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Dear Client:

When Texans this week changed the Constitution to create the Texas Rail Relocation and Improvement Fund, it had much broader transportation implications than just for rail.

You may not have known this because the ballot wording was all rail-related: “Would create a Texas rail relocation and improvement fund and would authorize the state to make grants and issue bonds to **relocate rail lines out of cities and neighborhoods**, expand passenger and freight rail capabilities and construct railroad underpasses and overpasses to reduce accident and delays.” See, the wording relates solely to rail.

But when you voted for Prop 1, did you know you also voted to “increase safety, **reduce truck traffic on highways**, improve air quality and spur the Texas economy.” Well, you did — and “passage of this constitutional amendment is a major step toward reaching those goals” is what Texas Transportation Chairman **Ric Williamson** said this week after the amendment was adopted.

You see this little ole innocuous-sounding constitutional amendment is actually **part of a much broader and bolder transportation plan** we told you about as far back as 3/15/02 (the ambitious and expensive Trans Texas Corridor plan).

At its heart were huge **1,200-foot swaths of right-of-way criss-crossing every geographical nook and cranny of Texas**. In the center of the swath will be **six rail lines** – three in each direction, one for high-speed passenger rail between cities, one for high speed freight and one dedicated to commuter and freight rail to serve smaller cities, as well as the bigger metros.

Flanking the rail lines on both sides will be **six vehicle toll lanes**, three in each direction, and on the outside of the vehicle lanes will be **arterials for water, petroleum, natural gas, electricity and communications lines**. Now, you begin to see the larger picture. The relocation of rail lines is inextricably tied to other transportation issues. As Williamson says: “We intend to build projects to reduce rail accidents, take hazardous cargo and materials out of urban areas, **cut back on the number of 18-wheeler trucks on highways**, reduce traffic delays caused by trains, ease congestion and make our air cleaner.” **And you thought you were just voting to relocate some railroad tracks**. By the way, the first part of this bold transportation endeavor is planned to go through Central Texas.

A record number of new homes are being built and sold in the Austin area. Prices are going up. And, with what is happening, you can expect new home prices to go even higher.

Let's break this down into some understandable parts. First of all, during the 3rd quarter there was a 9.0% increase in new home starts over the 3rd quarter last year. The *annual starts* rate as of September 2005 was up 8.0% compared to last year at the same time. Closings were up 17%, when you compare 3rd quarters. *Annual closings* through September were up 11% over the previous year through September. **Both the annual rate of starts and closings represent record totals for the Austin market.**

Here's the deal, according to **Eldon Rule**, director of Metrostudy's Austin division. The increased production was the result of several factors including accelerating relocations to the region, the tightening resale market, continued economic growth, strong investor demand for new housing and intense competition among local builders to increase market share.

As you can imagine, this has had an effect on pricing. As we reported earlier, sales in the \$100,000-\$150,000 price range are diminishing. In fact, this price point actually dropped in the number of houses sold (though it is still the dominant price point in the Austin market). The pricier homes are now getting the attention of builders. For instance, the **annual starts rate of homes priced above \$300,000 increased 30%** over the last 12 months ending in September.

Where is all this going? Well, hang on. It looks as if the **trend is pretty solid for higher home prices** to continue to be the norm. One way to determine this is to look at lots and what's happening to them. Metrostudy's most recent survey of the Austin market indicates there is about a 22 month supply of lots available based upon the current new home starts rate.

This hasn't changed much, but it doesn't tell the whole story. **The competition among builders and developers for strategically located tracts has resulted in sharply rising land prices in recent quarters.** Add to this the increasing interest from out-of-state investors who view Austin as an under-priced market, and the result is more pressure on land prices.

This is where the trend comes in. **These new price levels will be absorbed into finished lot costs in 2006 and 2007** and will ultimately result in higher new home prices in the Austin market.

It's almost a no-brainer to come to the conclusion that new home prices in the Austin market are going to keep going up in the immediate future. Land and material costs are expected to continue to increase in coming quarters, predicts Metrostudy, and as a result **you will see a continued shift in the Central Texas area to higher price points of homes.** This is occurring as new jobs are being created here and unemployment is the lowest of any metro in the state.

