

THE

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AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

With the opening this week of the Hill Country Galleria (following the launch of The Domain) new lifestyles are quickly emerging in Austin – and we're not talking just about shopping centers with glitzy shops.

An awful lot of attention has been devoted to downtown living in high-rise condos – deservedly so. If the credit crunch does not dramatically impact condo sales, **a new lifestyle will rapidly spread throughout a dynamic downtown highlighted by the enviable amenities of the State Capitol and beautiful Lady Bird Lake.** This will develop into a significant lifestyle change in the way many Austinites work, live and play.

But at the same time, a move counter to the conventional wisdom is taking place in areas *away from downtown* that could have the **same type of lifestyle impact and mark a big departure from the past.** Disregarding the dictate that shopping areas must be located in air-conditioned malls to offset the Texas heat, the Hill Country Galleria and The Domain are set up as mini-cities within themselves.

Even though it is far from being “built out,” **a stroll through The Domain in North Austin illustrates what can be.** Residents in the apartments above the retail shops walk their dogs along the winding, beautifully-landscaped streets, stopping at Starbucks for coffee and sipping lattes near an outdoor fireplace under massive live oak trees, while a lone musician plays unobtrusive, but mood-setting, live music that entertains them as well as the shoppers from elsewhere.

Now, the **Hill Country Galleria in western Travis County** (without the high-dollar stores you find at The Domain) **offers a different – yet similar – experience.** The Bee Caves City Hall at its center, along with an outdoor amphitheater for meetings and performances, a 14-screen movie theater and wide, stroll-able streets linking the shops. Lushly landscaped with a large fountain at the entrance, it, too, will ultimately offer living units in its midst.

All of this is different from Austin's past. **It is living, working and playing around mini town centers.** Yes, the Arboretum years ago started this trend. But we are now seeing it escalated to a higher level. **This is not your father's Austin.** It is an Austin that still retains its ties to the past, yet lifestyles are moving dramatically into the future. Exciting times.

The peak buying season – the make-or-break time-of-year for many retailers – is kicking off. And early signs indicate Austin area retailers have reason to be optimistic.

The most important reason Central Texas retailers are hopeful is that there are **more than 25,000 people working** in the five-county area now than there were at this same time last year. In fact, the Austin area continues to enjoy what many economists call “full employment.”

In September, the Austin area unemployment was better than a year ago — only 3.7%, compared to 3.9%. Paychecks are distributed to more people than ever before, and if past trends hold true, workers will spend a significant portion of those checks during this holiday season.

Of course, there are now more places to spend those bucks. For instance as we mentioned in the previous story, The Domain (at Braker Lane and North MoPac) and the Hill Country Galleria (bounded by Hwy 620, Hwy 71 and Bee Caves Road) were not trying to attract shoppers last year. You can bet they will be doing all they can to entice shoppers to the new opportunities they are offering.

But the traditional shopping areas – the malls, in particular – are expected to aggressively pursue holiday shoppers just as they have in the past. The calendar has not rolled over to Halloween yet Christmas displays are already in place in many retail outlets.

Because of shopping patterns, as well as consideration of the residences of workers, the five-county Austin-Round Rock metro area should probably be enlarged to include two more adjacent counties.

Burnet and Blanco counties, both contiguous to Travis and Hays counties to the west, harbor workers who commute into the designated metropolitan area. Not only do they work in the five-county area, many residents of those two counties regularly make **shopping forays, utilize medical facilities and head into the Austin area for entertainment and dining options.**

Take Burnet County. Marble Falls and Horseshoe Bay for example are just minutes away on multi-lane highways from the new Hill Country Galleria, Lakeway and West Lake Hills. In fact those **roadways are becoming more clogged each day** – proving the point for inclusion in the metro designation.

The same can be said for Johnson City in Blanco County and its proximity to Dripping Springs and Oak Hill in southwestern Travis County

As the Austin area inexorably expands its commercial and residential centers to the west, it becomes more obvious Burnet and Blanco counties should be included in the metro area.

