
Market Area Overview

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of transient visitation (demand) and the competitive supply are located. The subject market is the city of Austin, county of Travis, and the state of Texas. The subject market area can be defined by its Metropolitan Statistical Area (MSA): Austin-Round Rock, TX MSA.

Austin



The Austin-Round Rock MSA encompasses five counties: Bastrop, Caldwell, Hays, Travis, and Williamson, which cover an area of $\pm 4,226$ square miles. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration.

Texas Overview

Texas is one of the southwestern states and is bordered by Louisiana and Arkansas to the east, the Gulf of Mexico to the southeast, Mexico to the south and southwest, New Mexico to the west, and Oklahoma to the north. The state measures roughly 261,797 square miles; the second largest state in the U.S. Texas is predominately characterized by open plains.

The city of Austin is centrally located within the state. Other major cities include Dallas/Fort Worth (north), Houston (southeast), San Antonio (southwest), and several regional, tier-two cities which provide economic

benefit. Although the weather varies somewhat among the state's different regions, winters are mild and summers are warm. Precipitation is plentiful in areas, allowing the state to be the nation's greatest cotton producer. Oil is an important element of Texas' natural resource production. Manufactured goods include chemical and allied products, petroleum and coal products, food and kindred products, and transportation equipment.

City Overview

Austin, the capital of Texas, is currently the 16th largest city in the United States. Austin is located within ± 220 miles of the state's three largest cities: Dallas, Houston, and San Antonio. Historically, the public sector has been the main driver behind Austin's economy. Government jobs and investments, including state, city, county, and federal spending, have provided a solid economic base for the area. The Texas Legislature has a substantial impact on the Austin area economy, notably during its 140-day biennial sessions, which typically attract roughly 180 legislators to Austin, as well as numerous staff members and legislative visitors. Austin is also home of the state's flagship university, the University of Texas at Austin, which has continually supplied the local labor pool with young, well-educated, and relatively inexpensive workers. According to Angelou Economics, an Austin-based economic development consulting firm, the University of Texas has also spearheaded technological innovation for the local economy as a result of the commercialization of its research and its many partnerships with major companies.

In the last two decades, Austin has emerged into a diversified economy fueled by the growth of high-technology firms. High-technology firms in Austin trace their roots to Tracor, Inc., an engineering services firm that was started by a University of Texas professor. In the 1970s and 1980s, the region attracted a number of important branch plants including IBM, Motorola, and Advanced Micro Devices. In 1983, Microelectronics and Computer Technology Corporation, the country's first private-sector high-technology consortium, chose to locate in Austin, which stimulated growth in research and development. During the 1990s, Austin's economy benefited from being at the forefront of technology-based growth, thereby becoming a hub for many high-technology enterprises including manufacturing, research and development, software, and distribution firms. One of the most notable entrepreneurs of the area is Michael Dell, who began Dell Computer Corporation in 1982, while he was a freshman at the University of Texas. Dell is a Fortune 500 company that manufactures personal computer systems and components and is the second largest employer in the area.

and all dollar amounts have been adjusted for inflation, thus reflecting real change. This data is summarized in the following table.

Economic and Demographic Data Summary

	1990	2000	2005	2010	Average Annual Compounded Change		
					1990-00	2000-05	2005-10
Resident Population (Thousands)							
Travis County	581.0	820.1	917.6	1,028.0	3.5 %	2.3 %	2.3 %
AUSTIN-ROUND ROCK, TX MSA	851.9	1,264.9	1,477.8	1,690.3	4.0	3.2	2.7
State of Texas	17,056.8	20,955.2	22,857.2	24,643.8	2.1	1.8	1.5
United States	249,622.8	282,224.4	297,153.3	311,810.9	1.2	1.0	1.0
Per-Capita Personal Income*							
Travis County	\$22,830.0	\$32,919.0	\$34,687.0	\$37,305.0	3.7	1.1	1.5
AUSTIN-ROUND ROCK, TX MSA	21,097.0	29,970.0	30,646.0	32,649.0	3.6	0.4	1.3
State of Texas	20,374.0	26,066.0	27,123.0	28,691.0	2.5	0.8	1.1
United States	22,856.0	27,712.0	29,006.0	30,680.0	1.9	0.9	1.1
W&P Wealth Index							
Travis County	106.9	124.7	125.1	126.5	1.6	0.1	0.2
AUSTIN-ROUND ROCK, TX MSA	98.8	113.4	110.8	111.2	1.4	(0.5)	0.1
State of Texas	91.9	94.9	94.3	94.3	0.3	(0.1)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food & Beverage Sales (Millions)*							
Travis County	\$756.1	\$1,310.7	\$1,663.2	\$1,999.5	5.7	4.9	3.8
AUSTIN-ROUND ROCK, TX MSA	903.1	1,640.7	2,130.6	2,596.6	6.2	5.4	4.0
State of Texas	14,484.2	20,807.2	25,325.5	29,347.0	3.7	4.0	3.0
United States	216,297.9	282,497.1	332,302.3	374,944.0	2.7	3.3	2.4
Total Retail Sales (Millions)*							
Travis County	\$6,220.0	\$19,353.7	\$22,976.8	\$27,012.5	12.0	3.5	3.3
AUSTIN-ROUND ROCK, TX MSA	7,791.6	23,064.5	27,947.3	33,189.2	11.5	3.9	3.5
State of Texas	139,372.3	217,347.4	251,818.7	285,233.6	4.5	3.0	2.5
United States	2,089,724.5	2,945,342.0	3,296,825.9	3,636,797.6	3.5	2.3	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The county's population has increased along with the state's and nation's population; the average annual growth rate of 2.3% between 2000 and 2005 reflects a slowly expanding area. Following this population trend, per-capita personal income increased slowly, at 1.1% on average annually for the county between 2000 and 2005. Local wealth indexes have remained stable in recent years, registering a relatively high 125.1 level for the county in 2005. Food and

