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THE AUSTIN/ SAN ANTONIO STORY

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INTRODUCTION

The purpose of this presentation is to examine the potential of Austin and San Antonio, Texas as locations for making sound real estate investments. It will review the growth of these cities and the reasons for their growth. And, it will provide a current report on activity in various segments of the commercial real estate field and will make some projections for investment opportunities in each of these segments of the marketplace.

In the little over a year that we have now been in Houston we have had the opportunity to meet many Houston based developers who believe that Austin and San Antonio are areas in which they should be building projects. They continue to build projects in these cities which cover all segments of the commercial real estate market. In part because of their interest, we have made our own analysis of these cities, the results of which are summarized in this presentation, and feel as they do that these cities are fine areas in which to invest. In the course of this study we met some excellent developers in Austin and San Antonio and feel they too warrant our and your attention in the future. We feel confident of our ability to secure quality investments for you in Austin and San Antonio as well as in Houston.

THE AUSTIN STORY

HISTORICAL BACKGROUND

In 1839, Mirabeau B. Lamar, President of the Republic of Texas, appointed a commission to locate a site for a permanent capitol. Five horsemen spent months riding over the vast area of Texas before a site was chosen in the center of the Republic. Here was an ideal location for the new capitol. A good-sized river passed through fertile black lands which rolled into scenic hill country. A tiny village called Waterloo had sprung up there, but it was renamed after Stephen F. Austin, the father of Texas who had led early U.S. settlers into the Texas territory.

In 1845, Texas was annexed into the United States, and in 1850, Austin was selected as the state capitol. The United States census that year listed Austin's population at 629 persons.

Rail service came to Austin in 1871, and by 1880 the population of Austin had reached 11,013 largely because of the railroad and a growing state government.

In 1883 a major new force was added to spur Austin's growth; the University of Texas was opened. From the 1880's until 1940 the steady growth of the state government and the University were primarily responsible for the population increasing to 87,930.

During World War II the addition of Bergstrom Air Force Base marked the emergence of the federal government as a major employer, and this combined with a rapid post-war enrollment increase at the University brought the city to 132,000 people by 1950. Thus, in the 100 years from 1850 to 1950 the city's population had increased by over 130,000. However, the next 130,000 increase in population took only two decades and by the end of 1972 the population was estimated at over 270,000. Many factors contributed to this explosive 20 year growth and knowledge of a few of them is particularly important for an understanding of the city today.

First, the demand for federal and state government services including higher education skyrocketed during the last 20 years. Federal funds made possible the completion of Interstate Highway 35 and a number of other highway improvements affecting Austin.

An Internal Revenue Service Regional Service Center and a Veteran's Administration Regional Computer Center were established here. Many new state agencies were added during this period and existing agencies were expanded. State employment constantly increased, and new state office buildings were added at a rapid pace. The University experienced spectacular growth. During the five year period prior to August 1971 alone, the University spent more than \$102 million on physical plant construction, attempting to keep up with its burgeoning enrollment which exceeded 40,000 during the 1970-71 long term.

Early in the 1960's another force began to affect the city economically. The fine educational facilities offered by the University and Austin's favorable climate and geography began attracting major industries. Beginning with Tracor in 1962 such firms as Texas Instruments, State Farm Insurance, IBM, Westinghouse, and Motorola decided to locate major facilities here adding a new dimension to the city's growth.

AUSTIN TODAY

The result of this recent period of growth is a city that today has an economy securely based on government offices and the University of Texas, coupled with the expanding industrial and commercial interests.

The largest source of personal income as it has been nearly since the city's founding is state and local government. State and local government (including the University) earnings account for about one-fifth of all income in Austin. These percentages are nearly 2.75 times as large as is typical of Texas cities.

The University of Texas, the largest university in the south with over 40,000 students and 12,000 employees, is vital to Austin. The spending of its students and employees is important to the economy. But just as important is the fact that many firms which have decided to locate facilities in Austin cite the presence here of the University as a major reason for doing so. They find its fine resources, research facilities, and cultural events are invaluable in attracting and holding professional personnel.

Because of the University and Austin's climate and geography, industrial growth continues to accelerate. From 1965 to 1970 employment rose 32.4% in Austin and manufacturing employment rose by 81.3%. Today over 360 manufacturing firms are located in the city. Industries here tend to be based on scientific research (due to the University of Texas), or light manufacturing and assembly (due to the area's ability to attract and hold skilled workers with its climate and low living costs).

A number of statistics illustrate the strength of Austin's economy. Over the last ten years economic activity has been greater in Texas than the U. S. average and greater in Austin than the Texas average.

	<u>Population*</u>	<u>Retail Sales*</u>
U.S.	12.2%	74.9%
Texas	16.0%	85.1%
Austin	34.9%	122.8%

*Percent increase 1960-1970

The unemployment rate in Austin since 1967 has averaged less than 2.5%, while the national average was 4% to 6%. Unemployment has consistently stayed under one-half the national average and was 2.4% at the end of 1972.

During the five years ending with 1971, per capita building permit values in Austin were more than 69% greater than the figure for Dallas, which ranked second to Austin in Texas. During the last ten years Austin has ranked in the top 25 cities in the nation every year in value of building permits. Last year Austin ranked 15th in the nation and through June of this year it ranked 12th for 1973.

In spite of a rapidly expanding economy Austin remains a pleasant place to live. It is a city of over 270,000 people which seems more like 50,000. Traffic still moves. The farthest outlying regions are 20 minutes from downtown.

Sunny days and blue skies dominate Austin's climate. The average temperature is 68 degrees and extremes are rare. There is no desert aridity nor coastal humidity; smog is unknown, and a one inch half-day snow is a rarity.

Austin's location provides a number of benefits. It is in the heavily wooded, rolling Texas hill country. It is at the foot of the Highland Lakes; a chain of seven lakes which begins in the city limits and winds 150 miles through the hill country. Water skiers, sail boats, and bank side fishermen are common sights in the city.

In recent years the recreational potential of this area has begun to provide another boost to the local economy. In 1972 tourists spent \$50 million in Austin visiting the state capitol, the LBJ Library, and the nearby Highland Lakes.

Austin was chosen as the capitol of the state in part because its central location made it accessible to all parts of Texas. Today this accessibility is an important factor in the city's commerce. Within a 200 mile radius lie the cities of Houston, Dallas, Ft. Worth, and San Antonio. This includes 69% of the population of Texas, over \$26 billion in income, and over \$15 billion in retail sales.

According to the U.S. Department of Labor Statistics, living costs for a family of four are lower in Austin than in any other metropolitan area in the country. They are 25% lower than New York City, 19% lower than San Francisco, 18% lower than Chicago, 6% lower than Dallas, and 5% lower than Houston. One important reason for this difference is lower building costs. McGraw-Hill estimates Austin building costs are 12% less than the overall national average.

Given its excellent climate, recreational facilities, education resources, and low living costs one can see why in 1965 U.S. News and World Report called Austin one of the "14 most idyllic places in the U.S. in which to live."

PROJECTIONS FOR THE FUTURE

Austin is expected to maintain its rapid growth through the end of this century. In 1970, the National Planning Association projected a ten year population growth of 34% (sixth in the U.S.) versus a national average of 18%, and a ten year growth in overall economic activity of 55% (third in the U.S.) versus a national average of 29%. Since then, Austin's annual rate of increase has exceeded both of these predictions.

State forecasts are that government facilities and employment will continue to expand as in the past. University growth, however, appears to have leveled off. Only small enrollment increases have been posted in the last two years, and the University of Texas like many schools nationwide should experience a smaller rate of growth in the next ten years than was achieved in the last ten years.

