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Dear Client:

Now that far-reaching action has recently been taken on Austin area toll roads, Austin intra-city commuter rail, the SH130 bypass of IH35 and the ambitious Trans Texas Corridor, what's the next big transportation decision? *Another* commuter rail system.

Any of the above transportation actions would have been a major development, in and of itself. But they came rolling over us in wave after wave. Added together they will **truly alter forever where and how we live and do business in Central Texas**. Now, another landscape-changing action is on the immediate horizon. *A proposed regional rail system* — anchored by Austin and San Antonio, with additional stations in Georgetown, Round Rock, Buda/Kyle, San Marcos and New Braunfels — is picking up a head of steam.

The proposed intercity commuter rail system tracks IH35, where almost 3 million people live along the 110 mile stretch of highway, and the population is expected to nearly double by 2020. Just how crowded and dangerous is this part of IH35?

Along the entire 1,700 mile stretch of IH35 from Mexico to Canada, **the highest level of fatalities, the worst congestion, the slowest average speed per mile, the lowest levels of service and the most air pollution occur in the Austin-San Antonio Corridor**, according to a 1999 federal study.

The honchos at the Austin-San Antonio Intermunicipal Commuter Rail District (www.asarail.org) say commuter rail systems, operating on regular railroad tracks, run on frequent schedules and provide a service for people traveling between cities for **work, school, sporting events, medical visits, recreation, shopping, tourist destinations**, etc. The plan is to connect the Austin-San Antonio Commuter rail with the internal transit and transportation systems of Austin, San Antonio and other Corridor cities. **The system would operate on existing Union Pacific tracks**, with some of Union Pacific's through-freight operations shifted to the new SH130 Corridor, now under construction east of IH35.

Four local governments — Austin and Travis County, San Antonio and Bexar County — created the District, following authorization by the Texas Legislature. The District's board is made up of elected and private sector officials who represent member cities and counties. **During March, the District will conduct public discussions on rail** in Buda, Austin, Georgetown, Round Rock, San Antonio, San Marcos and New Braunfels. This rail plan is picking up steam.

Austin area business and community leaders, along with local elected officials, are heading to Washington DC March 1st to lobby for federal transportation dollars and projects.

The various transportation projects mentioned in our lead story require federal approval and funding, in conjunction with state and local dollars. So, the major item on the agenda for the three-day trip is **transportation funding**. And part of that agenda is to seek federal assistance in **relocating the bulk of Union Pacific railway freight traffic** away from the tracks running down the center of MoPac/Loop1 through West Austin.

Remember, much of those federal dollars are *your* dollars – sent to Washington every time you fill up your jalopy with gasoline. And the allocation of those dollars back to Texas is anything but guaranteed. In addition, the **six-year federal transportation funding authorization expired 9/31/03**. Federal transportation funds haven't stopped. They continue to be allocated through temporary extensions. So the Austin area delegation is going to press for the various Central Texas projects to be included in the next six-year authorization.

What are these projects? Well for one thing, the delegation will be seeking authorization for the **design, engineering and construction of the 110-mile intercity passenger rail service** between Georgetown and San Antonio referenced in our lead story. Part of this request will include the Union Pacific re-location.

Also federal funding will be sought to continue SH130 to Seguin. The portion now under construction carries traffic around Austin to south of the airport. Other projects include Capitol Metro buses and facilities, the Rapid Bus project and the recently authorized Austin *intracity* commuter rail.

This isn't the first time such a Central Texas delegation has made the trek to Washington DC. Recent trips were made each year from 2001 to 2004.

Speaking of trips, an aggressive travel schedule is planned throughout 2005 for economic development representatives from the five-county Central Texas metro area.

The purpose of these trips is to recruit companies to **create jobs** in the Austin area. After exhibiting at a trade show in Anaheim, CA in January, the Greater Austin Chamber of Commerce's economic development team is planning trips to New Orleans, Charleston, Detroit, Toronto, New York, Philadelphia, San Francisco, San Diego, Seattle, Chicago, Atlanta and the state of Kentucky through the end of the year.

Additionally, a **special mission to Japan and possibly Korea** is scheduled later this year. Automotive suppliers will be a special target on this trip. Many of the trips are to staff trade shows. But specific sales calls on specific businesses are also part of this travel schedule.