Large acreage land prices continue to climb in the Hill Country west of the Austin metro.

The explosion in land-buying activity that began in 2002 continues unabated, according to Research Economist **Charles E. Gilliland** of the Real Estate Center at TexasA&M. Driven by this unprecedented demand for land, the *statewide* price per acre jumped 23% from 2005 to 2006. **The hike was more than 29% in the Hill Country.** The Hill Country's high prices stretched westward from Austin through Fredericksburg to Kerrville.

The 2006 statewide price represented appreciation at a 14% annual compound rate since 2001 and a **more than 93% total increase over the five year period.** This was the fourth straight year the annual price growth exceeded 10%.

What's happening here? Gilliland said "**investment-minded buyers** continued to pour funds into land purchases, and **recreational buyers** rushed to get in before prices climbed even higher." As Texas evolved from an agricultural to an urban-based society, non-farm buyers flocked to the countryside, buying acreage for recreation and investment. In the past decade, **these buyers have come to dominate market activity.**

Has it slowed this year? "**In 2007, forces propelling prices upward have accelerated and expanded,**" Gilliland noted. "Markets appear poised to reach even higher levels."

The reasons: 1) some investors seem to sense **inflation ahead** and are searching out tangible assets including land, 2) **tax considerations** continue to spark demand for land, and 3) **institutional and foreign investors** have developed an appetite for Texas land – according to Gilliland and his research assistants **Gerald Klassen** and **Nirad Pachchigar.**

These circumstances have prompted market participants to repeatedly note a **dearth of quality listings.** The drop in tract size, generated by a rush to subdivide larger holdings, has resulted in a **shortage of larger properties.** As a result, brokers say they are maintaining long lists of potential buyers.

So how are these transactions taking place? **Buyers clamoring for larger holdings no longer choose among properties sellers have placed on the market.** Instead, a buyer's representative now frequently locates a property matching a seller's specified search criteria and approaches the owner, making repeated offers until he or she decides to sell. **The prevalence of these bidding transactions may be partially responsible for the sizable increases in market prices,** according to Gilliland.

Gilliland's quick look-ahead: Current activity suggests that by the end of 2007 Texas land prices will post another sizable gain.

Deer hunting season is set to begin and it looks to be a banner year for the deer. But this doesn't necessarily bode well for hunters who are getting ready to invade the Central Texas Hill Country.

This is the most important economic time of the year for many Hill Country communities west of Austin, such as Llano, that **profit from the influx of deer hunters who spend time and dollars there.** Thirty minutes before sunrise 11/3/07 is the start of hunting season and it runs through the end of the year.

The Texas Parks and Wildlife (TPWD) deer program leader, **Mitch Lockwood**, said "Generally speaking, it's a banner year for (fawn) production. As far as the quality of the animals, **the deer we're seeing are in pretty good condition and I expect antler quality and body weights to be above average.** Not only do we expect this year's crop to be better, but there are more mature bucks out there."

So why could this be a problem for hunters? The potential for quality bucks is out there, but **predicting where they will be is the catch this season.** The deer will not be moving around as much because they have a bumper crop of acorns to eat under the oak trees and the deer will be hard to see because the vegetation is so tall, due to the wet summer.

One good sign for hunting prospects: the rut is getting started and the bucks go crazy as they search for does, disregarding normal warning signs from hunters. TPWD said "hunters need to control deer numbers." As Lockwood put it: "**It's important for hunters to ... get those excess animals off the range before winter sets in to ensure there is enough food to go around.**" Traditionally, there have been more deer concentrated in the Texas Hill Country than in any other area in the US.

Dr. Louis Overholster had the worst flight of his life this week. The plane sat on the tarmac for two hours before taking off; it was three hours late arriving; another hour waiting for a gate to open up – and the only complimentary beverage on board was prune juice!

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