

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**A new trend is emerging that could soon impact the Austin area. Big box retailers – your Wal-Marts, Home Depots, Targets, etc. – are testing a move deeper into cities and thinking “outside the box,” literally.**

The typical one-level big box site requires four-to-six acres to hold a 100,000 to 250,000 sq.ft. store with parking. **It's hard to find economically priced acreage in more densely populated areas.** As a result, these big boxes are being placed in suburban areas more removed from the denser population concentrations and/or they try to get ahead of the growth curve, in anticipation of being enveloped by customers moving in their direction.

Now, these giant retailers are looking for sites they would not have considered just a few years ago. **Several retailers, including Home Depot and Target, are testing multi-level stores on smaller sites in densely-populated urban areas.** The invention of escalators that can accommodate both people and shopping carts has enabled these big box retailers to step outside their one-level box and locate in multistory buildings.

While not exactly fitting this mold, to understand how the concept works, all you have to do is **check out the people/cart escalators in the new Whole Foods prototype headquarters** store between 5<sup>th</sup> and 6<sup>th</sup> Streets on North Lamar Blvd.

For instance, Home Depot has people/cart escalators in a Chicago store that is **four stories high and contains only 80,000 sq.ft.** By carefully choosing merchandise that is in demand within the surrounding neighborhood, Home Depot can get the job done extremely well in a smaller store.

It's the same thing with Target. It is operating a **gleaming multi-level store on a busy street corner in Minneapolis.** Wal-Mart erected an urban Wal-Mart in Atlanta and is moving into two cities in California.

**Each of these prototypes is architecturally appealing, colorful and well-designed** – compared to the plain vanilla, windowless boxes so familiar in the Central Texas area and all around America. No one is predicting the end of the big box concept that has proven so successful for these retailers. But the giants are now showing a propensity to step outside their big box and consider other approaches to reaching you, their customer.

**The Austin metro area median-income family earns 91% more than necessary to acquire the median-priced Austin home at \$153,900, according to the latest available numbers. This is a significant measure of the affordability of area homes.**

Affordability is relative, depending upon a number of factors. You start obviously with the price of the house. Then you look at income of the buyer. Next you factor other associated costs such as interest payments, etc. But the basic question is: **does the average person in the Austin area make enough money to afford the median-priced Austin home?** And the answer is yes, the average family in the metro area earns 91% more than is necessary.

This is the result of the most recent economic study (1<sup>st</sup> quarter, 2005) conducted by the TexasA&M Real Estate Center for its Texas Housing Affordability Index. From time to time, we have checked out this survey for you and this time the numbers jumped up considerably. But, frankly, the increase had to do with **changes in the way the Index is calculated.**

Without causing your eyes to roll back in your head by analyzing the economic factors that were changed, suffice it to say the research economists re-calculated the formulas and ratios to make them more comparable to other national indices. It makes, they say, for a better method of comparing the affordability of homes in each Texas and US market. Or, to use an old economic technical phrase: **It's the old apples-to-apples thingee.**

By the way, one affordability measurement needs to be singled out, especially with all the various types of financing out there today. This study takes into account the very **conservative monthly mortgage payment the borrower will have to pay on an 80% conventional mortgage** at the effective interest rate for the area.

This new method of calculation raises the magnitude of Texas housing affordability. "The higher index measures tend to confirm the intuitive belief that **Texas housing is particularly affordable relative to many other areas of the country**, especially in a climate of relatively low interest rates and modest house price appreciation," reported research economist **James P. Gaines**. For the state as a whole, the Texas median-income family earns 79% more than necessary to acquire the median-priced home statewide of \$129,100.

The data indicate Texas has been a highly affordable housing state for some time. **But this trend of increasing affordability may have peaked in 2004.** Most of the individual metro areas have a lower 1<sup>st</sup> quarter 2005 affordability index than for 2004. The upward affordability trend line has now been interrupted. But, at 91%, it still is in a very favorable range. We just need to keep an eye on this as new data is released.

If you want more detailed info, just go to [www.recenter.tamu.edu/pdf/1742.pdf](http://www.recenter.tamu.edu/pdf/1742.pdf). Also at that Web page you can get an estimate of First Time Homebuyer Affordability Indices.

