

Volume 34, Number 20

August 10, 2012

Dear Client:

Not much has been heard about Apple since the big news splash that occurred when word got out Apple was seeking concessions to expand by 3,600 employees in Austin. Apple said at the time it would invest about \$300 million in the expansion. So, is the project stalled?

Not at all. In fact, if you looked closely at the bottom of page B3 in Tuesday's *Austin American-Statesman*, you saw a small black/white ad placed by Cadence McShane Construction Company requesting **quotations from "all qualified subcontractors and/or material suppliers** for the Rio Vista Phase 1 for Apple" located at Parmer Lane and Delcour Drive in North Austin.

"We are requesting bids for **two (2) four-story Class A shell office buildings with related site work, utilities, landscaping and hardscaping,**" read the ad. This is a pretty good indication that the project, without a lot of fanfare, is moving full speed ahead.

Another indication Apple is not wasting time is that the bid specification documents were available last Wednesday. And the pre-bid conference occurred this week, Wednesday August 8th. **The quick deadline for bid submittals via email or fax: "no later than 2:00 p.m. on Tuesday, August 14, 2012."**

This sort of fast-track could mean **construction could easily begin this fall.** Cadence McShane is based in Dallas, but has opened an office at 816 Congress Avenue, Suite 1680. It named a graduate of Oklahoma University, **Srinath Kasturi,** to oversee the Austin construction project.

You'll recall when Apple first came to Austin it was that company's first expansion outside of California. It soon grew quickly to about 3,000 employees in Austin, and **Apple apparently is so pleased with its operation in the Capital City it decided to double its commitment** with the expansion planned for North Austin.

One of the often-overlooked, but vitally important, economic development efforts is the expansion of companies already located in Austin. The announcement of a *new* company garners most of the notoriety. But expansion of an existing company is in some ways more indicative of a healthy economy.

Austin's healthy economy is bringing major commercial real estate investors out of the woodwork. In fact, they are now competing to buy top assets. Significant investment activity was recorded in the 2nd quarter.

“Improved market fundamentals coupled with healthy job growth throughout the region, a strong technology sector and growing demand for medical office space are all factors that have **drawn the attention of investors who are now competing to buy top assets in robust markets like Austin,**” reported **Bob Reim** with NAI REOC Austin, a commercial real estate firm that has long been active in the Austin metro.

Some examples illustrate what Reim is talking about: 1) Dimensional Fund Advisors purchased **Palisades West I and II** (331,000 sf) in the Southwest sector, 2) Commonwealth REIT bought downtown's **Capitol Tower** (172,337 sf), 3) **Parkway at Oak Hill 1 & 2** (145,475 sf) was acquired by Rorasa Inc., and 4) a 3-building office complex in West Lake Hills, **The Escalade** (155,000 sf), was purchased by TA Realty Associates.

Driving this activity is that the **numbers are starting to make sense for investors**, and those with the big bucks to invest see a good upside as the trend is continuing in the right direction.

For instance, the **citywide vacancy rate has dipped to 16.4%, compared to 18.6%** in the same quarter last year. It's even better in the Central Business District, where the vacancy rate dropped to 13.0%. And when you drill even deeper, you find that **Class A downtown properties enjoy an even tighter 11.7% vacancy rate.** As far as supply and demand, “demand” is very strong.

Of course this drives up rental rates, enhancing cash flow for investors.

The average citywide quoted rental rate for office space in the Austin area climbed to an annual increase of 2.9% and it was even greater, 3.5%, for Class A properties.

While a rising tide is supposed to lift all ships, some are lifted higher than others. **“The suburban submarkets represent a mixed-bag** but vacancies, for the most part, are trending downward,” noted NAI REOC's **Kim Gatley.**

Another important part of this supply and demand economic equation is the “supply.” Developers are licking their chops and eagerly pursuing opportunities to deliver new construction. **However, no new speculative projects have been delivered though mid-year,** though several are in various stages of design and development.

Some of the planned projects include Domain One (190,000 sf) located at 11510 Burnet Road and **Cedar Bend Professional Center** (70,200 sf) located at 12309 North MoPac. Obviously this is a changing environment. We'll keep an eye on it for you.

