

Volume 28, Number 32

November 10, 2006

Dear Client:

**Texas land prices hit an all-time high in 2005. And the same forces that propelled those upward prices have accelerated in 2006.**

The 2005 median price (\$1,483/acre) in 2005 was up 16% from the 2004 median (\$1,274/acre), reported **Charles Gilliland** and **Gerald Klassen**, of the Real Estate Center at TexasA&M. This milestone marked the fourth double-digit, year-to-year increase posted in the past five years.

The price increase is even more significant when you consider the 16% gain matched the 2004 increase and was the third highest annual gain in the past 40 years. Only 1973 and 1974 had larger year-to-year percentage increases. **This strong gain produced a 76%, five-year gain in nominal prices.**

What's driving these huge price increases? Well, it isn't farmers and ranchers adding to their holdings. "*Nonagricultural* buyers continue to dominate market activity," the Real Estate Center researchers report. And the non-farmer/ranchers are driven by a "desire to avoid capital gains taxes." **Many of them are taking advantage of the 1031 exchange opportunities in the IRS regulations.**

The 1031 exchange allows an owner to convert one real estate investment into another without the gain being taxed. And the trend appears to be that **many of the 1031 exchanges involve buyers from outside Texas.**

But, in response to the out-of-state activity, Texans have accelerated their plans to purchase land before prices move too high. "Together, **these forces have generated a fever to identify attractive properties and convince owners to sell,**" noted the TexasA&M experts.

**There appears to be no letup in sight.** Gilliland and Klassen say "investors seem to be anticipating inflation and are plowing funds into tangible assets like land," pushing markets even higher in 2006. They say that "despite high energy price levels, recession does not appear to be on the immediate horizon and the economy continues to thrive." Higher incomes also support the demand for recreational property. And, of course, **the Hill Country stretching westward from Austin through Fredericksburg to Kerrville should be one of the prime high-price hot-spots in Texas** — because of its scenic appeal — at least this year and next.

**With the major developments this week on the *national* political scene signaling changes in Washington, it's pretty much going to be business as usual here in *Texas*.**

The headlines heralding a sea change in Washington have overshadowed the fact that the only major turnover in Texas as a result of this week's action is that **TexasA&M may be losing a president**. This is somewhat of a tongue-in-cheek exaggeration, but not much. Once again, the Republican Party will be in control of the state's direction for the foreseeable future.

And, while there will be some new faces in new positions on the state scene, the faces – and political views – are well known. Republicans USSenator **Kay Bailey Hutchison**, Governor **Rick Perry**, Lieutenant Governor **David Dewhurst** and Attorney General **Greg Abbott** will reprise their roles (unless Hutchison and Perry get drawn into the Vice Presidential sweepstakes – more about that in a minute).

Agriculture Commissioner **Susan Combs** moves into the all-powerful post of State Comptroller and State Senator **Todd Staples** will step into the Ag Commissioner's office. Land Commissioner **Jerry Patterson** stays put. The state's highest courts remain in GOP control. There has been no change in GOP control of the Texas Legislature, which means that Dewhurst and House Speaker **Tom Craddick** will continue to guide the direction of a “friendly” Texas Senate and House.

While Perry, Dewhurst and Craddick will probably feel somewhat emboldened at this week's vote of confidence in Texas polling places, it remains to be seen how they will approach the next session of the Texas Legislature that starts in Austin – get ready! – in just two months. But **the basic conservative agenda is not likely to change all that much**.

The intriguing aspect in the next year will be to watch the speculation that should swirl around **Hutchison and Perry as possible GOP nominees for Vice President**. Both have major pluses going for them in this regard. First of all, Texas is an important state in a presidential election. **And both have track records that are as good as many Veep nominees in the past**. And Hutchison (6-years) and Perry (4-years) will be at the beginning of their elected terms and would not need to resign if placed on a national ballot in 2008.

Hutchison is well known on the national scene from her leadership roles in the USSenate and the GOP leadership may want a woman VP nominee, especially if USSenator **Hillary Rodham Clinton** appears to get the nod from the Democrats. Perry, as governor of a big, successful and powerful state, would carry a lot of sway with the GOP – especially if a northeasterner tops the ballot.

And, finally, TexasA&M President **Bob Gates**, a former CIA director, will need to leave his post in Aggieland ASAP if he is confirmed as the new USSecretary of Defense. (You may recall we quoted Gates some time back as joking that **the difference between a terrorist and a tenured professor is that you can negotiate with a terrorist!**).

