

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

To toll or not to toll is a new debate in the Austin area. However, other states are in the next generation of debates on what to do when the tolls finally pay off the roadway construction and the toll tab keeps rising on newer roads.

The 641-mile New York State Thruway opened more than a half century ago – in 1954. It carries 230 million vehicles a year. About ten years ago, travelers on the thruway had **plunked enough quarters into the basket to pay off the bonds** that financed the highway construction. So, is it a free roadway today? Nope. State officials kept the Thruway as a toll road and are using the money from the current Thruway tolls to build another toll-free road.

That's not all. According to *The Wall Street Journal*, tolls will go up on the NY Thruway about 25% next month, raising the tab to \$18.50. **This increase in tolls is replicated all around the nation.** For instance, if you drive across the San Francisco-Oakland Bay Bridge, you're now paying \$3, not \$2. The Pennsylvania Turnpike just hiked tolls 43% and the Illinois Tollway tab has risen 56%.

In spite of **toll roads staying toll roads** even after they're paid-for and in spite of the **steep increases in tolls** on newer toll roads and, yes, in spite of **sky-high gasoline prices**, more than a dozen states are joining Austin with current plans to either build new toll roads and/or put tollbooths on existing highways.

Why, in face of these cost pressures on motorists, is this toll trend catching on? For several reasons. The *lofty* argument says **let the drivers who use the roads pay for them**, rather than use dollars collected from all taxpayers. The *practical* argument is it provides a **method of construction financing that can build roads quicker**, at a time of tight budgets facing the federal government as well as the states. And fuel taxes are not bringing in enough money.

Then there is the *increased traffic* argument. The favorite pastime of Austin motorists is to complain about how long it takes to get from here-to-there. But this is a national phenomenon. The *WSJ* reports the number of **cars, pickup trucks, buses and motorcycles grew more than 20%** in the past decade – ten times the increase in the number of miles of new roads added.

Of course these arguments don't sway those independent Texans and Austinites who are used to free roads and are against tolling. As a result, the local tolling debate will continue.

Most Austin area real estate professionals expect good things to happen in this second quarter.

“At this time of year, new construction picks up and listings of existing homes start to appear, so naturally confidence is up,” says Dr. **James H. Leigh**, the project director for the Texas Real Estate Confidence Index (TREC). “**Austin appears to have had its downturn corrected.**” Leigh, who is also a marketing prof at TexasA&M and a research scientist with the Real Estate Center at TexasA&M, said Dallas and Houston also “seem to be over their dips.”

Experts in four of the five real estate sectors surveyed by Leigh have a positive outlook. **Builders were the most optimistic, followed by commercial Realtors, commercial lenders and residential Realtors.** The fifth sector – mortgage lending – is not as positive. In fact, for the sixth quarter in a row, the mortgage lenders were the only group with a negative outlook.

“**Home refinancing activity is largely at a standstill**, which leaves mortgage lenders almost completely dependent on the home construction market and sales of existing homes,” he noted. “Builders expect increased activity and that should help, but the shakeout in the mortgage broker arena can be expected to continue in the foreseeable future.”

Now in its seventh year, the TREC is a quarterly tracking of the state of the Texas real estate industry. Real estate pros respond to questions about what they think about their market area in the upcoming quarter. So this is a predictive survey, rather than a look at what happened.

The Austin office real estate market will continue to stabilize throughout 2005 and we should begin to see a reversal of the negative trends Austin has experienced over the past few years.

This is the view of NAI Commercial Industrial Properties, an Austin commercial real estate firm after reviewing the first quarter’s citywide status. The reason for this cautious optimism:

“The amount of sublease space on the market continues to decrease and is now exerting a minimal impact on the market,” the company noted. “In addition, 2005 should also bring continued **job expansion with more tenants expanding and new companies establishing a presence in Austin.**” Additionally, the company said the market recently showed the first decrease in overall vacancy since 2000.

One of the major factors impacting the lackluster office market over the past few years was the amount of sublease space that became available (as the dot-coms and others bailed out on long-term leases), thus driving down prices. **The sublease space currently ready for occupancy, represents only 2% of the overall office market**, and 51% of that space has less than three years of term remaining. If you’re looking for office space bargains, you missed the bottom. But the upswing is not occurring quickly, so rates are still attractive.

This is a great week for Austin moviemakers. Once again, three movies with Austin connections are in the Top Ten box office moneymakers.

