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Dear Client:

For more than a year now, we've been telling you Austin area apartment rents are rising because there are very few available units. Developers have taken note of the situation and new apartments – lots of them – are in the construction pipeline.

What do you mean by “lots of them?” Would you believe construction started on more than 5,600 units in the 4th quarter of 2012 alone? This is a lot. But it is nowhere near the full story. According to longtime Austin apartment industry tracker **Robin Davis**, “**there are now close to 32,000 units either under construction or already in the permitting process**” throughout the Austin metropolitan area.

Austin area's population continues to soar and, as you know, most new residents look for an apartment – even if they plan to buy a home later (giving them time to check out neighborhoods, schools, houses for sale, etc.). **This pressure is pushing apartment rental rates (already the highest in Texas) higher and higher.**

Apartment developers are salivating. Planning, land acquisition, financing and construction take time. So those developers who prepared financial proformas at the beginning of the process are now watching these rising rental rates and when their new units come on line, probably think their **rental income may be greater than what they initially projected.**

And while the 32,000 new units will go a long way toward meeting demand when they come online, the job growth projections, and the population growth projections, indicate the **demand may continue strong for the near term.**

This, of course, contributes to an *economic domino effect*. **As apartment rates rise, it becomes more financially feasible for renters to consider buying a home** – especially during this time of low mortgage rates. As a result, **homebuilders are slamming hammers as fast as they can** to build as many homes as quickly as possible. A key market is the first-time homeowner, which usually means lower-priced homes – generally priced under \$300,000. But the market is not limited to those buyers as there are many “transfers” moving to Austin with high-paying jobs.

One fly in the ointment: **the diminishing lack of affordable lots on which to build a home.** The supply is small and getting smaller. This generally means a move further from Austin's core.

The Austin area's industrial real estate market netted more than two million square feet of occupancy in 2012 for the first time in more than a decade.

The market for industrial space in the Austin area closed the year on a high note, despite the fact 4th quarter 2012 slowed a bit. **“For the first time in more than a decade, the total amount of industrial space absorbed topped two million square feet,”** said **Mark Milstead**, vice president for commercial real estate firm NAI REOC Austin. The last time the market surpassed the two million mark was in the year 2000, according to NAI REOC Austin.

But don't start dancing in the streets just yet. **“Despite the strong demand, lingering economic concerns and a challenging lending environment have restrained speculative development** over the past year – which has kept activity funneled to fill existing product,” noted **Jerry Heare**, SrVP NAI REOC Austin. This activity has **lowered the vacancy rate for industrial space to 12.9% compared to 17.8% recorded at the end of 2011.** Again, good. But not great.

The Austin area commercial real estate firm says even though the current vacancy rate may be the lowest in four years (it was 14% in 2008), **“it still has a long way to go and will likely never reach the 6% vacancy rate recorded in the heyday of the dot.com boom of 2000.”**

The massive Austin Urban Rail project lumbers along and could be put to Austinites for a vote as early as next year.

Urban Rail is in-street running rail that will **connect to, and extend, the MetroRail commuting line** that is up-and-running, carrying passengers daily. Urban Rail is planned to also **connect with the MetroRapid bus lines** that are due to be operational next year. And the Urban Rail project is also set to **link with the planned Lone Star Rail commuter rail line that will run from Georgetown to San Antonio.** See what we mean by “massive.”

The planners like to point out Urban Rail would link key cultural and employment centers in Central Austin, including **downtown, the State Capitol complex and UT Austin.** This project has been underway for years and has now possibly reached the stage where the first phase of partial funding could be put to the voters in 2014. And, if approved, backers say it could open in 2021. For more info, you can go to www.AustinUrbanRail.com.

Many states are looking at legalization of marijuana as a tempting target for revenue.

But definitely not Texas. The next states likely to follow Colorado and Washington where it is already legal are **West Virginia, Kentucky and Tennessee** -- where farmers see a lucrative crop. **Maine and Oregon** could follow, with **Vermont and California** not too far behind.

