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Dear Client:

**The uncertain immediate future of energy in Texas is generating headlines ranging from “Oilpocalypse” to “Oil Prices Poised to Jump The Most in Four Years” and everything in between. Energy heavily impacts the Austin and Texas economy. In fact, one forecaster says Houston and several oil patch cities will fall into recession. So let’s try to sort it out.**

Depending upon what you read this week, **“the oil ‘fear index’ is at crisis levels” or “not to worry, the dramatic drop in the price of oil is not gonna have that much impact.”** As always, the truth depends upon your perspective. But there is no doubt this is a volatile time. Consider a few of the headlines just this week:

**Oil Could Plunge to \$20, and This Might Be The End of OPEC ... Why Oil Won't Go Below \$40 ... Oil Jobs Start Drying Up ... Oil Companies May Keep Up Output to Repay Debt ... In Busted Boomtowns, a Minister Seeks Troubled Souls ... Falling Oil Prices Impact Permanent University Fund Endowment ... America's Energy Industry Is Undergoing a Big Switch --- you get the picture.**

Of course, Austin is impacted by a **falling value in the Permanent University Fund** and, more broadly, by a **reduction in oil tax revenue** available to fund state agencies. But one economist predicts that while some Texas cities could slip into a recession, Austin will escape that fate.

Moody's Analytics chief economist **Mark Zandi** is optimistic oil prices could rise to as much as \$75 a barrel by year-end. But that didn't keep Moody's from suggesting that cities like **Corpus Christi, Houston, Midland and Odessa could fall into recession this year.**

**Austin will not suffer the same fate** because it is not as heavily invested in the energy economy. Moody's reported **“Austin, Dallas, Fort Worth and San Antonio will see less effect because their economies are more diversified.”**

Moody's is basing its outlook on oil prices trading around \$50 a barrel for the first half of the year and then starting to rise. This is about where the price of oil is bouncing around currently. Okay, then, what will happen if this scenario does not take place? Moody's Analytics said if oil prices don't rise as it predicts **“Texas could see more job losses and see them in other industries, such as professional and business service, banking and construction.”** Ouch!

**Houston and Corpus Christi may be getting a leg-up on diversifying its economy, courtesy of problems on the West Coast. Their Gulf Coast ports may be getting much more business.**

Reaction is building to the closure of all 29 ports on the West Coast this past weekend, due to a labor dispute. **One report indicates traditional West Coast cargo will move to the East Coast and Gulf Coast ports.** And, when the Panama Canal expands its capabilities to handle larger vessels, Houston and Corpus Christi ports should also expand exponentially.

**The recent announcement of a multi-million grant to build a “wet lab” at Austin Community College underscored the diversity of Austin’s economy, which protects the area from a more severe impact during times of an energy downturn. But, just what is a “wet lab” anyway and why is it such a big deal?**

As far back as 2012, a study decried the lack of “wet lab” space in Austin and pointed out how this **shortage hampered the development of Austin’s biotechnology industry.** In fact, the comment was made back then that maybe the establishment of a medical school in Austin would hasten the expansion of “wet lab” space. Well, UT Austin’s Dell Medical School has been funded and construction is moving along at a fast pace. Now we have this announcement of a “wet lab?” So, what is this “wet lab” anyway?

Wet laboratories are labs where chemicals, drugs, biological or other matter are handled in liquid solutions. **Some of this experimentation is very volatile and the requirements for a “wet lab” are very strict.** This is not your old school chemistry lab. Sophisticated high-tech equipment is needed for the hands-on research. There needs to be proper plumbing and proper ventilation.

All this is expensive and essential for advancements in biotechnology. **“Wet labs” are where science, medicine, biology, pharmacy and computer technology intersect.** The standards are high – especially if research for manufacturing life-saving drugs or medical devices is conducted there.

The involvement of Austin Community College is synergistic. The labs will be located in the rapidly-expanding ACC Highland campus, close to UT Austin and DellMed. **Not only will the facility aid start-up and expanding biotech companies, ACC’s facility will provide an opportunity to educate and train workers specifically needed for the biotech industries.**

Over the past few years, there have been a number of examples of promising biotech companies that either bypassed Austin as a place to do business, or start-ups that left because of the lack of sophisticated “wet lab” space. **After ACC’s wet laboratory ramps up, you can look for additional biotech companies, that provide high-paying jobs for well-educated/trained workers, to locate in the Austin area.**

**The health of Austin’s Commercial Real Estate (CRE) community is a key component of the area economy. Years ago, the phrase “see-through” buildings was used to describe vacant buildings – a reflection of one of Austin’s deepest downturns. Is the current commercial building boom on the cusp of reaching a peak?**

Not yet. **Because this commercial building boom is not built on widespread optimistic speculation. It is built on increasing demand for space.** And lenders today are using tougher standards before they turn loose the big bucks to finance major construction projects.

