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Dear Client:

To bus or not to bus? Actually “not to bus” is no longer an option for leaders pondering Austin’s transportation future. Despite Capital Metro’s past problems, the recent failure of a rail transit option means having to move more people by buses. In order to help reduce the impact of ever increasing auto traffic, the focus of near-term mobility improvements will be on buses -- and on new toll roads that will help speed bus travel time.

How long has it been since you’ve ridden the bus in Austin? That long, huh? Well then how frequently do you cuss the bus in front of you? Or for taking up a lane designated “bus only” that you used to drive? **Well, get ready for more of the same – and then some.** CapMetro’s new fiscal year budget kicked in this month to the tune of \$357.2 million. **And money has been allocated for expansion and enhancement of Austin bus service.**

We’re not just talking about downtown Austin. This new fiscal year, CapMetro will continue working with cities outside its current service area to **expand bus service to some of the fastest-growing areas in the region, including Georgetown, Pflugerville, Round Rock, Hutto and Buda.**

What about those fancy, elongated buses? You’ll see more of ’em on additional routes. Fancy? Well, if you haven’t climbed aboard the spiffy MetroRapid buses, you may be surprised at the amenities. **You can use an app to pay your fare** by swiping your smartphone under the scanner validator. Then take a seat and **get more done on-the-go with free WiFi.** During peak weekday periods, they run every 12-15 minutes.

We mentioned toll roads. Well, it has been the plan all along for CapMetro’s **express buses to use the new MoPac Express Lanes for free** – so they can zip riders to their destinations quicker and more reliably. And the new budget includes capital improvement funds for **additional bus purchases** to support expanded service as well as **additional MetroRapid computer-enabled, covered stations.**

What does all this mean? Simply put, **immediate public transit solutions for the Austin area will mean heavy emphasis on buses.** If rail is resurrected after its resounding defeat last year, it will be several years before that option could be approved, much less implemented. So, for now, **buses will be an ever-increasing part of mobility solutions in the Austin area.**

Michael Dell's empire is taking a quantum leap with this week's \$67 billion acquisition of data storage giant EMC. It's being called the largest information technology merger in history. So, will EMC's Boston HQ benefit in the long-run, or will Dell's Austin area HQ be the bigger beneficiary? Bet on Austin. Here's why.

You can almost hear the Massachusetts economic development gurus moaning “**there goes another one.**” Oh sure, the Dell-EMC principals all said the proper things when the announcement was made – EMC and its 70,000 execs and employees are valued ... that we don't want to disrupt a good thing, blah, blah, blah. **Similar words are normally uttered after every major merger. And the status quo will probably remain for a while.** After all, there is a lengthy approval process and the operating kinks need to be worked out. But.

Going forward is another matter altogether. Don't expect Dell to move the Boston HQ and manufacturing operations lock-stock-and-barrel to the Austin area overnight. That would be too disruptive to the bottom line. **But consider the factors Michael Dell will weigh as the data storage business grows:**

- The Bureau of Labor Statistics will tell you that computer industry tech workers in **Texas make about 10% less in direct wages** than in Massachusetts.
- **Massachusetts corporate income tax rate is 8%.** Last time we checked, Texas had no corporate income tax – zero, zip, nada.
- Oh, and don't forget that highly-paid execs **pocket more of their paycheck in Texas because there is no state personal income tax.**
- And, while living costs are rising in the Austin area, **the cost of living in the Boston area is outta sight comparatively.**

Remember, Dell now is a privately-held company. **Michael's decisions do not face stockholder scrutiny one-way-or-the-other.** It should be interesting to watch this play out.

You keep asking “when's it gonna rain? You told us the big weather trigger El Nino was to kick-in the latter part of October and into winter to bring rainy, cooler weather. Well, it's the middle of October. Is El Nino turning into El No-no?”

Just hold your horses. Sure below-normal rainfall and hot temps recently have caused severe drought conditions in the Hill Country and much of Central Texas in the last few weeks. But **we're still relatively okay.** As of 10/1/15, drinking water reservoir Lake Travis was 43 feet higher than on 1/1/15 and the other reservoir, Lake Buchanan was about 19 feet higher. We just checked the El Nino forecast. **The weather honchos say there is still a 95% chance you'll feel the rainfall effects of El Nino** (still, it wouldn't hurt to perform a little rain dance!).

