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Dear Client:

Investor money continues to flow at a rapid rate into the Austin area. One example: Austin is #17 in the world – the world! – for foreign commercial real estate investment, according to a SrVP with JLL, Capital Markets Group. This is despite the fact that the percentage of return on such investments is lower than many would like. Where does it go from here?

GlobeSt.Com reported recently that “**Austin is perfect for foreign investors**” noting the “Capital of the Lone Star State is **ripe for investment as the city continues to experience a construction boom.**” But there is a problem with “cap rates” -- a key part of the equation for commercial real estate investors. Okay, for those not intimately involved with this type of investment, just what is a “cap rate?”

“Cap rate” is shorthand for Capitalization Rate. **Cap rate is the percentage of return from an investment when you divide the Net Operating Income (NOI) by the price paid for the property.** How about a simple example? If an investor pays \$1 million for a property and the NOI is \$100,000, the cap rate is 10%.

According to the report, current cap rates in Austin have been compressed, causing concern among many investors. **But some feel this is about to change for the better.** “Most of the people in the investment community know it’s going to happen,” said **Jeff Coddington**, the SrVP of JLL, Capital Markets Group. “The question is how much and when. To some degree, it’s already priced into our underwriting deals now.”

It’s not just the cap rate that is concerning for investors when they look at Austin. **“Getting things through the regulatory environment here is difficult,”** Coddington told GlobeSt.com. **“No deal is easy,”** he added. Yet in spite of these concerns, foreign investors are bullish on Austin. And GlobeSt.com reported **“foreign capital is coming in with all-cash buyers.”**

This is important not only for Austin’s commercial real estate sector. **It has a widespread economic impact.** Much of these dollars flow throughout the area – construction jobs are one example. Successful commercial real estate enterprises can also be an inducement for job-creating companies who flock to these facilities – especially for the **millennial generation that is responsible for re-defining Austin office buildings.** Check out the next item.

Millennials. Remember the quote near the end of the classic movie *Butch Cassidy and the Sundance Kid*, when the infamous outlaws are facing a barrage of bullets from several hundred officials and ask “Who *are* these people?” Well, we can tell you this about Austin area Millennials: they are changing Austin almost daily.

It’s not about sheer numbers, though they are impressive. Demographers have uniformly declared the number of US Millennials (ages 18-34) has surpassed Baby Boomers (ages 51-69) and Generation Xers (ages 35-50). (There are no precise dates for these generation categories, but these figures are generally accepted.) **Millennials are very different from other generations and they are a major factor driving changes in Austin.** Let’s examine the differences.

International PR firm Weber Shandwick and the Institute for Public Relations conducted research about Millennials and found the median age of first marriages for both men and women is now six years older than the past two generations. In fact, **today only 20% of adults 18 to 29 are married, compared to 59% fifty years ago.** This helps explain the dating/social scene in Austin.

But *work* is a much more distinguishing feature defining Millennials. As reported by *Bisnow* this week, Millennials place even “**greater value on their in-person interactions at work and after hours**” than their older colleagues. **They have a hyper-focus on their reputations at work** – 47% of Millennials report they think about work all or most of the time, compared to 37% of GenXers and 26% of Baby Boomers.

“Hanging out with colleagues after work might have been a nice way to kick back for a GenXer, “but for Millennials it’s a **critical component of building their ‘rep’ or ‘brand’ at work and they take it seriously.** This helps explain the surge in downtown living, and in suburban pockets like The Domain. “This is why a place **chock full of great bars, restaurants and nightclubs**” – **especially around major employment areas – is perfect for Millennials.**

And, workplaces themselves are changing. The lines between live, work and play are blurring. You can see it in both new and re-furnished structures. Look at the venerable high-rise at 111 Congress. If you can see past the construction fencing, you’ll notice the **plaza and lobby are being transformed into an urban park, civic space and food court – even an amphitheater under huge heritage oaks for live music and events.**

Check the fridge or freezer of a typical Millennial – not much food. They eat out 10% more than the general population. This plus **many other examples of Millennials’ influence abound** – and not just downtown. **The Hill Country Galleria in Bee Cave** west of Austin is undergoing a \$16 million renovation of public spaces to complement its development. We’ve already mentioned The Domain. Yep, the impact of the Millennials is changing the Austin area.

