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# San Antonio

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and Andrew Hendricks

San Antonio is one of Texas' premier tourist destinations. A non-stop celebration of cultural diversity, the historical Alamo and the famed "River Walk" make this city a magnet for tourists and convention business.

Founded as a military garrison in 1718 by the viceroy of Spain, San Antonio still maintains a strong military presence. It is home to no less than four Air Force bases and one Army base.



**R**educed military spending and military base closures, however, are significant challenges to the city. The Air Force is charged with implementing a \$95 million cut at Brooks AFB

that could trigger the loss of as many as 300 base jobs. The base has been in jeopardy since the 1995 Defense Base Closure and Realignment Commission initially marked it for shutdown. In

addition, a cost-cutting study could trim as many as 400 military and civilian jobs at Lackland AFB.

City officials understand that innovation and entrepreneurship will be needed

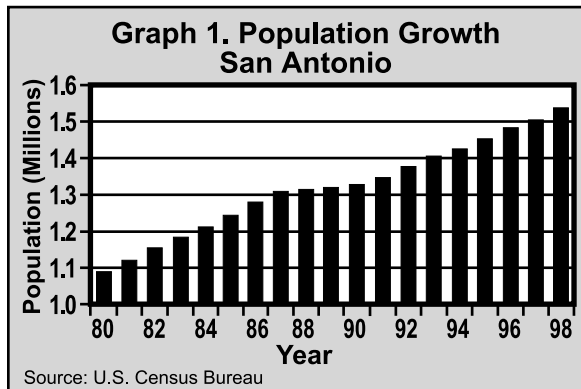
to successfully make the transition from military to civilian employment. Evidence of recent success includes a Boeing decision to locate at the former Kelly AFB site. A warehouse there is now a shipping point operated by Ryder Integrated Logistics.

A \$10.1 billion Air Force contract was awarded to Lockheed Martin, which will ship half of its jet engine repair work to Kelly. Lockheed will retain as many as 1,400 workers at Kelly, which the city will redevelop into a private industrial park after it closes as a military base in 2001. This will complement the jobs added after Boeing moved into Kelly in 1998.

When the 1995 decision was made to close Kelly AFB's Air Logistics Center, the Air Force almost immediately signaled its willingness to allow the runways to be used for commercial cargo purposes. Nearly four years later, the air cargo initiative remains in a holding pattern, largely because of time-consuming Air Force procedures. The Air Force is in the process of completing a sensitivity analysis concerning noise pollution and flight patterns. Once completed, Kelly will be even more attractive for warehouse and goods distribution business.

## Housing Demand Increasing

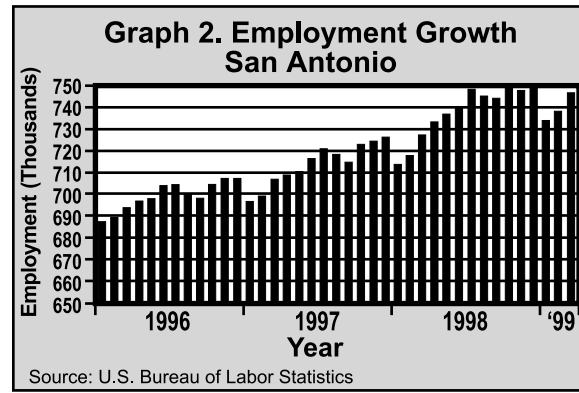
The U.S. Census Bureau reports that the population for the entire metropolitan area (Bexar, Comal and Guadalupe counties) reached more than 1.5 million in 1998, up 2.1 percent from the previous year (Graph 1). In the 1990s, the



population has grown by an average of more than 26,000 per year. This level of population growth creates demand for approximately 10,000 new housing units each year.

Job growth continues in the area. Total employment reached 734,839 in January (Graph 2), 3 percent more than the same period in 1998. San Antonio's unemployment rate reached an all-time low of 2.9 percent in December. Job growth nation-wide is expected to slow in 1999 as demand from Asia contin-

ues at low levels and European economies have slower growth. A recent 1999



job growth projection issued by the San Antonio branch office of the Dallas Federal Reserve shows an expected 1.5 percent increase, a net gain of 10,400 jobs.

Single-family home sales were unusually robust in 1998 (Graph 3). Last year a record 13,000 homes were sold. This is a significant increase from the 11,300 units in 1997 and 10,800 in 1996. This year started off strong, with first-quarter sales exceeding the levels incurred in the white-hot market of 1998.

