The NEAL SPELCE AUSTIN LETTER

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Dear Client:

If you are planning to buy or sell a home do it before August 1, 2015, or the hassle factor is going to rise exponentially, **as new federal regulations affecting mortgage loans kick in**. **Even in Austin**'**s hot residential market**, **these regs will slam lenders**, **title companies and Realtors**.

The Consumer Financial Protection Bureau (CFPB) is a federal agency created by the Dodd-Frank financial reform law in 2011. It has been troubled by instability and red tape since its creation. However, over the past three years, **the CFPB has been exerting its broad powers by imposing hefty fines on numerous financial institutions**.

Now, the **CFPB is moving more directly into the consumer market** by making substantial changes to mortgage loan processing that will likely increase the time it will take to obtain a home loan. **One of the purposes of the new regs is to consolidate and** "**simplify**" **financial disclosure documentation** in order to give consumers a greater ability to compare and evaluate information. But in so doing, the regs are putting **major logistical demands on lenders**, **title companies and Realtors**, who are scrambling to update processes to meet the new regulations.

Some in the real estate world are estimating that it could easily take 45 days – or up to 90 days – for a deal to consummate after the original sales contract is signed, especially if there are changes to the original contract. This is, of course, speculation. **But**, **under the new regs**, **severe penalties can be imposed on the lender if anything goes awry**. So most lenders are going to verrrrry carefully dot more "i's" and cross more "t's" all along the way. Austin's good economy and hot residential real estate market is not immune as these regs apply nationwide.

In addition to the CFPB regs, *The Wall Street Journal* reported this week that **the debate is heating up at the Federal Reserve about how soon interest rates will be going up**. It could be a Perfect Storm if an interest rate hike falls in the midst of implementation of new regs on real estate transactions, as it most certainly will -- whenever the rate hike occurs. And all this could be coming down the pike during the peak summer real estate market.

One thing to remember as you contemplate what is on the horizon: **cash is king**. **A buyer with cash is in the driver**'**s seat** because it cuts the lender out of the equation. And a seller, looking for a quick sale, **would do well to consider a drop in price for a cash deal**.

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With the massive numbers of rental units coming online in Austin this year, and with home prices rising, does this mean the younger generations have given up on home ownership? In other words, are we seeing a generational shift in attitudes toward a "rentership" society?

An analyst with ALN Apartment Data, Inc. **Theron Patrick**, dived into some recent stats and points out that **percentage of home ownership has *declined* each year since 2005 and that percentage of multifamily occupancy has trended *upward* since 2009** – surpassing home ownership since 2011.

In fact, Patrick says "**for households under 35**, you can go back to 1982 and not find homeownership rates as low as the projected 35.3% ownership rate for this group at the end of 2014. **So something is definitely up**. Does this mean that the younger generations have given up on homeownership?"

He suggests "millennials may just be adapting to their environment by adapting to **new services like Uber and renting smaller units in more active urban centers** with more activity nearby and more accessible technology." Austin, anyone?

Patrick's views are those of an apartment guy. However, the National Association of Home Builders has studies that show "while living in the urban core submarkets is appealing to a significant portion of young professionals, **most renters would still like to be home buyers at some point and a home in the suburbs is still the most viable option for that**."

So where does this leave us? Just look back over the last three decades and you'll find that **home ownership rates have dropped**, **then rebounded to historic norms**. **Homebuilders have shown the ability to adapt**, and because they want to sell houses, they will likely adapt to future needs of the millennial generation.

Conclusions: 1) If you take a snapshot of this point in time, it appears **there may be a generational shift to a "rentership society**." 2) If you take a longer perspective, it appears **this is just one swing in an economic cycle**, **in a long series of cycles**.

Speaking of cycles, don't know if you noticed but the chair of the Texas agency that regulates oil and gas said this week the oil/gas industry would quickly get back on track, following some hard hits as a result of falling oil prices on the world market.

Bolstering her opinion, **Christi Craddick said that natural gas reserves in the Eagle Ford Shale region of South Texas are as large as Prudhoe Bay in Alaska**. She said she doesn't expect this downturn to be long-term. She also predicted that if the 30-year-old ban on exporting unrefined crude out of the US is lifted, the US could drive some Arabic OPEC nations out of business.

