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Dear Client:

By now, it seems old hat – same song, umpteenth verse: Austin area home sales and prices are still rising. But the flip side of that song is not nearly as well-known. Yet, in its own way, it is an important part of the residential real estate scene. Just in the 3rd quarter alone, the Austin metro had 354 homes go into foreclosure. Yes, in this thriving metro, hundreds of families are losing their homes. Let's put this into perspective.

More than a hundred homes a month falling into foreclosure seems like a significant number. It pales, though, when compared to the larger metros of **Dallas-Fort Worth-Arlington that had 2,609 foreclosures** during the same period. **Houston's metro notched 1,486 foreclosures** in the 3rd quarter. When you examine metros similar in population to Austin, even the nearby **San Antonio-New Braunfels metro more than doubled Austin's total by totaling 773 foreclosures**. And for the state, there were 6,829 foreclosures during this time frame. So, comparatively, Austin fares well by this metric.

When assessing what this means, you need to consider how long those homes stayed in foreclosure. Nationally, homes remained in foreclosure an average of 630 days. But in a more vibrant Texas, **the average number of days was 306 before the homes moved out of foreclosure.**

So, while foreclosures are not a good thing for the overall economy, **the fact they moved out of foreclosure in less than a year indicates the marketplace is at work**, absorbing the misfortune that others have felt. In fact, many foreclosed homes are **snapped up by investors to be spiffed up and returned to the market as rental properties**. (We'll look closer at the apartment rental situation in just a moment.)

Texas real estate economic expert **Dr. Jim Gaines** said this week that “the housing market continued to be strong in Texas during the 3rd quarter, but **high housing demand coupled with shortages in labor and lots continued to restrict new home construction**, leaving inventory strained.”

Gaines also likes to point out that **month-to-month data is “tough to go on.” He notes that “anything can happen”** in any given month – like weather, that has heavily impacted the Austin metro and nearby Central Texas counties in recent weeks. He suggests the overall pattern is most important. This is why we keep regular tabs on the Austin area for you.

It's remarkable to see the number of new apartment units now coming online in the Austin area, as well as those in the construction pipeline. We're talking tens-of-thousands of units. So, is Austin getting ready for a glut of empty units? Not the way things are going now. In fact, even with this massive introduction of new units, it is barely keeping up with demand.

Check out the numbers. **Over the past year, Austin has seen the addition of almost 10,500 new units**, according to **Robin Davis** who has been tracking Austin area apartment trends for years. "The next 12 months are poised to see even more completions as there are currently over **18,000 units underway and approximately 12,000 are scheduled to complete during the next year**," she calculates. Whewwww. No matter how you slice it, that's a lot of new apartments.

Okay, what about demand? **The new units are being occupied almost as soon as the paint is dry and the carpets laid.** Take the quarter just ended. "Over the past three months, occupancy rates were up 1.3% to reach 94.8% -- a 2.4% increase over this time last year," Davis reports. Alright, those are impressive percentages.

Let's try another tack. What about actual number of units? Here's how Davis responds to more questions: "Absorption rates soared, reaching **almost 4,000 more units occupied**." Put that into perspective for us, will you? "**This was close to double the amount seen in the second quarter**." How strong is that? "**This is the highest quarterly rate reported in over 20 years**."

Obviously the demand is there. And, with Austin's population increasing daily, this means a **glut of empty units is not likely to occur. Unless. Unless the rent goes out of sight**, forcing tenants to move further out for less expensive units. Well, let's look at rental rates.

"**Rents continue to reach levels unseen before**," Davis reports. She points out that **rental rates were up 2.4%** over this time last year. And, in spite of those rising rents, over the past three months **occupancy rates were up 1.3%** to reach an **almost 95% occupancy**. And that is a 2.4% increase over this time last year. (No, that's not a typo. *Annual* rental rates and occupancy percentages rose the same amount.) Increasing rental rates don't seem to have had an impact – so far.

By the way, the near-95% occupancy is true in all classes of apartments – from the priciest to the least costly – Class A down to Class C. The variance in rents seem to appeal to all types of renters. The "average" rent per month for Class A is \$1,342, Class B is \$1,129 and Class C is \$887. And, again, all Classes report around 95% occupancy.

As you might expect, **these rising rents and occupancies make apartment buildings attractive to investors.** In 2014, \$2.24 billion changed hands during 79 Austin area apartment transactions. And the year before, 2013, there were 72 transactions where \$1.52 billion changed hands. In both years, the Class B/C transactions outnumbered the Class A deals.

