



Volume 35, Number 22

August 23, 2013

Dear Client:

Travel and tourism is big business in the Austin area. By most measures, it is thriving. And under-the-radar activity by the Texas Legislature could give it an even bigger boost.

You didn't hear much, if anything, about **tourism-related bills that passed and bills that failed** in the legislative sessions that have now concluded for the year. But the Austin area economy will benefit as a result of bills that were killed and bills that were passed.

One measure of visitor economic success – both business and pleasure – is the occupancy percentage of hotels. **Austin area hotels right now are staying more than 80% full, an occupancy level not seen in a half-dozen years** -- well above the national average. This is happening even though a rash of new hotel rooms has come online during that time frame.

So what happened at the Legislature? Hoteliers, retailers and city officials combined to **kill several pieces of legislation that would have required schools to start earlier** than the fourth Monday in August. They argued successfully that the calendar change would hurt visitor travel and therefore cut into revenue.

Bill killing was in vogue for the travel industry. In fact, seven different measures were proposed to **repeal an existing exemption of hotel occupancy taxes for guests who stay at a property longer than 30 days**. They were all killed. (Interestingly, non-travel lobbyists also had an interest in killing these measures as many camp out in Austin for weeks at a time during legislative sessions.)

One of the most popular taxes (if you can call taxes “popular”) is the hotel occupancy tax levied by cities. **When raising hotel occupancy taxes, cities argue, “hey, we’re not taxing those who live (and vote) here; we’re bringing in big bucks from visitors who live elsewhere.”** Well, those taxes have been ratcheting higher and higher. So, the travel industry, fearing the taxes could be a deterrent if they shot through the roof, pushed through legislation that prevents cities from setting the visitor tax rate higher than 17%.

After the legislators left Austin, the Texas Hotel & Lodging Association bragged that it ended up **passing all the bills it offered and killed every bill the industry opposed**. Meantime, Austin area hotels, with several thousand more rooms under construction, are on a roll.

Solar power advocates continue pushing for generating electricity from the sun. Austin Energy continues its quest to be one of the greenest utilities in the country, but the city-owned utility is loading up on wind power. Why wind over solar? There's a reason for that.

As we reported 7.19.13 (click on the Archives button at the top of the page to refresh your memory about the details), **Austin Energy has recently entered into three huge contracts for electricity generated by wind power.** Betting heavily on the future, the city signed these wind contracts that had terms up to 25 years with fixed pricing.

However, **the pressure continues for the City of Austin to double its solar energy production goal**, while Austin Energy is reported to be in the process of reducing its budget for additional solar energy.

If you've checked your residential or business utility bills lately you know they have soared. Many are arguing that **Austin Energy's charges and fees for electrical service have risen too fast.** And heavy investment in "green energy," they argue, is a big part of the reason for high utility bills.

The General Manager of Austin Energy is urging the Austin City Council to, in effect, **go slow on more investment in solar power.** As **Larry Weis** put it in a memo to city leaders: **"solar remains a challenge due to its costs."**

But what about residents? If costs are a problem for the giant utility, **what if an individual homeowner wants to install a solar-powered system?** Interestingly, a just-released national study from the US Department of Energy's Lawrence Berkeley Laboratories reported the **cost of buying and installing solar panels for a residence have fallen.**

The lowest prices were found in Texas, with Austin leading the lower-cost pack. The owner of Texas Solar Outfitters, **Garrett Gordy**, sells and installs solar panels for less than \$4 per watt, with systems often costing around \$3.60 per watt. Residential systems average around 6 kilowatts (6,000 watts), said Gordy. Okay, translate that. Gordy says for a 10-kilowatt system – more than enough for most well-insulated houses – **the upfront cost would be \$36,000** at \$3.60 per watt.

Yeah, but. **How long would it take to pay for itself? The panels would pay for themselves within 12 years**, said Gordy, after taking into account the federal tax incentive of \$10,800 and selling unused electricity back to utilities. **Austin Energy offers a \$2 per watt rebate for residents who install solar panels – and add power to the electric grid during periods of peak demand.**

No doubt the **debates over the costs of green energy versus electricity generated by current providers using natural gas, coal and nuclear will continue.** Meantime, keep an eye on our utility bills – a larger and larger part of your monthly budget.

