



Volume 39, Number 21

August 25, 2017

Dear Client:

Is the Austin area economy at a tipping point? Impressive current numbers are actually causing problems of a different sort, according to Richard Florida, one of the leading thinkers about cities and their future. This is significant, because 15 years ago Florida published a book that became a “bible” for Austin’s changing economy – highlighting what he called the “creative class.” Now he is issuing a mea culpa in his new book, *The New Urban Crisis*.

Austin was used as a prime example. Florida’s examples of **artists, musicians, tech workers, etc. building a creative economy in an environment that attracted more young people, and subsequent investment** led to a new and prosperous urban core. Sound familiar?

“Florida served as an inspiration for mayors, developers, and planners who pedestrianized streets, built bike lanes and courted attractions,” observed Sam Wetherell, a British professor writing in *Jacobin* magazine. He compared Austin to London and other major world cities who have followed Florida’s model.

Now what? Wetherell notes “when the rich, the young and the (mostly) white rediscovered the city, **they created rampant property speculation, soaring home prices, and mass displacement.**” In his *new* book, Florida recognizes some of the impacts of his original thesis – in effect, retreating from his earlier optimism.

Wetherell says Florida now realizes **“the rise of the creative class ... created economic growth only for the already rich, displacing the poor and working classes.** The problems that once plagued inner cities have moved to the suburbs. The ‘creative class’ were just the rich all along, or at least the college-educated children of the rich.”

This is what’s happening in Austin. The euphoria accompanying Austin’s meteoric economic rise is now being affected by deep-seated concerns about affordability. Families, businesses, musicians are moving away from Austin because, as Florida now implies, **the rise of creative classes has brought dizzying levels of income inequality into every city they’ve inhabited.**

Florida, the city guru who singled out Austin as he hailed the rise of the creative class, is now admitting he was wrong about its ultimate impact. For now, though, Austin’s creative class economy is still humming along when using jobs as a measuring stick. See the next item.

It really is somewhat mind-boggling: Austin’s job market. In June the Austin area had an amazing 2.8% unemployment rate. It was impressive a year ago in June when it hit 3.3%. Now this: 2.8%. The lower the unemployment number, the better. But when it gets this low, it creates a new situation. Companies have a harder time finding workers, and a tight job market places upward pressure on wages.

For perspective, the national and Texas June unemployment rate was 4.3%. **San Antonio’s** was 3.6%, while **Dallas, Fort Worth** and **Houston** are at 3.7%, 4.4% and 4.8% respectively, according to a report this week from the Austin Chamber’s VP/Research, **Beverly Kerr**.

Okay, these are *percentages*. **What about actual Austin numbers?** June 2016 to June 2017, the actual number of unemployed in Austin decreased by a whopping 3,407. **And even more impressive, Kerr reports the persons employed increased by 18,637 – quite a hiring spree.** (By the way, this is similar to what occurred in Austin during the dot-com boom in the late 1990s.)

As we mentioned, employers are assessing what they pay for employees in high-demand Austin jobs – **both to retain good workers as well as to attract new hires.** And, make no mistake, many employees realize they are in a better position. “Negotiating” is becoming the watchword, rather than a take-it-or-leave-it situation.

If you’re holding out hope for a subway, elevated train, or even a gondola to help solve some of the congestion on Austin roadways, forget it. This is the way it is – stated in no uncertain terms – by the Capital Metropolitan Transportation Authority.

CapMetro is involved in long-range planning mode, almost all of the time. It’s a complicated and very expensive process. Right now, it has a variety of bus services and is running a light rail operation from the northwest into downtown Austin. **These services are changing and growing. Taking on some new modes of travel is not on its current agenda.**

The public agency, operating with tax dollars and federal grants, has harsh words for the idea of a gondola to run in the downtown area. On its blog, it states **“we’re not considering gondolas, a mode that doesn’t even meet the definition of high-capacity transit.”** Goodbye, gondolas – at least for the foreseeable future.

As for subways and elevated trains like those used successfully in major metros like New York City and Chicago, **CapMetro says the costs would be too high and the return on investment too low** as our metro has a less dense population.

Meantime, look for more variations of its bus and light rail service – until the citizens force a transit ballot initiative, such as those that have failed in the past.

