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Dear Client:

If you've driven Riverside Drive from IH35 east to Austin-Bergstrom International Airport (ABIA) in recent years, you've noticed major commercial and residential changes. In fact, the area has mostly deteriorated. A major step in its transformation is set to take place.

Most may not recall, but back in 2010, the Austin City Council adopted what it called an East Riverside Corridor (ERC) Master Plan. Corridor is a good word, because in addition to serving the immediate area, it has been a **major artery for traffic to and from ABIA. And, importantly, its western edge is just a few minutes from downtown.**

While some changes are already underway, look for the City Council to soon re-zone approximately 1,000 acres along and north and south of Riverside Drive. The re-zoning is key. It will be done to support density and transit, such as urban rail, much as was done in the Mueller development in northeast Austin at the site of the old Robert Mueller Municipal Airport. (FYI, Mueller is pronounced "MILL-er" because that is how Robert Mueller and his family – who still live here — pronounce their name.)

The plan under consideration will be built around four *transit hubs* – to facilitate flow along the ERC. The name of the hubs, running from West to East, are Lakeshore, Pleasant Valley, Montopolis and Gateway.

The mix of development calls for **buildings as tall as 10-to-14 stories** in some locations, if the developer provides various community benefits in exchange for building to those heights. **The density scales down to three stories** as the developed portion gets closer to single-family neighborhoods.

Transit is an essential element of the ERC plan. **"It is very important to marry higher density land use with future transportation improvements to maximize the economic development** that comes with the mobility investment," longtime Austin real estate consultant **Charles Heimsath** noted.

"By enacting the proposed zoning changes, **the City of Austin is preparing optimal conditions to see tax base returns on the high-capacity transit investment,**" Heimsath was quoted as saying. Keep an eye on this "new" commercial/residential emphasis.

With the high rental demand in the Austin area, an interesting development is taking place in the residential housing market.

You'll recall back before the housing collapse nationwide, **get-rich-quick, buy-and-flip purchasers were gobbling up houses**. Many were caught holding those properties when the overall housing market tanked, though the tanking was not as bad in the Austin area as it was elsewhere. Still, **investor purchasing of homes slowed here**.

Now, investor purchasing is picking up in the Austin area. And it's being **driven somewhat by the lack of available rental properties**. For all practical purposes, apartments are running almost full, though the hammers are still slamming on new apartment buildings that will soon be coming online.

Investors are seeing this as an opportunity and instead of quickly flipping the purchased property, **investors are refurbishing the homes a bit and renting them – at high lease rates** – taking advantage of strong demand for rental properties. Some investors are becoming **landlords instead of “flippers.”**

What makes this especially enticing for certain investors is the **low cost of money**. Mortgage interest rates are among the lowest in history, making it financially-feasible to **hold properties while making a great rate of return on rental rates**. How long will this inexpensive money last? Some feel that there will be a change after the presidential election. However, others contend mortgage rates are sure to remain near historical lows for **a year or more, thanks to ongoing monthly buying of mortgage-backed bonds by the Federal Reserve**.

The projected population growth of the Austin area – the fastest in the state among metros large and small – should fuel continued solid economic growth. In fact, that current projection shows Austin may become more populated than a big metro it currently trails.

According to The Perryman Group, longtime Texas economists, the Austin-Round Rock-San Marcos metro area will be the **only Texas metro that will realize more than a 2% compound annual growth rate between now and 2040**. In fact, the projection calls for 2.20% growth.

But it's not just percentage growth. The Austin metro is projected to **increase in actual numbers more than two larger Texas metros** – the San Antonio-New Braunfels area and the Fort Worth-Arlington metropolitan division. Austin is projected to gain 1,570,539 people from 2011-to-2040, while Fort Worth-Arlington increases by 1,546,260 and San Antonio by 1,470,950.

As a matter of fact, if the projections are correct, **the Austin metro area will have a greater population than the San Antonio area by 2040**. Hang on.

