

THE

Real Estate

AUSTIN LETTER

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Dear Client:

Austin has long been recognized as a place where residents rave about their city more so than most cities around the US. And recent developments prove those passions reinforce the differences that sometimes divide the city.

Most Austinites don't need anyone to tell them they are satisfied with their city. But it was reinforced by a recent ETC Institute study of 13 cities with a population of more than 500,000. It ranked Austin #1 in resident satisfaction. **Austin ranked above average in 41 of 46 areas.** Where did it rank **significantly below the national average?** **No surprise here: traffic flow.**

As if to illustrate the passionate differences, longtime Democratic Party activist **Ed Wendler**, a developer, wrote an Op Ed piece in the *Austin American-Statesman*, **complaining about revitalization of downtown**, long an objective of progressives who seek greater density, parks enhancement and public transportation.

Speaking of recent zoning that allowed apartments downtown 60 feet high with a density of about 70 units per acre, Wendler wrote: **"An old apartment with affordable rents will be torn down to build a project with three times as many units at twice the rental rate.** Residents enjoying affordable rent are displaced."

"Austin is adopting a Downtown Plan that promotes growth and advocates spending on downtown parks and infrastructure. **That \$300 million will be used to subsidize the area with the highest rents in Austin.** Austin now charges for nights and weekends at downtown parking meters, the same thing as increasing rents. Residents who enjoy downtown but can't afford parking are displaced."

"In many ways, this City Council is the most pro-growth, go-go council in memory," claimed Wendler, who is a native Austinite and a scarred veteran of many City Council battles. "Unfortunately, its push for ever higher land values generated by higher densities and higher rents will cause Austin to be unaffordable for many, and many times it will **negatively affect existing residents' lives.**"

Predictably he got a passionate response. **The Board Chair of the Downtown Austin Alliance, Pamela Power, took him to task for his commentary.** Check out the next item to see what she wrote the *Statesman* editor about Wendler's comments.

Is the investment of \$300 million for improvements to downtown Austin simply subsidizing the area with the highest rents in Austin? Or will all of Austin benefit?

Developer **Ed Wendler** has been known in recent years for his analysis of the workings of the City of Austin. His latest commentary on higher living costs in downtown Austin reflects his view that **certain city policies seem to be working against the best interests of many of the city's residents**. His latest foray into a public discussion of public policy carried as a commentary in the *Austin American-Statesman*, and summarized in the previous item, has predictably brought an equally impassioned response.

Downtown Austin Alliance (DAA), as the name implies, is the organization that looks after the major interests in downtown – such as those of the property owners, businesses and residents, as well as concerning itself with issues of public safety, transportation, zoning, Capitol view corridors, etc. So when Wendler teed off with his comments capsulated in the previous item, DAA was quick to respond.

The Board Chair of DAA, Pamela Power, took issue with Wendler's position that **"increased density results in a less enjoyable and more expensive place for Austinites"** (her summary of what he wrote). As she put it: **"I think it is just the opposite."** And she proceeded to explain DAA's position, writing to the editor of the *Austin American-Statesman*.

"The bottom line is, Austin is growing," observed Power. "By planning for and absorbing some of this growth into the urban core and transit corridors throughout the city, **every citizen benefits. Downtown Austin is an exporter of taxes.** According to the Downtown Austin Plan, **it would take an area eight times the size of downtown to generate the same taxable value.**"

"The taxes generated in downtown help to pay for quality education, cleaner parks and increased safety throughout the entire city," she continued. "All of these things add to the 'use value' Wendler claims is declining."

Power concluded by saying "Austin is changing. However, **smart growth and increased density at the right places are the keys to keeping the character of Austin.**"

Speaking of growth, October marked the fifth straight month the volume of sales of existing homes in the Austin area has outpaced the previous year. It's a good economic sign.

