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Square Feet

It's Also the Texas Capital of Construction

By KRISTINA SHEVORY

AUSTIN, Tex., Feb. 12 — Construction cranes are dotting the skyline here after a six-year hiatus. Large swaths of downtown, once largely parking lots, low-slung buildings and warehouses, are being demolished to put up glass skyscrapers, and land that had been vacant for years is being cleared for new offices and homes all over town.

Yet while the new jobs tied to the growth have been welcome in a town where the economy is largely tied to state government and technology, critics say the building boom runs the risk of altering the character of the city, a place often prized by residents for its offbeat small-town vibe.

"All the capital is getting sucked into Austin," said [Brewster](#) McCracken, an Austin City Council member. "That not only brings more redevelopment, but it also brings the tensions that come along with them. As we redevelop, we want to make sure we don't lose the great things that make Austin unique."

Austin has clearly become the next Texas boomtown.

Lured by a low cost of living, strong job growth and seven universities and colleges, new companies, most of them from California, are opening offices or expanding existing ones. Samsung Electronics is putting billions into a new semiconductor plant, its second in town, and Advanced Micro Devices is building a new 60-acre campus.

In the process, they are bringing 70,000 new jobs, pushing office vacancies to a five-year low and keeping the local housing market strong. Over a million square feet of office space is being built, and 22,000 apartments and condominiums are either being planned or are under construction, the highest number since 2000.

"Austin is on everyone's radar," said Brett Arabie, senior vice president at Oxford Commercial, a real estate firm in Austin. "You really don't have to do a sales job."

Real estate investors are banking that the growth will not be short-lived. In the last three years, Equity Office Properties Trust more than doubled its office space here, to 3.3 million square feet, becoming the city's biggest private landlord.

When the Blackstone Group bought Equity for \$39 billion last week, it assumed control of all of the trust's properties in Austin. Although the private equity firm has already sold some Equity buildings in New York and Seattle, it is unclear what it will do with the ones in Austin.

In September, Equity paid \$188 million, or \$354 a square foot, for the Frost Bank Tower, making it the most expensive office tower in the state. The race for office space has made Austin the most expensive commercial market in Texas. Sale prices have risen 50 percent since 2002 and now average \$181 a square foot here, according to Real Capital Analytics. Prices in Dallas and Houston average \$130 and \$129, respectively.

Still, some Austin residents say they are worried that their city will become like any other American metropolis. They have been battling large-scale developments in environmentally sensitive areas, zoning changes for high-rise condo towers and the loss of local stores, music clubs and restaurants. The threatened demolition of Las Manitas Avenue Cafe, a beloved Tex-Mex restaurant downtown here, has become a rallying cry in their fight to "Keep Austin Weird."

Since opening a quarter-century ago, Las Manitas has become a local institution, attracting musicians, politicians and celebrities, like Quentin Tarantino. In its place, White Lodging Services wants to put up three Marriott hotels, with 1,000 rooms, by the summer of 2009. A child care center and a folk arts and crafts store would also be displaced. The restaurant's owners, however, have refused to leave unless something can be done to save it. The two sides are still negotiating.

The development battles have focused attention on the city's lack of a downtown master plan and a program to preserve small local businesses there. A fund to help keep the small businesses is being hammered together, and a portion of the money will probably come from development fees. A development plan should be completed by the middle of 2008, according to city officials.

Downtown development has had its booms and busts. In the late 1990s, the city wanted to turn the area into a "digital downtown" and offered more than \$45 million in incentives to lure tech companies. It expanded the convention center, built a new City Hall and persuaded Computer Sciences, Vignette and Intel to move there.

But after the technology industry went into decline six years ago, office vacancies hit a high of 23 percent. Vignette pulled out of a proposed \$350 million office complex. Computer Sciences delayed the completion of a three-building campus, and Intel scuttled its 10-story chip design building, leaving a five-story skeleton. After six years, the skeleton is expected to come down later in February to make way for a new federal courthouse.

This time around, the Greater Austin Chamber of Commerce was determined to make sure that the good times lasted. In 2004, the group started a five-year plan to make the economy more diverse.

"There was an outpouring of support from the city, regional government and businesses to get Austin moving," said Dave Porter, the chamber's senior vice president for economic development. "They said, 'We're sick and tired of going through these cycles. Let's do something.'"

The chamber persuaded local companies to stay, and it wooed out-of-state companies. One such business was CompassLearning. Last March, the company left San Diego to make its educational software here with lower expenses and more high-tech employees. Executives had grown tired of battling for the few programmers in town while trying to persuade others to move to San Diego.

"Recruiting people from Nevada and Texas to move to Southern California is a real problem because of the cost of living and quality-of-life issues," said Eric Loeffel, president of CompassLearning, which consolidated three offices in Austin. "I don't have that problem now. Austin is an attraction."

Low housing prices have also persuaded others to relocate. Sales of single-family homes climbed 10 percent in 2006, versus 2005, according to the Austin Board of Realtors. The median home price was \$174,500, up 6 percent. The median price nationally was \$222,000. The housing market has attracted residential developers, and many are pouring into downtown. There are 4,200 apartments and condominiums being planned or under construction there, leading some to wonder if there is enough demand for them. Charles Heimsath, president of Capitol Market Research, estimates there is enough demand to absorb 300 to 400 units a year.

"If all those units are built at the same time, I think we would have a glut," Mr. Heimsath said. "But it's extremely unlikely all of these projects will come online at the same time."

The Novare Group, an Atlanta builder that specializes in high-rise condominiums, is betting at least \$145 million that the housing market will remain strong. It chose Austin for its first project outside of the Southeast and eventually plans to put up several mixed-use projects here.

Last summer, the developer broke ground on a 44-story downtown tower with 432 condos. Prices will probably range from \$190,000 for a one-bedroom to \$300,000 for a two-bedroom. Novare is also building two towers with ground-floor stores, 100 hotel rooms and more than 900 condominiums. Several other mixed-use projects are also in the works.

"You see a lot of patents, good population growth and perfect demographics," said Judd L. Bobilin, Novare's chief development officer. "Those are all strong indicators things are going to take off."

Courtesy of JB Goodwin