Don't let the warm Austin area weather this week lull you into thinking spring has arrived. Stormy weather is almost certainly going to happen. But power outages may be less extensive than in the past due to five years of work – on trees.

Tree limbs in power lines are a major cause of outages – especially during storms that carry gusty, high winds. Five years ago, recognizing this, Austin Energy (AE) began an **aggressive program of trimming precious Austin trees just enough to keep their limbs from impacting power lines.** A progress report:

This past fiscal year, Austin Energy's tree trimming program (they refer to it as "line clearance") trimmed **375 miles of neighborhood power lines.** This translated into the involvement of more than **12,000 properties** along about 100 miles of transmission lines.

The annual average over the past five years has been around 400 miles. And for the first time ever, **AE has now completed line clearance at least once along nearly all 2,300 miles of neighborhood power lines.**

Bottom line results: **AE has averaged .7 outages per customer lasting 55 minutes.** This outperforms the industry average of more than 1 outage per customer lasting 90 minutes. In addition to the tree trimming effort, **AE keeps ten linemen on standby 24/7 with fully loaded vehicles** ready to respond to power outages as they occur.

For 32 years, the Texas Lyceum has tapped next generation leaders (before they turn 46 years old) for six year terms to immerse themselves into a study of Texas issues. Eight Austinites are part of the new group of inductees.

In fact, the Austin area's eight directors outnumber the total of other cities, large and small in this year's group that totals 29. They are, alphabetically:

Jed Buie, Buie and Company ... **Erica Grieder**, senior editor *Texas Monthly* ... **Katherine Jones**, principal Milkshake Media ... **Brad Knippa**, attorney/CPA with Jackson Walker LLP ... **Royce Poinsett**, government relations lawyer, BakerBotts LLP ... **Eddie Rodriguez**, state representative ... **Jake Silverstein**, editor-in-chief *Texas Monthly* ... and **Megan Woodburn**, president of Strategic Association Management.

The Texas Lyceum consists of 96 men and women from throughout the state who begin their six-year terms before turning 46 and who have **demonstrated leadership in their communities and professions, along with a deep commitment to Texas.** The organization is nonprofit and nonpartisan.

What if cash-strapped, financially-struggling states (such as California) levied a substantial tax on anyone who wants to leave that state and move to Austin? Far-fetched? Not really.

The logic goes something like this: **residents of such states were educated by the government and provided benefits or allowed to profit from jobs** held while living under the government's protection. And now, more than 200,000 flee California each year – taking their money with them. But what about the obligations the officials for whom they voted have racked up to pay for state services the residents have enjoyed?

Californians moving to Austin leave behind their share of the state's \$617 billion state debt, which comes to about \$16,000 per resident. That's \$3.2 billion a year in "*tax evasion.*" After all, you can't move away from your credit card or commercial debt. **So, now that you are leaving California and won't be paying any more taxes to the state, here's a tax bill for \$16,000.** See the thinking.

As far as we know, **there is no serious proposal on the table that would establish such an exit tax.** But there is somewhat of a precedent. Congress passed expatriate laws years ago that impact those who surrender US citizenship and move to another country. One example: even though the expat is no longer a US citizen, that person is liable for gift taxes on amounts above \$12,000 a year given to anyone on the US.

As California continues to be the source of new Austin residents and companies or company expansions, it remains important to track what is happening in the Golden State, called a "failed state" by California historian **Kevin Starr**. CEOs still rank California as just about the **worst place to do business in the nation** (eight years in a row, and counting). And California ranks **50th (ahead of only Michigan) in new business startups.** We'll keep an eye on this for you.

Dr. Louis Overholster heard some teenagers were charged with breaking and entering, burglary, vandalism and destruction of private property when they broke into a house to party and posted pictures of their escapade on Facebook. He said they should have also been charged with "being too stupid to exist!"

Sincerely,



Editor/Publisher