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Dear Client:

As Austin's economy moves upward following the downturn, many observers still worry about the faltering commercial real estate sector. Now, there are signs those worries may be easing.

Construction of commercial structures in the Austin metro slowed dramatically as the national recession strangled lending for such ventures. This may have been a good thing, as all fast-growth economies such as Austin's need to slow down and take a deep breath from time to time to avoid a drastically overbuilt situation. **As growth continues, the construction slowdown allows office buildings to aggressively attract tenants.**

This may be happening now. **"During the first quarter of 2010, the overall vacancy rate for office space in Austin dropped for the first time in three years,"** reports Oxford Commercial. While this is a very early indicator, it may mark the beginning of the end of the travails suffered by Austin office buildings.

"Rents and occupancies appear to be stabilizing, particularly in the suburban submarkets," says Jeff Coddington, an Oxford partner. "Vacancy in the Far Northwest submarket (our largest) has, in fact, narrowed for the third straight quarter. **Austin's market is on the mend and trending upward."**

Even though this is a positive development in a hard-hit Austin economic sector, you need to keep a clear-eyed perspective on the situation. **The office market was in a deep hole.** From the 1st quarter of 2007 to the 4th quarter of 2009 the overall office vacancy rate almost doubled – from 11.8% to 22.3%. Not good.

This bad trend may have hit a wall during 2010's 1st quarter when the vacancy rate headed in a more positive direction, recording a 22.1% vacancy rate. The change is miniscule, but if the trend continues for the remainder of the year, then a major economic albatross on the Austin economy may be removed.

So, what does Oxford forecast for now? **Rental rates should remain steady,** because landlords are competing to fill existing vacancies. And the 2nd half of 2010 should see a **further drop in vacancy rates.** This is not so much a forecast. It is because of what's in the pipeline. Oxford points out several large leases commence in the 2nd half. **This could be the beginning of a positive trend for the Austin economy.** We'll stay on top of this for you.

The vital signs of another Austin real estate sector that has struggled, apartments, also are showing a bit of promise, though there are still a few wobbles out there.

For the first time since the 1st quarter of 2005, there was an increase in percentage occupancy in Austin area apartments. The overall rate came in at just under 90%, according to **Robin Davis**, who is a longtime tracker of multi-family trends through her company that can be found at www.ApartmentTrends.com. Obviously, this is a positive change.

She further points out that new construction continues to dwindle and the market is expected to see a fraction of the completions that were prevalent during the previous year. As a result, “this **slowdown is also offering the market a chance to stabilize**,” she says. But. And this is a big “but.” As she puts it: “**Unfortunately, the number of foreclosures and properties in receivership continues to rise.**” This also bears watching over the coming months.

The City of Austin is gearing up for its next budget cycle amidst warnings about revenue and expenses. One public entity that may have an additional seat at the City Council budget table is the new Public Safety Commission.

Appointed by the City Council, one of the issues the Commission is diligently pursuing is Austin’s ability to handle the rising rate of certain crimes. Chair and UT Austin professor **Michael Lauderdale** says “**we face an ever more serious problem with violent and organized crime in Texas and with a somewhat special focus in Austin.**”

Former *Texas Monthly* Founder/Publisher **Mike Levy** has been a frequent critic of Austin’s public safety priorities. He is now “inside the tent” as he is one of the original Council appointees to the Public Safety Commission. Here are some of his observations:

“In his testimony before our commission, APD Chief **Art Acevedo** said that the APD’s authorized manpower strength is **500 officers short** of what APD must have in order to meet its responsibility to our community.”

“At our previous meeting representatives of the DEA, FBI, DPS and APS testified about the **rising threat of significant gang/cartel violence in Austin**. (Two years ago, the citizens of Laredo and El Paso could never have dreamed they would be so overwhelmed and devastated by gang/cartel violence today.)”

