

THE

Real Estate

AUSTIN LETTER

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Dear Client:

With new home starts in the Austin area hitting a 2-year high in the 3rd quarter, what will happen to our housing market in 2004? It should stay strong.

Low interest rates have been credited with keeping the housing market strong throughout the past few years of economic downturn. But, most economists say long-term interest rates have bottomed out and are now edging slowly upward. If that turns out to be the case, what is the **reason for a bullish outlook** for Central Texas housing next year?

First of all, interest rates are not expected to rise dramatically. The national homebuilders association is predicting **long-term mortgage rates will inch upward** to about 6½% by the end of next year. While a few people are priced out of the home-buying experience as interest rates rise (they can't afford the increased monthly mortgage payment), the total will not be substantial as long as interest rates stay below 7%.

There are other reasons the outlook is good for Austin area housing for the next year. Home prices in the Austin area, which in the past have zoomed skyward, have settled down. In fact, **during the 3rd quarter, the median home price in Austin (\$157,900) increased only 0.6%**, compared to the US median increase of 10.1%, according to the National Association of Realtors.

The home price increase in Austin is not just lower than the national median increase, it is **below other Texas markets**, such as Dallas (4.1%), Houston (3.6%) and San Antonio (8.3%). When you look outside Texas you see increases such as 25.4% in Los Angeles and 19.4% in Miami. So, why is our median price holding? Inventory. There are enough homes, new and pre-owned, on the Austin market so that demand is not driving up the cost as it is in other areas.

Homes will continue to sell here, and elsewhere, in 2004, and there are factors at work that keep the market hot. The Internet is one of those factors. **Both homebuyers and homesellers are using the Internet to an amazing degree.** Homesellers can compare their homes to others listed for sale on the Internet (to decide whether to sell, set prices, etc.) and homebuyers can take virtual tours of most homes on the market – without venturing outside. Both buyers and sellers are more informed and more involved. This helps keep the market active.

The debate over Wal-Mart supercenter “big box” stores springing up all over the Austin area is simply an outgrowth of a new strategy by the world’s largest retailer.

In addition to the environmental and traffic questions, “**We’ve already got a Wal-Mart nearby, why do we need another?**” is one of the arguments heard from some of those opposing the massive stores planned for various Austin area locations. For the answer to that question, all you have to do is analyze Wal-Mart’s growth strategy, and it has to do with *groceries*. When Wal-Mart got into the grocery business, it changed the way it did business.

Before Wal-Mart created the supercenter concept and began offering groceries, it drew from a customer base that covered about a **15-mile radius** from an urban store location. But when the “boxes” got bigger, and groceries became a staple of Wal-Mart’s offerings, the **customer geographical base narrowed to 3-4 miles**.

Think about it. It’s rare for a family to travel more than three miles or so to go grocery shopping. In other words, Wal-Mart can have stores much closer together and not be competing against themselves. But there’s more. **Most families go to the grocery store every week or so**. And while getting groceries, you can pick up just about anything else a few aisles over in hardware, clothing, etc. So the grocery concept **enhanced Wal-Mart’s base business**.

The supercenter is much bigger than the “standard” Wal-Mart – averaging about **185,000 sq.ft. inside the “big box”** — about twice the size of the basic Wal-Mart store. How successful has Wal-Mart been implementing this supercenter concept? Well, consider just two facts: 1) Wal-Mart is now the **largest seller of groceries in the United States**, and 2) it plans to **open as many as 230 supercenters** in the next fiscal year. Austin is just one area in the US where Wal-Mart is moving aggressively to implement its growth strategy.

The Austin City Council continues to be pressured on its proposal for limiting development of “big box” retail operations.

“We are concerned about inconsistent messages City Council is sending,” Greater Austin Chamber of Commerce Chair **Charles Barnett** notes. He points out “last spring, City Council unanimously adopted a resolution that placed **job creation as the community’s highest priority**. This past summer and early fall, City Council struggled through the budget process blaming declining property values and shrinking sales tax collections.”

