

A Reprint from *Tierra Grande*

UP IN THE AIR

CAN AUSTIN
LUXURY
HIGH-RISES
TAKE OFF?

BY HAROLD D. HUNT



Luxury: “an indulgence in something that provides pleasure, satisfaction or ease; wealth as evidenced by sumptuous living.”

Some of the most expensive multifamily residential housing ever developed in Texas is nearing completion in downtown Austin. Three luxury high-rise towers — The Austonian, Four Seasons Residences and the W Hotel and Residences — all should be ready for occupancy by early 2011.

Although high-end inner-city high-rise condominiums have long been available in America's largest cities, they are new to downtown Austin. So what motivates today's luxury buyer? What demographic is signing up for Austin's high-rise luxury units? What is unique and compelling about downtown Austin to the luxury high-rise purchaser? Are too many luxury units being constructed?

This article addresses key questions regarding this segment of urban residential living making its debut in Texas' capital city.

What Motivates Today's Luxury Buyer

Michael Silverstein and Neil Fiske, in their 2008 book *Trading Up*, argue that today's luxury buyers are overwhelmingly pressed for time. As a result, they feel the need to purchase items that make life easier and less stressful.

In a survey of 2,300 luxury-brand consumers, the authors found that over half of respondents agreed or strongly agreed with the statements, "I never have enough time" and "I don't spend enough time with friends." Thirty-nine percent agreed or strongly agreed that they are "working harder than ever."

The authors also discovered that because luxury buyers generally have limited family time, they strive to ensure their family experiences are as rich and rewarding as possible. Survey respondents were asked to consider 20 categories of consumer goods, indicating which they would spend more for. Products for the home or apartment topped the list.

Today's luxury consumers are careful to align themselves with brands for which they have a genuine affinity and that are a good match for their own individual style. The home is perceived as a place for status purchasing and an important expression of that style.

Jeff Winsper, strategic marketing expert and author of *The 6 P's of Luxury Marketing*, believes that affluent individuals increasingly



rely on strong personal relationships, differentiating their trusted network of friends from larger, nonexclusive networks.

Kevin Burns is a broker and founder of Austin's Urbanspace Realtors, which specializes in urban condo sales.

"It doesn't matter if luxury buyers are poets or high-tech business owners," Burns says, "They enjoy spending time with peers who share their same values about working hard and creating personal wealth."

In Austin, environmental awareness is also a factor.

"A significant portion of our luxury buyers consider the environmental consequences of their buying decisions," says Terry Mitchell, development consultant and marketing director for The Austonian (see "Condo Living Can Be Green").

Condo Demographics

General Trends

Academic studies have revealed that, overall, people choosing an urban lifestyle today are more affluent, more diverse and more highly educated than those in the suburbs.

Table 1. Environmental Sustainability Comparison of Downtown High-Rise and Suburban Development

*This chart compares the "environmental footprint" of a downtown high-rise condo community with (1) a typical suburban single family community, and (2) a similarly priced luxury suburban community.			
	Urban Condo Project	Typical Suburban Single-Family Project	Similarly Priced One-Acre Lot Project
Number of Units	200	200	200
Acreage Consumed for Project	Under 3/4 of an acre	Between 57 and 70 acres (between 3 and 3.5 units per acre with roads and drainage)	220 to 230 acres (approximately one-acre lots with roads and drainage)
Impervious Coverage Percentage of Total Project Total Acres of Impervious Coverage	100 percent 3/4 of an acre	45 percent 26 to 32 acres	15 to 45 percent 29 to 87 acres
Landscape Water Usage	Zero Landscaping irrigated with rainwater collection system and A/C condensation collection system.	15,600,000 gal/year Typical standard lot uses approximately 78,000 gallons per year of potable water for irrigation.	40,000,000 gal/year Typical one-acre lot uses at least 200,000 gallons per year of potable water for irrigation.
Electricity Usage	\$10 to \$60 per month Energy efficient design; green building, smaller size; using city chilled water system for A/C.	app. \$100 to \$300/mo. or more This usage will vary greatly depending on the size of the home and multiple A/C units per home.	\$250 to \$450 per month Typical higher usage with larger-size housing and separate and multiple A/C units per home.
Taxable Value Per Acre	Over \$80 million to \$150 million per acre, depending on value of units.	Approximately \$700,000 to \$1,225,000 per acre assuming an average home value of approximately \$200,000.	Approximately \$1 million per acre assuming an average home value of approximately \$1 million.

STUDIES SUGGEST THOSE who choose to live downtown are wealthier and more diverse than their suburban counterparts. High-rises such as *The Four Seasons Residences* (below) may appeal to retirees and young professionals alike. Amenities include 24-hour concierge service, entertainment room with catering for private parties and a rooftop swimming pool 32 stories up (previous page), overlooking Lady Bird Lake.