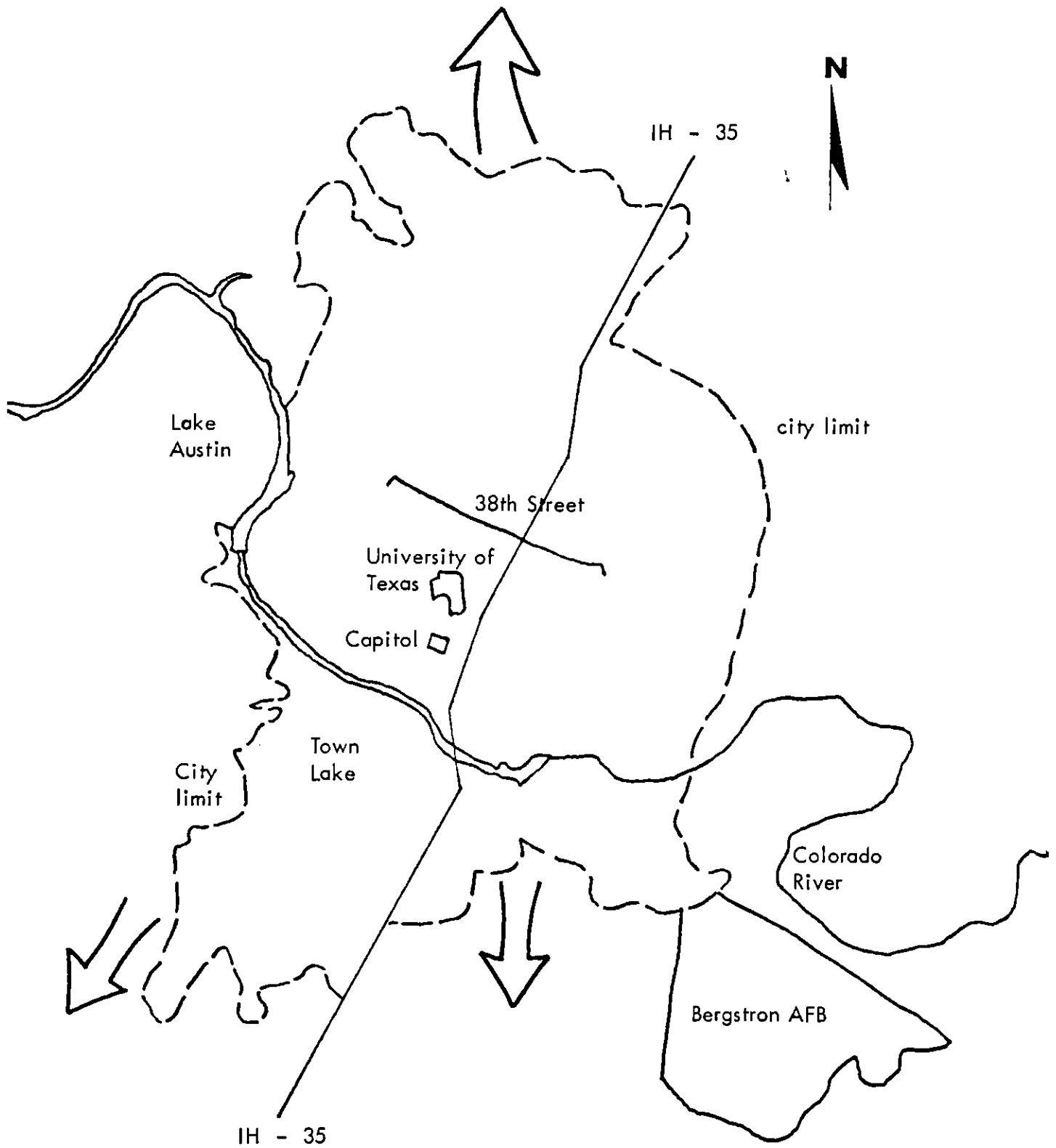
This means that industry must take up the slack left by a decrease in university growth. Austin should continue to attract industries which are not tied to a particular location by raw materials requirements, and which seek an atmosphere which will attract and hold skilled or highly educated employees.

Recently the Chamber of Commerce spent five weeks preparing an orientation seminar for over 2,000 Arizona employees of Motorola who are about to move to Austin. They wanted to reassure people that they were moving to an attractive area and would enjoy their new lifestyles. Company officers had received the word about the "good life" in Austin, but the Chamber wanted to make sure that everyone else did too. Obviously, city officials are serious about attracting industry and results so far indicate they know what they are doing.

It is anticipated that Austin's fine transportation facilities and its central location in Texas should make it increasingly important as a distribution center. The recreation industry should also become more important in the future as the recent rapid growth of this industry indicates. The climatic, geographical, historical, and locational resources of Austin should continue to attract visitors and vacationers. Increasing industrialization

has been no threat to the future of this industry since firms attracted have been those which discharge little or no pollution to detract from the region's natural beauty.

The physical direction Austin's growth will take in the future was the subject of a recent study by the Austin City Planning Department and the University of Texas Bureau of Business Research. Austin is expected to grow to the north, south, and southwest. Over the long term it is forecast by the City Planning Department that 50% of Austin's growth will be north of 38th Street, 25% will be south of the river, and the remaining 25% will be an increase of mid-city density.



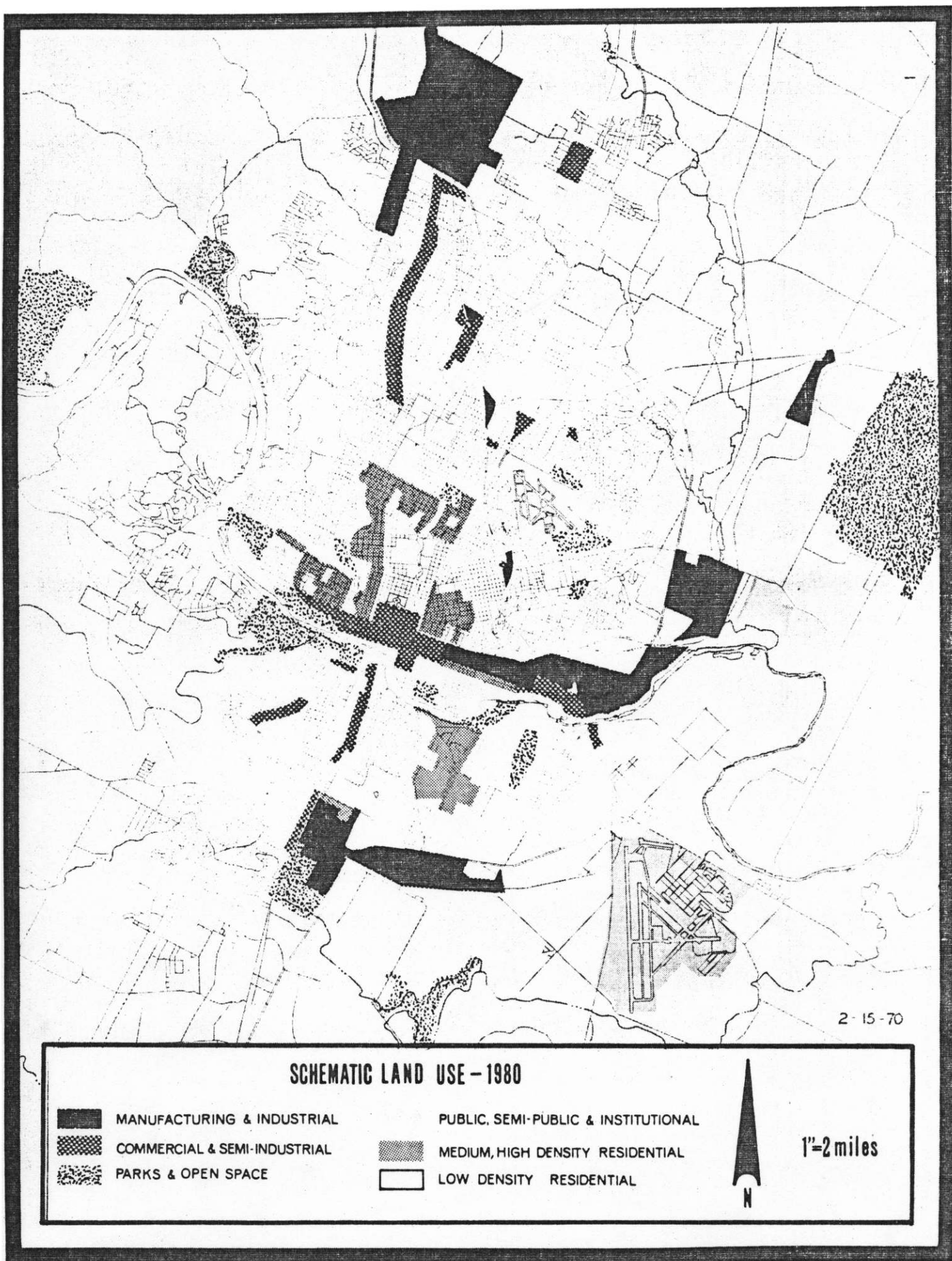
The city cannot grow to the west because of poor traffic access and the difficulty in placing city utilities across Lake Austin. Growth east of the city has been stymied by a lack of utilities and the location there of the city's poorest and most rundown neighborhoods.

