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MARKET REPORT

HVS Market Intelligence Report: Austin, Texas

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As both the capital of Texas and the “Live Music Capital of the World,” Austin has businesses and hotels singing a lively tune despite the current economic dirge.

Over more than 150 years, Austin has become known as the cultural, political, environmental, and educational center of Texas. The city is the nucleus of the Central Texas economy, where the commercial and tourism sectors have seen tremendous growth in the past several years. While the primary catalysts for economic activity in Austin remain state government and The University of Texas, Austin is also a central hub for the high-tech industry, statewide events, and a swiftly expanding media industry, as well as a popular leisure destination.

Austin's variety of industries represents a cross-section of hotel demand potential. Despite downward economic trends throughout the nation, Austin has continued to show real growth within these principle industries in the past several years. As a result, the city is undergoing a revitalization of its Central Business District and an expansion of its urban core; master-planned, mixed-use developments are also prevalent in this progressive market. This article explores the city's economic evolution, the resulting expansion, and how the lodging industry fits within the framework of a modern Austin.

Government and Higher Education

Some say Austin is a government town, while others declare it a college town; the fact is that it's both. Government jobs and investments, including state, city, county, and federal spending, provide a solid economic base for the Austin area. In addition to the three state constitutional branches, Austin serves as the headquarters for every major state agency, state commission, and state board.[1] These entities generate transient demand for the city, as persons conducting business with these groups generally travel from outside the Austin market. Similarly, employees working for regional state agencies regularly travel to Austin for the purposes of statewide meetings and training seminars. Numerous federal agencies located in the city intensify demand in this segment.

The Texas Legislature alone has a substantial impact on the Austin area's economy. Its 140-day biennial sessions typically attract some 180 legislators, in addition to numerous staff members and legislative visitors. While the government sector is generally a rate-sensitive group, the base demand generated by the sheer volume of government-related business raises the bar for average rates throughout the city.

Austin is also home to the state's flagship university, The University of Texas, which has continually supplied the local labor pool with young, well-educated, and relatively inexpensive workers. The University comprises 16 colleges and schools, which offer over 100 undergraduate and over 170 graduate degree programs.[2]

The University of Texas has spearheaded technological innovation for the local economy as a result of the commercialization of its research and its many partnerships with major companies.[3] One such endeavor is The University of Texas J.J. Pickle Research Campus, home to over 30 research centers, groups, services, and laboratories. Located in the

Arboretum area of Austin, the J.J. Pickle Research Campus is a significant demand generator for the northwest Austin market, attracting transient professionals from around the country.

In August of 2008, the AT&T Education and Executive Conference Center opened its doors on campus. This facility encompasses a 297-room hotel and roughly 40,000 square feet of meeting space. It's interesting to note that the hotel was not built to accommodate a university hospitality program, but rather demand generated by the university itself.

High-Tech Industry

Approximately 3,300 technology companies are located in Austin, with a combined employment of nearly 120,000 people.[4]

In June of 2008, Advanced Micro Devices (AMD) moved into its newly constructed Lone Star Campus in southwest Austin. This 58-acre campus comprises four office buildings and the Lone Star Building, which together form AMD's largest non-manufacturing campus, housing roughly 2,500 employees.[5] The Samsung Electronics Company completed construction of a $3.5-billion flash-wafer plant in June of 2007. This facility, one of the largest of its kind in the world, manufactures NAND flash memory chips for MP3 players, cellular telephones, digital cameras, and other mobile devices. The annual payroll for the company in this area has grown from $60 million to $100 million as a result of the new plant.[6]

Dell, Inc., the area's largest private employer, maintains its world headquarters in Round Rock, approximately 20 miles north of the Austin CBD. Applied Materials and Freescale Semiconductor also have significant manufacturing operations in Austin.

A number of research facilities and ancillary support companies have also moved to Austin's "Silicon Hills." The presence of these high-tech firms contributes to weekday hotel occupancy averages of roughly 73% citywide, according to HVS estimates.