**In the five years ending in 2005, Texas was the only state to have more than one city among the fastest-growing in America – and it had four.**

As has been our mission since we founded this weekly report back in 1979, we focus on what is happening in-and-around the Austin area. But from time to time, we like to let you know what is going on in other areas that have an impact on Central Texas. And, certainly, the other big cities in Texas are intertwined with Austin in so many ways. The state's demographer, **Steve Murdoch**, has come up with some interesting information about the growth of Texas cities.

For instance, did you know that **three of the top ten largest US cities in 2005 were in Texas**? Houston is #4, with a population of more than two million, San Antonio is #7, with nearly 1.3 million residents, and Dallas is #9, with more than 1.2 million. Notice we're talking about cities, not metro areas.

By the way, San Antonio had been the eighth largest US city a year earlier. But an additional 21,400 new residents, coupled with San Diego's loss of nearly 8,300, moved the Alamo City up a notch. This is an example of what may be even more significant when examining Texas big cities – their **phenomenal recent growth**.

When you check the US rankings by percentage growth from 2000-2005, four Texas cities are in the Top Ten: **#1 Fort Worth, up 15.3%** ... **#4 San Antonio, 9.1% higher** ... **#7 El Paso, up 6.2%** and **Austin, 4.6% higher**. Texas cities dominate the nation in population growth.

Okay, these are five-year numbers, Steve. What's been happening recently? **Is this population surge continuing to this day?** Well, he points out, it is continuing at least through the most recent figures that are available – 2005.

Look at what is going on in the most recent 12 months for which numbers are available in *actual population growth* in the four Texas cities in the Top Ten: **#2 San Antonio added more than 21,400 new residents** ... **#3 Fort Worth added 21,000** ... **#7 Austin increased more than 9,500** and **#10 El Paso welcomed more than 6,800**.

In most economic cases, the *metropolitan* area (including the suburbs) is the measure that means the most. After all, many folks in West Lake Hills drive to Austin to work, shop, and play, as do residents in other incorporated towns and cities surrounding the big core city. But, especially in cases of governance and taxes, **it's important to consider the population within city limits**.

Here are the ten largest Texas cities: **Houston** (more than two million), **San Antonio** (nearly 1.3 million), **Dallas** (more than 1.2 million), **Austin** (more than 690,000), **Fort Worth** (more than 624,000), **El Paso** (nearly 599,000), **Arlington** (nearly 363,000), **Corpus Christi** (more than 283,000), **Plano** (more than 250,000) and **Lubbock** (nearly 210,000).

**“Austin is the best little city in America. The glass isn’t half full in Austin; it’s spilling all over the table.” High praise, from a well-regarded national magazine.**

As you know, we like to report from time-to-time what others say about the Austin area. When you’ve lived in a place a while, you tend to do the same things, drive the same roads, etc. So, an “outsider’s” view gives a unique perspective to what may be taken for granted as you go about your everyday activities. And every now and then, a different set of eyes looking at Austin is accompanied by a “wow!”

Such is the case with **Carl Hoffman**, writing in the November/December 2006 edition of *National Geographic Traveler*, a prestigious, slick magazine perused by people who love to travel and, hence, have seen a lot. Those are Hoffman’s quotes at the top of this piece. He says further: **“Austin is not just the capital of Texas but also a place where misfits fit and creativity is unbridled.”**

Austin’s diverse population, endless music, eclectic shopping and regional cuisine wowed him: “Dancing arm in arm is **an American cross-section**: rednecks in cowboy hats, new-agers in Birkenstocks, tattooed twenty-something hipsters, preps in pink polo shirts. **The men are men and the women are women**, swirling, twirling, beaming, moving with the simple unbridled joy of music.”

He went on to say “Austin is known as the nation’s mecca of live music. But after soaking up the nightlife – and **discovering other attributes** of this funky state capital – I’d go further: Austin, I’m here to say, is the **best little city in America.**”

Another big-time travel mag, *Conde Nast Traveler*, will also feature Austin in its December 2006 issue, with an article written by a London-based editor of the pub. And *Travel & Leisure en Espanol* names Austin “the secret jewel” in its November edition.

Speaking of traveling, **Dr. Louis Overholster** firmly believes that if you line up all the cars in the world end-to-end, someone would be stupid enough to try to pass them!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

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