**When most Central Texans think about water resources, they think about the Highland Lakes (including Lakes Buchanan, Travis and Austin) that stream through the Hill Country and are managed by the Lower Colorado River Authority (LCRA). A new big-time player has entered the Central Texas scene that could give new meaning to the old Texas saying that “whiskey is for drinking, water is for fighting.”**

The water sources mentioned above are all *west* of IH35. Now, think *east*. East of IH35 and even east of the fast-tracking IH35-reliever, the north-south SH130. Remember, we told you 10/28/05 former Austin Mayor **Kirk Watson** said the **development of SH130 “may be the single best economic development opportunity we will see in our lifetime.”**

This bold new move is Texas-sized. Unlike the LCRA’s *highly-visible* Highland Lakes, there is a mammoth *underground* lake (the Carrizo-Wilcox Aquifer) that holds tens of billions of gallons of water to the east of SH130. Another river authority, the **Guadalupe-Blanco River Authority** (GBRA) has now contracted for a massive amount of this water and has joined forces with a private consortium called **Sustainable Water Resources** (SWR) that hopes to peddle this water to entities and developments all along SH130. This can be a big deal.

**What makes this interesting is the GBRA/SWR action moved into an arena heretofore eyeballed by LCRA.** The LCRA, besides being charged with flood control, is also in the business of managing and selling water. SH130 will span the LCRA’s Colorado River in eastern Travis County. The GBRA, located to the south of Austin with a treatment plant in San Marcos, also is in the business of managing and selling water and its jurisdiction also overlaps the aquifer.

The selling of water to a virgin area that “is the single best economic development opportunity we will see in our lifetime” could turn into a **knock-down, drag-out competitive tussle that will undoubtedly involve much more than these water giants.** Think of other water suppliers, with briefcases full of water leases in the Carrizo, who would like a piece of the pie. Think of environmentalists and conservationists who are already involved in a noisy battle with the LCRA over pumping water to additional parts of the Hill Country.

What makes the GBRA/SWR deal stand out as a major player, rather than some dreamer with an idea, is GBRA is stepping up to the plate to become the “anchor tenant,” so to speak. And the SWR partners (Winstead Consulting, Bury+Partners, Schlumberger Water Services, WaterTexas, JPMorgan Financial, etc.) are **stout enough to make something happen.**

This could really get interesting. First of all, one of the state’s most precious commodities is involved – **water, lots of it.** And another precious commodity – **money, lots of it** – stands to change hands as well. Just one without the other was enough to start range wars in the early days of Texas. What’s that again about whiskey and water?

**Interested in the price of gasoline? Do you want to check out the prices to see if your favorite “fill-’er-up” location is gouging you or giving you a good deal? We have an answer for you.**

You’ve probably noticed a wide variance in the price at the pump as you drive around town. **And the prices seem to change almost daily.** Well, if you like to keep a full tank of gas in the ole jalopy and you don’t want to get ripped off for such a necessity, there’s a Web site you can access that will give you some idea of what’s happening out there on the street.

For instance, the last time we checked (this was several days before you’re reading this), the highest prices for regular gas in Austin were \$2.29 at the Pecan Food Mart on South First and Fuelman on East 7<sup>th</sup>. We found the heaviest *concentration* in one upscale part of town. **Two Shell stations and a Chevron station on Exposition Blvd. topped out at \$2.26/gal for regular gas.**

The least expensive: \$1.87 for regular at BP on East Cesar Chavez. But this was an aberration. The closest to this price was \$1.96 at Major Brand on Airport & Gunter. **Round Rock seemed to have a lot of lower-priced fuel**, ranging from \$1.98 to \$2.00 for regular at about five different locations.

Where can you find such listings? Go to <http://www.GasBuddy.com>. It carries updated prices from all over the nation. **The average Texas price for regular was \$2.057 and the USA average was \$2.188.** So Austin prices, while high, are still better than at most locations. Of course, as prices change so frequently, it helps to check regularly.

Where are the *lowest* prices in Texas? Generally you can find them in the **Rio Grande Valley and the Corpus Christi** area, where regular ranged from \$1.83 to about a \$1.89. The *highest*? How about **West Texas and the Panhandle**. The same regular was priced at \$2.38 in Pecos and \$2.29 in Amarillo.

**Dr. Louis Overholster** points out that a clear conscience is usually the sign of a bad memory!

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