

THE

Real Estate

AUSTIN LETTER

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Dear Client:

Circle November 6, 2001 on your calendar, because the way things are shaping up now, that's when you'll get a chance to vote on whether to raise your property taxes in order to pay for road improvements. Nothing is set in stone yet, but the election prospects are gaining momentum in the traditional way Austin goes about setting bond elections.

First of all, the Travis County Commissioners Court appointed a Bond Citizen Advisory Committee. **The committee recommended that the Court support \$238.4 million in bonds for public improvements.** Then a private business group, The Real Estate Council of Austin (RECA), released the results of a survey showing **voters would approve a tax hike for a roadway improvement bond package.** Finally, the Greater Austin Chamber of Commerce board voted unanimously to support the package.

This is the way bond elections generally are set up in Austin. The momentum builds up (and the politicians get some public political cover) for the next big step – calling of the election by the Travis County Commissioners Court. Not only do Commissioners have “political cover,” they also are dealing with **a topic that is hotter than the weather.** According to RECA's survey, 88.5% of Travis County residents believe the traffic situation is poor (60.3%) or only fair (28.2%).

Two big questions arise: how would the millions of dollars be used and how much would your property taxes rise as a result? First of all, the dollar amount has not been fixed. But, RECA estimates a **\$400 million bond issue would raise taxes more than \$6 a month on a \$150,000 home.** A \$200 million package would generate a property tax rate increase of \$3 a month for that same home. You can do the math to see how it would affect your situation.

The Chamber points out \$98.6 million of the proposed bond package would **purchase right of way for Texas130, Texas45 and FM1826.** Texas130 would relieve congestion on IH35 by providing an alternate route from near Seguin to Georgetown. The Texas45 dollars would buy right of way between IH35 and Texas130. Texas45 is a toll road under construction that would connect US183 with Texas130. FM1826 would relieve congestion in Oak Hill by opening a route from US290W to Slaughter Lane, west of the “Y”.

Look for the election to be called and the dollar amount to be set sooner, rather than later.

Austin retailers were still reeling in May 2001, according to the very latest sales tax collection figures. The tiny ray of sunshine punching through the bleak figures was that while sales were less than May 2000, they weren't off as much as they were in April 2001.

These are important numbers for you to factor into your assessment of our economy. First of all, they're not projections or forecasts or guesses. They are **actual sales taxes collected** and counted by the state. Secondly, they're about as **timely** as you can get. These figs represent sales in May, reported to Comptroller **Carole Keeton Rylander** in June, and released to us this week. Significantly, they not only represent what's happening in retail, but also to some extent reflect the **attitude and well being of consumers** – you, me and our neighbors.

The numbers: sales tax collections were **down 0.74% in Travis County and down 1.13% inside the city limits of Austin** in May 2001, compared to May 2000. This is a bit better than April 2001 when Travis County was down 1.70% and Austin was down 2.48%, compared to the same time frame the year before.

What continues to be troubling about *our* slippage is that sales tax collections have been **down now for two consecutive months**, while for the entire state in April and May, they were UP 5.4%. Remember, these figures are compared to the same month in the previous year — so this rules out any seasonal sales fluctuations.

Once again, when you delve deeper into the stack of stats, you find the **retail sales slide is not area-wide**. Sales tax collections in Williamson County (+8.58%), Round Rock (+10.36%), Hays County (+12.13%), San Marcos (+4.62%), Bastrop County (+2.11%) and Caldwell County (+10.39%) were all UP in May 2001, compared to May 2000. Austin and Travis County retailers are feeling the brunt of the slowdown.

Also, when you step back and take the long view – assessing the entire year – all reporting Central Texas entities (including Austin and Travis County) are still **UP for the year 2001** through May. So, it's **not a crisis** by any means. But, we like to keep you ahead of the curve. And with two consecutive *down* months, we'll be sure to monitor the June numbers for you, when they are released to us 8/10/01 — to see if this slippage is a continuing trend.

Not only will you be getting a tax rebate check from the feds in the next few weeks (the timing depends on the last four digits of your social security number), your paycheck will be fatter. And, hopefully, this should help retail sales and the economy in general. All marginal tax rates, except for the 15% rate, will drop by one-half percentage point and withholding amounts for paychecks will drop to reflect that decrease. Obviously, the more you earn, the fatter your paycheck. President **George W. Bush**, who gets a government salary of \$400,000 a year, will get an extra \$282 a month. A single person, earning \$40,000 a year and claiming one withholding allowance, will get an extra \$7 per month.