Singles, empty-nesters, retirees, gays and childless or small households are more highly represented in downtowns. Families with children are present but not dominant.

Many of the affluent people who choose high-rise living are looking to divorce themselves from the mundane activities that accompany owning a home. Condo living enables them to leave home for extended periods without having to worry about maintaining their property.

Luxury condo amenities such as swimming pools, gyms and reserv-

able guest rooms also allow tenants to significantly downsize their living space.

Wealthy retirees who are not content with hanging out in the suburbs are increasingly drawn to high-rise living. When eventually they are unable to travel, the extensive list of amenities, personal services and proximity to restaurants and shopping offered by luxury condos can offer a preferable alternative to traditional assisted living.

Youth Leads the Way

A 1998 study by Sharon Zukin, professor of sociology at Brooklyn College, found that it was young people who began the movement back to downtown neighborhoods. This trend represented what Zukin calls an "endorsement of the social diversity in urban areas and a cultural movement away from the alienated, private lifestyles of the suburbs."

Burns agrees that this mirrors what has happened in downtown Austin. He notes that the first demographic to rediscover the city's urban lifestyle was a group of young, highly-educated bachelors that could be described as the "Dot-com Early Adopters."

"The evolution of downtown Austin has been similar to the product adoption curve," says Burns. He argues that Austin's urban revival has evolved from the bottom up, as young people moved into lower-end rentals downtown, found they liked urban living and bought lower-end condos. The next wave of residents moved to mid-level apartments, liked urban living and purchased mid-priced condos. The final wave moved to upscale apartments and are now buying luxury condos.

Austin's Condo Buyers

"Thus far, the age of buyers has been quite diverse," notes Charles Heimsath, president of Capitol Market Research. "People in all stages of life have found downtown condo living appealing."

Heimsath reports that about two-thirds of condo buyers moved into the downtown area from another residence in Austin. Of the buyers, 70 percent that are employed do not work downtown.

"They chose urban living because of the lifestyle it offers," says Heimsath.

Brett Denton, co-owner of Ardent Residential and developer of Austin's Four Seasons Residences, agrees.

"Although the time-pressed urban professional is part of Austin's urban demographic, many condo buyers are simply motivated by a belief that a move downtown will open a new, interesting chapter in their life," says Denton.

Burns has noticed the buyers of Austin's luxury units are a surprisingly diverse group; however, young empty-nesters are more highly represented in the luxury end. Although the majority of buyers are coming from the Austin area, many are from Dallas and Houston as well.

Heimsath has noted the same trend. "A significant percentage of luxury buyers are from out of town and even out of state, with many purchasing their second or third homes. The pool of buyers for luxury condos in Austin is larger geographically than those purchasing high-end homes."

Condo Living Can Be Green

Austin prides itself on being one of the most environmentally conscious cities in the country. "The green benefits of high-rise living should really be taken into consideration when buying a high-rise property," says Terry Mitchell, marketing director of The Austonian luxury condos.

Mitchell obtained data from the Lower Colorado River Authority and has done other research to compare the green benefits of high-rise living with suburban developments housing a similar number of residents (see Table 1).

As the chart shows, impervious cover is significantly reduced with a vertical property. Dramatic savings in landscape water and electricity usage are also possible. For example, it is not uncommon for owners of one-acre estate homes in Austin to pay \$700 per month for landscape water during the summer months.

Will Wynn, former Austin mayor, has always been a green advocate.

"I've been surprised at how easy it is to be green when living downtown," says Wynn. His electricity bill for a 2,500-sf condo averages less than \$50 per month. Low electricity usage is typical in modern high-rises.

"The \$400 per month on electricity costs I save is in after-tax dollars," says Wynn. "That would probably support \$650 a month in additional mortgage payment since mortgage interest can be tax deductible."

Finally, the percentage of taxes used to provide city services to high-rise residents is far less than the amount of taxes they generate. As a result, excess funds are available to be used for other city services not tied to the high-rise property.

Mitchell asserts, "Over the long haul, the most environmentally conscious residents will be choosing the urban lifestyle."

