The NEAL SPELCE AUSTIN LETTER

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Dear Client:

Is the Austin metro dividing into child-*friendly* and increasingly child-*free* zones? **There is some evidence this is a developing trend**. **Could this be a problem**, **as found elsewhere**?

"For all of human history, *family* has underpinned the rise, and decline, of nations," writes nationally-recognized demographer **Joel Kotkin**. "We believe that the rapid decline of marriage and fertility rates in many advanced countries inevitably leads to economic decline, reduced workforces and, likely, an inevitable fiscal disaster." He points to his native California where he says there is "an exodus of families," while seniors stay behind.

> He presents some illustrative figures: "Some states such as **Texas**, Utah and North Carolina have seen **double digit gains in their child populations** over the past decade while California's has dropped by over 3%. Some urban regions like Raleigh, **Austin**, Houston, Charlotte, Dallas-Fort Worth and Atlanta have also seen rises in their number of children, with **populations between ages 5 and 17 growing by 20% or more over the past decade**."

So, if the state of Texas and Austin are among the leaders in family growth, why is there a possibility that there may be a **trend in the Austin metro toward a separation into child-free and child-friendly zones**? And could there be long-term economic consequences as a result?

> Child-*friendly* zones can be found throughout the metro – primarily in the **suburbs where schools are expanding to handle the family population explosion**. Take Williamson County as an example – one of the fastest growing counties in the US.
>
> What about child-*free* zones. **Look at Central Austin and the Central Business District** (**CBD**). **The few schools in those areas are serving less students** than in the past and no new facilities are on the drawing board to meet demand.

As long as the Austin metro enjoys admirable economic growth, any consequences will likely be way down the road. But if Kotkin's observations hold water, **are Central Austin** (**where the residents are already aging**) **and the CBD areas where the population ages more so than in the suburbs**? This could be true as the young downtown professionals who like living the lively lifestyle, marry, have children and move to single family homes in the suburbs where their kids can go to good schools. A few more observations are in the next item.

History has shown that as the population of nations has "aged," those countries have declined economically. Can the same be true of smaller geographical units such as states and even metro areas like Austin?

Demographer **Joel Kotkin**, a Californian by the way, points to the most rapidly-aging parts of Europe and east Asia as areas where there are major declines in fertility and marriage rates. He lumps **long-aging centers in the northeastern and upper midwestern portions of the US** into this same equation, saying there has been an exodus of families from those areas. And this has contributed to the area's suffering economically.

Kotkin indicates struggling California is heading down the same path saying "**the Golden State is becoming rapidly geriatric**, as families opt out and immigration, the primary source of our growth in younger people, declines."

He breaks it down further pointing out Los Angeles and Orange counties experienced a **15.6% *decline* in under-15 population**, highest among the nation's metros. And the **over 60 population grew by 21%**. He connects this demographic shift with economic decline. Another indicator of a geographic shift in families is the choice of housing – apartments or single-family homes with backyards. Check out the next item for an Austin perspective.

Is there a trend in the Austin area toward greater apartment living or toward more single-family homes? Yes and yes. But doesn't this upward trend appear to be problematic?

The Chief Economist and Director of Research for the TexasA&M Real Estate Center, **Mark Dotzour**, wrote in his blog this week: "If you listened to the media for too long over the past five years, you might think that **Americans would never buy a house again** … **that they are all going to rent apartments and ride bicycles to work**. **I'm not sure that scenario is really going to pan out**."

However, the "apartment/bicycle" scenario has advocates in the Austin community. Witness the **heavy spending of tax dollars to enhance bicycle usage** throughout Austin and the **high occupancy figures for apartments** in the Austin area. But this is not a cut-and-dried issue that portends the immediate future.

Take apartments. The **more-than-100,000 college-age students** in the Austin area contribute to a strong apartment market. Also, add the nation-leading **influx of new residents** chasing Austin's ever-increasing jobs to this equation. Many families with kids park the family in apartments while they search for a new home. Apartment dwellers tend to be transient.

