

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**If you think there are a lot of banks (many with names you've probably never heard) popping up in the Austin area, you ain't seen nothing yet.**

There are two compelling bits of information that bolster the contention we're going to be inundated with even more banking institutions.

First of all, **30 of the 50 largest banks based in the US do not have a presence in Texas, much less in Austin.** And Austin is one of the most dynamic markets in one of the nation's best states for business. It's not too much of an exaggeration to say most banks want to have a significant presence in Austin and Texas.

Secondly, prices of banks being acquired are going through the ceiling. According to SNL Financial, **Texas banks are now being valued at least double what they were just a few years ago.** Local and Texas financial institutions know what their market share is worth and they're holding out for higher prices. This makes them even more attractive to buyers, because prices are soaring.

It's not just out-of-state banks that are swooping in to grab a piece of the Texas pie. In-state financial institutions are jockeying for position – merging with one another – so they will be **stronger in the face of growing competition.** Or, more cynically, they are positioning themselves to become a **more attractive takeover target.** Whatever the reason, this is contributing to this frenzy of banking buyouts. (In Texas banking, size really matters!)

There's more. Once a major financial institution gets a foothold in Texas, it starts **building new branches in order to achieve a critical mass.** Wachovia is an example. When Wachovia established a presence in Texas a year ago, it started building new branches right away. Citigroup is going down a similar path of expansion. Also, watch the credit unions. Many local, **member-owned credit unions are making moves to convert to federal mutual savings banks** to create a stock-based institution to allow them to compete in the growth arena.

All this is a significant development for our economy. Several banks have been bought numerous times. A bank in Spain is buying Laredo National Bancshares. The financial landscape is changing as we speak. And, there is currently no end in sight.

**You knew it was bound to happen. And it has. The Federal Communications Commission is reporting there are more cell phones than land phone lines in Texas and the US, as measured by subscribers. This has some pretty far-reaching implications.**

One of the major implications is there is a fast-growing number of phone users who are saving money by **canceling their land lines at home to rely totally on a cell phone**. When you think about it, it's entirely logical that this trend will continue. After all, everybody you know probably uses the cell phone more than the home phone. And when they get home (after talking on the cell phone during the drive home), they don't have to worry about telemarketing phone calls during dinner. Such a deal. Also, in large families, cell phones outnumber land lines in most homes.

**It's more than just talk time. It's a lifestyle change** that is evolving as cell phones become more indispensable because of the additional wide range of services they offer – such as picture-taking and video, Web browsing, music downloading, game playing, setting the cell phone alarm to awaken you so you can check e-mails before you get out of bed, and who knows-what-all will be added to the menu of services.

**It's also a generational thing.** Those under thirty have spent most of their wage-earning lives in a wireless world. They are not nearly as chagrined as their elders (who grew up with reliable, high quality, hard wired telephone service) when a cell phone line drops. It's all the under-thirties have ever known.

**This is how you know this trend will continue.** The less reliable, poorer voice quality cell service is no big problem for the younger generation. Besides, there's hope the quality and reliability of cell phone service will get better as cell phones become even more ubiquitous and competition stays keen.

**And, it's getting cheaper.** In case you hadn't noticed, basic monthly cell phone fees have dropped significantly in the last few years – to where they are only about two-thirds of what they were.

You may have also noticed many of the cell phone providers are pushing subscribers to **move to the new GSM standard**, even though this standard doesn't have the rural (and analog) coverage of the existing system. But the GSM standard allows the cell phone to be used when traveling in many areas abroad – such as Europe, South America and Africa.

**Quick quiz: can you recall when cell phone service was first offered in Texas?** Not the first mobile phones that cost thousands of dollars, looked like your home phone and worked in your car only after you had a huge hunk of machinery installed in your trunk, that goes back to the 1960s or so. Cell phones, as we know them today, were trotted out in Texas just over 20 years ago. Not that long ago, for the cultural shift we now see occurring.

