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Dear Client:

Is the sky over Austin falling? After all, recent headlines blared that Austin condo sales were down. Should you be worried about the beginning of a downturn? Not at all. When you dig deep into the condo sales figures, the exact opposite may be true. Sales were down because demand has outstripped the current supply.

We noted in our 7/15/15 edition that “sales dipped recently, but prices went up” and “that more condos are being built. The sales dip could’ve been a blip.” (Click on the “Archives” button above for details). **Rising prices and ongoing construction are the key here. And demand. Demand drives everything.** One Austin condo market expert has interesting insight. Here’s how **Jim Kirkpatrick**, SrVP CBRE/Capital Markets, puts it:

“I have been through this argument before and the so-called ‘sharp dip’ in condo sales can be explained in any number of ways, but when considered in total there is nothing that points to a decline in demand.” He backs up this statement with several points.

Speaking of downtown condos specifically, he notes there has been a 9.1% increase in sales over the prior 12-month period. He says **“the only reason May and June could even be considered bad was because the sales over the first four months of the year went through the roof. Could sales in May and June be down because so much inventory had been sold in the prior four months?”**

He did acknowledge the overall share of the downtown condo market is falling, but that he said **“is only because the market is growing faster in other areas around Austin.”** He used as an example the number of new condos in the 78704 zip code of South Austin.

Kirkpatrick concludes that sales are down because of a lack of supply – not a lack of demand and that prices continue to climb, which bodes well.

Charles Heimsath, who has tracked Austin construction for decades, put it this way: **“It’s kind of like saying there were no fresh peach pie sales in December. That is because there were no fresh peaches.** If you look at the underlying data on condo sales, they have been so brisk that the supply of available condos has been depleted. Therefore, the gross number of sales are down until more condominiums are constructed.”

Are we about to see a full-circle-cycle in the life of certain apartment structures and condos? Could be. If the demand for downtown condos continues, it's possible you may see popular high-rise apartment buildings transition into condos.

It's happened in Austin's recent past. **Cambridge Tower**, built decades ago on the edge of the UT Austin campus at MLK and Lavaca Streets, was a **successful apartment building that converted to condos**. Sure, some renters decided not to buy their units and they moved out. But their units were quickly sold and **Cambridge Tower has been a successful condo project for decades now**.

Fast forward to just a few years ago. At least one high-rise downtown was announced as a condo project, but instead the developer decided to open as an apartment building. **This was during the early stages of the trend toward downtown living. Condo unit sales were considered a bit iffy at that time.** Now because of high demand for condos, could it, and/or other apartment buildings, decide to go condo? Bears watching.

UT Austin's Dell Medical School (DellMed) complex is coming out of the ground at a fast pace. A stated goal is to be a cutting-edge visionary leader as it reaches its potential. But the medical world is changing as we speak. And a new high-dollar massive medical project needs to be carefully watched – even though it is not a true apples-to-apples comparison.

For at least 20 years, the **Texas Medical Center in Houston** has been known as the world's largest medical center, employing more than 100,000 people. Other renowned medical centers, such as the **Cleveland Clinic** and **Baltimore's Johns Hopkins** are thriving and/or expanding. Now, the **Mayo Clinic in Rochester, Minnesota is embarking on a truly astounding plan.**

In cooperation with the city of Rochester (population 100,000), a **\$6.5 billion project – spread over 20 years – will remake the downtown area and keep the Mayo Clinic at the forefront of medical treatment.** The plans are ambitious and grandiose. And will build on the already-stellar reputation of the Mayo Clinic.

While DellMed will be a totally different animal, on a much smaller scale, **Mayo's plans could have an impact on how DellMed develops. Examples the competition for medical talent ... new standards for cooperation with the private sector ... appeal for major medical funding ... research resources, etc.**

The competition in the burgeoning healthcare field is already fierce. And, yeah, you say **DellMed is simply a medical school and will operate in a much different league** – with the constraints – and yes, opportunities – afforded by the world of academia. But make no mistake, **world-class resources are limited. And any medical facility with lofty goals such as those held by UT Austin and DellMed will be operating in a highly-competitive environment.**

Backers of a proposed Texas bullet train this week announced the infusion of \$75 million private investor dollars to go with \$40 million that has already been spent. They also hired a high-powered CEO to guide the development of a 240-mile rail line that will zip passengers the distance between Dallas and Houston in ninety minutes.

