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Dear Client:

What can be done with the hundreds of acres of vacant or soon-to-be-vacant car lots? This is a Texas-size problem that is not just a real estate challenge, but it impacts tax revenues for various local and state governmental entities.

Think about it. A Texas automotive historian, **Ed Wallace**, believes Texas and other states stand to **lose as many as half of their new-car dealers within the next five years** based on current car sales projections. General Motors has already announced it will slash 2,400 of its 6,000 dealerships nationally by fall 2010 and Chrysler has already cut 800 dealers from its 3,200-lot network following its bankruptcy filing last fall.

Texas is home to 50 of the terminated Chrysler dealerships; second only to Pennsylvania's 53. Not all will go dark; some will sell other brands or switch to used cars only. Nevertheless, it is a huge problem.

The average dealership size is five acres, with huge paved parking lots. Many, if not most of them, are on interstates or major arteries, but not with great access. Most have **service areas or body shops** that are not easily converted to other uses. The large parking lots might be considered assets to churches, public event centers and the like, but their **buildings are all but functionally obsolete** for anything but automotive uses, and many were built before tougher environmental laws.

According to *Tierra Grande*, the Journal of the Real Estate Center at TexasA&M, few of these sites will re-emerge as car dealerships. In fact, most of the available properties **"are generating only low-ball offers of between 30 to 50 cents on the dollar, in part because so many are available."** There's a glut of closed car dealerships – and they all became available at roughly the same time.

Public usage of the spaces was mentioned – community-service centers, visitor centers, public event venues, government offices, mass transit stations and park and ride locations. Some have suggested mixed-use developments with housing, retail and service businesses. But one such re-use example of a 7.5-acre Florida Cadillac dealership took more than ten years to develop.

In the meantime, **property taxes will be impacted** dramatically as the properties lie fallow, waiting for the turkey buzzard opportunists to swoop in and make a deal.

The market for luxury homes in the Austin area – above \$750,000 — should improve later this year. The reason: the gap between conventional and jumbo loans should narrow and jumbo loans will become more accessible.

This is the opinion expressed by **Mark Sprague**, Director of Business Development for Mission Mortgage. **One of the biggest obstacles to buying these properties was financing**, says Sprague. He pointed out that interest rates on jumbo loans soared as the real estate market declined and qualifying for loans became more difficult.

Most young consumers have never seen the traditional financing parameters on jumbo loans that we have today – in other words, putting at least 20% down and having strong credit. (In fact, Sprague pointed out that at one point during the recent heyday of real estate, **more than 80% of buyers in the Lakeway/RR620 area were purchasers who didn't have jobs!** They were moving to the Austin area and then they found jobs.)

How the times have changed! The good news, according to Sprague, is that experts expect **jumbo loans (more than \$417,000) to become easier to obtain later this summer**. Interest rates, he said, have already narrowed between jumbos and conventional loans.

Sprague warns that **“the values, incentives, rates that you see today are short lived.”** He notes that there is a limited supply. Financial institutions are, basically, not allowing speculative homes to be built. So he maintains that **“living in a desirable town such as Austin will continue to push values higher.”**

“There is a good chance that the house you look at today, will not be there tomorrow,” he says. **“The values and prices you see today will not be here in the coming months.”**

The lower-than-national-average housing costs in Texas have attracted more people to the area and, in turn, the economy is strengthened.

“Texas lower-than-national-average housing cost is one reason for the state’s higher-than-national-average growth rate,” notes real estate economist **Ali Anari**. **“When Texans are able to spend more on non-housing goods and services, the state’s economy is strengthened and more people are attracted.”**

Another Texas economist, **Mark Dotzour**, reinforces this conclusion when he says **“Texas’ lower-than-national-average housing cost is one reason the Texas economy outperforms the United States in terms of job growth almost every year.”** He continued by saying “this allows Texas employers to be able to attract workers at a reasonable wage.”