Tourism

Austin is not just a haven for government, education, and technology. Some 19 million tourists made an economic impact of over $3.5 billion in 2006, which positions the tourism industry as the fifth-largest industry in Austin.[7] Attractions such as the Texas State Capitol, the Lyndon Baines Johnson Presidential Library and Museum, Highland Lakes, Mount Bonnell, Zilker Botanical Garden, and the Austin Zoo are coupled with events such as the Austin City Limits Festival, the South by Southwest Music Festival, and the Austin Film Festival. A story in *The New York Times* recommended the Texas Hill Country (just west of Austin) as one of the top 31 places to visit for a summer vacation, even comparing this rugged, rich landscape with exotic destinations in Italy and France.[8]

Austin was recognized as the 31st best city for sports,[9] a ranking based entirely on the strength of The University of Texas' collegiate athletics programs. According to an August 2008 study by SportsImpacts, visitor spending related to Texas Athletics events is projected to amount to $173 million during the August 2008 to June 2009 academic year, with roughly $142 million generated by the football program alone.[10] As can be expected, lodging demand related to the tourism industry continues to increase with Austin's popularity as a destination city.

Development

Austin's four cornerstones of industry hold fast even as the global economy comes unglued, and the city is experiencing unprecedented development. Over 20 major office, retail, and residential projects are currently under construction in the CBD alone, with another 20 projects in the planning or permitting stages.[11] These include hotel developments such as the 252-unit W Hotel and Residences, the 307-unit Hotel Van Zandt by Kimpton, the 209-unit 21c museum hotel, and a 1,000-unit Marriott.[12]

The East Avenue project, located just north of The University of Texas campus, is currently under construction. This mixed-use development is scheduled to include over 600,000 square feet of office space, 325,000 square feet of retail, and 1,450

residential units.[13] Hyatt's new concept hotel, the ANdAZ, is expected to open in 2010. Phase 1 of the Domain, a mixed-use development located adjacent to The University of Texas J.J. Pickle Research Campus, opened in March of 2007 with 750,000 square feet of retail, office, and residential space.[14] If completed as planned, the Domain will be built-out with two-million square feet of retail, 3.5-million square feet of office space, and 4,500 residential units. In addition, a 330-unit Westin is scheduled to open in August of 2010 and a 140-unit aloft in the fall of 2009. The Hotel Valencia is planned to open in 2011, although construction has not begun.

Conclusion

Forbes recently named Austin the third-most "recession-proof" city in the United States on the basis of its diverse economy, strong housing market, and well-educated labor pool.[15] With so many travelers drawn by the city's tourism attractions, corporations, and stalwart economic anchors, the development of new hotels has not stinted occupancy levels in Austin - and the new supply has in turn boosted average rates. Hence, the Live Music Capital of the World appears to be humming right along.

HVS regularly performs property appraisals, market studies, and other projects on behalf of lodging industry stakeholders throughout Texas and the South Central United States. Please contact our Dallas office (http://www.hvs.com/Offices/Dallas/) to find out how we can advise on your next venture.

1 *Texas Fact Book 2008*, Texas Legislative Budget Board

2 The University of Texas Office of Admissions, 2008

3 Economic Development Quarterly, September 2007

4 Texas Workforce Commission, August 2008

5 www.amd.com/us-en/Corporate/AboutAMD/0,,51_52_1991~126601,00.html

6 www.samsung.com/us/news/newsRead.do?news_group=productnews&news_type=businessproduct&news_ctgry=semi_conductor&news_seq=3707&search_keyword=&from_dt=&to_dt=

7 *City Tourism Impact Study*, August 2007, Global Insight, Inc.

8 *New York Times*, Travel section, June 1, 2008

9 *Sporting News*, October 7, 2008

10 Ibid

11 City of Austin Downtown Emerging Projects, July 31, 2008 (www.ci.austin.tx.us/downtown/default.htm#emerging)

12 Ibid

13 www.eastave.net

14 www.thedomainaustin.com/

15 *Forbes*, May 2008