While this no-government-money project is navigating its way toward completion, it does not – for now – include Austin on its route. But if you click the Archives button at the top of the page you can see that on 3/27/15 we quoted a bullet train top exec as saying: **“I could see there being a groundswell to go to Austin, certainly given the incredible congestion and need there. And then go to San Antonio.”** So there is a need to keep tabs on the ambitious undertaking.

Given that, here is an update. The private venture, Texas Central Partners, reported the new **\$75 million round of funding came solely from Texas-based investors and that the offering was oversubscribed.** According to the *Dallas News*, new CEO **Tim Keith** of Dallas said the capital infusion will be transformational for the organization.

This is important because it is estimated the final cost could exceed \$10 billion. The investors are not just building a rail line. They envision developing the property surrounding the terminals in both Dallas and Houston.

Any way you cut it, the money will not be the only big hurdle. Land acquisition of course is vital. **And opposition – not well-organized nor well-funded at this stage – is already making an effort to stop the project.**

The opposition is coalescing under the umbrella of Texans Against High Speed Rail. **For now, it is composed of rural Texans from the areas between the two cities. And they fear Texas Central will use eminent domain to take their land.** Texas Central says it will condemn land under the eminent domain law *only as a last resort.*

But what is not stated publicly is the right of eminent domain can be used as a hammer: such as **“sign here to take this offer, or we will go ahead and condemn your property.”** It’s conceivable the eminent domain battle could be played out at the next session of the legislature. A Texas property rights battle could be as nasty as water rights tussles.

So far, Texas Central has not suffered any major public setbacks. Money is flowing in. The wildly-successful Central Japan Railway is providing technical guidance. It is winding its way through the regulatory process. Construction is planned to start in 2017.

All in all, the privately-financed Texas bullet train is on a fast track (pardon the pun) -- unlike California that is still struggling with its government-financed version of a bullet train.

Austin-Bergstrom International Airport's record-breaking surge in travelers is contributing to a record-number of non-stop national and international flights. In fact, within the past few weeks a non-stop flight was announced to Frankfurt, Germany. Frankfurt? London, understandable. But Austin-Frankfurt? Yes, and its roots go back to 1845.

Immigrants from Germany were a major force in the early Central Texas history of the Republic of Texas. **So strong was the Germanic influence that New Braunfels was named in 1845 for Prince Carl of Solms-Braunfels, and Fredericksburg was named in 1846 to honor Prince Frederick of Prussia.** In fact, in the early years, the language in Fredericksburg was called "Texas German." But there's more to a recent German-Central Texas affinity than that.

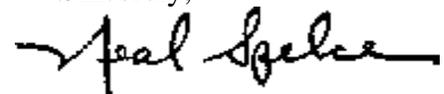
On April 16, 1961, the 85-year-old West German Chancellor **Konrad Adenauer** near the end of his term fulfilled a lifelong dream to visit the American West when Vice President **Lyndon Johnson** hosted him at the **LBJ Ranch** and took him to **Fredericksburg**. They attended church services in nearby **Stonewall**.

But the "big show" took place over December 28-29, 1963 when Johnson, just one-month into his presidency, hosted his first State Dinner. So LBJ "put the big pot in the little pot" (a favorite phrase of his) at the LBJ Ranch to stage **the first-ever outdoor barbecue State Dinner in US history**. The guest of honor: West German Chancellor **Ludwig Erhard**, who chowed down on **Walter Jetton's** famous BBQ, near a whole calf roasting on a nearby spit.

Germany's fascination with Texas is deep-seated as chronicled by the books they read, the TV shows/movies they watch, etc. And this has been borne out for years by tracking their citizens' tourism travel to Texas. **As a result, Austin-area tourism will likely benefit more than Frankfurt tourism when you count the origins of those who book the non-stop flights that begin next June.**

Dr. Louis Overholster collects newspaper headlines that trigger unintended comments, such as: "Red Tape Holds Up New Bridges" (You mean there's something stronger than duct tape?).

Sincerely,



Editor/Publisher