Austinites will have a chance to vote on a matter than some say could have as great an impact on the Austin area as the decision to locate UTAustin in the Capital City almost 130 years ago.

This is a strong statement – maybe even a gross exaggeration – **but it reflects the importance some Austin leaders place on the move to bring a medical school and teaching hospital to Austin.** The proposition will be on the ballot November 6th. No matter the hyperbole, if adopted it is a **significant undertaking with a hefty cost.**

To compare the medical school complex's local impact to UTAustin is quite a step. Regular readers recognize that we have reported for years that the **single greatest economic engine in the area is UTAustin** — even greater than state government that provides more jobs than the university. And it's not just the fact that more than 52,000 students are currently enrolled.

It's the research, the cooperation with the business community, the brainpower that provides a continual flow of well-educated workers, etc. If not for UTAustin, many employers would not be located in the Austin area. Decades ago, I made a speech titled **"If you want to stop growth in Austin, move the university to Amarillo!"** This still holds true.

Another key point: **Austin started becoming a high tech mecca back in the mid 1980's.** A major effort to attract two trend-setting consortia, MCC and SEMATECH, triggered the beginning. **It took strong financial commitments, primarily from UTAustin and the City of Austin, to make this happen.** High tech has been a major economic boon to the metro area, but bear in mind, **residents never had a chance to vote on these events.** Citizens were told about it, after the fact.

Now, the critical question is whether voters will approve a tax increase to help fund the proposed medical school. For the project to go forward, passage of the proposition is essential – and there is some opposition to the proposed tax increase.

Even if voters approve the tax measure, more money – much more – is needed to make the medical school and teaching hospital a reality. The UTSytem and UTAustin will pony up some of the needed funds, the Seton Healthcare Family is committed to make a major investment and there are federal funds that can be tapped. **But this is a \$4 billion project. \$4 billion. It's a big deal.**

While it may be an exaggeration to equate this with UTAustin's local cultural and economic impact, **there is absolutely no question that, if the vision is realized, it will have a huge impact on UTAustin's future, the metro economy and the quality of healthcare in the region.** Where will the complex be located? A consensus among decision makers seems to be for a site that encompasses the parking lot between University Medical Center Brackenridge and Frank Erwin Center, and possibly the nearby UTAustin tennis courts.

The presidential political waters are roiling every day as the election looms in less than four weeks. This is as it should be. But just beneath the surface, quietly and calmly, the bureaucrats in Washington are working to implement sweeping regulatory changes soon after you go to the polls November 6th.

Our friends at the *Kiplinger Letter* report there are **more than 50 new rules in final review**. After they are published in the Federal Register, the rules go on the books following a 60-day waiting period. **These regulations run the gamut**, covering wide-ranging areas such as **employer rules** tied to the new health law, **environmental rules** concerning greenhouse gas emissions and restrictions on emissions released during extraction of natural gas from shale, as well as limits on **fees for certain credit cards**. You get the picture. Fifty of them are set to be implemented. And, in many cases, they will **affect how you live and conduct business in the Austin area**.

Look at the calendar. And consider what this means for whoever wins/loses the presidential election. *Kiplinger* speculates that if President **Barack Obama loses**, he could move quickly to **put the rules in place before the transition** occurs January 20th 2013. If the president *wins* re-election, he can **roll out regulations at will** during a second term knowing he'll never stand before US voters again.

If **Mitt Romney wins**, he must **wait more than two months** until he takes the oath of office before he can react to these regulations promulgated by the Obama administration. He can **reverse** the regulations, issue his own, **suspend** the regs or **deep-six** some of them. But no matter what he chooses, *Kiplinger* says it would **take time and breed uncertainty for small businesses** trying to comply.

As *Kiplinger* points out: "The stakes are high, and in most cases Congress has a limited role in making changes, so the **regs offer a president vast power to shape government.**"

Dr. Louis Overholster observes that for every action, there is an equal and opposite government program!

Sincerely



Editor/Publisher