THE Neal Spelce AUSTIN LETTER

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Dear Client:

Texas land prices are at all-time highs. **So, is this a *bad* time to buy**? **Or, what about the old bromide that claims "land has never gone down**?"

First of all, let's debunk the bromide about land prices never falling. **The severe recession of the late 1980s precipitated the first collapse of Texas land prices in more than 100 years**, according to the Real Estate Center at TexasA&M. True, this was a one-time event. But it shook up the conventional wisdom that had been around for a century that held Texas land was a safe investment which could return substantial capital gains to owners.

Today, there are those who point to rising interest rates, climbing gas prices and dwindling support for agricultural programs as indicators land prices are headed for a fate similar to the late '80s. But, hold on: **Texas land prices may never be more affordable than they are now**. This is the view held by research economist **Charles Gilliland**. Without rehashing the history of the real estate meltdown that occurred in the '80s, here is Gilliland's current take:

First of all, from a historical perspective, Gilliland maintains current land prices do not seem out of line with reality. After adjusting for inflation, **today's prices are lower than 1985 prices** despite a nearly 48% increase in population since 1980.

Second, unlike the 1980s situation, **many current transactions involve little or no borrowed funds**. Markets do not appear to be threatened by foreclosure.

Third, he says, **Texas land prices are relatively low compared to those in other states**, and out-of-state buyers have discovered the disparity in the past year or two.

Taken together, he says these factors indicate land markets with assets in strong hands are priced at historically justifiable levels. As a result, he feels **there will be no collapse**.

Well, if there is no collapse, **what is the worst that can happen** to those who invest now in Texas land? Does land represent a solid store of wealth which will grow in value? Or is it a risky investment in the current market? "If the economy does slow as current Federal Reserve policy envisions, land prices should not face the kind of hostile conditions encountered 20 years ago." Yeah, but what would be the most likely impact on land markets? His view: "**A sharp reduction in the *rate* of price *increase*, rather than an actual downturn in prices**."

For more than a decade, the notion has been floated that the state's Main Street (Congress Avenue) needed to be flanked by two Great Streets. There is now a push to try to make this happen. All it takes is money.

Okay, just what *is* a Great Street? Urban planners have defined Great Streets as those **wide, pleasant, often shady walkways** that comfortably and safely accommodate large numbers of pedestrians. They are well lit and feature coordinating amenities such as benches, public art and even bike racks. More than just a great place to stroll, great streets promote great retail by providing a wonderful atmosphere for shopping and outdoor cafes.

For decades, downtown Austin has been hampered by a lack of retail (as have many major cities around the country). It wasn't always this way. Look at the old pictures of downtown Austin. Back then, it was a **vibrant neighborhood with busy stores and shops, lots of people and lots of activity**. Then God created shopping malls. And downtowns everywhere suffered as shops moved closer to homes. It's been a long haul and it still has a ways to go, but revitalization of downtown Austin is happening and it's happening in the right way.

The first step was to get people to live downtown. **Downtown is now a growing neighborhood of about 5,000 residents and this number is expected to double within the next five years**. Downtown is also the daytime home to some 67,000 office workers. Retail follows bodies. New retail is also showing an uptick.

Now, after it was first discussed in 1992 and reinforced by subsequent studies and recommendations in 1996, 2002 and 2005, there is a move afoot to **elevate Brazos and Colorado Streets downtown to the "Great Streets" level**. The Downtown Austin Alliance (DAA) is recommending funding to upgrade Brazos and Colorado in the planned 2006 bond package.

There already is a Great Streets fund, supported by parking meter revenue. But relying only on those moneys to get the job done could take generations, according to DAA. Additionally, the **City of Austin has already budgeted $4.6 million to partially reconstruct both streets**. But another $7.6 million is needed to fully reconstruct the streets and complete Great Streets sidewalk improvements at the same time the street work is being done.

This is one of the arguments put forth by DAA to slap this funding authority on the 2006 bond package. "This opportunity should not be missed," argues DAA. "To postpone the Great Streets improvements would require **digging up the street a second time and would double the cost of the sidewalk improvements**. This would be an unwise and inefficient use of our money – something we're certain the Bond Committee is taking into account as they review the many issues worthy of consideration." The elements of the bond package have not yet been approved.

