THE Neal Spelce AUSTIN LETTER

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Dear Client:

The announcement this week that a new downtown 305-unit high-rise will now be marketed as *apartments* and not *condos* is a classic half-full, half-empty glass scenario – depending upon your perspective.

The Monarch, a 29-story tower nearing completion on the western edge of downtown near the Whole Foods flagship store, at West 5th Street on the banks of Shoal Creek, is scheduled to open for business in just a few months. **It had hoped to be 70% pre-sold when it opened April 2008, but at this stage, it only had commitments for 20% of the units**. And with the sales trend *slowing*, it pulled the plug on going condo.

The nay-sayers who had been preaching that too many condos were being built downtown felt vindicated. Their chorus had swelled in volume in recent months as mortgage money grew tighter and tighter. As a result, "**I told you so**" **was being heard in a number of quarters this week**. These are the half-empty glass folks.

But the developers of *other* downtown condos (while quietly and carefully looking at their hole cards) are breathing a sigh of relief. The market has opened up a bit and they see a half-full glass. **After all, about 60 folks who had already plunked down money to reserve a downtown condo are now looking for *another* downtown condo** (unless they are persuaded to rent, rather than buy). And there is one less condo competitor chasing the qualified condo buyer.

This action also should be triggering a lot of ancillary activity. Lenders should be pressing the condo developers for an **up-to-the-minute market analysis and marketing departments should be ratcheting-up even more** – just in case The Monarch's experience turns out *not* to be an isolated example.

Even though there are those who claim The Monarch's switch could be the tip of the iceberg, others point out **The Monarch went headlong into construction long before it started marketing**. In fact, the *Austin American-Statesman* reported The Monarch condo marketing effort had only been underway for about three months. Other downtown condo projects have been pushing their product for years, starting before a spade of dirt was turned. However, the *real key* is that The Monarch said there was a **noticeable slowing in the rate of sales**. This is what condo lenders and developers need to watch in the weeks and months ahead.

Is the first of the year a good time for 300 new downtown apartments to be dumped into the marketing mix?

The condo-turned-apartment project referenced in the previous story will face the same marketing problem it encountered when it started offering condos just a few months ago. **It has a short fuse for pre-leasing prior to The Monarch's April 2008 opening**. And, it will be competing with the new AMLI high-rise apartment project nearing completion adjacent to the NW corner of Austin City Hall that has been peddling its product for some time now. But the citywide apartment market is becoming more vigorous right now.

After three consecutive quarters of decline, the Austin metro finally gained some ground in apartment occupancy during the quarter, **increasing 1.4% to reach 94.14% occupancy during the 3rd quarter**, according to Austin Investor Interests (AII), an apartment market research group.

At the same time, AII reports **rental rates continued to soar**, rising another $.02 to reach a current level of $.95 per square foot. This is a $.05 increase over the same time last year. To give you an idea of the vigor of the apartment market, concessions have declined to the point where only 28% of the market is now offering incentives for renters to move in.

The folks at The Monarch obviously have noticed this trend. And they've got company. The positive movement in the market has not gone unnoticed by developers, noted AII. The new construction train has continued to build steam, with 11 new projects hopping onboard this quarter – **putting the total number of units currently under construction at more than 12,000**. AII reports that close to 9,000 of these are expected to be delivered over the next 12 months, while more than 14,000 remain proposed.

It was not like jumping from the frying pan into the fire when The Monarch decided to lease apartments rather than sell condos. For one thing, downtown is a market all unto itself. For another, its units are all but ready to be occupied. So, unlike its late start in condo marketing, it is **getting a jump-start on the other apartment projects** still in the construction pipeline.

Two factors, not widely discussed, may be at play in the uptick in apartment leasing.

First of all, the tightened mortgage credit crunch – which we've discussed for months now – could be providing the impetus for many to move into apartments. **While a potential homebuyer may prefer a "starter" home**, **lenders are making it tougher for first-time homebuyers to get a loan**. As a result, what may have been a *homebuyer* a year ago is now an *apartment renter*. Another factor: those who are having difficulty meeting rising mortgage payments may be forced to move into apartments.

The Republican and Democratic candidates for president have hogged the spotlight, but Democrats are licking their chops at the prospect of tightening their grip on the USSenate.

