

THE

Real Estate

AUSTIN LETTER

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Dear Client:

There may be no better current example of the Austin area economy's resurgence and resiliency, than the announcement after our deadline last week that coveted retailer Nordstrom will not only take over the mall space vacated by nationally-defunct Montgomery Ward, but additional retail space will be built to surround the Nordstrom operation.

As we've reported in the past, retail operations are a barometer of consumer well-being. If area residents have money in their jeans, feel good about their jobs and are confident about the future of the local economy, they will spend their paychecks in ever-increasing increments.

They've been doing that in impressive fashion this year, despite headlines about layoffs. For instance, sales tax collections – a solid gauge of retail spending – for the first quarter were **up 28% in Williamson County, 14% in Hays County and 5% in Travis County** over the previous year. Nordstrom execs can read the numbers and they don't make a major investment in a community hastily (they've been rumored to have been looking at Austin for years).

What also made the Nordstrom announcement so intriguing was its symbolism. The local Montgomery Ward closing was part of the long-time national retailer's bankruptcy proceedings that closed all 250 of its stores around the country. Nordstrom precisely picked Austin. And Montgomery Ward's mainstream product lines will now be replaced by more upscale products, reinforcing the fact average incomes here have risen dramatically over the years.

Austin is officially the hub of a five-county metro retail trade area – Travis, Williamson, Hays, Bastrop and Caldwell counties. And, those counties are usually the ones counted in official stats. But, in reality, shoppers flood retailers here from many other counties – especially from the western Hill Country counties of Burnet, Blanco, Gillespie, Llano, etc. **Retailers have a much larger trade area from which to draw than many realize.**

Think about it. It was less than two months ago the Montgomery Ward's store in Barton Creek Square Mall closed its doors forever, sending its 217 employees packing with a pink slip. Now, the deal has been finalized for Nordstrom to take that space and the Mall developer, Simon Property Group, is planning to **add dual-level space adjacent to Nordstrom to attract a bevy of smaller retailers** who want the proximity to an established traffic-builder like Nordstrom. They will all need to hire employees. This is a sign of a very healthy economy.

The Austin metro area had the second fastest growth in personal income in the nation in 1999. How times have changed! For most of its history, Austin was characterized by low personal income, primarily due to our heavy dependence upon government payrolls – state government, UT Austin and other educational institutions, the IRS service center, and Bergstrom Air Force Base.

One of the biggest problems facing city leaders and businesspeople a few decades ago was the brain drain. **Most of our brightest young people had to leave Austin to find well-paying jobs.** If they didn't want a career picking up a government check, there weren't many business opportunities available here. Even most UT Austin students, who spent the best 4, 5 or 6 years of their lives in Austin – and really wanted to stay – left for greener financial pastures.

No mas! The US Bureau of Economic Analysis points out the Austin metro area (that's all five counties) **notched an 11.8% personal income growth in 1999.** That compares to the national average of 5.4%. The San Jose metro area is the only region that topped Austin, and Silicon Valley was credited with a 15.8% growth in personal income. The Silicon Hills was #2 in the nation.

As a result of these quickly upward-ratcheting incomes, Austin is no longer losing the bulk of its best and brightest young minds. If they want to stay, there is **more opportunity for them here than in most other areas of the US.** Obviously, the government payrolls have not gone away. In fact, they have moved up – slower, of course – to keep pace with private sector paychecks. It's a winning combo and one that's a good hedge against a major recession.

The Forbes/Milken Institute recognizes the dynamics of the Austin business scene and continues to rank the Austin metro area at or near the top of the nation's 200 metro areas as the best place for business and careers. The Austin metro area was ranked #1 in 2000 by the Forbes/Milken Institute and in this year's rankings, just released, slipped slightly to #2 in the nation on the list of Best Places for Business and Career. Amazing, #2 in the nation!

Rounding out the Top Five: San Francisco, Boulder and Dallas. The rankings consider a number of factors. **The heaviest weight is given to wage and salary growth and relative job growth.** Less weight is allocated to high tech concentration, tech output growth and number of tech clusters.

Specifically, **Austin ranked #1 in wage and salary growth** when it is indexed back to 1994 and #2 for wage and salary growth when it is indexed to 1998. When relative job growth is indexed to 1995, Austin is #3 in the nation and it is #4 when the relative job growth is indexed to 1999.

The Austin area did well in the **number of tech clusters** in 2000, #5 in the nation, and ranked #13 in **high tech concentration** in 2000, but was back in the pack for tech output growth.