Bottom line: **Austin's child-friendly, child-free zones are thriving and brought about by growth, not decline**. It's highly unlikely Austin will go down California's path.

Austin's Michael Dell was much in the news this week. He gave enough money to UTAustin that Austin's new medical school will be named in his honor. And he's committing billions of dollars to buy back control of Dell Inc that he founded. Let's take a closer look at Dell and certain other tech-ers in Central Texas?

Most everyone in Central Texas is aware of the remarkable story of how Michael borrowed money from his parents, **dropped out of UTAustin in 1984 to start a computer company in Austin from scratch**, came up with a unique industry-leading manufacturing concept and built a multi-billion dollar company.

He turns 48 this month. And some estimates peg his personal fortune at more than $14 billion. He is a private man running a public company. And now, even though no official announcement has been made, the industry is abuzz about his efforts to take his company private again.

To do so, the scuttlebutt is that he will contribute his stock ownership in the public company to the buyback. **His Dell stock position is 15.7% of the company**, **valued at nearly $3.6 billion**. And on top of that, there is word he may use **another $1 billion of his personal fortune** to ensure he owns more than 50% of the private entity. Media reports indicate the deal may be announced any day now.

The Michael & Susan Dell Foundation's contribution this week of $50 million to the development of a UT Austin medical school, and another $10 million to improve access to local health care, dramatically underscores the way **the Dells are using portions of their high-tech fortunes for the betterment of the Austin area**.

In fact, this week's $60 million commitment runs the **total contributions the Dell Foundation has made to Austin's "health care" community to $150 million** since 2003. And there have been many additional contributions of the Dell wealth to other worthy causes here since Michael and Susan Dell established their foundation in 1999.

You get the point. And it emphasizes a big difference between Dell and certain other tech companies in their support of Austin. Many major tech companies have a huge presence in Austin and they, to their credit, are providing well-paying jobs that help keep Austin's economy one of the most dynamic in the nation. But it's long been known that **many of these tech companies have done very little in the way of corporate support to worthy Austin endeavors**.

Their lack of significant involvement is understandable to some extent because their HQ's are located elsewhere. But their employees (one of the big reasons the companies located here) are benefitting from Austin's quality of life, made better by philanthropic and volunteer efforts from companies and individuals such as the Dells. Think the others may come around?

Looking for office space in Austin? **Better hurry**. **Space is being gobbled up**, **lease rates are rising and new office construction is lagging**.

The 4th quarter 2012 ended with improved office space occupancy and increased rental rates. In fact, **the year closed with one of the strongest annual performances in the past decade**, according to NAI REOC, commercial real estate firm that tracks office leasing activity. As a result, the company is reporting a citywide vacancy rate of 15.0%. (It was 17.2% at the end of 2011.) Downtown space is much tighter, with a 10.7% vacancy rate.

"The net gain in occupancy for the year **neared the 1.2 million square feet recorded in 2006 at the peak of the last cycle**," NAI REOC's SrVP and Director of Research **Kim Gatley** reported. As expected, office leasing rates went up accordingly.

Is new office construction expected to keep up with the quickening leasing pace? Nope. "Typically, new construction would already be a significant factor at this point in the recovery cycle, but **the tough lending environment has restricted normal speculative development activity**," noted NAI REOC's **Bob Reim**.

You know what that means. **Rental rates should continue their steady rise as availability dwindles**. If so, can new office space construction be far behind, even though financing is still tight? Nothing announced yet. But at least, the market fundamentals are moving in that direction.

There is a certain amount of new office space that will be available soon – as part of two mixed-use projects. Groundwork has already started downtown on **311 Bowie**, a 36-story luxury apartment tower. It is scheduled to contain about **40,000 square feet of office space**. And in the burgeoning growth area west of downtown in Bee Caves, construction on **Building Q** (**53,453 square feet**) **is underway in the Hill Country Galleria**.

Dr. **Louis Overholster** says "the kids text me 'plz' because it is shorter than 'please.' I text back 'no' because it is shorter than 'yes'!"

Sincerely,

Neal Spelce

Editor/Publisher