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Dear Client:

**Austin is one of six US markets where *low residential housing inventory may be a permanent condition*, according to a national online real estate company. Whoa! Think what this may mean for the Austin housing market. For one thing, sellers will always have an advantage over buyers and the pressure would continue to push home prices higher and higher. Demand would always be greater than supply. This permanent condition is also happening elsewhere.**

As an example, the house-hungry in certain California markets are seeking out homes that are, in theory at least, not for sale. A reporter for the *Redwood City Journal* began his story with a hypothetical knock on a homeowners' door: "**Swell-looking home you've got here. Ever think about selling it? How about to me? Right now.**" Of course, this was a "made-up" conversation, but it tracked what is happening more frequently as demand is outpacing supply.

Assessing this growing situation, the CEO of the online real estate company Redfin, **Glenn Kelman said their research showed low inventory of homes for sale is "a permanent condition" in Austin, Denver, San Francisco, Silicon Valley, Boston and Seattle.**

The TexasA&M Real Estate Center's research shows a **six month inventory of homes for sale at the current sales pace is equilibrium**. It's a solid economic balance. Neither the home buyer nor seller has an advantage. It's been a long time since Austin had 6-months inventory.

The Austin Board of Realtors latest figures for the 5-county **Austin metro area show 2.8 months inventory – unchanged from the previous month**. Homes under \$300,000 have *less* than two months of inventory. The chief economist for the TexasA&M Real Estate Center **Jim Gaines says "housing at these price ranges is essentially nonexistent."**

**So, what's a homebuyer to do? Pick a neighborhood and knock on doors as mentioned above?** Yep, this is essentially what's starting to happen in California. Realtors are also cold-calling homeowners to see if they will sell. Some are writing old-fashioned hand-written personal letters, seeking sellers.

**With home prices at historic highs in the Austin metro**, this might push some owners over the edge to sell. If Redfin's prediction is accurate, a new way of selling is closing in on Austin.

**“Of all major Texas cities, Austin comes the closest to imitating California’s regulatory stranglehold on housing development.” This is a quote from an Austinite who is a former California state legislator. It is contained in a recent national business magazine article headlined “Why is Austin’s Housing More Expensive Than Other Texas Cities?” Let’s take a closer look at the *FORBES* article written August 31, 2016.**

First let’s finish the quote from **Chuck DeVore** in the first sentence. After comparing Austin’s regulatory climate to California, Devore said **“This results in government-induced artificial scarcity in the housing market which drives up prices as builders can’t meet demand.”** This is the basic thesis for the article that also contains a number of examples and opinions.

Analyzing Texas metros, the article points out Dallas, Houston, Austin and San Antonio “have since 2,000, been among the **nation’s leading major metros for economic and population growth.**” It continues: **“But, surprisingly, this growth has severely influenced housing prices in only one of them” – Austin.** And it cites the comparative numbers to back up its assertion.

It further **“dismantles the argument ... the rise of Austin’s tech industry for driving housing prices above the other Texas markets”** – especially noting Dallas’ business strength. It compares incomes, housing prices, building permits.

Then its conclusion: “The devil of this lagging construction is in the details of how Texas’ capital city is regulated, pointing out **how density is regulated by zoning.** **“Beyond just the zoning is the approval process,** which further inhibits construction even where it is allowed.”

There’s much more detail in the article, including a discussion of multiple city population demographics of those who don’t own housing, yet are forced outward. It even claims **Austin is the only fast-growing US city whose black population is shrinking, as East Austin gentrifies and black households are pushed to northern suburbs.** The artistic and music types who exemplify the “Keep Austin Weird” moniker are also being expelled by high prices.

And apartments? It cites a UTAustin paper that claims “if regulatory delays are eliminated and developers receive approvals for multifamily projects **within the 120-day mandate instead of the 223-day average, renters in Central Austin could see \$720 annual relief.**”

“Perhaps there just isn’t enough housing to go around. But Dallas and Houston just down the road serve as the ultimate rebuttal to this sentiment – they even have **greater net population growth, yet greater housing growth also, and therefore a cheaper stock. Austin should look to these Texas rivals for lessons,**” writes **Scott Beyer**, who is traveling the US writing a book about US cities. If his name sounds familiar, it’s because he wrote another *FORBES* article claiming CapMetro’s MetroRail line was “perhaps America’s leading rail transit failure.” Check our 8.5.16 newsletter for that item.