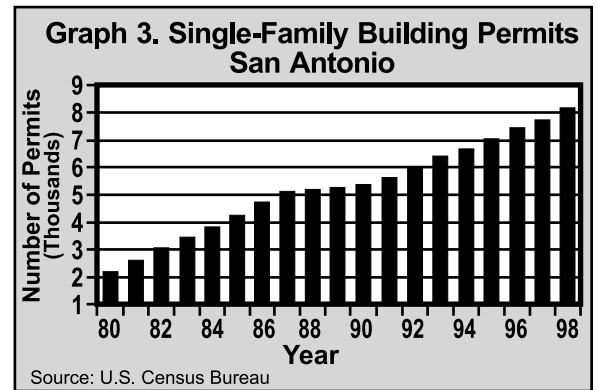
The median price of existing homes sold in the San Antonio area was \$87,300, up from \$86,000 in 1997. Because of the strong sales volume, the Real Estate Center estimates the inventory of homes on the market in March was 5.8 months. The supply has been less than six months since November 1998. In February 1996, the supply was equivalent to 11.3 months of sales.

New housing construction has been strong in the area for the past five years with more than 6,000 new houses constructed in the metropolitan area each year since 1994. In 1998, a record was set for new construction starts with more than 8,000 new homes built.

Much new construction is in the city's northwest and north-central regions. Significant growth is occurring in the Boerne area. The median price of new homes built in February was \$87,100, up 7 percent from the previous year. Local residential experts predict that new housing starts will not match the 1998 record and may slip slightly in 1999 as job growth is expected to slow.

New apartment construction slowed in 1998, from higher levels in the previous four years (Graph 4), peaking in 1994 at more than 3,000 units. Fewer than 1,000 new apartments were added in 1998, down from the 2,260 units built in 1997.

According to Apartment MarketData Research, the area's overall apartment occupancy rate in March 1999 was 94 percent. The lower construction level keeps community occupancy rates high. Recently, plans for a \$6.7 million, 92-unit apartment complex were announced. This will be the first new multi-family development near Our Lady of The Lake

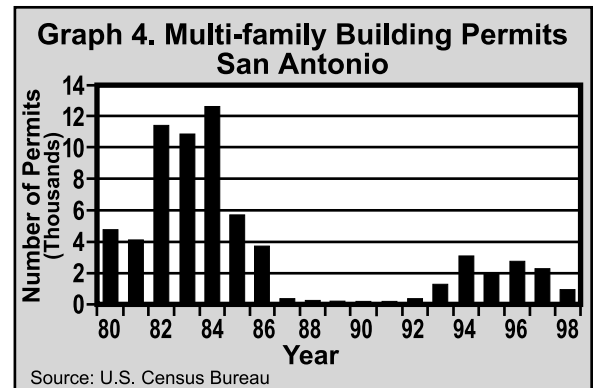


University in 25 years and will provide much-needed housing in one of San Antonio's poorest areas.

## Commercial Growth Linked to Mexico

More than \$180 million in office space was built in 1998, according to San Antonio's Building Inspections Department. Most of the growth is occurring around downtown and in the city's north and northeast sections.

According to Baxter Southwest Corporate Realty Services, net absorption was 259,000 square feet, down from 407,400 in 1997. Recent reports indicate that the office space vacancy rate remains at less than 11 percent, near the lowest levels in the 1990s.



Vacancy rates have steadily declined each year this decade. However, the 1999 vacancy rate is 10.7 percent, up slightly from 10.6 percent a year ago. A six-story office building and a 400-car parking garage are planned on two acres of land near downtown.

Construction on the 105,000-square-foot building will begin when the space is pre-leased. A new trade center opened in September 1998, which will provide prime office space for the North American Development Bank, the city's showcase for trade and international relations.

In 1998, San Antonio officials issued 30 warehouse and industrial permits valued at more than \$47 million. The majority of these projects were for warehouse space. Growth is occurring mostly in the city's north and east areas. The conversion of Kelly AFB to the private sector will greatly impact the industrial market. The key to future growth in this market hinges on providing warehouse and distribution

facilities for increasing trade with Mexico.

New trucking rules were to allow tractor-trailers from both the United States and Mexico to travel within the boundaries of all of the 11 states on both sides of the border. Scheduled to go into effect December 15, 1995, these rules have been delayed in Washington by lobbyists for political opponents in the U.S. trucking industry. The vision was for San Antonio to take advantage of its location to create a "product pipeline" with manufacturers in Monterrey, Mexico's industrial powerhouse—less than a six-hour drive south. Without those trucking regulations in place, however, the fruits of NAFTA have yet to ripen here.

### Water Ways

The city is making vigorous efforts to secure adequate future water supplies. The San Antonio Water System board is considering proposals to get water rights from the Simsboro Aquifer,

northeast of Bastrop in Central Texas, as a possible turning point in the city's efforts to cut its dependency on the Edwards Aquifer, San Antonio's sole source of water.

A 21-county regional water planning group is evaluating many options as part of a strategy to meet the region's long-term water needs. A sand aquifer in southern Bexar County moved closer to becoming a source of drinking water for San Antonio when water system trustees approved a contract recently. The utility's board authorized an option-to-buy contract for 1,650 acres straddling the Bexar-Wilson county line and overlying the Carrizo-Wilcox Aquifer. Recent agreements with ALCOA will bring additional water resources to the community. These efforts will ensure that sufficient water is available to support future growth. ☐

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