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Dear Client:

The price of single-family homes continues to rise very quickly. Austin is dropping down the list of affordable cities because of the high cost of housing. The solution to reverse this trend: build more houses, said one Texas real estate expert. But what about the high cost of labor and the availability of financing?

Mark Dotzour, the chief economist and director of research at the Real Estate Center at Texas A&M, says the **supply situation of single-family homes available for sale has never been this low for so long**. And the basic economic tenet of supply and demand keeps pushing prices higher in Austin as more job-seekers move to the area, seeking a place to live.

Single family home demand has been increasing since 2011. Dotzour said: “I feel this is one of Texas’ most pressing economic development issues.” Dotzour says **we are nowhere near the level of construction of new homes today to keep the supply high enough to prevent prices from getting too expensive**.

And there are impediments standing in the way of the supply increasing quickly enough to meet the market demand. A labor shortage is one impediment. **“It could take years before there are sufficient workers to meet demand,”** predicted Dotzour.

“I know of one firm that **raised wages nearly \$2 per hour** and is now offering a ‘quarter for each quarter’ – a 25-cent-per-hour wage increase, in addition to higher pay, **for each three months that an employee stays with the company,**” he said. And, of course, this raises the price of the product.

Another impediment to building more homes quickly? “Homebuilders tell me that they can get construction loans again,” he said. **“Money, however, remains scarce for land developers.”**

“So the trend is positive, but **total credit outstanding to builders and developers is still less than half of what we had before the downturn,**” observed Dotzour.

New home inventory in Austin was a bit greater in 2014 than in 2013. But Austin’s robust population growth is still occurring and Dotzour is not optimistic that supply and demand will be in balance anytime soon. As a result, **Austin area home prices should continue to rise this year**. To gauge any change: keep your eye on the number of new homes being built.

Austin just dropped from #1 to #7 as the best US city for job seekers. In other rankings Austin is still showing up at, or near, the top of US major metros. Why the disparity? Different criteria are used. But, all in all, there is an enviable consistency in the rankings.

The finance website NerdWallet.com knocked Austin out of its #1 ranking last year, based on **job availability, affordability and growth**. Here is what it said this week: “Texas capital made our list for its 12% working-age population growth and a low jobless rate of 4%. The city thrives in advanced manufacturing, clean energy and life sciences, and has earned the nickname ‘Silicon Hills’ for its growing technology industry.” But then the kicker: “**However, Austin residents pay \$1,008 a month for rent, the highest in our top 10.**”

Another newly-released ranking, the Milken Institute’s 2014 Best Performing Cities, also **dropped Austin’s #1 previous ranking to #2 behind San Francisco**. (Obviously housing affordability did not weigh heavily in Milken’s report. Hey, have you priced housing in San Francisco lately? It’s outta sight.)

Milken looks at wage, jobs and technology trends. “**What propelled San Francisco above 2013 first-placer Austin, Texas was its No.1 finish in wage growth over both the past five-year and one-year periods**. Young technology skilled workers are flocking to the city,” noted the report. Need we point out that high wages cover high housing costs.

Other recent reports reflect the high regard in which Austin is held – especially in the tech field. The website WalletHub ranked the Austin metro as **#2 in the nation for STEM (Science, Technology, Engineering and Mathematics) jobs**. And the February issue of *Popular Mechanics* magazine reported Austin was the **14th best place in the nation for start-ups**, noting that “computer geeks galore flow out of UTAustin.”

Don’t get your hopes up that the recent dreary, damp cold weather is filling up the two drinking-water reservoirs, lakes Travis and Buchanan. Isn’t happening. In spite of above average rainfall in the Austin area in 2014.