Residential real estate insiders are well aware sea changes are occurring in their profession sooner rather than later -- both in the changing competitive marketplace and through government regulations. There are too many changes affecting buyers, sellers, financial institutions, brokers and agents to mention in this space. But one proposed government change could actually put many real estate appraisers out of business. Gone. No longer part of the mortgage loan process.

The government-owned entities that buy a large share of US mortgages from lenders, **Freddie Mac and Fannie Mae, are taking a big step toward alleviating mortgages by eliminating the need for lenders to use a traditional appraisal when underwriting certain procedures**, according to nationally-regarded real estate website, www.inman.com.

Starting September 1st, Freddie Mac's automated collateral evaluation (ACE) will **determine whether an *estimated value provided by a lender* can substitute for a traditional appraisal**. Now here's a major change that's a part of the process: a lender can sell appraisal-free mortgages to Freddie Mac **without promising to buy the loans back due to a flawed home valuation, if the mortgage later defaults**.

Shades of the old days. **Is this a door-opener for some lenders to make shaky loans without fear of penalty?** Remember when borrowers could get loans without elaborate documentation (they were derisively called "liar's loans")? This triggered the real estate recession when normally-unqualified buyers just walked away when they couldn't make the payments.

ACE loans are being touted as a boon to consumers. According to Freddie Mac this would **save an estimated \$500 appraisal fee** (bye, bye appraisers!) and **reduce closing times by as many as seven to 10 days**. Shortening the closing period will be cheered by buyers/sellers/lenders alike.

Depending upon the size of the home, the neighborhood of the Austin area where the home is located, and the relative availability of an appraiser, the appraisal process can add many days to the loan process. But, appraisals are not only good info for a lender, they also give consumers **an expert opinion of the value of what they're purchasing and a level of certainty that they're making a sound financial decision**.

Austin area appraisers are already somewhat of an embattled species in this white-hot residential real estate market. **But, this could be a gut punch to many of them. This will absolutely eliminate a certain number of appraisers.**

Appraisals replaced by this automated process called ACE could reduce consideration of important variables in this rapidly-changing Austin real estate environment. For instance, it's difficult for a computer to decipher **neighborhood nuances**, much less factor **misstated square footage, faulty public records**, etc. Yes, those involved in real estate may be entering a Brave New World – or is it a step back to the Bad Old Days of the past? Something to ponder.

If you're concerned about how Congress Avenue may soon be changed, you need to check out a new report by the City of Austin and the Downtown Austin Alliance (DAA) that was recently made public. One (of many) suggestions: a bike lane running in the center of Congress Avenue all the way up to the State Capitol.

The report is part of the planning process to **reconfigure the 1.25-mile stretch from the Capitol, south across Lady Bird Lake, to Riverside Drive.** A design firm has been hired to develop the plan. Public comment is open until the end of October. The timetable calls for the Austin City Council to consider/adopt the recommendations sometime in the spring of 2018.

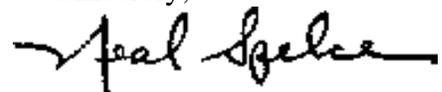
Separate from the City of Austin downtown plan, but obviously part of the City of Austin's thinking, is a move to convert public parking spaces into public parks. It's already happening, as we have reported. And the push is continuing. In fact, the City is staging what it calls "PARK(ing) Day" Friday, September 15th to publicize its efforts.

You'll recall last week we mentioned there "could be a really big disruption" in downtown Austin Saturday September 2nd when a Dixie Freedom Rally, complete with counter-protestors and a parade to the State Capitol, was planned to take place while 100,000+ fans were packing the area for a Texas Longhorns football game.

Shortly after our deadline last week, the Austin Police Department along with the city's Parks Department met with the Rally organizers and 'splained to them the problem. As a result, the **Wooldridge Park Rally/State Capitol Parade, that would attract the counter-protestors, was moved to Saturday, September 23rd when there was no home Longhorn football game.**

Dr. Louis Overholster chuckled recently when he saw a protestor holding a sign over his head that read: "My arms are getting tired just holding this sign!"

Sincerely,



Editor/Publisher