



Volume 36, Number 13

June 20, 2014

Dear Client:

**There are some signs supporting a “glass half-full” view that the Central Texas record-setting, seven-year-long, extreme drought may be on the wane. Of course, the alarmist doomsayers are still out there, but take a look at some recent *positive* developments.**

As we’ve mentioned in prior newsletters, a meteorological event known as El Niño has an impact on Texas weather whenever it occurs. (El Niño is simply a pattern of warm water that rises to the surface in the Pacific Ocean along the equator.) **And the Lower Colorado River Authority’s (LCRA) chief meteorologist Bob Rose has pointed out that, “traditionally, El Niños cause more storms, and more rain than normal, in Texas.”**

**New this week -- the National Weather Service now predicts a 70% chance of El Niño conditions arriving this summer and an 80% chance for this fall and winter.** Rose notes that these recent ocean temperature readings in the Pacific Ocean mean an El Niño is likely to form by the fall. “The possibility of a 2014 El Niño may be the best news about the weather in quite a while,” Rose observed.

There’s more. Don’t want to get too deep into the science weeds here, but Rose also notes the upper-level ridge of high pressure that typically brings our region long stretches of dry, hot weather during the summer months has been having a hard time becoming established. As a result, this may **keep the weather pattern somewhat unsettled** through the end of the month.

Another positive point. **Recent rains have raised levels on Lake Travis by about 5 feet and about 3 feet on the sprawling Lake Buchanan, pushing the combined storage of the two reservoirs to 40% of capacity** – the highest since April 2013. Travis is hovering around 630 feet above mean sea level (670 is average) and Buchanan measures about 990 feet above msl (1013 is average).

All told, these positive developments hold a ray of hope for this drought-starved region. But the LCRA adds a warning to the situation. The 40% combined storage capacity of Travis and Buchanan amounts to about 800,000 acre feet. **If it drops below 600,000 acre-feet later this summer, the LCRA would issue a “Drought Worse than the Drought of Record” declaration and water customers would be required to reduce consumption by 20%.** By the way, summer starts at 5:51 am CDT Saturday, June 21<sup>st</sup>.

**Would you be surprised to learn the effective apartment rents in Austin are the highest of any major city in Texas? It's true -- in fact by more than \$100 per month higher than the 2nd place big Texas city.**

And you wonder why complaints are increasing that it is getting more expensive to live in Austin! According to ALN Apartment Data Inc., which tracks multifamily data in ten Texas markets, the **effective rent in Austin for May 2014 was \$1,047. Dallas was 2nd at \$923/month and Houston 3<sup>rd</sup> at \$918/month in May.** San Antonio tallied \$830/month and Fort Worth came in at \$801/month.

**With top apartment revenues racked up in Austin each month, what is likely to happen between buyers and sellers of Austin multi-family investment properties? A local tracker of real estate trends weighs in with a prediction.**

**“Multiple bids per listing will remain commonplace in the early part of 2014,”** says Independence Title Company's ITC Director of Information Capital, **Mark Sprague.** Then, he predicts “the balance between buyers and sellers in the market will begin to align.” He also suggested a **“number of factors will materialize that encourage apartment owners to divest in the coming months.”**

**Okay, then, what about single-family homes in Austin? Here's quickie capsule of one of the strongest residential markets not only in the state, but the nation.**

Once again, we turn to Independence Title's **Mark Sprague** for his take: “Austin-area homes continued to **sell at an accelerated rate, decreasing the average days on market by five days year-over-year,** down to 45 days in April 2014.

“At the same time, **monthly housing inventory decreased 0.4 months year-over-year to 2.3 months.** (Six months is equilibrium – above six months it is a buyer's market, below a seller's market.) The market also featured **2% fewer new listings, 3% fewer active listings and 6% fewer pending sales** in April 2014 compared to the same month of the prior year.”