If you want to get your little piece of Hill Country heaven, you better get crankin'. Prices are soaring for acreage west of Austin.

While *homes* are selling at a rapid rate in the Austin area, their prices are not increasing. In fact, the National Association of Realtors reports Austin was one of only four markets in the US where home prices declined in the 4th quarter 2004. However, if you look at **land values in the Hill Country west of Austin**, you'll find land prices are appreciating dramatically. And it's not just the Hill Country, much of the rural land throughout Texas is increasing in value.

"The rate of increase in prices paid for Texas land continues to amaze me," says Dr. **Charles E. Gilliland**, research economist with the Real Estate Center at TexasA&M. "Recreational buyers are snapping up quality properties wherever they can find them. **Investors have a 'buy now' attitude** as they expect interest rates to rise and because returns on alternative investments have not been too exciting. These factors have driven price gains well beyond levels seen in the past." Overall Texas land prices are up an average 15%.

The Real Estate Center reports that "in the scenic Hill Country, **urban dwellers seeking a retreat from the hustle and bustle of city life are driving up prices. Others see Hill Country land as a solid investment.** As is true in many areas of the state, a limited supply of good land on the market is jacking up prices. In the western portion of the Hill Country, prices are up 27% compared with 2003."

As a result of these rising Hill Country prices, buyers are moving into other areas of Texas – seeking to satisfy the urge to own a little piece of dirt and maybe, just maybe, it'll prove to be a good investment, because as **Will Rogers said about land, "they ain't making any more of it."** "Buyers are shifting from high-priced areas, where top-quality, available land is hard to find, to areas once overlooked," Gilliland observed.

Even remote areas of Texas are seeing active land markets and rising prices. For example, in all of far West Texas, except for El Paso County, prices are up 46% — from \$154 to \$225 per acre. The biggest price jump was along the Canadian River near the New Mexico border, where land prices increased 51%, primarily as the result of land sold for hunting purposes.

Overall, an acre of Texas land sold on average in 2004 for \$1,252. **In the nearby southern part of the Hill Country, the average per-acre price was \$4,448.** Obviously, as buyers purchase smaller tracts of land, this results in substantially higher per-acre prices. But there is no doubt about it, Texas land prices are in the midst of a significant upsurge.

A final note about *home* prices. We need to keep an eye on the sales prices of Austin homes during 2005. The US median price *increase* was 8.8% in 4th quarter 2004. Austin's *decline* is contrary to what is going on elsewhere. This bears watching.

We have an “uh-oh, spoke-too-soon” and “even-more-so-than-we-thought” items about two stories from recent weeks.

In the “it-didn’t-last-very-long” category, we have a follow-up on a story we ran 2/4/05 where we threw some plaudits in the direction of San Antonio. At the time, we were correct in pointing out **The Alamo City was going to become the home of the nation’s largest telecom company** when San Antonio-headquartered SBC announced the acquisition of its one-time parent, AT&T. It was (and still is) big news on the economic development front.

But a funny thing happened on SBC’s way to Number One. Verizon announced a few days ago that it was paying \$6.75 billion in cash and stock to acquire MCI. After the two giant mergers are complete, **Verizon/MCI will take the #1 spot** with combined revenue of \$92 billion and net income of \$7.8 billion. **SBC/AT&T will be an undisputed #2** in the telecom field with \$71 billion in revenue and \$4.5 billion in net income.

Sidebar: It doesn’t much matter what new name Verizon/MCI chooses as both company names are of relatively recent vintage. **But SBC would be well-advised to utilize AT&T in its new name** because of the global goodwill built up by the venerable AT&T name. In fact, it probably won’t do this, but SBC should swallow its pride and use only the name AT&T for the combined giant.

In our 2/18/05 issue we stressed importance of “loose lending policies” (over low interest rates) in determining the vitality of the home-buying market. When we wrote this last week, we knew there was a major trend toward low-cost, front-end mortgages. But we didn’t realize how pervasive this trend has become. **Adjustable Rate Mortgages (ARMs) are expected to grab 40% of the mortgage market this year.** This trend could quickly becoming the norm.

Good (bad) puns just keep coming. **Dr. Louis Overholster** told us two Eskimos were chilly so they lit a fire in their kayak and it sank – proving you can’t have your kayak and heat it too! *Help!*

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