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Dear Client:

There is something about Austin, San Antonio, Houston and Dallas. And that “something” is: they are flourishing, without being competitive. This adds up to a huge power advantage for the Lone Star State.

Look at these four cities. I mean *really* look at them. Each is very different from the others. Sure, they are all big and getting bigger. And you can find certain similarities. **But the differences are what stand out – culturally and economically. As a result, when you link them as an economic force, the strength is striking. They become one giant megalopolis.** For some time now this linkage has been referred to as The Texas Triangle

“The Texas Triangle is roughly 250 miles on each side,” said **Robert W. (Bill) Gilmer**, director of the Institute for Regional Forecasting in the University of Houston’s Bauer College of Business. **“Houston, San Antonio, Austin and Dallas don’t really overlap much in their economic roles.”**

Gilmer describes their economic strengths this way. **“Houston is the state’s major port. San Antonio is a distribution and agricultural center for South Texas and northern Mexico. Dallas is an inland distribution point for much of Texas, Oklahoma, Louisiana and Arkansas. Austin is the political capital” (to that, I would add high tech leader).**

Why is the future so compelling? “Given the lack of competition across cities, **a cooperative effort at industrial recruitment and economic development programs makes sense**, even though the cities are spread over a wide and diverse area,” said Gilmer.

Each of these major Texas cities is unique, but complementary. It doesn’t take a researcher to point out the *cultural* differences. All you have to do is spend a few days in each city and the complementary uniqueness is readily apparent.

Don’t let the next sentence scare you, because it is meant to point out the muscle of The Texas Triangle. **The size of the four Texas metros combined is comparable to New York, Los Angeles or Chicago.** But the metros in the Texas Triangle are not homogenous, like the big US metros. The four Texas cities flourish because they are unique, yet complementary. **And you can expect to hear more and more about this Texas megalopolis in the future.**

Don't know if you noticed, but Austin's electric utility stood up on its hind legs this week and got right in the face of the Austin City Council. This blunt-talking independence from the policy-setting Council is rare indeed. And it had to do with what you pay for electricity.

Several City Council members and a nine-person citizen Task Force are pushing a far-reaching plan to **dramatically increase the city's reliance on solar as a source for generating electricity. And according to Austin Energy (AE), none of its many recommendations has been analyzed for cost.** This is what ticked-off the general manager of the city-owned electric utility. Austin Energy used as an example the recommendation to close the natural-gas-powered Decker Power Plant and replace its capacity by contracts with solar providers.

"Decker and solar plants are not comparable: Decker is available for use day or night and is operated only when it lowers costs for ratepayers. Solar works only when the sun is shining and often raises costs for customers through the Power Supply Adjustment. Solar cannot replace natural-gas-fired plants today. It's the other way around: very efficient, combined-cycle natural gas plants allow us to add solar to meet environmental goals and remain affordable," said AE GM **Larry Weis.**

"Notwithstanding any analysis we may conduct in the future, I can tell you that replacing Decker with solar power contracts would be an economic disaster for ratepayers," Weis said bluntly. "Austin Energy made \$44 million from Decker in 2011. We cannot afford to lose that income without replacing it with rate increases or elimination of programs that do not produce income."

He went on to forcefully point out that **"it's straight math. We're obligated to buy solar power at (a reported) \$160 a megawatt hour and we're selling it – at midday on August 26th – for less than \$47 a megawatt hour.** Ratepayers are tapped to make up the difference."

Knowing full well the two Councilmembers who are running for mayor – **Sheryl Cole** and **Mike Martinez** – are backing the plan sponsored by Councilmember **Chris Riley**, Weis went public with his blunt assessment, prior to the Council's consideration of the plan Thursday.