Tying this in to the upcoming city budget, Levy says “despite budget situations similar to Austin’s, both Los Angeles and Dallas have been significantly increasing the authorized strength/officers per thousand population levels.” His examples: **Austin is in the range of 1.5 officers per thousand population while Houston, Dallas, San Antonio and Fort Worth have between 2.5 and 3.5 officers per thousand population.**

Here's a new, easier way to get updated free aerial photography of the Austin area, in addition to the service we mentioned in our 4/9/10 newsletter.

You may remember, we told you that the Capital Area Council of Governments (CAPCOG) has free aerial imagery of the Austin area. Well, we heard from CAPCOG and they said “we have gotten many requests for our free imagery as a result of your April 9, 2010 newsletter.” But, what they offer is “unfortunately quite cumbersome for the lay person to handle”... and is “mostly consumed by Geographic Information System (GIS) professionals.”

Here's what **Ilyanna Kadich**, a GIS pro with CAPCOG suggests: “Google Earth is a FREE online software that already has most of our imagery loaded. Last year, they came out with a **historical imagery feature** that your newsletter audience may find useful.”

She said “this YouTube video created by Google explains the historical imagery feature and more: <http://www.youtube.com/watch?v=GSuJq4UzkIA>.” “Historical imagery” will show how/where the area has grown, she says. Additionally Kadich pointed out you can download Google Earth for free at <http://earth.google.com>.

However, if you are as up-to-speed as a GIS professional, you can still go directly to CAPCOG at <http://www.capcog.org/information-clearinghouse/geospatial-data> for their imagery, that is always available online free of charge.

Newspapers that are available for you to read in the Austin area have lost a significant number of subscribers in the past year – with one notable exception.

In the newspaper biz, the number of papers printed and sold is called “circulation.” Nationally, new numbers show **deep declines in newspaper circulation** – a very stark picture.

Three nationally-circulated newspapers are widely available in the Austin area. *The New York Times*' circulation dropped 5.1% on Sunday and 8.5% on weekdays since last year. *USAToday* had a 13.6% decline in its weekday circulation (it doesn't publish Sundays). **The lone standout was *The Wall Street Journal*. It gained circulation – up 0.5% in the past year** (it, too, does not publish Sunday).

Since last year, the *Austin American-Statesman* saw its circulation fall **8.8% on Sunday and 5.8% weekdays**. Another Texas paper you can get locally: *The Dallas Morning News* was down 21% in both categories.

The nation's largest newspapers by circulation are #1 *The Wall Street Journal* (2.09 million copies), #2 *USAToday* (1.8 million copies) and #3 *The New York Times* (951,063 copies).

The merger talks underway between Continental Airlines and United Airlines, two carriers that serve the Austin airport, have widespread economic implications for Texas.

If the on-again, off-again merger talks between Houston-based Continental and Chicago-based United reach a successful conclusion, the combined entity would be the **nation's largest airline**. This in itself is a big deal.

But, what if – following the merger – the merged airline's headquarters were to move to Chicago? **The Continental HQ is a major economic presence in Houston. And to lose such a presence would be a big blow to Houston.** As a result, Houston area elected officials, state officials and business and community leaders are mounting an effort to keep the combined airline's HQ in Houston, if the merger goes through this time.

If the HQ is moved to Chicago, Continental's influence in Texas would diminish greatly – not only in any “favoritism” toward Texas, but in its **assistance in the state's economic development efforts**.

As far as Austin travelers are concerned, there should not be a major impact if the HQ moves to Chicago. A merged Continental (10.1%) and United (2.0%) would compete neck-and-neck with Delta (10.2%) as the third largest carrier of Austin passengers, behind Southwest (37.7%) and American (21.0%).

Speaking of Austin's airport operations, **total passenger traffic for March was up 11% compared to March 2009 – a nice increase — and the jump made the total about even with 2006, but still below the 2007 and 2008 tallies.** There should be the traditional April “fall-off” in flyers this month before the May, June, July peak travel months roll around.

Dr. Louis Overholster, after a long driving trip around the US says he has a surefire way to know when his car crosses the border into Texas: The speed limit sign says 55 mph, he is driving 80 mph, and everyone passes him!

Sincerely



Editor/Publisher