**Two of the leading commercial real estate firms in Austin shared similar observations of the area's office market at mid-year. The key words: "continued improvement," "stabilization" and "gradual comeback."**

The two firms, NAI Commercial Industrial Properties (NAI CIP) and Colliers Oxford Commercial, have been tracking the ups-and-downs of the office market for years, even as they have been prime players in the leasing and sale of office properties.

NAI CIP reported the activity for the first six months "reflects a continued improvement and stabilization of the Austin area commercial real estate market." Specifically, NAI CIP's office specialist **Derek Silva** noted the "continuing stability in overall vacancy," but he observed that "quoted **rents climbed disproportionately** to absorption."

What is pushing rental rates higher at a faster rate than the space being absorbed? "**A flight to quality**," said Silva, "which has caused Class A landlords to start increasing rates, as well as large **Class A properties selling at very optimistic prices** in light of the current leasing market."

Colliers Oxford Commercial adds new office construction has already begun "while developers are waiting for the green light to begin on other planned buildings. There is also a **record amount of both Suburban and Central Business District (CBD) buildings being bought and sold.**" This sales activity is "an indicator that landlords and investors are very confident Austin will continue to thrive."

"Another indicator that the Austin office market is on the rebound is the fact that sublease space is no longer a factor," reports Colliers Oxford. "**In two years, sublease space has dropped from more than 2 million square feet to a current total of 575,000 square feet.**"

This drop has occurred because the space has been filled or some subleases are **coming back on the market as direct space, controlled by the landlords and building owners** – not the companies that signed leases on more space than they needed and were dumping the unused space at bargain rates.

**Suburban markets, such as the Far Northwest and Southwest, once again showed the strongest activity during the first six months of 2005**, according to Colliers Oxford. Both have the lowest vacancy rates that Austin has seen since 2000.

**What will it take to continue this improvement and make it even healthier economically?** Colliers Oxford's answer: "The continued national publication accolades, better-than-expected job growth and the sustained efforts of the Austin Chamber of Commerce's Opportunity Austin initiative will all contribute to the return of a healthy and vibrant office market."

**Cancer victim Lance Armstrong's almost superhuman feats at the Tour de France during the last seven years have been chronicled worldwide. But a UTAustin scientist has a unique insight into why the Austin athlete has performed at such an unprecedented level.**

The French can't believe a man whose testicular cancer had metastasized in his brain could recover enough to **dominate a sport they felt was uniquely French**. There were charges leveled that Armstrong just had to be using illegal performance enhancing drugs. But the French didn't know what Dr. **Edward Coyle**, who has studied cyclists for 25 years, knew.

Coyle, who heads up UTAustin's Human Performance Laboratory, studied Armstrong at regular intervals from 1992 to 1999. Coyle believes **Armstrong's prowess can be explained by a set of physiological changes that took place in his body over those seven years and that, in all probability, are continuing**. Armstrong was 22 years old when Coyle first studied him.

Coyle said Armstrong had an **exceptionally large heart and low lactic acid**, but "his muscle efficiency was not very good" when he first examined him in his lab. And the, eight months after Armstrong's 1996 cancer treatments ended, Coyle found no permanent problems as a result of the cancer.

"In the next two years, his **heart got even better**, his **lactic acid dropped further** and, amazingly, his (muscle) efficiency increased to 23%," Coyle noted. His efficiency improved because he **increased his proportion of "slow-twitch muscles"** (the type that don't burn out quickly and are used in standing or walking) from 60% to 80%. This is part of how he gets his unusual energy.

Coyle says an average cyclist covers 16 miles in an hour, a top marathon runner can go 21 miles on a bike and Armstrong rides his bike 32 miles in an hour. His unusual physiology helps.

A patient told **Dr. Louis Overholster** her newly-retired husband had a prostrate problem. "You mean a prostate problem." "No, a prostrate problem. I can't get him off the couch!"

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