beverage sales, as well as retail sales continue to show positive change within the county, the state, and the nation; a continued 3.8% average annual growth rate is anticipated for the county's food and beverage sales in 2005 through 2010. A modestly slower 3.3% positive average annual change is expected in county retail sales through 2010.

Work Force Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing; construction; and transportation, communications, and public utilities (TCPU) employers can also be important, depending upon the company type.

The following table sets forth the local county workforce distribution by business sector in 1990, 2000, and 2004, as well as a forecast for 2010.

Historical and Projected Employment - Local County (000s)

Industry	1990	Percent of Total	2000	Percent of Total	2005	Percent of Total	2010	Percent of Total	Average Annual Compounded Change		
									1990-2005	2000-2005	2005-2010
Farm	1.2	0.3 %	1.3	0.2 %	1.3	0.2 %	1.4	0.2 %	0.6 %	0.8 %	0.2 %
Agriculture Services, Other	2.7	0.6	5.2	0.8	5.5	0.7	6.1	0.7	4.8	1.2	1.9
Mining	3.9	0.9	3.6	0.5	3.0	0.4	2.9	0.3	(1.8)	(3.8)	(0.5)
Construction	15.5	3.7	39.9	5.9	43.0	5.6	47.8	5.5	7.1	1.5	2.2
Manufacturing	42.2	10.0	73.8	11.0	81.6	10.7	89.8	10.3	4.5	2.0	1.9
Trans., Comm. & Public Utils.	12.3	2.9	22.7	3.4	24.6	3.2	26.6	3.1	4.7	1.6	1.6
Total Trade	79.6	18.8	127.6	19.0	136.6	17.9	148.8	17.0	3.7	1.4	1.7
Wholesale Trade	14.6	3.4	27.4	4.1	31.2	4.1	34.7	4.0	5.2	2.7	2.1
Retail Trade	65.1	15.4	100.3	14.9	105.4	13.8	114.0	13.1	3.3	1.0	1.6
Finance, Insurance, & Real Estate Services	38.5	9.1	58.0	8.6	62.7	8.2	68.9	7.9	3.3	1.5	1.9
Total Government	123.4	29.2	229.6	34.1	287.5	37.6	355.8	40.7	5.8	4.6	4.3
Federal Civilian Govt.	103.7	24.5	111.3	16.5	118.9	15.5	125.5	14.4	0.9	1.3	1.1
Federal Military Govt.	12.5	3.0	9.3	1.4	8.9	1.2	8.8	1.0	(2.2)	(0.9)	(0.2)
State & Local Govt.	6.4	1.5	2.3	0.3	2.3	0.3	2.3	0.3	(6.6)	(0.1)	0.4
TOTAL	423.0	100.0 %	673.2	100.0 %	764.7	100.0 %	873.5	100.0 %	4.0 %	2.6 %	2.7 %

Source: Woods and Poole Economics, Inc.

This source reports that between 1990 and 2005, the most significant employment growth occurred in the services sector. The wholesale trade and manufacturing sectors also experienced strong growth rates. Woods & Poole forecasts indicate expected employment growth at a rate of 2.7% annually through 2010.

Major Business and Industry

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the subject market.