Mortgage interest rates are going up. No question. It's just a matter of whether it is sooner or later. Low interest rates – along with amazing demand – fueled record residential sales in the Austin area. A noted Texas real estate economist analyzes what will happen as rates rise.

It's been quite a run. For about seven years, Austin area homebuyers have been able to afford "more house" because mortgage interest rates have kept monthly payments near all-time lows. The converse is also true. **As interest rates rise, and monthly payments keep pace, homeowners will not be able to afford as much house as they can today.** What can you expect to happen in this important sector of Austin's economy?

"As of now, it's unclear when rates will change," observed **Jim Gaines**, the top economist at TexasA&M's Real Estate Center. **"If rates are not increased in 2015, the probability of a rate hike, or perhaps more than one rate hike" increases significantly in 2016.** He also said that when mortgage interest rates rise, they will be in small, incremental amounts over time.

So, does a mortgage interest rate increase dampen housing demand? "To some degree," said Gaines. "Quite often, though, the psychological impact may be more pronounced than the actual economic impact. **Prospective buyers become nervous about making a housing commitment, and consequently do nothing.** Of course, one counter effect, stemming from the psychological influence, is a **short-term increase in home-buying activity in anticipation of future rate increases.**"

While a small incremental rate increase may sway buyers who, financially, are on the margin for qualifying, Gaines said **"the overall market should not be greatly affected."** Oh, really? Yes, he says, **"in fact any shift in demand that occurs may actually bring better balance between supply and demand."**

"Most research about changes in mortgage terms on the housing market concludes that a change in *down payment* requirements generally affects the housing market *more* than an interest rate change," Gaines observed. "However, as down payments are normally more flexible and not as fixed, **the shorter-term impact of a rate change can be more pronounced.**"

Of course, whatever level of impact, **it will more likely be felt by lower-income and first-time buyers.** "These groups," Gaines pointed out, "tend to be more on the margin for loan qualifying than higher-income or repeat buyers. **Even a small change in the interest rate can mean a nearly 1.5% increase in the income needed to qualify for a home.**"

Okay, what's the takeaway? A small increase in the mortgage interest rate is likely in the next quarter or two. **It should have little impact on the overall housing market but will affect buyers caught right on the edge of qualifying for a loan.** These buyers will have to make a larger down payment or buy a slightly less expensive home.

Early voting opens next week. What's this? Yeah, another election is just around the corner on November 3rd. It's not a biggie as elections go – no big offices on the ballot, nobody running for president. But there are some important elements that should get your attention. For instance, you will be asked to raise taxes to pay for a new courthouse in Travis County and dedicate some tax revenue for transportation. And, how about this: you'll also get to weigh in on hunting and fishing in Texas. We'll explain.

The big push is on to get you to approve the construction of a new 520,000 sq.ft. courthouse for Travis County. **The old courthouse, at 10th & Guadalupe built in 1931, is being criticized as dilapidated and overcrowded – some even say the conditions are deplorable.** They want to keep and restore the old courthouse, but argue a growing Travis County needs more – and better – space to serve the county's needs. One debate concerns the location – on expensive downtown property or on less expensive land outside the Central Business District.

Other November ballot items include some state propositions placed there by the Texas Legislature earlier this year. **Proposition One would increase the homestead property tax exemption from \$15,000 to \$25,000 each year.** How can anyone vote against cutting their property tax bill? No controversy here.

Proposition Seven would dedicate \$2.5 billion in sales taxes to help solve Texas' transportation problems. Nearly everyone complains about traffic almost as much as in Austin, so this should pass handily. **One weird proposition -- #3 – would change the requirement that officials need to live in Austin.** Hmmmm.

Oh yeah, the huntin' and fishin' one – Constitutional Proposition Six. It simply sets up **constitutional protection to hunt and fish in Texas.** (Do we really need this? I thought this was a birthright? But then, who can figure your legislators?)

With the opening of deer hunting season just days away **Dr. Louis Overholster** reminded us he treated a patient who fell out of his deer blind on opening day last year and broke both his legs. He moaned “Why couldn't this happen on my last day of hunting?” The good doctor said “It did!”

Sincerely,



Editor/Publisher