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Dear Client:

Is the Austin area office space pendulum swinging now to favor the landlord? If this is a true trend, it is another positive sign of an uptick in Austin's improving economy.

It may be a bit early to declare such a development, especially since landlords with space to fill are still willing to offer concessions, moderate though they may be. But there are *other* signs that indicate **the area is in the early stages of trending toward tight available office space.**

“Much of the space that was built and left vacant when the economy spiraled into recession has been filled and large blocks of contiguous space are getting harder to find,” reports **Kim Gatley**, Director of Research for the commercial real estate firm NAI REOC Austin.

Gatley's research department conducted a first-quarter survey of nearly 42.5 million square feet of office space. **In the first quarter, the citywide vacancy rate improved to 16.9%, compared to 17.4% last quarter.** The average quoted rental rate for office space in the Austin area currently stands at \$26.03 per square foot per year. This is up slightly from last quarter.

The situation is a bit better when you examine the **top-tier Class A properties.** **Those spaces moved to a 16.1% vacancy rate, down from 16.7% last quarter** and the average quoted rental rate was \$27.86 per square foot per year.

An examination of downtown Austin office space indicates an even stronger landlord's market. **The vacancy rate downtown has tightened to 13.9%, with Class A space even tighter – at a vacancy rate of only 12.4%.** And this, says NAI REOC's **Bob Rein**, is a “level that has prompted proposals for new development.”

Rein acknowledges no new office space came on the market in the first quarter and there are **no speculative projects currently under construction** to impact the market this year. But several sizeable properties were sold in the first quarter 2012. And he noted that Cousins Properties announced **plans to build a 30-story office tower** containing 390,000 square feet of office space at Third and Colorado streets. “This,” he notes, “would be the **first major office project downtown since 2003.**” Cousins is now working to line up tenant commitments and the project could break ground by year-end. Sure looks like a trend is underway in the office market.

By the end of the day today, 151 new residents will have been added to the Austin area. At least this is the per-day average increase in the Austin area's population based on the most recent USCensus Bureau growth figures. Where does this rank the Austin metro nationally?

Between July 2010 and the same month last year, **the 5-county Austin metro added 55,272 residents. This was good enough to rank the Austin area as the 9th fastest-growing metro in the nation.** And two other Texas metros were ranked #1 and #2 in the nation, according to an analysis by *On Numbers*, a division of American City Business Journals.

The Dallas metro topped the nation's fastest-growing list, adding 345.3 persons per day, or one person every four minutes and ten seconds. **The Houston metro was #2**, adding 301.6 people per day.

San Antonio was #14, gaining 124 people per day. These four Texas metros were among the 15 metros nationwide that added at least 100 people per day during the analysis' 12-month time frame. By the way, many metros are still *losing* residents. In fact, at the bottom of the list, Cleveland, Detroit and Flint, Mich. *lost* 19.9, 13.4 and 8.3 people per day respectively.

Austin area financial institutions have money to loan. Rates are low. So what does it take for a small local business to get a loan?

Each financial institution has its own set of criteria, but our friends at *Kiplinger* have some **guidelines that are generally applicable.** Here are four of them:

An unimpeachable business plan. Small businesses need to be explicit with details about **how borrowed money will be spent** and how it will aid the business.

Bigger down payments. Want a construction loan? Loan officers are likely to ask for 50% more of your cash than they required in 2006. Want to buy a business? Banks may want you to furnish about a quarter of the purchase price.

Clean credit. This isn't just a plus, it's required. And the requirement is working. Nationally, in February only 1.46% of the loans were delinquent, compared to 4.42% at the height of the recession in May 2009.

Lower debt levels. Lenders want you to shed excessive debt. Shoot for debt that is less than *four* times income. As recently as 2006, *six* times income was OK.

Many banks are reaching out to small businesses. But as the examples above indicate, funds will not necessarily come easily when you walk in the front door. A solid track record is needed, not just a dream. Good luck.

