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Dear Client:

**As night follows day, a residential building boom (such as Austin has experienced for the last several years) leads to strong retail demand. This means the real estate retail market will continue to grow in the Austin area through the near term.**

An analysis by NAI/Commercial Industrial Properties shows Austin's real estate retail market should remain fundamentally strong during the slowing national economy. But, the company cautions "changes are on the horizon." As NAI/CIP puts it: "**National retailers will exhibit caution when considering new units in Central Texas** as they deal with the prospect of weaker sales in less dynamic markets and a watchful eye from Wall Street. Less competitive and outdated concepts will fail in a more competitive market."

"Fortunately for Austin, demand for space is increasingly strong and turnover will translate into opportunity for those retailers that have been waiting to open or expand, but have been unable to secure appropriate space," reports NAI/CIP. "While **rents and occupancy rates should remain relatively high**, strong tenants will be able to negotiate more favorable terms and turnover costs will show up on the landlord's bottom line."

The year 2000 ended on a high note for the Austin area's retail owners and developers. The overall occupancy level averaged 95.77%, and with the occupancy increase, rental rates also continued to rise. In fact, average rental rates for centers with more than 50,000 sq.ft. increased more than 9% during 2000. It was a "large and unsustainable increase," according to NAI/CIP. "**Landlords are testing this upper range of rental rates** by taking advantage of the scarce availability of space."

What makes this increase in occupancy and rental rates impressive is **the market grew by more than 1,000,000 sq.ft. during 2000** to reach 15,878,458 sq.ft. Most of this new space can be attributed to the opening of La Frontera and Stassney Heights. Grocery-anchored, neighborhood strip centers also added to the inventory of new space. And, still others are in the pipeline. "Several big boxes plan to fill market gaps in Far South, West and Far Northwest Austin, while **grocery anchor centers are also in every stage of development throughout the region**," NAI/CIP's report points out. It's a mixed bag, though. For instance, large, mixed-use projects in Central Austin such as the Sixth Street Market and the Triangle Project that were announced some time ago are still not coming out of the ground.

**Sales tax collections are as good a precise measure of retail activity as you can get. So how did the Austin area do in the most recent busiest (November and December) and slowest (January) retail months, compared to the same months the year before?** Frankly, a retail slowdown showed up in Austin in January.

When you look at the overall **90-day period** (the most recent sales tax collections available) for the three biggest counties in our metro area (Travis, Williamson and Hays), you get a **solid picture**. Travis County's sales tax collections are up 4.05%, Williamson County is up 30.01% and Hays County is up 14.23%. The statewide average compared to the same months the previous year is up 4.5%. So the holiday season sales, even when slow January is included, looked okay for our metro area.

But, when you isolate January 2001 and compare those results with the January 2000 sales tax collections, you get a different result. **Travis County was up only 0.19%** — compared to the statewide increase in January of 2.3%. And, when you break it down further to collections within the **city limits of Austin**, there was a **decrease compared to the year before, -0.08%**.

The retail hotspots are Williamson County and Hays County. **Williamson County sales tax collections were up an impressive 23.93%** in January 2001, compared to January 2000 and **Hays County's totals were up 9.85%**. Williamson County is building up a huge retail infrastructure of its own in Round Rock and Cedar Park, and Hays County has the San Marcos Outlet Malls that draw shoppers from an area way beyond our metro area.

What this tells us is we need to **keep an eye on the February specific totals** when the sales tax collections are reported by the State Comptroller's office 4/13/01. Are we looking at a blip or a trend in Austin retail sales?

**One of the events many retailers are anticipating is an income tax cut. More money in the pocket of consumer's jeans usually means more spending in retail outlets. So, what's the latest inside scoop from Washington?**

A non-partisan Washington insider who watches out for business interests is saying President **George W. Bush** won't be able to **sign a tax cut until August at the earliest**. That's still pretty fast — just seven months after Bush took the oath of office. Consumers will be helped if the **withholding tables are changed before the bill is actually signed**. That means some workers could see higher take-home amounts on their paychecks a bit quicker.

And the word we get is retroactivity is all but a done deal (as much as you can claim that about anything in Washington!). So whatever size the tax cut assumes, it should be felt this year.