Although the major long-run trend of Austin's growth will be to the north, recent activity has centered in the south. Beginning about 18 months ago the presence of existing utilities in the south and average land costs nearly one-half that of the north shifted emphasis to this area. It is expected that this trend will continue for the next few years until land values come into balance.







Austin, unlike Houston, does have zoning. Zoning is the responsibility of the City Planning Department subject to the approval of City Council. A comprehensive land-use plan has been developed in recent years and is being put into effect. The impact of student voters and increased awareness of the problems caused by uncontrolled growth in other cities are the main reasons for this emphasis on growth which allows more public control.

The recent fuel shortages experienced by municipal utilities in central Texas should have little effect on Austin's growth. However, large municipal expenditures for generating facilities using alternative fuels will probably be necessary to overcome present difficulties which have resulted from the city's supplier over-selling its gas reserves. These expenditures combined with the increasing demand for other utilities, and the existence in Austin of a large amount of state-owned and therefore tax exempt property should cause real estate taxes to become more volatile in the future and to increase from their present very low level.

These trends and others will be discussed further below where they are relevant to the future of individual types of real estate investments.



SCHEMATIC LAND USE - 1980

- | | |
|--|---|
|  MANUFACTURING & INDUSTRIAL |  PUBLIC, SEMI-PUBLIC & INSTITUTIONAL |
|  COMMERCIAL & SEMI-INDUSTRIAL |  MEDIUM, HIGH DENSITY RESIDENTIAL |
|  PARKS & OPEN SPACE |  LOW DENSITY RESIDENTIAL |



1"=2 miles

2-15-70

THE AUSTIN LAND USE PLAN

THE RESIDENTIAL MARKET

SINGLE-FAMILY

While this report does not concern itself with this segment of the real estate market, some comments are appropriate. During the last few years single-family housing production in Austin has averaged about 3,000 units per year, and inventories have remained low. Building costs have been substantially below the national average largely due to lower labor costs. Newcomers are presently surprised at the housing value their dollars will buy in Austin. It appears that in the near future, Austin's home selling market is going to become more nationally oriented. The tendency has already set in with large firms spearheading the movement. Recreational and climate advantages should make this an increasingly important area for second homes.

MULTI-FAMILY

Property is second in magnitude only to the government as a source of income in Austin. University students are the primary reason for this. They give Austin a higher percentage of renters over home owners than is typical of U.S. cities. In 1972, 33.5% of total Austin housing was apartments. This is the highest percentage of multi-family housing of any city in Texas. There has been a pronounced trend in recent years toward apartment building. Until 1967, 60% of the city's building permits were for single-family residential homes and 40% were for apartments. Now it's just reversed; 60% are for apartments.

Based on a five year average (1968 to 1972) Austin apartment construction has produced 3,502 units per year. Historical absorption has been 3000 to 4000 units per year. As a result occupancies over the last few years have remained high, over 95%. However, permits were issued in 1972 for 6,835 units and through May of 1973 permits were being issued at an annual rate of 8,652 units. The result has been rising vacancies and the city average is now 8%.

Apartments are concentrated in six major areas in Austin. According to Gurasich, Spence, Darilek, and McClure, an Austin market research firm, vacancies range from 11% in northwest Austin to less than 5% in the center city as an increasing number of students wish to live near the University. Rents range from \$.20 to \$.27 per square foot per month. They are lowest in the south and east and highest in the northwest.



MAJOR APARTMENT CONCENTRATIONS

- 1 East Riverside Drive/Town Lake Area
- 2 University of Texas Area
- 3 Capitol Area
- 4 Enfield Road
- 5 Manor Road
- 6 Capitol Plaza - North Interregional Highway Area

Most projects in Austin have been garden apartments. However, some high-rise units have been built in the center city and those which have appealed to the adult market have done well. Those trying to attract students have to-date been less successful.

Austin appears in the short term to be due for a softening in the apartment market. Historical demand has not been anywhere near present building rates. The apparent leveling off of University enrollment almost surely means that demand cannot be increased greatly in the near future. In the long term a decreasing University growth rate should mean less need on a percentage basis for rental versus for-sale housing in Austin. Many new projects, however, seeking the right market with the right product and location continue to be successful and should be in the future.

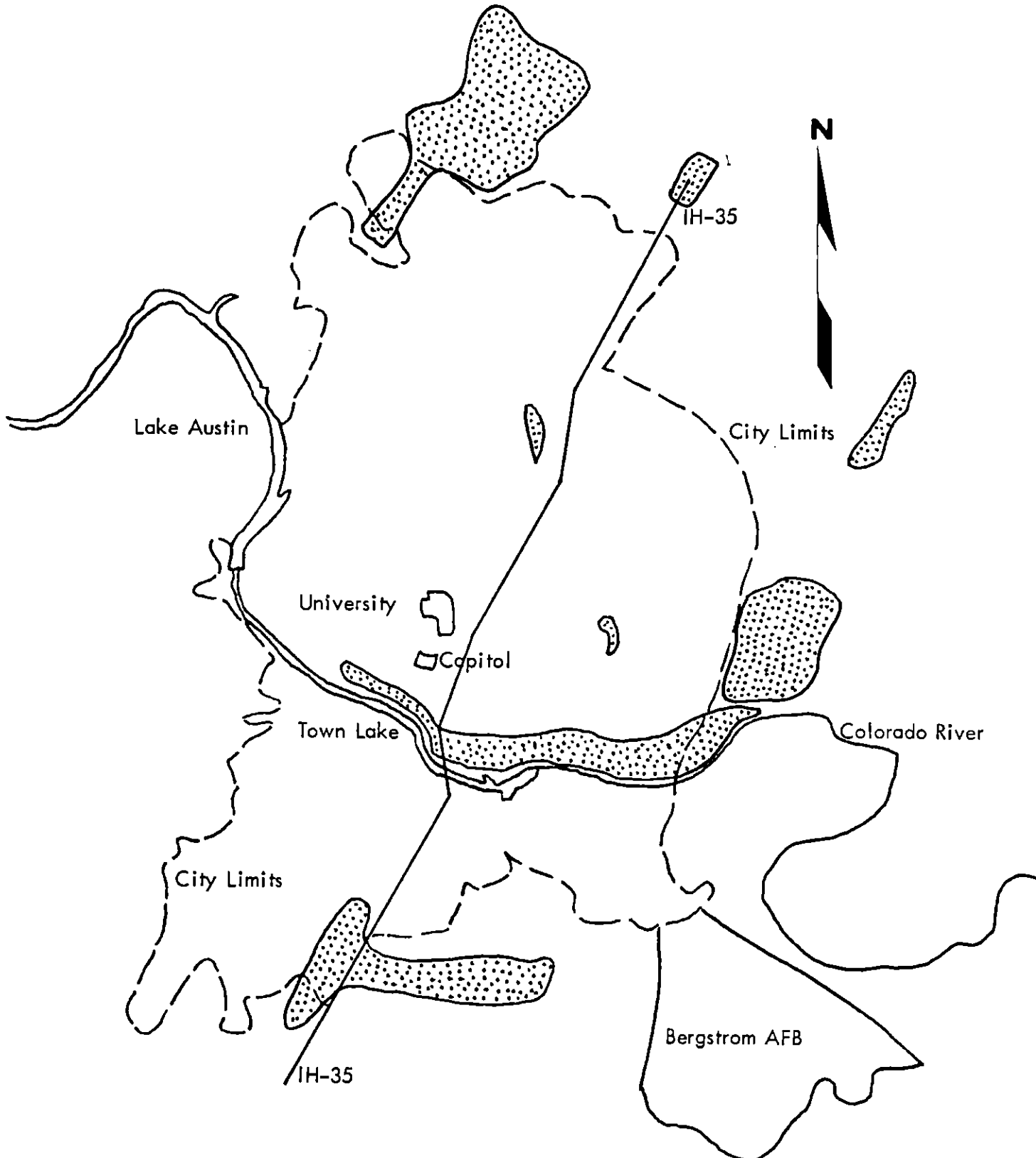
Condominiums were virtually unknown in Austin until about one year ago when about six projects were underway. Today over 35 projects are being built or planned. Some of them are conversions of apartments and this trend should continue.

THE HOTEL/MOTEL MARKET

Austin currently has 77 hotels and motels with 3,400 rooms. A 1973 Horwath and Horwath study sets the number of first-class rooms available at 1,725. They found occupancy in 1972 at 81%, considerably over the national average. Projected increases in demand led them to forecast future occupancies for first-class facilities at about 75% in spite of the announcement of new facilities. Thus, hotel/motel projects should continue to be a good investment here. An important reason for these high occupancies is the popularity of Austin as a convention center. The state government and the University sponsor many conferences here during the year. The city's recreational facilities are an attraction, and Austin's central location places it within a half-day drive of 89% of Texas' population.