Austin *medical* milestone: this month, UT Austin welcomes the first class of 50 students to the Dell Medical School, even as construction cranes still sway above certain areas of the DellMed campus. And it is particularly noteworthy DellMed's reach extends beyond its location near IH35 on the southeast edge of the Forty Acres. It is partnering with every college and school on the expansive UT Austin campus.

As one example of this partnership, UT Austin President **Greg Fenves** points out "DellMed has established the **Texas Health Catalyst** together with the Colleges of Natural Sciences, Pharmacy, the Cockrell School of Engineering and the Office of Technology Commercialization to **help faculty members develop their ideas into viable products.**"

This is all part of what Fenves refers to as building "a forward-looking health innovation culture that **encourages and empowers a broad set of faculty members, students, clinicians and entrepreneurs.**"

Austin *travel* milestone: *Gate 4 closure* at Austin-Bergstrom International Airport (ABIA) signals the beginning of the nine gate expansion project on the east end of the Barbara Jordan Terminal. And, the construction will include some temporary gate bridges.

The current Gate 4 boarding bridge will be removed. **Doesn't this mean the already-crowded airport will be restricted even more, as ABIA experiences an ever-growing number of passengers?** Nope. New elevated walkways will be constructed extending beyond the terminal. This will safely move people and planes away from the construction area. And, importantly, **the walkways will lead to *four* new temporary jet bridges.**

Interestingly, **these four new temporary bridges can pivot with the ability to swing left or right to dock with aircrafts of different shapes and sizes on the apron.** So, during construction of the nine new gates, these new temporary gates will actually increase the capacity (even though one gate is closing) until the construction of the nine gates is completed. By the way, **most of the inside terminal work will be done at night.**

Austin *light rail* milestone? *Ooops, not so fast.* As we mentioned last week, a proposal to run light rail downtown from Guadalupe/4th Streets to Rundberg/North Lamar emerged. But it has some big hurdles before it could appear on the November General Election ballot.

Backers are still heatedly pushing for this new \$400 million route, but Mayor **Steve Adler** is **tossing cold water on placing it on the November ballot.** He was quoted as saying there isn't enough time to build consensus for this light rail plan. However, Adler is pressing for a \$720 million bond proposal for mobility infrastructure plans along Austin roadways.

Flooding has occurred statewide from Lubbock to Houston -- including Flash Flood Alley, otherwise known as the Hill Country of Central Texas. May was a wet one, not just in the Austin area, but large parts of the state received at least three times their normal rainfall. So for anyone traveling the state, here's how to make your driving a bit safer.

The Texas Water Development Board has developed a website, www.TexasFlood.org, to help **plan for, respond to, and even recover from floods**. In a striking change from recent years, there are currently no drought conditions in Texas, and none are projected at least through June.

How much green power is being used in the Austin area? Enough to place the City of Austin's Electric Utility, Austin Energy, first among all *public* power utilities in the US, based on sales of renewable energy. And, it was the only Texas public power utility to rank in the Top Ten.

The US Department of Energy's National Renewable Energy Laboratory (NREL) released its totals and found Austin Energy also ranked #3 among *all* utilities. **Investor-owned Portland General Electric and PacifiCorp finished first and second.** Remember, Austin Energy has one of the most ambitious goals in the country – to deliver 55% of all its electricity from renewable energy by 2025.

Some long, low, rumbling sounds Friday, Saturday and Sunday may drown out thunder from predicted rains. Yep, this weekend, the state's largest gathering of Harleys and other bikes --some 200,000 -- roll into town for the Republic of Texas (ROT) Rally. Austin police have warned the bikers to watch out for rock-throwers on IH35 (more than 80 incidents have been reported so far). And, oh yeah, police told them they will have stepped-up DWI patrols.

Regular readers know **Dr. Louis Overholster** prefers not to think before speaking. As he put it, "I like to be as surprised as everyone else by what comes out of my mouth!"

Sincerely,



Editor/Publisher