 utility sponsored green power program in America for sales, it's timely to look ahead to a Clean Energy Venture Summit that will take place in Austin next month.**

Austin Energy is teaming with the Clean Energy Incubator™ (CEI) to host the 1<sup>st</sup> annual Clean Energy Venture Summit in Austin May 14-16. Clean energy entrepreneurs, investors, industry experts and government leaders will gather for **insider looks at emerging technologies – all designed to foster rapid clean-tech development.**

You know that Austin Energy is the electric utility owned by the City of Austin. But who is CEI? The Clean Energy Incubator™ was launched in Austin in August 2001 as a joint effort between the Austin Technology Incubator and the National Renewable Energy Laboratory. **Its purpose is to promote the development of viable businesses focused on clean energy.** CEI is allied with ten similar incubators in eight states throughout the US.

So what sorts of events will take place at the Summit? **The central focus will be on the utility of the future.** But it may not look like your standard public or private utility to which you've become accustomed over the years.

For instance, as homes become more efficient, new technologies make on-site generation cost-effective. Storage devices may become a commodity. In other words, **the utility of the future could look like a virtual entity focused on buying and selling energy instead of generating it.**

**Clean transportation** technologies will be on the agenda (see our item in the 3/30/07 edition). Also, since buildings consume 70% of the electricity produced in America, **green buildings** should get a lot of attention.

Based on what we've learned, this Summit is not one of those ivory-tower sessions where contemplation of the future triggers head-scratching musings. **This is the real world where investors and innovators will try to get ahead of the curve utilizing a technology of the future.** It is only fitting this first Summit is held in Austin, with the national notoriety Austin is receiving as being one of the leading centers of clean energy development.

**Looking for office space? It hasn't been this "tight" in the Austin area in seven years and you're looking at the highest rental rates since 2001. Good for landlords/owners; costly for tenants. And it's a sign of a vibrant economy.**

Oxford Commercial reports that overall vacancy dropped less than one percentage point since the end of 2006, through the first quarter 2007, where it stands at 11.8%. However, the available, **vacant space has dropped significantly from the end of the first quarter 2006 when it stood at 16.4%.**

These are citywide numbers, which mean there are pockets that have less space available than others. For instance, **in the Southwest, it is really tight** – with only 6.2% of the office space there available for lease. Another example: the large Far Northwest market dropped to 8.2% vacancy from 10.2% at the end of 2006.

With our economy humming right along, will this declining office space availability continue? Not necessarily. It's not the *demand* side of the equation that will dictate this, it is the *supply* side. **More than a million square feet of new office space will begin to come on line during 2007** as construction of various office buildings is completed.

Rental rates are also rising substantially. Oxford Commercial reports **rents for Class A office space in the Central Business District (CBD) increased 9.3% since year end 2006, reaching \$32.16 per square foot.** An average rental rate more than \$30 per square foot has not occurred here since 2001, when it was \$30.43 in the CBD. A big chunk of this rise in rental rates is due to increases in operating expenses.

Bottom line, according to Oxford Commercial: "Overall the Austin office market continues to remain strong with rental rates rising, vacancy rates decreasing and record breaking investment sales activity. However, **absorption will play a major factor in whether these trends continue throughout 2007.**"

**Which Austinite is one of 30 corporate leaders worldwide who made *Barron's* list of "The World's Best CEOs?"**

**John Mackey**, who has been the CEO of Whole Foods since 1980, once again made this prestigious list, the only Texan to do so. *Barron's* said it "sought to identify CEOs who have top-notch reputations in the financial community and who likely would be missed by investors if they unexpectedly left their jobs." Some of the others on the 30-person list include Berkshire Hathaway's **Warren Buffett**, Apple's **Steven Jobs**, Samsung Electronics' **Jong-Yong Kim**, American Express's **Kenneth Chenault**, General Electric's **Jeffrey Immelt**, FedEx's **Fred Smith**, and News Corp.'s **Rupert Murdoch**, Pretty heady company for a local grocer.