**Austin's Smart Growth Initiative has been the subject of much cussing and discussing. Let's peel the bark off it and define what it means for various parts of our area.** It may be only a plan, but it is a plan that is setting City Council policy when it comes to making decisions on how and where the City of Austin grows.

There are two basic elements in the Austin's Smart Growth effort. To understand them is to understand what **opportunities and obstacles are raised for building a home or a business** in various zones within the city of Austin's jurisdiction. It's also instructive to closely examine the words the city has used in its labeling and definition of these two zones.

The western third of Austin – generally west of Loop1/MoPac – has been named by the city as the **Drinking Water Protection Zone (DWPZ)**. This includes the tree-studded, rolling hills nestled alongside the Colorado River/Lake Austin. The city describes it as including “large areas of endangered species habitat, a portion of the Edward's Aquifer, watersheds that contribute to Austin's drinking water supply and Barton Springs, and the steep slopes and shallow soils of the Texas hill country.” **Smart Growth discourages additional development in the DWPZ.**

The eastern two-thirds of Austin are defined as the **Desired Development Zone (DDZ)**. The city describes this zone as including “downtown Austin, UTAustin, IH35, the urban core of the city and future transportation projects such as SH130.” **This zone is where the city has defined as “where we want to grow.”**

You can see the dichotomy developed by these definitions. By many subjective judgments, the western third of Austin is the most beautiful, therefore the “most desirable”. Yet the firm, stated policy of the city is to **discourage additional development in the most desirable area**. By subjective definition, the “least desirable” area is where development is encouraged.

But there's more to the Smart Growth Initiative. It's *how* we grow, as well as *where* we grow. The *how* emphasizes “development patterns that consume less land and permit **walking, biking and transit as viable transportation options.**”

The DDZ is seen as the primary growth area for the city over the next 20 years. The city is promoting growth there by providing **financial incentives** for Smart Growth projects, changing land development regulations to encourage mixed-use pedestrian and transit-oriented projects. It is also focusing public investments in the DDZ. The city suggests some of this growth can be accommodated in downtown Austin (witness the current construction chaos), the old Robert Mueller Airport site, major roadway corridors and potential future transit centers.

But, the city also has its eye on undeveloped areas. For instance, look for the City to **annex as much land as possible within its jurisdiction along the proposed SH130, east of IH35**. The city can then, through its incentives and investments, try to drive development to that area. Smart Growth is city policy and this in brief, is the blueprint the city is following.

**Austin is the third most “arts intensive” metro area in Texas, way behind Dallas, but very close to #2 Houston.** This was measured on a per capita basis. The Perryman Group (TPG) used a complex data compilation and modeling process to analyze the **economic impact of arts** in Texas.

Here’s how the top Texas metro areas stacked up on a per capita basis, according to TPG: **Dallas** (\$17,388 per person), **Houston** (\$11,281), **Austin** (\$11,090), **Fort Worth-Arlington** (\$10,878) and **San Antonio** (\$8,587). When TPG broke it down on pure dollar volume of arts contributions to their economies, the standings, predictably, followed total metro area populations: Dallas, Houston, Fort Worth-Arlington, San Antonio and Austin, in order.

TPG also looked at corollary benefits of the arts, including enhancement of the quality of life. The study pointed out that significant contact with the fine arts disciplines **raises success levels** in many areas.

Students also **perform better on college entrance exams** than their peers where there is a significant arts presence, according to the study. And TPG noted they enjoy higher acceptance rates in seeking admission to medical schools.

The Perryman Group included **visual, literary, media and performing arts** in its study, pointing out that cultural arts are a vital part of overall production processes in Texas. TPG also claimed that virtually all segments of the economy have some ties to cultural activity.

**For your outdoor activity planning (especially if you’re planting fragile plants), remember the latest freeze date recorded in Austin is April 9<sup>th</sup>. It occurred way back in 1914.**

**Dr. Louis Overholster** says he hates the unpleasant task of firing people. And he always likes to be positive where possible. So this is how he handled firing his secretary: “It’s been six months since we hired you and you’ve done everything from type my letters to keep track of my schedule. I don’t know what I’d do without you. But, starting next week, I’m going to try!”

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