While on the topic of real estate, one local commercial real estate outfit can be forgiven for proclaiming “happy days are here again!” After all, it’s been awhile since building and leasing office space was fun.

But activity has now picked up to the point that Colliers Oxford Commercial is pretty bullish on the prospects for the office market. Colliers’ prediction: “The Austin office market should remain strong with **shrinking vacancies, growing rental rates**, and the start of **new construction** due to increasing demand as **positive job growth** continues.”

The reason for this upbeat analysis is the Austin office market continued its steady recovery in the 3rd quarter, as **high demand** and strong leasing activity fueled **rising rental rates** in both the downtown and suburban markets.

For instance, Colliers reports the **Central Business District saw a resurgence** in the 3rd quarter with more than 110,000 sq.ft. of absorption. **The thriving Far Northwest market continued its pace** with more than 200,000 sq.ft. absorbed, while the **Southwest market** absorbed almost 80,000 sq.ft. Companies are moving here or expanding and hiring and needing more office space.

As a whole, the market absorbed more than 670,000 sq.ft. during the 3rd quarter, reports Colliers Oxford. A large piece of this positive trend can be attributed to **Accenture’s move to the Southfield Building** in early July where it occupies 142,000 sq.ft.

And, as we have been telling you, **sublease space is now a non-factor** in the Austin office leasing market as it makes up only 1.3% of the total office market.

Lest you forget, **five years have passed since the “tech wreck” of 2000**. The Austin area’s economy suffered a substantial blow when technology stocks plummeted and funding for technology startups dried up. Thousands of jobs were lost. How bad was it for the commercial real estate sector? Consider this:

About 3.7 million sq.ft. of new office space was produced during the five-year period from 1995 through 1999, with more than 5.1 million sq.ft. of absorption, according to the Real Estate Center at TexasA&M. But from 2000 through 2004, new construction rose to 6.9 million sq.ft. while net absorption fell to 2.3 million. **Translation: lots of empty office spaces**. As recently as mid-year 2005, no new office buildings were under construction in the Austin area.

But, at least four new office construction projects have been announced since then, prompting Colliers to utter “happy days are here again.” **Five years is a long time when you’re sitting on empty office space with no prospects for leasing it**. So those in commercial real estate, especially in the office sector, can be forgiven if they’re whistling a happier tune now.

She wasn't on the ballot in the General Election this Tuesday, but State Comptroller Carole Keeton Strayhorn may have suffered a big blow in her announced quest for the governorship.

You see, one of the problems Comptroller Strayhorn has in the Republican primary is she is running against Governor **Rick Perry** in a forum where **only Republicans will vote**. Perry has long courted, and received support from, the GOPs right-wing base that includes social conservatives. Strayhorn is viewed as somewhat of a maverick and her entire campaign so far has been based on lambasting Perry.

Social conservatives in the GOP mobilized heavily in favor of placing a ban on gay marriages in the constitution. Perry was out front taking the same position on the issue – even going so far as to sign a copy of the proposal at a Fort Worth church in June and recording a telephone message that went to one million households prior to the election, urging support for the amendment. It passed by roughly 76% to 24%. This is overwhelming. A landslide is when you get more than 55% of the vote. **Perry solidified his base with this effort.**

Also, **Perry was a lead supporter** of the rail proposition (see our first item) and **Strayhorn opposed the change** in the constitution. This also passed, leaving Strayhorn on the outside looking in.

As the GOP primary looms next spring, Perry is seen as coming down on the right side (pun intended) of the issues that matter to the right-wing base of the GOP. **Strayhorn, on the other hand, with her criticism of Perry, is seen on the losing side of issues that matter to those who are most rabid about voting in the GOP primary.** Strayhorn reaches across party lines and appeals to a number of Democrats. But she may not get the chance to take advantage of this appeal next November because Perry is strongly favored to beat her in the GOP primary.

A study in the *Washington Post* reports that women have better verbal skills than men. **Dr. Louis Overholster** had only one thing to say to the authors of the study: “Duh!”

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