

THE

*Real Estate*

# AUSTIN LETTER

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Dear Client:

**The exodus of California businesses and individuals to Austin is well-documented. California is getting deeper and deeper into the economic tank, much of it due to the fact their tax base is diminishing as a result of the exodus. But the reason Austin is their destination has as much to do with Austin's *assets* as California's *liabilities*.**

Three times a year, the Council for Community & Economic Research conducts a nationwide **cost of living study in 306 urban areas**. The results of the first study of 2012 were just released. Without getting into its complex mechanics, you first need to understand the average cost of living nationwide was given an Index of 100. A number below 100 indicates the cost of living is *less* than the average, a number higher than 100 is *greater* than the national average.

The Index is a measure of the after-tax cost for a professional/managerial standard of living. **Austin's cost of living index is 95.7**. The nation's highest is in New York City (Manhattan), where the Index is 228.3. **Los Angeles has an index of 132.3 and San Francisco's Index is 166.5**. By this standard, Austin has a dramatically lower cost of living than these examples.

Let's bring it down to basics. What if someone in California's Silicon Valley, say San Jose, was considering a move to Austin? **Beverly Kerr**, VP/Research for the Austin Chamber, calculates that person could **take a cut in after-taxes income of about 38% without reducing their present lifestyle**. This is huge.

Conversely if an Austinite had a job offer in San Jose, that person would **need an increase in after-taxes income of about 61%** just to maintain their current Austin lifestyle. It would take quite a pay raise to justify a move from Austin to San Jose.

What does this mean for everyday living? Like for instance, groceries on the table. Broadly, residents of the most expensive cities spend between 31% and 57% more for groceries than the average household. **Grocery items in Austin are about 13% below the national average**.

So, while many California individuals and businesses are leaving what appears to be a sinking ship of state, they are not grasping for a life boat, they are climbing **aboard an Austin cruise liner that is sailing along, leading the way out of the national recession**.

**How bad is the California financial crisis? Just this week Gov. Jerry Brown likened California's fiscal challenge to the US federal government and European nations, including Greece and Spain. And he wants to raise taxes, while making cuts in state spending.**

The governor is proposing that state voters in November agree to a **seven-year income tax increase** on those making more than \$250,000 a year and a **five-year quarter-of-a-cent increase in the state's sales tax** that would hit everybody.

If voters reject the tax increases in the fall, Brown is proposing \$6 billion in additional automatic spending cuts, **almost all of which would fall on K-12 schools**, causing some schools to cut the school year by up to three weeks. Also, he is asking **state employees to take a 5% pay cut** and he is proposing **cuts across education, health care and welfare programs**.

All of this occurred this week after a new estimate showed the state's budget deficit ballooned to **\$15.7 billion. This shortfall is \$6.5 billion more than the \$9.2 billion gap Brown anticipated just four months ago.** The governor and a majority of the legislature are Democrats. Republicans said the majority party has refused to enact reforms such as public worker pension and teacher accountability. Meantime, the drain on the state's people and companies continues.

**Moving now to the Austin economy, is the surge in apartment occupancies and subsequent rise in rents about to stop? Are the latest stats the beginning of a trend or simply a hiccup?**

The occupancy of apartments has been on fire recently as more and more job-seekers move to Austin and new apartment buildings are still under construction. For some time now, occupancy numbers compared to the year before have been impressive. As a result, higher and higher rental rates have been reported. **But the 1<sup>st</sup> quarter of 2012 did not produce the robust rebound typically seen after normal 4<sup>th</sup> quarter declines.**

Occupancy rates rose a mere .15% for the quarter and rental rates, while continuing to hit record highs at \$1.06 per square foot, rose only .44% for the quarter, reported **Robin Davis**, who has been tracking multi-family trends in Austin for years.

In fact, she said that only 185 more units were occupied over last quarter. **"This was a noticeable departure from the 1<sup>st</sup> quarter statistics of the last two years in which over 1,600 units were absorbed,"** Davis pointed out.

So, as we questioned at the top of this story: is this the beginning of a trend or is it simply a hiccup? **"It would be premature to say the market is slowing,"** she demurred. But she added "these figures are concerning with over 9,000 new units already underway and an equal amount slated to start during the next 12 months." We'll keep an eye on it for you.

