



Houston NEWSLETTER

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TEDA Backs Census, BEA Funding

In his FY03 budget recommendation to Congress, President Bush requested increases in funding for the Census Bureau (to accommodate fullscale implementation of the American Community Survey and to collect and process data for the 2002 Economic Censuses) and for the Bureau of Economic Analysis (to improve the accuracy and timeliness of such key economic data as Gross Domestic Product estimates).

Late this fall, the House and Senate Appropriations Committees' Subcommittees on Commerce, Justice, State and the Judiciary ignored those requests, opting instead to hold FY03 spending at FY02 levels with the exception of a cost-of-living increase for federal workers in those agencies, shifting monies that would have underwritten these statistical improvements to help fund the new Department of Homeland Security.

Apprehensive about the potential for massive losses of data and less-than-desirable data quality that would be incurred by failure to fully fund the ACS and the Economic Censuses and by elimination of funding for BEA statistical improvements, TEDA/Houston's board of directors on November 18 adopted the following resolution:

Whereas underfunding federal statistical programs would endanger the economic health of the United States and deprive the federal government and state and local governments

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of the ability to make proper decisions about economic and social policy; and

Whereas sound business decisions require accurate data; and *in particular*

Whereas a fully-funded American Community Survey would provide data vital for the efficient and effective administration of programs to address social needs; and

Whereas revisions to the Bureau of Economic Analysis' national accounts remain unacceptably high, complicating business decision making and confounding both monetary and fiscal policy making; and

Whereas \$87 million is required for the Census Bureau to conduct the 2002 Economic Censuses with acceptable accuracy and timeliness;

NOW THEREFORE BE IT RESOLVED, that the Texas Economic & Demographic Association/Houston supports, and urges the U.S. Senate and the U.S. House of Representatives to approve, full funding of FY03 budgets for the Bureau of the Census and the Bureau of Economic Analysis at the levels proposed by President Bush.

This resolution was incorporated into a letter that TEDA/Houston President Vincent Sanders faxed on November 19 to all members of both appropriations subcommittees, to the entire Houston delegation in the House, and to both Texas senators. Senator Gramm already was on record as supporting this position in a letter to Senator Trent Lott, the Senate's Republican Leader.

TEDA/Houston joins a host of other professional organizations, including the National Association for Business Economics and the Council of Professional Associations on Federal Statistics, in seeking adequate funding for these programs.

FY03 began on October 1. Since Congress adjourned in November without adopting a budget, organizations concerned about these statistical programs will be renewing their efforts in January, by which time the agencies affected will have spent more than a quarter of the fiscal year operating with inadequate funding. For BEA, this means—at a minimum—deferring efforts to improve key economic statistics. For the Economic Censuses, it means that questionnaires can be sent out, but that funding for data tabulation and for follow-ups for nonresponse are in question. For the ACS, it means that '03 won't bring nationwide implementation. ❖

TEDA Endorses Quality of Life Coalition

After making a presentation to TEDA/Houston in October about its efforts to improve quality of life in the Houston area, The Quality of Life Coalition—which receives partial support from the Greater Houston Partnership—sought TEDA's endorsement for its agenda.

The Coalition's agenda includes beautifying and developing recreational enhancements in the City of Houston in four areas: trees and landscaping; parks, bayous, and recreation; billboards and signage; and litter and graffiti. The Coalition worked extensively with individuals and with civic, environmental, and business organizations to create this agenda.

The range of interests that have endorsed The Quality of Life Coalition's agenda is impressive and far-ranging, bringing together the Sierra Club of Houston, Friends of Hermann Park, the Houston Association of Realtors, Central Houston, Inc., TxDOT, and 61 other local entities as of the end of October. TEDA/Houston became the 67th endorsee by vote of the directors at a board meeting on December 5. ❖

A Year After Enron—How Is Downtown Faring?

The following article is condensed and slightly edited from an article prepared in mid-November 2002 by Tom Melody, Executive Managing Director, L.J. Melody & Company.

How is downtown Houston faring a year after Enron? This question is often asked when an investor looks at the Houston CBD, especially when a capital event is being considered. The answer is usually "it depends, but better than you might think." A case could be made that the Class A office vacancy rate downtown is only 10%. Likewise, a case could be made that the vacancy rate is 16%, rising over 20% by the end of 2003.

