

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**The Austin area is on a “new jobs” roll if the number of company re-location and expansion announcements is an indication. This is the basic underpinning to a strong economy.**

Company announcements – ranging from Facebook (new) to Samsung (expansion) to Whole Foods (expansion) to Formula 1 racing (new) – are rolling out regularly this year. As a result, **more and more projected jobs are being added to the Austin area economy.** And as was the case when Austin started recovering from the real estate and dot-com downturns during the past 20 years, **local conditions appear ripe to handle such an expansion of the economy.** In fact, key elements are in place.

What is normally viewed as representative of a weak economy has the potential to turn into a job-creating asset. High office and industrial space vacancy rates are routinely considered to be less-than-good news. **But as an economy starts to expand, industrial and office building availability – usually at very attractive rates – help to encourage such expansion.**

And it is already happening. Leasing of industrial space has accelerated somewhat. “Some of this is from existing companies relocating to take advantage of the down cycle in the market and **some is from expansion and new firms entering Austin,**” points out **Mike Tipps** with Oxford Commercial.

**Same is true of office space.** Facebook, for instance, cut a deal for vacant office space in a downtown office building when it decided this year to expand into Austin. As Oxford put it: “As the economy continues to improve, **Austin is well positioned to recover quickly.**”

Vacant commercial space is not good news in a *stagnant* economy. But in a *rising* economy, **available space becomes a tool to support economic development efforts.** Landlords and owners are eager to add to their revenue stream and, as a result, they are more willing to cut deals than during the good times.

There could be some exceptions, such as the Central Business District where there are higher occupancy rates. But, throughout the metro area, **a growing company can dictate some good terms for office and industrial space.** Now, about jobs – see the next item.

**The Austin metro's unemployment in June 2010 was 7.4%, the same as in June 2009. Looks stagnant, doesn't it? Not so fast. Flip it over and look at how many found jobs during that period and you have a more dynamic picture.**

The 7.5% unemployment figure for the 5-county Austin metro, while much higher than during the go-go dot-com days when it dipped below 3%, is still **relatively impressive when compared to the June 2010 averages for Texas and the United States.** But it is even better than that.

Look back at June last year. The Texas Workforce Commission (TWC) reports that **in June 2009 there were 826,400 people employed** throughout the Austin-Round Rock-San Marcos metro. Fast forward to this year. TWC said **in June 2010 there were 845,300 workers employed** in the same five counties.

**This means 18,900 more people were working in the Austin metro area than a year ago.** And, in the main, these additional jobs were created during the past year. The jobs were not just sitting there going begging for someone to fill them. (Even more impressive is that most of the temporary USCensus government jobs had ended by June.)

Obviously the unemployment numbers do not tell anywhere near the full story – especially in a fast-growing area like Austin. In fact, the civilian labor force in June 2010 was 912,800 in Austin area, compared to 892,000 a year ago. **People are moving to this metro area and, for the most part, are finding jobs.** All this is occurring when other US cities and metros are losing population and yet their unemployment numbers are still much higher than Austin's.

**Austin's positive job picture is providing hope for the area residential real estate market. But a certain amount of uneasiness is also playing a role.**

Increased demand for housing depends on job growth – as well as a solid feel about job security. The first part of the equation, as you've just seen, is on a good track. But the “security” part is still a factor. **There is a feeling of economic uncertainty**, fed by daily national news reports. It has presented a psychological barrier for potential homebuyers. And that's not all. The **tightened requirements for getting a mortgage** also have a big impact, and the **tax credit for homebuyers has expired.**

However, mortgage interest rates are the lowest in recent memory and “affordability” is near a record high. Increased demand for housing depends most heavily on job growth. And, even with the other negative factors that are present, **the Austin metro is among the leaders in job growth and has a tremendous economic development track record so far this year.** Prospects look good for this area to continue to create jobs.