Weis did temper his public statement a bit when he said **"Austin Energy is pro-renewable. Solar is a good thing."** But then he added **"the Task Force wants too much of a good thing."**

Predictably, **Weis's assessment was criticized roundly by the Task Force and some on the Austin City Council.** Weis cautioned against a fast track, saying "we need to do the business analysis and then patiently take advantage of market changes, new technologies and timing. That's how we can be both green and affordable." No matter the outcome, **it is interesting to note a city employee boldly stepped forward with serious criticism of proposed city policy.**

If you thought there was too much money chasing commercial real estate deals back in the go-go days of 2008, well now there is even more money chasing the same type of deals. Why?

By most measures, Austin is one of the hottest real estate markets in the US. And there are bucket loads of money just waiting to be invested. **Mark Dotzour**, the Chief Economist and Director of Research at TexasA&M's Real Estate Center, says "**money is everywhere. It's looking for work.**" Here's how he rattled off the numbers to make his point:

"S&P 500 companies have \$1.9 trillion of profits they have earned outside of America doing virtually nothing.

"Corporations and large investors have \$904 billion parked in US prime money market funds that earn virtually nothing.

"There is a total of about \$2.6 trillion in US money market funds that earn virtually nothing.

"A recent report from Bain Capital suggests that Private Equity (PE) firms had more than \$1 trillion in unused cash at the end of 2013. Trust me, PE firms and their investors do not like to have cash earning nothing.

"Goldman Sachs recently raised \$2.4 billion for its second real estate debt fund. With leverage, it will be able to buy over \$4 billion in maturing commercial real estate loans.

"Carlyle Group raised \$5.5 billion in new equity capital in first quarter 2014, raising its total assets under management to \$198 billion."

You don't have to add up the totals to see what he's talking about. A quick glance will underscore Dotzour's point that money is "looking for work. It's sitting around doing nothing. It is searching for yield. **When a solid real estate deal comes to market in coming months, it will garner a lot of attention.**"

Reinforcing the dynamics of Austin's commercial real estate market is the fact that nearly 2 million sq.ft. of office space is slated for completion in Austin during 2014. Last year, developers only delivered about 274,000 sq.ft.

Marcus & Millichap, in its 3rd quarter 2014 office market overview, reports that **Austin's booming technology industry will be the driving force behind advancing office fundamentals** for the rest of this year. The firm said soft-tech companies, including Websense, Dropbox, Metacloud and Box will create hundreds of jobs over the next several years.

It's been 15 years since Austin's old Robert Mueller Airport closed. So, how is the development coming along on those prime 700 acres in the midst of Austin?

The City of Austin owns the land that almost abuts IH35 at 51st Street. **It began planning and getting citizen input long before the closure (and the subsequent opening of Austin-Bergstrom International Airport May 23rd 1999).**

As with many public processes of such magnitude, the head-scratching took several years. Finally, **the city entered into a joint project with national mixed-use master developer, Catellus Development, and the new project was named Mueller** (pronounced MILL-uhr).

Two new restaurants (La Madeleine and Pieology Pizzeria) were announced this week. Catellus said that, when they open, it **“will complete the development of Mueller's regional retail center.”** In addition to these newly-announced eating establishments, Mueller has become home to more than 20 restaurants and eateries.

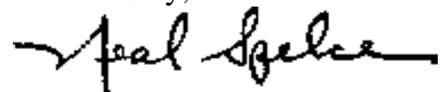
These decisions were made because the number of completed homes, and those planned, were deemed to **provide enough residents to justify the investment.** And the build-out continues at a brisk pace.

Catellus is working on a 10-20 year development horizon. Upon completion, Mueller will feature **at least 5,700 single-family and multi-family homes**, a mixed-use town center district, 4.4 million square feet of prime commercial space, as well as 650,000 square feet of local and regional retail space.

Additionally, **140 acres of parks and open space** have been carved out of the original 700-acre tract. Mueller is also the site for **Dell Children's Medical Center**, the Austin Film Studios, The Thinkery, a state-of-the-art H-E-B store and the Austin ISD Performing Arts Center.

Dr. Louis Overholster lives in a very fancy home in one of Austin's gated communities. His home is typical – it has a circular, tree-draped drive in front and three payments in arrears!

Sincerely,



Editor/Publisher