THE INDUSTRIAL MARKET

In the past, Austin has had little demand for extensive speculative warehouse facilities. Recently it has become more of a regional distribution center and this trend should continue in the future. Gurasich, et al., set the present inventory at 120,000 square feet with 400,000 square feet on stream. Occupancy is very high and industrial properties should continue to do well. Industrial development has been in the suburbs and land use plans call for this to continue. Areas of present industrial concentration are shown below.



THE OFFICE MARKET

The Austin office market can be divided into public and non-public buildings. State and federal buildings are located primarily in the Capitol and University areas. These buildings are financed through the government. In addition to these state-owned buildings, various state agencies do occasionally take space in privately owned buildings and are a factor in the marketplace.

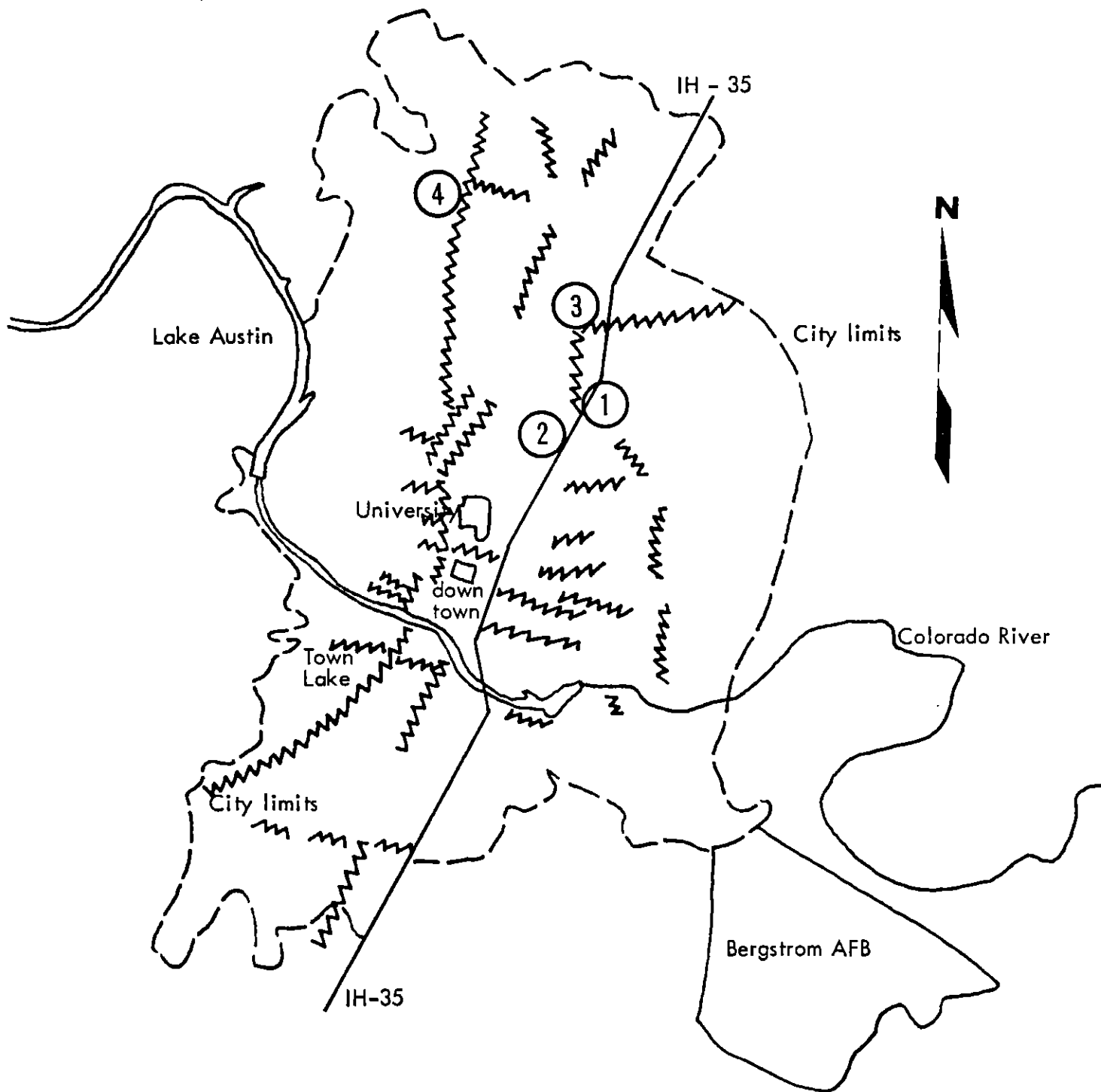
The current inventory of non-public office space is 3,900,000 square feet. Three million square feet of this is north of Town Lake and 900,000 square feet is south of the lake. Absorption rates are very hard to forecast in Austin. Last year 600,000 square feet of space was leased but part of this was taken by state agencies and their requirements are not constant each year. Until recently Austin had maintained an overall occupancy of 95%, but substantial space has recently come on-line. According to Gurasich, Spence, Darilek, and McClure, 800,000 square feet of the currently available 3,900,000 square feet is vacant. This represents an occupancy of about 80%. The area hardest hit with vacancies has been the suburban north. The suburban south has suffered the fewest vacancies. Many other projects are in the planning or construction phase. Major projects already under construction downtown include the American Bank Building, a \$17 million, 21-story, 425,000 square foot bank, office, and parking building being built by Ken Schnitzer's Century Development Corporation of Houston. A joint venture of Austin National Bank and Gerald Hines Interests of Houston has also started a \$10 million, 25-story, 430,000 square foot bank, office and parking building. It is felt that the office market is presently overbuilt and because of these projects and others will continue to be in the near future.

Office rents at present range from \$.44 to \$.54 per square foot per month.

THE RETAIL MARKET

Austin metropolitan area retail sales in 1972 were over \$600 million. Effective buying income was over \$1 billion and average household income was \$11,056. All of these figures have increased dramatically in the last ten years and should continue to do so. This should maintain a strong retail market for the foreseeable future.

Suburban centers have become increasingly important as the map of major retail areas and major projects indicates. Capitol Plaza is a 378,000 square foot center anchored by Montgomery Ward and H.E.B. Foods. Hancock Center is a 508,000 square foot center and is anchored by Sears and H.E.B. Highland Mall is a 750,000 square foot Rouse Company mall anchored by Joske's (Allied Stores), J. C. Penney, and Scarbroughs. Last year this mall ranked fifth among Rouse Company malls in per-square-foot sales. This is a very strong performance for its first full year of operation. Northcross is a proposed 360,000 square foot center to be anchored by Frost Brothers of San Antonio and Beall's.



AUSTIN RETAIL AREAS

- /// Shopping Strips
- 1 Capital Plaza
- 2 Hancock Center
- 3 Highland Mall
- 4 Northcross (Proposed)

THE SAN ANTONIO STORY

HISTORICAL BACKGROUND

San Antonio is a city that will always be remembered in the annals of Texas history. The city is immensely proud of its heritage as evidenced by the preservation of the 250 year old Spanish mission located in the heart of downtown San Antonio - the Alamo.

The Alamo was built in 1718 along the banks of the San Antonio River halfway between the missions of East Texas and the Presidio of northern Mexico. A century later, in 1836, San Antonio became the scene of an armed revolt against Mexico. Santa Anna marched his army against a small band of 181 men defeating them in the Battle of the Alamo. This set the stage for Texas independence won later in the same year.

San Antonio's founders were excellent city planners from the standpoint of site selection. Today the city benefits from two valuable resources - one being its location in relation to Mexico and the other being the San Antonio River which provides a water corridor linking the downtown.

San Antonio is one of the largest ports of entry into Mexico and Latin American countries in the nation, and is known as the "Gateway to Mexico" since it is only 150 miles from the border. Both Mexico and Latin America are enjoying increasing prosperity and are growing markets for products manufactured in San Antonio. San Antonio is also an excellent location for the distribution of products throughout the U.S. It is equidistant from the east and west coast and is linked to all major cities daily by scheduled flights.

The River Walk area in downtown San Antonio has achieved acclaim world-wide for its creative solution to a one time flood problem. The river, which is maintained by the city, forms a horseshoe bend in the middle of the business district and was an integral part of Hemisfair '68. This one event provided a significant economic stimulus to San Antonio's growth. The last major building boom in downtown San Antonio occurred in the 1920's making the average age of the downtown structures and facilities over 50 years old.