The plan to allocate precious Highland Lakes water to cities for drinking water, landscaping, lake recreation, agricultural crops, and flow to power plants etc. is experiencing another hiccup.

For about 18 months the Lower Colorado River Authority (LCRA) shepherded a new Water Management Plan through hearings and revisions. Disagreements abounded. **The various interests up and down the lower part of the river – from Central Texas to the Gulf Coast – argued for allocations of water, especially during low water or drought periods.** The plan for how the water should be managed was finally adopted this year and sent to the Texas Commission on Environmental Quality (TCEQ) for a final review.

Rice farmers downstream where the waterflow nears the Gulf were not pleased with the plan that went to TCEQ. So they have now filed grievances with the TCEQ complaining, among other things, about how the plan was developed, and they proposed changes. A key sticking point: the triggers that would cut off water to the farmers.

We're talking about a lot of water here. **The LCRA reports that rice farmers used more than three times as much water as the city of Austin used last year** to flood their crops. This is water that is stored in Lakes Buchanan and Travis and released according to contracts with the end users. And, right now, those lake reservoirs are only about half full.

So, March 1st, **the LCRA cut off water to the downstream rice farmers because there was not enough water in the lakes.** And, under the plan currently before the TCEQ, the farmers will be less likely to get water in the future, especially during dry years like last year.

It's interesting how this has come about, and it's complicated. **The rice farmers were here first.** In fact they were instrumental when the Buchanan and Travis lakes dams were built in the 1930s. They signed contracts for water, continuing still, with the LCRA. The LCRA's website says: **"According to state water law, first in time is first in right."**

But it goes back further than that. **"At the time our water rights system was created, there was not only no one living on these lakes, the lakes weren't here ... so the water flowed down to rice farmers on the southern part of the basin and they got all they needed,"** notes **Andrew Sansom**, executive director of the River Systems Institute at Texas State University.

"Today, the economic engine generated by recreation, residential growth, and tourism (on Lake Travis) far exceeds the (size of the) rice industry, and so there is a pitched battle underway as to who should get the water and it's going to get worse. Essentially, we're struggling with a system (created) hundreds of years ago ... and bears no resemblance to what we look like (today)," said Sansom. Stay tuned. It ain't over yet.

Six very different, but very distinguished, people will be honored in Austin this fall. They will receive The University of Texas alumni association's highest award when the Texas Exes proclaim each a 2012 Distinguished Alumnus. The six, in alphabetical order:

Laura Bush, MLS '73. The former First Lady to President **George W. Bush** founded the Texas Book Festival before moving to Washington.

Julius Glickman, BA '62, LLB '66. The Houston attorney and philanthropist chaired UTAustin's Development Board and the Chancellor's Council.

Charles Matthews, BA '67. A retired VP/General Counsel of Exxon Mobil, he took the lead on one of the largest corporate mergers in history.

Vice Admiral William McRaven, BJ '77. As the ninth commander of the US Special Operations Command, he planned and coordinated the Navy Seal attack that killed **Osama bin Laden**.

Melinda Perrin, BS'69. She is a Houston civic leader and health care advocate who also chaired the UTAustin Development Board and the Chancellor's Council.

Hector Ruiz, BS '68, MS '70. The tech titan is president/CEO of Bull Ventures, who previously led Advanced Micro Devices and was president of Motorola's semiconductor products section.

Since 1959, the annual Distinguished Alumnus Awards are reserved for an **elite group of alumni whose professional successes and service to UTAustin go far beyond expectations**. This year's induction ceremony will occur Friday, October 19th. The honorees will be presented at the UT/Baylor football game in Darrell K Royal-Texas Memorial Stadium October 20th.

Dr. Louis Overholster says he should have been named a Distinguished Alum because it only took him two terms to earn his undergraduate degree at UTAustin – Johnson's and Nixon's!

Sincerely



Editor/Publisher