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Dear Client:

Apartment occupancy is an important element of Austin’s residential housing picture for a whole range of reasons. And prior to the past 12 months, the apartment market exuded tremendous growth and vitality for three robust years. Not anymore. This is changing right before your eyes. There are a number of reasons for what *is* happening, and what will *likely* happen, in the near term.

No matter how many new units came online, they were gobbled up almost immediately. In fact, during the three years prior to 2016, **“apartment occupancy consistently held up, averaging a very good 94% during that time,”** observed longtime apartment tracker **Robin Davis** with Austin Investor Interests. “However 2016 was a year of change.”

What changed, Robin? **Occupancy “dropped to a level unseen since 2010,** resting at 92% by year-end. **Annual absorption barely covered 63%** of the 10,348 net conventional units added, and **effective rents fell after almost six years of consecutive gains.”** This a big triple whammy. Not only that, 2016 ended with the **smallest rate of growth since 2010** at 4.8%.

So did investors scatter, not wanting any part of owning apartment buildings in the Austin area? On the contrary. **“The number of sales continued at a vigorous – and near record – pace with over 22% of the inventory having changed hands in the last 24 months,”** Davis reported. So, what’s going on here? “Despite the current setbacks, the **Austin area is still known as a ‘hot spot’** with continued job and population growth that exceeds other investment alternatives,” she continued.

Because of this ‘hot spot’ reputation, Davis predicts “robust continuity” in the area’s investment and development arenas. **“It appears this trend will continue as investors seek opportunities throughout the market,”** she suggests.

Yeah, but what about building more apartments? **“New development activity is expected to remain robust** with current deliveries conservatively estimated at **over 10,000 units for each of the next two years,”** Davis said. (Uh, oh. Gotta watch this.) **“For the short run, expect challenges in both rent and occupancy as new units are ushered in,”** Davis acknowledged. After the next two years? **“New starts remain precarious,”** she admitted. It will be interesting to see how market share competition impacts this landscape. We’ll keep an eye on it for you.

As Austin has grown faster than most cities over the past 26 years, family incomes have risen 97%. Impressive, huh? Well, not really, when you consider that at the same time median home prices rose 290%. This huge discrepancy explains a lot about what is happening in the metro right now.

A recent study by KVUE News put it another way: **a family making \$50,000 in Austin would have seen their income rise to \$98,500. However, a home that cost \$100,000 then would now cost \$390,000.** The dollar difference is stark.

Obviously this explains to a great extent why **residents are leaving the Austin city limits for less expensive suburbs such as Pflugerville and Cedar Park.** Dollars are a big part of these decisions, especially for younger residents with **rising expenses associated with raising families.**

Interestingly, zip code areas once considered “affordable” – mostly in **East and Southwest Austin – have the fastest rising prices,** according to KVUE. They are:

78721, MLK-183, City Council Districts 1 & 3 ... **78724**, between 183/TX130/US290, District 1 ... **78744**, Southeast Austin, District 2 ... **78749**, Oak Hill, District 8 and **78702**, East Austin, Districts 1 & 3.

This financial discrepancy is occurring in other Texas metros like Dallas, Houston and San Antonio. But **Austin’s trend far outpaces these other large metros.**

With wacky weather swings taking place here in the middle of February, what will your weather look like from May through July -- especially when it comes to rain -- as the temps start to rise come summertime?

The Texas Water Development Board (TWDB) has a water/rainfall expert (PhD in Hydrogeology) on its staff here in Austin. Here is what the TWDB Deputy Administrator for Water Science and Conservation **Dr. Robert Mace sees for the immediate future:**

“Our in-house projection of summer rainfall suggests **below normal rainfall for much of the state** except East Texas and a small part of the Panhandle.”

The Austin metro falls into the “below normal rainfall” category. But frankly, this area is currently in good shape to handle a summer with little rain. Consider the region’s **water supply reservoirs, Lakes Travis and Buchanan, are 98% full as we speak.** Breaking it down, Lake Travis stands a little above 682 feet above mean sea level (msl), while conservation storage (full) is 681’. Buchanan is above 1,017 msl, while conservation storage (full) is 1,018-1,020.’ This is ideal. So far, so good.