Major Employers

Rank	Firm	Number of Employees
1	University of Texas	22,000
2	Dell Computer Corporation	16,000
3	Austin Independent School District	10,714
4	City of Austin	10,000
5	Seton Healthcare Network	7,393
6	Freescale Semi-Conductors	6,500
7	HEB Austin Regional	6,200
8	IBM Corporation	6,200
9	Texas State University - San Marcos	5,103
10	St. David's Healthcare Partnership	5,000

Source: Greater Austin Chamber of Commerce

The preceding table indicates the diversity of the economic base, which has helped to insulate the area from a more severe economic downturn.

- Dell Computer Corporation maintains its world headquarters in Round Rock, Texas, which is located approximately 20 miles north of the Austin central business district.
- Technology offices for communication and information management also have a strong presence in Austin. Of the top ten employers, over 20,000 employees work within these fields. Dell, Freescale (formerly Motorola), and IBM are all included in the top ten employers list for Austin; other major technology entities include Advanced Micro Devices, Applied Materials, and Samsung.

- IBM recently noted the acquisition of CIMS Lab, Inc. in January of 2006. This company, based in Roseville, CA, is the leading provider of computer resources tracking software for virtualized technology environments.

The market is in the midst of strengthening and the general outlook for the area is optimistic with an expectation of continued growth in 2006.

Unemployment Statistics

The following table presents historical average unemployment rates for the subject property's city and local MSA, versus those of the state and the nation, from 1999 to the most recent month of 2005 data available.

Unemployment Statistics

Year	City of Austin	Local MSA	State of Texas	U.S.
1999	2.5 %	2.3 %	4.7 %	4.2 %
2000	3.2	3.1	4.4	4.0
2001	4.6	4.3	5.0	4.7
2002	6.3	5.8	6.3	5.8
2003	6.4	5.9	6.7	6.0
2004	5.5	5.1	6.1	5.5
<i>Recent Month - November</i>				
2004	5.3 %	4.9 %	5.9 %	5.4 %
2005	4.3	4.2	5.2	5.0

Source: U.S. Bureau of Labor Statistics

During the strong economic climate of the late 1990s through 2000, unemployment levels declined. In 2000, unemployment was noted at 3.1% for the local area. However, unemployment rates increased through early 2003, concurrent with the economy slowing. Employment trends generally began to improve during the summer of 2003, concurrent with the improvement of the economy; unemployment rates are now declining. This is indicated by the 2004 unemployment rate of 5.1% in the local area, and the November 2005 unemployment rate of 4.3% for the city; this compares favorably to the city's 5.3% unemployment rate of November 2004.

Office Space Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that

cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand. The following table details office space statistics for the pertinent market area.

Office Space Statistics

Sub-Market	Net Rentable Area (SF)	Vacancy Rate	Average Asking Lease Rate
CBD	8,204,253	22.61 %	\$25.54
Northwest	11,814,717	13.69	22.46
North Central	2,165,618	22.59	21.00
East	1,339,760	34.76	17.00
South	1,534,738	13.49	19.82
Southwest	5,934,648	8.82	23.73
Totals	30,993,734	16.64 %	\$23.88

Source: CB Richard Ellis, Fourth Quarter 2005 Market Index Brief

Convention Activity

Typically, a convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Austin's convention center expansion, which doubled the size of the Austin Convention Center (ACC) facility, was unveiled on May 18, 2002. The \$110-million expansion brought the size of the facility to roughly 881,400 gross square feet, encompassing six city blocks. The ACC now features roughly 246,097 square feet of contiguous and column-free exhibition space within five exhibit halls. Expansion plans also included the addition of the Grand Ballroom, measuring approximately 43,300 square feet.



Located in tech-heavy Austin, the ACC facility integrated the most up-to-date technological and telecommunication capabilities into the expansion project. According to the ACC, the telecommunications infrastructure “now enables the facility to support gigabit Ethernet over its fiber optic network.” The center’s technological capabilities are expected to make exhibitions and trade shows a more hands-on experience for both attendees and exhibitors.

The center’s 800-room Hilton headquarters hotel realized a “soft” opening in December 2003, with a more full operation noted as of January 2004. The 19-story hotel features roughly 60,000 square feet of on-site meeting space, including a 28,000-square-foot grand ballroom and an approximate 15,600-square-foot junior ballroom. The following table illustrates recent use statistics for this facility; additionally, the table outlines future, definite bookings as they currently stand for the convention center (starting with 2005). The table also notes future, definite group bookings encompassing those booked through the ACVB at both area hotels, as well as the convention center.

