

## **Market Musings (from blog posted on 1/30/2008)**

Recent developments in the happenings of Fredericksburg, TX real estate have the tongues wagging and the rumor mill at full speed. Our local Chili's restaurant closed last week and has stirred a hornets' nest of speculation, rumor and innuendo. The simple explanation (usually the best one) is that they could no longer maintain targeted profitability while overspending to maintain adequate, affordable, responsible staffing.

How an experienced, publicly-traded operating entity like [Brinker International](#) with a net operating profit in excess of \$200 million ('07) can let a little thing like employee retention shut them down is a bit of a mystery.

While many Brinker outlets operate under franchise agreements, I seem to recall that the Fredericksburg location was a "company store". If, in fact, it wasn't, I do know that the lease was guaranteed by Brinker.

What will happen next is anyone's guess (though there are, no doubt, folks around who will tell you "they know"), I suppose the landlord/property owner will weather the storm. Though they recently purchased the property (in large part due to the Brinker guarantee), Brinker will be obligated to "make them whole" until an acceptable replacement use is found.

The bigger picture begs the question why local merchants have such a hard time finding and keeping good, affordable employees. Any local employer will tell you that their single biggest challenge is finding and keeping employees.

This all ties in to real estate due to the fact that most service employees making between \$7-\$10/hour simply cannot afford housing in Fredericksburg, TX. The lack of affordable housing is threatening to strangle the life out of the very businesses that have made our growth so successful. No housing- no employees,

no employees-no businesses, no businesses-no growth, etc.

Any informed source can recount a small litany of businesses that they know would like to be in Fredericksburg, TX but have delayed (or shelved) their plans due to the chronic shortage of affordable employees. This situation (among other factors) has attracted the attention of developers willing to gamble their resources on building “affordable” housing, both through private funding and/or state and federal assistance/tax credit assistance.

The combination of high land costs (and the low expected rental rates) and bureaucratic roadblocks (e.g. zoning and the “master plan”) have combined to make this a very long-term process promising minimum returns. When these factors (real or artificial) impeded the efforts of the private sector to fill a clear demand, the original problem is further exacerbated.

The real estate industry holds the key to several of Fredericksburg’s most pressing issues (affordable housing, “chains on Main”, etc.). Unless and until ALL the key players recognize the advantages to seeing “the big picture” and act together to creatively solve these “economy-stalling” problems, Fredericksburg will continue to frustrate the profitability and interest of even the most financially sound, market savvy businesses...the true life-blood of Fredericksburg TX.