



Volume 36, Number 5

April 25, 2014

Dear Client:

The *median* price of homes sold in the Austin area in February surged 6% while the *average* price climbed 5% over the year before. In addition to strong demand, climbing construction costs are adding to the increase in home values.

“Welcome to construction in Austin, folks,” homebuilder **Wayne Jeansonne** wrote this week on his website. **“The building boom in this area has caused labor and material costs to rise.”** It’s reflects the real world of construction these days.

“Right now, the good contractors and trades are really busy, and they are not negotiating prices,” Jeansonne continued. “With plenty of work to go around, they really don’t need to offer discounts. And the guys that are available – you might not want them doing your work. In this business, it’s a true fact that you really do get what you pay for.”

Another builder/remodeler offered an additional take, though not for attribution. He complained that **many of the good workers and subcontractors are leaving the Austin area for the oil and gas fields of Texas**, where construction money is gushing like the oil.

He cited one example where a valued, experienced sub came to him saying he was leaving. The worker said he’d been offered a **lot more money** for his skill in the oil patch, with **major benefits** thrown in. Additionally he said **moving expenses** for his entire family (that includes three kids) were paid and they received **free housing**. That was not all. **His wife was given a well-paying job. As was his sister.** While local contractors are generally paying workers more than they ever have, they simply cannot compete with the booming oilfield wages and perks.

So, with the scarcity of good construction workers, those who elect to stay in the Austin area are highly valued and can demand higher wages. Then, there’s this: **“our booming economy has brought a raft of new builders into the area,”** said Jeansonne, who had a warning.

First he said **“we have a rule in Texas that you need only three things to be a general contractor (GC): a pickup truck, a ladder and a dog.”** Pointing out builders are not licensed in Texas (“your hair stylist has more licensing than we do”), Jeansonne said “make damn sure your GC is not just picking up guys in front of a big box store to turn loose in your house.”

Strong first quarter demand for Austin office space keeps pushing office rental rates higher and higher. The economics are supporting new construction.

The demand for office space has **tightened the citywide vacancy rate to only 10.5%**, according to REOC Austin. This compared to 11.3% last quarter and 12.6% recorded in the same quarter a year ago. And this reduction in available space has triggered a notable **annual jump of 7.7% in rental rates**, compared to a year ago.

“Decreasing vacancy rates confirm the need for new supply and increasing rental rates support the economics of delivering new construction,” said **Doug McGregor**, Senior Office Consultant with REOC Austin.

And new space is on its way. In addition to seven major office projects currently under construction, another sizeable office project entered the development pipeline in the first quarter. In all, **more than 1.8 million sf. of office space is currently under construction.**

One of the biggest drivers of the residential and commercial construction boom is job creation in Austin. And it is among the best in the nation. Employers are filling those jobs at such a fast clip, the Austin area’s unemployment rate dropped to an impressive 4.4% in March.

To put that 4.4% 5-county number in perspective, all you need to know is that the Texas unemployment rate improved to a solid 5.5% while the national unemployment rate was 6.7%. What is significant, and important to the area economy, is **that the number of employed residents of the metro area grew at an even faster pace than the amazing amount of job creation.** Most US metros have to be envious of this economic dynamism.

You may have noticed the US Supreme Court this week upheld Michigan’s Affirmative Action ban. How does that differ from UTAustin’s protracted court battles over racial preferences as a part of its admission policies?

In UTAustin’s situation, the court has said that **race-conscious admissions policies can be constitutionally permissible in states that wish to use them.** The Supreme Court’s decision in the Michigan case this week concerned the question of *whether, and how, voters may prohibit affirmative action programs.*

By a 6-2 margin, the Supreme Court ruled that states may end racial preferences without violating the US constitution. **The case was not about resolving the debate over affirmative action, but rather “who may resolve it,”** wrote Justice Anthony Kennedy. It will be interesting to see what the Texas Legislature does when it convenes in Austin in January.

The report of the death of expansion of the South Texas (nuclear) Project (STP), in which Austin owns a 16% interest, may be premature. STP's expansion may be getting new life.