Historical ACC and Future Convention Center/Group Business – Demand Statistics

Year	Number of Conventions	Percent Change	Number of Room Nights	Percent Change
1999	45	—	96,787	—
2000	51	13.3 %	141,788	46.5 %
2001	38	(25.5)	107,131	(24.4)
2002	41	7.9	91,989	(14.1)
2003	47	14.6	147,648	60.5
2004	51	8.5	190,220	28.8

Future, Definite Austin Convention Center (ACC) Demand *

2005	56	—	149,088	—
2006	45	—	124,206	—
2007	20	—	51,376	—
2008	13	—	41,418	—
2009	9	—	27,383	—
2010	2	—	4,760	—

Future, Definite Groups - All Business (Incl. hotels and ACC)*

Year	Number of Groups	Percent Change	Number of Room Nights	Percent Change
2005	516	—	346,276	—
2006	168	—	210,069	—
2007	65	—	98,672	—
2008	19	—	50,598	—
2009	14	—	35,856	—
2010	2	—	4,760	—

* Denotes future, definite bookings provided by ACVB - subject to change.

Source: Austin Convention & Visitors Bureau (ACVB)

Based on the presented data, is it evident that Austin is emerging as a popular, important convention destination in the south-central United States. Over time, it is expected that the new destination convention facilities in Austin will allow the market to more effectively penetrate tier-two and some tier-one markets, from a convention meeting and group demand capture standpoint.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable

percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

In May 1999, the Robert Mueller Municipal Airport was closed due to the opening of the Austin-Bergstrom International Airport. The facility features approximately 10,000 parking spaces, 25 gates, a 600,000-square-foot terminal, and two parallel 13,500-foot runways. Several major commercial airlines now serve the Austin-Bergstrom International Airport including American Airlines, America West, Continental, Delta, Northwest, Southwest, United, and U.S. Airways. Additionally, the airport is serviced by three commuter airlines. The airport is located roughly seven miles southwest of the downtown business district and approximately twelve miles southwest of the Arboretum area.

Airport Statistics

Year	Passenger Traffic	Percent Change*	Percent Change**
2000	7,658,671	—	—
2001	7,199,322	(6.0) %	(6.0) %
2002	6,720,668	(6.6)	(6.3)
2003	6,707,081	(0.2)	(4.3)
2004	7,238,645	7.9	(1.4)
2005	7,681,239	6.1	0.1

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from 1999

Source: Austin-Bergstrom International Airport

Through 2000, traffic grew to just over 7.6 million passengers, mirroring the strong local and national economy at this time. This was followed by a 6.0% decline in 2001, and a further correction of 6.6% in 2002. These declines were a direct result of the 2001 terrorist attacks and the weakening macro economy. In mid-2003, activity began to strengthen, and this continued into 2004, as is indicated in the 7.9% increase. An annual average compounded growth of 6.1% was realized in 2005.

Tourist Attractions

Tourism is an important factor for Austin area hotels. This demand is typically strongest during key weekends and during the summer vacation season. Primary leisure demand generators in the market are listed as follows.

- Austin is well known for its annual music events such as South by Southwest in March and the Austin City Limits Music Festival in September.
- Situated on more than 350 acres, the University of Texas was founded in 1883, houses 16 colleges and schools, and educates more than 50,000 students every year.
- Visitors to Austin can enjoy nature's beauty on the waters of Lake Travis, Lake Austin, and Town Lake.
- Home of the South by Southwest Music Festival, the seven blocks of Austin's historic 6th Street between Congress and Interstate 35 have become the heart of Austin's live entertainment scene. Annual events include the Pecan Street Festival, a Mardi Gras celebration, a Halloween celebration, and The Republic of Texas Bikers Rally.
- Located on the grounds of the University of Texas, the LBJ Library and Museum celebrates the first President to hail from Texas.
- The Austin Museum of Art offers visitors two locations. The downtown location offers a broad range of rotating exhibitions, tours, and educational programs for school children. The Laguna Gloria location is a recently restored 1916 Italian-style villa that sits on twelve acres of land overlooking Lake Austin. Visitors can enjoy a more intimate art experience and attend the more than 400 classes offered at the Art School.
- Home of the 181 state senators and legislators, the Texas State Capitol Complex also houses the Governor's Mansion and the Bob Bullock Texas State History Museum.
- The Texas Memorial Museum, located on the grounds of the University of Texas, offers exhibits that include a pterosaur discovered in Big Bend National Park and dinosaur tracks collected from Glen Rose, Texas.

Market Area Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. In general, the market population is expanding, and retail sales and income are showing continued improvement. Employment is diversified in this market, with an emphasis on the services sector; unemployment levels are now declining, reflecting the improving economy. The market is well served by an international airport, which has noted an increase in passenger traffic over the last two years. Overall, the subject market is experiencing growth.