Even though June passenger traffic at Austin's airport was 3.5% greater than a year ago, the numbers fell below 2008's record for the first time this year.

This is important for a couple of reasons. First of all, June generates more air travel at Austin-Bergstrom International Airport (ABIA) than any other month. So it is somewhat of a **bellwether month**. **A dip from the record year, while not huge, is something to watch**. And, secondly, the reason to watch is because **air travel is somewhat of an economic barometer**. It reflects the economic "health" of businesses who commit to the expense of travel/lodging/etc. and the "health" of families who spend the bucks on leisure travel.

One other point: **Southwest Airlines continued its position as Austin's favorite airline, grabbing 38.5% of the passengers in June**. American Airlines, battling through bankruptcy, was second with a 20.3% market share of Austin travelers. Delta was 3rd with 12.4%.

Labor Day weekend is three weeks away. The worst wildfires in Central Texas history erupted over Labor Day weekend last year. And conditions are rapidly deteriorating to the point a severe wildfire danger could be in play by then.

Central Texas is not in the midst of an extreme drought as it was last year and there has been more rainfall than in 2011. But the **undergrowth is drying out** creating fuel for fire, the **temps are bouncing around 100-degrees** for the first time this summer, and as of this writing, there is **no activity that would indicate a tropical storm could move across the area** dumping much-needed rain, even though this is the peak season. Are forces converging for more wildfires?

Well, the forces are converging all right. And while the odds are getting greater that wildfires will occur, there are still some variables at play – such as **hot, dry winds that can fan the smallest blaze and carry burning embers** beyond the original circumference of the fire. Or what would appear to be a welcome **thunderstorm that unleashes lightning strikes** that start a fire.

And then, there's the human factor. The Travis County Commissioners Court this week **re-instituted a burn ban in the unincorporated parts of the county**. This is obviously designed to keep people from starting what may seem to be a "harmless" fire during these conditions.

County Commissioners only have jurisdiction over the area *outside* city boundaries. What about the county's largest city – Austin ? **Open burning is always illegal in Austin unless a permit is obtained from the Austin Fire Department's Fire Prevention Unit**. The exceptions are cooking fires and warming fires. In effect, there has been a "permanent burn ban" inside Austin's city limits for decades. Keep your fingers crossed as mostly hot, dry days seem to be settling in over the Central Texas area.

Downtown Austin has been undergoing major changes, at a relatively fast pace, for some time now. And there is no sign of a let-up. One naysayer has a long list of rants about City of Austin actions, plans and policies.

The naysayer worked in the downtown area for more than three decades. So he has been an eyewitness to the changes. He's not pleased. The naysayer is former founder-publisher of *Texas Monthly* magazine, **Mike Levy**. **He is well-known for bluntly speaking his mind.** And in an email this week he let fly a long rant in his particular style of shorthand. Some quotes:

“Council & city staff intentionally increasing more downtown traffic congestion... Obvious agenda: **keep cars out of downtown** ... So much for ‘greater good’ of community.’ **‘Great Streets’, so incredibly stupid** ... Look at Brazos: less lanes, **rarely see people walking the ‘Great Streets’ or sitting on the ‘Great Benches.’** Soon same on Colorado ...Guadalupe & Lavaca soon to be turned into ‘Great Streets’ with less traffic lanes.

“**Look at traffic mess on 2nd west of Congress and soon east of Congress.** San Antonio between 4th and 5th will be permanently closed. City staff planning elimination of one lane on East 6th between Brazos and IH-35, and converting 7th, 8th, San Jacinto and Lavaca into ‘Great Streets’ and turning them from one-way to two-way. **City staff will not release number of available parking spaces in downtown area today versus decade ago.**”

He also charges that “voters were intentionally deceived” by the City Council: “voters approved \$2 million in 2010 bond election for the design of the destruction of Guadalupe and Lavaca, but didn’t know it because the proposed projects were ‘bundled’ into one package simply labeled ‘Transportation’.” And he closes by saying **“Council will also bundle bond package for November election. Guess why!?!”**

Dr. Louis Overholster, noting the US Congress recessed this week for the summer, issued a warning: “both chambers could be called back into session at any time for emergency bickering!”

Sincerely



Editor/Publisher