**Another aspect of the cost of housing is the move toward “affordable” housing in Austin, as well as other cities facing the rising costs of limited inventory. You’d think making housing more affordable would help the problem, but sometimes actions to keep prices down can backfire. Take San Francisco, where residents in June approved a measure requiring 25% of new housing be set aside for low-income residents. Now, studies indicate 25% may be too high.**

Sparing you the details, a group of consultants working with the city presented recommendations suggesting **25% might be too high and could hurt all housing development**. One consultant team member said “there would be a chilling effect on housing if we left the 25% requirement.” So it is back to the drawing boards with an extended deadline.

**Speaking of California consultants, an Irvine-based firm recently gave Californians the bad news about the state’s tax and regulatory policies. They have made the cost of doing business more expensive than other states and prompted about 10,000 companies to leave the state or curtail operations to reduce costs over an eight-year period. And, of course you instinctively know Texas was the top destination, with the Austin metro area leading the way.**

What makes this report intriguing is that it is Californians doing a very critical self-analysis. **And when the report looks forward, it contains a further gloom-and-doom warning.** Conducted by California’s Spectrum Location Solutions, it suggests the state’s business environment could worsen.

The reason: the state is considering imposing a broad set of taxes on businesses in 2016 and 2017, **including higher fuel and motor vehicle taxes, and tax increases on business properties.**

**The report calls the departures or downsizing “disinvestments.”** And the #2 US market that benefited, behind the Austin metro, was the Dallas-Fort Worth-Arlington metro.

**The Texas economy is humming along. But the bounce-back from the oil-and-gas downturn is a bit uneven. West Texas is doing better than South Texas.**

In fact, the **Permian Basin in the Midland-Odessa area is recovering at a much faster rate than other shale basins in Texas and elsewhere.** According to Baker Hughes’ rig count, the Permian Basin now has 202 active drilling sites, and that brings it back to the January 2016 drilling levels. And this week, Apache Oil announced a major new discovery in the Permian.

**Compare that to the Eagle Ford area in South Texas where there are only 38 active drilling sites.** There are 375 active rigs across Texas and 864 nationally.

**A team of scientists led by researchers at Rice University in Houston came up with a possible answer to science’s most perplexing question – how we got here, how life might have begun on earth. It is described in complicated scientific terms this week in *Nature Geoscience*. We’ll provide a plain English explanation.**

The question of how Earth ended up with so much carbon – enough to create literally all life – has long been a mystery. There have been a few theories, but each had significant holes. Now, **Rice researchers are suggesting carbon’s arrival on Earth may have been spectacularly violent.** Even the smarter-than-average person may find their explanation difficult to understand. So, *Texas Monthly* provided this simplified English translation:

**“A small, carbon-carrying baby planet plummeted into the Earth and was absorbed by our core, and the collision unleashed a whole bunch of carbon closer to the Earth’s surface. Over 4.4 billion years, that carbon turned into you, me, Matthew McConaughey, your dog, the salad you ate for lunch, and even Donald Trump. There were steps along the way, of course, but you get the picture.”**

Yeah, you say, an abundance of carbon could have always been here. Their response: **much of it likely would have boiled away while the Earth was still a fiery mess of molten junk** from the intense heat of a magma ocean that covered Earth up to that point.

So, how did these guys go about their research? They used Rice University’s hydraulic press – a machine that can **simulate the extremely hot, high-pressure conditions in the Earth’s core.** There is much more scientific evidence supporting their theory. But this still isn’t quite a definitive answer. It is, however, a **fascinating discovery that sheds more light on how life might have begun on Earth.**

Speaking of scientific or, in this case, medical discoveries, **Dr. Louis Overholster** decided not to read the Associated Press story headlined “Miracle Cure Kills Fifth Patient.”

Sincerely,



Editor/Publisher