Prior to the past CRE decline, it seemed as if **a developer was using a study that indicated a *single* office building would be profitable – without considering that other developers were using the same study and also rushing to complete office buildings.** And lenders were eager to shove money at them. This is an exaggeration of course. But it is meant to illustrate that today’s economic environment in Austin is vastly different.

**The driver of today’s CRE activity is a nation-leading rush by established and start-up companies to move to Austin or to expand operations here.** The list is lengthy and impressive. Not only do these companies create jobs, they are a magnet for “support” companies – such as law firms, suppliers, accountants, etc. And they all need space.

**Okay, looking ahead, how can you tell if a CRE saturation point is looming? It’s not a precise measurement because of a factor called “lag time.”** You’re talking several years – depending upon the CRE project – from beginning until grand opening. And economies can surge and then slow, sometimes quickly.

The oil boom/bust cycle is a great example where, as we reported at the top, key cities such as Houston and Corpus Christi may be **facing a recession – going from 90-miles-an-hour to hitting-the-brakes in less than a year.** Austin is fortunate. Its economic diversity keeps it from wild economic swings in short time spans.

Taking all this into account, there is one Austin CRE example that bears watching. Apartment building. **For a full five years, Austin has been trending upward – reaching historical heights in rent, occupancy and overall growth.** But **Robin Davis** of Austin Investor Interests who has been tracking multi-family trends over these years, points out **these are “likely the last moments of trend setting hurrahs.”** Why? She says more than 12,000 conventional and almost 1,800 affordable/student housing units will come on the market over the next 12 months.

So, supply appears to be catching up with demand. **How long will an apartment construction slow-down last? “If all else holds steady, these units should be absorbed within a 24-month cycle,”** she predicts while noting a tightening lending market. As with most aspects of doing business in Austin, no sector operates in a vacuum. This is why it is important to keep up with all aspects of what is going on in the Austin area.

**Did you complain about Austin's traffic this week? Well, did you know that Austin stands alone as *the best* of 70 of the nation's largest cities for getting around without a car? How's that possible? The measuring stick in this study is new technology, not rail, subways, etc.**

The US Public Interest Research Group came up with a list of **11 transportation alternatives available on your smartphone**. It found only 19 of the 70 largest US cities have access to eight or more of the services. **And only tech savvy Austin has all 11 services**. They are:

**Ridesharing, like Carma** ... Car sharing services that offer on-demand vehicle access ... **Ride sourcing services such as Uber and Lyft** ... Taxi-hailing like Curb and Flywheel ... Bike-sharing services ... Access to transit data that lets users view schedules and route maps of trains and buses ... and Real-time transit information services, like Moovit and NextBus.

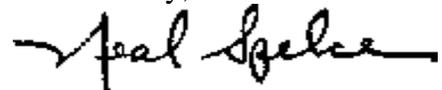
Also, **Multi-modal apps, such as Austin-based RideScout** that gives users side-by-side comparisons of a variety of trip routes and services, such as biking, car-sharing and transit ... and **Virtual ticketing services** that eliminate lost tickets and long lines at the ticket counter.

**San Francisco and Washington DC** each have 10 of these services and **Boston, Dallas, Los Angeles, New York, Portland, Denver, Minneapolis, San Diego, Columbus and Seattle** are the only cities with 9 services. **Houston**, along with five other cities, offers 8 choices.

**San Antonio** didn't crack the Top 19 offering 8 or more services and it may be about to lose one that it does have. And Austin is being used as a factor in Uber's battle with the Alamo City. **Uber has threatened to pull its ride-sharing services out of San Antonio unless the city loosens restrictions the company claims are too restrictive. Uber execs point to Austin as having a workable regulatory policy**. Uber is calling the City's bluff by setting a March 1st deadline, and Bexar County has sided with Uber against the city. Could get interesting.

**Dr. Louis Overholster** said he could've been a Rhodes Scholar -- except for his grades!

Sincerely,



Editor/Publisher