San Antonio's economy has long been linked to the military installations in and around the city. The economic impact of the military dates back to the times of Spanish rule. Currently, 37,000 civilians are employed by the five major bases which have an annual payroll of two-thirds of a billion dollars. Cutbacks in the nation's military forces have not affected bases in San Antonio. Military personnel have decreased only 16% since 1954, but total payroll is up 24% for the same period, resulting in an 8% favorable economic variance.

Supplementing the military influence in San Antonio is a broad range of industries. Today, as well as historically, oil and cattle are among the city's major industries. Sixty percent of the wool crop in the southwest is produced in the San Antonio area, and the state's two largest breweries are located here. Many technical and service oriented industries have been attracted by the city's excellent location and climate. Tourism is also a boon to the city's economic base and contributes \$75 million annually. In recent years San Antonio has greatly benefited from the significant convention trade attracted by the city's exceptional facilities. Its convention center is one of the finest in the south and includes an exhibit hall and an arena seating 11,000.

The two biggest employers in the San Antonio area, exclusive of the military, are United Services Auto Association and the University of Texas Medical Branch. Each will employ 10,000 persons in the next fiscal year. The medical industry has undergone considerable growth in recent years and hospitals alone will inject \$100 million annually in salaries into the city's economy by 1975. Overall, San Antonio's industry can be characterized by several traits: generally "light" in nature, extremely diversified and rapidly growing.

SAN ANTONIO TODAY

San Antonio has experienced a steady and impressive growth trend in recent years. The city and county (Bexar) populations have grown fourfold in the last half century making San Antonio the 13th largest city in the nation with an SMSA population of 864,000 in 1970. This number should reach the one million mark by 1975 and be second in Texas only to the populations of Houston and Dallas.

The significant population increases in San Antonio can be attributed to a number of facts characteristic of the city. San Antonio enjoys an excellent climate and is popularly known as the place "where the sunshine spends the winter." The normal mean temperature ranges from 52 degrees in January to 84 degrees in July. Climatic conditions in San Antonio are definitely conducive to the vast military installations located around the city. San Antonio's environment is also enhanced by the cleanliness of the city itself. Local government takes great pride in this latter characteristic, and in 1971 San Antonio was recognized as the "cleanest city in America."

Certainly many of the industries (such as the two breweries) selected San Antonio as a location because of the available water. San Antonio is the largest city in the U.S. with a natural underground water supply called the Edwards Underground Aquifer. Water rates for the city are the lowest of the 40 largest cities in the country. San Antonio also has the lowest combined residential electric and gas rates of any major city. Taken together this accounts for the low cost of living attainable; by comparison it is 18% cheaper to live in San Antonio than Chicago.

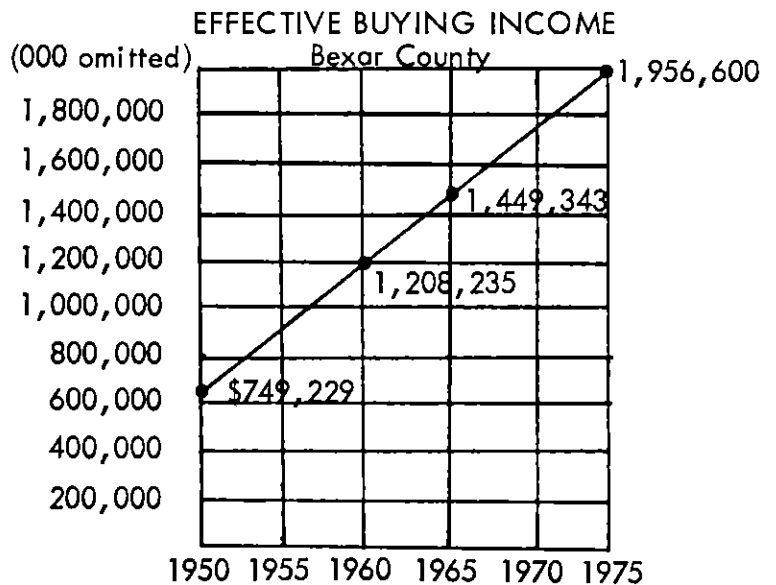
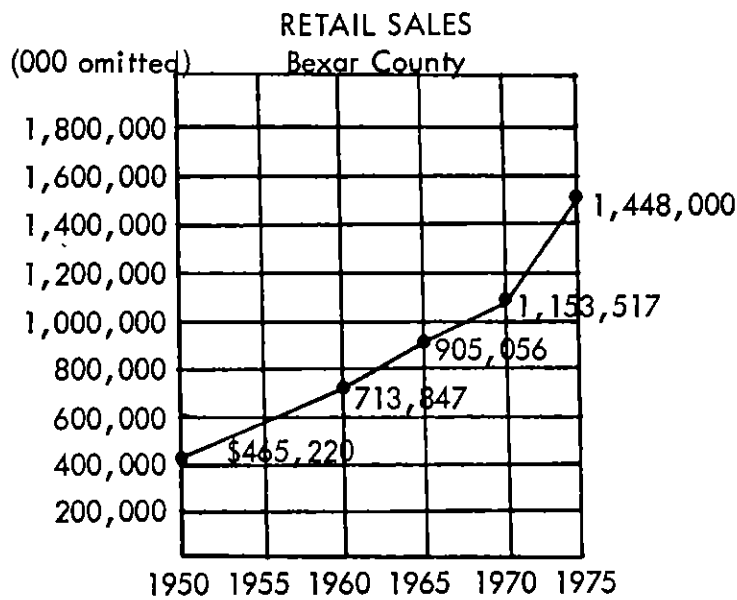
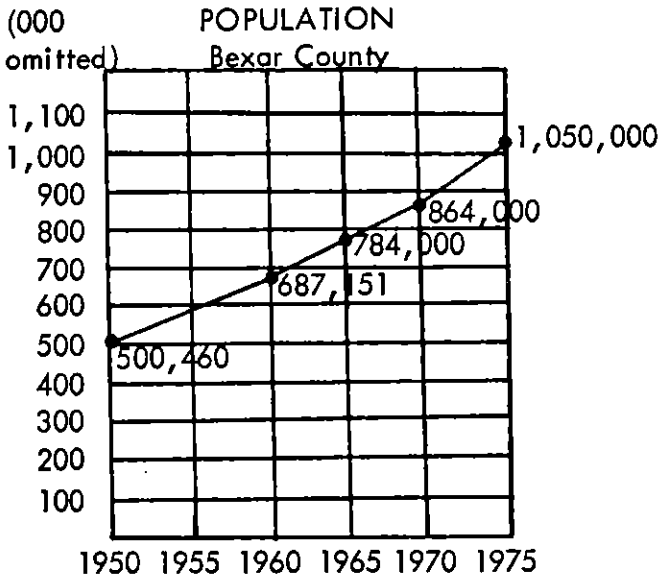
The natural water supply is definitely not the only plus factor for industries in San Antonio. The city's labor force has an unusually high record of productivity. Unemployment has consistently been below the national average (4.8% in 1971). The civilian labor force numbers more than 300,000 workers; the exceptional stability of these workers is reflected in the fact that San Antonio industry experiences far fewer work stoppages than cities of comparable size (fewer than five strikes in each of the previous two years).

Another major growth factor benefiting San Antonio is its geography. There are no significant geographic barriers retarding the city's ability to annex surrounding territory and the city is not handicapped by smaller towns abutting its periphery. In fact, the city was expanding its boundaries at such a pace last year, the courts ruled San Antonio must annex in smaller increments.

San Antonio's excellent location is complemented by its modern transportation system. Its freeways encompass 110 miles and include an inner and outer belt circling the entire city. The inner belt (Loop 410) follows a course approximately five miles from the downtown while the new outer belt, which is 75% complete, is 10 miles from the central business district. Exceptional air, rail, and trucking facilities are also present. Last year, the San Antonio airport handled one million passengers and this figure is projected to increase 6% annually. A study is currently being made on whether to expand the present airport or build a completely new facility. Either alternative will entail a capital expenditure of \$150 million. Three trunk railroads and 37 common carrier truck lines also serve the city.