When the State Comptroller this week failed (for the first time in the memory of many) to increase revenue projections for the next biennium, it laid the groundwork for a debate that will echo for the next two years – should taxes be raised to increase revenue for Texas and/or, watch out!, should Texas adopt a state income tax?

Taxes were cut by the Texas Legislature two years ago. The current session is squeaking by without raising taxes. And, after two more years of what will probably be some of the fastest growth in the nation, some feel the **next legislative session in 2003 will be a tax session.**

So, what are the options? **The state sales tax is the mother lode of revenue for Texas.** In Fiscal Year 2000, the state sales and use tax generated \$13.9 billion in revenue, more than any other single source. Way back in second place in FY2000 was the motor vehicle sales/rental tax, which brought in \$2.7 billion. Well then, what about raising the sales tax?

As of 1/1/01, only **five states had higher sales taxes** than Texas's 6.25%. (Local governments can add additional sales taxes up to a total of 2%; that's why you normally pay 8.25% on most purchases.) California, Mississippi and Rhode Island all levy a 7% sales tax; Minnesota and Washington levy 6.5%. If Texas hikes the sales tax, it will move up to join the five highest sales tax states in the nation.

Well, what about expanding the sales tax to include food? Illinois, Louisiana, North Carolina, South Carolina and Virginia do that. In 1999, Texas food stores reported approximately \$24.8 billion in non-taxable sales. A sales tax on food would bring in a hefty hunk of revenue (How much? \$1.55 billion?). But, many Texas legislators believe to tax food would **spell p-o-l-i-t-i-c-a-l s-u-i-c-i-d-e.**

According to the Federation of Tax Administrators, as of 1/1/01, **only three states have no personal or corporate income tax: Texas, Washington and Wyoming.** And already, you are hearing some Texas leaders suggesting the Lone Star State should consider levying a state income tax. Is it time for a Texas personal income tax? Frankly, it doesn't matter if it's time or not, it's damn near impossible to pass an income tax in Texas.

That's because in 1993, Texas voters amended the state constitution **prohibiting the Texas Legislature from enacting an income tax** unless stringent conditions are met. For instance, a state income tax must be adopted in the form of an amendment to the constitution. As a result, a proposed state income tax must be approved by a two-thirds vote of both the House and Senate and, here's the kicker, it must also be **approved by the voters.** You get to vote on an income tax.

On top of that, revenue generated by any income tax must be used for education as follows: 2/3 for property tax relief and 1/3 to support education as the legislature directs. Levying new taxes or raising old taxes is always sticky. And as you can see, **some of the options are politically difficult, if not impossible.** The 2003 Legislative session could be a nightmare.

For almost a half-century, ever since the old East Avenue was converted to Interstate-35, there has been a complaint the north-south freeway creates a barrier that separates East Austin from West Austin. There is now a move afoot to try to physically bridge that chasm. It's part of a much bigger project, but nonetheless, it appears to try to address concerns raised for decades.

It's called an Urban Design Package that is being developed for the **4.5 mile segment of IH35 from 51st Street to Riverside Drive.** As you know, planning is underway to upgrade IH35 from Georgetown to Buda. The Urban Design Package is part of a larger group of engineering concepts being developed for consideration by the Texas Department of Transportation (TxDOT). The package has some ambitious goals for less affluent East Austin

“The project vision calls for the creation of an interstate highway corridor that **unites East Austin with the fabric of the city,** conveys Austin's unique character through design and materials, improves the driving experience for residents and visitors, and reduces the negative environmental and safety impacts of the roadway,” TxDOT reports. They're talking about a freeway here.

TxDOT also notes “the goal of the Urban Design Package is to enhance the environment affected by IH35, by utilizing urban design and landscape architecture carefully coordinated with highway engineering. The design package endeavors to address not only improvements to the visual nature of the highway and its transportation components, but to the **physical, cultural and environmental composition of Austin** as well.”

How are they doing it? The initial planning is looking at “**redesigned cyclist/pedestrian friendly overpasses that celebrate the re-connection of East and West Austin.**” The proposed package also includes new lighting, low maintenance landscaping and major gateways at the north and south entries of the corridor.” It sounds ambitious. We'll watch it for you.

Dr. Louis Overholster is concerned about the health effects of mad cow disease. But he says it could be worse: “Can you imagine if they ever discovered mad martini disease?”

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Sincerely



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