L.J. Melody & Company remains bullish on the long-term success of downtown and its office market. The market has proven very strong over the past 12 months, but the coming year may be trying. The focus at this time is far less on Enron than on Reliant, Dynegy, Calpine, and El Paso Energy. The strength, viability, and growth of these companies are key to downtown's office market over the next several years.

CoStar estimates the overall Houston CBD Class A office inventory at some 26.5 million sq.ft. (msf) in 26 buildings; the recently completed and vacant 1.2-msf Enron South is included in these totals. For all classes, the CBD office market is about 41.0 msf. For Class A space, CoStar's November 2002 report indicates a direct vacancy rate (*i.e.*, unleased space as a share of total) around 13%; excluding Enron South, which is not now competitive space, it would be 10%.

CoStar indicates that the *total* Class A vacancy rate, including *sublet* space, is 16%. The problem with sublet space, however, is that it is difficult to determine its true effect on the market: sublet space is typically viewed as inferior by most tenants and not worth considering by many. While sublet space affects the marketplace, it does not really compete with direct vacant space, so its inclusion in the vacancy total is misleading.

Twelve months ago, the direct vacancy rate for Class A office space downtown was only 5%. The eight-point increase over the past year is due to negative net absorption and the recent completion of Enron South.

What does the future hold for downtown? Two buildings are currently under construction; both are expected to be completed within the next 12 to 15 months. Calpine Center (Hines) is 52% preleased to Calpine and others; 1000 Main (Century) is 77% preleased to Reliant Resources. The two buildings total about 1.5 msf, one-third of which is currently not leased. If net absorption is zero downtown over the next 12 to 15 months, and if the 20-year-old, 1.2-msf Enron North (100% leased, but only 30% occupied, by Enron) as well as Enron South are added to the leasable inventory, the CBD Class A market will contain 28 buildings with 28 msf and the direct vacancy rate will rise to about 19%. If sublet space is included, the total vacancy level will top 20%. If, at the same time, the size of the sublease market increases, the total vacancy level downtown Houston could very well approach 25%.

It is not fair or realistic, however, to assume that only negative events will occur downtown in the near term. In fact, the two Enron buildings *could* become competitive space in the market over the next year. The general belief is that Enron North will not be sold or leased competitively by its bank consortium owner until the market recovers, and that Enron South, which is in the process of being sold, will be held off the market by the new buyer until a major user is found.

Over the past 15 years, Houston has averaged about 3 msf annual absorption, or three times the amount of space developed during the same period; the CBD has averaged 1 msf annual absorption over the past five years. Houston's employment is projected to grow almost 2% annually over the next five years, during which time very little office space will be added to the CBD. If downtown Houston's employment grows at the same rate as the rest of Houston, the CBD will absorb some 500,000 sf annually.

Houston's CBD may be facing tough times, but some national research firms have noted CBD markets holding firm over their suburban counterparts and have rated Houston favorably among its competitors.

In its Q3/02 report, Torto Wheaton Research indicated that while office occupancy nationally continues to weaken, the slope is not as significant as in the previous five quarters. It is clear that downtown submarkets have deteriorated less than their suburban counterparts, with the average downtown vacancy rate nationally at about 13%; suburban markets nationally have a vacancy rate around 18%. Houston's CBD, then, is performing at about the national average.

Moody's Investors Service's third quarter update, too, indicates that CBDs are performing better than suburban markets nationally and rates Houston about average—better than many other Sunbelt cities, including Austin, Denver, Dallas, Atlanta, Orlando, Phoenix, and Los Angeles.

CoStar suggests that rental rates in the Houston CBD have remained strong while rates in Houston's suburban markets have faltered a bit. The average quoted rental rate for available Class A space downtown is about \$26; in the suburban markets, it's only \$21. In our opinion, the CBD quoted rate is about \$2-\$3 higher than transactions actually occurring in the marketplace. In any event, actual rents are expected to decline an additional \$1-\$2 over the next 12 months, resulting in a real average Class A rental rate downtown of \$21-\$23. A year ago, the quoted rental rate was

\$26 in the CBD and almost \$22 in the suburban markets.

It is significant to note that rents for Class A space in the CBD have held up despite negative absorption.

Over the next 12 to 18 months, Houston's CBD will see the completion of an expansion of the Convention Center, a 1,200-room Convention Center hotel (the Hilton-Americas Houston), a new basketball/hockey arena, and completion of the light rail project and the Main Street Beautification Plan. Completion of construction on downtown streets will also occur. Downtown Houston will be a much more exciting place to live, work, and be entertained in the near future.