At the same time, the number of homes with **For Sale signs in the front yard was down 18%** while **pending sales were up 15%** compared to October 2010, reports the Austin Board of Realtors. **The number of homes for sale this October is lower than any month since 2008.**

Apartment occupancy in the Austin area has reached levels unseen since the heights of 2000. Rents have hit an all-time high. Will this trend continue?

For the past two years, we have pointed out the Austin apartment sector has been posting solid gains in both occupancy and rental rates. In fact, according to **Robin Davis**, who tracks these trends, the **3rd quarter saw occupancy increase 1.24% to reach historic highs.**

But when she drilled a little deeper she found that “despite these elevated levels, the **gains seen during this 3rd quarter were considerably less** than those seen during the same time frame of the past two years. **This could point towards a slowing in the market growth.**”

This is happening just as apartment unit construction is gearing up. Davis says “the 3rd quarter ushered in a renaissance of sorts for the new construction arena, putting **over 4,000 units into the permitting process, while another 2,400 new units broke ground.**” She pointed out that these units will start hitting the market by the end of 2012.

An Austin real estate expert, with a global view, places Austin’s multi-family sector on the leading edge of commercial real estate economic recovery and has some thoughts on how this local market will unfold.

As senior managing director, **Stephen Pyhrr**, Ph.D, oversees the south and southwestern regions for Kennedy Wilson and has been involved in a number of the company’s global transactions. A longtime Austinite (**he led the real estate program at UT Austin for 10 years**), he reviewed the local commercial real estate market for the *Austin Business Journal*.

“For all major property types – single family, multifamily, office, industrial and retail – **we are past the bottom trough of the market cycle and in some stage of recovery,**” he noted. Pyhrr said multifamily is leading the market recovery with increasing occupancies and rents, followed by office and some retail. He said the “laggards” are industrial and single family.”

He told the *ABJ* the construction cycle has not cranked up yet, but it will begin soon for multifamily (see the previous item for details). Then, he said this will be **followed by the other property types as their occupancies and rents rise enough to create economically feasible projects.**

Pyhrr points out there are more than 25 types of real estate cycles and what you can see for the future can be very different for different cycles. **He says now that Austin is past the bottom trough, the next cycle will be the expansion phase up to the peak of the cycle.** That will be followed by contraction, ending with recession and moving to the bottom of the cycle again.

Creativity is the secret sauce that opens worlds of opportunities for the Austin area to grow, thrive and lead. This is the mantra uttered by the highly-successful Austin Convention & Visitors Bureau (ACVB).

According to the folks at ACVB, **Austin and creativity go together like hipsters in a honky tonk, Willie and Darrell, and pianos on a running trail.** Anywhere else they wouldn't make any sense. But here, those combinations create magic that just can't be copied and bottled. And the president/CEO of ACVB, **Bob Lander**, makes a compelling financial case for how this enhances tourism.

“Austin’s live music, museums, festivals and events are a lot of fun to those of us who live here. **Visitors love them just as much – and they are willing to pay for it,**” Lander says. And he has examples to prove the financial value.

Festivals sponsored by South by Southwest and Austin City limits injected nearly \$241.8 million into the Austin area economy. Tax revenues were helped substantially from various sectors. Retail sales generated \$155 million, Lodging \$71 million and Auto Rental, \$14 million.

Per-day spending for overnight guests is \$395.14. Lodging takes \$126.04 of that total, restaurants receive \$59.06, transportation accounts for \$44.84, retail shopping rakes in \$39.51 of the per-day expenditures, while \$33.27 goes to the broad category of entertainment.

Look at where the “creative” aspects rank for those visiting Austin, according to an ACVB survey: **enjoy live music**, 94% ... enjoy a variety of food, 94% ... **see performing arts**, 90% ... **enjoy nightlife**, 90% ... **experience the unique community**, 90% ... and participate in outdoor recreation activities, 81%.

Speaking of travel, **Dr. Louis Overholster** says: “You know that indestructible black box that is used on airplanes? Why don't they make the whole plane out of that stuff?”

Sincerely



Editor/Publisher