THE Neal Spelce AUSTIN LETTER

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Dear Client:

Austin is in a unique position to serve this nation as the proving ground for what could become the new electricity generation and delivery model for cities, utilities and citizens around the world.

This is the grandiose goal for an ambitious project that involves diverse groups such as Austin Energy, The University of Texas, the Environmental Defense Fund, the Austin Chamber of Commerce and numerous private sector partners. **The Pecan Street Project is almost two years old and it could be a decade before it will be complete**.

It's being called the nation's first and largest municipal scale smart grid initiative of this type. What makes it different is that it is planned to be deployed across the entire city and will be designed to **interconnect a minimum of 300 MW of solar generated electricity and 100,000 electric vehicles**.

"Our goal is a system than can **deliver an entire power plant's worth of clean energy** generated from within the Austin city limits and transport it over the **country's first smart electric grid**," says Chamber Chair **Paul Bury**, the president of Bury+Partners.

In an effort to complement the Pecan Street Project, and support the Chamber's economic development efforts, a Green Collar Job Task Force also has an ambitious goal. The task force is working to coordinate regional efforts to **train and/or retain up to 25,000 Central Texas residents for green collar jobs**. The effort also has a goal to assist with the re-employment of the approximately 51,500 Central Texas workers currently unemployed as of April 2009.

"**Central Texas knows that clean energy is not only good for the planet but can also be good for business**," said **Jack McDonald**, Austin Chamber Vice Chair of Technology and Chairman/CEO, Perficient.

"It's critical that we do not forget people in this equation. These green jobs offer an opportunity to **rebuild and strengthen the middle class with local jobs and good wages**," McDonald said.

With all these Austin area forces arrayed in the clean/green arena, be assured: this is a **serious, and growing, movement that will impact almost all areas of your daily living and business**.

While a lot of economic news these days is being made by large corporations, the conventional wisdom is that small businesses are the drivers of the economy. So, what is happening to small businesses in Texas?

According to the US Small Business Administration Office of Advocacy, **Texas has managed to actually gain small businesses while their counterparts around the nation are stagnating**.

The Small Business Economy report indicated that there has been a **1.4% rise in the number of *Texas* employer firms. At the same time, the number of *US* employer firms remained flat**. Nearly 90% of these small businesses are estimated to employ fewer than 20 people.

What about the self-employed? **Well, the number of self-employed workers *fell* 2% nationwide, but the number of Texans who are self-employed *rose* nearly 2%**. Again, this is just another indicator of the relative strength of the Texas economy.

You need to add Utah to your "watch list" of states that are moving up quickly to contest Texas in the economic development arena. But the Lone Star State still leads the pack.

Texas' front-runner status was reaffirmed once again by *Business Facilities Magazine*. The publication named **Texas the winner of its "Best Business Climate" ranking** – based upon a wide range of criteria, such as cost of labor, incentives, infrastructure and tax climate.

"**Texas really has its act together**," said the magazine's editor-in-chief, **Jack Rogers**. "The state has developed a diverse group of growth sectors and it continues to bring in new business with a sensible tax structure and an attractive array of incentives."

Rogers cited the level of cooperation between government and business in developing growth opportunities in Texas, saying "It's a blueprint for success, and it **makes them a fierce competitor in the battle for new jobs**."

While other big states like California, New York and Florida are reeling, some smaller states are emulating Texas and taking advantage of the situation. **Keep your eye on Utah**. *Business FacilitiesMagazine* labeled Utah as "**an emerging economic development powerhouse**." It also pointed out that South Dakota and Wyoming are business-friendly states.

More woes for those trying to do business in California: the state is asking its vendors to cut up to 15% off their contracted prices. Food vendors especially are complaining long and loud, pointing out how little profit such contracts carry.

The Austin office market experienced another tough quarter, but also showed some small signs of recovery. However, space available for sub-leasing is reaching a level not seen in more than five years and office-seekers are striking harder deals with landlords.

According to Oxford Commercial, direct vacancy for office space in Austin ended the quarter at 18.4%. This is 0.8% increase from last quarter and a 3.6 percentage point increase from last year. But Oxford, taking a look at what is in the pipeline, points out that "**large leases signed by OneWest Bank Group and Advanced RISC Machines Inc. will affect the market positively in the second half of 2009**."

There are two trends emerging. **Kevin Kimbrough**, a partner with Oxford, says "the most significant trend in the past two months, from an office landlord perspective, is that **more and more companies are looking towards three, five or seven year lease terms**, bucking the trend in the 4th quarter of 2008 and the 1st quarter of 2009 of six to twelve month leases or renewals.

Tracking along with this is the dip in the rates charged for office space leases. And it shows no signs of letting up. Oxford is predicting that "**rental rates will decrease, as landlords compete to retain and entice tenants**."

The 2nd trend is that current lease-holders are offering up for sub-leasing parts of the space for which they are on the hook. "**Companies that are seeking to cut costs are adding sublease space to the market in high volumes**," said Oxford. As a result, the *overall* vacancy rate for the Austin market rose to 21.3%. (The 18.4% vacancy rate listed above is a "direct" number and does not include the sublease space that is on the market. The "overall" category includes *all* space.)

The sublease situation is now a major factor in the Austin market. There is more than 1.2 million square feet of sublease space currently available throughout the Austin market. This is huge. In fact, it is the **most sublease space Austin has had available since the 4th quarter of 2003**. Much of the sublease space is in the Far Northwest submarket where the *overall* vacancy rate is now at 27.3%.

Two-plus-two always equals four and the Austin office market is now in a "2+2=4" situation. **The math makes it a tenant's market. Anyone looking for office space is in the driver's seat**. Sublease space is generally less expensive, and tenants can usually drive a harder bargain when negotiating for sub-lease space. After all, the down-sizing company is looking to cut expenses – not necessarily make a profit.

And not only are tenants pressing for better lease rates, **tenants are savvy enough to go beyond a 6-to-12 month lease term and they are pressing landlords to lock-in low rates for 3, 5 or even 7 years**. This also holds true for leases that are coming up for renewal and new office space. Now is the time for tenants to get a good deal on office space.

What's this? ***Younger*** **workers more likely to be laid off during this recession than** ***older*** **workers?** **The pattern of past recessions is apparently being turned upside down.**

Our friends in Washington at *The Kiplinger Letter* report during this downturn that more employers are deciding they get **more bang for their buck with experienced workers, even though their pay may be higher**.

What is behind this new trend? For one thing, the experienced workers' institutional memory. Another: Their work ethic. As *Kiplinger* put it "Employers say they don't **need to tell oldsters to turn off their iPods**, **remind them how to dress or to come in on time**."

As a result, **employment among those over 55 is actually on the rise**. Nationally, from November 2007 to last May, it grew by over a million, despite a 5.5 million drop in *total* employment. This is partly because more older workers are staying on the job.

Also, a rising number of older workers say they plan to **work past age 65**, **or at least three years longer than they had expected**. The reasons: Lower retirement savings or the cost of health care and other necessities.

Additionally, **more retirees are earning paychecks again**. Some of them are coming back to the workforce part-time or full-time for the income. Others, because they are bored.

All this, however, may be a **mixed blessing for employers**. Yes, it keeps valuable experience on the job, but health care and disability costs are often greater for older workers than they are for junior employees. And, *Kiplinger* pointed out that firms may find it tougher to hang on to young talent whose career ambitions are thwarted by older colleagues who opt to hang around.

Dr. Louis Overholster says it's easy to spot older workers: they sing along with elevator music!

Sincerely

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Editor/Publisher