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Dear Client:

The dynamics that have historically held true in the apartment market in the Austin area no longer apply. It's a whole new ballgame. Student/school cycles are no longer the major drivers. This is a reflection of the significant changes in the metro economy.

Up until quite recently, you could count on apartments filling-up or becoming-vacant based upon college and university semester calendars. It was like clockwork. No more. The squeeze is on for living space. And as a result, **“students are less likely to move and landlords less likely to rent by the semester,”** according to Austin Investor Interests’ **Robin Davis**, a longtime tracker of area apartment trends.

What’s happening? First of all, **it’s tough to find an apartment.** Even with steadily-rising rental rates, **area apartments remain more than 95% full.** When you consider the apartments that are being repaired, re-painted, re-carpeted, etc. a renters’ options are limited – especially if location is critical to them.

The pressure is coming from the fact that Austin has one of the **strongest economies in the nation.** **New jobs are being created at a red-hot pace and this is attracting new residents daily.** These people need a place to live.

Is there any relief in sight? What about apartment construction? Davis tells us there are currently **more than 17,000 units under construction.** This is “a historic level unmatched, but nearly witnessed, in the boom of the early 1980s,” she points out. Yeah, but when will they be ready to be occupied? And where are they located? Good questions.

First of all, Davis is forecasting that **by year-end more than 4,000 new units will have been added to the market.** And of the 17,000 under construction, she admits that contrary to the past **“much of the new development is predominantly located in the inner city core.”** One example: more than 3,000 new units are slated for the 78704 zip code, just south of Lady Bird Lake -- still in the inner city.

Well, isn’t this good? Yes and no. New apartments will help ease the crunch. But, wow, **they are going to be expensive.** She estimates they will rent at more than \$2 per square foot (do the math!). **These will be among the highest rents in most of the overall State of Texas.** Apartment dynamics go hand-in-glove with single-family homes. Check the next item.

The availability of Austin metro single family homes is just as tight as area apartments. In fact, new residents face a daunting task just finding a place to move into. And for a place to buy or rent, the costs are quickly escalating.

We've been telling you for months about this situation. **Now it is getting really serious. It's not moving toward a housing boom/bust level**, as we explained June 21st 2013. (Click on the "Archives" button at the top of this page and go to Volume 35, Number 13 for the details.) But it is having a strong impact on the local economy.

To give you an idea of how tough the home-buying market is, consider this: economists will tell you a **market is fairly balanced -- with neither a buyer nor a seller having an advantage -- if there is a 6-month inventory of homes to buy**. (Inventory is figured after calculating that, at the current sales pace, it will take six months to sell all the homes with a For Sale sign in the front yard, assuming no more homes come on the market.) Put it another way: **six months inventory means it is neither a buyer's nor a seller's market**.

So where are we today? Hang on. According to the Austin Board of Realtors (ABOR), **inventory in June fell to a 2.9-month supply. 2.9 months!** A year ago it was more than 4 months. And, as we said, equilibrium is 6 months. With such short supply, and given that 70 people a day are moving to the Austin area, **sellers are pushing prices higher and higher**. In fact, ABOR reports the **median sales price is up almost 8% from a year ago**.

Now, let's throw apartments back into the mix. During "normal" times, many apartment dwellers are looking to "move-up-and-move-out" to a home of their own. With low mortgage interest rates, they put a pencil to it and say, **"hey, we could buy a home and our monthly payments would be less than what we're paying in rent."** (Interest rates *are* rising, but they are still relatively low. Click on the Archives button at the top to review our article in last week's edition, Volume 35, Number 17.)

This is where the apartment dwellers hit the wall. And it compounds both the home and the apartment markets. **Apartment dwellers can't find what they want**, or they lose out because someone else beat them to it, and they decide to hunker down and **stay in their apartments**. See the double-whammy. Apartment occupancies stay tight while **the quick-acting homebuyer-with-the-bucks gets what is available**, and the inventory of homes stays tight, as they are quickly sold.