What has the D's salivating when they look at the USSenate is that the numbers are clearly in their favor. First of all, as you know USSenators are elected to 6-year terms that are staggered so not all the Senators are on the ballot at the same time. For instance, Texas USSenator **John Cornyn** is up for re-election a year from now, but the other Texas USSenator, **Kay Bailey Hutchison**, is in midst of her term.

So, let's do the math. **Of the 33 Senate seats up for grabs**, **21 are held by R's and 12 by D's**. Right there you can see the deck is stacked against the GOP. When you drill deeper, you find that most analysts will tell you **nine of the 21 GOP seats are in jeopardy**, **while only two of the 12 Dem seats are iffy**.

And of those nine GOP seats, four are wide open because the incumbent Senators – **John Warner** of Virginia, **Wayne Allard** of Colorado, **Chuck Hagel** of Nebraska and **Pete Domenici** of New Mexico – have already declared they are not seeking re-election. As incumbents are harder to defeat, the Dems feel like they have a great shot at an open position.

What about the remaining five GOP seats considered in jeopardy? Why do some observers feel those R's are in trouble? **Ted Stevens** of Alaska is being investigated on corruption charges. The D mayor of Anchorage is his likely opponent. **Susan Collins** of Maine is challenged by a Democratic Congressman from the vote-rich area of Portland.

There's more. **Norm Coleman** of Minnesota could face comedian **Al Franken** or attorney **Mike Ciresi**, who are pounding Coleman for his support of the war in Iraq. **John Sununu** of New Hampshire barely won in 2002 and he'll have the same opponent this time, former Governor **Jeanne Shaheen**. Oregon is increasingly leaning Democratic and **Gordon Smith** has a formidable opponent in House Speaker **Jeff Merkley**.

The only two Democrats who, at this stage, face an uphill battle: **Mary Landrieu** of Louisiana is still facing angry voters upset about all the foul-ups following Hurricane Katrina … and **Tim Johnson** of South Dakota who is very slowly recovering from a brain hemorrhage.

While the GOP is only a couple of seats short of controlling the USSenate again, when you look at the lay of the land as we have outlined here, the odds favor the Dems increasing their margin of control. What are the pundits predicting here, a year away from balloting? **The forecast is for the Republicans to lose three or four USSenate seats to the Democrats**. A year is a lifetime in politics, but a lot has to happen to make the math work for the GOP.

Most of the Texas metros with a better unemployment picture than Austin are in the oil patch. Midland, Amarillo, Lubbock and Odessa are benefiting from "black gold." However, the tiny Panhandle town of Dalhart is getting the same job results with "*white* gold" – milk.

Dalhart is so far Northwest in Texas, the old joke is the only thing that separates it from the North Pole is a barbed wire fence. It is actually **closer to six other state capitals** (**Santa Fe**, **Oklahoma City**, **Denver**, **Cheyenne**, **Topeka and Lincoln**) **than it is to Austin**.

It has seen more than its share of hard economic times, including having the dubious distinction of being in the center of the Dust Bowl – that long period of drought and dust storms in the 1930s. But, no more. Dalhart is the county seat of Dallam County that had **lower unemployment** (**3.5%**) **than Austin** (**3.7%**) **in September**. This is because it answered "yes" to the question "Got Milk?"

Five years ago, there were only five dairies in the Dalhart area. **Today, there are 11 dairies in operation, four under construction and three more being built on speculation**. This is huge in a county where the September workforce numbered only 2,845, with only 100 unemployed.

Cows love the cooler nights and wide-open spaces in the Panhandle. The largest single-site cheese and whey products manufacturer in the world, Hilmar, took note. And it is now building a plant in Dalhart that will process five-million pounds of milk a day (a gallon of milk weighs about 8 lbs) at a cost of $**190 million over the next ten years, and will employ more than 300 local residents**.

The new plant has resulted in strong local demand for labor and housing. Along with the need for dairy employees, help-wanted signs for jobs ranging from bank tellers and teachers to accountants and nurses have sprouted all over the region. And the word is out. Representatives from Denmark and the Netherlands are looking for land in the region.

Dr. Louis Overholster says Thanksgiving is when families gather to hug, kiss and bond with football games on TV!

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Sincerely

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