Austin has an enviable track record of attracting businesses and corporations to the metro, in many cases bringing high-level employees with them. Then what? Are they left to their own devices to learn about housing, schools, jobs for spouses, recreation, local history and culture, etc.? In other words, what's being done to help them assimilate and contribute to Austin's community? YTexas, a CEO-oriented new entity, hopes to make the transition productive.

YTexas is a network of about 50 CEOs based in Austin, Dallas, Fort Worth, San Antonio and Houston. It hopes to expand to about 200 by the end of next year. Unlike Chambers of Commerce, it does not recruit companies. **YTexas provides a conduit to connect newly relocated companies to community leaders and other executives.**

YTexas was founded in 2013 in Dallas by former banking exec **Ed Curtis**. "Transitioning a large group of people to a new city is difficult," Curtis told the *Dallas Morning News*. **"They are uprooting their lives, so our CEOs are trying to lend a helping hand."**

Curtis said the purpose of YTexas is to help incoming CEOs of new companies, their employees and families feel welcome in Texas, **become a part of their communities and most of all succeed here.** YTexas does not charge the companies they help, but CEOs who are part of YTexas pay \$5,000 a year.

The network also provides its information *prior to a company actually moving to Texas*. The *News* pointed out that when leaders of incoming companies better understand the cities they are moving to, they have a much better chance of bringing their key people with them.

"Typically, when a company relocates, employees are given an option as to whether they move or not, **so it's important that most of the key people agree to make the change, he said, or otherwise the company will lose a lot of talent.**"

One YTexas CEO said "just think about moving into Texas and having this connection and network of major CEOs throughout the state. **That is a pretty powerful thing to create.**" While he didn't mention it, the YTexas concept can go a long way toward offsetting many distorted stereotypes of Austin and/or other Texas cities as well as the state as a whole.

It's not just one-on-one interaction. **YTexas hosts quarterly networking events for incoming execs and it sponsors forums on various topics.** One topic was how to navigate Texas' health care procedures because health insurance is one of their biggest expenses.

And it can be a two-way street. When TopGolf left Chicago, YTexas CEOs were invited to hit some golf balls (embedded with microchips that tracked accuracy and distance) and hear a presentation. Besides having some fun, **they found out about the TopGolf experience** that otherwise may have taken them a year or two to get around to a visit.

In keeping with our goal to let you know what is currently going on in Austin, you need to be aware that 4,000 brightly-colored condoms are being given away. Huh? That's right. It's all about calling attention to how human population growth affects endangered species. We're not making this up.

It's part of a promotion from the Center for Biological Diversity that this week gave 10 US cities 4,000 condoms each. **The Center says each condom contains facts about things like habitat loss and polar bears. The Center said "it's important to bring population growth back into the environmental conversation."** It says these Endangered Species Condoms make starting this conversation easier.

The free condoms will be distributed to various venues around town (don't know if the selected venues are on the list in the next item). Could the fact that *Men's Health* magazine recently named **Austin as the #1 "sex-obsessed" city in the US** be one of the reasons Austin was selected for the free condoms? (Ok, raise your hand if you were one of those surveyed.)

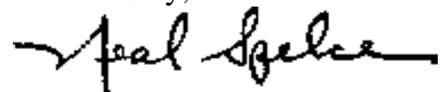
Now that we've tip-toed to the edge of decency with the free condom report, we might as well go ahead and give you a list of the "15 Sexiest Bars in the City," courtesy of *Culture Map Austin* that released its list this week.

Culture Map reported "there are different kinds of sexy, so we're highlighting **everything from secret to sultry to playful.**" Here's their list, in alphabetical order:

Ah Sing Den ... C-Boy's Heart and Soul ... Cedar Tavern (inside Eberly restaurant) ... Garage ... Geraldine's ... Justine's Brasserie ... Kitty Cohen's ... Midnight Cowboy ... Milonga Room ... The Roosevelt Room ... Sellers ... St. Genevieve ... Stay Gold ... The Townsend and Vinyl.

Pun alert: **Dr. Louis Overholster** says a lot of money is tainted. 'Taint yours and 'taint mine.

Sincerely,



Editor/Publisher