This is a problem without an *immediate* solution. As we have reported previously, **homebuilders are scrambling to build new homes** and, as indicated in the previous item, **apartment developers are slamming hammers just as fast to bring new units online**. But the pipeline is still pouring new residents into Austin. These new residents are not indigent. Most have money in their jeans and they are finding jobs in Austin. **The question is whether the pace of building can keep up with demand in both the home and apartment markets.**

UTAustin's new Dell Medical School is no doubt one of the most important developments to occur in the Austin metro in recent history. Its' surface significance is obvious. But when you examine the *medical research* component, a "wow" factor comes into play. We're talking about usage of a world-class supercomputer the Longhorn university has dubbed "Stampede."

Operational in January 2013 and officially dedicated this spring, Stampede is already living up to its lofty reputation. **How fast is this supercomputer? Stampede's processing speed is nearly 10 petaflops.** How fast is that? Stay with me now. We're going to tell you something we don't fully understand, but it will give you an idea of what is going on 24/7 right under your nose on the UTAustin campus.

A petaflop is a measure of a computer's processing speed. **One petaflop is one thousand trillion, or one quadrillion, operations – per second! And Stampede delivers computations at nearly 10 petaflops.** Take a deep breath and ponder this, even though it is difficult to comprehend. Stampede is one of the most amazing supercomputers in the US. And researchers at the Dell Medical School will be able to access this monster to further breakthroughs in medicine.

Stampede, supported by the National Science Foundation, has already scored some impressive successes. It has enabled research teams to **predict where and when earthquakes may strike ... how much sea levels could rise ... and how fast brain tumors grow.** More than 600 active scientific and engineering projects are using Stampede. **Well over 1,000 researchers are already using the system to execute simulation and data analysis applications to make new discoveries.**

Also, many UTAustin departments, schools and colleges are eager to take advantage of what a medical school offers. Everywhere you look on the UTAustin campus you can find **units that will not only be supportive of health-related research, but will be active participants.**

UTAustin already has widely recognized research strengths – and they should be enhanced by this medical school. Some of these strengths include **molecular and cell biology, neuroscience, biomedical engineering, chemistry, public health, sociology, psychology, health care delivery systems and health care policy.**

The Dell Medical School will also be integrated with the university's well-regarded programs in **nursing, pharmacy and social work** to prepare physicians for the health care system of the future. **The result will be innovations that improve the way people receive health care.**

Finally, UTAustin is recognized as a powerhouse research institution. It has the infrastructure to bring medical discoveries to the marketplace. In fact, just in the past five years, UTAustin has spun out 37 startup companies and executed 191 license and option agreements, based on its research. Austin will benefit. But UTAustin will also be a big winner.

When is a “small business” not a small business? What is the maximum number of employees for a company to be classified as a small business? Well. It depends upon which agency is doing the classifying. And this impacts the regulations under which you do business.

Take the new health care law that is on the verge of being implemented. **The cutoff is 50 employees.** Okay. What about employee safety regs? At the Occupational Safety and Health Administration (OSHA), companies with **10 or fewer employees** get a small business exemption. Wait a minute. There’s another OSHA exception. Firms with **25 or fewer employees** face lower penalties.

The Food and Drug Administration lets companies with **fewer than 10 employees** off the hook on some labeling regs. And the magic number at the Equal Employment Opportunity Commission is **14 employees.** But the numbers go off the charts with the Small Business Administration if you go for a government contract or apply for a low-interest loan. For the SBA, the **cutoff is 500 or fewer employees,** or \$7 million or less in annual revenue.

The takeaway: with no across-the-board definition of a “small business,” a business is well-advised to **thoroughly check each governmental agency that may have oversight** for whatever action is contemplated.

Once again, the headlines missed the mark on Austin’s unemployment percentage. Headlined was the fact that the area jobless rate didn’t do too well. It rose from 5.4% in May to 5.8% in June. Well, duh. This rise happens every year because graduating students enter the job force. The *most significant measurement* is to compare the numbers to the same month the previous year. When you do that, **Austin’s current 5.8% unemployment is better than June 2012’s mark of 5.9%.**

Dr. Louis Overholster has not quite advanced to understanding “supercomputers.” He still describes hardware as that part of the computer you can kick!

Sincerely,



Editor/Publisher