With all the emphasis these days on Capital Metro's new light rail project, where does public transportation fall in the pecking order of the transportation concerns of most Austinites?

When asked which transportation issues should receive the most emphasis from city leaders over the next two years, respondents to a City of Austin survey answered this way: 1) **ease of travel by cars on freeways — 49%**, 2) **ease of north/south travel in Austin — 37%**, 3) **quality of public transportation, bus service — 33%**, 4) **ease of travel by car on major streets — 31%** and 5) **ease of east/west travel in Austin — 30%**.

The survey put it another way, this time adding the element of taxpayer dollars spent on the solutions. The respondents were given an imaginary \$100 and asked how to divvy up those dollars. At the top of the list, **Austinites would spend \$27 of \$100 for improvement to freeways.**

Improvement to major streets would get \$18, while improvements to public transportation would be allocated **\$14 for bus service and \$14 for rail service.** **Improvements to neighborhood streets would receive \$13** of the \$100, while **improvements to walking and biking systems would be allocated \$12.** "Other" received only \$2.

Measuring transportation reaction was just one of the components in the survey conducted by the city during February and March 2010. The survey was also only one element to obtain citizen input for inclusion in the city's Imagine Austin Comprehensive Plan process.

Following the recent merger between two airlines serving the Austin airport, two more airlines that haul Austin passengers daily may be considering their own merger.

As you know, we were ahead of the game in **tipping you to the Continental Airlines/United Airlines merger** – creating the world's largest airline in terms of passengers. Both serve Austin, though they are not dominant at Austin-Bergstrom International Airport (ABIA).

Now, there is mumbling that one of the dominant ABIA carriers, **American Airlines, may be considering a merger with Phoenix-based US Airways.**

While neither airline is "desperate" for a merger partner, US Airways offers American **more northeast routes aimed at business travelers** headed to Boston, New York, Philadelphia and Washington. US Airways has a hub in Philadelphia and a strong presence at Ronald Reagan Washington National Airport.

For US Airways, Fort Worth-based **American is an appealing international brand** and "international is where the airline action is" these days. Stay tuned.

Six graduates of UTAustin will be honored October 22nd as Distinguished Alums. One is from Austin, two are from Houston, two from Dallas and one from Chicago.

The presentation is one of the highlights of the year for the Ex-Students' Association. It will take place the night before the Texas Longhorns vs. Iowa State football game.

The Austinite is attorney **Hector De Leon**, Founder and Managing Partner of De Leon & Washburn. DeLeon earned his BS in 1970 and his JD in 1973.

The two Houstonites are attorney **David Beck** (LLB 1965), Founder and Managing Partner of Beck Redden & Secrest, and engineer **Ernest Cockrell**, the chairman of Cockrell Interests. He earned his BS in Engineering Science in 1967 and his MBA in 1970.

The two recipients from Dallas are **Gary Kelly** (BBA/Accounting 1977), the Chariman/President/CEO of Southwest Airlines and Mrs. **Elizabeth (Libba) Shatto Massey** (BS 1961/Education), a philanthropist.

And from Chicago, a woman whose name has been in the news lately, the Circuit Judge of the United States Court of Appeals for the Seventh Circuit, **Diane Wood** (BA 1971/Liberal Arts and JD 1975). She was mentioned as one of the finalists considered for nomination to the US Supreme Court when the most recent two vacancies occurred.

The 2010 Distinguished Alumnus Award ceremony will be held at the LBJ Auditorium, followed by a cocktail buffet at the Etter-Harbin Alumni Center. **This event occurs during the 125th year of the Texas Exes.** It got its start back in 1885.

Dr. Louis Overholster, taking note of the nation's uncertain economy at the time he saw the list of the UTAustin Distinguished Alums, said "a lot of folks nowadays have a BA, MBA, JD or PhD, but unfortunately some of them don't have a J.O.B!"

Sincerely



Editor/Publisher