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Dear Client:

**The “Texas Miracle,” otherwise known as the Texas economy, is no one trick pony. Oh sure, the oil and gas boom is getting the headlines – rightfully so, because its impact is huge. But attributing the state’s success to the energy sector alone ignores The Lone Star State’s economic diversity. And the Austin area is Exhibit A supporting this assertion.**

The CEO of The Dallas Entrepreneur Center **Trey Bowles** correctly noted that “**smart policy, entrepreneurship and economic diversity have been the keys to Texas achieving the nation’s largest economic growth, four years in a row.**” And the Austin area’s economy perfectly illustrates this. Some examples:

The Bureau of Labor Statistics reported **Texas created more jobs than any other state last year. The Austin economy has been a job-creation machine** for several years now, drawing oohs and aahs from all around the nation.

**Texas is the fastest-growing state for technology jobs.** Hello again, Austin.

There is no end in sight. Moody’s Analytics expects **Texas to have an annual job growth rate of 2.7% over the next five years – the fastest in the nation –** ranking it #1 on *Forbes’* annual Best States for Business Study released this week.

Bowles points out that “about two-thirds of the new jobs in Texas come from two million-plus small businesses located here.” In addition to Texas’ impressive job growth, it is also expected to have the **second-fastest economic growth rate over the next five years – 4.1% annually.**

The oil/gas boom is also a big part – just not the *only* part -- of Texas’ dynamism. **The Texas economy is getting national recognition and Austin’s red-hot economy is an integral part of this attention.** But, Austin is also popping up on *international* radar.

JLL is a global real estate brokerage firm. It compiled a report a year ago that listed 10 cities in the world to watch. **Austin was the only US city on that Top Ten worldwide list.** While the report is somewhat dated, not much – if anything – has happened during that time to take the bloom off Austin’s rose. Still, not so sure about the ultimate impact of that ranking. But it is nice to be singled out in such a manner.

**The number of Austin apartment units opening this year is almost triple last year's amount. And they are filling up fast. So, who is moving into these new units?**

During 2014, builders will deliver 14,500 apartments in Austin, according to Marcus & Millichap (M&M). **This is the most sizable addition to inventory since at least 2000.** And to give you additional perspective, the 14,500 new units this year compares to a significant 5,631 units that came online in 2013.

Despite this wave of new supply, the city's apartment vacancy rate is ticking up only slightly, to 4.4%. And because of this high demand, M&M reports **effective rents will rise 6.9% to \$1,093. This is the most sizable gain on record since early 2001.** And it is on top of a 6.1% rent increase last year. So, who is filling up these apartments as fast as they come online?

Those who track apartment trends refer to a "renter-age demographic" the 20-to-34 year-old age group. And M&M points out that **"this year, Austin's 20-to-34 year old age cohort will grow an estimated 2.6%,** which compares favorably with the 1% gain projected nationwide."

But there's more to this development. Can this cohort pay the freight? Yep. And those who can pay the rising rents like apartment living. **"High tech salaries in Austin are among the most generous in the nation** relative to the cost of living," observes M&M. "Many workers in the industry **prefer the flexibility and lack of maintenance** associated with apartment living."

But it's not just the techies moving into apartments. The Class B and Class C apartments are benefiting from **outsized growth in traditionally lower-paying industries such as retail trade and leisure and hospitality.** These apartments are gearing up for sizable expansion in the future. Why? Hotels are in the midst of a building surge. And hundreds of employees, maybe more, will be needed to service thousands of hotel rooms coming online in the metro.

**Austin is a high tech city, right? So how many adult Austinites do *not* even use the Internet? Ten thousand? Twenty thousand? Fifty thousand? Would you believe 55,000?**

The City of Austin commissioned a survey to determine Austinite's access and use of digital technology. The result: **approximately 8% of Austinites do not use the Internet.** And they don't have broadband in their home. Who are these people?

First of all, the 8% is better than the national average. But, of these 55,000 adults, **two-thirds are working age (under 65 years old) and 84% have only a high school education or less. And they primarily live in Southeast Austin.** The survey also found that almost all adults own cell phones and 83% own smart phones.