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, **sellors 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 that 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.**

Did you know that Austin’s nuclear-powered source of electricity is among 11 power reactors in the US (out of 104) deemed to be at the highest-risk for a terrorist attack? And a report from UTAustin says it is inadequately protected.

For years, a portion of the electricity provided by the City of Austin to its customers has been generated by a nuclear power plant near Bay City in Matagorda County. **Water from the Colorado River has been used to cool the reactors** in the South Texas nuclear generating station. Austin invested heavily in the South Texas Project (STP) plant’s construction and, as a result, has an **ownership claim on 16% of the plant’s output**. San Antonio and Houston electrical customers claim the remainder.

Even though controversy has surrounded nuclear power, **Austin’s electricity generated by this plant has been among the cheapest electricity disseminated by Austin Energy** – cheaper most of the time than electricity generated by natural gas, coal or alternative “green” sources.

Now, a report from UTAustin, commissioned by the Pentagon, says the STP is among 11 nuclear power reactors (out of 104 public and private reactors in the US) **deemed at the highest risk of a terrorist attack. And it is among eight that research shows is vulnerable to water-borne attacks.**

“More than 10 years have come and gone since the events of September 2001, and **America’s civilian nuclear facilities remain unprotected against a terrorist attack of that scale,**” said **Alan Kuperman**, co-author of the report. “Instead, our civilian reactors prepare only against a much smaller-scale attack while the **government fails to provide supplementary protection against a realistic 9/11-type attack.**”

Kuperman noted most operators of **nuclear reactors are not required to defend against attacks from airplanes, from the sea,** or even against high-powered sniper rifles. And he said certain security officials claim that sites such as STP are **not highly valued targets by terrorists** and, in any event, the **effects of such an attack would not be catastrophic.**

Disagreeing, Kuperman says **it isn’t possible to know which targets the terrorists might prefer or which attacks might pose the greatest harm.** His report recommends the feds upgrade its protection standards and provide extra security. As he put it: **“it would be the height of irresponsibility to fail to take action now.”**

The natural gas energy source continues spewing out of the Texas ground at a “booming” rate. Just how big is the boom? Texas holds about 23% of US natural gas reserves and accounts for approximately 30% of current US output. **If ranked globally, this would be #3. Huge!**

Homebuyers are grabbing homes in the Austin area at a record pace. “Contract Pending” banners were placed on “For Sale” signs three weeks faster in July 2013 than a year ago. July 2013 sales were 35% greater than in the same time frame last year. And there were 20% fewer listings than in July 2012.

As a result of all this activity, **July broke the record for the highest number of homes sold in one month** since the Austin Board of Realtors began tracking such information way back in the 1960s. The tally: **3,135 homes sold in the Austin area in July 2013, topping the old record of 2,993 sales in June 2006.** As you might expect, median home prices shot up almost 8%.

Talk about a red-hot residential real estate market! **It will be interesting to see what happens as the summer-selling season tapers off because the number of new jobs shows no signs of slowing down.** New jobs are a major attraction for new residents, who need a place to live.

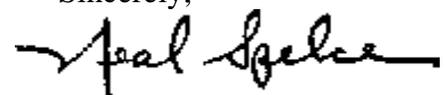
Speaking of new jobs, the Austin job phenomenon continues. What is meant by “phenomenon?” Well, even as new jobs are created, they are filled quickly – improving the unemployment figures by pushing them ever lower.

From July 2012 to July 2013, **the Austin metro employment growth rate was a very healthy 3.5%.** This substantial growth rate is bolstered by the fact that the July 2013 **unemployment rate was an enviable 5.6%.**

Only much smaller Texas metros bested the Austin-Round Rock-San Marcos unemployment rate of 5.6%. Compare Austin’s to the major Texas metros: **Fort Worth-Arlington, 6.3% ... Dallas-Plano-Irving, 6.4% ... San Antonio-New Braunfels, 6.5% and Houston-Sugar Land-Baytown, 6.5%.**

Dr. Louis Overholster, channel-surfing the cable news channels while his patients sit in the waiting room, said he is convinced that politics is too serious a matter to leave to the politicians!

Sincerely,



Editor/Publisher