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Dear Client:

Austin area residential rental properties are sizzling right now. Occupancies are tight, rates are rising and the trend is continuing. What's behind this surge that is pushing the supply and demand equation off the charts?

Of course, supply and demand is a broad category that covers just about everything. **More and more people are looking to rent and there are not enough rental units to keep up with the demand.** But, let's drill a little deeper and examine what is pushing this *demand*?

It's easy to say **Austin's population is growing, and many who first move to the metro are likely to rent**, rather than buy right away. And, the **population increase is fueled by new jobs** being created in the area at one of the fastest rates in the nation. This is true, and important, but other significant factors are at play.

Consider housing costs. The Austin-Round Rock-San Marcos metro ranks as the highest in the state. **The share of housing costs as a percentage of household income in the Austin metro is 21.6% — the highest in the state.** A 1% increase in the share of owner costs leads to a 1.1% increase in the share of tenant-occupied units. These numbers are courtesy of the Real Estate Center at TexasA&M.

There's more. **Gross rent as a percentage of income also enhances the value of renting.** While high in the Austin metro (and getting higher), **the Austin area is still below many Texas metros**, such as Waco, Victoria, College Station-Bryan, Lubbock, Corpus Christi, etc. Again, this makes renting more viable.

But here's the biggie – college enrollment. Not only does **UTAustin have one of the largest single-campus student populations in the nation**, consider all the other fast-growing large institutions in the metro. **Texas State University in San Marcos** is expanding. **Austin Community College** is growing by leaps and bounds with campuses in several counties. **Southwestern University** is a large part of the small city of Georgetown. There's more, but you get the picture.

TexasA&M Center research found these last three factors explain **more than 70% of the variation** in the shares of renter-occupied housing: #1, college enrollment rate; #2, *housing costs as a percentage of household income*; and #3, *rent as a percentage of household income*.

Speaking of residential rental rates, downtown landlords are raking in profits, according to an extensive *New York Times* article this week examining construction and other activity in Austin's Central Business District (CBD).

Quoting the president of Capital Market Research **Charles Heimsath** (who has tracked development in Austin for decades), the *NYTimes* reported **“the citywide average monthly apartment rental rate of \$1.10 a square foot is the *highest in the state*, and downtown apartment rents are more than *twice the city average*.”**

“Downtown has developed such a charisma that people just really want to be downtown and are willing to pay, particularly young people in the 25-34 age group,” observed Heimsath. He added that this remarkably popular CBD is enjoying a rental occupancy rate of almost 97%.

It is always interesting to determine how “others” see Austin, and one reason the *NYTimes* devoted the resources to focus on the downtown area may be found in a quote near the end of the article. Here's part of what **Robert Hess**, an executive managing director in the consulting division of Newmark Grubb Knight Frank, told the influential newspaper after noting that **Hess has seen Austin rise to prominence on many employers' lists of preferred cities for relocation and expansion over the last 25 years:**

“Austin is an exciting city, a very dynamic, progressive city. A lot of our clients right now are interested in urban developments, and they want to know, **have these communities taken care of their downtowns? And Austin has.**”

No story about the economic dynamism of downtown Austin is complete without a review of hotels, office buildings and the city's nightlife. And the *NYTimes* article does not disappoint.

Noting that “hotel development is heating up,” the article referenced the 1,012-room **JW Marriott convention hotel** scheduled to open in 2015 on Congress Avenue, the 1,000-room **Fairmont Austin hotel** to be built adjacent to the Austin Convention Center and the nearby 300-room **Hyatt Place Hotel** under construction one block west of the convention center. Reporting that “office buildings will soon join the party,” the news story also mentioned office building sales, planned office construction and downtown office tenants such as Facebook.

Two other quotes of interest from the piece: The first from **Nate Paul**, whose World Class Capital Group bought several properties: **“Austin is the most desirable city in the fastest growing state in the nation. Demand is outpacing supply for nearly every asset type downtown.”** The second, after reporting on the city's festivals and entertainment offerings, from local economist **Angelos Angelou**: **“Austin's downtown is unique in the sense the nighttime population that visits downtown is larger probably than the number of people working downtown.”** Remember: all this info is in a frequently-quoted national newspaper.