Although the facts cited concerning San Antonio's population increase, its location, and its transportation network are all indicators of a strong and stable future, probably the single most impressive fact is the city's vast retail area. San Antonio's primary retail trade area consists of 2.3 million people spending in excess of \$3.5 billion annually in retail sales. This 50 county area represents 20% of the total population in Texas and 17.5% of Texas' total retail sales. By way of comparison San Antonio's primary retail trade area includes more people, a greater total effective buying income, and more retail sales than each of 20 states including Arkansas, Arizona, Hawaii, and New Mexico. Coupled with this intense retail activity are sizeable increases in construction activity in San Antonio. Nineteen seventy-two saw a record volume of building permits issued within the city limits, over \$220 million. This represents a 71% increase over amounts issued in the previous year.

The graphs below reflect the rapid growth experienced in San Antonio's Bexar County. (The city of San Antonio currently comprises 85% of the total population of Bexar County and this proportion is continually increasing)



PROJECTIONS FOR THE FUTURE

The future for San Antonio will include significant development activity in several areas of the city, one of these areas of activity being the central business district. As mentioned earlier, the average age of the downtown structures is 50 years. Hemisfair triggered a renewed interest in the downtown and provided a revitalization for the east and south portions of the CBD. Local government is presently formulating plans for two projects which would revitalize other sections. One of the studies called the Alamo Plaza Project entails a mixed-use development of 5.6 acres integrating hotel, office, retail and parking into the core of the city. A second project is a restoration of the west side of the CBD which is presently a farmers market. Plans include refurbishing nine city blocks through new construction and total landscaping.

Besides the activity generated downtown, there has been and will continue to be considerable development in the northern quadrant of the city. Census statistics document this northern growth trend with the greatest percentage increases in population between 1960 and 1970 occurring in the northwest and northeast sections of San Antonio.

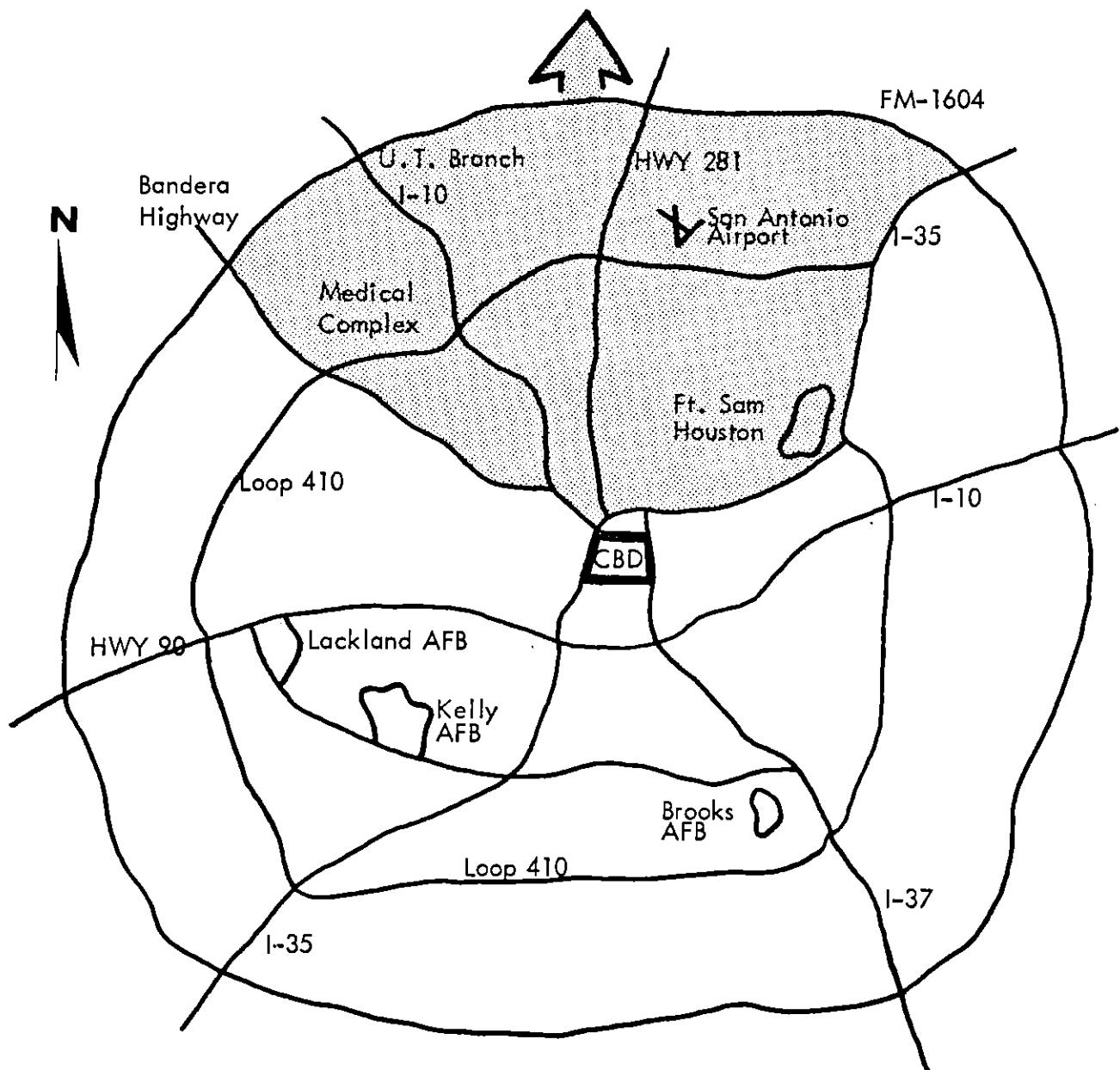
There are a number of reasons for the population prosperity of the north. Several of which being factors inhibiting development in other areas. Development in the south must contend with the existence of the city's sewage plants, the flood basins of several rivers and the sprawling military installations located here. Also, the south has a somewhat limited water supply and any development requires a pumping station. Easterly growth is hampered by the soil which has caused numerous foundation problems.

The north offers a much more promising development environment. First, the land's topography provides good drainage and there is the availability of a good water supply. Secondly, the economic strength of the city lies in this quadrant and the school system is excellent. Third, there have been a number of developments in this area causing a shift in the populus - the airport, two shopping malls, a medical complex, and the

proposed new branch of the University of Texas. Finally, there are no blighted sections in the north; it is primarily fresh and untainted land.

A projection of growth and development trends would not be complete without an honest appraisal of the much publicized energy crisis in San Antonio. The energy shortage is very much a reality; resulting from San Antonio's major supplier of natural gas overselling its reserves. However, local government has taken a number of steps to resolve the current shortage: the city has created its own gas company which is presently contracting with outside suppliers, all of the city's generating units are being converted to burn oil, two coal plants are being constructed, and San Antonio has agreed to joint venture a nuclear plant with Houston. Due to the expedient implementation of the above solutions, San Antonio's energy crisis should definitely be short-lived with 1973-74 being the only critical years according to local authorities.

NORTHERN GROWTH TREND



THE RESIDENTIAL MARKET

SINGLE-FAMILY

Housing is plentiful in San Antonio with an average of 1,000 units for sale at any one time. Much of the demand placed upon this supply is generated by people selecting San Antonio as their retirement home. The retired military sector is a particularly strong and stable market. To meet this market, a number of planned subdivisions surround the military installations.

However, the majority of the new sub-divisions are being developed in the northern sector of the city capitalizing on the excellent shopping and school systems available. The prices of the homes tend to be much lower than would be expected for homes of comparable size and quality in other parts of the country. This is primarily due to the low cost of labor and materials. The architecture of many of the homes reflects the Spanish heritage of the city which is particularly the case in the older residential sections.

MULTI-FAMILY

The apartment market in San Antonio is undergoing considerable increases in supply as well as demand. The current boom in apartment construction is occurring in the northwest sector of the city followed by considerable activity in the northeast quadrant. These two areas alone account for more than 75% of the 20,000 units either completed or proposed since January of 1972. The primary reason for this intense volume being the medical complex, the new USAA building, and the branch of the University of Texas located here.

San Antonio's apartments are experiencing an overall vacancy factor of 7.2% as of August 1973. The lowest vacancy rates occur in the southeast and the highest in the northwest. However, the high vacancy in the northwest is attributable to the recent flurry of building activity in this area (10,000 completed or proposed units in the

northwest versus 1,355 in the southeast). The apartment market in the southeast is linked heavily to the military bases. Although the turnover is high in the southeast, demand has not significantly changed. Absorption rates in San Antonio overall have substantially increased in recent years - rising from a rate of 1,600 units annually two years ago to the present level of 3,500 units.

San Antonio, like many Texas cities, does not have a particularly strong market for high-rises. There are presently three high-rise projects with one doing exceptionally well and the other two experiencing only moderate demand.

