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Dear Client:

**What's with all these office buildings under construction in Austin? I mean, right now, one firm estimates there is about 3.5 million square feet of office space under construction. And this is after a million square feet opened for business in the first quarter. Is Austin on the verge of reverting back to the last bust when "see-through" office buildings languished with no tenants? Not at the present rate of leasing at ever-rising rental rates.**

All those companies moving to the Austin area, and those expanding their already significant presences, are **signing leases right and left – many of them long before the construction is complete. And they are paying top-dollar.** Take three recent examples that concluded construction during the first quarter 2015.

According to Cushman & Wakefield (C&W), the **Colorado Tower** downtown (with **Parsley Energy** as a major tenant) opened 373,334 square feet of lease space and it is **95% leased**. The **Domain 7**, with **Amazon** as a major tenant, has **70%** of its 221,973 square feet leased. And the 145,138 square foot **Seaholm Power Plant** downtown, with **Athenahealth** as a major tenant, is **100% leased**. All this happened in the first 90 days this year.

What's in the *office building construction pipeline* to be concluded this year? Take just two examples in the southwest portion of the city. **Encino Trace Buildings I & II's** 320,000 square feet is **already 38% leased** and it won't be ready to be occupied until the third quarter. The same with **Rollingwood Center**, that opens in the third quarter. It is **100% leased**. These stories are being replicated all around the area. And some speculative office construction is ongoing with leases yet to be signed. But you get the picture.

Okay, then. How much are tenants paying for spiffy new space? A bunch. C&W reports the **average full-service overall rental rate for the total market was \$32.78** per square foot, 11.8% higher than 4<sup>th</sup> quarter 2014. As you might expect, the Central Business District has the highest rates and escalations. **Current rate downtown is \$43.84** per square foot across all building classes, a 51-cent increase over the previous quarter.

What's ahead, C&W? Low vacancy rates will continue and **"new historically high rental rates will be posted throughout the Austin market in the remainder of 2015."** Hang on.

**We've long maintained UTAustin is a major economic engine for the Austin area and, really, for the state as a whole. Okay, you say, prove it. Well, up until now, we didn't have hard numbers. It was anecdotal and intuitive on our part. But UTAustin hired a firm called Economic Modeling Systems International (EMSI) to drill deep into the university's economic impact. And the results of the study are impressive.**

The study, by the way, appears to have been undertaken to bolster UTAustin's pitch to Texas legislators in support of its budget request for the next biennium. Why else would it use 2013 (the last year the legislature met) as a frame of reference when it said **"In 2013, the state funded UTAustin with \$575 million ... that same year, the university generated \$8.8 billion in added income to the Texas economy?"** But no matter the motive, the support for this claim bears repeating.

How did UTAustin contribute so much economically? "It did this by attracting research grants, nurturing start-up companies, drawing tourists to its sporting events, performances and museums, and, of course, by educating students. **This economic impact is the equivalent of creating nearly 133,000 new jobs each year,**" according to the study.

Okay, let's break down that claim, again quoting from EMSI's study: **"In 2013, UTAustin attracted \$511 million in research from government and industry, of which \$372 million came from the federal government."** Most, if not all, of those dollars flowed through Austin.

Also: **"In the last decade, UTAustin's entrepreneurship programs have funded or assisted 190 startups and spinoff companies. Those generated more than \$400 million in added state income in 2013."**

EMSI considered the economic impact on the state as a whole. We picked some Austin examples for obvious reasons. But in appealing to legislators from all over Texas (who will vote within the next 30 days on funds for UTAustin), it pointed out that **"some 12,000 Texans graduate each year from UTAustin."** And these alumni, "who because of their strong education and productivity **generate \$6 billion annually for the state's economy.**"

Not included in the EMSI study because it just happened this week: the **ExxonMobil Foundation made more than a \$1.5 million donation to UTAustin's business, engineering and geosciences programs,** aimed at getting women and minorities involved in science, tech and engineering careers.

The way this gift came about reinforces EMSI's claim that its alumni have a major economic impact. **ExxonMobil Foundation contributes \$3 for every dollar donated to UTAustin** by ExxonMobil employees, retirees, surviving spouses and directors. This year it was \$630,000. By the way, ExxonMobil has donated more than \$60 million to UTAustin since 1975.

