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Dear Client:

**Real estate is one of the major drivers of the Austin economy. When Austin dipped into a recent recession, it was called the Real Estate Recession. And the health of residential real estate – both for owners and renters -- has a *personal* impact as well as economic. So where do things stand today?**

First of all, **strong demand for homes and apartments is not going to let up any time soon because the area economy is humming.** Good-paying jobs at industry giants are being created daily and “Now Hiring” signs are posted on businesses in most parts of town, seeking lower-wage-scale workers. Newcomers move to the area each day (as evidenced by more cars on roadways!) driving demand.

The **debate du jour in residential real estate revolves around affordability.** Sellers, builders and apartment owners are making out like bandits as prices continue to climb. Buyers and apartment dwellers are complaining about the high costs. **City leaders and others are raising concerns that many are being priced out of the market.** What is likely to happen? **The entire permitting and development process in Austin is getting a much-needed review/rewrite.** These are good moves, but they take time.

Meanwhile, demand is pushing prices upward. So, what about the “affordability” issue? **Price-conscious residents are moving outside Austin’s city limits into suburban communities.** This trend will continue. **As for prices *inside* Austin’s city limits: Short-term, not much relief, long-term, there’s a little bit of hope.** For instance, the idea of loosening restrictions to build granny flats or garage apartments is gaining traction. The bureaucratic phrase is Accessory Dwelling Units (ADUs). **ADUs would create close-in, affordable dwelling units.**

Oh, a word about downtown condos. **Sales dipped recently, but prices went up.** More condos are being built. The sales dip could’ve been a blip. Bears watching. External factors also play a role in where the market is headed. **Interest rates are an example. While rates have been inching upward, they are still relatively low – helping affordability.** If they sky much higher, it will obviously make it more difficult to afford a mortgage. Watch this. It is probable that rates will increase this year.

Commercial real estate in the Austin area is on fire. Check out the next item for some insight.

**Austin commercial real estate is booming on two fronts -- construction of new properties and the sale of existing buildings. The pace is amazing, and unprecedented, especially in the Central Business District (CBD), where construction is driven in large part by new hotels and sales are highlighted by the turnover of old office buildings.**

*Wander* around downtown (because it's difficult to *drive* there these days) and you'll be in awe of the high-rise construction. **One report says Austin has more skyscrapers under construction than any other major city in the US.** We couldn't independently confirm that, but it is certainly within the realm of possibility. The construction activity has been going on for some time now, and it still appears frenzied.

We mentioned hotels. Following the successful opening of the 1,000+ room JWMarriott earlier this year, **more hotels are being built or have been announced – adding several thousand rooms within the next couple of years.** And the City of Austin is exploring enlarging its Convention Center.

But it's not just hotels. **New downtown skyscraper construction includes apartment buildings, office buildings, condominiums, mixed-use buildings, etc.** And lower-rise building construction is also underway, such as a striking public library overlooking Lady Bird Lake and a new UTSYSTEM HQ.

Of course, commercial construction is not limited to the CBD. **Most sectors of the city are seeing activity.** I mean, huge hotels are either being built on the edges of the city (such as the luxurious Granduca in West Lake Hills) or have recently opened (such as the Sonesta at the Hill Country Galleria in Bee Cave). And apartment buildings are sprouting up all around.

**Another measure of the intensity of commercial real estate activity can be found in the sale of existing properties.** Two of the oldest structures downtown – the Scarbrough Building and the Littlefield Building, both at 6<sup>th</sup> and Congress – changed hands. **But there have been much bigger transactions involving bigger and newer buildings.** In fact, a high-rise office building, adjacent to the aforementioned Granduca Hotel in West Lake Hills, leased the entire structure to Apple ... and then it was sold ... all before completion of construction.

As with the discussion on residential real estate, **what are the prospects for commercial real estate?** You'll remember Austin suffered economically during the **dot-com bust and a lot of new office buildings stood vacant for a long time, earning the moniker of “see-through” buildings,** because they had few or no tenants. With this current unprecedented commercial activity, are you likely to see a replay?

