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# AUSTIN LETTER

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Dear Client:

**With the mid-term election looming just days away (some say, thankfully!), we have a tip for those who will analyze the national results: forget the obvious, there is more at work here.**

Most elections take a life of their own, reflecting the times in which they occur. This election is no different. But the headlines leading up to the November 2<sup>nd</sup> 2010 Election Day **obscure a very real facet of what is happening now and what will likely happen** in the months and years following the balloting.

You know the storylines so far. Under the heading of “throw the rascals out” different sub-heads have emerged. **Members of the Tea Party movement are upset with Congress** (several Republican and Democratic members have already been ousted in the party primaries). **Independents are upset with the Obama administration** (approval ratings among independents have dipped dramatically) as the president’s 2008 coalition is crumbling. On and on, ad nauseum.

**But it’s not just animosity toward elected officials. There is something else at work here that separates this election from others.** And it will likely impact what happens in the immediate future as governmental entities try to govern in this new environment.

Think about it. **Some hot-button issues that drove election debates in recent years are largely absent and therefore the passions are different.** Social issues such as abortion, gay marriage, prayer in public places, gun control, etc. have driven both sides of the political spectrum in past elections. But they have not been a large part of the rhetoric this time around.

**This election is all about fiscal issues – spending, taxes, debt, bailouts, etc. — where Washington has played a role.** And, of course, it is all exacerbated by widespread joblessness and the economic recession that seemingly won’t go away any time soon.

**Fiscal issues are likely to dominate the national discourse** in the months and immediate years ahead if the predictions of a slow economic recovery are accurate. This could have strong implications for the next election in 2012, when the President, all members of Congress and a large number of Senators will be on the ballot. Social issues will probably still take a back seat.

**Speaking of election issues, no sooner did we report last week that a local ballot item “is being largely overlooked,” when a rash of activity began as soon as early voting started. And most of the immediate action was aimed at defeating the proposition.**

In our August 13<sup>th</sup> 2010 edition (click on the “Archives” button at the top of the page to get more detail), we reported the Austin City Council was placing a \$90 million bond “mobility” package on the November 2<sup>nd</sup> 2010 ballot. **The proposal contains a smorgasbord of items ranging from roadway work to a number of quality of life items related to bicycles and pedestrians.**

At that time we reported **“this is an up-or-down vote. Either accept, or reject, everything in the bond proposal. You will not have the option to ‘cherry-pick’ the items you like or dislike.”** On September 10<sup>th</sup> 2010, we reported the Real Estate Council of Austin (RECA) *opposed* placing these various items together in one package, but RECA said it would not “proceed with aggressive opposition to the bond proposal.” Another major business group, the Austin Chamber of Commerce, voted to *support* the proposition.

Then, this week, the opposition floodgates opened, just in time for the start of Early Voting October 18<sup>th</sup> 2010. **The big wave started with a full-page ad in Sunday’s *Austin American-Statesman*** that listed “Eight Common Sense Reasons to Vote NO to Proposition 1 Bonds,” with a tagline of “lots for downtown, little for neighborhoods.”

Monday, **a coalition of six Mexican-American neighborhood associations and LULAC came out against the Proposition** saying it was “an insult to the integrity and the intelligence of Austin tax voters.” Two Central Austin business groups have come out in opposition, as well as a Political Action Committee headed by former Mayor **Carole Keeton Strayhorn**.

Also, **Jim Skaggs**, who successfully fought City Hall on another transportation ballot issue with the slogan, “Costs Too Much. Does Too Little,” is working against Proposition One with the slogan: “Wrong Priority. Wrong Time.”

Look for *supporters* of Proposition 1 to also get into the mix, under the umbrella of GetAustinMoving.com. **It’s likely they’ll run ads, put up signs, etc.** until Election Day. As a result, the debate will not be one-sided.