If made a part of the bond package, the voters will have the ultimate approval.

Speaking of streets (**roadways may be a better word**), **the stage is now set for completion of the US183**/**US290 project by next summer**. **Even though the area needs rain**, **the dry weather over the past two months has allowed construction crews to make good progress**.

The past six weeks saw the columns and caps (if you want to talk "highway talk," you call them bents and capitals) rise for the new northbound lanes of US183 at Walnut Creek. And two heavy cranes rolled into place to lay 24 pre-stressed concrete beams in place to support the new bridge decking. **And they did this without affecting traffic** (except for the rubber-neckers who were awed by massive erector-set type activity).

With these beams in place, work is now underway to prepare for the new bridge decking, which should be poured in place any day now. **Don't get your hopes up for using the new bridge anytime soon**. There is no date set for future ramp construction. The contractors needed to prep the bridge now because it would have been impossible for future crews to construct the new columns, so they were poured as part of the current project.

Robert Jordan, TxDOT's senior project manager for the job, reports the asphalt base for the main lanes is about 75% complete, with the exception being south of the new Walnut Creek bridge. **He hopes the pouring of the 12 inches of concrete roadway will wrap up in mid-winter**. Since summer began, workers have completed the new westbound exit for US290 to US183, the north-to-south turnaround at US290, the Cameron Road overpass and all excavation and fill for the new US183 main lanes.

Crews have been **wrapping up the major retaining walls** along the excavation for the US183 main lanes under US290. As the concrete is poured for the main lanes, other workers will begin setting the **steel rebar forms for concrete railing** across the project. Signs, markers and striping will be done after New Year's Day.

As we move into the winter months, **weather will have an impact on construction schedules**, as well as shutdowns over the holiday seasons. But Jordan says, even allowing for those delays, the project remains on-time and on-budget.

Need a loan? **Banks are flush with cash**.

Despite higher interest rates (the Fed ooched rates up again this week), business borrowers can dicker over terms, according to our friends at *Kiplinger Forecasts*. They suggest you can seek lower minimum collateral and interest rates closer to benchmarks. **Banks are in the best financial shape in years**. In fact, the ratio of write-offs to loans is down from 2004, and is 45% better than in 2002, reports *Kiplinger*. (**Dr**. **Louis Overholster**'s philosophy: borrow money from pessimists – they don't expect it back!)

While on the subject of money, **you need to factor-in higher costs for travel in your budget next year**.

You can anticipate steep hikes in what you will pay for hotels, restaurants and transportation during the coming year. You can blame higher fuel prices as well as strong demand. Hey, you ask, why does paying more at the pump drive up the cost of restaurant meals? **Restaurants get almost all of their food by truck**, **so the steep diesel prices have a direct impact on what you pay for a meal**. In fact, nationwide, menu prices are expected to jump by 11%, on average, next year. This is more than predicted for other travel-related costs.

Again, using our friends at *Kiplinger Forecasts* for this data, you can look for **car rental charges to go up as much as 7% on average next year**. And this is on top of what you'll pay for the gasoline to pump into the rent car. **Hotel rooms**? On average, they are predicted to **increase by about 5**%, but they will jump even more in the already-high-priced markets such as New York City and Boston – and for the upper-end establishments such as the Ritz-Carlton and the Four Seasons.

But it's not just the price of rooms that will jump in hotels. Examine your bills carefully (or better yet, check in advance) because more and more hotels are **adding fees for services that used to be free** – such as holding bags for a few hours, receiving packages, even housekeeping.

If your travel budget limits you to economy chains – the Days Inns or Motel 6s, for instance – **their already-lower costs will rise even more slowly** than average. *Kiplinger* is forecasting a modest 3% increase for them, close to inflation.

By the way, don't be afraid to buy a ticket on an airline teetering on the financial brink. *Kiplinger* is predicting Congress will extend the law that **requires carriers to honor tickets on a space-available basis if the original airline stops flying**. However, a $50 fee may apply.

Speaking of percentages, **Dr**. **Louis Overholster** says half the people you know are below average!

Sincerely

Neal Spelce

Editor/Publisher

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