The near-term softness in the office market should provide an excellent opportunity for tenants outside the CBD to move downtown to take advantage of all that it has to offer. Without positive absorption, Houston's current vacancy level of 10% will almost certainly rise to 12% over the next 12 to 15 months as a result of new construction. If the two Enron buildings are added to the leasable marketplace during the next year (which we believe is unlikely), the direct vacancy level without positive net absorption could approach 20%. However, positive absorption should coincide with the revitalization of the CBD, thus lowering the vacancy level. From 1997 through 2002, the CBD's average annual net absorption was about 1 msf.

The fact is that Houston's CBD is currently faring better than most think. Without positive absorption over the next year, however, Houston's Class A office market will see increased vacancy with lower rents. With moderate positive absorption over the next several years, the Class A Houston vacancy should recover and stabilize below 10%, even if the direct vacancy level exceeds 15% by the end of 2003. ❖

'03 Dues Due

Look for your '03 TEDA/Houston dues invoice in the mail soon. The board has maintained the \$50 rate, with a 50% discount for

students—quite a bargain compared with \$40 in '83, when TEDA was founded. Inflation in Houston, as measured by the CPI-U, has risen 60.8%. That means the real cost of annual dues has fallen 22.3% since '83. And today, as never before, you can consume more than the cost of your annual dues just by coming to the meetings and grazing on the outstanding hors d'oeuvres. ❖

Feds to Share Data

The House and Senate in November unanimously passed the Confidential Information Protection and Statistical Efficiency Act of 2002. CIPSEA, said the National Association for Business Economics, "will provide a uniform set of confidentiality protections and extend those protections to all individually identifiable data collected for statistical purposes under a pledge of confidentiality and will permit the sharing of business data by the Bureau of Economic Analysis, the Bureau of Labor Statistics, and the Bureau of the Census."

CIPSEA could be the first step toward an eventual consolidation of federal statistical agencies, allowing the three agencies to share data among themselves. Additional legislation to alter the Internal Revenue Code's provisions for the sharing of IRS data with those outside the Service are needed to fully realize the potential of CIPSEA.

Data sharing authorized under CIPSEA is restricted to *business* activities. As the legislation was being developed, it was determined that the hurdles in the way of sharing demographic data are too great to overcome at present—a view the agencies themselves share.

CIPSEA maintains the stringency of confidentiality provisions that govern existing data use. Says NABE: "...the data-sharing bill qualifies as increasing the possibility of better-informed statistics while strengthening, not weakening, present safeguards afforded to confidential data."

In 2000, the Statistical Efficiency Act, which also addressed data sharing among the key federal statistical agencies, failed despite strong backing from the community of data-user professionals. ❖

Employment Data Upheaval

The following article borrows liberally from a recent Bureau of Labor Statistics press release.

Some very important changes that will produce discontinuities in some data series and revisions in many others are imminent and will make life difficult for many analysts.

Household Data Series

Effective with the release of January 2003 data, several changes to the Current Population Survey (CPS) will affect estimates contained in the *Employment Situation* news release:

- ❖ Population controls reflecting the results of Census 2000 will be used in the monthly CPS estimation process. CPS data from January 2000 through December 2002 will be revised to reflect the introduction of the census-based population controls.
- ❖ Questions on race and Hispanic origin in the CPS will be modified to comply with the new standards for federal statistical agencies.
- ❖ The CPS will adopt the Census industry and occupation classification systems derived from the 2002 North American Industry Classification System and the 2000 Standard Occupational Classification system. ***These new classification systems represent complete breaks in the time series for occupation and industry data.*** As a result, seasonally adjusted occupation and industry estimates from the household survey will not be presented until sufficient time series become available for seasonal adjustment.
- ❖ The CPS program will begin using the X-12 ARIMA software for seasonal adjustment of time series data.

National Nonfarm Payroll Data

- ❖ The nonfarm payroll series, produced from the Current Employment Statistics (CES) program, will be converted from the 1987 Standard Industrial Classification (SIC) ba-

sis to the 2002 North American Industrial Classification System (NAICS) basis with the June 6, 2003, release of May 2003 estimates. The NAICS conversion involves major definitional changes to many of the SIC-based series. After the conversion to NAICS, SIC-based series will no longer be produced or published. Historical time series will be reconstructed as part of the NAICS conversion process. All published series will have a NAICS-based history extending back to at least January 1990. For total nonfarm and other high-level aggregates, NAICS history will begin in January 1939, the current starting date for these series.