The recent apartment boom has been stimulated by the entry of outside developers into the local market. Almost 50% of the 3,600 units developed last year were done by outside developers. Overall, the northern sector of the city should continue to be the hottest multi-family area. The luxury garden apartments, however, with rents ranging from \$330 to \$500 per month appear to be overbuilt and many are having serious vacancy problems. In contrast though, quality projects in a good growth area offering competitive amenities and a lower rental range should be sound investments but caution should be exercised in any case.

APARTMENT ACTIVITY BY SECTORS
(As of August, 1973)

	<u>NE</u>	<u>NW</u>	<u>NC</u>	<u>SE</u>	<u>SW</u>	<u>TOTAL</u>
Units Completed Since Jan., 1972	1,380	3,721	619	656	412	6,788
Units Under Construction	2,235	2,535	434	72	416	5,692
Proposed Units	1,272	4,177	1,462	627	24	7,562
TOTAL	4,887	10,433	2,515	1,355	852	20,042
Vacancy	6.2%	11.8%	3.9%	1.6%	4.6%	7.2%

THE HOTEL/MOTEL MARKET

HOTEL MARKET

San Antonio's hotel accommodations are confined to the downtown. The majority being old-line, well-established operations which have offered excellent service for many years. The most recent hotel start was in 1968 with construction beginning on the Hilton's Placio del Rio. This hotel was built using pre-modular units and construction time was 180 days. According to the president of the local hotel association, there are currently 4,000 rooms in the C.B.D. with approximately 1,500 of these being first class accommodations. Occupancy has historically been around 65% with convention trade accounting for at least 50% of this traffic and individual commercial and tourists responsible for the remainder. A new 1,000 room downtown facility is currently in the planning stages. Due to the age of the present facilities and the excellent convention trade, a quality project in the downtown should be a sound investment. However, the market could easily become saturated by several new hotel starts.

MOTEL MARKET

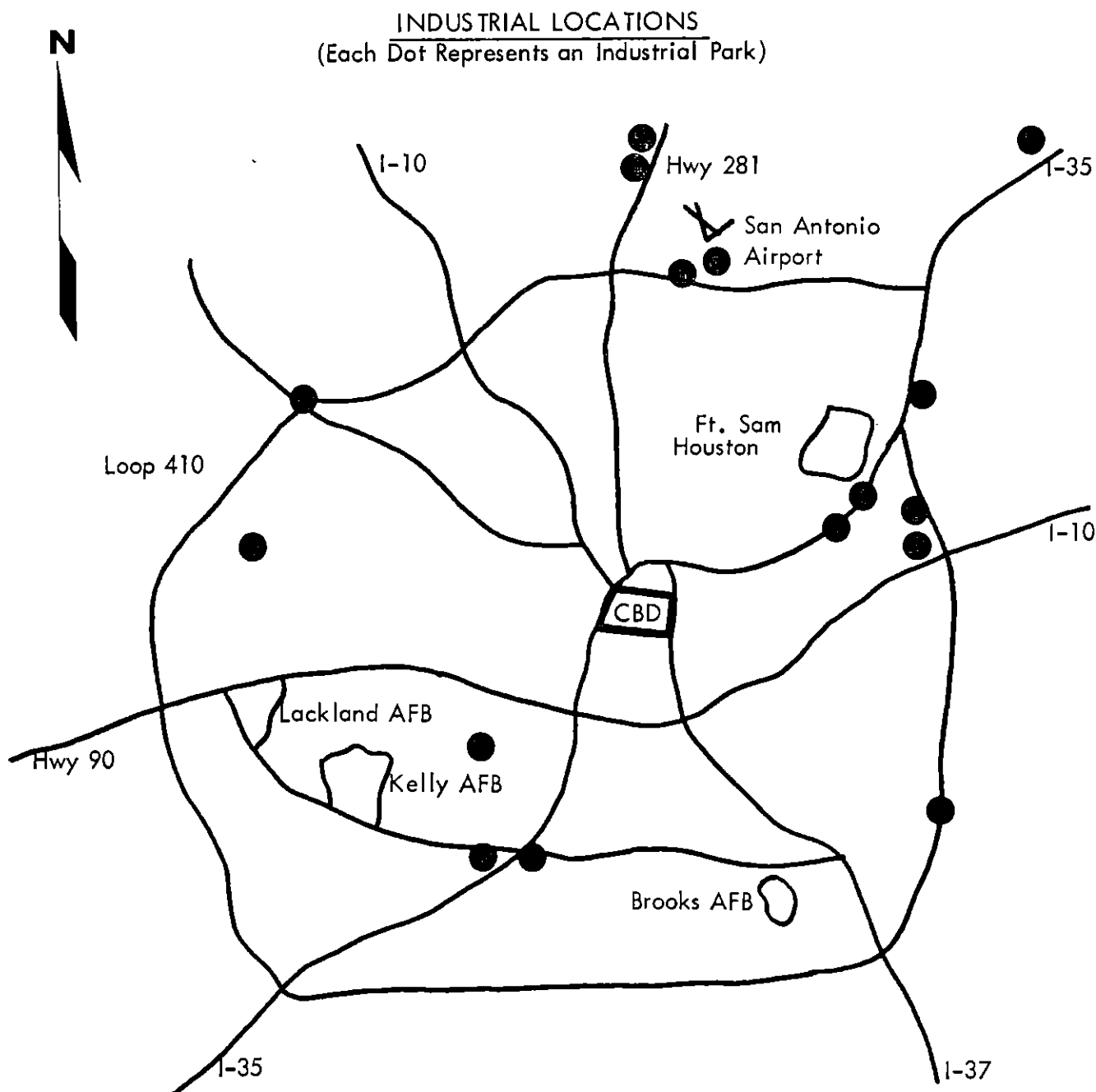
Motel facilities, like most metropolitan areas, are located along the freeway system in and around the city. There are approximately 3,000 motel rooms currently available. Occupancy has been running between 70% and 80%. The major motel chains include three Holiday Inns, three Ramada Inns, three La Quinta Inns, and three Rodeway Inns. Currently there are two projects on the drawing boards for northern San Antonio - one containing 300 rooms and the other offering 400 rooms. The majority of the inns are clustered in the northern quadrant of the city; however, several chains have gravitated to the outlying military installations in the south.

In the past several years room demand has been growing at a rate of 6% to 7% annually with most of the demand being generated by tourist and overnight trade. These room demands should continue or possibly increase in future years and create a viable market for competitive projects.

THE INDUSTRIAL MARKET

San Antonio's warehousing market is a function of the city's being an excellent distribution point. The industrial market has experienced strong and stable growth and currently includes 16 major industrial parks which encompass more than 1,700 acres. The parks offer every type of warehousing - from general merchandise storage to refrigerated storage. A combination of office space in front and storage area in the rear has been especially popular with smaller manufacturers.

The industrial market is not dominated by either local or outside developers. Each sector has made major contributions to the current available facilities with Trammell Crow of Dallas taking the lead among outside developers. The market should continue its growth trend and become stronger as more manufacturers take advantage of San Antonio's excellent location and climate.



THE OFFICE MARKET

In 1970 the office market in San Antonio experienced a resurgence in construction of new space which is the first such occurrence in almost 50 years and resulted from a lack of quality space. Currently, San Antonio office buildings total 7,250,000^{sq}ft either completed or under construction with 3,250,000^{sq}ft in the C.B.D. and 4,000,000^{sq}ft in the suburbs. Absorption rates have been running at 275,000^{sq}ft per year for the previous three year period - almost double the rate generated in the late sixties.

CENTRAL BUSINESS DISTRICT

Although the downtown area has not seen the flurry of office activity experienced in the suburbs, the buildings in the C.B.D. offering quality space are presently running at occupancies of 95% or better. Many developers feel the close proximity of the city government and local banks is the key to the downtown's vitality with current rental rates ranging between \$6 and \$7.50 per square foot per year. The newest office completion is the Frost Bank Tower which is 100% leased; however, many of the older buildings are having serious vacancy problems. Thus, downtown demand seems to be supporting the current supply of quality space.

SUBURBS

High quality office space in suburban San Antonio should double from the previous 1,500,000^{sq}ft to 3,000,000^{sq}ft by the end of 1973 according to the president of the local building association. Two projects currently underway in the northern sector of the city are totally planned office parks integrating retail, residential, and office uses. The garden office buildings in the first phase of each project have both encountered significant demand which is being generated by local businessmen with average occupancy ranging from 85% to 95%. However, due to the substantial increase in the amount of space either up or coming on stream, the suburban market should soften considerably. San Antonio must attract outside firms to take up this slack.

