

THE

Real Estate

AUSTIN LETTER

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Volume 21, Number 45

February 25, 2000

Dear Client:

Texas will be at the epicenter of dramatic population growth and demographic shifts in the coming decades, with massive and unpredictable results for the economy.

Dr. Steve Murdock, Director of The Center for Demographic and Socioeconomic Research and Education at TexasA&M, recently told Texas Lyceum alumni that the Texas population is expected to rise from the current 20 million to between 33.8 million and 38.7 million by the year 2030. Most of this explosive growth will be in Hispanic, Asian-American, and other ethnic groups.

Anglo population is projected to increase by 20.4%; African-American 62%; Hispanic 257.6%; and other ethnic groups by a whopping 648.4%. By the year 2030 Anglo population is expected to constitute only 36.7% of Texas' population, while Hispanics will account for 45.9%, and African-Americans about 9.5%. Asian-American and other groups will grow to 7.9% of total population. **The face of Texas will be vastly different just 30 years from now.**

Murdock warns that **consumer expenditures may not keep pace with household growth** in this "new economy." Households are expected to increase by 119%, but consumer expenditures are only projected to rise 106.3%. Minority populations will play a larger role in determining consumer markets. Marketers and vendors should consider that while Anglos accounted for 74.3% of all consumer expenditures in 1990, that figure will drop to 47.7% in 2030.

What does it mean? As per capita consumer spending levels off, economic activity and state and local tax revenues could constrict in relation to increasing demands for services, such as public education and health care.

The aging population will consume both Social Security and health care budgets, while (as seen in our story on higher education trends on page four) fewer highly trained workers may be called on to carry more of the tax burden.

In other words, a "**rich get richer, poor get poorer**" scenario may be in the offing.

Unless business and government leaders can get together on solutions today, **the "new economy" may come to a grinding halt tomorrow.**

Those concerned about suburban sprawl may be none too pleased with the forecast for retail market growth in the next two years from NAI/Commercial Industrial Properties.

“With the Austin retail market approximately 95% occupied,” NAI/CIP reports, “new absorption will have to come from new development.” Grocers attracted to Austin’s proliferating housing developments are driving the new development. “New construction in 2000 will come from La Frontera and neighborhood grocery-anchored cities,” the report continues. **“Austin will see new grocery stores, with associated strip retail, in almost every sector over the next 18 months.”**

Round Rock, as well as the north and far northwest sectors of Austin, are seeing the steepest growth in retail development. The La Frontera development located at IH35 and FM1325 encompasses 850,000 sq.ft. alone.

Accordingly, NAI/CIP predicts that **“Round Rock will represent one of the largest retail sectors in the greater Austin area by the end of 2000.”** The adjacent Far Northwest sector of Austin has added more than 2 million sq.ft. during the last five years and is still topping 97% occupancy. With higher occupancy rates comes higher lease costs for Austin retailers, although NAI/CIP notes that rates are not climbing as fast as in prior years.

It looks like much of the retail market is following on the heels of suburban expansion, as part of the “infrastructure” of increasingly self-contained developments, far distant from the city center. It remains to be seen if this trend dovetails with efforts to revitalize the downtown retail market.

“It’s true. We smoked a peace pipe. Austin’s never been the same since.” That’s the way a letter soliciting support for the Hill Country Conservancy, signed by land-use lawyer extraordinaire **David Armbrust**, SOS head **Robin Rather**, and AISD board member **Gary Valdez**, opens.

The immediate purpose of this historic détente between traditional adversaries is the preservation of more than 50,000 acres of undeveloped land over the Barton Springs watershed and the Edwards Aquifer recharge zone. The Conservancy is asking the high tech community and other local businesses to help purchase the land.

The Hill Country Conservancy Board of Directors includes business and environmental leaders. Armbrust, Rather, and Valdez are joined in the enterprise by **Robert Ayres, Robert Breunig, Marya Frech, Barbara Mahler, Nikelle Meade, Kirk Rudy, David Stevens, Jerry Winetroub, and Pete Winstead**. The group’s newly-hired executive director is **George Cofer**.

Austin politics may not be as much fun as they used to be. With **Gary Bradley** about to settle his differences with the city, and David Armbrust and Robin Rather locking arms and singing *Kumbayah*, Austin won’t be the same. (At least Leslie and Jennifer are still running for mayor!)

Texas spends less money per student at public universities than the national average -- a lot less. According to figures compiled by the University of Texas System, Texas higher education expenditures reached \$5,500 per student in 1999, well short of the \$6,500 national average and \$7,100 for the 10 largest states.

At the same time, Texas relies more heavily than other states on its public institutions of higher education to educate its citizens. About 88% of Texas college students are enrolled in public institutions, versus a national average of 78%.

Moreover, Texas institutions grant fewer bachelors' degrees per 1,000 persons aged 18-34 than the national average, and significantly fewer degrees of all types. Texas likewise trails both the national average and the largest 10 states in the percentage of 19-year-olds enrolled in colleges and universities.

The problem is even **more acute for minority groups**. While more than 65% of Anglo high school graduates enroll in higher education, only about 55% of Hispanic students and 50% of African-American students do.

As demographic shifts push the state toward "minority-majority" status in the next few decades, this higher education gap -- if not addressed -- could **severely strain Texas' workforce development and economic expansion**. According to the UTSysystem numbers, if current trends continue, nearly 40% of the workforce in 2030 will be without a high school diploma, and about 80% will lack an associate's degree or higher.

This sobering news comes at a time when the new economy requires increasing levels of education for even entry level jobs. The UTSysystem estimates that by 2006, 25% of all new jobs will require at least a bachelor's degree and another 22% an associate's degree or higher.

Just to keep up with the growing demand for educated workers, Texas must produce more than 16,000 additional bachelor's degrees per year just to reach the national average -- a 23% increase over current graduation rates. **We're just not keeping up.**

To begin to address this gap, UT will ask the Legislature for additional general revenue appropriations, authority to charge flexible undergraduate tuition rates, increases in student financial aid programs, and the ability to retain 100% of the revenue from sponsored research projects (rather than the current 50%).

But as we reported last week, **new state funds may be hard to come by next session**, and student groups are likely to fight vociferously against tuition hikes.

The new UTSysystem Chancellor, who will be hired later this year, will certainly have his or her hands full.

One issue all Austin businesses should have on their radar screen is the privacy of nonpublic customer information. The Gramm-Leach-Bliley overhaul of federal banking laws has brought this long-simmering issue to a head, pitting businesses that rely on the relatively free exchange of credit and other personal information about potential customers against consumer advocates who seek more stringent privacy protections.

House State Affairs Chairman **Rep. Steve Wolens** has indicated he intends to make **consumer privacy one of his top agenda items** for the next legislature. Last session, Wolens teamed up with Senate Economic Development Committee Chair **Sen. Dave Sibley** to pass legislation restructuring the electric industry, so the prospect of these powerful legislators working together on privacy issues should get everyone's attention.

The **stakes** for businesses in the privacy debate could be **enormous**. Look for an expansive legislative probe that includes third-party use of: credit reports, social security numbers, drivers' license information, as well as personal financial and socioeconomic data.

That's not all. Telemarketing and other electronic marketing methods; confidentiality of medical records and direct marketing of health care and other products; and the security of personal information, with a focus on electronic transactions are also on the agenda. **Privacy could be the battleground for the "New Economy's" first real legislative/regulatory test.**

Dr. Louis Overholster reminds his patients to relax each week. "Remember, on the seventh day God rested. He didn't take Adam to soccer practice or Eve to karate lessons!"

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



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