**The big bucks controversy over wind energy transmission lines that will slice through the Hill Country west of Austin is not going away. In fact, it is roaring forward.**

You may have noticed (how could you miss it!) a **16-page paid Public Notice insert in the *Austin American-Statesman* that detailed the plans for the approximately 200-mile above-ground project.** (It also was inserted in newspapers in Boerne, Fredericksburg, Comfort, San Antonio, San Angelo, Kerrville, Menard, etc. this week.)

The Lower Colorado River Authority's Transmission Services Corporation (LCRA TSC) is planning to **spend \$367 million to erect really big, steel block lattice towers – that can soar up to 185 feet high** from West Texas through much of the Hill Country. It will carry electricity generated by wind towers west of the area on 345-kilovolt lines. (Click the "Archives" button at the top of the page. Go to the Volume 32, Number 2, April 9, 2010 edition for more details.)

As we reported in April, **opponents fear damage to views of the Hill Country, to property values and to the recreation industry.** Also, the Texas Wildlife Association, that counts among its membership 6,000 landowners, land managers, hunters and conservationists who own or control more than 35 million acres of private land in Texas, is **expressing "grave concern"** over the proposed routes.

While the power towers are not proposed to cut across Travis County, they are currently planned for nearby **Gillespie County, home of the popular Enchanted Rock State Natural Area near Fredericksburg.** (An 85-mile extension of that line through Llano, San Saba, Lampasas and Burnet counties is "on hold," awaiting word from the state on whether that project is still needed.) The Public Utility Commission (PUC) will ultimately choose the precise route. A pre-hearing on the plan will be held at the Palmer Events Center in Austin September 1<sup>st</sup>.

Meantime, **Ray Perryman** of The Perryman Group was commissioned to do a study of the **economic impact of wind energy transmission.** His study focused on building transmission lines throughout the state, not just the LCRA TSC's project for this area.

His report stated the "transmission investment will also help **solidify Texas' position at the forefront of wind power, renewables and associated industries ...** and could be expected under reasonable assumptions to include **\$8.6 billion in total annual spending, \$3.8 billion in output (gross product) per annum and 41,181 jobs.**

With projections that large statewide, it is no step for Perryman to break out the economic impact in the Hill Country areas. And, based on his overall totals, it is sure to show **positive economic news for the Hill Country.** This is likely to have an impact on the Public Utility Commission. But that may not dim the passion of those who oppose the proposed routes of the transmission lines. Remember: the PUC has the last word.

**You may see more construction workers taking regular rest breaks now that Austin area temperatures are touching 100-degrees almost daily. It's not just the temps, it's a new law.**

If you think back just one year ago, you'll realize how "lucky" the Austin area has been this summer. Remember last year when **records were set and 100-degree highs were routine?** Well, the US Midwest, Northeast and Southeast had the "bad luck" of scorching heat this summer. They've been experiencing record-breaking highs practically all summer long, much as the Austin area recorded last year.

**Well, this year, it wasn't until August 1<sup>st</sup> that the official high temperature hit the century mark in Austin.** And, looking out a few weeks, the 100-degree mark may become the norm now for Austin's August.

Just a few days in advance of Austin hitting the 100-degree mark, the Austin City Council, on July 29<sup>th</sup>, adopted an ordinance **requiring mandatory rest breaks for construction workers.** Companies must put up a sign at the site indicating rest breaks are required.

**What about water?** The city ordinance did not include mention of water because the feds' Occupational Safety and Health Act (OSHA) already covers the provision of water at work sites.

The ordinance requires **10-minute rest breaks for every four hours of outside work.** However, employees who spend at least half of their work time in a climate-controlled area doing non-strenuous activities are exempt.

Non-compliance is a Class C misdemeanor. What about enforcement? Will city employees check all the construction sites in the city? Nope. **It will be a complaint-driven process.**

Speaking of outside activities during these hot days, golf is a favorite for **Dr. Louis Overholster.** But he said that now that he can afford to lose a golf ball, he's too old to hit it that far!

Sincerely



Editor/Publisher