“Yet, now City Council is sending a message that many view as contradictory to these previous statements,” Barnett continued. “At a time when we are working hard to create more jobs, we are concerned that a **ban on specific types of development sends a negative message to companies we are trying to recruit.**”

Last year, Central Texas elected officials agreed to develop a Clean Air Action plan to comply with federal clean air standards. The measures they are considering could have a considerable impact on you personally and the way you do business.

If the five Central Texas counties in our metro area can implement a plan by 2005, the region can avoid mandatory restrictions imposed by the US Environmental Protection Agency. Public meetings on various proposals are winding down (the last will be held 11/24/03) and you need to know what they are considering for adoption. Here's some of what's on the table:

Require emissions tests for cars registered in Hays, Travis and Williamson counties. Such a program could add \$15-\$30 to annual safety inspection fees and would require repair and testing for vehicles that fail.

Require businesses with 100 or more employees to reduce employee commutes by 10% through programs that promote vanpools, carpool, mass transit, biking, walking or alternative work schedules. Or, reduce other business related air pollution emissions by an equal amount.

Prohibit heavy-duty vehicles (buses, delivery trucks, 18-wheelers) from idling their engines longer than 5 minutes when not in traffic or waiting for passengers.

Require commercial lawn and garden companies to submit a plan to reduce their emissions by 20% as a condition for certification.

Bring cleaner fuels into the area to reduce emissions. Cleaner fuels may increase fuel costs for fleet owners and individual drivers.

Require gas stations to recover vapors from underground storage tanks. Mandate the exclusive sale of low-emission gas cans at area retailers.

Adopt rules to regulate de-greasing processes used in machine repair and some manufacturing processes.

Require auto shops to use cleaner refinishing products and techniques.

Other proposals affect businesses such as furniture refinishing and dry cleaning. **Right now, no measure has been adopted and priority items have yet to be ranked.** But you can get a feel for where they are leaning. You can go to www.cleanairforce.org for more information, or contact your elected city/county officials in Bastrop, Caldwell, Hays, Travis and Williamson counties. This relates to those "Ozone Action Days" each summer. **The Austin area's air quality is bordering on violating Clean Air Act standards.** By signing an Early Action Compact with the Texas Commission on Environmental Quality in 2002, Central Texas must come up with a plan to reduce pollution – soon, so that it can be in place by 2005.

As we approach year-end, with upbeat economic forecasts for 2004, what kind of deals can you get today on office space in this soft market?

A software consulting firm wanted to upgrade the quality of its space and save money. The company needed room for 15-18 employees in Northwest Austin. It found 3,200 sq.ft. on MoPac/Loop1. Austin Office Space, Inc. (AOS) reports negotiations went like this:

The landlord proposed a \$16 average rate over a three-year term, one-month free rent, space to be taken as-is, with a two-year renewal option. The end result was a \$14.50 full service rate for a five-year term, with three months free rent, three new offices, plus paint and carpet and a five-year renewal option. The deal ended up with **\$11,600 of free rent** (to pay for the move), **\$38,000 of rental savings** over five years, plus approximately **\$14,000 in tenant improvements**.

So, what are some of the best deals out there? In the *northwest*, AOS reports you can get 1,550 to 7,200 sq.ft. of Class B space on North MoPac/Loop1 for **\$15 plus free rent** and Class A space, 10,000-12,000 sq.ft. furnished, can be sub-let for \$15.

In the *southwest*, Class A space, 3,000-25,000 sq.ft. on Bee Cave/Loop360 can be picked up for **\$14.75 full service**. Class A space on Bee Cave, 4,000 sq.ft. of sublease, can be **leased for \$12.50, with furniture**.

What about *downtown*? AOS indicates you can get 6,000 sq.ft. of Class B sublease space at 6th & Congress Ave for **\$12.50, with free furniture**. A couple of blocks up the Avenue, at 8th & Congress, 3,000-16,000 sq.ft. of Class A space can be leased for **\$18.50 full service**. AOS represents tenants in the search and negotiation for office space.

Dr. Louis Overholster likes to advise his patients not to let unfair criticism get them down. And he uses Dolly Parton as an example by telling them the country singer said she was not offended by all the dumb blonde jokes. Said Dolly: "I'm not offended by the dumb blonde jokes because I know I'm not dumb – and I'm also not blond!"

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