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Dear Client:

Austin's low-airfare lovers will soon have a wide open field of major US destinations to choose from. It's all because a 40-year-old law limiting access is going away.

This is a big deal. Southwest Airlines already carries almost 40% of all air passengers at Austin-Bergstrom International Airport (ABIA) – a dominant position any way you slice it, and it could increase. **For the past 40 years, Southwest has been prevented from flying to such major destinations as New York, Los Angeles and Washington, DC.** All that changes 10/13/14 when the Congressional-mandated Wright Amendment expires. And Southwest is putting on a full-court press to take advantage of this opportunity.

Southwest announced this week that, starting *October 13th*, it will start flying from Dallas Love Field to **Chicago ... Baltimore ... Denver ... Las Vegas and Orlando.** Then, *November 2nd* it will start service to **New York's LaGuardia ... Washington DC's Reagan National ... Los Angeles ... San Diego ... Santa Ana, CA ... Atlanta ... Nashville ... Fort Lauderdale ... Tampa and Phoenix.**

These destinations in the past could only be accessed by ABIA travelers using legacy airlines such as American, United, Delta, etc. This fall, Southwest will be competing with them. **Sure, a Southwest passenger using ABIA will change planes in Dallas, but Love Field is an easier terminal to navigate than the massive DFW, or Atlanta, or even Chicago terminals** where Austin travelers changed planes to reach many of the new Southwest destinations. **Wonder what the airfare wars will look like as the competition heats up?**

How did this 40-year quarantine develop? **The Texas powers-that-be wanted to protect the growing DFW Airport and they feared scrappy little ol' Southwest Airlines (originally a Texas-only airline) would limit that growth.** So they lobbied Congress and won the limitation that expires this year. And, frankly, it worked. DFW has become one of the nation's leading airports. (Click on the "Archives" button at the top of the page and go to the November 1st 2013 edition of the newsletter for more background information.)

Southwest's co-founder **Herb Kelleher** said this week "it just proves being patient pays off. Only had to wait 40 years!" When the wait ends this fall, **Austin air travelers will have more options – and should benefit financially if airfare wars materialize as expected.**

After a record 10 million passengers trooped through the turnstiles at Austin-Bergstrom International Airport in 2013, you can look for the Austin City Council to soon okay airport expansion plans.

The scope of the project is all but locked-in and, if approved: **concourse space** will be increased, seven new **loading bridges** will be installed, **new restrooms** added, **concession space** expanded and new **international flight capabilities** will be added – in addition to other improvements. The plan calls for construction to start mid-year 2015.

Speaking of growth-driven expansion, the office market sector of Austin's economy is ready for another growth spurt. And it should happen this year.

“What a difference a year makes,” says **Kim Gatley**, SrVP/Research Director for the commercial real estate firm, REOC Austin. “At this point last year, we characterized the market as ‘poised for growth’ but now we are tracking **eight major projects currently under construction which will deliver more than 1.6 million square feet of office lease space in 2014.**” Gatley also reports three new office projects have reported recent starts.

“Developers have moved forward with projects after watching **rental rates steadily increase over the past two years, finally reaching levels that justify new construction,**” noted REOC Austin VP **Jolie Schooler**. How much of an increase are we talking about? Citywide, office rental rates increased 7%, but the increase was even more dramatic for top-tier Class A space where the average quoted rental rate increased more than 10% over the year.

The rate increases should taper off somewhat but the trend trajectory will continue upward. The reason for the anticipated slower rental increase: “the delivery of new inventory will expand the market and ease supply limitations, especially in the downtown market,” REOC Austin reported.

The commercial real estate firm points out that **Austin's office market strength and growth is attractive to those who want to acquire existing office buildings**, saying “investors remain bullish on Austin-area assets” – citing the sale of the 12-building Austin Oaks project, Four Points Centre, Arboretum Point and StoneCreek Park as examples. By the way, those buildings are in the northwest or far northwest sectors.

In recent editions, we have reported on the rising residential values in the Austin area. Austin is not unique in Texas. Price increases in the 4th quarter are relatively consistent across the state, according to TexasA&M Real Estate Center research economist **Jim Gaines**.