UTSystem Chancellor Bill McRaven’s “bold, compelling and uncompromising” vision that marks a major new direction in Houston is good news for Austin. After all, what’s good for the UTSystem is good for UTAustin. Laid out to the UTSystem Board of Regents at the Board’s meeting in Austin Thursday, McRaven’s plan was called an “audacious strategy.”

His plan is wide-ranging. It touches on issues such as raising literacy levels in Texas, diversity in the 14 institutions in the System and what he called “brain health.” And it calls for creating a **brand-new university campus on 332-acres in Houston** near where the UTSystem already operates the Health Science Center and the MD Anderson Cancer Center.

“This audacious strategy promises to make the UTSystem the **nation’s premier public system of higher education**, to serve the people of Texas at unprecedented levels, to tackle some of our state’s and nation’s greatest challenges, and to **train the world’s finest doctors, engineers, teachers, scientists, public servants, entrepreneurs and leaders**,” enthused UTSystem Board of Regents Chair **Paul Foster**. Much of this will occur at the System’s flagship institution, UTAustin.

But, what’s this about Houston? And a from-the-ground-up campus in the Bayou City? The blueprint is yet to be drawn and, in fact, McRaven said “**all options are open.**” **But he envisions the campus would draw on the resources of bustling Houston in fields such as energy and medicine.** This game-changing new campus will take years to develop. So, don’t expect it to spring up overnight.

How is this good news for Austin? Well, at a minimum the UTSystem offices must expand to help build this vision. As you may recall from our 10/23/15 edition, the **UTSystem is well along in its construction of an 11-story building on top of 8 levels of parking in downtown Austin.** This will be the “command center” for the operations and expansion of all UTSystem institutions.

This brings to mind the work of a former UTSystem Board Chair, **Frank Erwin**. One of the more powerful people to hold that post, **Erwin is credited with creating many new campuses around the state.** To be sure, this was done to spread the benefits of higher education to all sectors of the Lone Star State.

However, Erwin had another more **practical political motive**. He privately admitted he wanted to put new campuses in Texas cities so he could get the **support of State Representatives and Senators from those cities when he went to the Texas Legislature to seek funds for the UTSystem.** It worked. And in so doing, it inured to the benefit of UTAustin

McRaven has been on the job for only 10 months. But the 4-star Admiral (we intentionally referred above to the new UTSystem building as a “command center”) is showing much of the same moxie as Chancellor that Erwin exhibited as Chair of the Regents. And the current chair is the one we quoted above calling McRaven’s plan “bold, compelling and uncompromising.”

UTAustin and Nike officials are hammering out details of a whopping \$250 million athletic apparel deal as we speak. But the *terms* of the deal, which will not change, have been approved by the UTSystem Board of Regents. Let's dig deeper into how those big bucks will be spent. Remember, most of these dollars will flow into Austin's economy.

This is not chump change (some wags wish it was *champ* change!). **It's being called the biggest apparel deal of its kind, setting a new standard for elite athletic programs** – surpassing the previous \$200 million level Nike cut with the University of Michigan. It's being spread out over 15 years, starting 7/1/16, and starts with a “signing bonus” of \$20 million.

Let's look at some of the items. The big hunka change is **\$97.5 million cash** (\$6.5 million/year) going to the Texas Longhorn athletic department. Another **\$69.5 million** (\$4.6 million/year) goes to **equipment and apparel** – including a sweet \$1.5 million to be used at the **Athletic Director's discretion**.

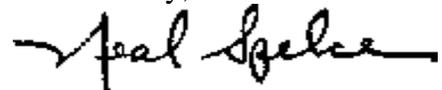
Nike has also guaranteed it will pay **royalties for the use of the Longhorn logo/etc. of \$25 million**. All the payments from Nike don't just go into the athletic department's considerable pot. **Nike will make a cash payment to the university to the tune of \$22.5 million** (\$1.5 million/year).

One intriguing aspect of this deal is that NBA star **Kevin Durant** (whom many think is the Texas Longhorns' best basketball player ever) **will pony up \$15 million** (\$1 million/year). It's not clear from the term sheet if Durant's payment will go to UTAustin or the athletic department. And it's not clear if this money is included somewhere in the totals above.

Why does Nike throw this kind of money around? **One reason is the company feels this gives them access to loyal and upwardly mobile students who can become lifelong consumers** and buy numerous products such as shoes, hats, tee shirts, etc. Other apparel firms do the same.

Speaking of football, **Dr. Louis Overholster** when the Longhorns suffered devastating defeats this year, quoted former Coach Spike Dykes who said “we played about like 3 tons of buzzard puke!”

Sincerely,



Editor/Publisher