Interestingly, the City of Austin that promulgated this proposition is prohibited by law from actively campaigning for its passage. But it can provide “information” about the proposition. In that connection, **the City has produced a video**. You can see it here, as posted on the city’s web site: [http://www.cityofaustin.org/news/mobility\\_bond.htm](http://www.cityofaustin.org/news/mobility_bond.htm). It runs 3-minutes, 16-seconds.

If nothing else, this local debate is a bit of a respite from the national election.

**Some good economic news is emerging in the Austin area. It involves positive trend lines in office space availability that indicates recovery is well underway.**

The Austin Chamber of Commerce's VP/Research, **Beverly Kerr**, issued a report this week that was particularly incisive in that she compiled three different local analyses of the Austin office market. The report concluded that a range of indicators point to **"strengthening of the Austin market and analysts' confidence in signs that recovery is well underway."**

Kerr reported that "two consecutive quarters of significant positive net absorption and the substantially diminished inventory of sublease space are the **most notable signs of the market's shift.**" Here's some of what she found from three different commercial real estate firms that are active in the Austin office market:

**According to Grubb & Ellis, the drop in the vacancy rate between this quarter and last quarter is reported to be the largest quarterly decline since 2006.** The firm also sees office vacancy dropping below 20% for the first time since the first quarter of 2009. Yet, at the same time, the remaining excess space continues to impose downward pressure on asking rents.

**CB Richard Ellis (CBRE)** attributes most of the improvement in the office market to **sublease space filling up and noted that only 692,257 square feet remain, compared to the 1.3 million square feet available 12 months ago.** CBRE also sees downward pressure on rental rates, now at the lowest level recorded since the first quarter of 2007.

And, finally, Kerr notes **Oxford Commercial** reports that the third quarter marks a milestone in that positive direct absorption of office space is the **highest Austin has seen since the fourth quarter of 2008.** But it doesn't stop there. The trend lines seem to bode well for the immediate future. Oxford forecasts absorption to increase further in 2010 as no significant deliveries of space are in the pipeline and several large leases are set to commence. **As for rental rates: Oxford forecasts them to remain steady.**

**Another perspective on the office market indicates that even though rental rates are low, there are even better deals than what appears on the surface.**

Austin Office Space, Inc (AOS) specializes in tenant representation. And it reports that most office buildings are **trying to keep their face rates high because it impacts their long-term financing and sales value.** But a tenant can get a better deal because many of the building managers are giving away large amounts of free rent. **"Six to nine months free on a five-year lease isn't uncommon for some brand new buildings,"** AOS reports. And "we are seeing generous construction allowances for building out a perfect space to attract tenants."

**As you might expect, this uncertain economy has changed the buying habits of many consumers. Now we have some numbers to track what it has done to car buying.**

Don't know if you have noticed as you are crawling along on MoPac or IH35 during drive-time traffic, but cars are getting older. **The average passenger car on the road is 10.2 years old today.** The average light truck is just under this at 9.4 years old.

The car-buying statistics have turned around a bit as a result. For instance, **the ratio of used to new cars sold by dealers last year was five to one.** This is up significantly from three to one.

A retailing customer survey further revealed the mindset of car owners. A high percentage indicated they plan to **take better care of their vehicles to keep them running longer.** And, in fact, a substantial majority confirmed they are likely to keep their vehicles longer now than they would have previously.

Bottom line: **There has been an increase in the number of people willing to hold onto their current vehicles,** as well as an increase in people willing to handle routine auto maintenance themselves to save money.

**Austin State Senator Kirk Watson's weekly email communication with his supporters was short and to the point this week.** He wrote: "For this week's Watson Wire, I wrote a bunch, and in exquisite detail, about a variety of subjects related to the details of state government and the intricacies of public policy. But I re-read it. And I fell dead asleep. So I'm saving you from it."

When **Dr. Louis Overholster** heard there was a tornado warning in Dallas, he called his friends in Big D and urged them to take shelter in the Dallas Cowboys football stadium because there is no chance of a touchdown there!

Sincerely



Editor/Publisher