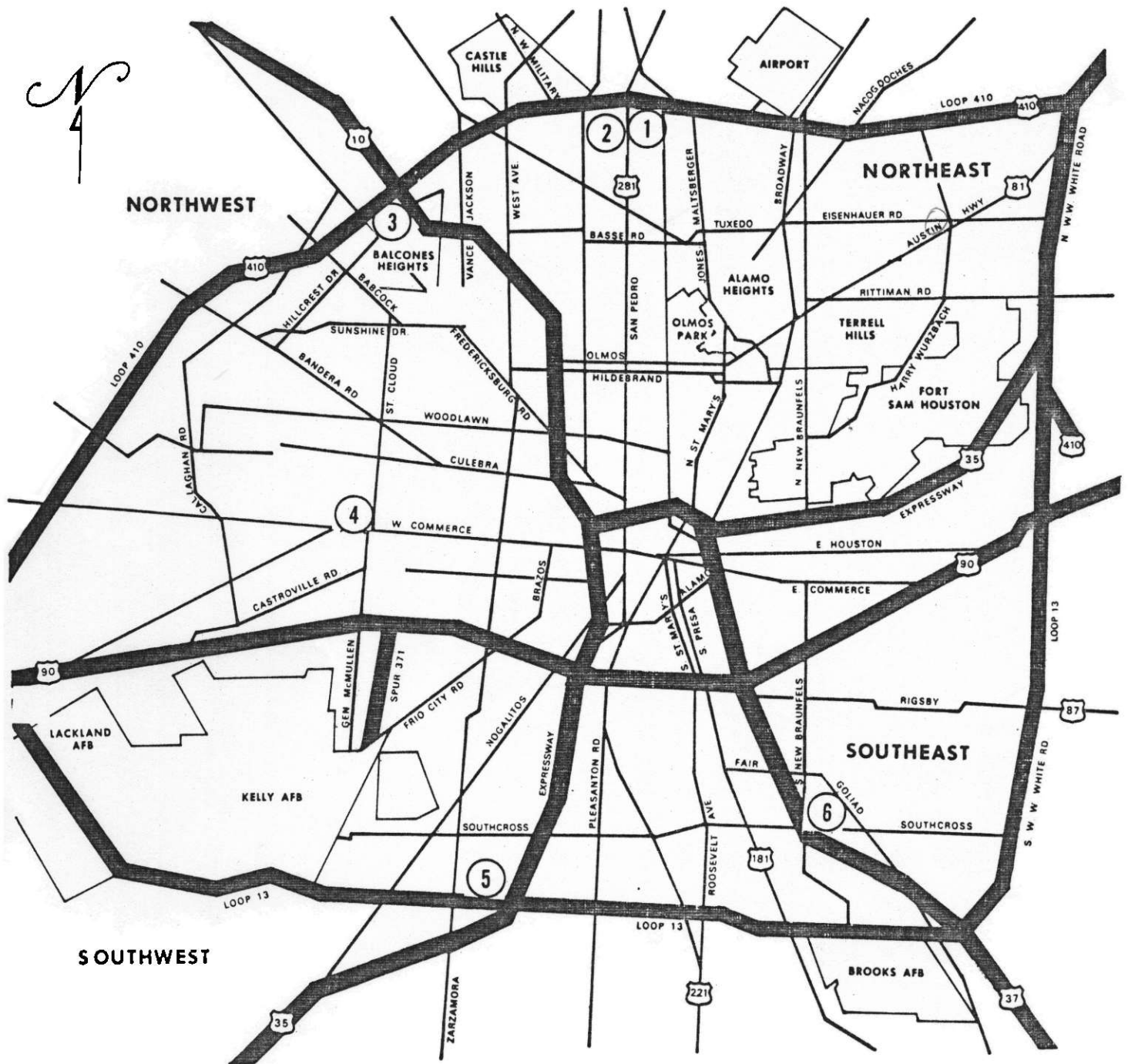
THE RETAIL MARKET

The primary retail market in San Antonio has shifted to the suburbs. However, the revitalization of the central business district should create some new shopping areas in the downtown. The two major projects, discussed previously, include a restoration of many of the antiquated retail markets which should definitely attract suburban stores to relocate in the C.B.D. Also, the present retail development in many of the city's suburbs should intensify.

Shopping centers in San Antonio are uniquely important to the retail picture because of the large network of freeways. Currently, there are six regional centers located in the suburbs. The heaviest concentration of retail activity occurring in the north quadrant of the city evidenced by the three major malls located here. This further documents the growth trend of this area which is characterized by well-established neighborhoods in the upper and middle income groups. The remaining three malls follow the freeway system in other sectors of the city.

Besides the six regional centers, San Antonio has seven community and thirty-eight neighborhood centers. Again, a mushrooming development of these type centers has occurred in the northern portion of the city. There are also a number of small convenience-type centers consisting of two or three stores scattered throughout San Antonio's suburbs. Taken together, these shopping facilities have accounted for the majority of the retail sales increases experienced in San Antonio in recent years. The previous ten year period has witnessed almost an 80% increase in retail sales and this growth pace should continue. North Star Mall alone (owned by The Rouse Company) had a 15% increase in sales per-square-foot for the year 1972. This is remarkable considering the mall is more than 14 years old. Overall, investment opportunities in retail development should be sound and profitable especially in northern San Antonio as the medical and university complexes generate more and more residential activity.

REGIONAL SHOPPING CENTERS



	<u>Name</u>	<u>Sq. Ft.</u>	<u>Year Opened</u>	<u>Anchor Tenants</u>
①	North Star	750,000	1960	Frost Brothers, Joske's H.E.B. Supermarket
②	Central Park	812,000	1968	Dillard's, Sears, Handy Andy
③	Wonderland	787,000	1961	Wards, Handy Andy Supermarket
④	The Crossroads	250,000	1971	Woolco, Thrift Tex Supermarket
⑤	Southpark	850,000	1968	Woolco, H.E.B. Supermarket
⑥	McCreless	458,000	1962	Wards, Penny's, Handy Andy

CONCLUSIONS

There are a number of characteristics common to both Austin and San Antonio. Each enjoys a good climate, excellent recreational facilities, a low cost of living, and a stable economy. Taken together, these traits provide a very appealing place to live - all of the amenities of a city but with small town charm.

Austin's high growth rate of recent years will continue. Light industry and the recreation industry will become increasingly important bases for this growth, and the University of Texas, while remaining important, will decline in relative significance as a contributor to the city's growth. The city of San Antonio should reflect the future of South Texas and grow accordingly. It is an excellent industrial distribution point and a key military center. San Antonio's rich heritage will continue to make it a popular tourist attraction.

THE RESIDENTIAL MARKETS

The Austin multi-family residential market will soften in the near future as the University growth rate declines and as a record number of units come on the market. In San Antonio the apartment market is currently experiencing a flurry of construction in the northern sector of the city and a project must offer competitive amenities to be a sound investment. Luxury garden apartments appear to be overbuilt and high-rises have not been well received.

THE HOTEL/MOTEL MARKETS

Austin's hotel/motel market will continue to be very strong in spite of some recent new project announcements. The hotel market in San Antonio is moderately strong due to the excellent convention facilities available downtown; however, a number of hotel starts could saturate this market. The motel market offers some sound investment opportunities.

THE INDUSTRIAL MARKETS

The growing importance of light industry in Austin will create a considerable expansion in this type of real estate property and many sound investments will be available. The industrial market in San Antonio appears to be strong and stable due to the city's excellent location making it an attractive distribution center.

THE OFFICE MARKETS

Austin's office market is very soft at the present time and due to several large, new projects under construction should remain so in the near future. San Antonio's downtown office market seems capable of supporting additional quality space, but this space should not be added in unusually large increments. The suburban market should soften with the current boom in activity in the north.

THE RETAIL MARKETS

Strong growth will continue in Austin's retail markets. The retail picture in San Antonio looks bright in the northern quadrant due to growth generated by the medical complexes, the University of Texas at San Antonio, and the new U.S.A.A. relocation. In both cities the presence already of many regional malls in growth areas will make small community and neighborhood centers the soundest investments.

JWR INVOLVEMENT

Our conclusion is that both cities represent excellent investment opportunities for properly located, conceived, and built projects. While there are several excellent local builders, the majority of commercial activity will continue to be sponsored by outside developers. We do anticipate doing business in both cities but don't feel that either can support a branch office operation to do only commercial financings. Thus, we will be serving these cities from our Houston office.

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