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Who wins in CSC deal?

Taxpayers would see 'a good deal' for land; CSC would pay prime CBD land price

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Mayor Kirk Watson sat before the leaders of a \$7 billion California company Dec. 8 with his best "Have-I-got-a-deal-for-you" pitch.

When Van Honeycutt, chairman and CEO of Computer Sciences Corp., takes the time to talk to some downtown Austin land owners and review the appraisals of the land surrounding the proposed site, he may not think it's such a sweet deal.

Watson traveled to Los Angeles Dec. 8 to meet with the top CSC leaders and explain the proposal the City of Austin is making to the company's Financial Services Group. The deal calls for CSC to forgo The Terrace development in Southwest Austin that it originally found attractive (see related story, page 9) for three city-owned blocks just north of Cesar Chavez Street and Town Lake downtown.

Watson walked away with an agreement from CSC leaders to negotiate a binding contract, although the details still would require approval from the Austin City Council and CSC's board of directors.

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The proposal calls for CSC to lease four city blocks from the city for the 1998 equivalent of \$17.3 million -- three blocks for offices and one for adding on to an existing parking garage. The city also would waive some development fees, valued at \$700,000.

The city would lease back some parking space and ground-level retail space in several of the buildings.

In the end, city officials estimate the cost to CSC for developable space in the deal -- that is, what taxpayers will get for letting someone lease their land -- is \$55 per square foot.

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According to Tom Stacy of T.Stacy & Associates, which owns or controls several downtown office buildings, including 823 Congress, the Scarbrough Building and the Littlefield Building, \$55 per square foot is about what prime land downtown is going for.

But almost everyone involved agrees, the area in question is not prime land.

Stacy says city officials would have to be pretty shrewd negotiators to get \$55 per square foot for the land in question.

He says land in the central core of downtown, in the Congress Avenue/Sixth Street area, has sold in the past several months for exactly \$55 per square foot. But, Stacy says, land values drop as one moves further south. Stacy contends the true center of downtown Austin for office real estate investors remains the Texas Capitol.

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"People want to walk to the Capitol, people want to walk to Sixth Street and the courthouses," Stacy says.

The land the city is offering to CSC doesn't have that kind of proximity. Fetching \$55 a square foot may not be so easy.

"That's a pretty good deal [for the city]," Stacy says. "That is by far the highest and best use."

An examination of 1998 Travis Central Appraisal District tax records for properties near the CSC site shows the taxing entity values the surrounding land generally below the \$55 per square foot that CSC would wind up paying.

Five properties in the 300 and 400 blocks of Colorado Street, to the east of the city site, were appraised between \$41.13 per square foot and \$81.02 per square foot. But the high value is an anomaly for the two blocks. Most of the appraisals were near \$50 per square foot.

Properties in the 400 blocks of Lavaca and San Antonio streets, just north of the city site, were even lower. Three properties in that area were appraised at about \$30 a square foot.

A property directly west of the CSC site, the Austin Music Hall at 208 Nueces St., was appraised at the lowest of any examined -- \$18.31 a square foot for the land alone.

Whatever the land being pitched is actually worth, city officials have acknowledged they might have to cut a below-market rate to lure CSC downtown.

Council Member Daryl Slusher noted in a news conference to announce the proposal that development costs downtown would be higher than in the suburbs. He said CSC might need a sweeter deal from the city to offset any extra costs.

Even so, Slusher believes taxpayer interests will be protected.

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"The city is getting fair market value for the land," Slusher said.

Some in the community have suggested the only way to learn the real value of the land is to take bids to determine what anyone interested is willing to pay.

Watson says that's betting on intangibles.

"They might say there might be a better deal, we just don't know what it is," Watson said. On the other hand, Watson says, CSC is a sure thing.

Watson also says he believes land values in the area are depressed because of what's there -- vacant lots, empty warehouses and the city's official day labor site.

After the land deal is done, CSC also will have to pay to build its 700,000 square feet of office space.

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Stacy estimates it will take the company somewhere near \$150 per square foot to build the kind of offices it wants on the site. That, combined with the expected \$55 per-square-foot cost for the land, shows CSC may be paying a pretty penny compared with what others have paid for downtown office buildings in recent years.

Over the past three and a half years, 17 buildings in the Central Business District have sold, according to a study by Colliers Oxford Commercial Research Services. Those buildings have ranged from Class A to Class C. Class A type buildings like the one CSC would build have sold for between \$87 and \$155 per square foot.

The most recent sale that at all resembles the location that CSC would get in the deal would be 301 Congress, a Class A building that fronts Congress Avenue and sits three blocks from Town Lake. Local real estate sources say that building sold for around \$100 per square foot.