**Table 2. Austin Central Business District Condominium Closings
(Existing Properties as of March 10, 2010)**

Name	Total Units	Initial Marketing Date	2002	2003	2004	2005	2006	2007	2008	2009	Total Units Sold	Remaining Inventory
360 Condominiums	430	2/1/2006	-	-	-	-	-	-	281	149	430	-
5FiftyFive (Hilton)	98	10/1/2004	-	-	-	11	75	12	-	-	98	-
Austin City Lofts	82	9/1/2001	-	-	-	65	14	3	-	-	82	-
Brazos Place	72	11/1/2006	-	-	-	-	-	35	21	16	72	-
Bridges on the Park	104	5/1/2006	-	-	-	-	-	27	53	15	95	9
Brown Building	90	6/1/2000	14	28	48	-	-	-	-	-	90	-
Milago, The	240	1/1/2005	-	-	-	-	221	19	-	-	240	-
Nakonah, The	96	3/1/2000	77	5	8	6	-	-	-	-	96	-
Plaza Lofts	60	6/1/2000	34	16	6	1	-	-	-	3	60	-
Sabine on Fifth	80	5/1/2007	-	-	-	-	-	2	34	36	72	0
Shore, The	192	3/1/2006	-	-	-	-	-	-	134	49	183	9
Totals	1,544		125	49	62	83	310	98	523	268	1,518	18
											98% Closed	

Source: Capitol Market Research from recorded warranty deeds (Travis County Deed Records)

Downtown Austin — Unique and Compelling

A series of events during the 1980s and 1990s created new demand for downtown living in many U.S. cities according to a 2002 study by University of Pennsylvania Professor Eugenie Birch.

First, urban leaders realized that their cities would remain economically depressed and demographically unbalanced if nothing were done to create a 24-hour downtown environment. Second, suburban sprawl increased congestion and made commuting to work more arduous. Third, acceptance of New Urbanist planning principles led to appealing streetscapes, increased amenities and better public transit, restoring the attractiveness of high-density urban living.

In some ways, downtown Austin is not so different from a host of other large cities around the country. But a closer look reveals a number of reasons why Austin's urban environment is actually quite unusual.

"One thing Austin's downtown offers that many others don't is the variety of excellent private and public school options," says DAA's associate director Molly Alexander.

Former mayor Will Wynn agrees, adding "Austin High School is where the Bush twins went to school. It's a public school located right downtown that is safe, clean and pedestrian friendly. There may be no other downtown in the country where a governor's kids (and a former president's grandkids) have attended a public school." Wynn now lives downtown with his two daughters.

Burns attributes much of downtown's appeal for the affluent buyer to its compactness and affordability. "There are pieces of downtown Austin that feel like a big city, but it also feels like a small town. Residents can be at the airport in 15 minutes or on the Town Lake Trail in five. And these new luxury condos will still be some of the most affordable in the world."

"Another unique advantage to residents is having the Whole Foods flagship grocery store located downtown," says Alexander. "And don't forget the 132 clubs, many offering live music, and half a million square feet of restaurants in the downtown area as well."

Too Many Luxury Condos Being Built?

Limited New Supply

Denton believes a great deal of misinformation exists regarding the downtown condo market.

"There has been a lot of speculation that the downtown Austin condo market is being overbuilt," he says. "Many people are convinced that 2,000 to 5,000 condo units are coming online. The facts don't support this."

Most of the buildings the public sees are rental or condo projects that have already been completed, according to Denton.

"About 1,500 condominiums have been delivered to the downtown market since 2001," he says. To date, nearly 98 percent of those units are sold and closed" (Table 2).

One mid-tier development, Spring Condominiums, completed 248 units in April 2009. In the luxury category, Four Seasons Residences will offer 148 total units. The Austonian is developing another 178 while the W Hotel and Residences will complete a total of 159 (Table 3).

"Completion of the three luxury condo towers under construction in downtown Austin is staggered over a number of months," says Denton. "And each project has underwritten a two- to three-year sellout period after construction is finished."

"With less than 300 luxury units left to sell during the next three to four years," Denton maintains, "it is reasonable to conclude we are not overbuilding luxury condos in Austin."

Other Considerations

An important factor limiting any future condo supply is construction financing. Much like any other commercial real estate venture, new condominium projects would be extremely difficult to finance in today's restrictive lending environment, even in markets that are not overbuilt.

"Capital markets should keep any project from starting in the next two to three years," says Mitchell. "Then you can add a couple of years for construction time to that."

Another aspect worthy of consideration is the variety of lifestyle choices that will be available. The three luxury properties each offer buyers a distinctly different "vibe."

Four Seasons Residences should appeal to buyers looking for a property projecting an environment of understated elegance with a well-established brand affiliation. Located in the busy 2nd Street Retail District, the W is geared toward the buyer looking for a more style-driven experience. Both intend to offer residents the same high level of amenities and services for which their hotels are famous.

The Austonian will be located on Congress Avenue closer to the center of downtown. Mitchell notes that The Austonian

was intentionally designed as a private community — one without common amenities shared with a hotel — providing 40,000 square feet of luxury amenities solely for the residents and their friends.

“The Austonian is offering buyers four things — convenience, privacy, luxury and exclusivity,” says Mitchell.