If you're looking for a good deal on apartment rentals, look northwest where you can cut a deal for 1-2 month's free rent – or southwest, where the apartment managers are offering ½-1 month free rent. These concessions reflect a dipping apartment market in Austin. In fact, the rate of occupancy of apartments in the Austin metro area decreased to a level unseen in 13 consecutive quarters, according to the apartment-tracking firm, Austin Investor Interests (AII).

Right now, according to AII, **there are 9,087 vacant apartment units in Austin.** But the picture is not as bleak as those numbers would seem to indicate. More than 34% of those “vacant” units are pre-leased – awaiting the return of students who will invade Austin once again at the end of the summer.

Still, there are a lot of vacant apartments, and the rental rates are dropping a bit. **The overall average rental rate decreased for the first time in 11 consecutive quarters.** As these rates declined, concessions have doubled so much that you can now find concessions in almost half the market.

Where is the market the softest? Where you would expect – in areas with **significant development, as well as layoffs.** AII reports the largest declines in occupancies are found in Williamson County (-7%), Round Rock (-3.4%) and southwest Austin/Travis County (-3.6%). And of course you find large declines in the areas favored by migrating students.

Well, if we're seeing this reversal in apartment occupancies and rental rates, why in the world are there a bunch of new apartment developments in the construction pipeline? Good question! **About 5,800 new units have an expected completion date sometime during the remainder of this year.** They're not coming online at the best of times. You can understand how this happens because it takes years from planning and permitting through the construction process.

But, what about those apartment projects just getting started? Has there been a halt to all new projects? Nope. **Twelve new properties were submitted into the permitting process** in the last couple of months and **ten projects started construction,** notes AII. With the ten new units that just started construction, the **total number of units under construction right now is 14,237.** Hmmmmmm.

So, you've got apartment **occupancies declining** and you've got **rental rates dropping** as well – not to mention apartment owners trying to “**out-concession**” **the competition** to get tenants. On top of that, new apartments are coming online each day and some developers are moving full steam ahead to build a lot more.

It doesn't take **an Alan-Greenspan-crunching-economic-numbers** to see that, unless the Austin economy makes a swift, dramatic and unexpected turnaround, the **apartment occupancies and rental rates will continue to decline** – at least through the remainder of this year. And, this trend looks like it could well continue into the next year.

Much has been made about Austin-Bergstrom International Airport (ABIA) making the “Top Ten of the Best Airports to be Stranded.” But, hey, you and I can go home from ABIA if our flights are cancelled or airports are shut down. What about the *other* airports where we could get stuck with the other shmucks?

Well, according to **Harriet Baskas**, who has written a tome called *Stuck At The Airport: The Very Best Services, Dining and Unexpected Attractions for Traveler*, here are the other nine user-friendly airports to ease your suffering when you experience that dreaded delay:

San Francisco (Neal’s notes: if you can find a way to escape the massive construction that is underway!) ... **Portland, OR** ... **Charlotte, NC** ... **Honolulu** ... **Las Vegas** (Neal’s notes: if the incessant ringing of slot machines is music to your ears!) ... **Memphis, TN** ... **Palm Beach, FL** ... **Orlando, FL** ... and **Chicago O’Hare** (Neal’s notes: if you like the hubbub of bustling crowds!).

Notice the *absence* of some of the major airport hubs most **Austin** long-haul travelers must endure: **Dallas-Fort Worth** (American Airlines hub) ... **Houston** (Continental Airlines hub) ... and **Atlanta** (Delta Airlines hub). And while any ranking of this sort is highly subjective, it should be noted that eight of the Top Ten airports are much smaller, in relation to giants DFW, IAH, LAX, LAG, JFK and ATL.

By the way, our friends at *The Kiplinger Letter* are forecasting **airline fares will go up about 2%-3% next year and taxis will rise about 5%**. That’s the bad news. The good news is the same forecast calls for **hotels, motels and meals to drop about 7%** next year and for **rental cars to dip about 2%**. This is a nationwide forecast so, obviously, certain markets – those that have not been hit by the downturn, particularly – may be able to hold the line, or even increase, hotel, motel and meal costs next year.

Frequent traveler **Dr. Louis Overholster** wonders when the airlines are going to make a distinction between carry-on luggage – and drag-on-and-hit-every-passenger-in-the-head-along-the-way-down-the-aisle luggage!

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Sincerely



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