**With all the commercial construction activity in the Austin area, it is easy to overlook renovations (and name changes) that are occurring on the local hotel scene.**

At least a half-dozen lodging facilities are responding to increasing demand for hotel rooms by updating and expanding their properties, as well as adding new amenities.

**Four Seasons Hotel Austin.** Long one of Austin's most elegant and popular hotel properties, the Four Seasons has a \$15 million renovation underway to **update the restaurant, lobby lounge and guest rooms**, which will offer plasma TVs, DVD players, wireless Internet and iPod docking stations. The renovation also includes the construction of a **new fitness center and spa** with relaxation lounge, treatment rooms, nail salon and eucalyptus steam room.

**Hyatt Place – Austin North Central.** This property, formerly known as AmeriSuites, features **120 completely renovated guest rooms and public areas**. Located in close proximity to UT Austin and downtown, guestrooms feature free wireless Internet, hi-def TV and signature bedding.

**The Hilton Garden Inn Austin Downtown.** Formerly Capitol Place, it recently completed a **\$9 million renovation**. The business traveler is its target, so the hotel's guestrooms feature high speed Internet and a functional work area.

**The Sheraton Austin Hotel.** You knew this property by its former name, the Austin Marriott at the Capitol. With the ownership change, Austin now offers all major hotel brands. **Renovations are underway in guestrooms** to add wireless Internet, plasma TVs and new bedding. In addition, the Sheraton brand concept includes the construction of a "Sheraton Link," a **new business center** concept that offers multiple laptop bays and log-ins along with high-speed Internet and full service business center. The hotel plans to **landscape the outdoor terrace** in the hotel's plaza overlooking Waller Creek. This initial phase will be complete by September 2007; the next phase – updating meeting spaces – starts in early 2008.

**The Wyndham Garden Hotel.** It was formerly the Woodward Hotel. After the renovations, guestrooms will feature luxurious bedding, complementary high speed wireless Internet, work areas and upscale guest bath amenities. The property will also feature a **complimentary business center**, more than 10,000 square feet of meeting space, on-site catering, an outdoor pool, restaurant and fitness center.

**Hotel St. Cecilia.** The operators of the Hotel San Jose are refurbishing the old Miller-Cochran House to turn it into a **14-room boutique hotel**.

These properties are taking advantage of Austin's growing reputation as a business and leisure travel destination.

**When you turn out the light tonight, ending another day, you can rest comfortably knowing that Starbucks opened another six shops and added 350 employees – just as they do every single day.**

I know, I know, you probably feel as if there is a Starbucks coffee shop on every other corner no matter where you go. **Well, you ain't seen nothin' yet**, as the ole Texan says. Yes, the CEO of Starbucks, **Jim Donald**, confirmed to a newspaper in Madrid this past week that the US coffee giant is expanding at the rate of six shops a day.

So, where does it stop? Not sure. Donald told the same newspaper this week that **Starbucks plans to open at least – repeat, at least – 40,000 more stores over the medium term.** Half of those, he said, will be outside the US.

Maybe the real question should be **how big is the consumer's appetite for overpriced coffee?** Frankly, no one may yet have the answer to this phenomenon. You can point to neighborhoods in Austin where as many as three Starbucks cafes are within a stone's throw of the other and they are all doing well.

And, of course, the stores are continually innovating. **You can buy music and books** inside Starbucks (even when they are nowhere near a Barnes & Noble bookstore). If you wandered into a Starbucks lately (or, daily?) you'll notice **sandwiches are now being served**, along with pastries that go with your coffee. Who knows what is next.

Right now, the company has more than 13,000 shops – 9,000 of those in the US – with operations in **39 countries employing 130,000 people.** Is the sky the limit?

You may have noticed the recent medical warning that usage of certain prescription sleeping pills can cause the user to actually sleep while driving an automobile. **Dr. Louis Overholster** was asked how you can tell when a motorist is not awake behind the wheel. His answer: "The driver is not using a cell phone!"

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Sincerely



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