**Austin home sales have been on the uptick for months now and the number of homes available for purchase is dwindling. What about the immediate future? What's in the pipeline?**

For the tenth month in a row, Austin recorded year-over-year increases in the sale of Austin area homes in March, according to the most recent report by the Austin Board of Realtors. As a result, the number of homes with a "For Sale" sign in the front yard is diminishing to the point that if the current pace of sales continues, and no more homes come on the market, **it would take only 4.4 months to run out of homes for sale.**

Four-point-four months of inventory is way below the six months inventory that is generally accepted as a "balanced" market, where buyers and sellers are on relatively equal footing. **Put it another way, the Austin area is now a home-seller's market.** The buyer is at a disadvantage due to the smaller supply of inventory from which to choose and the increasing number of buyers (with the population increasing each day) chasing fewer homes.

So, what can you expect as the **spring/summer home-selling season** is getting underway?

**A lot of hammer-slamming is going on. Homebuilders are putting up homes at a fast pace and sales are humming** for many of them. Just in the last few months, the level of Austin's homebuilding activity has seen a notable uptick, according to the Austin Chamber's **Beverly Kerr**, who crunched the numbers from the USCensus Bureau and the Real Estate Center at Texas A&M.

She reports both January and February saw **building permits issued at an increasing pace**, 115.4% more than those same months in 2011. And prior to that, November and December 2011 were 49.5% ahead of the same months a year earlier.

**Austin air travelers were treated with several news developments this week: one will cost you time, another will cost you money and the third brings a new level of convenience for travel to Washington DC.**

Let's start with *convenience*. **Austin was one of four cities selected by the US Department of Transportation to receive new nonstop service to Ronald Reagan Washington National Airport.** Southwest Airlines was selected as the carrier of the new route. This marks the 40<sup>th</sup> nonstop destination out of Austin-Bergstrom International Airport (ABIA).

Jumping to *increased cost*: starting this week, maximum daily parking fees have been increased for **Valet (\$26), Garage (\$22) and Close-In Surface Lot A (\$11).** And finally, *your time*: due to anticipated increased summer travel, ABIA is suggesting you arrive **two hours prior to departure during peak travel times of 5 am to 8 am, 11 am to 1 pm, and 3 pm to 5:30 pm.**

**Know what Austin hotels, bars and restaurants like about the month of March? It's that March is a peak month for pouring highly-profitable alcoholic beverages. And some of those establishments do much better than others.**

March is noted for lots of once-a-year activities – visitors who arrive during Spring Break vacation time, the South by Southwest events, the Star of Texas Fair and Rodeo, the state high school basketball championships. **As a result, hotels are full for much of March, well-known eateries are packed and bars hire extra help.** So, where are the hot spots?

According to an analysis by the *Austin American-Statesman*, **the W Austin Hotel generated the most revenue selling alcoholic beverages in March. It paid taxes to the state on more than a half-million dollars in beverage sales — \$580,000.** The new performance venue in the W, Austin City Limits Live, also sold more than a half million dollars worth of alcohol, meaning that **a million bucks worth of imbibing took place in one location.**

Almost half of all drink purchases in March took place in the general downtown area, specifically in the 78701 zip code, according to the *Statesman*. Other big watering holes with more than a half-million dollars in sales included **Stubb's, the Driskill Hotel and Chupacabra Cantina.** Others in the Top Ten included the **Four Seasons Hotel, the Hilton Austin and the Blind Pig Pub.**

Notice these totals are revenue-based. They are not estimates. They are taken from the State Comptroller's office that collects taxes on the sale of alcoholic beverages. Of course, all drink prices are not equal. **Certain outfits charge more than others for the same margarita.** And it wouldn't be much of a surprise if some places hiked drink prices just for the month of March.

With UTAustin's 2012 commencement Saturday and job prospects for some grads dimmer than usual, **Dr. Louis Overholster** was reminded of a satirical photo he saw in a UTAustin publication. It showed a young man, dressed in his graduation gown standing on The Drag, holding a cardboard hand-lettered sign that read: "Will deconstruct Freudian themes in post-modern poetry for food!"

Sincerely



Editor/Publisher