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Dear Client:

The business cycle in the Austin area is moving at a screamingly-fast pace. Other big Texas metros are also doing really well. But Austin? Oh-my-oh-my, Austin's business cycle is well ahead of all the other major Texas metros.

The Federal Reserve Bank of Dallas regularly computes a Business Cycle Index. Without delving too deep in its methodology (your eyes would glaze over if we did), it summarizes **movements in nonagricultural employment, the unemployment rate, wages and retail sales**. The Index is a solid measurement of each metro's expansions (and recessions, as well).

Austin's overall economic activity is expanding at an almost-unbelievable rate as measured over the past 12 months through July 2014. Hang on. Here it comes. **The Austin metro's business cycle gained 9.0%!** This is significantly stronger than other major Texas metros – and they are bragging about how well they are doing. **But Austin's 9.0% Index rating overshadows all the others that ranged from 4.2% in Fort Worth, to 6.6% in Dallas, over the same one-year period.**

But that's not all. The business expansion has been going on for some time. In fact, the Austin Chamber of Commerce's VP/Research **Beverly Kerr points out that Austin's Index has risen every month since September 2009.**

Since the end of 2009, Kerr reports that **Austin's Business Index has grown 42%, while Dallas and Houston have grown 25%, and Fort Worth and San Antonio have grown 21% and 20% respectively.**

Yeah, all this is well and good (actually amazing!) since the recession. But what about pre-recession levels? How does this expansion compare to the go-go days *before* the recession?

Check this out. Kerr notes that the pre-recession Business Cycle Index peaks for the metros occurred between May and August of 2008. So, how does this comparison look? **Austin is 38% ahead of mid-2008, while Dallas has advanced 21%, Fort Worth, San Antonio and Houston are up 17%, 16% and 15% respectively.** Again, this is quite impressive.

Looking ahead, the Dallas Fed is projecting "robust job growth statewide" in 2014.

Speaking of robust business growth, the City of Austin this month received a million dollars more in sales tax revenue than it did at this time last year. And other Central Texas metros also saw an uptick in this retail-heavy revenue source.

The actual amount this month that will be sent to Austin from the State Comptroller is **\$14.5 million, compared to \$13.2 million a year ago – an increase of 9.6%**. This reflects sales made in Austin in July with the tax revenue sent to the state in August and Austin's portion returned in September.

Most cities in the Austin metro saw double-digit increases, with **Manor (+50.8%), Buda (+40.1%), Pflugerville (+33.2%), Wimberley (+23.8%), Cedar Park (+23.5%) and West Lake Hills (+21.8%)** leading the pack.

Don't know if you noticed, but the Lower Colorado River Authority (LCRA) got a huge big-money boost in its plans to retain more water in the beleaguered reservoirs that supply drinking water, recreational and business needs from Central Texas downstream.

For years, lakes Travis and Buchanan in Central Texas supplied water needs out of the Colorado River all the way to the Gulf of Mexico. **This included drawing down (sometimes drastically) those two large reservoirs to meet big agricultural and industrial needs near the Gulf.** So, the LCRA floated a plan to build a third reservoir further downstream in Wharton County. **Now, major money has been made available to build the third reservoir.**

The Texas Water Development Board (TWDB) approved a \$250 million loan to the LCRA for planning, acquisition, design and construction of an off-channel reservoir. The TWDB money will be used to construct a 40,000 acre-foot reservoir, a new river outfall and other associated infrastructure.

This new reservoir should **enhance LCRA's ability to meet the water demands** throughout the *lower* Colorado River basin closer to the Gulf of Mexico.

Your electricity bill goes up – again – next month, as a result of the City of Austin's new fiscal-year budget approved this week by the Austin City Council.

The increase takes effect with November 2014 bills for electricity usage in October. The city's utility, Austin Energy, projects the average residential electric bill will increase by \$2.72 a month. **Mercifully, the hike goes into effect as the highest rates of the year – the summer rates – expire.** The high summer rates resume in June 2015 and the increase voted this week will still be in effect.

The latest monthly report indicates Austin area luxury homes – those priced at a million bucks and more – are selling faster than a year ago. One reason may be that both the *average* and *median* prices are lower than the previous year.

In July, 67 million-dollar-plus homes were sold, 11 more than a year ago. **And still, there are 609 \$1+ million homes for sale**, according to Multiple Listing Service numbers pulled together by **Yvette Boatwright** with Realty Austin.

Interested in buying an Austin residential investment property then flipping it for a quick return? Not the best strategy in this market according to an Austin real estate pro.

Buying an Austin residential investment property in hopes of making a quick return is not recommended. “Better to invest your money elsewhere,” says **Mark Sprague**. He advises that if you buy a residential investment property, **you should hold it and rent it out for at least five years, or better yet, ten years. Why? “Over the last ten years we have seen a 60+% increase in rental rates.”**

Sprague says he has not seen “vulture” buyers, swooping into Austin to buy distressed properties (such as foreclosures or short sales) cheap. Because, he says, the Austin area didn’t undergo the housing bubble that, when it burst, resulted in a glut of distressed properties like other areas of the country. So the vultures have stayed away. **He said what he is now seeing are the true real estate investors who are looking long term.** And rising rental rates make long-term investment sense.

Three downtown office towers, under construction, are reporting impressive lease rates even though they are still slamming hammers and tenants cannot yet move in.

It’s a good sign for commercial real estate. And it’s a good sign for the Austin economy because those office buildings will be filled with hundreds of workers pocketing paychecks.

The Austin American-Statesman was told this week that a **29-story office tower located at Third and Colorado downtown is 95% leased.** The Colorado Tower is planning to open in December and there has been a surge of tenants signing up as the opening date nears – increasing 51% since the end of June.

This isn’t all. **IBC Bank Plaza**, getting closer to opening its 13-story building that will house its Austin headquarters, reported its office space is **already 92% leased.** And **Stream Realty**

Partners said its office project under construction downtown is 60% leased and it is working a deal right now that will fill out the rest of the building.

You will be asked to vote on two Proposition One's on the November 4th Election ballot. They both have to do with transportation. But don't let that confuse you. They are very different.

One PropOne is a statewide initiative. The other PropOne is purely local. **Both involve hefty amounts of money and both focus on transportation projects.** The similarities end there.

The *statewide* Proposition One was placed on the ballot by the Texas Legislature. If passed – and it is expected to – it will provide **billions of dollars over the years for transportation projects throughout the state ... all involving roadways.** Your taxes will not change as a result of its passage.

The *local* Proposition One was placed on the ballot by the Austin City Council. If passed – and it is highly controversial – it will provide **millions of dollars for Phase One of a downtown urban rail project and Austin roadway improvements.** Your taxes will increase if voters approve.

By most measures, **transportation is the number one issue on the minds of local and state voters.** Both items should generate a lot of interest. So, what are the important dates?

October 6th – the last day to register to vote.

October 20th – the first day for early voting.

October 24th – last day for application to vote by mail to be received.

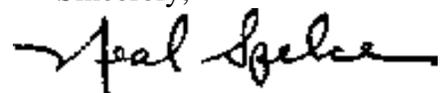
October 31st – last day for early voting.

November 4th – Election Day.

A final not-very-comforting transportation note. The Texas Department of Transportation (TxDOT) recently issued its list of the state's top 100 **Most Congested Roadways.** The good news is IH35 is not #1, as it was last year. **The bad news is that IH35 in Austin is #2.**

Speaking of elections, **Dr. Louis Overholster** wants the next hurricane to be named Hurricane Congress – a big wind that goes around in circles!

Sincerely,



Editor/Publisher