**By one assessment, Austin is the best place in the US to buy a home this year. Yet, by another measure, it has been ranked as the 4<sup>th</sup> riskiest city in the nation for declining home prices. What gives? Well, for one thing it points out the discrepancy in national rankings.**

Let's dissect the two examples mentioned here.

SelfStorage.com said it named **Austin as the best place to buy a home after looking at the 60 biggest US metros** – especially their long-term economic growth, long-term job growth, availability of new housing, the ratio of median home value to the median salary, recent price increases and real estate taxes (which, by the way, were higher than any other city on the list).

**California-based Arch Mortgage Insurance concluded Austin has a moderate 32% chance of having lower home values in two years. This ranked Austin #4** among the 50 largest US metros, behind Dallas and San Antonio (42%), Houston (38%) and West Palm Beach (35%). It used different metrics from SelfStorage.

Seldom do different rankings use the same criteria. This is the case here. **So be careful how you use this data and always consider the source of the information.**

**Airline charges, fees and fares make the cost of flying ever more expensive for passengers. And these costs have not been reduced even though jet fuel costs are much lower than in the past. As a result, US airlines are socking away the big bucks. And the major carriers that serve Austin-Bergstrom International Airport (ABIA) are leading the profits race.**

The US Department of Transportation reported this week that **America's passenger airlines reported a combined net profit of \$7.5 billion in 2014.** To put that into context, it hasn't been all that long ago when many of these airlines were given bankruptcy protection due to their failing finances. Now they are flying high in the financial stratosphere.

Austin's market leader (with a 36.3% share of ABIA passengers in March) **Southwest Airlines reported a net profit of \$1.31 billion in 2014. American Airlines, after merging with USAirways, reported a whopping combined net profit of \$2.79 billion last year.** The two airlines carried a combined 21.6% of ABIA passengers in 2014.

With a 17.2% market share of Austin airport passengers, **United Airlines racked up \$1.1 billion in net revenue and Delta Air Lines tallied \$649 million in net income,** while carrying 12.3% of Austin's fliers. All other ABIA air carriers accounted for only a single-digit market share in 2014. By the way, 2014 is the fifth consecutive year that all US airlines reported an after-tax net profit.

**Two events coming to Austin couldn't be more different. How different? The difference between crowds dancing, shouting, singing at raucous rock concerts to crowds that grow silent when a golf shot is made, followed by polite applause. But back-to-back big-time music and golf events next March will bring international attention to Austin.**

**The South by Southwest (SXSW) event is well-known**, as it has been expanding for decades to where it now includes film and interactive, in addition to music. But the **World Golf Championship Match Play** just selected the Austin Country Club as its venue for the next four years. It will bring the **top 64 ranked golfers in the world to Austin for 7 days of activity.**

Mark your calendars now. **Dell Inc is sponsoring the international golf classic that is scheduled for March 21-27, 2016.** SXSW has not released its 2016 dates, but its **ten days have traditionally encompassed UTAustin's Spring Break, which will be March 14-19, 2016.**

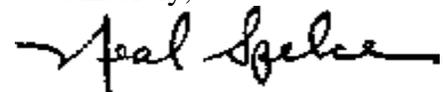
When we say "mark your calendars," it doesn't necessarily mean you are planning to attend. You may want to avoid them. But, at any rate, **these two high-profile events will certainly impact any travel plans you may make next year.**

Take this year with only SXSW bringing in the crowds. **More than a million passengers flew through Austin-Bergstrom International Airport (ABIA) in March 2015, to set a new record.** The only other million-passenger month at ABIA was in July 2014. Now, add to that the prestigious World Golf tourney and you can bet March 2016 will set another record for crowds at ABIA.

SXSW already generates worldwide publicity. And, the Dell World Golf tourney will do the same. That's another story for another time. But for now, better **circle these dates on your calendar for whatever plans you may make.**

**Dr. Louis Overholster** raises this question: "Why is it that red, white and blue stands for freedom except when you see them flashing behind your car?"

Sincerely,



Editor/Publisher