**The crowds at Austin-Bergstrom International Airport during the upcoming hectic holiday travel season should serve as a reminder for you to sign up for faster security screenings.**

The Transportation Security Administration (TSA) has set up a TSA PreCheck office in the Littlefield Building downtown at 6<sup>th</sup> and Congress. **For \$85, you can apply for PreCheck and TSA will conduct a thorough background check.** When you pass it, you will not have to go through most of the security screening process at the airport.

**One of the most cursed aspects of daily living and business is the huge number of fees that are charged every time you turn around. Would you like to have fee-free use of your ATM? Some banks are pioneering this approach and they are not giving up revenue.**

All you have to do is watch an ad on the ATM. A tech company called FreeATM is rolling out 25 ad-supported ATMs in the New York metropolitan area. **In coffee shops and delis, consumers can look at short commercials instead of paying fees to withdraw cash.** FreeATM expects to have 55 ATMs running its advertising technology by the end of the year and is targeting Boston, Philadelphia and Washington in the coming months.

Advertising gurus really like this approach and banks like dabbling with ways to target consumers with localized ads. But, wait a minute. **Will you have to stand there, mumbling “come on, come on; gimme my money” while a commercial plays?** The commercial runs only about 10-seconds in the middle of the transaction. It is supposed to mirror the length of time a typical transaction takes.

This is all in the experimental stage right now. **Not sure if fee-free ATMs will catch on or if/when this experiment might make its way to Austin.** But this exercise is following trends in the ad biz. And the future will surely utilize smart phones.

**And the winner is (drum roll) – Amy’s Ice Creams! The quirky, cool company was designated this week as the first “Austintatious” company, winning out of a field of 64 businesses that help make Austin stand out from the rest.**

The voting was conducted by the *Austin Business Journal*. As mentioned last week, the Final Four included **Broken Spoke Dance Hall** and **South by Southwest**. They were eliminated in favor of Amy’s and the **Alamo Drafthouse Cinema**, with Amy’s coming out on top.

By the way, Amy Simmons founded her ice cream shops in Austin November 1984. She now has **13 stores in the Austin area, single stores in Houston and San Antonio and oversees 250 employees.**

**Two young Austinites started similar businesses from zip (meaning little money). They were also first in their “industry category” in Texas. One is producing large quantities, the other is carving out a narrow niche. Both are successful. Their product: distilling liquor.**

Confident in what they were doing, they both slapped their name on their product.

**Tito Beveridge** makes Tito’s Handmade Vodka. **Dan Garrison** makes Garrison Brothers straight bourbon whiskey. Tito says he got the first license for a distillery in Texas and Dan started the first and oldest legal whiskey distillery in Texas. Both, with operations born and bred in Central Texas, are thriving in the booze business.

Tito’s Handmade Vodka grew from a 16-gallon pot still in 1997 to a 26-acre operation that **produced 850,000 cases last year – up 46% from 2011**. Priced about \$20 a bottle, *Forbes* said Tito generated about \$85 million in revenue last year. His vodka is **sold in all 50 states**, the United Kingdom, New Zealand, Singapore, etc. and is served on **all United Airlines flights worldwide**.

**Dan wanted to make the best bourbon ever made** (“we’re confident we succeeded and have no doubt you’ll agree”). While Tito is going for a mass market, **Dan says his bourbon is not for everyday drinking**. “**It’ll set you back a little**,” he says – like about \$60-\$80 a bottle, depending upon where you buy it. It is now available statewide and Dan will soon peddle his product in other states.

Both Tito, with his operations in South Austin, and Dan, with his still in Hye (near Johnson City), struggled early. **Tito reportedly maxed out 19 credit cards that he paid out over a decade**. Dan, by himself, **stayed up nights babysitting his first still sitting beside a wood-burning stove, re-reading a western novel by Bud Shrake**. Now both men are enjoying their product and the worldwide recognition their very different brands of booze have garnered

He feels he is the only medical doctor on the planet who still accepts Medicare patients, so **Dr. Louis Overholster** says he is well qualified to observe that “inside every older person is a younger person – wonderin’ what the hell happened!”

Sincerely,



Editor/Publisher