Campaign signs have popped up over much of the Austin area and political TV ads are interrupting your television viewing. When will it end? The primary election is a month away, March 4th. After, there will be a respite until the run-up to the General Election November 4th.

The media has held a Texas businessman up for ridicule because he “lost” \$7 million when the Denver Broncos were defeated in the Super Bowl. Yeah, he was dumb -- like a fox.

It's easy to make fun of **Jim “Mattress Mack” McIngvale** because he has been -- how shall we put it – “flamboyant” in public promotions for his company, Gallery Furniture in Houston. His Super Bowl promotion was a doozy. It cost him, big-time, but he maintains it was worth it.

Here was his deal. **If you bought at least \$6,000 worth of furniture and had it delivered by 5pm Sunday, he would give you a full refund if the Seattle Seahawks lost.** How did he decide between the Broncos and the Seahawks? He flipped a coin. **Around a thousand customers stormed his store and bought about \$7 million worth of furniture.** This week, he happily refunded their money. Why was he happy? After all, he just returned \$7 million dollars he had in the bank last week.

Well, first of all, if he had bought a 30-second TV commercial in the Super Bowl telecast, it would have cost him **\$4 million for just 30-seconds of exposure.** Sure, the telecast was watched by more viewers than any single program in US history. But who knows how many viewers who saw that spot would've become customers of Gallery Furniture.

Not only did the promotion bring in a large portion of new customers, they were the types of customers he wanted, with significant disposable income. **“We’re trying to attract Millennials and this promotion brought in hundreds of Millennials,”** McIngvale enthused.

Who are the Millennials? People born from 1977 to 1995. They represent about 21% of consumer discretionary spending. By and large, many of them spend money – lots of it – on items such as furniture. As you know, most people don't buy a house full of furniture at one time. **They go back again and again to add or replace various items of furniture.**

McIngvale sees tremendous long-term benefit from this promotion. He's banking on customer loyalty and word-of-mouth. Don't you know every customer is bragging – not only face-to-face, but on social media – about what they “won.” It is difficult to put a price tag on such “advertising.”

As McIngvale put it: **“if it's good for the customer, it's good for us. If the customer wins, we win.”** It'll be interesting to see if this promotion pays off in the long-term, as he hopes.

A sign of changing times in downtown Austin: a Seven-Eleven convenience store is opening, fronting on Congress Avenue, just a stone's throw from the State Capitol building. But, what about parking if you want to dash in for a six-pack, bread, milk or a lottery ticket?

Good question. It will be interesting to see how this works, especially since it is **next door to the downtown Post Office where complaints about parking access have been legion since it opened its doors.** On top of that, parking spaces downtown have been reduced systematically by construction, re-working of utilities, and adding bus and bike lanes.

The exact corner location for the shiny new store is on the **East side of Congress Avenue where it intersects 9th Street.** One very limited answer to the parking situation is about four parking meters with a 15-minute limit the city set aside at that intersection. Postal patrons will soon battle with Seven-Eleven shoppers for those limited spots. It's not too much of a stretch to think traffic will slow even more as motorists cruise around (and around) the block seeking a space to park.

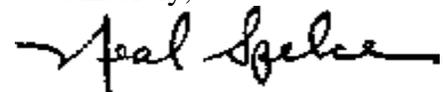
Pedestrians shouldn't have major problems. **Especially for those who live in the downtown area and want to pop in for some small items to carry home.** And this begs the question: how many people now live in the downtown area?

The Downtown Austin Alliance (DAA) reports **there are now 10,000 residents in the downtown area.** Think about this. This is a significant concentration. And with construction underway on other downtown condos and apartments, the number of residents should increase. Yeah, yeah – but how many of those condos are still sitting there unsold? Not many. According to DAA, **91% of the recently-built condo units in downtown are sold.** Pretty high occupancy.

Look for this downtown trend to continue. This should remain true as long as companies keep announcing the creation of new jobs in downtown, such as you've seen recently.

Dr. Louis Overholster asked an unruly patient: "Is it time for your medication – or mine?"

Sincerely,



Editor/Publisher