**Citing the Federal Reserve's current indexes, TexasA&M real estate economist Mark Dotzour said economic growth should continue to expand for the next 6-to-9 months at least.** “Election year campaign rhetoric is about to flood the fruited planes of our country. There will be lots of talk about bad news. This is how politicians get elected. **But underneath the rhetoric,**” says Dotzour, **“the US economy continues its path of slow expansion.”**

**The Iraqi turmoil is roiling the oil and natural gas energy sectors. After all, if Iraq implodes and its hefty supply of oil is cut off, prices are expected to surge – playing havoc with many economies. But the Austin and Texas economies will likely benefit.**

Many energy watchers are speculating that **oil prices could jump from their current around-\$100 a barrel to near-\$200 a barrel if Iraqi oil is cut off** -- and the al-Qaeda forces were said to have made major inroads to controlling Iran's largest oil operation by mid-week. It's not the purpose of this newsletter to dwell on foreign crises, except as they may impact Austin and Texas economies. So let's move to this analysis.

First of all, **Texas is well-positioned now and for the future** (more about Austin in a minute). The oil and gas boom is, well, booming. And it is growing. The activity in the South Texas Eagle Ford play and the West Texas Cline Shale play shows signs of booming for years. Some predict by the end of this year, **Texas could become the world's 2<sup>nd</sup> largest producer of oil, behind Saudi Arabia.**

It appears Texas operators will be able to sell as much as they can produce. And they can **sell even more if the regs controlling exports of US product are stricken from the books.**

Then, it will be Katy-bar-the-door. **Already US crude oil exports in April reached their highest level in 15 years.** More Gulf Coast export facilities will be built, additional pipelines will be laid from the fields to the Coast. Storage facilities will be expanded. Jobs will be created. You get the picture.

Driven by activity in the domestic shale plays such as Eagle Ford and Cline, **April was the most productive month ever for US natural gas production.** April also saw six of the top ten highest natural gas production days on record. Rising prices also contributed to this production. **And just think what will happen if the world market drives up prices further.**

Which brings us to Austin. **A number of Austin residents and companies are making some big bucks in the "awl and gas bidness"** which helps spread dollars throughout the community. But the broader and **more long-range benefit is the growth in state government revenue** every time these natural energy sources are sold or refined, etc. And, of course, with most state agencies concentrated in Austin, those bucks also flow through the community.

**But, you say, just because the legislators are getting this windfall they don't have to spend it.** True. And you can bet the Rainy Day Fund will continue to get its share of the dollars socked away until a real need arises. But, don't forget, Texas is one of the fastest-growing states in the nation. **No matter how hard legislators may try to hold the line on spending, burgeoning growth takes its toll on budgets.** This could mean additional state employees, pay raises, new or expanded programs – whatever. And as state budgets increase, Austin's economy benefits.

**The Austin Urban Rail project is getting a lot of attention these days – as it should because it would be a monumental mobility movement for Austin, if implemented. But almost lost in the shuffle are roadway projects also being reviewed by the Austin Transportation Department.**

City roadway projects are always in the planning pipeline, but they don't always get a lot of public notice. Understandable. Because some will never see the light of day, due to funding problems, priorities, etc. But it is interesting to take a look at what was trotted out by the City as it considered **inclusion of some of the roadway projects on the ballot in November to make the Urban Rail proposal more palatable to a wider range of citizens.** Here is some of what they are considering, with anticipated funding.

A wide-ranging *preliminary engineering study* for regional multi-modal corridor development for **Loop 360, RM 620, RM 2222 and FM 734 (Parmer)** for an unfunded amount of \$16 million.

**US 183/Riverside Drive interchange** (\$34 million unfunded).

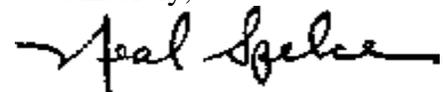
**SH 71 Direct Connectors to Austin-Bergstrom International Airport** (\$80 million unfunded).

**Regional IH-35 projects: US 183 interchange** (\$130 million unfunded) ... **downtown access roadway and Riverside Drive interchange** (\$120 million unfunded) ... **Oltorf, Stasney and William Cannon Streets overpass and interchange replacements** (\$90 Million unfunded).

The Austin City Council will determine if any of these projects, or other projects, could be **included along with Urban Rail, in a single bond proposal November 4<sup>th</sup> 2014.** It has until August to make that determination, though it will likely be sooner.

While taking calls for other docs, **Dr. Louis Overholster** asked a frantic caller whose wife's contractions were two minutes apart: "Is this her first child?" "No, you idiot. This is her husband!"

Sincerely,



Editor/Publisher