“It’s not that the area around the lakes hasn’t gotten rain,” said **John Hofmann**, exec VP of Water for the Lower Colorado River Authority. “**It’s that we haven’t had enough rain in the right spot – or in the right way – to make a significant difference in lake levels.**”

Well, then, what do we need to wish for? “**Ideally, we need rain to saturate the soil, followed immediately by another series of storms,**” said Hofmann. This will increase the inflows from streams and tributaries. (By the way, inflows in 2014 were the second lowest for any year since 1942.) **Will an El Nino weather event ever kick-in to kick-start more chances of rain? Doesn’t look too promising. The chances have dropped from 65% to 50%/60%.**

The dean of UT Austin's Dell Medical School has promised innovative approaches to health care will be the hallmark of the new campus. With so much concern about healthcare these days, where to start? How about those hospital gowns that expose every patient's backside?

Not interested in creating just another medical school, DellMed dean **Dr. Clay Johnston**, writing in the January/February issue of the UT Austin alumni magazine *Alcalde*, lists ten **backward things about the healthcare system "in the spirit of moving some needed changes along."** His list and his observations:

Hospital gowns expose your rear end when you get out of bed. "I'm joking with this one – kind of. People assume there's a good reason hospital gowns are designed the way they are, but **those gowns create more problems than they solve.** When I think of how many complaints about these gowns I've heard from patients through the years, it's clear we need a fix. There has to be a better solution."

Health care is even more expensive than you think. "In 2012, the US spent nearly \$9,000 per person on health care. That's more than any other nation on the planet." Referencing innovations in business and industry, he said "we need to bring the same innovation to health care systems. **If we start to reimburse for value of care rather than quantity, we will see the systems adapt. This won't be easy,** as it will require orchestrating providers, insurers, patients and other disjointed interests. But there are ways of pushing this forward."

A good doctor is much harder to find than a good restaurant. "If I want to take my family out to dinner, I can grab my smartphone and find just about any restaurant. I can see what's good, what's close, what's open, what's being served and what it costs and when the next table is available. It's that easy. Why is it so difficult to find a doctor? **Why does it take so much work to figure out whether that doctor accepts your insurance or is taking new patients,** let alone if he has a pleasant bedside manner? **Technology needs to transform health care at a human level, the same way it's transformed smartphones and dinner reservations."**

No one reminds you to take your meds. "Meds don't work if you don't take them. And they often work well if you do. Obvious, right? **So why is it that nearly half of Americans don't take their medications as prescribed?** Again, technology can help. Our phones already light up when bills are due. There's no reason why we shouldn't be getting an **automated reminder from our doctor or pharmacist when it's time to take a pill or get a prescription refilled."**

There are more backward things about our healthcare on his list. **We may not be able to list all of them,** but we'll continue the list until we run out of space, in the next item.

Can some of the backward aspects of our healthcare system be altered by what happens in Austin? It's possible.

As mentioned in the previous item, UT Austin DellMed's inaugural dean, **Dr. Clay Johnston**, has candidly recognized faults in the US healthcare system. And he is in a leadership position to have some impact. Here are more of his observations:

Doctor visits are way too short. "A patient speaks for less than two minutes in an average private practice, primary care office visit. That's barely enough time to ask a single question. **Patients don't want shorter doctor visits. They want real office visits**, appointments during which physicians really listen to what's going on, explain health issues and help patients get well. Doctors want the same thing. **Unfortunately, the fee-for-service model, being paid for seeing more patients rather than for achieving results, is one of the major drivers of our health care system.** It's not saving us money and no one likes it – not patients, not doctors – but everyone is stuck with it."

When you have the flu, you have to get out of bed and drive to a crowded office. "This one is crazy. This is the kind of thing that could be easily managed by phone. **The main reason this doesn't happen today is because no one pays for this telephone and video visit. The flu is relatively easy to diagnose and treat.** Only a fraction of patients with flu-like symptoms actually need an exam. Paying based on value opens up the system to better solutions."

Some other backward things Dr. Johnston cites: **You can't find an apple in a vending machine ... You can't email your doctor ... Hardly anyone pays for prevention.** "Healthcare has been built upon a fee-for-service model that pays more for doing more. Incentives to produce better health and improve value are much weaker," he observed.

Dr. Louis Overholster's elderly patient, who is not wealthy by any means, bragged about getting an SUV for Christmas from his wife. "Really?" "Yeah, socks, underwear and Viagra!"

Sincerely,



Editor/Publisher