Possible Obstacles

Luxury condo development began in Seattle, Washington, about two years ahead of the Austin market. Seattle is a university town similar in size to Austin with significant high-tech employment. However, its downtown residential population is nearing 60,000.

The critical question asked while their luxury condo development was occurring was how deep and how long-lasting the demand for high-end condos would be. Consultants estimated that downtown Seattle could absorb 1,000 to 1,500 luxury units per year.

According to Art Wahl, managing director at CB Richard Ellis in Seattle, some downtown luxury properties were completed and sold ahead of the economic downturn. Later developments are still struggling. About 50 percent of new luxury condos stand vacant.

“Three years ago, you could finance 90 percent of a luxury condo’s value,” says Wahl. “Today, values are 25 percent below their highs and buyers can finance only 60 to 75 percent of that.”

Luxury units in downtown Seattle were originally offered for \$1,000 to \$2,000 per square foot.

“That high-end market does not exist anymore,” says Wahl. “The highest sales price for new luxury product in today’s market is \$600 to \$800 per square foot. The poor economy stifled our job growth. And no job growth has meant no sale of million dollar homes in the suburbs. That has really limited the ability of many upscale buyers to purchase a luxury condominium.”

Seattle offers a cautionary tale. But in Austin, the volume of condo residences is dramatically lower. Although Austin developers may not realize the upside originally projected, the chaos experienced in other markets should be avoided.

“We believe the city’s improving consumer confidence has been driving a recent increase in buyer traffic,” says Mitchell. “While not as hot as the ‘go-go’ days, it’s great to see contracts with earnest money hitting our desks.”

Dr. Hunt (hhunt@tamu.edu) is a research economist with the Real Estate Center at Texas A&M University.

Road to Urban Rebirth

Downtown Austin is comparatively small, being loosely defined as the 14-by-16-block area bordered by Lady Bird Lake to the south, the state capitol to the north, Lamar Blvd. to the west and I-35 to the east.

Although Austin did not experience the inner-city industrial decay that plagued so many major U.S. cities, its evolution is still somewhat similar. Urban living thrived for decades until people began their exodus to the suburbs during the 1950s. By the end of the 1970s, full-time residents had largely moved out of the city’s urban core.

An overabundance of office construction through the 1980s further crowded out urban residents and retail establishments. Daytime office occupants routinely abandoned downtown Austin after 5 p.m., leaving few downtown residents but a thriving entertainment scene.

The city’s urban revival began in the early 1990s with the creation of the Downtown Austin Alliance (DAA) public improvement district. Approved by the city council in 1993, the DAA created new resources and leadership for downtown redevelopment.

During the late 1990s, Mayor Kirk Watson pushed the revitalization effort to the next level, providing city-owned land for the construction of a number of new downtown multifamily residential developments.

The momentum increased with the election of Mayor Will Wynn in 2003. Two years into his first term, Wynn announced that his administration would work toward a goal of 25,000 full-time residents for downtown by 2015.

About 3,500 residential units, 5,000 new residents and 250,000 square feet of retail space have been added to the downtown area in the past five years. Total retail space is nearing 1.4 million square feet.

THE TAKEAWAY

More than 400 of the most expensive luxury condos in Texas are coming online in downtown Austin. Some say the timing is disastrous; others believe economic recovery may work in favor of these developments. Upscale buyers hold the key to success for this small niche market.

Table 3. Condominium Summary for New Austin Central Business District (CBD) High-Rise Projects (As of March 10, 2010)

Project	Year Built	Number of Units	Number Units Complete	Number Contracts / Sales	Number Contracts / Sales	Units Available	Marketing Start Date	Absorption Rate per Month	HOA Fees per SF per Month	Average Price	Price Range	Average Unit Size	Price Per Square Foot
Luxury													
Austonian, The	2010	178	-	55	31%	123	5/2007	1.89	\$0.61	\$1,516,000	\$559K – \$8MM	2,203	\$688
Four Seasons Residences	2010	148	-	74	50%	74	6/2007	2.64	\$0.63	\$1,269,447	\$450K – \$4.49MM	1,969	\$645
W Hotel & Residences	2011	159	-	82	52%	77	1/2007	2.49	\$0.63	\$1,067,352	\$362K – \$3.5MM	1,716	\$622
Luxury Subtotal/Average		485	-	211	44%	274		2.32		\$1,293,681		1,972	\$656
Mid-Market													
Spring	2009	248	248	120	48%	128	3/2007	3.87	\$0.31	\$521,063	\$235K – \$950K	969	\$538
Mid-Market Subtotal/Average		248	248	120	48%	128		3.87		\$521,063		969	\$538
CBD High-Rise Total/Avg		733	248	331	45%	402		2.84		\$1,032,277		1,633	\$632

Source: Capitol Market Research



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Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

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