Sahara, starring Austin “bad boy” **Matthew McConaughey**, earned the top spot on its opening weekend by raking in \$18.5 million dollars to edge Austinite **Robert Rodriguez’s** *Sin City’s* \$14.1 million weekend total (raising the *Sin City* cumulative sales-to-date to an impressive \$50.7 million). Austin’s hometown comedy queen **Sandra Bullock’s** *Miss Congeniality 2: Armed and Fabulous* came in at 7th place with \$4.1 million, to bring its take-to-date to another impressive total of \$37.5 million. Quite a week indeed for our local filmmakers.

But the big news concerns McConaughey. Go to our Web archives for the 2/13/04 edition (Volume 25, Number 44). You can read the story where you were the first to find out ***Sahara* may be the vehicle to elevate McConaughey to a modern-day Sean Connery** (“Bond. James Bond”) or **Harrison Ford** (Indiana Jones).

In that edition, we explained how McConaughey’s character in *Sahara*, **Dirk Pitt**, could become a “franchise” film leading man that could appear in movie after movie. If *Sahara* is a success, **it’s a slam dunk to make more movies around Dirk Pitt** simply because the larger-than-life action-adventure character has already been immortalized in a rash of best-selling novels by **Clive Cussler**.

So far, so good for this goal to be attained. **The movie debuted better than Paramount had expected and it did very well in Middle America, which bodes well for it to hold up.** It’s not a blockbuster – it’s good, not great — and it could fade. But if it continues to put butts in the seats of theaters, then you can bet the ranch another Dirk Pitt movie, starring McConaughey will be advertised as “coming soon to a theater near you.”

I know, I know, **it’s hard to imagine McConaughey on a star par with Sean Connery and Harrison Ford.** After all, this is a guy who was born (11/4/69) and raised in Uvalde and attended – but did not graduate from – UTAustin. He got his first film job when he met a casting director in an Austin bar. One of his first flicks was Austin-made *The Return of the Texas Chainsaw Massacre* (also starring another former UT student, Academy Award winner **Renee Zellweger**.)

And then there was the “bad boy” incident when Austin police, peering into a window of his West Austin home, **arrested McConaughey for playing bongos late at night while dancing around naked.** One Austin wag said “the Austin police and my wife are the only ones I know who think you shouldn’t run around nekkid in your own home!” Another joke at the time described the incident and asked what is “naked bongo dancing” in Hollywood. The answer: each Tuesday!

So, it’s easy to take McConaughey for granted. But, hang on. **He could be a mega-star.** Our task is to keep you ahead of the trends and this could be a pop culture trend in the making.

Okay, it's over. Stick a fork in it, it's done. The low-carb food craze has run its course.

How do you know this food trend has flamed out? Look around you. **You don't see any more advertising for low-carb foods.** Pepsico, Unilever and Kraft are pulling out of the low-carb food fight as quickly as they jumped into it.

Or simply stroll down the aisles of any Austin area Randall's, H-E-B, Albertsons, Whole Foods or Central Market. **You can hardly find any low-carb products on the shelves** that once were peppered with products such as low-carb Oreos, and low-carb Doritos, Cheetos and Tostitos. Consumers quit buying them.

This food fad died quicker than most anticipated. *Advertising Age*, a trade publication that tracks such trends, said the low-carb food market was once predicted to hit sales as high as \$15 billion, but seems to have topped out around \$1 billion. As *Ad Age* put it: **"A trend companies hoped to ride for at least five years passed in just one."** If you still want to buy low-carb products, you'll probably have to settle for those that are naturally low-carb. Examples: pork rinds or Oberto meat snacks, made by Frito-Lay.

While we're on the topic of consumers, where do you think affluent areas such as West Lake Hills in Austin, River Oaks in Houston and Highland Park in Dallas rank nationally?

Not very high. Not even in the top 50 most affluent ZIP codes in the US. Metro NYC has 24 of the top 50. Most all the others are in the San Francisco/Silicon Valley area, Boston or Los Angeles. The top ZIP code is 94027, Atherton, CA with a 2004 average household income of \$404,976 and an average net worth of \$1,374,966. No Texas ZIP codes are in the Top 50.

Dr. Louis Overholster says don't worry about the "fairness" of wealth distribution. As he put it: "if life were fair, Elvis would be alive and all the impersonators would be dead!"

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