- ❖ June 6, 2003, also will mark the completion of the CES sample redesign phase-in. The redesign converts the CES from a quota-based sample to a probability-based sample. In June 2003, the services industries will be converted to the new sample design; all other private sector industries have already been converted.
- ❖ Also beginning in June 2003, the CES program will convert to concurrent seasonal adjustment, which uses all available monthly estimates, including those for the current month, in developing seasonal factors. BLS will no longer publish seasonal factors for CES national estimates.
- ❖ Beginning in June 2003, the CES series for federal government employment will be revised slightly in scope and definition due to a change in source data and estimation methods. The current national series is an end-of-month federal employee count produced by the Office of Personnel Management, and it excludes some workers—mostly employees who work in Department of Defense-owned establishments such as military base commissaries. The CES national series will include these workers. Also, federal employment will be estimated from a sample of federal establishments and will reflect the 12th of the month, consistent with other series.

For more info: <http://www.bls.gov/ces/>. ❖

TEDA/Houston '02-'03 Calendar

Meetings (reception 5-5:30 p.m., presentation 5:30-6:30) are free to TEDA members of any chapter and \$10 per person for guests (applicable toward dues if a guest joins TEDA/Houston the same day). Fees and times for other functions vary. Unless otherwise noted, all events are at the Houston Branch, Federal Reserve Bank of Dallas, 1701 San Jacinto.

January 22—Symposium 8:30 a.m.—noon

Digging into the 2000 Census: What It Tells Us About Houston and Texas • Steve Murdock, Ph.D., Chief Demographer, State of Texas • Karl Eschbach, Ph.D., Associate Professor of Sociology, University of Houston • Nestor Rodriguez, Ph.D., Associate Professor of Sociology and Co-Director, Center for Immigration Research, University of Houston • Jennifer Bratter, Ph.D., Assistant Professor of Sociology, University of Houston • **At United Way**

February 26—Meeting

Issues in Office Market Analysis • Sanford W. Criner, Managing Partner, Trione & Gordon

March 26—Meeting (time TBA)

Houston TranStar Tour and Presentation

April 23—Meeting 5:30-7 p.m.

The Houston Area Survey—What We've Discovered in 22 Years • Stephen Klineberg, Ph.D., Professor of Sociology, Rice University • **At Neighborhood Centers**

May 28—Meeting

METRO's 2025 Mobility Plan • John M. Sedlak, Vice President, Planning, Engineering & Construction, METRO

June 25—Meeting

Houston's Commercial Real Estate Markets and Growth Indicators • Patrick O'Connor, President, O'Connor & Associates • Shady Nebo, Senior Planner, Houston Department of Planning & Development

September 24—Meeting

What's Going on in Fort Bend County? • Jennifer Raymond, Vice President – Commercial Development • Barkley Peschel, Vice President – Development and Redevelopment, Greater Fort Bend Economic Development Council

'02-'03 TEDA/Houston Board of Directors

Terms Expiring in 2003

- ❖ Karl Eschbach, Ph.D., Dept. of Sociology, University of Houston, **Webmaster**, 713-743-3950, eschbach@uh.edu
- ❖ Chris Pollet, Neighborhood Centers, Inc., 713-669-5260, chris.pollet@neighborhood-centers.org
- ❖ John Stansfield, 281-933-2588, jstansfield@pdq.net
- ❖ Christina Todd, North Harris Montgomery Community College District, **Secretary**, 281-260-3128, christina.c.todd@nhmccd.edu

Terms Expiring in 2004

- ❖ Virginia Appl, Houston Independent School District, 713-892-6619, vappl@houstonisd.org
- ❖ Max L. Beauregard, Consultant, 713-864-0549, mbeauregard@houston.rr.com
- ❖ Greg Grabiec, United Way of the Texas Gulf Coast, **Treasurer**, 713-685-2331, ggrabiec@uwtgc.org
- ❖ Sharon Ju, Ph.D., Houston-Galveston Area Council, 713-993-2419, sju@hgac.cog.tx.us

Terms Expiring in 2005

- ❖ Myra Moren, L.J. Melody & Company, **Vice President**, 713-787-1972, myra.moren@ljmelody.com
- ❖ Paula Pipes, Center for Immigration Research, University of Houston, 713-467-4227, ppipes@uh.edu
- ❖ Nancy Powell, Harris County Office of Economic Development, 713-755-3404, nancy_powell@co.harris.tx.us
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