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Austin Energy recently made a case for more money. So, with City Council approval, it hiked electric rates and fees. How's that working out? Well, the big bucks apparently rolled in.

The financial numbers for fiscal year 2014 are preliminary and unaudited. But check them out. Austin Energy is reporting an ***increase* of $33 million in its operating revenue** over the previous fiscal year. It also notes it had a **6% *increase* in total revenue** for the same time period. Wonder how the new Mayor and Austin City Council will view this increase.

Speaking of big bucks, Amazon has cut a deal with three US colleges that allow students to get faster delivery on packages. The colleges and Amazon look to make millions. Can UTAustin be far behind, as it scrounges around for additional revenue?

Looks like Amazon will pay Purdue University, the University of Massachusetts Amherst and the University of California Davis **upwards of more than $1 million for four years**. In return, **Amazon will be allowed to tap into the schools' course-selection software**. *The Wall Street Journal* said Amazon hopes this foot-in-the-door will allow the internet giant to tap into additional college bookstores. No word on whether Amazon has yet run at UTAustin.

Alert Austin air travelers can pick up some low – we mean, really low – airfares if the destination being offered fits their travel plans and/or schedules. It is part of new airline David and Goliath competition at Austin-Bergstrom International Airport.

Actually, the destination is really popular with Austin air travelers. **Virgin America is going head-to-head with market leader Southwest Airlines in flights to and from Southwest's home base, Dallas Love Field**.

Get this. **For five daily nonstop flights, starting April 28, 2015, fares as low as $39 each way will kick off the new service**. Don't know how long this will last, so you better get 'em while they last (as the carnival barker used to say).

Speaking of Southwest Airlines, you may recall from our previous reports that Southwest's flights out of Love Field were severely restricted for decades. **A Southwest traveler from Austin was limited in connecting to flights beyond Texas**. That restriction was lifted October 13, 2014. Since that time Southwest has added 27 new destinations from Dallas Love.

The most recent 10 new destinations, announced this month, **will allow Austin Southwest Airlines travelers to connect in Dallas for non-stop flights to Columbus, Indianapolis, Memphis, Milwaukee, Panama City Beach, Portland, Sacramento, San Jose, Seattle/Tacoma and Charleston**. Most of these flights are daily and will launch April 8, 2015.

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If you have been concerned about the loss of downtown traffic lanes and parking to accommodate bicycles, buses and widened pedestrian walkways, get ready for something similar on "The Drag" -- an already-congested traffic-way abutting UTAustin.

It's all part of the Austin Transportation Department's Corridor Development Program. "The Drag" portion – **Guadalupe Street from MLKJr Blvd north to 29**th **Street** – is being targeted for an effort similar to that which is transforming mobility in downtown Austin. Construction is far from getting underway, but the planning and public input is moving right along. **And the current discussion also includes parallel north/south San Antonio and Nueces streets**. In other words, when completed it will be a major transformation of the area.

How serious is it? Well, it's possible "**The Drag**" **could be cut down to only one lane of traffic open each way for cars and trucks**. Now, Guadalupe has four lanes dedicated to traffic, flanked by bicycle lanes. And, it is heavily congested.

Oh yeah, there are about 70 parking spaces street-side. Guess what their future looks like. **Nothing is locked-in because this is still the planning stage**. But what *is* locked-in is the fact that a major transformation will likely take place in the next few years.

The impact could be widespread – **especially if San Antonio and Nueces streets are included to handle the overflow traffic that will be displaced by the re-design of The Drag**. Don't know if you've been in the area recently. But businesses and major living units (all with cars for their residents) have proliferated in the West Campus area in recent years.

By the way, **South Lamar Blvd is also under study** as part of the City of Austin's Corridor Development Program. But that's another story.

Listening to the nightly news from Washington D.C., **Dr. Louis Overholster** was reminded of Ronald Reagan once saying: "The government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

Sincerely,

Neal Spelce

Editor/Publisher

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