Construction activity, indicating forward momentum, is underway in many different areas of Austin. And there will soon be more.

Consider transportation construction. The “Y” at Oak Hill has been the bane of many a traveler for decades with construction starting and stopping. Well, **a string of improvements is moving forward** at this South Austin location.

To ease some of the clogging of traffic, **additional left turn lanes at Convict Hill Road and RM1826** will begin construction around the New Year. And longer term, construction should begin next June on a “**continuous flow intersection**” at **SH71 and William Cannon**. Joe Tanner Lane will also be re-configured.

While on the topic of transportation construction, Austin-Bergstrom International Airport will soon undergo expansion. Work on **a new security checkpoint on the east side of the terminal, with eight security lanes and four baggage carousels**, is scheduled to begin this fall and the \$40 million project is due to wrap up by 2015.

The airline that carries about 20% of all travelers at Austin-Bergstrom International Airport (ABIA), American Airlines, will soon decide whether a merger is part of its plan to move out of bankruptcy.

It should only be a “matter of weeks” according to AA’s CEO **Tom Horton** before the decision to pursue a merger is made as part of American’s bankruptcy reorganization. **USAirways has been the most aggressive about a possible merger with American**. And non-disclosure agreements were sent last month to USAirways and other airlines to allow them access to American’s books.

As you might expect, there are some complications. The unions representing pilots and flight attendants are key participants in the bankruptcy proceedings and the judge will have to sort all that out. Meantime, **service continues uninterrupted at ABIA, but the shape of American Airlines future is still up in the air** (pun intended).

Retail sales in June, as measured by sales tax collections distributed in August, have given a bit of a financial boost to certain cities in Central Texas.

Compared to the prior year, payment to the **City of Austin was up 6.87%**, to **Round Rock** up 4.03%, to **San Marcos** up 0.32%, to **Bastrop** up 8.48%, to **Bee Cave** up 3.63%, to **Pflugerville** up 7.3% and to **Cedar Park** up 2.4%. However, statewide, the increase amounted to 10.1%. **State sales tax collections have now increased for 28 consecutive months.**

If you like to look ahead in politics, keep your eye on Texas attorney/investor George P. Bush. Yes, *that* Bush family.

George P. is the eldest of three children of former Florida governor **Jeb Bush**. He is the nephew of former president **George W. Bush** and the grandson of former president **George H. W. Bush**. He's been involved in political campaigns for all three of his famous family members. And, of course, he's a republican. His mother is Hispanic and he has her dark-hair, dark-eyes and olive skin. He graduated from UT Austin's law school, where he met and married **Amanda Williams**, who is currently practicing media law. **George P. is compiling an impressive record of his own.**

He has a history of outreach to the Hispanic community. **He co-founded and is on the Board of Directors of the Hispanic Republicans of Texas**, a political action committee whose goal is to elect GOP candidates of Hispanic heritage to office in Texas. Earlier this month, George P. was named **Deputy Finance Chair of the Republican Party of Texas** and is a co-founder of the political action committee called Maverick PAC.

Named a 2005 Rising Star by *Texas Monthly*, he is a US Naval Reserve Intelligence Officer who recently returned from a mobilization in Afghanistan where he served under the Special Operations Command. He has also served on several diplomatic missions: to Brazil, Nicaragua and Saudi Arabia.

George P. co-founded Pennybacker Capital, which invests in and operates middle market multifamily, retail, office and industrial assets with a primary focus on the four major Texas markets. Prior to Pennybacker Capital, he practiced **corporate and securities law with Akin, Gump, Strauss, Hauer & Feld**. There has been no indication he will seek public office, but you would be forgiven if you point out it is in his blood. Stay tuned.

When **Dr. Louis Overholster** saw this single-letter misspelling, *Pro Bozo Publico*, of the well-known Latin phrase he thought it meant "Support your public clown" (Politician? Your call).

Sincerely



Editor/Publisher