The STP has had a long controversial history from its inception. **Yet, for years now, it has generated electricity for City of Austin customers at a reasonable cost. Austin and San Antonio own minority interests in the nuclear power plant** located downstream from Austin in Bay City. Houston-based NRG Energy owns the majority interest in the plant.

Expansion plans for STP have been on hold since NRG pulled its expansion funding in the wake of the Fukushima Daiichi nuclear plant disaster in 2011. But the federal wheels continued to grind slowly. Now, the US Nuclear Regulatory Commission Atomic Safety and Licensing Board released an explanation of an earlier ruling that said **expansion of the project can move forward.**

The approval paves the way for the project to receive its full licensing in early 2016, following a final series of reviews. But there are still hurdles to overcome. **NRG says new US investors will be needed to jump start the expansion.** This full licensing increases the likelihood of that happening.

But there is an even larger problem looming: the shale natural gas boom in Texas. **The low natural gas prices are keeping nuclear power from being as profitable for investors.** This is a tremendously expensive undertaking -- \$10 billion. So it is a long way from being realized. However, these projects take a long time anyway. And with a major fed clearance in the bag, the expansion project has new life. It just may take awhile to be revitalized.

A long-simmering kerfuffle surrounding Austin City Manager Marc Ott's job performance was elevated to a new level this week. At issue: should he be fired and, if so, when?

Austin American-Statesman editorial writer **Alberta Phillips** has been tracking certain City Council member's displeasure with Ott for some time now. It became more visible this week when Council members **Bill Spelman** and **Mike Martinez** placed unprecedented "performance review" items on the council meeting agenda. The items have been delayed until 5/10/14.

Spelman told Phillips: "in particular, I believe Mr. Ott has (perhaps inadvertently) created a **toxic environment among city staff.** Staffers are unable to make decisions because everything needs to be kicked upstairs; **many are worried that they'll be fired if they make a mistake or speak up.** We have an exceptional city staff, capable of doing great things. But they won't do great things – **they won't do anything – if they believe they're liable to be fired for any misstep. This needs to change immediately.**" Phillips, in a lengthy *Statesman* editorial Wednesday, recommended any possible action be delayed until after a new, expanded mayor/council is elected in November.

Political junkies are focused six months down the road when mid-term elections for members of Congress and the USSenate will be held. But the “junkiest” are looking at the presidential contest in 2016.

Most Republicans are pumped about the prospects of gaining control of the USSenate in November, while maintaining their majority in the USHouse. **At this stage, the numbers seem to favor the GOP**, though six months is a “lifetime” in politics. The key states where seats are “at play” have been leaning to the GOP in the past for the most part.

The numbers tell a more complicated story in the 2016 contest for president, where the Electoral College decides the victor. **Democrats hold the voter registration edge in several big population states with the most electoral votes.**

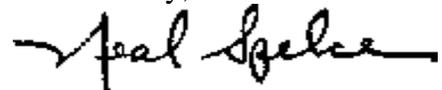
For example, **Democrats dominate in California (55 electoral votes) ... New York (29) ... Illinois (20) and Pennsylvania (20).** Add a dozen other reliable Democratic states and the District of Columbia and the **Democratic nominee has a base of more than 200 votes, with 270 needed to be elected president.**

Republicans dominate in only one state with plenty of electoral votes: Texas (38). The Republican nominee must carry all of the other, smaller, GOP strongholds and most of the toss-ups -- such as Florida -- **to overcome the built-in Democratic electoral college advantage. It's possible. But it's a steep numbers hill to climb.**

Texas not only carries a lot of clout in the Electoral College, but in 2016 the Texas presidential primaries will be held earlier than in previous election cycles. The thinking is that by voting earlier, Texas will be a key battleground for the GOP presidential nomination. In years past the nominee was already decided in states that held earlier primaries.

Dr. Louis Overholster, after listening to a lot of political rhetoric, is convinced that, by and large, language is a tool for concealing the truth!

Sincerely,



Editor/Publisher