Not likely. **The current activity is built on actual demand, not speculation as it was when the dot-com bust slammed the area.** Of course, there could be a slowdown – and past trends indicate there *will* be. But the short-term outlook appears solid for commercial real estate.

**Many complain about too many cars on Austin roadways that impact their driving time. Well, what about *too few cars* that cost you too much time? Huh? *Too few* vehicles that cost you time? Yep. We're talking about how you sit at certain intersections while the traffic signals cycle through left turn lanes, when no cars are waiting to make left turns. Well, finally, the City of Austin may be improving the situation.**

This activity is already underway, starting at intersections that have the simplest and less expensive repairs at first. **The bureaucrats refer to the problem as “split” traffic lights. Currently about 10% of the city’s intersections are “split.”** City activist **Mike Levy** refers to waiting at an intersection with no cars moving as “waiting for ghost cars” to go by.

Okay, so what’s going on with these signals? The *Austin Monitor* quoted city official Jim Dale describing the situation this way: **“When we unsplit the signal, we allow the left turns on both sides of the street to run together and the throughs on both sides of the street to run together.”** Got that?

**Dale said the improvements have decreased current average delay times between 5% and 10%. And he indicates the number could come close to 20% during peak times at certain intersections.** Well, what does it take to “unsplit” the signals? Some are easy: re-arranging signal heads and restriping, at a cost of about \$2,000. Others may require purchasing of right-of-way.

This is part of the city’s newly-enacted Traffic Congestion Action Plan that was put into place following a **rising public outcry and concerns expressed by the new Austin City Council.**

**Buried at the very end of a lengthy printed interview with Austin Mayor Steve Adler in the Tuesday edition of the *Austin American-Statesman* was a reference to “closing off some downtown areas to cars entirely.”** He was responding to what was happening in Dublin, Ireland. Under the heading “How Austin might reduce traffic without adding any more traffic lanes,” here is how the *Statesman* quoted Adler:

“Much like Austin, the city of Dublin was struggling with increased traffic, especially downtown. So about a decade ago, the city decided that instead of adding lanes, **they would remove lanes, creating more dedicated bus and bicycle lanes** to help funnel people to and from the city core, Adler said.

“The city also began pricing parking spaces downtown, charging more during high-demand times to ensure there were always 20% vacancies. The result? Traffic was reduced because people stopped driving their cars as much, Adler said. **The city wants to take it a step further by closing off some downtown areas to cars entirely.** (Adler has promoted the bus-lane concept in Austin.)” End of *Statesman* story.

**No surprise if you've flown frequently lately: fees for additional charges, like checked bags and changed reservations, have jumped 21% year over year. And airlines are looking at more items to soak up more of your money. It's big bucks for airlines and big aggravation for fliers.**

According to one analysis, the airlines raked in a record high of \$38.1 billion last year on fee income. No wonder they are slapping fees on everything they can. What's next? In-flight entertainment may be changing. And, as some airlines view it: **"Hey, we'll give you Wi-Fi access, but if you want to check email or watch a movie, that'll cost you."** It's coming.

**Texas Governor Greg Abbott spent several days in New York City this week. He made jam-packed rounds to media outlets, businesses and investors, touting Texas economic track record. He even rang the opening bell on the New York Stock Exchange.**

He was accorded the ceremonial bell-ringing honor because more than 280 Texas-based businesses are listed on the market and represent more than \$2 trillion in market capitalization. During major media interviews Abbott discussed the strength of Texas' economic model and how **the Lone Star State's diversified economy has managed not only to sustain itself, but to create jobs despite a global downturn in oil prices.**

**How would you like a wetter winter and a wetter spring than normal? After years of drought in Central Texas, the US Climate Prediction Center indicates this is a possibility.**

**It is now projecting a 90% chance that El Nino climate conditions will continue through the 2015-2016 winter – and an 80% chance the same conditions will be prevalent into the spring.** The El Nino weather phenomenon generally generates wet weather.

**Dr. Louis Overholster** says he's still sharp: "I still have a full deck. I just shuffle slower now!"

Sincerely,



Editor/Publisher